South Dakota Retirement System
Presentation to the
Joint Appropriations Committee

February 5, 2015

Public Pensions 101:
The Mathematics to Sustain a Pension Plan

Contributions + Investments = Benefits + Expenses

For a pension plan to be sustainable over the long-term, this equation must be achieved.

- Contributions by members and their employers based on statutory or actuarial rates
- Investment earnings, net of fees, on the trust fund of the public pension plan
- Benefits payable to the members of the plan – when calculated the funded ratio is the assets compared to the present value of the accrued benefits payable in the future to all members of the plan (in today's dollars)
- Expenses for the operations of the pension plan and trust fund

SDRS SUMMARY AND FACT SHEET

- During fiscal year 2015, the South Dakota Retirement System (SDRS) celebrated the 40th year of operation as a consolidated retirement system for the public employees of South Dakota.

- The SDRS Trust Fund has grown substantially from $50 million in 1974 to over $10 billion in 2014. Annual benefits paid in 1974 totaled $3 million; by 2014, that amount soared to over $425 million.

- Membership has also experienced considerable growth from 23,500 members, including 2,900 benefit recipients, in 1974 to over 79,000 total members in 2014, of which over 24,000 are receiving benefits.

- Even while SDRS has matured into a robust system, its roots are still embedded in conservative fiscal operations, prudent benefit designs, and long-term sustainability. SDRS remains among the best funded public pension plans nationwide, which is impressive considering that the SDRS Board of Trustees investment return and mortality assumptions are among the most conservative used by statewide plans.

- SDRS continues to be fully funded on both a fair value basis and an actuarial value basis at 107.3 percent and 100.0 percent, respectively. This exceptional achievement was realized as a result of the conservative oversight of the Board of Trustees, the long-term success of the South Dakota Investment Council, and through the on-going support of the Executive and Legislative branches of state government and the SDRS membership. SDRS is well-positioned to confront challenges in the future.

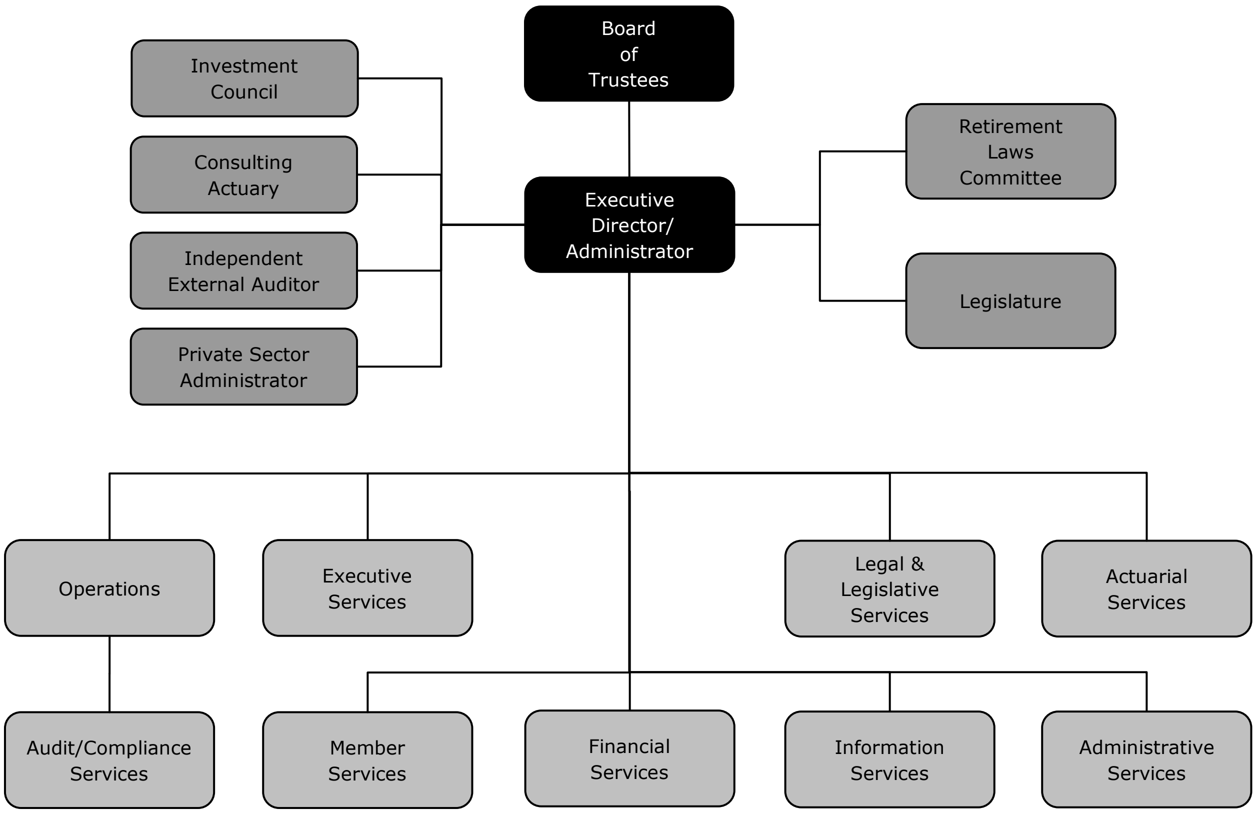
- During fiscal year 2014, the Cement Plant Retirement Fund was merged into SDRS. Because of appropriations made by this committee to fully fund the Cement Plant Retirement Fund, the merger had no adverse impact on the funded status of SDRS or benefits for former Cement Plant employees.

- SDRS continues to focus on services provided to members, particularly in the areas of education and communication. In 2014, SDRS implemented an early and mid-career workshop that focuses on financial and retirement planning; the SDRS pre-retirement workshop was expanded to provide members with a more holistic approach to retirement planning.

- A retiree forum was introduced this year to extend additional support to members after retirement. In the upcoming year, SDRS will continue to emphasize the importance of additional personal retirement savings through a communication initiative to SDRS members.

- As SDRS moves forward, the financial integrity of the system and the services provided to our members will continue to be the main priorities of the SDRS Board of Trustees and staff.

SDRS ORGANIZATIONAL CHART



Administration

EXECUTIVE DIRECTOR/ ADMINISTRATOR	Robert A. Wylie
EXECUTIVE ASSISTANT	Dawn M. Smith, CRC®

Management Group

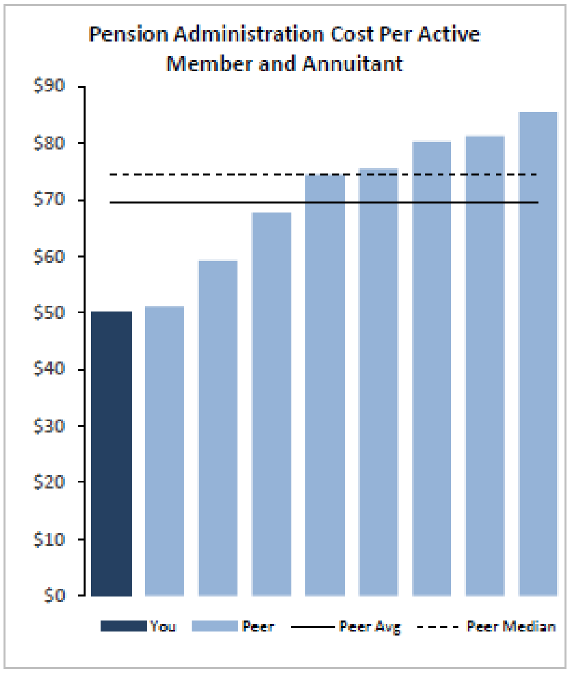
OPERATIONS/COMPLIANCE DIRECTOR	Susan Jahraus, CPA, CRC®
GENERAL COUNSEL	Jacquelyn Storm, JD
CHIEF FINANCIAL OFFICER	Jane Roberts, CRC®
MEMBER SERVICES/ COMMUNICATIONS MANAGER	Travis W. Almond, CRC®
SENIOR ACTUARY	Douglas J. Fiddler, ASA, EA, MAAA
ADMINISTRATIVE SERVICES MANAGER	Lisa A. Vander Maten

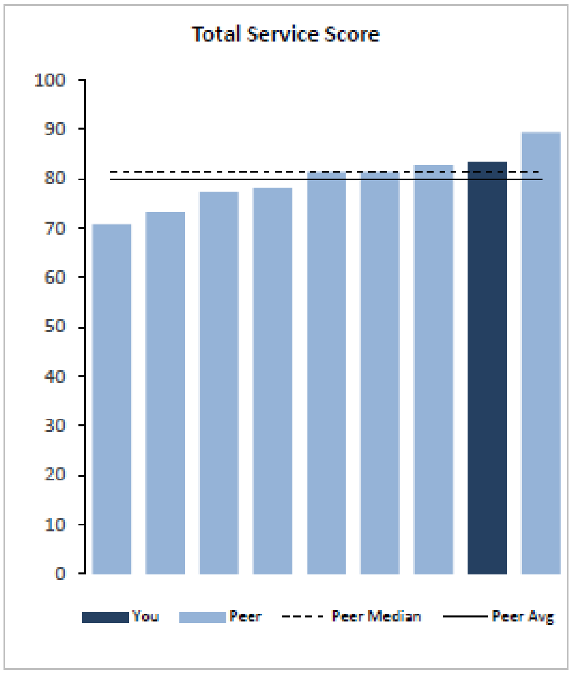
Advisors, Auditors, and Administrators

CONSULTING ACTUARY	Buck Consultants, Inc. Denver, CO
EXTERNAL AUDITOR	Eide Bailly LLP Boise, ID
PRIVATE SECTOR ADMINISTRATOR	Nationwide Retirement Solutions Columbus, OH
RETIREMENT CONSULTANT	R. Paul Schrader Denver, CO
INFORMATION SERVICES/ COMPUTER SUPPORT	Scott Schroeder (BIT) Pierre, SD S. Lee Huset (BIT) Pierre, SD Donelle Beynon (BIT) Pierre, SD

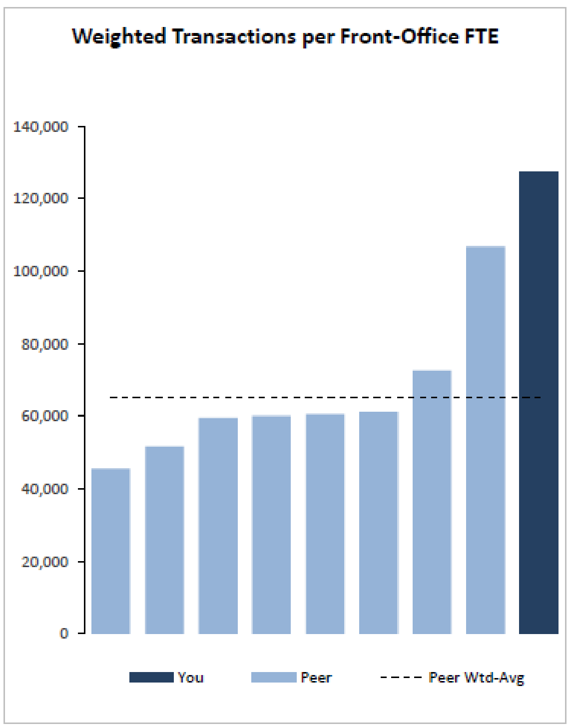
PERFORMANCE MEASUREMENT

The international benchmarking firm, CEM, annually measures and compares the costs and quality of services provided by public employee retirement systems. The graphics below, from CEM's report issued in January 2014, show the comparison of costs and service for SDRS and a peer universe of statewide retirement systems with less than 100,000 members. Based on the CEM information, SDRS administrative costs are the lowest in the peer group while providing above average service to the membership.





In measuring FTE productivity, SDRS' weighted transactions per front-office FTE were 95% above the adjusted peer average. Higher transaction volumes per FTE decreased SDRS' total cost per member. Front-office FTE work includes activities involving contact with members or employers, such as paying pensions, member calls, and presentations.



SDRS CONTINGENCY PLANNING STRATEGIES

- The Board's policies and strategies will continue to focus on the best long-term funding practices and limit reactions to short-term conditions or temporary accounting results

- While maintaining a 100% funded status is a Board objective, it is very unlikely it will be maintained in all economic conditions and attempting to do so may be inconsistent with long-term planning

- The funded status of the System should continue to be measured on the basis of realistic and conservative actuarial assumptions, but the Board should be cautious in making periodic changes to assumptions.

- Future investment return assumptions will focus on the SDIC outlook and past experience, and consider the SDRS Risk Management Contribution and Cushion

- The 2010 Corrective Action strategy will continue to be followed resulting in:
  - Recommended Corrective Actions by the Board if the Fair Value Funded Ratio (FVFR) drops below 80% at any actuarial valuation date
  - Corrective Actions recommendations will be sufficient to:
    - Increase the FVFR to 80% or more
    - Meet the actuarial funding requirements
    - Meet conditions (1) and (2) of Section 3-12-122

- Recommended Corrective Actions will also consider the SDIC outlook for recovery and the likelihood of the adequacy of future investment returns eliminating the Deficit in a reasonable time period

- The 120% FVFR minimum threshold for considering benefit improvements should be evaluated, probably raised, and the cost of the maximum SDRS COLA should be included in the calculation of the FVFR compared to the threshold for recommending benefit improvements

- The alternative methodology for making benefit improvements is a preferred strategy

- While the new GASB requirements may result in SDRS creating a Net Pension Liability and/or a net balance sheet liability on the financial statements of SDRS participating employers during poor economic times, SDRS will be managed to minimize that impact through its funding policies and plan design features

- Objectives for a review of the SDRS benefit structure include:
  - Preservation of earned benefits
  - Reduction or elimination of subsidies
  - Consideration of all benefit practices and features
  - Additional or expanded variable benefit features and limited additions to fixed obligations
  - A rebalance of the benefits provided, not a reduction in the total benefits

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Figure 4. State teacher pension grades (2014)

	Pension grade
Alaska	A
South Dakota	B+
Florida	B-
Michigan	B-
Ohio	B-
Rhode Island	B-
Tennessee	B-
Utah	B-
Washington	B-
District of Columbia	C+
Oregon	C+
South Carolina	C+
Wisconsin	C+
California	C
Delaware	C
Idaho	C
Illinois	C
Indiana	C
Maine	C
Minnesota	C
New Jersey	C
North Carolina	C
Texas	C
Virginia	C
Alabama	C-
Colorado	C-
Louisiana	C-
Nevada	C-
New Hampshire	C-
Arkansas	D+
Connecticut	D+
Georgia	D+
Kansas	D+
Maryland	D+
Massachusetts	D+
New York	D+
Oklahoma	D+
Pennsylvania	D+
West Virginia	D+
Hawaii	D
Iowa	D
Montana	D
Nebraska	D
New Mexico	D
North Dakota	D
Wyoming	D
Arizona	D-
Kentucky	D-
Missouri	D-
Vermont	D-
Mississippi	F
NATIONAL AVERAGE	**C-**

Figure 6. Unfunded pension liabilities by state (2014)[7]

	Unfunded liability	Percent of system funded
Alabama	$9,465,359,317	66.5%
Alaska[8]	$3,204,783,000	49.9%
Arizona	$4,214,430,000	75.4%
Arkansas	$4,471,000,000	73.3%
California	$73,667,000,000	66.9%
Colorado	$14,067,932,000	60.3%
Connecticut	$11,127,397,000	55.2%
Delaware	$191,749,870	91.1%
District of Columbia	$173,268,000	90.1%
Florida	$6,543,404,630	88.5%
Georgia	$12,086,346,000	82.3%
Hawaii	$935,966,959	59.0%
Idaho	$397,496,000	93.9%
Illinois	$55,731,797,000	40.6%
Indiana	$11,522,815,414	45.7%
Iowa	$3,647,587,716	80.2%
Kansas	$6,780,000,000	47.9%
Kentucky	$13,854,474,000	51.9%
Louisiana	$11,348,552,354	56.4%
Maine	$1,352,979,130	77.6%
Maryland	$5,608,714,802	67.1%
Massachusetts	$17,347,748,000	55.7%
Michigan	$24,266,000,000	61.3%
Minnesota	$6,644,003,000	71.6%
Mississippi	$5,870,394,270	57.7%
Missouri	$7,315,018,539	80.1%
Montana	$1,524,780,000	66.8%
Nebraska	$2,281,814,491	77.1%
Nevada	$4,015,520,647	71.2%
New Hampshire	$997,382,578	54.0%
New Jersey	$21,896,797,751	57.1%
New Mexico	$6,533,731,488	60.1%
New York	$11,841,300,000	87.5%
North Carolina	$2,119,513,903	94.2%
North Dakota	$1,234,817,443	58.8%
Ohio	$31,775,908,000	66.3%
Oklahoma	$8,112,109,202	57.2%
Oregon	$1,092,000,000	95.8%
Pennsylvania	$32,598,554,000	63.8%
Rhode Island	$1,439,612,019	58.1%
South Carolina	$8,489,344,990	64.7%
South Dakota	$0	100.0%
Tennessee	$282,376,550	96.0%
Texas	$28,936,275,228	80.8%
Utah	$3,317,938,200	77.9%
Vermont	$1,013,910,285	60.5%
Virginia	$11,881,714,000	71.2%
Washington	$954,000,000	94.0%
West Virginia	$4,179,234,000	57.9%
Wisconsin	$26,486,000	99.9%
Wyoming	$768,926,009	78.6%
NATIONAL	**$499,150,263,787**	

7 For states in which teachers are part of a larger public employee system, the liability was adjusted to reflect the percentage of teachers in the system. See Appendix D.

8 Alaska offered a DB plan until 2006, when it closed it and opened its current DC plan. The unfunded liabilities from the DB plan are still being paid down by the state. Other states that closed DB plans and still face legacy costs include Indiana, Oregon, Utah, and Washington.

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Figure 8. Accrued pension debt per K-12 public school student by state, 2014