

SDRS Outlook

Membership Newsletter • June 2014

South Dakota Retirement System Celebrating 40 Years

The South Dakota Retirement System (SDRS) has been proudly serving South Dakota's public employees and their beneficiaries for forty years. Since July 1, 1974, SDRS has provided its members and their families the resources and the opportunity to achieve financial security at retirement, death, or disability through an appropriate and equitable level of benefits.

The Evolution of a Consolidated System

South Dakota's first public retirement plan for teachers started in 1939. As years passed, a multitude of public retirement plans emerged, each with a unique benefit structure to provide for its select group of employees. With all these different plans, the state Legislature was regularly inundated with retirement bills. South Dakota was in need of a coherent policy on public employee retirement plans.

On July 1, 1974, South Dakota's seven existing public retirement plans joined into a unified system, creating one of the first consolidated public retirement systems in the nation and establishing the foundation of SDRS. To accommodate the varying career characteristics of public employees, lawmakers created two membership classes—Class A membership consisting of general public employees and Class B membership made up of public safety and judiciary employees. Contribution rates were set for each membership class and their employers.

The benefit formula used to calculate retirement benefits was also established. Benefits were to be determined by three factors:

- a benefit multiplier

- the member's final average compensation
- the member's years of service

These three factors are still used today in calculating SDRS retirement benefits.

While the consolidation brought all employees and pre-1974 retirees to an equitable level of benefits, it did come with a substantial unfunded liability because members received credit for the years they worked prior to the creation of SDRS. During those years, members may have made no contributions or contributions that were too small to pay for the new SDRS benefits. This unfunded liability was projected to take 41 years to pay.

SDRS' first actuarial valuation was performed in 1976. The actuarial valuation compared the dollars in the trust fund with the dollars promised to current and future retirees. The valuation indicated that it would take just 19 years rather than 41 to pay the system's debt. This provided positive proof that the consolidated system was working and progressing through superior investment earnings and conservative assumptions.

A "Qualified" Move

In 1984, SDRS became one of the few public retirement plans to become "qualified" under the Internal Revenue Service Code. For members, this meant contributions would be made on a pre-tax, or tax-deferred, basis and would be taxable upon withdrawal. Prior to July 1, 1984, SDRS contributions were made on an after-tax basis. In becoming a qualified retirement plan, contributing members could experience a reduced current income tax responsibility and increased take-home pay.



Additional Retirement Savings Options

With the creation of the SDRS Supplemental Retirement Plan (SRP) in 1987, members have the option of setting aside a portion of their compensation in a tax-deferred investment account. Under this option, contributions and earnings are free of taxes until withdrawn. The SDRS-SRP was expanded in 2013 to allow for after-tax Roth contributions. With the Roth option, members have the opportunity of tax-free retirement income. Through a combination of SDRS, Social Security, and personal retirement savings such as the SDRS-SRP, members have the tools for financial security during retirement.

Moving into a New Century

The turn of the century brought change to SDRS. In 2003, Al Asher, who had served as administrator for 33 years, retired. After a nationwide search, the SDRS Board of Trustees appointed Rob Wylie as the second administrator in the system's history.

SDRS improved and expanded customer service. A toll-free number was added to encourage member communication with SDRS. With identity theft on the rise, SDRS instituted its own identification system as an alternative to using Social Security numbers. The SDRS website was expanded to include MySDRS, which allows members secure online access to their account information and benefit calculators. SDRS also focused on educating members about retirement planning through personal consultations, seminars, and workshops.

The Ebb and Flow of Markets

Throughout history, markets have experienced high and low periods. SDRS has had years of significant investment gains as well as losses. In 2008 and 2009, the stock market collapsed as a result of the housing market crisis and other factors. Global markets hit historic lows; SDRS was not immune. Fiscal year 2009 brought a substantial investment loss of nearly 20 percent, causing the funded ratio to fall below 80 percent for the first time in 25 years. While SDRS managed to perform above the market average, no system can lose 20 percent of its value in a single year without suffering serious consequences.

South Dakota Codified Law 3-12-122 sets the funding conditions and timeframe in which corrective actions

must be taken. The SDRS Board of Trustees determined it prudent and responsible to consider options to bring the system back into actuarial balance to protect SDRS if investment returns did not rebound in the near future. Based on the Board of Trustees' recommendation, corrective actions, including a change in how the annual cost-of-living adjustment (COLA) is calculated, were enacted in the 2010 legislative session.

The constitutionality of the action taken by the 2010 Legislature to revise the COLA was challenged in a class action lawsuit. Granting the defendants' motion for summary judgment, the trial court determined that the Legislature has the authority to modify the COLA in order to maintain the financial integrity of the system.

A Fully Funded System

Following the outstanding investment return for fiscal year 2013, the Board of Trustees was able to allocate a portion of the investment earnings to pay off SDRS' remaining unfunded liabilities. This action, coupled with a refreshed outlook of future expectations and a conservative assumed investment rate of return, makes SDRS fully funded on both a market value basis and an actuarial value basis for the first time in its history. SDRS continues to be one of the most financially sound public employee retirement systems in the nation.

SDRS' Commitment to Members

Much has happened in the 40 years since SDRS' inception. From the very beginning, SDRS, overseen by its Board of Trustees, has focused its energies and resources on providing an appropriate and equitable level of benefits. This is accomplished with fixed employer and member funding and through efficient and cost-effective administration and investment management. SDRS and its board are continuously reviewing the system's benefit structure to ensure sustainability for current and future SDRS members.

For a more complete synopsis of SDRS' history, please refer to our *Historical Highlights of the South Dakota Retirement System* and *South Dakota Retirement System: The Guiding Principles, Objectives, and Goals of a Consolidated Plan* publications. These and other publications are available on the SDRS website at www.sdrs.sd.gov.

Executive Proclamation
State of South Dakota
Office of the Governor

Whereas, The South Dakota Retirement System was created in 1974 as one of the first consolidated multiple employer public retirement systems in the nation; and,

Whereas, The South Dakota Retirement System has served South Dakota's public employees and their families for forty years by providing the resources and the opportunity to achieve financial security at retirement, death, or disability through an appropriate and equitable level of benefits; and,

Whereas, The South Dakota Retirement System Board of Trustees, as the system's governing body, have been reliable stewards of member assets by carrying out their fiduciary responsibility of maintaining a sustainable retirement plan, which has been achieved through conservative fiscal, actuarial, and benefit management; and,

Whereas, The South Dakota Investment Council has achieved an outstanding long-term investment performance that attributes to the financial strength of the system; and,

Whereas, The South Dakota Retirement System staff are committed to providing public employees with access to outstanding opportunities for retirement education and delivering an exceptional standard of service; and,

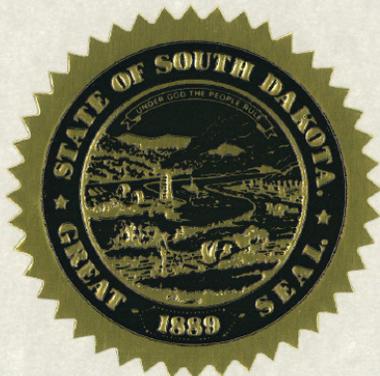
Whereas, The South Dakota Retirement System's membership and assets have grown dramatically since 1974, with over 77,000 current, former, and retired public employees from over 470 public employer units who are stakeholders in the \$10 billion fund held in trust for the membership; and,

Whereas, The benefit structure of the South Dakota Retirement System is a vital component to the livelihood of citizens in every county across South Dakota, contributing over \$400 million in benefits annually to the economy of this state:

Now, Therefore, I, Dennis Daugaard, Governor of the state of South Dakota, do hereby proclaim July 1, 2014, to June 30, 2015, as the

**FORTIETH YEAR ANNIVERSARY OF THE
SOUTH DAKOTA RETIREMENT SYSTEM**

in South Dakota.



In Witness Whereof, I have hereunto set my hand and caused to be affixed the Great Seal of the state of South Dakota, in Pierre, the Capital City, this Fifth Day of June in the Year of Our Lord, Two Thousand and Fourteen.

Dennis Daugaard
Dennis Daugaard, Governor

Attest:

Jason M. Gant
Jason M. Gant, Secretary of State



South Dakota Retirement System

P.O. Box 1098
Pierre, SD 57501

By the Numbers: SDRS Experiences 40 Years of Growth

The South Dakota Retirement System (SDRS) has grown substantially from its simple beginnings four decades ago. Growth—sometimes phenomenal growth—has become the hallmark of SDRS, and the proof is in the numbers.

The SDRS Trust Fund: Since 1974, SDRS has blossomed into an economic powerhouse. The SDRS trust fund has grown exponentially from \$50 million in 1974 to over \$10 billion in 2014. This growth is driven largely by superior investment performance. The annual investment rate of return has averaged nearly 10 percent over the last 20 years.

Benefit Payments: Annual benefits paid in 1974 totaled \$3 million; by 2014, the amount of annual benefits paid will soar to over \$410 million. Nearly 90 percent of those benefits stay in South Dakota, reaching every corner of the state.

Benefit Improvements: The initial standard benefit multiplier for Class A members was one percent. Currently, the standard formula includes an enhanced multiplier of 1.7 percent for service rendered prior to July 1, 2008, and a base multiplier of 1.55 percent for service after July 1, 2008. This translates to a greater income replacement for members at retirement. For example, a Class A member retiring in 2014 with 30 years of service would have an income replacement of 50 percent compared to 30 percent in 1974.

Membership: Membership has also experienced considerable growth. Total membership in 1974 was 23,500, including 2,900 benefit recipients. By 2014,

membership has increased to over 77,000. Of that, over 24,000 members are receiving benefits. While membership has grown by leaps and bounds, SDRS staffing levels have remained fairly constant. In the early years, SDRS employed 27 full-time employees. Currently, SDRS has 33 full-time staff members to assist members and carry out the administration of the system.

Outreach Efforts and Contacts: SDRS has substantially increased its customer service efforts in recent years to provide educational opportunities for retirement planning. Last year, SDRS retirement planners met with over 1,400 members for personal consultations. Our workshops, seminars, and special events were attended by over 2,000 members. We encourage members to learn more about planning for their retirement. Visit our event schedules at www.sdrs.sd.gov to see when we will be in your area!

Please Share Your SDRS Story With Us!

Whether you are currently retired or are working toward your retirement, we invite you to share your personal stories regarding experiences and interactions you have had with the SDRS office and staff. We look forward to receiving your testimonials!

Write: SDRS, PO Box 1098, Pierre, SD 57501
Email: SDRSweblink@state.sd.us

Outlook is produced to communicate the plan provisions, changes in law, and issues of interest to members of the South Dakota Retirement System. It is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, municipal employees, and other local units and employees. 48,000 copies of this document were printed on recycled paper by SDRS at a cost of \$0.109 per document.