2020 Proposed Legislation

South Dakota Retirement System
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SDRS Fiscal Year 2019 Highlights

Total Membership	**89,685**
Active Contributing Members	**41,500**
Inactive Non-contributing Members	**18,989**
Benefit Recipients	**29,196**
Net Position (Fair Value of Assets)	**$12.5 billion**
Actuarial Accrued Liabilities	**$12.5 billion**
Fair Value Funded Ratio	**100.1%**
Investment Return (Net of Fees)	**4.88%**
Contributions	**$255.0 million**
Annuitant Benefits	**$572.3 million**
Refunds	**$24.0 million**

The following exhibit presents a schedule of the annualized benefits payable as of July 1, 2019, by SDRS on a county-by-county basis.

County	Annual Benefits	County	Annual Benefits	County	Annual Benefits
Aurora	$ 2,110,938	Fall River	$ 4,480,550	McPherson	$ 1,017,622
Beadle	$ 9,582,614	Faulk	$ 1,687,150	Meade	$ 12,581,582
Bennett	$ 775,778	Grant	$ 3,385,751	Mellette	$ 671,545
Bon Homme	$ 5,014,786	Gregory	$ 2,546,374	Miner	$ 1,283,278
Brookings	$ 38,572,877	Haakon	$ 889,606	Minnehaha	$ 90,175,078
Brown	$ 25,012,956	Hamlin	$ 3,089,657	Moody	$ 3,094,265
Brule	$ 2,946,462	Hand	$ 1,465,578	Oglala Lakota	$ 290,303
Buffalo	$ 50,702	Hanson	$ 970,668	Pennington	$ 72,896,028
Butte	$ 5,261,358	Harding	$ 428,123	Perkins	$ 1,441,782
Campbell	$ 940,587	Hughes	$ 37,156,504	Potter	$ 1,809,846
Charles Mix	$ 4,221,392	Hutchinson	$ 4,514,431	Roberts	$ 4,635,331
Clark	$ 1,937,485	Hyde	$ 842,185	Sanborn	$ 1,418,143
Clay	$ 16,935,748	Jackson	$ 853,557	Spink	$ 6,972,321
Codington	$ 17,949,671	Jerauld	$ 1,128,259	Stanley	$ 5,368,321
Corson	$ 679,853	Jones	$ 806,517	Sully	$ 830,682
Custer	$ 6,665,191	Kingsbury	$ 3,392,361	Todd	$ 1,116,661
Davison	$ 11,350,175	Lake	$ 8,815,473	Tripp	$ 3,291,110
Day	$ 3,502,904	Lawrence	$ 20,093,445	Turner	$ 3,610,729
Deuel	$ 1,944,458	Lincoln	$ 7,020,607	Union	$ 6,197,059
Dewey	$ 1,556,014	Lyman	$ 1,668,039	Walworth	$ 4,169,906
Douglas	$ 1,541,135	Marshall	$ 3,027,519	Yankton	$ 17,326,648
Edmunds	$ 1,933,180	McCook	$ 2,730,003	Ziebach	$ 384,590

Total SDRS Benefits Payable in South Dakota	**$ 512,061,451**
Total SDRS Benefits Payable Outside of South Dakota	**$ 71,231,074**
Total SDRS Benefits Payable	**$ 583,292,525**
Total Cement Plant Benefits Payable in South Dakota	**$ 4,136,998**
Total Cement Plant Benefits Payable Outside South Dakota	**$ 374,234**
Total Cement Plant Benefits Payable	**$ 4,511,232**
Total SDRS and Cement Plant Benefits Payable	**$ 587,803,757**

Clean-up

SB 31

An Act to revise and repeal certain provisions relating to the South Dakota Retirement System.

The Issue

From time to time, certain statutes must be amended to be more precise, revised for better administration of the system, and repealed if no longer permissible.

The Solution

Provide legislation to address appropriate and necessary changes.

Legislative Summary

- Update reference to the Internal Revenue Code. Section 1 (48).
- Revise definition of projected compensation to eliminate an unintended overlap of improvement for the calculation of certain early surviving spouse benefits. Section 1 (69).
- Repeal the definition of tax-qualifying purchase unit. Section 1 (85) [See also final bullet of this summary]
- Replace former term, teacher, with current term, certified school employee. Sections 2 & 5.
- Explicitly extend confidentiality to Supplemental Retirement Plan and Special Pay Plan. Section 3.
- Remove the restriction on venture capital investment. Restriction on social investment remains. Section 4.
- Clarify the inclusion of all classified employees in the system. Section 5.
- Clarify the voting requirement to participate in the system. Sections 6.
- Clarify who is required to make contributions to the system. Section 7.
- Consistently project compensation in the calculation of surviving spouse and family benefits. Section 8.
- Repeal statutes providing for tax-qualifying purchases and remove cross references to those statutes. Sections 9-12.

The Actuarial Statement: Senate Bill 31 will have no material impact on the liabilities or assets of SDRS.

Commencement of Family and Surviving Spouse Benefit

SB 32

An Act to revise certain provisions regarding the administration of certain family and surviving spouse benefits of the South Dakota Retirement System.

The Issue

Some statutes do not explicitly provide the timeframe for the commencement of certain family and surviving spouse benefits. Consistency is lacking in the commencement of benefits.

The Solution

Provide consistency in the commencement of benefits paid by SDRS.

Legislative Summary

- **Benefits are typically paid after SDRS receives final contributions, but that is not necessarily the case for family and surviving spouse benefits.**
- **For consistency, surviving spouse benefits will be paid after final contributions are received in cases of the death of an active member, including the death after normal retirement age.**
- **For a death of a retiree, the surviving spouse benefit would commence the month after death.**
- **The bill also explicitly provides that an application be submitted. This is current practice but not currently included in statute.**
- **Multiple sections are affected based on the following distinctions: (1) applications received before July 1, 2015 and those received July 1, 2015 and later, (2) surviving spouse benefits and family benefits, and (3) foundation member benefits and generational member benefits.**

The Actuarial Statement: Senate Bill 32 will have no material impact on the liabilities or assets of SDRS.

SB 34

An Act to establish a qualified benefit preservation arrangement for eligible members of the South Dakota Retirement System.

The Issue

Section 415(b) of the Internal Revenue Code (IRC) imposes a dollar limit on the benefit amount that a qualified plan such as SDRS can pay; a member's benefit is the lesser of the SDRS benefit or the IRC limit. The limit ($230,000 in 2020 and indexed) is applicable to retirement at age 62-65, but the application is complex, depending on details of the member's service, compensation, contributions, service purchases, retirement ages, and other factors.

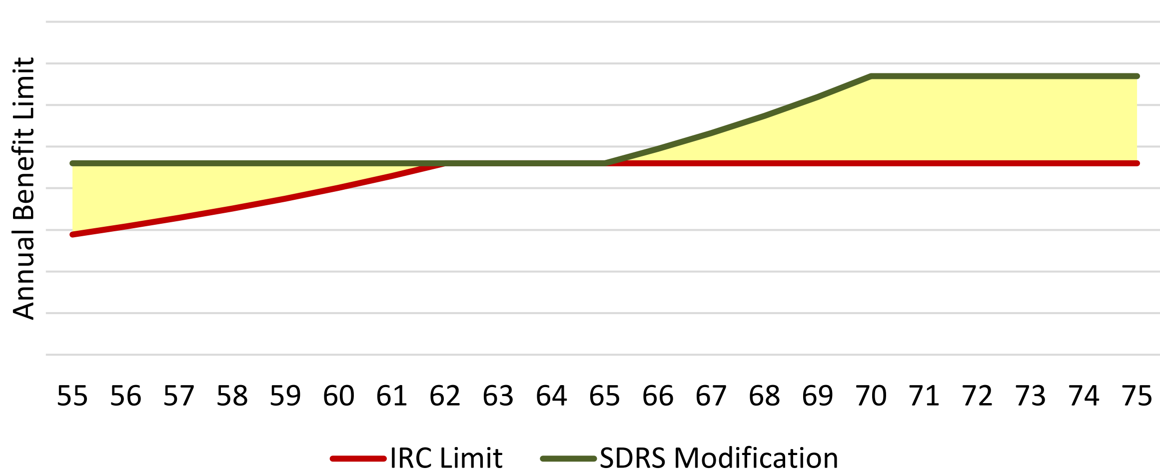
The limit applies to a very few highly compensated SDRS members with substantial credited service. This results in these members receiving less than intended even though they and their employers made the same contributions as other members, as well as additional employer contributions above the Social Security maximum wage base.

The benefits of several SDRS retirees are limited; however, SDRS discovered through an internal audit that five retirees' benefits exceed the IRC limit, including two former cement plant retirement plan members. All five retirees had unusual or complex work histories that resulted in misapplication of the limit when they retired.

The Solution

Another section of the IRC, 415(m), allows qualified public plans such as SDRS to establish a Qualified Benefit Preservation Arrangement (QBPA) to preserve some or all of the benefits that are restricted by the IRC limit. Although the IRC limit applies to public and corporate plans, it was instituted to limit the tax deductions that corporations receive for contributions to corporate pension plans.

Senate Bill 34 establishes a QBPA to preserve a portion of the member's SDRS benefit that is restricted by the IRC in certain, limited circumstances. For retirements prior to age 62, the QBPA permits total benefits (SDRS plus QBPA) without an actuarial reduction up to the limit. For retirements after age 65, the QBPA permits total benefits up to the limit, but actuarially increased, up to age 70. The QBPA would pay the portion in yellow shown below, which is a portion of the SDRS benefit in excess of what SDRS can pay because of the IRC limit.



The Rationale

Senate Bill 34 provides the smallest adjustment to the IRC limit that will solve the issues for the current retirees and also results in an equitable and logical alignment with the SDRS benefit goals and structure for all similarly situated members.

Permitting total payments up to the IRC limit for retirement before age 62 mirrors the treatment of SDRS Foundation members who reach the Rule of 85 and receive an unreduced benefit. Likewise, since members who work past age 65 have a declining lifetime value of their benefits, it is equitable and logical to increase the amount of total benefits payable.

Legislative Summary

- **Senate Bill 34 provides for the establishment of a Qualified Benefit Preservation Arrangement (QBPA) that will provide payments in excess of the IRC limit:**
  - **For retirement before age 62, the total benefit from both SDRS and the QBPA will not be greater than the IRC limit, but with no actuarial reduction before age 62.**
  - **For retirement on or after age 65, the total benefit from both SDRS and the QBPA will not be greater than the IRC limit, but actuarially increased up to age 70.**

The SDRS Board of Trustee Review Process

The Board considered numerous options, consulted with a nationally known law firm with an expertise in these matters, reviewed practices adopted by other plans, and established guidelines and objectives in making its unanimously supported recommendations contained in Senate Bill 34.

The Outcome

SB 34 will:

- Solve the IRS compliance issue
- Avoid benefit reductions to current retirees in most cases
- Treat existing and future retirees identically
- Align the adjusted maximum benefits with the SDRS benefit design
- Bring the benefits for these few members closer to the statutory benefit

The Actuarial Statement: Senate Bill 34 will have no material impact on the liabilities or assets of SDRS.

SDRS liabilities are approximately $23 million less than expected because the IRC limit restricts the benefits SDRS is permitted to pay. Senate Bill 34 will reduce that savings, and increase liabilities, by approximately $3 million or 0.03 percent of existing liabilities.

Other legislation affecting SDRS

SB 9

An Act to repeal the Department of Labor and Regulation's retirement plan and to transfer plan members and funds to the South Dakota Retirement System.

SDRS Board of Trustees unanimously supports this bill

Bill Summary

The bill merges the Department of Labor and Regulation Pension Plan with SDRS. The bill repeals the provisions for the administration of the plan and transfers the administration and funds of the plan to SDRS. The members of the plan would retain their current benefit structure except for the cost of living adjustment (COLA). They would receive the same COLA as other SDRS members.

Background

- The Department of Labor and Regulation sought assistance from SDRS to explore the best long-term approach for the security of the future benefits (including a reasonable COLA) of the members of the Department of Labor and Regulation Pension Plan (DLR Plan)
- The DLR Plan has been frozen to new members since 1980, has just under 200 members—almost all of them retired—and has approximately $56M of assets
- No employer or member contributions are currently made, and none are contemplated, while almost $5M is paid out annually for benefits and expenses
- The administration of this relatively small closed plan requires significant time and resources and has high solvency risks because of its maturity, no on-going funding, and a large negative cash flow
- The DLR Plan is just over 100% funded based on an annual investment return assumption (that reflects the maturity of the Plan) of 4.75% until 2027 and 4% thereafter, and a COLA equal to the SDRS COLA
- Members of the plan voted to merge with SDRS by a margin significantly exceeding the required two-thirds vote
- The Cement Plant Plan merger with SDRS in 2014 established a recent precedent for successfully and equitably merging a small plan into SDRS—if adequately funded to avoid subsidies

The Actuarial Statement: Senate Bill 9 will have no material impact on the liabilities or assets of SDRS.

Mission Statement

To plan, implement, manage, and efficiently administer financially sustainable retirement income programs within the fixed resources available in accordance with fiduciary responsibilities and sound public policies.

Vision

Provide members and their families the opportunity to achieve financial security at retirement, death, or disability by delivering appropriate and equitable lifetime benefits, and promote, encourage, and facilitate additional member savings for retirement.

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