

AGENDA

SDRS BOARD OF TRUSTEES

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

DATE: Wednesday, April 9, 2025

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 Meeting to Order – Determination of Quorum*
- ITEM 1 - Chair's Preliminary Remarks
- Introductions and Announcements
 - Board Conflict Disclosure
 - Policy Concerning Public Testimony and Comments
- ITEM 2 - Public Comment
- ITEM 3 - Approval of December 11, 2024, Minutes
- ITEM 4 - Board Member Election Update – Dawn Smith, Executive/Board Assistant
- ITEM 5 - Investment Performance Update – Danielle Mourer, SDIC Portfolio Manager
- ITEM 6 - Projected Funded Status of the South Dakota Retirement System – Doug Fiddler, Senior Actuary
- ITEM 7 - Recent Public Pension Studies – Doug Fiddler
- ITEM 8 - 2025 Legislative Report – John Richter, General Counsel; Sam Koldenhoven, Deputy General Counsel; Michelle Mikkelsen, Chief Finance Officer; and Travis Almond, Executive Director
- SDRS Legislation
 - Other Legislation
 - SDRS FY 2026 Budget

- ITEM 9 - BIT Cybersecurity Update (Executive Session) – Madhu Gottumukkala, BIT Commissioner; Johnathan Hampe, Chief Information Security Officer; and Kevin Lawrence, Director of Agency & Application Support
- ITEM 10 - Update on Customer Service Enhancements – Michelle Humann, Director of Member Services; Alan Freng, Director of Communications; and Nick Rea, Director of IT Services
- ITEM 11 - Set Effective Rate of Interest for FY 2026 – Michelle Mikkelsen
- ITEM 12 - Set FY 2026 Supplemental Pension Benefit Interest Rate Assumption – Travis Almond
- ITEM 13 - Board Member Conference Approval – Travis Almond
- Jim Appl – NCTR Trustee Workshop, July 13-16, Williamsburg, Va
 - Shane Roth – NASRA Annual Conference, August 9-13, Seattle, Wa
 - Hank Prim – NCPERS TEDS, May 17-18, Denver, Co
 - Eric Stroeder – NCTR Annual Conference, October 4-7, Salt Lake City, Ut
- ITEM 14 - Old/New Business
- SharePoint Board Portal
 - Internal Controls
 - Upcoming SDRS Board of Trustee Meeting Dates
- ITEM 15 - Reports from the Executive Director Performance Evaluation and Compensation Committees (Possible Executive Session) – Eric Stroeder, Chair of Executive Director Compensation Committee; and Darin Seeley, Chair of Executive Director Evaluation Committee

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

FUTURE MEETING DATES

June 4, 2025

September 9, 2025

December 10, 2025

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

MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

December 11, 2024

The South Dakota Retirement System Board of Trustees held their regular meeting on December 11, 2024. 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
Penny Brunken
Liza Clark
Matt Clark – Ex Officio
LaJena Gruis
Victoria Hinek
Myron Johnson
Jill Lenards
Jake Oakland
Hank Prim
Shane Roth
Darin Seeley
Dave Smith
Jim Terwilliger
Wes Tschetter

Table of Contents	
Chair's Preliminary Remarks.....	2
Public Comment.....	2
Approval of September 11, 2024, Minutes.....	2
SDRS Financial Statements for PE June 30, 2024.....	2
SDRS Financial Audit for PE June 30, 2024.....	3
SDRS Actuarial Valuation for PE June 30, 2024.....	4
SDRS Actuarial Valuation Audit Review	4
FY 2025 Investment Update	5
SDRS Projected Funded Status	5
SDRS Member Demographics and Workforce Information	6
Proposed 2025 Legislation	7
FY 2026 SDRS Budget	7
Executive Director Evaluation Process	7
Establish COLA for FY 2026.....	8
Set Variable Retirement Account Contribution	
Rate for FY 2026.....	8
Old/New Business	8

Board member Justice Mark Salter was absent.

OTHERS IN ATTENDANCE:

Charles Arsenault, SDEA Retired
Anne Cipperley, SDIC
Darci Haug, SDIC
Duncan Koch, BFM
Larry Langer, CavMac
Lealan Miller, Eide Bailly
Danielle Mourer, SDIC
Samantha Rains, SDIC
Travis Almond, SDRS
Brittnie Adamson, SDRS
Doug Fiddler, SDRS
Alan Freng, SDRS

Sam Koldenhoven, SDRS
Michelle Humann, SDRS
Michelle Mikkelsen, SDRS
Nick Rea, SDRS
John Richter, SDRS
Dawn Smith, SDRS
Jacque Storm, SDRS

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

AGENDA ITEM 1
CHAIR'S PRELIMINARY REMARKS

Summary of Presentation

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

Board Action

No action was necessary.

AGENDA ITEM 2
PUBLIC COMMENT

There was no public comment.

Board Action

No action was necessary.

AGENDA ITEM 3
APPROVAL OF SEPTEMBER 11, 2024, MINUTES

Board Action

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MS. BRUNKEN, TO APPROVE THE MINUTES OF THE SEPTEMBER 11, 2024, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
SDRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 2024

Summary of Presentation

Ms. Michelle Mikkelsen, SDRS's Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2024. Ms. Mikkelsen reviewed the timeline of the financial statements, showing the work done between May and December each year.

Ms. Mikkelsen stated that the SDRS fiduciary net position restricted for pension benefits was \$14.9 billion, an increase of \$422 million during the fiscal year. In addition, there was \$335 million in total contributions, over \$764 million in total benefits and refunds paid, and 508 participating employers with just over 103,000 members.

Ms. Mikkelsen noted that the administrative expenses were \$5.4 million in FY 2024. The net money-weighted investment performance during 2024 was 5.98 percent, slightly below the long-term assumed annual return rate of 6.50 percent. However, the fiduciary net position continued to exceed the total pension liability, resulting in a net pension asset of \$4 million.

Ms. Mikkelsen advised that there was \$722 million in the SDRS Supplemental Retirement Plan, \$49 million contributed, and \$35 million paid to benefit recipients during 2024. There were 36,708 participating members, 14,698 actively deferring among the 378 participating employers.

The SDRS Special Pay Plan had assets of \$82 million, with \$11 million paid to benefit recipients and \$9 million received in contributions during fiscal year 2024. There are 145 participating employers with 4,683 participating members.

Board Action

No action was necessary.

AGENDA ITEM 5 **SDRS FINANCIAL AUDIT** **FOR PERIOD ENDING JUNE 30, 2024**

Summary of Presentation

Ms. Jill Lenards, chair of the Audit Committee, stated that the audit committee had a conference call with Eide Bailly to review the external auditor's findings of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2024.

Mr. Lealan Miller, Partner, Eide Bailly, presented the external financial audit of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2024.

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

Board Action

IT WAS MOVED BY MR. APPL, SECONDED BY MR. PRIM, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR THE PERIOD ENDING JUNE 30, 2024, AS

PRESENTED BY EIDE BAILLY. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 6
SDRS ACTUARIAL VALUATION
FOR THE PERIOD ENDING JUNE 30, 2024

Summary of Presentation

Mr. Doug Fiddler, SDRS's Senior Actuary, presented the SDRS Actuarial Valuation for the period ending June 30, 2024.

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

The conclusions of the 2024 Actuarial Valuation, advised Mr. Fiddler, are as follows:

- System investment experience was 5.98 percent, below the assumed 6.5 percent, resulting in actuarial investment losses of \$73 million for the year;
- Liability losses for the year were \$260 million, primarily due to extraordinarily large salary increases;
- The July 1, 2025, SDRS COLA will be 1.71 percent;
- No corrective action recommendations are required;
- Fair Value and Actuarial Value funded ratios are 100 percent;
- If future experience matches the actuarial assumptions, the funded ratios are expected to remain at 100 percent, and the restricted maximum COLA of 1.71 percent is expected to remain affordable;
- As of June 30, 2024, SDRS has a small net pension asset;
- SDRS remains a fully funded retirement system, which is a rare accomplishment and significantly better funded than almost all statewide retirement systems; and
- SDRS meets all the Board of Trustees' funding objectives as of June 30, 2024.

Board Action

No action was necessary.

AGENDA ITEM 7
SDRS ACTUARIAL VALUATION REVIEW

Summary of Discussion

Mr. Larry Langer, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting (CavMac), presented the conclusions of the limited scope review of the SDRS actuarial valuation report. CavMac concluded that the actuarial valuation results were reasonable and accurate based on the assumptions and methods. Mr. Langer also stated that the

valuation was performed by a qualified actuary and was performed in accordance with the principles and practices prescribed by the Actuarial Standards Board.

Board Action

IT WAS MOVED BY MR. SEELEY, SECONDED BY MR. TSCHETTER, TO ACCEPT THE ACTUARIAL VALUATION REVIEW OF THE SDRS ACTUARIAL VALUATION AS OF JUNE 30, 2024, AS PRESENTED BY CAVMAC ACTUARIAL CONSULTING SERVICES. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 8
FY 2025 INVESTMENT UPDATE

Summary of Discussion

Darci Haug, Senior Portfolio Manager, SDIC, stated that the return as of November 30, 2024, was 2.5 percent.

Board Action

No action was necessary.

AGENDA ITEM 9
SDRS PROJECTED FUNDED STATUS AS OF JUNE 30, 2025

Summary of Discussion

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

Mr. Fiddler reviewed the recent SDRS COLA history compared to inflation and estimates and likelihoods of the 2026 COLA range. He stated that the recent investment experience of less than the 6.5 percent assumption has reduced the affordable COLA payable. Fiscal year 2025 returns below approximately negative 9.0 percent would require a corrective action recommendation and a zero COLA. Fiscal year 2025 returns greater than 12.0 percent would result in the full 0 to 3.5 percent COLA range applying for the July 2026 COLA.

Board Action

No action was necessary.

AGENDA ITEM 10
SDRS MEMBER DEMOGRAPHICS AND
WORKFORCE INFORMATION

Summary of Discussion

Mr. Fiddler stated that as the baby boomers mature and retire, they will significantly impact the workforce throughout the country, including South Dakota.

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

Mr. Fiddler stated that on June 30, 2007, baby boomers comprised 44 percent of SDRS membership, and only 11 percent of them had retired. As of June 30, 2024, baby boomers comprised 35 percent of SDRS membership, and 76 percent of them had retired.

Mr. Fiddler reviewed the trends in members nearing retirement. He stated that the SDRS membership is retiring later. The median age at retirement for Class A and Judicial members has increased from 60.7 to 64.9 since 2006. Service at retirement has dropped considerably. Considering all classes, median service at retirement has decreased from 26.4 years to 24 years since 2006. Much of this reduction is due to a significantly lower percentage of Class A or Judicial retirees in recent years having purchased service. A similar effect can be seen for Public Safety retirees, but with fewer retirees, the median service and retirement patterns are less consistent. The trends are clearer considering the age at retirement by different periods of service. The median retirement age has been steadily increasing for all members and appears to be stabilizing over age 62 for longer-service members compared to 58 in 2006-2008.

In conclusion, noted Mr. Fiddler, staff expect an elevated number of retirements to continue for the next 4 to 5 years as the remaining baby boomers retire. Members are retiring at later ages, centered around age 65 for Class A and Judicial members, likely due to health care cost concerns. The median service at retirement is decreasing, primarily indicating fewer members had purchased service throughout their careers. The bottom line, advised Mr. Fiddler, is that all SDRS employers will need to replace a significant portion of employees in the next few years.

Board Action

No action was necessary.

AGENDA ITEM 11
PROPOSED 2025 LEGISLATION

Summary of Discussion

Mr. John Richter, SDRS's General Counsel, and Ms. Samantha Koldenhoven, SDRS's Assistant General Counsel, reviewed the potential legislation discussed at the September meeting. Mr. Richter stated that most of the statutes in the proposed legislation are the result of codifying SDRS's administrative rules. This legislation also includes an update to the definition of the Internal Revenue Code, an update to the member information protection provision, and the member identity verification process. The legislation provides transparency, clarity, and consistency while making SDRS's statutory scheme more intuitive and user-friendly.

Ms. Koldenhoven noted that any bills relating to the SECURE 2.0 Act of 2022 will be deferred as federal guidance was still forthcoming.

Board Action

IT WAS MOVED BY MR. OAKLAND, SECONDED BY MR. APPL, TO DIRECT STAFF TO PROCEED WITH THE PROPOSED LEGISLATION ON THE BOARD'S BEHALF FOR THE 2025 LEGISLATIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
FY2026 SDRS BUDGET

Summary of Discussion

Ms. Mikkelsen reported on the Governor's Recommended Budget for SDRS. She advised that SDRS requested no increase of expenditure authority in the Fiscal Year 2026 budget, and the Governor approved the request.

Board Action

No action was necessary.

AGENDA ITEM 13
EXECUTIVE DIRECTOR EVALUATION PROCESS

Summary of Discussion

Mr. Darin Seeley, Chair of the Executive Director Evaluation Committee, reviewed the proposed new process, timeline, and forms for the executive director evaluation.

Board Action

IT WAS MOVED BY MR. OAKLAND, SECONDED BY MR. SMITH, TO APPROVE THE PROCESS SET FORTH BY THE EXECUTIVE DIRECTOR EVALUATION COMMITTEE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14
ESTABLISH THE COLA FOR FY 2026

Summary of Presentation

Mr. Almond stated that SDCL 3-12C-704 regarding the cost-of-living adjustment (COLA) states that the annual increase shall be established by the Board for each fiscal year, based on the fair value funded ratio, actuarially determined contribution rate, and the increase in the Consumer Price Index.

After a review of the COLA calculation process, 1.71 percent is the recommended fiscal year 2026 COLA.

Board Action

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. TSCHETTER, TO ESTABLISH THE COLA EFFECTIVE JULY 1, 2025, AT 1.71 PERCENT. THE MOTION PASSED UNANIMOUSLY ON VOICE VOTE.

AGENDA ITEM 15
SET VARIABLE RETIREMENT ACCOUNT
CONTRIBUTION RATE FOR FY 2026

Summary of Presentation

Mr. Almond stated that pursuant to SDCL 3-12C-1302, the Board must set the variable retirement account contribution rate. He noted that staff and the actuary recommended setting it at 1.5 percent of each contributing generational member's compensation for the fiscal year beginning July 1, 2025.

Board Action

IT WAS MOVED BY MR. PRIM, SECONDED BY MR. OAKLAND, TO ESTABLISH THE VARIABLE RETIREMENT ACCOUNT CONTRIBUTION RATE FOR FISCAL YEAR 2026 AT 1.5 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 16
OLD/NEW BUSINESS

Summary of Presentation

2025 Legislative Session Calendar

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

NCTR Conference Wrap-up

Mr. Stroeder gave an overview of the NCTR Annual Conference he attended.

Future Meeting Dates

Mr. Almond stated that the future meeting dates were listed at the bottom of the agenda. He noted that he would like to move the June meeting to June 4th to accommodate other meetings that several staff often attend.

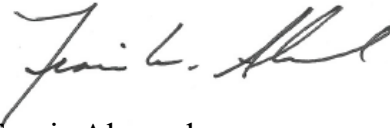
Board Action

No action was necessary.

ADJOURNMENT

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

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Travis Almond", written in a cursive style.

Travis Almond
Executive Director



South Dakota Retirement System

Projected Funded Status as of June 30, 2025

April 9, 2025



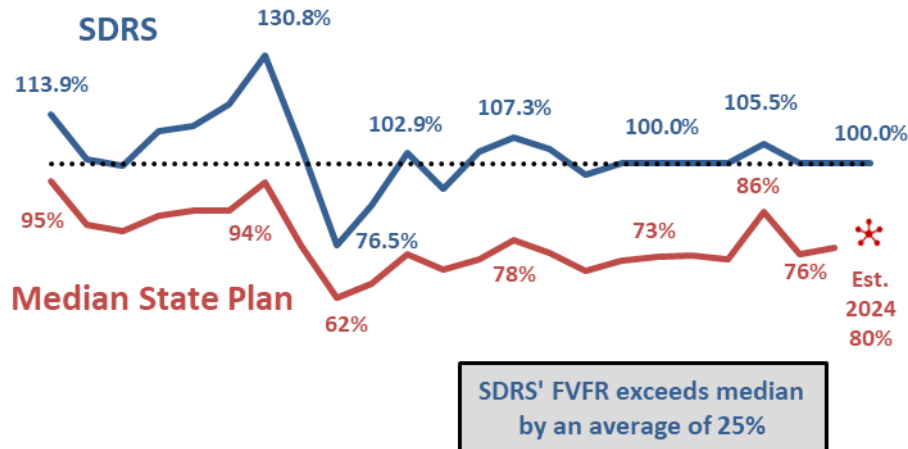
Funding Basics: $C + I = B + E$

- 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

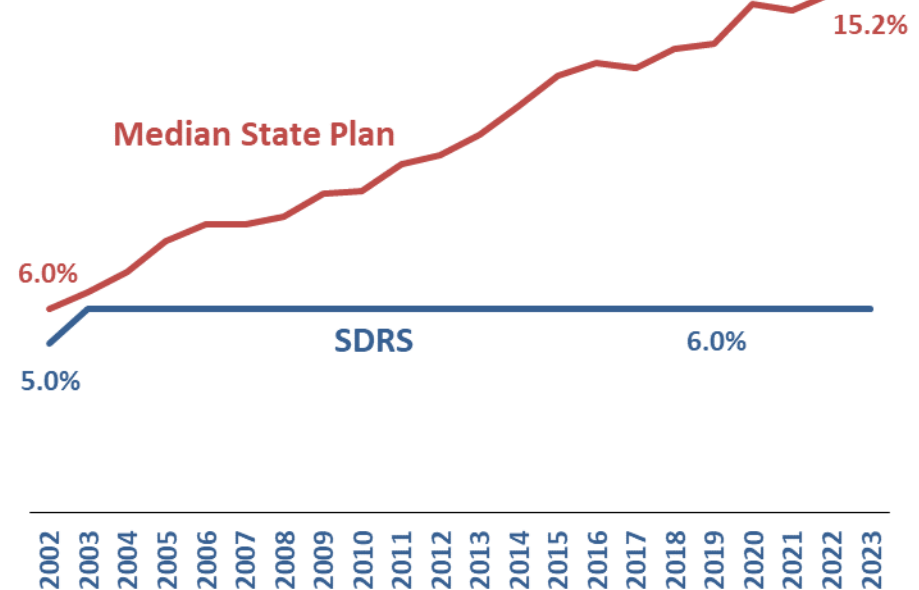


Employer Contributions and Funded Status Comparisons

Fair Value Funded Ratio



Employer Contribution Rates
(for General Members In Social Security)

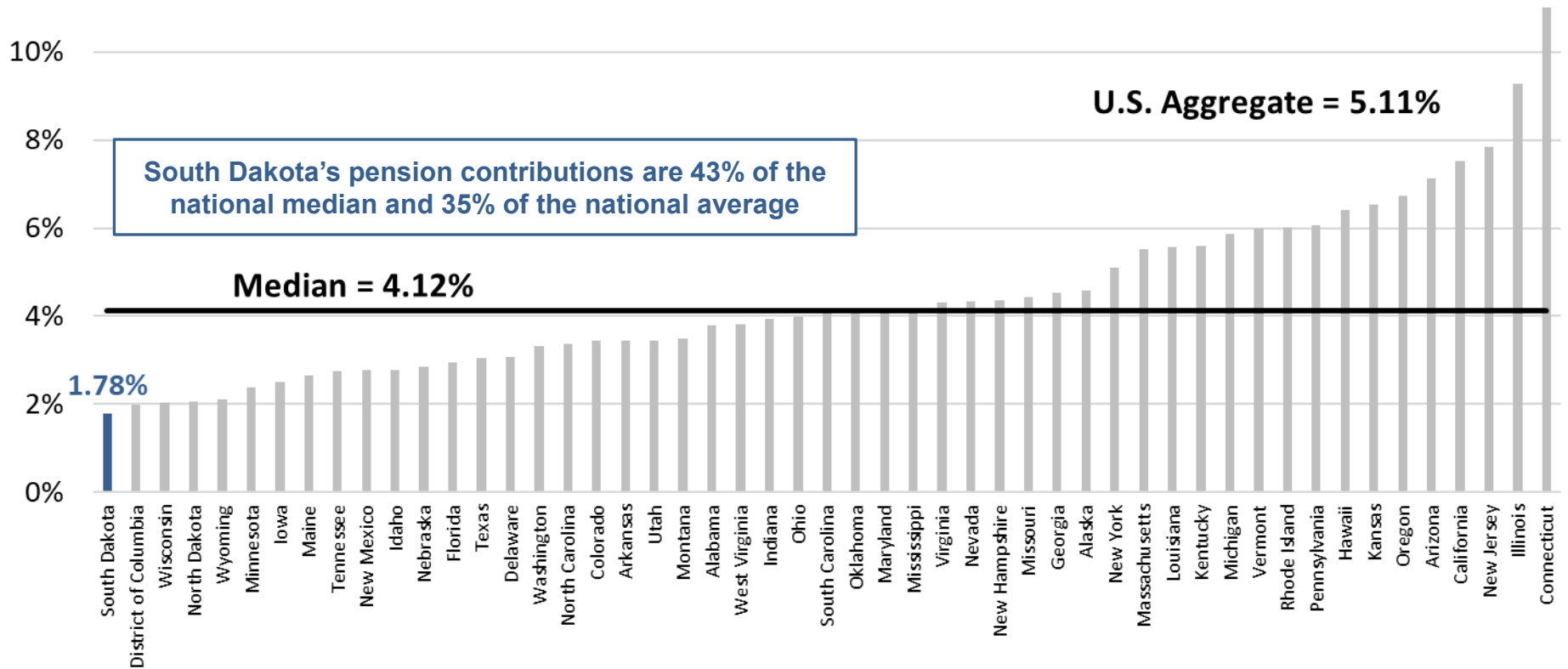


- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 40% of the national median

Median public sector FVFR from Public Plans Database; 2024 estimate from Milliman Public Pension Funding Index. Employer contribution rates from NASRA Public Fund Survey.

Government Spending on Pensions

Government Contributions to Pensions as a Percent
of All Direct Government Spending, FY 2022 (most recently available)

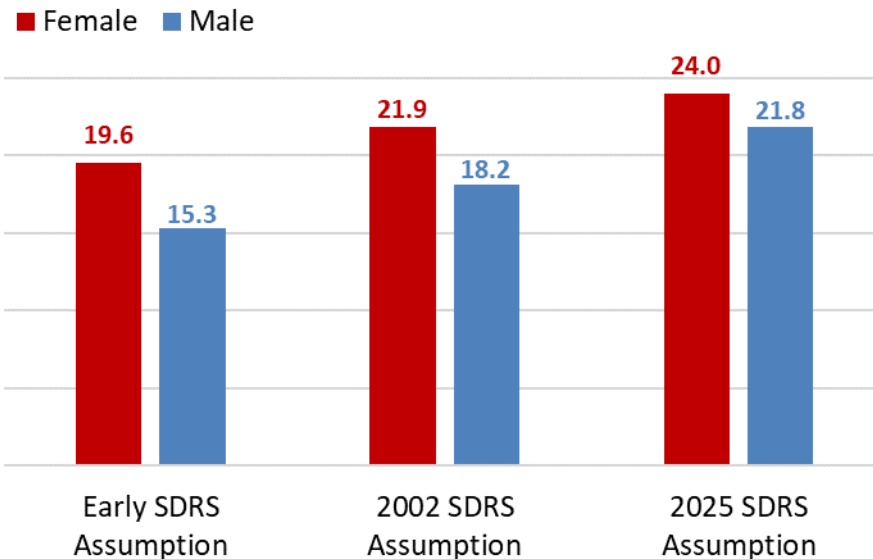


Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, March 2025

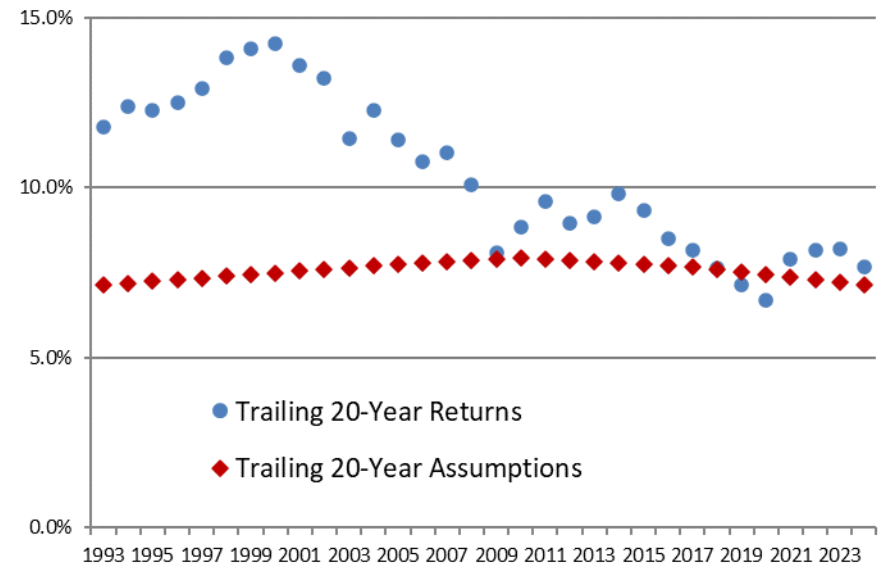
Competing Objectives

- **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**



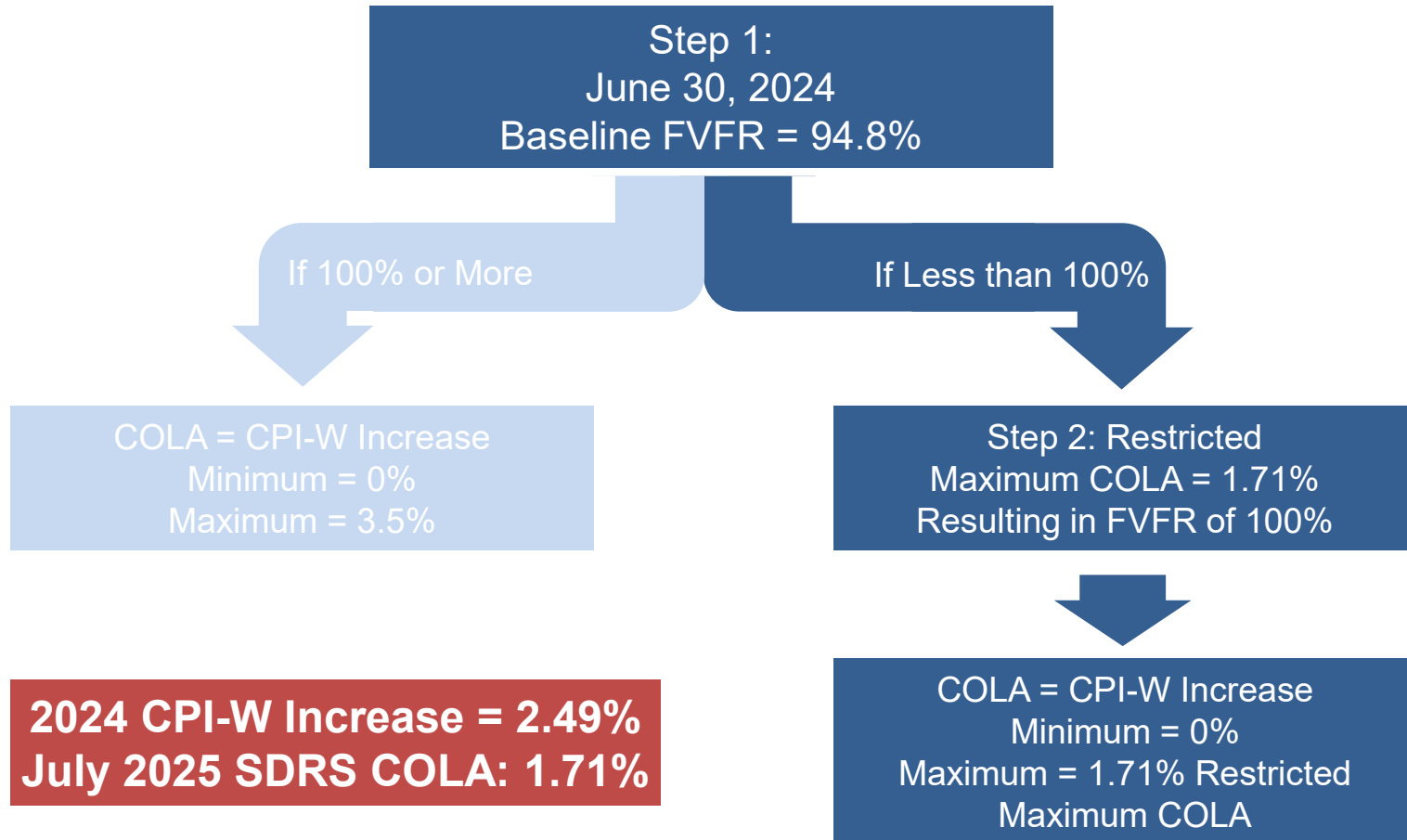
**20-Year Trailing Nominal Returns and
Return Assumptions**



Competing Objectives

- SDRS management efforts to meet benefit objectives in changing circumstances have included:
 - 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
 - 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 2025 COLA Calculation



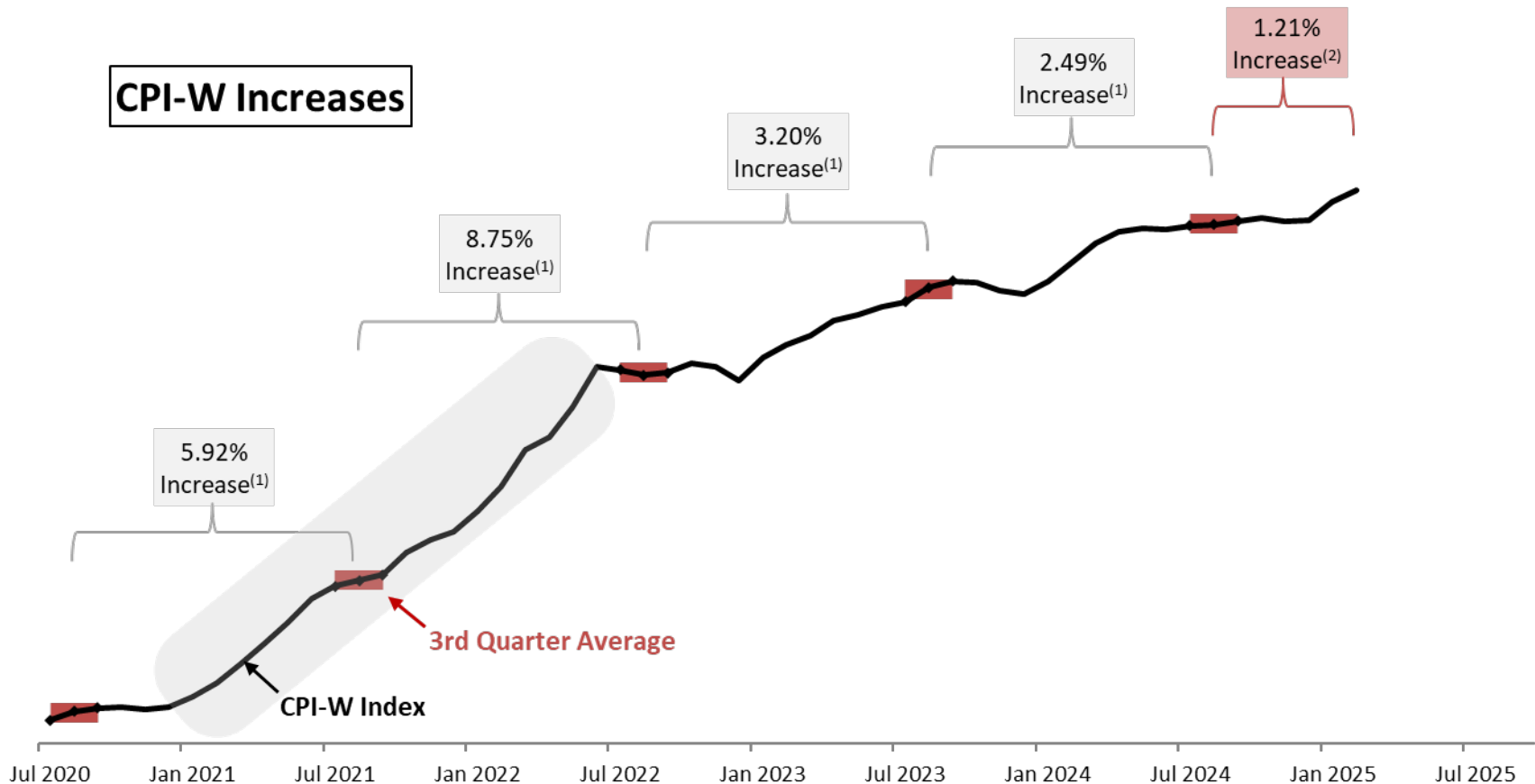


Projected June 30, 2025 Funded Status and July 2026 COLA Range⁽¹⁾

Net Investment Return FYE June 30, 2025	Baseline FVFR	COLA Range	Final FVFR	Applicable Conditions
<= (9.1%)	80.9%	NO COLA	<100%	Corrective Action Recommendation Required
(9.0%)	81.0%	0% to 0.01%	100%	Restricted Maximum COLA
(5.0%)	84.6%	0% to 0.49%	100%	
0.0%	89.1%	0% to 1.06%	100%	
5.0%	93.6%	0% to 1.58%	100%	
6.5%	95.0%	0% to 1.72%	100%	
7.5%	95.9%	0% to 1.82%	100%	
10.0%	98.2%	0% to 2.06%	100%	
11.9%	99.9%	0% to 2.24%	100%	Full COLA Range
12.0%	100.0%	0% to 3.50%	100%	
15.0%	102.7%	0% to 3.50%	102.7%	
34.1%	119.9%	0% to 3.50%	119.9%	
34.2%	120.0%	0% to 3.50%	120%	120% Benefit Improvement Threshold Met

(1) Before consideration of liability gains/losses for FYE June 30, 2025. June 30, 2024 Baseline FVFR: 94.8% and COLA Range: 0.0% to 1.71%.

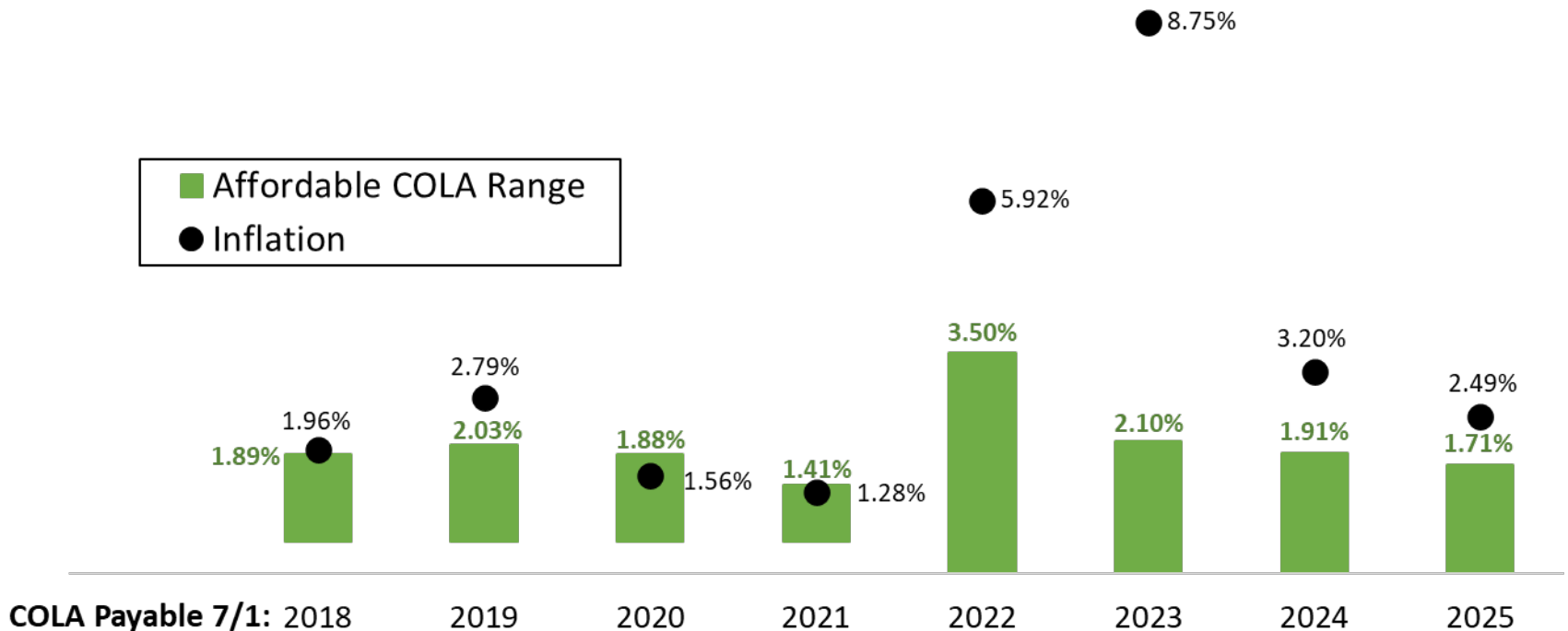
Inflation Measurement for Social Security and SDRS COLAs



- (1) Increase in the third calendar quarter average over the prior highest third calendar quarter average – the specified inflation measurement for the Social Security COLA effective the following January and the SDRS COLA effective the following July.
- (2) Increase in most recent month index (February 2025) over July to September 2024 average. Increase annualizes to 2.43%, ignoring seasonal impacts.

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 1.71%, less than inflation for the fourth consecutive year

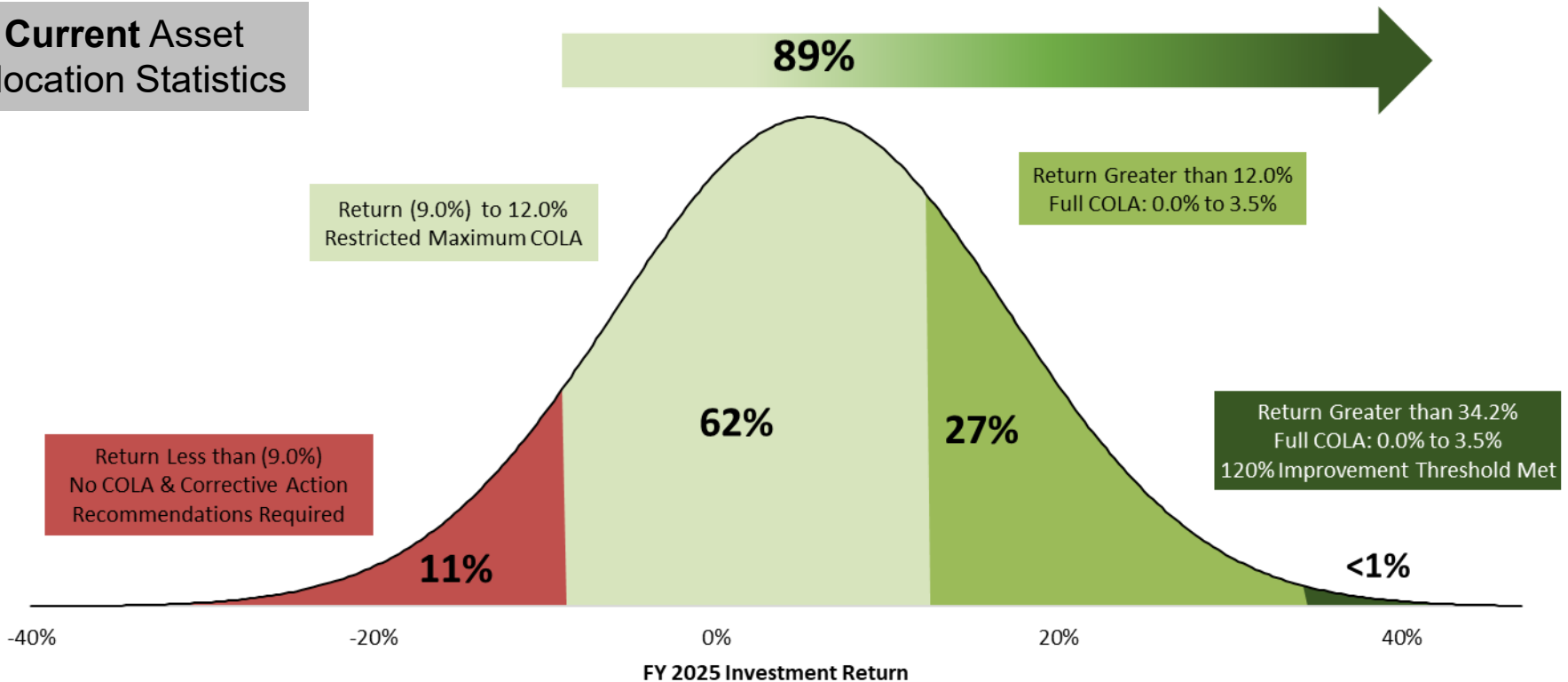


Projected Funded Status and COLAs

- 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 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 2026 COLA Range and Likelihoods

Current Asset Allocation Statistics



- **Ignoring FY 2025 investment returns to date**, 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

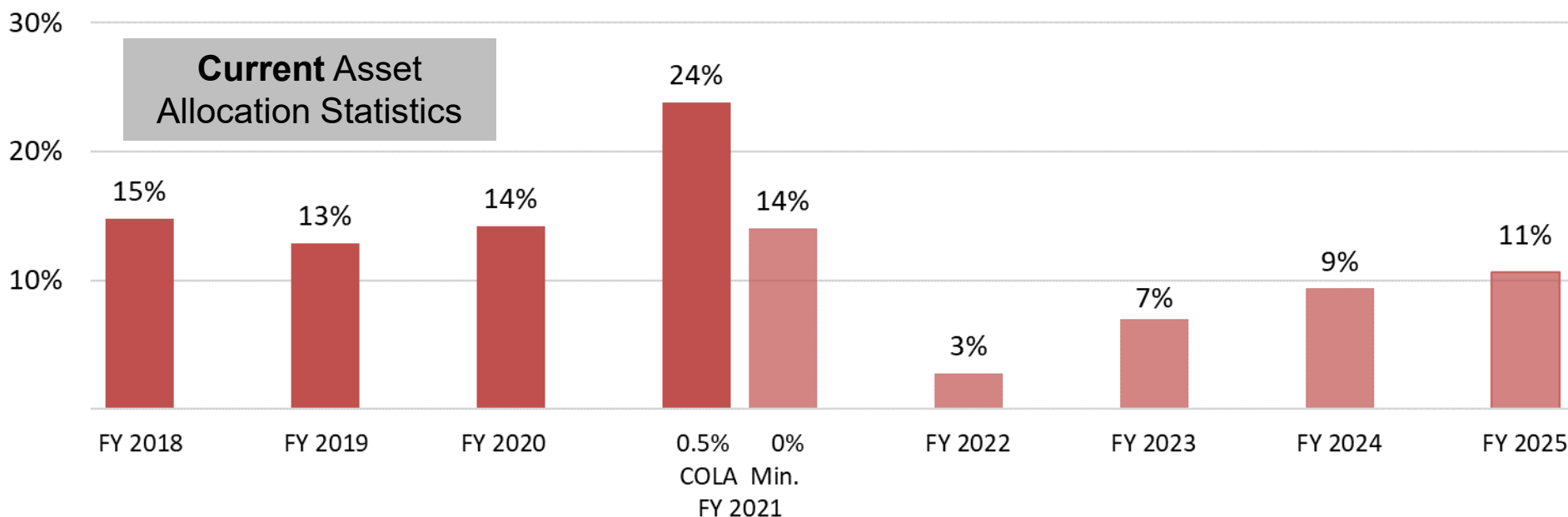
Before consideration of liability gains/losses. Likelihoods based on SDIC **FY 2025 current** asset allocation investment portfolio statistics (mean = 5.19%, standard deviation = 11.43).



Historical 1-Year Corrective Action Requirement Likelihoods

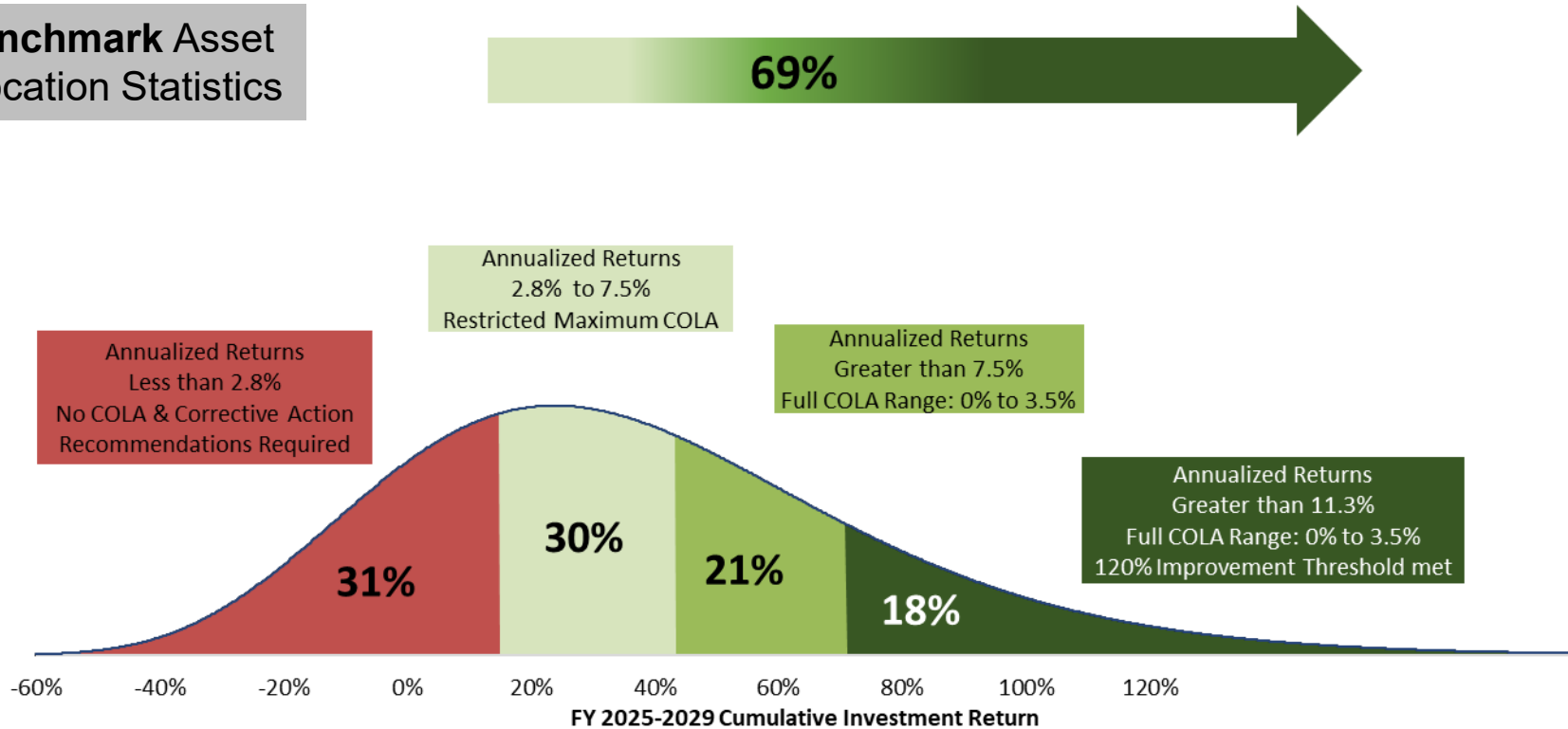
Investment experience is the primary driver of the likelihood of required corrective action recommendations. Changes in market conditions and expectations for future returns also impact the likelihood.

1-Year Likelihoods of Required Corrective Action Recommendations



Projected 2030 COLA Range and Likelihoods

Benchmark Asset Allocation Statistics



- Ignoring FY 2025 investment returns to date, 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

- 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)
- 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



South Dakota Retirement System

Recent Public Pension Studies

April 9, 2025

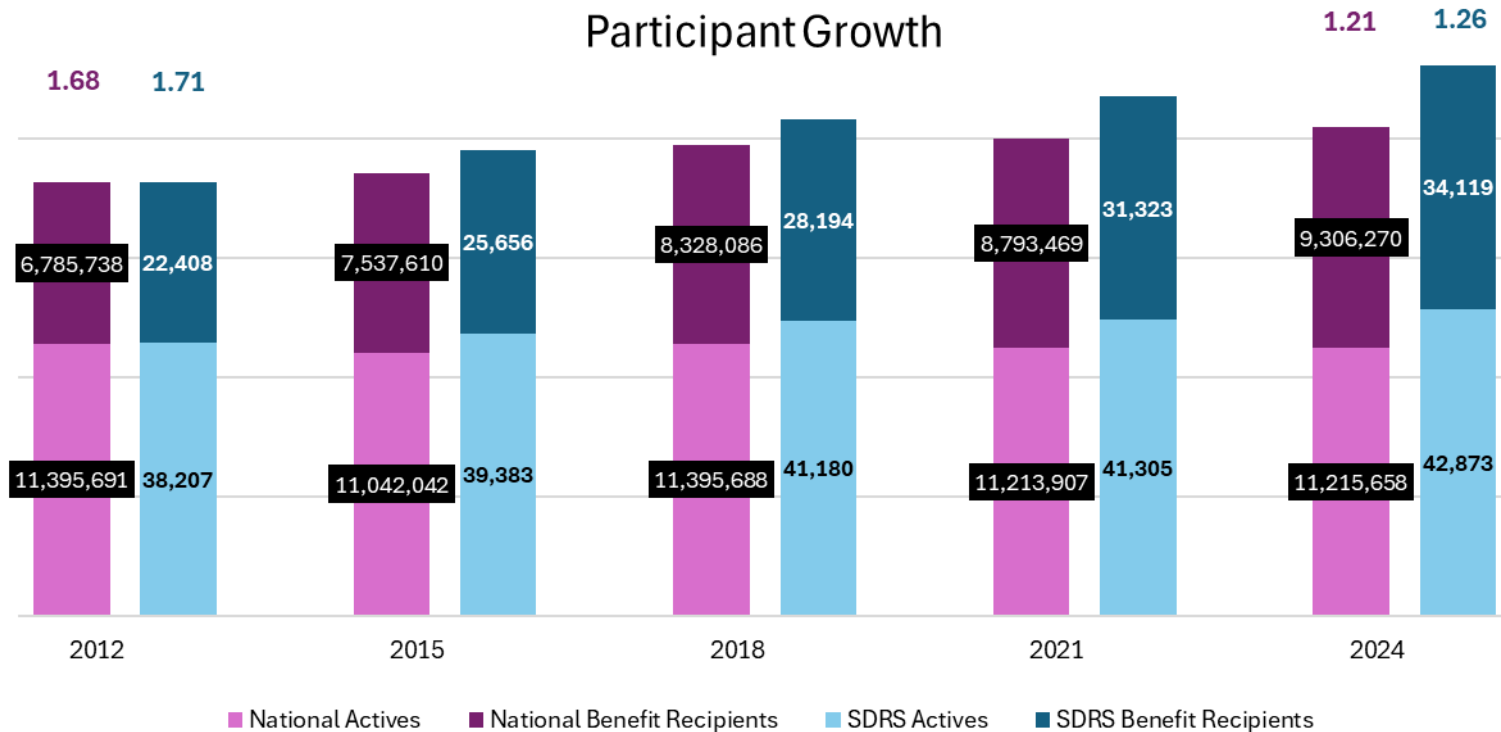


Recent Studies and Information Updates

- **Wisconsin Legislative Council:** 2023-2024 Comparative Study of Major Public Employee Retirement Systems
- **Society of Actuaries Retirement Plan Experience Committee:** Pub-2016 Public Retirement Plans Mortality Tables Exposure Draft
- **National Institute on Retirement Security:** Pensionomics 2025: Measuring the Economic Impact of Defined Benefit Pension Expenditures
- **National Association of State Retirement Administrators:** State and Local Government Spending on Public Employees Retirement Systems
- **National Conference on Public Employee Retirement Systems:** Public Retirement Systems Study, 2025 Edition

- Biennial study of features and metrics of state retirement systems:
 - Includes details for each state and national summaries
- Comparisons between plans should be made cautiously:
 - Plans may be more generous than typical in one area and less in another
 - Each plan is subject to a unique constitutional, legal, budgetary, demographic, and bargaining environment
 - Benefits and contributions vary significantly by Social Security participation

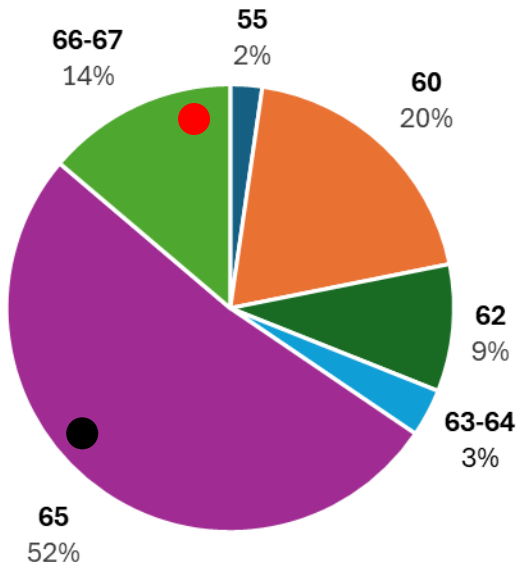
Wisconsin Comparative Study: Participant Growth



- National and SDRS counts scaled to demonstrate growth since 2012
- Beginning and ending active to retired ratio indicated

Wisconsin Comparative Study: Normal Retirement Provisions

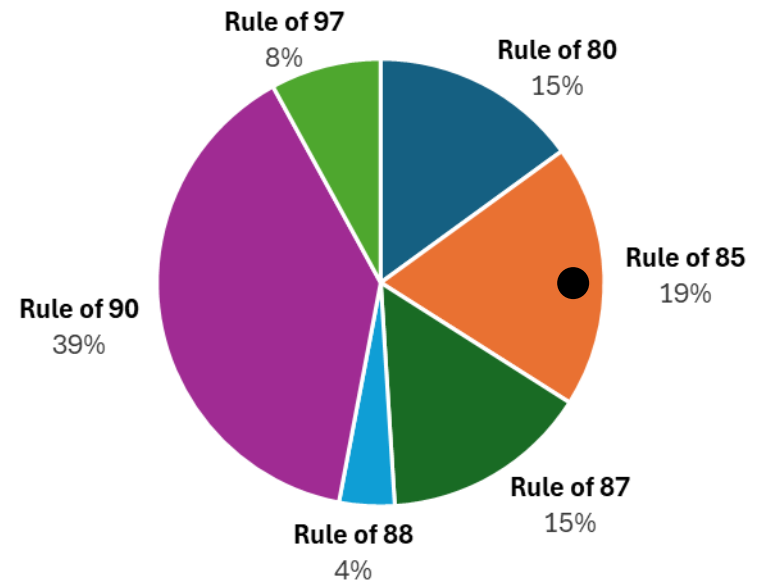
Normal Retirement Ages



SDRS:

- Class A Foundation: 65 ●
- Class A Generational: 67 ●

Rule of Retirement Provisions



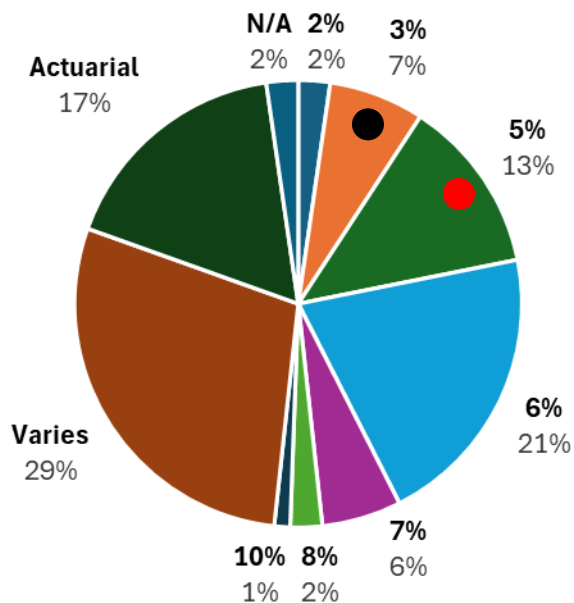
SDRS:

- Class A Foundation: Rule of 85 ●
- Class A Generational: N/A

Data Labels:	Category
	Percentage of Plans

Wisconsin Comparative Study: Early Retirement Reductions and COLA

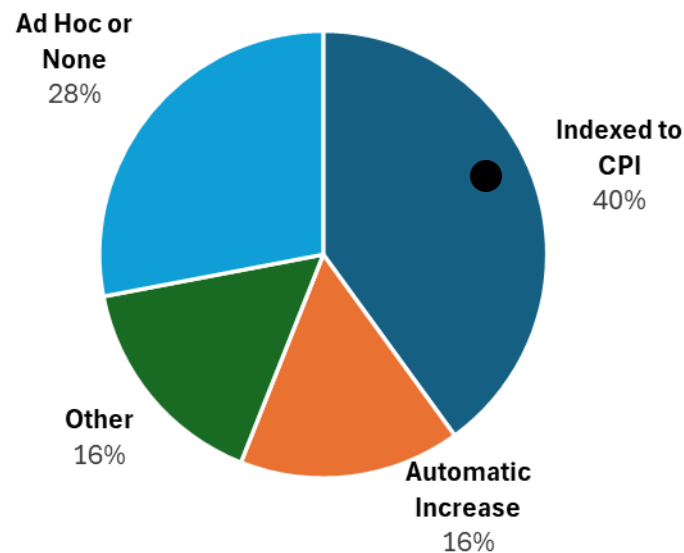
Early Retirement Reductions



SDRS:

- Foundation: 3% per year ●
- Generational: 5% per year ●

Cost-of-Living Adjustments

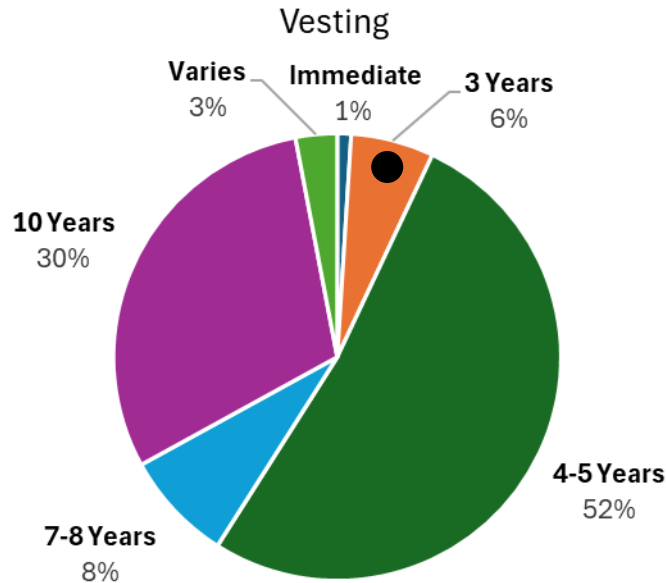


SDRS:

- 0% to 3.5% based on CPI and funded status ●

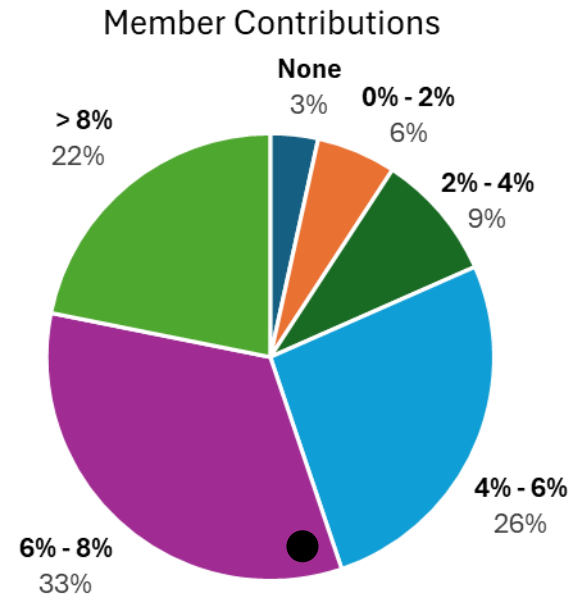
Data Labels: **Category**
Percentage of Plans

Wisconsin Comparative Study: Vesting and Member Contributions



SDRS:

— 3 years ●



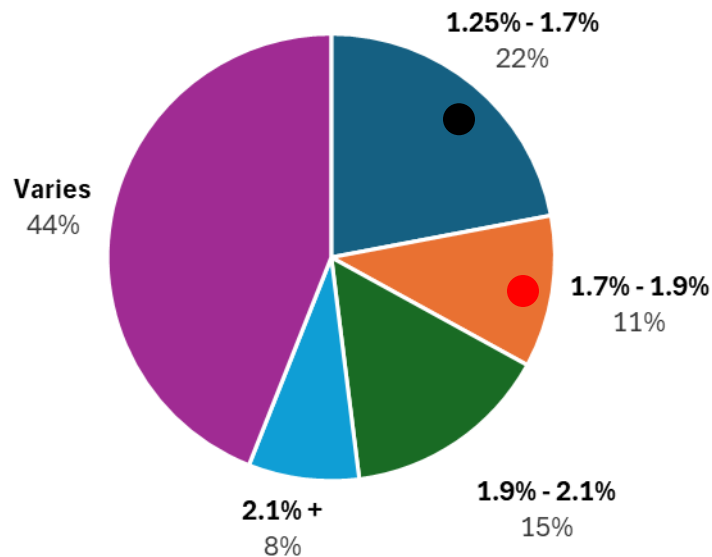
SDRS:

— Class A: 6% ●
— Public Safety: 8%
— Judicial: 9%

Data Labels:	Category
	Percentage of Plans

Wisconsin Comparative Study: Benefit Basics

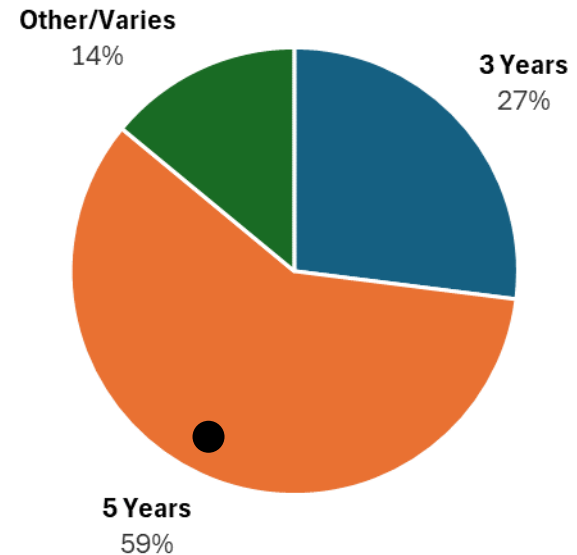
Benefit Multiplier



SDRS:

- Class A Foundation: 1.55% ●
- Class A Generational: 1.80% ●

Final Average Salary Period



SDRS:

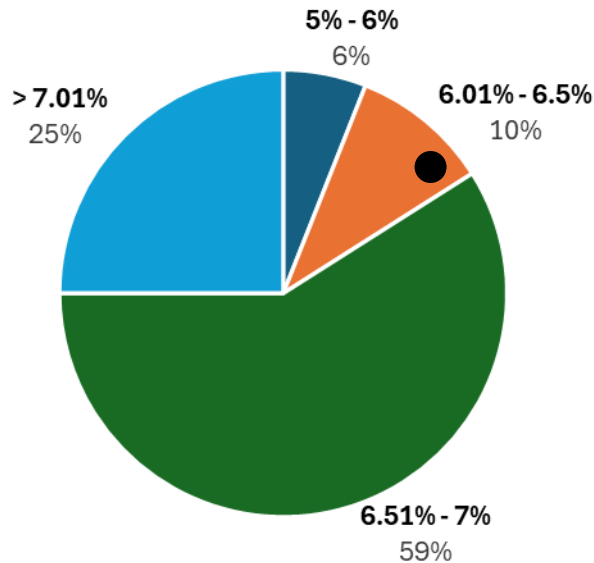
- 5 Years ●

Data Labels:

Category
Percentage of Plans

Wisconsin Comparative Study: Funding

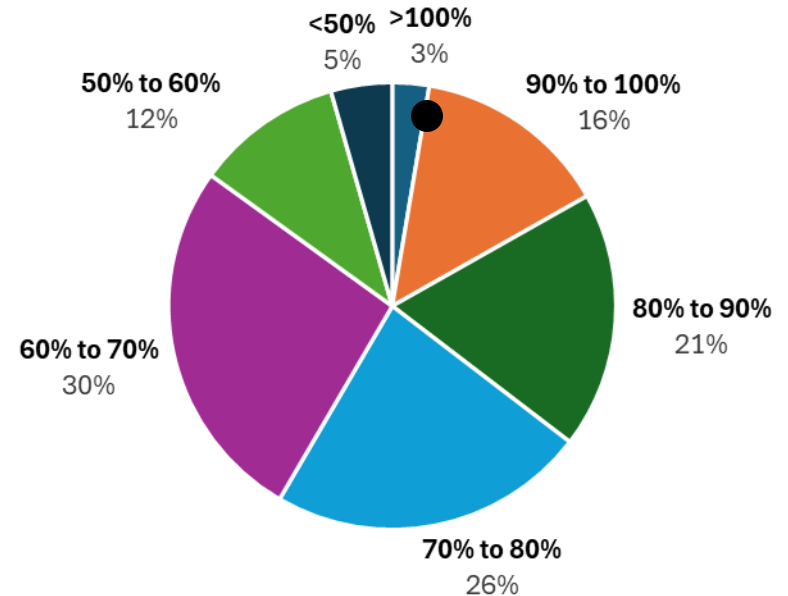
Discount Rate



SDRS:

— 6.50% ●

Funded Ratio



SDRS:

— 100% ●

Data Labels: **Category**
Percentage of Plans



Society of Actuaries RPEC Pub-2016 Exposure Draft

- Retirement Plans Experience Committee (RPEC) of SOA released exposure draft of updated public plans mortality tables in January:
 - Pub-2016 tables update Pub-2010 tables used by many public plans:
 - Larger plans adjust tables based on their own credible experience
 - SDRS uses adjusted Pub-2010 tables
 - Based on 2013-2019 (pre-pandemic) experience
 - Most annuity factors using Pub-2016 tables slightly lower than Pub-2010 (male public safety annuity factors up slightly)
- Expect public plans to move to new tables at next experience analysis:
 - Should not have significant impact on liability
- NCPERS to sponsor next public pension mortality table project



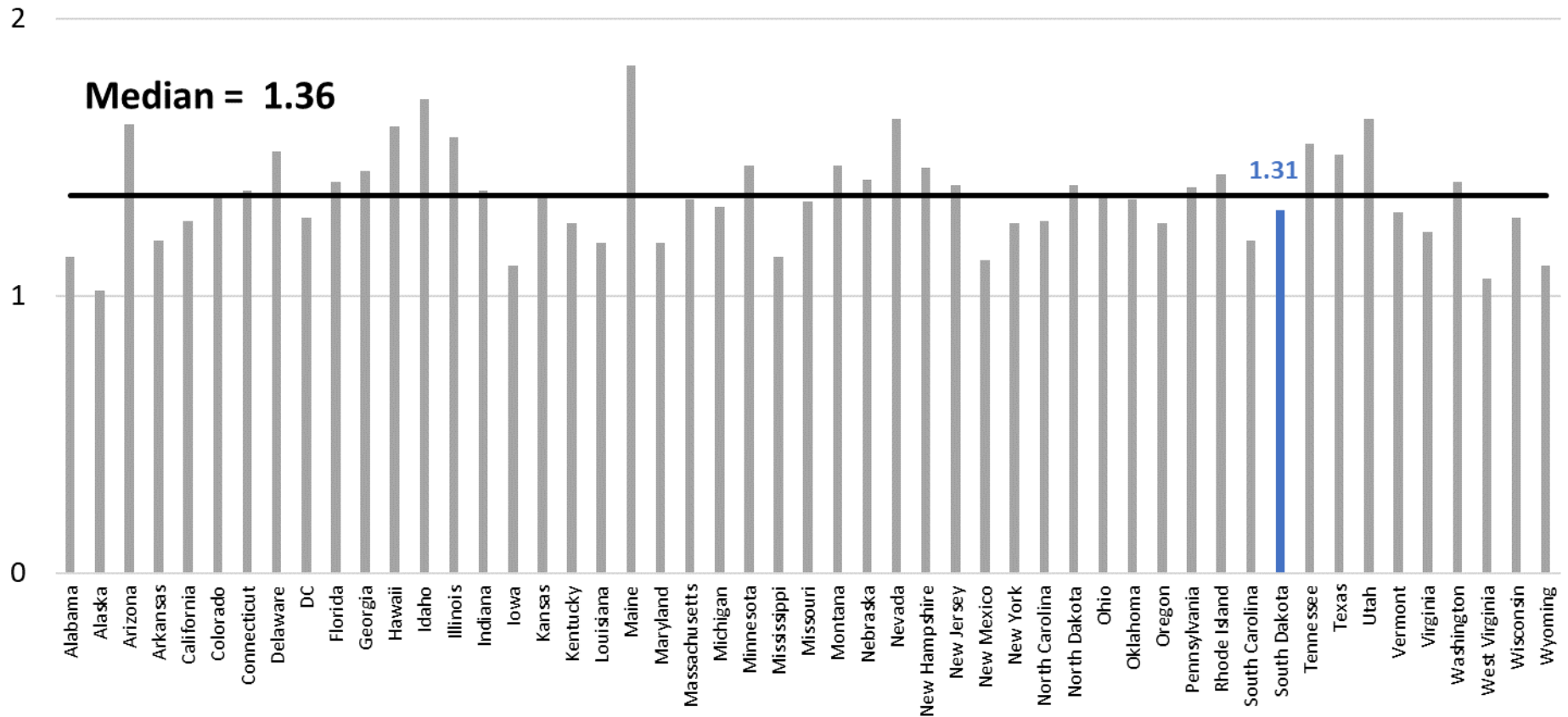
NIRS Pensionomics 2025

- National Institute on Retirement Security (NIRS) publishes biennial study measuring economic impact of DB pension plans
- Nationally in 2022, state and local plans support:
 - 3.9 million jobs
 - \$846 billion in economic activity, \$476 billion in value added to the economy
- South Dakota impact:
 - 5,165 jobs
 - \$919 million in economic activity, \$519 million in value added to the economy

NIRS Pensionomics 2025

State Comparisons

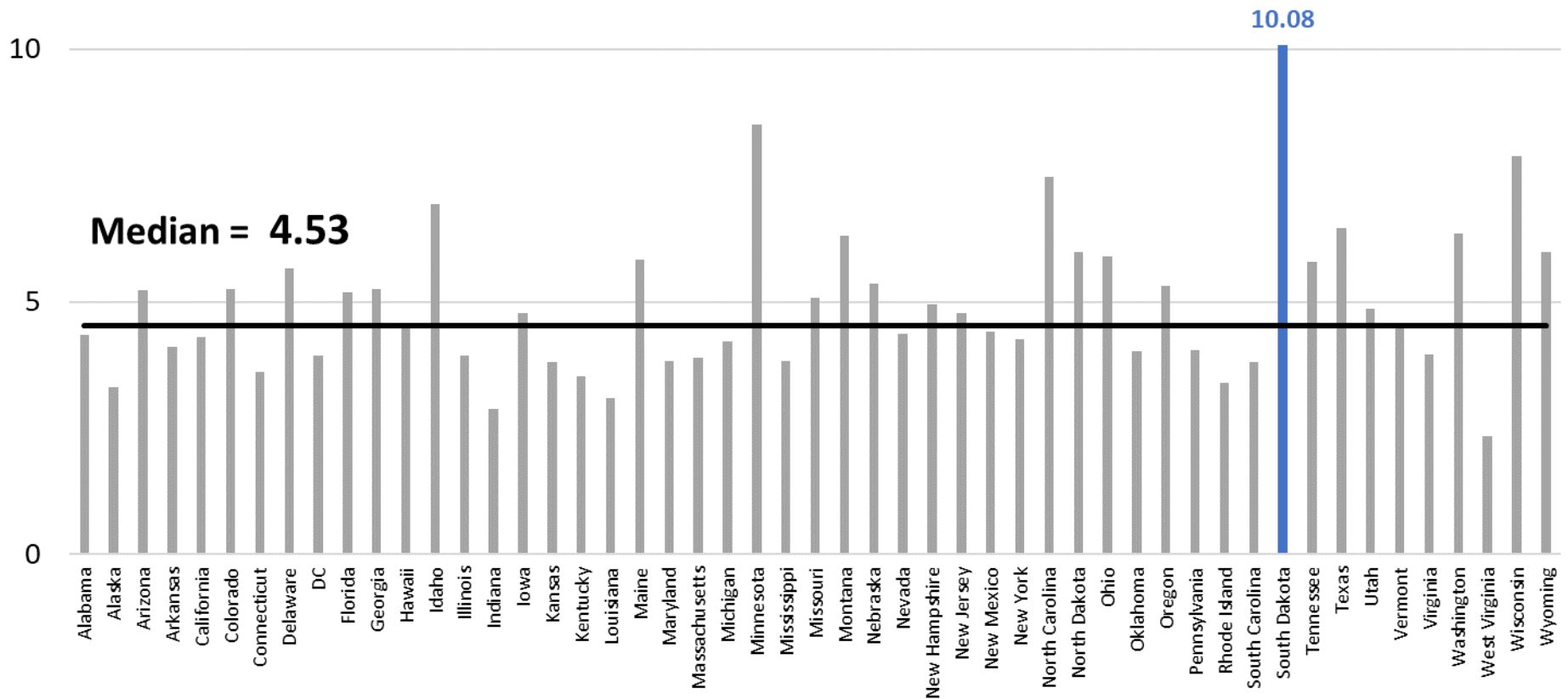
Pension Expenditure Multiplier



- Pension Expenditure Multiplier measures the economic impact per dollar of pension benefits paid

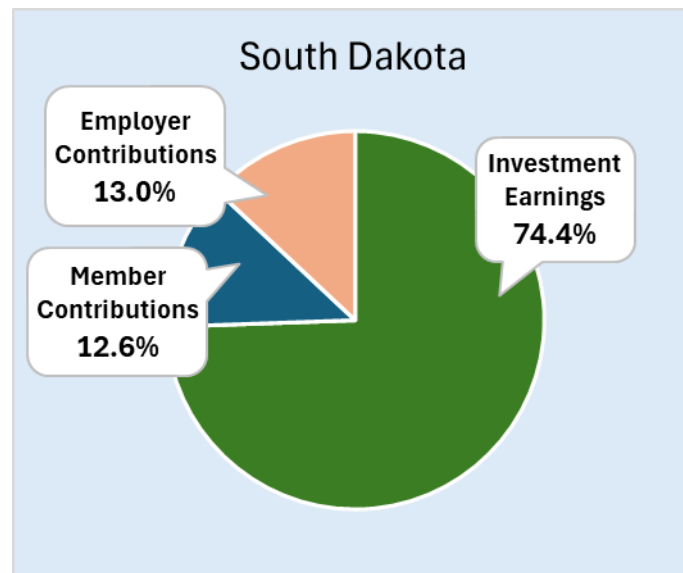
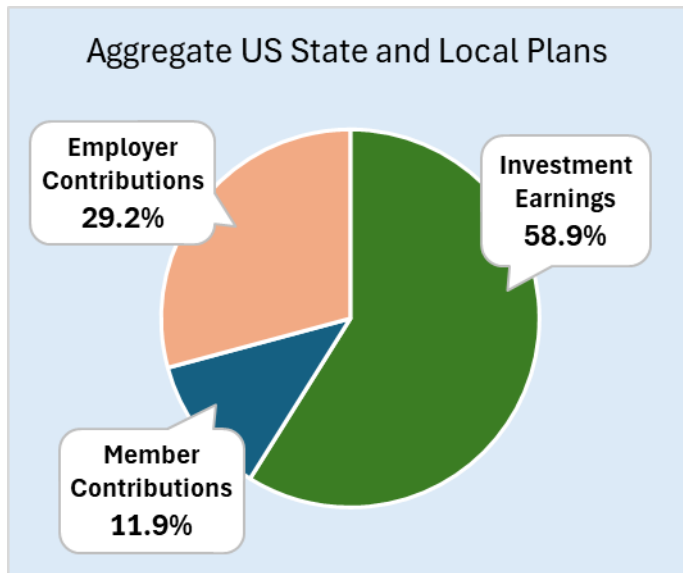
NIRS Pensionomics 2025 State Comparisons

Taxpayer Investment Factor




- Taxpayer Investment Factor measures the economic impact per dollar of taxpayer (employer) contributions

NIRS Pensionomics 2025 State Comparisons



- Between 1993 and 2022 13% of South Dakota's pension fund receipts came from employer contributions
- SDRS places less burden on taxpayers than the typical statewide plan

- National Association of State Retirement Administrators (NASRA) Research Center maintains library of pension studies
- Recent releases include:
 - Fast facts on state and local government retirement systems
 - 2025 State and Local Fiscal Facts




FAST FACTS & HELPFUL RESOURCES on State and Local Government Retirement Systems

IMPACT

\$6.25 trillion held in public pension trusts is invested and provides long-term, patient capital to every corner of the financial marketplace.


15.3 million firefighters, police officers, teachers and other public workers across every state and district are covered by public plans – to not only provide retirement security but also decrease turnover and training costs.

\$393 billion is distributed annually to **12.2 million** retirees and their survivors (an average benefit of \$2,428/month), providing **economic stimulus** to every city and town in the nation.



Exit slip: more available.

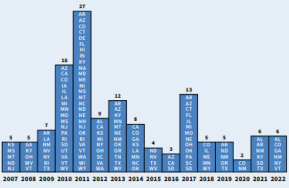
GOVERNANCE, OVERSIGHT & TRANSPARENCY



- Governed by state statutes and strict fiduciary, investment, and administrative laws and benefit protections.
- Overseen by publicly **elected officials, regulators, and independent boards** to ensure transparency and accountability.
- Financial reports and valuations are publicly available and also accessible through a **comprehensive online searchable database**.
- NASRA provides an **annual online compendium** of key characteristics and national trends.

SIGNIFICANT REFORMS BY STATES


In response to the Global Financial Crisis, and without federal involvement, all states implemented pension benefit and financing reforms to enhance resiliency. **NASRA monitors these efforts**, regularly publishing **updates** on the evolving landscape of state pension design, funding and benefits.



ASSETS & INVESTMENTS

State and local government pension benefits are not paid from **general revenues**, but are instead pre-funded through trust funds to which **employees and employers** contribute during their working years.


SOURCES OF PUBLIC PENSION FUND REVENUE



Source: U.S. Census


- **Investments cover majority of benefit costs.** Nearly two-thirds of public pension financing comes from the investment earnings on employer and employee contributions (**72% from investment revenue + employee contributions**).
- **Broadly diversified, patient capital.** The over \$6 trillion in public pension assets are professionally and prudently invested in **diversified, long-term portfolios** ranging from entrepreneurial startups to established publicly traded corporations.

ESTIMATED PUBLIC PENSION FUND HOLDINGS AS OF SEP. '24



Source: U.S. Census

MEDIAN ANNUALIZED PUBLIC PENSION FUND RETURNS FOR PERIODS ENDED 12/31/24





Source: NASRA

- **More conservative return targets.** State and local pensions have methodically lowered investment return expectations since the financial crisis, with a 6.91% average target in FY 2023.
- **Actual returns exceed expectations.** Actual investment returns have surpassed targets over the 1-, 5-, 10-, and 30-year periods ending December 2024.

INCREASED SHARED RESPONSIBILITY


Public retirement plans vary widely, but mandatory **employee contributions** are now universal and many plans adjust contributions and benefits with plan conditions. NASRA highlights these practices in its **video and report on Shared Financing** and its **Issue Brief** on long-standing hybrid plans, including cash balance and combination models.






For more information: WWW.NASRA-ORG


NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS



2025 STATE AND LOCAL FISCAL FACTS

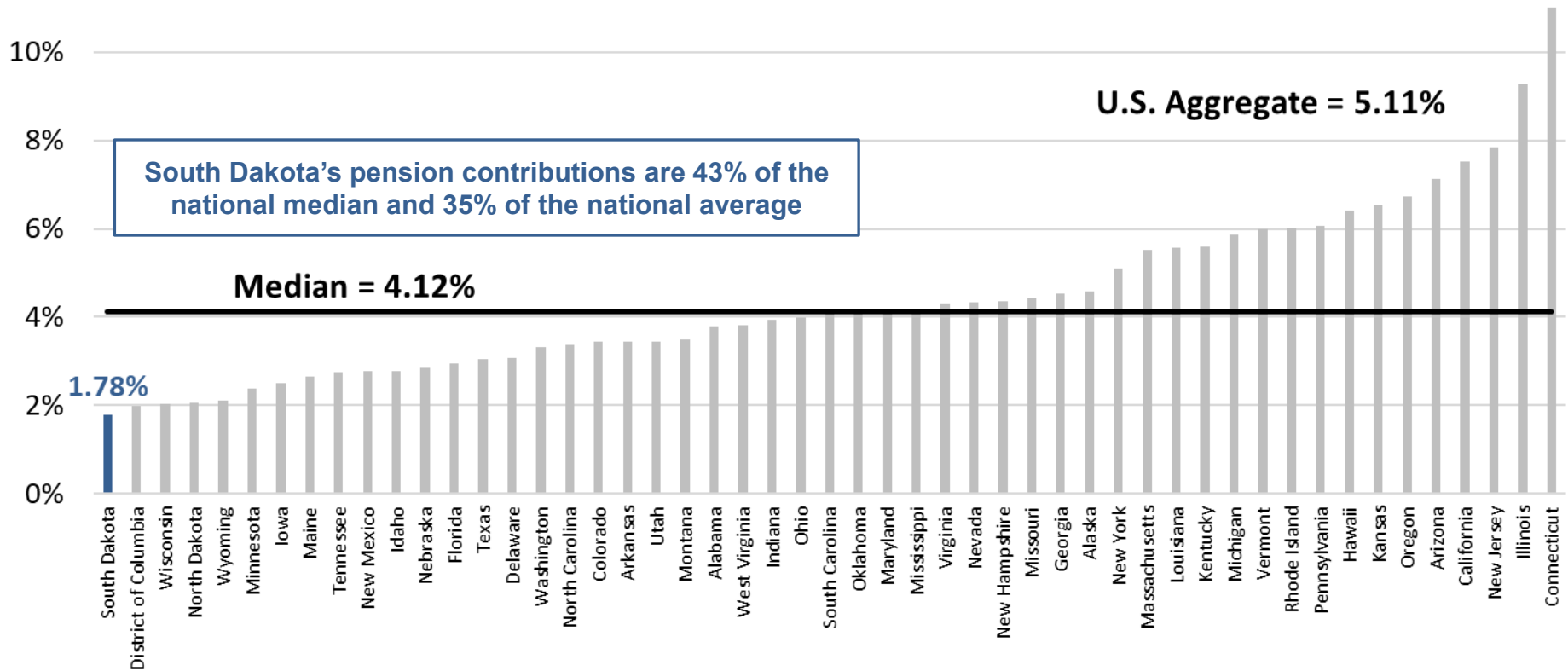


An Update on the Fiscal Condition of State and Local Governments



Government Spending on Pensions

Government Contributions to Pensions as a Percent
of All Direct Government Spending, FY 2022 (most recently available)

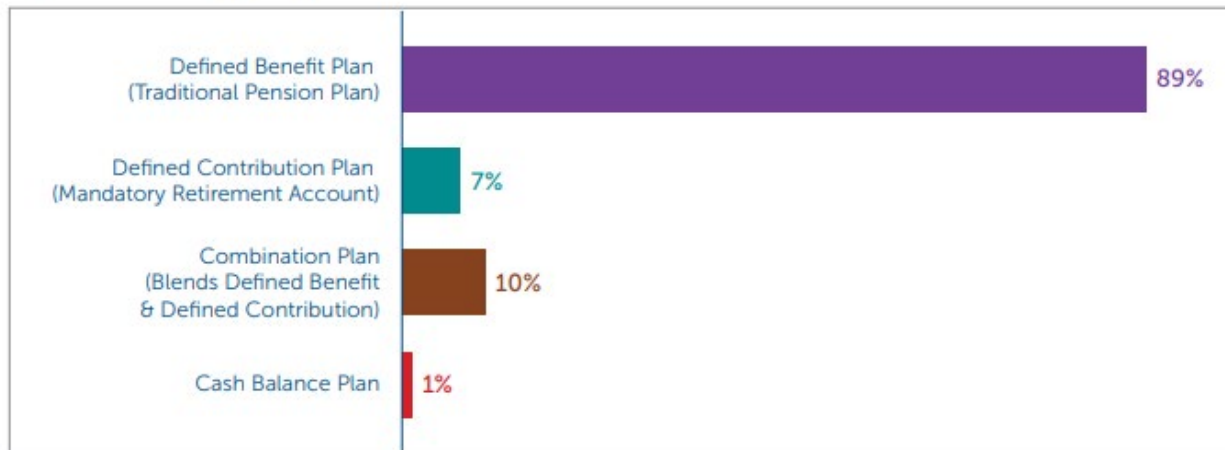


Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, March 2025

NCPERS Public Retirement Systems Study

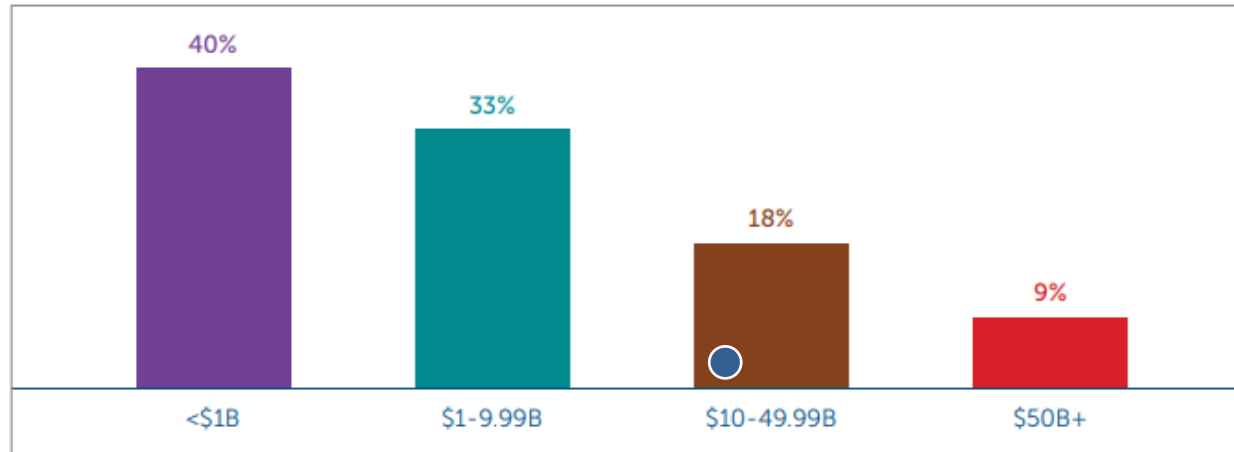
- National Conference on Public Employee Retirement Systems (NCPERS) publishes an annual study of public retirement systems
 - 201 retirement systems responded

Figure 2 – Plan Type Reported



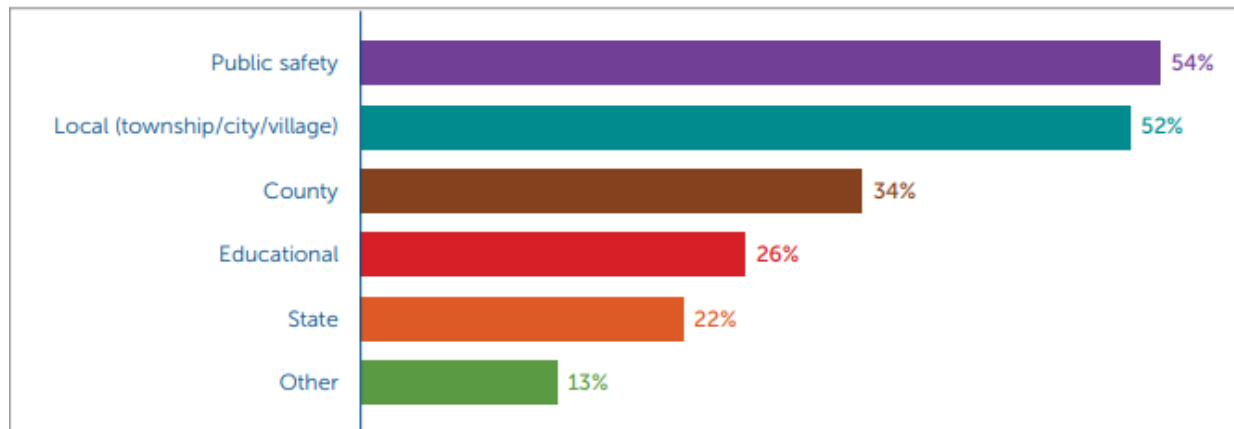
NCPERS Public Retirement Systems Study – Responding Plans

Figure 3 – Defined Benefit Plan Assets Reported



SDRS:
\$14.9 B

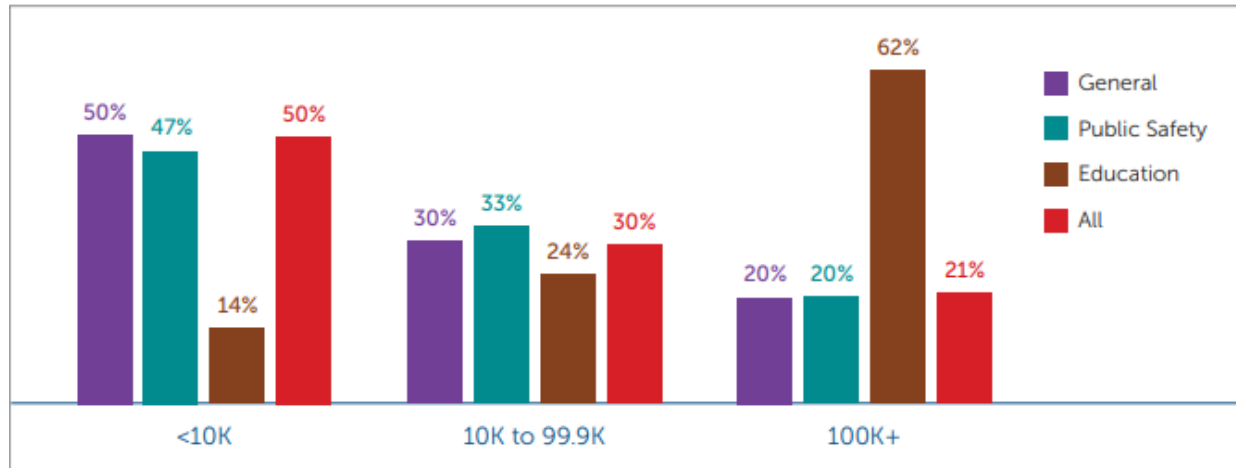
Figure 4 – Types of Employees/Beneficiaries Served



**SDRS: All
Categories**

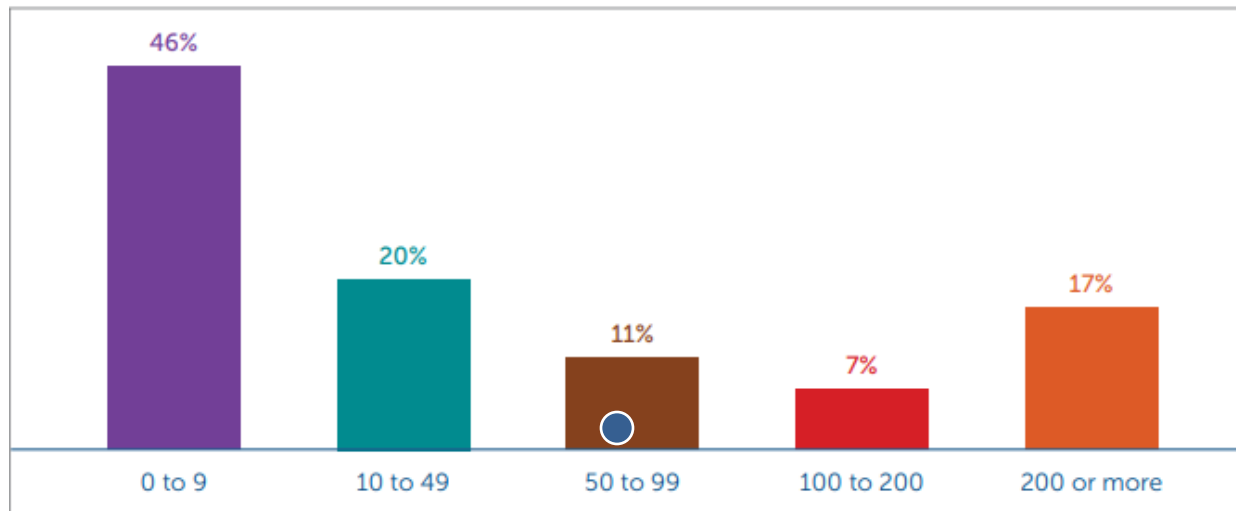
NCPERS Public Retirement Systems Study – Responding Plans

Figure 5 – Total Number of Members



SDRS:
103,000

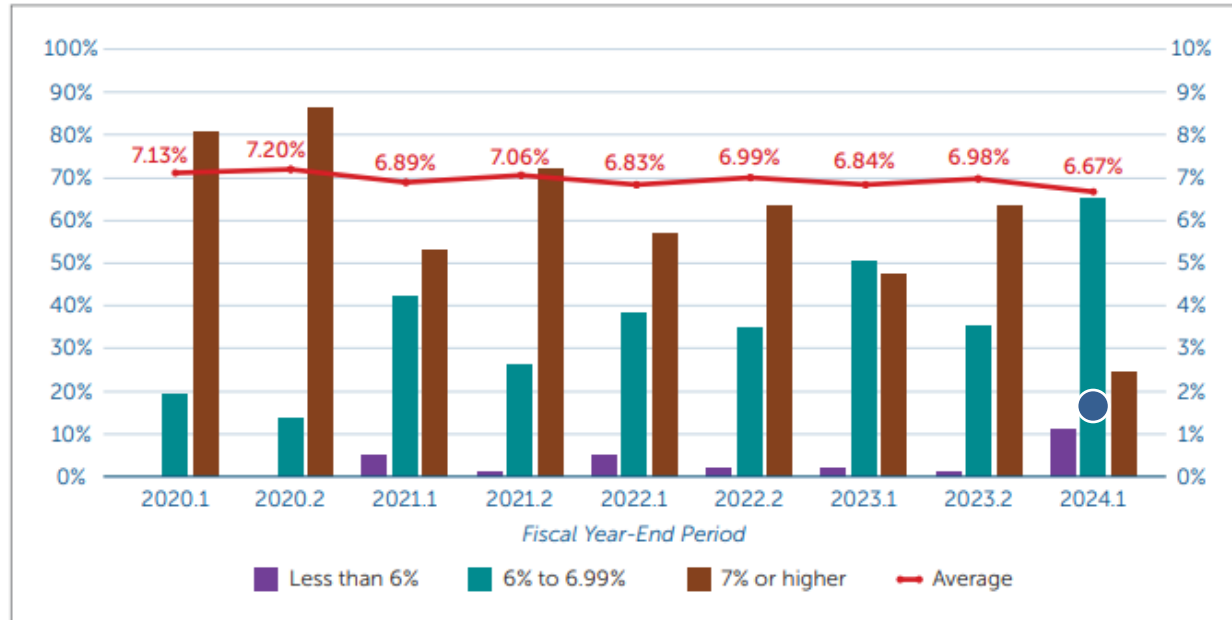
Figure 7 – Number of Staff Administering the Fund



SDRS:
35 Admin
35 Invstmt

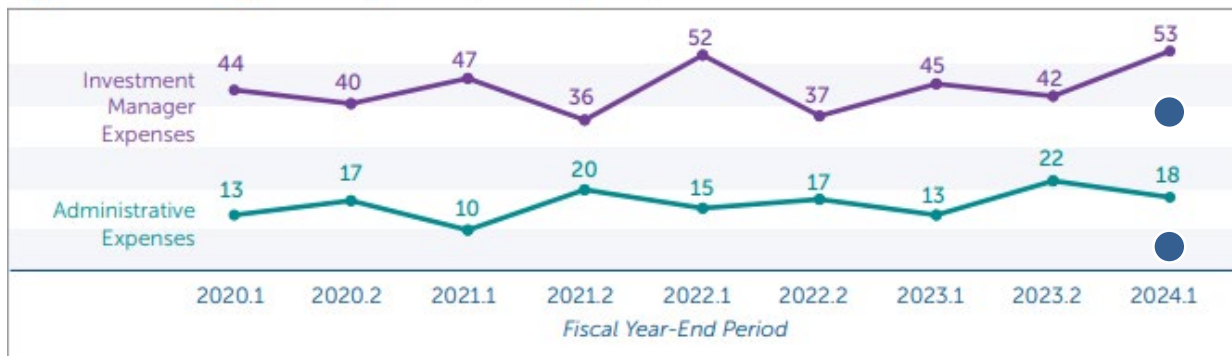
NCPERS Public Retirement Systems Study – Discount Rate and Expenses

Figure 9 – Discount Rate



SDRS:
6.50%

Figure 24 – Average Plan Expenses (in basis points)



SDRS:
4 Admin
37 Invstmt

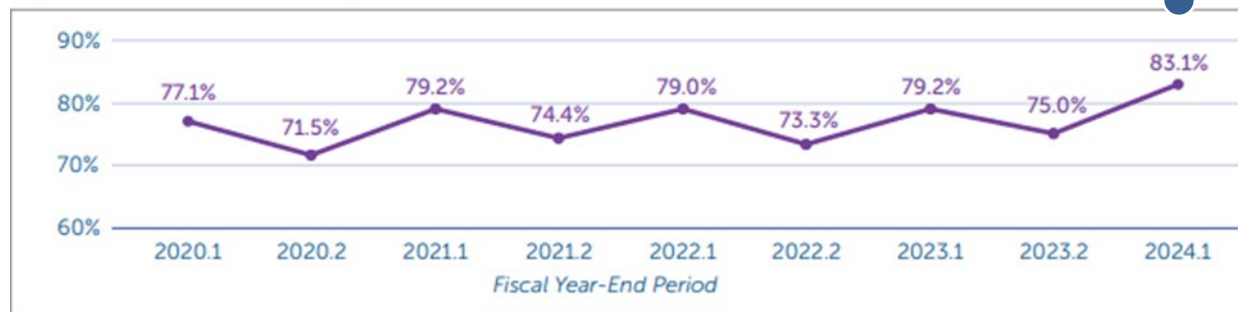
NCPERS Public Retirement Systems Study – Contribution Rates and Funding

Figure 20 – Employee and Employer Contributions as a Percent of Payroll



SDRS:
6%/6%
PS 8%/8%
Jud 9%/9%

Figure 26 – Trend in Average Funded Ratio

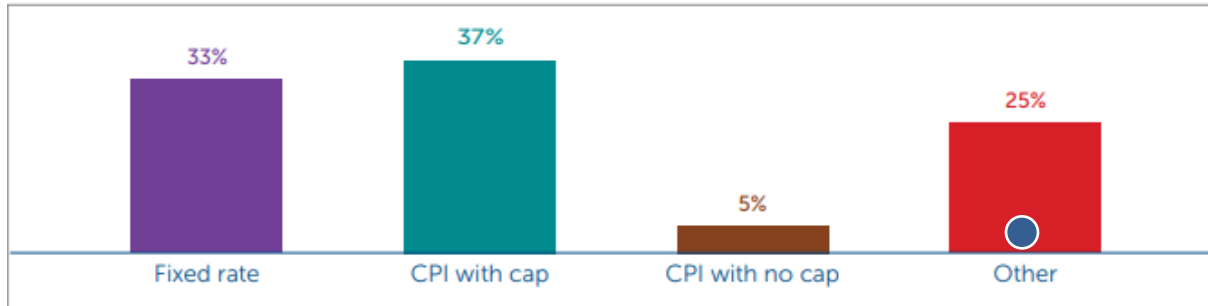


SDRS:
100%

NCPERS Public Retirement Systems Study – COLAs

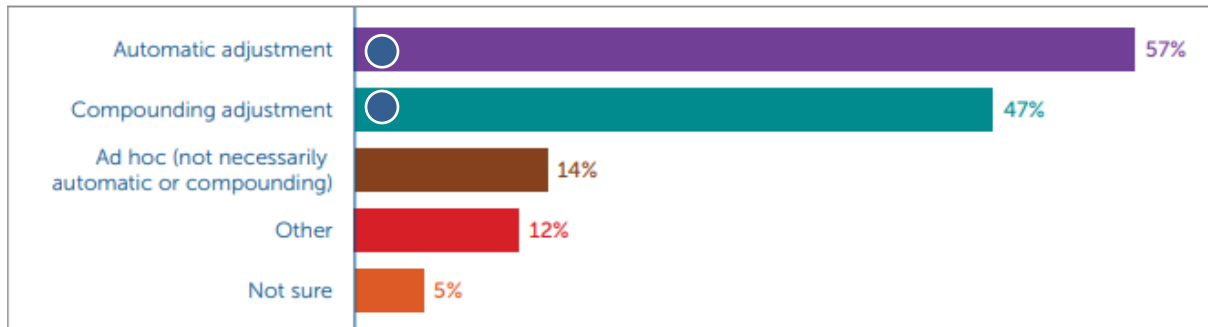
73% of Systems provide COLAs

Figure 21 – Type of Cost of Living Adjustment Offered



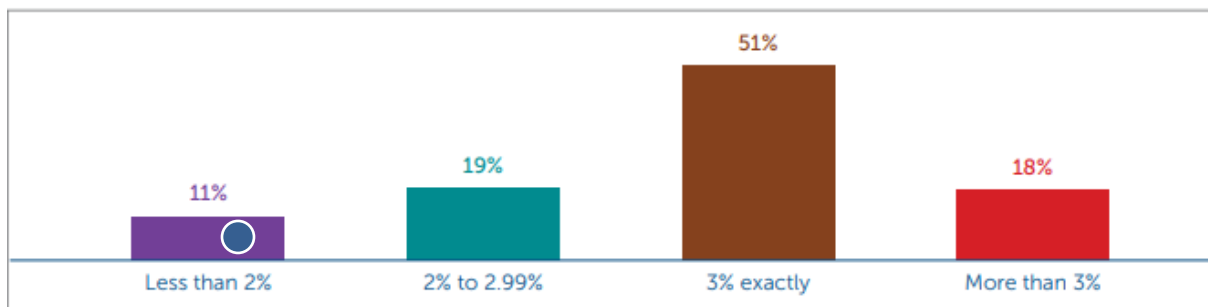
**SDRS:
Other**

Figure 22 – How COLAs are Administered



**SDRS:
Automatic,
Compound**

Figure 23 – COLA Percentage Paid in Most Recent Fiscal Year



**SDRS:
1.91%**



Links to Studies and Reports

[Wisconsin Comparative Study](#)

[SOA RPEC Pub-2016 Exposure Draft](#)

[NIRS Pensionomics 2025](#)

[NASRA Research Center](#)

[NCPERS Public Retirement Systems Study](#)



South Dakota Retirement System

2025 Legislative Session

April 9, 2025 Board Meeting



SDRS LEGISLATION

Four bills brought on behalf of the SDRS Board of Trustees unanimously passed both houses of the Legislature and were signed into law by the Governor during this year's 100th Legislative Session. The following bills will become effective July 1, 2025.

1. **House Bill 1029** codified certain administrative rules and updated certain statutory provisions to enhance clarity, promote transparency, and improve the user experience for those navigating the authorities governing SDRS.
2. **House Bill 1030** defined the term “member information” and clarified when it may be disclosed.
3. **House Bill 1031** provided the Executive Director additional authority to verify member identity through online processes.
4. **House Bill 1032** updated a reference to the Internal Revenue Code to ensure that SDRS is in compliance with federal law.



OTHER LEGISLATION

The following three bills were notable during the 2025 Legislative Session:

- 1. House Bill 1059**, entitled “An Act to clarify the meaning of teleconference for purposes of open meeting requirements,” expanded the definition of how official business or public policy is discussed or decided.
- 2. Senate Bill 74**, entitled “An Act to require the publication and review of an explanation of open meetings laws of this state,” will require agencies, including SDRS, to review South Dakota’s open meeting laws and any other information provided by the Attorney General each calendar year.
- 3. House Bill 1107**, entitled “An Act to prohibit natural asset companies,” did not pass; however, it would have prohibited the State from investing in or doing business with natural asset companies.

THANK YOU





SERVICE ENHANCEMENTS UPDATE: APRIL 9, 2025

- **BUSINESS-TO-BUSINESS (B2B) PORTAL**
- **MYSDRS PORTAL**
- **MEMBER SERVICES CENTER**



DEPARTMENT DIRECTORS



MICHELLE HUMANN

MEMBER SERVICES DIRECTOR

- Retirement Planning
- Member Education
- Authorized Agent Training



NICK REA

IT DIRECTOR

- Optimize Data & Technology
- Enhance Data Management
- Collaborate & Support SDRS Departments



ALAN FRENG

COMMUNICATIONS DIRECTOR

- Create clear and concise written and graphic content
- Boost member and employer engagement
- Ensure consistent messaging across all platforms

BUSINESS-TO-BUSINESS (B2B) PORTAL

- Introduction to the B2B Portal
- Challenges in adoption
- Features of the B2B
- Benefits for SDRS and employer units



B2B PORTAL: CONNECTING WITH SDRS AUTHORIZED AGENTS

Introduction to B2B

- Garnering buy-in
- Targeted emails to AAs with step-by-step instructions

Member Enrollment Process

- Enrollments, Terminations, Notice of Enrollment Change
- Contribution Reporting

Ongoing Communication Efforts

- Monthly Newsletters
- Monthly Webinars

EMPLOYER CONTRIBUTION REPORTING

Prior Issues

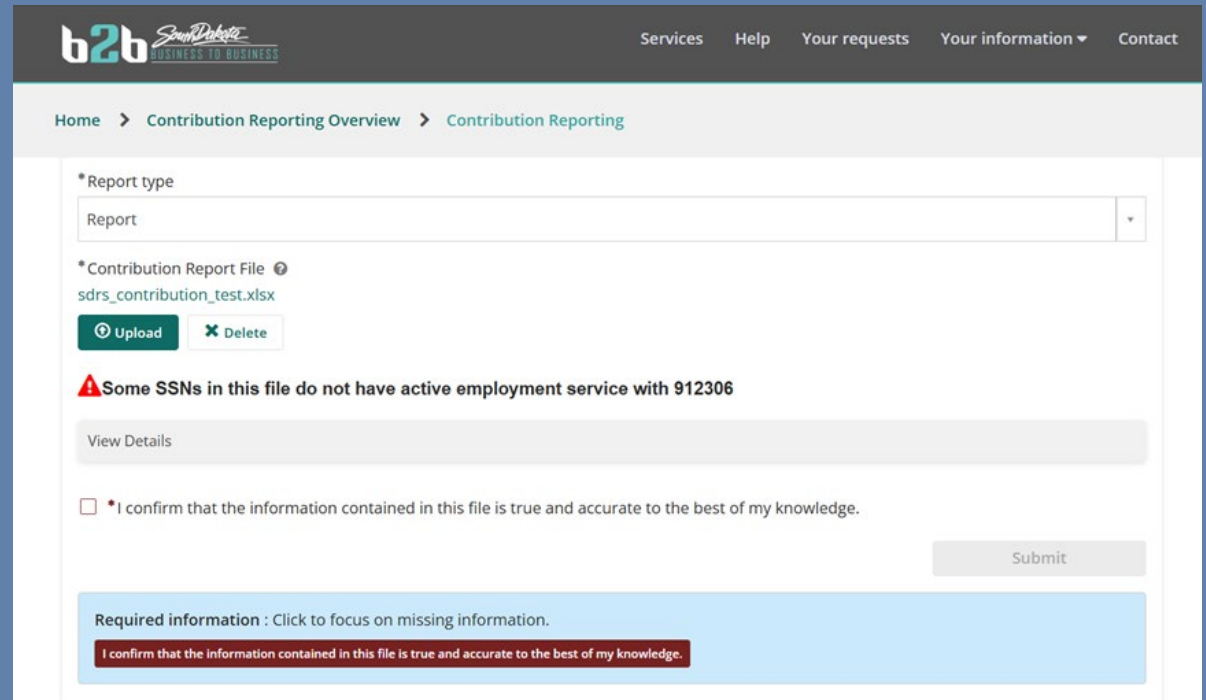
- No data validation
- No submission confirmation

Transition to B2B Portal

- Nearly all employer units moved over
- Process has been challenging
- Employers providing positive feedback

Benefits of B2B

- Instant validation and submission confirmation
- Ability to track progress



The screenshot displays the B2B portal interface for Contribution Reporting. At the top, the 'b2b' logo is visible alongside navigation links: Services, Help, Your requests, Your information, and Contact. The breadcrumb trail indicates the path: Home > Contribution Reporting Overview > Contribution Reporting.

The main form area includes a dropdown menu for '*Report type' currently set to 'Report'. Below this, the '*Contribution Report File' section shows an uploaded file named 'sdrs_contribution_test.xlsx' with 'Upload' and 'Delete' buttons. A red warning icon and message state: 'Some SSNs in this file do not have active employment service with 912306'. A 'View Details' button is positioned below the warning.

A confirmation checkbox is present with the text: '* I confirm that the information contained in this file is true and accurate to the best of my knowledge.' A 'Submit' button is located to the right of this checkbox.

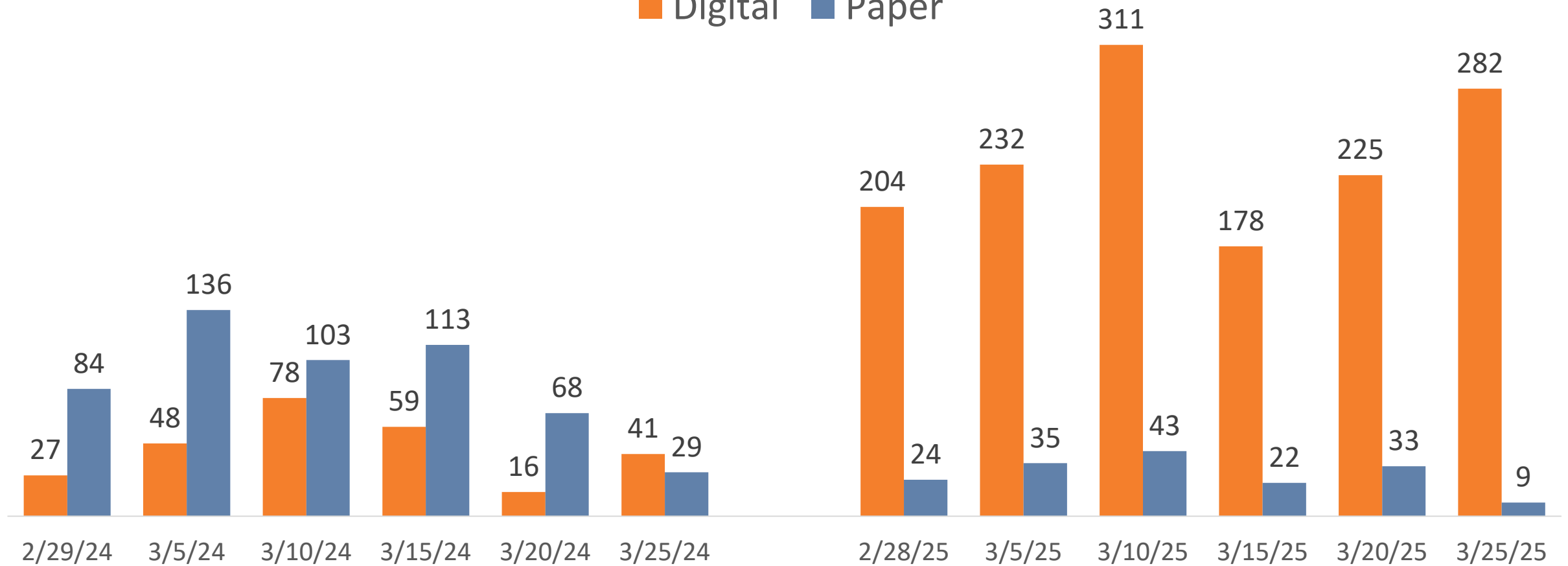
A light blue banner at the bottom contains the text: 'Required information : Click to focus on missing information.' Below this banner, a red box contains the confirmation statement: 'I confirm that the information contained in this file is true and accurate to the best of my knowledge.'

DIGITAL FORMS ADOPTION

2024

2025

■ Digital ■ Paper



EMPLOYER PORTAL EXPERIENCE

b2b *South Dakota*
BUSINESS TO BUSINESS

ServicesHelpYour requestsYour information▼Contact

Home > Business Services > All Categories

Search

Categories

Business Account Admi...
SDRS

Popular Services

Employment by SD...
Employment by SDRS Participating Employer
[View Details →](#)

Termination of Con...
Termination of Contributory Service - SDRS
[View Details →](#)

Appointment of Aut...
SDRS - Appointment of Authorized Agent to SDRS employer unit(s)
[View Details →](#)

Create Business Co...
Create a new business contact to grant access to your business account.
[View Details →](#)

Contribution Repor...
SDRS Employer Contribution Upload Form
[View Details →](#)

Notice of Return to ...
Notice of Return to SDRS Participation
[View Details →](#)

Home > Overview > Employment by SDRS Participating Employer

Save as Draft

Employment by SDRS Participating Employer

Step 1 of 3 (0% completed)

* Indicates required

*SDRS Employer Unit

* Social Security Number ⓘ

This field should be filled out with only digits. ✕

* Confirm Social Security Number ⓘ

Please confirm the social security number using only digits. ✕

Date of Birth

Gender

-- None --

Email

First Name

Last Name

Middle Initial


Required information : Click to focus on missing information.


Social Security NumberConfirm Social Security Number

Add attachments

Next

Profile & Settings

 JOHN DOE

 Member Type
Foundation


User Details

Self Service Forms



[Update your personal information](#)

[Designate custodian for minor child](#)

Spouse

Full Name	Date of Birth	Gender	Marriage Date	
Jane Doe	01/01/1970	Female	07/01/2000	

Beneficiaries

Name	Designation	Distribution	Type	
Jane Doe	Primary	100%	Annuity	
Jonathan Doe	Contingent	100%	Annuity	

Add

Related Services:

[Designate custodian for minor child](#)

Communication Preferences

SDRS can send the following communications electronically to members. To opt in, please check the box next to the options you wish to receive electronically. If not checked, you will receive a paper copy of those communications. For additional information click [here](#).

- ☒ Events
- ☒ Newsletters
- ☒ Tax Documents ⓘ
- ☒ Statements/Notices
- ☒ Focused Education

Electronic communications will be sent to: JOHN.DOE@EMAIL.COM

Update Preferences

MYSDRS: MEMBER PORTAL

Initial Website Launch:
January 2023

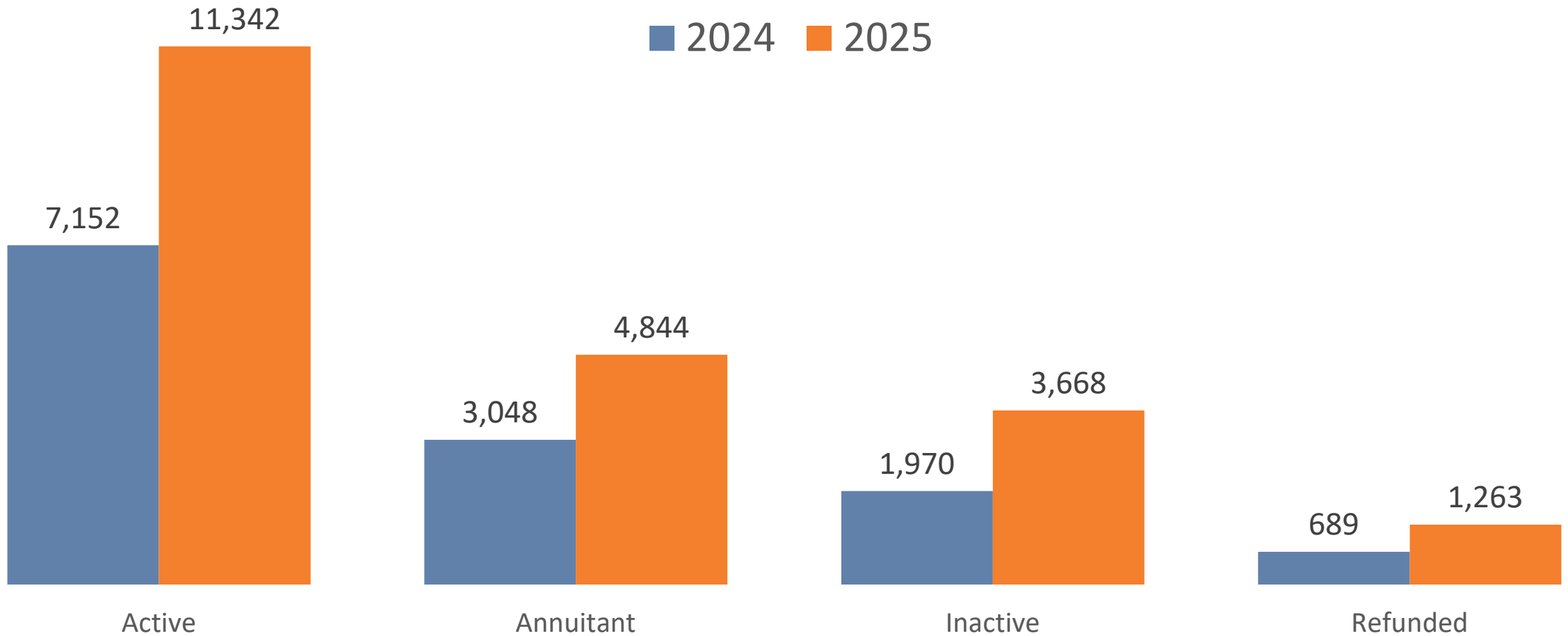
ServiceNow Forms:
January 2024

Linked MySDRS accounts:
21,000




LINKED MYSDRS ACCOUNTS

BY MEMBER TYPE



MYSD IDENTITY VERIFICATION

[Online Services](#) [Government](#) [Business](#) [Jobs](#) [Travel](#) [News](#) [Contact](#)

[Home](#) > [Verify Your Identity Overview](#) > [Verify Your Identity](#)

Verify Your Identity

*Select the method in which you will be performing your identity verification.

Digitally / Online

Upon clicking submit you will be redirected to the Online Identity Verification process. Please have the following available:

- Your mySD login information. (Same information you used to log into this website)
- Your mobile phone with a working camera.
- The identification you intend to use to verify your identity. i.e. Drivers License

Submit



Let's get you verified

It will only take 2 minutes



Your Government
Issued ID



Your smartphone

Get started

powered by



MEMBER SERVICES CENTER

- Traditional Service Model
- Contact Center Model
- Interactive Voice Response



Onis



Time



hangup



ResultCode



Transfer



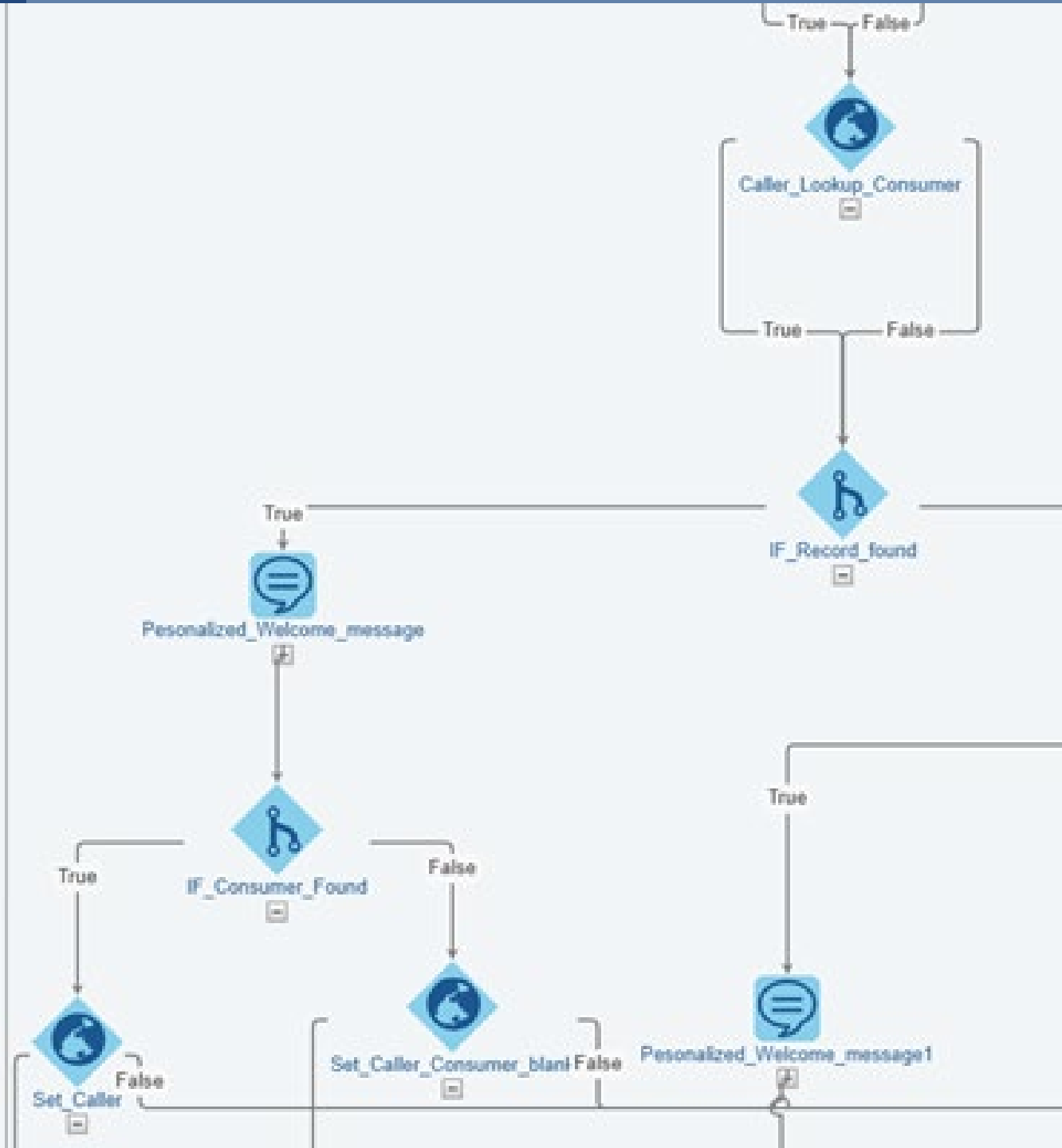
Record



PlayMusic



DNC



SERVICE CENTER ANALYTICS

INBOUND DASHBOARD ⓘ

Today From 8AM

SDRS Inbound

General Queue

Maximize

Export

Settings

TOTAL CALLS

173

12

CALLS IN QUEUE

0

SPEED OF ANSWER

00:00:38

SERVICE LEVEL

84%

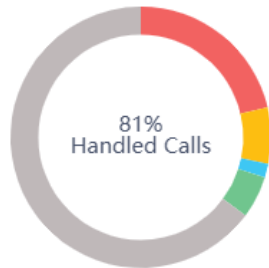
AVG TALK TIME

00:04:06

ABANDONED RATE

2%

CALL STATISTICS



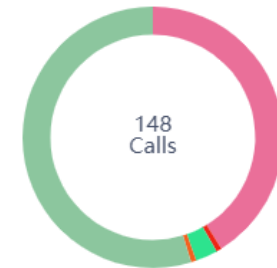
Missed Calls Calls Ended On IVR Abandoned Calls Calls End 1/2

AGENT STATISTICS



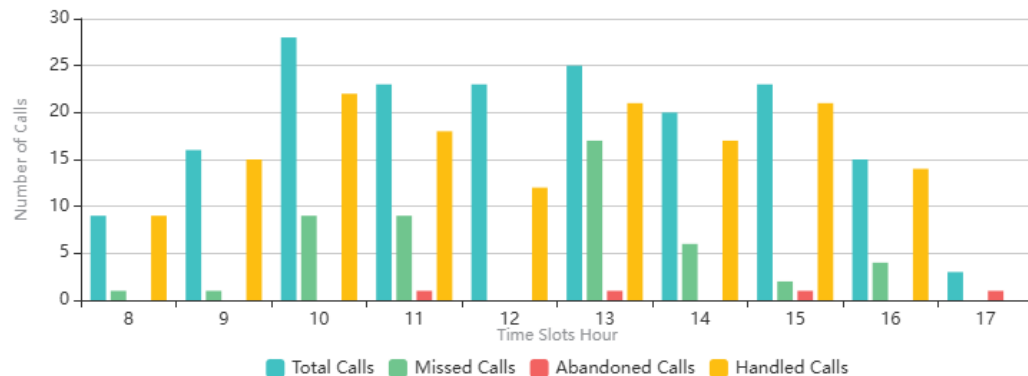
OFF

RESULT CODE STATUS

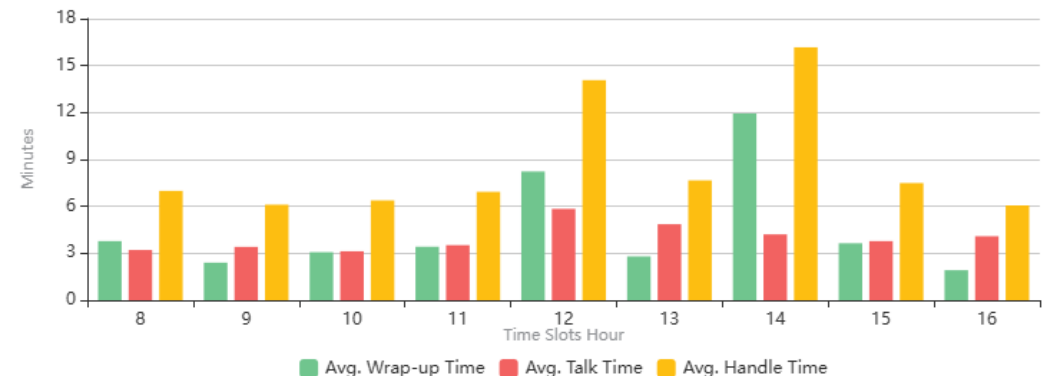


Connect Failed No Answer Abandoned By Customer Handled

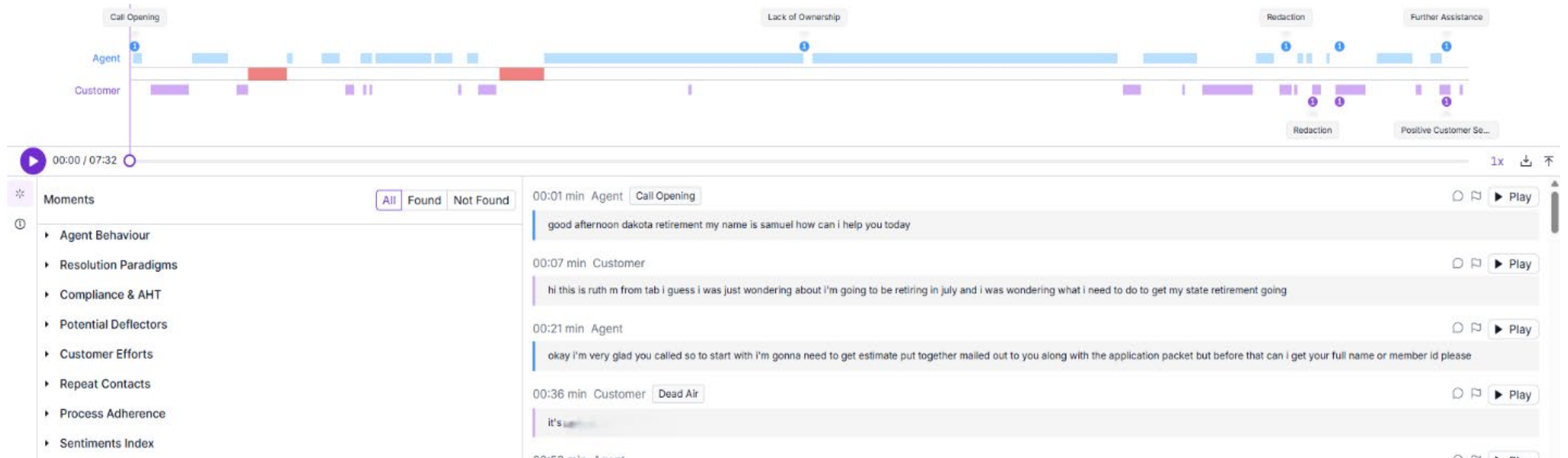
HOURLY CALL STATISTICS



HOURLY AGENT PERFORMANCE



SERVICE CENTER ANALYTICS



MEMBER SERVICES NUMBERS



Incoming Mail

2023: 34,799
2024: 33,390



Incoming Calls

2023: 22,323
2024: 23,579



Forms Encoded

2023: 37,976
2024: 36,597



New Members

2023: 5,559
2024: 5,052



Individual Consultations

2023: 1,752
2024: 1,831



VISION FOR THE FUTURE

Leverage existing technologies

- MySDRS enhancements
- B2B communications
- Predicative analytics
- Targeted education

MEMO NO. 2025-02B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: TRAVIS ALMOND, EXECUTIVE DIRECTOR

SUBJECT: EFFECTIVE RATE OF INTEREST TO BE CREDITED
FROM JULY 1, 2025, TO JUNE 30, 2026

DATE: APRIL 2, 2025

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

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

Attached is a copy of the domestic interest rate statistics for calendar year 2024, as published by the Federal Reserve Board. The U.S. Treasury bills secondary market average on 3-month issues is the average 91-day U.S. Treasury bill rate used in the calculation required by SDCL 3-12C-108 and was 4.97% for the calendar year 2024. Ninety percent of the calendar 2024 T-bill rate is 4.473%. For consistency and compliance with SDCL 3-12C-108, the effective rate of interest is rounded to three decimal places.

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

TWA:dms
Enclosure

3-month Treasury Bill and Effective Rate of Interest History

<u>Calendar Year</u>	<u>Annual Average Percentage Rate*</u>	<u>Fiscal Year</u>	<u>Effective Rate of Interest</u>
1974	7.85%	FY 1975	5.000%
1975	5.79%	FY 1976	5.000%
1976	4.98%	FY 1978	5.000%
1977	5.26%	FY 1979	5.000%
1978	7.18%	FY 1980	5.000%
1979	10.05%	FY 1981	5.000%
1980	11.39%	FY 1982	5.000%
1981	14.04%	FY 1983	5.000%
1982	10.60%	FY 1984	5.000%
1983	8.62%	FY 1985	5.000%
1984	9.54%	FY 1986	5.000%
1985	7.47%	FY 1987	6.730%
1986	5.97%	FY 1988	5.364%
1987	5.78%	FY 1989	5.238%
1988	6.67%	FY 1990	6.012%
1989	8.11%	FY 1991	7.308%
1990	7.50%	FY 1992	6.759%
1991	5.38%	FY 1993	5.000%
1992	3.43%	FY 1994	5.000%
1993	3.00%	FY 1995	5.000%
1994	4.25%	FY 1996	5.000%
1995	5.49%	FY 1997	5.000%
1996	5.01%	FY 1998	5.000%
1997	5.06%	FY 1999	5.000%
1998	4.78%	FY 2000	5.000%
1999	4.64%	FY 2001	5.000%
2000	5.82%	FY 2002	5.238%
2001	3.40%	FY 2003	5.000%
2002	1.61%	FY 2004	5.000%
2003	1.01%	FY 2005	0.930%
2004	1.37%	FY 2006	1.230%
2005	3.15%	FY 2007	2.840%
2006	4.73%	FY 2008	4.260%
2007	4.36%	FY 2009	3.920%
2008	1.37%	FY 2010	1.230%
2009	0.15%	FY 2011	0.140%
2010	0.14%	FY 2012	0.130%
2011	0.05%	FY 2013	0.045%
2012	0.09%	FY 2014	0.080%
2013	0.06%	FY 2015	0.050%
2014	0.03%	FY 2016	0.027%
2015	0.05%	FY 2017	0.045%
2016	0.32%	FY 2018	0.290%
2017	0.93%	FY 2019	0.837%
2018	1.94%	FY 2020	1.750%
2019	2.06%	FY 2021	1.850%
2020	0.35%	FY 2022	0.320%
2021	0.05%	FY 2023	0.045%
2022	2.02%	FY 2024	1.818%
2023	5.07%	FY 2025	4.563%
2024	4.97%	FY 2026	4.473%

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

MEMO NO. 2025-03B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: TRAVIS ALMOND, EXECUTIVE DIRECTOR

SUBJECT: SUPPLEMENTAL PENSION BENEFIT
FY 2026 INTEREST RATE ASSUMPTION

DATE: APRIL 2, 2025

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

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

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

After a review of appropriate annuity rates and fixed income/return instruments available in the marketplace, the external actuary has recommended an SPB interest rate assumption of between 4.25% and 5.25%, and the state investment officer has recommended an interest rate assumption of between 3.00% and 3.50%. Per SDCL 3-12C-1502, the interest rate assumption may not be less than the effective rate of interest. The effective rate of interest for Fiscal Year (FY) 2026 is 4.473%. Following SDCL 3-12C-1502, staff recommends using a 4.473% interest rate for FY 2026. The FY 2025 interest rate assumption approved by the board was 4.563%.

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

	External Actuary	State Investment Officer	Staff Recommended/ Implemented Rate
FY 2009			5.5%
FY 2010	5.25%	4.65-5.15%	5.0%
FY 2011	4.0%	4.5-5.0%	4.5%
FY 2012	4.25-4.75%	4.5%	4.5%
FY 2013	3.5-4.0%	4.0-4.5%	4.0%
FY 2014	3.0-3.5%	4.0-4.5%	3.75%
FY 2015	3.5-4.5%	3.75-4.25%	4.0%
FY 2016	2.5-3.5%	3.5-4.0%	3.5%
FY 2017	2.8-3.8%	3.5-4.0%	3.5%
FY 2018	2.8-3.8%	3.25-3.75%	3.5%
FY 2019	2.8-3.8%	3.28-3.78%	3.5%
FY 2020	3.0-4.0%	3.38-3.89%	3.5%
FY 2021	2.0-3.0%	2.75-3.5%	2.875%
FY 2022	1.75-2.75%	3.0-3.5%	2.875%
FY 2023	2.0-3.0%	3.0-3.5%	3.0%
FY 2024	4.0-4.75%	3.25-4.0%	4.0%
FY 2025	4.25-5.00%	2.75-3.5%	4.563%*
FY 2026	4.25-5.25%	3.00-3.5%	4.473%*

* Per SDCL 3-12C-1502, the interest rate assumption may not be less than the effective rate of interest.

Absent the statutory minimum; the FY 2026 staff-recommended rate would have been 3.875%.

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

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

Procedure for Determining the Supplemental Pension Benefit Annual Interest Rate Assumption

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

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

The recommendations for the interest rate assumption may consider:

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

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