South Dakota Retirement System

The South Dakota Perspective

World Pension Alliance – Transatlantic Conference

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Preliminary Remarks

- 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

The Current SDRS Structure

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

Additional Thoughts

- 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

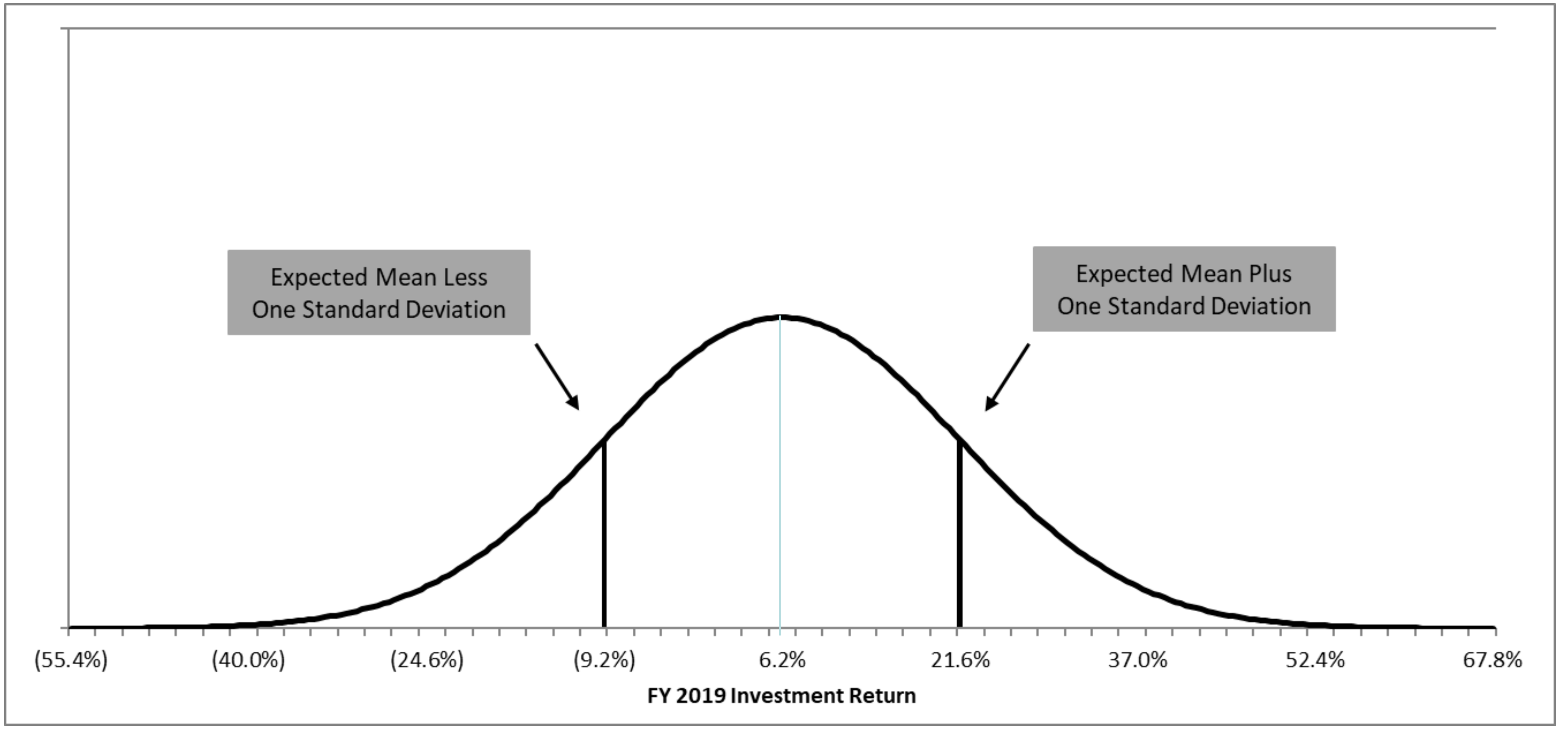
COLA = CPI-W Increase
Minimum = 0.5%
Maximum = 3.5%

If Less than 100%

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

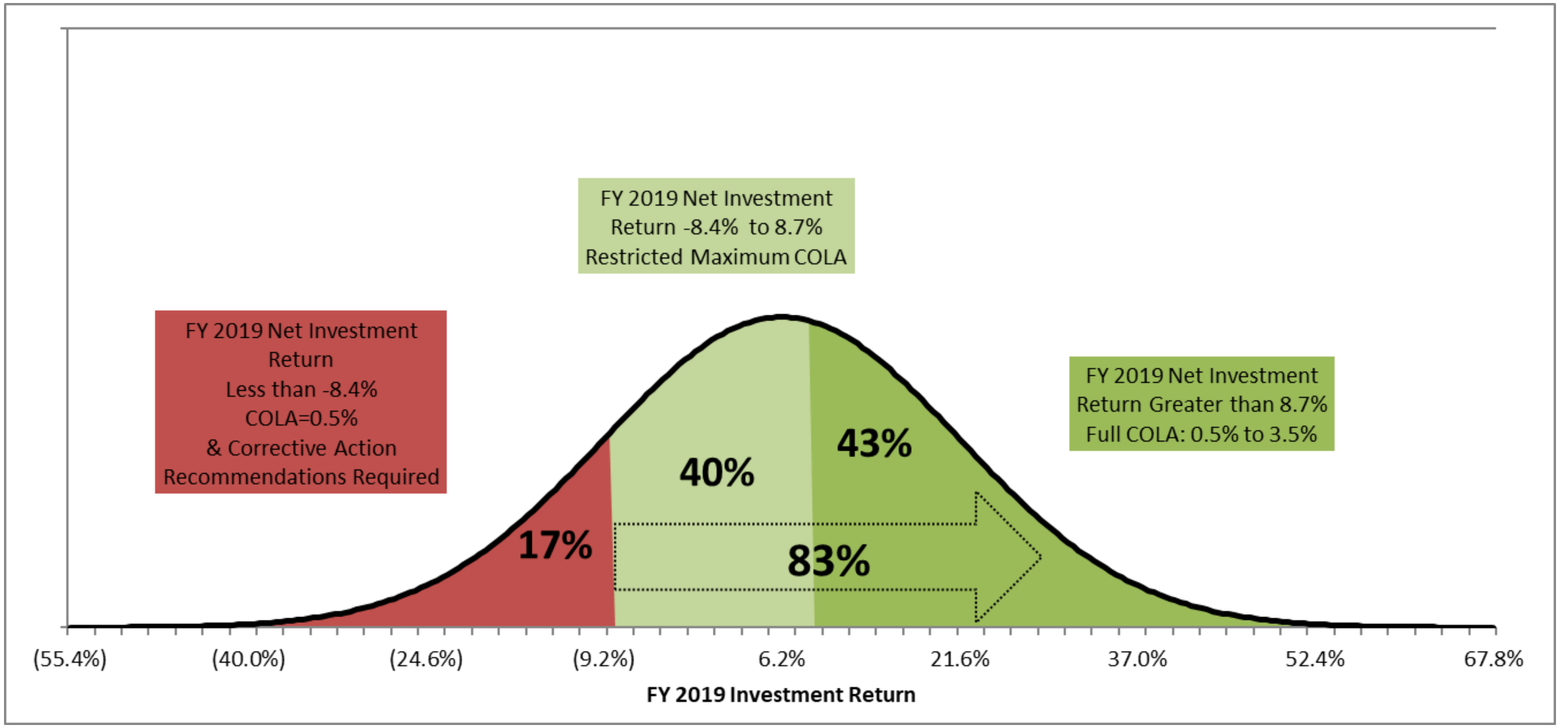
COLA = CPI-W Increase
Minimum = 0.5%
Maximum = Restricted Maximum

SDRS Risk Communications – Expected One Year Investment Return Distribution



- Expected return distribution for baseline asset allocation:
  - Expected mean = 6.19%
  - Expected standard deviation = 15.4%

Risk Measurement Based on Projected 2020 SDRS COLA Range



- 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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