THE SOUTH DAKOTA PERSPECTIVE ON PUBLIC EMPLOYEE RETIREMENT BENEFITS AND THE SOUTH DAKOTA RETIREMENT SYSTEM (SDRS)

Benefit Policy Positions

- A defined benefit plan is preferred because it is the most efficient and advantageous design for members, employers, and taxpayers
- Hybrid features that combine the advantages of both defined benefit and defined contribution plans are essential for an equitable distribution of benefits to both career and non-career members
- Variable benefits based on affordability measures are essential for sustainability and the COLA is the most logical benefit feature to vary
- Benefits should meet specific income replacement objectives; excessive benefits must be avoided
- Provisions and practices that result in higher than intended and/or artificially inflated benefits must be avoided and corrected to protect scarce resources and to reinforce adherence to our goals

Governance and Plan Management Positions

- The SDRS Board of Trustees must have the expertise, knowledge, and resources and act as fiduciaries in accordance with SDCL 3-12C-202 to recommend benefit and funding policies and to actively lead SDRS
- Fixed contributions are a prudent financial decision, and SDRS benefits must be managed accordingly since:
  - Variable contributions may require significant and unpredictable higher costs
  - Contribution increases alone are not adequate to solve funding issues for mature plans
  - If costs are not controlled, SDRS will be replaced by a defined contribution plan
- A realistic planning horizon for mature systems like SDRS is 10-20 years because of the duration of our liabilities

Funding Policy Positions

- The SDRS funding policy must specify minimum funding standards to dictate when changes are required or should be considered
- Reliance on our long-term past investment results exclusively is not realistic
- Future mortality improvement must be considered in actuarial assumptions
- Actuarial methods and funding policies that result in expected increasing unfunded liabilities (referred to as negative amortization) are unacceptable
- Contribution rates with a 50% chance of funding actuarial liabilities are not acceptable unless accompanied with flexible benefits
- Recommendations for corrective actions are required under SDCL 3-12C-228 unless both the fixed, statutory contributions are sufficient to meet the actuarial requirement and the Fair Value Funded Ratio is 100% or more
- Risk measures must be developed and communicated to provide transparent disclosure of the likelihood of meeting the funding policies and benefit goals of SDRS

A well-funded defined benefit plan with fixed, shared member and employer contributions and hybrid, variable benefit features is the most efficient and advantageous design for members, employers, and taxpayers

SDRS

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