



South Dakota Retirement System

SDRS Update

June 4, 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



FY 2025 Headline Results

- **Funded status remains at 100%** on fixed member and employer contributions
- Actuarial asset and liability losses decreased affordable COLA to 1.56%:
 - July 2025 COLA was 1.71%
 - Net investment return of 5.44%, less than 6.50% actuarial assumption, results in **actuarial investment loss of \$157M**
 - Demographic experience, primarily higher than assumed salary increases, results in **actuarial liability loss of \$95M**
 - **July 2026 COLA will be 1.56%**



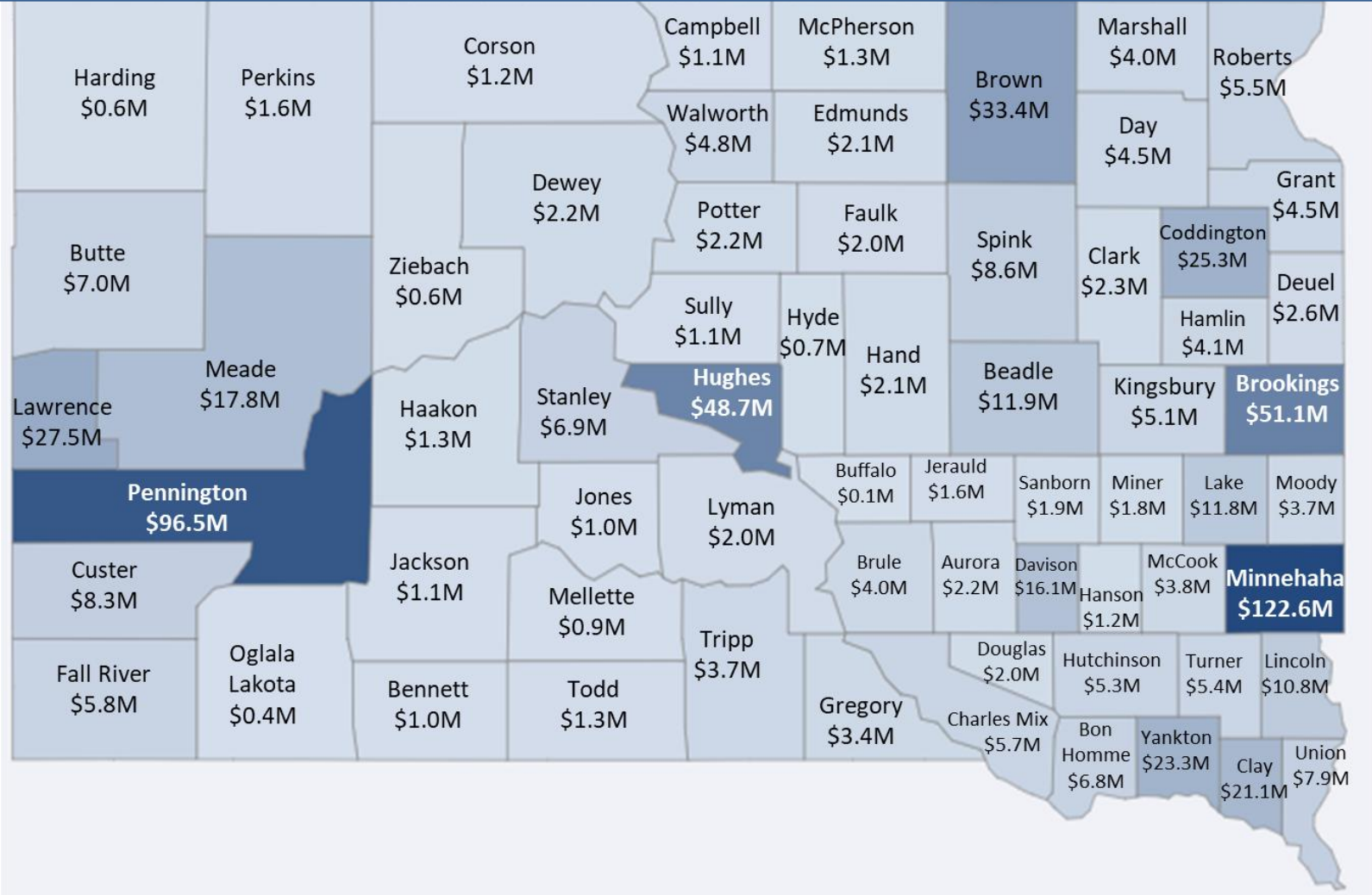
SDRS at June 30, 2025

- SDRS total membership was **105,473** (11% of state population):
 - **Active: 43,784 members:**
 - Average age 44.2; service 10.4; pay \$61,026
 - **Benefit recipients: 34,961 members:**
 - Total annual benefits: \$774.6M
 - Retiree average monthly benefit: \$1,932
 - **Terminated and due a benefit or refund: 26,728 members**
- Fair value of assets was **\$15,272M:**
 - FY 2025 member and employer contributions: \$355M
 - FY 2025 disbursements: \$804M; including \$762M monthly benefits, \$36M refunds of contributions, and \$6M administrative expenses
 - **Non-investment cashflow was negative 3.0% of assets**



Annual Benefits to South Dakota Residents by County

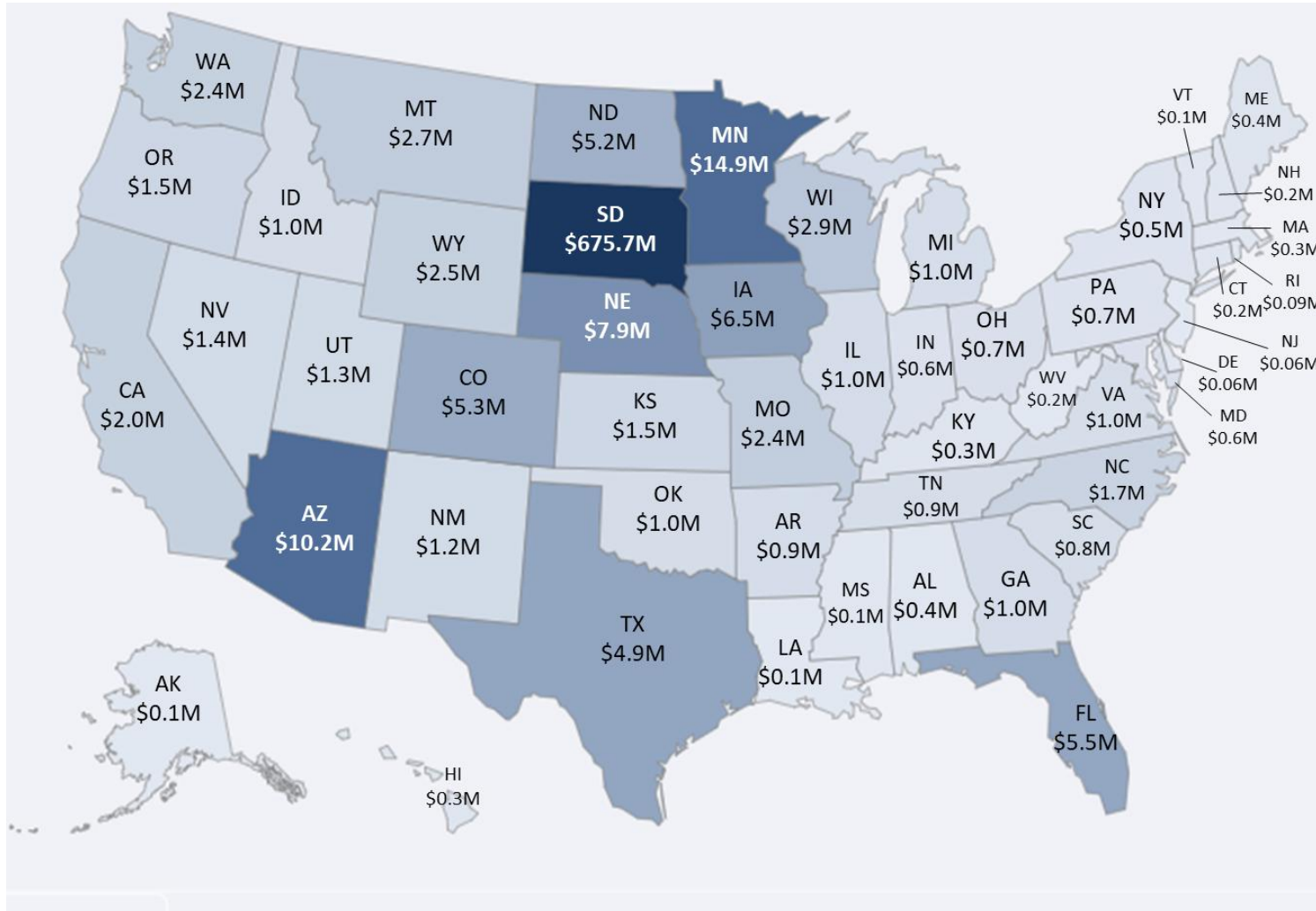
As of July 2025, \$775 million in annual benefits in pay, **\$680 million to current South Dakota residents**





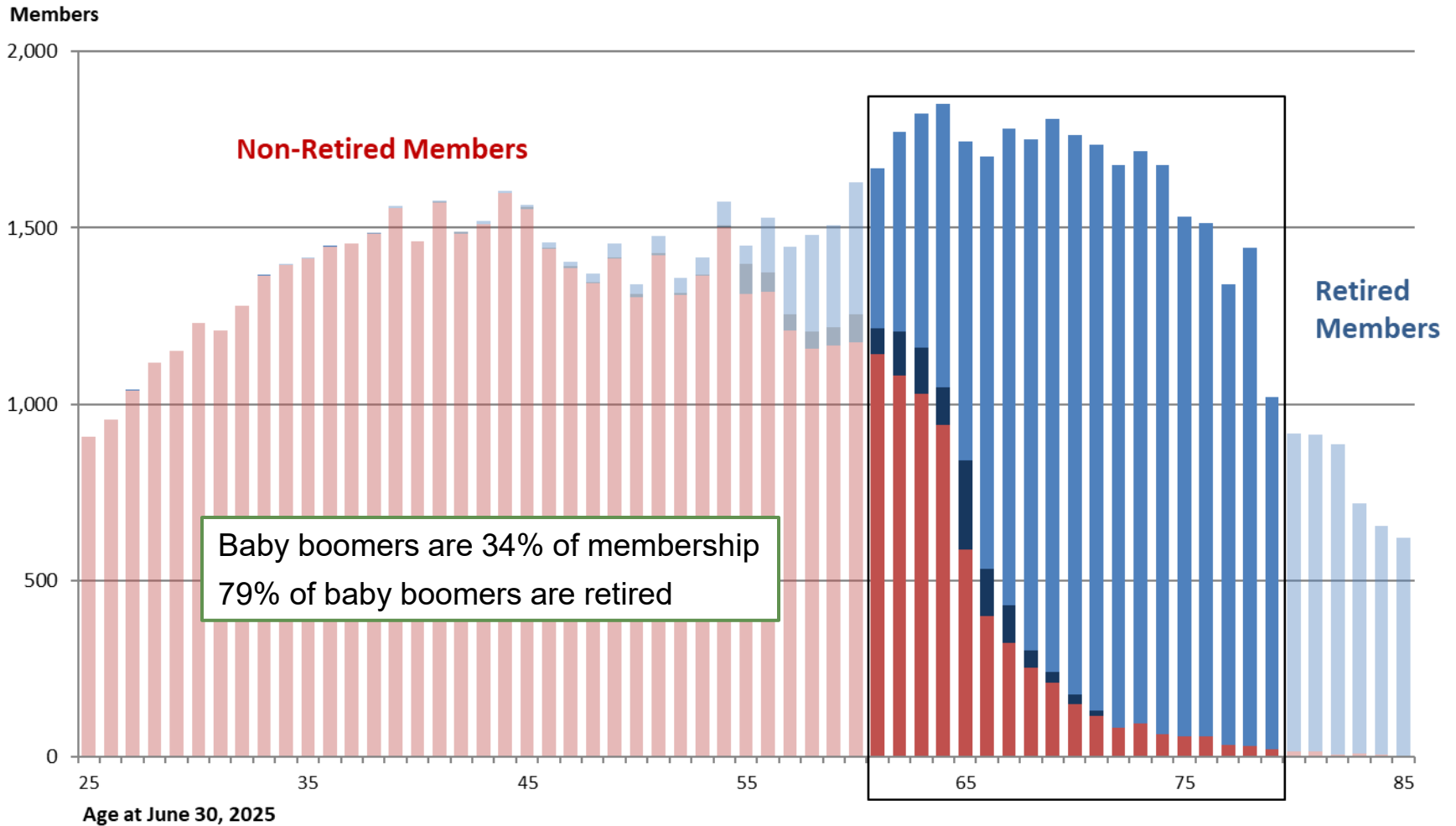
Annual Benefits Nationally by State

As of July 2025, \$775 million in annual benefits in pay, **\$94 million outside South Dakota**





Members by Age as of June 30, 2025

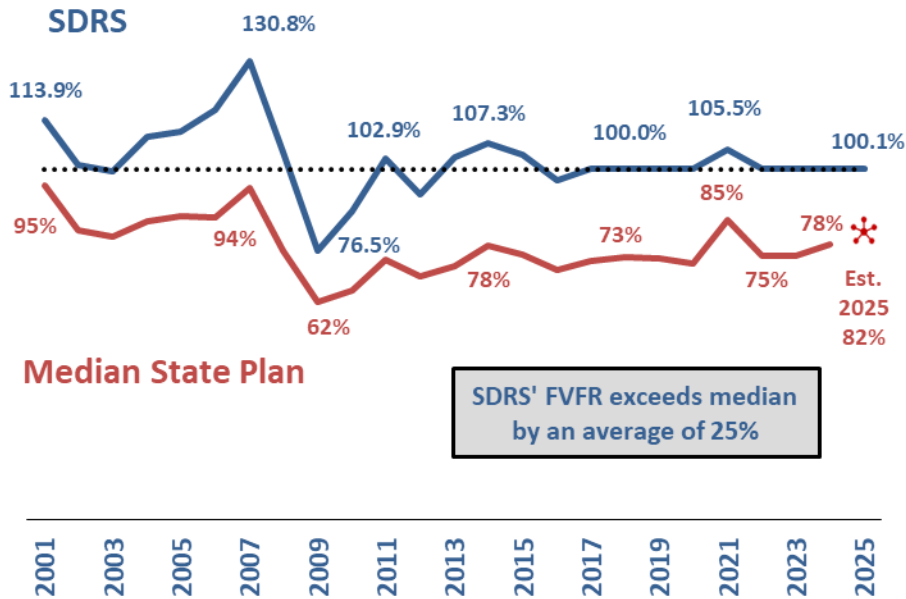


Dark blue shaded portions represent members beginning benefits in FY 2025. Excludes terminated non-vested members.

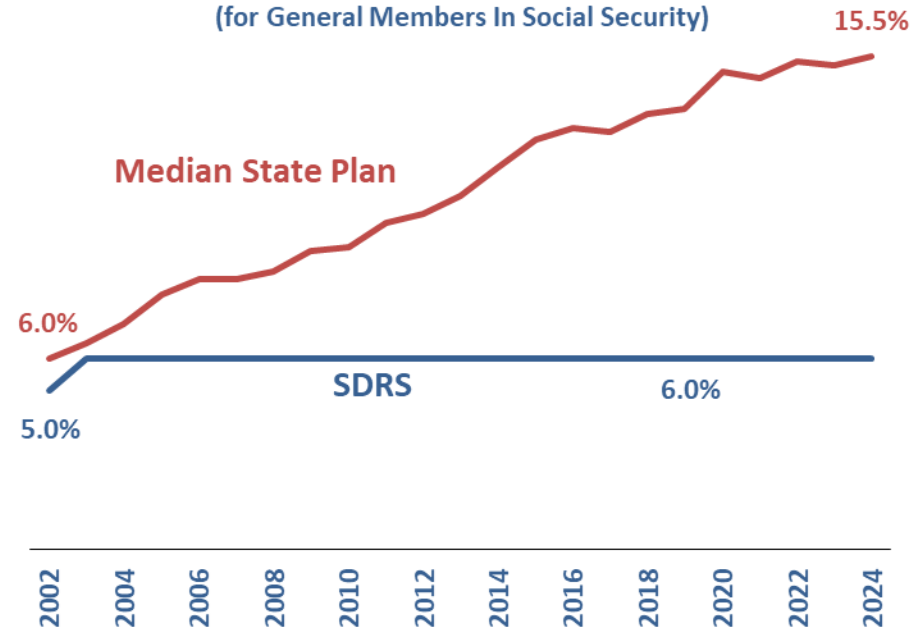


Employer Contributions and Funded Status Comparisons

Fair Value Funded Ratio



Employer Contribution Rates
(for General Members In Social Security)



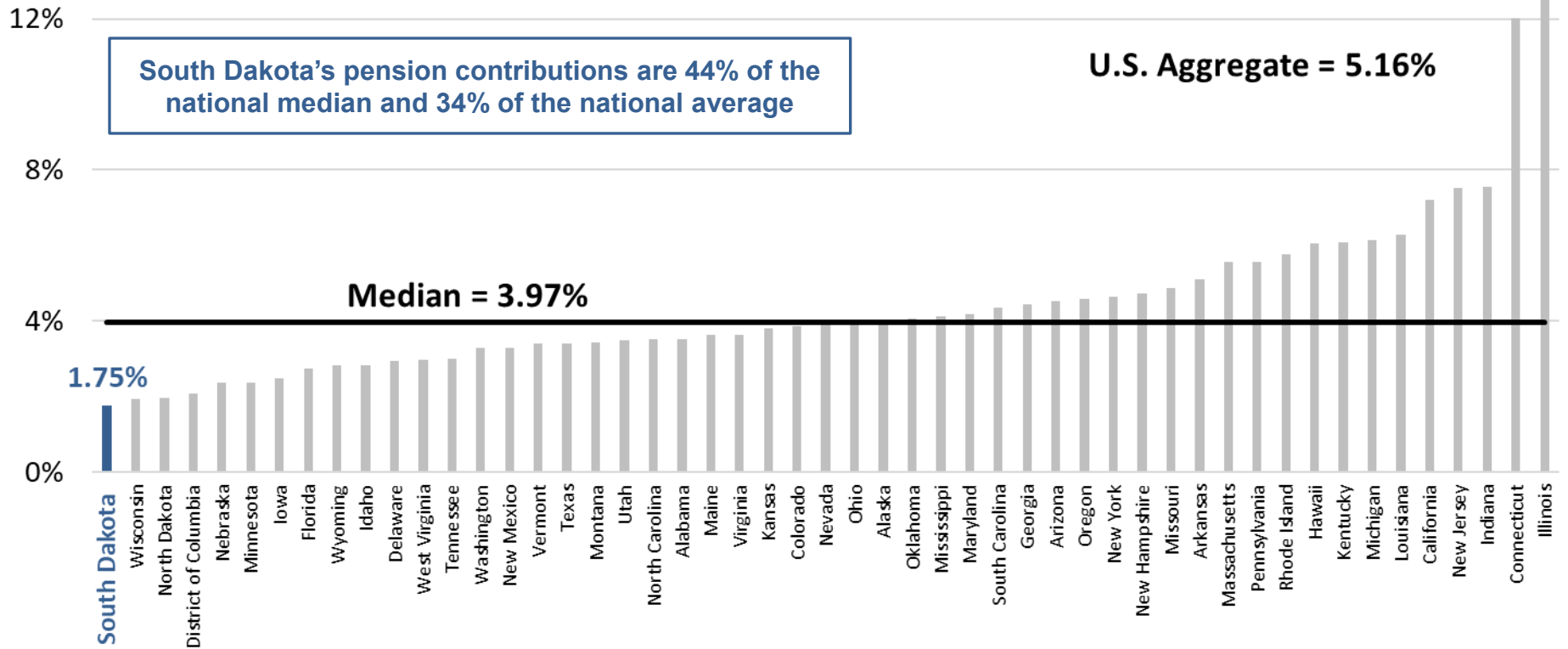
- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 39% of the national median

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



NASRA: Government Spending on Pensions

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



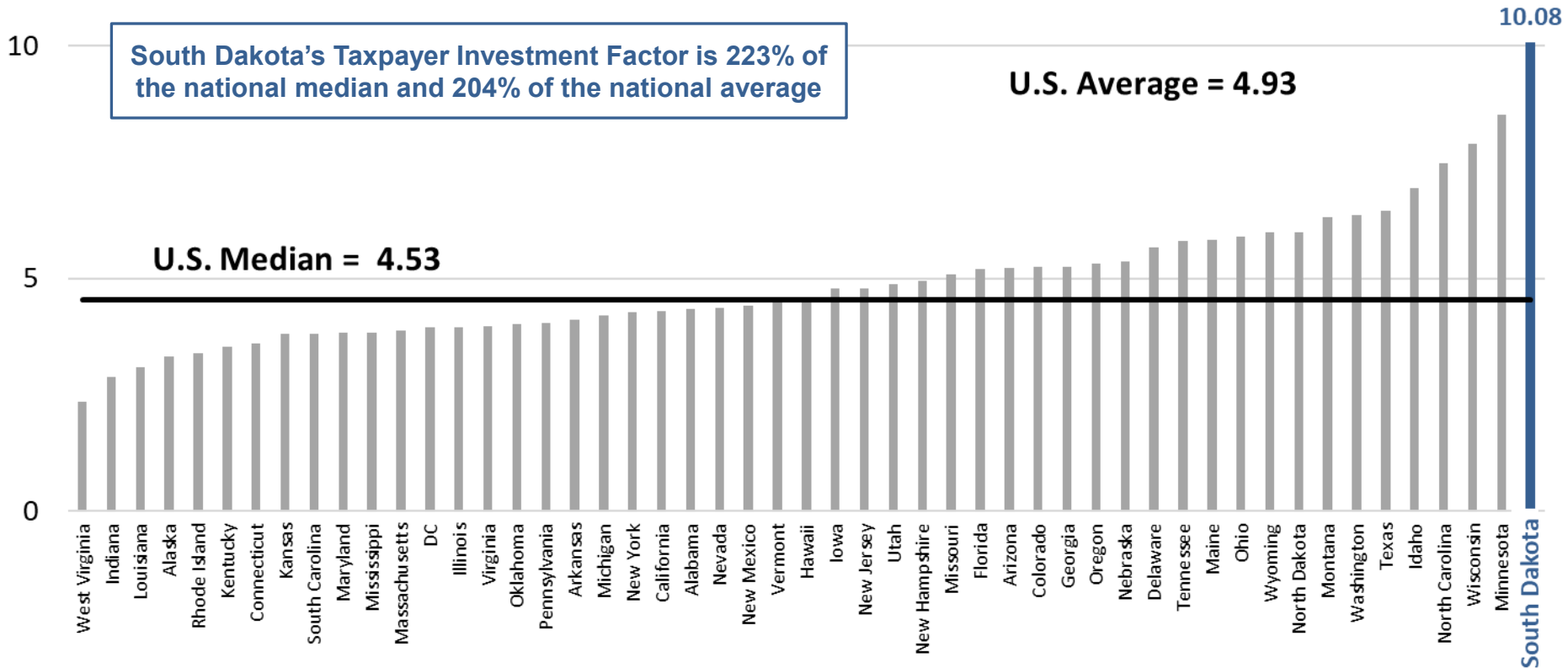
Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, March 2026



NIRS: Taxpayer Investment Factor

Taxpayer Investment Factor

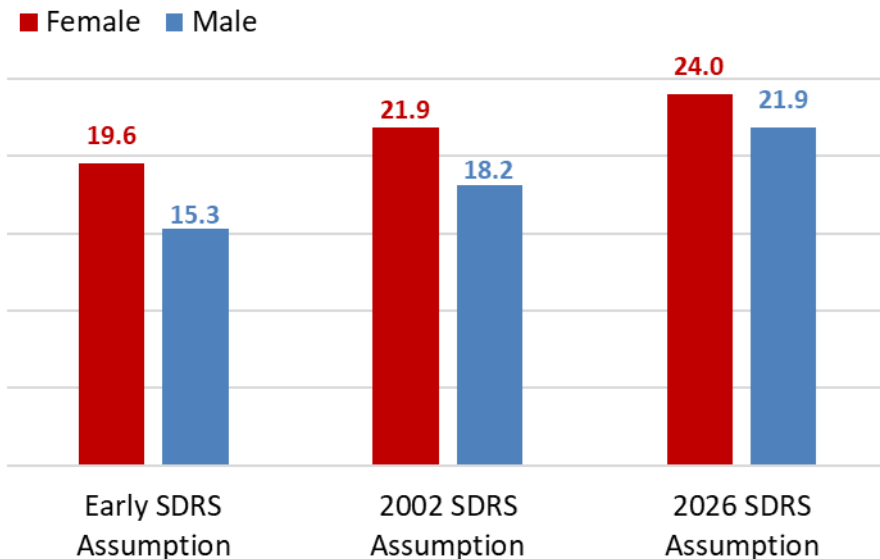
Economic Impact per Dollar of Taxpayer (Employer) Contribution



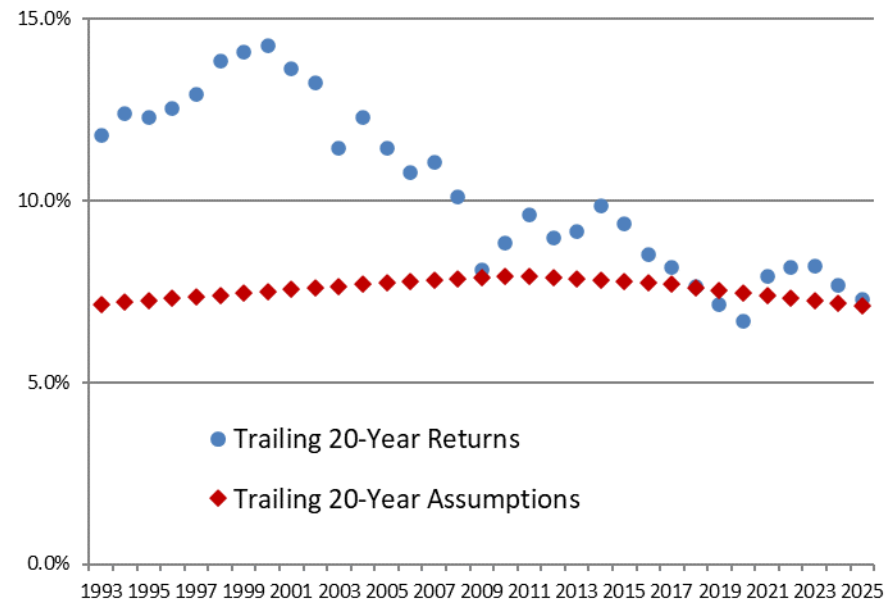
Competing Objectives

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

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



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





Sustainability Efforts

- Service purchases (2004): Actuarial cost to buy service
- Variable COLA process (2010): Annual COLA varies by inflation and system funding (revised in 2017 and 2021)
- Retire-rehire reform (2010): Eliminated windfall for members retiring and returning to work, removing incentive to retire artificially early
- **Generational benefit structure** (2016): Restructured benefits to address imbalances and recognize longer life expectancies while remaining at equivalent overall cost
- Pay increase caps and 5-year FAC (2017): Prevent high, late-career salary increases from causing unfunded benefit increases

Expect continuing pressure on benefit affordability. Any unfunded expansion, increase, or acceleration of benefits directly reduces the COLA paid to retired members



Foundation and Generational Benefit Structures

Foundation Benefits (Member before 7/1/2017)

- Eligibility:
 - Normal Retirement Age: 65/55 (A and Judicial / PS)
 - Early Retirement Age: 55/45, 3% per year reduction
 - Special Early Retirement (Rule of 85/75/80)
 - Three-year vesting
- Benefits:
 - 1.55% for Class A
 - 2% and 3.3%/2% for Class B
 - Three-year Final Average Compensation
 - Class A Alternate Formula
 - Level Income option
 - No Variable Retirement Account (VRA)
- Post-Retirement Survivor Benefit:
 - 60% of Member's benefit continued to spouse if married for at least one year at retirement and still married at Member's death
 - Guaranteed return of accumulated Member contributions and 85% of accumulated employer contributions

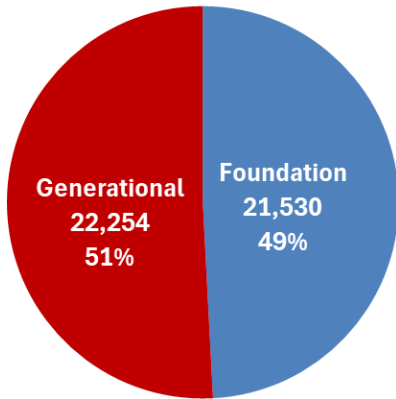
Generational Benefits (Member after 6/30/2017)

- Eligibility:
 - Normal Retirement Age: 67/57 (A and Judicial / PS)
 - Early Retirement Age: 57/47, 5% per year reduction
 - No Special Early Retirement
 - Three-year vesting – **No change**
- Benefits:
 - 1.8% for Class A
 - 2% and 3.3%/2% for Class B – **No change**
 - Five-year Final Average Compensation
 - No Class A Alternate Formula
 - No Level Income option
 - VRA to supplement base benefits at retirement
- Post-Retirement Survivor Benefit
 - If Member elects reduced benefit at retirement, 60% or 100% of reduced benefit payable to survivor. Otherwise, life only benefit
 - Guaranteed return of accumulated Member contributions and 85% of accumulated employer contributions – **No change**

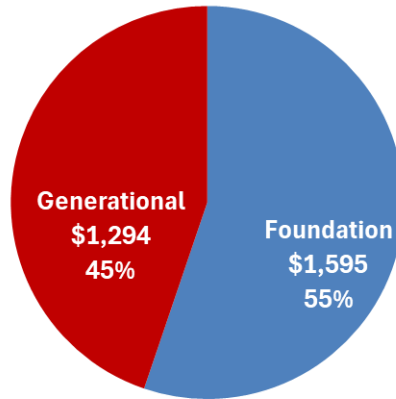


Transition to Generational Benefit Structure as of June 30, 2025

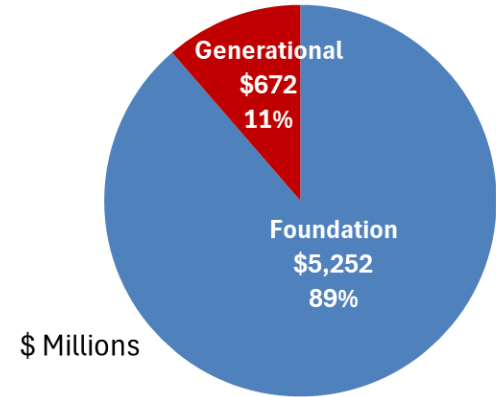
Active Members



Active Compensation

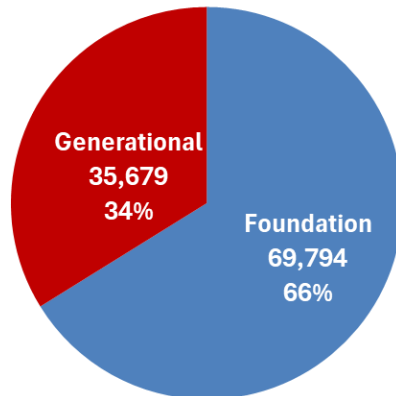


Active Liability

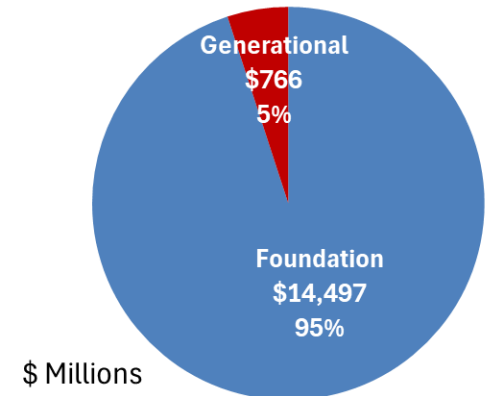


	Generational	Foundation
Avg Age	39.0	49.5
Avg Svc	3.4	17.6
Avg Pay	\$58,147	\$74,083
SDRS Avg Age: 44.2		
SDRS Avg Svc: 10.4		
SDRS Avg Pay: \$65,985		

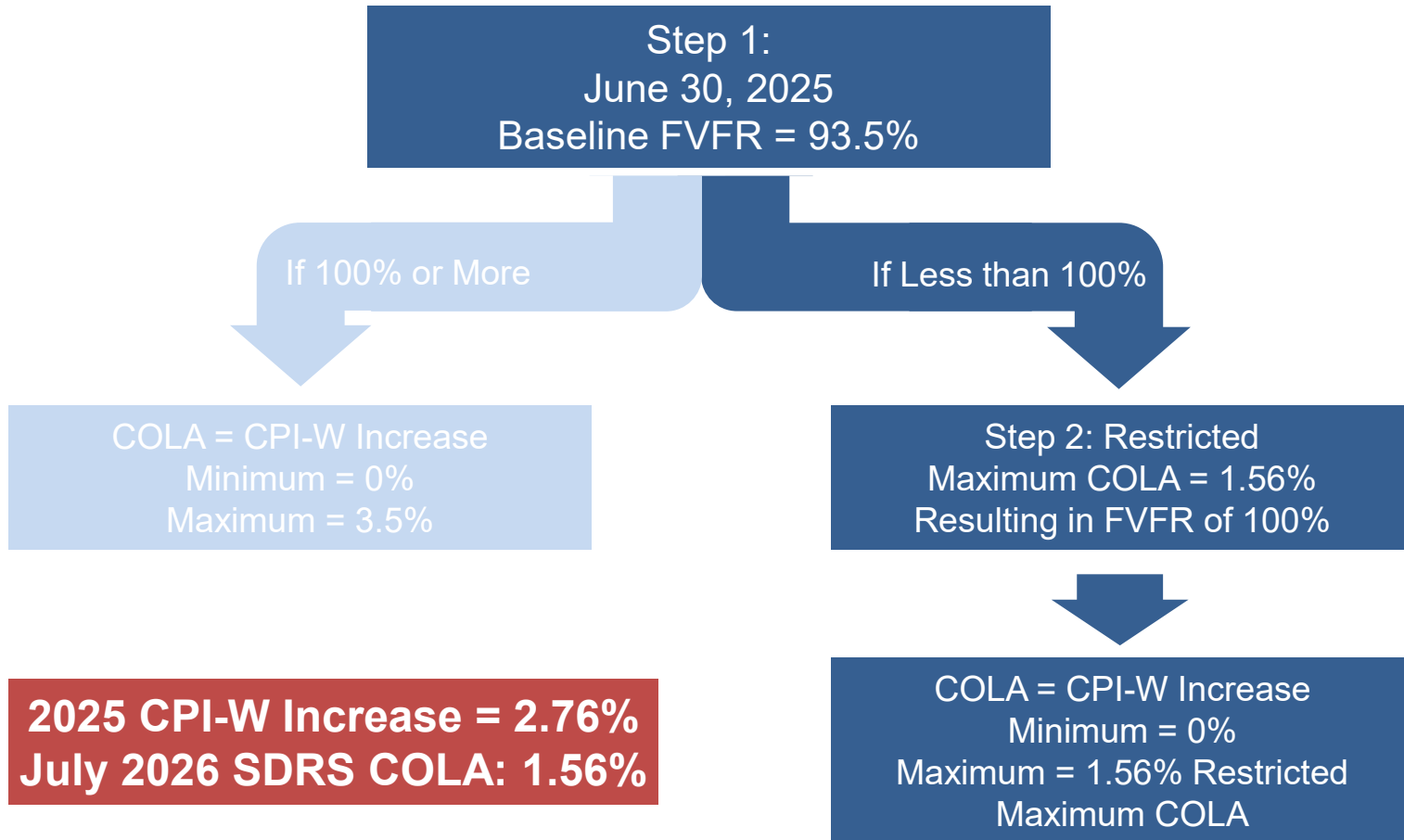
Total Members



Total Liability



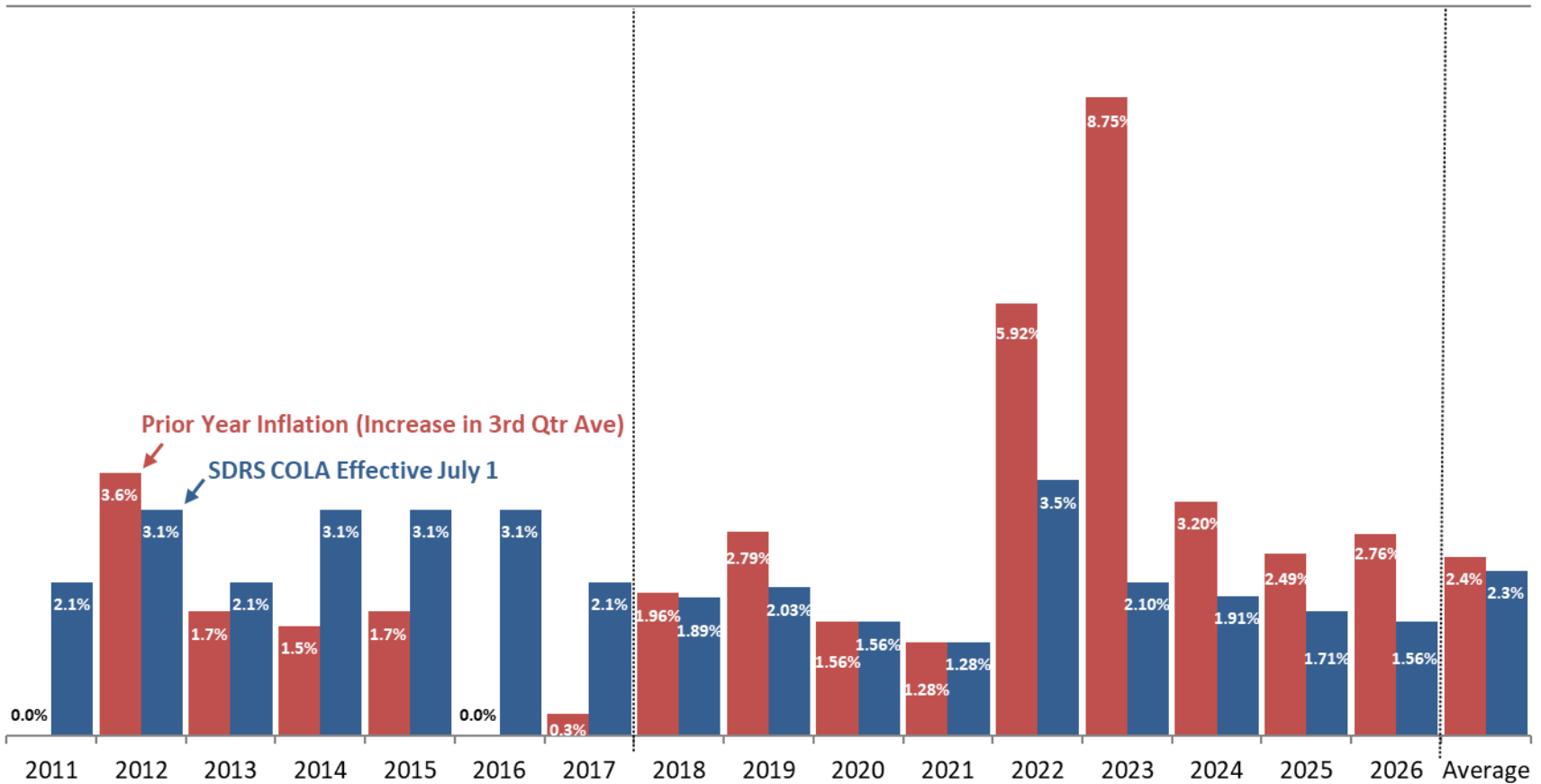
July 2026 COLA Calculation





Inflation and SDRS COLAs Since 2010

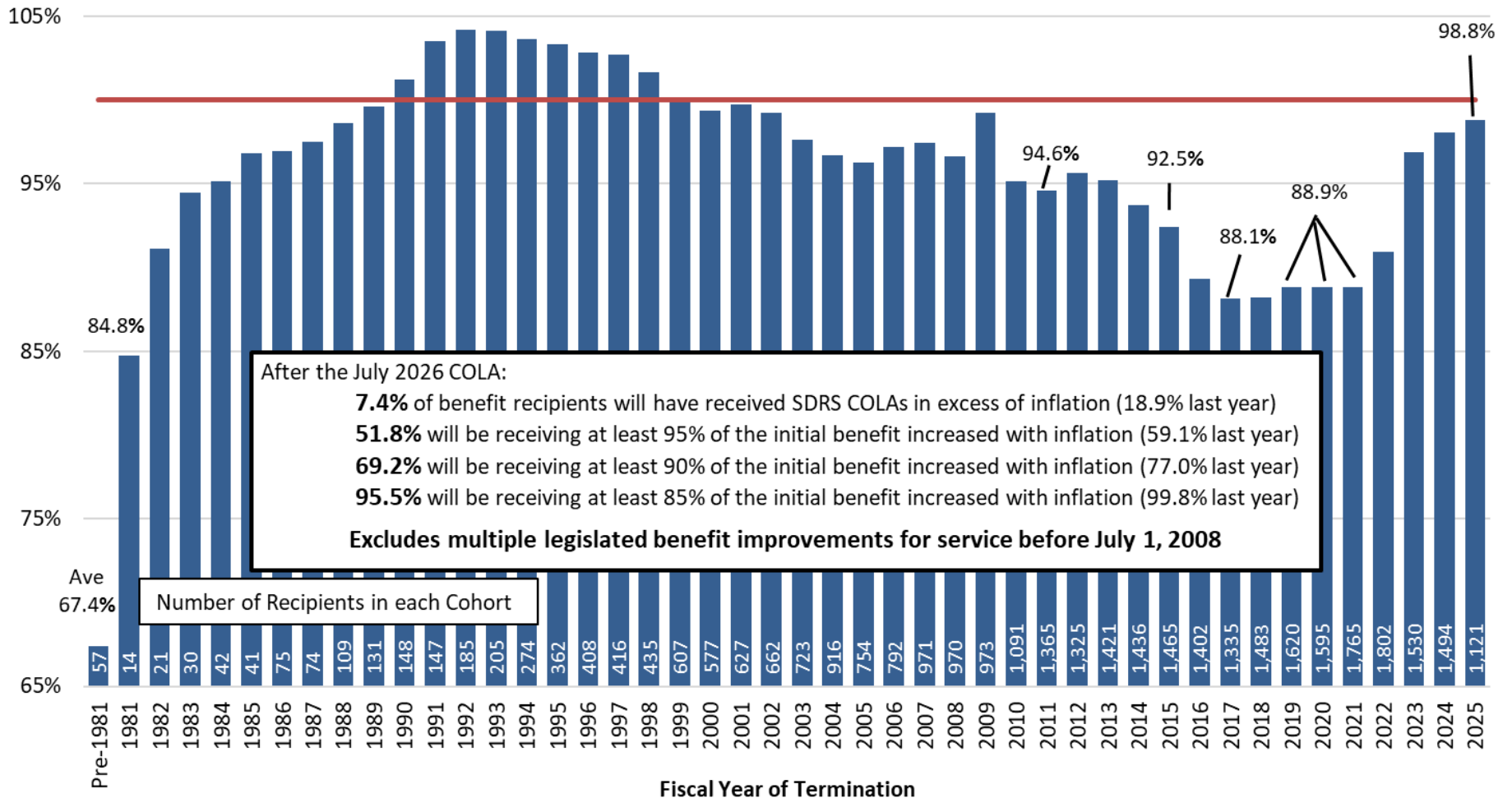
Annual Inflation and SDRS COLA Increases 2011-2026



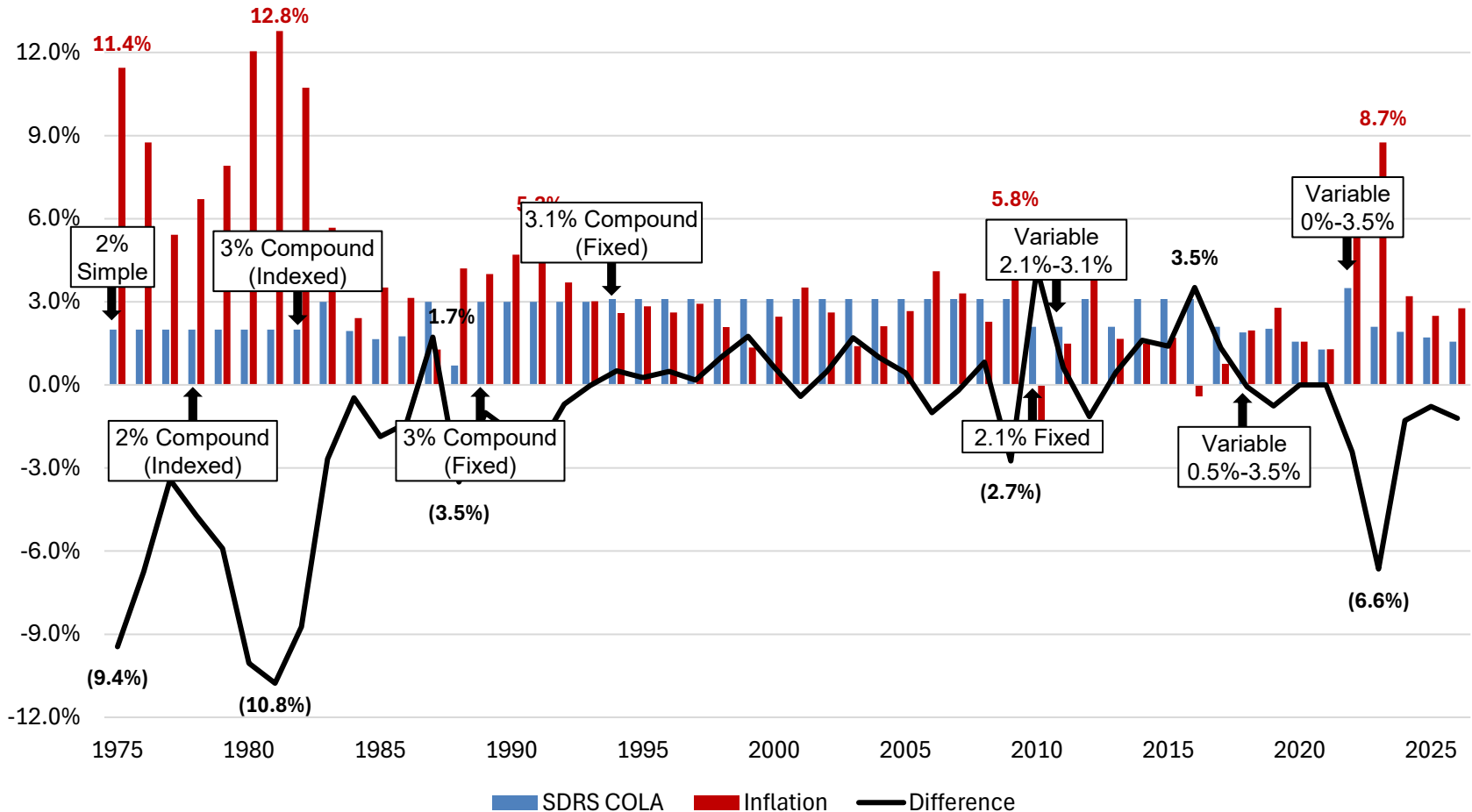


Cumulative Inflation and SDRS COLAs through July 2026 COLA

Ratio of Current SDRS Benefit to Initial Benefit Increased with Inflation

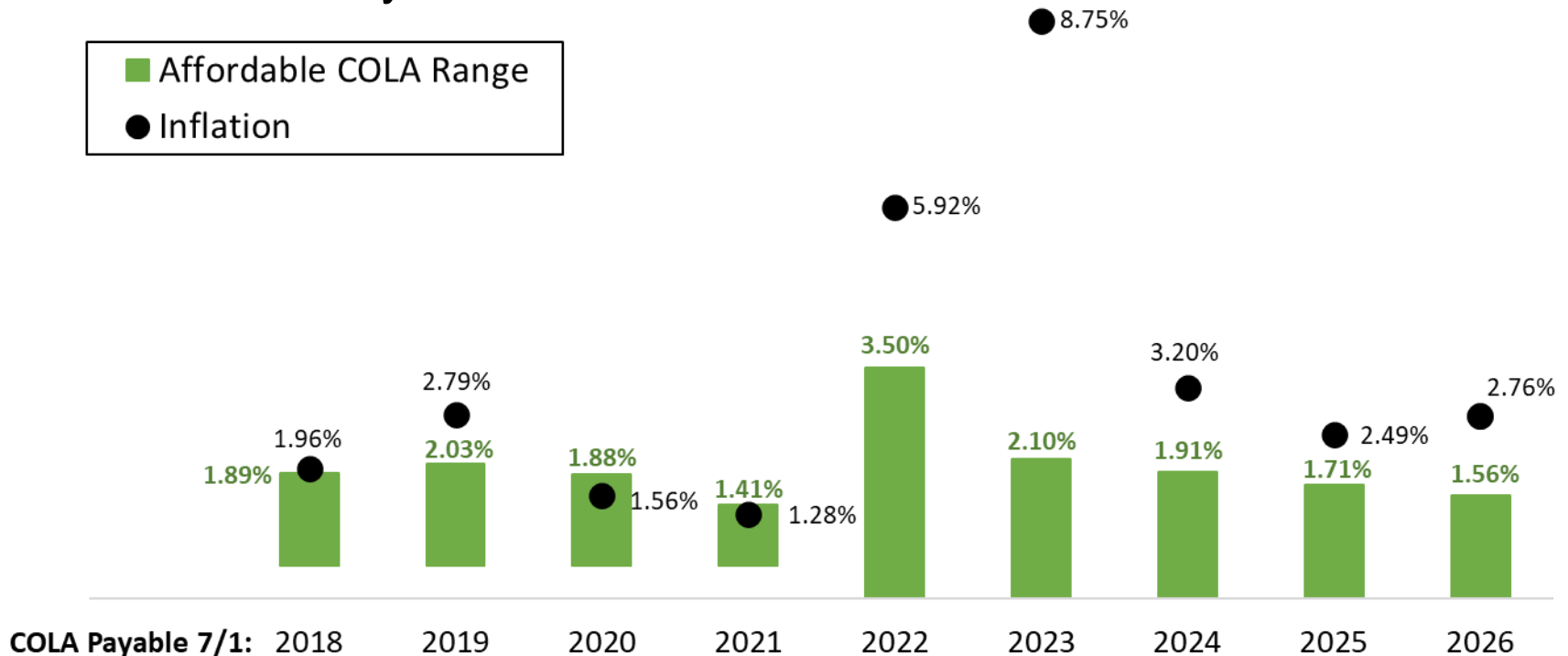


SDRS COLA and Inflation



Historical COLA Ranges

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





Recent Gains and Losses

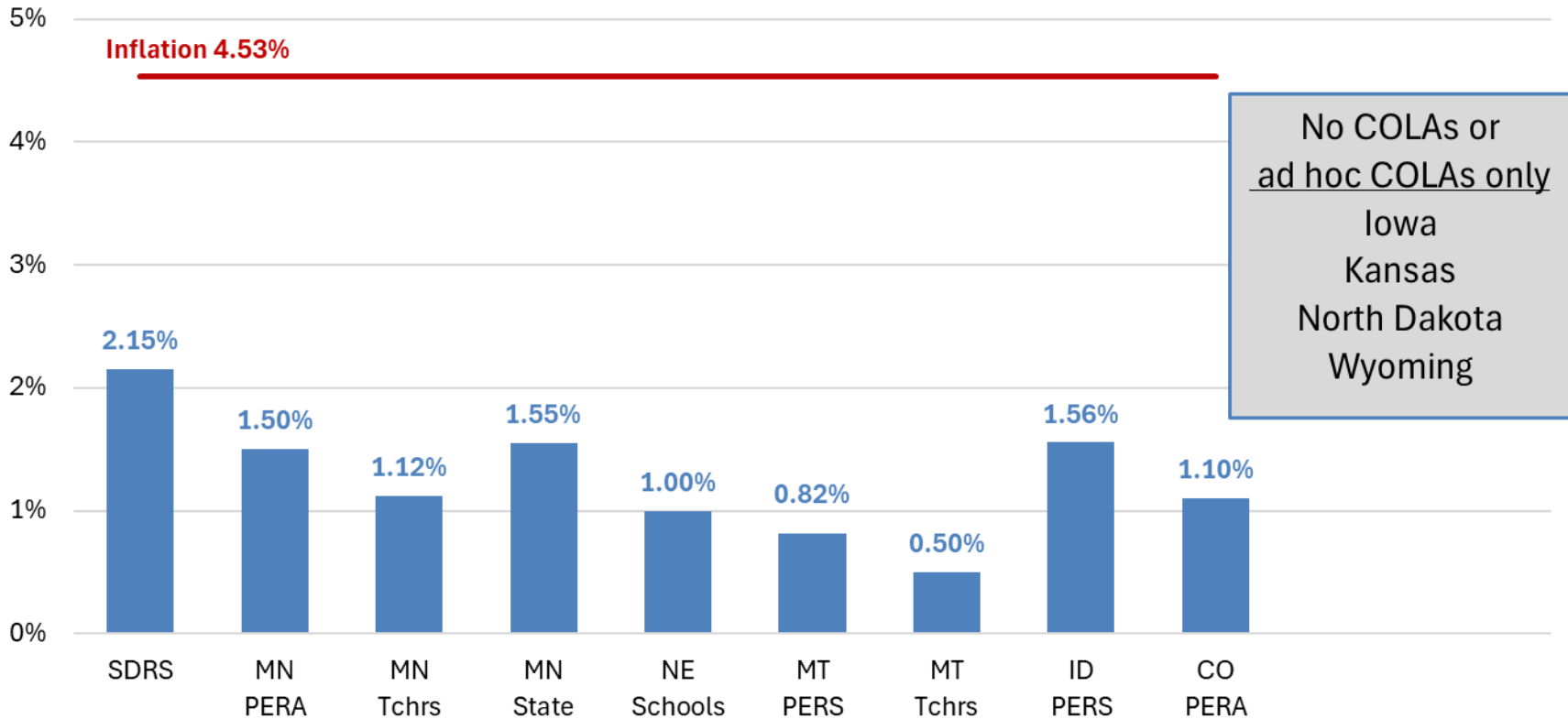
- Since the 2018 COLA, the maximum affordable COLA varies each year based on investment and liability gains and losses – gains increase future years’ maximum COLAs; losses reduce future maximum COLAs

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

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

COLA Comparisons – Regional Plans

Regional Systems
Average Inflation and COLAs, Most Recent Five Years



Excludes COLAs for closed tiers.



COLA Comparisons – Regional Plans

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

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

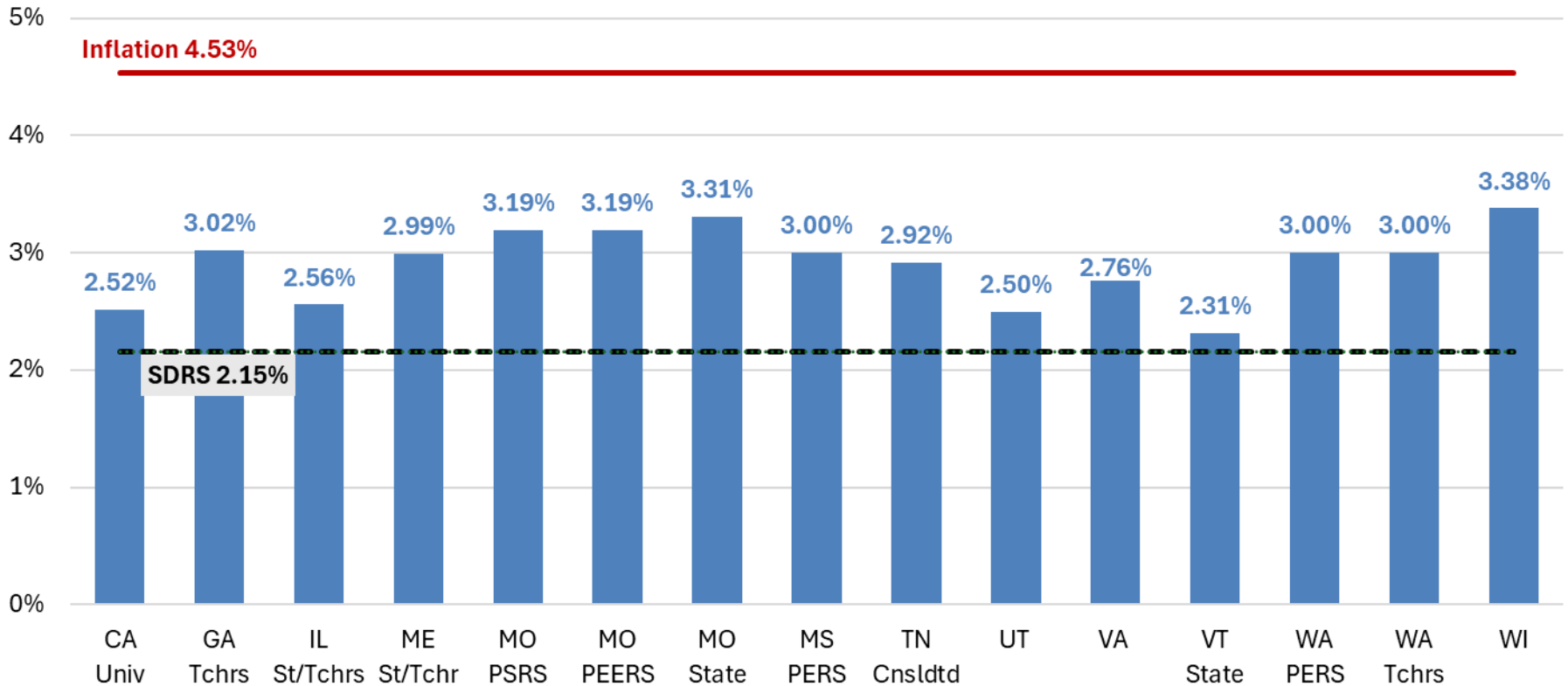
(2) COLA on path to 1.5%, not paid until retiree is age 65.

(3) COLA increased to 1.75% effective 2026.

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

COLA Comparisons – Greater COLAs

Greater COLAs
Average Inflation and COLAs, Most Recent Five Years



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



COLA Comparisons – Greater COLAs

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

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

- Liability and investment gains and losses will impact the affordable COLA range each year:
 - Gains and losses are caused by variances from the long-term actuarial assumptions regarding investment return, salary increases, retirements, terminations, and mortality
 - The variable COLA may not be sufficient to maintain 100% FVFR in all conditions and additional corrective actions may be required
- Projections of FVFRs, COLA ranges, and likelihoods of achieving returns shown in subsequent slides:
 - Projections utilize an actuarial model intended to estimate short-term changes in funded ratios and resulting COLA ranges
 - Demographic experience is assumed to match assumptions
 - Likelihoods are calculated based on SDIC's investment portfolio statistics



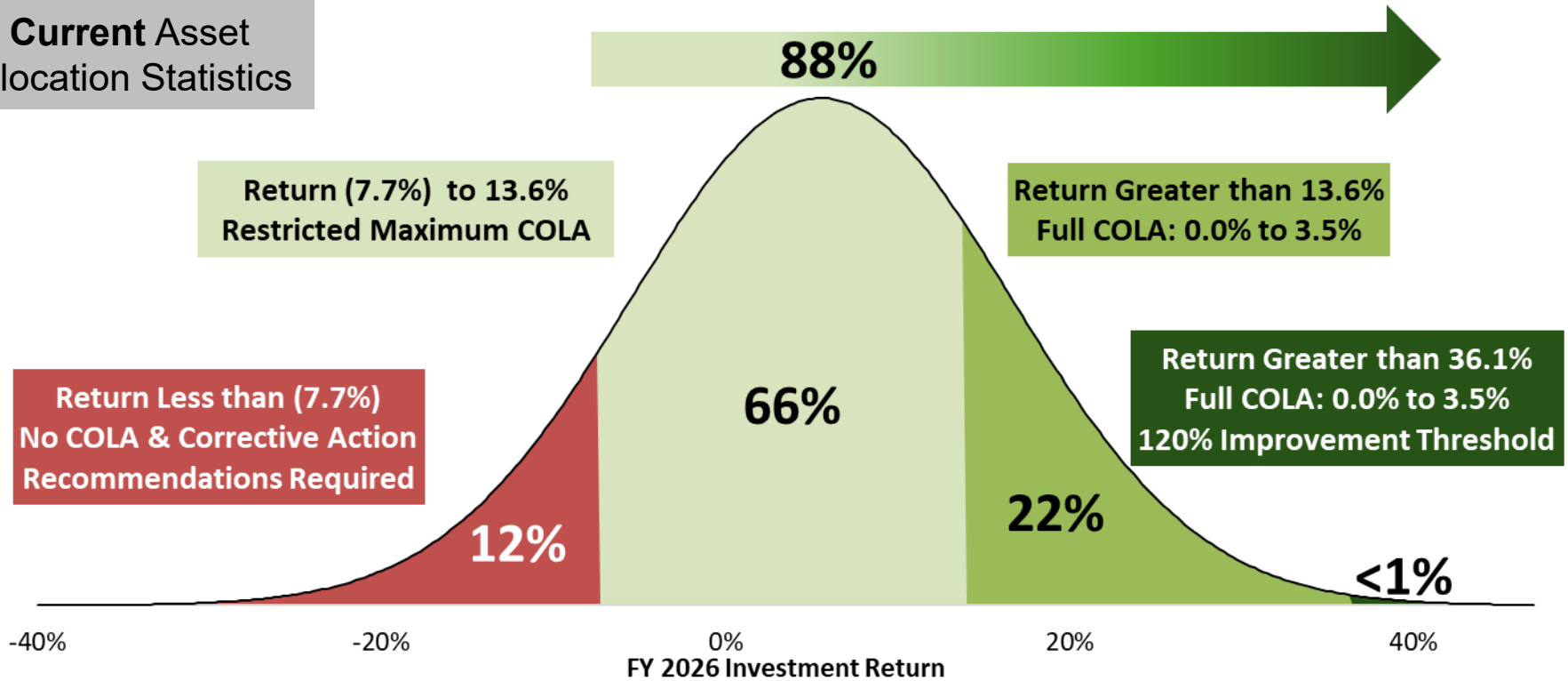
Projected June 30, 2026 Funded Status & July 2027 COLA Range⁽¹⁾

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

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

Projected 2027 COLA Range and Likelihoods

Current Asset Allocation Statistics



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

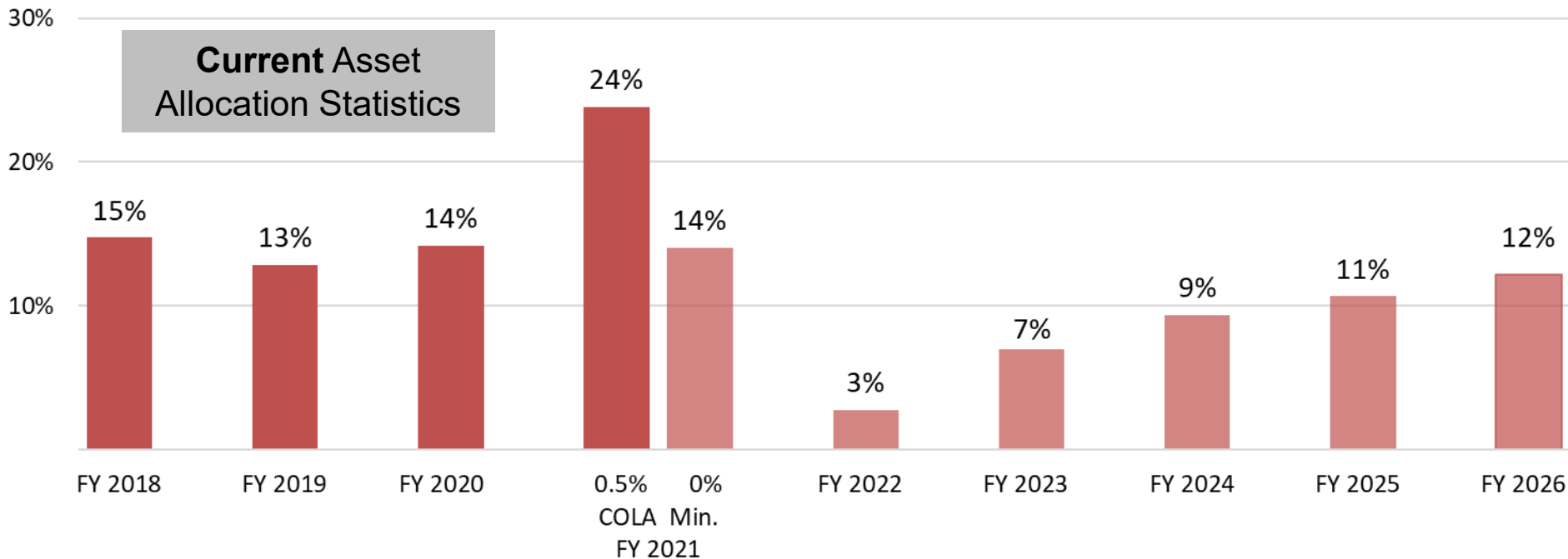
Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2026 current asset allocation investment portfolio statistics (mean = 5.20%, standard deviation = 11.04).



Historical 1-Year Corrective Action Requirement Likelihoods

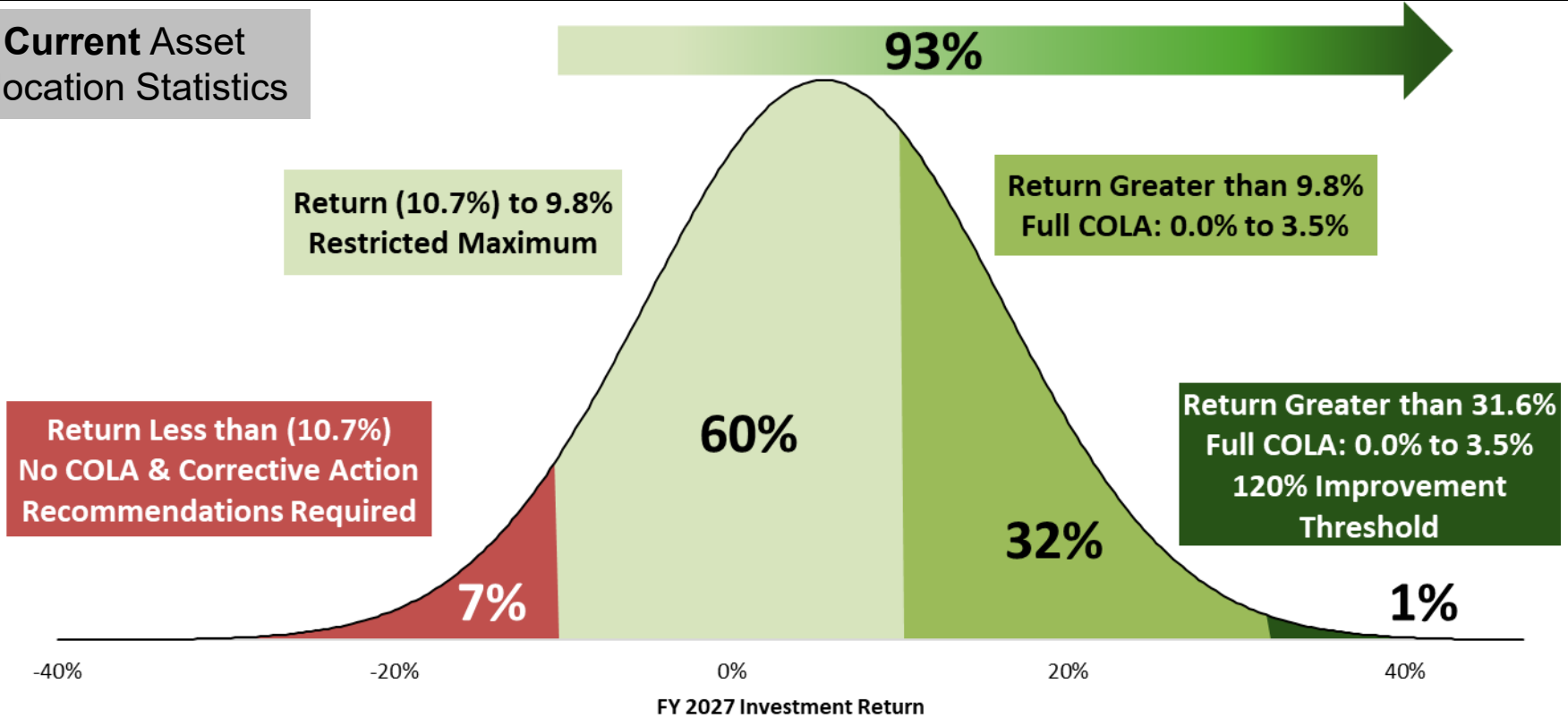
Investment experience is the primary driver of the likelihood of required corrective action recommendations. Changes in market conditions and expectations for future returns also impact the likelihood.

1-Year Likelihoods of Required Corrective Action Recommendations



FY 2027 Return Ranges Following 10% Return for FY 2026

Current Asset Allocation Statistics



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

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



Summary

- SDRS contributions are fixed, and the COLA varies to meet our statutory funding requirements and to keep SDRS 100% funded in most economic conditions
- July 2026 COLA will be 1.56%; July 2027 COLA depends on FY 2026 liability results and investment returns
- Recent SDRS COLAs have lagged inflation, but exceed all regional state plans and most state plans nationally
- The likelihood of required corrective action recommendation after FY 2027 is highly dependent on the final net investment return for FY 2026