

AGENDA

SDRS BOARD OF TRUSTEES

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

DATE: Wednesday, June 10, 2026

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

THIS MEETING WILL BE BROADCAST LIVE AT [HTTPS://WWW.SD.NET/](https://www.sd.net/).

- 9:00 a.m. Call SDRS Meeting to Order – Determination of Quorum*
- ITEM 1** Chair's Preliminary Remarks
- ITEM 2** Board Conflict Disclosure
- ITEM 3** Approval of April 1, 2026, Minutes
- ITEM 4** Public Comment
- ITEM 5** SDRS Board of Trustees Election Results – Jaime Rutschke, Executive/Board Assistant
- ITEM 6** FY28 Budget Request – Michelle Mikkelsen, Chief Financial Officer and Travis Almond, Executive Director
- ITEM 7** Investment Update – Danielle Mourer, SDIC Senior Portfolio Manager; Jan Zeeck, SDIC Executive Committee & Senior Portfolio Manager; and Jarrod Edelen, SDIC Executive Committee & Senior Portfolio Manager
- ITEM 8** Projected Funded Status of the South Dakota Retirement System – Doug Fiddler, Senior Actuary
- ITEM 9** Asset Allocation – Matt Clark, State Investment Officer; Jarrod Edelen; Danielle Mourer; and Anne Cipperley, SDIC Portfolio Manager
- ITEM 10** Review of Long-Term Benefit Goals – Doug Fiddler and Travis Almond
- ITEM 11** Review of Long-Term Benefit Goals: COLA Discussion – Doug Fiddler and Travis Almond

- ITEM 12** Board of Trustees Proposed Policies, Committees, and Procedures – Eric Stroeder, Board Chair
- ITEM 13** Appointment of Executive Director Evaluation and Compensation Committee – Eric Stroeder
- ITEM 14** Appointment of Audit Committee – Eric Stroeder
- ITEM 15** Appointment of Class B Committee – Eric Stroeder
- ITEM 16** Appointment of Waiver Request Committee – Eric Stroeder
- ITEM 17** Old/New Business
- Upcoming Board Meeting Dates
- ITEM 18** Personnel Matters – Succession Planning (Executive Session) – Travis Almond
- ITEM 19** Adjournment

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

Note: All or a portion of an agenda item may be in executive session according to applicable South Dakota Codified Laws’ chapters 1-25 & 1-27. Any action taken related to executive session agenda items will take place in open session when the executive session concludes.

ADA COMPLIANCE: This meeting will be held at a location that is physically accessible to all participants. Individuals needing assistance under the Americans with Disabilities Act should contact the South Dakota Retirement System at (605) 773-3731 at least 48 hours before the meeting. We will do our best to accommodate requests received after that time.

FUTURE MEETING DATES

September 2, 2026
December 9, 2026
April 7, 2027
June 9, 2027
September 1, 2027
December 8, 2027

BOARD MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

April 1, 2026

The South Dakota Retirement System Board of Trustees held its regular meeting on April 1, 2026. 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 (via Teams)
Penny Brunken (via Teams)
Liza Clark (via Teams)
Laurie Gronlund (via Teams)
LaJena Gruis (via Teams)
Victoria Hinek (via Teams)
Myron Johnson (via Teams)
Jill Lenards (via Teams)
Jake Oakland (via Teams)
Shane Roth (via Teams)
Hank Prim
Justice Mark Salter (via Teams)
Darin Seeley (via Teams)
Wes Tschetter (via Teams)
Matt Clark, Ex Officio (via Teams)

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Board member Jim Terwilliger was absent.

OTHERS IN ATTENDANCE:

Jarroed Edelen, SDIO (via Teams)
Darci Haug, SDIO (via Teams)
Danielle Mourer, SDIO (via Teams)
Jan Zeeck, SDIO (via Teams)
Brittnie Adamson
Travis Almond
Doug Fiddler
Alan Freng
Michelle Humann
Samantha Koldenhoven
Nick Rea
John Richter
Jaime Rutschke

Dawn Smith
Jacque Storm

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

AGENDA ITEM 1
CHAIR'S PRELIMINARY REMARKS

Summary of Discussion

Chair Eric Stroeder noted that, due to the weather, most board members were participating virtually, and that Agenda Item 8 will be deferred to the June in-person board meeting.

Board Action

No action was necessary.

AGENDA ITEM 2
BOARD CONFLICT DISCLOSURE

Summary of Discussion

Chair Eric Stroeder asked the Board for any conflict disclosures. None were provided.

Board Action

No action was necessary.

AGENDA ITEM 3
APPROVAL OF DECEMBER 10, 2025, MINUTES

Board Action

IT WAS MOVED BY MR. PRIM, SECONDED BY MR. TSCHETTER, TO APPROVE THE MINUTES OF THE SDRS BOARD OF TRUSTEES' DECEMBER 10, 2025, MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
PUBLIC COMMENT

Summary of Discussion

The Chair outlined the policy on public comment and testimony. There was no public comment.

Board Action

No action was necessary.

AGENDA ITEM 5
BOARD MEMBER ELECTION UPDATE

Summary of Presentation

Ms. Jaime Rutschke, SDRS Executive/Board Assistant, informed the Board that one board position, the teacher representative, is up for election this year. Two petitions were received, resulting in a contested race and an election. The Board will certify the election results at the June board meeting.

Board Action

No action was necessary.

AGENDA ITEM 6
INVESTMENT PERFORMANCE UPDATE

Summary of Discussion

Ms. Darci Haug, SDIC Senior Portfolio Manager, stated that the estimated return for SDRS through March 31, 2026, is approximately 6 to 6½ percent.

Board Action

No action was necessary.

AGENDA ITEM 7
PROJECTED FUNDED STATUS AS OF JUNE 30, 2026

Summary of Discussion

Mr. Doug Fiddler, SDRS Senior Actuary, explained that SDRS contribution rates are fixed by statute, and that a recommendation for corrective action is required whenever the system's funded status falls below 100 percent. He noted that the SDRS COLA varies with both inflation and long-term affordability, and as a result, the system's fair value funded ratio (FVFR) is expected to remain at 100 percent under most conditions.

Mr. Fiddler reported that employer contribution rates for Class A members are 39 percent of the national median. Additionally, South Dakota spends the least on pensions, at 1.75 percent. He emphasized that providing adequate benefits and remaining fully funded through all economic conditions, while operating with contributions that are less than half the median, is a very high objective. These competing objectives become even more difficult to meet as retirees live longer, and investment markets provide lower returns.

To meet these objectives, SDRS has implemented several key management strategies, including changes to service purchase cost, the implementation of a variable COLA process, retire-rehire reform, the transition to a five-year FAC for foundation members, pay increase caps, and the addition of the generational design to avoid or lessen subsidies.

Mr. Fiddler cautioned that proposals introducing additional objectives funded by SDRS' limited resources diminish the system's ability to provide adequate benefits given its fixed, modest contributions. Any proposed changes to SDRS must therefore be thoroughly evaluated to determine whether they could place future benefits, COLAs, or system sustainability at risk.

Mr. Fiddler also stated that SDRS resources are not sufficient to provide COLAs that match inflation during periods of very high inflation.

Mr. Fiddler noted that the most significant immediate risk to SDRS is investment risk. The investment returns will first impact the affordable COLA range. Returns below the assumed rate will reduce the restricted maximum COLA, while returns higher than the assumed rate will increase the restricted maximum or enable the full COLA range. However, the variable COLA may not be sufficient to maintain 100 percent FVFR under all conditions, and additional corrective actions may be required.

As of June 30, 2025, based on current asset allocation statistics, the estimated one-year likelihood of required corrective action was 12 percent, and the five-year likelihood was 32 percent.

In summary, Mr. Fiddler advised that the July 2022 SDRS COLA of 3.5 percent remains the only time in which the full COLA range has been affordable under the current COLA process. The FY2025 investment return resulted in a restricted maximum COLA of 1.56 percent for July 2026. If FY 2026 net investment returns are below approximately negative 7.7 percent, a corrective action recommendation will be required; if returns exceed roughly 13.6 percent, the full COLA range will be affordable for the July 2027 COLA.

Board Action

No action was necessary.

AGENDA ITEM 8
REVIEW OF LONG-TERM BENEFIT GOALS

Summary of Presentation

This presentation was deferred to the June 10, 2026, meeting.

Board Action

No action was necessary.

AGENDA ITEM 9
OVERVIEW OF GOVERNANCE MANUAL PROJECT

Summary of Presentation

Ms. Jacque Storm, Director of Special Projects, provided an overview of the Governance Manual Project, a comprehensive resource consolidating the Board’s duties, responsibilities, goals, policies, and procedures. The project aims to strengthen governance by improving clarity, transparency, and accessibility for trustees.

The Governance Manual highlights key features of SDRS benefits and includes the mission statement, vision, long-term goals, and statutory governance structure. It outlines fiduciary, statutory, and legal responsibilities, as well as routine Board approvals and processes related to financial reporting, transparency, and oversight.

The Governance Manual also includes sections covering professional conduct, legislative activities, and oversight duties related to the Supplemental Retirement Program (SRP) and Special Pay Retirement Program (SPP). The Board will review proposed policies in June, with completion of the project anticipated in September.

Board Action

No action was necessary.

AGENDA ITEM 10
2026 LEGISLATIVE REPORT

Summary of Presentation

Mr. John Richter, SDRS General Counsel, discussed the 2026 Legislative Session. Mr. Richter stated that six bills were introduced on behalf of SDRS. The bills passed unanimously and were signed into law by the Governor.

Mr. Richter noted that SDRS was also watching other bills. However, no bills that passed would require action from the Board at this time.

Mr. Travis Almond, SDRS Executive Director, said the budget hearing went well and that the Joint Appropriations Committee approved the SDRS budget request.

Board Action

No action was necessary.

AGENDA ITEM 11
SET EFFECTIVE RATE OF INTEREST FOR FY 2027

Summary of Discussion

Mr. Almond noted that SDCL 3-12C-108 states that SDRS’s annual effective rate of interest shall be no greater than 90 percent of the average 91-day United States Treasury bill rate for the immediately preceding calendar year.

Advising that the 91-day United States Treasury bill rate was 4.07 percent for 2025, Mr. Almond stated that 90 percent of the rate is 3.663 percent. He noted that this interest rate would be credited on July 1, 2027, for the period of July 1, 2026, through June 30, 2027.

Board Action

IT WAS MOVED BY MR. PRIM, SECONDED BY MR. APPL, TO ESTABLISH THE FY 2027 EFFECTIVE RATE OF INTEREST PAYABLE JUNE 30, 2027, AT 3.663 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
SET FY 2027 SUPPLEMENTAL PENSION BENEFIT
INTEREST RATE ASSUMPTION

Summary of Discussion

Mr. Almond stated that the Board needed to establish the periodic Supplemental Pension Benefit interest rate assumption. He added that the interest rate assumption could not be greater than the actuarial assumed rate of return for SDRS or less than the SDRS effective rate of interest.

He advised that the interest rate assumption is established based on the recommendations of the system's external actuary and the State Investment Officer, with the input of the Executive Director. The external actuary recommended between 4.25 and 5.25 percent, and the State Investment Officer recommended between 3.25 and 3.75 percent.

Based on all the information and the process established by the Board, Mr. Almond stated that his recommendation was that the Board set the Supplemental Pension Benefit interest rate assumption equal to the effective rate of interest, 4.0 percent, effective July 1, 2026.

Board Action

IT WAS MOVED BY MR. OAKLAND, SECONDED BY MS. GRUIS, TO ESTABLISH THE FY 2027 INTEREST RATE ASSUMPTION FOR THE SUPPLEMENTAL PENSION BENEFIT AT 4.0 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 13
BOARD MEMBER CONFERENCE
ATTENDANCE REQUESTS

Mr. Almond reminded the Board that conferences are available for them to attend. He stated that Mr. Shane Roth has requested to attend the NASRA Annual Conference, August 8-12, in Boston, MA; Ms. Jill Lenards, Mr. Eric Stroeder, and Ms. Laurie Gronlund have requested to attend the NCTR Annual Conference, October 3-6, in Coeur d'Alene, ID.

Board Action

IT WAS MOVED BY MR. PRIM, SECONDED BY MR. JOHNSON, TO APPROVE SHANE ROTH'S ATTENDANCE AT THE NASRA ANNUAL CONFERENCE; JILL LENARDS' ATTENDANCE AT THE NCTR ANNUAL CONFERENCE, ERIC STROEDER'S ATTENDANCE AT THE NCTR ANNUAL CONFERENCE; AND LAURIE GRONLUND'S ATTENDANCE AT THE NCTR ANNUAL CONFERENCE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14
OLD/NEW BUSINESS

Summary of Discussion

SharePoint Board Portal

Mr. Almond stated that the SharePoint Board Portal is a work in progress. Once complete, it will serve as a one-stop shop for board members to access current and past meeting materials and policies. He encouraged the Board to provide feedback to help improve the Portal.

Upcoming Meeting Dates

Mr. Almond mentioned that the upcoming meeting dates are listed at the bottom of the agenda. The 2027 meeting schedule will be provided at the June board meeting.

Board Action

No action was necessary.

AGENDA ITEM 15
REPORTS FROM THE EXECUTIVE DIRECTOR EVALUATION
AND COMPENSATION COMMITTEES

Summary of Discussion

The Board praised Mr. Almond for his performance as the Executive Director of SDRS.

Board Action

IT WAS MOVED BY MR. PRIM, SECONDED BY MR. TSCHETTER, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(1) TO DISCUSS ITEMS RELATING TO PERSONNEL MATTERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

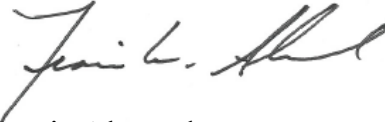
Potential staff who may be invited to remain include: Travis Almond.

THE CHAIR DECLARED THE BOARD OUT OF EXECUTIVE SESSION.

ADJOURNMENT

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Travis Almond". The signature is written in a cursive style with a large initial 'T' and a long, sweeping underline.

Travis Almond
Executive Director

2026 Election Returns Comparison

TEACHER RETURNS

YEAR	BALLOTS MAILED	BALLOTS RECEIVED	BALLOTS NOT COUNTED
2026	15,577	636 (4%)	1
2025	No Race		
2022	No Race		
2021	No Race		
2018	No Race		
2017	14,363	1,157 (8%)	3
2014	No Race		
2013	13,520	1,271 (9%)	16
2010	No Race		
2009	No Race		
2006	13,485	1,827 (14%)	28
2005	No Race		
2002	No Race		
2001	12,874	2,099 (16%)	46
1998	12,784	2,475 (19%)	21
1997	12,598	2,435 (20%)	55
1994	No Race		
1993	12,168	3,208 (26%)	299
1990	No Race		
1989	11,145	4,051 (36%)	266



South Dakota Retirement System

SDRS FY28 Budget Request

June 10, 2026



FY28 Budget Request

- **Personal Services** **\$3,984,299**
 - No increase
 - No additional FTE's; current FTE level is 35

- **Operating** **\$2,872,942**
 - Travel, Contractual, Supplies, and Capital Outlay
 - No increase

- **Total Budget Request** **\$6,857,241**
 - Below the SDCL 3-12C-210 budget limit of 3% of annual contributions



FY28 Budget Request and Timeline

- June 2026
 - Board review and submission approval
- August 2026
 - Budget submission to BFM
- September 2026
 - Budget review with SDRS, BFM, and the Governor's Office
- December 2026
 - Governor's Budget Address
 - If different from board-approved, discussion at the Board of Trustees meeting



FY28 Budget Request and Timeline

- January-April 2027
 - Legislative Joint Appropriations Budget Presentation
 - Legislative approval
 - Board updates
- July 1, 2027
 - FY28 Legislative Approved Budget begins



South Dakota Retirement System

Projected Funded Status as of June 30, 2026

June 10, 2026



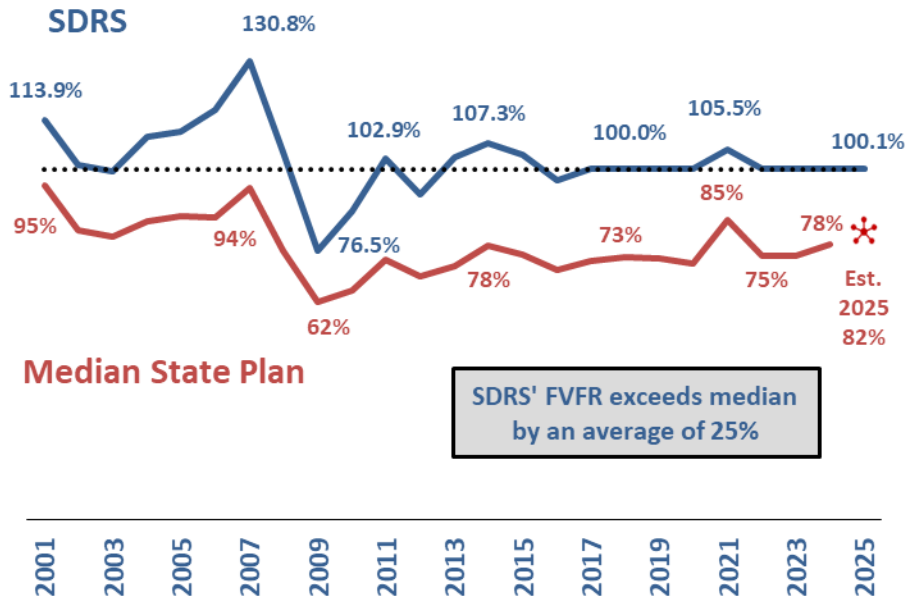
Funding Basics: $C + I = B + E$

- 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
- 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

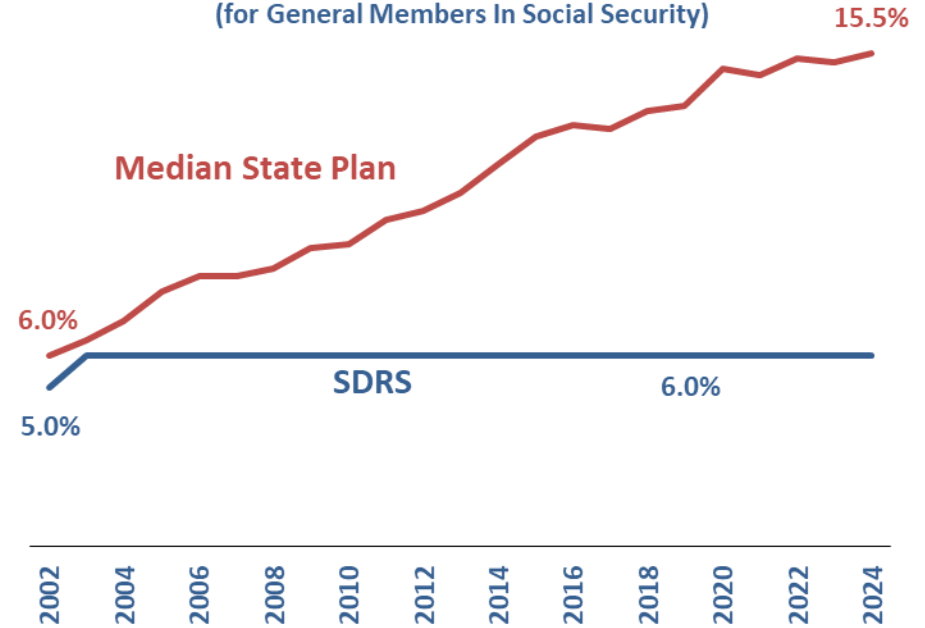


Employer Contributions and Funded Status Comparisons

Fair Value Funded Ratio



Employer Contribution Rates
(for General Members In Social Security)



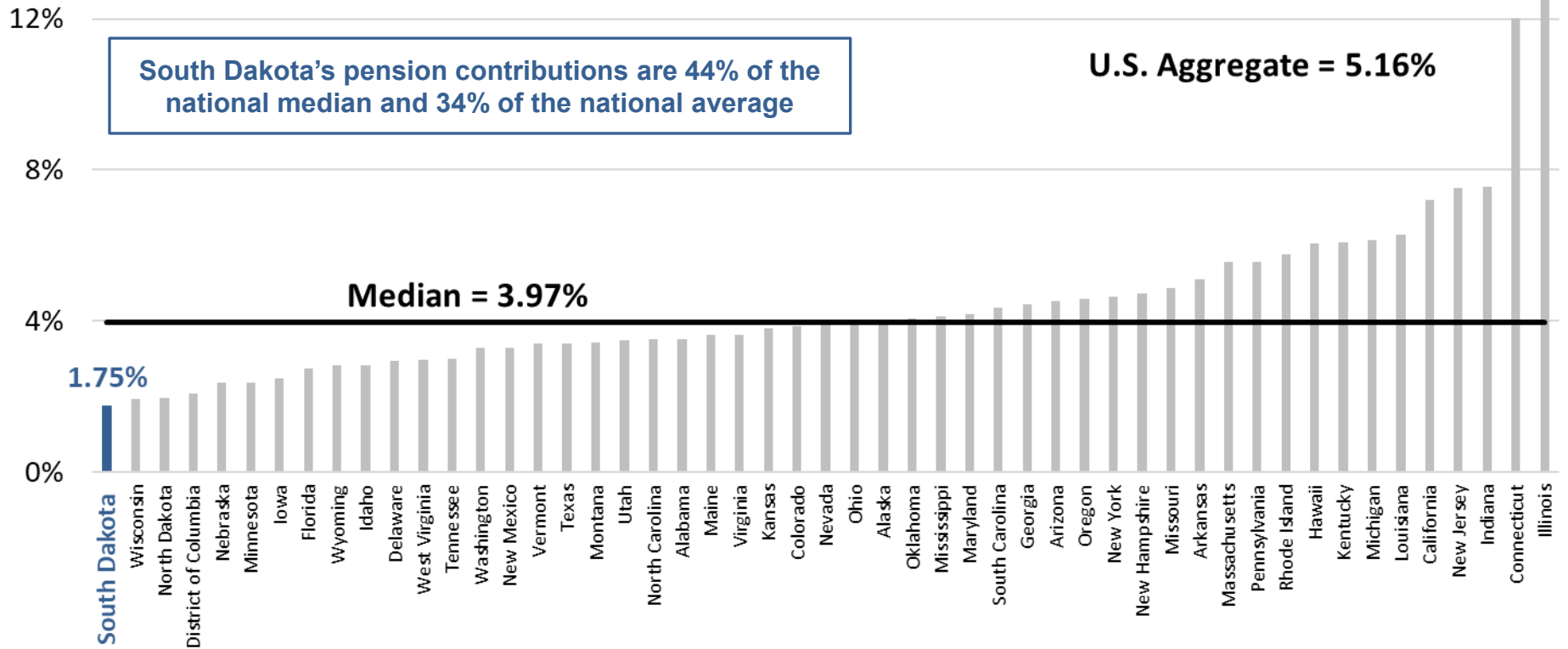
- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 39% of the national median

Median public sector FVFR from Public Plans Database, March 2026. Employer contribution rates from NASRA Public Fund Survey, December 2025.



NASRA: Government Spending on Pensions

Government Contributions to Pensions as a Percent of All Direct Government Spending, FY 2023 (most recently available)



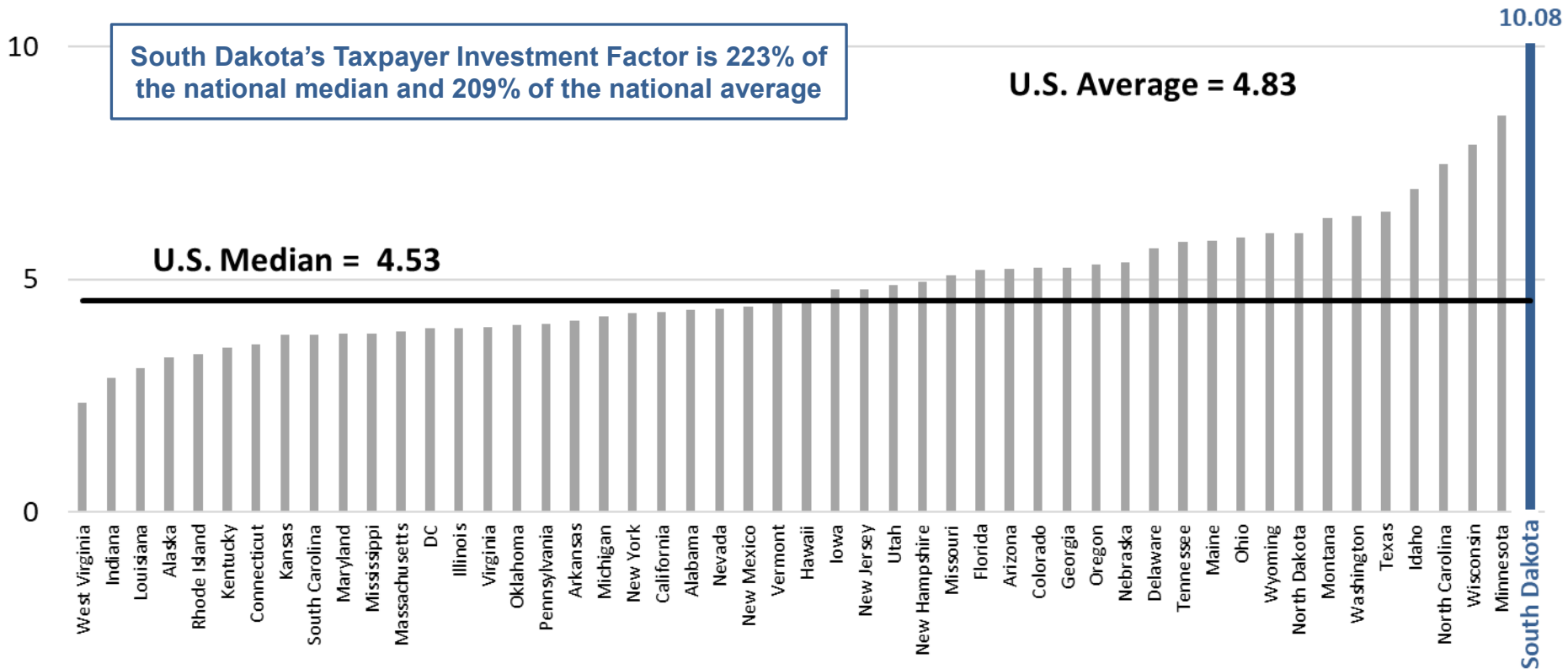
Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, March 2026



NIRS: Taxpayer Investment Factor

Taxpayer Investment Factor

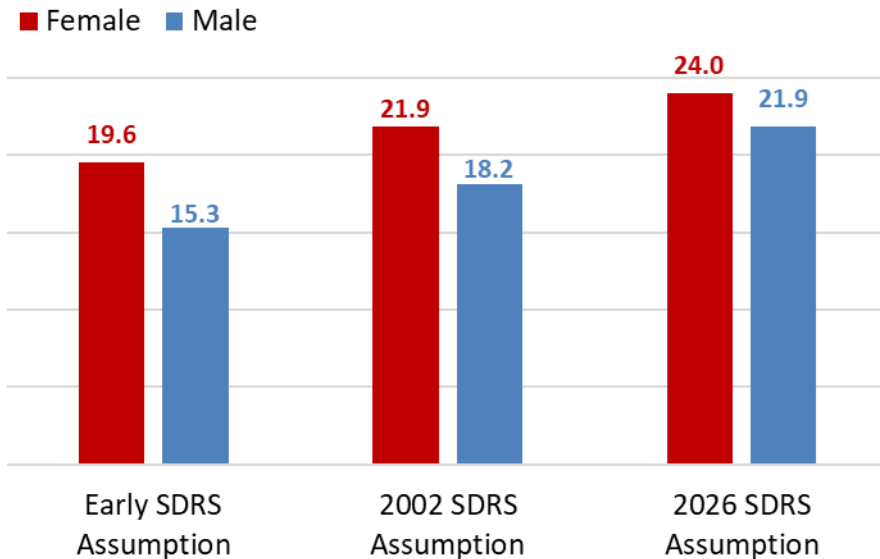
Economic Impact per Dollar of Taxpayer (Employer) Contribution



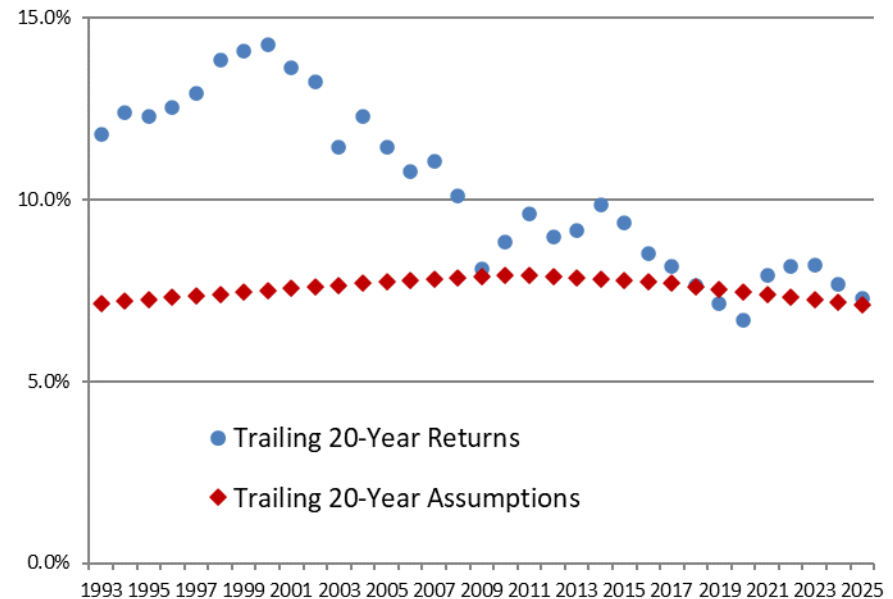
Competing Objectives

- **Delivering adequate benefits directly competes with remaining fully funded while spending a fraction of the national median on pensions:**
 - The challenge is becoming more difficult as retirees live longer, and markets provide lower investment returns

**Future Life Expectancy at Age 65
SDRS Assumptions**



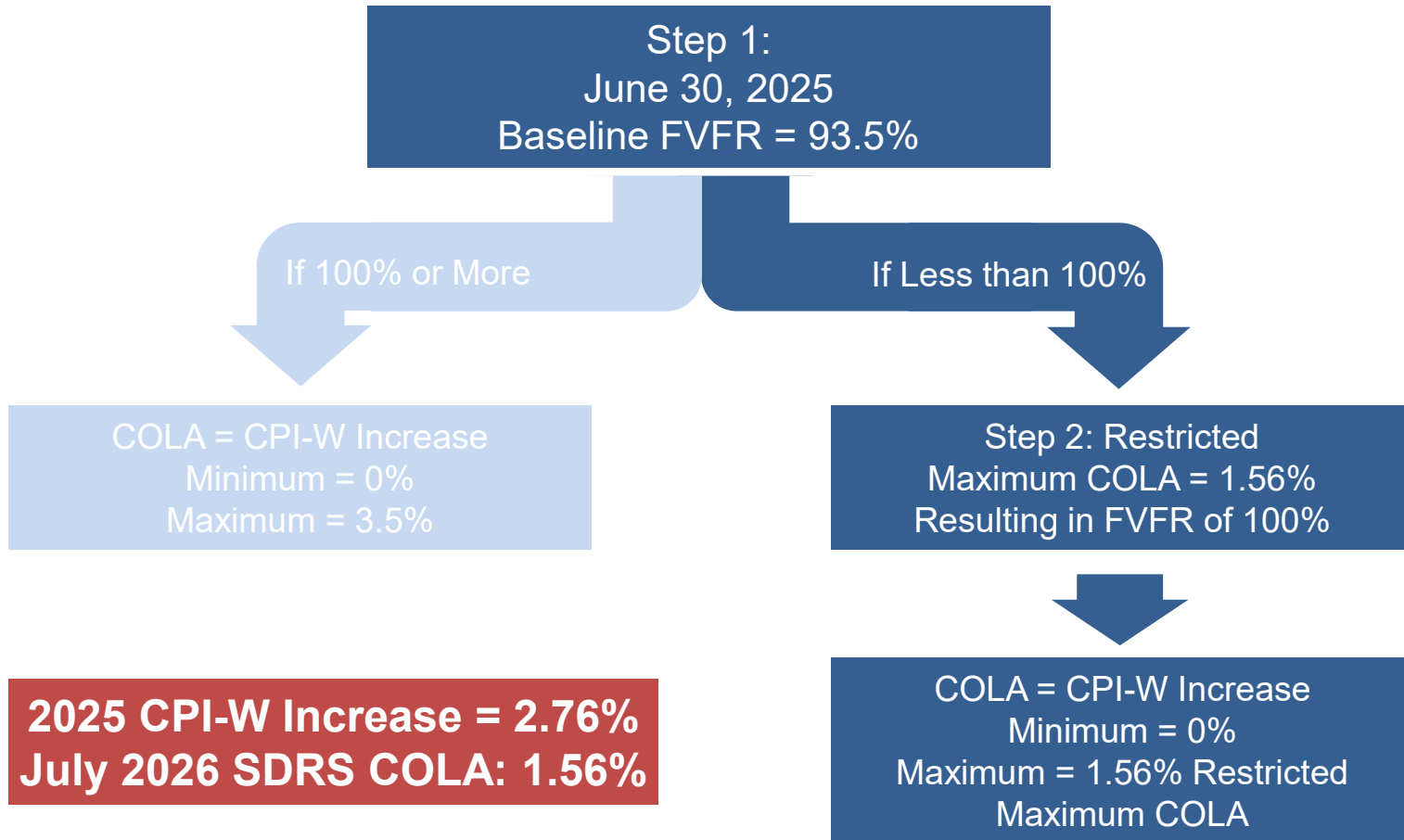
**20-Year Trailing Nominal Returns and
Return Assumptions**



Competing Objectives

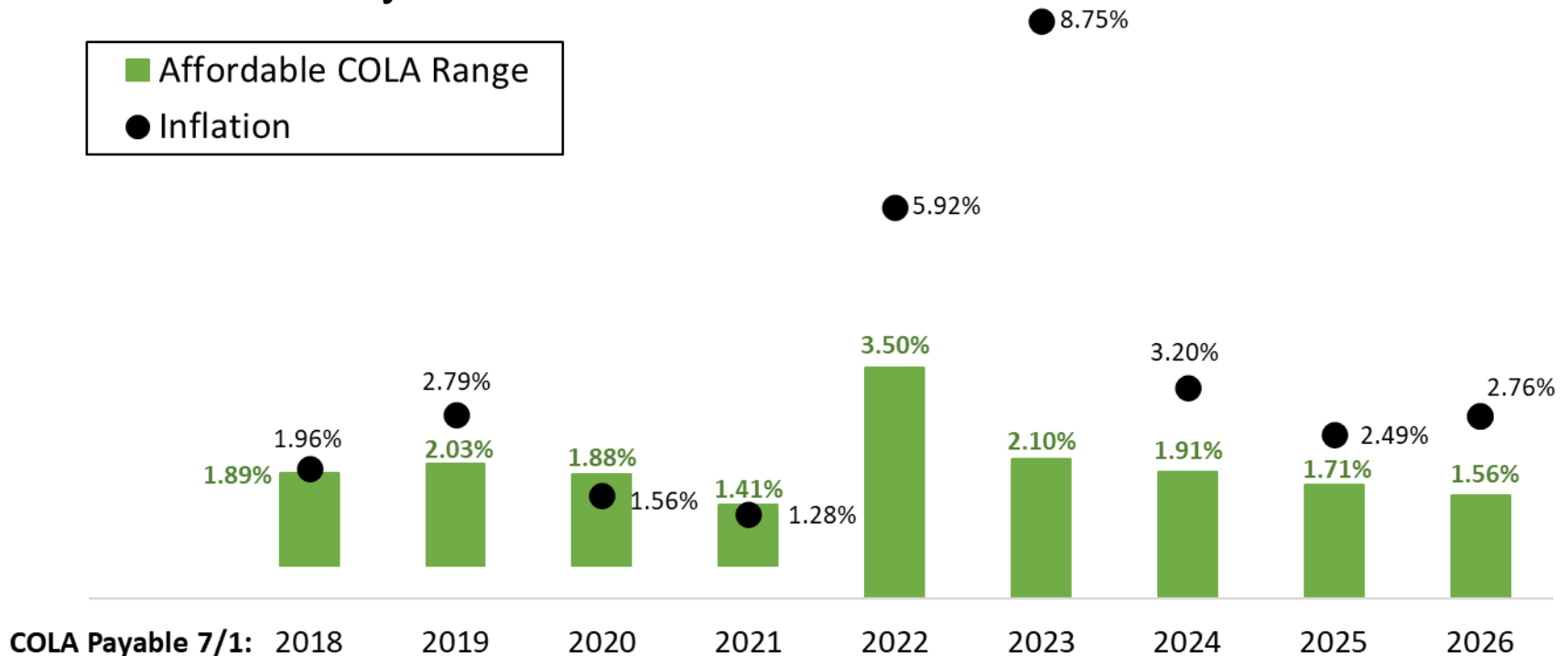
- SDRS management efforts to meet benefit objectives in changing circumstances have included:
 - Service purchase cost
 - Retire-rehire reform
 - Variable COLA process
 - 5-year FAC
 - Pay increase caps
 - Generational design
- **Expect continuing pressure on benefit affordability:**
 - Proposed changes to SDRS must be thoroughly evaluated to ensure they do not endanger future benefits, COLAs, or system sustainability
 - SDRS liabilities are essentially equal to SDRS assets – with fixed contributions, **any expansion, increase, or acceleration of benefits necessarily reduces the COLA paid to retired members**
 - Actuarial assumptions must remain realistic

July 2026 COLA Calculation



Historical COLA Ranges

- Under the current COLA process, the full COLA range has only been affordable for the 2022 COLA
- The 2026 restricted maximum COLA is 1.56%, less than inflation for the fifth consecutive year





Projected Funded Status and COLAs

- Liability and investment gains and losses will impact the affordable COLA range each year:
 - Gains and losses are caused by variances from the long-term actuarial assumptions regarding investment return, salary increases, retirements, terminations, and mortality
 - The variable COLA may not be sufficient to maintain 100% FVFR in all conditions and additional corrective actions may be required
- One and five-year projections of FVFRs, COLA ranges, and likelihoods of achieving returns shown in subsequent slides:
 - 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



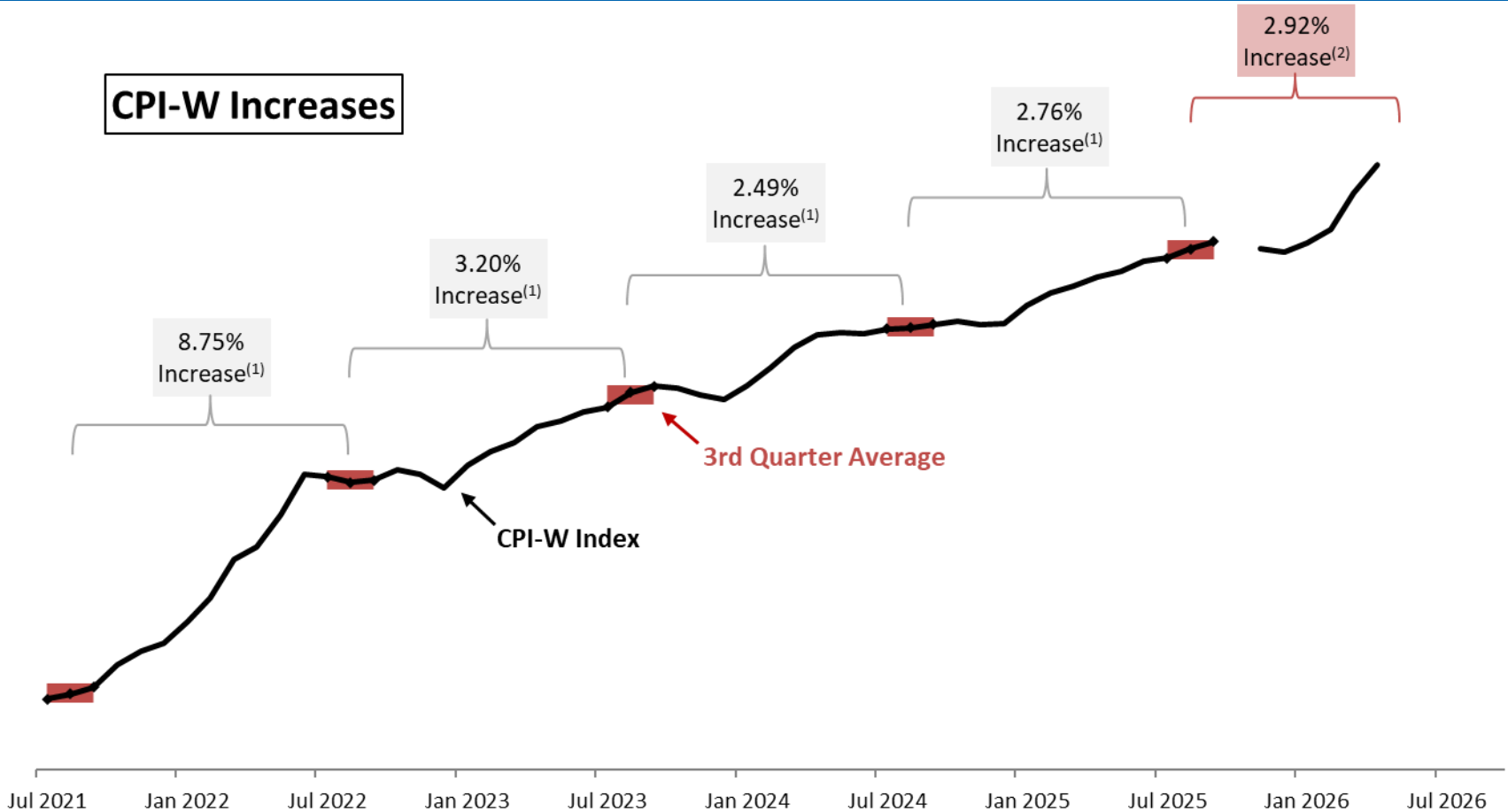
Projected June 30, 2026 Funded Status & July 2027 COLA Range⁽¹⁾

Net Investment Return FYE June 30, 2026	Baseline FVFR	COLA Range	Final FVFR	Applicable Conditions
<= (7.7%)	81.1%	NO COLA	<100%	Corrective Action Recommendation Required
(7.6%)	81.2%	0% to 0.01%	100%	
6.5%	93.7%	0% to 1.58%	100%	Restricted Maximum COLA
8.0%	95.0%	0% to 1.73%	100%	
9.5%	96.4%	0% to 1.87%	100%	
11.0%	97.7%	0% to 2.01%	100%	
13.5%	99.9%	0% to 2.24%	100%	
13.6%	100.0%	0% to 3.50%	100%	Full COLA Range
36.0%	119.9%	0% to 3.50%	119.9%	
36.1%	120.0%	0% to 3.50%	120%	120% Benefit Improvement Threshold Met

(1) Before consideration of liability gains/losses for FYE June 30, 2026. June 30, 2025 Baseline FVFR: 93.5% and COLA Range: 0.0% to 1.56%.



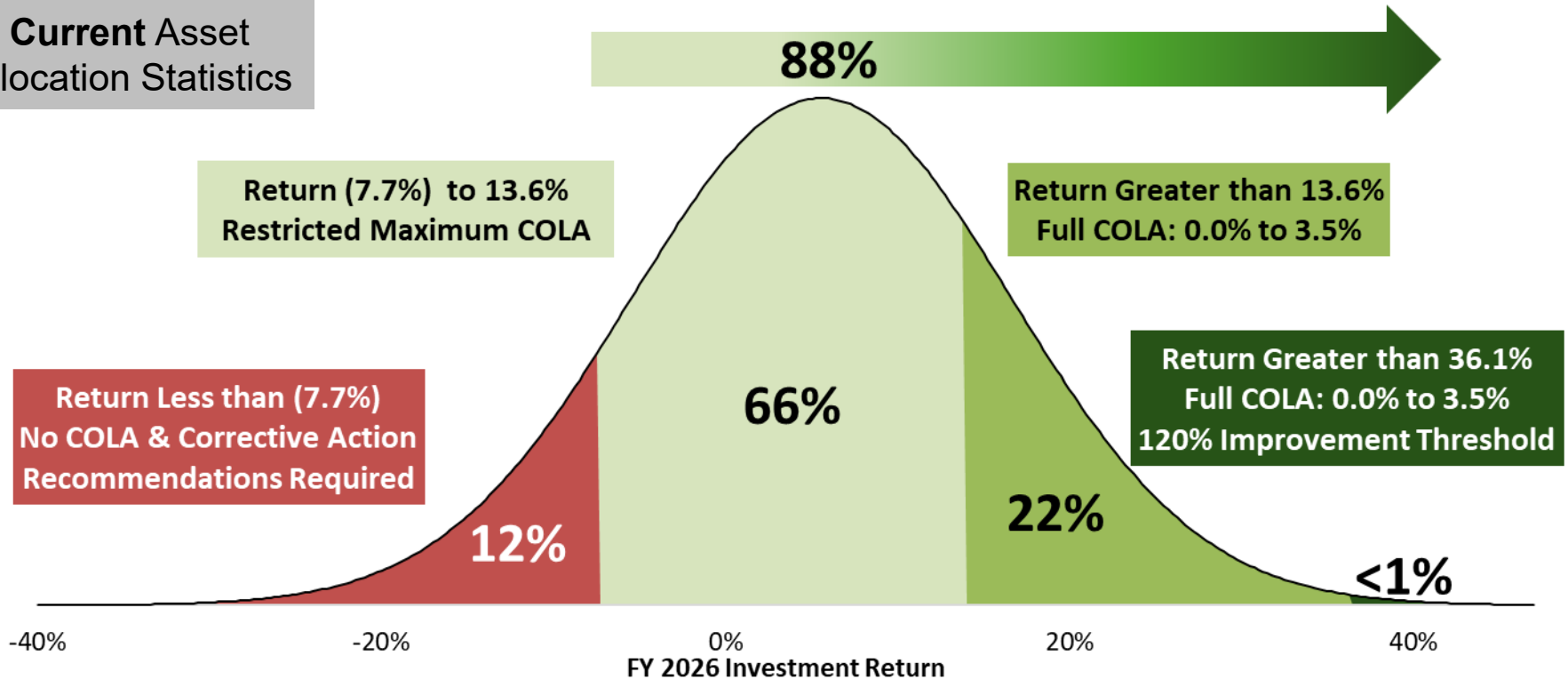
Inflation Measurement for Social Security and SDRS COLAs



- (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 the most recent month index (April 2026) over the July to September 2025 average. Increase annualizes to 4.4%, ignoring seasonal impacts.

Projected 2027 COLA Range and Likelihoods

Current Asset Allocation Statistics



- **Ignoring FY 2026 investment returns to date**, the preliminary likelihoods for **July 2027 COLA ranges**, primarily driven by FY 2026 investment returns, are:
 - 12% likelihood: No COLA and corrective action recommendations required
 - 66% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 22% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 1% likelihood 120% benefit improvement threshold met

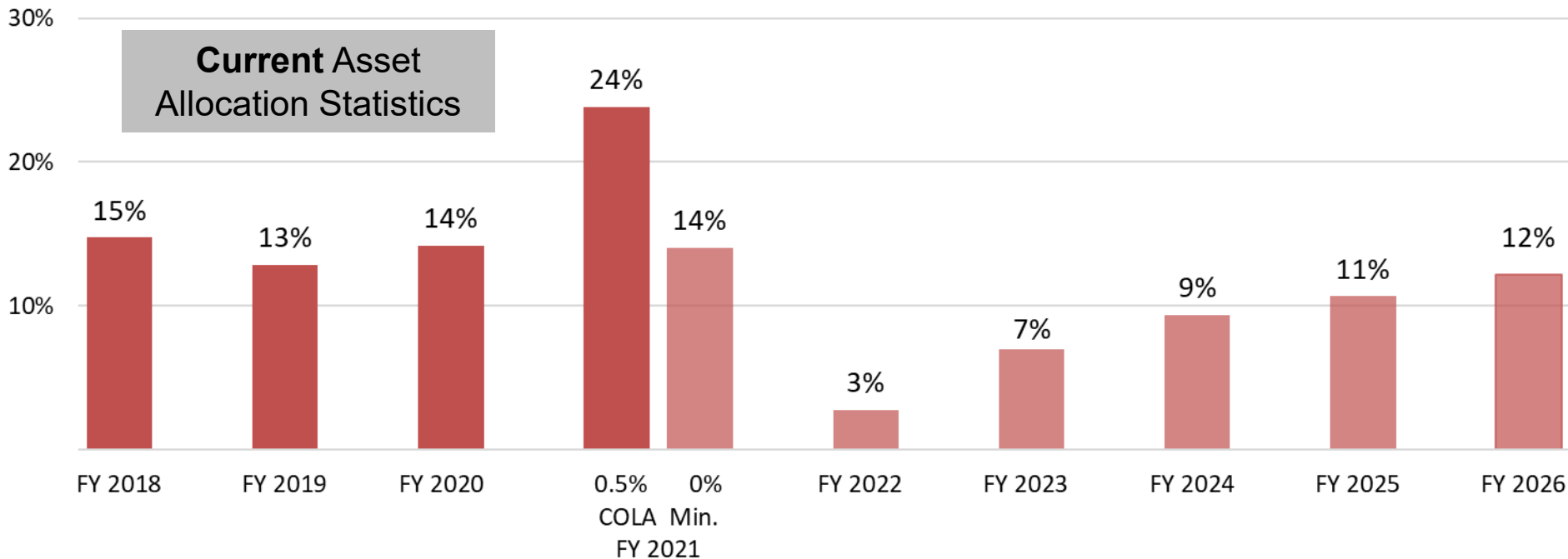
Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2026 current asset allocation investment portfolio statistics (mean = 5.20%, standard deviation = 11.04%).



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.

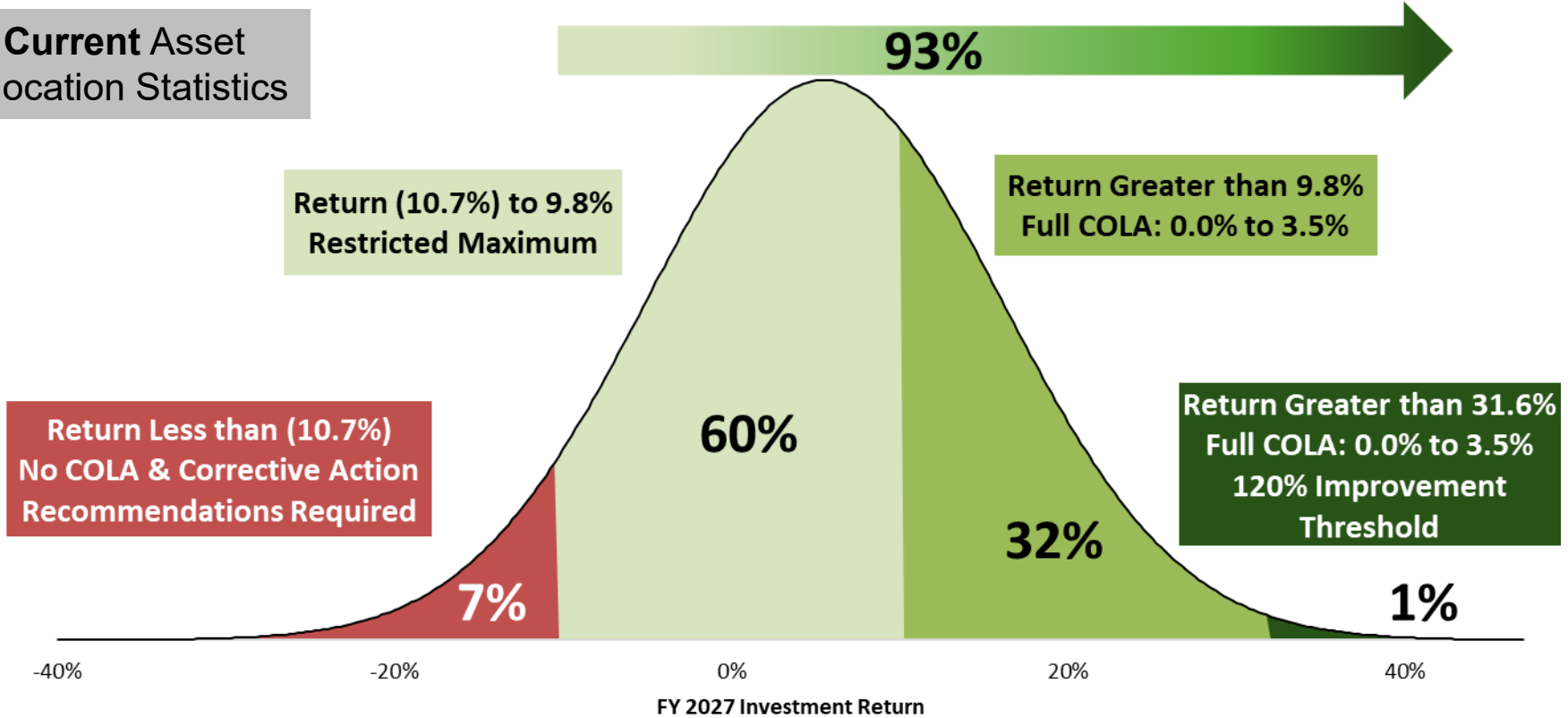
1-Year Likelihoods of Required Corrective Action Recommendations





FY 2027 Return Ranges Following 10% Return for FY 2026

Current Asset Allocation Statistics



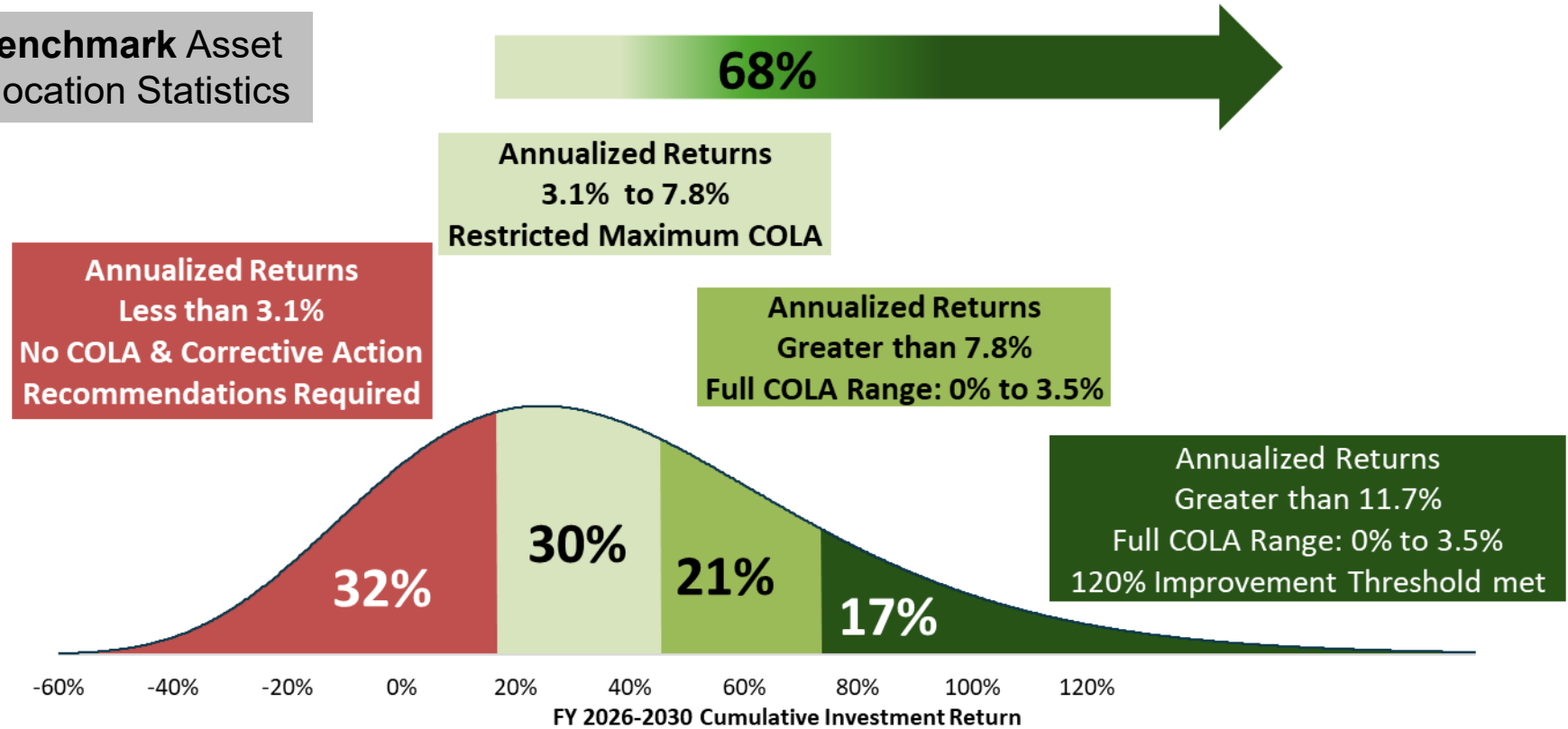
- **Following an FY 2026 investment return of 10%**, the preliminary likelihoods for **July 2028 COLA ranges**, primarily driven by FY 2027 investment returns, are:
 - 7% likelihood: No COLA and corrective action recommendations required
 - 60% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 33% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%

Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2027 current asset allocation investment portfolio statistics (mean = 5.12%, standard deviation = 10.55%).



Projected 2031 COLA Range and Likelihoods from July 1, 2026

Benchmark Asset Allocation Statistics



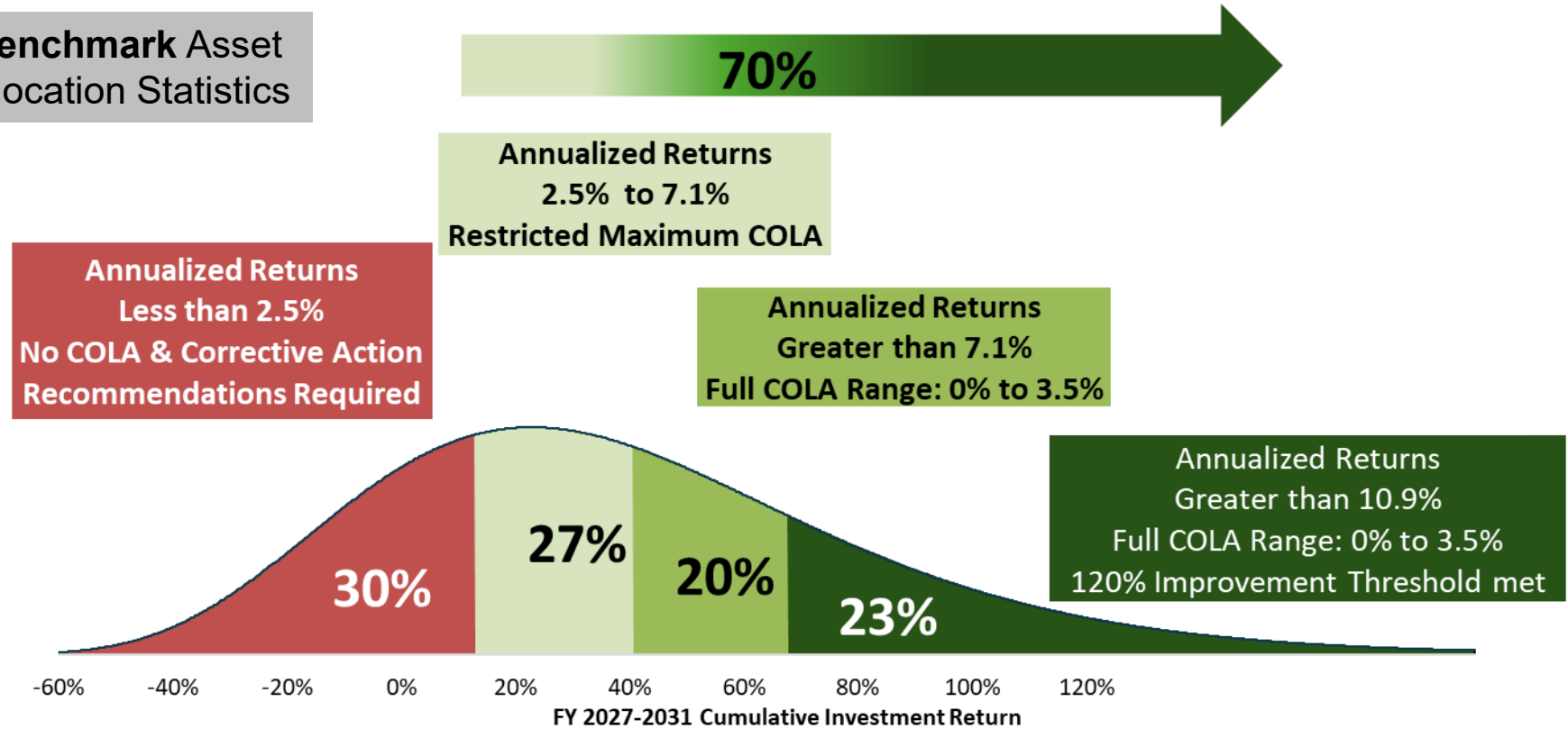
- **Ignoring FY 2026 investment returns to date**, the preliminary likelihoods for **July 2031 COLA ranges**, primarily driven by FY 2026-2030 investment returns, are:
 - 32% likelihood: No COLA and corrective action recommendations required
 - 30% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 38% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 17% likelihood 120% benefit improvement threshold met

Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2026 benchmark asset allocation investment portfolio statistics (mean = 5.89%, 5-year standard deviation = 6.08%).



Projected 2032 COLA Range and Likelihoods Following 10% Return for FY 2026

Benchmark Asset Allocation Statistics



- **Following an FY 2026 investment return of 10%**, the preliminary likelihoods for **July 2032 COLA ranges**, primarily driven by FY 2027-2031 investment returns, are:
 - 30% likelihood: No COLA and corrective action recommendations required
 - 27% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 43% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 23% likelihood 120% benefit improvement threshold met

Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2027 benchmark asset allocation investment portfolio statistics (mean = 5.97%, 5-year standard deviation = 6.69%).



Projected Funded Status and Risk Analysis Summary

- July 2022 SDRS COLA was 3.5%, the only time the full COLA range has been affordable under the current COLA process:
 - Subsequent COLAs have been: 2.10% (2023); 1.91% (2024); 1.71% (2025); 1.56% (2026)
- FY 2026 estimated investment return thresholds:
 - FY 2026 returns below approximately **negative 7.7% would require a corrective action recommendation**; preliminary 1-year likelihood is 12%
 - FY 2026 returns of approximately **13.6% would make the full COLA range affordable** for the 2027 COLA



Asset Allocation

SDRS Board of Trustees Presentation

JUNE 10, 2026

The Council's Role in Asset Allocation

- The primary investment objective for SDRS assets is to achieve and exceed the return of the Council's Capital Markets Benchmark over the long term
- The key investment policy decision relates to asset allocation
- The Council establishes:
 - A benchmark asset allocation which considers expected long-term returns and risk
 - Minimum and maximum allocations for each asset category

Discussion Topics

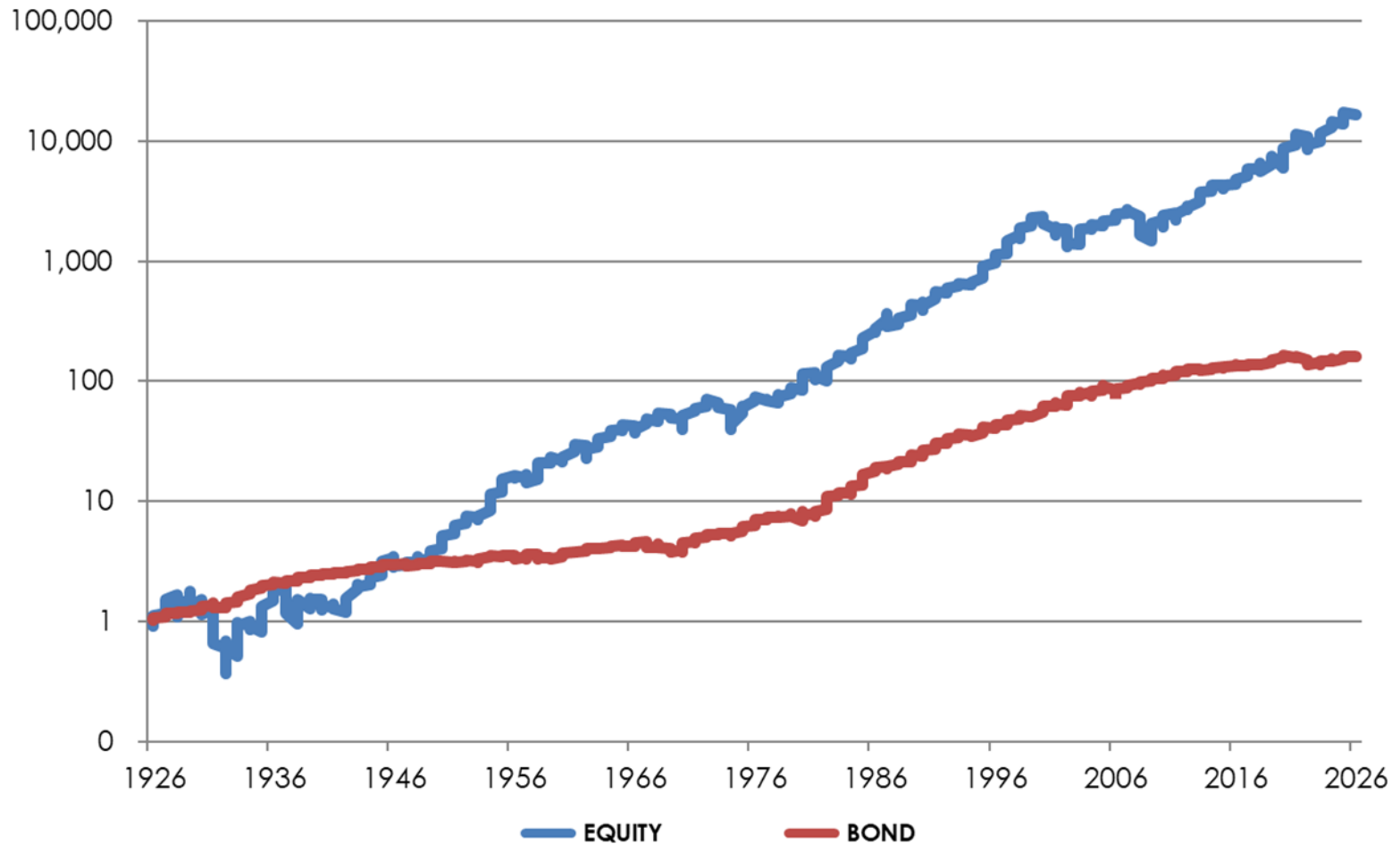
- Return and Risk Assessment
- Benchmark Recommendation
- Expected Return
- Valuation Analysis
- Asset Allocation Implementation

Return and Risk Assessment

Equity and Bonds

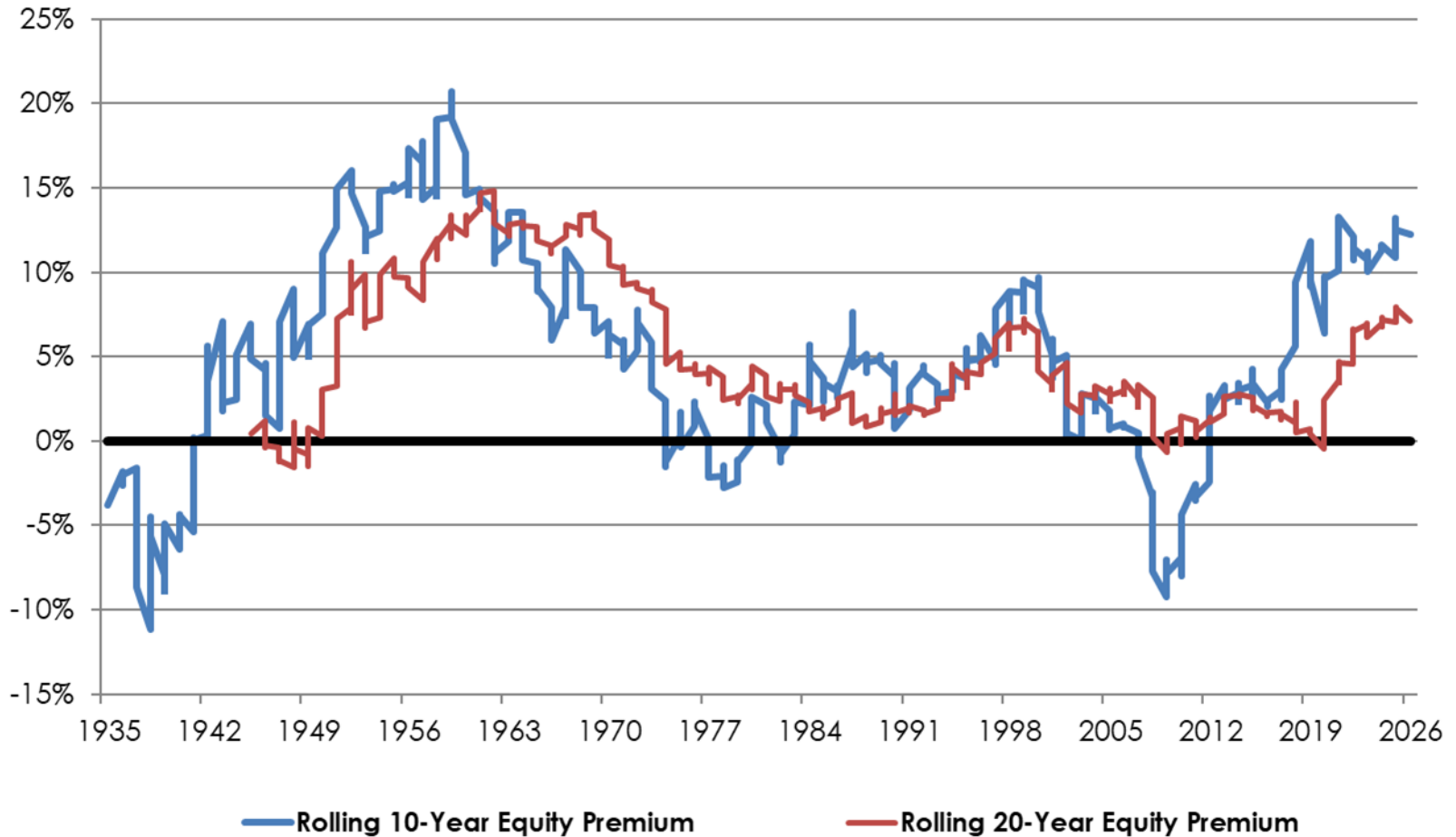
- Long-term return history is available only for equity, bonds, and cash
- Equity returns
 - Best over the very long term, but are volatile
- Bond returns
 - Lower over the long term compared to equities
 - Provides diversification
- Return/risk tradeoff depends on willingness to endure volatility

Long-Term Equity Returns Exceed Bond Returns



Equity Less Bond Return

Historical Rolling Periods

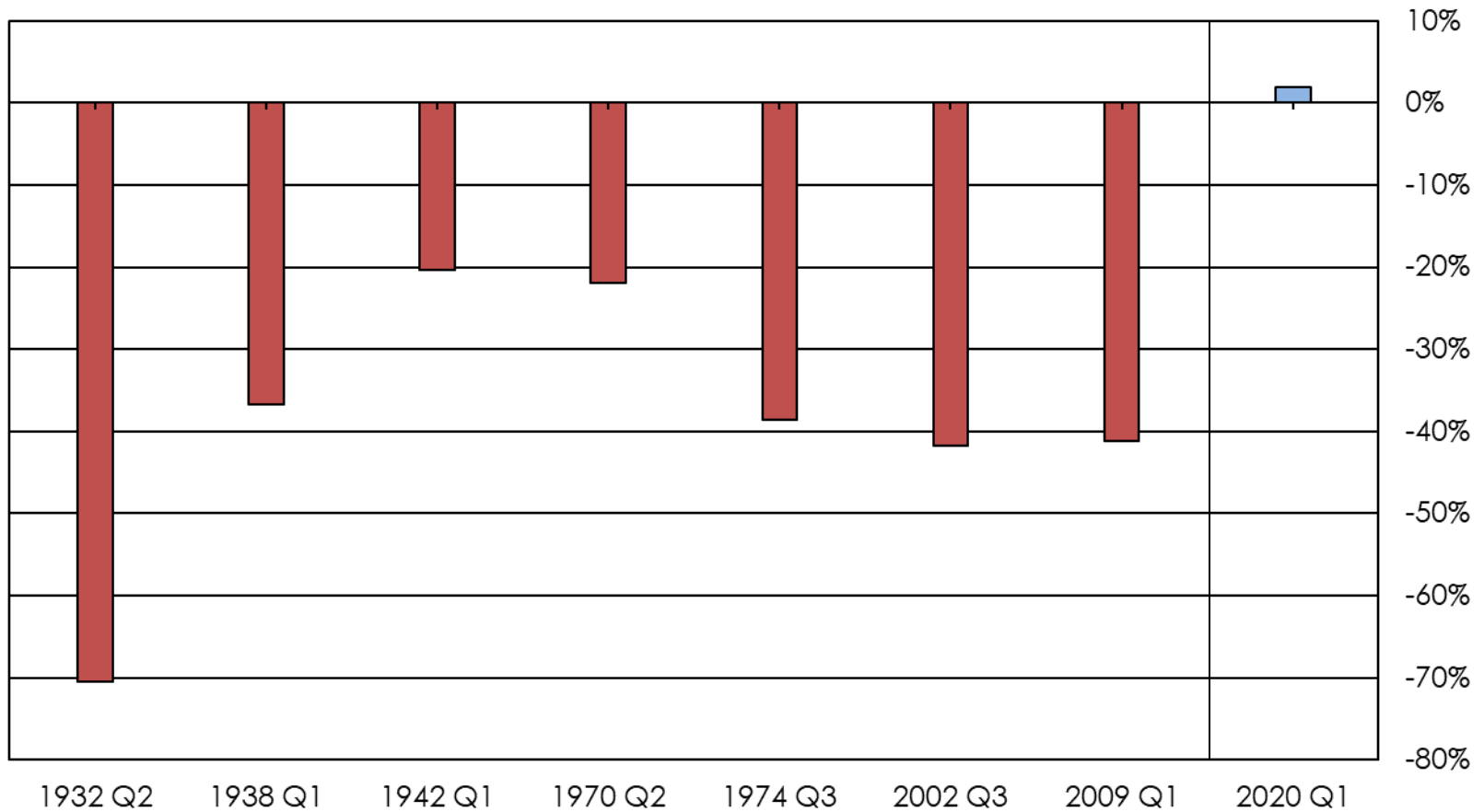


Risk Measurement

- Conventional statistical measures of risk
 - Standard deviation and correlations are calculated
- SDIC adjustment to conventional risk measures
 - SDIC volatility
 - Conventional standard deviation adjusted to reflect higher real-world frequency and magnitude of adverse outlier events
 - SDIC correlations
 - Conventional correlations adjusted to reflect the higher correlation of asset classes during adverse outlier events
- Focus on equity-like and bond-like risk
 - Withstanding a two-year adverse outlier event

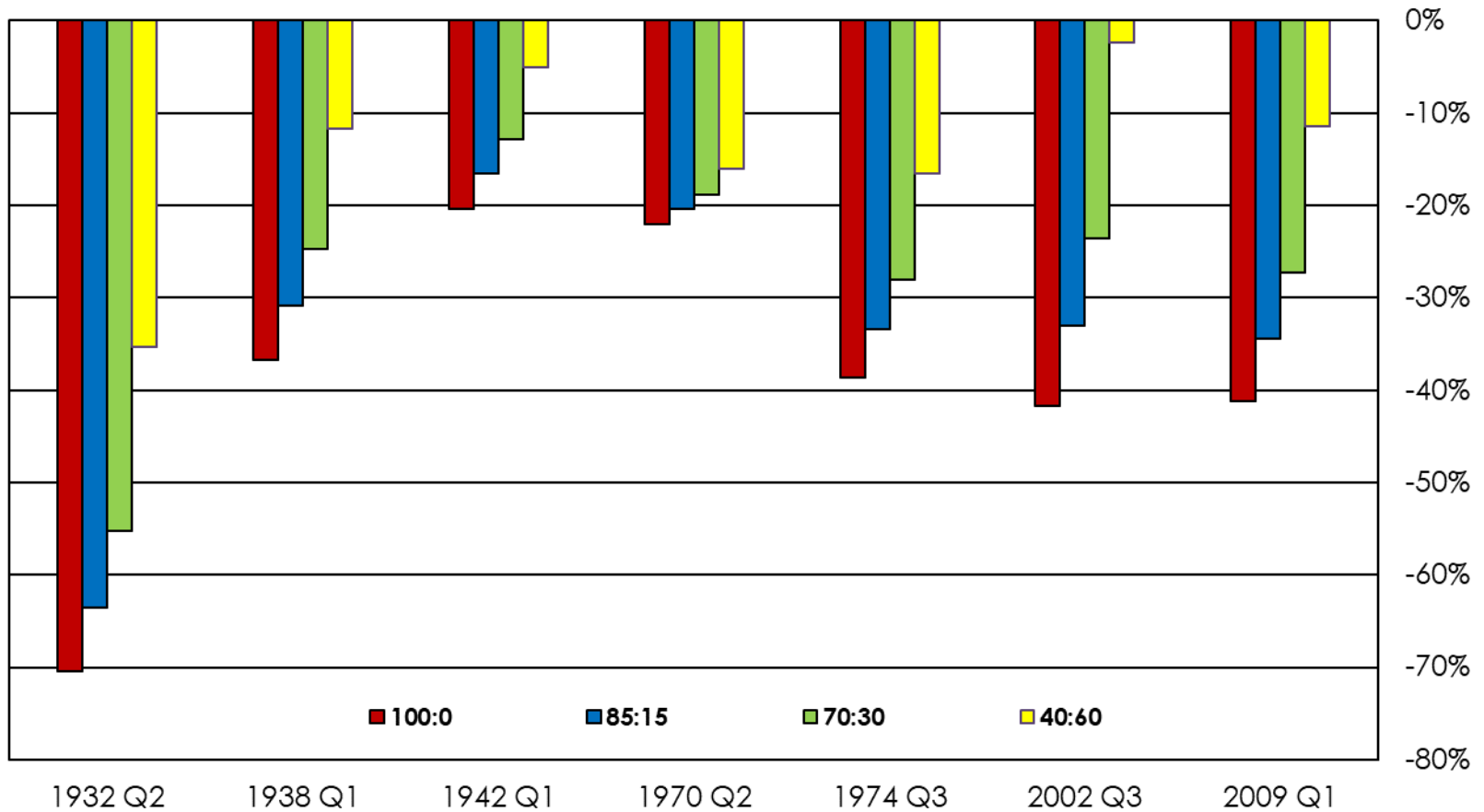
Equity Downturns Can Be Severe

Two-year periods with equity returns below negative 20%

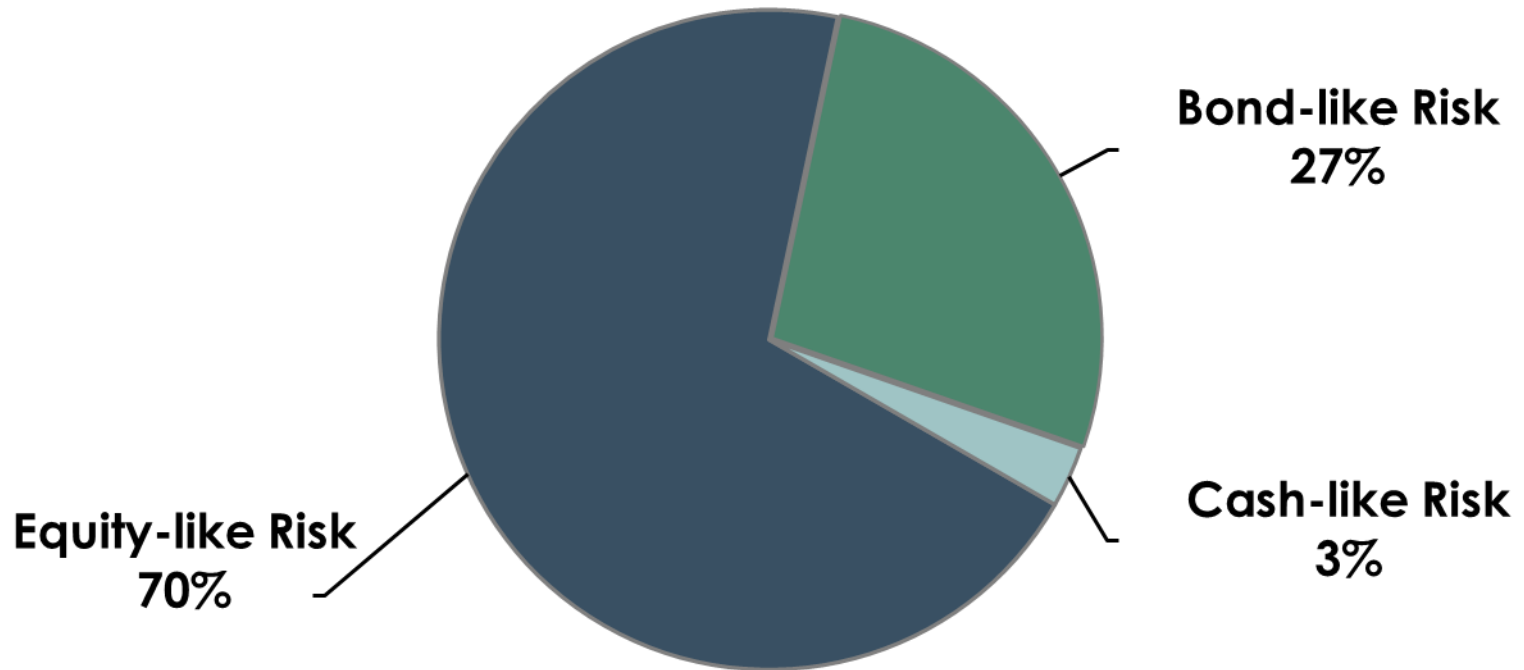


Risk of Various Equity Allocations

Two-year periods with equity returns below negative 20%

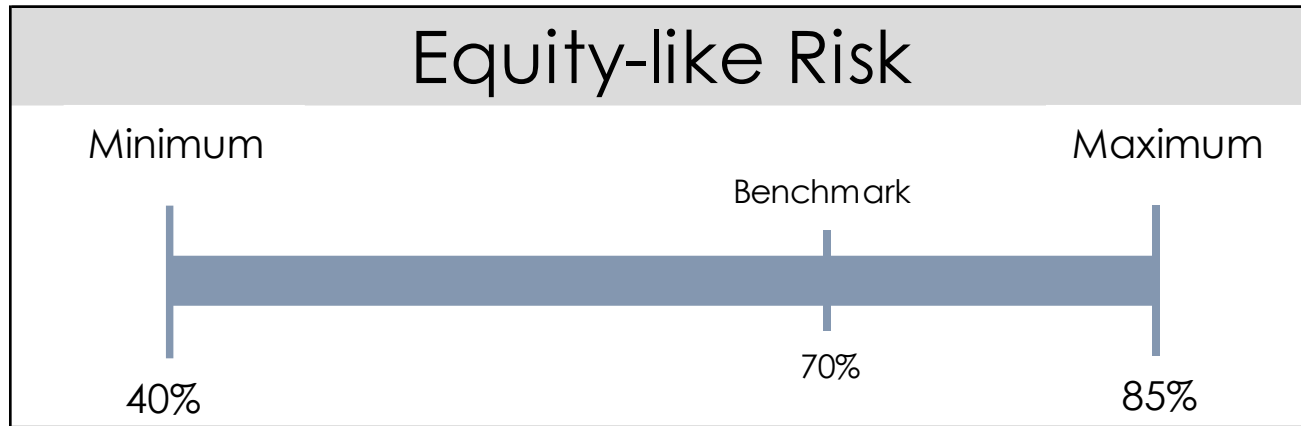


Benchmark Recommendation



- Balances long-term returns and drawdown risk

Benchmark Range Recommendation



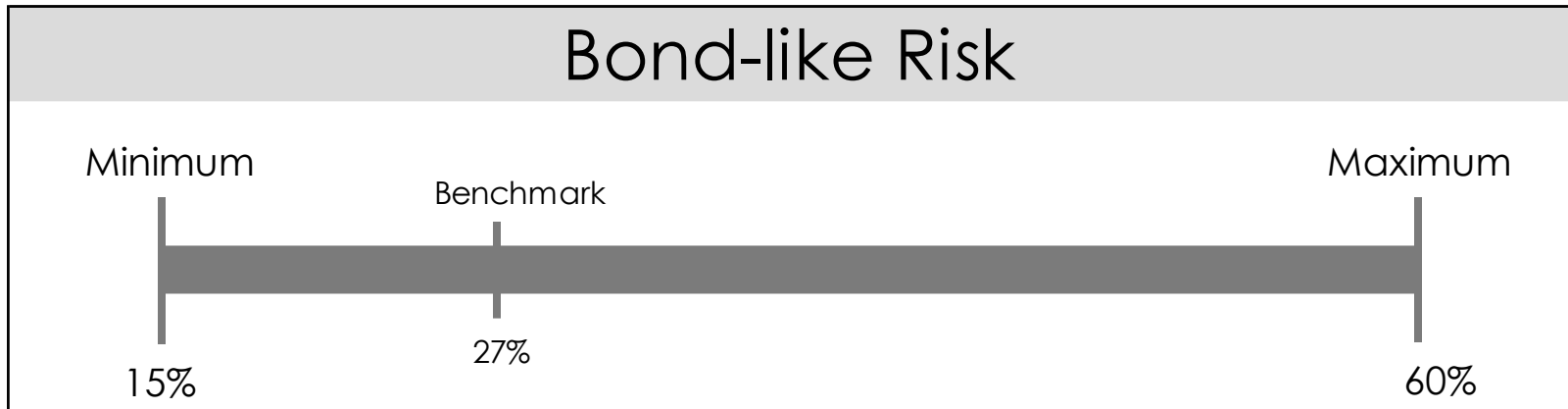
Minimum

- Increases underperformance risk but also reduces absolute risk when markets are extremely expensive
- Still provides meaningful exposure if wrong or early

Maximum

- For when markets are very cheap (on our valuation measures)
- Cheapness would suggest much of a potential decline had already occurred
- Weathered this maximum during the financial crisis

Benchmark Range Recommendation



Minimum

- Provides diversification

Maximum

- For when bonds are very cheap (on our valuation measures)

Benchmark Ranges

- Goal
 - Enter market downturns with near minimum equity-like risk
 - Increase equity-like risk toward maximum during equity downturns to benefit from an eventual rebound
- The Importance of Patience
 - Markets typically continue to rise or fall further after reaching minimum or maximum risk thresholds
 - Essential to be patient for 5 years or more

Benchmark Construction

- Categories in benchmark are significant and passively implementable
 - Public Equity, Investment Grade Debt, Cash, High Yield Debt, REITs
- Secondary categories are excluded from the benchmark, but have permitted ranges
 - Private Equity, Opportunistic Real Estate, Hedge Funds
- Equivalent stock/bond/cash risk is accounted for and offset when investing in other asset categories
- Benchmark constructed to achieve 70% equity-like, 27% bond-like, and 3% cash-like risk exposures

SDRS Return and Volatility Analysis

Using JP Morgan Inputs

	Expected Return Standard Deviation*		Correlation Matrix								
			Public Equity	Hedge Funds	IG Debt	Cash	HY Debt	REITs	Private Equity	RE Opp	
Public Equity	6.7%	17%	100%								
Hedge Funds	4.1%	7%	14%	100%							
Investment Grade Debt	4.8%	5%	30%	-11%	100%						
Cash	3.1%	1%	1%	1%	10%	100%					
High Yield Debt	6.1%	9%	75%	8%	41%	-3%	100%				
REITs	8.8%	17%	77%	8%	42%	-5%	68%	100%			
Private Equity	10.2%	20%	75%	23%	1%	-1%	71%	52%	100%		
Real Estate Opportunistic	10.1%	19%	35%	3%	-15%	-12%	32%	44%	32%	100%	

	Public Equity	Hedge Funds	IG Debt	Cash	HY Debt	REITs	Private Equity	RE Opp	Expected Return	Standard Deviation (1yr)*
Proposed Benchmark FY27**	56.3%	0.0%	22.8%	1.9%	7.0%	12.0%	0.0%	0.0%	6.41%	12.19%
Actual Asset Allocation**	20.6%	1.1%	12.9%	39.7%	4.1%	0.0%	9.7%	11.9%	5.72%	6.71%

* Standard deviation is a measure of volatility. There is a 68% chance of being within +/-1 standard deviation and a 95% chance of being within +/-2 standard deviations.

** As of 3/31/26 (Estimate)

Source: JPMorgan Capital Markets Assumptions located at <https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/institutional/insights/portfolio-insights/Itcma-full-report.pdf>

SDRS Return and Volatility Analysis

Using SDIC inputs

	Expected Return	Est. Volatility*
Public Equity	6.5%	21%
Hedge Funds	4.0%	11%
Investment Grade Debt	4.8%	8%
Cash	3.2%	2%
High Yield Debt	5.5%	12%
REITs	6.4%	25%
Private Equity	7.1%	30%
Real Estate Opportunistic	7.9%	33%

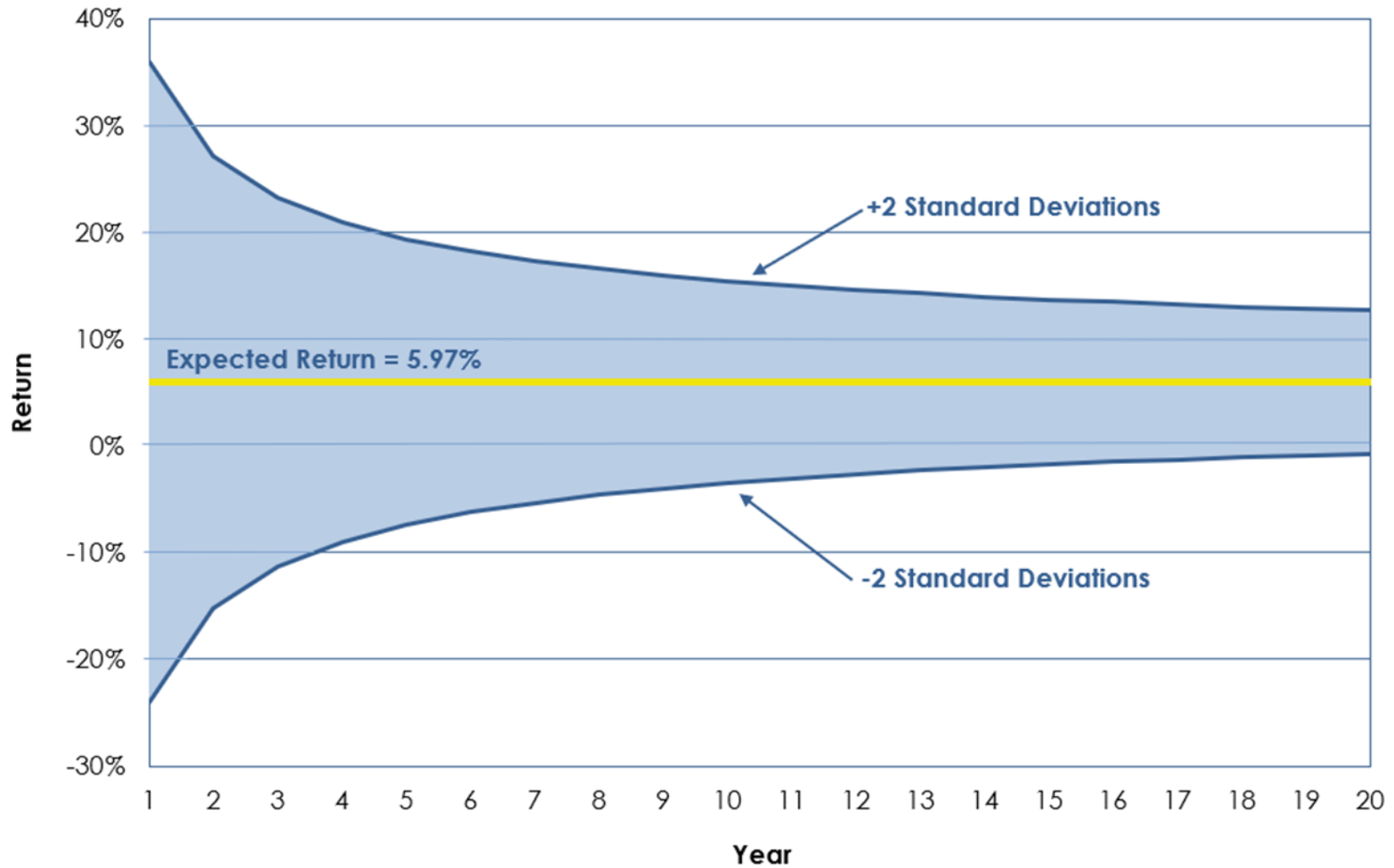
	Public Equity	Hedge Funds	IG Debt	Cash	HY Debt	REITs	Private Equity	RE Opp	Expected Return	Est. Volatility (1yr)*
Proposed Benchmark FY27**	56.3%	0.0%	22.8%	1.9%	7.0%	12.0%	0.0%	0.0%	5.97%	14.97%
Actual Asset Allocation**	20.6%	1.1%	12.9%	39.7%	4.1%	0.0%	9.7%	11.9%	5.12%	10.55%

* Standard deviation is a measure of volatility. There is a 68% chance of being within +/-1 standard deviation and a 95% chance of being within +/-2 standard deviations. This measure has been adjusted to better reflect frequency and magnitude of adverse events.

** As of 3/31/26 (Estimate)

SDRS Return and Volatility Analysis

Using SDIC inputs



SDRS Expected Long-Term Return Recap

- Benchmark asset allocation expected return is 5.97%
 - Uses SDRS inflation assumption which can vary from SDIC inflation assumption
 - Does not incorporate any negative dollar cost averaging effect nor added value from the long-term contrarian investment approach
- Expected returns are the midpoint of a wide distribution with a 50% chance of being higher and a 50% chance of being lower
- Standard deviation is 15.0% and is adjusted to reflect real-world frequency of severe negative returns and correlations during severe periods
 - Conventionally measured standard deviation is ~12%

Additional Risk Control

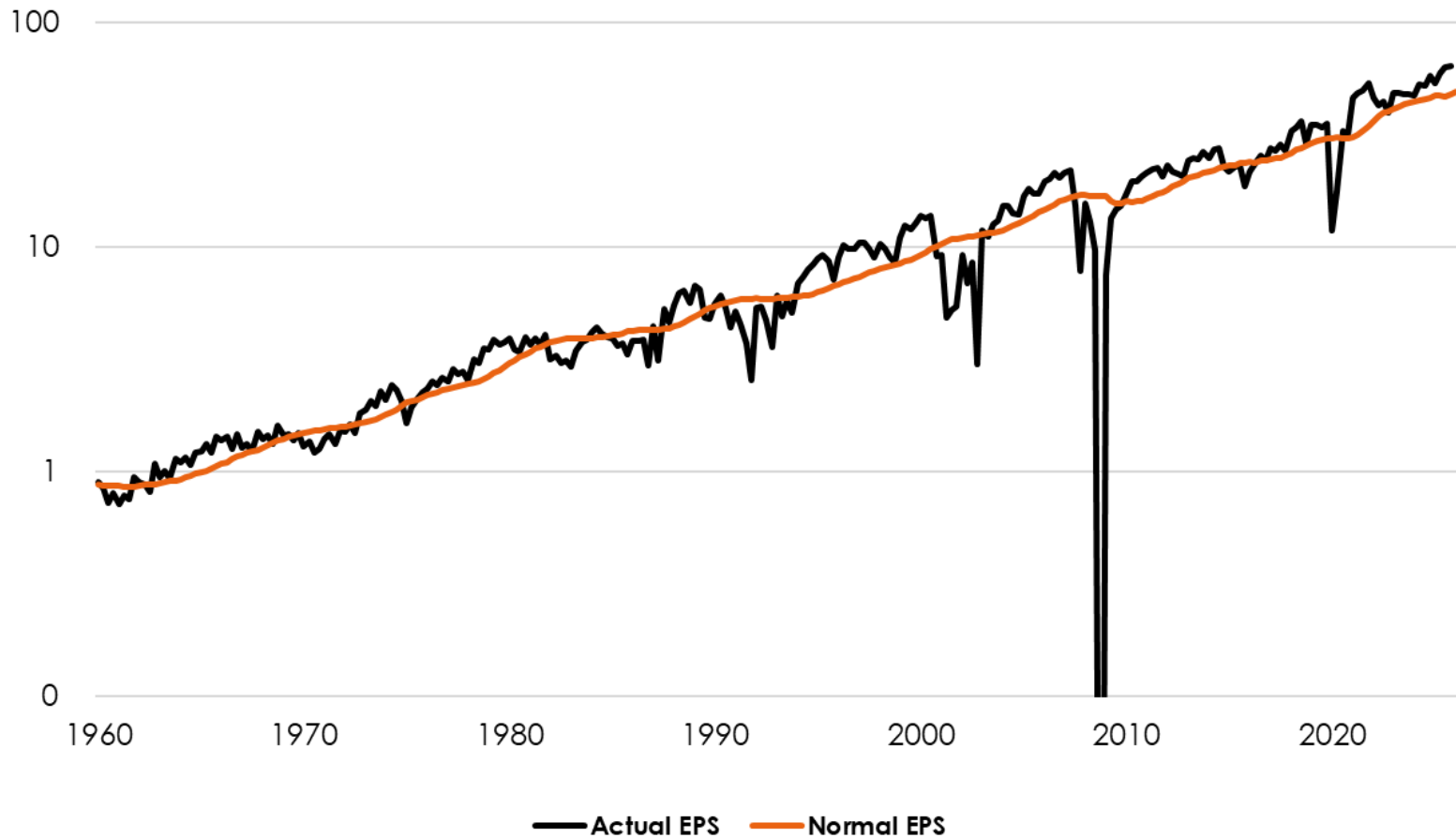
- Risk control
 - Risk managed by broad diversification and reducing amounts in expensive assets
 - Adequate liquidity maintained to avoid liquidations of depressed assets and to allow rebalancing
- Strength and determination to handle tough markets
 - Participation in the free enterprise economic system provides highest long-term rewards but must endure short-term bumps in the road
- Strong funding and benefit design help manage downside volatility
 - In very difficult circumstances, benefits may require further adjustment to maintain funding

Equity Valuation

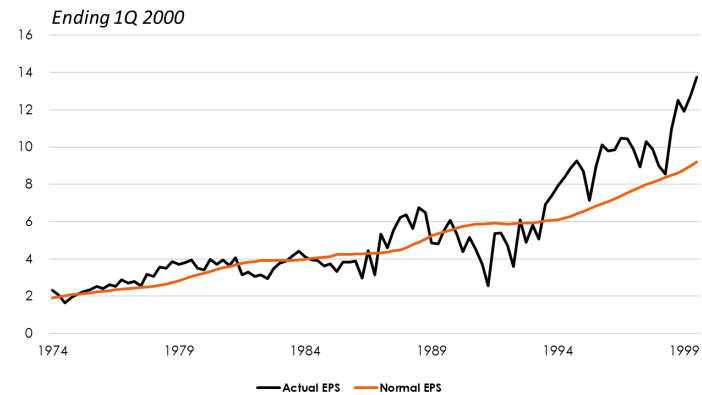
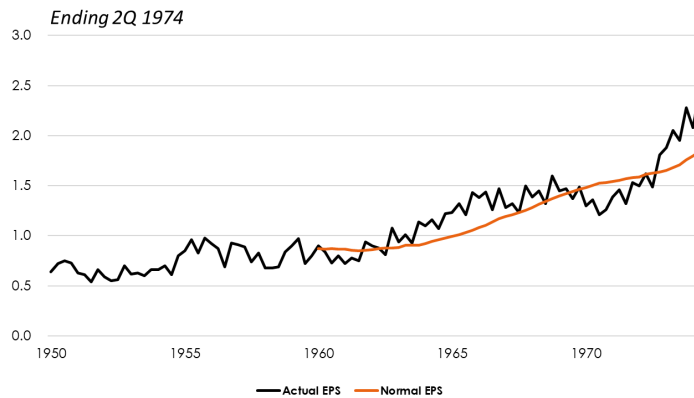
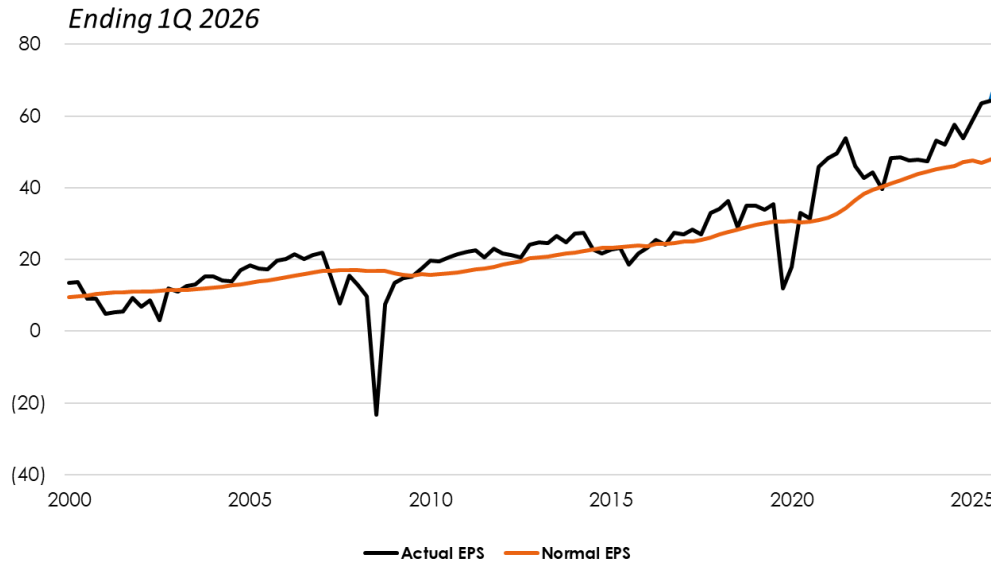
- Estimated future cash flows
 - Normal earnings
 - Growth rate
- Discount rate comprised of
 - Inflation + real T-bill yield + term premium + risk premium
- Value is discounted value of future cash flows
- Adjustments to value
 - Monetary stimulus/restraint
 - Earnings strength

Normal EPS

Book value multiplied by adjusted ROE



Normal vs Actual Earnings Examples

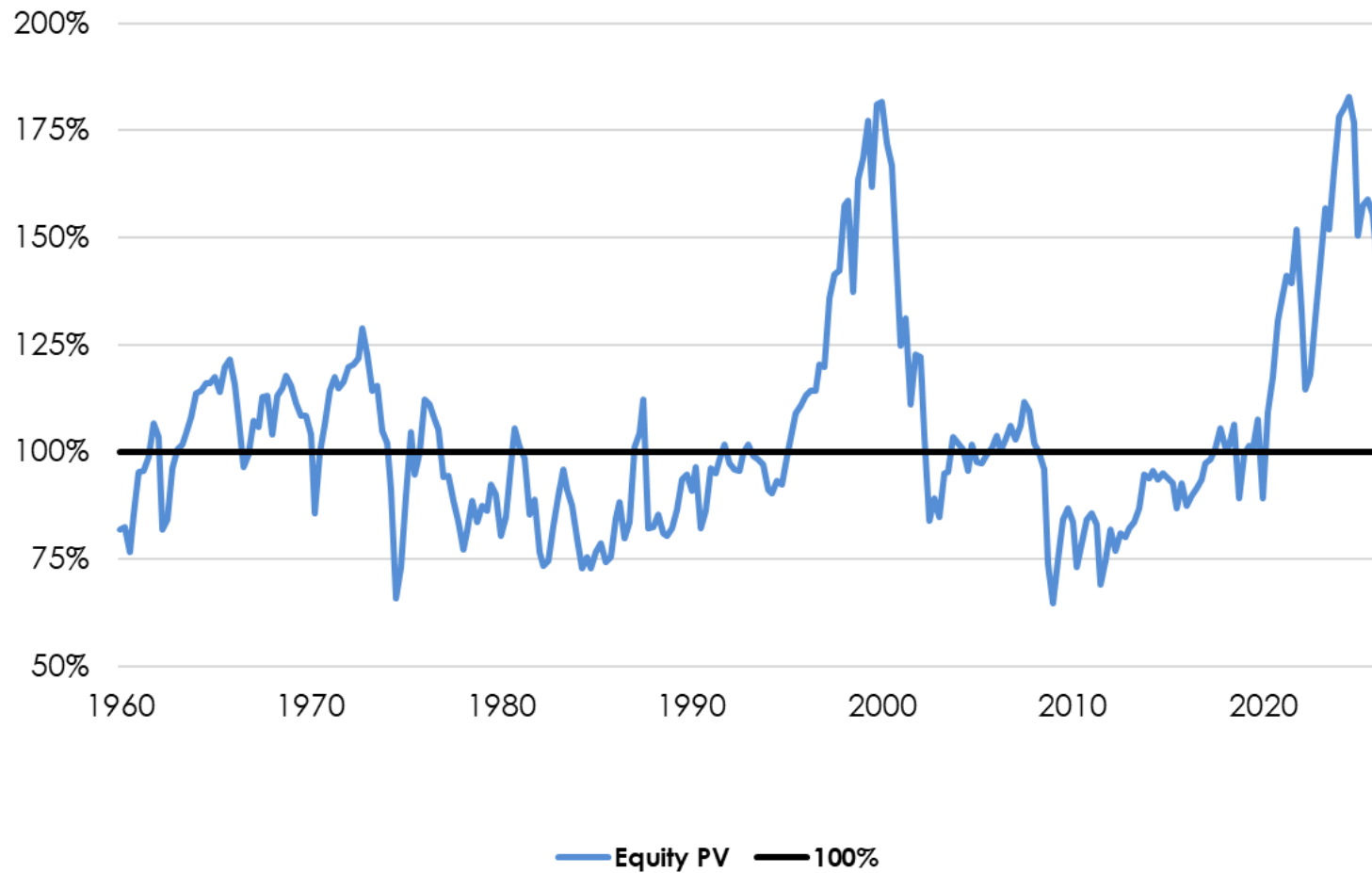


Discount Rate

Discount rate used for valuation is comprised of the following normalized components:

- Real T-bill yield
- Expected inflation
- T-bill to 10-year term premium
- 10-year to 30-year term premium
- Equity risk premium

Equity Price to Value



Asset Allocation Implementation

- Equity-like and bond-like risk
 - Meaningfully cheap or expensive to initiate over or under-weight
 - Move back toward fair value to remove over or under-weight
 - Several steps between the benchmark and minimum and maximum levels
- Other category over and under-weights depend on valuation relative to risk mapping
 - Equity-like, bond-like, and cash-like risk is offset by adjusting weight of stocks, bonds, or cash



South Dakota Retirement System

Review of Long-Term Benefit Goals

June 10, 2026



Mission and Vision

- **SDRS Mission Statement:**

- To responsibly manage a **financially sustainable system** within fixed resources and prepare our members for retirement.

- **SDRS Vision:**

- To be a model retirement system that is fully funded, delivers benefits that meet our **long-term benefit goals**, and provides members the foundation to achieve financial security during retirement.

Funding and Long-Term Benefit Goals

- SDRS has a long history of establishing and assessing long-term goals, including specific benefit and funding goals:
 - **Remaining sustainably funded remains paramount**
 - Benefit goals provide a benchmark for benefit adequacy and inform decisions on benefit improvements and adjustments
 - Assessment most effective when not currently in funding surplus or crisis
- Objectives today:
 - Review the current goals
 - Assess current benefits compared to goals
 - Consider appropriateness of goals
 - Identify potential changes to goals

**BOARD
FEEDBACK
REQUESTED**



Benefit Goals Context – Fiduciary Duty

- Duty of Loyalty – acting exclusively for members and beneficiaries:
 - Serve all members/beneficiaries, set aside personal/appointing interests, avoid conflicts/self-dealing, ensure reasonable plan expenses
- Duty of Prudence – acting with skill, care, and caution:
 - Prepare, attend meetings, ask questions, document decisions
- Duty to Follow the Plan:
 - Administer “by the book”, interpret consistently, document decisions



Implications for Benefit Goals

- SDRS is funded with fixed contribution rates:
 - Funding must remain sustainable within the fixed budget
- SDRS includes active, inactive, and retired Foundation and Generational members that are Class A, Public Safety, and Judicial:
 - Benefit features should be balanced and not favor one group over another
 - COLA process and assumptions should be sustainable and equitable, and not unfairly favor one generation of retirees over another



Long-Term Benefit Goals

- Long-term benefit goals were last updated in 2021 and include:
 - **Retirement Income from SDRS**
 - Additional Member Savings
 - **Total Retirement Income**
 - Normal Retirement Age
 - Early Retirement Benefits
 - **Cost-of-Living Adjustment**
 - Disability Income
 - Family Benefits/Pre-Retirement Death
 - Death After Retirement
 - Enhanced Portability
 - Minimum Total Payments
 - **Sustainability**
 - Tax Qualified Status
 - Member Issues

- **Goal:**

- Maintain and enhance likelihood of sustainability of SDRS to preserve current benefit structure

- **Current Provisions:**

- Numerous inequities, subsidies, and provisions that resulted in higher-than-anticipated costs have been addressed
- Variable benefit features adopted and expanded
- Risk analysis continuously expanded and improved
- Contingency plan periodically updated and implemented when necessary

- **Assessment:**

- Goals achieved, but additional sustainability initiatives will continue to be evaluated



Total Retirement Income

- **Goal:**

- Educate, advise, and encourage members to plan for a total retirement income replacement goal of 80% to 85% of FAC, including SDRS, Social Security, and income from personal savings

- **Assessment:**

- Education and promotion goal achieved and ongoing
- Multiple savings opportunities offered (SRP – traditional and Roth, SPB, SPP)
- Almost all career SDRS members will currently meet this standard based on retirement at normal retirement age and achieving the personal savings goal



Total Retirement Income Needed

- 80-85% of Final Average Compensation (FAC) is **benchmark**
- However, each member has a **unique target** considering:
 - Ceasing contributions to SDRS, Social Security, and personal savings
 - Taxes before and after retirement
 - Spendable income, spending patterns, and expenses pre- and post-retirement
 - Health
 - Lifestyle in retirement
 - Debt
 - Financial obligations to children, parents, grandchildren
 - Home ownership



Retirement Income from SDRS

- **Goal:**

- Lifetime income of at least 50% of Final Average Compensation (FAC) at Normal Retirement for career members and proportionately less for shorter careers. Career members defined as:

- Class A 30-year career (1.67% per year)
 - Public Safety 25-year career (2.00% per year)
 - Judicial 20-year career (2.50% per year)

- **Current Provisions:**

- Benefit formulas with higher multipliers for service before 2008, different by member class, and different for Foundation and Generational members:



Retirement Income from SDRS

Observations and Issues

- Class A Foundation member goal shortfall varies based on service before and after 2008:
 - 30 years after 2008: $(1.55\% \times 30) = 46.5\%$, 93% of goal
 - 18 years after 2008: $(1.55\% \times 18) + (1.7\% \times 12) = 48.3\%$, 96.6% of goal
 - Goal for Class A Foundation members could be achieved with 31.25 to 32.25 years of service
- Goal achieved for Class B Foundation members and all Generational members
- Are “career member” definitions still appropriate?



Retirement Income from SDRS Current Class A Benefit Recipients

Class A Benefits Compared to Career 50% Multipliers

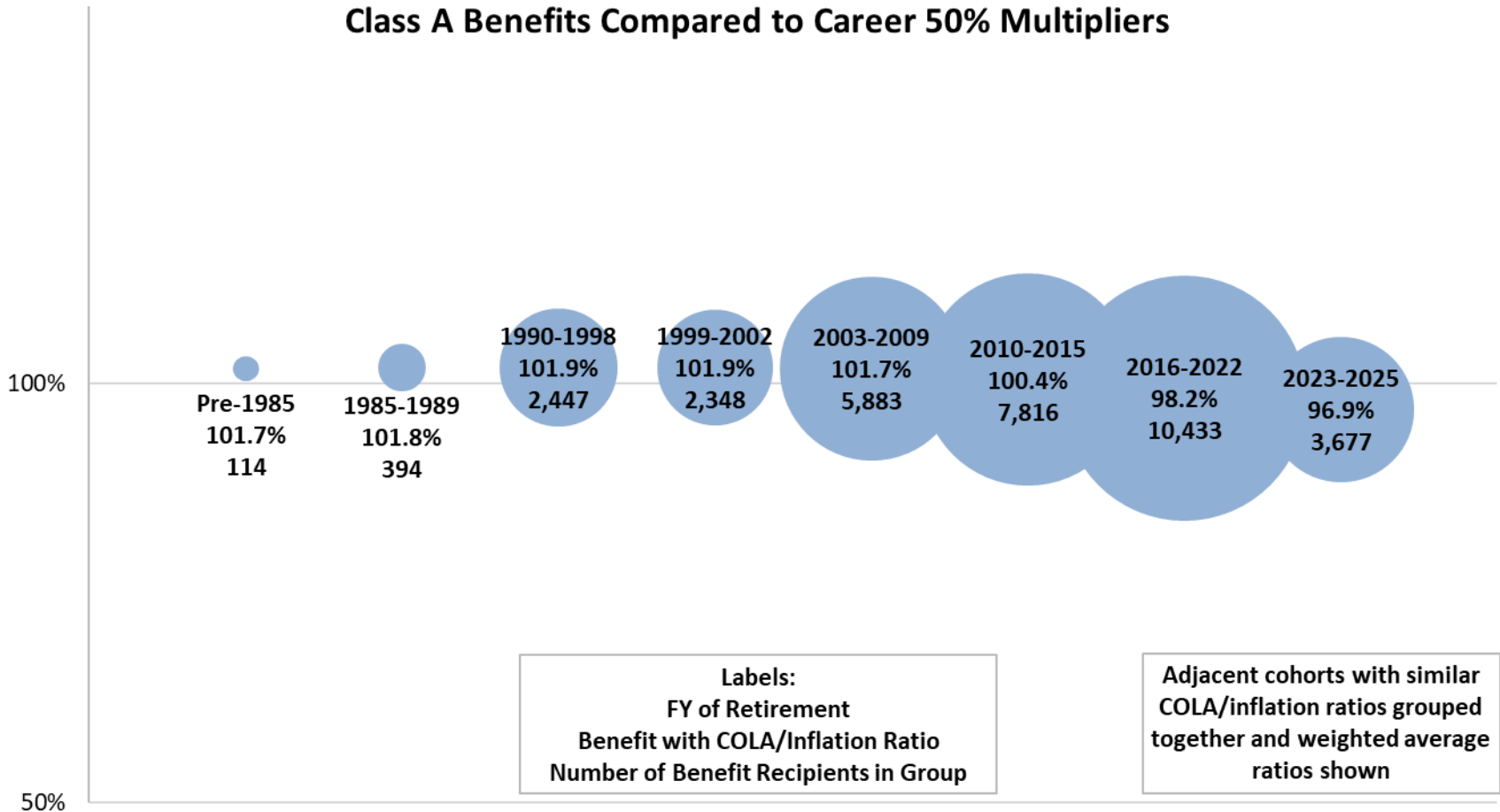


Exhibit only includes Foundation members and only considers Class A service. An average multiplier of 1.67% would result in Class A members earning a benefit equal to 50% of FAC over the 30-year Class A career definition.



Retirement Income from SDRS

Current Public Safety Benefit Recipients

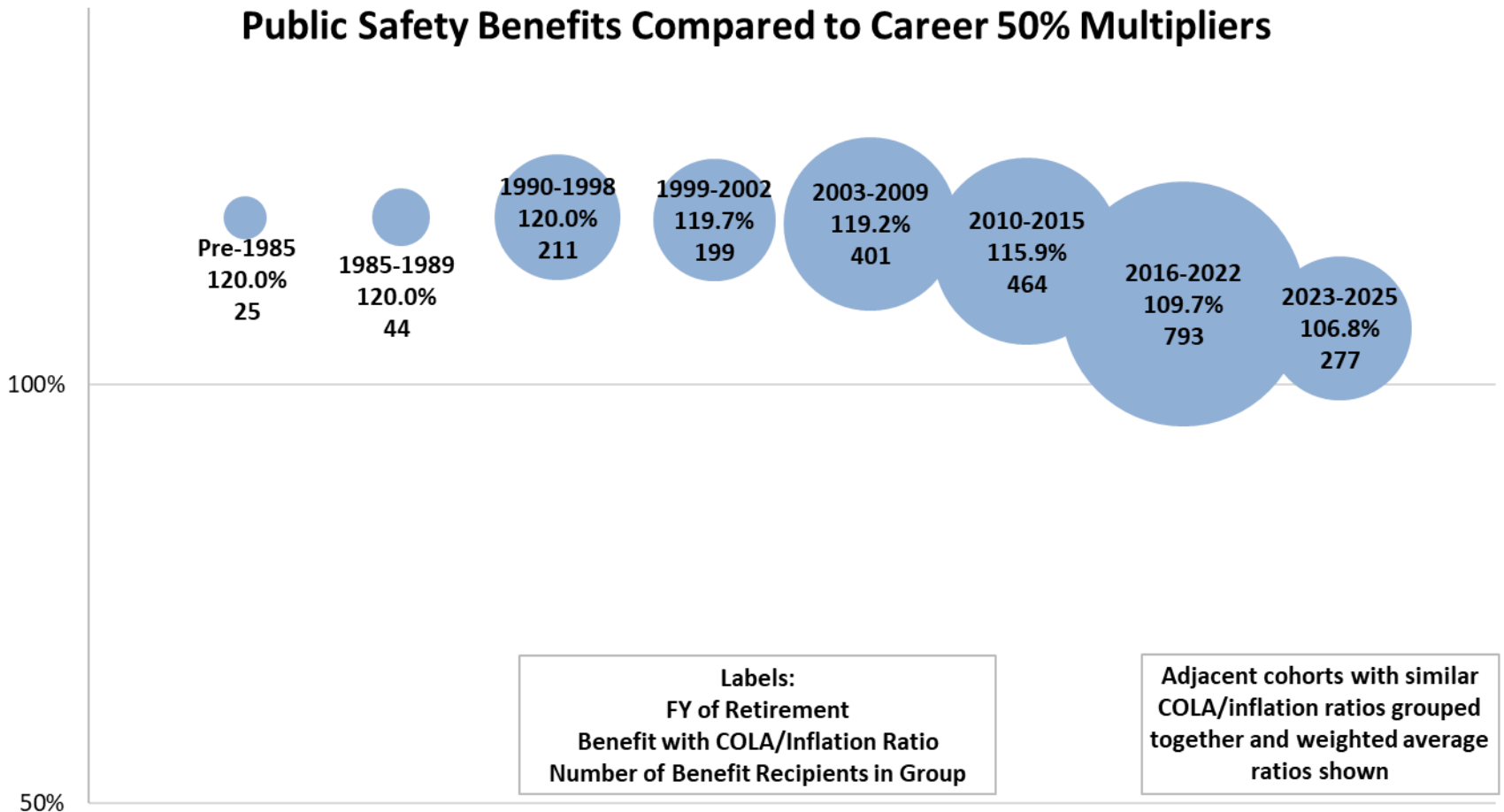


Exhibit only includes Foundation members and only considers Public Safety service. An average multiplier of 2.0% would result in Public Safety members earning a benefit equal to 50% of FAC over the 25-year Public Safety career definition.



Retirement Income from SDRS

- **Goal:**

- Lifetime income of at least 50% of Final Average Compensation (FAC) at Normal Retirement for career members and proportionately less for shorter careers. Career members defined as:

- Class A 30-year career (1.67% per year)
 - Public Safety 25-year career (2.00% per year)
 - Judicial 20-year career (2.50% per year)

- **Current Provisions:**

- Benefit formulas with higher multipliers for service before 2008, different by member class, and different for Foundation and Generational members:

- **Assessment:** Varies by Foundation/Generational (percentage of goal)

	<u>Foundation</u>	<u>Generational</u>
▪ Class A	93% - 96.6%	>100% + VRA*
▪ Public Safety	≥100%	100% + VRA
▪ Judicial	>100%	>100% + VRA

* Variable Retirement Account



Additional Member Savings

- **Goal:**

- Educate and encourage members to accumulate personal savings of at least 100% of annual pay at retirement

- **Assessment:**

- Education and promotion goal achieved and ongoing
- Multiple savings opportunities offered (SRP – traditional and Roth, SPP)
- Estimated savings rate to accumulate over career to 100% of pay at retirement:
 - Class A: 2.1%
 - Public Safety: 2.8%
 - Judicial: 3.9%



Spendable Income Analysis

- Determine **spendable income before retirement** and calculate gross retirement income needed to **match spendable income**, allowing career members to maintain their standard of living in retirement, assuming:
 - Spendable income reflects actual expenses before retirement with no significant increase in expenses during retirement
 - Inflation protection provided after retirement
- Spendable income is determined by considering:
 - While working, contributions to SDRS, Social Security, and retirement savings
 - While retired, income from SDRS, Social Security, and retirement savings
 - Federal income taxes before and after retirement
- Spendable income approach avoids **common planning mistake** of comparing gross income after retirement to net income before retirement



Example Spendable Income Analysis – Before Retirement

- Average spendable income during FAC period:

	<u>No Personal Savings</u>	<u>With Personal Savings</u>
– Final Average Compensation	\$76,000	\$76,000
– Less SDRS contributions	- 4,560	- 4,560
– Less Social Security/Medicare Taxes	- 5,814	- 5,814
– Less retirement savings	<u>N/A</u>	<u>- 1,596</u>
– Net income	\$65,626	\$64,030
– Less Federal income taxes	<u>- 6,887</u>	<u>- 6,536</u>
– Pre-Retirement Spendable income	\$58,739	\$57,494

- Member needs **\$58,739** (no savings) or **\$57,494** (with savings) of spendable income after retirement to equal spendable income before retirement



Example Spendable Income Analysis – After 2026 Retirement

- Spendable income calculation (Class A Foundation member, \$76,000 FAC, 30 years of service, age 65):

	No Personal Savings	With Personal Savings
– SDRS Benefit	\$36,708	\$36,708
– Social Security Benefit	22,350	22,350
– Benefit from savings	<u>N/A</u>	<u>4,296</u>
– Gross retirement income	\$59,058	\$63,354
– % of FAC	77.7%	83.4%
– Less Federal income taxes	<u>- 4,259</u>	<u>- 4,774</u>
– Post-Retirement Spendable income	\$54,799	\$58,580
– Change in spendable income	- 6.7%	+ 1.9%

- Spendable income after retirement will vary with FAC:
 - \$52,500 FAC: 2.3% decrease (no savings), 6.5% increase (with savings)
 - \$122,000 FAC: 9.1% decrease (no savings), 0.9% decrease (with savings)

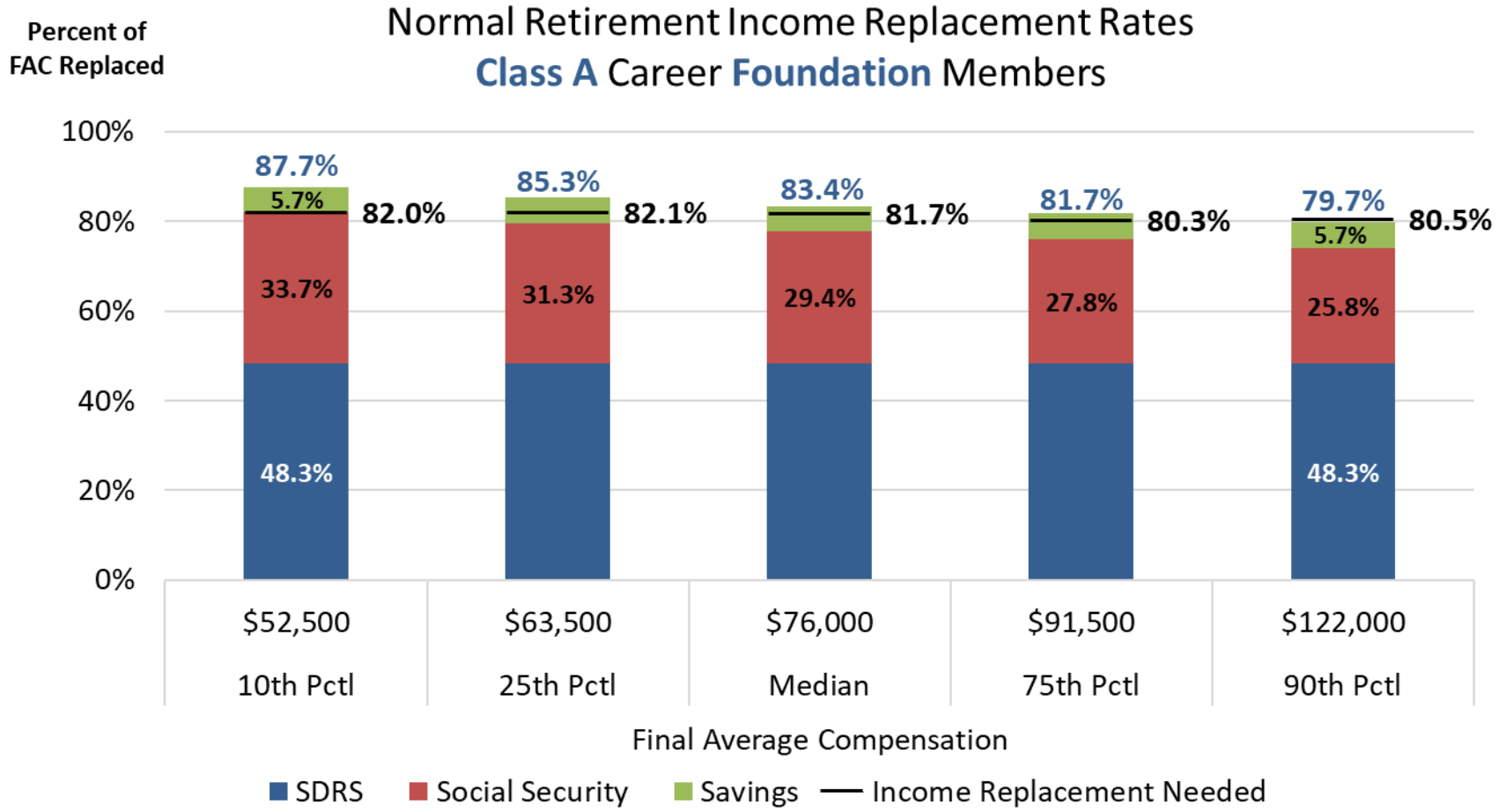


Spendable Income Analysis – Benefit Adequacy

- Total retirement income of **80-85% of FAC** will replace pre-retirement spendable income
- **Adequacy assessment** should include benefits available from SDRS, Social Security, and personal savings
- The following charts show benefit adequacy assuming members:
 - Meet career service criteria
 - Retire at SDRS normal retirement age in 2026 for Foundation members and at normal retirement age for Generational members
 - Achieve savings goal of 100% of pay at retirement (required savings rate: Class A: 2.1%, Public Safety: 2.8%, Judicial: 3.9%)
 - Commence Social Security benefits at retirement (except for Public Safety members)

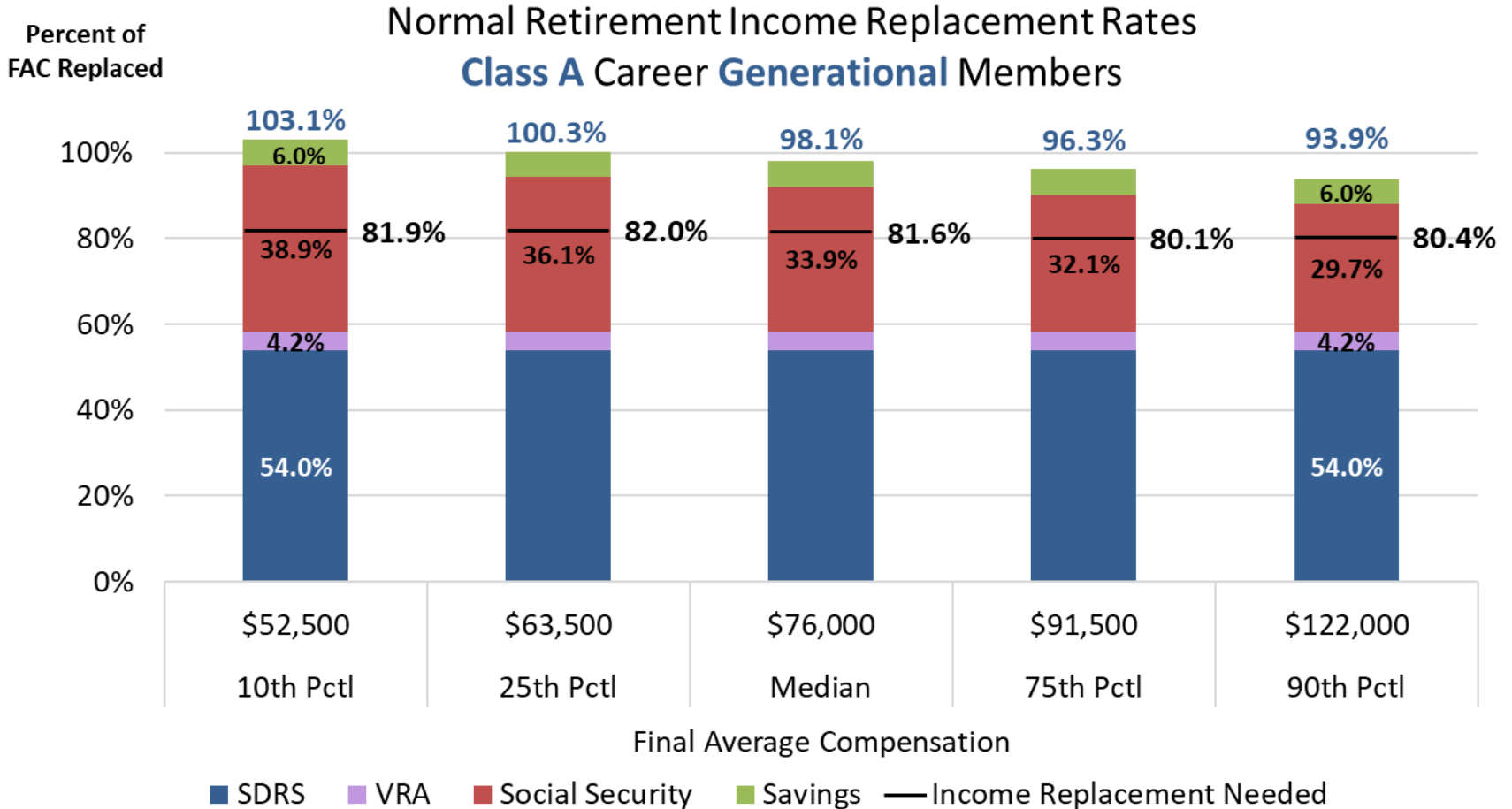


Class A Foundation Members Retirement at Age 65



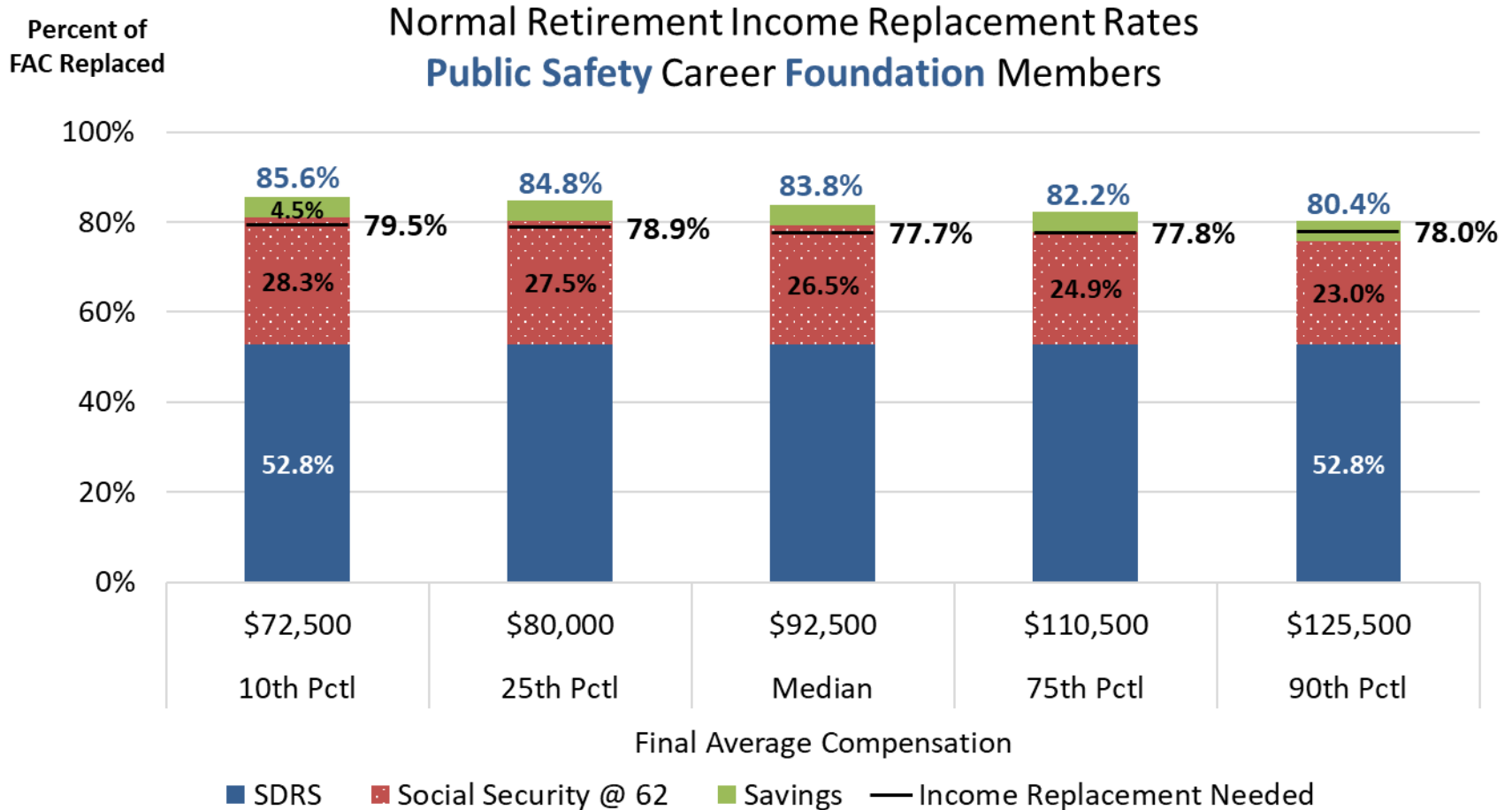


Class A Generational Members Retirement at Age 67



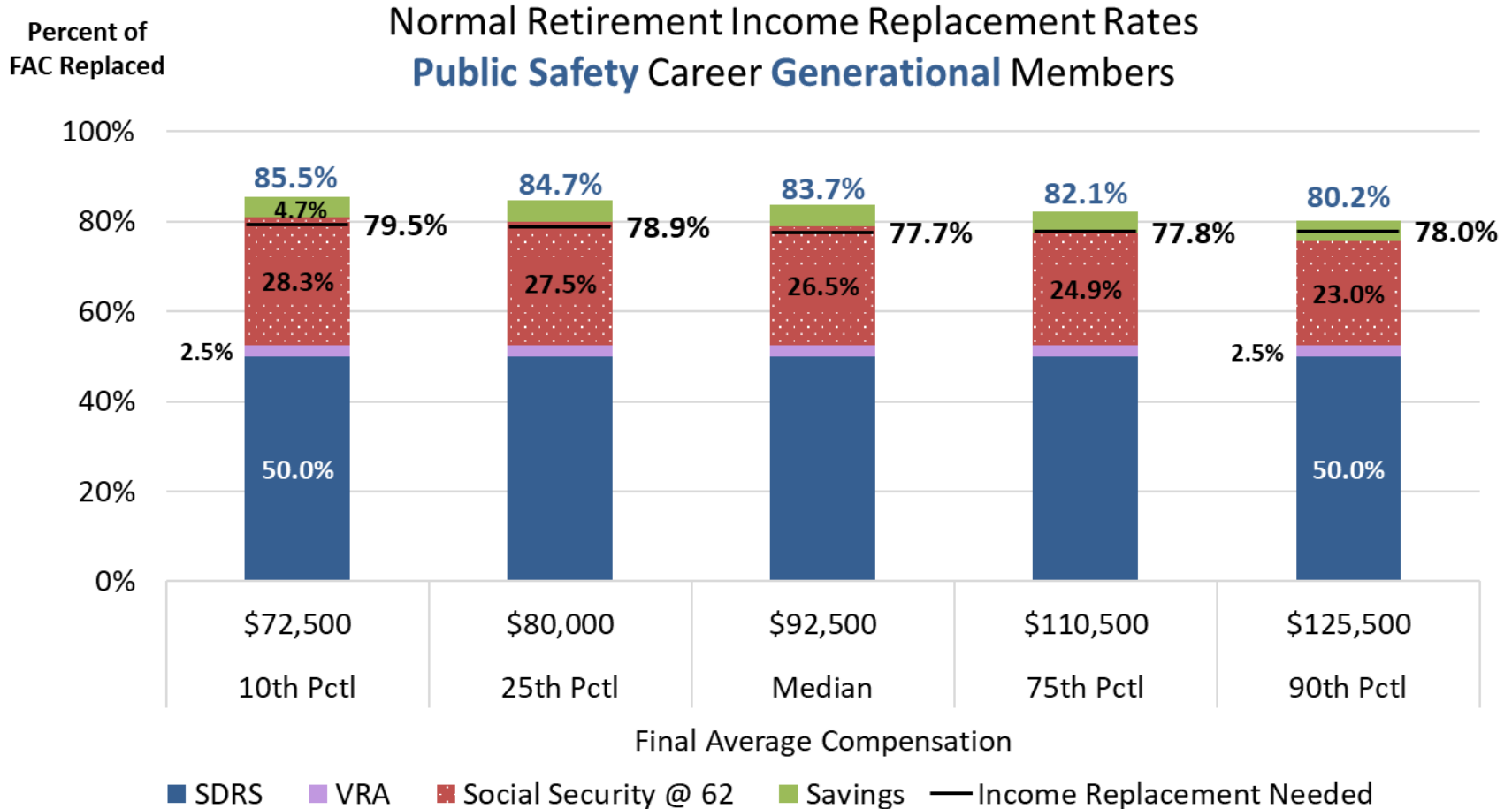


Public Safety Foundation Members Retirement at Age 55



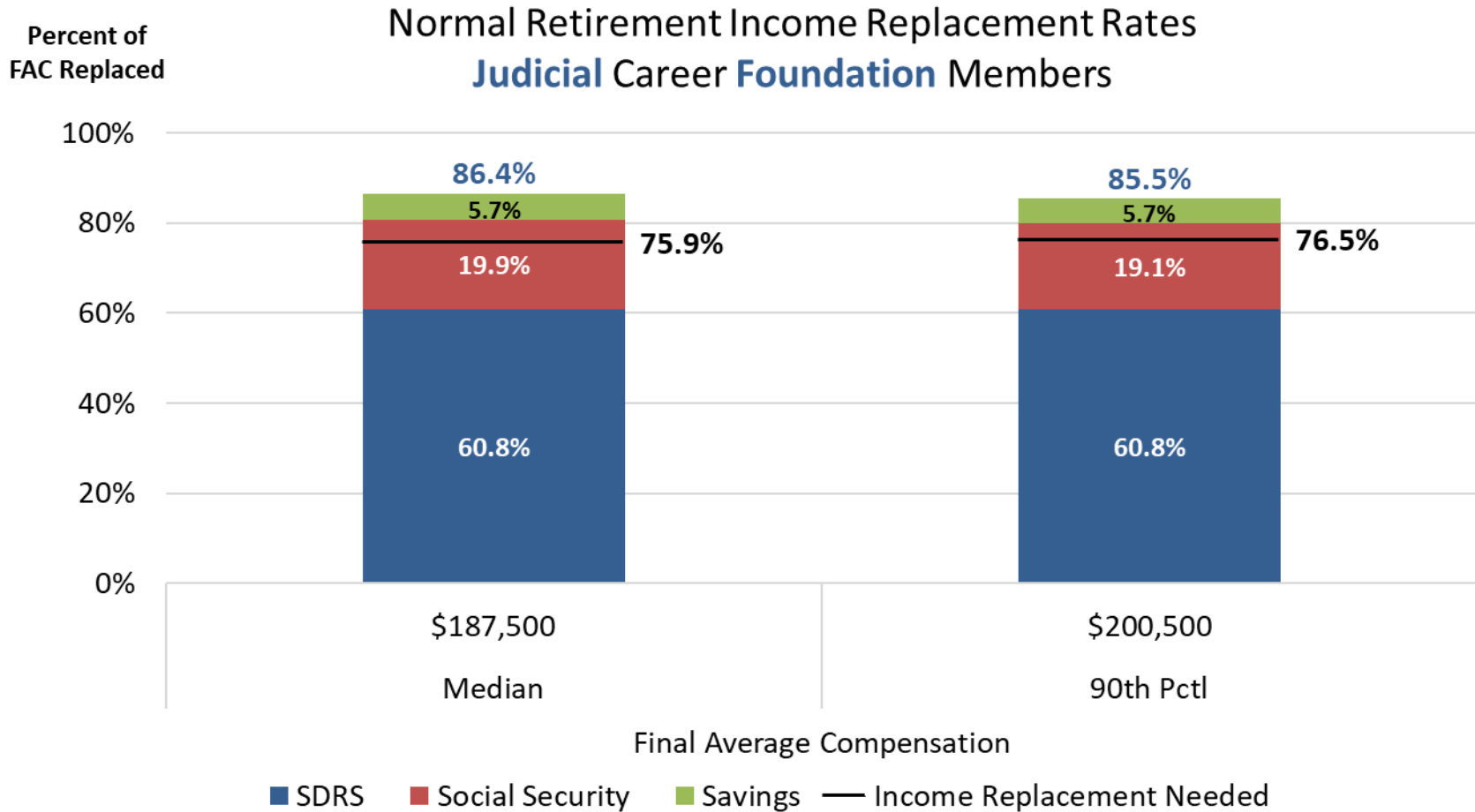


Public Safety Generational Members Retirement at Age 57



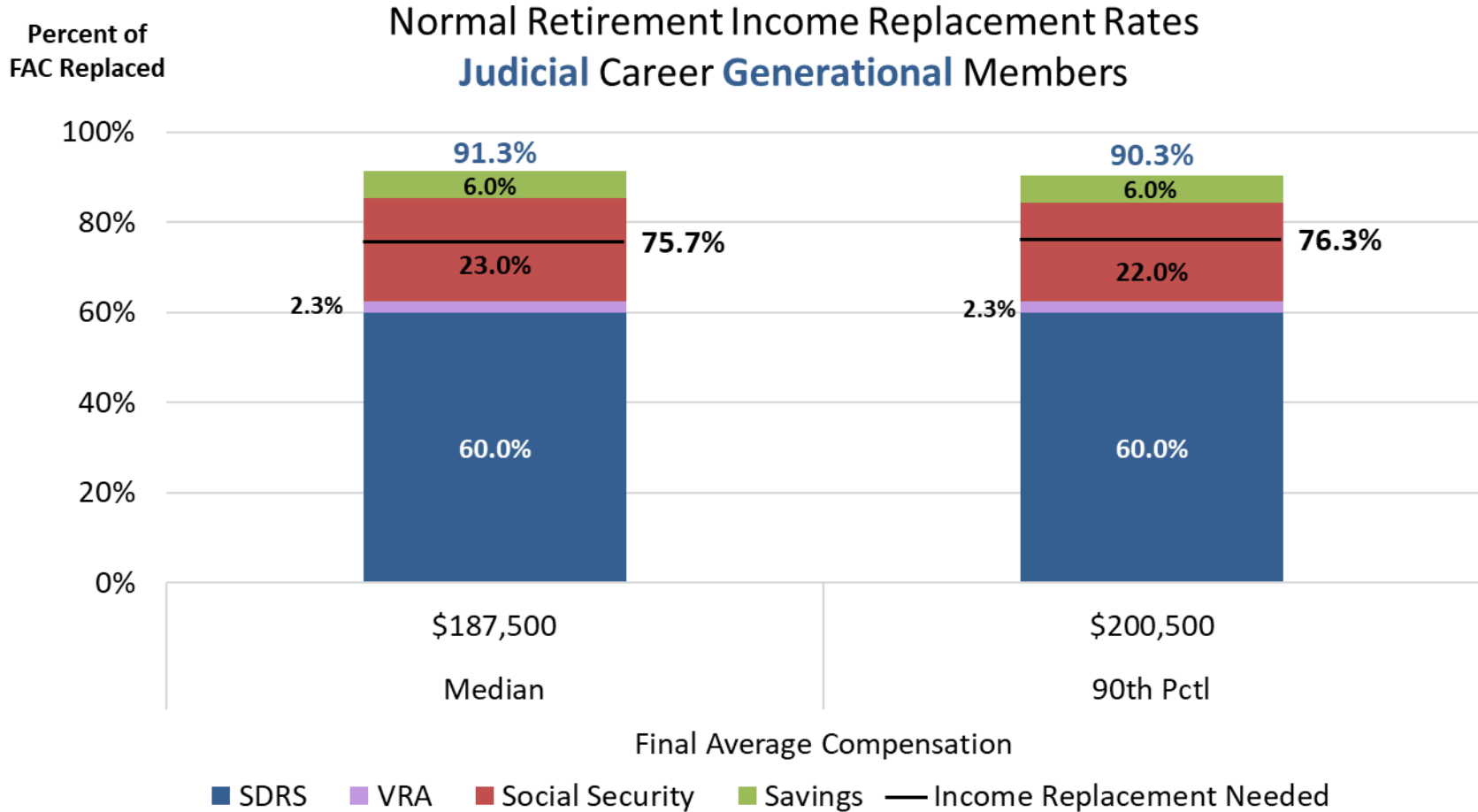


Judicial Foundation Members Retirement at Age 65





Judicial Generational Members Retirement at Age 67





Benefit Adequacy Conclusions

- **Most SDRS career retirees will currently match or exceed spendable income at retirement** based on retirement at normal retirement age and meeting savings goal
- The **SDRS COLA** is important to maintaining standard of living
- Income replaced by SDRS benefits for future Foundation retirees **will continue to gradually decline** due to unimproved benefits since 2008
- Public Safety normal retirements at age 55/57 and other early retirements will not have Social Security benefits available until age 62
- Similarly, SDRS adequacy goals are based on members retiring at 65/67; **earlier retirement** (particularly before Social Security eligibility at age 62) **is not a reality for most members** without substantial savings or work after retirement



Other Benefit Adequacy Thoughts

- Spendable income analysis provides **objective starting point**
- **One size doesn't fit all** – SDRS should continue to encourage each member to establish individual goals based on their unique circumstances
- Expenses will change after retirement and will vary for each member:
 - Health care costs after retirement can be substantial and generally increase with age, even with Medicare limiting expenses
 - Surveys of retirement spending indicate that total spending in retirement tends to decrease with age until at least age 80 at a rate of 1-2% per year
 - Retirement spending may be higher in initial years of retirement due to travel and lifestyle decisions, and at older ages due to health care costs



Cost of Living Adjustment

- **Goal:**
 - Inflation protection after retirement, and after termination of employment before benefits begin
- **Current Provisions:**
 - Cost of Living Adjustment (COLA) is equal to the change in CPI-W for the prior year, with a 0% minimum and a 3.5% maximum when affordable
 - When not affordable, a lower maximum COLA applies
- **Assessment:**
 - **Goal not achieved**
 - Recent COLAs have lagged inflation, resulting in over 90% of members receiving cumulative COLA increases less than cumulative inflation

Further discussion on COLA in following presentation



Normal Retirement Age

- **Goal:**
 - Provide unreduced benefit at appropriate age, considering physical demands of Public Safety and increasing life expectancy
- **Current Provisions:**
 - Foundation: Age 65; age 55 for Public Safety
 - Generational: Age 67; age 57 for Public Safety
- **Assessment:**
 - Goal achieved



Early Retirement Benefits

- **Goals:**

- Foundation: Unreduced benefits to long-service members and subsidized reduced benefits to other members, payable 10 years prior to Normal Retirement Age (NRA)
- Generational: Non-subsidized reduced benefits payable 10 years prior to NRA, considering a higher benefit formula and Variable Retirement Account

- **Current Provisions:**

- Foundation: Rule of 85, 75, or 80 for Class A, Public Safety, and Judicial members, not earlier than age 55 (45 for Public Safety)
 - 3% per year reduction prior to earlier of normal retirement age or “Rule of” eligibility
- Generational: 5% per year reduction prior to NRA

- **Assessment:**

- Goals achieved



Disability Income

- **Goal:**
 - Lifetime income replacement of the greater of 25% of FAC or the member's earned benefit
- **Current Provisions:**
 - Same as goal
 - Generational members also receive the VRA
- **Assessment:**
 - Goal achieved: income replacement for average SDRS member will equal 67% of FAC if also eligible for disability benefits from Social Security



Family Benefits/Pre-Retirement Death

- **Goals:**

- Temporary income replacement of the greater of 25% of FAC or the member's earned benefit if eligible children survive
- Retirement income to spouse equal to 60% of the greater of FAC or the earned benefit

- **Current Provisions:**

- Same as goals
- Generational members also receive the VRA

- **Assessment:**

- Goals achieved: temporary income replacement for average SDRS member leaving two children will equal almost 100% of FAC, including benefits from Social Security



Death After Retirement

- **Goals:**

- Foundation: Lifetime income of 60% of member's benefit to surviving spouse at no cost
- Generational: Lifetime income of 60% or 100% of member's benefit to surviving spouse, if member elects, funded by a reduction in benefit considering a higher benefit formula and the VRA

- **Current Provisions:**

- Same as goals

- **Assessment:**

- Goals achieved



Enhanced Portability

- **Goal:**
 - Equitable benefits for short-service members who terminate employment before retirement
- **Current Provisions:**
 - Early vesting with COLA paid on deferred benefit (plus continued growth of VRA paid to Generational members at retirement)
 - Members can instead opt for lump-sum payment of 85% of employer contributions (50% if less than 3 years of service) plus 100% of member contributions, with credited interest
- **Assessment:**
 - Goals achieved
 - SDRS practices unusual and superior



Minimum Total Payments

- **Goal:**
 - Minimum SDRS total benefits paid of 85% of employer contributions (50% if less than 3 years of service) plus 100% of member contributions, plus credited interest
- **Current Provisions:**
 - Same as goal
- **Assessment:**
 - Goals achieved
 - SDRS practices unusual and superior



Tax Qualified Status

- **Goal:**
 - Preserve tax qualified status to continue favorable tax treatment for members
- **Current Provisions:**
 - SDRS has received a favorable determination letter from the IRS confirming qualified status
 - Recent initiatives adopted to meet changing IRS requirements and regulations
- **Assessment:**
 - Goals achieved, but ongoing effort is required as new regulations issued
 - Outside expert legal counsel retained

- **Goal:**

- Identify and formalize additional initiatives to meet goals, modify goals, or add new goals

- **Current Provisions:**

- Initiatives identified include expansion of VRA, enhanced defined benefits, and one-time or temporary benefit increases when, and if, affordable

- **Assessment:**

- No new initiatives in recent years. Contingency planning identified the following objectives for benefit improvements:
 - Consider shortfalls compared to long-term benefit goals
 - Include active, inactive, and retired members and treat groups consistently
 - Avoid substantive additional fixed benefit obligations
 - Maximize risk-mitigation impact of any improvements
 - Consider unimproved service (service after 2008)

- Most goals have been achieved
- Cost-of-Living Adjustment (COLA) goal not met for most benefit recipients
- Sustainability requires constant monitoring

**BOARD
FEEDBACK
REQUESTED**



South Dakota Retirement System

Review of Long-Term Benefit Goals COLA Discussion

June 10, 2026



Mission and Vision

- **SDRS Mission Statement:**

- To responsibly manage a **financially sustainable system** within fixed resources and prepare our members for retirement.

- **SDRS Vision:**

- To be a model retirement system that is fully funded, delivers benefits that meet our **long-term benefit goals**, and provides members the foundation to achieve financial security during retirement.



Benefit Goals Context – Fiduciary Duty

- Duty of Loyalty – acting exclusively for members and beneficiaries:
 - Serve all members/beneficiaries, set aside personal/appointing interests, avoid conflicts/self-dealing, ensure reasonable plan expenses
- Duty of Prudence – acting with skill, care, and caution:
 - Prepare, attend meetings, ask questions, document decisions
- Duty to Follow the Plan:
 - Administer “by the book”, interpret consistently, document decisions



Implications for Benefit Goals

- SDRS is funded with **fixed contribution rates**:
 - Funding must remain sustainable within the fixed budget
- SDRS includes active, inactive, and retired Foundation and Generational members that are Class A, Public Safety, and Judicial:
 - Benefit features should be balanced and **not favor one group over another**
 - COLA process and assumptions should be sustainable and equitable, and not unfairly favor one generation of retirees over another



Cost of Living Adjustment

- **Goal:**
 - Inflation protection after retirement, and after termination of employment before benefits begin
- **Current Provisions:**
 - Cost of Living Adjustment (COLA) is equal to the change in CPI-W for the prior year, with a 0% minimum and a 3.5% maximum when affordable
 - When not affordable, a lower maximum COLA applies
- **Assessment:**
 - **Goal not achieved**
 - Recent COLAs have lagged inflation, resulting in over 90% of members receiving cumulative COLA increases less than cumulative inflation

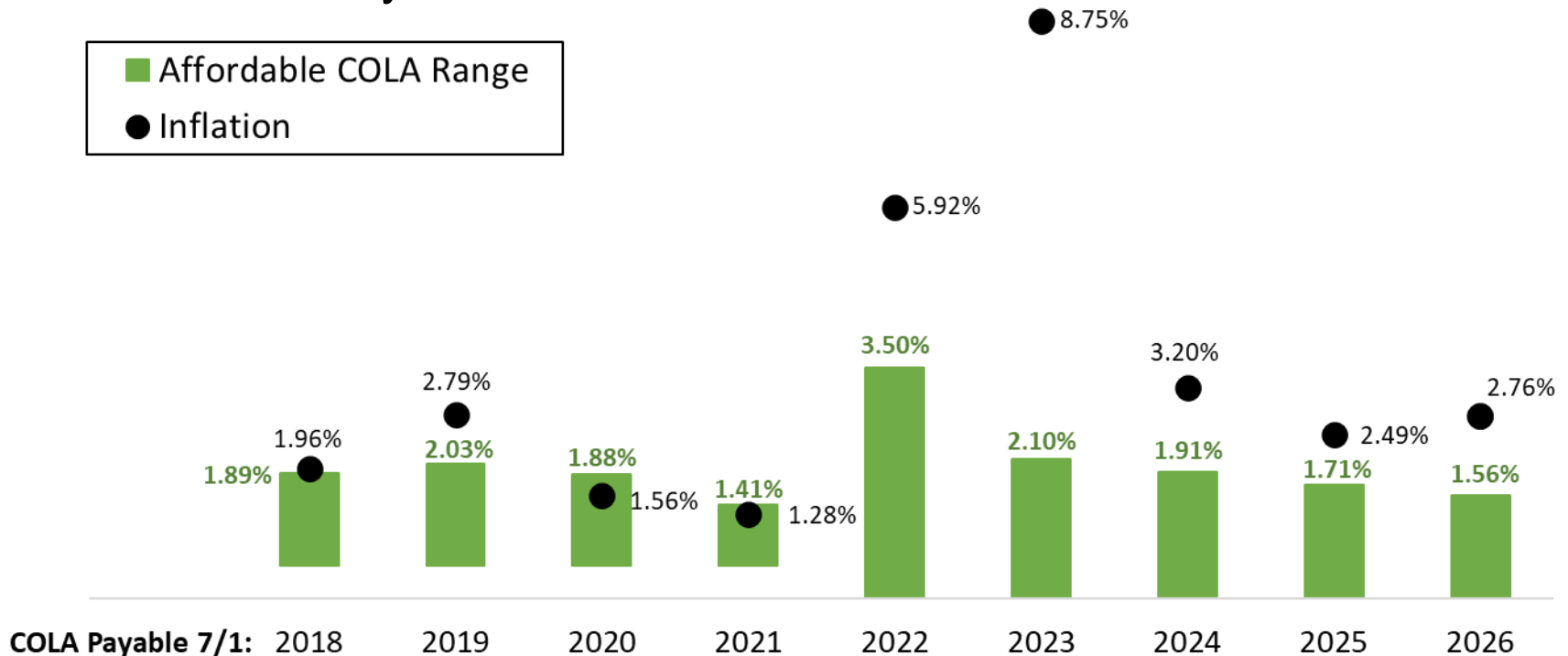


COLA Goal and Expectations

- Prior to 2021, the COLA goal was “...**limited** inflation protection...” (until 2019) or “...**partial** inflation protection...”
 - The qualifying adjective was removed in 2021, referring to the goal as an ideal that may not always be fulfilled
 - The presentation also discussed the need for clear communication to manage expectations for the COLA
- Periodic comparisons of COLAs and inflation have emphasized that recent COLAs have lagged inflation
- Nationwide, **no state retirement system’s COLA has consistently matched inflation:**
 - With the lowest spending on pensions in the nation, the SDRS COLA cannot match inflation in all periods

Historical COLA Ranges

- Under the current COLA process, the full COLA range has only been affordable for the 2022 COLA
- The 2026 restricted maximum COLA is 1.56%, less than inflation for the fifth consecutive year





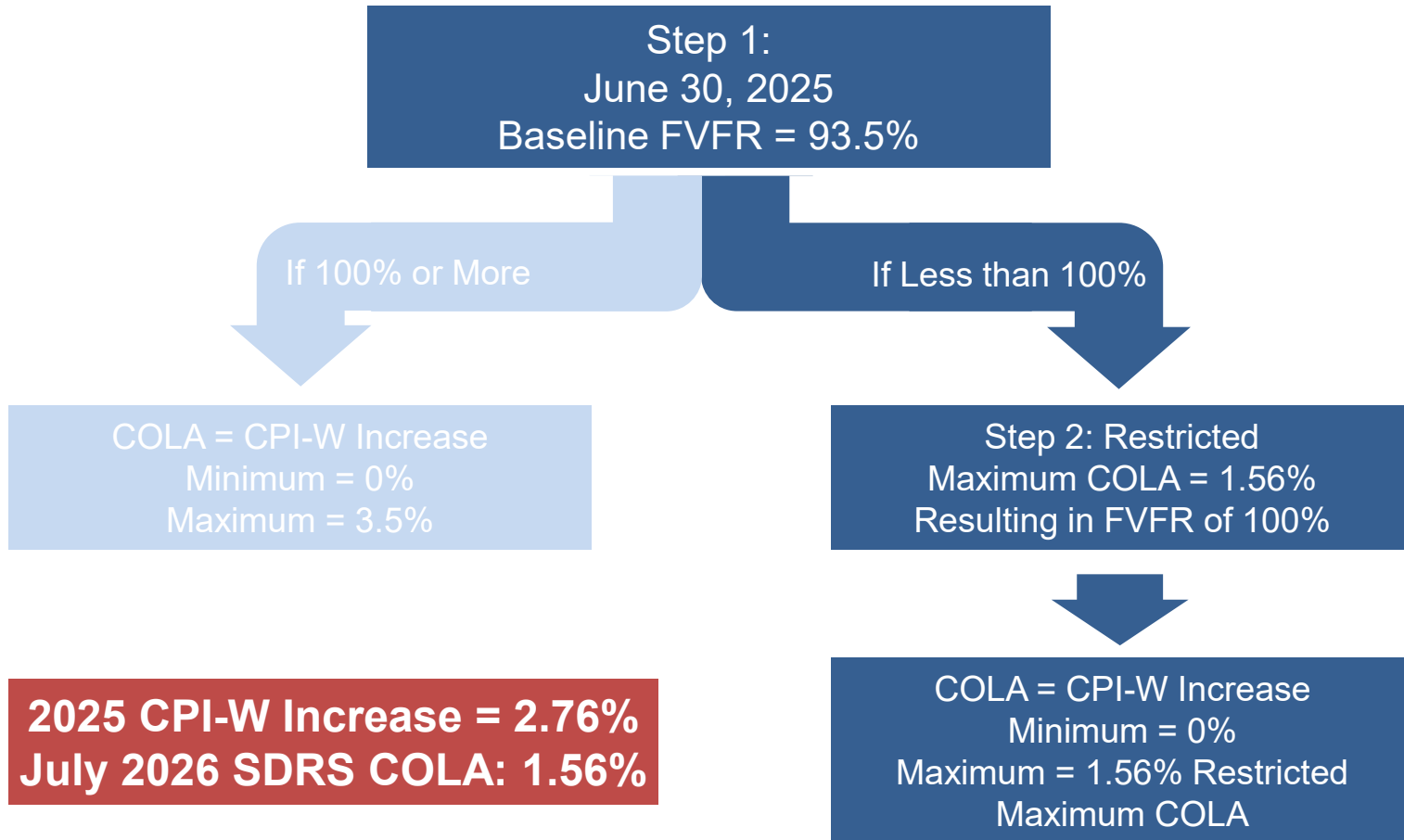
Recent Gains and Losses

- Since the 2018 COLA, the maximum affordable COLA varies each year based on investment and liability gains and losses – gains increase future years’ maximum COLAs; losses reduce future maximum COLAs

	<u>All Eight Years</u>		<u>Last Five Years</u>	
	<u>Total</u>	<u>Average</u>	<u>Total</u>	<u>Average</u>
Investment Gains/(Losses)	(\$118M)	(\$15M)	\$525M	\$105M
Salary Gains/(Losses)	(\$447M)	(\$56M)	(\$542M)	(\$108M)
COLA Gains/(Losses)	(70M)	(9M)	(95M)	(19M)
Other Liability Gains/(Losses)	<u>(119M)</u>	<u>(15M)</u>	<u>(34M)</u>	<u>(7M)</u>
Total Liability Gains/(Losses)	(\$636M)	(\$80M)	(\$671M)	(\$134M)
2022 Assumption Changes	\$215M	\$27M	\$215M	\$43M
Contribution Impact*	\$128M	\$16M	\$85M	\$17M
Total Gains/(Losses)	(\$369M)	(\$46M)	\$196M	\$39M

* In years when a restricted maximum COLA applies, the fixed contribution rates result in slight upward pressure on future years’ COLAs.

July 2026 COLA Calculation



- **Current Provisions:**

- Cost of Living Adjustment (COLA) is equal to the change in CPI-W for the prior year, with a 0% minimum and a 3.5% maximum when affordable
- When the full range is not affordable, the maximum COLA is reduced to the highest percentage that can be paid for the lifetimes of all SDRS members while remaining fully funded

- The purpose of the statutory COLA process is to limit the COLA to a **long-term sustainable percentage:**

- Absent asset or liability gains and losses, the COLA would remain stable from year to year
- When the full range is not affordable, the COLA process pays the maximum sustainably affordable COLA each year, based on current asset and liability information



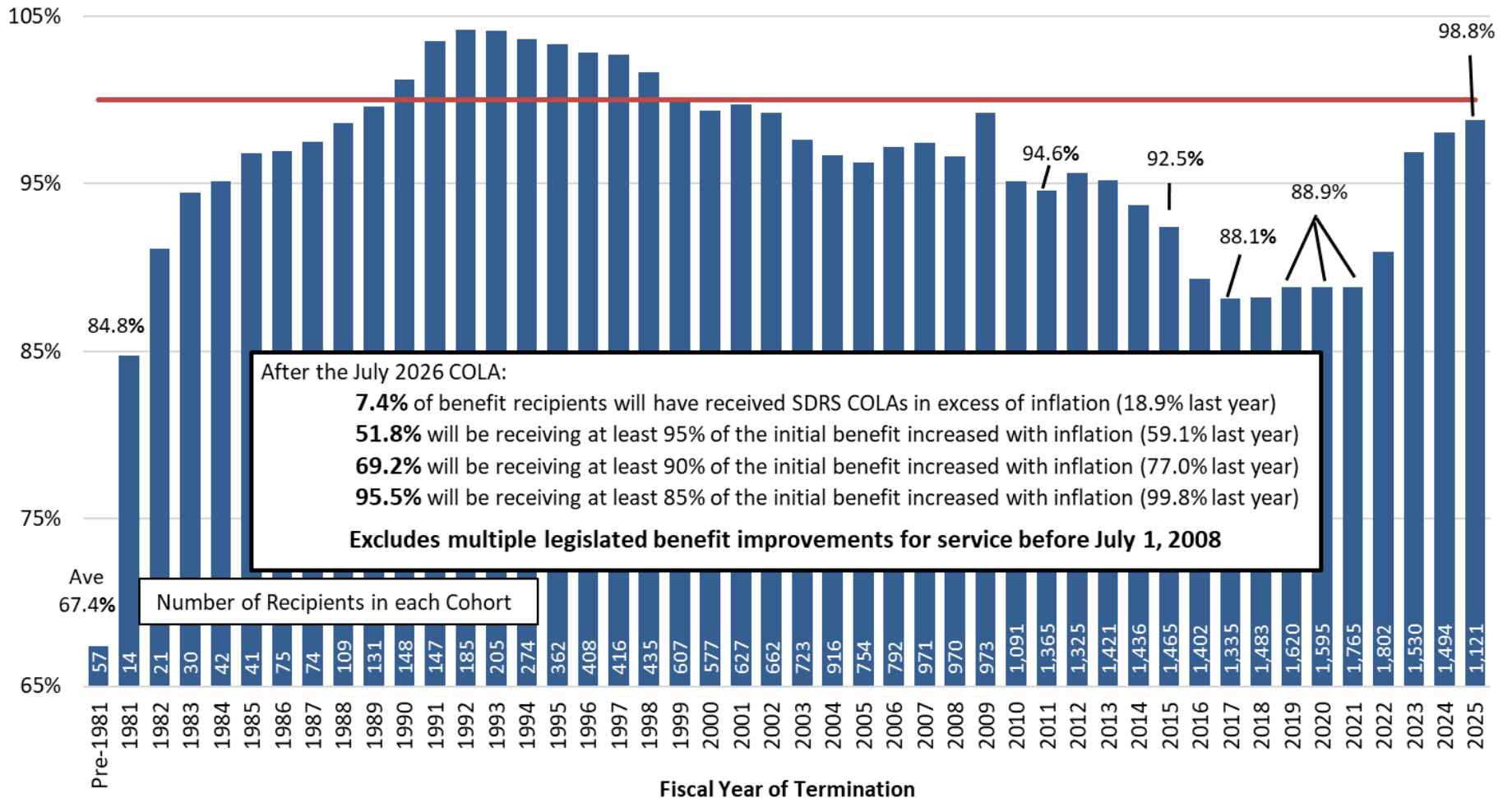
Cost of SDRS COLAs

- COLAs add significant cost to retirement benefits:
 - When the full COLA range is affordable, the COLA accounts for approximately **20% of SDRS costs** – liabilities of roughly \$3.1B and annual contributions of roughly \$73M
 - At the current 1.56% COLA, the COLA accounts for approximately **13% of SDRS costs** – liabilities of roughly \$2.0B and annual contributions of roughly \$47M
- Annual benefit payments will be approximately \$800 million in FY26:
 - At the 1.56% COLA, liabilities for benefit recipients are about \$9.2B
 - A one-time COLA increase of 1% would add roughly \$92M to SDRS liabilities

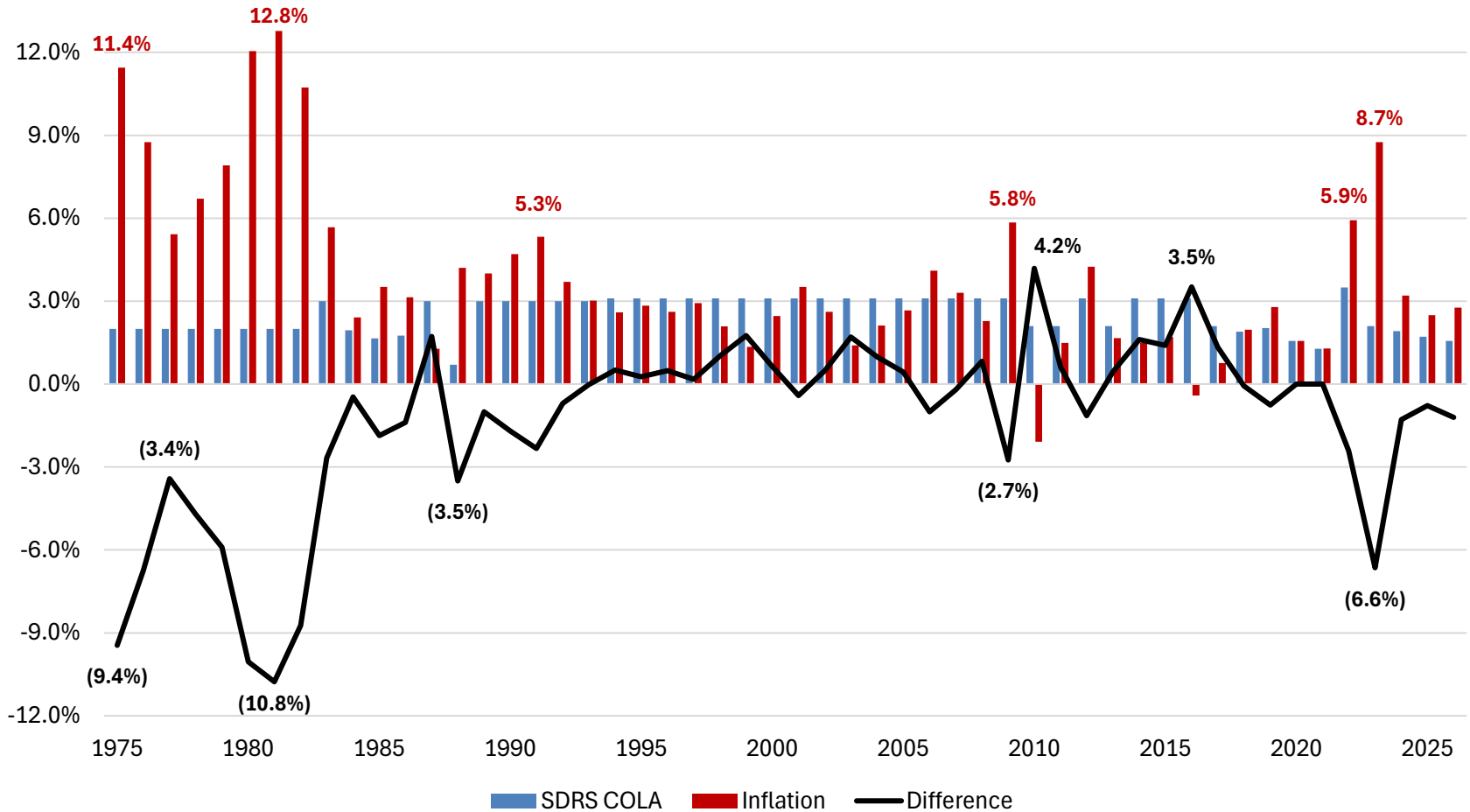


Cumulative Inflation and SDRS COLAs through July 2026 COLA

Ratio of Current SDRS Benefit to Initial Benefit Increased with Inflation



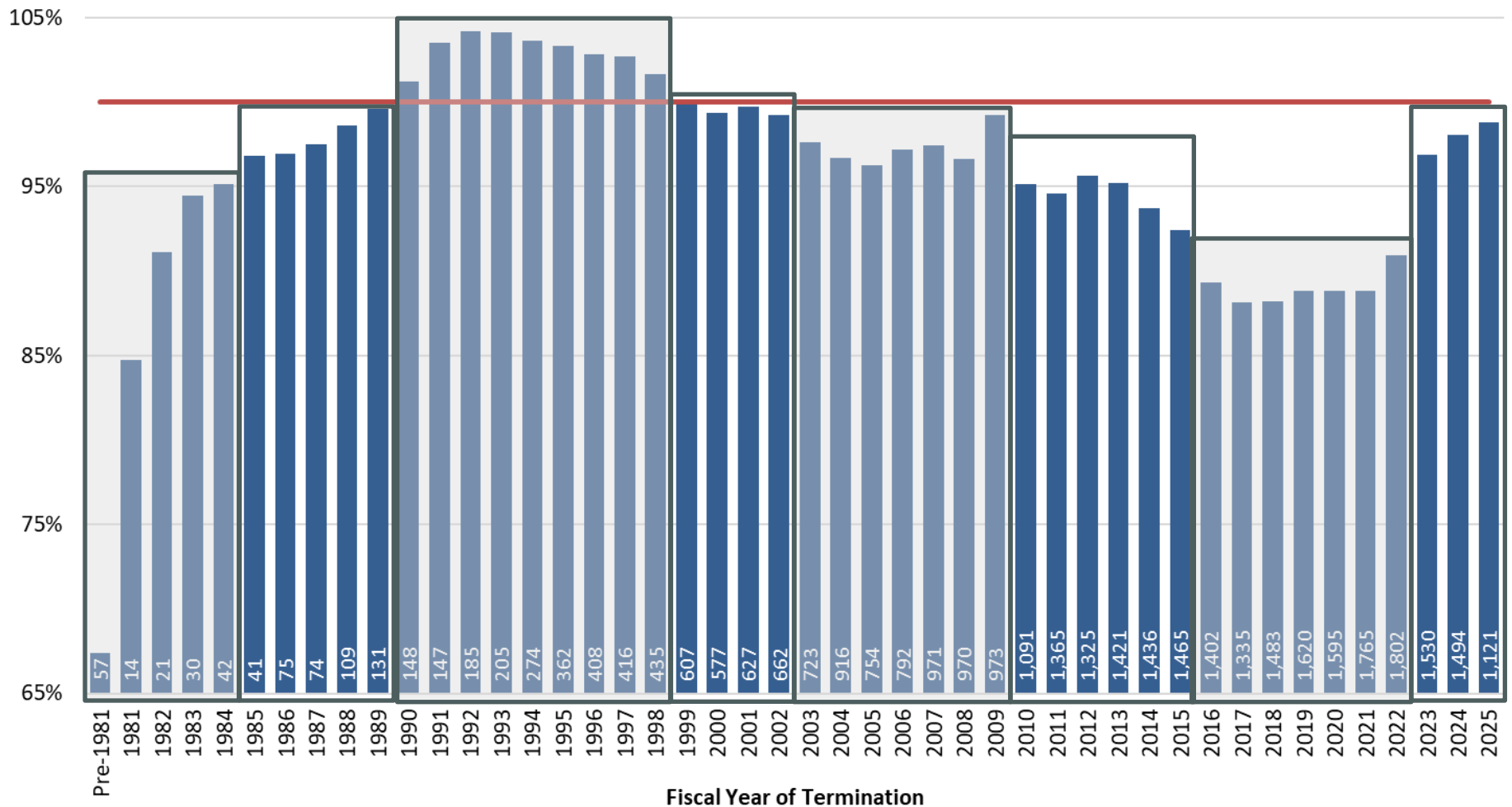
SDRS COLA and Inflation





Cumulative Inflation and SDRS COLAs through July 2026 COLA

Ratio of Current SDRS Benefit to Initial Benefit Increased with Inflation





Cumulative Inflation and SDRS COLAs through July 2026 COLA

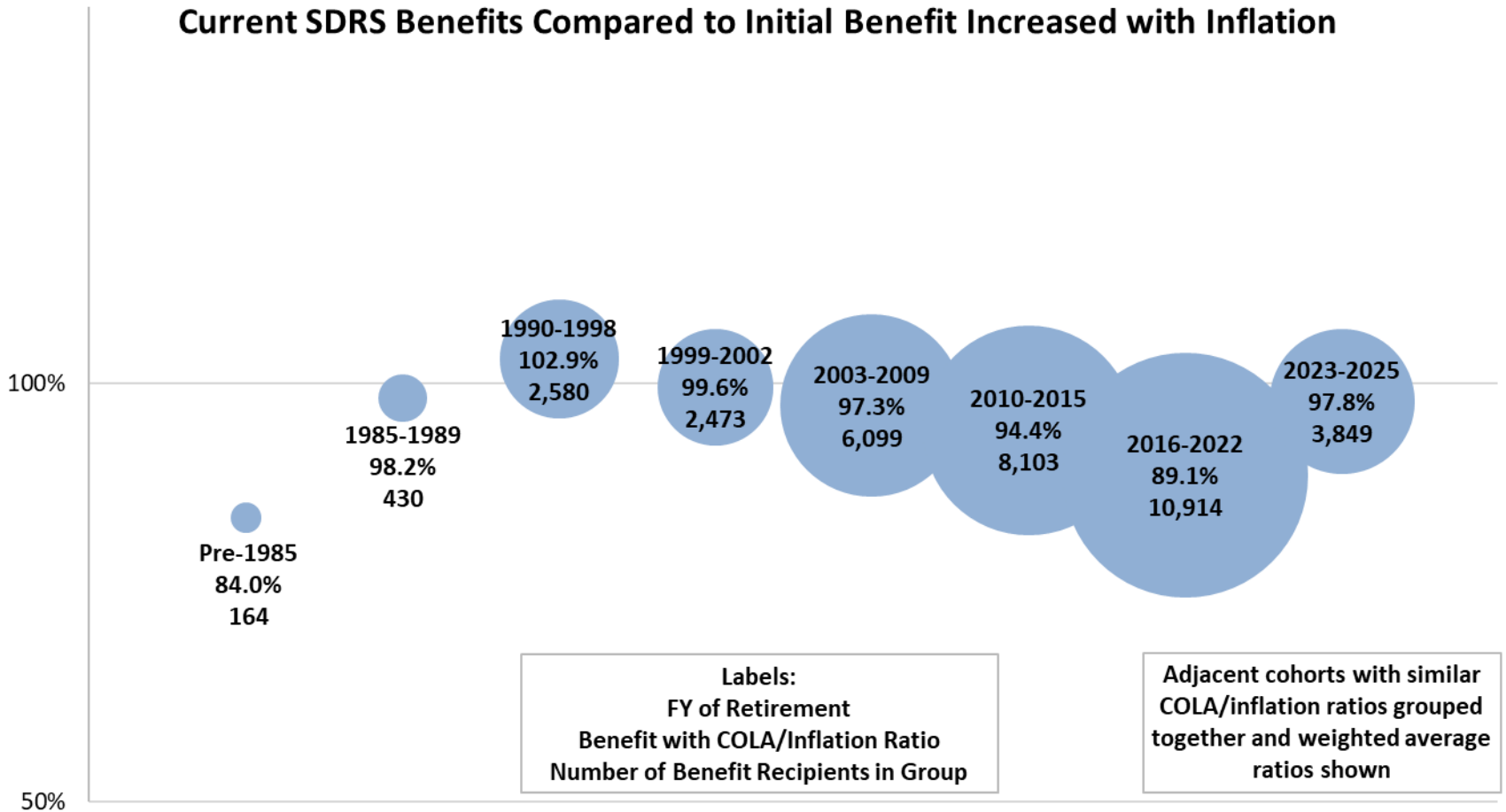


Exhibit only includes Foundation members.



Class A Cumulative Inflation and Adjusted for Benefit Multipliers

Current Benefits Compared to Initial Benefit Increased with Inflation Adjusted for Class A Benefits Compared to Career 50% Multipliers

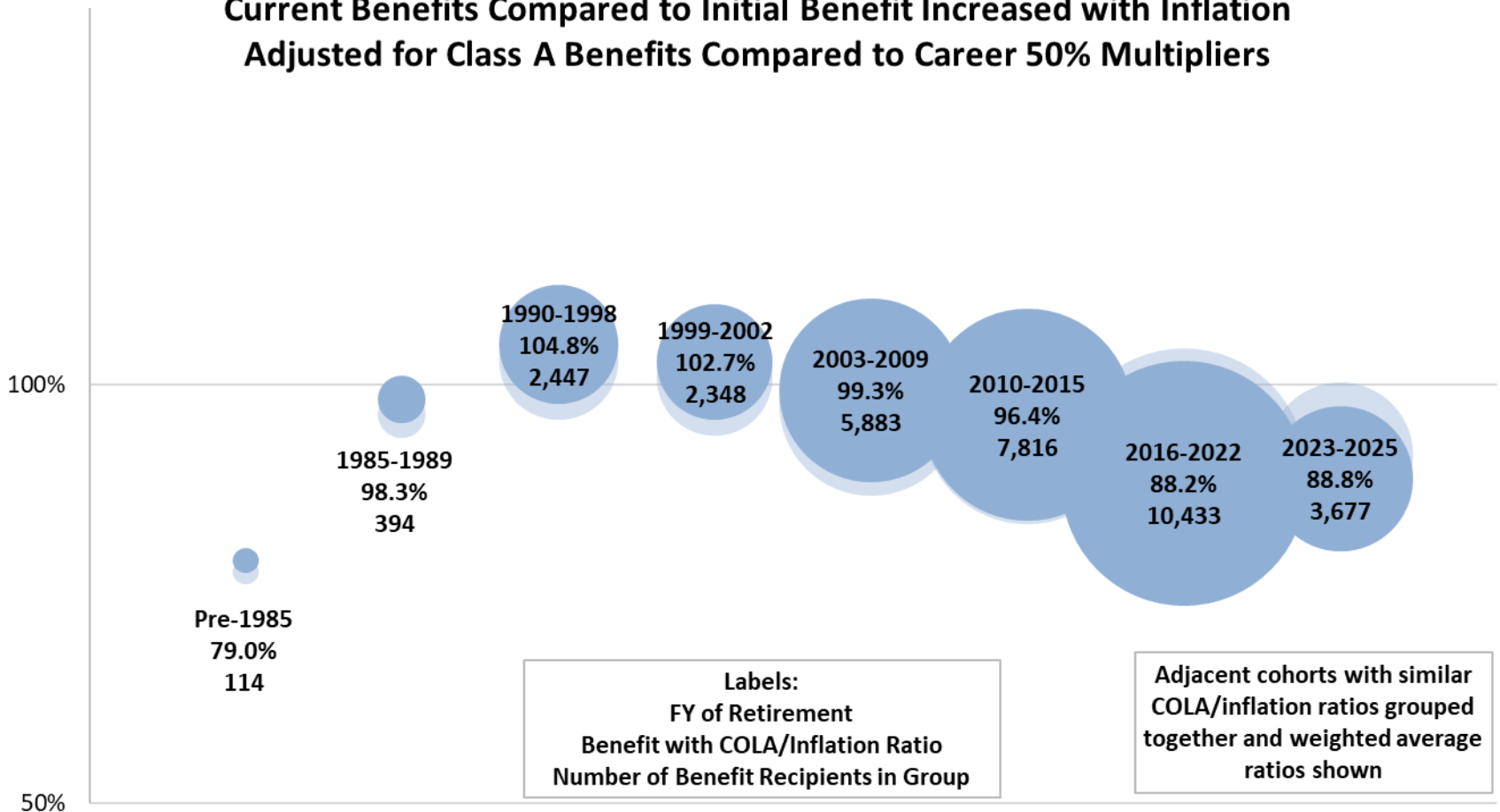


Exhibit only includes Foundation members and only considers Class A service. An average multiplier of 1.67% would result in Class A members earning a benefit equal to 50% of FAC over the 30-year Class A career definition.



Cumulative Inflation and SDRS COLAs Adjusted for Public Safety Benefit Multipliers

Current Benefits Compared to Initial Benefit Increased with Inflation Adjusted for Public Safety Benefits Compared to Career 50% Multipliers

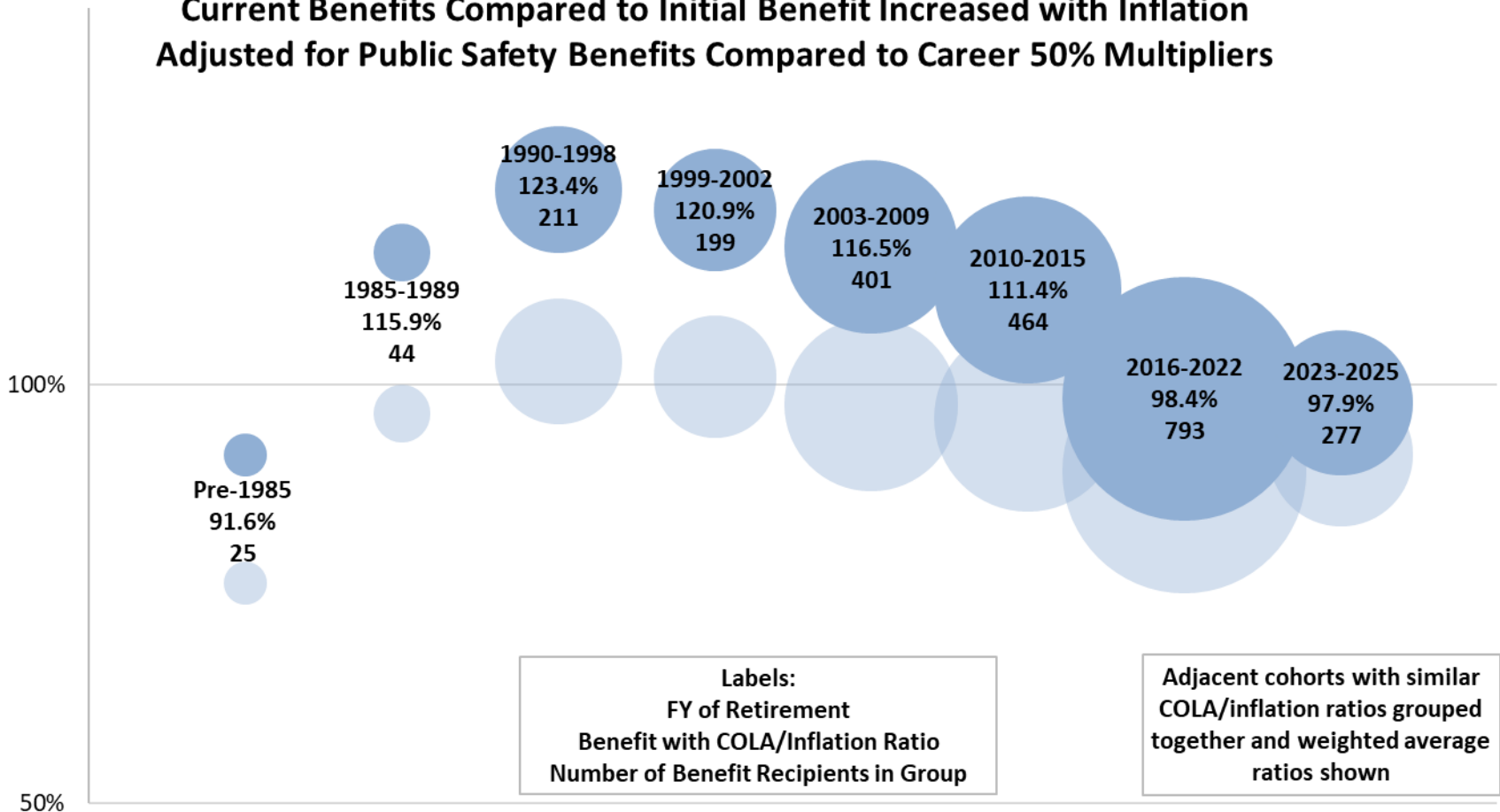
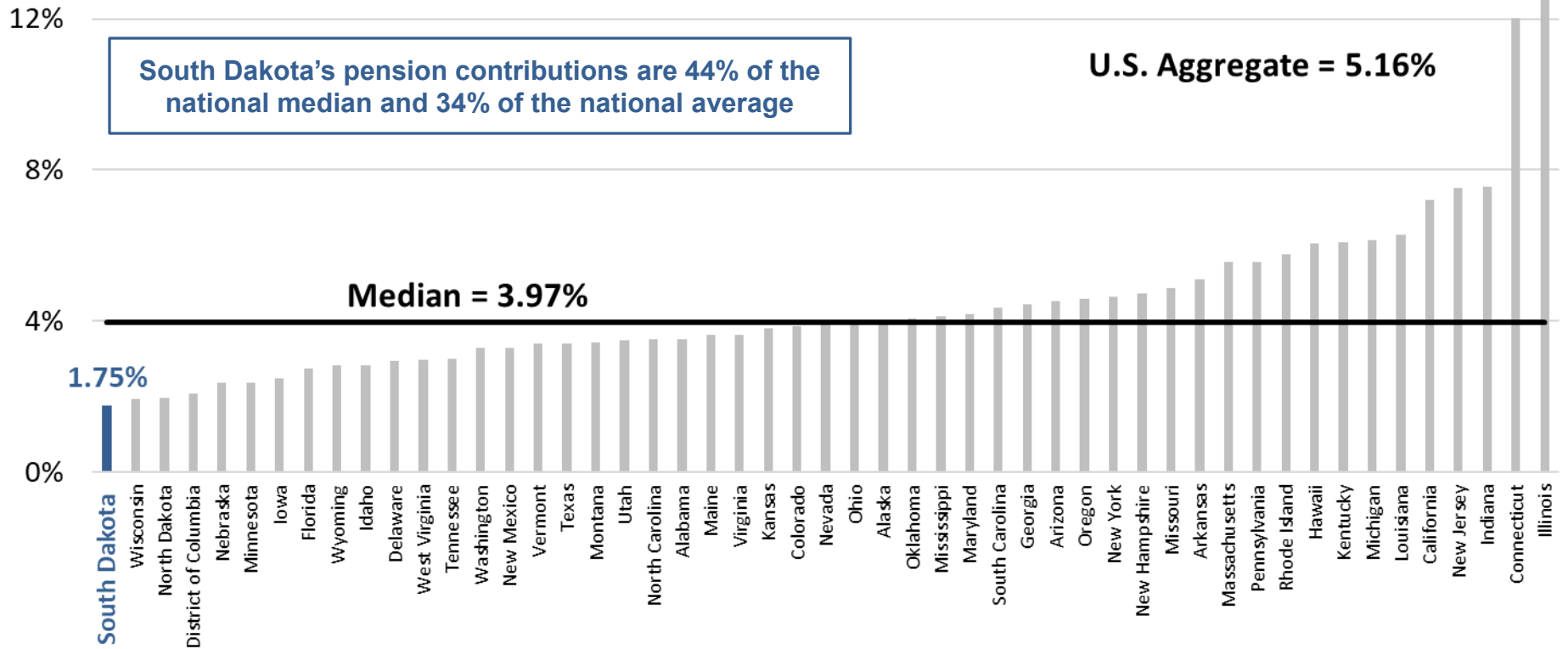


Exhibit only includes Foundation members and only considers Public Safety service. An average multiplier of 2.0% would result in Public Safety members earning a benefit equal to 50% of FAC over the 25-year Public Safety career definition.



NASRA: Government Spending on Pensions

Government Contributions to Pensions as a Percent of All Direct Government Spending, FY 2023 (most recently available)



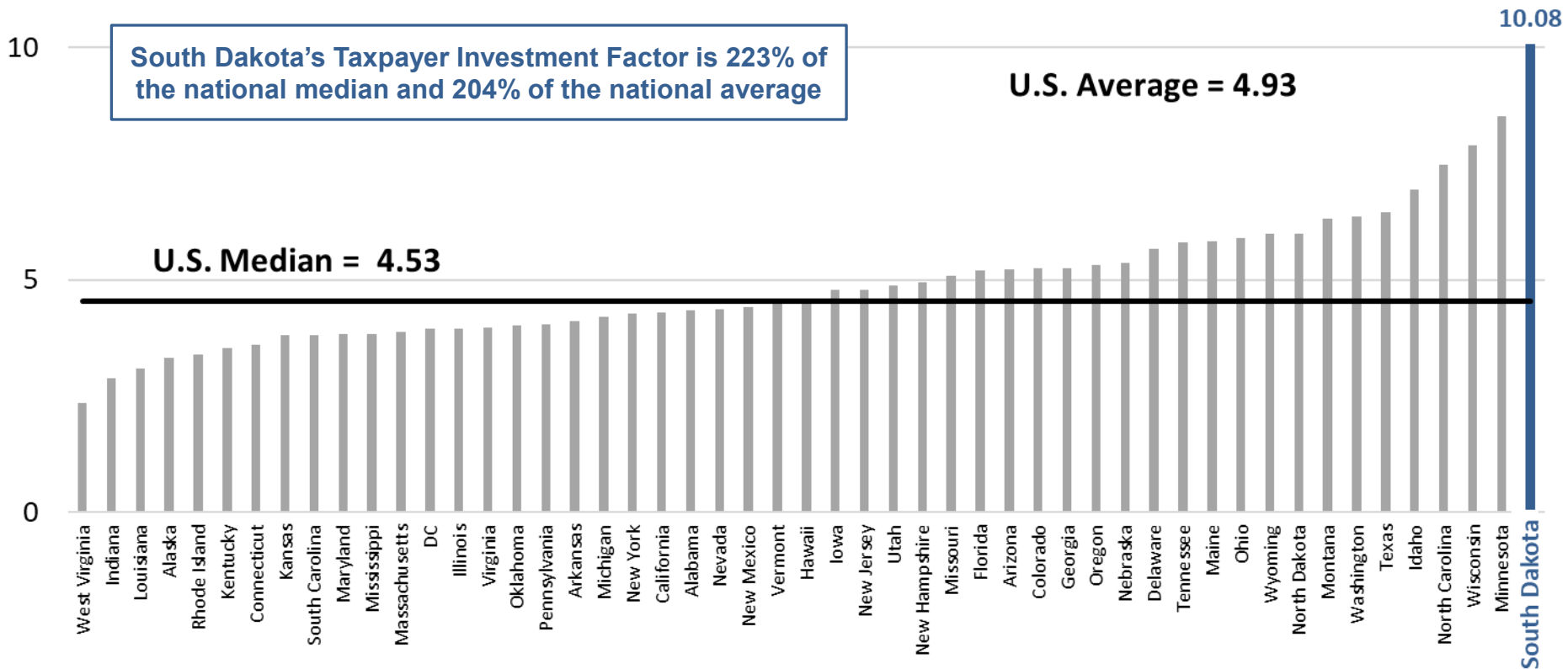
Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, March 2026



NIRS: Taxpayer Investment Factor

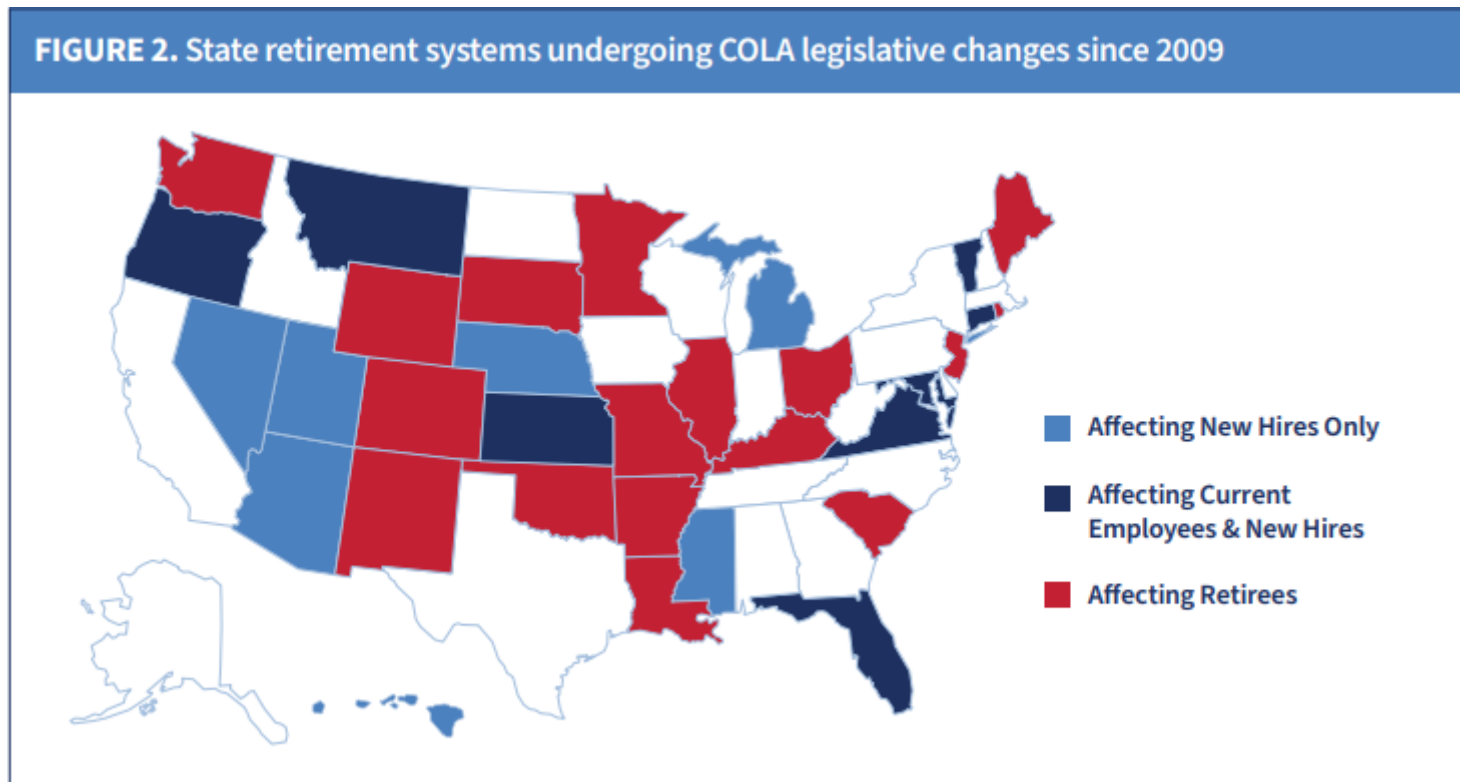
Taxpayer Investment Factor

Economic Impact per Dollar of Taxpayer (Employer) Contribution



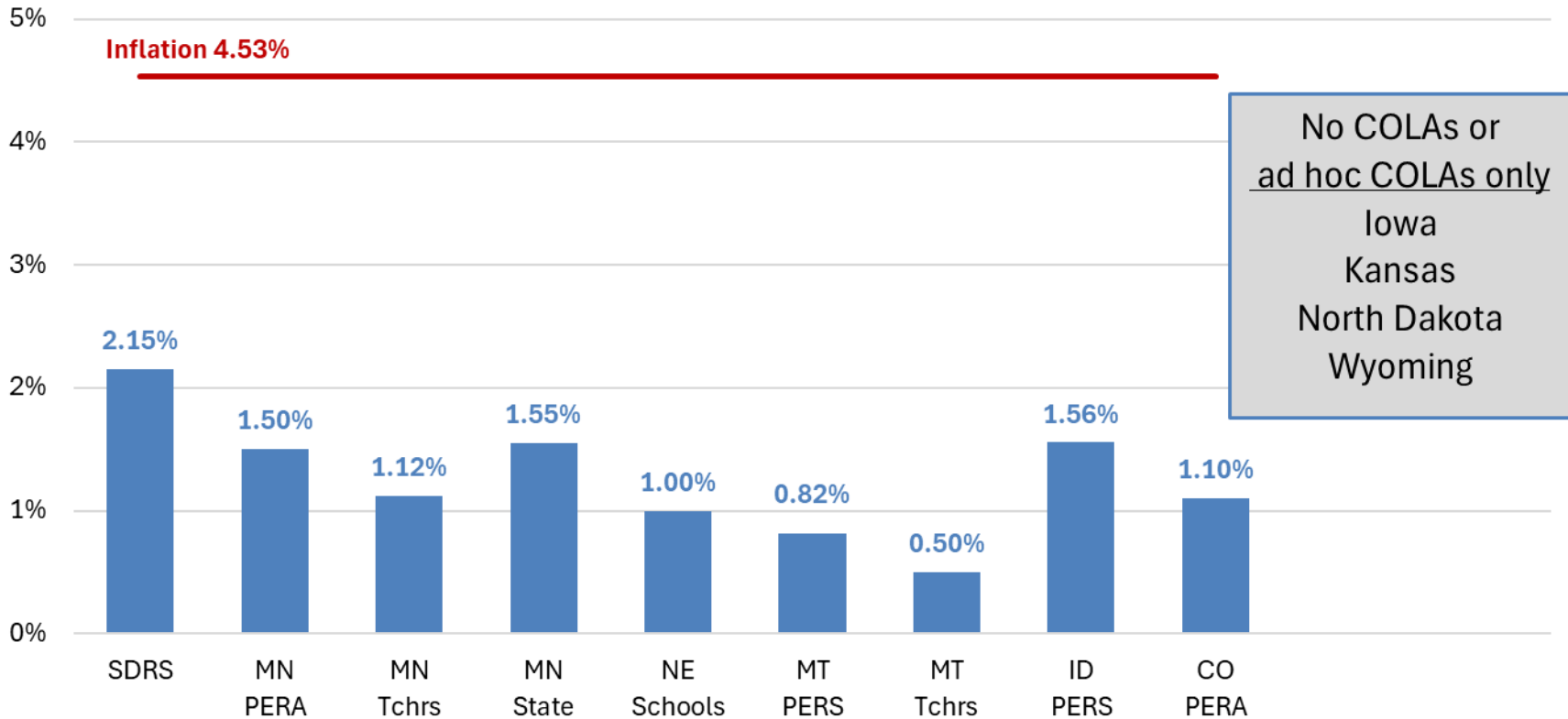
COLA Comparisons

- NASRA 2025 report on COLAs for statewide systems provides extensive data: <https://www.nasra.org/files/Issue%20Briefs/NASRACOLABrief.pdf>:
 - Most states modified COLAs in the wake of the 2009 Financial Crisis



COLA Comparisons – Regional Plans

Regional Systems
Average Inflation and COLAs, Most Recent Five Years



Excludes COLAs for closed tiers.



COLA Comparisons – Regional Plans

	5-Year Avg COLA	Social Security?	Contribution Rates		Net Pension Liability/(Asset)	Assumed Return
			Member + Employer	Adj for SS		
SDRS	2.15%	Yes	12.0%	12.0%	(\$8.5M)	6.50%
MN PERA ⁽¹⁾	1.50%	Yes	14.0%	14.0%	\$3.3B	7.00%
MN Teachers ⁽²⁾	1.12%	Yes	17.5%	17.5%	\$5.7B	7.00%
MN State ⁽³⁾	1.55%	Yes	12.3%	12.3%	\$0.3B	7.00%
NE Schools	1.00%	Yes	16.1%	16.1%	(\$0.5B)	6.95%
MT PERS	0.82%	Yes	17.2%	17.2%	\$2.4B	7.30%
MT Teachers	0.50%	Yes	17.6%	17.6%	\$1.8B	7.30%
ID PERS	1.56%	Yes	19.1%	19.1%	\$2.4B	6.55%
CO PERA	1.10%	No	32.4%	20.0%	\$28.0B	7.25%

(1) Maximum COLA increasing to 1.75% effective in 2026.

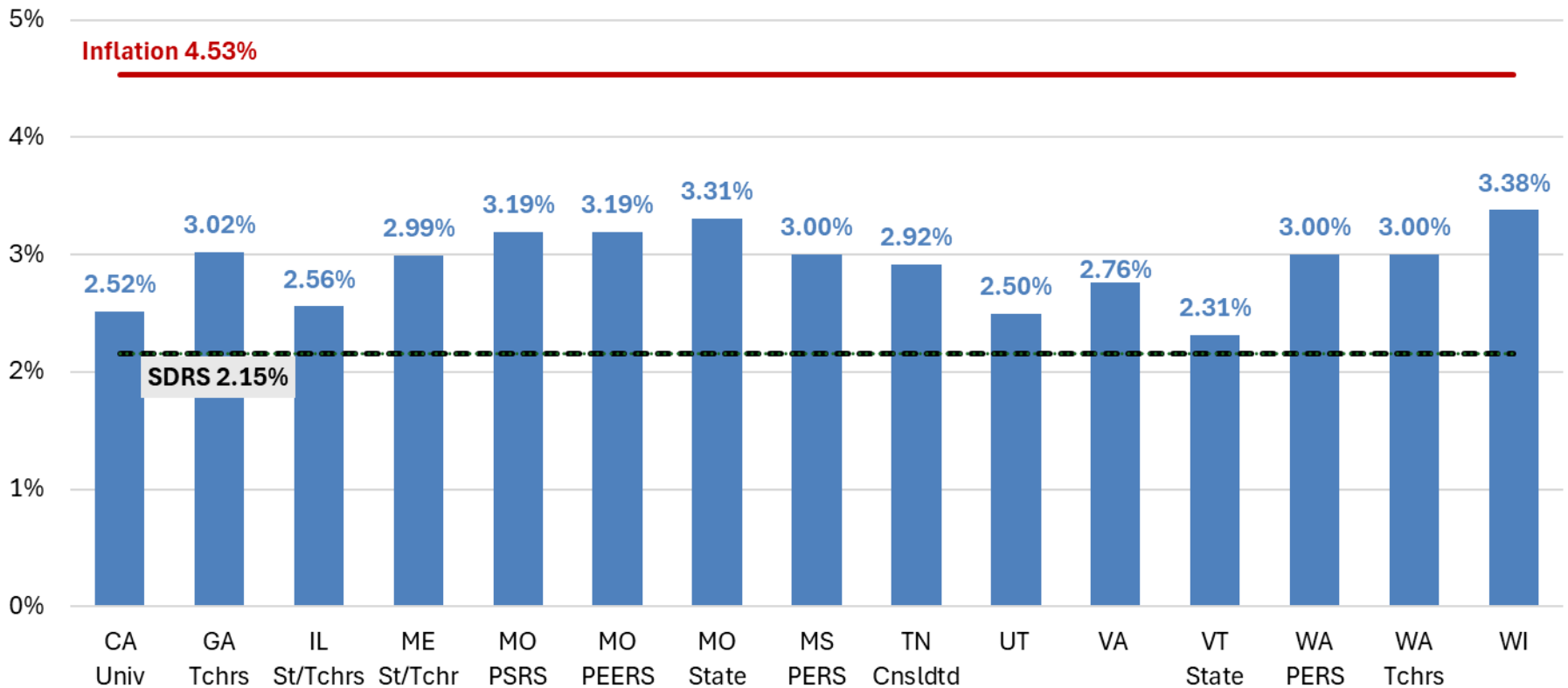
(2) COLA on path to 1.5%, not paid until retiree is age 65.

(3) COLA increased to 1.75% effective 2026.

Excludes COLAs for closed tiers, ad hoc COLAs, simple COLAs, and very complicated COLA formulas. All other things being equal, green-shaded elements would provide for larger COLAs, and red-shaded elements would provide for lower COLAs.

COLA Comparisons – Greater COLAs

Greater COLAs
Average Inflation and COLAs, Most Recent Five Years



Excludes COLAs for closed tiers, ad hoc COLAs, simple COLAs, and very complicated COLA formulas.



COLA Comparisons – Greater COLAs

	5-Year Avg COLA	Social Security?	Contribution Rates		Net Pension Liability/(Asset)	Assumed Return
			Member + Employer	Adj. for SS		
SDRS	2.15%	Yes	12.0%	12.0%	(\$8.5M)	6.50%
CA University	2.52%	No	26.0%	13.6%	\$12.1B	6.80%
GA Teachers	3.02%	No	29.9%	17.5%	\$21.2B	6.90%
IL State/Teachers	2.56%	No	34.0%+	21.6%+	≈\$140B	6.75%/7.0%
ME State/Teachers	2.99%	No	27.7%	15.3%	\$1.9B	6.50%
MO PSRS	3.19%	No	29.0%	16.6%	\$5.6B	7.30%
MO PEERS	3.19%	Yes	13.7%	13.7%	\$0.7B	7.30%
MO State	3.31%	Yes	34.3%	34.3%	\$8.0B	6.95%
MS PERS	3.00%	Yes	26.9%	26.9%	\$25.4B	7.0%
TN Consolidated	2.92%	Yes	18.9%	18.9%	(\$3.1B)	6.75%
UT	2.50%	Yes	12.6%	12.6%	\$0.03B	6.85%
VA	2.76%	Yes	18.0%	18.0%	\$14.8B	6.75%
VT State	2.31%	Yes	29.3%	29.3%	\$1.0B	7.0%
WA PERS	3.00%	Yes	10.8%	10.8%	(\$2.6B)	7.25%
WA Teachers	3.00%	Yes	15.3%	15.3%	(\$1.2B)	7.25%
WI	3.38%	Yes	14.4%	14.4%	\$1.6B	7.20%

Excludes COLAs for closed tiers, ad hoc COLAs, simple COLAs, and very complicated COLA formulas. All other things being equal, green-shaded elements would provide for larger COLAs, and red-shaded elements would provide for lower COLAs.

- Cost-of-Living Adjustment (COLA) goal not met for most benefit recipients:
 - COLA goal cannot be achieved during periods of high inflation on a fixed, modest contribution budget
 - Recent COLAs compare favorably to other statewide systems nationwide
- With fixed contributions, sustainability requires benefit flexibility, alternatively:
 - Benefit formulas could be reduced to provide lower initial benefits with consistently higher COLAs, or
 - Benefit formulas could be retained, but future benefits increased or decreased based on experience (such as Wisconsin)
- Current variable COLA structure pays the maximum benefits that are sustainably affordable each year:
 - VRA for Generational members will continue to add benefit variability

- **COLA Goal:**
 - Inflation protection after retirement and after termination of employment, before benefits begin
- Is the current COLA goal appropriate?
 - Should the goal be partial inflation protection, or limited inflation protection during periods of low to moderate inflation?
- Should other changes to the COLA goal be considered?

Board Member Expectation Statement

As fiduciaries of SDRS, Board members are entrusted with responsibilities that require the highest standards of integrity, professionalism, and accountability. The following principles outline the expectations that guide Board conduct and decision-making. By adhering to these standards, each member helps ensure effective governance, protects the interests of SDRS members and beneficiaries, and upholds the System's credibility and mission.

- **Act as a Fiduciary.** Serve solely in the best interests of SDRS members and beneficiaries.
- **Respect Organizational Roles.** Recognize that policy *setting* is the primary role of the Board of Trustees, while policy *implementation* is the role of the Executive Director and SDRS staff.
- **Disclose Conflicts.** Disclose any potential conflicts in accordance with the Board's conflict-of-interest policy to avoid even the appearance of impropriety.
- **Speak with One Voice.** Conduct oneself professionally and consistently represent the Board's official positions in all internal and external communications. The Board must maintain unity of purpose and avoid actions or statements that could undermine its collective authority, credibility, or organizational integrity.
- **Support Majority Decisions.** Engage in an open, robust discussion of all issues and express their views, even when they diverge. Once a decision is made by a majority vote, all members are responsible for upholding and supporting it as part of their governance duties.

- **Maintain Confidentiality.** Protect the strict confidentiality of the Board’s closed-session deliberations and other sensitive information obtained while performing official duties.
- **Prepare Thoroughly.** Review all agenda materials and supporting documentation for all Board and committee meetings.
- **Engage Actively.** Participate fully in Board and committee meetings by listening attentively and asking relevant, substantive questions.
- **Prioritize Attendance.** Strive to attend all Board and committee meetings. If unable to attend, promptly notify the Executive Director (Travis.Almond@state.sd.us) or the Executive Assistant (Jaime.Rutschke@state.sd.us).

These expectations apply equally to all Board members and will be clearly articulated during new Board member orientation to ensure a comprehensive understanding of the responsibilities of serving on the Board.

Conference Attendance Policy

The Board of Trustees encourages its members to attend pension conferences to stay current on pension industry trends and issues and to strengthen their knowledge as fiduciaries.

The following are the conference attendance guidelines for Board members :

- A Board member may attend one conference annually, with related expenses reimbursed by SDRS .
- Advanced approval by the Board is required before attending any conference .
- When reviewing attendance requests, the Board will consider the available travel budget funds, the total volume of travel requests, and the member's conference attendance history, including recency.
- Board members may attend conferences sponsored by national or regional organizations in which SDRS is a member.
- Board members may attend conferences focused on pension-related issues, even if the sponsoring national or regional organization does not offer membership to public employee retirement plans. To attend, the Board member must provide written information about the conference to the Board prior to approval.
- After attending a conference, the Board member shall present the key highlights and information gained from the conference at the next regularly scheduled Board meeting.

The Board Chair may authorize essential travel that falls outside these guidelines.

GIFT POLICY

SDCL 3-16-8 provides that state officers and employees may not solicit or accept any gift, favor, reward, service, or promise of reward, including any promise of future employment, in exchange for recommending, influencing, or attempting to recommend or influence the award of a state contract.

In addition to the prohibition on self-dealing established in SDCL 3-16-8, the Board of Trustees of the South Dakota Retirement System (SDRS) adopted the gift policy presented in this document on September 2, 2015, to provide transparency and guidance to all members of the Board and all employees of SDRS. Each Board member and employee must comply with this gift policy with respect to any gifts received as a result of their affiliation with SDRS. For purposes of this policy, the term, gift, includes meals, transportation, lodging, entertainment, and other similar benefits provided to a Board member or an employee by a third party.

Policy

Any gift valued at more than fifty dollars, received as a result of a Board member's or employee's affiliation with the South Dakota Retirement System, regardless of how or where received, must be disclosed in writing to the Executive Director. The Executive Director must disclose, in writing, to the Board Chair any gift valued at more than fifty dollars that is received as a result of his/her affiliation with SDRS, regardless of how or where received. The written disclosures shall be retained in the office of the South Dakota Retirement System.

No disclosure is required for any gift valued at fifty dollars or less. Likewise, no disclosure is required for any gift provided to a Board member or employee

at a meeting or conference they attend as a result of their affiliation with SDRS, if the gift was offered as part of the meeting or conference.

Officer Election Policy

The Board of Trustees shall annually elect a Chair and a Vice Chair at the first Board meeting of the System's fiscal year, usually in September. Each will serve a one-year term, commencing immediately at the Board meeting at which they are elected.

The Nominating Committee will recommend candidates for Chair and Vice Chair to the Board based on a survey of Board members interested in each position. The Committee's recommendations will be based on its evaluation of each candidate's qualifications, experience, and leadership qualities.

Board members may nominate themselves or other members for either position at the Board meeting, provided that another Board member seconds the nomination.

Voting Procedure

The Board will first consider the election of the Chair. The election will be conducted by secret ballot and will continue until a candidate is elected.

Step 1: Initial Round of Voting

1. Each Board member shall cast one vote for a single candidate.
2. The votes will be tallied.
3. If a candidate receives at least eight concurrent votes and a majority of the members present, they are immediately appointed to the vacant position, and the process concludes.
4. If no candidate achieves a majority, the Board will proceed to a runoff election as described in Step 2.

Step 2: Runoff Election

1. **Determining Runoff Candidates:** The runoff election will be held between the candidates who received the most votes in the initial round.
 - *Standard Runoff:* The runoff will typically be between the two candidates receiving the highest number of votes.
 - *Three-Candidate Runoff:* If the difference in votes between the second- and third-place candidates is two votes or fewer, the runoff will include the top three vote-getters. In the event of a tie for second or third place that qualifies multiple candidates for the runoff under this rule, all tied candidates will be included.
2. **Conducting a Runoff Vote:**
 - A second round of voting will occur, with each Board member casting one vote for one of the runoff candidates.
 - The candidate who receives at least eight concurrent votes and a majority of the members present in the runoff is appointed to the vacancy.
3. **Handling a Deadlock:** If no candidate receives a majority in the runoff election, the Board shall hold additional rounds of voting until one candidate secures at least eight concurrent votes and a majority of the members present.

Once the Chair is elected, the Vice Chair will be elected using the same procedure.

Officer Vacancies

If the Chair is unable to complete the term of office, the Vice Chair will serve as Chair for the remainder of the term. The Nominating Committee from the prior officer election will serve again and, at the next scheduled Board meeting, follow the procedure outlined above to elect a Vice Chair for the remainder of the term.

If the Vice Chair is unable to complete the term of office, a replacement will be elected at the next scheduled Board meeting. The Nominating Committee from the prior officer election will serve again and will follow the procedure outlined above to elect a Vice Chair for the remainder of the term.

If both the Chair and Vice Chair are unable to complete their terms of office, replacements for both will be elected at the next scheduled Board meeting. The Nominating Committee from the prior officer election will serve again and will follow the procedure outlined above to elect a Chair and Vice Chair for the remainder of the term. In the interim, the Board member with the longest tenure on the Board, excluding any nonvoting member, will serve as Acting Chair.

Legislation Policy

Collaboration with Retirement Laws Committees

The Board of Trustees recognizes the significant contribution of the Retirement Laws Committees in ensuring a thorough analysis of proposed retirement legislation. Because current information about the South Dakota Retirement System (System) and a clear understanding of Board initiatives are essential to the committees' work, the Board is committed to the following:

- **Engagement.** Meeting jointly with the committee at the Board's December meeting, or alternatively, providing comprehensive meeting highlights to the House and Senate Retirement Laws committees early in the Legislative Session.
- **Transparency.** Providing a detailed rationale for any proposed legislation, including an actuarial impact assessment prepared by the Senior Actuary, to clearly outline policy impacts and financial costs.

Board-Recommended Legislation

As fiduciaries, the Board actively advocates for sound pension policy for all members. The Board will consistently recommend legislation to improve plan administration, ensure continued compliance with federal law, and enhance clarity and flexibility of the provisions governing the System.

Additionally, the Board will recommend:

- The circumstances and timing of any **corrective actions**, including benefit changes, if the minimum funding standards outlined in SDCL 3-12C-228 are not met.
- **Benefit improvements**, if the conditions outlined in the **Funding and System Management** benefit policy statement are achieved.

Legislation Not Originating with the Board

The Board encourages any individual or group proposing legislative changes to the System to formally submit their proposals to the Board. Proposers are invited to appear before the Board to explain their rationale and address any questions. This collaborative process enables the Board to fully understand the proposal's intent, conduct a thorough analysis, and take an informed, official position.

To fulfill its fiduciary responsibilities, the Board will oppose any proposal affecting the System unless it has first been submitted to the Board for a comprehensive evaluation of its policy and financial implications.

Spokesperson and Communication Policy

The Board of Trustees will adhere to these guidelines to ensure clear, accurate, and consistent communication across all matters related to the South Dakota Retirement System (SDRS).

Official Spokespersons

To maintain a unified voice, specific individuals are designated as the official spokespersons for different subject areas. All related inquiries must be routed to the official spokesperson.

Subject Area	Official Spokesperson
Board Actions and Policies	The Chair. <i>The Chair may delegate spokesperson responsibilities to the Vice Chair, other Board members, the Executive Director, the Senior Actuary, or the General Counsel as appropriate.</i>
Administration and Operations. <i>All inquiries regarding daily operations and administration.</i>	Executive Director
Legal and Compliance. <i>All inquiries regarding legal matters and IRS compliance.</i>	General Counsel
Actuarial and Funding. <i>All inquiries regarding funding status and actuarial projections.</i>	Senior Actuary

Board Member Responsibilities

Routing of Questions

When Board members need information or have questions regarding SDRS, they should direct their inquiries to the appropriate staff or leadership:

Type of Question	Direct Inquiry To
Board Policy	Chair and Executive Director
Operational	Executive Director
Legal or Compliance	General Counsel and Executive Director
Actuarial	Senior Actuary and Executive Director

Handling External Inquiries

Any inquiry, especially from a member, stakeholder, legislator, media, or the general public, must be referred to the Chair or the Executive Director. This centralized routing is critical to ensure that Board communications remain consistent and accurate.

If a Board member communicates without formal delegation from the Chair to serve as an official spokesperson, they must clearly state that their comments reflect only their personal views and do not represent the Board or SDRS.

Legislative Testimony

Official testimony before the Legislature will be provided by the Chair, Executive Director, General Counsel, Senior Actuary, or other SDRS staff, consultants, or Board members. The specific individuals designated to testify on behalf of SDRS will be determined jointly by the Chair and the Executive Director.

Trustee Education Policy

The Board of Trustees expects its members to actively pursue education on public pension plan operations, design, and governance. Continuous professional development is vital to maintaining an informed and effective Board. As a core component of their fiduciary duties, Board members are expected to regularly engage in educational opportunities.

Self-Assessment

Each Board member is responsible for assessing their educational needs and proactively seeking knowledge in relevant subject areas to strengthen their oversight and governance capabilities.

Continuing Education

Conferences. The Executive Director will regularly provide the Board with information about relevant educational opportunities, including in-person conferences, seminars, and virtual webinars. Board members are strongly encouraged to participate in programs focused on:

- Public pension issues and emerging industry trends
- Pension benefit design and funding strategies
- Fiduciary duties and ethical governance
- Effective oversight of public retirement systems

Note: In-person conference attendance is subject to the separate **Conference Attendance Policy**.

Supplemental Resources. To complement formal training, the Executive Director will periodically distribute relevant news articles, industry studies, and reports on pension-related topics to keep the Board informed about the current landscape.

Annual Fiduciary Training

To ensure a consistent baseline of knowledge and compliance across the Board, the Executive Director will coordinate a comprehensive annual fiduciary education session for the full Board.

New Trustee Orientation Policy

The Board of Trustees recognizes the importance of providing Board members with the foundational education and training necessary to support their governance, oversight, and fiduciary responsibilities to SDRS.

Orientation Development and Delivery

The Executive Director, Senior Actuary, and other appropriate staff will develop and deliver a comprehensive New Trustee Orientation designed to familiarize incoming Board members with the essential functions of SDRS, the applicable actuarial, financial, and legal frameworks, and their fiduciary responsibilities and duties.

Participation Requirement

As a core component of their fiduciary responsibilities, newly elected or appointed Board members are expected to participate in the New Trustee Orientation within three months of taking office.

Orientation Content

To ensure that new Board members are fully prepared to govern, the orientation shall include a comprehensive review of the **Governance Manual** and other relevant topics. The orientation shall include, but is not limited to, the following core areas:

- **SDRS Operations and Administration.** History and organizational structure of SDRS, management role of executive staff, an introduction to the executive management team, and a tour of SDRS office space, when practicable.

- **Board Members' Duties and Responsibilities.** The Board's governance role, corresponding fiduciary duties, conflicts-of-interest laws, and the Code of Conduct applicable to Board members.
- **SDRS Benefits.** Overview of SDRS benefits and benefit administration.
- **Actuarial Principles.** Introduction to general actuarial funding terminology and principles, review of the most recent actuarial reports, the **Funding and System Management** policy, and **Long-Term Benefit Goals**.
- **Pension Accounting Requirements.** Accounting and financial reporting standards applicable to SDRS.
- **Legal and Compliance Fundamentals.** Overview of state and federal laws governing SDRS, stakeholder reporting and disclosure requirements, and emerging industry issues.
- **Legislative Environment.** Role of the Retirement Laws Committee and legislative trends.

Vacancy Appointment Election Policy

In accordance with SDCL 3-12C-205.1, if a vacancy on the Board of Trustees is not filled through the annual election process, the Board shall fill it by appointment from a pool of qualified candidates who have submitted resumes for consideration.

Voting Procedure

The Board will use a two-round, majority-vote system to select the appointee. The election will be conducted by secret ballot and will continue until a candidate is elected.

Step 1: Initial Round of Voting

1. Each Board member shall cast one vote for a single candidate.
2. The votes will be tallied.
3. If a candidate receives at least eight concurrent votes and a majority of the members present, they are immediately appointed to the vacant position, and the process concludes.
4. If no candidate achieves a majority, the Board will proceed to a runoff election as described in Step 2.

Step 2: Runoff Election

1. **Determining Runoff Candidates:** The runoff election will be held between the candidates who received the most votes in the initial round.
 - *Standard Runoff:* The runoff will typically be between the two candidates receiving the highest number of votes.
 - *Three-Candidate Runoff:* If the difference in votes between the second- and third-place candidates is two votes or less, the runoff will include the top three vote-getters. In the event of a tie for second or third place that qualifies multiple candidates for the runoff under this rule, all tied candidates will be included.

2. Conducting a Runoff Vote:

- A second round of voting will occur, with each Board member casting one vote for one of the runoff candidates.
- The candidate who receives at least eight concurrent votes and a majority of the members present in the runoff is appointed to the vacancy.

3. Handling a Deadlock: If no candidate receives a majority in the runoff election, the Board shall hold additional rounds of voting until one candidate secures at least eight concurrent votes and a majority of the members present.

Executive Director Evaluation and Compensation Committee

The Executive Director Evaluation and Compensation Committee (Committee) shall annually review the Executive Director's performance and compensation. The review shall assess whether performance aligns with the **Executive Director's Functions and Responsibilities**, and whether compensation aligns with the **South Dakota Retirement System Compensation Philosophy**. The goal of the Committee is to attract and retain a strong, high-quality executive director to manage the System's operations.

Composition

The Committee shall consist of six of the seventeen members of the Board of Trustees. Membership shall include the Board Chair, the Board Vice Chair, or both. The Board Chair shall annually appoint the Committee members and designate the Committee Chair.

Responsibilities

Performance Evaluation

1. **Survey Administration.** The Committee Chair, in coordination with the Bureau of Human Resources and Administration (BHRA) and the Board Assistant, shall ensure the performance surveys are distributed to:
 - Board members;
 - Staff reporting directly to the Executive Director;
 - Staff reporting indirectly to the Executive Director (reporting directly to department directors); and
 - The Executive Director (for self-evaluation).

2. **Review and Reporting.** The Committee shall review the survey results compiled by BHRA and present the findings to the full Board in conjunction with the Annual Evaluation and Compensation Review.

Compensation Benchmarking

1. **Establish a Market Rate.** The Committee shall establish a market-based pay rate utilizing peer group data. The primary peer groups will consist of the six surrounding state retirement systems and other state retirement systems with similar responsibilities. Market data may be obtained from the National Compensation Association of State Governments, the National Association of State Retirement Administrators, and other relevant benchmarking services.
2. **Establish a Pay Range.** The Committee shall establish a market-based pay range that is +/- 10% around the market rate to provide the Board with the flexibility to appropriately recognize the Executive Director's performance and experience in accordance with the **South Dakota Retirement System Compensation Philosophy.**

Governance

1. The Committee shall meet prior to the first Board meeting of the fiscal year to prepare its report for the Board.
2. All committee recommendations must be approved by a majority of the committee members.
3. The Committee shall present its recommendation to the full Board during the Annual Evaluation and Compensation Review of the Executive Director. The Board must take formal action on any recommendation made by the Committee.
4. If the Board recommends a compensation adjustment in addition to the state salary policy, the Committee shall report the recommendation to the Retirement Laws Committee(s) for their approval pursuant to SDCL 3-12C-209.

Waiver Request Committee

The Waiver Request Committee shall exclusively review all disclosed conflicts of interest and formal waiver requests of Board members. The Committee will determine if a disclosed matter constitutes a conflict and, if so, whether a waiver is appropriate. It will then make a formal, documented recommendation to the full Board for a final vote.

Composition

The Committee shall consist of the Board Chair, the Vice Chair, and one additional Board member appointed by the Chair. In the event any Committee member has a conflict related to the waiver request, they shall be recused, and the Chair (or Vice-Chair if the Chair is recused) shall appoint a temporary substitute from the remaining Board members.

Responsibilities

- Review waiver requests in a timely manner.
- Prepare a formal recommendation report for the full Board, outlining the nature of the conflict, the committee's reasoning, and the proposed course of action.
- Ensure decisions are consistent, transparent, and aligned with applicable laws and SDRS policies.

Executive Session Compliance and Procedures

The Board of Trustees shall conduct any executive (closed) session in compliance with the standards for noticing, convening, conducting, documenting, and exiting executive sessions under South Dakota Codified Law (SDCL) Chapter 1-25.

Authorized Purposes

Executive sessions may be held **only** for the reasons authorized by SDCL 1-25-2. The Board may enter executive session for purposes including, but not limited to:

- **Personnel matters**, including qualifications, performance, character, or fitness of an employee or prospective employee.
- **Legal matters**, including consultation with legal counsel or the review of attorney communications regarding proposed or pending litigation or contractual issues.
- **Security and emergency preparedness**, including vulnerability assessments, cybersecurity, and sensitive information that, if disclosed, could threaten the safety of people or property.

Standard Operating Procedures

The following steps must be strictly adhered to when noticing, entering, conducting, and exiting executive session:

- **Notice.** Meeting agendas will clearly identify any anticipated executive session, including the **general topic** and the **specific statutory citation** (e.g., Executive Session – Personnel, SDCL 1-25-2(1)).

- **Motion.** The Chair shall entertain a motion to enter executive session, citing the specific subdivision of SDCL 1-25-2 and identifying the topic to be discussed.
- **Voting.** The motion must be approved by eight concurrent votes and a majority of the members present, consistent with Board requirements.
- **Attendance.** Attendance is restricted to only Board members and listed individuals necessary for the specific topic under discussion.
- **Conduct and Confidentiality.** Board members and invited participants may discuss **only** matters directly related to the statutory purpose for which the executive session was convened. All participants must maintain confidentiality in accordance with applicable law.
- **Exiting and Official Action.** Upon concluding the executive session, the Chair shall formally declare that the Board is back in open session. Any **official action** regarding the subject discussed in executive session must be **taken only in open session**.
- **Format.** Executive sessions may be conducted via teleconference, consistent with SDCL requirements.

Training and Annual Review

To ensure ongoing compliance, the Board shall receive periodic training on open meetings laws and executive session procedures. The Board will also complete all annual review requirements for South Dakota open meetings compliance.



MEMO NO. 2026-04B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: ERIC STROEDER, CHAIR

SUBJECT: EXECUTIVE DIRECTOR EVALUATION AND COMPENSATION COMMITTEE

DATE: JUNE 2, 2026

This is to advise that I have appointed the following members of the board to serve on the Executive Director Evaluation and Compensation Committee:

- Eric Stroeder, Chair
- Jim Appl
- Darin Seeley
- Penny Brunken
- Matt Clark
- Justice Mark Salter

Jaime Rutschke, Executive Assistant/HR Director, will be the staff point of contact for the committee.

The Executive Director Evaluation and Compensation Committee shall carry out the responsibilities as outlined in the Committee Charter to evaluate:

1. Whether performance aligns with the **Executive Director's Functions and Responsibilities**, and
2. Whether compensation aligns with the **South Dakota Retirement System Compensation Philosophy**.

ES:jlr

Executive Director Evaluation and Compensation Committee

The Executive Director Evaluation and Compensation Committee (Committee) shall annually review the Executive Director's performance and compensation. This review ensures that performance aligns with the **Executive Director's Functions and Responsibilities**, and that compensation aligns with the **South Dakota Retirement System Compensation Philosophy**. The goal of the Committee is to attract and retain a strong, high-quality executive director to manage the System's operations.

Composition

The Committee shall consist of six of the sixteen members of the South Dakota Board of Trustees (Board). Membership shall include the Board Chair, the Board Vice Chair, or both. The Board Chair shall annually appoint the Committee members and designate the Committee Chair.

Responsibilities

Performance Evaluation

1. Survey Administration. The Committee Chair, in coordination with the Bureau of Human Resources and Administration (BHRA) and the Board Assistant, shall ensure the performance surveys are distributed to:
 - Board members;
 - Staff reporting directly to the Executive Director;
 - Staff reporting indirectly to the Executive Director (reporting directly to department directors); and
 - The Executive Director (for self-evaluation).
2. Review and Reporting. The Committee shall review the survey results compiled by BHRA and present the findings to the full Board in conjunction with the Annual Evaluation and Compensation Review.

Compensation Benchmarking

1. Establish a Market Rate. The Committee shall establish a market-based pay rate utilizing peer group data. The primary peer groups will consist of the six surrounding state retirement systems and other state retirement systems with similar responsibilities. Market data may be obtained from the National Compensation Association of State Governments, the National Association of State Retirement Administrators, and other relevant benchmarking services.
2. Establish a Pay Range. The Committee shall establish a market-based pay range that is +/- 10% around the market rate to provide the Board with the flexibility to appropriately recognize the Executive Director's performance and experience in accordance with the **South Dakota Retirement System Compensation Philosophy**.

Governance

1. The Committee shall meet prior to the first Board meeting of the fiscal year to prepare its report for the Board.
2. All committee recommendations must be approved by a majority of the committee members.
3. The Committee shall present its recommendation to the full Board during the Annual Evaluation and Compensation Review of the Executive Director. The Board must take formal action on any recommendation made by the Committee.
4. If the Board recommends a compensation adjustment in addition to the state salary policy, the Committee shall report the recommendation to the Retirement Laws Committee(s) for their approval pursuant to SDCL 3-12C-209.



MEMO NO. 2026-05B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: ERIC STROEDER, CHAIR

SUBJECT: AUDIT COMMITTEE

DATE: JUNE 2, 2026

This is to advise that I have appointed the following members of the board to serve on the Audit Committee:

- Jill Lenards, Chair
- LaJena Gruis
- Victoria Hinek

Michelle Mikkelsen, Chief Financial Officer, will be the staff point of contact for the committee.

As defined in the audit charter, the committee's responsibilities include the following:

- Meet with the contracted external auditor and SDRS staff for an opening conference to review the annual audit engagement schedule. Based on those conversations, the Audit Committee Chair will work with management to provide an engagement letter. The Audit Committee Chair and management will each also provide representation letters.
- Discuss issues identified during the audit process affecting the annual financial statements.
- Review the Audit Report and all audit findings prior to presentation to the SDRS Board of Trustees. If necessary, work with SDRS staff to respond to audit findings.
- Review the Risk Assessment.

ES:jlr

SOUTH DAKOTA RETIREMENT SYSTEM AUDIT COMMITTEE CHARTER

SCOPE

The Audit Committee shall oversee the audit engagement, review the financial statements, assess adequacy of internal controls, and provide input in the resolution of audit or internal control issues for the administration and operation of the South Dakota Retirement System, the Supplemental Retirement Plan, and the Special Pay Plan.

COMPOSITION

The Audit Committee shall consist of three of the sixteen voting members of the South Dakota Retirement System Board of Trustees. The board chair shall annually appoint the Audit Committee members and committee chair.

RESPONSIBILITIES

1. Meet with the contracted external auditor and SDRS staff for an opening conference to review and approve the annual audit engagement schedule. Based on those conversations, the Audit Committee Chair and management shall provide an engagement letter. The Audit Committee Chair and management will each also provide representation letters.
2. Discuss issues identified during the audit process affecting the annual financial statements.
3. Review the Audit Report and all audit findings prior to presentation to the SDRS Board of Trustees. If necessary, work with SDRS staff to respond to audit findings.
4. Review the Fraud Risk Assessment.
5. Request additional information as needed.

RELEVANT LAWS

South Dakota Codified Law Chapter 3-12, 3-13 and 3-13A



MEMO NO. 2026-06B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: ERIC STROEDER, CHAIR

SUBJECT: CLASS B PUBLIC SAFETY COMMITTEE

DATE: JUNE 2, 2026

Pursuant to Board of Trustees' motion at its June 2022 meeting, the Class B Public Safety representative and another member appointed by the Chair shall serve on the Class B Public Safety Committee with certain staff members. This is to advise that I have appointed the following member of the board to serve on the Class B Public Safety Committee:

- Justice Mark Salter

Sam Koldenhoven, Deputy General Counsel, will be the staff point of contact for the committee.

The committee's responsibilities include the following:

- Take the necessary action to present the application to the Board of Trustees in a systematic and structured way. For correctional security staff, the verification provided in SDCL 3-12C-101(29) must be completed before the committee takes any action.
- Follow The SDRS Criteria for Class B Public Safety Membership and The SDRS Procedure to Consider Requests for Class B Public Safety Membership whenever possible.
- Request the material and data from the applicant and the employer unit as outlined in The SDRS Procedure to Consider Requests for Class B Public Safety Membership.
- Review and analyze the relevant material/data received that is usable in making the final determination.
- Prepare a report for distribution to the Executive Director and the Board of Trustees.

- Present findings and recommendations to the Board of Trustees.

This committee will only meet when a Class B Public Safety request has been made. This is a permanent committee that will continue indefinitely unless notified otherwise in writing by the Chair.

ES:jlr



MEMO NO. 2026-07B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: ERIC STROEDER, CHAIR

SUBJECT: WAIVER REQUEST COMMITTEE

DATE: JUNE 2, 2026

This is to advise that I have appointed the following members of the board to serve on the Waiver Request Committee:

- Eric Stroeder. Chair
- Jim Appl
- Jim Terwilliger

Sam Koldenhoven, Deputy General Counsel, will be the staff point of contact for the committee.

The Committee shall carry out the responsibilities as defined in the Waiver Request Committee Charter to review all disclosed conflicts of interest and formal waiver requests of Board members, and determine whether a disclosed matter constitutes a conflict, and, if so, whether a waiver is appropriate. It will then make a formal, documented recommendation to the full Board for a final vote.

ES:jlr

Waiver Request Committee

Scope

The Waiver Request Committee shall exclusively review all disclosed conflicts of interest and formal waiver requests of Board members. The Committee will determine if a disclosed matter constitutes a conflict and, if so, whether a waiver is appropriate. It will then make a formal, documented recommendation to the full Board for a final vote.

Composition

The Committee shall consist of the Board Chair, the Vice Chair, and one additional Trustee appointed by the Chair. In the event any Committee member has a conflict related to the waiver request, they shall be recused, and the Chair (or Vice-Chair if the Chair is recused) shall appoint a temporary substitute from the remaining Trustees.

Responsibilities

- Review waiver requests in a timely manner.
- Preparation of a formal recommendation report for the full Board, outlining the nature of the conflict, the committee's reasoning, and the proposed course of action.
- Ensure decisions are consistent, transparent, and aligned with applicable laws and SDRS policies.