



South Dakota Retirement System

Successful Transitions to New Beginnings

SDRS Board of Trustees
June 2, 2021



Successful Transitions to New Beginnings

- Provide members nearing retirement the tools to a successful transition at the end of their careers
- Major Topics
 - Retirement Readiness
 - SDRS Basics and Formulas
 - Other Retirement Considerations (COLA, taxes, re-employment)
 - Disability and Survivor Benefits
 - Social Security and Medicare
 - Supplemental Retirement Plan
 - Personal Savings
 - Retirement planning and risks

- Planning & Preparation
- Piecing together retirement puzzle

Good Planning is Key

- Proper financial planning, as well as personal and physical considerations, can and does make for a more successful retirement



How prepared are you?

Retirement: Ready & Able?

- Determine how prepared you are for retirement
 - * Set goals
 - * Get organized
 - * Budget: estimate income sources/expenses (workbook p. 33-36)
 - * Consider retirement risks



Workbook:
p. 3

Set Goals

- Identify your goals and write them down
- Set target dates
 - * Prior to retirement
 - * After retirement



Set Goals

Goal	Preparation	Potential Obstacles	Target Date
Set aside \$100,000 for retirement	• Already have savings of \$70,000	• Market downturn	At retirement
Take 2 week family trip	• Have \$2,000 saved	• Cost	1 year after retirement
Develop hobby into part-time business	• Save for equipment • Remodel spare room into work area	• Time demands • Need to save for other things	1-5 years after retirement
Downsize home to purchase smaller "vacation" home	• Make repairs • Finish basement	• Emotional struggle	

Workbook
p. 4-5

Get Organized

- Organize all important documents
 - * Store in a secure location
 - * Use Record of Important Documents form you receive at this workshop





Retirement Income and SDRS

- Income needs vary
- Essential vs. discretionary needs
- 4th Leg....working in retirement
- SDRS is DB plan....not DC
- SDRS replacement goal 50%

Retirement Income

- Consider financial needs in retirement
- Understand retirement risks
- The three-legged stool
 - * Pensions/employer-sponsored plans (SDRS)
 - * Social Security
 - * Personal retirement savings (SDRS-SRP)
- Fourth leg of stool? Work



Income Replacement

- SDRS recommends at least 85% income replacement
 - * Combination of SDRS, SSA, and personal retirement savings (SDRS-SRP)
- Essential vs. discretionary expenses
- Some individuals may need more or less



South Dakota Retirement System

- SDRS is a defined-benefit plan operated with fixed, statutory contribution rates
 - * Matching employee/employer contributions
 - * Three classes of service
 - Class A (6% contribution)
 - Class B – Public Safety (8% contribution)
 - Class B – Judicial (9% contribution)
 - * Foundation members: Joined SDRS prior to July 1, 2017
 - * Generational members: Joining SDRS on/after July 1, 2017



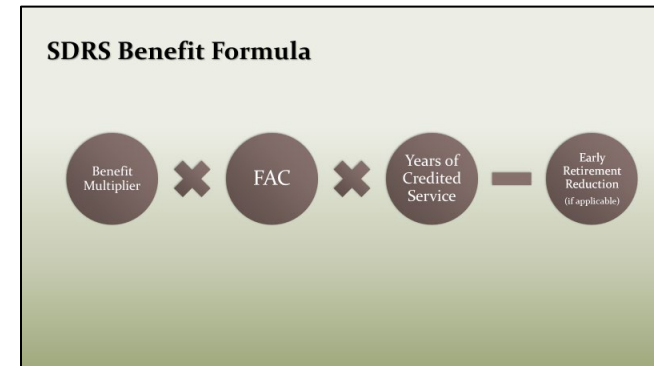
South Dakota Retirement System

- Goal: to replace approximately 50% of pay for career members (30+ years)
- SDRS provides:
 - * Lifetime pension benefits
 - * Cost-of-living adjustment (COLA)
 - * Survivor, family, and disability benefits



Retirement Benefits – Benefit Formula

- Simple formula:
 - Benefit Multiplier
 - Final Average Compensation (FAC)
 - Credited Service
 - Early Retirement Reduction
- Components differ based on Class and benefit structure:
 - Foundation: subsidized early retirement provisions & post-retirement survivor benefits
 - Generational: later normal retirement age, higher multiplier, and Variable Retirement Account (VRA)





Retirement Benefits – Multipliers and VRA

- Foundation multipliers:
 - 1.7% for service through June 2008
 - 1.55% for service after June 2008
- Generational multiplier:
 - 1.8% for all service
 - Also receive VRA

SDRS Benefit Multipliers

- | | |
|---|--|
| • Class A benefit multipliers for Foundation members: | • Class A benefit multiplier for Generational members: |
| • 1.7% for service prior to 7/1/2008 (Enhanced benefit) | • 1.8% |
| • Plus 1.55% for service after 7/1/2008 (Base benefit) | |

Variable Retirement Account

- Available to Generational members only
- Funded by Variable Retirement Contribution: up to 1.5% of pay to active Generational members
- Actual investment return credited annually (as of June 30)
 - For VRA distributions during fiscal year: credited with estimated investment return through the month prior to distribution
- VRA paid only at retirement, disability, or death
 - Lump-sum payment to member
 - Rollover to SRP or other eligible plan
 - Purchase of Supplemental Pension Benefit at retirement
 - Note: Refunding members forfeit VRA



Retirement Benefits – FAC and Examples

- FAC moving from 3-year to 5-year average
- Each year used in FAC determination limited to 105% prior highest year's compensation
 - Contributions in excess of cap paid to members with investment earnings at retirement

Final Average Compensation (FAC)

- Foundation members:
 - * Contributory service concluding
 - Prior to July 1, 2021: Average of highest 12 consecutive quarters of last 40
 - Between July 1, 2021, and June 30, 2022: Average of highest 16 consecutive quarters of last 40
 - After July 1, 2022: Average of highest 20 consecutive quarters of last 40
- Generational members:
 - * Average of highest 20 consecutive quarters of last 40

Compensation Caps

- Foundation members:
 - * 105% cap applied to each of the years used in FAC for members with contributory service after June 30, 2020
- Generational members:
 - * Compensation for each of the 5 years used in FAC limited to 105% of highest compensation in final 10 years

For all members: Contributions in excess of cap would be paid to member, with actual investment earnings, at retirement.

Foundation Member: Class A Benefit Example

Foundation member retires July 1, 2021: age 62, 30 years of service, and \$30,000 FAC

- Enhanced benefit: $1.7\% \times \$30,000 \times 17 \text{ years} = \$8,670$
- Plus base benefit: $1.55\% \times \$30,000 \times 13 \text{ years} = \$6,045$
- Total annual SDRS benefit: $\$8,670 + \$6,045 = \$14,715$
($\$1,226.25/\text{month}$)

Generational Member: Class A Benefit Example

Generational member retires July 1, 2037: age 67, 30 years of service, and \$30,000 FAC

- $1.8\% \times \$30,000 \times 30 \text{ years} = \$16,200$
($\$1,350/\text{month}$)



Retirement Benefits – Other Considerations

- COLA:
 - Goal is to match inflation
 - Paid in July
 - Variable between 0%-3.5%
- Benefits subject to income tax:
 - Withholding determined by member

Cost-of-Living Adjustment

- An increase in the amount of eligible monthly benefit payments
 - * Commonly referred to as COLA
 - * Designed to partially protect retirees from loss of purchasing power due to inflation
 - * Effective each July 1, compounded annually
 - * Based on annual inflation rate and resources SDRS has available to pay for COLA
 - Maximum 3.5%; Minimum 0%



Taxes on SDRS Benefits

- Benefit payments become taxable when paid out
 - * Excludes previously taxed contributions
 - * Federal income tax
 - Withheld by SDRS
 - * State income tax?
 - Depends on the state you reside in
 - Not withheld by SDRS



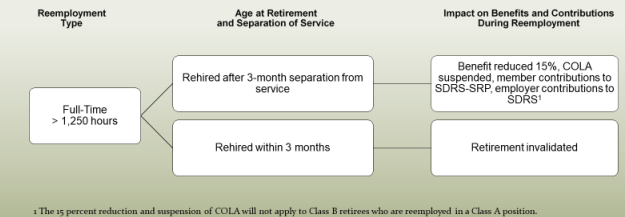
You inform SDRS how much Federal income tax to withhold. Please consult with your tax advisor to determine the appropriate amount for your personal circumstances.



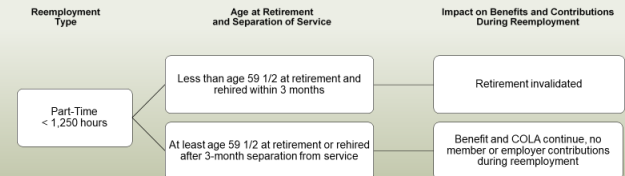
Retirement Benefits – Other Considerations

- Retire/Rehire considerations:
 - Employed by SDRS employer
 - Full-Time vs. Part-Time
 - Age 59 1/2
 - 3-month separation

Reemployment of Retirees



Reemployment of Retirees



Reemployment of Retirees

Full-time employment: Employment with a participating employer of 1,250 hours or more in the employer's fiscal year, in any capacity, including temporary, seasonal, contractual, leased, or any other designation.

Part-time employment: Employment with a participating employer of less than 1,250 hours in the employer's fiscal year.

Separation from service: Three consecutive calendar months with no service performed for the employer in any capacity, including as a temporary, seasonal, contractual, leased employee, or any other designation. If a retiree is rehired without a three-month period during which no services are performed, the retirement will be invalidated, and any benefits received must be repaid to SDRS.

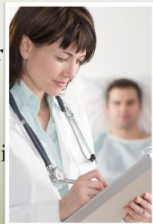
Exception for part-time reemployment of member who was at least age 59½ at retirement: SDRS permits a member who was at least age 59½ at retirement and is rehired on a part-time basis without a 3-month separation of service to continue receiving uninterrupted SDRS benefits during the period of part-time reemployment. If the member subsequently works more than 1,250 hours in the employer's fiscal year, the benefit will be suspended prospectively for the duration of the reemployment period.

Survivor and Disability Benefits

- Disability and pre-retirement survivor benefits provided at no additional cost
- Foundation post-retirement survivor benefits also provided at no additional cost
- Generational post-retirement survivor benefits require election with reduced member benefit

Disability Retirement Benefits

- Eligibility:
 - * Disability expected to last a year or longer
 - * Must have at least 3 years of consecutive service; immediately eligible if accidentally disabled while performing job duties
 - * Must be contributing at time of disability



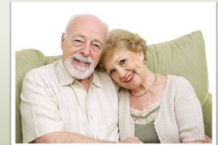
Family Benefits

- No additional contributions needed
- Employed at time of death with eligible dependent children under age 19
 - * Must have at least 3 years of service or die performing usual duties of job
 - * Benefit equals greater of 25% of FAC or unreduced accrued retirement benefit at time of death
 - As children reach 19, benefit reallocated to remaining children
 - Benefit stops once all children reach age 19



Surviving Spouse Benefits

- Employed at time of death
 - * SDRS will pay a monthly lifetime benefit when eligible surviving spouse reaches age 65/67 (Foundation/Generational)
 - * Surviving spouse may elect reduced benefit as early as age 55/57 (Foundation/Generational)
 - * How benefit is calculated will depend if family benefit was paid



* To be eligible, your spouse must be married to you at the time of your death and for both more than 12 months prior to your death and prior to your retirement.

Surviving Spouse Benefits

- Retired at time of death
 - * Foundation members:
 - 60% of member's benefit payable to eligible surviving spouse
 - * Generational members:
 - Single life benefit
 - If married, member may elect (at retirement) to provide survivor benefit:
 - 60% Joint & Survivor
 - 100% Joint & Survivor
 - Member's retirement benefit actuarially reduced to provide survivor benefit

* To be eligible, your spouse must be married to you at the time of your death and for both more than 12 months prior to your death and prior to your retirement.

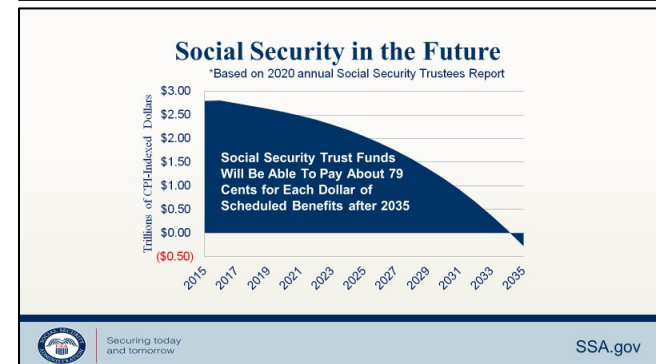
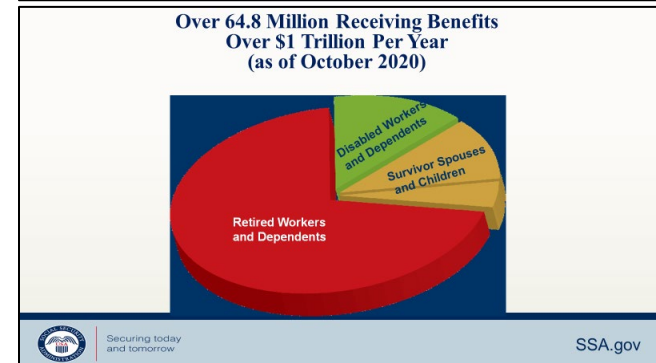


Retirement Process

SDRS Retirement Benefit Application Process

- Contact SDRS 3-6 months prior to retirement date
 - * Request retirement packet from SDRS
- Review other retirement income sources
- Review health insurance options
 - * COBRA, retiree insurance, Medicare

- Social Security is a family protection plan
- Funding is not adequate:
 - Changes are likely
 - If no changes are made, only 79% of benefits will be affordable in 2035

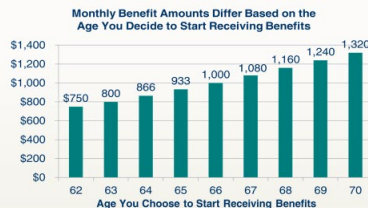




Social Security

- When to start is an individual decision
- Limits on earned income while drawing benefits before FRA
- Several spousal benefits available
- Apply for most benefits online

What Is the Best Age to Start Receiving Social Security Retirement Benefits?



Note: This example assumes a benefit of \$1,000 at a full retirement age of 66



Securing today
and tomorrow

SSA.gov

Working While Receiving Benefits

If you are	You can make up to	If you earn more, some benefits will be withheld
Under Full Retirement Age	\$18,960/yr.	\$1 for every \$2
The Year Full Retirement Age is Reached	\$50,520/yr. before month of full retirement age	\$1 for every \$3
Month of Full Retirement Age and Above	No Limit	No Limit

Note: If some of your retirement benefits are withheld because of your earnings, your benefits will be increased starting at your full retirement age to take into account those months in which benefits were withheld.



Securing today
and tomorrow

Retirement Earnings Test Calculator:
ssa.gov/OACT/COLA/RTeffect.html

SSA.gov

Social Security Spouse's Benefits

- Born **after** 1/1/1954? Must apply for your **own** benefit first
- Earliest Age: 62 (reduced payment)
- **Spouse** payment rate: **up to** 50% of worker's full benefit amount (does not reduce payments to worker)
- **Divorced Spouse**: 10-year marriage and single (former spouse not required to apply for own benefit, at least 62)
- Calculation: If own **full** benefit is less than 50% of the worker's **full** benefit, then benefits are combined

ssa.gov/planners/retire/yourspouse.html



Securing today
and tomorrow

SSA.gov

How to Apply for Benefits



File online for Retirement, Spouse, Disability, or Medicare Only

- If you are disabled, you can file for Retirement and Disability with same application if you are at least 62 but not yet FRA
- Survivor* application is not available online



Schedule phone appointment at 1-800-772-1213



Securing today
and tomorrow

SSA.gov



Medicare

- Medicare enrollment at age 65
- Several options for coverage
- Annual benefit review suggested
- Help is available...SHIINE.net

Medicare Enrollment

- Enrollment:
 - * If you are drawing Social Security benefits before age 65, you will be automatically enrolled in Medicare Parts A & B.
 - * It is important to review your health insurance options carefully before beginning Medicare.

Options for Coverage

- Original Medicare
 - * Eligible for Part A, B and D
 - * Also eligible for Medicare Supplemental Insurance (Medigap)
 - You will have a six month Open Enrollment Period when you start Part B, where the plan is required to accept all applicants, regardless of health.
- Medicare Advantage Plans
 - * Managed by private insurance companies, approved by Medicare
 - Must provide coverage like Part A and B and must cover medically-necessary services;
 - Most provide Part D benefits as well;
 - Some plans offer dental, hearing, and vision services; and,
 - Be Mindful: Costs can vary greatly. You are responsible for co-payments and there are provider restrictions, make sure your doctor and hospital accept the plan.

Considerations

- Do you have other health insurance coverage? Understand how that works with Medicare.
- Review your Part D and Advantage plan each year from Oct 15-Dec 7. Medicare plans can change costs and coverage each year.
- Are you having difficulty affording your health care coverage? There are assistance programs available.
- When you first sign up for Medicare Part B, review Medicare Supplements as an option. First six months you have a guaranteed issue right.

Need Help?

If you are looking for help with your Medicare options, you can contact SHIINE for free, confidential and unbiased help from volunteer counselors across the state.

www.SHIINE.net

Eastern South Dakota

1-800-536-8197

easternoffice@shiine.net

Central South Dakota

1-877-331-4834

centraloffice@shiine.net

Western South Dakota

1-877-386-9072

westernoffice@shiine.net





Personal Retirement Savings

- Lifetime income often not enough
- Personal savings bridge the gap
- Ideally used for discretionary costs
- Multiple opportunities available
- Tough to save too much

Personal Retirement Savings

- SDRS and Social Security benefits designed to provide dependable, lifetime income
- Additional personal retirement savings, such as SDRS-SRP, will be needed to bridge shortfalls and provide more financial security during retirement

Personal Retirement Savings

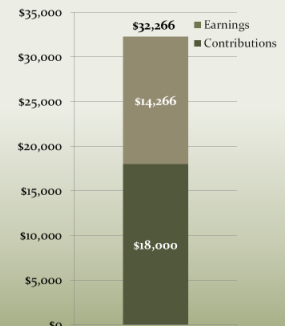
- Tax-deferred savings
 - * 401(k), 403(b), 457 (SDRS-SRP)
- Traditional IRA
- Roth IRA
- SDRS Roth 457 Option
- Maximum contributions
- Special "catch-up" provisions for those age 50 and over

2021 Annual Contribution Limits

Plan Type	Elective Deferral	Catch-up (age 50+)*	Other*
401(k)	\$19,500	\$6,500	None
403(b)	\$19,500	\$6,500	15-Year Catch-up
457	\$19,500	\$6,500	Special 457 Catch-up
IRA Type	Annual Addition	Catch-up (age 50+)	*Consult with your plan administrator for further details
Traditional IRA	\$6,000	\$1,000	
Roth IRA	\$6,000	\$1,000	

Time Value of Money

- Invest \$100 per month from age 50 through age 64 (\$1,200 per year for 15 years)
 - * Example assumes 7% interest
- Time grows your savings
 - * Save even if only small amounts can be set aside
 - * Not saving? It's never too late to start!
 - * Don't delay!





Supplemental Retirement Plan

- Administered by Nationwide
- State Investment Officer selects funds to choose from

SDRS Supplemental Retirement Plan

- SDRS-SRP is a 457(b) plan, a cousin to the 401(k) plan
- Available to ALL SDRS members
- No penalty for distribution before age 59 ½
- Distribution is limited to separation from service or unforeseeable emergency

Benefits of SDRS-SRP Participation

- Enrollment is easy
 - * Contributions can be made pre-tax or after-tax
 - * Decide how much to contribute
 - * Name beneficiaries
 - * Choose from a variety of investment options
 - * Combine other retirement plans into SDRS-SRP
- SDRS-SRP is flexible
 - * Change your contribution amount or investment options at any time

SDRS-SRP: Contributions

- How much can you contribute?
 - * Limitation for 2021 is \$19,500
 - * Minimum \$25 per month
 - * If you are closer to retirement:
 - \$26,000 if age 50 or over
 - Up to \$39,000 (for three years) if within three years of your Normal Retirement Age



SDRS-SRP: Annual Asset Fee

- Annual asset management fee: 0.16%
- OR
- If account balance is less than \$7,500, the administrative cost will be \$12 per year (\$1 per month)
 - Annual asset fees capped at \$500 (combined maximum)
 - New enrollees will have no fees for the first two years. Beginning in third year, fees will be as detailed above.

SDRS-SRP: Withdrawal Options

- Multiple withdrawal options upon:
 - * Leaving employment and/or retiring
 - * Your death (payable to beneficiaries)
 - Withdrawals while still employed:
 - * Unforeseeable emergency
 - * Account balance of \$5,000 or less and no contributions for at least two years
- Funds will be taxable at ordinary income tax rates when withdrawn.



Special Pay Plan

- Termination pay to SPP
- Tax savings for employee/employer

SDRS Special Pay Plan

- Termination pay will be made into the SDRS Special Pay Plan (SPP)
 - * Unused annual leave
 - * Unused sick leave
 - * Contract buyouts
 - * Retirement incentives
 - * All other special lump-sum payments received at termination

Who is Eligible to Participate in SDRS-SPP?

- Three criteria must be met:
 - * Employees who are age 55 and older or have reached the first day of the calendar month prior to their 55th birthday;
 - * Employees who are receiving termination pay of \$600 or more; and who are
 - * Employees of the State of South Dakota, the Board of Regents, or other employers who have elected to participate

SDRS-SPP

- Termination pay invested in SPP is not subject to Social Security/Medicare tax (FICA)
- Amount invested and earnings grow tax-deferred until distributed
- Immediately vested
- Contributions do not reduce SDRS – SRP contribution limits
 - * Maximum SDRS – SPP deferral amount: 100% of termination pay up to \$58,000 for 2021

SDRS-SPP: Plan Costs

- Special Pay Plan accounts
 - * Employer is responsible for Plan costs for the first 12 months the account is open
 - * Annual asset management fee: 0.16%
- OR
- * If account balance is less than \$7,500, the administrative cost will be \$12 per year (\$1 per month)

SDRS-SRP and SPP: Withdrawal Options

- Lump-sum withdrawal*
- Partial lump-sum withdrawals*
- Fixed-dollar amount*
- Fixed-period payment*
- Purchase a lifetime annuity
- Rollover to another eligible plan or IRA

* Taxed as ordinary income



SRP and SPP Resources

- Variety of tools available for help
- Retirement Specialists
- Income Planning Analysis
 - Free to all SDRS members
 - Where you stand compared to where you'd like to be

Tools to Help: Make Informed Investing Decisions

- Personalized assistance from SDRS – SRP Retirement Specialists
- 24-hour account access through srp457.com or through voice response system at (800) 959-4457
- Quarterly statements, investment performance reports, and newsletters

Retirement Income Planning Analysis

- Service available to all SDRS members at no cost
- Quick and easy process
- Comprehensive report prepared by a Personal Retirement Specialist



Retirement Income Planning Analysis

- Provides answers to assist you in your retirement planning
 - * When can I afford to retire and maintain my standard of living?
 - * How long will it last?
 - * How will inflation/cost of living impact my income?
 - * Can I afford to do the things I've always wanted to do?



Contact SDRS-SRP

- Call: (605) 224-2230 (Pierre office)
(800) 959-4457 (Customer service – Ohio)
- Visit: 222 E Capitol, Suite 1
Pierre, SD 57501
- Website: SRP457.com

Retirement Planning and Risks

- Expect the unexpected
- Various estate planning needs

How Much Will Retirement Cost?

- It depends...
 - * How long will you live?
 - * What do you plan to do?
 - * How will your health be?
 - * Will you need long-term care?
 - * Will you be taking care of dependents during your retirement?
- Average length of retirement: 18 years
(U.S. Census Bureau)



Retirement Risks

- Inflation
 - * Will your income keep pace with rising costs?
- Longevity
 - * How long will you live in retirement? Will you outlive your money?
 - * Will you live longer than your spouse?
- Investments
 - * Is your portfolio balanced to make your money last?



Estate Planning

- In the event of your death:
 - * Who will handle your affairs?
 - * Who will receive your assets?
 - * Who will be guardian to minor children?
- Designate beneficiaries on retirement accounts and insurance policies
- No plan = probate



Estate Planning

- | | |
|---|--|
| <ul style="list-style-type: none"> • In the event of your death: <ul style="list-style-type: none"> * Last Will and Testament <ul style="list-style-type: none"> ▪ Name guardian for minor children * Trust * Letter of Last Instruction | <ul style="list-style-type: none"> • In the event you become disabled or otherwise incompetent: <ul style="list-style-type: none"> * Durable Power of Attorney * Durable Power of Attorney for Healthcare * Living Will |
|---|--|

It is recommended you seek the advice of a financial planner or attorney as you begin your estate planning.

Long-Term Care Costs

- | | |
|---|--|
| <ul style="list-style-type: none"> • In South Dakota, the average nursing home stay is 2 ½ years • Average cost: <ul style="list-style-type: none"> * Year: \$90,106 * Stay: \$225,265 | <ul style="list-style-type: none"> • Three ways to pay for costs: <ul style="list-style-type: none"> * Private pay <ul style="list-style-type: none"> ▪ May deplete lifetime savings * Medicaid <ul style="list-style-type: none"> ▪ Must spend down assets ▪ \$2,000 + home/personal possessions; 5 year look-back period * Long-term care insurance <ul style="list-style-type: none"> ▪ South Dakota Long-Term Care Partnership Program |
|---|--|



Your Action Plan

- Plan for YOUR future
- Review retirement income/expenses
- Save more
- Consider risks
- Evaluate insurance needs

Take Action

- Set goals and get organized
- Review your retirement income sources
 - * Project your retirement expenses
 - * Identify income shortfalls and adjust plans accordingly
 - * Increase savings – find ways to save more



Take Action

- Consider retirement risks and end of life issues
 - * Educate yourself on Medicare and Medicaid and check into long-term care insurance
 - * Plan for unexpected events
 - * Establish a will
- Stay active and healthy



Contact SDRS

- Call: (888) 605-SDRS (7377)
- Write: PO Box 1098
Pierre, SD 57501
- Visit: 222 E Capitol, Suite 8
Pierre, SD
- Email: SDRSweblink@state.sd.us
- Website: sdrs.sd.gov
- : facebook.com/SouthDakotaRetirementSystem