

# SDRS Outlook

Membership Newsletter • December 2015

## Sustainability and Maintaining a Sound Pension Plan

The South Dakota Retirement System (SDRS) has operated with the same objective since its inception—to provide SDRS members and their beneficiaries with an outstanding and appropriate level of benefits within the resources available. While there have been numerous changes in the plan’s structure along the way, this fundamental objective has remained a constant and has sustained the system for more than 40 years. The face of retirement continues to evolve, and as SDRS moves into the future, sustainability is key.

One trend that significantly impacts retirement systems is the continuing increase in life expectancies. While it is positive that people are living longer than they were 40 years ago, it puts strain on retirement systems because benefit payments must be paid over a longer period of time. Under the current provisions, SDRS liabilities continue to increase even when plan assets fall during market downturns.

Maintaining a sustainable system is quite literally a balancing act. Contributions and investment earnings must be sufficient to fund benefit obligations

over the long term. By adding a variable benefit feature along with its fixed obligations, SDRS will be better positioned to balance liability growth with market performance.

Even while SDRS is financially strong, it is the duty of the Board of Trustees, as stewards of the system and its membership, to continue to discuss how to make SDRS even stronger. The Board is charged with examining the system’s benefit design to determine if its objectives are being met while ensuring long-term sustainability for all members and beneficiaries.

Over the last several years, the Board has been intensely focused in its discussions on retirement trends and areas of improvement within the system’s benefit design. At its

December meeting, the Board made numerous recommendations on a benefit structure for the new generation of South Dakota public employees. These recommendations are outlined on page 2 of this newsletter and will be drafted as legislation for consideration during the 2016 Legislative Session.



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# Board Proposes New Benefit Structure For New Members— Current Member & Retiree Benefits to Remain Unchanged

The South Dakota Retirement System (SDRS) Board of Trustees has been carefully examining every aspect of the current benefit structure to identify areas for improvement to make the system stronger. Discussions over the last several years have led to a potential new benefit design for new SDRS members. At its December meeting, the Board finalized details for a new benefit structure for South Dakota's next generation of public employees. These details, in the form of proposed legislation, will be introduced by the Retirement Laws Committee on behalf of the Board for consideration by the 2016 Legislature.

The new design restructures benefits at the same cost as the current design, thereby avoiding a situation where new members subsidize the benefits of existing members. The new design for new members will also increase the likelihood of SDRS' sustainability by enhancing the hybrid features of SDRS and recognizing increasing life expectancies while eliminating or decreasing subsidies.

## Proposed Structure For New Members Only

It is important to note that SDRS will continue as one plan with different benefit structures for members joining SDRS prior to and after the effective date of the legislation. The Board recommends the following terms for a new benefit structure for new members:

- Contribution requirements for members, as follows:
  - \* Class A: 6.0 percent (no change)
  - \* Class B Public Safety: 8.0 percent (no change)
  - \* Class B Judicial: 9.0 percent (no change)
- Normal retirement age: 67 for Class A and B Judicial members; 57 for Class B Public Safety members
- Early retirement age: 57 for Class A and B Judicial members; 47 for Class B Public Safety members
- A five percent reduction for each year the benefit is taken before normal retirement age
- No Special Early ("Rule of") retirement; no alternative formula for Class A members; no level income payment option
- Final Average Compensation (FAC) calculated using the highest five consecutive years out of the last 10 years of pay

- A three year vesting period (no change)
- Survivor benefits available at member's cost through reduced benefits
- Cost-of-living adjustment (COLA) indexed to the Consumer Price Index (CPI) with a minimum of 1.0 percent and a maximum that ranges from 2.1 percent to 3.1 percent based on SDRS' funded status
- Base benefit multiplier for members as follows:
  - \* Class A: 1.8 percent (increased from 1.55 percent)
  - \* Class B Public Safety: 2.0 percent (no change)
  - \* Class B Judicial: 3.333 percent for first 15 years/2.0 percent for years in excess of 15 (no change)
- A Variable Retirement Account (VRA) funded by employer contributions and credited with investment returns to supplement base benefits at retirement
- A refund option of 100 percent of member contributions plus 85 percent of employer contributions, or 50 percent of employer contributions if not vested (no change)

This proposed structure for new members realigns benefits to better recognize employers' workforce issues. Under the new design, incentives to retire early are eliminated because all early retirement benefits are payable at a reduced rate. The VRA is designed to provide members with additional resources to meet their individual retirement goals.

## Legislation Required For New Benefit Structure

If approved by the Legislature and the Governor, the new benefit design would go into effect for new members on the date specified in law. Current members and retirees would remain under the existing benefit structure.

You can follow SDRS-related bills during the 2016 Legislative Session through the SDRS website at [www.sdrs.sd.gov](http://www.sdrs.sd.gov) or the South Dakota Legislature website at [www.legis.sd.gov](http://www.legis.sd.gov).

# SDRS on the Road: Upcoming Scheduled Events

A complete schedule of SDRS events is available on the SDRS website, [www.sdrs.sd.gov](http://www.sdrs.sd.gov).

## INDIVIDUAL RETIREMENT COUNSELING SCHEDULE

DATE	LOCATION	ADDRESS	30-MINUTE SESSION TIMES
			AVAILABLE
Jan 5 2016	Oacoma, Cedar Shores	1500 Shoreline Drive	2:00—8:00 PM
Jan 12 2016	Hot Springs, Mueller Civic Center	801 S 6th Street	2:00—8:00 PM
Jan 19 2016	Custer, Custer County Annex	447 Crook Street	2:00—8:00 PM
Jan 26 2016	Winner, Holiday Inn Express	1360 E Highway 44	2:00—8:00 PM
Feb 2-3 2016	Rapid City, Hilton Garden Inn	815 E Mall Drive	2:00—8:00 PM/8:00 AM—8:00 PM
Feb 9 2016	Armour, Douglas County Courthouse Community Room	706 Braddock Street	2:00—8:00 PM
Feb 16 2016	Mission, Administration Building	School Campus	2:00—8:00 PM
Feb 24 2016	Lake Andes, Community Building	207 Main Street	2:00—8:00 PM
Mar 2 2016	Flandreau, Mad Mary's	306 N Veterans Avenue	2:00—8:00 PM
Mar 8 2016	Sturgis, Boulder Canyon Station Convention	2715 Lazelle Street	2:00—8:00 PM
Mar 15 2016	Faulkton, Community Center	1216 Court Street	2:00—8:00 PM
Mar 29 2016	Sisseton, NESDCAP	104 Ash Street E	2:00—8:00 PM

To schedule an appointment time, call 1-888-605-SDRS (7377).

## PRE-RETIREMENT PLANNING WORKSHOPS & RETIREE FORUMS

DATE	LOCATION	ADDRESS	TIME
Mar 22 2016	Aberdeen, Dakota Event Center	720 Lamont Street	Retiree Forum: 3:00—4:00 PM Pre-Retirement Workshop: 5:30—8:00 PM

To register for a workshop, visit [www.sdrs.sd.gov](http://www.sdrs.sd.gov) or call 1-888-605-SDRS (7377).

### The SDRS website has a new look!

SDRS has launched a new look for its website! The new design of the SDRS site provides a simplified, user-friendly format with easy to navigate pages. It also features a responsive design so you can visit the site on your tablet or other mobile device. Just as before, the SDRS website offers information about SDRS, retirement planning, SDRS publications and forms, and much more. You may also view your personal account information by using the secure *MySDRS* section of the site. Explore the new site at [www.sdrs.sd.gov](http://www.sdrs.sd.gov)!





## South Dakota Retirement System

P.O. Box 1098  
Pierre, SD 57501

### A Sustainability Message From the SDRS Executive Director/Administrator

Over the last several years, the South Dakota Retirement System (SDRS) and its Board of Trustees have taken many steps to make the system more sustainable. The financial crisis of 2008 and 2009 presented many challenges for pension plans. Even while SDRS was financially stronger than most other systems, we were not immune to the effects of the market declines. Investment losses were substantial and the Board was compelled to take action to protect the integrity and sustainability of SDRS.

In the midst of the Great Recession in 2010, adjustments were made to the cost-of-living adjustment (COLA) to tie annual benefit increases with the financial health of SDRS and the Consumer Price Index (CPI). Fortunately, even in down years, SDRS will still provide benefit recipients with annual increases.

During this time, changes were also made to the retiree/return-to-work provisions to comply with Internal Revenue Service (IRS) requirements as well as alleviate the financial burden being placed on the system. These changes were designed to bring the costs of this practice back into balance while still maintaining workforce flexibility for employers and retirees who choose to return to SDRS-covered employment. A recent review has confirmed that these changes have been successful and SDRS is no longer experiencing unanticipated costs related to retirees returning to work.

In 2012, changes were implemented to lower our investment assumptions to take a more conservative approach with our expected future returns. Demographic

assumptions were also adjusted to more accurately estimate future costs to the system.

In 2013, the Board took action to use reserves to eliminate the system's unfunded pension obligations. Since 2013, SDRS has been fully funded at 100 percent or better, an accomplishment that few public pension plans have realized since the Great Recession. The following year the Board adopted an updated mortality table that better estimates life expectancies.

Fiscal year 2015 was a turbulent year for capital markets. The SDRS Trust Fund produced a 4.18 percent investment return, which is below SDRS' investment return assumption of 7.25 percent. SDRS is still 104 percent funded, and the long-term funding objective for SDRS will continue to be 100 percent. However, market volatility is expected to continue for the foreseeable future.

SDRS continues to be a stand-out plan. Many studies and reports, including the 2015 Public Pension Funding Review by Loop Capital Markets, have been published touting SDRS' achievements. While it is humbling for our system to receive such recognition, there is still work to be done. Providing financial security for our members at retirement, death, or disability is of utmost importance and we will continue our efforts to maintain and sustain SDRS for all current and future members.



**Robert A. Wylie**  
SDRS Executive Director/  
Administrator