AGENDA
SDRS BOARD OF TRUSTEES

South Dakota Retirement System
222 E. Capitol Ave
Pierre, SD 57501

DATE: Wednesday, April 10, 2024

TIME: 9:00 a.m. CST (8:00 a.m. MST)

THIS MEETING WILL BE BROADCAST LIVE AT HTTPS://WWW.SD.NET/.

9:00 a.m. - Call Meeting to Order – Determination of Quorum*

ITEM 1 - Chair's Preliminary Remarks
- Introductions and Announcements
- Board Conflict Disclosure
- Policy Concerning Public Testimony and Comments

ITEM 2 - Public Comment

ITEM 3 - Approval of December 6, 2023, Minutes

ITEM 4 - Board Member Election Update – Dawn Smith, Executive/Board Assistant

ITEM 5 - 2024 Legislative Report –Jacque Storm, Deputy Director/General Counsel; Sam Koldenhoven, Associate General Counsel; Michelle Mikkelsen, Chief Finance Officer; and Travis Almond, Executive Director
- Commemoration
- SDRS Legislation
- SDRS FY 2025 Budget

ITEM 6 - IT Services – Nick Rea, Director of IT Services

ITEM 7 - Communications Department – Alan Freng, Director of Communications

ITEM 8 - Member Services Department – Michelle Humann, Director of Member Services

ITEM 9 - Investment Performance Update – Darci Haug, Senior Portfolio Manager and Danielle Mourer, Portfolio Manager

ITEM 10 - Projected Funded Status of the South Dakota Retirement System – Doug Fiddler, Senior Actuary

ITEM 11 - SDRS Planning Guide Revisited – Doug Fiddler

ITEM 12 - Set Effective Rate of Interest for FY 2025 – Michelle Mikkelsen

ITEM 13 - Set FY 2025 Supplemental Pension Benefit Interest Rate Assumption – Travis Almond

ITEM 14 - Board Member Conference Approval – Travis Almond
- Eric Stroeder – NCTR Annual Conference, October 5-9, Atlanta, GA
- Jim Appl – NCTR Trustee Workshop, July 21-24, Berkley, CA

ITEM 15 - Old/New Business
- 50th Anniversary Celebration (June 2024)
- SharePoint Board Portal
- Upcoming SDRS Board of Trustee Meeting Dates

ITEM 16 - Executive Director's Performance Evaluation (Possible Executive Session)

ADA COMPLIANCE: THE SOUTH DAKOTA RETIREMENT SYSTEM FULLY SUBSCRIBES TO THE PROVISIONS OF THE AMERICANS WITH DISABILITIES ACT. IF YOU DESIRE TO ATTEND THIS PUBLIC MEETING AND ARE IN NEED OF SPECIAL ACCOMMODATIONS, PLEASE NOTIFY THE SDRS OFFICE AT LEAST 72 HOURS PRIOR TO THE MEETING SO APPROPRIATE AUXILIARY AIDS AND SERVICES CAN BE MADE AVAILABLE.

FUTURE MEETING DATES

June 5, 2024 (50th Anniversary Celebration)
September 11, 2024
December 11, 2024

**In some circumstances, the Chair may choose to take agenda items out of the listed order.*

JOINT MEETING

SOUTH DAKOTA RETIREMENT SYSTEM and RETIREMENT LAWS COMMITEEE

December 6, 2023

The Board of Trustees of the South Dakota Retirement System held a joint meeting with the Retirement Laws Committee on December 6, 2023. The meeting began at 9:00 a.m. in the SDRS Board Conference Room.

BOARD MEMBERS IN ATTENDANCE:

Eric Stroeder, Chair
James Appl, Vice Chair
Annette Brant
Penny Brunken
Matt Clark – Ex Officio
Kathy Greeneway
LaJena Gruis
Myron Johnson
Jill Lenards
Kevin Merrill
Hank Prim
Justice Mark Salter
Darin Seeley
Dave Smith
Jim Terwilliger
Wes Tschetter
Doug Wermedal

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RETIREMENT LAWS COMMITTEE MEMBERS IN ATTENDANCE:

Representative Hugh Bartels
Representative Mike Weisgram
Representative Kameron Nelson
Representative Carl Perry
Representative Neal Pinnow
Senator Jim Bolin
Senator Jim Mehlhaff
Senator Randy Deibert
Senator Reynold Nesiba (via Teams)
Senator Larry Zikmund

OTHERS IN ATTENDANCE:
Darci Haug, SDIC
Duncan Koch, BFM
Larry Langer, CavMac
Lealan Miller, Eide Bailly
Danielle Mourer, SDIC
Samantha Rains, SDIC
John Richter, SDIC
Travis Almond
Brittnie Adamson
Alan Freng
Doug Fiddler
Sam Koldenhoven
Michelle Humann
Michelle Mikkelsen
Nick Rea
Dawn Smith
Jacque Storm

For continuity, these minutes are not necessarily in chronological order.

AGENDA ITEM 1
CHAIR'S PRELIMINARY REMARKS

Summary of Presentation
Chair Eric Stroeder asked the board for any conflict disclosures. There being none, the Chair then explained the policy concerning the public testimony.

Board Action
No action was necessary.

AGENDA ITEM 2
PUBLIC COMMENT

Summary of Presentation
There was no public comment.

Board Action
No action was necessary.

AGENDA ITEM 3
APPROVAL OF AUGUST 31, 2023, MINUTES

Board Action

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. APPL, TO APPROVE THE MINUTES OF THE AUGUST 31, 2023, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
SDRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 2023

Summary of Presentation

Ms. Michelle Mikkelsen, SDRS Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2023. Ms. Mikkelsen stated that the SDRS fiduciary net position restricted for pension benefits was $14.5 billion which was an increase of $374 million during the fiscal year. In addition, there was $309 million in total contributions, over $735 million in total benefits and refunds paid, and 507 participating employers with just over 100,000 members.

Ms. Mikkelsen noted that the administrative expenses were $5 million in FY 2023. The net money-weighted investment performance during 2023 was 5.8 percent, slightly below the long-term assumed annual return rate of 6.5 percent. However, the fiduciary net position continued to exceed the total pension liability, resulting in a net pension asset of $10 million.

Ms. Mikkelsen advised that there was $620 million in the SDRS Supplemental Retirement Plan with $45 million contributed and $28 million paid to benefit recipients during 2023. There were 36,086 participating members with 18,354 actively deferring among the 377 participating employers.

The SDRS Special Pay Plan had assets of $81 million with $9 million paid to benefit recipients and $9 million received in contributions during fiscal year 2023. There are 140 participating employers with 4,605 participating members.

Board Action

No action was necessary.

AGENDA ITEM 5
SDRS FINANCIAL AUDIT
FOR PERIOD ENDING JUNE 30, 2023

Summary of Presentation
Ms. Kathy Greeneway, chair of the Audit Committee, stated that the audit committee had a conference call with the Eide Bailly to review the external auditor's findings of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2023.

Mr. Lealan Miller, Partner, Eide Bailly, presented the external financial audit of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2023.

Mr. Miller stated that the Eide Bailly report found no material weaknesses in the review of SDRS' financial statements and internal accounting controls.

Board Action
IT WAS MOVED BY MR. WERMEDAL, SECONDED BY MR. TSCHETTER, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR THE PERIOD ENDING JUNE 30, 2023, AS PRESENTED BY EIDE BAILLY. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 6
SDRS ACTUARIAL VALUATION
FOR THE PERIOD ENDING JUNE 30, 2023

Summary of Presentation
Mr. Doug Fiddler, SDRS Senior Actuary, presented the SDRS Actuarial Valuation for the period ending June 30, 2023.

Mr. Fiddler explained the purpose of the actuarial report. He stated the report includes required annual statutory determinations and disclosures. It can also be used to identify trends that can serve as an early warning system for potential future funding problems.

The conclusions of the 2023 Actuarial Valuation, advised Mr. Fiddler, are as follows:

- System investment experience was 5.8 percent, below the assumed 6.5 percent, resulting in actuarial investment losses of $98 million for the year;
- Liability losses for the year were $199 million;
- The July 1, 2024, SDRS COLA will be 1.91 percent;
- No corrective action recommendations are required;
- Fair Value and Actuarial Value funded ratios are 100.1 percent;

- If future experience matches the actuarial assumptions, the funded ratios are expected to remain at 100 percent and the restricted maximum COLA of 1.91 percent is expected to remain affordable;
- As of June 30, 2023, SDRS has a small net pension asset;
- SDRS remains a fully funded retirement system, which is a rare accomplishment and significantly better funded than almost all statewide retirement systems; and
- SDRS meets all the Board of Trustees' funding objectives as of June 30, 2023.

Board Action
No action was necessary.

AGENDA ITEM 7
SDRS ACTUARIAL VALUATION REVIEW

Summary of Discussion
Mr. Larry Langer, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting (CavMac), presented the conclusions of the limited scope review of the SDRS actuarial valuation report. CavMac concluded that the actuarial valuation results were reasonable and accurate, based on the actuarial assumptions and methods used. Mr. Langer also stated that the valuation was performed by a qualified actuary and was performed in accordance with the principles and practices prescribed by the Actuarial Standards Board.

Board Action
IT WAS MOVED BY MS. BRANT, SECONDED BY MS. BRUNKEN, TO ACCEPT THE ACTUARIAL VALUATION REVIEW OF THE SDRS ACTUARIAL VALUATION AS OF JUNE 30, 2023, AS PRESENTED BY CAVANAUGH MACDONALD CONSULTING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 8
FY 2024 INVESTMENT UPDATE

Summary of Discussion
Darci Haug, Senior Portfolio Manager, SDIC, stated that the return as of November 30, 2023, was 1.45 percent.

Board Action
No action was necessary.

AGENDA ITEM 9
SDRS PROJECTED FUNDED STATUS AS OF JUNE 30, 2024

Summary of Discussion
Mr. Fiddler noted that SDRS contributions are fixed and benefits are variable based on affordability and that under most circumstances, SDRS' fair value funded ratio is expected to remain at 100 percent. He added that the SDRS COLA will vary directly with both inflation and long-term affordability and the July 2022 COLA of 3.5 percent was the first time the full COLA range was affordable under the current COLA process.

Mr. Fiddler reviewed the recent SDRS COLA history compared to inflation and estimates and likelihoods of the 2025 COLA range. He stated that the recent investment experience less than the 6.5 percent assumption has reduced the affordable COLA payable. Fiscal year 2024 returns below approximately negative 10.8 percent would require a corrective action recommendation and a zero COLA. Fiscal year 2024 returns greater than approximately 9.9 percent would result in the full 0 to 3.5 percent COLA range applying for the July 2025 COLA.

Board Action
No action was necessary.

AGENDA ITEM 10
SDRS MEMBER DEMOGRAPHICS AND WORKFORCE INFORMATION

Summary of Discussion
Mr. Fiddler stated that as the baby boomers mature and retire, there will be a significant impact on the workforce throughout the country, including South Dakota.

The number and percentage of SDRS members now or soon eligible for unreduced retirement is beginning to decline noted Mr. Fiddler. All public employers will face future challenges in replacing retiring and terminating members. Public employees are retiring later, so the median age at retirement continues to increase. Health care cost concerns are cited by many employees as a reason. Eligibility for Medicare and increasing Social Security Normal Retirement Age are also factors.

Mr. Fiddler stated that on June 30, 2007, baby boomers comprised 44 percent of SDRS membership with only 11 percent of the baby boomers retired. As of June 30, 2023, baby boomers comprised 35 percent of SDRS membership and 72 percent of the baby boomers had retired.

Mr. Fiddler reviewed the trends in members nearing retirement. He stated that the SDRS membership is retiring later. The median age at retirement for Class A and Judicial members has increased from 60.7 to 64.4 since 2006. Service at retirement has dropped considerably. Considering all classes, median service at retirement has decreased from 26.4 years to 23.3 years since 2006. Much of this reduction is because a significantly lower percentage of Class A or Judicial retirees in recent years have purchased service. A similar effect can be seen for Public Safety retirees, but with fewer retirees, the median service and retirement patterns are less consistent. The trends are clearer considering the age at retirement by different periods of service. The median retirement age has been steadily increasing for all members and appears to be stabilizing over age 62 for longer-service members compared to 58 in 2006-2008.

In conclusion, noted Mr. Fiddler, staff expect an elevated number of retirements to continue for the next 4 to 5 years as baby boomers retire. Members are retiring at later ages, centered around age 64 for Class A and Judicial members, likely due to health care cost concerns. The median service at retirement is decreasing, primarily indicating fewer members had purchased service throughout their career. The bottom line, advised Mr. Fiddler, is that all SDRS employers will need to replace a significant portion of employees in the next few years.

Board Action
No action was necessary.

AGENDA ITEM 11
PROPOSED 2024 LEGISLATION

Summary of Discussion
Ms. Samantha Koldenhoven, SDRS Associate General Counsel, reviewed the potential legislation that was discussed at the August meeting. The first piece of legislation consists of changes to required minimum distributions (RMDs) due to the passage of the SECURE 2.0 Act of 2022. This piece of legislation also includes the update to the definition of Internal Revenue Code. The second piece of legislation is a clean-up bill which clarifies language for employer and health care provider certification of disability and waives the requirement of a spouse's signature under certain circumstances for a benefit start in the case of an absent spouse.

Board Action
IT WAS MOVED BY MS. BRANT, SECONDED BY MS. GREENEWAY, TO DIRECT STAFF TO FILE THE PROPOSED LEGISLATION ON BEHALF OF THE BOARD FOR THE 2024 LEGISLATIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
FY2025 SDRS BUDGET

Summary of Discussion

Ms. Mikkelsen reported on the Governor's Recommended Budget for SDRS. She advised that the Governor approved two of the three positions that SDRS requested and removed the expenditure authority for the position not approved. The Governor approved the remaining items requested in the SDRS budget.

Board Action

IT WAS MOVED BY MR. SEELEY, SECONDED BY MR. TSCHETTER, TO SUPPORT THE GOVERNOR'S FISCAL YEAR 2025 RECOMMENDED BUDGET FOR SDRS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 13
SDRS 50TH ANNIVERSARY

Summary of Discussion

Ms. Jacque Storm, SDRS Deputy Director/General Counsel stated that SDRS' 50th Anniversary was July 1, 2024. She advised that in conjunction with the June 2024 Board meeting there would be an open house in the afternoon, not only celebrating the fact that SDRS has been around for 50 years, but also a recognition of all the hard work and foresight that went into establishing the plan. She stated that it is fitting to pause and acknowledge the dedication and hard work of all the iterations of SDRS Board members and staff, as well as the support of the Legislatures and Governors over that time.

Board Action

No action was necessary.

AGENDA ITEM 14
ESTABLISH THE COLA FOR FY 2025

Summary of Presentation

Mr. Almond stated that SDCL 3-12C-104 regarding the cost-of-living adjustment (COLA) states that the annual increase shall be established by the Board for each fiscal year, based on the fair value funded ratio and actuarially determined contribution rate and the increase in the Consumer Price Index.

After review of the COLA calculation process, 1.91 percent is the recommended fiscal year 2025 COLA.

Board Action
IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. APPL, TO ESTABLISH THE COLA EFFECTIVE JULY 1, 2024, AT 1.91 PERCENT. THE MOTION PASSED UNANIMOUSLY ON VOICE VOTE.

AGENDA ITEM 15
SET VARIABLE RETIREMENT ACCOUNT CONTRIBUTION RATE FOR FY 2025

Summary of Presentation
Mr. Almond stated that pursuant to SDCL 3-12C-1302 the Board must set the variable retirement account contribution rate. He noted that it was the recommendation of staff and the actuary that the variable retirement contribution rate be set at 1.5 percent of each contributing generational member's compensation for the fiscal year beginning July 1, 2024.

Board Action
IT WAS MOVED BY MR. SMITH, SECONDED BY MR. MERRILL, TO ESTABLISH THE VARIABLE RETIREMENT ACCOUNT CONTRIBUTION RATE FOR FISCAL YEAR 2025 AT 1.5 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 16
OLD/NEW BUSINESS

Summary of Presentation
Board Only SharePoint Page
Mr. Nick Rea, SDRS Data Analyst, gave the Board a demonstration of the new Board SharePoint page.

NCTR Conference Wrap-up
Mr. Stroeder gave an overview of the NCTR Annual conference he attended.

2024 Legislative Session Calendar
Mr. Almond noted that the Legislative Session Calendar had been forwarded to the Board.

Future Meeting Dates
Mr. Almond stated that the future meeting dates were listed on the bottom of the agenda. He noted that he would like to move the June meeting to June 5th to accommodate the 50th Anniversary celebration.

Board Action
No action was necessary.

ADJOURNMENT

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. SMITH, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Respectfully submitted,

Travis Almond
Executive Director

SDRS
SOUTH DAKOTA
RETIREMENT SYSTEM

INFORMATION TECHNOLOGY SERVICES

IT SERVICES

A new SDRS department charged with optimizing the efficient use of SDRS data.

IT SERVICES TEAM

NICK REA

IT SERVICES DIRECTOR

SDRS Data Analyst
2022-2024

Promoted to
Director of IT Services
2024

ALEX KORKKI

BUSINESS SYSTEM ANALYST

Senior Software Engineer
2015-2016

BIT Senior Software Engineer
2016-2023

SDRS Business Systems Analyst
2023

DIRECTOR OF IT SERVICES

Duties and responsibilities:

- Enhance data driven culture
- Improve data reporting and cleansing
- Integrate new software and technologies
- Streamline existing processes
- Collaborate on IT needs across the departments

BUSINESS SYSTEMS ANALYST

Duties and responsibilities:

- Provide technical analysis
- Acts as BIT liaison
  - Improve pension administration system functionality
  - Solve system errors

FUTURE GOALS

- Continually business process improvements
- Enhance and expand data driven culture
  - Develop detailed data governance
  - Improve Data cleansing operations
- Adopt emerging technologies to facilitate innovation

COMMUNICATIONS DEPARTMENT


hello!
THE EVOLUTION OF
COMMUNICATION
FROM ANCIENT CAVE PAINTINGS TO SOCIAL MEDIA

COMMUNICATIONS TEAM

ALAN FRENG

COMMUNICATIONS DIRECTOR

JESSICA REITZEL

COMMUNICATIONS SPECIALIST

JAIME RUTSCHKE

INFORMATION OFFICER

RESPONSIBLE FOR ONGOING COMMUNICATION TO:

- Members
- Survivors
- Employers
- Authorized Agents
- Staff
- Board
- Legislature
- Stakeholders

SOCIAL MEDIA

- Facebook
- Instagram
- X/Twitter

YOUTUBE VIDEOS

STEPS TO SDRS RETIREMENT

Step-by-step look at how to retire

MYSDRS ACCOUNT SETUP

Guide to setting up your online MySDRS account

RETURNING TO WORK AFTER RETIREMENT

General information for SDRS retirees about returning to work

EMAIL "MARKETING"

- Cost Effective
- Efficient Delivery
- Analytics & Optimization

iContact

FUTURE GOALS OF SDRS COMMUNICATIONS

- Targeted education
- Employer outreach
- Grow online presence
- Digital publication formatting

THANK YOU!

ALAN.FRENG@STATE.SD.US

WWW.SD.GOV/SDRS

SCAN THE QR CODE TO COMPLETE A QUICK SURVEY.

MEMBER SERVICES

MEMBER SERVICES TEAM

MICHELLE HUMANN MEMBER SERVICES DIRECTOR

RETIREMENT PLANNERS

- Michael Jacobson
  Assistant Member Services Director
- Kara Ekle
- Sarah Eddie
- Jared Erickson

RETIREMENT PLANNERS

- Eric Lusk
- Kimberly Sawhill
- Samuel Smith
- Tim Gross

MEMBER SERVICE REPRESENTATIVES

- Christina Wilson
  Department Lead
- Ashton Hoffman
- Diane Reiser
- Danita Intorn

WHAT A DIFFERENCE A YEAR MAKES

- Full-Service Forms
- Registration for Webinars
- Tax Documents
- Statements
- Direct Deposit Change Notices
- Launching Soon-Bookings

MEMBER SERVICES NUMBERS 2023

Incoming Mail **34,799**

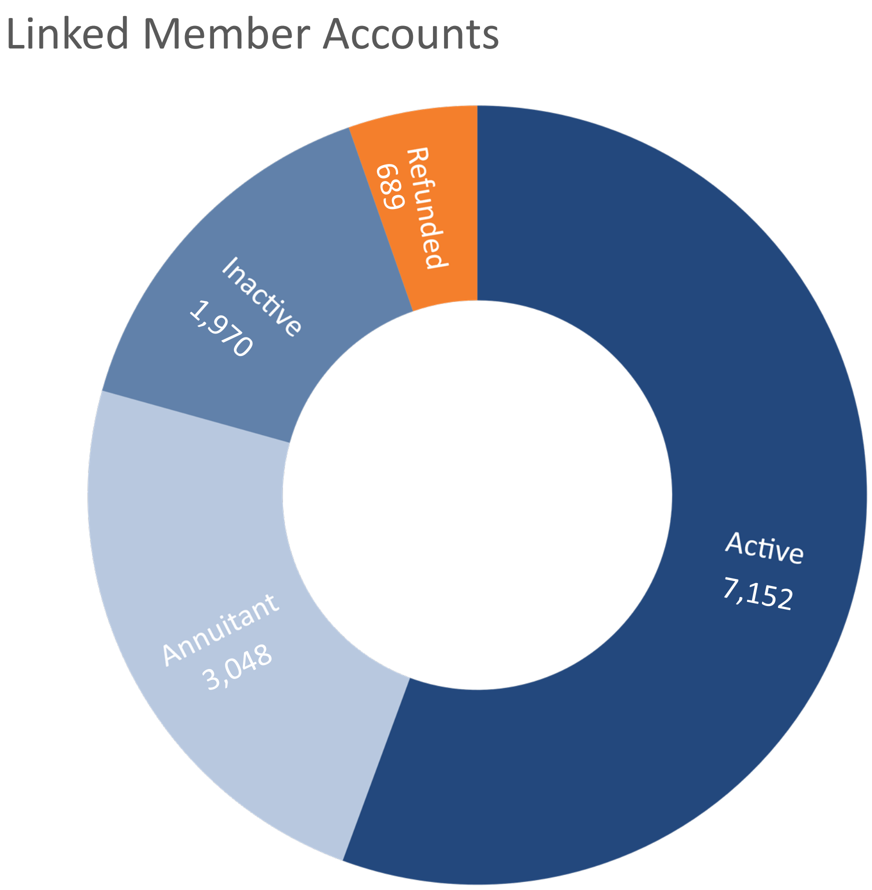
Incoming Calls **22,323**

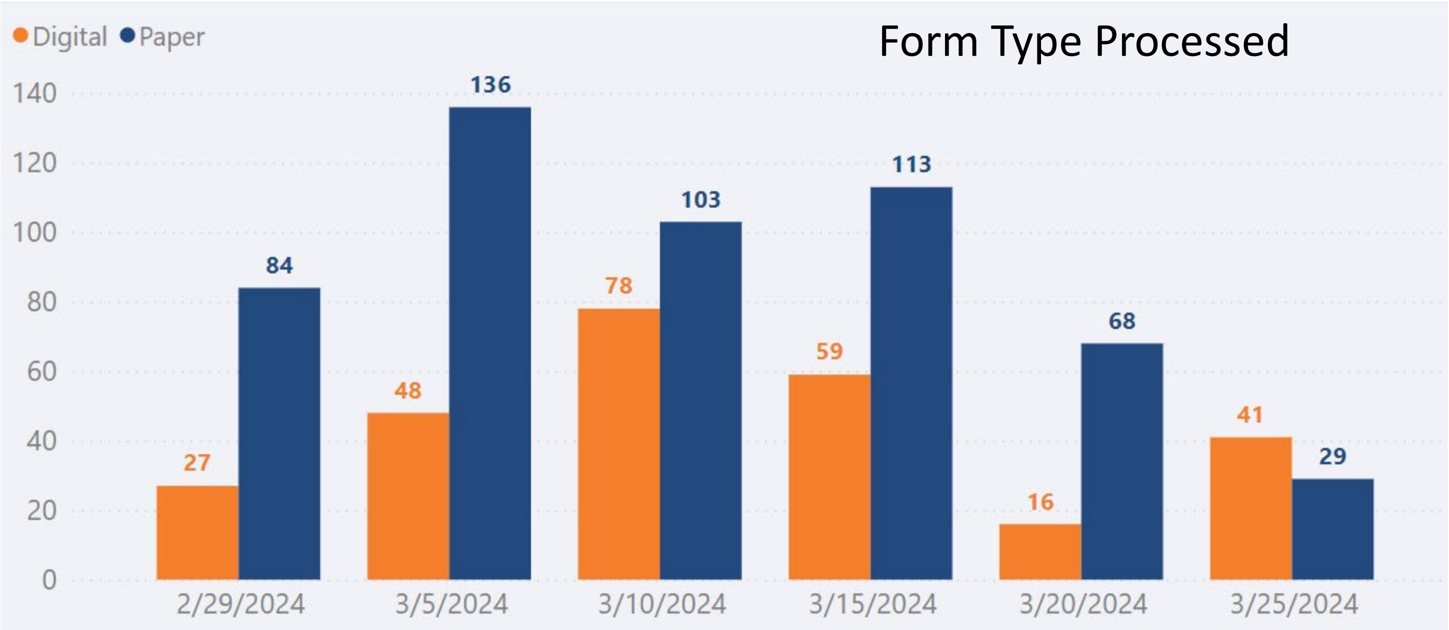
Forms Encoded **37,976**

New Members **6,517**

Individual Consults **1,752**

WHO'S USING THE WEBSITE?





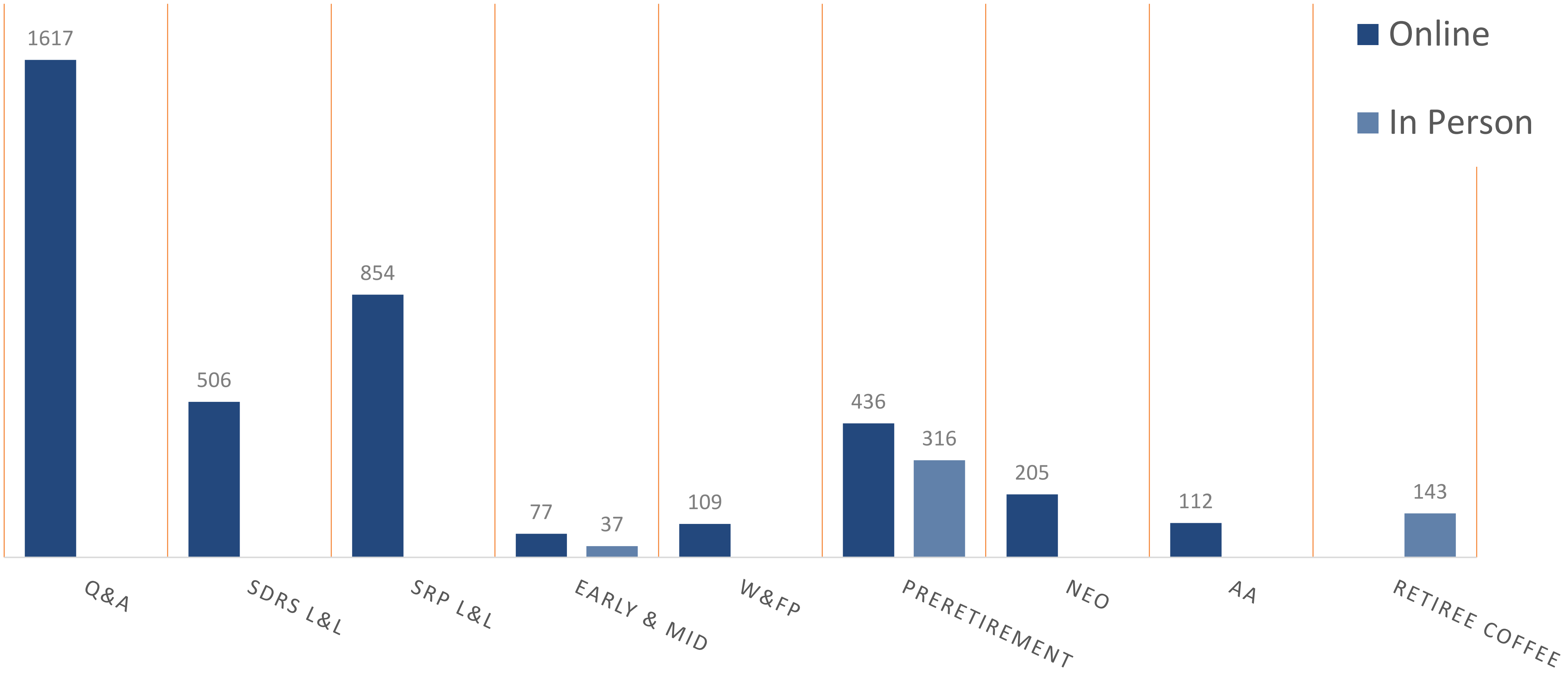
SDRS EVENTS CALENDAR

April 2024

Today ‹ ›

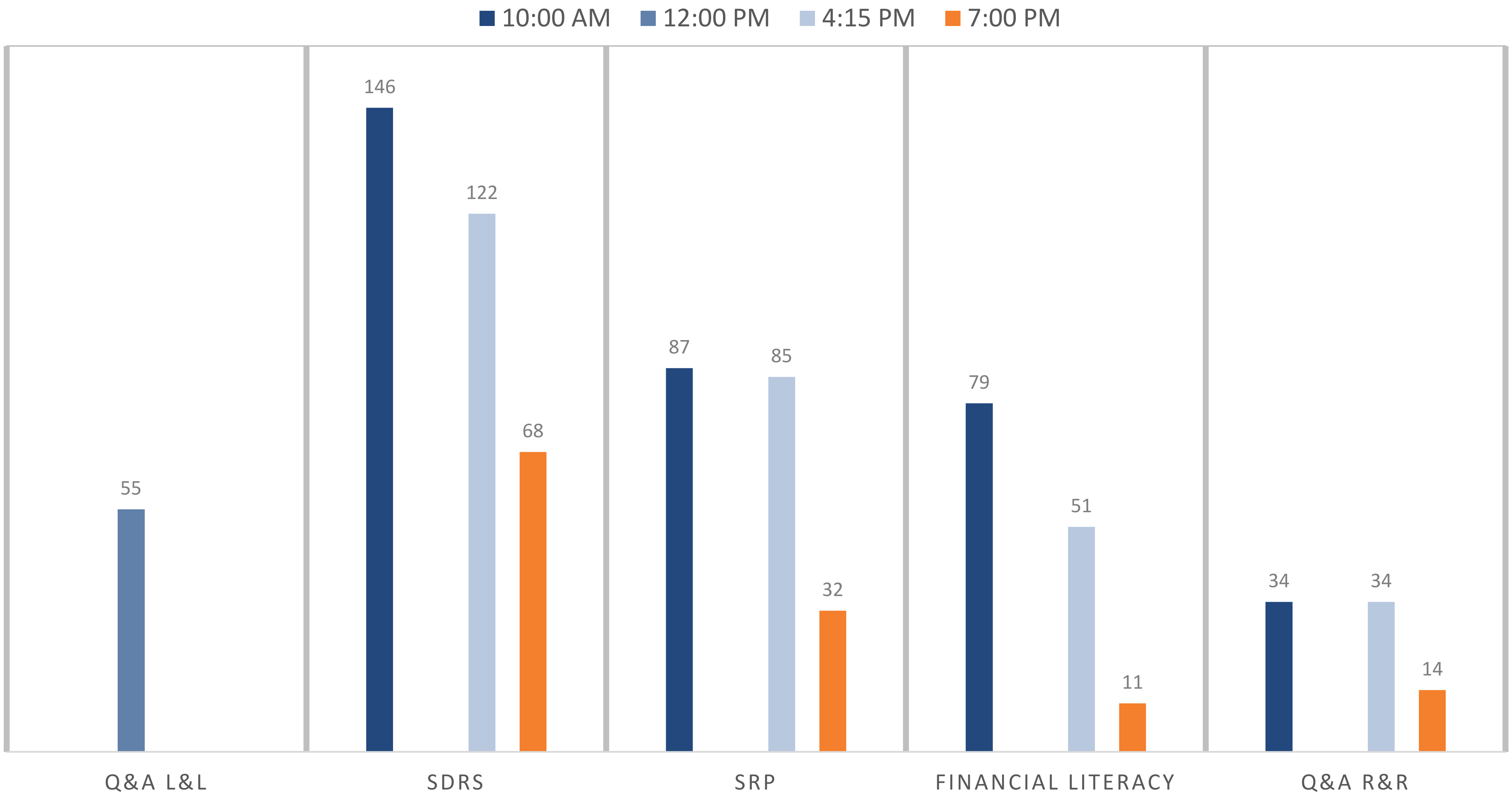
Mon	Tue	Wed	Thu	Fri	Sat	Sun
1	2	3 **7 PM** SDRS 101	4	5	6	7
8	9 **12:10 PM** SDRS Lunch and Learn **2 PM** Individual Counseling - Lemmon,...	10 **9 AM** SDRS Board Meeting **7 PM** SDRS- SRP 101	11	12	13	14
15	16 **2 PM** Individual Counseling - Flandrea...	17 **7 PM** SDRS Financial Literacy	18	19	20	21
22	23	24 **7 PM** SDRS & SDRS-SRP Q&A	25	26	27	28
29	30 **2 PM** Individual Counseling - Webster, ...	1 **4:15 PM** SDRS 101	2	3	4	5

2023 WHAT WE LEARNED

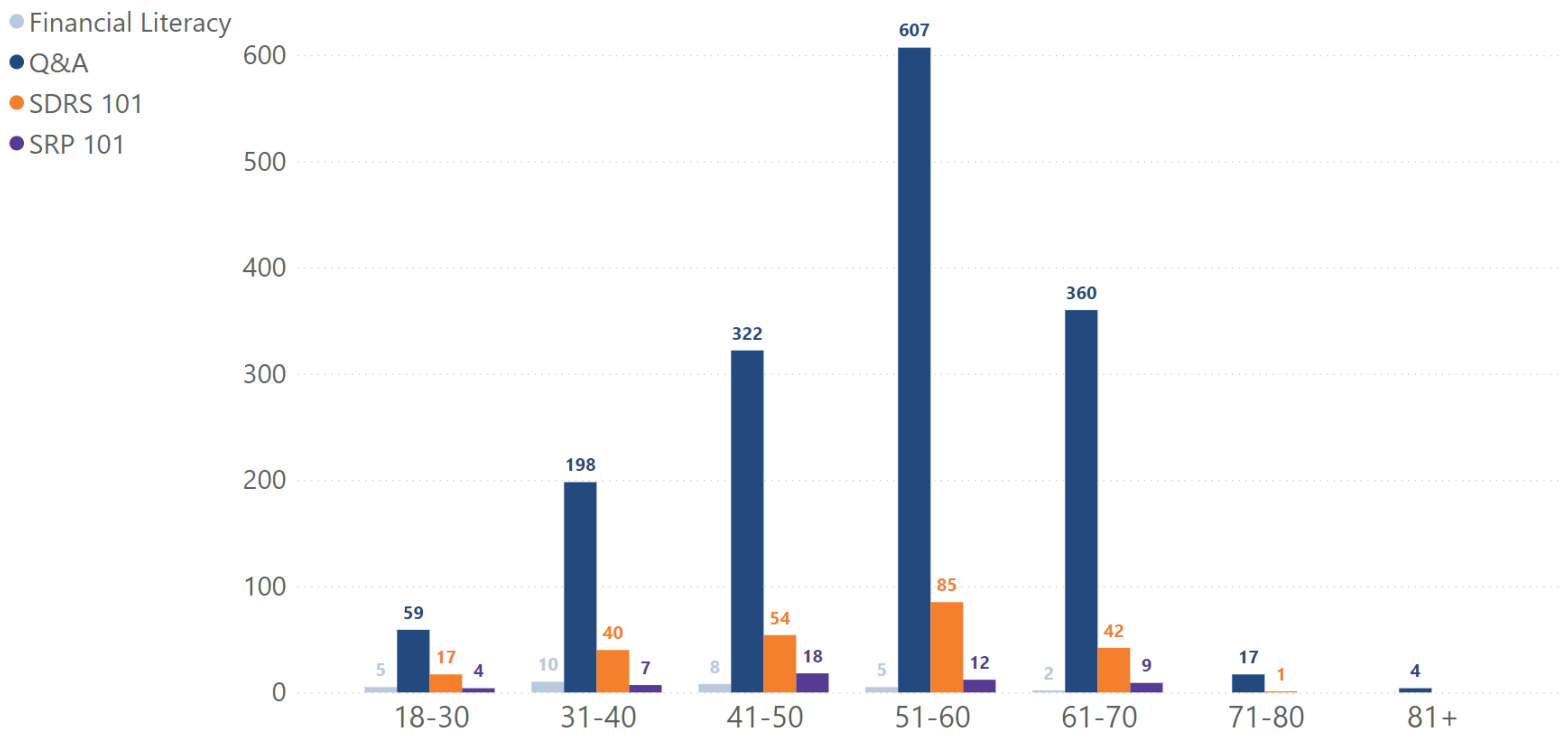


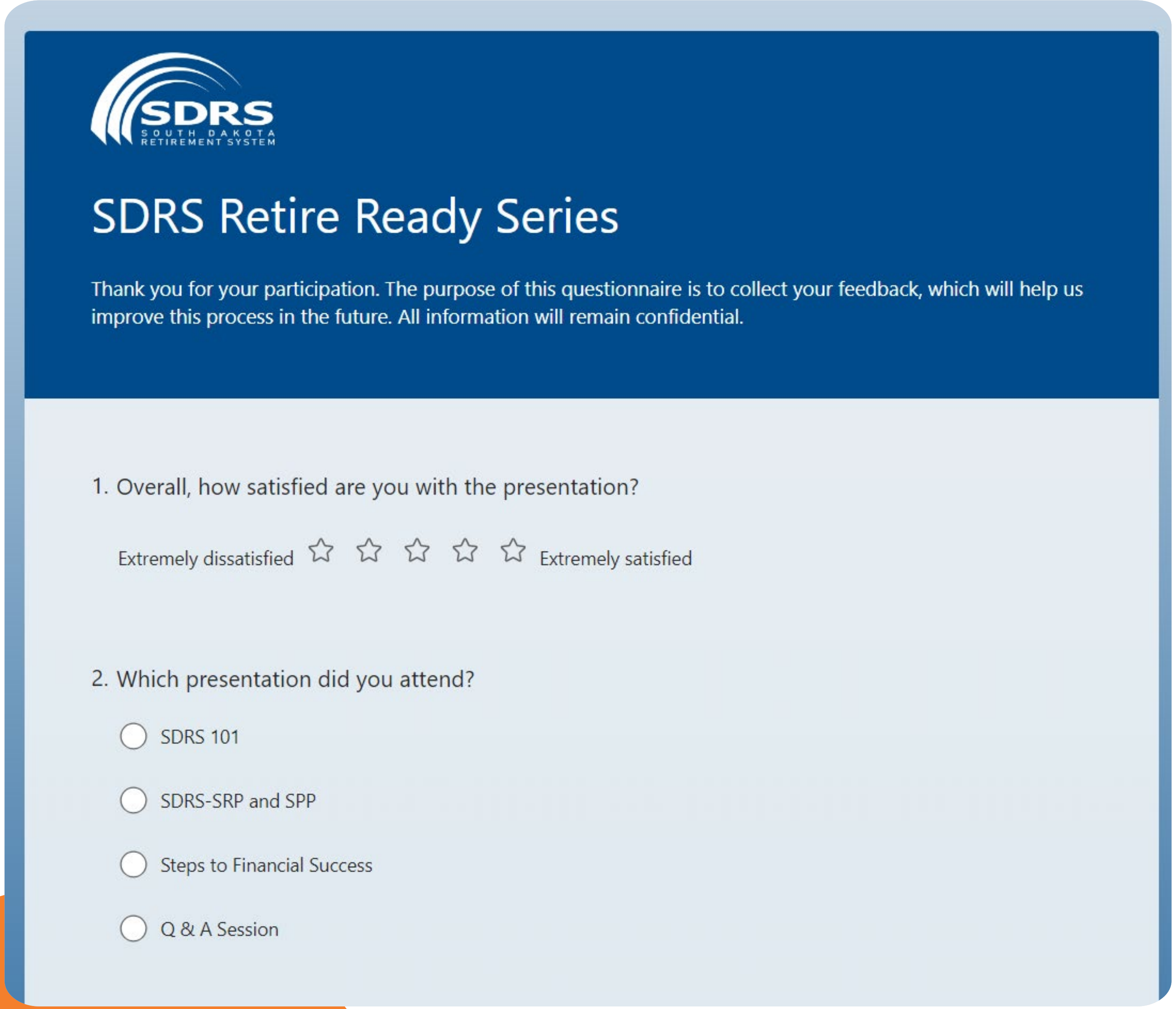
A NEW YEAR
A FRESH NEW SERIES

2024 Online Only



WEBINAR AGE DEMOGRAPHICS





SURVEYS

- Microsoft Forms
- A link can be embedded in e-mails
- QR Codes for online and in person

OUR GOALS

What comes next for the Member Services Team at SDRS?

- Increase the number of TEAMS consults
- Reach younger members
- Use surveys to create targeted education

QUESTIONS?

MICHELLE.HUMANN@STATE.SD.US

WWW.SD.GOV/SDRS

South Dakota Retirement System

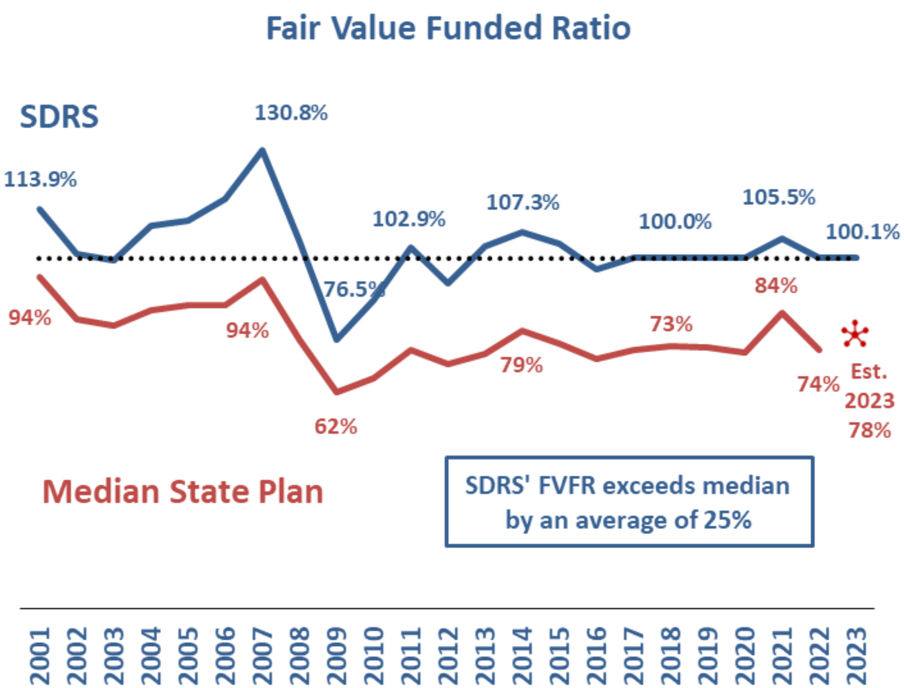
Projected Funded Status as of June 30, 2024

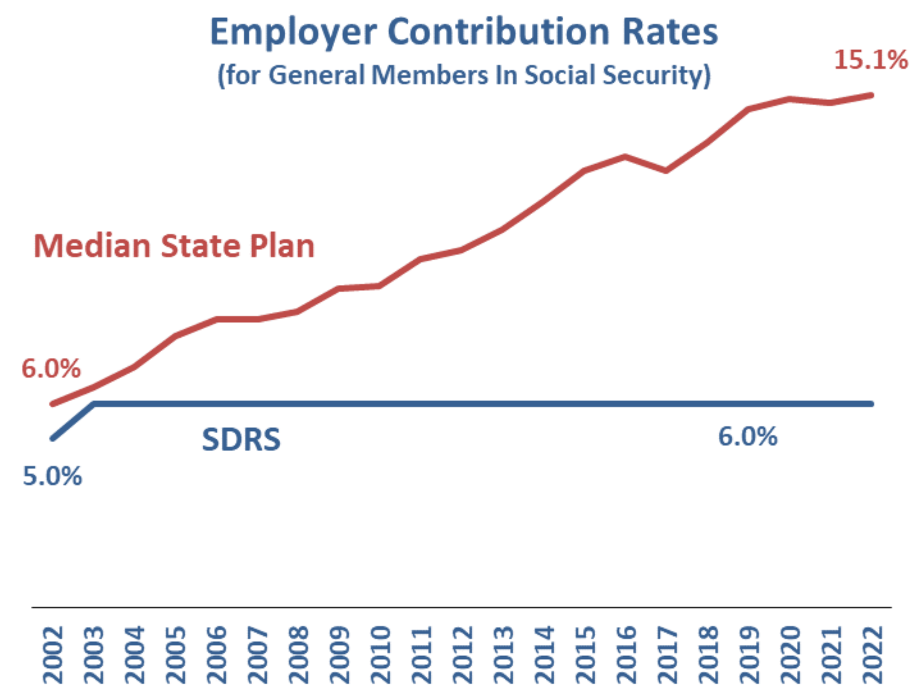
April 10, 2024

Funding Basics: C + I = B + E

- Member and employer **contribution rates are fixed in statute**
- **COLA automatically varies** with inflation and affordability:
  - COLA equals inflation, up to 3.5% when affordable
  - When not affordable, COLA maximum is reduced to COLA that keeps SDRS 100% funded if paid for lifetimes of all members
  - COLA can be as low as zero, if necessary
- SDCL 3-12C-228 requires recommendation, including circumstances and timing, to Legislature and Governor for **corrective action** if:
  - Zero COLA results in funded ratio below 100%, or
  - Fixed, statutory contributions do not meet actuarial requirement

Employer Contributions and Funded Status Comparisons

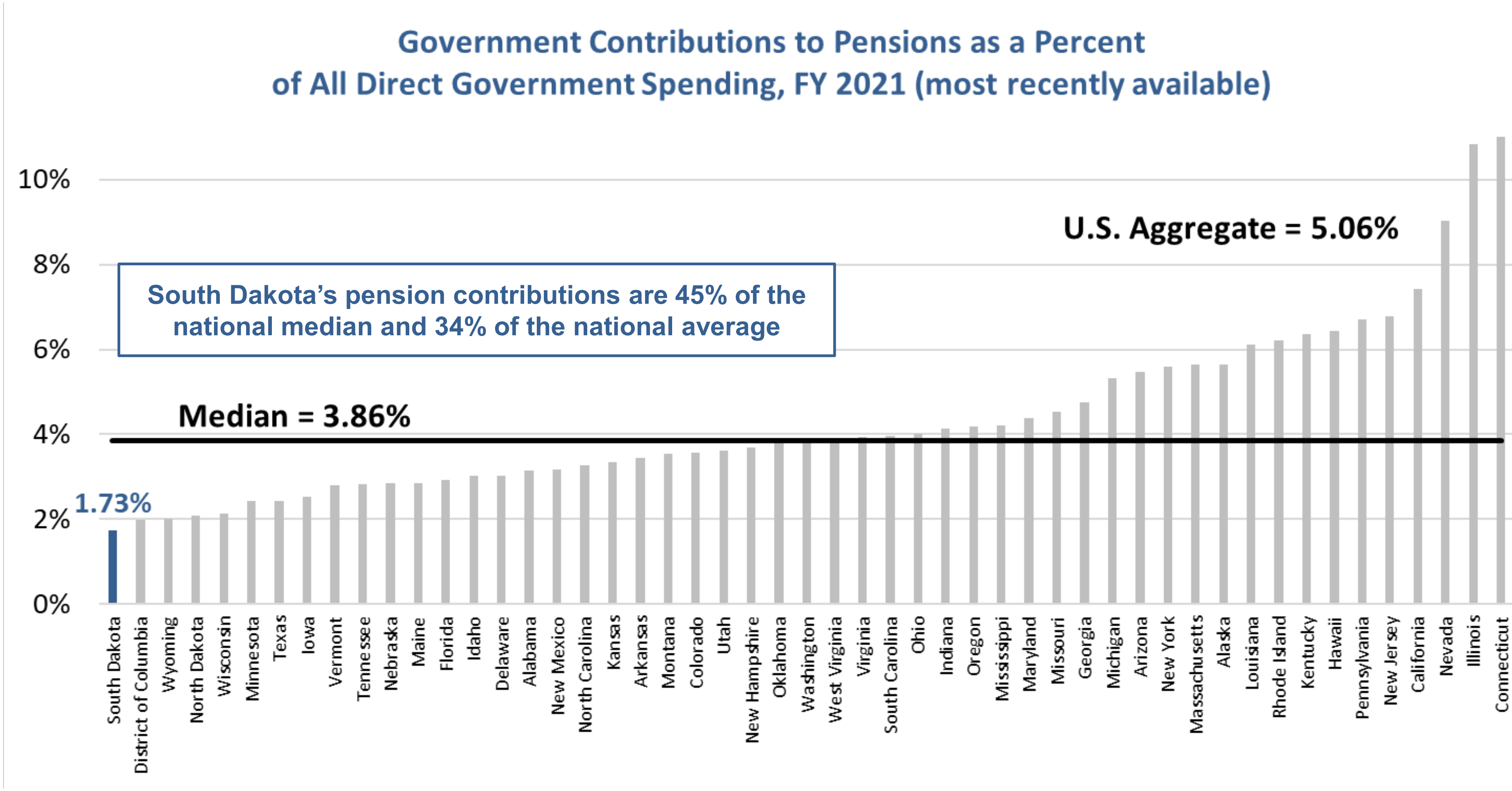




- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 40% of the national median

Median public sector FVFR from Public Plans Database. Employer contribution rates from NASRA Public Fund Survey.

Government Spending on Pensions



Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, February 2024

Competing Objectives

- **Delivering adequate benefits directly competes with remaining fully funded while spending half of the national median on pensions**
- These are increasingly challenging objectives, as retirees live longer and markets provide lower investment returns
- SDRS management efforts to meet these objectives have included:
  - Variable COLA process
  - Foundation members transition to 5-year FAC and pay increase caps
  - Generational design
  - Retire-rehire reform
  - Various other initiatives to avoid or lessen subsidies

Competing Objectives

- SDRS resources are not sufficient to provide COLAs that match inflation during periods of very high inflation, like recent periods
- Current SDRS resources are also not sufficient to provide the full COLA range and result in a restricted maximum COLA
- **Proposals that impose additional objectives funded by SDRS' limited resources will detract from the ability to provide adequate benefits funded by the fixed, modest contributions:**
  - Opportunities for employers or members to increase their benefits at the expense of other SDRS members must be opposed
  - Proposed changes to SDRS must be thoroughly evaluated to ensure they do not endanger future benefits, COLAs, or system sustainability
  - Actuarial assumptions must remain realistic

July 2024 COLA Calculation

Step 1:
June 30, 2023
Baseline FVFR = 96.7%

If 100% or More

COLA = CPI-W Increase
Minimum = 0%
Maximum = 3.5%

If Less than 100%

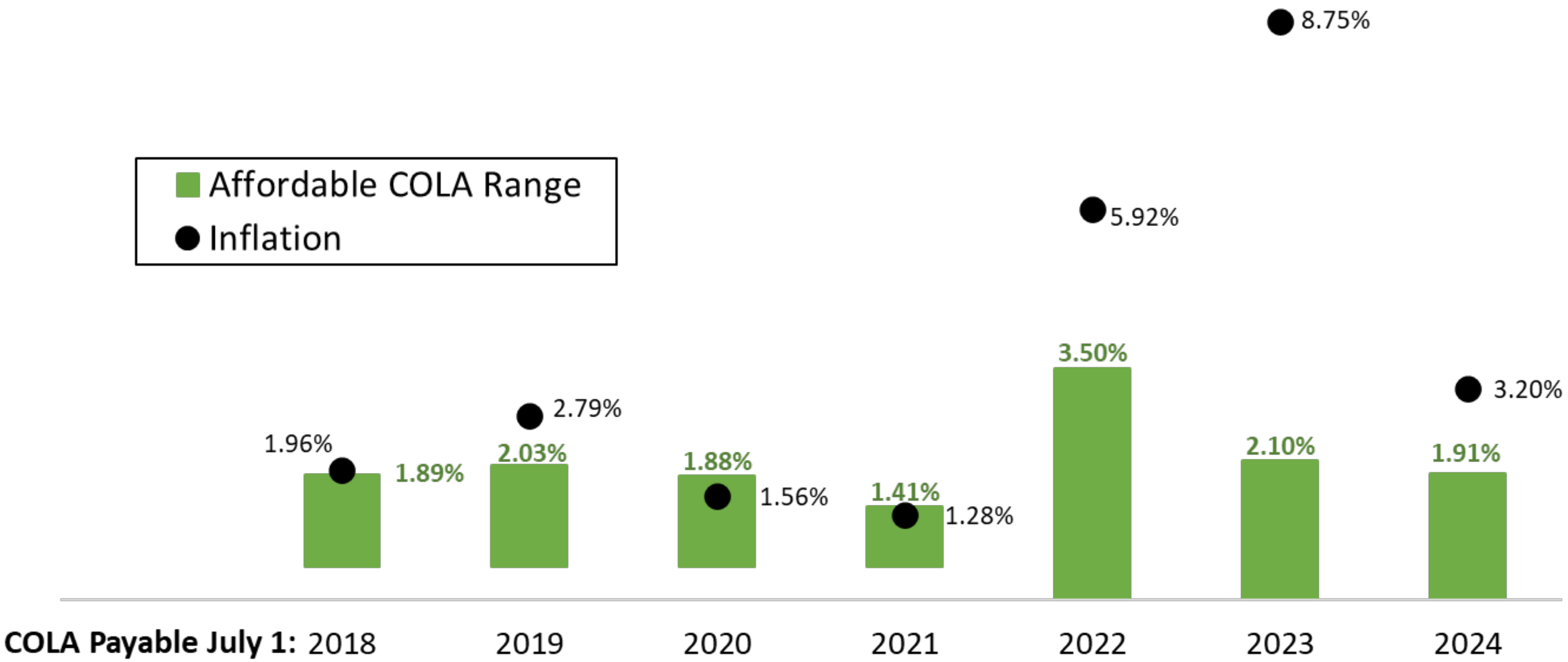
Step 2: Restricted
Maximum COLA = 1.91%
Resulting in FVFR of 100%

COLA = CPI-W Increase
Minimum = 0%
Maximum = 1.91% Restricted
Maximum COLA

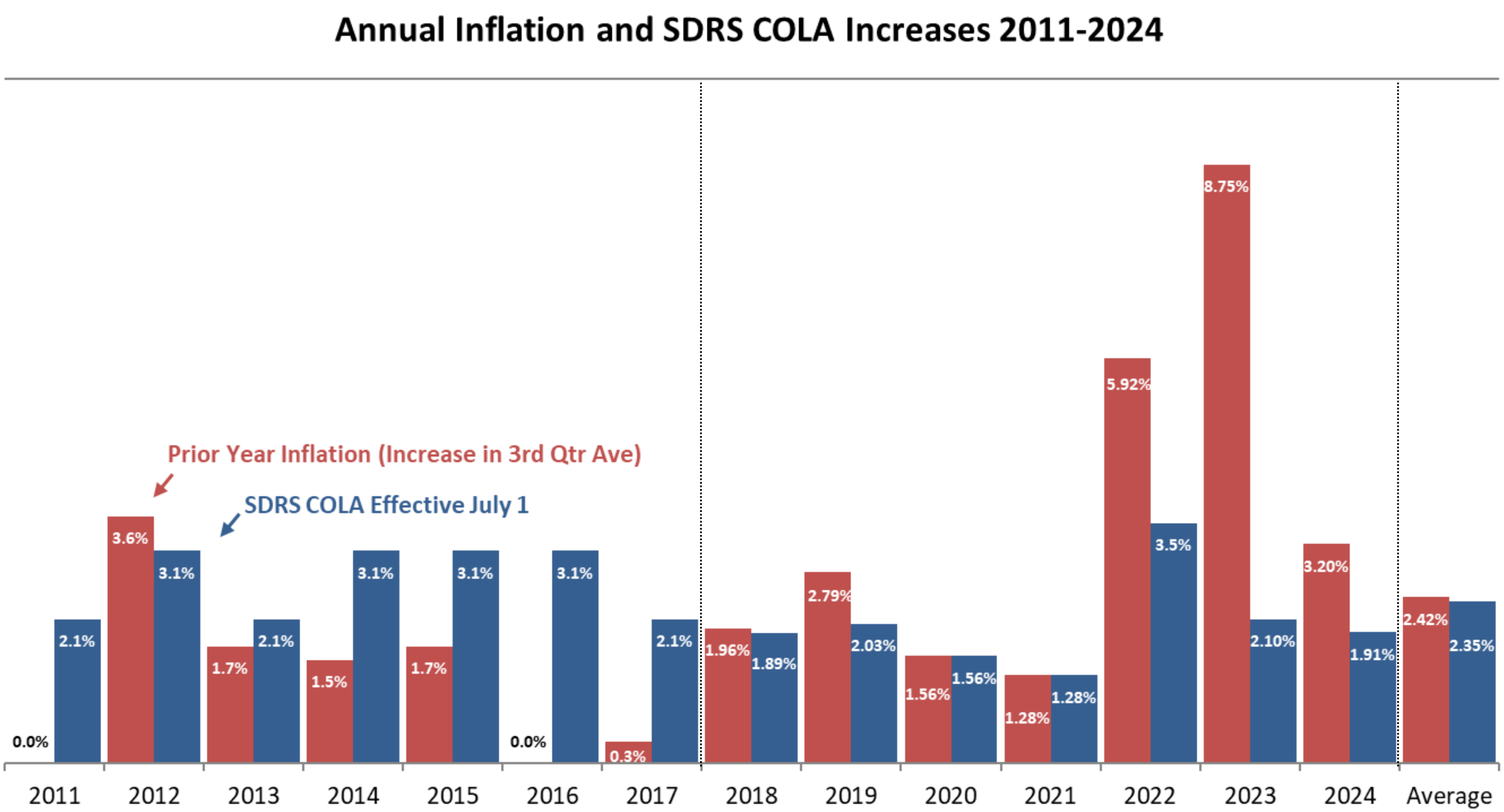
2023 CPI-W Increase = 3.20%
July 2024 SDRS COLA: 1.91%

Historical COLA Ranges

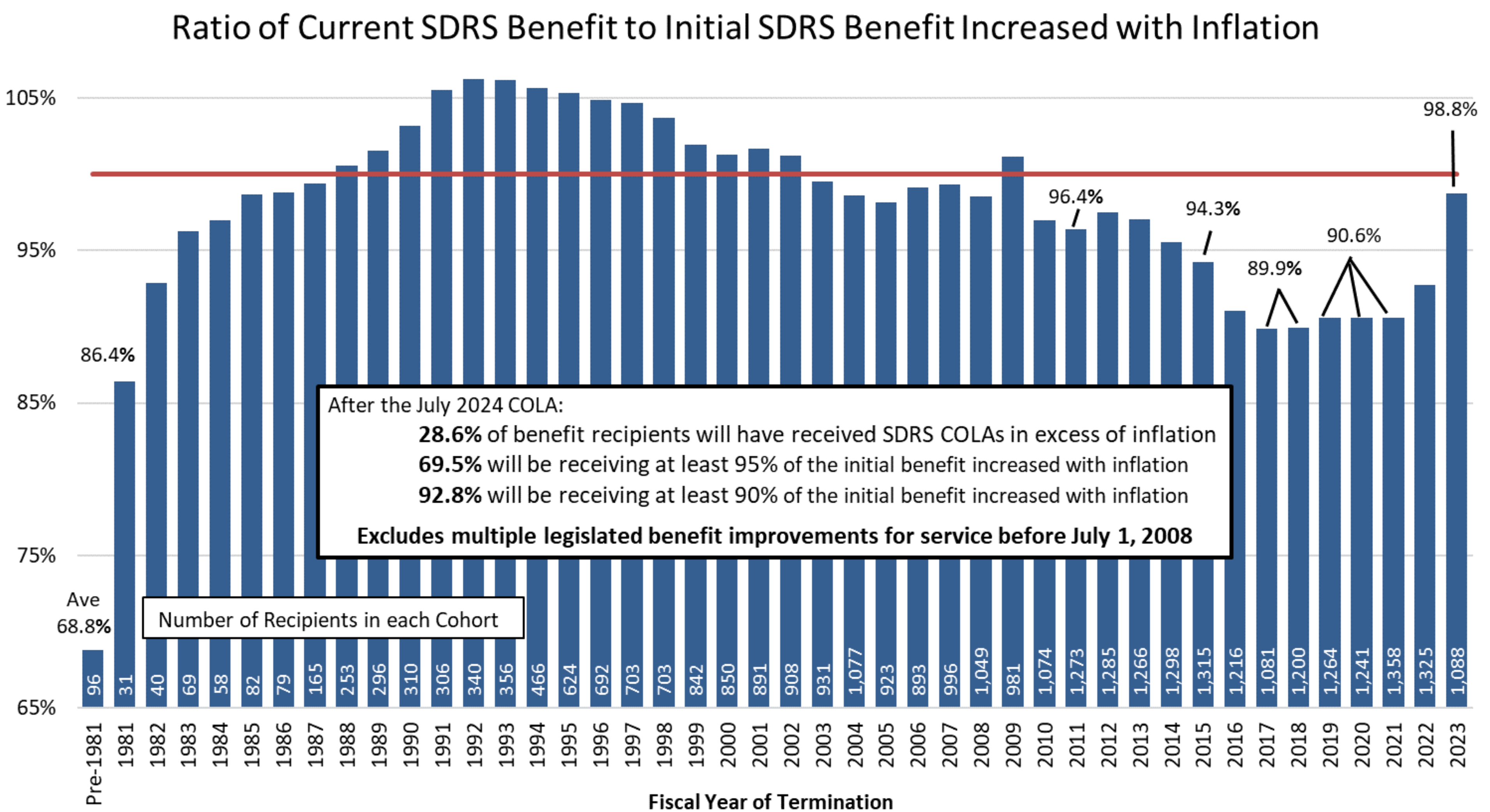
- Under the current COLA process, the full COLA range has only been affordable for the 2022 COLA
- The 2024 restricted maximum COLA is 1.91%, less than inflation



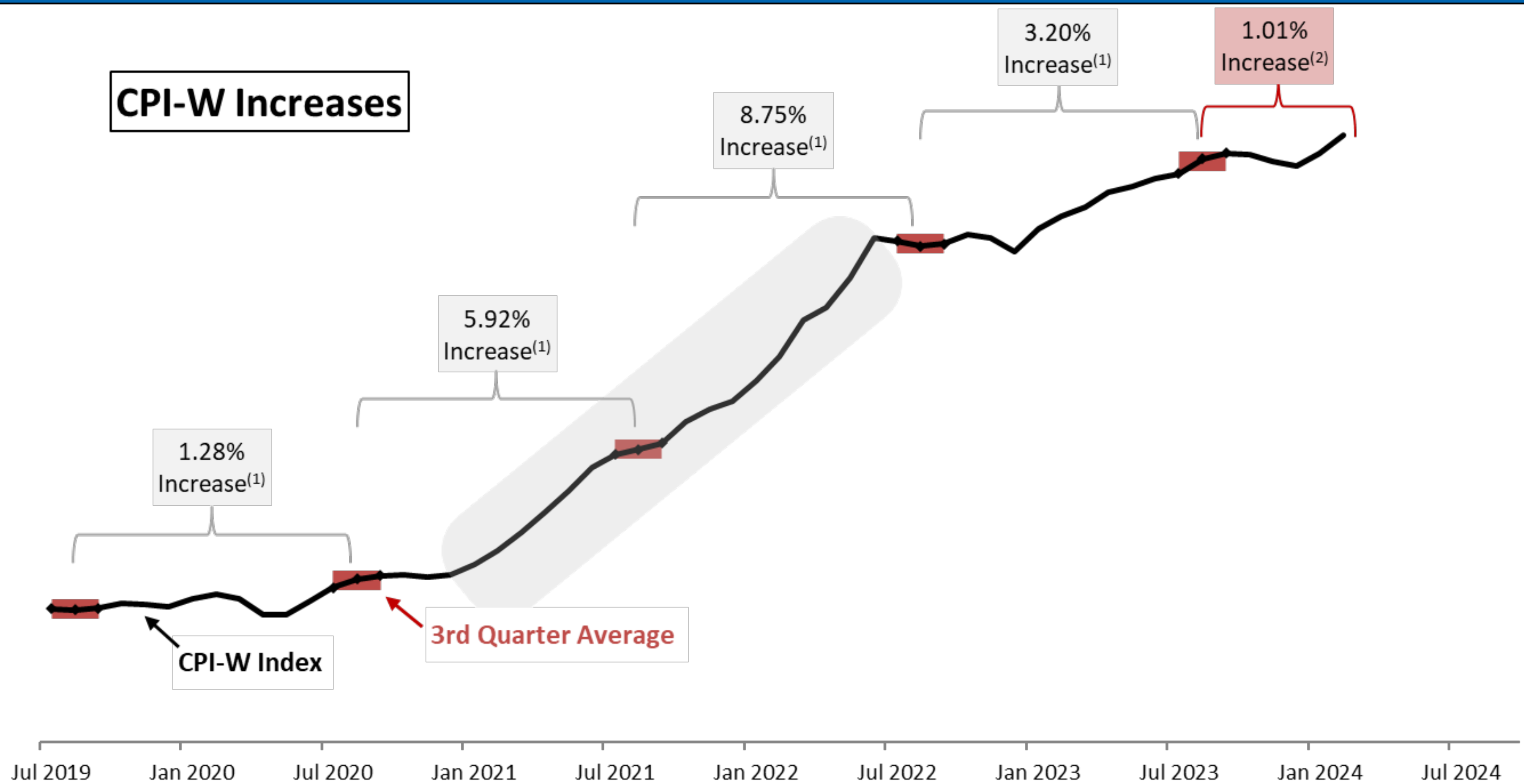
Inflation and SDRS COLAs Since 2010



Historical Inflation and SDRS COLAs After July 2024 COLA



Inflation Measurement for Social Security and SDRS COLAs



(1) Increase in the third calendar quarter average over the prior highest third calendar quarter average – the specified inflation measurement for the Social Security COLA effective the following January and the SDRS COLA effective the following July.

(2) Increase in most recent month index (February 2024) over July to September 2023 average. Increase annualizes to 2.45%, ignoring seasonal impacts.

Projected Funded Status and COLAs

- The **most significant and immediate risk to SDRS is investment risk**
- Investment returns will **first impact** the affordable COLA range:
  - Less than assumed will reduce restricted maximum COLA; greater than assumed will increase maximum or enable full COLA range
  - The variable COLA may not be sufficient to maintain 100% FVFR in all conditions and additional corrective actions may be required
- The following exhibits project the June 30, 2024 FVFR, based on ranges of FY 2024 investment returns, corresponding July 2025 COLA ranges, and likelihoods of achieving returns:
  - Projections utilize an actuarial model intended to estimate short-term changes in funded ratios and resulting COLA ranges
  - Demographic experience is assumed to match assumptions
  - Likelihoods are calculated based on SDIC's investment portfolio statistics

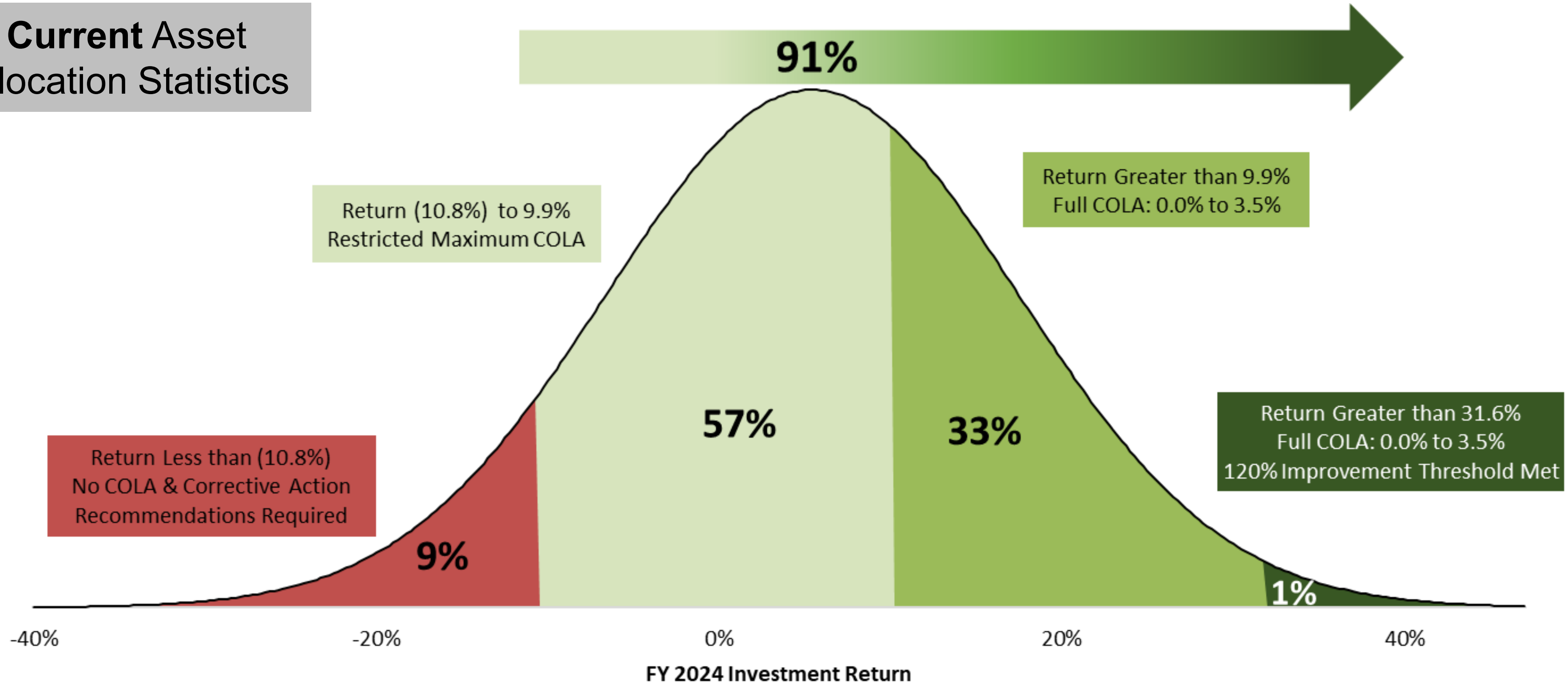
Projected Funded Status as of June 30, 2024 and July 2025 COLA Range[1]

Net Investment Return FYE June 30, 2024	Baseline FVFR	COLA Range	Final FVFR	Applicable Conditions
<= (10.8%)	80.9%	NO COLA	<100%	Corrective Action Recommendation Required
(10.7%)	81.0%	0% to 0.01%	100%	Restricted Maximum COLA
(10.0%)	81.7%	0% to 0.10%	100%	
(5.0%)	86.3%	0% to 0.71%	100%	
0.0%	90.9%	0% to 1.27%	100%	
5.0%	95.5%	0% to 1.78%	100%	
6.5%	96.9%	0% to 1.92%	100%	
9.9%	99.9%	0% to 2.24%	100%	
10.0%	100.1%	0% to 3.50%	100%	Full COLA Range
12.5%	102.4%	0% to 3.50%	102%	
15.0%	104.7%	0% to 3.50%	105%	
31.6%	119.9%	0% to 3.50%	120%	
31.7%	120.0%	0% to 3.50%	120%	120% Benefit Improvement Threshold Met

(1) Before consideration of liability gains/losses for FYE June 30, 2024. June 30, 2023 Baseline FVFR: 96.7% and 2024 COLA Range: 0.0% to 1.91%.

Projected Range of 2025 COLA and Likelihoods

Current Asset Allocation Statistics

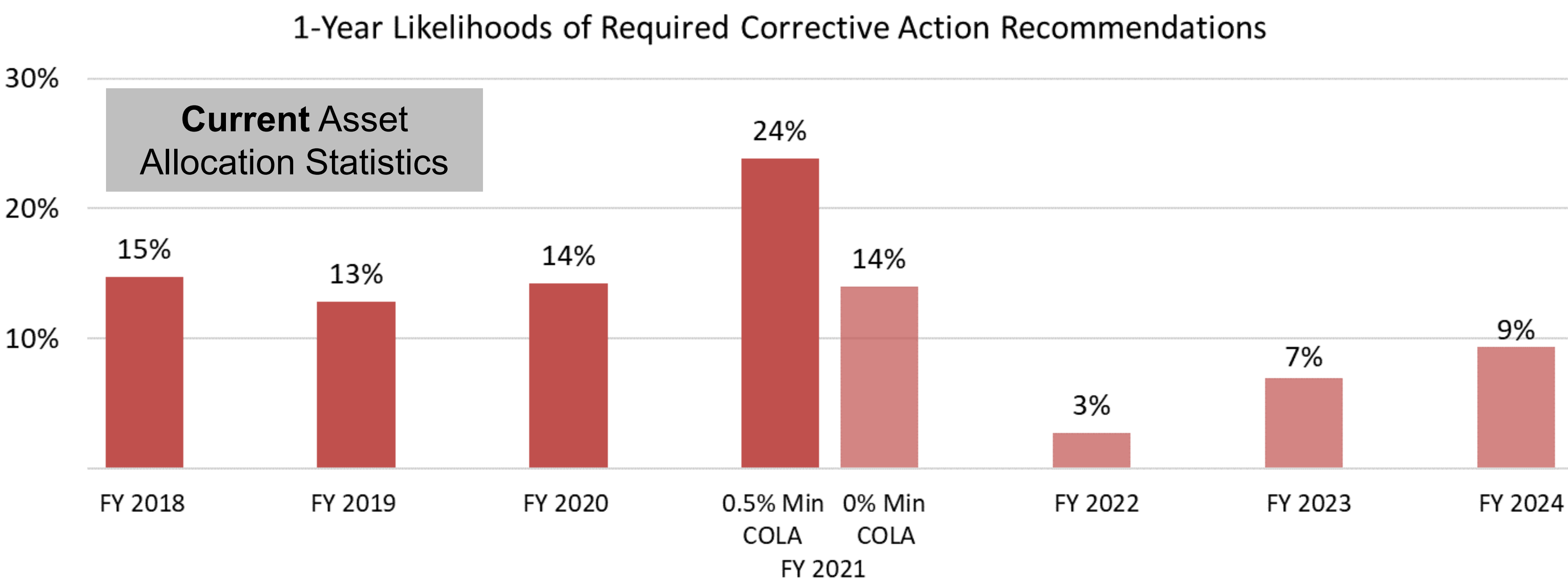


- **Ignoring FY 2024 investment returns to date,** the preliminary likelihoods for **July 2025 COLA ranges**, primarily driven by FY 2024 investment returns, are:
  - 9% likelihood: No COLA and corrective action recommendations required
  - 57% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
  - 34% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 2% likelihood 120% benefit improvement threshold met

Before consideration of liability gains/losses. Likelihoods based on SDIC **FY 2024 current** asset allocation investment portfolio statistics (mean = 5.06%, standard deviation = 12%).

Historical 1-Year Corrective Action Requirement Likelihoods

Investment experience is the primary driver of the likelihood of required corrective action recommendations. Changes in market conditions and expectations for future returns also impact the likelihood.



Projected Funded Status and Risk Analysis Summary

- July 2022 SDRS COLA was 3.5%, the first time the full COLA range was affordable under the current COLA process
- The SDRS COLAs for July 2023 and 2024 were restricted to affordable COLA limits of 2.10% and 1.91%, respectively
- FY 2024 returns of approximately negative 10.8% would require a **corrective action recommendation**
- FY 2024 returns of approximately 9.9% would make the **full COLA range affordable** for the 2025 COLA

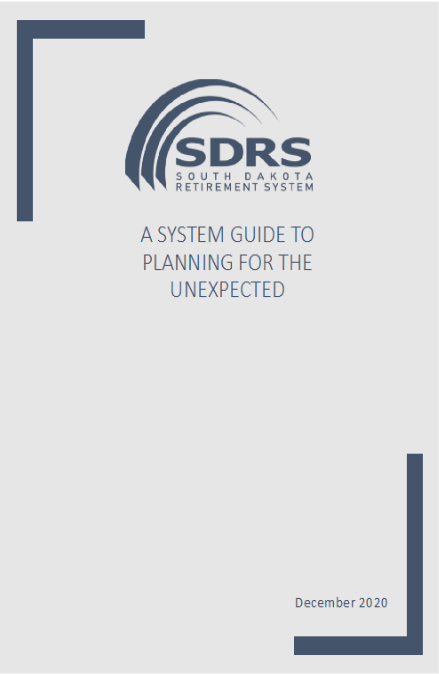
South Dakota Retirement System

SDRS Planning Guide Revisited

April 10, 2024

Development of Guide

- Guide completed in late 2020:
  - Result of lengthy review and discussions
  - Important part of SDRS planning process
  - Considered both good and bad times
  - Framework to start if conditions dictate actions
  - Commitment to review periodically
- Guide updated in 2023, but update not finalized:
  - FY 2023 final reporting and risk outlooks now available
- Minor changes today, primarily updating outlook charts



Two Initiatives Identified in Review

- Both initiatives intended to minimize the risk of required future corrective action recommendations
- First initiative reduced the minimum variable Cost of Living Adjustment (COLA) from 0.5% to 0.0%:
  - Providing any COLA when not affordable was illogical
  - Could force other benefit reductions while small COLA paid
  - **Legislation enacted in 2021**
- Second initiative would permit a small unfunded liability:
  - Only after variable COLA reduced to zero
  - Avoids required benefit reduction recommendations when resources exist to pay off unfunded liability in short period
  - Minimum Funded Ratio of 95%/10-12 years maximum pay-off period
  - Possible alternative in Board's corrective action recommendations

What's Happened since 2020

- COLA initiative legislation enacted in 2021:
  - Minimum COLA reduced from 0.5% to 0.0%
- Volatile investment returns and high inflation for last three years:

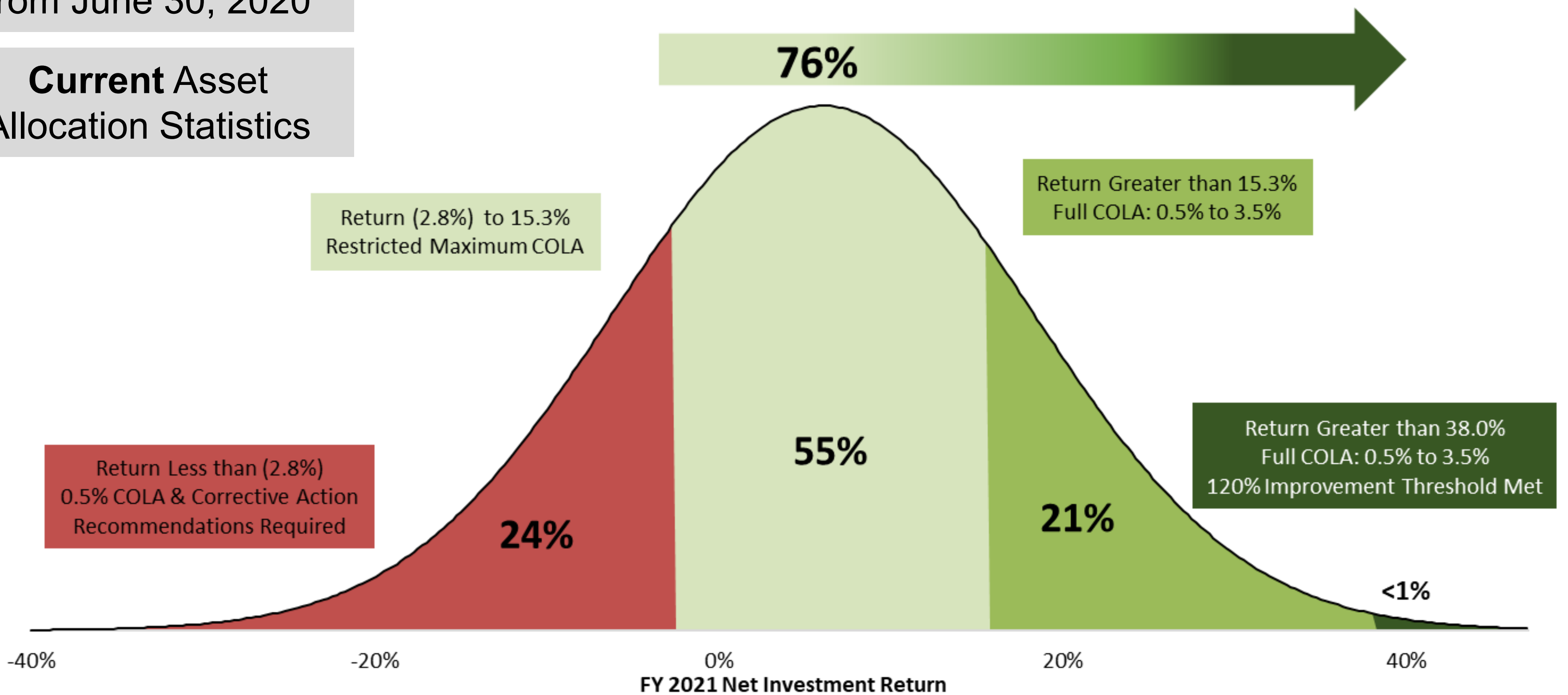
Fiscal Year	Net Investment Return	Inflation (CPI-W)	COLA (Next July)
2021	22.01%	5.92%	3.50%
2022	(0.64%)	8.75%	2.10%
2023	5.80%	3.20%	1.91%
3- Year Annualized	**8.65%**	**5.93%**	**2.50%**
Estimated 2024 to Date	3.54% (through 8 months)	1.01% (through 5 months)	

- Experience analysis and revised assumptions adopted
- Outside efforts to provide benefit increases for retire-rehire members at a cost to all members (reduction in COLA)

Outlook in 2020 Before Initiatives

Required returns and likelihoods calculated from June 30, 2020

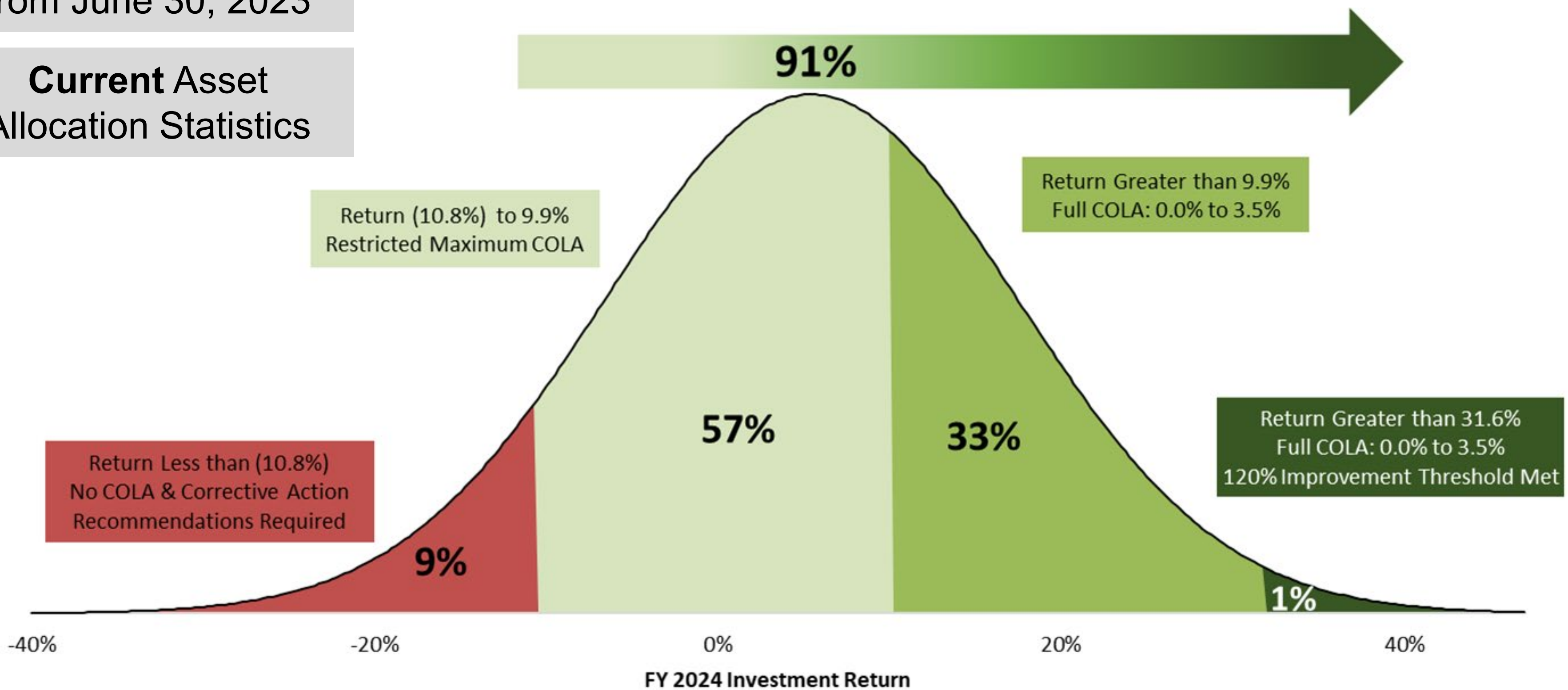
Current Asset Allocation Statistics



Outlook in 2024 After COLA Initiative

Required returns and likelihoods calculated from June 30, 2023

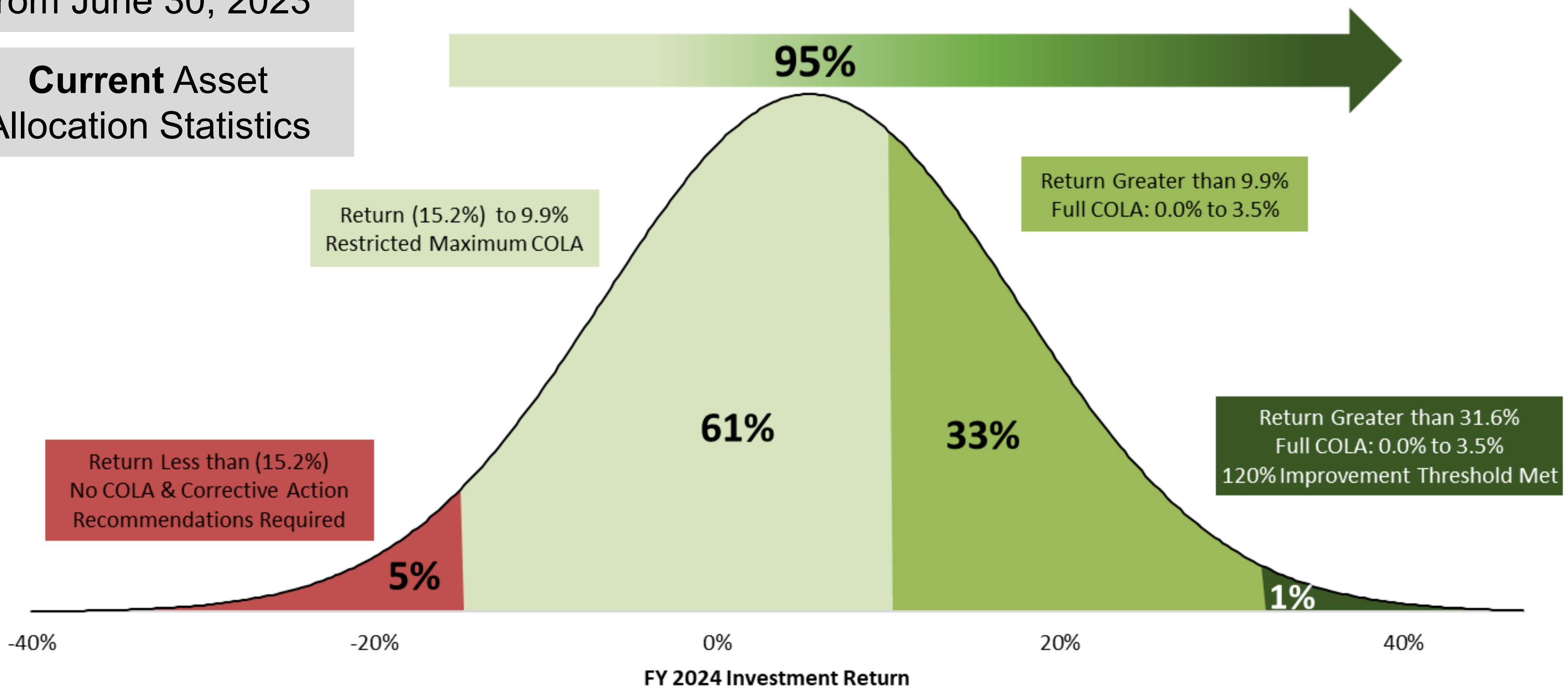
Current Asset Allocation Statistics



Outlook in 2024 if Both Initiatives Adopted

Required returns and likelihoods calculated from June 30, 2023

Current Asset Allocation Statistics



Effect of Initiatives

- COLA initiative was significant in reducing chances for required corrective actions recommendations
- Second initiative would reduce chances even more – to 5% in current one-year outlook from June 30, 2023
- Chances of meeting requirements for consideration of benefit improvements is 1%
- Neither are likely now, but conditions can change quickly

Statutory Requirements for Corrective Action Recommendations

- **SDCL 3-12C-228**
- The Board is required to recommend corrective actions if:
  - The SDRS Fair Value Funded Ratio (FVFR) is less than 100%, or
  - The minimum actuarial requirements exceed the fixed contribution rate
- Note the Board recommendations shall include "the circumstances and timing for any corrective actions."
- Statutory language provides flexibility to the Board to make recommendations for immediate corrective actions, or recommend no changes after considering all current conditions and outlook

Corrective Action Recommendations Objectives

- Required only after COLA reduced to zero
- Consider limited unfunded liabilities after zero COLA
- Since actuarial valuation results are only a snapshot at that date, consider what's happened since and outlook
- Keep recommendations as simple, flexible, and equitable as possible
- Protect accrued benefits and eligibility terms
- Expand variable benefits
- Provide permanent changes only if result in sound long-term policy and limit benefit reductions to minimum required to remain sustainable

Corrective Action Recommendations Identified

- Reduce benefits for <u>future service</u> by 10%
- Expand final average compensation period to 10 years
- Provide Generational structure for <u>future service</u> for active members
- Suspend contributions to the Variable Retirement Account
- Structure changes to revert to current benefits when and if feasible
- Dooms day scenario:
  - Freeze accrued benefits and base future benefits on pay earned each year
  - Eliminate early retirement subsidies for Foundation members
  - Reduce accrued benefits

Board Policy for Consideration of Benefit Improvements

- FVFR of at least 120% after funding benefit improvements
- Cost of benefit improvement is:
  - Fully funded
  - Less than the sustained net investment gains
- 120% threshold evaluated as part of review and retained considering:
  - Assumed investment return
  - Variable benefit structure

Benefit Improvement Recommendation Objectives

- Keep recommendations as simple, flexible, and equitable as possible
- Consider factors after the most recent actuarial valuation
- Be cautious
- Include active, inactive, and retired members
- Restore benefits reduced due to past corrective actions
- Consider shortfalls to long-term benefit objectives (e.g., COLAs)
- Treat active, inactive, and retired members consistently
- Avoid substantive additional fixed benefit obligations
- Maximize the risk-mitigation impact
- Consider unimproved service (service after 2008)

Benefit Improvements Identified

- Active and inactive members:
  - Restore benefits reduced due to past corrective actions
  - Provide additional funding of VRA
  - Allocate based on pay and service (considering unimproved service)
  - Increase benefit formulas (considering unimproved service)
- Retired members:
  - Restore benefits reduced due to past corrective actions
  - Provide one-time COLA if COLAs since 2010 have not matched inflation
  - Provide one-time payment, or limited number of payments
  - Increase benefit formulas for unimproved service
  - Provide additional monthly payments subject to variable COLA and contingent on continued affordability

Staff Recommendations and What's Next?

- Only overview presented today
- Staff has no substantive recommendations for change
- Does the Guide continue to reflect the Board's views?
- Is the update to the Guide ready for Board adoption?

A SYSTEM GUIDE TO PLANNING FOR THE UNEXPECTED

Updated April 2024

This ***planning guide*** was initially developed in 2020 and updated in 2023-2024 to provide a starting place for future Board of Trustee deliberations if unexpected conditions occur. It does not represent a definitive plan of action and will be reviewed and updated in the future as advisable.

Introduction

The SDRS Board of Trustees devoted considerable time and effort in 2020 reviewing the past experience of SDRS in all economic periods and evaluating the impact of varying future economic conditions on SDRS.

The Board identified two initiatives that would significantly reduce the likelihood of the need for corrective action recommendations in the future. The Board also considered numerous benefit and other changes that may be recommended to responsibly manage SDRS during both favorable and unfavorable economic periods. Based on these deliberations, the Board developed a set of objectives, action plans, and recommendations the Board would consider if future conditions so warranted. The result of these efforts is reported in this document, ***A System Guide to Planning for the Unexpected,*** or the ***planning guide***.

In 2023-2024, the Board reviewed and updated this ***planning guide*** based on developments since 2020.

This ***planning guide*** documents that review process and is intended to provide a starting point for the Board's future actions if, and when, necessary.

Importance of Planning

SDRS has been successful because of the absolute commitment by the Board of Trustees to manage SDRS within the resources provided by fixed statutory contributions and to embrace its fiduciary responsibility.

Planning for the unexpected includes consideration of benefit improvements during favorable economic periods as well as benefit reductions during unfavorable economic times.

This ***planning guide*** confirms the conditions in which Board action may be advisable, the current likelihood those conditions will exist, and the actions that could be considered at that time.

Summary of Findings

The Board reviewed the SDRS history during its almost five decades of existence and confirmed the following:

- A continuing commitment to fixed contributions is essential and has been the foundation for the success of, and confidence in, SDRS.
- Favorable experience (generally due to investment returns) has provided the resources for numerous benefit improvements—including 11 improvements to the SDRS benefit formulas.
- Past benefit improvements have been key to meeting the SDRS benefit adequacy goals.
- Benefit changes have also been required due to unfavorable experience and have primarily resulted in the reduction or elimination of subsidies or a reduction of benefits in excess of the Board's adequacy goals.
- Future benefit reductions have serious consequences to SDRS members and may result in a failure to meet the SDRS benefit adequacy goals.
- The SDRS Cost of Living Adjustment (COLA) varies with both inflation and what is affordable and is a key element in the SDRS benefit design.
- The SDRS COLA will not keep up with inflation during very high inflationary periods or when not affordable.
- SDRS is expected to remain fully funded in most economic conditions, but not all.
- Conditions can change rapidly and substantially due to the volatility of investment markets.
- Economic downturns may be more frequent and more severe than previously thought.
- A recovery after a severe downturn may be expected, but the timing and strength is unknown.
- The South Dakota Investment Council's disciplined approach has resulted in smaller investment losses during downturns and more rapid recovery.
- The increasing maturity of plans like SDRS exacerbates the impact of downturns.
- Adding new substantive fixed liabilities to SDRS is unwise.

- SDRS cannot afford unintended subsidies or intended subsidies to select members.
- Benefit increases once granted have in the past been difficult to reverse; as a result, future increases may need to be clearly identified as payable only as long as affordable.
- Decisions should not be made solely on the results of the most recent actuarial valuation since that reflects a snapshot of conditions existing only on June 30.

Initiatives Identified in 2020

As part of the planning process in 2020, the Board identified two initiatives that would minimize the risk of future required corrective action recommendations:

- Reduce the minimum variable COLA from 0.5% to 0%.
- Analyze the ability and advisability of permitting a limited unfunded liability expected to be fully funded by the contribution margin (the excess of fixed statutory contributions over the cost of current benefits) in a very short time (10-12 years).

The minimum variable COLA was reduced to 0% as a result of legislation in 2021 based on the Board of Trustees' recommendation.

SDRS is committed to maintaining a 100% funded status, but that objective is unlikely to be achieved in all economic periods. The unfunded liability initiative would be considered and reevaluated only after the COLA has been reduced to zero. Under current conditions, the Fair Value Funded Ratio (FVFR) under this initiative would be at least 95% and the unfunded liability would be expected to be fully paid over a period of 10-12 years or less by the excess of the fixed contributions over the cost of the current benefits.

The initiatives have been reviewed with stakeholders, including the rating agencies, who stressed their comments did not represent an official opinion or endorsement of the initiatives. However, the following general points were made by the various parties:

- The fully funded status of SDRS is highly valued, rare, and a source of pride.
- It is not realistic to expect SDRS, or any plan, to be fully funded in all conditions.
- South Dakota has worked hard to successfully manage its retirement system and maintain a well-funded system. These initiatives are viewed as part of that on-going effort.
- The SDRS statutory requirements outlining funding standards and corrective action recommendation requirements are strengths.
- The SDRS variable COLA structure is an effective design.

- The South Dakota bond rating is not necessarily predicated upon SDRS maintaining a 100% funded status in all conditions. In fact, the rating agencies currently make their own adjustment to the SDRS funded status based on a lower discount rate, which results in SDRS being less than 100% funded and therefore having unfunded liabilities in their analysis.

The unfunded liability initiative would be a potential Board response to the recommendation requirements of SDCL 3-12C-228 prior to any additional benefit reductions. This would allow SDRS to temporarily fall short of the statutorily required 100% funded status under extraordinary conditions. It provides a balance between meeting very ambitious funding objectives after a severe economic downturn and providing adequate benefits.

This initiative would be recommended by the Board only after current input from all interested parties (including rating agencies) and contingent upon approval by the Legislature and the Executive Branch as part of their SDRS oversight responsibilities.

Developments Since 2020

Since the ***planning guide*** was completed in 2020, significant changes have occurred:

- The Board initiative to reduce the minimum COLA to 0% when and if required was approved by the Legislature in 2021.
- The investment experience since 2020 has been favorable, but very volatile:
  - 22.0% in FY21
  - -0.7% in FY22
  - 5.8% for FY23
- Historically high inflation in 2021 and 2022 moderating in 2023:
  - 5.9% in 2021
  - 8.7% in 2022
  - 3.2% in 2023
- A 3.5% COLA was paid effective July 1, 2022 (highest in SDRS history) and a 2.1% restricted COLA was paid effective July 1, 2023. A 1.91% restricted COLA will be paid effective July 1, 2024.
- SDRS remains 100% funded due to the variable COLA.
- An experience analysis was completed in 2022, and revised assumptions adopted.
- Continued outside efforts were made to provide benefit increases for retire-rehired members at a cost to all members (reduction in the COLA).

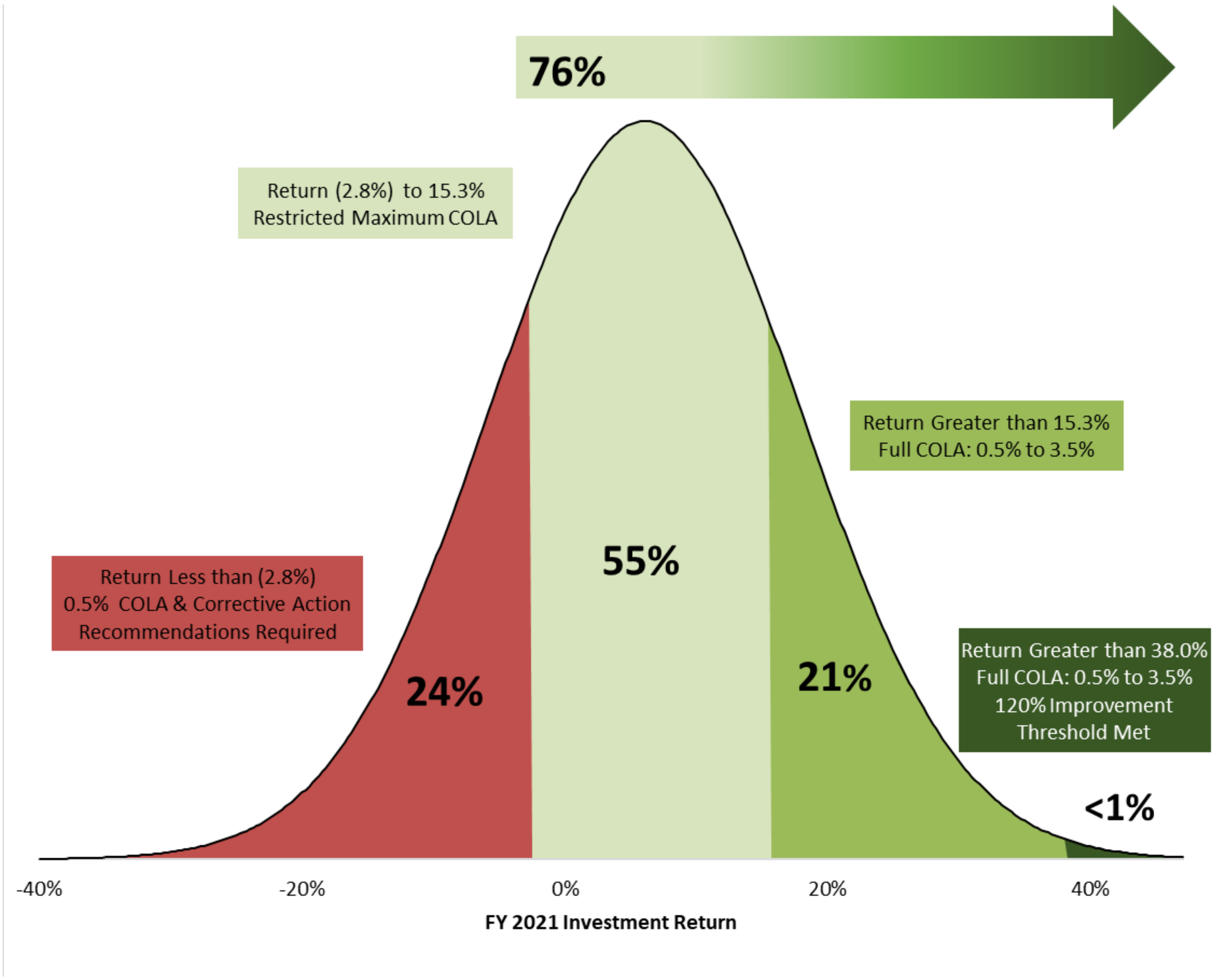
As a result of the Board initiatives identified in 2020 and the System experience since 2020, the chances of required corrective action recommendations have been significantly reduced from 24% to 3% currently and the chances the Board's policy for consideration of benefit improvements will be met has increased from less than 1% to 3% as summarized in the following Exhibits 1-3.

The recent high inflation for 2021 and 2022 has resulted in the SDRS COLA for the last two years falling significantly short of the Board's goal of matching inflation. If future benefit improvements are affordable under the Board's policies, addressing this shortfall will likely be a priority recommendation.

The current economic conditions and future outlook result in about an equal probability that the Board will need to consider recommendations for future benefit reductions or benefit improvements as shown in Exhibit 3 based upon both initiatives. Planning should continue to consider both the good and bad times.

Exhibit 1

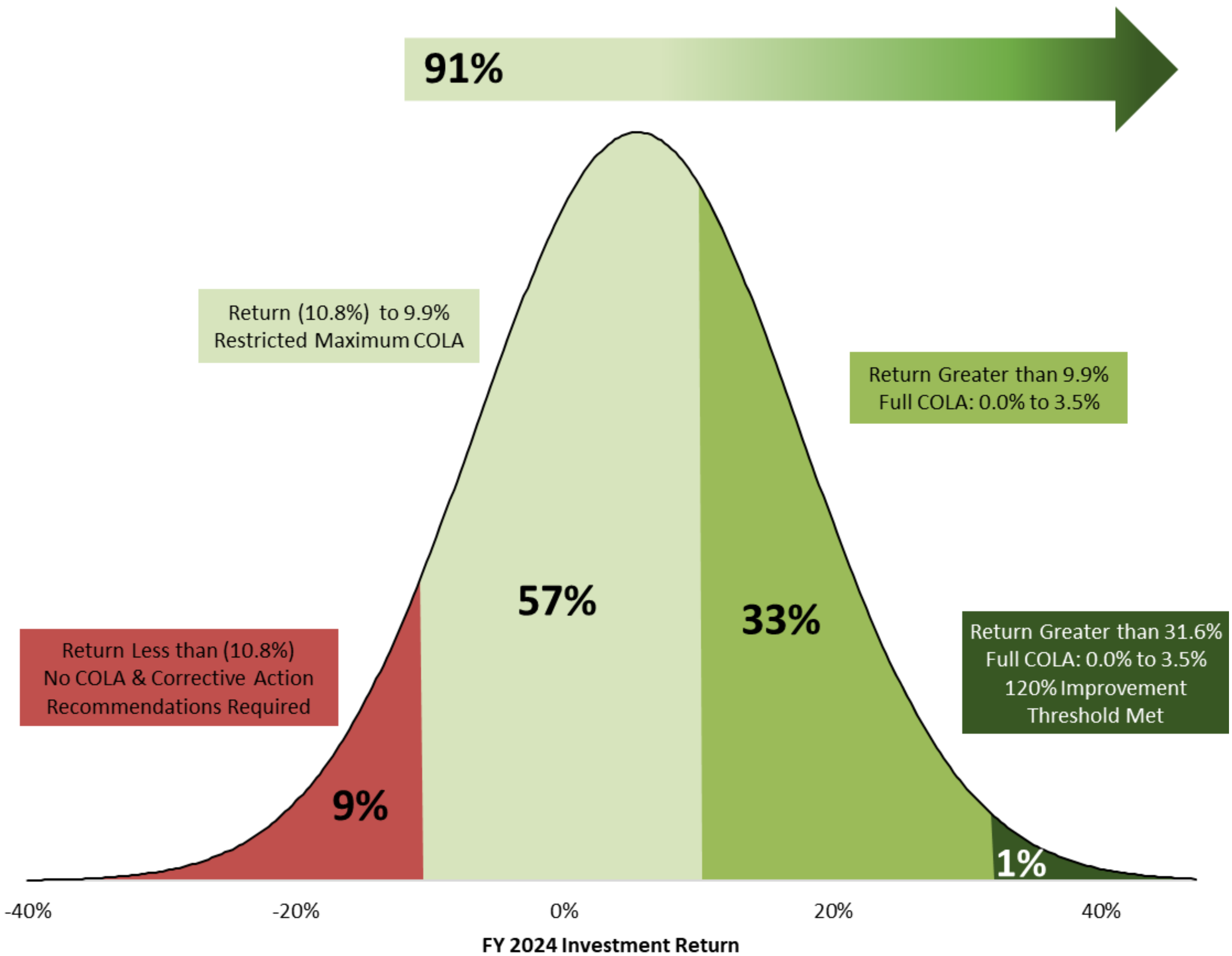
Outlook From June 30, 2020 Before Initiatives



Required returns and likelihoods calculated from June 30, 2020, based on current asset allocation statistics.

Exhibit 2

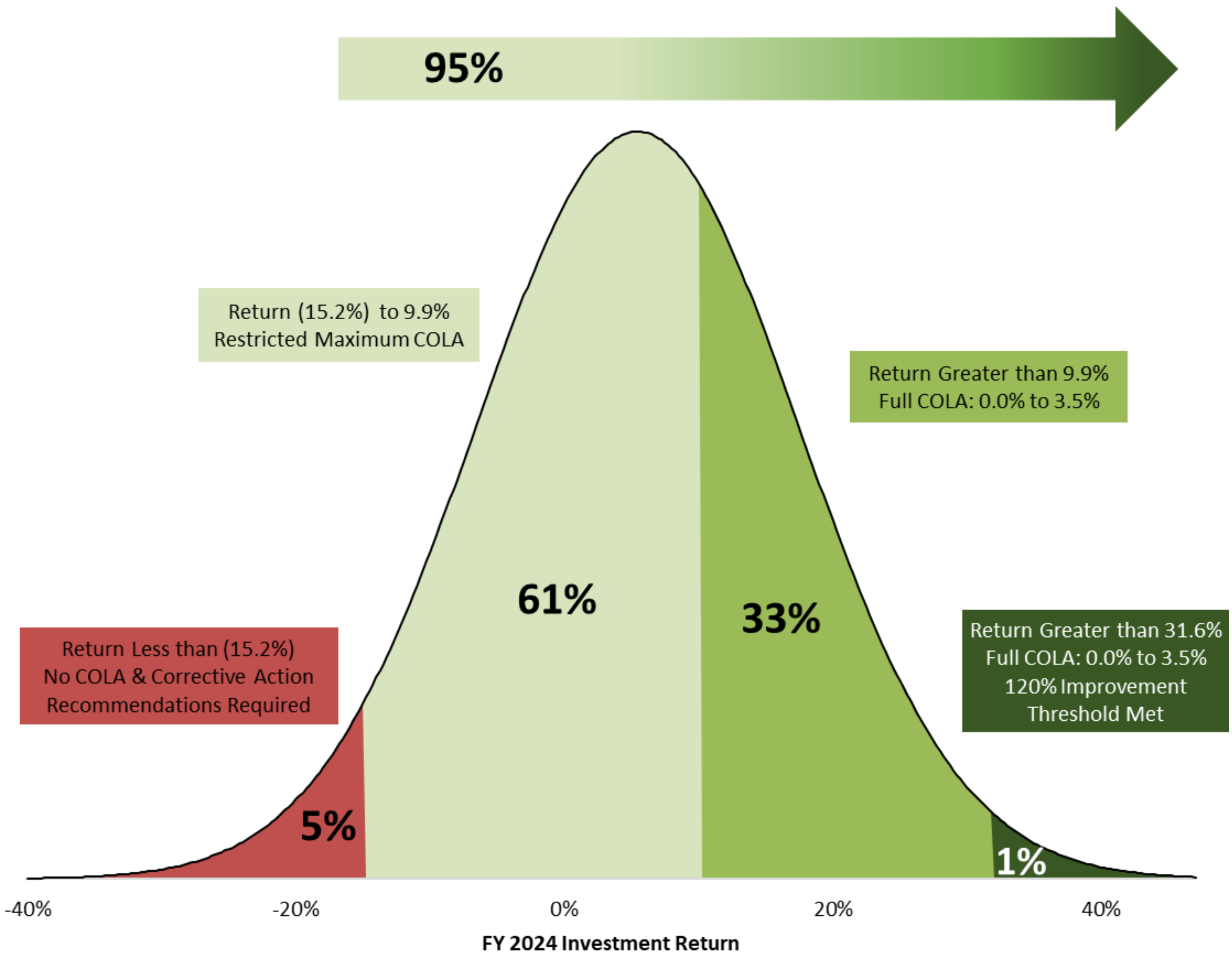
Outlook From June 30, 2023 After COLA Initiative



Required returns and likelihoods calculated from June 30, 2023, based on current asset allocation statistics.

Exhibit 3

Outlook From June 30, 2023 if Both Initiatives Adopted



Required returns and likelihoods calculated from June 30, 2023, based on current asset allocation statistics.

Planning for the Good Times

The Board of Trustees will be guided by the following policies and objectives in considering recommendations for future benefit improvements. Any Board recommendations for benefit improvements must be approved by the Legislature and the Governor.

Board Policy for Consideration of Benefit Improvements

Benefit improvement recommendations will only be considered by the Board if the following conditions exist based on Board policy:

> The Fair Value Funded Ratio is at least 120% after fully funding the benefit improvement.

- The cost of the benefit improvement is:
    - Fully funded, and
    - Less than the sustained net investment gains

The Board confirmed this policy is an appropriate standard for considering benefit improvements based on the design of the SDRS variable COLA.

Objectives for Recommended Benefit Improvements

- Keep recommendations as simple, flexible, and equitable as possible.
- Consider other factors after the most recent June 30 actuarial valuation, including the current investment outlook, before recommending changes.
- Consider any shortfalls compared to long-term benefit objectives.
- Restore benefits due to past corrective actions.
- Include active, inactive, and retired members in benefit improvements.
- Avoid substantive additional fixed benefit obligations.
- Maximize the risk-mitigation impact of any benefit improvements.
- Consider unimproved service (service after 2008).
- Treat active, inactive, and retired members consistently.
- Be cautious.

Potential Recommended Benefit Improvements

- Active and inactive members:
    - Restore benefits reduced due to past corrective actions.
    - Fund the Variable Retirement Account.
        - Consider an allocation formula based on pay, all service, and unimproved service**.**
    - Increase benefit formulas (considering unimproved service).

- Retired members:
    - Restore benefits reduced due to past corrective actions.
    - Provide a one-time COLA adjustment to reflect shortfall of COLAs compared to inflation since 2010.
    - Provide one-time payment, or a limited number of payments subject to continuing affordability.
    - Increase benefit formulas for unimproved service.
    - Provide additional monthly payments subject to variable COLA, which may be paid as a separate amount and contingent on continuing affordability.

Planning for the Bad Times

The Board of Trustees will be guided by the following statutory requirements, policies, and objectives in considering recommendations for future benefit reductions. Any Board recommendations for benefit reductions must be approved by the Legislature and the Governor.

SDCL 3-12C-228

The Board is required to recommend corrective actions if:

- The SDRS FVFR is less than 100%, or
- The minimum actuarial requirements exceed the fixed contribution rate.

Note the Board recommendations shall include "the circumstances and timing for any corrective actions."

Objectives for Recommended Benefit Reductions

The possibility (although relatively small after the two initiatives are implemented) still exists that additional benefit changes would be required. If so, the following objectives have been established by the Board for any necessary additional recommended benefit reductions:

- Keep recommendations as simple, flexible, and equitable as possible.
- Protect accrued benefits and the retirement eligibility terms for them.
- Expand the variable benefit concept.
- Provide permanent changes in practices if they result in sound long-term policy.
- Avoid irreversible changes in other benefit practices.
- Limit benefit reduction to minimum required to satisfy funding standards.
- Consider other factors after the most recent June 30 actuarial valuation, including the current investment outlook, before recommending changes.
- Pair additional benefit reductions with permissible additional unfunded liabilities that can be funded by higher contribution margins.

Potential Recommended Benefit Reductions

- Consider one or more of the following as needed:
  - Reduce benefits based on future service by 10%.
  - Expand final average compensation period to 10 years.
  - Provide Generational benefit structure for all future service and suspend contributions to Variable Retirement Account.
  - Analyze the ability and advisability of permitting additional unfunded liabilities that can be fully funded by a larger contribution margin resulting from new benefit reductions. This would result in a funded ratio less than 95% but would still eliminate the unfunded liability in a 10-12 year period.
  - Structure changes to revert back to current benefits when and if feasible.

- If above changes are not adequate, very severe additional changes may be required such as:
  - Freeze accrued benefits and base future benefits on pay earned each year (career average benefit).
  - Eliminate early retirement subsidies for Foundation members.
  - Reduce accrued benefits.

Summary

This ***planning guide*** reflects the Board's responsibility to manage SDRS during all economic periods and outlines a framework for potential Board actions if unexpected events occur. It is intended to provide a starting point for Board considerations if the conditions described in this document indicate recommendations for changes are advisable.

This ***planning guide*** should continue to be reviewed periodically and updated as advisable based on continuing experience, evolving information, and additional analysis.

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MEMO NO. 2024-02B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: TRAVIS ALMOND, EXECUTIVE DIRECTOR

SUBJECT: EFFECTIVE RATE OF INTEREST TO BE CREDITED FROM JULY 1, 2024, TO JUNE 30, 2025

DATE: APRIL 3, 2024

The interest rate credited to member accounts that is payable if a member terminates employment and refunds out of the system is defined in SDCL 3-12C-108 as follows:

> ***3-12C-108. Effective rate of interest defined.*** *For the purposes of this chapter, the phrase, effective rate of interest, means the interest at an annually compounded rate to be established by the board for each fiscal year. The rate shall be no greater than ninety percent of the average ninety-one day United States treasury bill rate for the immediately preceding calendar year and in no event may the rate be more than the rate established by the board pursuant to § 3-12C-227 for investment return for purposes of the actuarial valuation. If a member withdraws contributions pursuant to § 3-12C-602 or 3-12C-604, or if benefits are payable under § 3-12C-409, the interest shall be as annually compounded on the preceding June thirtieth.*

Attached is a copy of the domestic interest rate statistics for calendar year 2023, as published by the Federal Reserve Board. The U.S. Treasury bills secondary market average on 3-month issues is the average 91-day U.S. Treasury bill rate used in the calculation required by SDCL 3-12C-108 and was 5.07% for the calendar year 2023. Ninety percent of the calendar 2023 T-bill rate is 4.563%. For consistency and compliance with SDCL 3-12C-108, the effective rate of interest is rounded to three decimal places.

Please bring your copy of this memo to the April board meeting, as this will be an agenda item. Please contact us if you have any questions.

TWA:dms
Enclosure

3-month Treasury Bill History

Calendar Year	Annual Average Percentage Rate
1974	7.85
1975	5.79
1976	4.98
1977	5.26
1978	7.18
1979	10.05
1980	11.39
1981	14.04
1982	10.60
1983	8.62
1984	9.54
1985	7.47
1986	5.97
1987	5.78
1988	6.67
1989	8.11
1990	7.50
1991	5.38
1992	3.43
1993	3.00
1994	4.25
1995	5.49
1996	5.01
1997	5.06
1998	4.78
1999	4.64
2000	5.82
2001	3.40
2002	1.61
2003	1.01
2004	1.37
2005	3.15
2006	4.73
2007	4.36
2008	1.37
2009	0.15
2010	0.14
2011	0.05
2012	0.09
2013	0.06
2014	0.03
2015	0.05
2016	0.32
2017	0.93
2018	1.94
2019	2.06
2020	0.35
2021	0.05
2022	2.02
2023	5.07

Source: https://federalreserve.gov. Series Description: 3-month Treasury bill secondary market rate - discount basis. Unit: Percent per year. Multiplier: 1Unique Identifier: H15/H15/RIFSGFSM03_N.A. Time Period: RIFSGFSM03_N.A.

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MEMO NO. 2024-03B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: TRAVIS ALMOND, EXECUTIVE DIRECTOR

SUBJECT: SUPPLEMENTAL PENSION BENEFIT
FY 2025 INTEREST RATE ASSUMPTION

DATE: APRIL 3, 2024

The interest rate assumption on Supplemental Pension Benefits is defined in SDCL 3-12C-1502 as follows:

3-12C-1502. Interest rate assumption--Suspension of new supplemental pension contracts--No right to particular price. *On an annual basis, at minimum, the board shall establish an interest rate assumption upon which the provisions of subsequent supplemental pension contracts shall be based. The board shall establish the assumption on the basis of the recommendations of the system's actuary and the state investment officer. The interest rate assumption may not be greater than the actuarial assumed rate of return for the fund, nor may the interest rate assumption be less than the effective rate of interest. Any other provision of law notwithstanding, the board may suspend issuance of new supplemental pension contracts at any time. Any suspension of new supplemental pension contracts shall be prospective in operation and may not affect supplemental pension contracts already in effect.*

The administration of the supplemental pension benefit requires that supplemental pension benefit purchase costs vary from one time period to the next. Consequently, participants who accept the option of a supplemental pension benefit have no expectation or fundamental right to any particular supplemental pension benefit purchase price.

After review of appropriate annuity rates and fixed income/return instruments available in the marketplace, the external actuary has recommended a SPB interest rate assumption of between 4.25% and 5.00% and the state investment officer has recommended an interest rate assumption of between 2.75% and 3.50%. Per SDCL 3-12C-1502, the interest rate assumption may not be less than the effective rate of interest. The effective rate of interest for FY25 is 4.563%. Following SDCL 3-12C-1502, staff recommends the use of a 4.563% interest rate for FY 2025. The fiscal year 2024 interest rate assumption approved by the board was 4.00%.

The historical recommendations for the Supplemental Pension Benefit interest rate assumption are as follows:

	External Actuary	State Investment Officer	Staff Recommended/ Implemented Rate
FY 2009			5.5%
FY 2010	5.25%	4.65-5.15%	5.0%
FY 2011	4.0%	4.5-5.0%	4.5%
FY 2012	4.25-4.75%	4.5%	4.5%
FY 2013	3.5-4.0%	4.0-4.5%	4.0%
FY 2014	3.0-3.5%	4.0-4.5%	3.75%
FY 2015	3.5-4.5%	3.75-4.25%	4.0%
FY 2016	2.5-3.5%	3.5-4.0%	3.5%
FY 2017	2.8-3.8%	3.5-4.0%	3.5%
FY 2018	2.8-3.8%	3.25-3.75%	3.5%
FY 2019	2.8-3.8%	3.28-3.78%	3.5%
FY 2020	3.0-4.0%	3.38-3.89%	3.5%
FY 2021	2.0-3.0%	2.75-3.5%	2.875%
FY 2022	1.75-2.75%	3.0-3.5%	2.875%
FY 2023	2.0-3.0%	3.0-3.5%	3.0%
FY 2024	4.0-4.75%	3.25-4.0%	4.0%
FY 2025	4.25-5.00%	2.75-3.5%	4.563%*

* Per SDCL 3-12C-1502, the interest rate assumption may not be less than the effective rate of interest. Absent the statutory minimum, the staff recommended rate would have been 3.875%.

If and when these contracts become more prevalent, we may want to update the process used to establish the interest rate. The procedure established in 2009 for determining the interest rate assumption is below.

Please bring your copy of this memo to the April board meeting, as this will be an agenda item. Please contact us if you have any questions.

Procedure for Determining the Supplemental Pension Benefit Annual Interest Rate Assumption

The Board of Trustees shall at least annually establish the Supplemental Pension Benefit interest rate assumption. The interest rate assumption may not be greater than the actuarial assumed rate of return for SDRS, nor may the interest rate assumption be less than the effective rate of interest described in South Dakota Codified Law in subdivision 3-12C-108.

The Board shall establish the interest rate assumption based on the recommendation of the system's external actuary and the state investment officer. These recommendations shall be based on current capital market rates including fixed income investments and expected returns available at or near the time that the rate is defined.

The recommendations for the interest rate assumption may consider:

- US government/agency and corporate bond rates with or without the addition of an equity factor.
- Annuity rates defined by insurance/ investment firms and public information, including, but not limited to, the Pension Benefit Guarantee Corporation annuitization values.
- The expected return of the South Dakota Retirement System trust fund and the likelihood that the assumption will be achieved with these funds.

A range of interest rate assumptions will be provided to the Board of Trustees based on these factors and the input of the external actuary and state investment officer. A specific recommendation for the rate should be provided by the Executive Director. The external actuary and state investment officer may also provide a specific recommendation.