

SDRS Funding Policy

Elements

Funding Objectives (Discussed at the Quadrennial Funding Study presentations in 1999 and 2002, and formally adopted April 2006 and revised September 2013)	AVA and Risk Mitigation Features: Cushion and Risk Management Contribution (RMC) (RMC initiated 2013)	Reserve and Policy Regarding Consideration of Benefit Improvements (Reserve for Funding of Long-Term Benefit Goals, adopted 1995, revised 1998, 2001 and 2013; Policy adopted 2004, revised 2013)	Annual Reporting and Statutory Conditions That Would Require Special Reporting and Recommendations (SDCL 3-12-122, refined during 2004 and 2013 Legislative Sessions)
<ul style="list-style-type: none"> • Funded Ratios (Assets ÷ Actuarial Accrued Liabilities) <ul style="list-style-type: none"> ○ Based on Fair Value of Assets – 100% or greater ○ Based on Actuarial Value of Assets (AVA) – 100% • Ratio of Fair Value of Assets to Actuarial Value of Assets <ul style="list-style-type: none"> ○ Exceeds 100%, which results in a Cushion • Maintain a fully funded System <ul style="list-style-type: none"> ○ No Unfunded Liabilities under Entry Age Normal Cost method ○ If future Unfunded Liabilities created because of unfavorable experience, fully fund over a period not to exceed 20 years (amortization over a shorter period at Board discretion) • Statutory, fixed contributions meet or exceed the actuarially required contribution each year of: <ul style="list-style-type: none"> ○ Normal Cost plus expenses when System is fully funded ○ Additional amount to amortize Unfunded Liabilities over a period not to exceed 20 years if System not fully funded (amortization over a shorter period at Board discretion) 	<ul style="list-style-type: none"> • Actuarial Value of Assets <ul style="list-style-type: none"> ○ Asset value if all assumptions met ○ Minimizes volatility in actuarial measures ○ Limited to 80-120% of Fair Value of Assets ○ Set to Fair Value if no Cushion for five consecutive years • Cushion <ul style="list-style-type: none"> ○ Excess of Fair Value of Assets over Actuarial Value ○ Captures all net favorable experience • RMC <ul style="list-style-type: none"> ○ Excess of statutory, fixed contributions over actuarially required contributions • Cushion and RMC provide resources to: <ul style="list-style-type: none"> ○ Protect SDRS during times of unfavorable experience, and ○ Pre-fund benefit improvements 	<ul style="list-style-type: none"> • Reserve <ul style="list-style-type: none"> ○ Subset of Cushion for consideration of benefit improvements ○ Delays recognition of investment gains (and liability experience gains/losses) over five years, but recognizes investment losses immediately • After consideration of the expense of the benefit improvement the Fair Value Funded Ratio must be at least 120% • In addition, the following must be satisfied: <ul style="list-style-type: none"> ○ Reserve must be sufficient to fully fund the present value of the benefit improvement ○ After consideration of the recommended benefit improvement all funding objectives must still be met • Proposed benefit improvement must be consistent with both the Board’s long-term benefit goals and public policy with regard to retirement practices 	<ul style="list-style-type: none"> • Annual funded status report to Governor and Retirement Laws Committee (RLC) • If any of the following conditions exist: <ol style="list-style-type: none"> (1) Contributions not sufficient to meet actuarially required contribution (2) Funded Ratio (based on Fair or Actuarial Value) less than 80% (3) Fair Value of Assets less than 90% of the Actuarial Value of Assets, the annual report shall include an analysis of the conditions and recommendations for the circumstances and timing for any benefit changes, contribution changes or any other corrective action, or any combinations of actions to improve these statutory conditions • If any of the above conditions exist for three consecutive actuarial valuations, the Board shall recommend such changes outlined above, effective as soon as possible, to improve these statutory conditions