



2016 SDRS Proposed Legislation

SDRS MISSION STATEMENT

To plan, implement and administer income replacement programs, and to encourage additional savings for retirement, all of which offer SDRS members and their families the resources and the opportunity to achieve financial security at retirement, death or disability by providing an outstanding, appropriate and equitable level of benefits.

The Board of Trustees believes this mission is achievable with the resources available in a progressive working environment, by sound and efficient management, through superior investment performance and by exercising the fiduciary responsibility associated with the proper stewardship of member assets.

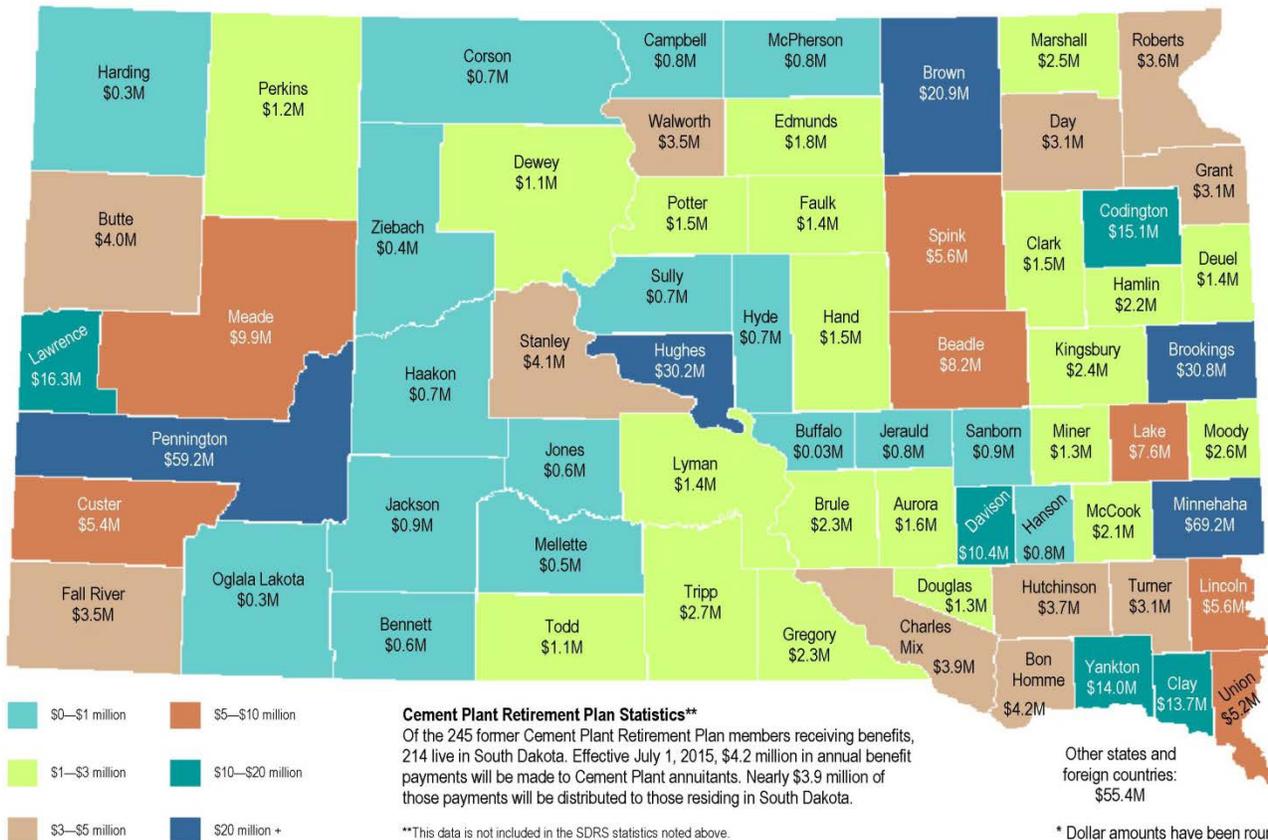
FISCAL YEAR 2015 HIGHLIGHTS

Total Membership	81,633	Plan Assets	\$10,776,533,615
Active Contributing Members	39,383	Funded Ratio	104.1%
Inactive Non-contributing Members	16,594	Contributions	\$ 219,702,557
Benefit Recipients: Class A and B	25,244 ¹	Annuitant Benefits	\$ 456,297,424
Benefit Recipients: Class C	245	Refunds/Expenses	\$ 30,108,669



South Dakota Retirement System—Benefits Payable by County*

Of the 25,411 individuals receiving Class A and B retirement benefits from SDRS, 21,849 live in South Dakota. Effective July 1, 2015, more than \$470 million in annual benefit payments will be made to SDRS annuitants. Over \$415 million of those payments will be distributed among South Dakota's 66 counties, positively impacting the state's economy.



¹ In addition, there are 167 members or beneficiaries as of July 1, 2015, whose benefits are currently suspended, but who are entitled to future benefits.

SB 13

An Act to establish a new retirement benefit structure for certain public employees who are members of the South Dakota Retirement System.

THE ISSUE

The South Dakota Retirement System (SDRS) is a leader in best practices, sound financial management, and innovative benefits. SDRS is governed by a Board of Trustees whose objectives go beyond sustainability to include maintaining a fully funded plan that is managed within fixed statutory contributions.

As the board studied the issue of maintaining a fully funded plan, the board assessed the current benefit structure. The board recognized that certain subsidies are inherent in the existing system, certain income replacement goals have not been realized, and SDRS' current fully-funded position provides a good time to consider a new mix of benefits.

THE SOLUTION

Restructure the retirement benefit design for future employees at the same cost as the current design. Significantly reducing or eliminating subsidies inherent in the existing plan design allows future members to receive greater benefits at normal retirement and provides enhanced equity for all members, while at the same time better aligning with employer workforce needs. In addition to greater benefits, future members will also have flexible benefits that allow those members to share in the success of the South Dakota Investment Council. The flexible benefits have the added advantages of enhancing sustainability, improving the likelihood of meeting the board's funding objectives, and alleviating or potentially precluding corrective actions. Finally, benefit changes for only future members avoids legal issues and planning concerns for current members.

SDRS will remain one plan with a different retirement benefit structure for members hired after June 30, 2017.

THE BACKGROUND

SDRS is a well-funded retirement system with no unfunded liabilities. Despite this important accomplishment, the Board of Trustees recognizes that it must plan for future challenges including maintaining and improving the fully funded status of SDRS especially in times of economic downturns. Other issues at work are lengthening life expectancies of members, increasing market volatility, and evolving membership and employer workforce objectives.

Legislative Summary

Generational Members and Benefits

(SDRS membership begins after June 30, 2017)

- ❖ Retirement Benefit Eligibility:
 - Normal Retirement Age: 67/57 (Class A and Judicial / PS)
 - Early Retirement Age: 57/47, 5% per year reduction
 - No Special Early Retirement
 - Three-year vesting – No change
- ❖ Benefit Formulas and Features:
 - 1.80% for Class A
 - 2% and 3.3%/2% for Class B – No change
 - No Class A Alternate Formula
 - No Level Income
 - Final Average Compensation – Five years
 - VRA to supplement Base Benefits at retirement
- ❖ PRO: Refund of member contributions plus 85% of employer contributions (50% if not vested) – No change
- ❖ Survivor and Disability Benefits:
 - Pre-Retirement Survivor – No change
 - Post-Retirement Survivor – Reduced benefit
 - Disability Benefits – No change
 - VRA to supplement Survivor and Disability Benefits
- ❖ COLA indexed to CPI (minimum of 1.0%, maximum of 3.1% based on funded status)
- ❖ Other Features:
 - Service Purchases – No change (but separate tables)
 - Redeposits – Eliminated – No redeposits
 - Return to Work
 - After Early Retirement – No change
 - After Special Early Retirement – Not applicable
 - After Normal Retirement – No change

Actuarial Fiscal Note: SB 13 has no material impact on the existing actuarial accrued liabilities or the ongoing actuarial costs. Because a portion of future benefits will vary with investment return, SB 13 will enhance the future sustainability of SDRS.

SB 14

An Act to revise certain administrative provisions and repeal certain obsolete provisions concerning the South Dakota Retirement System.

THE ISSUE

Current statutes governing the South Dakota Retirement System, including provisions related to the deferred compensation plan and the special pay program would benefit from revisions to certain provisions and the repeal of others to more accurately reflect the administration of SDRS. These changes are particularly appropriate in conjunction with the new benefit design also proposed this year.

THE SOLUTION

Adopt practical modifications to provisions governing the administration of SDRS. Update definitions and references and repeal obsolete provisions.

THE BACKGROUND

Among the proposed changes is a provision to unlink SDRS' budget report from the Department of Labor and Regulation. This is not and has not been the practice for reporting the SDRS budget for decades. This requirement of reporting to the Legislature within the budget of the Department of Labor was added in 1976. At that time the administrator of SDRS was appointed by the secretary of manpower affairs, now known as the secretary of labor and regulation. The appointment of the administrator by the secretary of manpower affairs was repealed in 1979 but the reference to the department relating to the budget was not removed.

Related to the budget reporting revision is the change of title from administrator to executive director. The position is no longer one appointed by a secretary to administer a program. It is now a position filled by a board that is composed of members primarily elected by the constituencies of the system to direct the operation of a ten billion dollar pension fund.

With regard to the quadrennial independent report, the current statutory language does not reflect how the report is currently done. The removal of the specific items that are no longer applicable would provide the board the flexibility to obtain information related to the current standard for the industry, making for a more meaningful report and one that is not contrary to statute.

There are also changes to the provision relating to the report of the system and recommendations for corrective action. The changes are necessary to make the language consistent within the section and within the chapter. In addition, language is added to clarify that benefit and contribution provisions may be revised by the Legislature to improve the conditions established in the section.

Finally, references to relocated statutes were removed and language was conformed to current style and form standards.

Legislative Summary

- ❖ The retirement plan, deferred compensation plan, and special pay program affected
- ❖ Codified statutes and administrative rules included
- ❖ Highlights:
 - Number of votes required for a decision of the board is clarified
 - Term, administrator, is replaced with the term, executive director
 - Relocated or repealed references are removed or updated
 - Content of the quadrennial investment report is not restrained but allowed to fit current standards
 - Provisions relating to the report of the condition of the system are modified and language is clarified relating to corrective actions to improve conditions of the system
 - Obsolete provisions are repealed

Actuarial Fiscal Note: SB 14 has no material actuarial impact on SDRS.



SB 15

An Act to revise certain provisions concerning membership of the South Dakota Investment Council.

THE ISSUE

Currently the Board of Trustees of the South Dakota Retirement System (SDRS) must annually appoint a representative of the board to serve as a member of the South Dakota Investment Council (SDIC). The representative appointed by the board has always been the administrator (executive director) of SDRS, and the board believes it is in the best interest of SDRS and SDIC that this connection be maintained and established in statute.

THE SOLUTION

Provide that the administrator (executive director) of SDRS is an ex officio voting member of the South Dakota Investment Council.

THE BACKGROUND

A representative of the SDRS Board of Trustees was initially added as an ex officio member of the South Dakota Investment Council in 1977, just three years after the establishment of SDRS. At that time, the board representative was the only ex officio member and was a nonvoting member. In 1981, the state treasurer was added as an ex officio member and both the state treasurer and SDRS board representative were established as voting members. The membership of the investment council was again increased in 1986 with the addition of the commissioner of school and public lands, bringing the council membership to a total of eight members, all of whom are voting members. The membership has not been revised since that time. The SDRS Board of Trustees has consistently appointed the administrator (executive director) to serve as its representative on the investment council and believes that it is vitally important that the connection between the SDRS administrator (executive director) and SDIC be established in statute.

Legislative Summary

- ❖ The SDRS administrator (executive director) would be established as an ex officio voting member of the South Dakota Investment Council.
- ❖ The SDRS Board of Trustees would no longer be required to make an annual appointment to SDIC.
- ❖ The SDRS administrator (executive director) would serve as the other voting ex officio members, the state treasurer and the commissioner of school and public lands.

Actuarial Fiscal Note: SB 15 has no material actuarial impact on SDRS.

SENATE BILL 15

An Act to revise certain provisions concerning membership of the South Dakota Investment Council.

Section 1. That § 4-5-13 be amended to read:

4-5-13. The State Investment Council shall consist of eight voting members. Five members of the council shall be appointed by the Executive Board of the Legislative Research Council and the executive board may appoint persons holding public office, appointive or elective, provided that no more than three members of the State Investment Council, at any one time, shall hold public office. Action shall be by majority vote. Each of the members of the State Investment Council shall be appointed for a term of five years. No more than four appointed members may be members of the same political party. In addition to those members appointed by the executive board, the state treasurer and, the commissioner of school and public lands, and the executive director of the South Dakota Retirement System shall serve as ex officio voting members ~~and a representative of the Board of Trustees of the South Dakota Retirement System shall serve as an ex officio voting member. The term of the representative of the Board of Trustees shall be one year and he shall be appointed by the Board of Trustees of the South Dakota Retirement System.~~