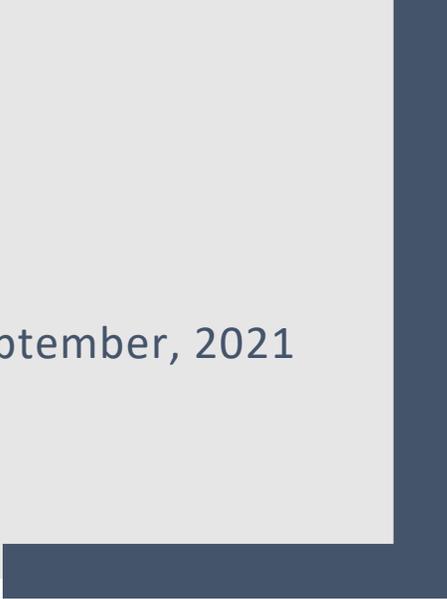




# THE SOUTH DAKOTA RETIREMENT SYSTEM LONG-TERM BENEFIT GOALS

September, 2021



# Introduction

The SDRS benefit goals represent ideal benefit levels necessary to achieve benefit adequacy for our members and their families. Since SDRS is managed with fixed contributions, benefits are limited by the resources available.

The SDRS Board of Trustees has for many years established long-term benefit goals to provide a basis to assess benefit adequacy for our members and to identify benefits that need improvement when, and if, affordable.

Numerous changes to the goals have been made over the years based on the results of periodic Board reviews and assessments.

This document includes clarification and refinement of the goals and assesses the current progress in meeting those goals based on a review in 2021.

# Retirement Income from SDRS

## Goals

Lifetime income from SDRS of **at least 50% of Final Average Compensation** (FAC) at Normal Retirement for career members with credited service of at least:

- 30 years for Class A
- 25 years for Public Safety
- 20 years for Judicial

Proportionate lifetime income from SDRS for members who participate in SDRS for less than a career.

## Current Provisions

Benefits vary by employee class, Foundation and Generational status, and are higher for service before 2008 for Foundation members.

## Assessment

**Goal achieved** for Class A Foundation career members with all service before 2008 and all other career members.

Retirement income for Class A Foundation members who meet the minimum career service standard is:

- 49% of FAC for retirement in 2021 (**98% of goal achieved**)
- 46.5% of FAC if all service after 2008 (**93% of goal achieved**)

# **Additional Member Savings**

## **Goal**

SDRS will educate members of the need for additional savings and will encourage members to accumulate personal savings of **at least 100% of annual pay** at retirement to provide retirement benefits in addition to those provided by SDRS and Social Security.

## **Current Provisions**

Member education efforts are ongoing including the advantages of participating in the Supplemental Retirement Plan and the Special Pay Plan.

## **Assessment**

**Goal achieved** by SDRS education and counseling efforts.

# Total Retirement Income

## Goal

Educate, advise, and encourage members to plan for retirement by establishing a **total retirement income goal** based on their unique circumstances and considering benefits available from SDRS, Social Security, and personal savings.

## Current Provisions

Member education efforts are ongoing, including advising members of the total retirement income required to maintain the same standard of living in retirement.

## Assessment

**Total lifetime income of 80-85% of FAC with inflation protection** after retirement will enable members to achieve the same spendable income after retirement.

**Almost all SDRS career members will currently meet this standard** based on retirement at normal retirement age and achieving the personal savings goal.

SDRS members who do not participate in SDRS for a career will require even greater personal savings and/or significant retirement benefits from previous employment to achieve the same spendable income after retirement.

# Normal Retirement Age

## Goal

Provide unreduced benefit at appropriate age considering physical demands of Public Safety employment and increasing life expectancy.

## Current Provisions

### **Foundation Members**

Age 65; age 55 for Public Safety.

### **Generational Members**

Age 67; age 57 for Public Safety.

## Assessment

Goal achieved.

# Early Retirement Benefits

## Goals

### Foundation Members

**Unreduced benefits** to long-service members and **subsidized reduced benefits** to other members, payable 10 years prior to normal retirement age.

### Generational Members

**Non-subsidized reduced benefits** payable 10 years prior to normal retirement age considering a higher retirement benefit formula and Variable Retirement Account (VRA).

## Current Provisions

### Foundation Members

Rule of 85, 75, or 80 for Class A, Public Safety, and Judicial members, not earlier than age 55 (45 for Public Safety).

3% per year reduction prior to normal retirement age or “rule of” eligibility if earlier.

### Generational Members

5% per year reduction prior to normal retirement age.

## Assessment

**Goals achieved.**

# Cost of Living Adjustment

## Goal

**Inflation protection** after retirement and after termination of employment before benefits begin.

## Current Provisions

Cost of Living Adjustment (COLA) is equal to the change in CPI-W for the prior year, with a 0% minimum and a 3.5% maximum, when affordable.

When not affordable, a lower maximum COLA applies.

## Assessment

**Goal achieved.**

SDRS members who have retired anytime in the last 40 years are currently receiving a **cumulative COLA from SDRS that has equaled or exceeded inflation**, except for a minimal shortfall for members who retired in FY17 and FY18.

# Disability Income

## Goal

**Lifetime income replacement** of the greater of 25% of FAC or the member's earned benefit.

## Current Provisions

Same as goal.

Generational Members also receive VRA.

## Assessment

**Goal achieved.**

Income replacement for average SDRS member will equal 67% of FAC if also eligible for disability benefits from Social Security.

# Family Benefits/Pre-Retirement Death

## Goals

**Temporary income replacement** of the greater of 25% of FAC or the member's earned benefit if eligible children survive.

**Retirement income to spouse** equal to 60% of the greater of 25% of FAC or the earned benefit.

## Current Provisions

Same as goals.

Generational Members also receive VRA.

## Assessment

**Goals achieved.**

Temporary income replacement for average SDRS member leaving two children will equal almost 100% of FAC, including benefits from Social Security.

# Death After Retirement

## Goals

### **Foundation Member**

Lifetime income of 60% of member's benefit to surviving spouse at no cost.

### **Generational Member**

Lifetime income of 60% or 100% of member's benefit to surviving spouse, if member elects, funded by a reduction in benefit considering a higher benefit formula and the VRA.

## Current Provisions

Same as goals.

## Assessment

**Goals achieved.**

# Enhanced Portability

## Goal

**Equitable benefits** for short-service members who terminate employment before retirement.

## Current Provisions

Early vesting with COLA paid on deferred benefit (plus continued growth of VRA paid to Generational Members at retirement).

Members can instead opt for lump-sum payment of 85% of employer contributions (50% if less than three years of service) plus 100% of member contributions, with credited interest.

## Assessment

**Goal achieved.**

SDRS practices **unusual and superior.**

# Minimum Total Payments

## Goal

Minimum SDRS total benefits paid of 85% of employer contributions (50% if less than three years of service) plus 100% of member contributions, plus credited interest.

## Current Provisions

Same as goal.

## Assessment

**Goal achieved.**

SDRS practices **unusual and superior.**

# Sustainability

## Goal

**Maintain and enhance likelihood of sustainability of SDRS** to preserve current benefit structure.

## Current Provisions

Numerous inequities, subsidies, and provisions that resulted in higher than anticipated costs addressed.

Variable benefit features adopted and expanded.

Risk analysis continuously expanded and improved.

Initiatives resulting from planning process adopted (e.g.- eliminating .5% minimum COLA).

## Assessment

**Goal achieved**, but additional sustainability initiatives will continue to be evaluated.

# Tax Qualified Status

## Goal

**Preserve tax qualified status** to continue favorable tax treatment for members.

## Current Provisions

SDRS has received a favorable determination letter from the IRS confirming qualified status.

Recent initiatives adopted to meet changing IRS requirements and regulations.

## Assessment

**Goal achieved**, but ongoing effort is required as new regulations issued.

Outside expert legal counsel retained.

# Member Issues

## Goal

**Identify and formalize additional initiatives** to meet goals, modify goals, or add new goals.

## Current Provisions

Initiatives identified include expansion of VRA, enhanced defined benefits, and one-time or temporary benefit increases when, and if, affordable.

## Assessment

No new initiative in recent years.

The Board's planning activities in 2020 identified the following objectives for future benefit improvements:

- Consider any shortfalls compared to these long-term benefit objectives.
- Include active, inactive, and retired members.
- Avoid substantive additional fixed benefit obligations.
- Maximize the risk-mitigation impact of any benefit improvements.
- Consider unimproved service (service after 2008).
- Treat active, inactive, and retired members consistently.

## Summary of Current Assessment

Most of the Board's goals have been met to date. However, the SDRS retirement income for Class A Foundation members who have met the minimum career standard of 30 years of service is currently 49% of FAC, slightly less than the 50% goal. Without future benefit improvements their SDRS retirement income will decline slowly, eventually to 46.5% of FAC. These members can achieve the goal by delaying retirement a very short time—from several months to two years at most.

Nevertheless, almost all SDRS career members will currently match or exceed spendable income before retirement based on retirement at normal retirement age and meeting the 100% of pay at retirement savings goal.

The ability of the SDRS COLA to continue to match inflation is key to maintaining members' standard of living during retirement.

SDRS goals are based on career members retiring at normal retirement age—earlier retirement is not a reality for most members without substantial savings.