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January 12, 2021

Mr. Travis W. Almond
Executive Director
South Dakota Retirement System
P.O. Box 1098
222 East Capitol Ave., Suite 8
Pierre, South Dakota 57501-1098

Re: South Dakota 2021 Legislative Session – House Bill 1032

Dear Travis:

House Bill 1032 modifies the SDRS Cost of Living Allowance (COLA) within the South Dakota Retirement System. Under current provisions, the annual SDRS COLA equals inflation, with a minimum of 0.5% and a maximum of 3.5% when SDRS is fully funded based on the estimated long-term cost of SDRS benefits with the full COLA range. However, the maximum COLA is reduced as required to maintain a fully funded System. The bill will reduce the minimum SDRS COLA from 0.5% to 0.0%.

House Bill 1032 will prevent the SDRS COLA from exceeding inflation in years of very low inflation and will prevent paying COLA of 0.5% when not affordable. The bill will reduce SDRS liabilities by up to approximately \$500 million in years when SDRS cannot afford a COLA of 0.5% on a sustainable basis. The impact of the bill will vary from year to year depending on the funded status of the System.

House Bill 1032 will expand the economic conditions under which SDRS can remain fully funded and sustainable without additional benefit reductions. It will strengthen the ability of SDRS to weather a variety of economic environments.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas J. Fiddler", written in a cursive style.

Douglas J. Fiddler, A.S.A., E.A., M.A.A.A., F.C.A.
Senior Actuary

c: Ms. Jacquelyn Storm, SDRS
Ms. Jane Beer, SDRS