SDRS FUNDING AND SYSTEM MANAGEMENT POLICIES

– Managing SDRS Based on Fixed, Statutory Contributions –

FUNDING OBJECTIVES	CONSIDERATION OF BENEFIT IMPROVEMENTS	REQUIRED CORRECTIVE ACTION RECOMMENDATIONS
• A Fair Value Funded Ratio (Fair Value of Assets ÷ Actuarial Accrued Liability*) of 100% or more • A fully funded system with no Unfunded Liabilities under the Entry Age Normal Cost method • Actuarially determined benefits that are variable and can be supported by fixed, statutory contributions	• A Fair Value Funded Ratio of over 120% is required before considering benefit improvement recommendations • The cost to fully fund the recommended benefit improvement is also limited to the net accumulated actuarial investment gains and losses, with gains recognized over a five-year period and losses recognized immediately • After fully funding the cost of the benefit improvement, the Fair Value Funded Ratio must be at least 120% and all funding objectives must continue to be met • Proposed benefit improvement must be consistent with both the Board's long-term benefit goals and sound public policy with regard to retirement practices	• The annual report to Governor and Retirement Laws Committee will include corrective action recommendations if SDRS does not meet both of the following conditions: o Fixed, statutory contributions sufficient to meet the actuarial requirement, and o Fair Value Funded Ratio of 100% or more • The report shall include recommendations for the circumstances and timing for any benefit changes, contribution changes or any other corrective action, or any combinations of actions to improve the funding conditions

The Entry Age Normal cost method is used to calculate Normal Cost and Actuarial Liability

*The Actuarial Accrued Liability and Normal Cost at each July 1 will be based on the baseline COLA assumption or the restricted maximum COLA, as applicable under the SDRS variable COLA structure