AGENDA
SDRS BOARD OF TRUSTEES

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

DATE: Wednesday, September 11, 2024

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

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

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

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

ITEM 2 - Public Comment

ITEM 3 - Oath of Office for Newly Elected Board of Trustees Members

ITEM 4 - Approval of June 5, 2024 Minutes

ITEM 5 - Report from the SDRS Nominating Committee

ITEM 6 - Election of SDRS Chair & Vice Chair

ITEM 7 - Board of Trustees Fiduciary Education – Robert Gauss, Partner, Ice Miller

ITEM 8 - CEM Benchmarking – Franco Wang, CEM Relationship Manager

ITEM 9 - Annual Investment Performance Report for FY24 – Darci Haug, Senior Portfolio Manager and Danielle Mourer, Portfolio Manager

ITEM 10 - Update of SDRS FY25 Investment Performance – Darci Haug and Danielle Mourer

ITEM 11 - SDRS Estimated Funded Status Report – Doug Fiddler, Senior Actuary

ITEM 12 - Executive Director Evaluation Process Update – Darin Seeley, Chair of Executive Director Evaluation Committee

ITEM 13 - Potential 2025 Legislation – John Richter, General Counsel and Sam Koldenhoven, Deputy General Counsel

ITEM 14 - Supplemental Retirement Plan/Special Pay Plan

- Annual Service Report – June Larson, Program Director, NRS; Michael Burkhart, Executive Relationship Manager, NRS; and John Archer, Associate Vice President, NRS
- Investment Portfolio Review – Payton Larsen, Associate Portfolio Manager

ITEM 15 - Internal Controls Review (Executive Session) – Nick Rea, Director of IT Services; Michelle Humann, Director of Member Services; Michelle Mikkelsen, Chief Finance Officer; and Brittnie Adamson, Director of Internal Audit

ITEM 16 - Old/New Business

- Board SharePoint Portal
- NCTR Trustee Workshop Wrap-up – Jim Appl, Vice-Chair
- Governance Manual
- Upcoming Board Meeting Dates

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

FUTURE MEETINGS

December 11, 2024
April 9, 2025
June 11, 2025
September 10, 2025
December 10, 2025

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

BOARD MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

June 5, 2024

The Board of Trustees of the South Dakota Retirement System held its regular Board meeting on June 5, 2024. The meeting began at 8:00 a.m. in the Board Conference Room at the South Dakota Retirement System office.

BOARD MEMBERS IN ATTENDANCE:

Eric Stroeder, Chair
James Appl, Vice Chair
Annette Brant
Penny Brunken
Kathy Greeneway
Myron Johnson
Jill Lenards
Justice Mark Salter
Dave Smith
Jim Terwilliger
Wes Tschetter
Matt Clark, Ex Officio

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Board members LaJena Gruis, Kevin Merrill, Hank Prim, Darin Seeley and Doug Wermedal were absent.

OTHERS IN ATTENDANCE:

Anne Cipperley, SDIO
Dan Elmer, SDIO
Darci Haug, SDIO
Bob Mercer, Keloland News
Danielle Mourer, SDIO
Renae Randall, SDIO
Shane Roth
John Richter, SDIO
Carolyn Schrader
Paul Schrader, Retirement Consultant
Lesyk Voznyuk, SDIO
Jacob Wehde, SDIO
Jan Zeeck, SDIO

Brittnie Adamson, SDRS
Travis Almond, SDRS
Alan Freng, SDRS
Doug Fiddler, SDRS
Michelle Humann, SDRS
Sam Koldenhoven, SDRS
Michelle Mikkelsen, SDRS
Dawn Smith, SDRS
Jacque Storm, SDRS

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

AGENDA ITEM 1
BOARD MEMBER CONFLICTS DISCLOSURE

Summary of Presentation
No board member had any conflict to disclose.

Board Action
No action was necessary.

AGENDA ITEM 2
PUBLIC COMMENT

Summary of Discussion
There was no public comment.

Board Action
No action was necessary.

AGENDA ITEM 3
APPROVAL OF APRIL 10, 2024, MEETING MINUTES

Board Action
IT WAS MOVED BY MR. TSCHETTER, SECONDED BY MR. APPL, TO APPROVE THE MINUTES OF THE APRIL 10, 2024, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
ELECTION RESULTS

Summary of Presentation
Ms. Dawn Smith, SDRS Executive Assistant, stated that there were five positions up for election this year. Jake Oakland (County Employees), Shane Roth (School Boards), and Eric Stroeder (State Employees) ran unopposed and will begin their four-year term July

1, 2024. She noted that as no petitions were received for the Board of Regents or Classified Employee Representatives, the Board would have to appoint replacement representatives from the resumes received.

Board Action

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MS. BRUNKEN, TO ACCEPT THE ELECTION REPORT AND DECLARE JAKE OAKLAND (COUNTY EMPLOYEES), SHANE ROTH (SCHOOL BOARDS), AND ERIC STROEDER (STATE EMPLOYEES) AS THE WINNERS OF THE 2024 SDRS BOARD OF TRUSTEES ELECTION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 5
APPOINTMENT OF BOARD OF REGENTS AND CLASSIFIED EMPLOYEE REPRESENTATIVES

Summary of Presentation

Ms. Smith stated that the Board had received resumes from members interested in the two open positions. She noted that the Board would select the replacement Board members by secret ballot.

Board Action

IT WAS MOVED BY MS. BRANT, SECONDED BY MR. SMITH, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(1) TO DISCUSS THE QUALIFICATIONS OF THE PROSPECTIVE TRUSTEE CANDIDATES. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

THE CHAIR DECLARED THE BOARD WAS OUT OF EXECUTIVE SESSION.

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. TSCHETTER, TO APPOINT LIZA CLARK AS THE BOARD OF REGENTS REPRESENTIVE ON THE SDRS BOARD OF TRUSTEES, EFFECTIVE JULY 1, 2024. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. APPL, SECONDED BY MS. BRUNKEN, TO APPOINT VICTORIA HINEK AS THE CLASSIFIED EMPLOYEE REPRESENTATIVE ON THE SDRS BOARD OF TRUSTEES, EFFECTIVE JULY 1, 2024. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 6
RECOGNITION OF RETIRING BOARD MEMBERS

Board Action

IT WAS MOVED BY MR. APPL, SECONDED BY MR. SMITH, FOR A VOTE OF APPRECIATION TO KATHY GREENEWAY, KEVIN MERRILL, ANNETTE

BRANT, AND DOUG WERMEDAL FOR THEIR SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

> WHEREAS, Kathy Greeneway has served the Board of Trustees of the South Dakota Retirement System for 8 years, serving on the Audit Committee from 2018 through the present and chairing the committee since 2023; and
>
> WHEREAS, Kevin Merrill has served the Board of Trustees of the South Dakota Retirement System for 6 years; and
>
> WHEREAS, Annette Brant has served the Board of Trustees of the South Dakota Retirement System for 4 years; and
>
> WHEREAS, Doug Wermedal has served the Board of Trustees of the South Dakota Retirement System for 4 years; and
>
> WHEREAS, each has been dedicated to the position of trustee and diligently executed their duties to sustain a financially sound and progressive retirement system:
>
> NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Kathy Greeneway, Kevin Merrill, Annette Brant, and Doug Wermedal for their positive efforts toward meeting the objectives of the plan and to wish each of them success in all future endeavors.

THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. STROEDER, SECONDED BY MR. TSCHETTER, FOR A VOTE OF APPRECIATION TO PAUL SCHRADER FOR HIS 50 YEARS OF DISTINGUISHED SERVICE AND COMMITMENT TO THE SOUTH DAKOTA RETIREMENT SYSTEM BY ADOPTING THE FOLLOWING RESOLUTION:

> WHEREAS, Paul Schrader’s fifty year collaboration with the South Dakota Retirement System began when he was an actuary with A.S. Hansen, Inc. Actuaries and Consultants; and
>
> WHEREAS, Paul Schrader’s connection to SDRS preceded its existence, as he was named in the Agreement entered into by the Retirement Study Committee created by the 1973 Legislature and A.S. Hansen; and
>
> WHEREAS, Paul Schrader was tasked to perform an actuarial valuation, recommend appropriate state funding, study the adequacy of benefits, assist in

drafting the legislation to establish SDRS, and explain to the Legislature the objectives, advantages, and mechanics of the consolidated system; and

WHEREAS, Paul Schrader has advised SDRS through many successes and challenges over five decades throughout his career as an actuary and in his capacity as retirement consultant to SDRS, and in doing so, traveled to Pierre roughly 400 times:

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Paul Schrader for his instrumental role in the establishment, evolution, and continued success of SDRS. His dedication to SDRS is apparent and his legacy is everlasting.

THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 7
STATE OF THE SYSTEM

Summary of Presentation

Mr. Travis Almond, SDRS Executive Director, acknowledged SDRS' 50th anniversary. He noted that SDRS was started in 1974 with the consolidation of seven separate systems. SDRS had $50 million of assets and 23,500 members and was 40 percent funded at the time of consolidation. The benefits were inadequate, there was a modest COLA, and sustainability was uncertain.

In 2024, advised Mr. Almond, SDRS had over $14.5 billion in assets and over 100,000 members. SDRS is 100 percent funded as of June 30, 2023, based on the restricted maximum COLA, and has been in 28 of the last 33 actuarial valuations. All funding objectives are met, fixed contributions meet the actuarial requirements, 6.5 percent investment return assumption is lower than the 7 percent national median, and except for the COLA, SDRS benefits meet the Board's long-term goals for adequacy. This makes SDRS a nationally recognized model system frequently cited as an example of sustainable design.

Mr. Almond stated that SDRS has had significant growth since consolidation in 1974. SDRS grew from 2,900 benefit recipients and 23,500 total members to 33,200 benefit recipients and 100,800 total members, while only increasing staff from 27 to 33. The annual benefit payments to SDRS members in 1974 was $3 million. This has increased to $720 million in 2024. Likewise, advised Mr. Almond, SDRS assets have increased to $14.5 billion in 2024 from $50 million in 1974.

Mr. Almond stated that some things have not changed since 1974. He noted that SDRS is still a defined benefit plan with fixed, equal member and employer contributions and an early vesting period. SDRS provides family income protection including survivor and disability benefits and a COLA providing inflation protection after retirement. SDRS has responsible governance and legislative oversight, as well as statutory requirements of corrective actions if funding thresholds are not met. The well-funded status of SDRS was achieved within a decade after consolidation and has been maintained ever since.

While some things remain the same, noted Mr. Almond, others have not. SDRS has added features that benefit members who leave before retirement age; added variable benefits; improved retirement and COLA benefits to meet income replacement needs and adequacy standards; addressed inequities and subsidies; and restructured survivor and disability benefits resulting in greater efficiency and equity. SDRS has also created a new tier for members hired after July 1, 2017, that provides improved Class A benefit multipliers at normal retirement age; a higher normal retirement age reflecting improved life expectancy; eliminated early retirement incentives; and added variable individual retirement accounts funded with a portion of employer contributions.

There is also less investment outperformance versus SDRS' actuarial assumption, advised Mr. Almond. Annual investment returns are very volatile and have trended downwards. Less outperformance relative to the actuarial assumption has resulted in pressure on the COLA affordability and contribution sufficiency.

Addressing the management and governance of SDRS, Mr. Almond stated that the goals, board policies, and position papers have been updated. The funding and benefit goals, and board policies have been met. Risk measures continue to be refined and expanded, and SDRS continues to have the support of the Legislature and Executive Branch.

Mr. Almond stated that some recent and continuing challenges for SDRS are managing liabilities in the low investment return environment, as well as maintaining benefit adequacy, especially with the COLA during high inflation. Other challenges include the transition in leadership of both the Board and SDRS staff; maintaining effective education, communication, disclosure, and transparency; attempts to bypass the disciplined SDRS process when considering changes; distinguishing SDRS from struggling defined benefit plans; and responding to critics of defined benefit plan practices, including questions of reported funded status.

Mr. Almond noted that some of his objectives as Executive Director included listening and learning from all stakeholders, assess what is working and continue with improvements, as well as, access what is not working as intended and make appropriate changes--all while maintaining the model retirement system that SDRS is known for.

In summary, Mr. Almond noted that SDRS is recognized as a model plan. It is a fully funded system which is rare and exemplary. The benefit practices meet the Board's objectives and all funding goals are met based on realistic actuarial assumptions and the full COLA range. The employers' costs are fixed and are 40 percent of the national median. The System Guide to Planning for the Unexpected was updated and the 2024 Legislative Session was successful and SDRS was supported.

Board Action:
No action was necessary.

AGENDA ITEM 8
UPDATE OF FY 2024 INVESTMENT PERFORMANCE

Summary of Presentation
Ms. Darci Haug, Senior Portfolio Manager, SDIO, and Ms. Danielle Mourer, Portfolio Manager, SDIO, informed the Board that as of May 31, the SDRS trust fund had a fiscal year-to-date return rate of approximately 6 percent.

Board Action
No action was necessary.

AGENDA ITEM 9
PROJECTED FUNDED STATUS OF THE SOUTH DAKOTA RETIREMENT SYSTEM

Summary of Presentation:
Mr. Doug Fiddler, SDRS Senior Actuary, noted that the SDRS contribution rates are fixed in statute and that the statutes require a recommendation for corrective actions if SDRS falls below 100 percent funded. The SDRS COLA will vary with both inflation and long-term affordability and is critical to managing the system on fixed contributions.

Employer contribution rates of 6 percent for Class A members are 40 percent of the national median of 15.1 percent. At the same time, advised Mr. Fiddler, SDRS' fair value funded ratio of 100.1 percent exceeds the estimated median FVFR of 78 percent. In addition, as a percent of government spending, South Dakota spends the least in the nation on pensions at 1.73 percent compared to the median of 3.86 percent and 5.06 percent aggregate.

SDRS' competing objective of delivering adequate benefits and remaining fully funded through all economic conditions is a very high standard, especially when funded with fixed contributions that are less than half of the national median. These objectives become even more challenging as retirees live longer and the consensus view of future investment returns is lower. The efforts of SDRS management to meet these objectives have included enacting the variable COLA process, transitioning foundation members to a 5-year final average compensation and including pay increase caps, the generational design, retire-rehire reform, and various other initiatives to avoid or lessen subsidies.

Mr. Fiddler noted that SDRS resources are not sufficient to provide COLAs that match inflation during periods of very high inflation. Since 2011, the average SDRS COLA of 2.35 percent is just below the average inflation of 2.42 percent for the same period; however, on a cumulative basis since retirement, SDRS COLAs have lagged inflation for about 70 percent of SDRS benefit recipients.

Proposals that impose additional objectives funded by SDRS' limited resources will detract from the ability to provide adequate benefits funded by the fixed modest contributions. Opportunities for employers or members to increase their benefits at the expense of other SDRS members must be opposed. Proposed changes to SDRS must be thoroughly evaluated to ensure they do not endanger future benefits, COLAs, or system sustainability, and actuarial assumptions must remain realistic.

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

Mr. Fiddler stated that based on a FY24 net investment return of 6 percent, the baseline FVFR is expected to be 96 percent at June 30, 2024. As a result, the preliminary estimated 2025 COLA would be equal to inflation within the restricted COLA range of zero to 1.86 percent. Factoring in expected salary losses brings the estimated COLA rage to 1.65 to 1.75 percent. The July 2022 SDRS COLA was 3.5 percent. The first time the full COLA range was affordable under the current COLA process. However, the FY 2023 investment returns caused a restricted maximum COLA of 1.91 percent for July 2024.

In conclusion, advised Mr. Fiddler, FY 2024 returns below approximately negative 10.8 percent would require a corrective action recommendation while returns greater than approximately 9.9 percent would result in the full 0 to 3.5 percent COLA range applying for the July 2025 COLA.

Board Action
No action was necessary.

AGENDA ITEM 10
ASSET ALLOCATION

Summary of Presentation
Ms. Haug; Anne Cipperley, Portfolio Manager; Renae Randall, Senior Investment Manager; Lesyk Voznyuk, Associate Portfolio Manager II; Dan Elmer, Associate Portfolio Manager II; Jake Wehde, Research Analyst; and Ms. Mourer from the South Dakota Investment Office discussed the asset allocation process and application to SDRS. They discussed the recommended benchmark allocation and ranges, expected return and standard deviations, asset category valuation, and the movement of category allocations within ranges based on valuation.

Ms. Cipperley discussed the return and risk assessment of equities and bonds. She showed charts of historic returns noting the dominance of equity returns over the very long term and the diversification benefit during market downturns of mixing in some bonds.

Ms. Haug discussed the recommended benchmark level of equity-like and bond-like risk to balance long-term potential returns with drawdown risk in difficult markets. She indicated this was for the benchmark which should represent what could be adhered to through thick and thin. She discussed the recommended range for equity-like risk and bond-like risk and said the goal is to enter market downturns with below benchmark risk and increase toward maximum during the downturn to benefit from an eventual rebound. She added that after getting to minimums and maximums, markets will typically move further, which can be very painful and that it is essential to be patient for at least another three to five years. Ms. Haug discussed equity-like and bond-like risk mapping for all asset categories. She discussed specific asset categories to be included in the benchmark which are those that are significant and passively implementable. She discussed other niche or skill-based categories which are not in the benchmark but that have a permitted range. She presented the SDRS proposed FY2025 capital market benchmark allocations and minimum/maximum ranges for each asset category.

Ms. Haug reviewed the asset allocation risk/return analysis. The first portion focused on long-term mean expected returns, expected standard deviations, and asset correlations provided by a wall street firm as a proxy for conventional expectations. The analysis was shown again using internal asset category expected returns and internal adjusted risk measures.

Ms. Haug discussed additional risk measures and risk control. She reiterated that the focus is on equity-like risk and bond-like risk which includes embedded equity and bond risk for all categories. She said statistical measures of risk such as standard deviation and correlation are adjusted to reflect higher real-world frequency and magnitude of adverse outlier events and that behavior of some assets in a crisis can vary depending on whether the crisis is rooted in inflation or deflation concerns. She discussed how risk is managed by broad diversification and by reducing amounts invested in expensive assets and that adequate liquidity is maintained to avoid liquidations of depressed assets in a crisis and to allow rebalancing. She stated that participation in the economic system is necessary to get the highest long-term rewards and that short-term ebbs and flows must be endured. She added that strength and determination is important to be able to handle tough markets, which is helped by strong funding built up in good markets and a flexible benefit design.

Ms. Randall discussed asset category valuation. She stated that Equity category valuation is based on estimated future cash flows based on normal earnings and growth rates and a risk impacted discount rate. She discussed adjustments to fair value based on monetary conditions and corporate earnings strength.

Mr. Elmer and Mr. Voznyuk discussed how equilibrium real rates can vary depending on the rate of economic growth. They also discussed the interest rate term premium and impact on the equity discount rate.

Ms. Mourer discussed asset allocation implementation.

Board Action
No action was necessary.

AGENDA ITEM 11
FY 2026 BUDGET REQUEST

Summary of Presentation
Ms. Michelle Mikkelsen, SDRS Chief Financial Officer, stated that SDRS is requesting no additional expenditure authority in the Fiscal Year 2026 budget.

Board Action:
IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. SMITH, TO APPROVE THE FY 2026 BUDGET REQUEST AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
APPOINTMENT OF EXECUTIVE DIRECTOR EVALUATION AND COMPENSATION COMMITTEES

Summary of Presentation
Chair Stroeder stated that he has appointed an executive director compensation committee to consist of himself, Jim Appl, Matt Clark, and Darin Seeley.

He also stated that he has appointed an Executive Director Evaluation Committee to consist of Darin Seeley, Jim Appl, Penny Brunken, and Justice Mark Salter.

Board Action
IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. APPL, TO ADOPT THE EXECUTIVE DIRECTOR COMPENSATION COMMITTEE CHARTER. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MS. BRANT, TO AMEND THE EXECUTIVE DIRECTOR COMPENSATION AND ANNUAL REVIEW PROCESS AND COMPENSATION PHILOSOPHY BY DELETING 20 PERCENT AND INSERTING 10 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 13
APPOINTMENT OF AUDIT COMMITTEE

Summary of Presentation
Chair Stroeder stated that he has appointed an audit committee to consist of Jill Lenards, LaJena Gruis, and Hank Prim.

Board Action
No action was necessary.

AGENDA ITEM 14
OLD/NEW BUSINESS

Summary of Presentation
Conference Attendance
Mr. Almond reminded the Board that there was money available in the budget if there were any Board members who wished to attend a conference.

Upcoming Board Meeting Dates
Mr. Almond discussed the upcoming SDRS Board meeting dates.

Board Action
No action was necessary.

AGENDA ITEM 15
PERSONNEL MATTERS

Summary of Presentation
The Board went into executive session to discuss personnel matters.

Board Action
IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. ALBERTS, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-23-2(1) FOR PERSONNEL MATTERS.

THE CHAIR DECLARED THE BOARD WAS OUT OF EXECUTIVE SESSION.

ADJOURNMENT

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

Respectfully Submitted,

Travis Almond
Executive Director

South Dakota Retirement System Fiduciary Education

September 11, 2024

Presented By:

Robert Gauss

IceMiller
LEGAL COUNSEL

Agenda

Fiduciary Basics

Fiduciary Duties

Recent Fee Litigation

Best Practices for Managing Liability

Other Topics to Watch

Fiduciary Basics

Fiduciary Education

Fiduciary education helps fiduciaries to:

- Understand their fiduciary responsibilities
- Manage liabilities from a legal and compliance perspective

Fiduciary Defined

Look to function and designation

- Function: Discretionary administrative or investment decisions related to the plan
- Designation: Named in a plan, trust document, or statute as a fiduciary
- Trustees – both by function and designation

Internal Revenue Code § 4975(e)(3); ERISA § 3(21)

Who is a Fiduciary?

- The Plan Sponsor determines the scope of authority of the fiduciaries and gives authority to SDRS by statute.
- South Dakota state law names the SDRS Board of Trustees as fiduciaries.
  - SDCL Section 3-12C-202- "The system shall be under the Board of Trustees. The Board of Trustees shall be held to the standard of conduct of a fiduciary and shall carry out its functions solely in the interest of the members and benefit recipients and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred in performing such duties as required by law. The system may not engage in any activity that is not solely designed to provide for the exclusive benefit of the members and benefit recipients of the system. The attorney general is the legal adviser to the board."
  - SDCL Section 3-12C-101(42) defines a "fiduciary" as "any person who exercises any discretionary authority or control over the management of the system or the management or disposition of its assets, renders investment advice for a fee or other compensation, direct or indirect, or has any authority or responsibility to do so, or has any discretionary authority or responsibility in the administration of the system[.]"

Who is <u>not</u> a Fiduciary?

- Subject to contracts, attorneys, accountants, actuaries generally are not fiduciaries when acting in professional capacities.
- Third party administrators and recordkeepers generally are <u>not</u> fiduciaries if solely performing ministerial functions.
- Typically, vendor agreements will affirmatively state that the vendor is not a fiduciary.
- Exception if providing investment advice to participants (*e.g.*, through brokers, relationship managers, or third parties like Ibbotson or Morningstar)
- Exception if providing managed account or rollover advice to participants.

Sources of Fiduciary Duty

Federal Law	State Law	Common Law	Plan Document and Plan-related documents
• **Internal Revenue Code** • **ERISA** (not directly applicable, but excellent resource)	• **Statutory Fiduciary Rules** • **State Constitution**	• **Restatement (Third) of Trusts** (collection of common law) • **Uniform Management of Public Employee Retirement Systems Act (UMPERSA)** (even if not adopted by State - excellent resource)	• **Plan Document** • **Statutes** • **Administrative Code** • **Trust Document** • **Board Policies and Resolutions** • **Board Governance Manual**

Typical Fiduciary Activities:

- Appointing other plan fiduciaries, *e.g.*, investment advisor
- Delegating responsibilities to other fiduciaries
- Selecting/monitoring plan investments
- Acquiring/disposing of plan assets
- Interpreting plan provisions
- Making decisions under the plan

Fiduciary Activities – SDRS Board:

- Under state law, the SDRS Board is not involved in the investment of Plan assets.
- Investment authority rests with the State Investment Council as provided in SDCL 4-5-12.
- The State Investment Officer of the Investment Council is a Board member.
- The Board must "retain the services of an independent contractor, not involved in the investment process, to make a report to the board not less than every four years on the investment performance results of the assets of the retirement funds."
  - SDCL 3-12C-224

Fiduciary Duties

Duty of Loyalty

Duty of Prudence

Duty to Follow Plan Documents

Duty of Loyalty

Duty of Loyalty

Duty to act solely in the interest of participants and beneficiaries

Duty to act for the exclusive purpose of providing benefits or paying reasonable plan expenses

Duty to act independently and without conflicts of interest

Duty to act impartially among differing interests

Duty of Loyalty

"Under the trust instrument it [must be] impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries." Code § 401(a)(2)

This is a tax qualification requirement for retirement plans.

Duty of Loyalty: Exclusive Benefit Rule

- SDCL 3-12C-202 incorporates the duty of loyalty, providing that the Board's functions must be carried out **solely in the interest of the members and benefit recipients** and for the **exclusive purpose** of providing benefits and defraying reasonable expenses incurred in performing such duties as required by law.
- The system may not engage in any activity that is not solely designed to provide for the **exclusive benefit** of the members and benefit recipients of the system.
- The State Investment Council must invest member trust funds in a manner that is solely designed to provide for the **exclusive benefit** of the members and benefit recipients of the system.
  - SDCL 3-12C-223

Duty of Loyalty: Independence

A fiduciary has a duty to act in the interest of the members and beneficiaries **as if there were no other competing interests to protect.**

- Cannot act for fiduciary's own personal or business interest.
- Cannot be influenced by the interest of any third person.
- **Must set aside the interests of the party that appoints the fiduciary.**
- **Not an agent for the party that appoints fiduciary.**

Requires **undivided loyalty** to participants and beneficiaries.

Duty of Loyalty: Independence

A trustee who wears "two hats" can only wear the trustee's fiduciary hat when acting in fiduciary capacity as an SDRS Board member.

Interests relating to the "other hat"—be it teacher, state employee, retiree, governor's office, etc.—must be set aside. The Board member can only act in the independent, undivided interests of the members and beneficiaries.

Board members are not there to represent the interests of the group that elected or appointed them.

Duty of Loyalty: Independence

"Many forms of conduct permissible in a workday world for those acting at arm's length, are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the marketplace."

- Meinhard v. Salmon, 164 NE 545, 546 (NY Ct. App. 1928)

"Independence is required because it permits trustees to perform their duties in the face of pressure from others who may not be subject to such obligations."

- UMPERSA Comments on § 5

Duty of Loyalty: Impartiality

- A fiduciary owes a duty of loyalty to **all participants and beneficiaries**, and respecting that duty requires the fiduciary to be **impartial among differing interests**
- Prevents application of assets for personal use, self-dealing, competition with trust, or improper benefit

Duty of Loyalty: Impartiality

Balance the interests of retirees, active, and inactive participants

Balance roles with regard to different types of participants (employees of public schools, public safety employees, the State, local government, etc.)

Duty of Impartiality

UMPERSA Commentary: "Differing interests are inevitable in the retirement system setting. Differences can arise between retirees and working members, young members and old, long-and short-term employees, and other groupings of those with interests in the retirement system. <u>The duty of impartiality does not mean that fiduciaries must accommodate such interests according to some notion of absolute equality. The duty of impartiality … requires that such decisions be made carefully and after weighing the differing interests</u>."

Duty of Impartiality – South Dakota Law

"As a fiduciary, Board had a duty to act in the highest good faith and to refrain from obtaining any undue advantage over members. In dealing with a member, Board had a duty to act primarily for the benefit of the member."

O'Toole v. Bd. Of Trustees of S. Dakota Ret. Sys., 2002 S.D. 77, ¶ 12, 648 N.W.2d 342, 346 (*internal citations omitted*)

Trustees owe a duty of loyalty, which entails preserving trust assets and managing the trust solely in the interest of beneficiaries.

Willers v. Wettestad, 510 N.W.2d 676, 680 (S.D. 1994)

A trustee may not use or deal with the trust property for their own profit or for any other purpose unconnected with the trust.

In re Estate of Stevenson, 2000 S.D. 24, ¶ 9, 605 N.W.2d 818, 821

Duty of Impartiality – State Conflict of Interest Policy

- The State has published a "Code of Conduct and Conflict of Interest Policy for Use By State Authority, Board, Commission, and Committee Members"
  - https://boardsandcommissions.sd.gov/information/BCMeetingGuidelinesSD.pdf
- "A conflict of interest exists when a Board member has an interest in a matter that is different from the interest of members of the general public. Examples of circumstances which may create a conflict of interest include a personal or pecuniary interest in the matter or an existing or potential employment relationship with a party involved in the proceeding."
- SDRS Board members are required to comply with additional conflict of interest provisions found in SDCL Chapter 3-23 and are required to make an annual disclosure of any contract in which they have or may have an interest or from which they derive a direct benefit.
  - https://atg.sd.gov/Legal/OpenGovernment/authorityboardcommission.aspx

Duty of Impartiality – Oregon Supreme Court Case

- The Oregon Supreme Court has held that common law trust principles require a public pension board to consider not only the amount of income or near-term benefits to beneficiaries, but also the need to preserve and protect the fund corpus.
- The Court noted this is particularly important where the fund has tens of thousands of beneficiaries in widely varying circumstances, including active participants just entering service to active participants close to retirement, as well as retirees in various stages of retirement. The Board must fulfill its duty of impartiality.
- "[The Board] must first comply with specific statutory mandates and prohibitions and, when exercising its discretion beyond those requirements, must consider the diverse interests of PERS and ***all*** PERS beneficiaries." *White v. Public Employees Retirement Board,* 268 P.3d 600 (Or. 2011)(Emphasis in the original.)

Duty of Loyalty - Plan Expenses

- A fiduciary shall discharge duties with respect to a plan incurring only costs that are appropriate and reasonable to administer the plan.
- Only reasonable plan expenses can be paid from trusts.

Duty of Prudence

Duty of Prudence

Duty to act with the care, skill, prudence, and diligence that a prudent person would exercise in managing their own affairs

Duty to be informed

Duty to delegate responsibilities outside of experience

Duty to diversify investments

Duty of Prudence – Be Informed

The fiduciary has a duty to **be informed** with respect to the decisions they are required to make.

Regularly attend meetings.

Review materials provided at meetings.

Request materials and ask questions to ensure adequate information before taking action.

Be familiar with governing documents, including the statutes and administrative guidance applicable to the plans.

Secure and consider advice of experts on reasonable basis but exercise independent judgment.

Duty of Prudence: Delegation

"If you don't know jewelry, know the jeweler."

- Warren Buffett

Duty of Prudence: Delegation

A fiduciary can delegate functions that a prudent fiduciary acting in a like capacity and familiar with those matters could properly delegate.

A fiduciary has a duty to delegate responsibilities outside of the fiduciary's expertise.

Delegation should not be overly broad and must be consistent with duties of care and caution, *e.g.*, terms of delegation must be prudent.

Duty of Prudence: Delegation

Documentation should be clear and consistent.

- Set out specific duties in writing
- Ensure all delegated acts are approved by the fiduciary
- Require the delegate accepts all assigned duties

Delegation is a fiduciary act.

- Imposes duties of care, skill, and caution on the trustee and administrator in selecting an agent, in establishing the terms of the delegation, and in reviewing the agent's compliance.

Duty of Prudence: Delegation

Prudent selection and retention of expertise.

May reasonably rely on expertise.

Failure to follow expertise could be a violation of fiduciary duties.

- If a fiduciary does not have the knowledge/skills, they must consult/hire an expert pursuant to a prudent process.

Retain reasonable oversight and ask appropriate questions.

Affirmative Duty to Follow Plan Document

Fiduciary duty to administer a plan in good faith in accordance with its written terms – "by the book."

Plan includes the statutes, administrative rules, and administrative procedures/policies	Consistent interpretation and administration	Timely update for legally required changes	Timely correct plan errors

Burden on fiduciary to understand the governing documents of the plans, and the context in which the plans exist.

Negative Duties: Prohibited Transactions

A fiduciary may not:	
	Deal with plan assets in their own interest.
	Pay unreasonable compensation for services performed.
	Make a purchase for more than adequate consideration or a sale for less than adequate consideration.
	Act on behalf of a party whose interests are contrary to the plan or participants.
	Receive anything of value from any party in connection with a transaction involving plan assets.

Key Takeaways

Highest duty under the law.

Objective standard:

- **Prudent “person" standard.**
- **Good faith is not sufficient.**
- **If you don’t know, learn or hire an expert.**

If it is not documented, it cannot be substantiated.

Fiduciary Liability

Fiduciary Liability – State Law

A Board member who violates conflict of interest laws may be removed from the Board and may be subject to criminal prosecution

See SDCL 3-16-7, 5-18A-17.4, and 22-30A-46.

Fiduciary Liability

Personal liability for breach of fiduciary duty.

Restore to the plan any losses resulting from a breach of fiduciary duty.

Restore to the plan any profits made by the fiduciary though use of plan assets.

Other equitable or remedial relief as the court may deem appropriate.

May be liable for a cofiduciary's breach of fiduciary duty if a fiduciary enables another fiduciary to commit the breach, knowingly participates in or conceals the breach, or discovers the breach but does not take steps to remedy.

Best Practices for Managing Liability

Sovereign Immunity

State Constitution or statutes may provide some protection

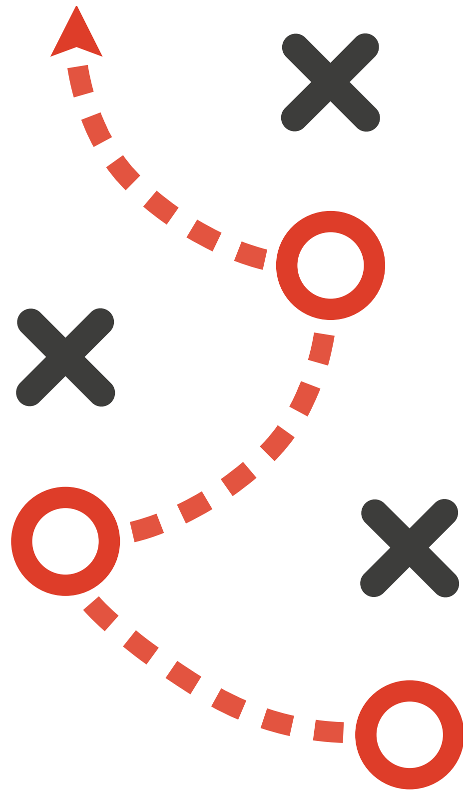
The Focus On Process

- Focus on **procedural prudence**
- Courts have held the test of prudence is one of conduct and process, and not one of result
  - "*Trustees and fiduciaries are not insurers. Not every investment or management decision will turn out in the light of hindsight to have been successful. Hindsight is not the relevant standard*."

UMPERSA § 10(1); see also Restatement (Third) of Trusts

The Focus On Process

- There is no one "right" way to achieve procedural prudence
- Important to have a good, documented process
- Critical to follow that process
- Critical to retain expertise where needed and understand expert advice
- Know and follow plan advice



Managing Fiduciary Risk

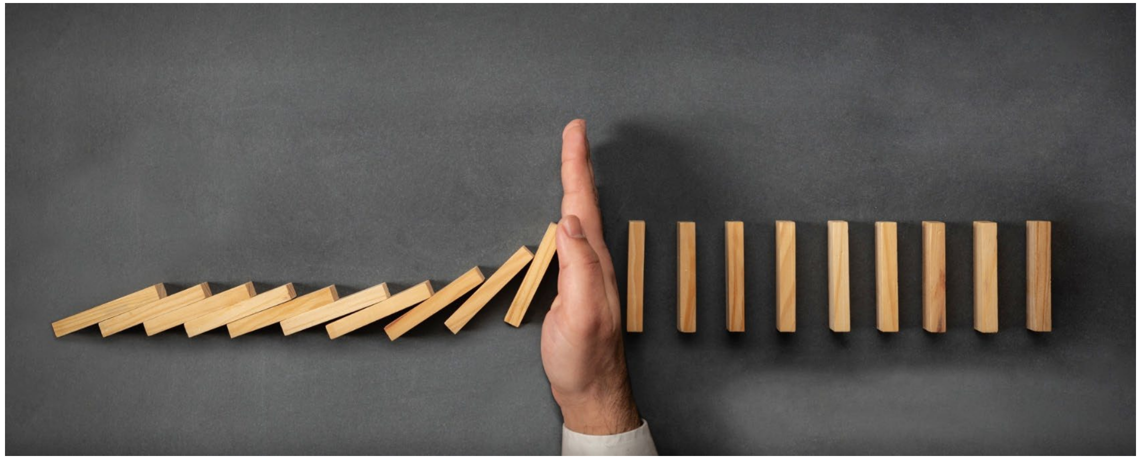
Adopt written prudent processes and procedures and follow them:

- Governance Policy
- Conflicts of Interest Policy
- Ethics Policy
- Charters for Committees
- Investment Policy Statement
- Cyber and Data Security Policy

Consider facts and circumstances that fiduciary knows or should know are relevant.

Managing Fiduciary Risk

- Document decisions and the basis for decisions
- Conduct periodic training of fiduciaries
- Properly allocate fiduciary roles in writing
- Conduct financial and management audits
- Provide accurate member communications



Managing Fiduciary Risk

For delegated duties:

- Properly select those to whom duties are delegated *e.g.*, monitoring performance of actuary and supervisory staff

Retain expertise where needed

Consider fiduciary insurance for the Board

Avoid conflicts of interest

Managing Fiduciary Risk

Due diligence in selecting and monitoring actuaries/other consultants and advisors

Prudently select and monitor investments and actuarial assumptions

Understand plan expenses

Get competitive bids from service providers

Negotiate contracts with service providers

Other Topics to Watch

Cybersecurity

On April 12, 2021, the DOL issued three pieces of cybersecurity guidance for retirement plans clearly stating that cybersecurity is a fiduciary issue.

Several recent lawsuits against recordkeepers as a result of theft of plan accounts.

Focus on call center vulnerabilities.	Request restoration of account.	Allege fiduciary duty to put in place adequate cyber theft protection.

Some recordkeepers are now covering losses due to unauthorized activity so long as member safeguards account access information and reports fraud immediately.

ARTIFICIAL INTELLIGENCE

Liability Risk

Privacy

Bias

Accuracy

Intellectual Property

Transparency

Best Practices for Mitigation

Appropriate guardrails and governance

Update employee policies and provide training

Review contractual terms and privacy policies for AI

Incorporate AI into third-party and data privacy risk assessments

Correction of Overpayments

Under the SECURE 2.0 Act of 2022, effective Dec. 29, 2022, qualified plans are provided flexibility in regard to seeking recovery of inadvertent benefit overpayments.

A qualified plan such as SDRS is not disqualified as a result of an inadvertent benefit overpayment, but fiduciary obligations still apply.

It is important to apply consistent correction procedures for similarly situated participants.

We anticipate the IRS will issue further guidance on recovery of inadvertent benefit overpayments.

MISSING PLAN PARTICIPANTS

A member or beneficiary is considered "missing" or "lost" when they leave a partially or fully vested account balance in the plan, and then fail to provide either SDRS or the service provider their current address.

Liability Risk

Failure to comply with RMD rules	IRS audits

Best Practices for Mitigation

Review and update records and procedures to locate lost participants	Coordinate searches with record keepers and other service providers	Utilize commercial locator services, internet search tools, DOL search methods

ESG Considerations

- Next area of expanded litigation is ESG = Environmental, Social, Governance; has attracted local and national political attention.
- ESG investing is a model of investing where investments are (or are not) selected in part for their **collateral** economic or social benefits apart from the investment return to the retirement plan investor.
- Litigation involves whether ESG factors may be considered in investment related decisions.
- 3-12C-223-Prohibits assets from being managed for social investment and promotes compliance with federal divestiture enactments

Questions?

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South Dakota RS

CEM Benchmarking

CEM admin benchmarking results FY2023

September 11, 2024

Started in 1999, CEM's pension admin ("PABS") database contains ~55 million members, collected directly from 80 leading systems.

50 million

Members in the PABS database (2022)

80

Systems in the PABS database (2022)

25

Years since PABS database inception

Number of participating systems by geography

Geography	Small[1]	Medium[2]	Large[3]
USA	14	11	9
Canada	7	4	2
Europe	5	3	3
UK	7	8	7
Total Row	**33**	**26**	**21**

[1] Fewer than 250,000 active members and annuitants
[2] 250,000 - 500,000 active members and annuitants
[3] More than 500,000 active members and annuitants

How you can use CEM's pension administration benchmarking service:

Measure and Manage Costs

Understand the factors influencing costs with detailed peer analysis of:

- Staff Costs
- Transaction Volumes
- Productivity

Measure and Manage Service

An analysis of over 120 key performance metrics that compares:

- Your service levels relative to peers
- Service areas to improve or reduce

Global Best Practices

Leveraging and sharing the wealth of knowledge and expertise that exists among CEM clients, the CEM team, and other industry experts through exclusive:

- Conferences and Workshops
- Online Peer Intelligence Network (PIN)
- Insights Research Papers

Key takeaways:

Cost

- Before adjusting for economies of scale, your total pension administration cost of $64 per member was $16 below the peer average of $80.
- Between 2016 and 2023, your total pension administration cost per member decreased by 1% per annum.
- During the same period, the average cost of your peers with 8 consecutive years of data increased by 1.5% per annum.

Service

- The CEM service model was updated to capture the change in digital adoption and transformation in the pension industry over the last eight years. It also takes a more member-centric view: scores are calculated by member journey.
- Your total service score was 78. This was above the peer median of 76.
- Your service score has increased from 68 to 78 between 2016 and 2023.

CEM's universe of leading global pension participants:

Participants

United States
- Arizona SRS
- CalPERS
- CalSTRS
- Colorado PERA
- Delaware PERS
- Florida RS
- Idaho PERS
- Illinois MRF
- Indiana PRS
- Iowa PERS
- KPERS
- LACERA
- Michigan ORS
- Minnesota State RS
- North Carolina RS
- Nevada PERS
- New Mexico PERA
- NYC TRS
- NYCERS
- NYSLRS
- Ohio PERS
- Oregon PERS
- Pennsylvania PSERS
- PSRS PEERS of Missouri
- South Dakota RS
- STRS Ohio
- TRS Illinois
- TRS Louisiana
- TRS of Texas
- University of California RP
- Utah RS
- Virginia RS
- Washington State DRS

Canada
- Alberta Pension System
- Alberta Teachers RS
- BC Pension Corporation
- Canadian Forces PP
- Federal Public Service PP
- LAPP of Alberta
- Municipal Pension Plan of BC
- Ontario Pension Board
- Ontario Teachers
- OPTrust
- RCMP

The Netherlands*
- ABP
- Metaal en Techniek
- PFZW

Australia
- ESS Super

Denmark
- ATP

South Africa
- Eskom

United Kingdom*
- Armed Forces Pension Scheme
- BSA NHS Pensions
- BT Pension Scheme
- Greater Manchester PF
- Hampshire Pension Services
- Kent Pension Fund
- Local Pensions Partnership
- Lothian PF
- Merseyside PF
- Pension Protection Fund
- Principal Civil Service
- Railpen
- Royal Mail Pensions
- Scottish Public Pensions Agency
- South Yorkshire Pensions
- Surrey County Council
- Teachers' Pensions
- Tyne & Wear PF
- Universities Superannuation
- West Midlands Metro
- West Yorkshire PF

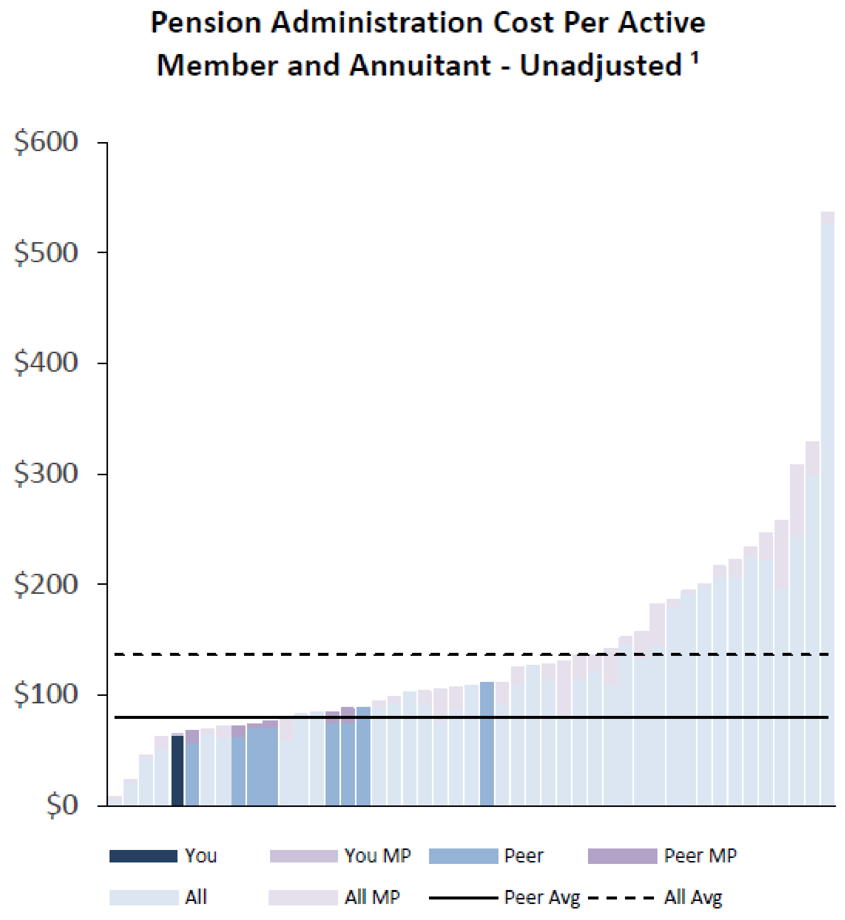
* Systems in the UK and most systems in the Netherlands complete different benchmarking surveys and hence the analysis does not include their results.

The custom peer group for you consists of the following 9 peers:

Custom Peer Group for South Dakota Retirement System			
	Membership (in 000's)		
Peers (sorted by size)	Active Members	Annuitants/ Retirees	Total Members
Kansas PERS	152	113	265
PSRS PEERS of Missouri	130	107	237
Nevada PERS	112	82	194
TRS Louisiana	95	85	180
Utah RS	98	76	174
Idaho PERS	74	53	128
Minnesota State RS	58	54	112
PSRS PEERS of Missouri	46	34	79
South Dakota RS	**43**	**33**	**76**
Peer Median	95	76	174
Peer Average	90	71	161

Inactive members are not considered when selecting peers because they are excluded when determining cost per member. They are excluded because they are less costly to administer than either active members or annuitants.

Before adjusting for economies of scale, your total pension administration cost of $64 per member was $16 below the peer average of $80.



1. Major project costs are denoted by the lighter shading on the bars. These one-off costs correspond to administration projects only.

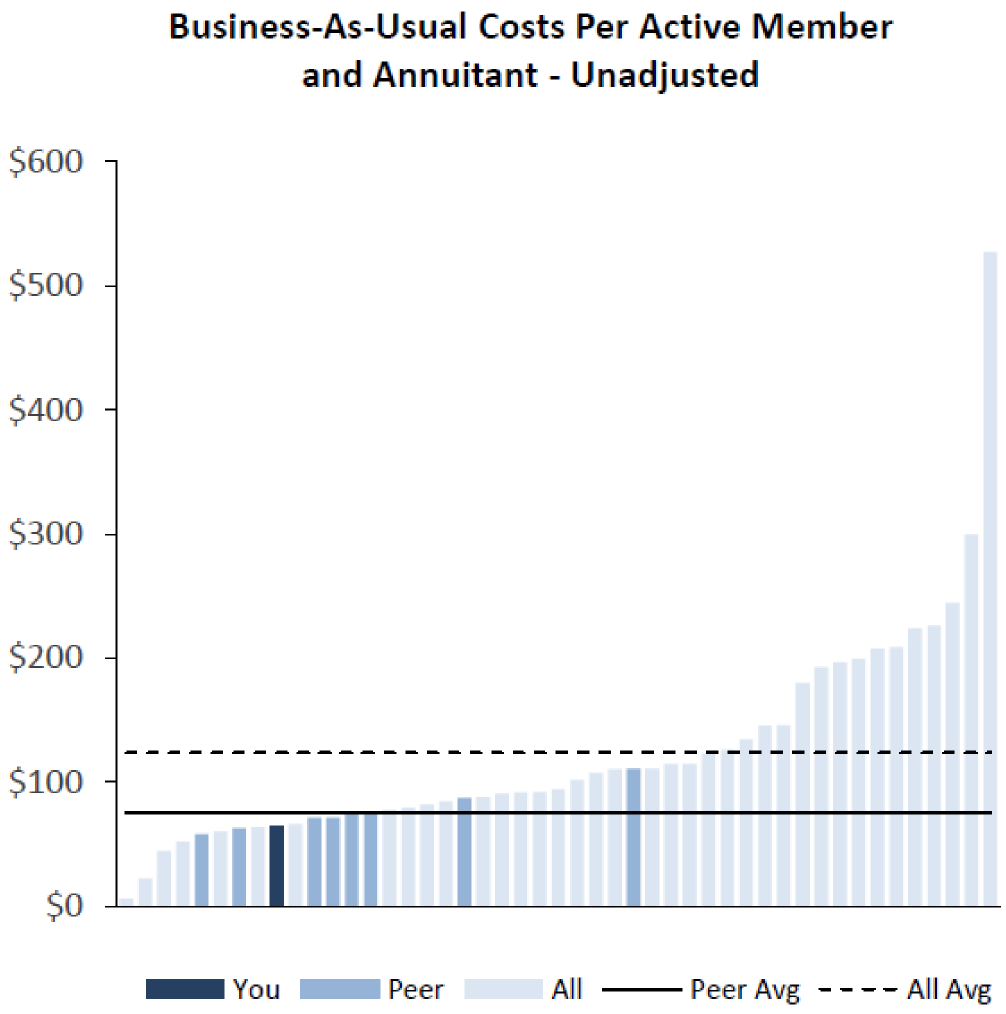
	$000s	$ per Active Member and Annuitant	
Category	You	You	Peer Avg
Business-As-Usual Costs	4,869	64	75
Major Project Costs [1]	12	0	5
Total Pension Administration	4,882	64	80

We include costs that are directly related to pension administration (e.g., staff costs or an third-party costs) plus attributions of governance, financial control, IT, building and utilities, HR, support services and other costs.

The costs associated with investment operations and investment management are specifically excluded.

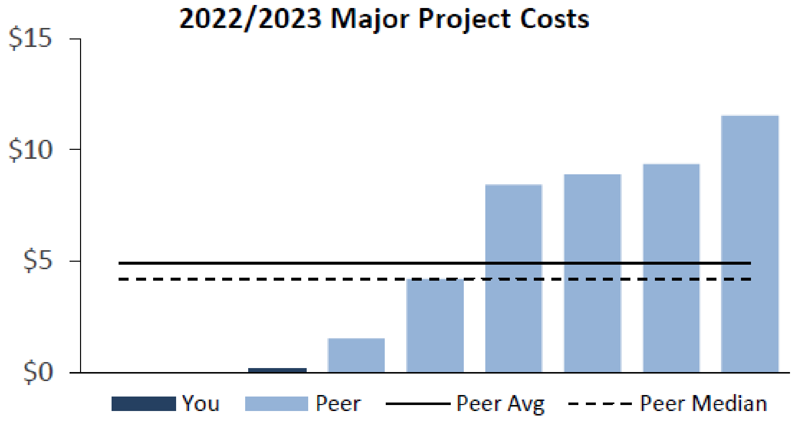
Your total pension administration cost $4.9 million also excludes the fully-attributed cost of administering healthcare, and optional and third-party administered benefits of $0.3 million.

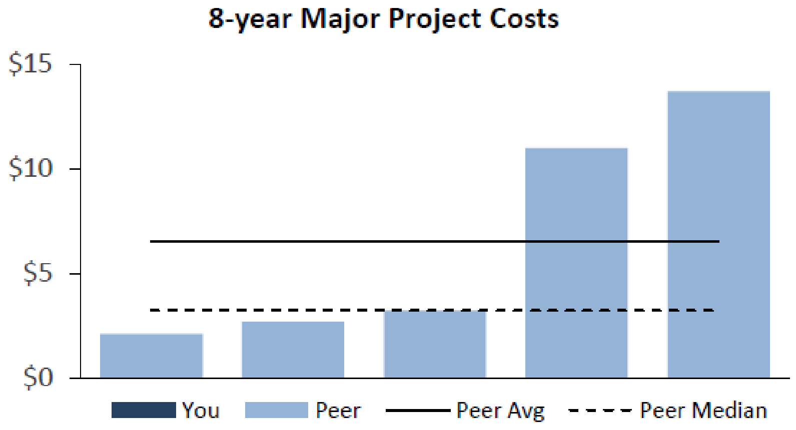
Your Business-As-Usual (BAU) costs of $64 per member was $11 below the peer average of $75.



	$000s	$ per Active Member and Annuitant	
Category	You	You	Peer Avg
Front office			
Member Transactions	646	9	14
Member Communication	939	12	14
Collections & Data Maintenance	240	3	5
Governance and support			
Governance and Financial Control	877	12	8
Information Technology	658	9	19
Building	202	3	3
HR	55	1	1
Actuarial	416	5	2
Legal	176	2	3
Audit	317	4	3
Other Support Services	344	5	3
Total Pension Administration	4,869	64	75

Your Major Projects costs of $0 per member was $5 below the peer average of $5.





1. These costs are averaged over as many years as possible based on the system participation record, with a maximum of 8 years. Systems that have submitted less than 8 years of data are excluded.

	Major Project Cost $000s	$ per Active Member and Annuitant	
Category	You	You	Peer Avg
Single year 2022/2023	12	0.16	5
Multi-year average[1]	n/a	n/a	7

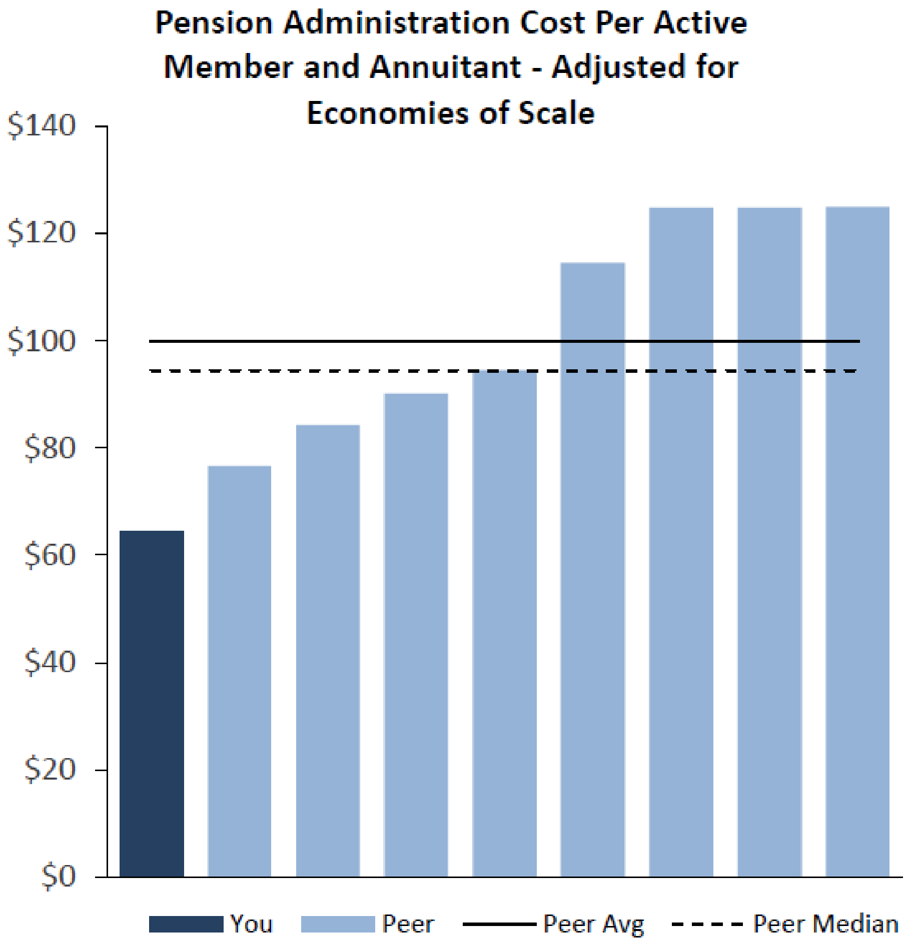
What is included in major project costs:

- One-off costs that were not capitalized.
- Current year amortization on capitalized costs.
- Excluding attributed costs for healthcare, and optional and third-party administered benefits, if applicable.

Project costs reported this year by you:

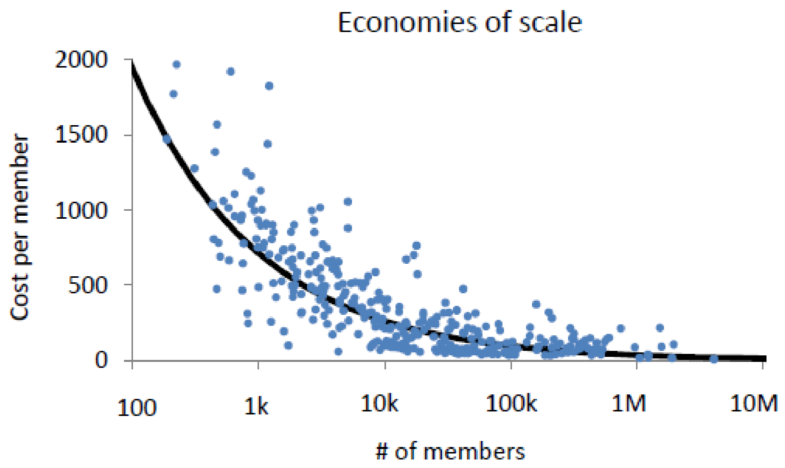
- 2023 Website (B2B)

You had an economies of scale disadvantage relative to the peer average. After adjusting the cost of each peer for its scale advantage/disadvantage, your cost was $36 below the peer average of $100.



Your system had 49% fewer members than the peer weighted average. Your smaller size means that you had a scale disadvantage of $20 relative to the peer average.

The scale adjustment is based on regression analysis using cost and membership data from 370 global pension plans. Approximately 70% of differences in cost per member can be explained by differences in size.



Each peer's cost was adjusted for its scale advantage/disadvantage relative to your system.

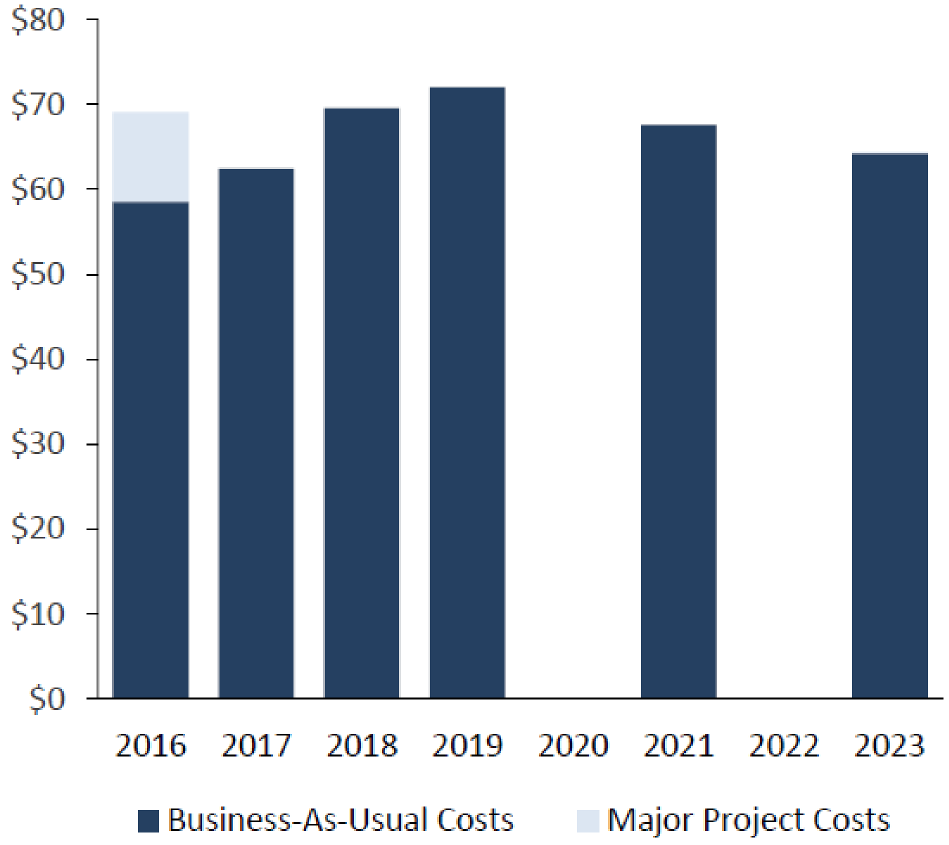
Reasons why your pension administration cost per member was $36 below the peer average:

Reason		You	Peer Avg	Impact $ per active member and annuitant
1	Fewer front-office FTE per 10,000 members	1.9 FTE	3.4 FTE	-$14
2	Higher third-party costs per member in the front office	$9	$7	$2
3	Lower costs per FTE	$106,457	$115,575	-$5
4	Lower support costs per member			
	Governance and Financial Control	$12	$8	
	Major Projects	$0	$5	
	IT Strategy, Database, Applications	$8	$13	
	IT Security	$0	$2	
	Actuarial, Legal, Audit, Other	$18	$11	
	Total*	$38	$38	$1
Total unadjusted				-$16
Adjustment for your economies of scale disadvantage				-$20
Total after adjusting for economies of scale				-$36

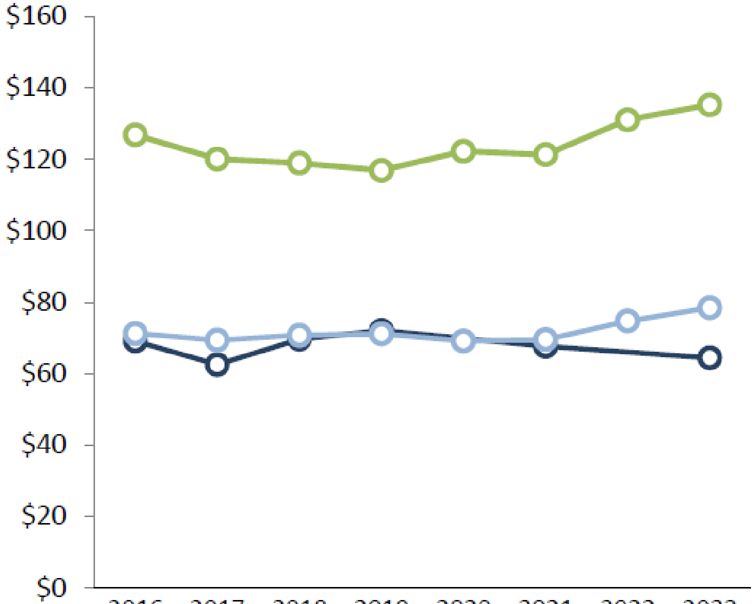
*Totals do not add due to rounding.

Your total cost per member decreased by 1.0% per annum between 2016 and 2023.

Your Pension Administration Cost Per Active Member and Annuitant Trend



Pension Administration Cost Per Active and Annuitant Trend



	2016	2017	2018	2019	2020	2021	2022	2023
You	$69	$63	$70	$72		$68		$64
Peer Avg [1]	$71	$69	$71	$71	$69	$70	$75	$78
All Avg [1]	$127	$120	$119	$117	$122	$121	$131	$135

1. Trend analysis is based on systems that have provided 8 consecutive years of data (5 of your 9 peers and 34 of the 47 systems in the universe).

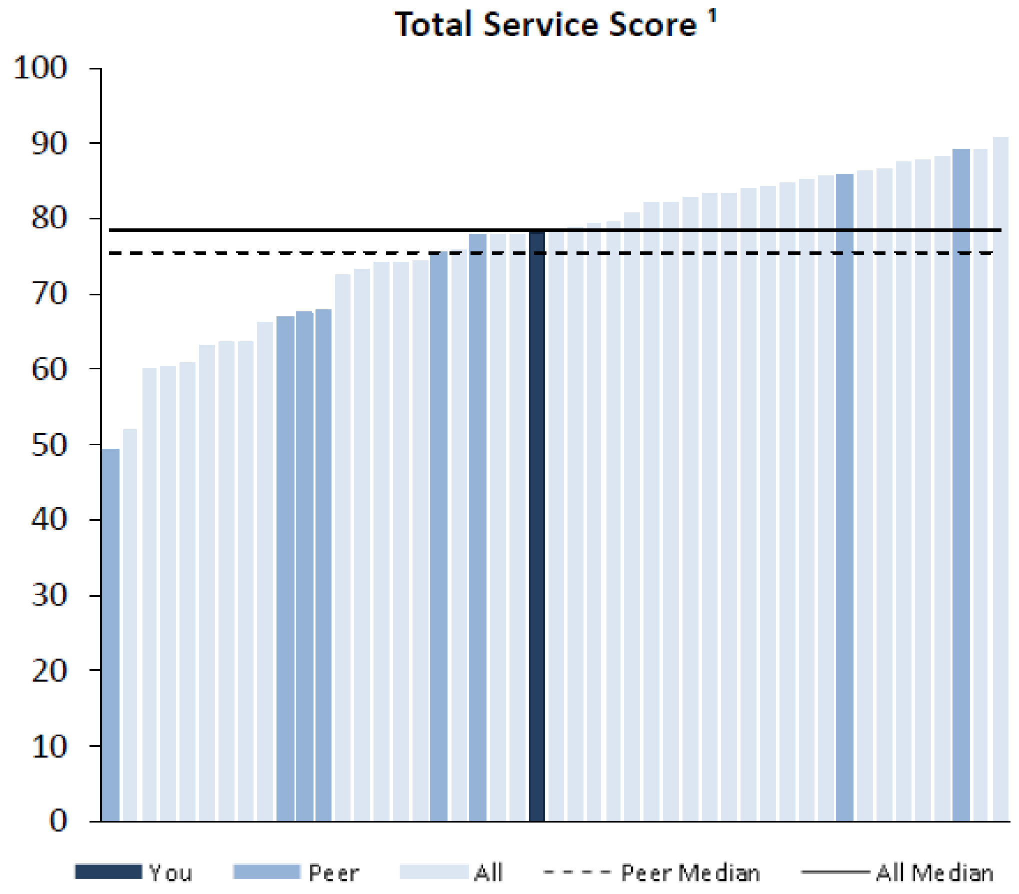
CEM's service score methodology was updated to reflect global pension administration trends.

- It has been eight years since the service methodology was last updated.
- The pandemic has accelerated digital adoption and transformation.
- Digital-first is now considered the highest service level by most members for transactions.

Key changes:

- The service score takes a more member-centric view of service: member journeys.
- Service metrics were added for digital member services and targeted campaigns.
- The service weights for digital activities were increased.
- Service metrics that are less relevant today were removed from the service model.
- Thresholds for maximum points have been updated to reflect new norms.
- Historical scores have been restated to reflect changes in methodology and will differ from previous reports.

Your total service score was 78. This was above the peer median of 76.



1. The service score methodology was updated this year. Based on last year's service model, your service score would have been 71, which was below the all median of 74.

Looking at cost in isolation is unhelpful. Context is required, as is a means to measure value for money. CEM believes the right measure is member service, or the service score.

Service is defined from a member's perspective. Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality.

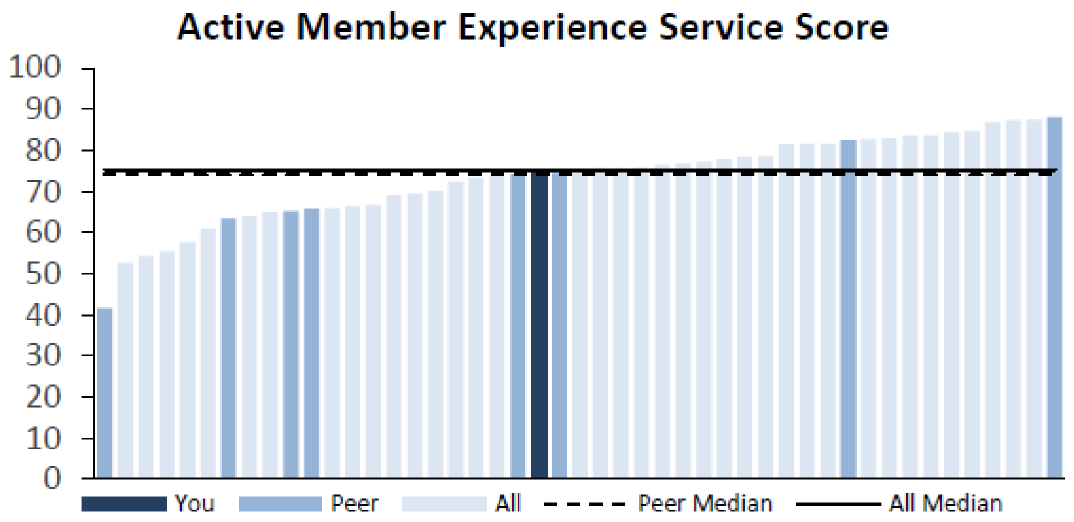
Higher service is not necessarily cost-effective. For example, the ability to answer the telephone 24 hours a day is higher service, but not cost effective.

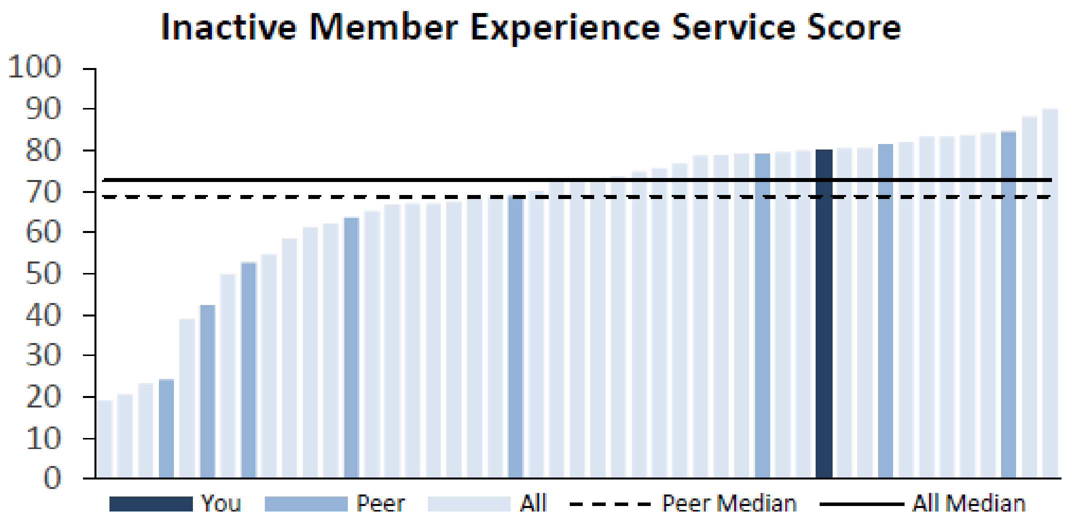
Your total service score is the weighted average of the service scores for each of the four member journeys below.

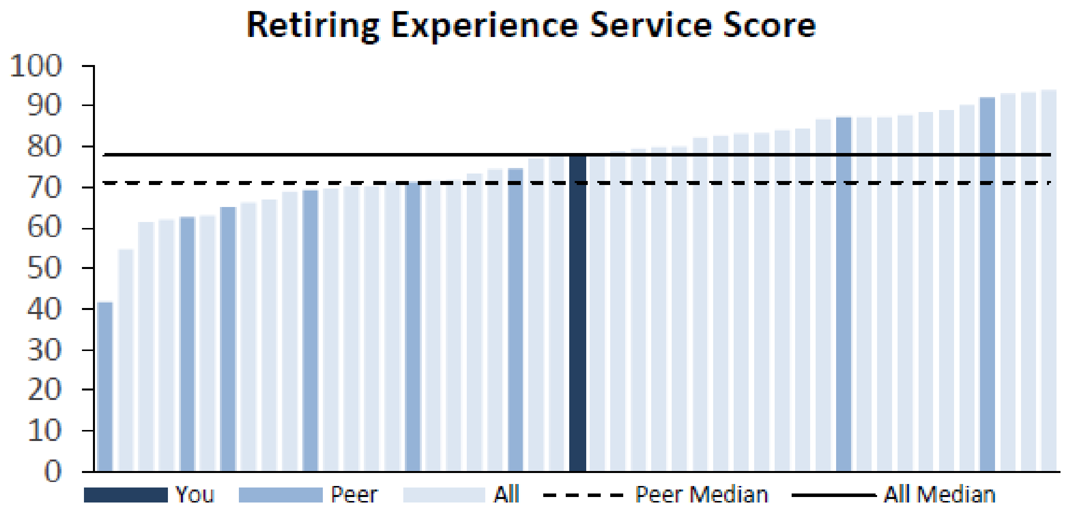
Service Scores by Journey

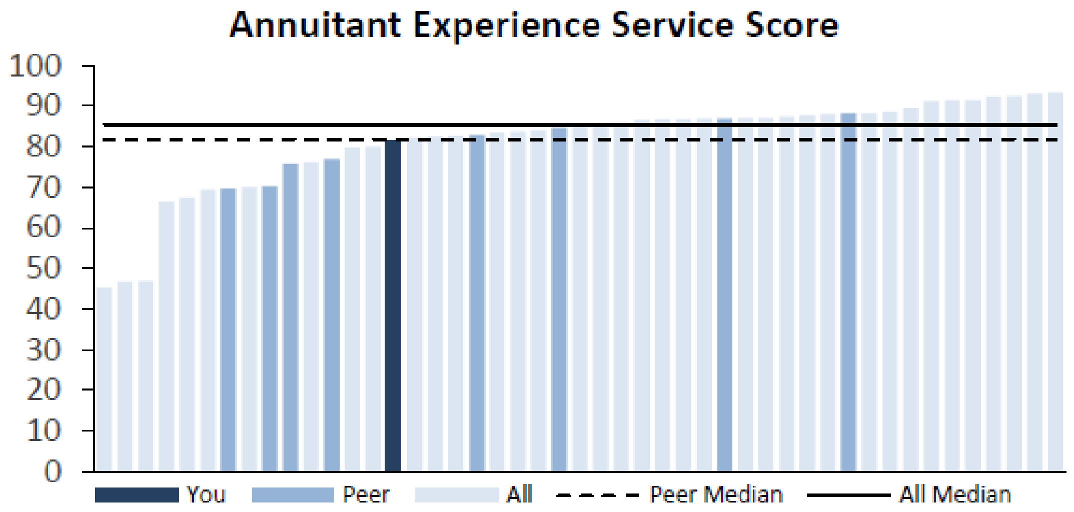
Journey	Weight	You	Peer Median
Active member experience	30%	75	74
Inactive member experience	5%	80	69
Retiring experience	35%	78	71
Annuitant experience	30%	82	82
Total service score	100%	78	76

Service score by member journey and activity:









Key outliers influencing your total member service score relative to peers:

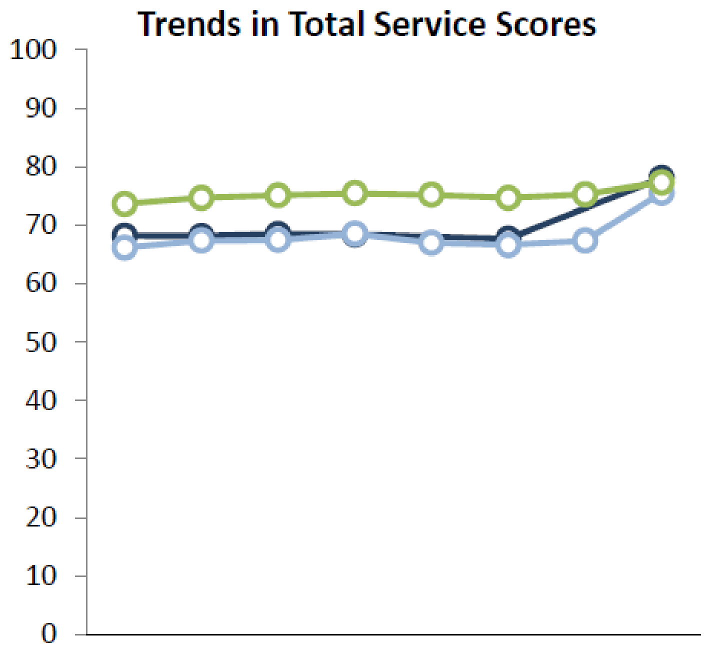
Higher than peers:

- Some online metrics compare well – you have more email addresses for members, and your online calculator is more fulsome than peers.
- You had faster turnaround times for some activities:
  - Service credit purchase estimate (3 days vs. 24.4 days)
  - Transfer-in applications (1 month vs. 3 months)
  - Written pension estimates (1 day vs 5.7 days)
- Your contact center performs well:
  - No menu layers
  - Lower wait time (45 seconds vs. 142 seconds)
  - Your agents have information about previous calls/emails.

Lower than peers:

- Some online channels do worse – you don't email members when statements are available online, and there is some missing online functionality:
  - Salary and service credit history (44% of peers),
  - Upload functionality (33% of peers),
  - Change communication preferences (42% of peers).
- You did not review contact center calls for coaching purposes. Two thirds of peers did.
- Your annuitants receive a general newsletter. Most (83%) of your peers send a targeted one.

Your service score increased from 68 to 78 between 2016 and 2023.



	2016	2017	2018	2019	2020	2021	2022	2023
You	68	68	68	68		68		78
Peer Avg [1]	66	67	67	69	67	67	67	75
All Avg [1]	74	75	75	75	75	75	75	77

1. Trend analysis is based on systems that have provided 8 consecutive years of data (5 of your 9 peers and 34 of the 47 systems in the universe).

2. Historic scores have been restated to reflect changes in methodology. Your historic service scores will differ from previous reports.

Improvements made since 2021:

- Your members can change physical and email addresses through the secure web portal again. This functionality was removed in 2020 for security reasons.
- Your members now have a secure mailbox.

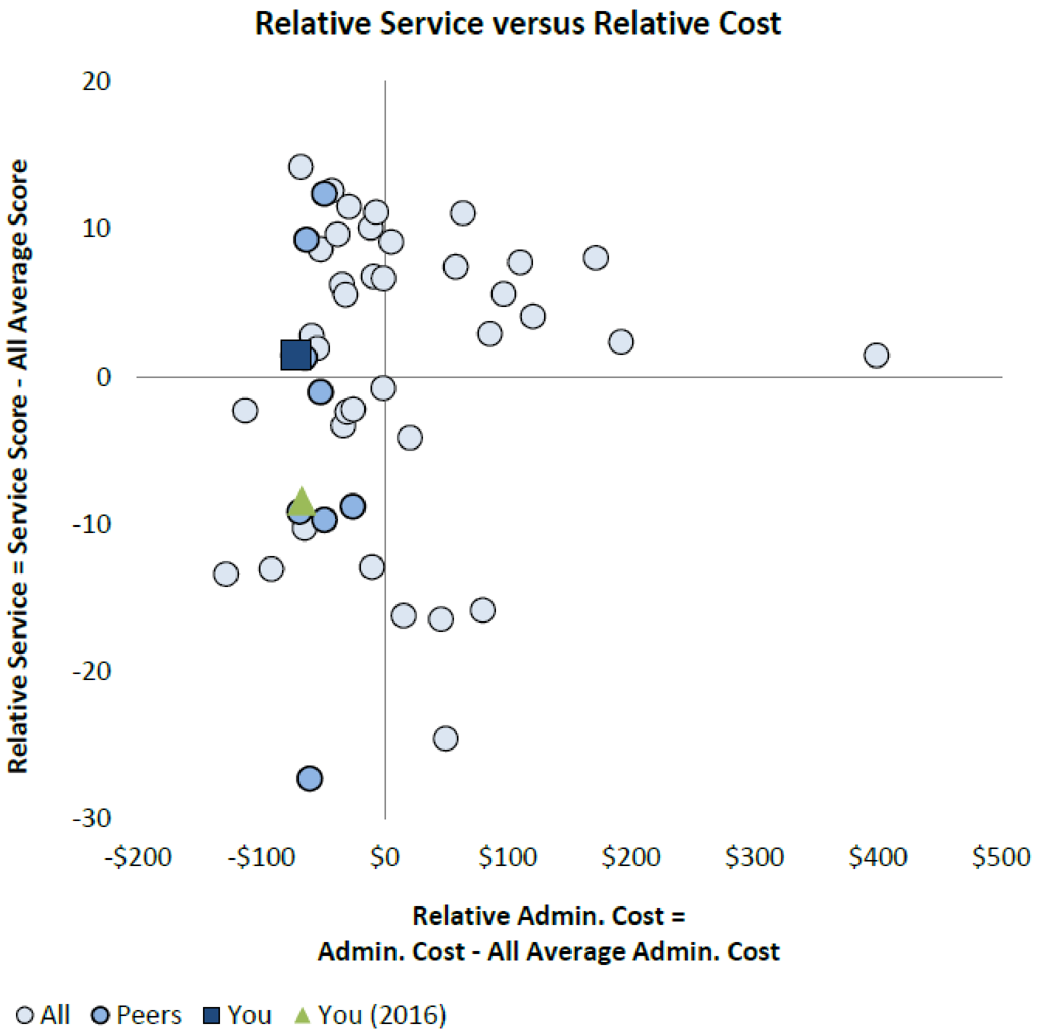
Changes that had a negative impact compared to 2021:

- You stopped surveying your members regarding their use of the secure area on your website.

Longer term changes:

- Starting in 2019, members had access to salary and service credit data that is up-to-date to their most recent pay period.
- You expanded your customer experience program, adding the retirement journey in 2020 and leaving the plan journey this year.

The relationship between service and pension administration in the CEM universe:



Key takeaways:

Cost

- Before adjusting for economies of scale, your total pension administration cost of $64 per member was $16 below the peer average of $80.
- Between 2016 and 2023, your total pension administration cost per member decreased by 1% per annum.
- During the same period, the average cost of your peers with 8 consecutive years of data increased by 1.5% per annum.

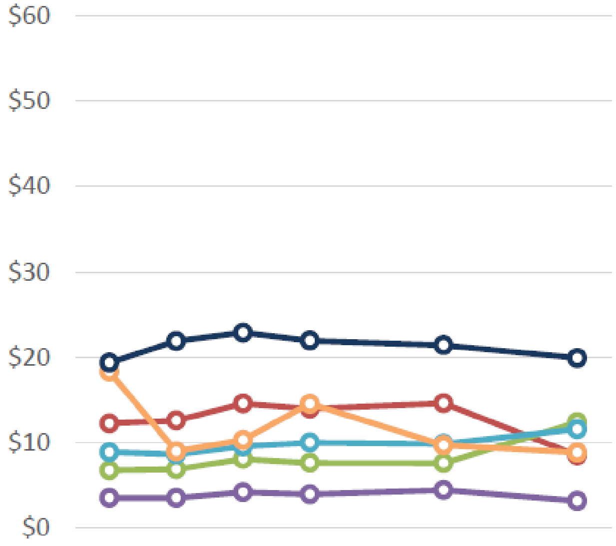
Service

- The CEM service model was updated to capture the change in digital adoption and transformation in the pension industry over the last eight years. It also takes a more member-centric view: scores are calculated by member journey.
- Your total service score was 78. This was above the peer median of 76.
- Your service score has increased from 68 to 78 between 2016 and 2023.

Improving and/or replacing legacy systems is impacting the costs for most systems.

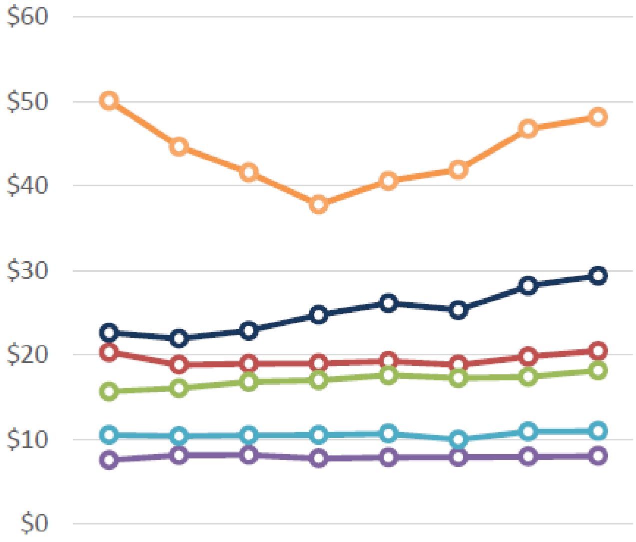
Total Pension Administration Costs per Member by Activity

You



	2016	2017	2018	2019	2020	2021	2022	2023
IT and Major Projects	18	9	10	15		10		9
Member Transactions	12	13	15	14		15		9
Member Communication	7	7	8	8		8		12
Collections and Data	4	4	4	4		4		3
Governance	9	9	10	10		10		12
Support	19	22	23	22		21		20

All Avg [1]



	2016	2017	2018	2019	2020	2021	2022	2023
IT and Major Projects	50	45	42	38	41	42	47	48
Member Transactions	20	19	19	19	19	19	20	20
Member Communication	16	16	17	17	18	17	17	18
Collections and Data	8	8	8	8	8	8	8	8
Governance	11	10	10	11	11	10	11	11
Support	23	22	23	25	26	25	28	29

1. Trend analysis is based on 34 systems that provided 8 consecutive years of data.

Pension service organizations globally are experience significant changes.

Digitalization

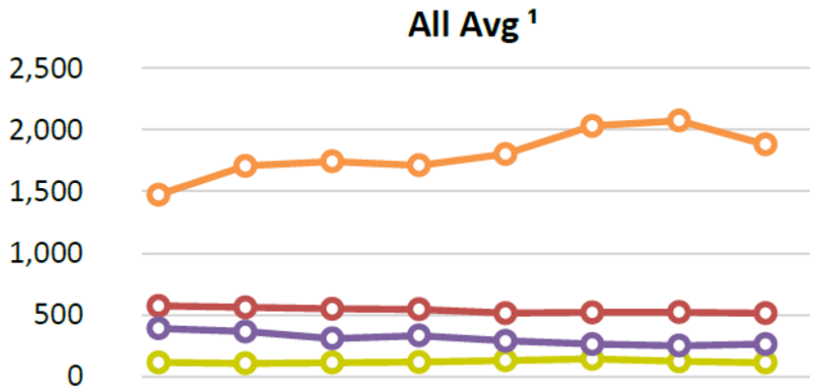
- Members have higher expectations based on their interactions with companies in other industries.
- Upgrading or replacing legacy systems is impacting the costs for most organizations.
- As digitalization increases, there is a growing concern about cybersecurity and data quality…
- … and there are opportunities with robotic automation and AI.

Post-pandemic impacts

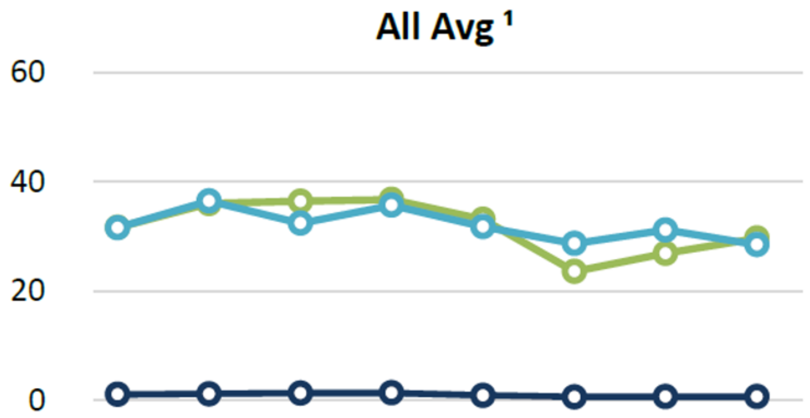
- More transactions are happening on secure websites.
- Organizations continue to adjust to hybrid work models.
- Employee recruitment and retention challenges are disrupting pension operations.
- There has been a substantial decrease in call service levels.

Greater digitalization is the key driver for higher service scores.

Transactions per 1,000 members



	2016	2017	2018	2019	2020	2021	2022	2023
Secure web visits	1,475	1,708	1,745	1,712	1,804	2,031	2,074	1,881
Calls	572	561	548	544	513	519	521	513
Emails	113	105	112	116	129	142	122	112
Incoming mail	389	364	307	331	288	262	249	262

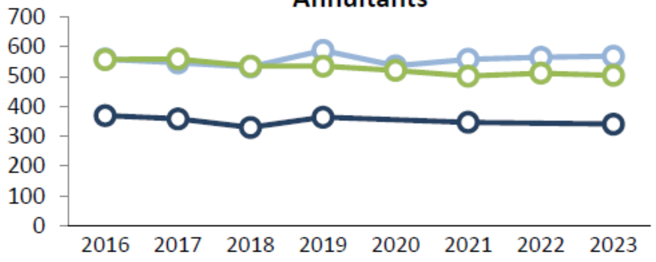


	2016	2017	2018	2019	2020	2021	2022	2023
1-on-1 counseling	32	36	36	37	33	24	27	30
Presentations	1.1	1.2	1.4	1.4	1.0	0.7	0.7	0.7
Written estimates	32	37	32	36	32	29	31	29

1. Trend analysis is based on 32 systems that provided 8 consecutive years of data.

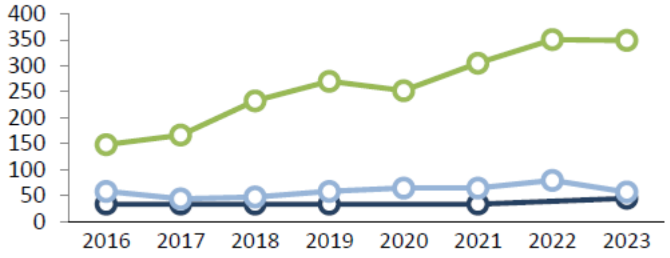
The nature of member calls has changed in the last 8 years.

Incoming Calls per 1,000 Active Members and Annuitants



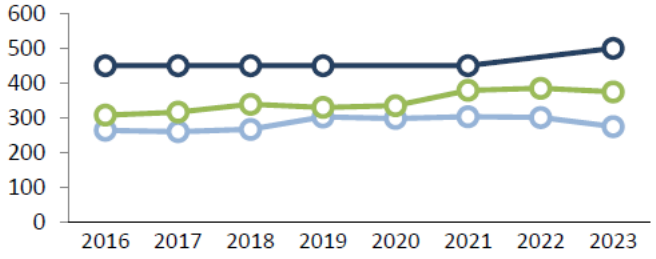
	2016	2017	2018	2019	2020	2021	2022	2023
You	369	358	329	364		346		341
Peer Avg [1]	559	546	532	588	536	558	565	568
All Avg [1]	557	559	535	535	520	502	511	504

Call Wait Time, in Seconds



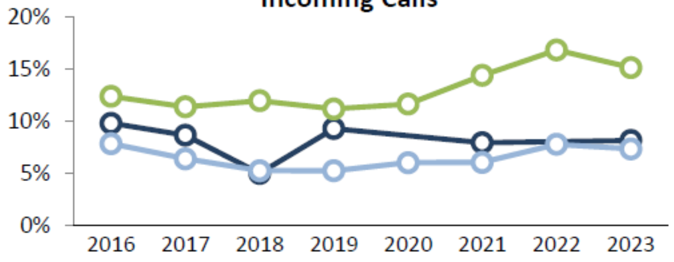
	2016	2017	2018	2019	2020	2021	2022	2023
You	34	34	34	34		34		45
Peer Avg [1]	59	44	48	59	65	65	80	57
All Avg [1]	148	167	233	270	252	305	350	349

Time on Call, in Seconds



	2016	2017	2018	2019	2020	2021	2022	2023
You	450	450	450	450		450		500
Peer Avg [1]	264	260	266	302	298	303	301	274
All Avg [1]	307	316	338	330	335	379	385	375

Undesired Call Outcomes as a Percent of Incoming Calls



	2016	2017	2018	2019	2020	2021	2022	2023
You	10%	9%	5%	9%		8%		8%
Peer Avg [1]	8%	6%	5%	5%	6%	6%	8%	7%
All Avg [1]	12%	11%	12%	11%	12%	14%	17%	15%

1. Trend analysis is based on systems that have provided 8 consecutive years of data (5 of your 9 peers and 34 of the 47 systems in the universe).

Plans with cloud access are using AI to improve their operations. Most commonly, plans start with low-risk AI use cases in their contact centers to support service agents.

Common use cases

- Automatically create call transcript and add post-call summary to the Client Relationship Management system.
- Perform call quality assurance and sentiment assessments.
- Aggregate internal documents into discrete repositories.
- Robotic automation of routine back-office tasks.
- Tracking/identifying members with facial recognition technology.

Less common or higher risk use cases

- Redirect members to digital channels and guide workflow with an AI assistant that integrates CRM and browser-based solutions.
- Chatbots for processing member information and answering questions.
- Predicting a member's next question real-time, on call.
- Real-time, on-call member satisfaction metrics based on voice recognition.
- Large-scale analysis and cleaning of member data.

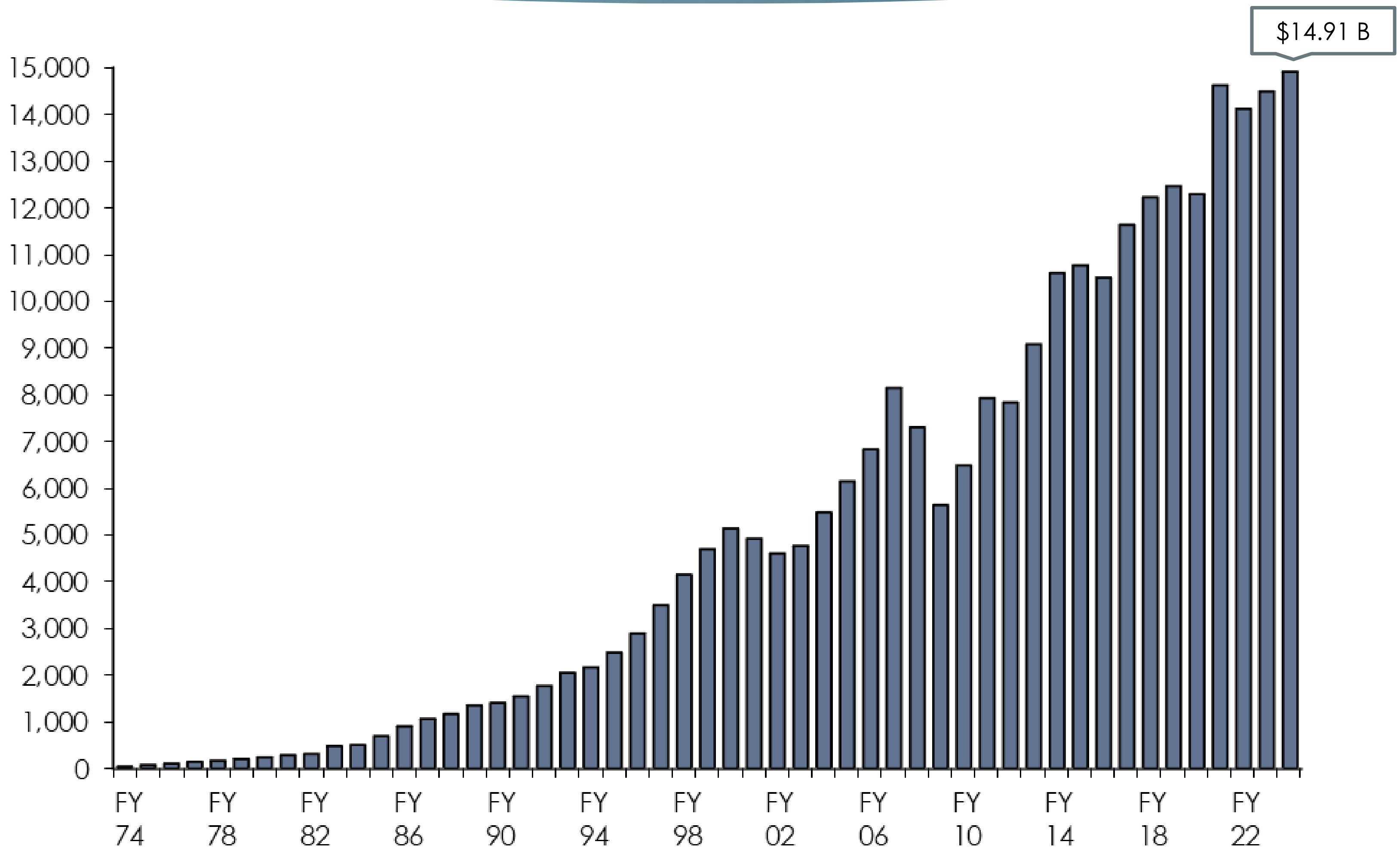

CEM Benchmarking

Fiscal Year 2024 (unaudited)
Investment Performance

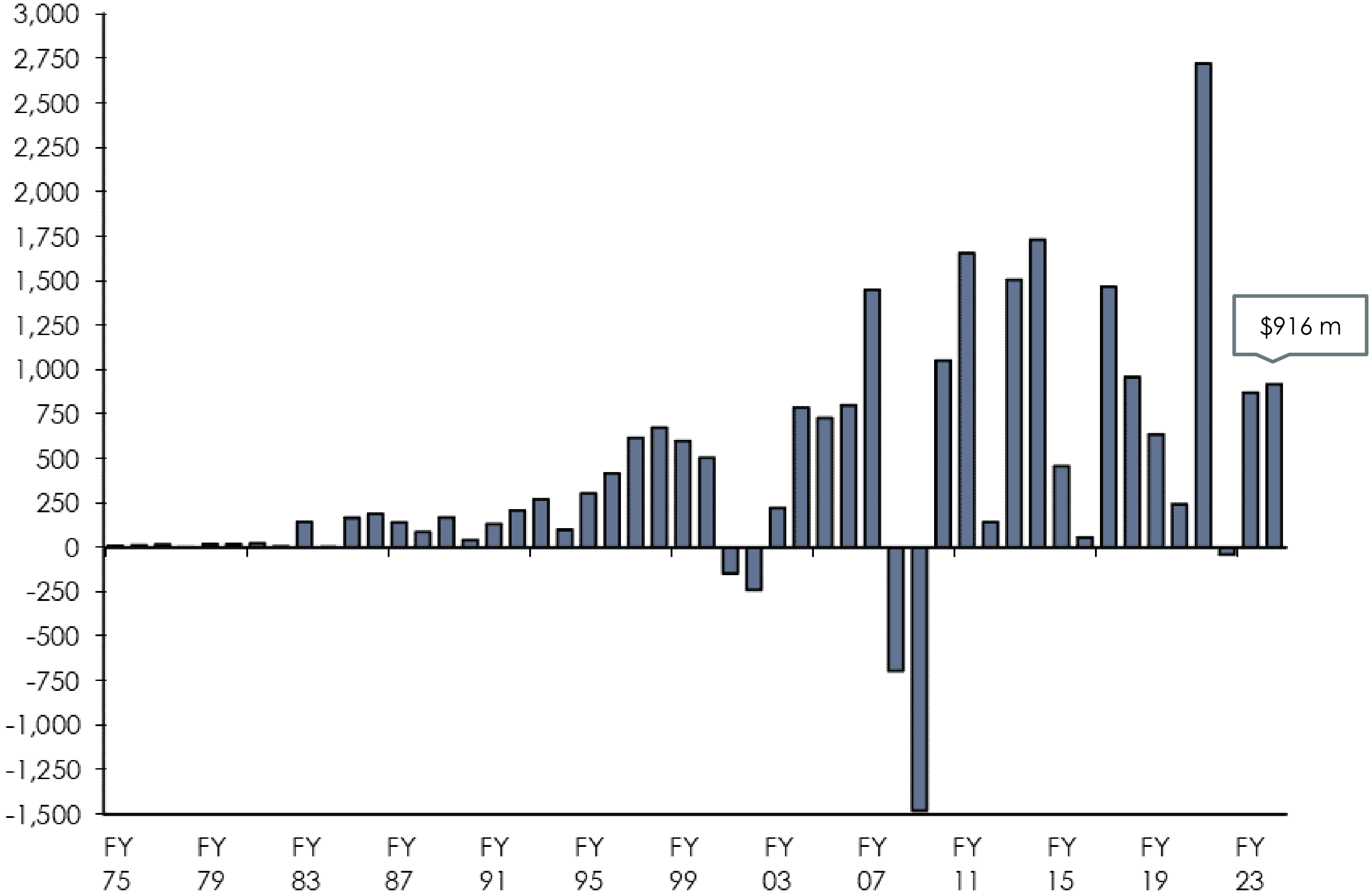
SOUTH DAKOTA RETIREMENT SYSTEM
BOARD OF TRUSTEES

SEPTEMBER 11, 2024

SDRS Growth in Assets
FY 1974 to FY 2024



SDRS Investment Income
FY 1975 to FY 2024



Capital Markets Benchmark Return and Market Index Components

	Weights	1st qtr	2nd qtr	3rd qtr	4th qtr	FY 2024
Capital Markets Benchmark		-3.3%	10.4%	4.7%	1.8%	13.8%
Benchmark Components	**Weights**					
Public Equity	***56%***					
Public Equity Benchmark (MSCI AC IMI 3/4 + MSCI IMI US 1/4)		-3.2%	11.3%	8.7%	2.9%	20.5%
Real Estate	***12%***					
MSCI REITS		-7.0%	16.0%	-0.3%	0.1%	7.6%
High Yield Debt	***7%***					
FTSE High Yield		0.7%	6.9%	1.5%	1.2%	10.6%
Investment Grade Debt	***23%***					
FTSE US Broad Investment Grade		-3.2%	6.8%	-0.8%	0.1%	2.7%
Cash	***2%***					
FTSE 3 mo Treasury bills		1.4%	1.4%	1.4%	1.4%	5.6%

Time weighted rate-of-return

Actual to Benchmark Allocation Comparison
June 30, 2024

	Actual Asset Allocation	Benchmark Asset Allocation	Difference	Permissible Range
Public Equity	21%	56%	-35%	20% to 75%
Real Estate - Core/REITS	0%	12%	-12%	0% to 20%
High Yield Corporate Debt	4%	7%	-3%	0% to 15%
Investment Grade Debt	13%	23%	-10%	13% to 60%
Cash	37%	2%	35%	0% to 45%
Private Equity	11%	0%	11%	0% to 12%
Opportunistic Real Estate	12%	0%	12%	0% to 15%
High Yield Real Estate Debt	0%	0%	0%	0% to 10%
Hedge Fund	1%	0%	1%	0% to 5%
Other Categories	0%	0%	0%	0% to 5%
Equity Like Risk	50.3%	70%	-19.7%	40% to 85%

SDRS Performance Attribution
Fiscal Year 2024

SDRS Total Fund Return	**6.02%**
Capital Markets Benchmark Return	13.81%
Difference	**-7.79%**
Primary Asset Allocation	
Equity-Like Risk	-3.74%
Bond-Like Risk	-0.33%
Cash-Like Risk	1.64%
Total Primary Asset Allocation	-2.43%
Secondary Asset Allocation	
High Yield Debt	0.03%
Real Estate	-0.36%
Total Secondary Asset Allocation	-0.34%
Total Asset Allocation	**-2.77%**

Portfolio Added Value (Alpha)	
Public Equity	-0.66%
Investment Grade Debt	0.01%
Cash	-0.07%
High Yield Debt	-0.19%
Real Estate	-2.06%
Private Equity	-1.42%
Hedge Fund	-0.03%
Short S&P 500 Futures	-0.41%
Total Portfolio Added Value (Alpha)	**-4.82%**
Total Explained Difference	**-7.59%**
Other - interperiod trading/rounding	-0.19%
Total Difference	**-7.79%**

South Dakota INVESTMENT COUNCIL

SDRS Performance Attribution History

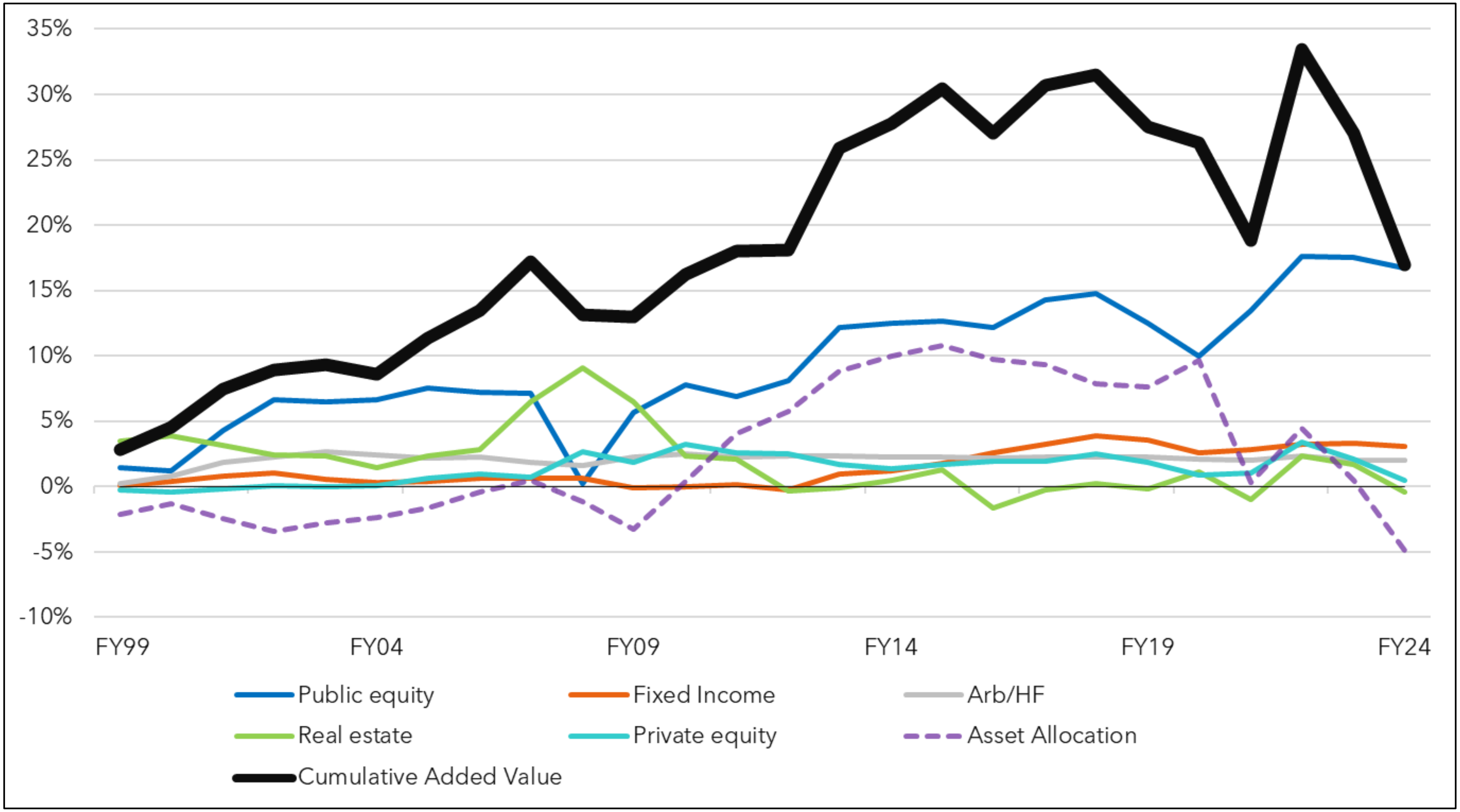
	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	5 yr Ann	10 yr Ann	20 yr Ann	26 yr Ann
SDRS Total Return*	6.02%	5.84%	-0.69%	22.03%	1.59%	6.68%	6.40%	7.88%	7.49%
Capital Markets Return	13.81%	10.65%	-13.02%	27.97%	2.52%	7.52%	6.85%	7.16%	6.69%
Difference	**-7.79%**	**-4.82%**	**12.33%**	**-5.94%**	**-0.93%**	**-0.85%**	**-0.45%**	**0.72%**	**0.80%**
SDRS Total Return (Net)	6.02%	5.84%	-0.69%	22.03%	1.59%	6.68%	6.40%	7.67%	7.28%
Capital Markets Return**	13.81%	10.65%	-13.02%	27.97%	2.52%	7.52%	6.85%	7.17%	6.56%
Difference	**-7.79%**	**-4.82%**	**12.33%**	**-5.94%**	**-0.93%**	**-0.85%**	**-0.45%**	**0.50%**	**0.72%**
Primary Asset Allocation									
Equity Like Risk	-3.74%	-3.35%	2.52%	-6.90%	2.38%	-1.89%	-1.24%	-0.34%	-0.24%
Bond Like Risk	-0.33%	0.04%	1.19%	0.02%	-0.75%	0.03%	-0.10%	-0.18%	-0.17%
Cash Like Risk	1.64%	1.04%	0.05%	0.02%	0.37%	0.62%	0.41%	0.21%	0.15%
Total Primary Asset Alloc	-2.43%	-2.27%	3.76%	-6.86%	2.00%	-1.23%	-0.93%	-0.32%	-0.26%
Secondary Asset Allocation									
High Yield Debt	0.03%	0.00%	0.02%	-0.02%	-0.13%	-0.02%	0.03%	0.13%	0.11%
Real Estate	-0.36%	-0.62%	0.24%	-0.01%	-0.37%	-0.23%	-0.01%	-0.04%	-0.09%
Total Secondary Asset Alloc	-0.34%	-0.63%	0.26%	-0.03%	-0.50%	-0.26%	0.05%	0.11%	-0.01%
Total Asset Allocation	**-2.77%**	**-2.90%**	**4.02%**	**-6.89%**	**1.50%**	**-1.49%**	**-0.88%**	**-0.21%**	**-0.27%**
Portfolio Added Value									
Public Equity	-0.66%	-0.13%	3.68%	3.17%	-2.22%	0.74%	0.37%	0.45%	0.60%
Investment Grade Debt	0.01%	-0.08%	0.08%	-0.17%	0.06%	-0.02%	0.00%	0.05%	0.05%
Cash	-0.07%	0.10%	0.02%	-0.01%	-0.06%	0.00%	0.00%	0.00%	0.00%
High Yield Debt	-0.19%	0.00%	0.32%	0.42%	-0.90%	-0.07%	0.19%	0.08%	0.05%
Real Estate	-2.06%	-0.69%	3.35%	-2.02%	1.25%	-0.06%	-0.10%	-0.10%	-0.15%
Private Equity	-1.42%	-1.28%	2.32%	0.18%	-0.92%	-0.23%	-0.07%	0.03%	0.03%
Hedge Fund	-0.03%	-0.27%	0.29%	-0.05%	-0.14%	-0.04%	-0.02%	0.00%	0.00%
Short S & P 500 Futures	-0.41%	-0.15%	-1.50%	0.16%	-0.60%	-0.50%	-0.47%	-0.25%	-0.22%
Total Portfolio Alpha difference	**-4.82%**	**-2.49%**	**8.56%**	**1.68%**	**-3.53%**	**-0.18%**	**-0.10%**	**0.25%**	**0.45%**
Other	-0.19%	0.57%	-0.25%	-0.73%	1.10%	0.83%	0.53%	0.46%	0.54%
Total Difference	**-7.79%**	**-4.82%**	**12.33%**	**-5.94%**	**-0.93%**	**-0.85%**	**-0.45%**	**0.50%**	**0.72%**

* Net FY 2014-24, Gross pre-FY 2014

** Net applies current benchmark methodology to pre-FY 2014

South Dakota INVESTMENT COUNCIL

Many Pistons Contribute
Cumulative Added Value by Source



Comparison to Peer Universes

Annualized Returns

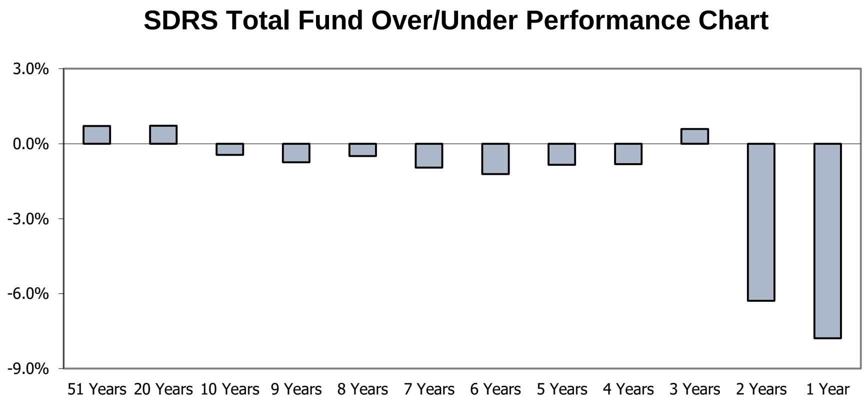
	1 Year	3 Year	5 Year	10 Year	30 Year
SDRS (net)	**6.02%**	**3.67%**	**6.68%**	**6.40%**	**8.60%**
SDRS (gross)	6.47%	4.10%	7.10%	6.79%	8.96%
State Fund (net) - PRELIMINARY	9.26%	3.98%	8.50%	7.60%	8.00%
Wilshire TUCS (gross)	10.50%	3.20%	7.57%	6.97%	n/a

South Dakota INVESTMENT COUNCIL

Total Fund Return Comparison

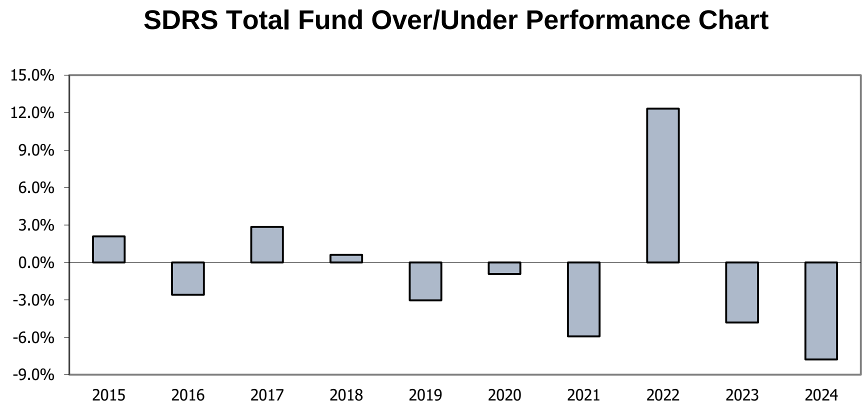
Annualized

	SDRS Total Fund	SDRS Capital Markets Benchmark	Over/Under Performance
51 Years	9.89%	9.17%	0.71%
20 Years	7.88%	7.16%	0.72%
10 Years	6.40%	6.85%	-0.45%
9 Years	6.65%	7.39%	-0.74%
8 Years	7.47%	7.97%	-0.50%
7 Years	6.60%	7.55%	-0.95%
6 Years	6.37%	7.59%	-1.21%
5 Years	6.68%	7.52%	-0.85%
4 Years	7.99%	8.81%	-0.82%
3 Years	3.67%	3.08%	0.59%
2 Years	5.93%	12.22%	-6.29%
1 Year	6.02%	13.81%	-7.79%



Annual Returns

	SDRS Total Fund	SDRS Capital Markets Benchmark	Over/Under Performance
2015	4.18%	2.09%	2.09%
2016	0.30%	2.88%	-2.59%
2017	13.81%	10.96%	2.85%
2018	7.94%	7.33%	0.61%
2019	4.88%	7.91%	-3.03%
2020	1.59%	2.52%	-0.93%
2021	22.03%	27.97%	-5.94%
2022	-0.69%	-13.02%	12.33%
2023	5.84%	10.65%	-4.82%
2024	6.02%	13.81%	-7.79%



* Total Fund Return History
1973 - 2013 is gross-of-fee
2014 - 2024 is net-of-fee.

South Dakota INVESTMENT COUNCIL

South Dakota Retirement System

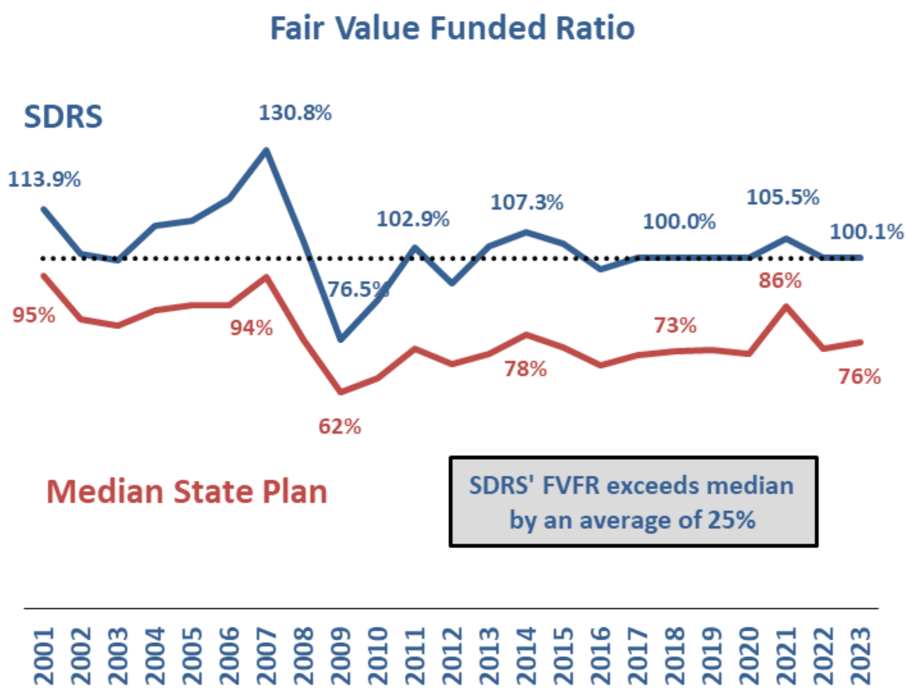
Estimated Funded Status as of June 30, 2024

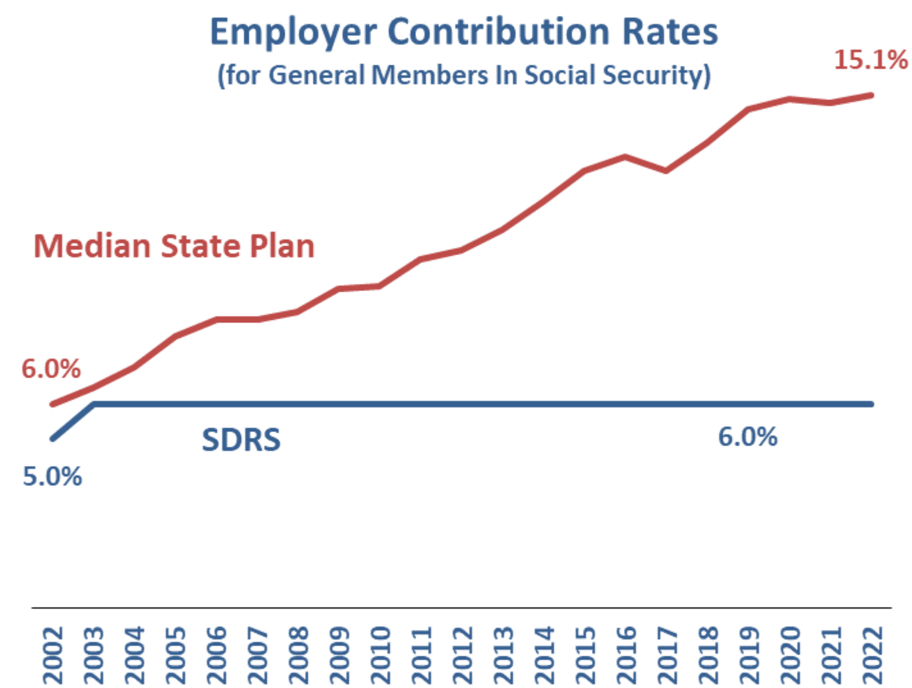
September 11, 2024

Funding Basics: C + I = B + E

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

Employer Contributions and Funded Status Comparisons

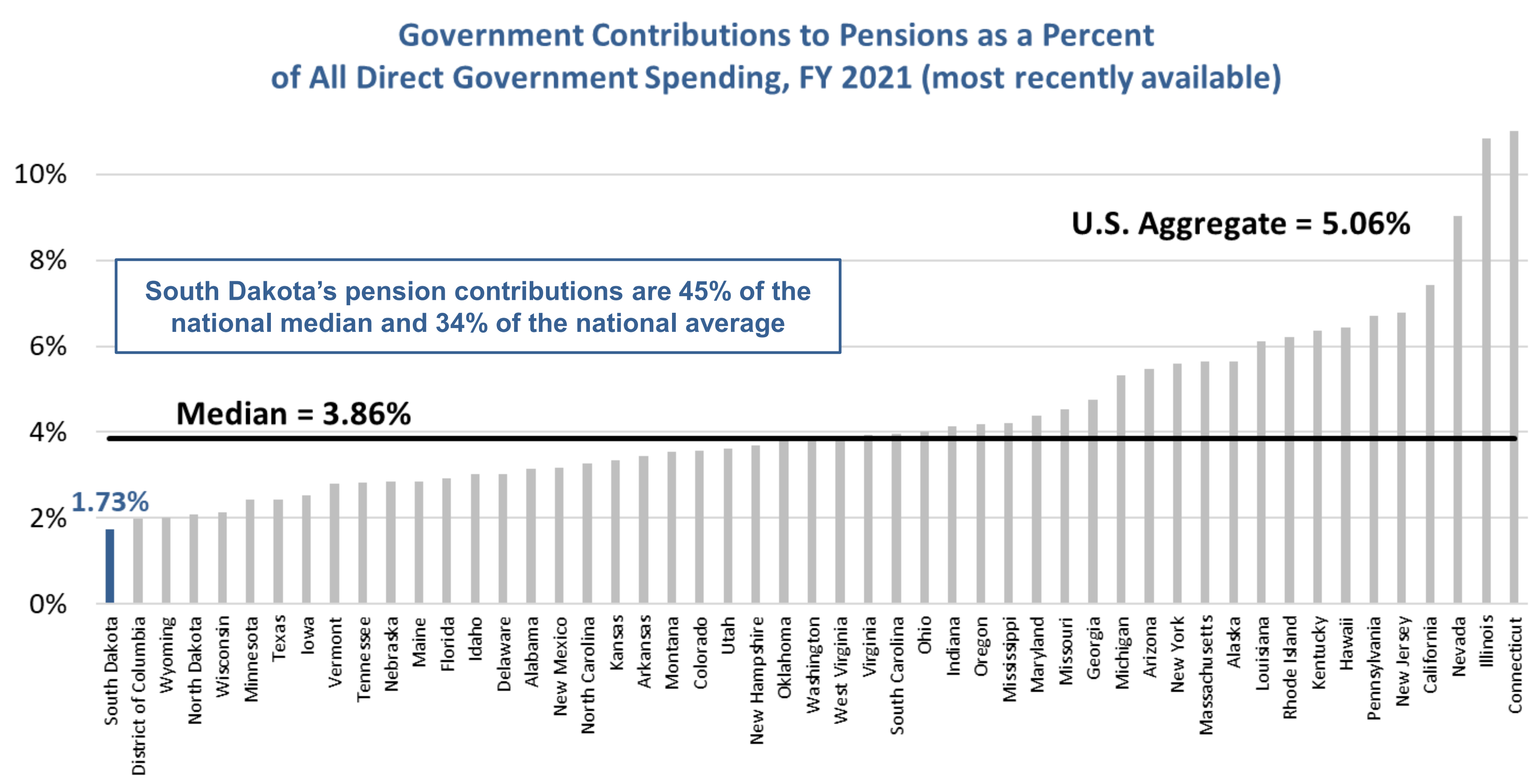




- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 40% of the national median

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

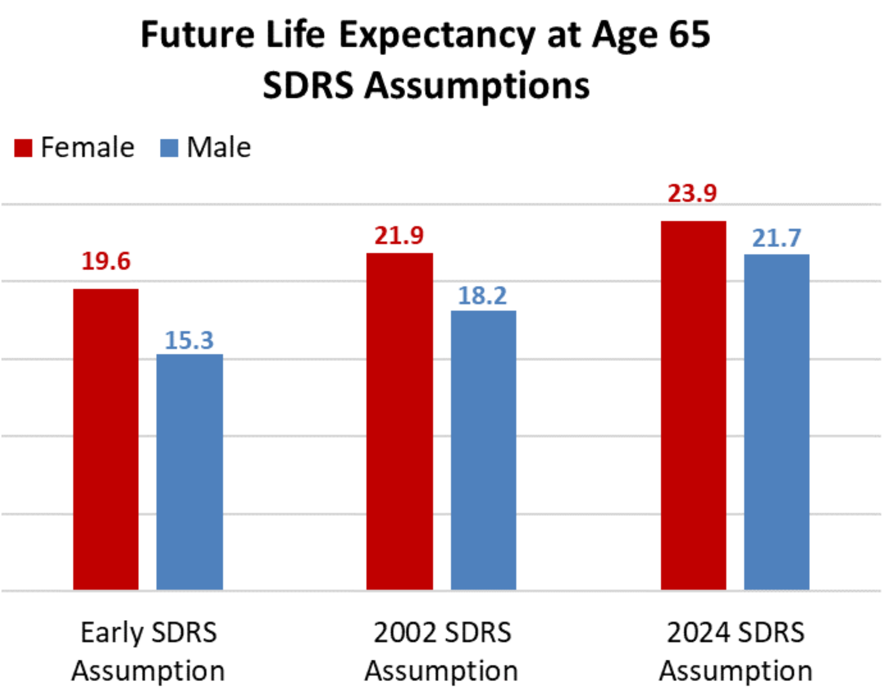
Government Spending on Pensions

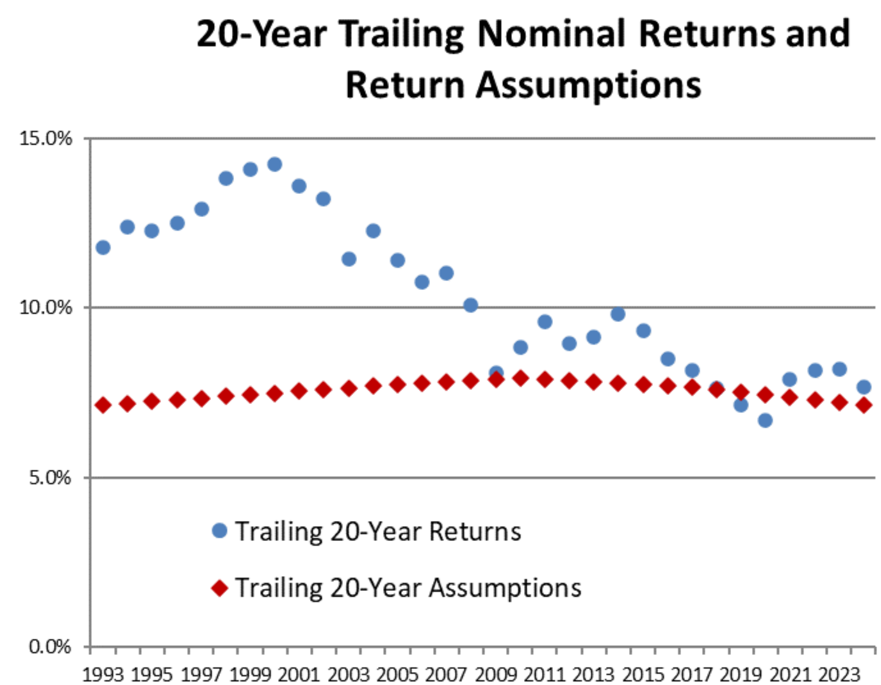


Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, February 2024

Competing Objectives

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





Competing Objectives

- SDRS management efforts to meet benefit objectives in changing circumstances have included:
  - Variable COLA process
  - 5-year FAC
  - Pay increase caps
  - Generational design
  - Retire-rehire reform
  - Various other initiatives
- **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
  - Actuarial assumptions must remain realistic

July 2024 COLA Calculation

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

If 100% or More

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

If Less than 100%

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

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

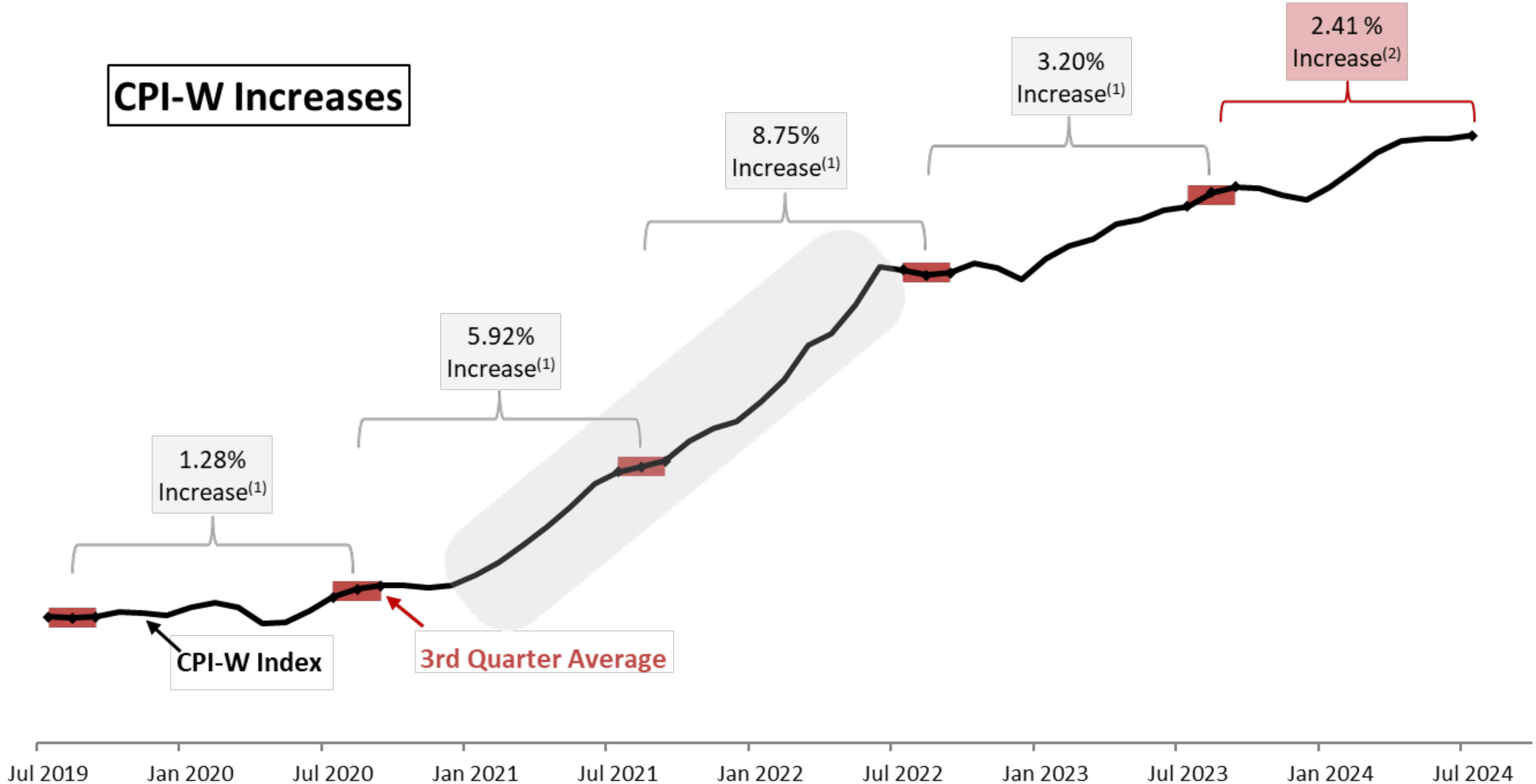
2023 CPI-W Increase = 3.20%
July 2024 SDRS COLA: 1.91%

Projected June 30, 2024 Funded Status and July 2025 COLA Range(1)

Net Investment Return FYE June 30, 2024	Baseline FVFR	COLA Range	Final FVFR	Applicable Conditions
<= (9.4%)	80.9%	NO COLA	<100%	Corrective Action Recommendation Required
(9.3%)	81.0%	0% to 0.01%	100%	Restricted Maximum COLA
6.0%	**94.8%**	**0% to 1.70%**	**100%**	
6.5%	95.3%	0% to 1.75%	100%	
11.6%	99.9%	0% to 2.24%	100%	
11.7%	100.0%	0% to 3.50%	100%	Full COLA Range
33.7%	119.9%	0% to 3.50%	120%	
33.8%	120.0%	0% to 3.50%	120%	120% Benefit Improvement Threshold Met

(1) **Including preliminary estimate of $260M in liability losses for FYE June 30, 2024.** June 30, 2023 Baseline FVFR was 96.7%; July 2024 COLA Range was: 0% to 1.91%.

Inflation Measurement for Social Security and SDRS COLAs



(1) Increase in the third calendar quarter average over the prior highest third calendar quarter average – the specified inflation measurement for the Social Security COLA effective the following January and the SDRS COLA effective the following July.
(2) Increase in most recent month index (July 2024) over July to September 2023 average. Increase annualizes to 2.65%, ignoring seasonal impacts.

Estimated July 2025 COLA Calculation

Step 1:
June 30, 2024
Baseline FVFR = 94.8%

If 100% or More

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

If Less than 100%

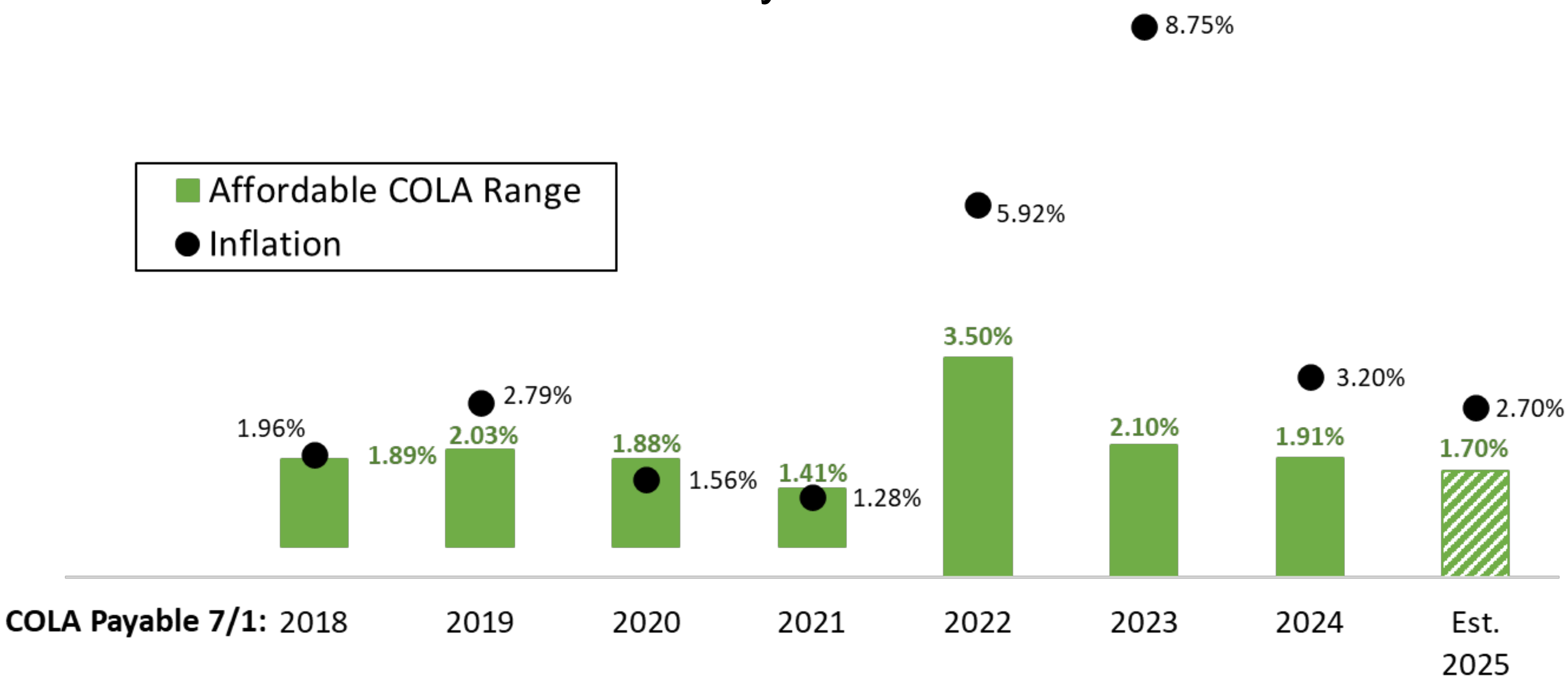
Step 2: Restricted
Maximum COLA = 1.7%
Resulting in FVFR of 100%

COLA = CPI-W Increase
Minimum = 0%
Maximum = 1.7% Restricted
Maximum COLA

2024 CPI-W Increase ≅ 2.7%
Projected July 2025 SDRS COLA≅ 1.7%

Historical COLA Ranges

- Under the current COLA process, the full COLA range has only been affordable for the 2022 COLA
- The 2025 restricted maximum COLA is projected to be 1.70%, less than inflation for the fourth consecutive year

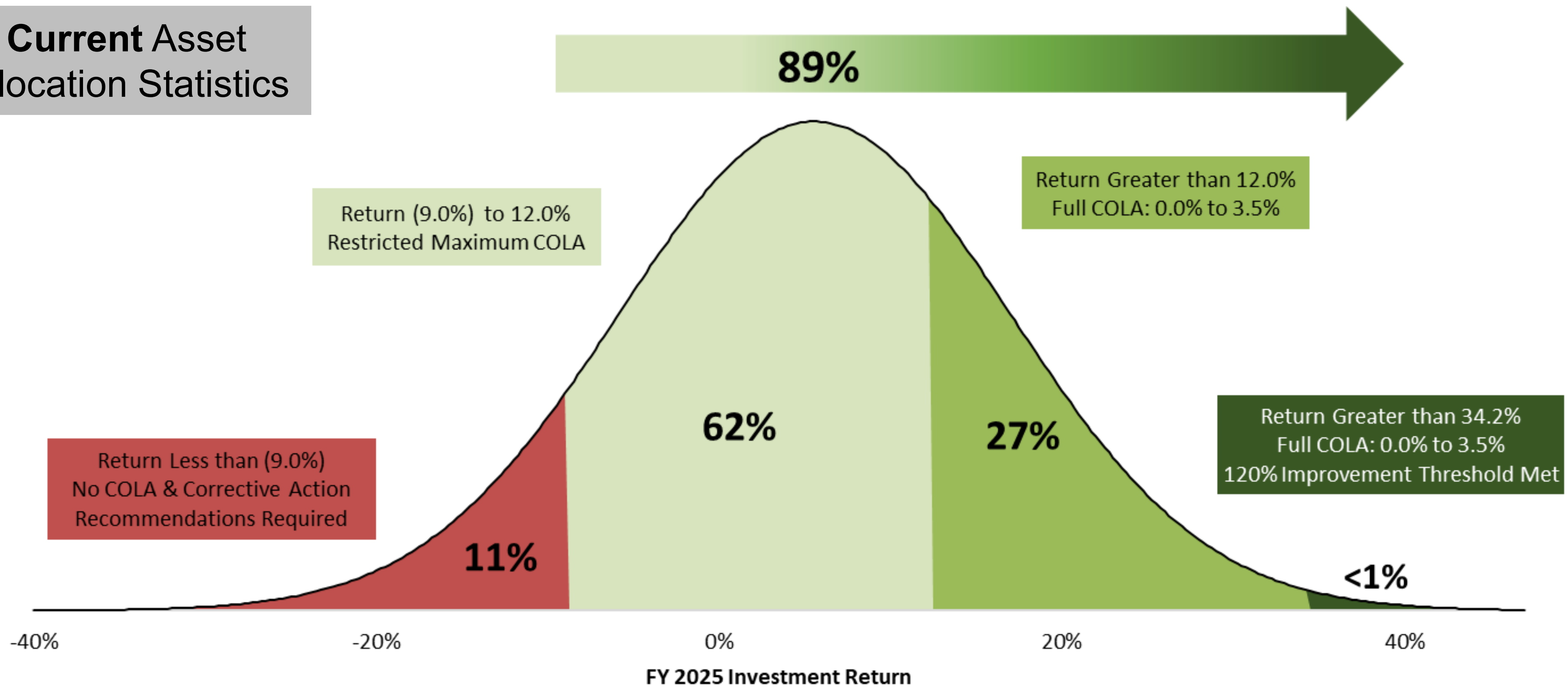


Projected Funded Status and COLAs

- The **most significant and immediate risk to SDRS is investment risk**
- Investment returns will **first impact** the affordable COLA range:
  - Less than assumed will reduce restricted maximum COLA; greater than assumed will increase maximum or enable full COLA range
  - The variable COLA may not be sufficient to maintain 100% FVFR in all conditions and additional corrective actions may be required
- One and five-year projections of FVFRs, COLA ranges, and likelihoods of achieving returns follow, **recognizing the 6.0% net return and estimated liability losses of $260M for FY 2024**:
  - 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

Preliminary Projected 2026 COLA Range and Likelihoods

Current Asset Allocation Statistics

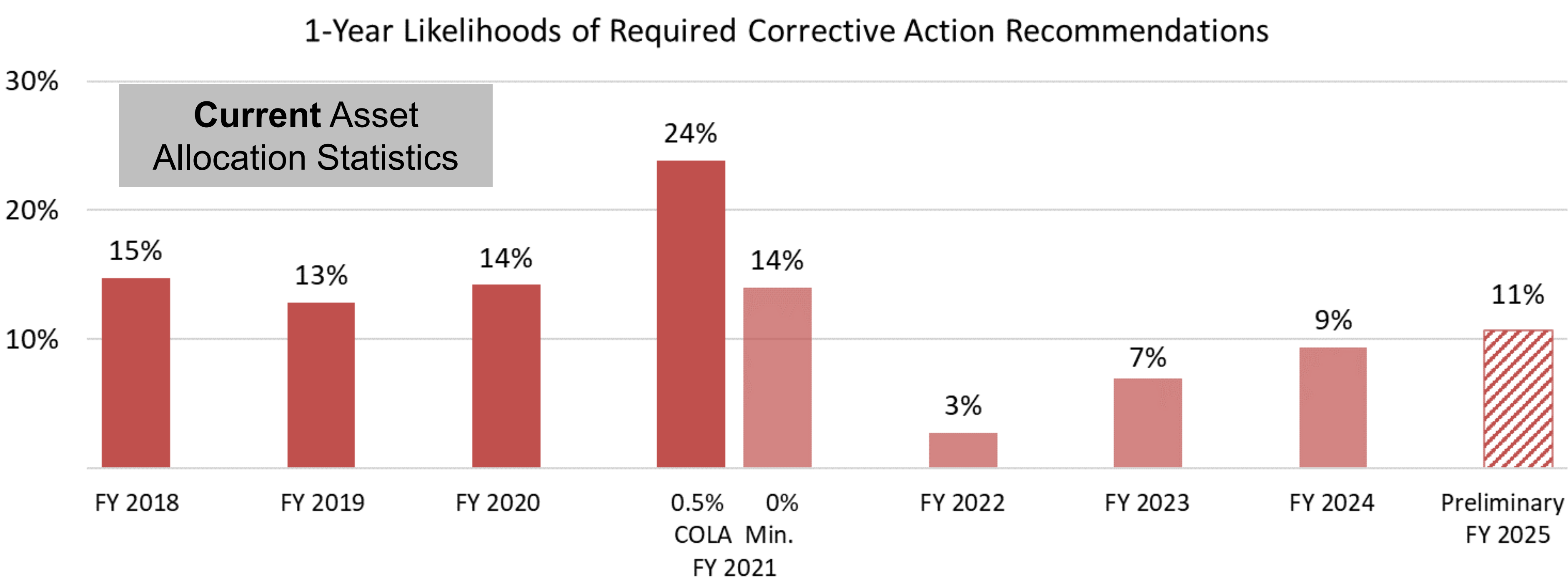


- **Ignoring FY 2025 investment returns to date and starting from estimated FY 2024 results,** the preliminary likelihoods for **July 2026 COLA ranges**, primarily driven by FY 2025 investment returns, are:
  - 11% likelihood: No COLA and corrective action recommendations required
  - 62% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
  - 27% 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 2025 current** asset allocation investment portfolio statistics (mean = 5.19%, standard deviation = 11.43).

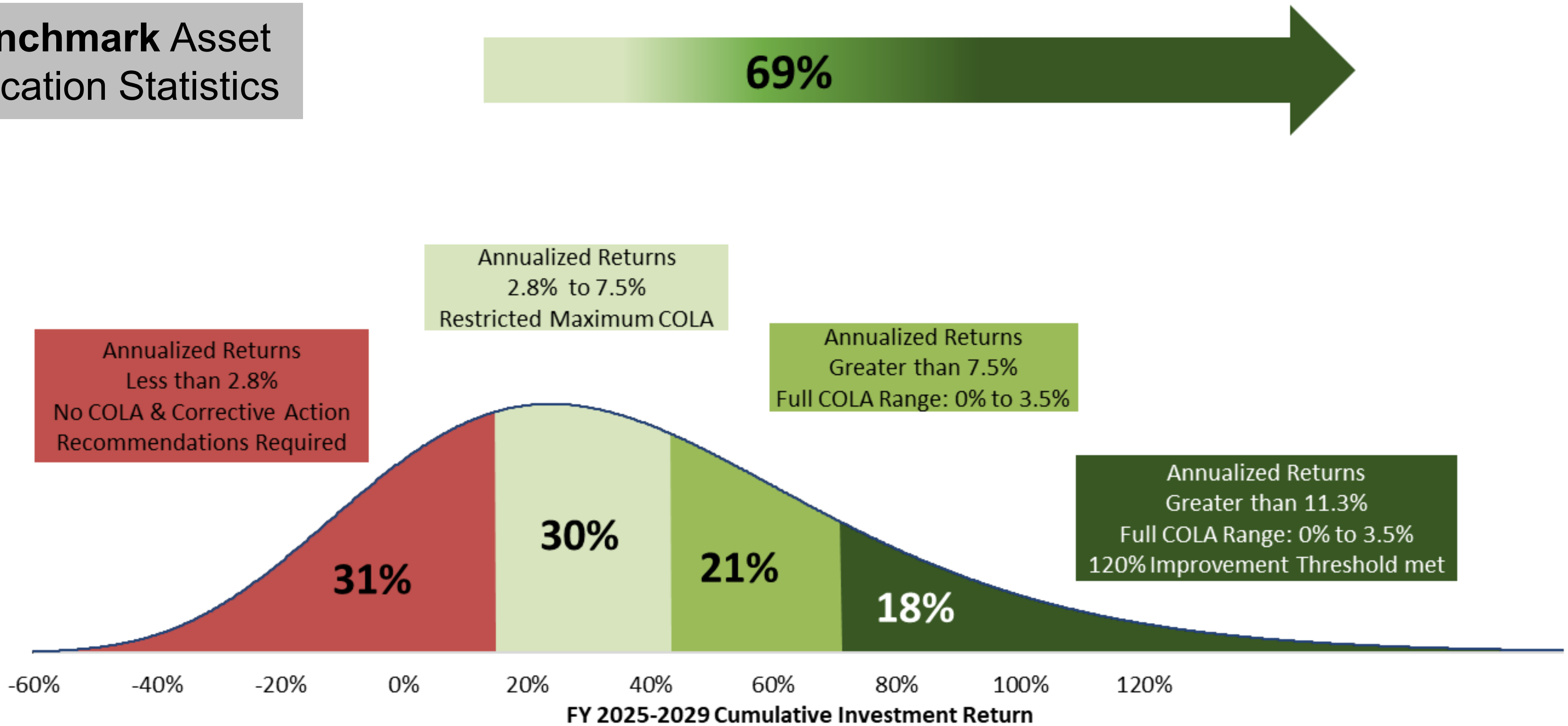
Historical 1-Year Corrective Action Requirement Likelihoods

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



Projected 2030 COLA Range and Likelihoods

Benchmark Asset Allocation Statistics



- **Ignoring FY 2025 investment returns to date and starting from estimated FY 2024 results,** the preliminary likelihoods for **July 2030 COLA ranges**, primarily driven by FY 2025-2029 investment returns, are:
  - 31% likelihood: No COLA and corrective action recommendations required
  - 30% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
  - 39% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 20% likelihood 120% benefit improvement threshold met

Before consideration of liability gains/losses. Likelihoods based on SDIC **FY 2025 benchmark** asset allocation investment portfolio statistics (mean = 5.76%, 5-year standard deviation = 6.08%).

Projected Funded Status and Risk Analysis Summary

- FY 2024 experience will again impose a restricted maximum COLA for the July 2025 COLA of approximately 1.7%
- FY 2025 estimated investment return thresholds:
  - FY 2025 returns below approximately negative 9.0% would require a corrective action recommendation; preliminary 1-year likelihood is 11%
  - FY 2025 returns of approximately 12% would make the full COLA range affordable for the 2026 COLA
- This report is based on the estimated SDRS funded status as of June 30, 2024. The June 30, 2024 actuarial valuation will be completed in October and will confirm the actual SDRS funded status at that time. The estimates presented in this report will be impacted by the final actuarial valuation results.

South Dakota Retirement System

2025 Legislative Update

ADMIN RULES CODIFICATION

SECURE 2.0

CLEAN UP

ADMIN RULES CODIFICATION

ADMIN RULES CODIFICATION

- **Codify certain SDRS administrative rules to provide transparency, clarity, and consistency**

SECURE 2.0

SECURE 2.0

- Comply with Roth Contribution program requirement
- Update spousal treatment for RMD purposes
- Codify and update Secure 2.0 administrative rules

CLEAN UP

CLEAN UP

- Update Internal Revenue Code
- Clarify the definition of a child
- Revise ID requirements
- Codify privatization effective date

THANK YOU

SDRS
SOUTH DAKOTA
RETIREMENT SYSTEM