The South Dakota Perspective

World Pension Alliance – Transatlantic Conference

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June 19, 2018
• Providing sufficient retirement benefits at a reasonable cost is a great challenge

• My discussion today summarizes how the South Dakota Retirement System (SDRS) is meeting that challenge for public employees in our state

• SDRS has evolved to meet:
  – the South Dakota fiscal and legal environment
  – the needs and demographics of our members

• However, the basic concepts have broad application elsewhere
SDRS Objectives

• Manage the plan with fixed contribution rates

• Provide appropriate and affordable benefits

• Remain fully funded
Keys to Achieving the SDRS Objectives

• A disciplined approach to plan management

• Innovative practices in benefit design, funding, disclosure, and risk measurement and management

• Effective and responsible governance
SDRS is a hybrid, defined benefit plan covering essentially all South Dakota public employees

- SDRS operates within the resources provided by fixed, statutory member and employer contribution rates

- Recent plan changes expanded existing hybrid features and added significant variable features that adjust benefits to changing market conditions and plan experience and are designed to maintain a 100% funded ratio in most situations

- South Dakota statutes provide funding thresholds that if crossed require the SDRS Board of Trustees to recommend corrective actions – must maintain 100% funded ratio and fixed, statutory contributions must be actuarially sufficient
Our Scorecard

• A fixed budget for retirement benefits and automatically adjusting benefits that will keep SDRS in balance during most economic periods

• Specific funding measures driving benefit changes:
  – Immediate corrective action recommendations required if less than 100% funded
  – Benefit improvements considered if greater than 120% funded

• Actuarial assumptions and plan management aligned with investment management outlook and practices

• 100% funded on a fair value basis in 2018, and in 28 of the last 33 years

• Benefits meet specific income replacement adequacy objectives

• Risks quantified and action plans developed for additional actions when and if needed

• Confidence and pride in system achieved
The SDRS approach is somewhat unique, but the issues are not

Fixed contributions are a prudent financial decision, and provide the primary foundation for how and why SDRS has evolved

Additional risk measures must be developed and communicated to provide transparent disclosure of the likelihood of meeting the funding policies and benefit goals of SDRS
Variable COLA Process

Step 1: Determine Baseline Fair Value Funded Ratio (FVFR) (Using Baseline COLA assumption of 2.25%)

If 100% or More

COLA = CPI-W Increase
Minimum = 0.5%
Maximum = 3.5%

If Less than 100%

Step 2: Determine Restricted Maximum COLA Resulting in FVFR of 100%

COLA = CPI-W Increase
Minimum = 0.5%
Maximum = Restricted Maximum
• Expected return distribution for baseline asset allocation:
  – Expected mean = 6.19%
  – Expected standard deviation = 15.4%
The likelihoods for 2020 COLA ranges, which are primarily driven by FY19 investment returns, are:

- 43% likelihood that the baseline COLA will be payable (CPI-W between 0.5% and 3.5%)
- 40% likelihood that the COLA will have a restricted maximum (CPI-W between 0.5% and the restricted maximum)
- 17% likelihood that a 0.5% COLA will be payable and additional Corrective Action recommendations will be required

* Before consideration of liability gains/losses. Likelihoods based on expected investment return of 6.19% and annual portfolio standard deviation of 15.4%.
Thank you

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