



South Dakota Retirement System

SDRS Update

June 5, 2025



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

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



SDRS at June 30, 2024

- SDRS total membership was **103,299** (11% of state population):
 - **Active: 42,873 members:**
 - Average age 44.2; service 10.4; pay \$58,908
 - 53.3% Foundation; 46.7% Generational
 - **Benefit recipients: 34,119 members:**
 - Total annual benefits: \$748.0M
 - Retiree average monthly benefit: \$1,915
 - **Terminated and due a benefit or refund: 26,307 members**
- Fair value of assets was **\$14,922M:**
 - FY 2024 member and employer contributions: \$335M
 - FY 2024 disbursements: \$770M; including \$735M monthly benefits, \$29M refunds of contributions, and \$5M administrative expenses
 - **Non-investment cashflow was negative 3.0% of assets**



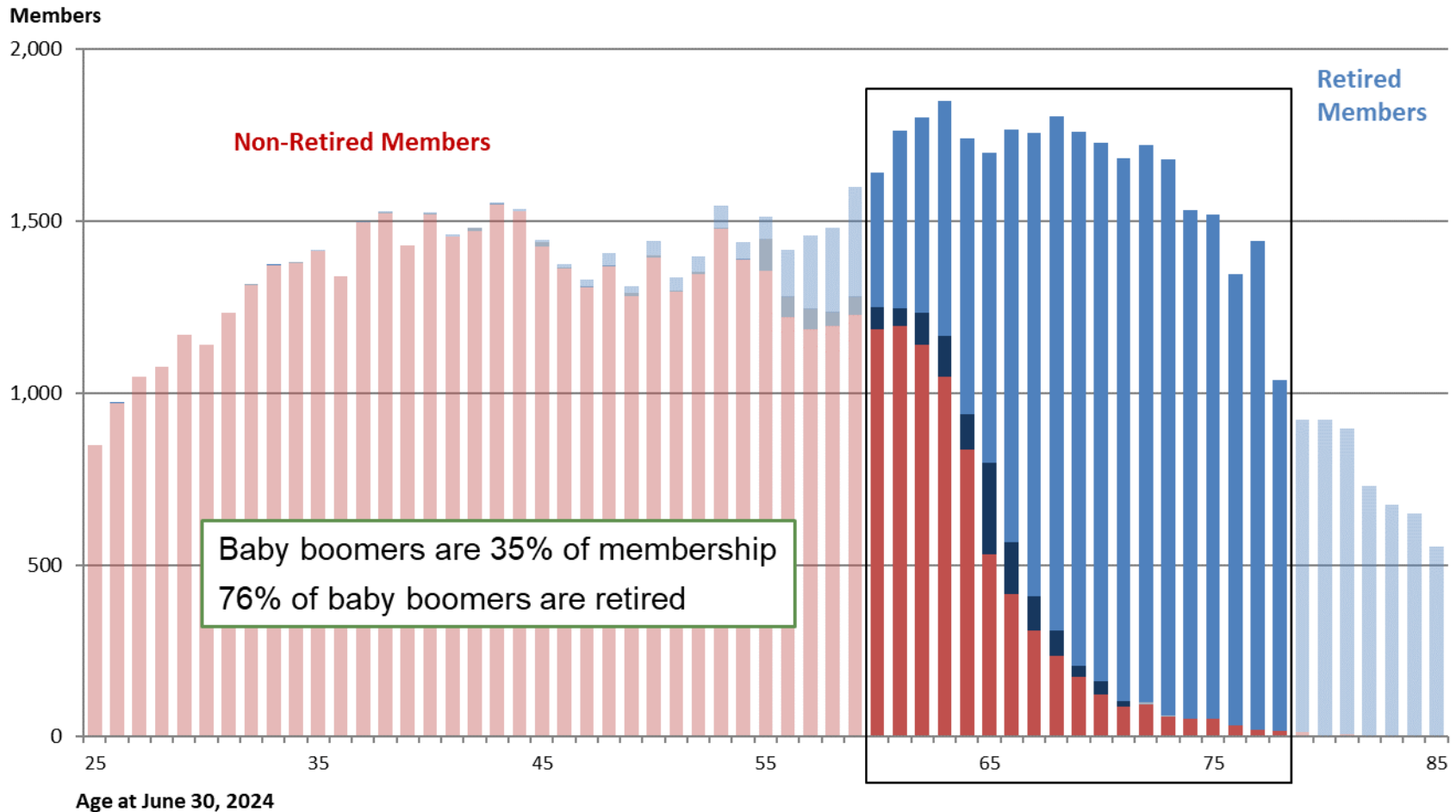
A map of South Dakota showing all 61 counties. Each county is labeled with its name and population in millions (M). The counties are color-coded in shades of blue, with darker shades representing higher populations. The counties and their populations are: Harding (\$0.6M), Perkins (\$1.6M), Corson (\$1.2M), Campbell (\$1.1M), McPherson (\$1.4M), Marshall (\$3.8M), Roberts (\$5.3M), Butte (\$6.4M), Lawrence (\$26.4M), Meade (\$16.8M), Ziebach (\$0.6M), Dewey (\$2.1M), Walworth (\$4.6M), Edmunds (\$2.1M), Brown (\$32.3M), Day (\$4.3M), Grant (\$4.5M), Coddington (\$24.0M), Deuel (\$2.4M), Sully (\$1.0M), Hyde (\$0.7M), Hand (\$2.0M), Spink (\$8.3M), Clark (\$2.2M), Hamlin (\$3.9M), Beadle (\$11.6M), Kingsbury (\$4.7M), Brookings (\$48.6M), Stanley (\$6.7M), Haakon (\$1.2M), Jones (\$1.0M), Lyman (\$2.0M), Buffalo (\$0.1M), Jerauld (\$1.5M), Sanborn (\$1.8M), Miner (\$1.8M), Lake (\$11.3M), Moody (\$3.6M), Custer (\$8.1M), Pennington (\$93.2M), Jackson (\$1.1M), Mellette (\$0.8M), Tripp (\$3.8M), Brule (\$3.7M), Aurora (\$2.2M), Davison (\$15.3M), Hanson (\$1.2M), McCook (\$3.7M), Minnehaha (\$117.0M), Oglala Lakota (\$0.4M), Bennett (\$0.9M), Todd (\$1.4M), Gregory (\$3.3M), Douglas (\$1.8M), Hutchinson (\$5.3M), Turner (\$5.1M), Lincoln (\$10.0M), Fall River (\$5.7M), Charles Mix (\$5.4M), Bon Homme (\$6.3M), Yankton (\$22.6M), Clay (\$20.4M), Union (\$7.6M).



The map displays the following data for each state:

State	Cases (Millions)
WA	\$2.2M
OR	\$1.6M
ID	\$1.0M
MT	\$2.6M
ND	\$5.0M
SD	\$652.3M
WY	\$2.3M
UT	\$1.3M
NV	\$1.1M
CA	\$2.0M
AZ	\$10.3M
NM	\$1.2M
CO	\$5.1M
KS	\$1.4M
OK	\$0.9M
TX	\$5.1M
NE	\$7.5M
IA	\$6.0M
MO	\$2.2M
AR	\$1.0M
LA	\$0.1M
MS	\$0.1M
AL	\$0.3M
GA	\$1.0M
SC	\$0.8M
NC	\$1.7M
VA	\$0.9M
WV	\$0.1M
OH	\$0.6M
IN	\$0.6M
MI	\$0.9M
WI	\$2.9M
IL	\$1.0M
PA	\$0.6M
NY	\$0.4M
CT	\$0.3M
RI	\$0.09M
MA	\$0.2M
NH	\$0.2M
ME	\$0.4M
VT	\$0.1M
DE	\$0.05M
NJ	\$0.08M
MD	\$0.6M
AK	\$0.1M
HI	\$0.2M
FL	\$5.3M

Distribution of Active, Terminated Vested and Benefit Recipients by Age as of June 30, 2024



Dark blue shaded portions represent members beginning benefits in FY 2024.



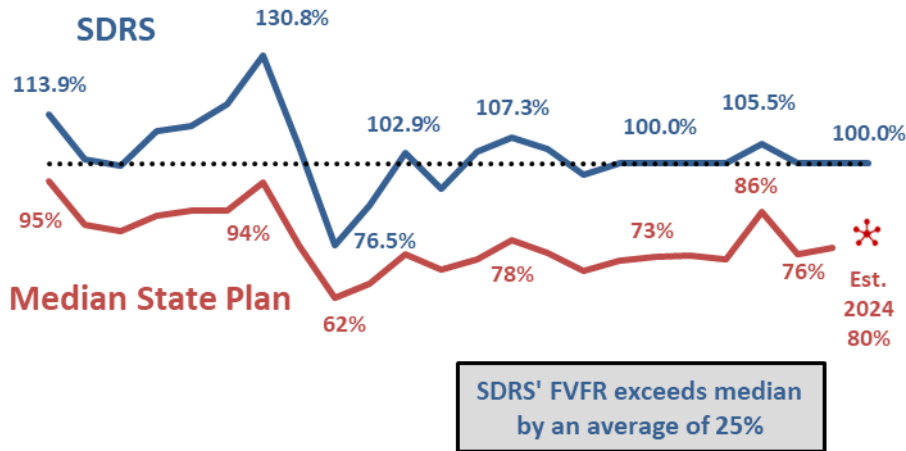
FY 2024 Headline Results

- Net investment return less than 6.50% actuarial assumption results in small **actuarial investment loss**:
 - Net money-weighted return = 5.98%
 - Actuarial investment loss = \$73M
- Demographic experience results in **actuarial liability loss**:
 - Liabilities \$260M higher than expected, primarily salary losses from larger than expected increases (\$247M)
- Funded status results:
 - Restricted maximum COLA of 1.71% applicable
 - Inflation for year = 2.49%; **2025 COLA will be 1.71%**
 - Fair Value Funded Ratio (FVFR) remained at 100%

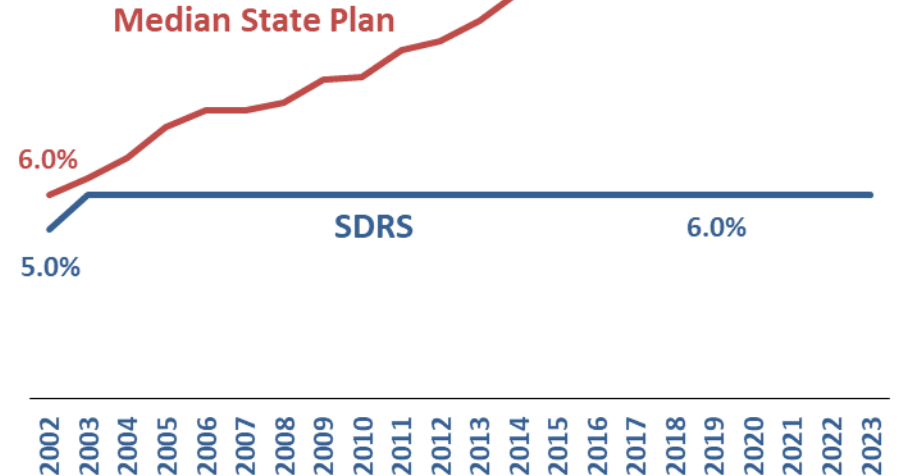


Employer Contributions and Funded Status Comparisons

Fair Value Funded Ratio



Employer Contribution Rates
(for General Members In Social Security)

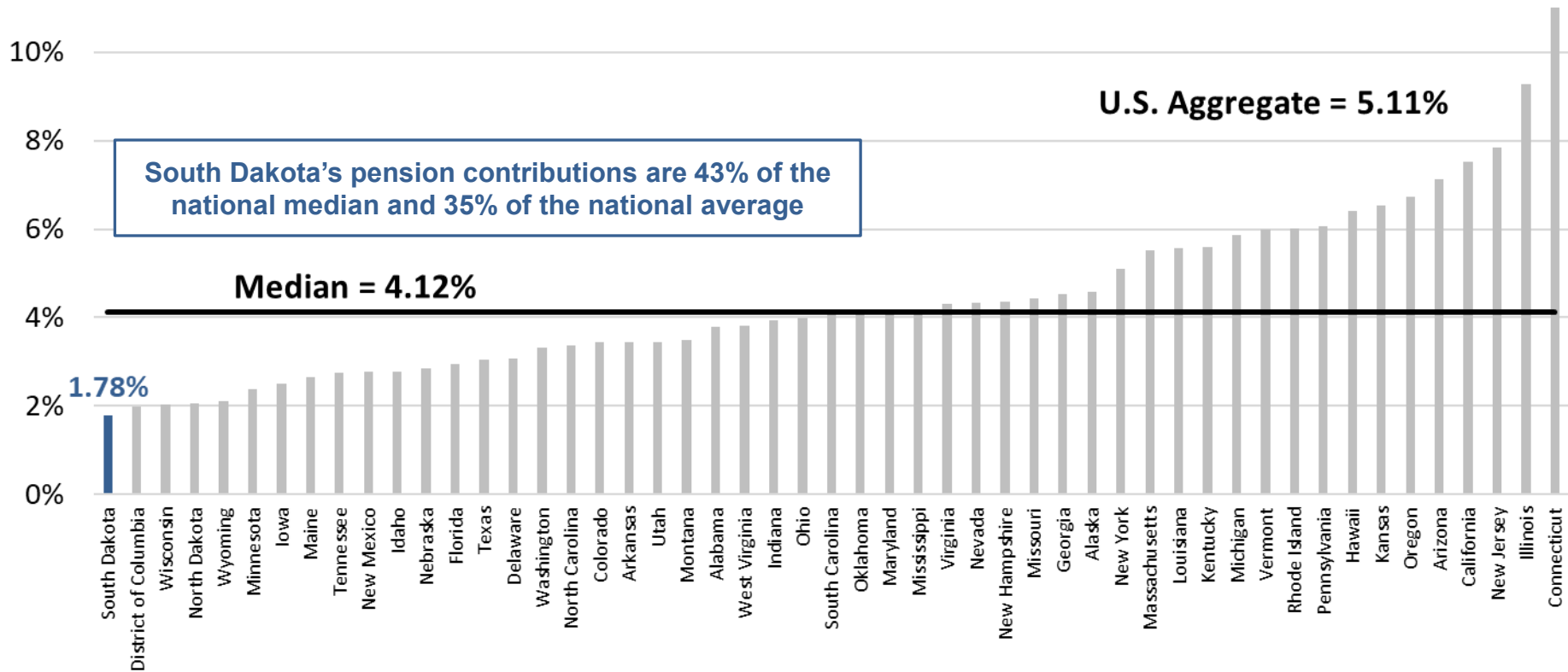


- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 40% of the national median

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)

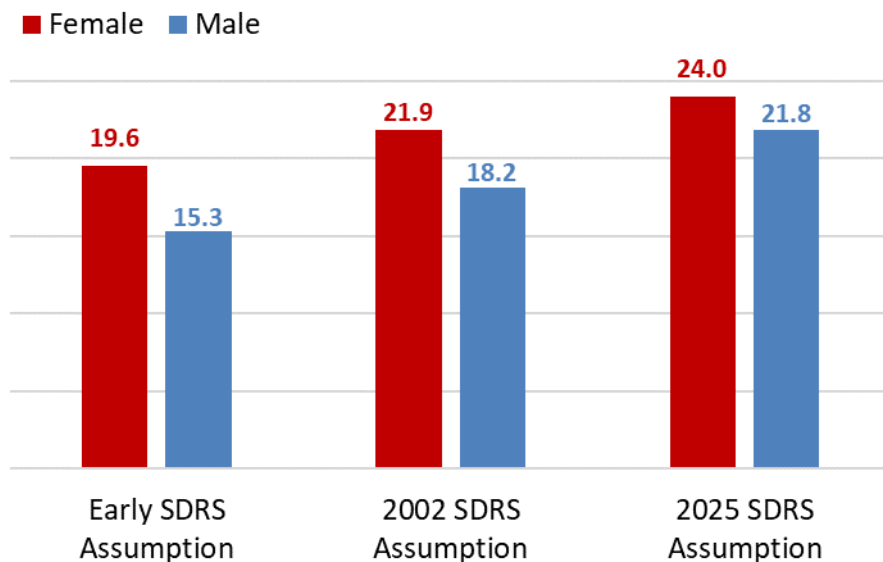


Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, March 2025

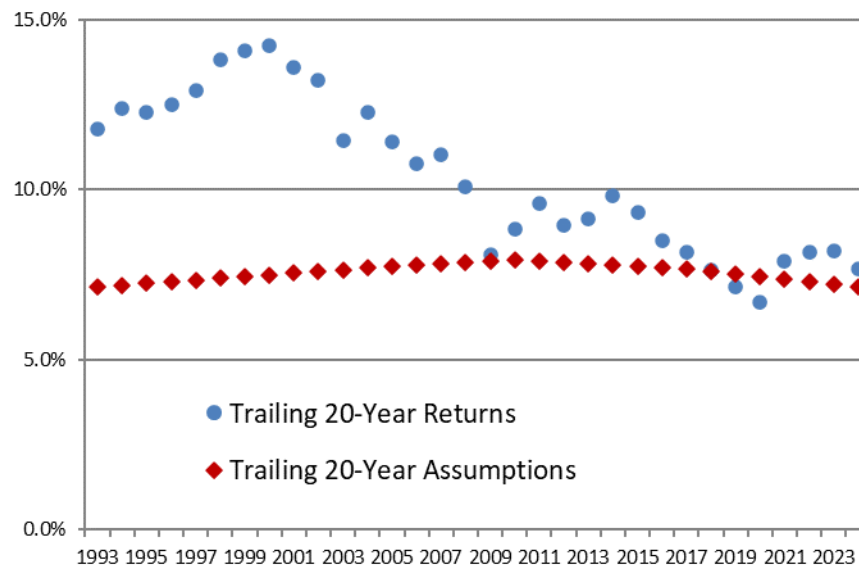
Competing Objectives

- **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**



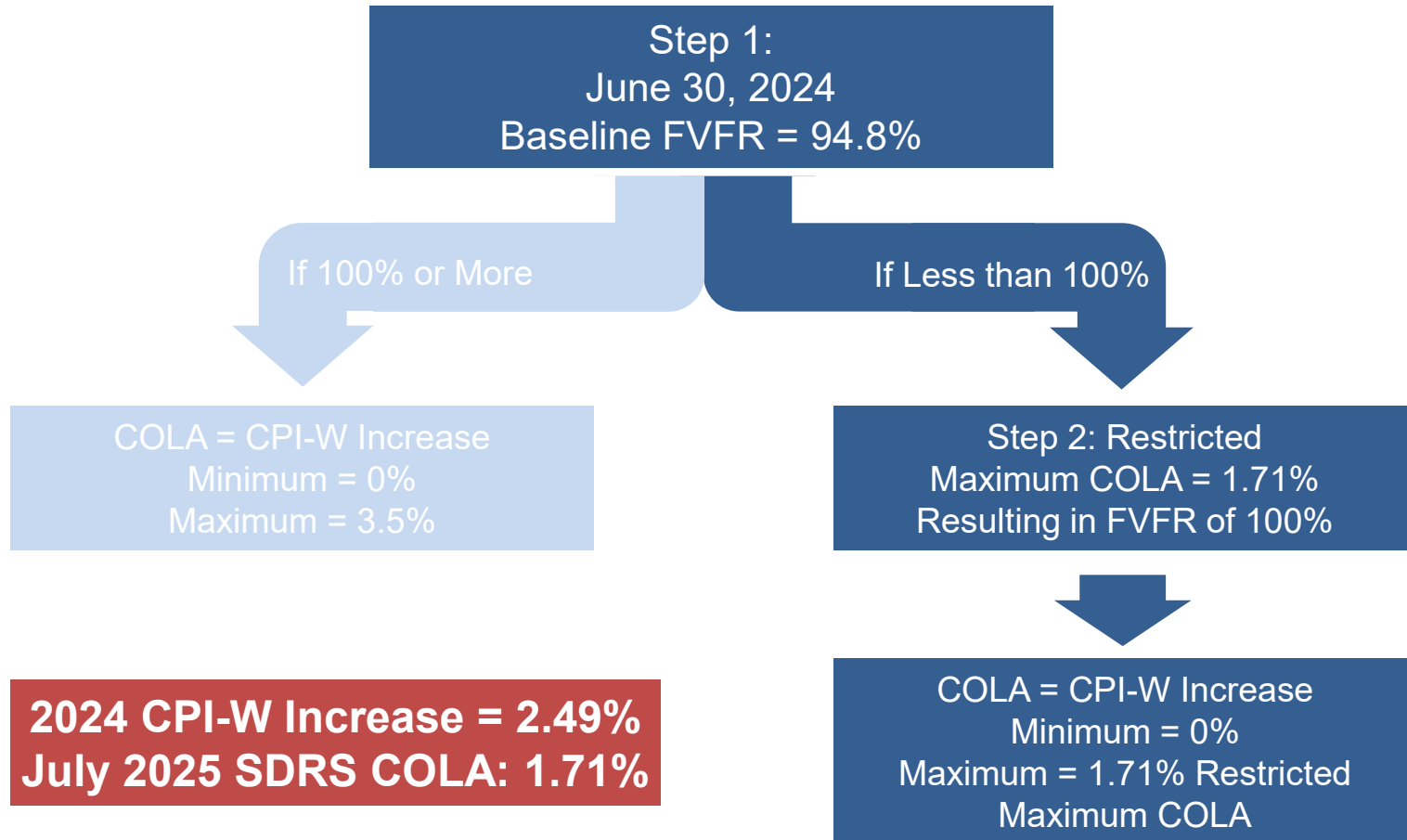
**20-Year Trailing Nominal Returns and
Return Assumptions**



Competing Objectives

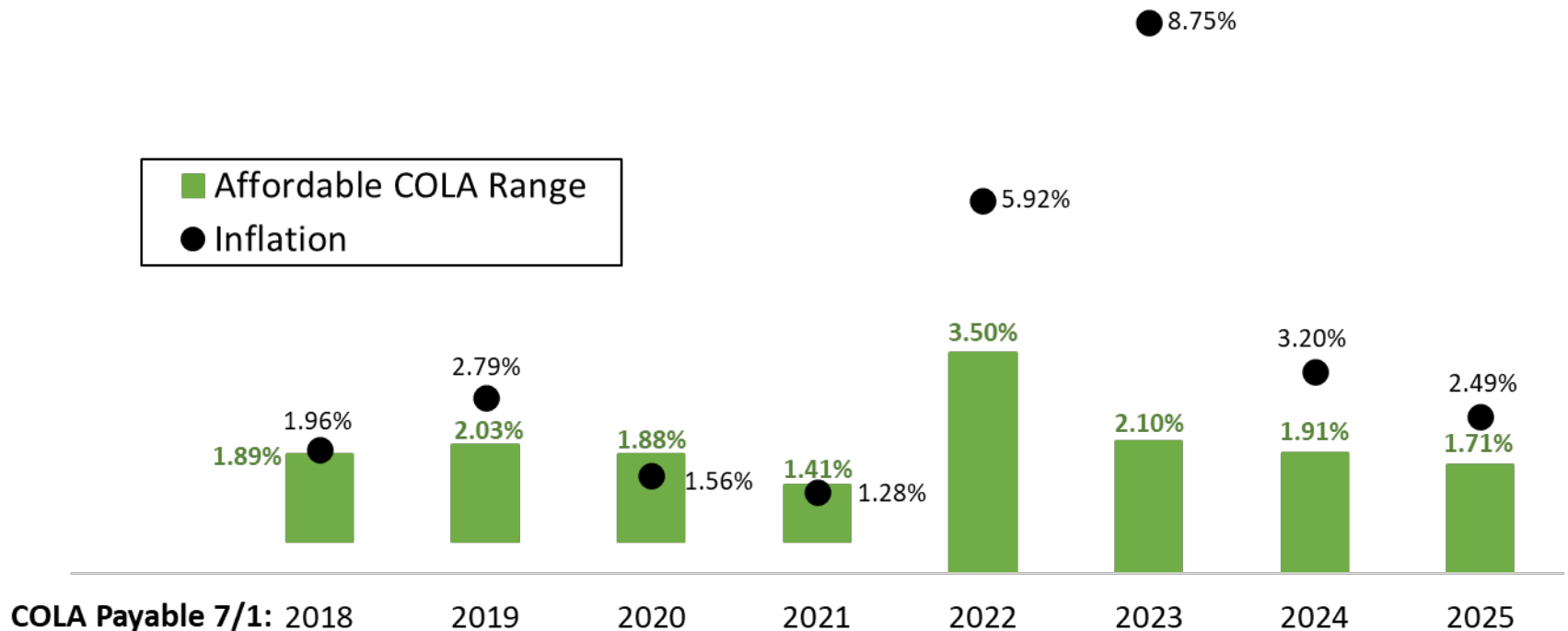
- SDRS management efforts to meet benefit objectives in changing circumstances have included:
 - Variable COLA process
 - 5-year FAC
 - Pay increase caps
 - Generational design
 - Retire-rehire reform
 - Various other initiatives
- **Expect continuing pressure on benefit affordability:**
 - Proposed 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



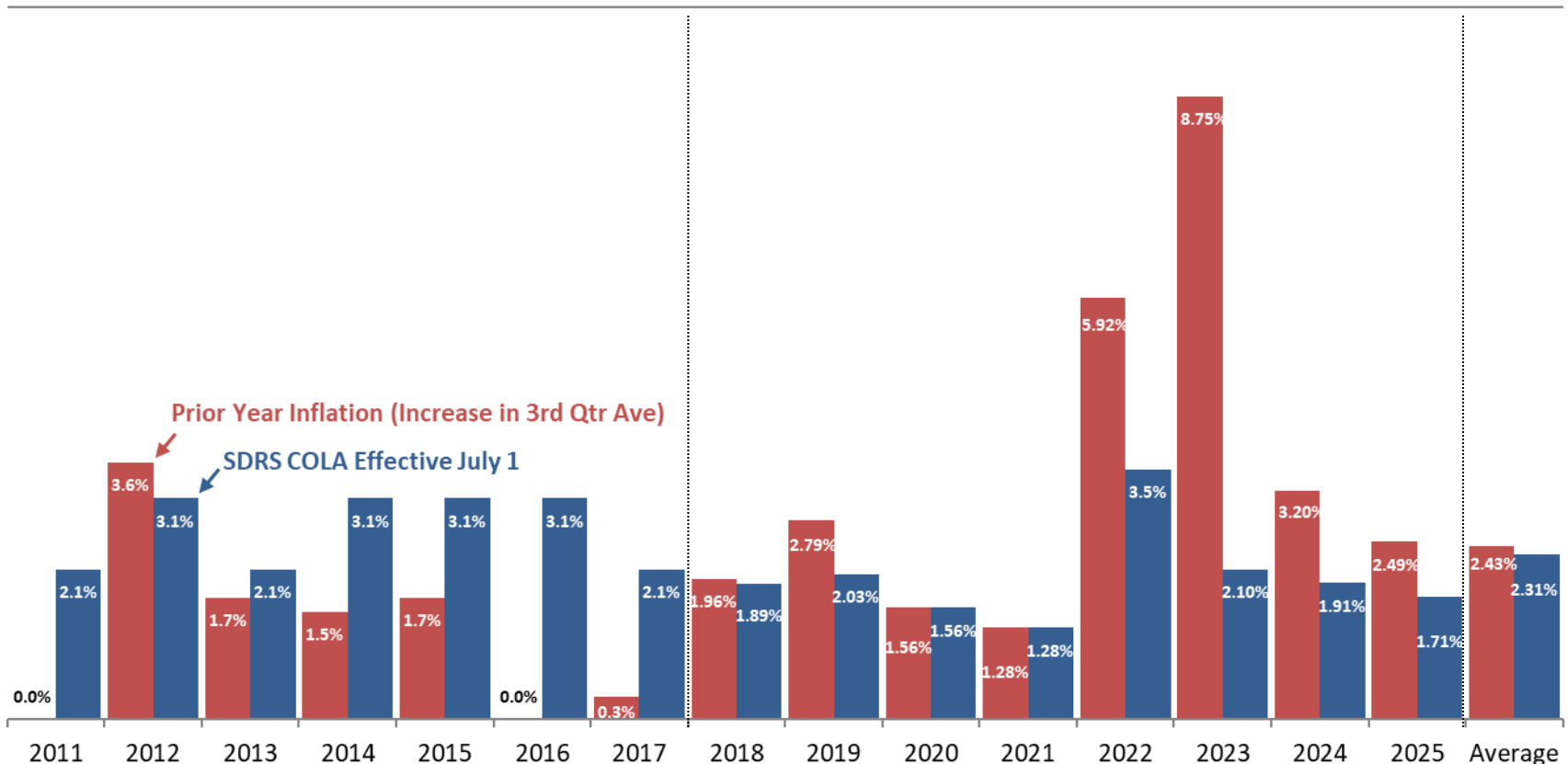
Historical COLA Ranges

- 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



Inflation and SDRS COLAs Since 2010

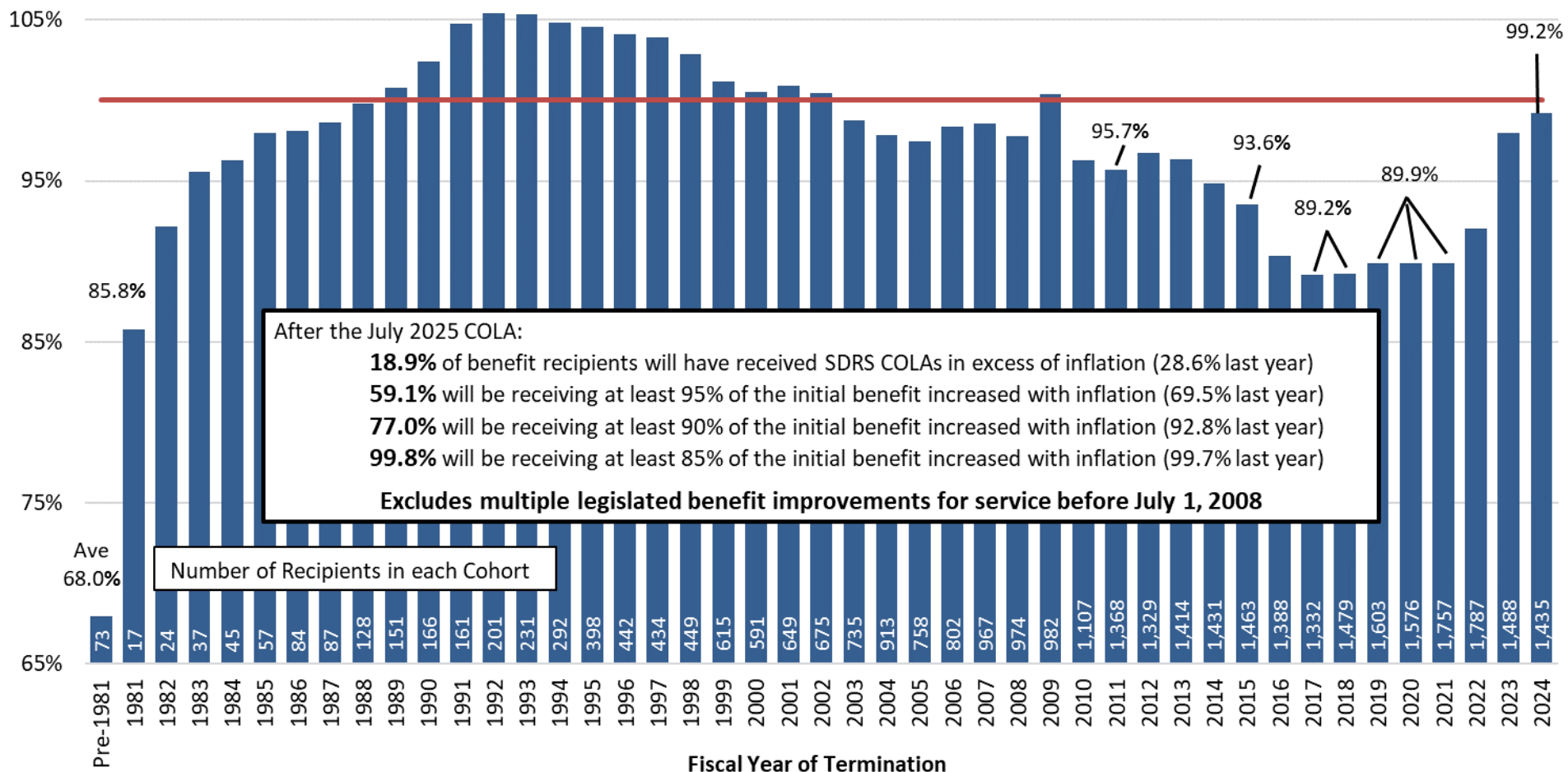
Annual Inflation and SDRS COLA Increases 2011-2025



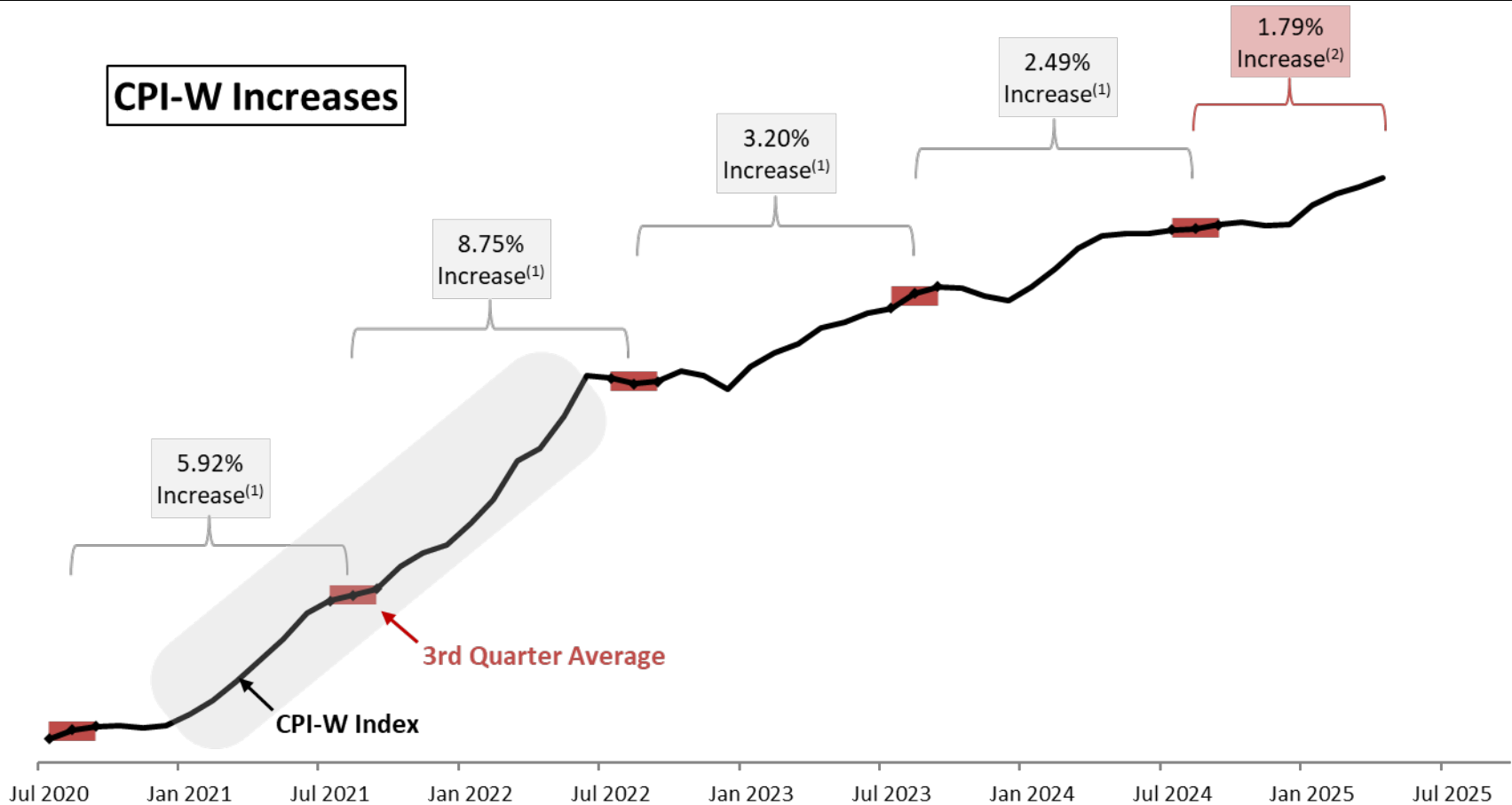


Cumulative Inflation and SDRS COLAs through July 2025 COLA

Ratio of Current SDRS Benefit to Initial SDRS Benefit Increased with Inflation



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 (April 2025) over July to September 2024 average. Increase annualizes to 2.7%, ignoring seasonal impacts.

- Variable investment returns will **first impact** the affordable COLA range:
 - Less than assumed will reduce restricted maximum COLA; greater than assumed will increase maximum or enable full COLA range
 - The variable COLA may not be sufficient to maintain 100% FVFR in all conditions and additional corrective actions may be required
- The following exhibits project FVFRs based on ranges of investment returns, corresponding COLA ranges, and likelihoods of achieving returns at the end of FY 2025 and 2026:
 - Projections utilize an actuarial model intended to estimate short-term changes in funded ratios and resulting COLA ranges
 - Demographic experience is assumed to match assumptions
 - Likelihoods are calculated based on SDIC's investment portfolio statistics



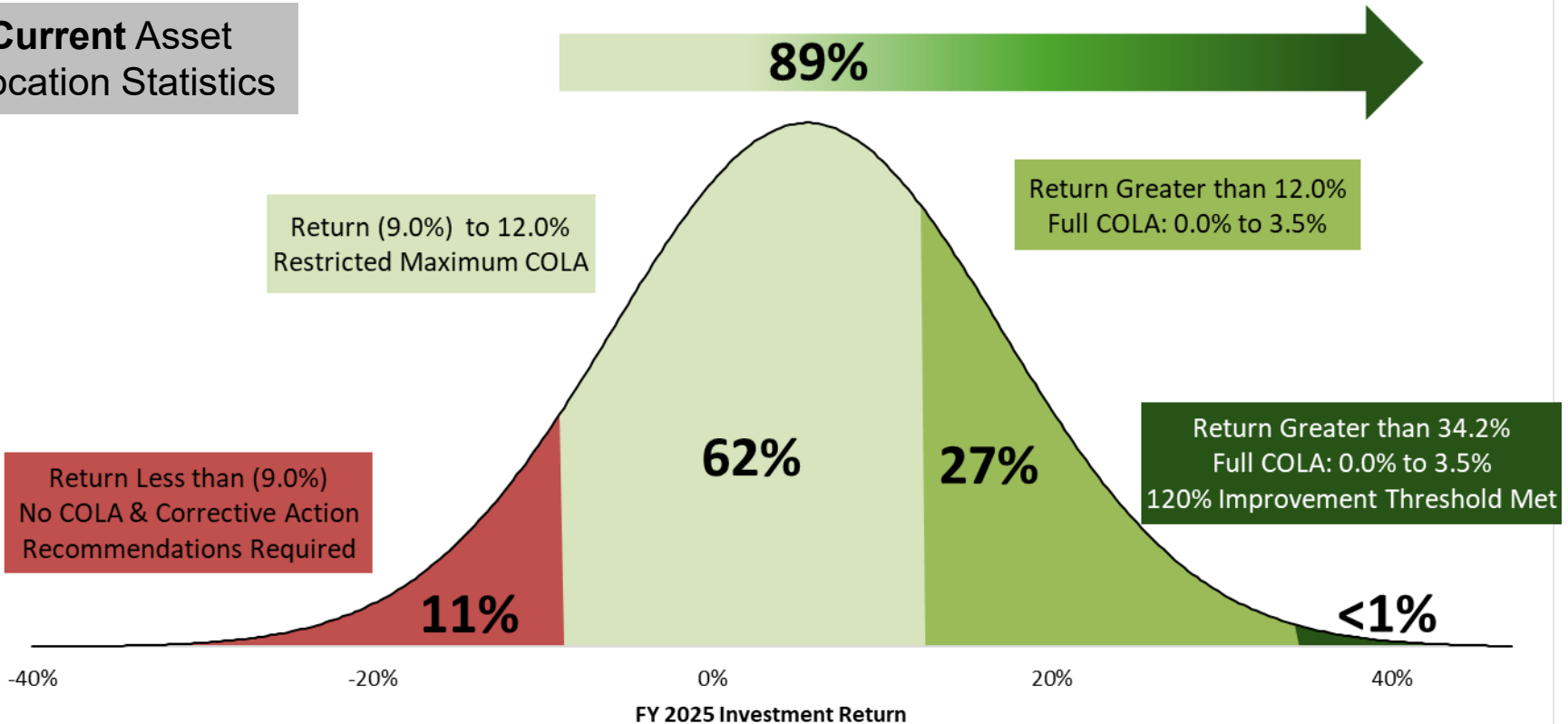
Projected June 30, 2025 Funded Status and July 2026 COLA Range⁽¹⁾

Net Investment Return FYE June 30, 2025	Baseline FVFR	COLA Range	Final FVFR	Applicable Conditions
(15.0%)	75.6%	NO COLA	93.3%	Corrective Action Recommendation Required
(10.0%)	80.1%	NO COLA	98.9%	
(9.1%)	80.9%	NO COLA	99.9%	
(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%	
11.9%	99.9%	0% to 2.24%	100%	
12.0%	100.0%	0% to 3.50%	100%	Full COLA Range
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%.

FY 2025 Return Ranges and July 2026 COLA, with Likelihoods

Current Asset Allocation Statistics



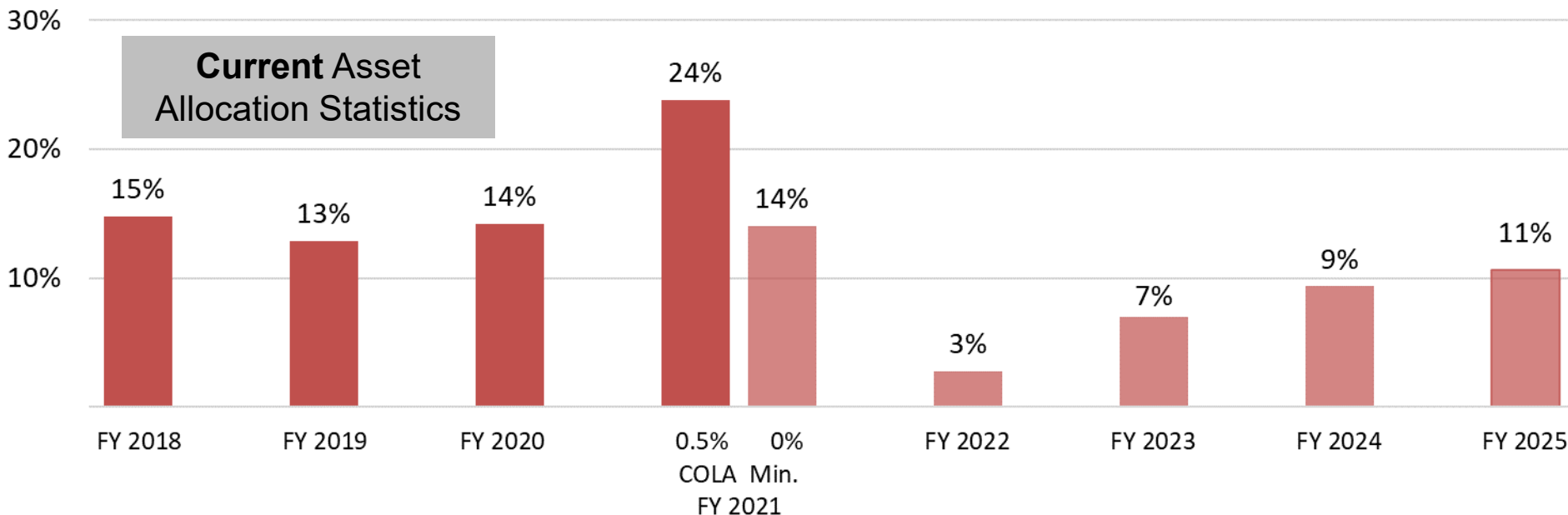
- Ignoring FY 2025 investment returns to date, the preliminary likelihoods for July 2026 COLA ranges, primarily driven by FY 2025 investment returns, are:
 - 11% likelihood: No COLA and corrective action recommendations required
 - 62% likelihood: COLA equals CPI-W increase between 0.0% and a restricted 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

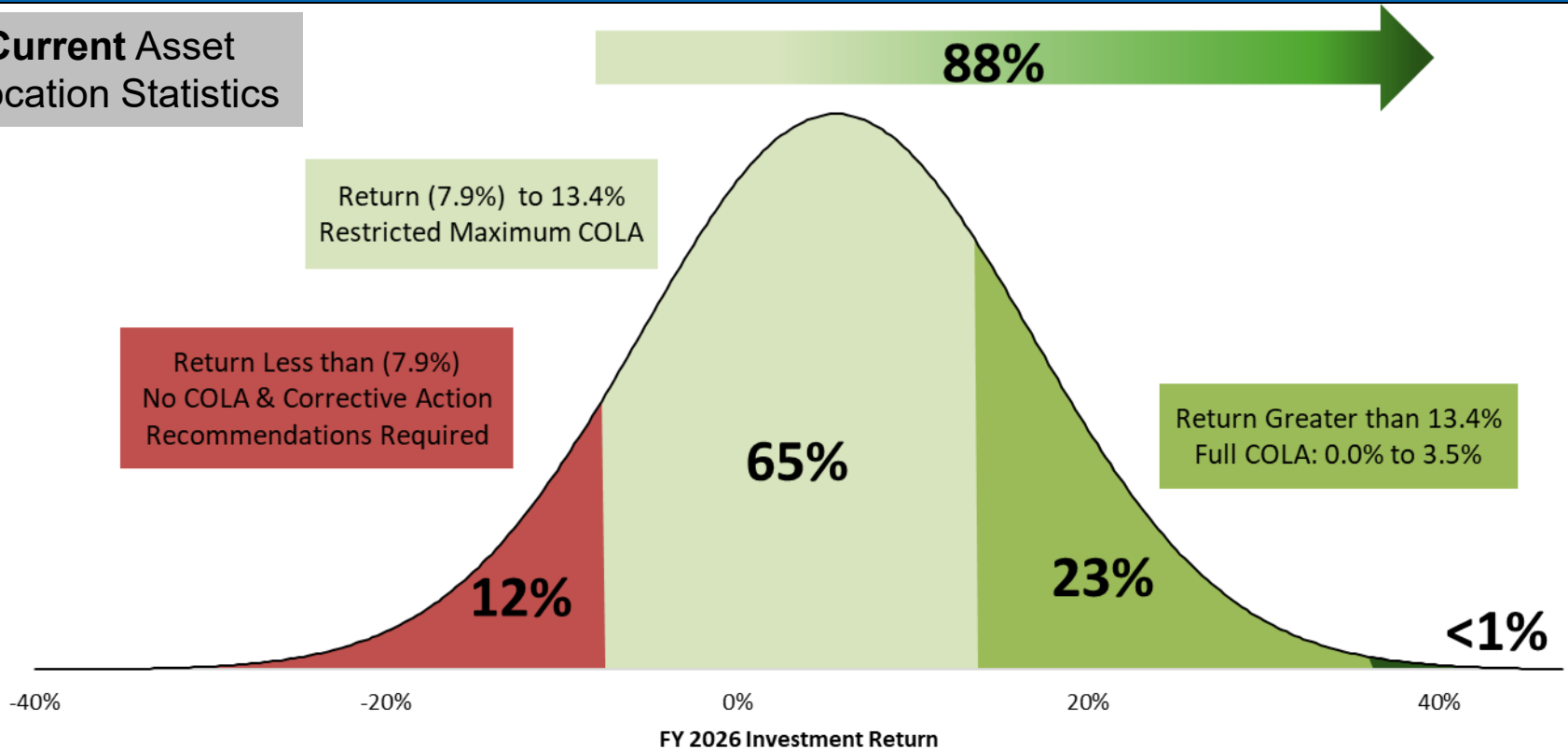
Investment experience is the primary driver of the likelihood of required corrective action recommendations. Changes in market conditions and expectations for future returns also impact the likelihood.

1-Year Likelihoods of Required Corrective Action Recommendations



FY 2026 Return Ranges Following 5% Return for FY 2025

Current Asset Allocation Statistics

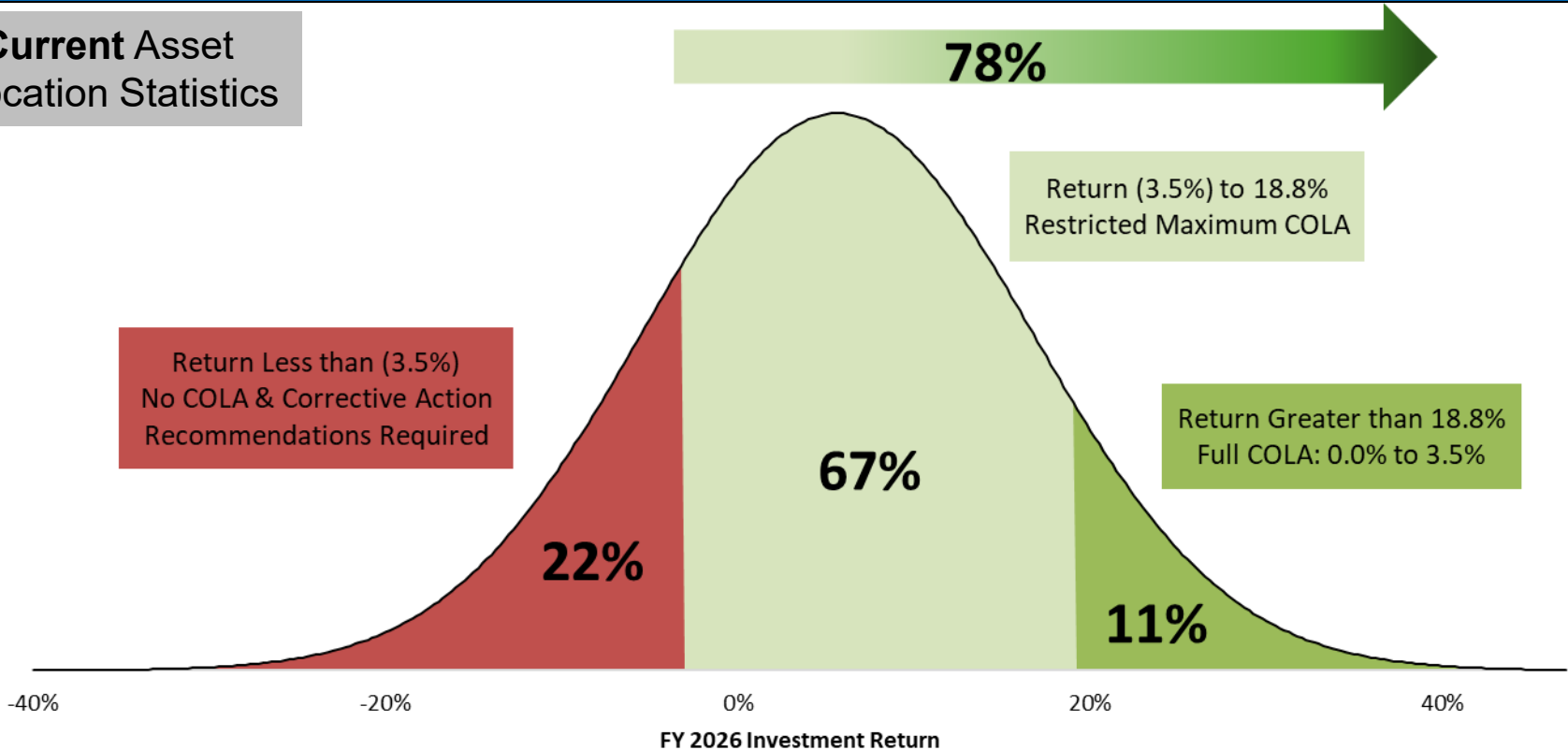


- **Following an FY 2025 investment return of 5%**, the preliminary likelihoods for **July 2027 COLA ranges**, primarily driven by FY 2026 investment returns, are:
 - 12% likelihood: No COLA and corrective action recommendations required
 - 65% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 23% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%

Before consideration of liability gains/losses. Likelihoods based on SDIC **FY 2026 current** asset allocation investment portfolio statistics (mean = 5.25%, standard deviation = 11.08).

FY 2026 Return Ranges Following 0% Return for FY 2025

Current Asset Allocation Statistics



- **Following an FY 2025 investment return of 0%**, the preliminary likelihoods for **July 2027 COLA ranges**, primarily driven by FY 2026 investment returns, are:
 - 22% likelihood: No COLA and corrective action recommendations required
 - 67% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 11% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%

Before consideration of liability gains/losses. Likelihoods based on SDIC **FY 2026 current** asset allocation investment portfolio statistics (mean = 5.25%, standard deviation = 11.08).

- SDRS contributions are fixed and the COLA varies to meet our statutory funding requirements
- SDRS was 100% funded at June 30, 2024:
 - Variable COLA is expected to keep us 100% funded in most economic conditions
 - FY25 returns below approximately negative 9% would require a corrective action recommendation
 - FY25 net returns greater than approximately 12% would result in the full 0% to 3.5% COLA range applying for the July 2026 COLA
 - FY25 net returns between approximately negative 9% and 12% would result in a restricted COLA maximum for the July 2026 COLA
- Likelihood of required corrective action recommendation after FY 2026 is highly dependent on final net investment return for FY 2025