

SOUTH DAKOTA BOARD OF REGENTS

Full Board

AGENDA ITEM: 5 – B

DATE: January 29, 2016

SUBJECT: Senate Bill 13 – South Dakota Retirement System Summary

Senate Bill 13 seeks to establish a new benefit structure for SDRS members who are hired on or after July 1, 2017. The most significant items are summarized below, Attachment I provides a comparison of current vs the proposed changes.

Retirement Age & Benefit Eligibility

The normal retirement age for the “generational member” would be increased from age 65 to age 67 for Class A/Judicial members and from 55 to 57 for Class B members. The early retirement age would be increased from 55 to 57 for Class A/Judicial members and from 45 to 47 for Class B members.

The proposed changes also eliminate Special Early Retirement, there would no longer be a Rule of 75/80/85. Anyone retiring prior to full retirement age (67/57) would have a 5% per year reduction in benefit, currently the reduction is 3% per year for early retirement benefits.

Benefit Formula & Features

The generational Class A member benefit multiplier used in the benefit calculation formula would be increased from 1.55% to 1.8%. Alternate Formula would be eliminated. Final average compensation would also be determined based on 5 years of earnings vs the current 3 years.

Generational members would also receive a Variable Retirement Account (VRA), which consists of variable retirement contributions and the credited investment return. Each year the board will establish the VRA contribution for the following fiscal year based on actuarial valuation. The VRA contribution may be adjusted from zero to 1.5% of each contributing member’s compensation and shall be allocated to each member’s VRA. The investment return will be credited annually as of June thirtieth for all generational members with a variable retirement account on that date. The credited investment return is the South Dakota Investment Council's reported money-weighted investment return of the system, net of fees, for the completed fiscal year.

(Continued)

RECOMMENDED ACTION OF THE EXECUTIVE DIRECTOR

Information only.

The VRA is payable at the retirement, disability, or death of the generational member. The variable retirement account is payable to the generational member when the member starts a retirement benefit or a disability benefit, or to the generational member's eligible child, eligible spouse, or beneficiary upon the death of the member. The variable retirement account is not payable to any member who refunds contributions upon termination. For the purpose of paying a distribution, the variable retirement account is the amount in the member's variable retirement account or the total of the variable retirement contributions made on behalf of the member, whichever is greater. The variable retirement account may be paid in a lump sum, rolled over to the South Dakota deferred compensation plan, rolled over to another eligible plan, or used to purchase a supplemental pension benefit.

Benefit Options

Any generational member applying for a retirement benefit will have the following options:

1. Single life benefits that provides a monthly benefit for the life of the member.
2. A 60% joint and survivor benefit that provides a reduced lifetime monthly benefit to the member, and upon the member's death sixty percent of the reduced benefit continues to the surviving spouse until the death of the surviving spouse.
3. A 100% joint and survivor benefit that provides a reduced lifetime monthly benefit to the member, and upon the member's death 100% of the reduced benefit continues to the surviving spouse until the death of the surviving spouse.

Cost of Living Adjustment (COLA) – Retirement Benefit

The COLA is currently based upon the funded ratio and when the funded ratio falls between 80%-99% it is based on CPI, with a minimum COLA of 2.1% and a maximum of 3.1%. The generational member COLA would be calculated based upon CPI and the funded ratio with a minimum of 1% and maximum of 3.1%.

Foundation Members & Benefits - SDRS Membership prior to 7/1/2017

- **Retirement Benefit Eligibility**
 - Normal Retirement Age Class A & Judicial: 65
 - Normal Retirement Age Class B: 55
 - Special Early Retirement – Rule of 85/75/80
 - Early Retirement Age – 55/45 (3% per year reduction)
 - 3 Year Vesting
- **Benefit Formula & Features**
 - 1.55% for Class A
 - 2% and 3.3\$/2% for Class B
 - Class A Alternate Formula
 - Level Income – Increased benefit from retirement to 62 and then reduced based on Social Security.
 - Final Average Compensation: 3 years
 - No Variable Retirement Account (VRA)
- **PRO:** Refund of 100% member contributions and 85% of employer (50% if not vested)
- **Survivor & Disability Benefits:**
 - Pre-Retirement Survivor
 - Post-Retirement Survivor – 60% of member benefit
 - Disability Benefits
 - No VRA
- **COLA indexed to funded status and CPI** – Minimum of 2.1%, maximum of 3.1%
- **Other Features:**
 - Service Purchases – Age Based and actuarially determined
 - Redeposits – Eligible first two years after reemployment
 - Return to work:
 - After Early Retirement – Suspension of benefits
 - After Special Early Retirement – Reduced and no COLA
 - After Normal Retirement – Reduced and no COLA

Generational Members & Benefits - SDRS Membership begins on/after 7/1/2017

- **Retirement Benefit Eligibility**
 - Normal Retirement Age Class A & Judicial: 67
 - Normal Retirement Age Class B: 57
 - No Special Early Retirement
 - Early Retirement Age – 57/47 (5% per year reduction)
 - 3 Year Vesting – **No Change**
 - **Benefit Formula & Features**
 - 1.8% for Class A
 - 2% and 3.3%/2% for Class B – **No Change**
 - No Class A Alternate Formula
 - No Level Income
 - Final Average Compensation: 5 years
 - Variable Retirement Account (VRA) to supplement Base Benefit at retirement
 - **PRO:** Refund of 100% member contributions and 85% of employer (50% if not vested)
 - **Survivor & Disability Benefits:**
 - Pre-Retirement Survivor – **No Change**
 - Post-Retirement Survivor – Reduced Benefit
 - Disability Benefits – **No Change**
 - VRA to supplement Survivor and Disability Benefits
 - **COLA indexed to CPI** – Minimum of 1.0%, maximum of 3.1% based on funded status
 - **Other Features:**
 - Service Purchases – Age Based and actuarially determined
 - Redeposits – Eliminated
 - Return to work:
 - After Early Retirement – Suspension of Benefits – **No Change**
 - After Special Early Retirement – Not applicable
 - After Normal Retirement – Reduced and no COLA - **No Change**
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