



# SOUTH DAKOTA RETIREMENT SYSTEM

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## COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of South Dakota  
for the Fiscal Year Ended June 30, 2001

Prepared by the SDRS Finance and Audit Departments

South Dakota Retirement System  
216 East Capitol, PO Box 1098  
Pierre, South Dakota 57501-1098

The South Dakota Retirement System fully subscribes to the provisions of the Americans with Disabilities Act of 1990.

*The South Dakota Retirement System Comprehensive Annual Financial Report is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, and municipal employees. Fifteen hundred copies of this document were printed by SDRS at a cost of \$3.84 per document.*

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# CERTIFICATE OF ACHIEVEMENT

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## Certificate of Achievement for Excellence in Financial Reporting

Presented to

### South Dakota Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Timothy A. Drew*  
President

*Jeffrey L. Esser*  
Executive Director

# INTRODUCTION

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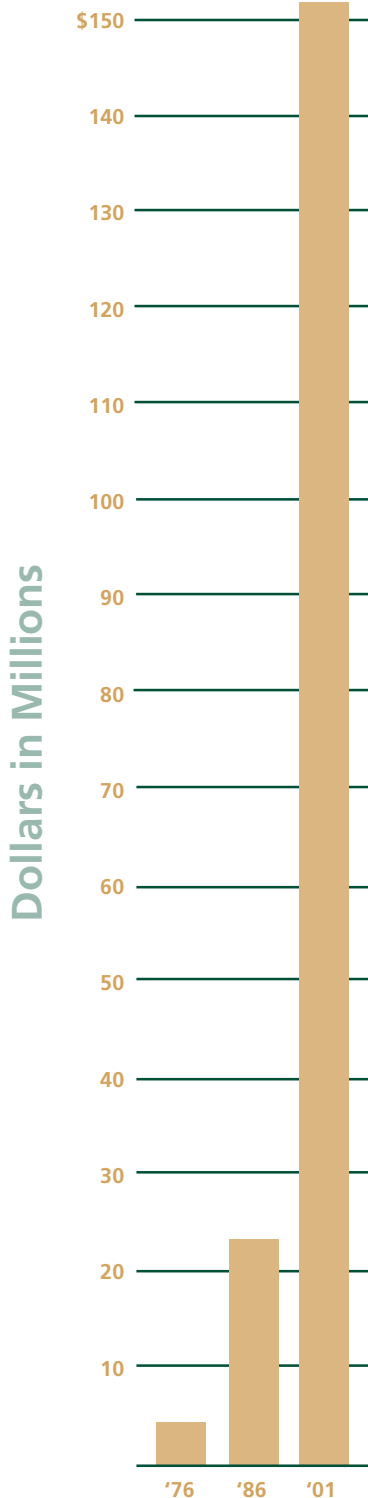


**Chairman's Letter  
Letter of Transmittal  
Board of Trustees  
Organizational Chart**

# CHAIRMAN'S LETTER

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## Benefit Payments Increase \$149 Million Since 1976



### To Our Members:

There is no issue of greater importance to the members of SDRS than the financial condition of their retirement system. Put simply, this means SDRS has to have the dollars to pay the benefits it promises—not only to today's retirees, but to its youngest members as well.

### Today's Commitment

To understand the economic significance of maintaining this delicate balance between available dollars and promised benefits, it's useful to recall some financial facts about SDRS. For example, in 1976, the system paid out \$4.1 million in benefits. Last year, SDRS disbursed \$153.2 million, an increase of \$149 million since 1976, and an amount comparable to the highest corporate payrolls in the state. These payments represent an economic force that affects not only the system's 15,390 benefit recipients, but every region, county and city in South Dakota.

### Future Commitment

And while SDRS's present benefit payments are surely substantial, they are small indeed when compared to the numbers we can expect in the years to come. For instance, as of June 30, 2001, the present value of future SDRS benefits is nearly \$5.4 billion. That's an increase of \$5.0 billion over the long term obligation the system had in 1976.

Fortunately for each of us and the state as a whole, these liabilities have been managed so as not to exceed our ability to pay. According to the actuarial firm of Buck Consultants, Inc., our system has nearly 100 percent of the assets it now needs to pay its promised benefits, a ratio that is exceptionally high compared to those of retirement plans across the nation.

### Low Contribution Rates

But SDRS's exceptional value goes beyond assets and liabilities and includes indicators such as the system's cost to employers. Historically, employers contribute between 8 percent and 12 percent of salary to their employees' retirement plan. In South Dakota, however, Class A employers contribute only 5 percent of salary.



### Low Administrative Costs

In addition to low contribution rates, value can be measured by efficiency in administration. In 1976 SDRS employed 27.2 full-time employees. Between 1976 and 2001, the workload of the system has ballooned. For example, the number of SDRS benefit recipients increased from 3,842 to 15,390. During this same time period, the number of SDRS employees remained virtually constant, increasing by only one in the 25-year period.

Two other key indicators of administrative performance also underscore the system's efficiency:

1. the ratio of SDRS's expenses compared to assets;
2. the ratio of expenses compared to benefits paid.

Both of these indicators have dropped nearly 90 percent since 1976.

Workload analysis and expense ratios both show the efficiency of the Board's management approach.

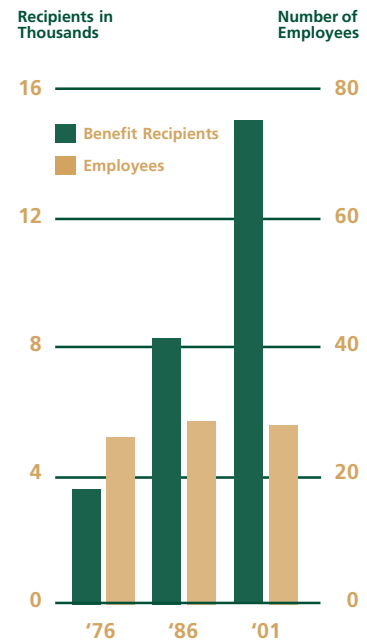
### The Future

Over the long term, however, the success of SDRS will not be attributable to finding the solution to any single problem. The future depends instead on continuing to emphasize carefully managed liabilities, stable contribution levels, and an efficient administrative structure. Thus far, the combination of these efforts has made SDRS an outstanding example among retirement plans nationwide.

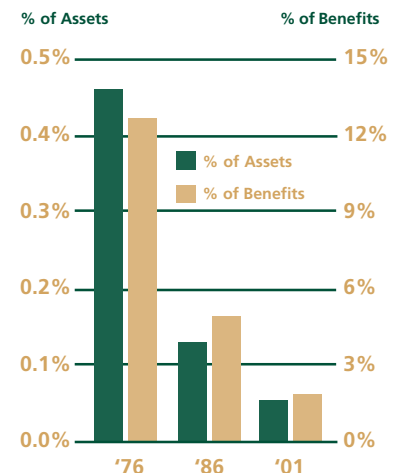
Sincerely,

**Elmer P. Brinkman**  
Chairman

### SDRS Workload Analysis



### SDRS Expense Ratios Drop 90 percent



# LETTER OF TRANSMITTAL

South Dakota Retirement System  
 216 East Capitol  
 P.O. Box 1098  
 Pierre, South Dakota 57501-1098  
 Telephone (605) 773-3731  
 FAX (605) 773-3949  
 TDD (605) 773-3958



## South Dakota Retirement System

December 21, 2001

Board of Trustees  
 South Dakota Retirement System  
 Pierre SD 57501

To the Members of the SDRS Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report of the South Dakota Retirement System (SDRS) for the fiscal year ended June 30, 2001. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with SDRS. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of SDRS's operations.

This report is divided into five major sections: Introduction, Financial Summary, Actuarial Summary, Investment Summary and Statistical Summary.

### Plan History

SDRS was established July 1, 1974, as a multi-employer public employee retirement system. As of June 30, 2001, it provided retirement, disability and survivor benefits to over 60,000 members. Basic to SDRS's history is the growth in the system's benefit provisions.

### History Of Benefit Improvements

Benefit Category	Status In 1974	Benefit Improvements
<b>Benefit Formula</b>		
• Class A	1.0%	1982—1.1%; 1986—1.2%; 1989—1.25% 1991—1.30% 1994—1.30% / 1.40% (for applicable years) 1997—1.40% prior to 1997/1.30% thereafter 1998—1.475% prior to 1998/1.30% thereafter 1999—1.55% prior to 2000/1.30% thereafter 2000—1.625% prior to 2002/1.30% thereafter
• Class A Alternate	2.0%	1999—2.25% prior to 2000/2.0% thereafter 2000—2.325% prior to 2002/2.0% thereafter
• Class B Public Safety	2.0%	1994—2.0% / 2.10% (for applicable years) 1997—2.10% prior to 1997/2.0% thereafter 1998—2.175% prior to 1998/2.0% thereafter 1999—2.25% prior to 2000/2.0% thereafter 2000—2.325% prior to 2002/2.0% thereafter
• Class B Judicial	3.333% / 2.0%	1994—3.333% / 3.433% (for applicable years) 2.0% / 2.10% (for applicable years) 1997—3.433% prior to 1997/3.333% thereafter 2.10% prior to 1997/2.0% thereafter 1998—3.508% prior to 1998/3.333% thereafter 2.175% prior to 1998/2.0% thereafter 1999—3.583% prior to 2000/3.333% thereafter 2.25% prior to 2000/2.0% thereafter 2000—3.658% prior to 2002/3.333% thereafter 2.325% prior to 2002/2.0% thereafter



### History Of Benefit Improvements (continued)

Benefit Category	Status In 1974	Benefit Improvements
<b>Class A Retiree Benefit Formula</b>	Variable	Standard-Alternate 1982—1.0%–2.0% 1987—1.05%–2.0% 1988—1.1%–2.0% 1989—1.25%–2.0% 1991—1.30%–2.0% 1994—1.30%/1.40%–2.0% 1997—1.40% prior to 1997/1.30% thereafter–2.0% 1998—1.475% prior to 1998/1.30% thereafter–2.0% 1999—1.55% prior to 2000/1.30% thereafter– 2.25% prior to 2000/2.0% thereafter 2000—1.625% prior to 2002/1.30% thereafter– 2.325% prior to 2002, 2.0% thereafter
<b>Improvement Factor</b>	2% Simple	1978—2.0% Compound (Indexed) 1982—3.0% Compound (Indexed) 1988—3.0% Compound 1993—3.1% Compound 1998—3.1% Compound and prorated for partial years
<b>Early Retirement</b>		
<ul style="list-style-type: none"> <li>Class A</li> </ul>	Early Retirement: Age 55 with 6% per Year Reduction	1978—Reduction Decreased to 3% per Year 1986—Rule of 85 (Age 60) 1989—Removed "at work" Limitation 1991—Rule of 85 (Age 58) 1993—Rule of 85 (Age 55)
<ul style="list-style-type: none"> <li>Class B Public Safety</li> </ul>	Early Retirement: Age 45 with 6% per Year Reduction	1978—Reduction Decreased to 3% per Year 1982—Early Retirement Age for New Members: Age 50 1989—Early Retirement: Age 45 for All Class B Public Safety Members 1991—Age 50/25 Years of Service 1998—Rule of 75 (Age 45)
<ul style="list-style-type: none"> <li>Class B Judicial</li> </ul>	Early Retirement: Age 55 with 6% per Year Reduction	1978—Reduction Decreased to 3% per Year 1990—Rule of 80 (Age 55)
<b>Resolution of Member Issues</b>		
<ul style="list-style-type: none"> <li>Uncredited Service</li> </ul>	Buy at Cost	1989—Buy at 75% of Cost
<ul style="list-style-type: none"> <li>Class B Public Safety</li> </ul>	Contribution Rate: 6% Normal Retirement: Age 55	1978—Contribution Rate Increased to 8% 1982—Normal Retirement Age for Current Members: Age 55 Normal Retirement Age for New Members: Age 60 Contribution Rate for Current Members: increasing 1/8 of 1% to 10% Contribution Rate for New Members: 8% 1989—Normal Retirement: Age 55 for All Class B Public Safety Normal Contribution Rate: 8% for All Class B Public Safety

## LETTER OF TRANSMITTAL (CONTINUED)

History Of Benefit Improvements (continued)		
Benefit Category	Status In 1974	Benefit Improvements
<b>Resolution of Member Issues (continued)</b>		
<ul style="list-style-type: none"> <li>• Class B Judicial</li> </ul>	Normal Retirement: Age 65 Contribution Rate: 6%	1978—Contribution Rate Increased to 8% 1982—Contribution Rate Increasing 1/8 of 1% to 10% 1989—Contribution Rate Capped at 9%
<ul style="list-style-type: none"> <li>• Short-Service Employees                             <ul style="list-style-type: none"> <li>- Deferred Benefits</li> <li>- Refunds</li> </ul> </li> </ul>	Frozen	1986—Indexed
	Employee Contributions Plus 5%	1986—Interest Indexed to the T-Bill Rate; 5% Minimum, 10% Maximum Guaranteed Refund of All Employer/Employee Contributions after Retirement 1995—Portable Retirement Option (PRO) Refund of All or a Percentage of Employer Contributions Based on Years of Service for PRO Members 1998—PRO for all members
<ul style="list-style-type: none"> <li>• Spouse Benefit</li> </ul>	50% of Retirement Allowance	1999—60% of Retirement Allowance

### Revenues

Employee and employer contributions and investment income fund the benefits and pay for the expenses of the system. Revenues from all sources were (\$36.8) million for the fiscal year ending June 30, 2001, compared to \$601.5 million in 2000. The decrease was due to a 131.6 percent decline in dollars generated by investment returns.

	2000 (Millions)	2001 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
<b>SDRS Revenues</b>				
Contributions:				
Employees <sup>1</sup>	\$ 58.5	\$ 62.3	\$ 3.8	6.5%
Employers	52.6	55.7	3.1	5.9%
Investments	<u>490.4</u>	<u>(154.8)</u>	<u>(645.2)</u>	<u>(131.6)%</u>
<b>Total Revenues</b>	<b>\$601.5</b>	<b>(\$36.8)</b>	<b>(\$638.3)</b>	<b>(106.1)%</b>

### Expenses

In FY 2001, benefit payments comprised 85.2 percent of SDRS's total expenses, while refunds accounted for an additional 13.5 percent. Total benefit payments increased because of the system's cost-of-living allowance and increase in the number of members receiving benefits.

<sup>1</sup> Employees and employers contribute an equal percentage of salary to SDRS to pay for standard benefits. In this chart, total employee contributions exceed employer contributions due to the additional employee contributions made to pay for an optional spouse benefit and to purchase service.

	2000 (Millions)	2001 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
<b>SDRS Expenses</b>				
Benefits	\$133.8	\$153.2	\$19.4	14.5%
Refunds	26.2	24.2	(2.0)	(7.6)%
Administrative Expenses	<u>2.3</u>	<u>2.4</u>	<u>0.1</u>	<u>4.3%</u>
<b>Total Expenses</b>	<b>\$162.3</b>	<b>\$179.8</b>	<b>\$17.5</b>	<b>10.8%</b>

### Investments

The SDRS Trust Fund is managed by the South Dakota Investment Council. The Council's management objectives are:

1. Achieve the actuarial required rate of return over the long term.
2. Achieve a return in excess of the actuarial rate of return over the long term.
3. Achieve favorable total fund performance relative to a capital market benchmark reflective of the Investment Council's normal asset allocation policy.
4. Achieve favorable specific asset category performance relative to the identified capital market benchmark.
5. Achieve favorable performance over the long term relative to professionally managed multi-billion dollar pension funds.

To accomplish these objectives the council uses investment strategies that focus on intrinsic value and fundamental valuation techniques. On the equity side, the primary strategy is to build a diversified portfolio of stocks which, on the whole, have low P/E ratios, high dividend yields, low price-to-book ratios, good cash flow, and at least average profitability and balance sheets. On the fixed income side, the primary strategy focuses on a duration-driven portfolio whose risk, as measured by duration, varies inversely to the risk of the fixed income market as interest rates change.

The total return on the SDRS Trust Fund was -2.9 percent for fiscal year (FY) 2001, exceeding the Investment Council benchmark return of -5.1 percent. The 10-year annualized return of 12.5 percent exceeds the benchmark return of 11.2 percent.

### Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2001 Actuarial Valuation, two measures were used to evaluate the actuarial soundness and funding progress of SDRS:

- Actuarial Accrued Liability Funded Ratio
- Funding Period

The most pertinent of these is the Actuarial Accrued Liability (AAL) Funded Ratio. This ratio is equal to the actuarial value of assets divided by the AAL. The AAL is the portion of the present value of benefits for all members assigned to prior periods. SDRS's AAL funded ratio as of June 30, 2001, was 96.4 percent.

### Major Initiatives

During FY 2001, the South Dakota Retirement System:

continued its strategic planning process; reviewed long term goals; established future benefit goals; completed financial statements, an actuarial valuation, and a comprehensive audit; reviewed the actions of the 2001 legislature and SDRS's legislative package; analyzed benefit trends and practices for public retirement plans; heard disability/benefit appeals; and reviewed the performance of its Supplemental Retirement Plan (SRP).

## LETTER OF TRANSMITTAL (CONTINUED)

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### Accounting System and Internal Control

This report has been prepared to conform with the reporting standards of the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Administrative expenditure authority is granted annually by the State Legislature.

The system's internal accounting controls, which are reviewed by external auditors on an annual basis, are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by SDRS at improving this level to assure the participants of a financially sound retirement system.

### Professional Services

The Board of Trustees retains independent consultants to perform professional services that are essential to the system's effective and efficient operation. Actuarial services are provided by Buck Consultants, Denver, Colorado. The annual financial audit is conducted by the accounting firm of KPMG LLP with the participation of the South Dakota Department of Legislative Audit. SDRS investments are managed by the South Dakota Investment Council. Communication services are provided by Koupal Communications, Pierre, South Dakota, and Buck Consultants, Denver, Colorado.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Dakota Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the sixth year that SDRS has received a Certificate of Achievement. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgments and Comments

The preparation of this report reflects the combined efforts of the SDRS staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information to members of SDRS, the South Dakota State Legislature and the citizens of South Dakota.

We would like to thank the many people who have worked so diligently to assure the successful operation and financial soundness of the South Dakota Retirement System.

Respectfully submitted,



Al A. Asher  
Administrator



Robert A. Wylie  
Finance Officer

# BOARD OF TRUSTEES

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**Elmer  
Brinkman**  
Chair

Represents County Commissioners  
Board Service Began in June 1991  
Codington County Commissioner  
Watertown

Represents Board of Regents Employees  
Board Service Began in July 1985  
Professor Emeritus of Animal Science, SDSU  
Aurora

**Lowell  
Slyter**  
Vice Chair

**Brian  
Berglin**

Represents Teachers  
Board Service Began in July 1997  
Public School Teacher  
Sioux Falls Public Schools  
Sioux Falls

Represents SD Investment Council  
Board Service Began in July 1974  
State Investment Officer  
Non-Voting Ex-officio Board Member  
Sioux Falls

**Stephen  
Myers**

**Carol  
Burch**

Represents Teachers  
Board Service Began in July 1994  
Public School Teacher  
Belle Fourche Public Schools  
Belle Fourche

Represents Public Safety Members  
Board Service Began in July 1994  
Special Agent  
Department of Criminal Investigation  
Rapid City

**Robert  
Overturf**

**Tracy  
Dahl-Webb**

Represents Municipal Employees  
Board Service Began in July 1995  
Human Resources Officer  
City of Brookings  
Brookings

Governor's Appointee  
Board Service Began in March 1992  
Chief of Operations—Governor's Office  
Pierre

**Pamela  
Roberts**

**James O.  
Hansen**

Represents Retirees  
Board Service Began in July 1993  
Retired Administrator  
Pierre

Represents School Boards  
Board Service Began in July 2001  
Brookings School Board  
Brookings

**Wes  
Tschetter**

**Royce  
Hueners**

Represents Elected Municipal Officials  
Board Service Began in July 2001  
Mayor  
Madison

Represents State Employees  
Board Service Began in July 2000  
Agency Integration Specialist for BIT  
Pierre

**Donald J.  
Zeller**

**Louise  
Loban**

Represents Classified Employees  
Board Service Began in July 1990  
Benefit Specialist  
South Dakota State University  
Brookings

Governor's Appointee  
Board Service Began in May 1995  
Commissioner  
South Dakota Bureau of Personnel  
Pierre

**Sandra  
Zinter**

**Kathy "K.J."  
McDonald**

Represents County Employees  
Board Service Began in July 1997  
Chief Deputy, Auditor—Pennington County  
Rapid City

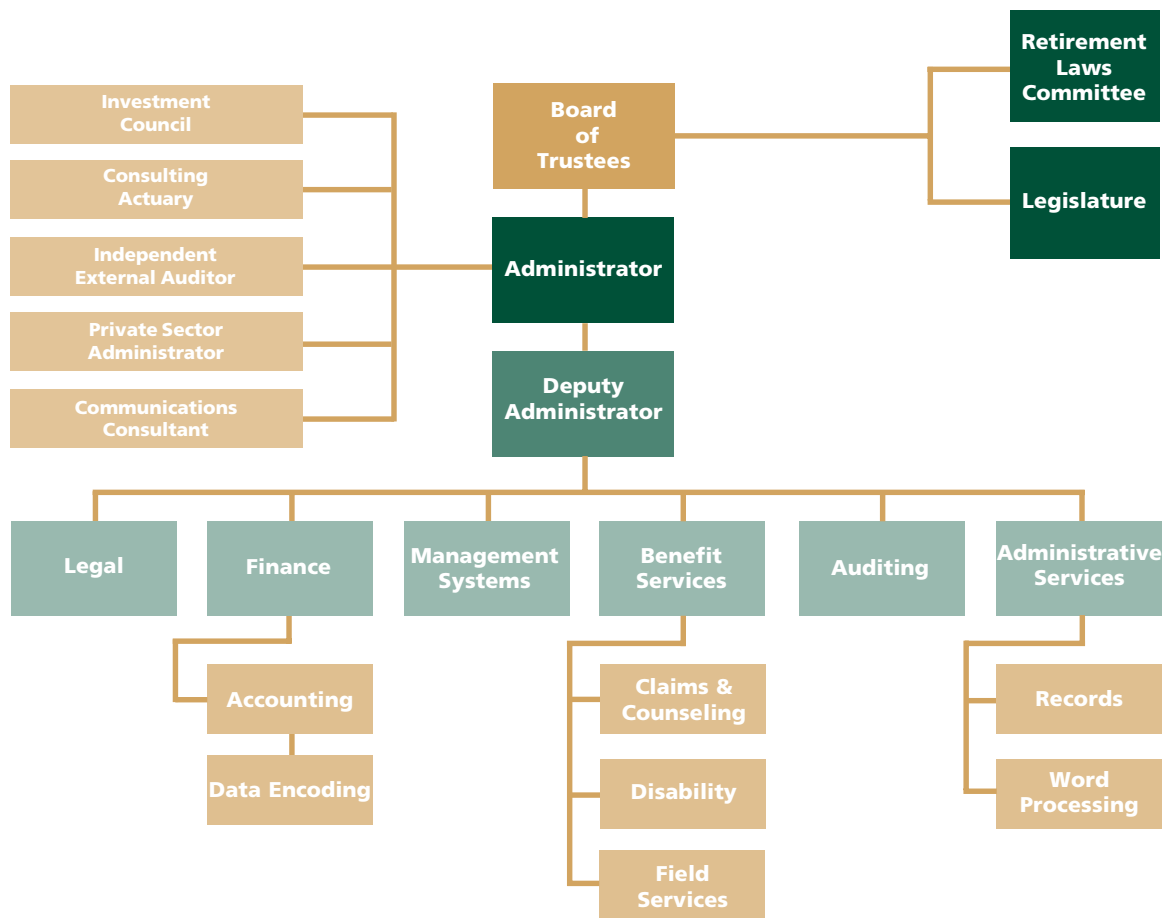
Represents Judicial Members  
Board Service Began in June 1995  
Circuit Judge—Sixth Judicial Circuit  
Pierre

**Judge  
Steven  
Zinter**

**David  
Merrill**

Represents State Employees  
Board Service Began in July 1985  
Supervisor—Trade & Industrial Education  
SD Division of Vocational Education  
Pierre

# ORGANIZATIONAL CHART



## Administration

ADMINISTRATOR	Al A. Asher
DEPUTY ADMINISTRATOR	John A. Storsteen
EXECUTIVE ASSISTANT	Carmel A. Nelson

## Management Group

ATTORNEY	Wade A. Hubbard
FINANCE OFFICER	Robert A. Wylie
RETIREMENT BENEFITS MANAGER	Corinne M. Koch
INTERNAL AUDIT/ COMPLIANCE MANAGER	Jane Roberts
ADMIN. SERVICES SUPERVISOR	Lisa A. Vander Maten

## Advisors, Auditors and Administrators

CONSULTING ACTUARY	Buck Consultants, Inc. Denver, CO
EXTERNAL AUDITOR	KPMC LLP Omaha, NE
COMMUNICATIONS CONSULTANTS	Koupal Communications Pierre, SD Buck Consultants, Inc. Denver, CO
PRIVATE SECTOR ADMINISTRATOR	National Deferred Compensation, Inc. Columbus, OH
COMPUTER SUPPORT	Michael G. Weiss (BIT) Pierre, SD S. Lee Huset (BEI) Pierre, SD

# FINANCIAL SUMMARY

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## **Auditor's Opinion**

### **Basic Financial Statements**

Statement of Plan Net Assets

Statement of Changes in  
Plan Net Assets

Notes to Financial Statements

### **Required Supplementary Information**

#### **Supporting Schedules**

# AUDITOR'S OPINION



Two Central Park Plaza  
Suite 1501  
Omaha, NE 68102

233 South 13th Street, Suite 1600  
Lincoln, NE 68508 2041 **Independent Auditors' Report**

To the Board of Trustees of the  
South Dakota Retirement System:

We have audited the accompanying statement of plan net assets and the related statement of changes in plan net assets of the South Dakota Retirement System (SDRS) as of and for the year ended June 30, 2001. These financial statements are the responsibility of SDRS management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDRS as of June 30, 2001 and the changes in plan net assets for the year ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2001 on our consideration of SDRS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The supplemental schedules of Funding Progress, Employer Contributions, and Notes to Trend Data are presented in accordance with Government Auditing Standards Board. The information in those schedules is the responsibility of the management of SDRS and has been subjected to the auditing procedures applied in the audits of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The supplemental schedule of administrative expenses and investment expenses are not a required part of the basic financial statements of SDRS. The information in those schedules is the responsibility of the management of SDRS and has been subjected to the auditing procedures applied in the audits of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

**KPMG LLP**

Omaha, Nebraska  
October 19, 2001



MEMBER FIRM OF THE KPMG NETWORK  
A MEMBER OF THE PWC NETWORK



# BASIC FINANCIAL STATEMENTS

## Assets

Cash and cash equivalents	\$ 11,413,363
Receivables	
Employer	2,240,758
Employee	5,267,629
Benefits	43,687
Unsettled investment sales	45,118,270
Investment income	<u>20,378,727</u>

<b>Total receivables</b>	<b>73,049,071</b>
--------------------------	-------------------

Investments, at fair value	
Fixed income	1,861,872,305
Equities	2,775,413,300
Real estate	285,326,136
Private equity	<u>176,782,421</u>

<b>Total investments</b>	<b>5,099,394,162</b>
--------------------------	----------------------

Invested securities lending collateral	335,415,709
Due from broker	721,400
Properties, at cost (net of accumulated depreciation of \$39,260)	28,423
Other assets	<u>10,430</u>

<b>Total Assets</b>	<b>5,520,032,558</b>
---------------------	----------------------

## Liabilities

Payables	
Accounts payable and accrued expenses	1,165,130
Securities sold, but not yet purchased, at fair value	197,148,801
Unsettled investment purchases	46,597,029
Securities lending collateral	<u>335,415,709</u>

<b>Total Liabilities</b>	<b>580,326,669</b>
--------------------------	--------------------

<b>Net Assets Held In Trust For Pension Benefits</b>	<b>\$ 4,939,705,889</b>
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*(A schedule of funding progress is presented in the Required Supplemental Information)*

*The accompanying notes are an integral part of the financial statements*

## BASIC FINANCIAL STATEMENTS (CONTINUED)

### Statement of Changes in Plan Net Assets

For the year ended  
June 30, 2001

<b>Additions</b>	
Contributions:	
Employee	\$ 62,310,957
Employer	<u>55,697,940</u>
<b>Total contributions</b>	<b>\$118,008,897</b>
Investment income:	
<i>From investing activities</i>	
Net decrease in fair value in investments	(326,166,537)
Interest	116,264,974
Dividends	47,353,858
Real estate	<u>16,116,186</u>
Investment activity loss	(146,431,519)
Less investment activity expenses	<u>(9,826,902)</u>
Net investment activity loss	(156,258,421)
<i>From security lending activities</i>	
Security lending income	19,864,597
Security lending expenses	<u>(18,380,983)</u>
Net security lending activity income	<u>1,483,614</u>
<b>Total investment loss</b>	<b><u>(154,774,807)</u></b>
<b>Total additions</b>	<b>(36,765,910)</b>
<b>Deductions</b>	
Benefits	153,192,955
Refunds of contributions	24,227,022
Administrative expenses	<u>2,403,024</u>
<b>Total deductions</b>	<b><u>179,823,001</u></b>
<b>Net decrease</b>	<b><u>(216,588,911)</u></b>
<b>Net assets held in trust for pension benefits</b>	
Beginning of year	<u>5,156,294,800</u>
End of year	<u>\$ 4,939,705,889</u>

*The accompanying notes are an integral part of the financial statements.*



## Notes to Financial Statements

### 1. General Description of the System:

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple employer public employee retirement system (PERS) established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. Members of SDRS include full-time employees of public schools, the State of South Dakota, the Board of Regents, city and county governments and other public entities. Public schools, cities and counties may choose not to include certain full-time employees in the system.

SDRS was consolidated from the previous public employee retirement systems effective July 1, 1974 to provide an orderly means of continuing benefits for those already retired and those eligible to retire from the respective systems. SDRS is considered a part of the State of South Dakota financial reporting entity and is included in the state's financial report as a pension trust fund. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law (SDCL) 3-12.

The South Dakota Retirement System Board of Trustees is the governing authority of SDRS. The Board consists of 14 elected representatives from participating groups, two appointees of the Governor and an ex-officio non-voting representative of the South Dakota Investment Council. The elected representatives of the Board of Trustees are two teacher members; two state employee members; a participating municipality member; a participating county member; a participating classified employee member; a current contributing Class B member other than a justice, judge or magistrate judge; a justice, judge or magistrate judge; a county commissioner of a participating county; a school district board member and an elected municipal official of a participating municipality; a retiree; and a faculty or administrative member employed by the Board of Regents. The two Governor's appointees consist of one head of a principal department established pursuant to SDCL 1-32-2, or one head of a bureau under the office of executive management and one individual from the private or public sector.

SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions. The system includes two classes of members; Class A—general members and Class B—public safety and judicial members. Members and their employers make matching contributions, which are defined in state statute. SDRS may expend up to 3 percent of the annual contributions for administrative expenses subject to approval by the Executive and Legislative branches of the State of South Dakota.

SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Class A members and Class B Judicial members who retire after age 65 with three years of service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Judicial members where the sum of age and credited service is equal to or greater than 80. Class B Public Safety members can retire with an unreduced annual retirement benefit after age 55 with three years of credited service. An unreduced annual retirement benefit is also available after age 45 for Class B Public Safety members where the sum of age and credited service is equal to or greater than 75. All retirement benefits that do not meet the above criteria may be payable at a reduced level. All benefits receive an annual cost of living increase of up to 3.1 percent each July 1st. The first year increase is prorated for the number of months the benefit is received.

SDRS is a qualified defined benefit retirement plan under Section 401(a) of the Internal Revenue Code and is exempt from Federal income taxes. SDRS has received a favorable determination letter.

As of June 30, 2001, the number of participating governmental employers was:

School Districts	189
State of South Dakota	1
Board of Regents	1
Municipalities	135
Counties	61
Boards and Commissions	67
<b>Total Employers</b>	<b>454</b>

As of June 30, 2001, SDRS Membership consisted of: Retirees and Beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:<sup>1</sup>

Class A (General employees)	24,731
Class B Public Safety and Judicial employees	975
<b>Total</b>	<b>25,706</b>

#### Current active members:

Vested:	
Class A	24,912
Class B Public Safety and Judicial	1,474
Nonvested:	
Class A	7,929
Class B Public Safety and Judicial	572
<b>Total</b>	<b>34,887</b>
<b>Grand Total</b>	<b>60,593</b>

<sup>1</sup> Includes terminated, nonvested members who are only entitled to a refund of accumulated contributions.

## BASIC FINANCIAL STATEMENTS (CONTINUED)

### 2. Summary of Significant Accounting Policies:

(a) Basis of Accounting and Presentation:  
The accompanying financial statements are prepared using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America applicable to governmental accounting for a pension trust fund. Revenue is recorded when earned and expenses recorded when incurred. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits are recorded when payable by law and refunds are paid and recorded upon receipt of an approved application.

(b) Method Used to Value Investments:  
Investments are carried at fair value to properly reflect the asset values of the fund at June 30, 2001. Fair values were determined based on closing market prices at June 30, 2001 for those securities traded on national and international stock exchanges and at the average of bid-and-asked quotations for those securities traded in the over-the-counter market. Investments not traded on any exchange are valued at fair value based on estimates made by management. The value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. Real estate is valued at market based upon annual appraisals. Net depreciation in the fair value of investments held at or traded during the 12 months prior to June 30, 2001 are determined using an average cost basis. Purchases and sales are recorded as of the trade date.

The equity securities include common stocks, preferred stocks, convertible debentures, arbitrage securities and equity international funds. The fixed income securities include U.S. government and government-backed bonds and corporate bonds.

Foreign exchange rate gains and losses are included with the net appreciation in fair value in investments. Futures contracts are marked to market, based on quoted futures prices with changes in fair value reflected in the current period.

Interest and dividends are accrued in the period in which they are earned.

### 3. Contributions and Reserves:

**Contributions**—Covered employees are required by

statute to contribute a percentage of their salary to SDRS as follows:

Class A members—5.0 percent of salary  
Class B Judicial members—9.0 percent of salary  
Class B Public Safety members—8.0 percent of salary

All participating employers are required to contribute an amount equal to the member's contributions. Members may make an additional contribution of 8/10 of 1 percent of compensation for optional spouse coverage.

SDRS is funded by fixed member and employer contributions at a rate established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contractually required contributions to pay the normal cost, expenses, and amortize the frozen unfunded actuarial accrued liability. The June 30, 2001 actuarial valuation of the plan determined that the contractually required employer contributions equals the requirements for the annual required contribution of the employers under GASB Statement No. 25, since the contractually required employer contributions are sufficient to pay the employer normal cost, expenses and amortize the frozen unfunded actuarial accrued liability over a period of less than 40 years (20 years as of June 30, 2001).

Contributions during fiscal 2001 totaling \$118,008,897 (\$62,310,957 employee and \$55,697,940 employer) were made in accordance with statutory rates. These contributions represent 11.5 percent of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

SDRS allows participating entities to pay their deferred contributions for funding of accrued benefits over periods of up to 20 years and members to pay for the purchase of certain prior service over periods of up to 10 years. Interest is charged at rates of 5 percent to 8 percent. Future payments will be received as follows:

<u>Year Ending June 30</u>	<u>Employers</u>	<u>Employees</u>
2002	\$ 66,010	\$1,693,574
2003	28,524	731,608
2004	28,524	450,251
2005	20,544	298,288
2006	11,604	179,780
Later	<u>3,247</u>	<u>267,184</u>
	158,453	3,620,685
Less amount representing interest	<u>17,265</u>	<u>495,162</u>
Deferred contributions receivable at June 30, 2001	<b><u>\$141,188</u></b>	<b><u>\$3,125,523</u></b>



**Reserves**—The Reserve for Funding of Long Term Benefit Goals is designed to fund benefit improvements and provide the plan with protection against adverse experience. The Reserve is annually credited with 20 percent of the actual investment return amount and 20 percent of the actuarial experience amount above or below the assumed amount over rolling five year periods. Effective June 30, 2001, a change in methodology provided for immediate recognition of 100 percent of actuarial investment losses. In addition, the Reserve is adjusted if the actuarial value of assets deviates from a range of plus or minus 20 percent of the plan's market value and is reduced if the projected period to amortize frozen unfunded actuarial accrued liabilities exceeds 30 years. The actuarial value of assets is the smoothed market based valuation method used in the SDRS actuarial valuation. As of June 30, 2001, the actuarial value of assets equaled \$4,521,403,578. The Reserve is added to both the present value of future benefits and the actuarial value of assets. As of June 30, 2001, the balance in the Reserve for Funding of Long Term Benefit Goals is \$353,417,817.

#### 4. Investments:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council, which may utilize the services of external money managers for management of a portion of the portfolio. The South Dakota Investment Council is governed by the Prudent Man Rule (that is, the council should use the same degree of care as a prudent man). Current Investment Council investment policies dictate limits on the percent of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, etc.).

Cash and Cash Equivalents are invested in short-term instruments or short-term investment funds by the external money managers and the South Dakota Investment Council and are held at cost. Cash held by the State Treasurer of \$11,413,363 was invested in the State's pooled investment fund. The external money managers did not hold cash in SDRS accounts. Investments of this fund consist primarily of commercial paper rated A1 or P2 or better, short-term U.S. treasury obligations, bank CDs and money market funds.

**Investments**—Investments at June 30, 2001, were being managed by the following:

	Fair Value	Cost
State of South Dakota Investment Council	\$4,488,596,438	\$4,059,639,956
Dimensional Fund Advisors, Inc.	20,243,906	25,000,000
Capital International	57,877,996	57,596,239
Acadian International	52,158,209	56,214,384

Blackstone Real Estate Partners	186,284,589	174,202,455
Apollo	82,215,615	77,541,720
Nicholas Applegate	25,262,803	24,864,851
AIG	15,495,943	16,369,327
DLJ Merchant Bankers	23,362,518	17,234,213
Doughty Hanson	9,659,618	9,498,264
Crossroads	73,897,957	76,104,911
Silver Lake	19,659,732	19,932,612
KKR	7,166,314	6,992,314
Cypress Merchant Banking Partners L.P.	37,512,524	60,112,781
<b>Total Investments</b>	<b>5,099,394,162</b>	<b>4,681,304,027</b>
Securities sold, but not yet purchased	(197,148,801)	(197,929,653)
<b>Total</b>	<b>\$4,902,245,361</b>	<b>\$4,483,374,374</b>

Investments managed by the South Dakota Investment Council consist of domestic and international equity securities, government and corporate fixed income instruments and short-term investments. Capital International Emerging Markets, Acadian, Nicholas Applegate and Dimensional Fund Advisors invest in international equities. Blackstone, Doughty Hanson and Apollo invest in real estate. DLJ Merchant Bankers, KKR, AIG, Capital International Emerging Markets Private Equity, Crossroads, Silver Lake and Cypress invest in private equity.

The following table presents the investments held by SDRS on June 30, 2001, categorized to give an indication of the level of risk assumed by SDRS at year-end. The categories are:

- (1) Insured or registered, or securities which are held by SDRS or its agent in SDRS' name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in SDRS' name.
- (3) Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in SDRS' name.

During fiscal year 2001, the System's investments (including investments bought, sold, as well as held during the year) depreciated in value by \$326,166,537.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior years and current year.

## BASIC FINANCIAL STATEMENTS (CONTINUED)

### Change in Fair Value of Investment

	Year Ended June 30, 2001
Increase (decrease) in fair value of investments:	
Equity securities	\$ (531,278,872)
Fixed income securities	13,177,806
Real estate	(39,669,771)
Private equity	<u>(45,007,045)</u>

**Total decrease in fair value** **\$ (602,777,882)**

Realized gain on investments sold:	
Equity securities	\$170,836,225
Fixed income securities	16,361,441
Real estate	88,182,515
Private equity	<u>10,796,360</u>

**Total net realized gains** **\$ 286,176,541**

**Net loss on futures contracts** **(9,565,196)**

**Net decrease in fair value of investments** **\$ (326,166,537)**

### 5. Derivatives:

Derivatives are generally defined as contracts whose value depends on, or derive from, the value of an underlying asset, reference rate or index. SDRS is exposed to a variety of derivative products through the investment management of the South Dakota Investment Council and their outside managers.

The South Dakota Investment Council purchases and sells financial and interest rate futures as a means of adjusting the SDRS portfolio mix and as a lower transaction cost substitute for transactions which would otherwise occur in the underlying portfolios. Futures contracts outstanding at June 30, 2000, were as follows:

Description	Open Positions	Number of Contracts	Fair Value
S & P 500 Index due 9/20/2001	Long	817	\$250,087,785
NASDAQ 100 Index due 9/21/2001	Long	42	\$7,689,444
U.S. Treasury Note due 9/19/2001	Long	341	\$42,673,763
U.S. Treasury Bond due 9/19/2001	Long	136	\$25,805,048

### Investments Held By SDRS

as of June 30, 2001

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>	<u>Cost</u>
Equity securities (common stocks, preferred stocks and convertible debentures)	\$1,702,354,834	\$291,111,521	\$0	\$1,993,466,355	\$1,593,940,791
U.S. government and government backed bonds	651,062,252	19,580,137		670,642,389	657,928,894
Corporate bonds	393,346,109	99,819,962		493,166,071	493,112,522
Commercial paper	274,906,041	4,998,283		279,904,324	279,904,324
International equities	685,415,989			685,415,989	672,808,288
<b>Subtotal</b>	<b><u>\$3,707,085,225</u></b>	<b><u>\$415,509,903</u></b>	<b><u>\$0</u></b>	<b><u>4,122,595,128</u></b>	<b><u>3,697,694,819</u></b>
Money Market funds				418,159,521	418,159,521
Real estate funds				285,326,136	268,234,753
Equity international fund				96,530,956	100,376,606
Private Equity				<u>176,782,421</u>	<u>196,838,328</u>
<b>Total Investments</b>				<b><u>5,099,394,162</u></b>	<b><u>4,681,304,027</u></b>
Securities sold, but not yet purchased				<b>(197,148,801)</b>	<b>(197,929,653)</b>
Security lending collateral:					
Investment Portfolios				<b>332,390,624</b>	<b>332,390,624</b>
Pooled Funds				<u>3,025,085</u>	<u>3,025,085</u>
<b>Total</b>				<b><u>\$5,237,661,070</u></b>	<b><u>\$4,818,790,083</u></b>





A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. Upon entering into such a contract, SDRS pledges to the broker cash or U.S. government securities equal to the minimum “initial margin” requirement of the futures exchange. Additionally, SDRS receives or pays a daily “variation margin,” which is an amount of cash equal to the daily fluctuation in value of the contract. The use of futures contracts is subject to various market risks. The maximum amount at risk from the purchase (long position) of a futures contract is the contract value. The amount at risk from the sale (short position) of a futures contract depends upon the amount that the contract rises in value. Although short positions have theoretically no maximum risk, the SDRS short positions are hedged against the underlying portfolio to limit the exposure. Each S&P 500 contract is defined as 250 times the price of the S&P 500 index. Each note and bond contract is defined as 100,000 par value of a 6 percent U.S. treasury securities adjusted for duration.

The hedging guidelines of the SDRS arbitrage portfolios managed by the Investment Council provide that stock and other non-cash considerations to be received may be hedged through the use of options, short sales or when-and-if issued sales. The two arbitrage portfolios had short sales valued at \$197,148,801 as of June 30, 2001. A short sale involves the sale of securities not yet owned but borrowed through a broker to be later repurchased to cover the loan. The arbitrage portfolios use the short sales to hedge the disparities between the existing price of a security and the present value of considerations to be received as a result of restructuring or merger activity.

The South Dakota Investment Council also enters into foreign exchange forward contracts to hedge foreign currency transactions. These contracts are purchased to reduce the impact of foreign currency fluctuations. The Investment Council does not engage in foreign currency speculation. The contracts do not subject SDRS to risk due to exchange rate movements as gains and losses on the contracts offset gains and losses on the transactions being hedged.

SDRS’s theoretical risk in these transactions is the cost of replacing, at current market rates, these contracts in the event of default by the other party. Management believes the risk of incurring such losses is remote as the contracts are entered into with major financial institutions.

In addition to the derivatives listed above, the SDRS fixed income portfolio also held mortgage-backed securities in the form of GNMMAs, FHLMCs, and FNMMAs. The fair value of these securities as of June 30, 2001 was \$425,305,908. The Investment Council is using this investment to enhance fixed returns.

## 6. Security Lending:

The South Dakota Investment Council’s policies and the contract with Citibank, N.A. and Lehman Brothers Inc. permit the Investment Council to use investments of SDRS to enter into securities lending transactions. These transactions involve loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Investment Council’s securities custodian is an agent in lending securities for cash collateral of the following percentages:

<u>When lending</u>	<u>the cash collateral required is...</u>
Cash	100%
US Governments	102%
US Agencies	102%
US Sponsored Agencies	102%
Asset Backed (AAA)	105%
Corporates (AAA)	110%
Money Market (A1/P1 - under 1 year)	102%

Securities on loan on June 30, 2001 are presented as unclassified in the custodial credit risk schedule. At year end, the Investment Council has no credit risk exposure to borrowers because the amounts the Council owes the borrowers exceed the amounts the borrowers owe the Council. The contract with the lending agent requires the agent to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. SDRS cannot pledge or sell collateral securities received unless the borrower defaults.

All securities loans can be terminated on demand by either the Investment Council or the borrower, although the average term of the loans is one business day.

## BASIC FINANCIAL STATEMENTS (CONTINUED)

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### 7. Fixed Assets:

Asset purchases are capitalized at cost and depreciated on a straight-line basis over 4-to-15 years.

### 8. Compensated Absences:

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2001, a liability existed for accumulated annual leave calculated at the employee's June 30, 2001 pay rate in the amount of \$98,419. Employees who have been continuously employed by SDRS and the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance with such payment not to exceed the sum of 12 weeks of the employee's annual compensation. For employees who have not been employed for seven continuous years, an accrued liability is calculated assuming the likelihood that they will meet the seven year threshold in the future. At June 30, 2001, a liability existed for accumulated and accrued sick leave, calculated at the employee's June 30, 2001 pay rate in the amount of \$111,511. The total leave liability of \$209,930 is on the Statement of Net Assets Available for Benefits in accounts payable and accrued expenses.

### 9. Operating Leases:

The South Dakota Retirement System has entered into an agreement to lease office space. The lease was effective July 1992 and has a term of 10 years. After five years, the rent is adjusted for increases in property taxes during the term of the lease. A schedule of minimum office rental payments as of June 30, 2001 is as follows:

Fiscal Year Ending June 30	Amount
2002	\$ <u>56,809</u>

**Total Remaining Minimum Payments \$ 56,809**

### 10. Deferred Compensation:

SDRS offers a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. The Plan is available to all public employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are at all times until made available to a participant or the participant's beneficiary, held in trust for the exclusive benefit of the participants.

Of the \$69,987,860 net assets available for plan benefits at June 30, 2001, \$50,029,060 was held in trust for employees of the State of South Dakota while the remaining \$19,958,800 represents the assets held in trust for employees of other jurisdictions in the Plan. In order to avoid duplication in reporting, the SDRS total of \$354,491 is included in the State of South Dakota total and the State's Comprehensive Annual Financial Report for the year ended June 30, 2001.



# REQUIRED SUPPLEMENTARY INFORMATION



Amounts prior to June 30, 2001 were audited by other auditors.

(Dollar amounts in millions)

Actuarial Valuation Date <sup>1</sup>	(a)	(b)	Unfunded Actuarial Liability [UAAL] (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
	Actuarial Value of Assets	Actuarial Liability - Entry Age [AAL]				
6-30-88	\$ 1,050.8	\$ 1,078.2	\$ 27.4	97.5%	\$ 530.0	5.2%
6-30-90	1,275.1	1,404.6	129.5	90.8	582.7	22.2
6-30-92 <sup>2</sup>	1,605.5	1,714.5	109.0	93.6	694.3	15.7
6-30-94	1,945.9	2,108.3	162.4	92.3	788.6	20.6
6-30-96	2,390.2	2,539.0	148.8	94.1	820.1	18.1
6-30-97	2,813.3	2,956.5	143.2	95.2	835.1	17.1
6-30-98	3,337.3	3,471.9	134.6	96.1	875.9	15.4
6-30-99	3,875.2	3,997.9	122.8	96.9	902.5	13.6
6-30-00 <sup>2</sup>	4,427.1	4,611.9	184.8	96.0	944.6	19.6
6-30-01	4,521.4	4,688.4	167.0	96.4	1,029.7	16.2

<sup>1</sup> Prior to fiscal year 1996, SDRS actuarial valuations were performed biennially.

<sup>2</sup> Actuarial assumption changes occurred during fiscal years 1991 and 2000.

For the Year Ended June 30	Annual Required Contributions	Percentage Contributed
1992	\$36,917,883	100%
1993	39,319,892	100
1994	43,991,265	100
1995	46,238,393	100
1996	45,022,762	100
1997	47,664,275	100
1998	47,145,364	100
1999	50,069,614	100
2000	52,622,437	100
2001	55,697,940	100

The information presented in the required supplementary schedules was determined as part of the Actuarial Valuation at the date indicated. Additional information as of the latest Actuarial Valuation follows:

<b>Valuation Date</b>	6-30-2001
<b>Actuarial Cost Method</b>	Entry Age with Frozen Unfunded Actuarial Accrued Liability
<b>Amortization Method</b>	Level Percentage-Open
<b>Remaining Amortization Period</b>	20 Years
<b>Asset Valuation Method</b>	5-year smoothed market
<b>Actuarial Assumptions</b>	
<b>Investment Rate of Return<sup>1</sup></b>	8%
<b>Projected Salary Increase<sup>1</sup></b>	4.9% to 8.9% based on age, with average of 5.5%
<b>Cost-of-Living Adjustments</b>	3.1%

<sup>1</sup> Includes Inflation at 4.5 percent

## Schedule of Funding Progress

## Schedule of Employer Contributions

## Notes to Trend Data

## SUPPORTING SCHEDULES

### Schedule of Administrative Expenses for the Year Ended June 30, 2001

	Cash Basis	Accrual Basis
<b>Personal Services</b>		
Salary and Per Diem	\$ 923,710	\$ 931,748
Employee Benefits	<u>206,768</u>	<u>209,099</u>
Total Personal Service	1,130,478	1,140,847
<b>Operating Expenses</b>		
Travel	42,205	43,213
Contractual Services	1,028,015	916,804
Finance	\$140,888	\$96,638
Valuations	175,204	85,204
Consulting	133,324	133,324
Studies	142,667	142,667
Legal	7,639	7,639
Communications	76,227	76,227
Medical	25,031	25,031
Operations	<u>327,035</u>	<u>350,074</u>
Total Contractual Services	1,028,015	916,804
Supplies & Materials	219,880	237,454
Capital Assets	<u>72,452</u>	<u>64,706</u>
Total Operating Expenses	<u>1,362,552</u>	<u>1,262,177</u>
<b>Total Administrative Expenses</b>	<b><u>\$2,493,030</u></b>	<b><u>\$2,403,024</u></b>

### Schedule of Investment Expenses for the Year Ended June 30, 2001

Investment Managers	Management Expense
South Dakota Investment Council	\$ 2,742,523
Capital International	705
Dimensional Fund Advisors, Inc.	46,542
Acadian International	79,047
Blackstone Real Estate Partners	815,662
Apollo	947,813
Nicholas Applegate	634,759
DLJ Merchant Bankers	340,671
KKR	675,000
Crossroads	747,685
Silver Lake	559,758
Doughty Hanson	1,110,152
Cypress Merchant Banking Partners L.P.	<u>1,126,585</u>
<b>Total Investment Manager Expenses</b>	<b><u>\$9,826,902</u></b>

# ACTUARIAL SUMMARY

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- Actuary's Opinion**
- Actuarial Overview**
- Actuarial Valuation**
- Summary of Plan and Actuarial Method Changes**
- Plan Summary**

# ACTUARY'S OPINION

**BUCK  
CONSULTANTS**  
1200 17th Street, Suite 1200  
Denver, Colorado 80202

November 19, 2001

Board of Trustees  
South Dakota Retirement System  
Post Office Box 1098  
Pierre, SD 57501-1098

This report summarizes the results of Buck Consultants' annual Actuarial Valuation of the South Dakota Retirement System (SDRS) as of June 30, 2001.

This Actuarial Valuation is based on financial and Member data provided by SDRS and summarized in this report. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All Members of Participating Units of SDRS and all benefits in effect on July 1, 2001 have been considered in this Actuarial Valuation.

The assumptions and methods used to determine the Annual Required Contributions of the Employers to SDRS have been selected by Buck Consultants and approved by the Board of Trustees, and along with all supporting schedules, meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Buck Consultants is solely responsible for the following supporting schedules contained in this report: Actuarial Assumptions and Methods, Development of the SDRS Actuarial Value of Assets, Summary of Accrued and Unfunded Accrued Liability, Solvency Test, Comparison of Actuarial Valuation Results, Schedule of Funding Progress, and Analysis of Financial Experience.

SDRS is funded by Employer and Member Contribution rates as established by South Dakota law. The funding objective for SDRS is that the required contributions remain level as a percent of Member Compensation at the statutory rates. The SDRS Board of Trustees has also established a funding objective that the statutorily required contributions be sufficient to pay the Normal Costs of SDRS, System Expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of Member Compensation over an open period not to exceed 30 years.

As noted below, this objective is currently being met and is projected to continue to be met.

Our calculations and analysis indicate that the System is meeting its funding objectives and is in actuarial balance. The combined statutory Employer/Member Contributions are sufficient to pay the current Normal Costs and Expenses of the System and amortize the Unfunded Actuarial Accrued Liability over 20 years from July 1, 2001. The contractual Employer Contribution rates to SDRS meet the requirements of the Annual Required Contributions of the Employers of GASB Statement No. 25.

The SDRS Board of Trustees measures and compares the funding progress of SDRS on several bases. The Actuarial Accrued Liability Funded Ratio of SDRS as of June 30, 2001 is 96.4%.

SDRS is actuarially sound.

Respectfully Submitted,



R. Paul Schrader, A.S.A.  
Consulting Actuary

RPS:gwb

Enclosure

Buck Consultants, Inc.  
720 | 359-7700 Fax 720 | 359-7701

# ACTUARIAL OVERVIEW

An Actuarial Valuation of SDRS is performed as of June 30 each year. Prior to 1996, in odd-numbered years, an update was made which considered expected changes in the actuarial measures due to the assumed experience of the system as well as the effect of any changes in value of assets, actuarial valuation methods, or benefit provisions.

In the 2001 Actuarial Valuation, two important actuarial measures have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are:

- Actuarial Accrued Liability Funded Ratio
- Funding Period

The Actuarial Accrued Liability (AAL) is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future normal cost contributions. The Actuarial Accrued Liability Funded Ratio is a required accounting disclosure. The measure is equal to the actuarial value of assets divided by the AAL. A ratio in excess of 100 percent indicates that projected accrued benefits are funded.

The Funding Period measures the length of time required to amortize unfunded actuarial accrued liabilities as well as pay the on-going normal costs, interest charges and expenses with the current contributions. The shorter the Funding Period the more favorable the actuarial measure.

## Actuarial Accrued Liability

## Measures of Actuarial Soundness

	2000 Actuarial Valuation	2001 Actuarial Valuation
<b>Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets/AAL)</b>	96.0%	96.4%
<b>Funding Period</b>	20 years	20 years

## Actuarial Investment Return Gains/Losses

For the year ended  
June 30, 2001

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was -2.9 percent, substantially less than the assumed rate of 8.0 percent. The dollar-weighted annualized investment performance based on the market value of assets for the period was -3.0 percent. This results in an Actuarial Investment Loss of \$464 million. The net actuarial value of assets was credited a rate of return of 8.0 percent for the one-year period ending June 30, 2001. The Reserve for Funding of Long Term Benefit Goals was reduced by 4.4 percent of the net actuarial value of assets as a result of the fiscal year 2001 investment losses.

## ACTUARIAL OVERVIEW (CONTINUED)

### Actuarial Liability Gains/Losses

For the year ended  
June 30, 2001

Change due to Liability Experience	Present Value of All Benefits	Percentage of Present Value of All Benefits
Loss Due to Salary Increases	(\$15M)	(.3)%
Loss Due to Decrements	(4M)	(.1)%
Loss Due to New and Rehired Members	(8M)	(.1)%
Miscellaneous Loss	(2M)	—
<b>Total Actuarial Liability Loss</b>	<b>(\$29M)</b>	<b>(.5)%</b>

### Actuarial Assumptions

Significant actuarial assumptions used include: a) a rate of return on the present and future assets of 8 percent a year compounded annually plus prefunding of improvement factor; b) projected Social Security Cost-of-Living increases of 4.5 percent and wage base increases of 5.5 percent per year compounded annually; c) post-retirement benefit increases of 3.1 percent per year compounded annually; d) active participant experience including projected salary increases that average 5.5 percent per year compounded annually; e) 80 percent of active members and 75 percent of retired and terminated members are assumed to be married; f) the male spouse is assumed to be three years older than the female spouse; g) mortality rates for active and non-disabled pensioners are based upon the 1995 Buck Mortality Table; and h) at termination of employment, members will elect the more valuable of the Accumulated Contributions or the deferred vested benefit. These assumptions were adopted in 1990 and modified in 1998. A detailed experience analysis was conducted in 1999, and appropriate modifications in the assumptions were made effective with the July 1, 2000, Actuarial Valuation.

Effective with the year ended June 30, 1995, the actuarial costs defined under the entry age normal method were modified to freeze unfunded liabilities and recognize plan gains and losses directly in the normal cost by amortizing them over the assumed future payroll of the membership. The calculation of the actuarial value of assets was also modified at that time.

Also effective with the year ended June 30, 1995, the calculation used to determine the actuarial value of assets was changed to credit the assumed investment return immediately, and investment earnings above (Actuarial Investment Gains) and below (Actuarial Investment Losses) the assumed rate are recognized at the rate of 20 percent per year over a five year period. The calculation also reflects liability gains and losses on the same basis. Effective with the year ended June 30, 2001, the calculation was changed to recognize immediately any Actuarial Investment Losses. These gains and losses are allocated to the Reserve for Funding of Long Term Benefit Goals. The Reserve was first implemented as of the year ended June 30, 1995, to fund benefit improvements and provide the plan with protection against adverse experience. The investment and liability gains and losses will impact the actuarial value of assets, Reserve for Funding of Long Term Benefit Goals and AAL.



Reserve for Funding of Long Term Benefit Goals as of June 30, 2000	\$535,630,972
Less Amount Allocated for Year	(182,213,155)
Less Present Value of All Benefits for Improvements Enacted into Law	0
Reserve for Funding of Long Term Benefit Goals as of June 20, 2001	\$353,417,817

## Reserve for Funding Long Term Benefit Goals

As of June 30, 2001, there is an additional \$333,408,722 in gains to be allocated to the Reserve over the next four years.

### Sample Separation Rates

Age	Annual Rate per 100 Members				
	Mortality		Disablement		Female
	Male	Female	A <sup>1</sup>	B <sup>2</sup>	
25	0.07	0.02	0.08	0.09	0.10
30	0.07	0.02	0.08	0.10	0.11
35	0.07	0.03	0.10	0.14	0.12
40	0.10	0.05	0.12	0.20	0.15
45	0.14	0.07	0.16	0.31	0.22
50	0.22	0.11	0.24	0.52	0.33
55	0.35	0.17	0.40	0.99	0.58
60	0.64	0.24	0.84	1.50	1.10
65	1.24	0.41	1.71	2.00	1.85

<sup>1</sup> Judges, Teachers, Municipal and General Members

<sup>2</sup> Class B Public Safety Members

### Actuarial Assumption Tables

Age	Annual Turnover Rate per 100 Members		
	Teachers	Judicial, Municipal	Class B Public
		and General Members	Safety Members
25	18.20	22.40	16.80
30	13.70	16.40	13.20
35	8.60	12.60	9.60
40	5.20	9.50	7.00
45	3.40	7.70	4.80
50	2.80	6.00	3.96
55	2.30	3.06	2.04

### Retirement Age Class B Public Safety

Age	Annual Rate per 100 Members Eligible to Retire
50	5
51	5
52	5
53	5
54	5
55	30
56	30
57	40
58	50
59	50
60	50
61	50
62	100

### Retirement Age Class A and B Judicial

Age	Annual Rate per 100 Members Eligible to Retire
55	8
56	8
57	8
58	8
59	8
60	10
61	10
62	20
63	25
64	25
65	50
66	50
67	50
68	100

### Compensation Progression Sample Rates

Age	Ratio of Compensation at Age 65 to Salary at Current Age	Percentage Increase in Year Following Indicated Age
25	11.22	8.90%
30	7.44	7.60
35	5.18	7.40
40	3.69	6.40
45	2.75	5.61
50	2.11	5.28
55	1.63	5.14
60	1.27	5.00
64	1.05	4.92

## ACTUARIAL OVERVIEW (CONTINUED)

### Benefit and Actuarial Method Changes

The June 30, 2001 measures of actuarial soundness reflect the change in actuarial methods implemented by the SDRS Board of Trustees.

No benefits changes were enacted by the State Legislature in 2001.

Effective June 30, 2001, the SDRS Board of Trustees implemented a change to recognize immediately any Actuarial Investment Losses. In the past, any Actuarial Investment Gains and Losses were allocated to the Reserve for Funding of Long Term Benefit Goals over five years.

This modification in the methodology resulted in a \$370,895,965 decrease in the Reserve for Funding of Long Term Benefit Goals, Present Value of all Benefits and Actuarial Value of Assets.

### Actuarial Impact of Benefit and Actuarial Method Changes

	2000 Actuarial Valuation Results	System Investment and Liability Experience for Year <sup>1</sup>	Membership Changes and Maturity of System <sup>2</sup>	2001 Actuarial Valuation Results
<b>Normal Cost Rate with Expenses</b>	9.229%	—	0.262%	9.491%
<b>Funding Period</b>	20 years	—	—	20 years
<b>Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets)</b>	96.0%	—	0.4%	96.4%

<sup>1</sup> SDRS Actuarial Investment Gains and liability gains and losses are smoothed and allocated directly to the Reserve for Funding of Long Term Benefit Goals over five years. All SDRS Actuarial Investment Losses are allocated immediately to the Reserve.

<sup>2</sup> Future SDRS membership changes will cause minor changes in the Normal Cost Rate even with smoothing of asset and liability gains and losses. The Actuarial Accrued Liability Funded Ratio will gradually increase as the Frozen Unfunded Actuarial Accrued Liability becomes a smaller percentage of the total SDRS liabilities.

As a net result of system membership changes and the maturity of the system in 2001, the normal cost rate increased .262 percent and the Funded Ratio increased by .4 percent.

The Reserve for Funding of Long Term Benefit Goals increases the Present Value of Benefits, the Actuarial Accrued Liability and the Actuarial Value of Assets. As of June 30, 2001, the Reserve for Funding of Long Term Benefit Goals is \$353,417,817.



# ACTUARIAL VALUATION

This section analyzes the ability of member and employer contributions to fund the obligations of the system. These obligations include both past and future liabilities.

In order for the system to be actuarially sound, the combined employer/member contribution rate must be adequate to pay the normal cost<sup>1</sup> of the system, system expenses, amortize the unfunded actuarial accrued liability<sup>2</sup> over a limited time, and pay interest on that liability.

SDRS's funding requirements for 2001, expressed as a percentage of payroll and total contributions, are based on the 2001 actuarial valuation and are summarized in the chart below.

	SDRS 2001 Funding Requirements	
	As a Percentage of Payroll	As a Percentage of Contributions
<b>Matching Statutorily Required Employer/Member Contribution Rate</b>	10.518%	100.0%
<b>Entry Age Normal Contribution Rate at Mid-Period</b>	9.218%	87.6%
<b>Expense Allowance</b>	0.273%	2.6%
<b>Total Funding Requirement Before Amortization of Frozen Unfunded Actuarial Accrued Liability</b>	9.491%	90.2%
<b>Contribution Rate Available to Amortize Frozen Unfunded Actuarial Accrued Liability as a Level Percent of Payroll</b>	1.027%	9.8%

The 2001 Actuarial Valuation indicates a contribution of 1.027 percent of payroll allocated to the unfunded liability is sufficient to pay interest and amortize the principal over 20 years.

Given the current system benefits and the present actuarial assumptions and methods, a small percentage of the contributions is allocated to payment of principal and interest.

The 2001 Actuarial Valuation confirms that:

- a. The current benefit levels for active members including expenses require 88 percent of the total contributions under the current actuarial assumptions and methods.

<sup>1</sup> Normal cost is the total contribution rate which would fund all system benefits if that rate continues in the future.

<sup>2</sup> The unfunded actuarial accrued liability is the difference between the assets which would have accumulated if the normal cost had always been contributed to the system and the present assets of the system, and is frozen with respect to experience gains and losses. It is reduced by the excess of member and employer contributions over interest on the unfunded actuarial accrued liability, expenses, and normal cost.

## ACTUARIAL VALUATION (CONTINUED)

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- b. While excess investment income has been the most significant element of favorable experience in the past, in fiscal year 2001 SDRS experienced its first Actuarial Investment Loss since fiscal year 1994 and the lowest investment return since 1974.

The Actuarial Valuation methodology results in the elimination of volatility in the actuarial measures because:

- a. The expected investment return of 8 percent of the actuarial value of assets and liability gains and losses are allocated to the actuarial value of assets.
- b. Twenty percent of Actuarial Investment Gains and liability gains and losses each year are allocated to the Reserve for Funding of Long Term Benefit Goals for five years. All Actuarial Investment Losses are allocated immediately to the Reserve. In periods of sustained gains, the Reserve will accumulate sufficient assets for pre-funding benefit improvements. In the event of sustained losses, the Reserve will be available to offset negative experience and dampen the volatility of short-term negative experience.

The 2001 Actuarial Valuation indicated that the employer-member contribution rates were adequate to pay the current costs of the system (normal cost plus expenses) and amortize the unfunded actuarial accrued liability over 20 years. The SDRS Funding Period will remain at 20 years in accordance with the Board of Trustees funding policy.

### **Actuarial Soundness**

The conclusions reached under the determinations made in the Actuarial Valuation are the most important indicators of the long term actuarial soundness of the system. The soundness is measured by the relationship of the normal cost to the total contributions available, by the length of the Funding Period—a shorter period being more favorable, by the current balance in the Reserve for Long Term Benefit Goals and the net amount remaining to be allocated in the future.

The current benefit level of SDRS combined with the present financing and the relatively small amount of the unfunded actuarial accrued liability results in a very well-funded system that is providing benefits essentially equal to the resources available. In addition, the actual investment return in excess of the assumed rate of return of 8 percent per annum from July 1, 1994 through June 30, 2000 has resulted in a substantial Reserve for Funding of Long Term Benefit Goals as of June 30, 2001.



SDRS is a consolidated, multiple-employer, cost-sharing retirement system that does not attempt to determine separate or unique funding requirements for entities within SDRS. However, the 2001 Actuarial Valuation confirmed that the two major employee groups within SDRS with different funding and benefit provisions (Class A and Class B) are self-supporting (i.e., the member and employer contributions are funding the benefits provided under these classifications).

The combination of actuarial assumptions and methods used in the Actuarial Valuation, the actual experience of the system, and the actuarial measures utilized all indicate a continuing sound system.

Net Actuarial Value of Assets as of June 30, 2000	\$3,891,471,418
Contributions and Disbursements	
Contributions	118,008,897
Benefit Payments	(177,419,977)
Administrative Expenses	<u>(2,403,024)</u>
Total	(61,814,104)
Expected Investment Return	308,845,149
SDRS Liability and Change in Actuarial Assumption Loss	<u>29,483,298</u>
Projected Net Actuarial Value of Assets as of June 30, 2001	4,167,985,761
Present Value of Benefits Enacted into Law as of June 30, 2001	<u>0</u>
Net Actuarial Value of Assets as of June 30, 2001	4,167,985,761
Reserve for Funding of Long Term Benefit Goals	<u>353,417,817</u>
Preliminary Actuarial Value of Assets as of June 30, 2001	4,521,403,578
Market Value of Assets as of June 30, 2001	4,939,705,889
Constraining Values	
80% of Market Value of Assets	3,951,764,711
120% of Market Value of Assets	5,927,647,067
<b>Actuarial Value of Assets as of June 30, 2001</b>	<b><u>\$4,521,403,578</u></b>

## Development of the SDRS Actuarial Value of Assets

As of June 30, 2001

## ACTUARIAL VALUATION (CONTINUED)

### Benefit and Funding Objectives and Historical Summary

The benefit objective of SDRS is to meet the needs of short and long term members by providing:

- Lifetime Income replacement of 70 percent -85 percent of final pay for career employees (including Social Security)
- Inflation protection before and after retirement
- Early retirement opportunities
- Vesting after three years of credited service
- Disability and survivor income protection
- A portable retirement option that allows members to elect a refund of both member and employer contributions, plus interest
- Risk-free market interest rate credited on member and employer contributions

The Funded Ratio and Funding Period are the primary measures of SDRS's soundness.

The SDRS objective is to maintain a Funding Ratio in excess of 95 percent and a Funding Period of 30 years or less.

The schedule below presents the historical Actuarial Accrued Liability Funded Ratio and the Funding Period.

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Actuarial Accrued Liability Funded Ratio	Funding Period
1986	\$ 875,821,002	\$ 742,055,584	84.7%	37 years
1988	1,078,235,569	1,050,836,113	97.5%	6 years
1990	1,404,616,511	1,275,091,534	90.8%	46 years
1992	1,714,482,245	1,605,481,514	93.6%	16 years
1994	2,108,309,129	1,945,856,251	92.3%	38 years
1996	2,539,008,893	2,390,236,436	94.1%	30 years
1997	2,956,497,152	2,813,304,611	95.2%	23 years
1998	3,471,898,003	3,337,293,439	96.1%	22 years
1999	3,997,927,795	3,875,171,467	96.9%	21 years
2000	4,611,913,087	4,427,102,390	96.0%	20 years
2001	4,688,408,562	4,521,403,578	96.4%	20 years



The schedule below compares total Actuarial Accrued Liabilities to smoothed assets at actuarial value and unfunded actuarial accrued liabilities to payroll over time.

## Summary of Accrued and Unfunded Accrued Liabilities

The smoothed assets to total liabilities ratios show the growth of assets compared to the growth of liabilities. The unfunded liabilities to covered payroll ratios are a measure of the ability of SDRS to meet its long term obligations.

Level or increasing values for the first ratio and level or declining values for the second ratio are an indication of stable or improving funding.

Fiscal Year	Total Actuarial Accrued Liability	Actuarial Value of Assets	Actuarial Assets as a % of Total Actuarial Liability	Unfunded Actuarial Accrued Liability	Total Covered Payroll (000,000)	Unfunded Liability as a % of Payroll
1985-86	\$ 875,821,002	\$ 742,055,584	84.7%	\$133,765,418	\$481.5	27.8%
1987-88	1,078,235,569	1,050,836,113	97.5%	27,399,456	530.0	5.2%
1989-90	1,404,616,511	1,275,091,534	90.8%	129,524,977	582.7	22.2%
1991-92	1,714,482,245	1,605,481,514	93.6%	109,000,731	694.3	15.7%
1993-94	2,108,309,129	1,945,856,251	92.3%	162,452,878	788.6	20.6%
1995-96	2,539,008,893	2,390,236,436	94.1%	148,772,457	820.1	18.1%
1997	2,956,497,152	2,813,304,611	95.2%	143,192,541	835.1	17.1%
1998	3,471,898,003	3,337,293,439	96.1%	134,604,564	875.9	15.4%
1999	3,997,927,795	3,875,171,467	96.9%	122,756,328	902.5	13.6%
2000	4,611,913,087	4,427,102,390	96.0%	184,810,697	944.6	19.6%
2001	4,688,408,562	4,521,403,578	96.4%	167,004,984	1,029.7	16.2%

The solvency test is a comparison of the adequacy of SDRS smoothed assets to the AAL for: 1) active member contributions; 2) benefits for present benefit recipients; and 3) employer-financed active member benefits.

## Solvency Test

Fiscal Year	Actuarial Accrued Liability for			Actuarial Value of Assets	Portion of Actuarial Accrued Liability Covered by Actuarial Value of Assets for		
	(1) Member Contributions	(2) Current Retirees and Beneficiaries and Terminated Employees	(3) Current Employees: Employer Financed		(1)	(2)	(3) <sup>1</sup>
1985-86	\$189,168,241	\$ 278,555,327	\$408,097,434	\$ 742,055,584	100.0%	100.0%	67.2%
1987-88	231,163,590	397,780,471	449,291,508	1,050,836,113	100.0%	100.0%	93.9%
1989-90	283,584,495	524,168,024	596,863,992	1,275,091,534	100.0%	100.0%	78.3%
1991-92	350,130,362	685,091,034	679,260,849	1,605,481,514	100.0%	100.0%	84.0%
1993-94	421,403,799	834,896,391	852,008,939	1,945,856,251	100.0%	100.0%	80.9%
1995-96	484,228,278	1,017,938,827	1,036,841,788	2,390,236,436	100.0%	100.0%	85.7%
1997	517,164,580	1,158,342,002	1,280,990,570	2,813,304,611	100.0%	100.0%	88.8%
1998	553,386,759	1,375,461,393	1,543,049,851	3,337,293,439	100.0%	100.0%	91.3%
1999	560,276,444	1,595,941,304	1,841,710,047	3,875,171,467	100.0%	100.0%	93.3%
2000	618,625,484	1,889,571,734	2,103,715,869	4,427,102,390	100.0%	100.0%	91.2%
2001	624,310,539	2,045,346,869	2,018,751,154	4,521,403,578	100.0%	100.0%	91.7%

<sup>1</sup>Indicates the percentage of liabilities in this category currently funded, after fully funding categories (1) and (2).

## ACTUARIAL VALUATION (CONTINUED)

### Schedule of Active Member Valuation Data

The schedule below presents information about the system's active membership used in the current and previous Actuarial Valuations.

Valuation Date	# of Active Members	Covered Payroll (000,000)	Average Annual Pay	% Increase In Average Pay
1986	27,367	\$481.5	\$17,594	N/A
1987	27,906	\$500.2	\$17,924	1.9%
1988	28,411	\$530.0	\$18,655	4.1%
1989	28,749	\$554.9	\$19,302	3.5%
1990	29,378	\$582.7	\$19,835	2.8%
1991	30,524	\$616.8	\$20,207	1.9%
1992	31,717	\$694.3	\$21,890	8.3%
1993	32,512	\$731.1	\$22,487	2.7%
1994	33,301	\$788.6	\$23,681	5.3%
1995	33,390	\$811.1	\$24,292	2.6%
1996	32,624	\$820.1	\$25,139	3.5%
1997	32,397	\$835.1	\$25,776	2.5%
1998	32,903	\$875.9	\$26,620	3.3%
1999	33,664	\$902.5	\$26,810	0.7%
2000	34,180	\$944.6	\$27,637	3.1%
2001	34,887	\$1,029.7	\$29,515	6.8%

### Schedule of Retirees and Beneficiaries Added To and Removed From Benefit Payroll

The schedule below identifies retirees and beneficiary information used in the current and previous Actuarial Valuations.

Valuation Date	Beginning of Year Balance	Number Added To Payroll	Number Removed From Payroll	End of Year Balance	Annual Pension Benefit Amount	Average Annual Benefit	% Increase in Average Benefit
1987-88 <sup>1</sup>				9,404	\$ 32,817,633	\$3,490	N/A
1989-90	9,404	1,546	648	10,302	44,891,914	4,358	24.9%
1991-92	10,302	1,897	975	11,224	56,770,199	5,058	16.1%
1993-94	11,224	1,958	1,203	11,979	69,456,850	5,798	14.6%
1995-96	11,979	2,618	1,579	13,018	85,445,388	6,564	13.2%
1997	13,018	1,079	435	13,662	98,531,146	7,212	9.9%
1998	13,662	864	460	14,066	111,082,677	7,897	9.5%
1999	14,066	856	550	14,372	127,027,784	8,839	11.9%
2000	14,372	1,069	513	14,928	147,900,089	9,908	12.1%
2001	14,928	998	536	15,390	161,127,803	10,470	5.7%

<sup>1</sup> Only biennial data available. Data prior to fiscal year 1988 not available.



## Comparison of Actuarial Valuation Results

	2000 Valuation	2001 Valuation	Change
<b>Active Members</b>			
Number	34,180	34,887	2.1%
Average Age	44.0	44.2	0.5%
Average Credited Service	10.6	10.5	-0.9%
Annual Compensation	\$944,616,766	\$1,029,673,056	9.0%
Average Annual Compensation	\$27,637	\$29,515	6.8%
<b>Benefit Recipients</b>			
RETIRED MEMBERS			
Number	12,251	12,657	3.3%
Average Age	72.4	72.2	-0.3%
Total Annualized Benefits	\$131,076,727	\$143,280,183	9.3%
Average Annualized Benefits	\$10,699	\$11,320	5.8%
BENEFICIARIES			
Number	2,270	2,334	2.8%
Total Annualized Benefits	\$13,072,450	\$14,002,644	7.1%
Average Annualized Benefits	\$5,759	\$5,999	4.2%
DISABILITIES			
Number	407	399	-2.0%
Total Annualized Benefits	\$3,750,912	\$3,844,976	2.5%
Average Annualized Benefits	\$9,216	\$9,637	4.6%
TOTAL BENEFIT RECIPIENTS			
Number	14,928	15,390	3.1%
Total Annualized Benefits	\$147,900,089	\$161,127,803	8.9%
Average Annualized Benefits	\$9,908	\$10,470	5.7%
<b>Terminated Members</b>			
Number—Vested	4,849	5,253	8.3%
Number—Non-Vested	4,583	5,063	10.5%
<b>Valuation Results</b>			
Normal Cost (without expenses)	8.956%	9.218%	2.9%
(with expenses)	9.229%	9.491%	2.8%
Frozen Unfunded Actuarial			
Accrued Liability	\$184,810,697	\$167,004,984	-9.6%
Market Value of Assets	\$5,156,294,800	\$4,939,705,889	-4.2%
Actuarial Value of Assets	\$4,427,102,390	\$4,521,403,578	2.1%
Actuarial Accrued Liability (AAL)	\$4,611,913,087	\$4,688,408,562	1.7%
Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets/AAL)			
	96.0%	96.4%	0.4%
Projected Years to Fund Level			
Funding Requirements	20 Years	20 Years	N/A

# SUMMARY OF PLAN AND ACTUARIAL METHOD CHANGES

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There were no benefit improvements made to SDRS during the 2001 South Dakota Legislative session. As a result, the SDRS benefit provisions remain unchanged from the 2000 Actuarial Valuation.

There were no changes in the actuarial assumptions since the 2000 Actuarial Valuation.

The following is a summary of changes in actuarial methods effective July 1, 2001.

## **Recognition of Investment Returns to the Reserve for Funding of Long Term Benefit Goals**

### **Prior Methodology**

The Reserve for Funding of Long Term Benefit Goals is equal to the cumulative amounts credited or debited annually based on the five-year recognition of Actuarial Investment Gains or Losses and the five-year recognition of SDRS liability gains or losses, less reductions for benefit improvements enacted into law. The Reserve may also be reduced to meet funding objectives and to maintain a minimum balance between Market Value of Assets and Actuarial Value of Assets.

### **Methodology Change**

The Reserve for Funding of Long Term Benefit Goals is equal to the cumulative amounts credited or debited annually based on the immediate recognition of Actuarial Investment Losses, the five-year recognition of Actuarial Investment Gains and the five-year recognition of SDRS liability gains or losses, less reductions for benefit improvements enacted into law. The Reserve may also be reduced to meet funding objectives and to maintain a minimum balance between Market Value of Assets and Actuarial Value of Assets.



# PLAN SUMMARY



## South Dakota Retirement System (SDRS).

SDRS was established effective July 1, 1974. The Supreme and Circuit Court Judicial Retirement System, District County Court and Municipal Court Judges' Retirement Program, South Dakota Teachers' Retirement System, South Dakota Municipal Retirement System, South Dakota Law Enforcement Retirement System, South Dakota Public Employees' Retirement System and South Dakota Board of Regents Retirement System (effective July 1, 1975) were consolidated into SDRS.

SDRS is a governmental retirement system created by Act of the State of South Dakota. The Retirement System is administered by the Board of Trustees consisting of two state government Members; two teacher Members; a participating municipality Member; a participating county Member; a currently contributing Class B Member other than a justice, judge or magistrate judge; a justice, judge, or magistrate judge; a participating classified employee Member; one head of a principal department or one head of a bureau under the office of executive management; an individual appointed by the Governor; a county commissioner of a participating county; a school district board member; an elected municipal official of a participating municipality; a faculty or administrative Member employed by the Board of Regents; a retiree; and an investment council representative, ex-officio non-voting.

The Board of Trustees appoints an Administrator as the System's chief executive officer.

Employers include the State of South Dakota and its departments, bureaus, boards, or commissions, and any of its governmental or political subdivisions or any public corporation of the State of South Dakota that elects to become a participating unit.

All of the following permanent full-time employees are included as Members in the System:

- All state employees;
- All teachers;
- All justices, judges, and magistrate judges;
- All law enforcement employees of counties and municipalities that are participating with their Class B employees;
- All general employees of counties and municipalities that are participating with their Class A employees;
- All classified employees of school districts that are participating with their classified employees;
- All employees of the Board of Regents;
- All state law enforcement officers.

### Effective Date

### Type of System

### Employers Included

### Members

## PLAN SUMMARY (CONTINUED)

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Employees of the Department of Labor hired before July 1, 1980 who elected to remain covered under a former retirement plan, employees of the state cement plant, and members of the governing body of any participating county, municipality, or other public subdivision are excluded from SDRS membership.

Membership is immediate upon hire and is subdivided into two classes as follow:

- Class A Member: All Members other than Class B Members.
- Class B Member: Members who are justices, judges and magistrate judges (*Class B Judicial Members*) and state law enforcement officers, municipal police, municipal firefighters, penitentiary correctional staff, county sheriffs, deputy county sheriffs, conservation officers, parole agents, air rescue firefighters, campus security officers, court services officers, certain park rangers and certain jailers (*Class B Public Safety Members*).

Class A Members constitute 94 percent of SDRS membership.

### Service Considered

Credited Service is the period of employment for an SDRS Member which is considered for eligibility for benefits and in determining the amount of benefits. It includes the following:

- Years and fractional years for which Member Contributions were made.
- The period of non-contributory service credited prior to July 1, 1974 under the prior retirement systems consolidated under this System.
- For employees of the Board of Regents, the period of service between April 1, 1964 and June 30, 1975 for which purchase was made to Bankers Life and the period of service prior to April 1, 1964, up to a maximum of 20 years, for which purchase was made.
- Periods of non-contributory service credited due to specific legislation since 1974.

Credited Service may be purchased for public employment for which Members are not entitled to retirement benefits, at a cost of 75 percent of twice the Member Contribution rate applied to current Compensation. Credited Service is purchased with an after-tax payment unless the Member's Employer elects to permit purchase on a pre-tax basis under Section 414(h) of the Internal Revenue Code.

### Compensation

Compensation is W-2 wages, plus any amount used to purchase a Member's individual retirement plan, plus a Member's Contribution to SDRS made on a before-tax basis, plus any amount contributed to a Section 125 cafeteria plan, paid during the period of Credited Service. Compensation for Members hired after June 30, 1996 is limited as prescribed in Section 401(a)(17) of the Internal Revenue Code.



Final Average Compensation is the highest average annual Compensation earned by a Member during 12 consecutive calendar quarters of the last 40 such quarters during periods of Credited Service. The Final Average Compensation is limited by statutory provisions that prevent extraordinary increases in Compensation immediately before retirement.

## Final Average Compensation

Employer Contributions equal those amounts contributed by Members.

## Employer Contributions

Class A Members: 5 percent of Compensation; after June 30, 2002, 6 percent of compensation

Class B Public Safety Members: 8 percent of Compensation

Class B Judicial Members: 9 percent of Compensation

## Member Contributions

Member Contributions are made on a pre-tax basis as permitted under Section 414(h) of the Internal Revenue Code.

Accumulated Contributions are equal to Member and Employer Contributions (or 75 percent of Employer contributions for Members with less than three years of Credited Service) credited with interest on a monthly basis at a rate annually established by the Board of Trustees, that is no greater than 90 percent of the average 91-day U.S. Treasury Bill rate for the immediately preceding calendar year. Such rate shall not be less than 5 percent nor more than 10 percent.

## Accumulated Contributions

Eighty percent of the benefits provided as “primary insurance amount *or* primary Social Security” under the Federal Social Security Act.

## Other Public Benefits

The annual increase in the amount of the SDRS benefits payable on each July 1st equal to a 3.1 percent increase compounded annually, prorated if the benefit has not been paid for at least 12 months.

## Cost-of-Living Adjustment (COLA)

All benefits except those depending on the Member’s Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

The Normal Retirement Date is age 65 with three years of Credited Service for Class A and Class B Judicial Members of the System. Normal Retirement Date is age 55 with three years of Credited Service for Class B Public Safety Members.

## Normal Retirement Date

## PLAN SUMMARY (CONTINUED)

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### **Normal Retirement Benefit**

Members are entitled to retire with a benefit commencing the first of the month in which they reach Normal Retirement Date and payable for life, with an automatic 60 percent surviving spouse's benefit paid for the spouse's lifetime.

### **Class A Benefit**

The Class A benefit is the larger of that provided by the following Standard Formula or Alternate Formula:

#### Standard Formula

##### **Enhanced Benefit**

1.625 percent times Final Average Compensation times years of Credited Service as a Class A Member before July 1, 2002, **plus**

##### **Base Benefit**

1.3 percent times Final Average Compensation times years of Credited Service as a Class A Member after July 1, 2002.

OR

#### Alternate Formula

##### **Enhanced Benefit**

2.325 percent times Final Average Compensation times years of Credited Service as a Class A Member before July 1, 2002, **plus**

##### **Base Benefit**

2.0 percent times First Average Compensation times years of Credited Service as a Class A Member after July 1, 2002, **less**

80 percent of Primary Social Security benefit.

### **Class B Public Safety Benefit**

The Class B benefit for Class B Public Safety Members is:

##### **Enhanced Benefit**

2.325 percent times Final Average Compensation times years of Credited Service as a Class B Public Safety Member before July 1, 2002, **plus**

##### **Base Benefit**

2.0 percent times Final Average Compensation times years of Credited Service as a Class B Public Safety Member after July 1, 2002.

### **Class B Judicial Benefit**

The Class B benefit for Class B Judicial Members is determined by adding the Enhanced and Base Benefit for both the first 15 years of Credited Service and years of Credited Service in excess of 15, as follows:



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### First 15 years of Credited Service

#### **Enhanced Benefit**

3.658 percent times Final Average Compensation times the first 15 years of Credited Service as a Class B Judicial Member before July 1, 2002, **plus**

#### **Base Benefit**

3.333 percent times Final Average Compensation times all other such years of Credited Service as a Class B Judicial Member after July 1, 2002.

**PLUS**

### Years of Credited Service in Excess of 15

#### **Enhanced Benefit**

2.325 percent times Final Average Compensation times years of Credited Service as a Class B Judicial Member before July 1, 2002, in excess of 15 years, **plus**

#### **Base Benefit**

2.0 percent times Final Average Compensation times all other such years of Credited Service as a Class B Judicial Member after July 1, 2002.

All of the above benefits are paid monthly.

SDRS benefits are limited to the maximum benefit under Section 415 of the Internal Revenue Code.

The monthly benefit payable upon retirement after Normal Retirement Date is based on Credited Service and Final Average Compensation to date of actual retirement.

The Special Early Retirement Date for Class A Members is the date at which a Member's age plus Credited Service total 85, but not less than age 55. The Special Early Retirement Date for Class B Judicial Members is the date at which age plus Credited Service total 80, but not less than age 55. The Special Early Retirement Date for Class B Public Safety Members is the date at which age plus Credited Service total 75, but not less than age 45.

Members are entitled to retire at Special Early Retirement Date with a benefit equal to the Normal Retirement Benefit based on Credited Service and Final Average Compensation to date of retirement, with no reduction for early payment.

Any Member with at least three years of Credited Service can retire in the ten years preceding Normal Retirement Date. The Member will be entitled to receive the Normal Retirement Benefit based on Credited Service and Final

## **Delayed Retirement Benefit**

## **Special Early Retirement Age (Rule of 85, Rule of 80 and Rule of 75)**

## **Early Retirement Benefit**

## PLAN SUMMARY (CONTINUED)

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Average Compensation to date of retirement, reduced by 1/4 of 1 percent for each full month by which commencement of payments precedes the earlier of the Normal Retirement Date or the Special Early Retirement Date. Benefits commence on the first of the month following retirement (or the date chosen for payment to commence) and 30 days after the application for retirement benefits has been received by SDRS.

### **Vested Benefit and Portable Retirement Option**

A terminated Member with at least three years of Credited Service will be entitled to receive the Normal or Early Retirement Benefit payable at either Normal or Early Retirement based on the Member's Credited Service at the time of termination of employment and increased by the Cost-of-Living Adjustment from the date of termination to the date benefits commence.

In lieu of any monthly lifetime retirement benefits under the System, a terminating Member may receive a lump sum of his Accumulated Contributions under the Portable Retirement Option. Members who are rehired may re-deposit their Accumulated Contributions plus interest within two years of rehire to reinstate their Credited Service.

### **Disability Benefit**

A contributing Member, who becomes disabled with at least three years of Credited Service, or was disabled by accidental means while performing the usual duties of his job, is entitled to an immediate monthly Disability Benefit.

The Disability Benefit is equal to:

- For the first 36 months, 50 percent of the Highest Annual Compensation earned in any one of the last three years of Credited Service, increased 10 percent for each eligible child to a maximum of four children. The maximum benefit payable is 100 percent of such Compensation (increased by the Cost-of-Living Adjustment) reduced by earned income.
- Starting with the 37th month,
  - if the Member is receiving disability benefits from Social Security, the greater of:
    - 50 percent of the Highest Annual Compensation plus 10 percent for each eligible child to a maximum of 90 percent less the amount of primary Social Security.
    - 20 percent of Highest Annual Compensation increased by the COLA
    - The unreduced accrued retirement benefit
  - if the Member is not receiving disability benefits from Social Security, the greater of:
    - 20 percent of Highest Annual Compensation increased by the COLA
    - The unreduced accrued retirement benefit

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The maximum benefit is 100 percent of Highest Annual Compensation (increased by the Cost-of-Living Adjustment) reduced by earned income and Primary Social Security.

The above benefits are payable monthly.

At age 65 (or when there are no eligible children, if later), but not before five years of disability, the benefit payable is converted to the Normal Retirement Benefit based on Compensation increased by the Cost-of-Living Adjustment for the period between the date of disability and Normal Retirement Date (Projected Compensation), and Credited Service as if employment had continued uninterrupted to Normal Retirement Date (Projected Credited Service).

### Pre-Normal Retirement Age and Post-Disability Deaths

If an active Member with at least one year of Credited Service, or a Member receiving a disability benefit commencing after July 1, 1974 dies, the surviving spouse having the care of eligible dependent children will receive an immediate benefit equal to 40 percent of the Highest Annual Compensation earned in any one of the last three years of Credited Service, increased 10 percent for each child to a maximum of six children. If the surviving eligible dependent children are under the care of a guardian, the benefit payable will be 20 percent of the Highest Annual Compensation earned by the Member in any one of the last three years of Credited Service for each child (to a maximum of five children).

The above survivor benefits are all payable monthly and reduced by 75 percent of primary Social Security without improvements.

If no benefit is payable as defined above or payment has ceased, and the Member's Accumulated Contributions have not been withdrawn, the spouse is entitled to receive at age 65 a benefit equal to 60 percent of the Normal Retirement Benefit that would have been payable to the deceased Member at Normal Retirement Date based on Projected Credited Service and Projected Compensation, and further increased by the Cost-of-Living Adjustment for any time between Normal Retirement Date and payment commencement date.

### Post-Normal Retirement Age and Post-Retirement Deaths

Upon the death of a retiree or any Member at or beyond Normal Retirement Age, the surviving spouse is entitled to receive 60 percent of the monthly retirement benefit the Member was receiving or was eligible to receive.

## Survivor Benefits

## PLAN SUMMARY (CONTINUED)

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### Accumulated Contributions as Minimum Benefits

If the aggregate benefit payments received by a Member and the Member's beneficiary (excluding benefits received under the Optional Spouse Coverage benefit provisions) do not equal the sum of the Accumulated Contributions then the difference will be paid to the Member's designated beneficiary, children or estate in a lump sum.

### Optional Spouse Coverage

A Member may elect to provide an additional benefit payable to the surviving spouse within 365 days after becoming a Member, within 90 days following attainment of age 35, or within 90 days after the first anniversary of marriage. This optional coverage may continue until the Member's spouse attains age 65, the death or disability of the Member, the death of the Member's spouse, termination of the Member's marriage to his spouse, or the Member's termination of employment.

The elected additional monthly benefit is equal to 40 percent of the Highest Annual Compensation earned in any one of the last three years of Credited Service multiplied by the Cost-of-Living Adjustment for each full year between the date of death or disability of the Member to payment commencement. Such benefit is paid from the time there are no eligible dependent children until the spouse dies or attains age 65.

The cost of this protection is paid by the Member through an additional contribution of 8/10 of 1 percent of Compensation, which amount will not be matched by the Employer and is not refundable.

### Optional Forms of Retirement Payments

The monthly retirement benefits may be modified to an optional form of payment which is the actuarial equivalent of the benefit due under the System. A Social Security level income payment option is available for Members who retire before age 62.

### Administrative Expenses

Administrative expenses are paid from the System's expense fund in an amount not to exceed 3 percent of the annual Member and Employer Contributions received by the System.

### Retired Members

Retired Members' benefits have been increased to reflect the benefit formula currently in effect for active Members.

**This plan summary is effective July 1, 2001.**



# INVESTMENT SUMMARY

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## **Investment Analysis**

The Investment Council

Investment Objectives and Strategies

Prudent Man Standard

Performance

Real Rates of Return

Investment Managers

Schedule of Investment Management Expenses and Commissions

Summary of Investments of Investment Portfolios

Equity Profile

Bond Profile

Time-Weighted Rates of Return

Time-Weighted Annualized Rates of Return

Asset Allocation

# INVESTMENT SUMMARY

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## The Investment Council

The SDRS Trust Fund is invested under the direction of the South Dakota Investment Council. The council is composed of five members at large with financial backgrounds, the state treasurer, the school and public lands commissioner and an appointee from SDRS. The council is a policy making board and attends to matters such as asset allocation, portfolio strategy and the selection or dismissal of outside investment managers.

The data in the investment section of this report was prepared by the South Dakota Investment Council in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS™). The South Dakota Retirement System in conjunction with the South Dakota Investment Council and external auditors, KPMG LLP, prepared the investment section of this report.

## Investment Objectives and Policy

The South Dakota Investment Council has five objectives for managing the assets of the South Dakota Retirement System. The goal is to assure the continued financial health of SDRS.

Meeting the first two objectives as follows will assure that this goal is met.

- Achieve the actuarial required rate of return over the long term;
- Achieve a return in excess of the actuarial rate of return over the long term;

While these first two objectives were not met this current fiscal year, they were exceeded over the last ten years. By meeting or exceeding the first objective, SDRS will be able to pay current and projected benefits. By meeting or exceeding the second objective over the long term, SDRS will be able to improve benefits and ultimately reach the system's long term goals for benefit levels.

The remaining three objectives attempt to measure performance on a relative basis. The final three objectives are important in judging the Investment Council's delivery of competitive returns as compared to established benchmarks and to large pension plans making up a peer universe.

- Achieve favorable total fund performance relative to a capital market benchmark reflective of the Investment Council's normal asset allocation policy;

The third objective is important in judging the Investment Council's delivery of a competitive rate of return. This objective means that the performance of all actively managed assets are to be measured against the indexed returns that would be earned if the assets were invested in the Investment Council's selected capital market benchmarks.



- Achieve favorable specific asset category performance relative to the identified capital market benchmark;

The Investment Council strives to outperform the passive opportunity that exists in each of the asset categories in which SDRS assets are involved.

- Achieve favorable performance over the long term relative to professionally managed multi-billion dollar pension funds.

The last objective evaluates the Investment Council performance relative to other large professionally managed plans.

The key investment policy decision made by the Investment Council is asset allocation. The policy reflects their best judgement of the risk versus return trade-off that all investors must make. The Investment Council makes this judgement based on an assessment of long term future expected rates of return and in part on historical returns of stocks, bonds, cash and other capital market areas. Certain behavioral characteristics of these asset categories, such as standard deviation (measure of risk) and correlation (the degree that asset prices tend to move in the same or different direction) play an important role in making the asset allocation decision.

State law requires that the South Dakota Retirement System Trust Fund be invested according to the “prudent man” standard. South Dakota Codified Law defines the “prudent man” standard as follows:

Any investment under the provisions of SD Codified Law Sections 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of the degree of judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercised in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Though monthly benefit payments exceed monthly contributions, the South Dakota Retirement System is not subject to sudden, substantial and unexpected withdrawals. As a result, it is not necessary to have a high percentage of assets in short-term investments unless this is deemed to be the best investment strategy. This allows the Trust Fund to be as fully invested in stocks, bonds and other alternatives as investment strategy dictates.

## Prudent Man Standard

## INVESTMENT SUMMARY (CONTINUED)

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### Performance

SDRS investment performance for fiscal year (FY) 2001 was negative for the first time since inception in 1974. The total fund return for FY 2001 was -2.9 percent. The Investment Council's benchmark return for FY 2001 was -5.1 percent. This capital marker benchmark was 36 percent domestic equity, 16 percent international equity, 23 percent fixed income, 9 percent arbitrage, 8 percent real estate, 3 percent private equity and 5 percent cash. The 10-year annualized return was 12.5 percent versus the benchmark return of 11.2 percent.

The internal equity fund earned -14.9 percent in FY 2001 versus a benchmark return of -15.0 percent. The 10-year return for the internal equity fund was 15.4 percent versus a benchmark return of 15.0 percent.

SDRS's bond fund returned 10.0 percent in FY 2001 versus a benchmark return of 11.2 percent. The 10-year return for the internal bond fund was 9.0 percent versus a benchmark return of 8.1 percent.

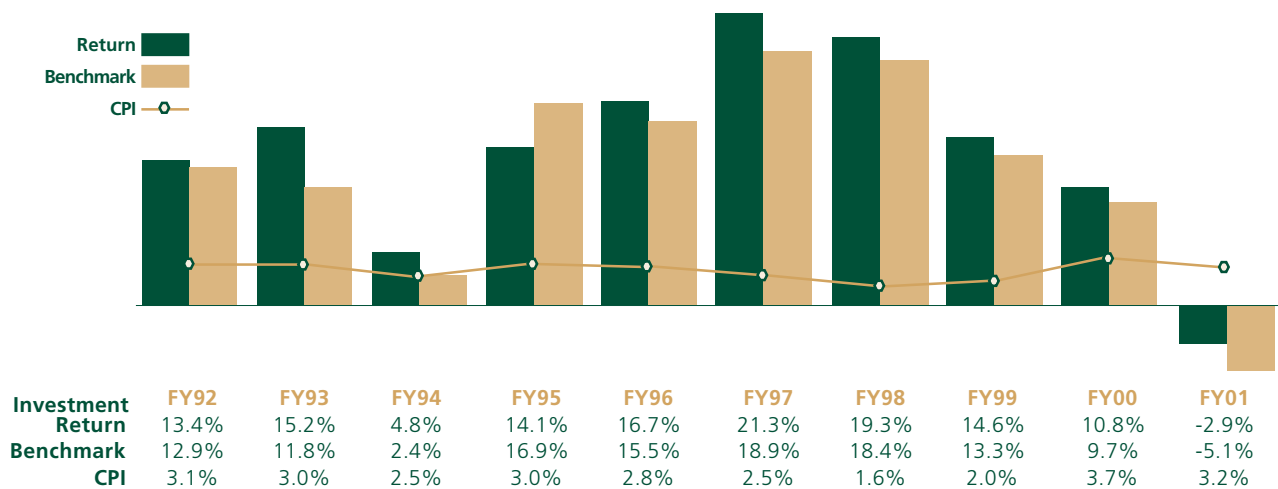
Returns earned by other portfolios and outside managers in FY 2001 (included in total fund returns) were: 6.2 percent Merger Arbitrage; 6.5 percent Convertible Arbitrage; -3.0 percent Internal International; -4.5 percent Acadian International; -29.3 percent Emerging Markets; -26.6 percent DFA; -22.9 percent Nicholas Applegate. Blackstone, Cypress, Apollo, AIG, Capital International, Emerging Markets Private Equity, Doughty Hanson, KKR, Crossroads, Silver Lake and DLJ Merchant Bankers do not have time-weighted rates of return because of the nature of their investments.

### Real Rates of Return

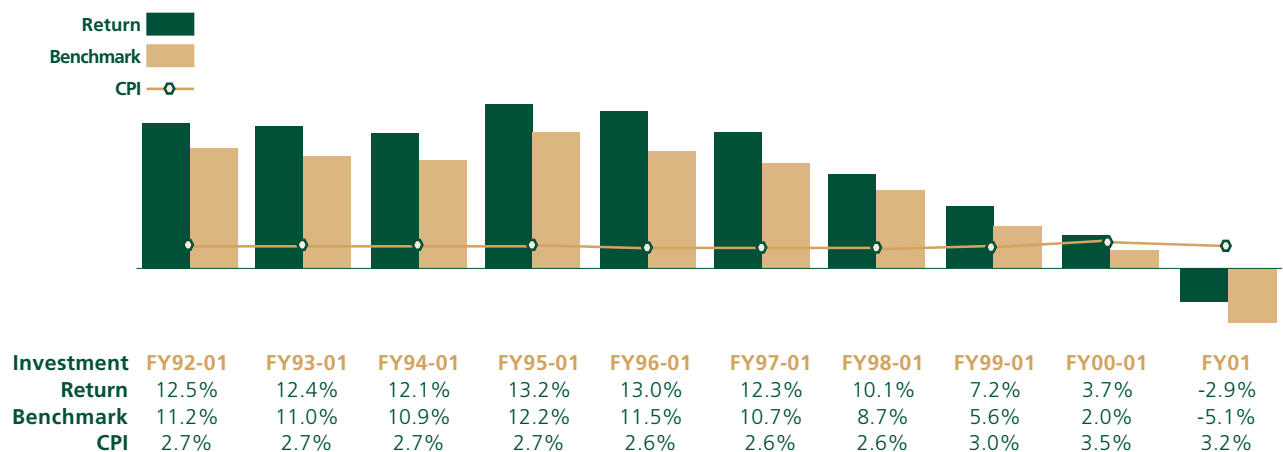
The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS's total return over time is a key indicator of the financial strength of the system.

During FY 2001 inflation averaged 3.2 percent while SDRS's total return was -2.9 percent. This shortfall of 6.1 percent was the first since 1990. Over the last 10 years, inflation has averaged 2.7 percent and total returns 12.5 percent, creating a real return of 9.8 percent.

## Investment Performance Compared to Capital Market Benchmark and Inflation



## Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



## INVESTMENT SUMMARY (CONTINUED)

### Investment Managers

As of June 30, 2001, the South Dakota Investment Office managed 87 percent of SDRS's investments. The remaining 15 percent was invested by outside managers selected and monitored by the South Dakota Investment Council. The following are the outside managers that were selected by the investment council. Capital International (\$51.0 million), Acadian (\$52.3 million), Nicholas Applegate (\$25.3 million), and Dimensional Fund Advisors (\$20.2 million) invest in international equities. Blackstone (\$186.3 million), Doughty Hanson (\$9.7 million) and Apollo (\$82.2 million) invest in distressed real estate. DLJ Merchant Bankers (\$23.4 million), Capital International (\$6.9 million), AIG (\$15.5 million), KKR (\$7.2 million), Crossroads (\$73.9 million), Silver Lake (\$19.7 million) and Cypress (\$37.5 million) invest in private equity.

### Schedule of Investment Management Expenses and Commissions for the Year Ended June 30, 2001

#### Schedule of Investment Management Expenses

Investment Managers	Management Expense
South Dakota Investment Council	\$ 2,513,881
Capital International	705
Dimensional Fund Advisors, Inc.	46,542
Acadian International	79,047
Blackstone Real Estate Partners	815,662
Apollo Real Estate Investments	947,813
Nicholas Applegate	634,759
DLJ Merchant Bankers	340,671
KKR	675,000
Crossroads	747,685
Silver Lake	559,758
Doughty Hanson	1,110,152
Cypress Merchant Banking Partners L.P.	1,126,585
<b>Total Investment Manager Expenses</b>	<b>\$9,598,260</b>

#### Summary of Broker Commissions\*

Investment Type	Commissions
Fixed Income	\$ 549,314
Equity	5,495,703

\* For an itemized list of commissions by broker, contact SDRS.



## Summary of Investments of Investment Portfolios

As of June 30, 2001

	Market Value	Future Positions	Exposure With Futures	Percentage with Futures Overlay On Cash Markets
<b>Domestic Fixed Income</b>				
Internal Domestic Fixed Income	\$1,062,263,342	\$68,478,811	\$1,130,742,153	23.0%
<b>Domestic Equity</b>				
Internal Domestic Equity	\$1,739,590,523	257,777,229	\$1,997,367,752	40.6%
<b>International Equity</b>				
Internal International Equity	\$657,675,238			
Acadian Management	52,296,927			
Dimensional Fund Advisors	20,243,906			
Capital International	51,024,248			
Nicholas Applegate Securities	<u>25,262,803</u>			
Total International Equity	\$806,503,121		806,503,121	16.4%
<b>Arbitrage Equity</b>				
Internal Merger Arbitrage	\$325,087,818			
Internal Convertible Arbitrage	<u>136,387,737</u>			
Total Arbitrage Equity	\$461,475,555		461,475,555	9.4%
<b>Real Estate</b>				
Blackstone Partnerships	\$186,284,586			
Apollo	82,215,616			
Doughty Hanson	<u>9,659,619</u>			
Total Real Estate	\$278,159,821		278,159,821	5.7%
<b>Private Equities</b>				
KKR	\$ 7,172,192			
Crossroads	73,897,958			
Silverlake	19,659,732			
Cypress Associates, L.P.	37,512,525			
Capital International	6,853,748			
AIG	15,495,943			
DLJ Overseas Partners II	<u>23,362,518</u>			
Total Private Equities	\$183,954,616		183,954,616	3.7%
<b>Cash and Cash Equivalents</b>				
Internal Shift	<u>\$388,966,933</u>	<u>-326,256,040</u>	<u>62,710,893</u>	<u>1.3%</u>
<b>Total</b>	<b><u>\$4,920,913,911</u></b>	<b><u>\$0</u></b>	<b><u>\$4,920,913,911</u></b>	<b><u>100.0%</u></b>

## INVESTMENT SUMMARY (CONTINUED)

### Equity Profile

The South Dakota Retirement System Trust Fund's internally managed equity portfolio characteristics for the past 10 years are presented below. The S&P 500 characteristics are presented for comparative purposes for the years ended 1990–94. The Russell 1000 Characteristics are presented for the years ended 1995–00. Beta is 1.0 for the S&P 500 and Russell 1000 by definition.

South Dakota Investment Office	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Price/Earnings Ratio	23.2	20.2	15.6	13.4	15.7	22.1	25.0	29.6	27.0	26.0
Dividend Yield	3.3%	2.9%	2.7%	2.7%	2.3%	1.6%	1.4%	1.4%	1.2%	1.4%
Price/Book Value Ratio	1.8	2.3	2.3	3.2	3.9	5.2	4.8	7.5	10.4	5.4
Beta	0.95	0.94	0.97	1.02	1.00	1.02	0.99	1.02	1.01	1.01

### S&P 500 / Russell 1000

Price/Earnings Ratio	25.1	23.5	19.5	15.8	19.3	21.7	25.9	33.6	30.3	25.6
Dividend Yield	3.0%	2.8%	2.9%	2.5%	2.2%	1.7%	1.4%	1.2%	1.1%	1.3%
Price/Book Value Ratio	2.5	2.8	2.8	3.8	4.3	5.0	5.7	8.4	11.2	5.7

### Glossary

Price/Earnings Ratio—Ratio derived from price divided by earnings.

Dividend Yield—Current dividends divided by current price expressed as a percentage.

Price/Book Value Ratio—Ratio derived from price divided by book value per share.

Beta (Market Sensitivity)—The historical relation between market movements and movements in the prices of securities in a current portfolio.

### Ten Largest Holdings

Holding	Percent of Equity Portfolio
General Electric Co.	3.7%
Citigroup, Inc.	2.7%
Microsoft Corp.	2.6%
Pfizer, Inc.	2.6%
American International Group, Inc.	1.9%
Merck & Co., Inc.	1.9%
Intel Corp.	1.8%
Exxon Mobil Corp.	1.8%
Cisco Systems, Inc.	1.8%
Wells Fargo & Co.	1.7%
<b>Total</b>	<b>22.5%</b>

### Distribution by Market Sector

Market Sector	SDRS Total Equity	Russell 1000
Business Equipment & Service	1.9%	3.6%
Capital Goods/Technology	20.6%	20.6%
Consumer Durables/Shelter	4.2%	2.7%
Consumer Non-Durables	4.8%	6.4%
Consumer Services/Retail	11.2%	11.7%
Energy	5.6%	5.5%
Financial Services	21.1%	18.4%
Health Care	12.3%	13.9%
Multi-Industry	4.3%	5.0%
Raw Materials	2.0%	1.8%
Transportation	0.6%	0.9%
Utilities	9.3%	9.5%
Cash Equivalents	2.1%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\* A complete list of holdings is available in the annual report of the South Dakota Investment Council.

South Dakota Investment Council  
4009 West 49th Street, Suite 300  
Sioux Falls, SD 57106-3784





The South Dakota Retirement System Trust Fund's internally managed Fixed income (bond) portfolio characteristics for the past 10 years are presented below. The Lehman Aggregate Bond Index is presented for comparative purposes. The Cash Equivalents percent represents the percentage of the total bond portfolio invested in cash equivalents.

## Bond Profile

### South Dakota

Investment Office	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number of Issues	57	61	66	47	48	55	56	62	60	67
Average Coupon	7.79%	7.11%	6.26%	7.69%	6.76%	6.87%	6.84%	6.32%	6.23%	6.68%
Yield to Maturity	7.60%	6.07%	7.29%	7.28%	7.34%	7.36%	6.66%	7.09%	7.76%	7.01%
Average Maturity (Years)	9.97	9.96	7.98	9.27	6.58	7.68	8.51	7.70	6.88	7.02
Duration (Years) <sup>1</sup>	5.94	6.46	5.65	5.56	4.92	5.81	5.85	6.07	5.56	5.56
Average Quality <sup>2</sup>	3.48	3.36	3.40	3.24	3.28	3.12	3.02	3.15	3.22	3.33
Cash Equivalent %	4.8%	5.7%	20.9%	14.0%	14.6%	0.4%	0.9%	2.2%	5.80%	0.5%

### Lehman Aggregate Bond Index

Number of Issues	6142	6076	6124	5167	5463	5799	6860	7180	5974	2912
Average Coupon	8.56%	7.96%	7.48%	7.41%	7.23%	7.20%	7.06%	6.74%	6.85%	6.75%
Yield to Maturity	6.87%	5.78%	7.41%	6.61%	6.95%	6.83%	6.14%	6.58%	7.24%	6.10%
Average Maturity (Years)	9.13	8.79	9.02	8.64	8.76	8.53	8.35	8.89	7.77	8.24
Duration (Years) <sup>1</sup>	5.08	5.02	5.18	5.09	5.15	5.27	5.37	5.54	4.91	4.74

<sup>1</sup> The weighted average maturity of the stream of payments associated with a bond.

<sup>2</sup> (AAA = 4, AA =3, A = 2, BAA =1)

The South Dakota Retirement System fixed income portfolio profile distribution is as follows.

### Duration

	Percent
0 to 2 years	3.1%
2 to 3 years	16.7%
3 to 4 years	14.2%
4 to 5 years	17.5%
5 to 6 years	19.7%
6 to 8 years	11.4%
Above 8 years	17.4%
<b>Total</b>	<b>100.0%</b>

### Distribution by Quality Rating

	Percent
Cash/Cash Equivalents	0.5%
AAA	61.8%
AA	0.5%
A	8.0%
BAA	11.7%
BA	12.7%
B	4.8%
<b>Total</b>	<b>100.0%</b>

### Distribution by Coupon

	Percent
Cash/Cash Equivalents	0.5%
0.0% - 6.5%	36.7%
6.51% - 7.5%	33.3%
7.51% - 9.0%	21.6%
9.01% and over	7.9%
<b>Total</b>	<b>100.0%</b>

### Distribution by Issue

	Percent
Cash/Cash Equivalents	0.5%
U.S. Treasury/Agency	32.1%
Mortgage Backed Securities	29.7%
Investment Grade Corporates	20.2%
High Yield Corporates	17.5%
<b>Total</b>	<b>100.0%</b>

## Time-Weighted Rates of Return

<b>SOUTH DAKOTA RETIREMENT SYSTEM</b>	<b>Fiscal 1992</b>	<b>Fiscal 1993</b>	<b>Fiscal 1994</b>	<b>Fiscal 1995</b>
<b>TOTAL INVESTMENT FUND</b>	<b>13.4%</b>	<b>15.2%</b>	<b>4.8%</b>	<b>14.1%</b>
Cash Equivalents	5.1%	3.4%	3.4%	5.6%
Investment Office Bond Fund	16.3%	16.2%	-0.1%	14.1%
Investment Office Equity Fund	12.4%	14.9%	4.8%	21.8%
Arbitrage Convertible Fund			4.1%	9.8%
Arbitrage Merger Fund	9.5%	3.7%	15.3%	12.2%
International Composite	9.6%	9.9%	22.7%	7.5%
<b>INDICIES</b>				
<b>Bond Index</b>				
Fixed Income Benchmark	14.2%	12.0%	-1.2%	12.5%
<b>Equity Index</b>				
Standard & Poor's 500	13.4%	13.6%	1.4%	26.1%
Russell 1000	14.7%	15.3%	0.7%	25.5%
<b>International Index</b>				
3/4 EAFE/ 1/4 EASEA		14.7%	17.6%	5.3%
<b>Total Fund Benchmarks</b>				
Russell/Mellon Total Billion Dollar Funds	12.7%	13.9%	4.3%	15.8%
Capital Market Benchmark	12.9%	11.8%	2.4%	16.9%
Consumer Price Index	3.1%	3.0%	2.5%	3.0%

## Time-Weighted Annualized Rates of Return

<b>SOUTH DAKOTA RETIREMENT SYSTEM</b>	<b>Fiscal 1992-2001</b>	<b>Fiscal 1993-2001</b>	<b>Fiscal 1994-2001</b>	<b>Fiscal 1995-2001</b>
<b>TOTAL INVESTMENT FUND</b>	<b>12.5% 5</b>	<b>12.4%</b>	<b>12.1%</b>	<b>13.2%</b>
Cash Equivalents	5.1%	5.1%	5.3%	5.6%
Investment Office Bond Fund	9.0%	8.2%	7.3%	8.4%
Investment Office Equity Fund	15.4%	15.8%	15.9%	17.6%
Arbitrage Convertible Fund			8.5%	9.1%
Arbitrage Merger Fund	13.9%	14.4%	15.8%	15.8%
Internal International		12.7%	13.6%	12.4%
International Composite	10.5%	13.5%	14.0%	14.6%
<b>INDICIES</b>				
<b>Bond Index</b>				
Fixed Income Benchmark	8.1%	7.5%	6.9%	8.1%
<b>Equity Index</b>				
Standard & Poor's 500	15.1%	15.3%	15.6%	17.7%
Russell 1000	15.0%	15.2%	15.4%	17.6%
<b>International Index</b>				
3/4 EAFE/ 1/4 EASEA		7.9%	7.0%	5.6%
<b>Total Fund Benchmarks</b>				
Russell/Mellon Total Billion Dollar Funds	12.0%	12.0%	11.7%	13.0%
Capital Market Benchmark	11.2%	11.0%	10.9%	12.2%
Consumer Price Index	2.7%	2.7%	2.7%	2.7%

Rankings for total funds are against the State Fund Universe.  
Ranking system: low number equals high rank (1 = top rank; 100 = bottom rank).

<b>Fiscal 1996</b>	<b>Fiscal 1997</b>	<b>Fiscal 1998</b>	<b>Fiscal 1999</b>	<b>Fiscal 2000</b>	<b>Fiscal 2001</b>
<b>16.7%</b>	<b>21.3%</b>	<b>19.3%</b>	<b>14.6%</b>	<b>10.8%</b>	<b>-2.9%</b>
5.8%	5.3%	5.6%	5.1%	5.7%	6.0%
5.9%	9.9%	12.6%	2.4%	4.3%	10.0%
28.1%	33.2%	32.5%	19.0%	11.3%	-14.9%
10.0%	11.4%	10.0%	7.6%	8.7%	6.5%
17.6%	18.8%	21.8%	16.5%	18.4%	6.2%
21.9%	24.1%	-3.4%	21.1%	11.1%	-6.9%
6.2%	9.6%	11.2%	2.9%	3.8%	11.2%
26.0%	34.8%	30.3%	22.7%	7.4%	-14.8%
26.3%	32.3%	30.2%	21.9%	9.2%	-15.0%
13.7%	16.3%	10.5%	6.2%	16.4%	-23.0%
17.4%	20.4%	18.4%	11.5%	11.1%	-5.8%
15.5%	18.9%	18.4%	13.3%	9.7%	-5.1%
2.8%	2.5%	1.6%	2.0%	3.7%	3.2%

<b>Fiscal 1996-2001</b>	<b>Fiscal 1997-2001</b>	<b>Fiscal 1998-2001</b>	<b>Fiscal 1999-2001</b>	<b>Fiscal 2000-2001</b>	<b>Fiscal 2001</b>
<b>13.0%</b>	<b>12.3%</b> 2	<b>10.1%</b> 5	<b>7.2%</b> 7	<b>3.7%</b> 22	<b>-2.9%</b> 21
5.6%	5.6%	5.6%	5.6%	5.8%	6.0%
7.5%	7.8%	7.2%	5.5%	7.1%	10.0%
16.9%	14.7%	10.5%	4.1%	-2.7%	-14.9%
9.0%	8.8%	8.2%	7.6%	7.6%	6.5%
16.4%	16.2%	15.6%	13.6%	12.2%	6.2%
12.9%	10.9%	7.4%	8.9%	3.1%	-3.0%
13.3%	14.5%	12.7%	9.1%	16.0%	11.1%
7.4%	7.7%	7.2%	5.9%	7.4%	11.2%
16.4%	14.5%	10.0%	3.9%	-4.4%	-14.8%
16.2%	14.3%	10.2%	4.2%	-3.6%	-15.0%
5.7%	4.1%	1.3%	-1.6%	-5.3%	-23.0%
12.3%	11.2%	8.8%	6.0%	3.2%	-5.8%
11.5%	10.7%	8.7%	5.6%	2.0%	-5.1%
2.6%	2.6%	2.6%	3.0%	3.5%	3.2%

Ranking system: low number equals high rank (1 = top rank; 100 = bottom rank)

## INVESTMENT SUMMARY (CONTINUED)

### Asset Allocation

Asset Allocation is an investor's most important investment issue. The South Dakota Investment Council and Office spend a significant amount of time dealing with complicated issues relating to the risk of the portfolio versus the likelihood of achieving the investment objectives for the South Dakota Retirement System.

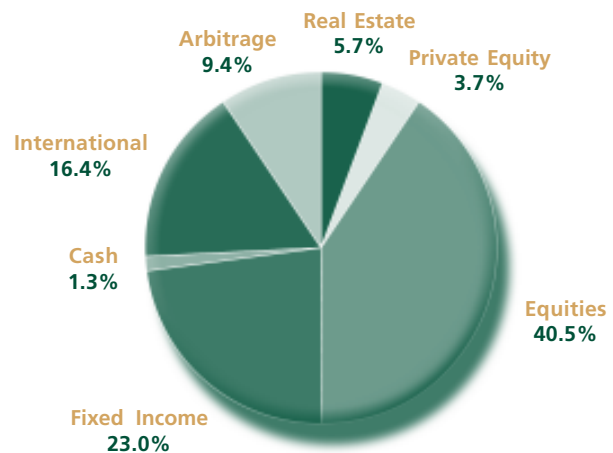
Three years ago, the Investment Office prepared two in-depth analyses for the study by the Investment Council. The first dealt with the overall domestic equity-like characteristics that are implicit in a diversified portfolio, which invests in a variety of different asset categories. The analysis determined that the equity-like characteristics of the portfolio represent 57 percent of the assets. Under a bad-time scenario the overall equity-like characteristics could rise to 66 percent.

The second important analysis was related to the likelihood that SDRS's financial health would survive a truly significant bear market in financial assets. The portfolio was stress tested against the worst domestic stock and bond market since World War II. Under this severe testing, SDRS weathered the storm and maintained its financial health.

SDRS's asset allocation and underlying asset performance have continued to generate an attractive risk versus return profile. Ongoing analysis dealing with both the risk and return potential inherent in the Investment Council's asset allocation is an important element of continuing successful asset management for SDRS.

### Asset Allocation as of June 30, 2001

	6/30/99	6/30/00	6/30/01
<b>Equities</b>	38.1%	35.7%	40.5%
<b>Fixed Income</b>	22.0%	23.1%	23.0%
<b>Cash</b>	8.4%	5.3%	1.3%
<b>International</b>	15.2%	16.0%	16.4%
<b>Arbitrage</b>	7.5%	8.9%	9.4%
<b>Real Estate</b>	7.3%	6.7%	5.7%
<b>Private Equity</b>	1.5%	4.4%	3.7%



# STATISTICAL SUMMARY

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## **Membership Profile**

Public Entities Participating in SDRS

SDRS Benefits Paid

Membership by Age

Membership by County of Residence

Membership by Group

Benefit Recipients by Group

Historical Views

# MEMBERSHIP PROFILE

## Public Entities Participating in SDRS

All teachers, higher education personnel, and legislative, executive and judicial employees are required to participate in SDRS. Counties, municipalities and other public entities, however, have the option of participating, and school districts may choose whether or not to include their classified employees.

The following schedules list SDRS participating entities by group, the number of active members in each group and each group's percentage of the 34,887 total active members as of June 30, 2001.

## School Districts

**Membership: 16,211**  
**Percentage of Total  
Active Members: 46.5%**  
**Units: 189**

Aberdeen	Dell Rapids	Hitchcock	Northeast Ed	Viborg
Agar	DeSmet	Hot Springs	Serv	Wagner
Alcester	Deubrook Area	Hoven	Northwest Area	Wakonda
Alpena	Deuel	Howard	Northwest Ind	Wall
Andes Central	Doland	Hub Area	Northwestern	Warner
Arlington	Douglas	Hurley	Oahe Special Ed	Watertown
Armour	Dupree	Huron	Oelrichs	Waubay
Artesian-Letcher	Eagle Butte	Hyde County	Oldham-Ramona	Waverly
Avon	East Central	Ipswich	Parker	Webster
Baltic	East Dakota Ed	Irene	Parkston	Wessington
Belle Fourche	Edgemont	Iroquois	Pierre	Wessington
Bennett County	Edmunds Central	Isabel	Plankinton	Wessington
Beresford	Elk Mountain	Jones County	Platte	West Central
Big Stone City	Elk Point-	Kadoka	Pollock	White Lake
Bison	Jefferson	Kimball	Polo	White River
Black Hills	Elkton	Lake Area Multi	Rapid City	Willow Lake
Special Serv	Elm Valley	Lake Central	Redfield	Wilmot
Bonesteel-Fairfax	Emery	Lake Preston	Rosholt	Winner
Bon Homme	Estelline	Lake Region	Roslyn	Wolsey
Bowdle	Ethan	Langford	Rutland	Wood
Brandon Valley	Eureka	Lead-Deadwood	Scotland	Woonsocket
Bridgewater	Faith	Lemmon	Selby Area	Yankton
Bristol	Faulkton	Lennox	Shannon County	
Britton	Flandreau	Leola	Sioux Falls	
Brookings	Florence	Lyman	Sioux Valley	
Burke	Freeman	McCook Central	Sisseton	
Canistota	Garretson	McIntosh	Smea	
Canton	Gayville-Volin	McLaughlin	South Central	
Carthage	Geddes	Marion	South East Area	
Castlewood	Gettysburg	Meade County	South Shore	
Centerville	Grant-Deuel	Menno	Spearfish	
Chamberlain	Gregory	Mid-Central Multi	Stanley County	
Chester	Groton	Service Coop	Stickney	
Clark	Haakon	Midland	Sully Buttes	
Colman-Egan	Hamlin	Millbank	Summit	
Colome	Hanson	Miller	Three Rivers	
Conde	Harding	Mitchell	Timber Lake	
Cornbelt Coop	Harrisburg	Mobridge	Todd County	
Corsica	Harrold	Montrose	Tripp-Delmont	
Cresbard	Hecla-Houghton	Mt. Vernon	Tri-Valley	
Children's Care	Henry	Newell	Tulare	
Custer	Herreid	New Underwood	Veblen	
Dakota Valley	Hill City	North Central Coop	Vermillion	

## Legislative, Executive and Judicial Agencies

**Membership: 7,610**  
**Percentage of Total Active  
Members: 21.8%**  
**Units: 1**

Executive Management	Military and Veterans Affairs	Secretary of State
Agriculture	Revenue	State Auditor
Commerce and Regulation	Social Services	State Treasurer
Corrections	Tourism	Legislative Audit
Education & Cultural Affairs	Transportation	Legislative Research Council
Game, Fish and Parks	Vocational Rehabilitation	Unified Judicial System
Health	Water and Natural Resources	SD Investment Council
Human Services	Attorney General	SD Retirement System
Labor	Public Utilities Commission	
Lottery	School and Public Lands	



Board of Regents Central Office  
 University of South Dakota  
 South Dakota State University  
 South Dakota School of Mines  
 and Technology  
 Northern State University  
 Black Hills State University

Dakota State University  
 South Dakota School for the Visually  
 Handicapped  
 South Dakota School for the Deaf  
 University of South Dakota Medical School

## Institutions of Higher Education

**Membership: 3,824**

**Percentage of Total Active Members: 10.9%**

**Units: 1**

Aberdeen	Clark	Groton	Lead	Parkston	Tripp
Alcester	Clear Lake	Harrisburg	Lemmon	Philip	Tyndall
Arlington	Colman	Hartford	Lennox	Pickstown	Valley Springs
Armour	Conde	Hayti	Leola	Pierre	Veblen
Aurora	Custer	Hecla	Madison	Plankinton	Vermillion
Avon	Deadwood	Hermosa	Marion	Platte	Viborg
Belle Fourche	Dell Rapids	Herreid	Martin	Pollock	Volga
Beresford	Edgemont	Highmore	McLaughlin	Presho	Wagner
Big Stone City	Egan	Hill City	Menno	Pukwana	Wakonda
Bison	Elk Point	Hot Springs	Midland	Rapid City	Wall
Box Elder	Elkton	Howard	Milbank	Redfield	Watertown
Brandon	Emery	Humboldt	Miller	Roscoe	Waubay
Britton	Estelline	Hurley	Mitchell	Salem	Webster
Brookings	Eureka	Huron	Mobridge	Scotland	Wessington
Buffalo	Faith	Ipswich	Murdo	Selby	Springs
Burke	Faulkton	Irene	New	Sinai	White
Canistota	Flandreau	Jefferson	Underwood	Sisseton	White Lake
Canton	Ft. Pierre	Kadoka	Newell	Spearfish	White River
Carthage	Freeman	Kennebec	North Sioux	Springfield	Whitewood
Castlewood	Garretson	Keystone	City	Stickney	Winner
Centerville	Gary	Lake Andes	Oacoma	Sturgis	Woonsocket
Chamberlain	Gettysburg	Lake Norden	Onida	Tabor	Worthing
Chancellor	Gregory	Langford	Parker	Tea	Yankton

## Municipalities

**Membership: 3,560**

**Percentage of Total Active Members: 10.2%**

**Units: 135**

Aurora	Codington	Faulk	Jerauld	Miner	Stanley
Beadle	Corson	Grant	Jones	Minnehaha	Sully
Bon Homme	Custer	Gregory	Lake	Moody	Tripp
Brookings	Davison	Haakon	Lawrence	Pennington	Turner
Brown	Day	Hamlin	Lincoln	Perkins	Union
Brule	Deuel	Hand	Lyman	Potter	Walworth
Butte	Dewey	Hanson	Marshall	Roberts	Yankton
Campbell	Douglas	Harding	McCook	Sanborn	Ziebach
Charles Mix	Edmunds	Hughes	McPherson	Spink	
Clark	Fall River-	Hutchinson	Meade	Springdale	
Clay	Shannon	Hyde	Mellette	Twp.	

## Counties

**Membership: 3,386**

**Percentage of Total Active Members: 9.7%**

**Units: 61**

Aberdeen Housing	Haakon Cty Conv Dist	Mitchell Housing
Assoc School Boards	Hanson-McCook Reg Library	N.E. Council of Govts
B-Y Water Dist	Harding Cty Cons	Pennington Cty Housing Dev
Beadle Cty Cons	Hamlin Cty Cons	Perkins Cty Cons
Belle Fourche Irrigation	Heartland Consumer Power	Pierre Housing & Redev
Black Hawk Water Dist	Hot Springs Housing	Randall Community Water
Black Hills Local Govt	Hyde Cty Cons Dist	Rapid Valley Sanitary Dist
Brown-Marshall Cons	Jerauld Cons Dist	Redfield Housing
Brule-Buffalo Cons	Kingsbury Cty Cons	Sioux Falls Airport Authority
Butte-Meade Sanitary Dist	Lake Madison Sanitary Dist	Sisseton Housing
Campbell Cty Cons	Lead-Deadwood Sanitary Dist	South Brown Cty Cons
Canton Housing and Redev	Lennox Housing	Southern Missouri Recycle
Central SD Enhancement Dist	Lincoln Cty Cons	SD Building Authority
Clark Cty Cons	Marshall Cty Cons	SD Housing Authority
Codington Cty Cons	McCook-Lake Sanitary Dist	SD Municipal League
Dakota Dunes Improvement	Meade Cty Housing & Redev	SD Assoc of Cty Comm
Dakota Valley Fire	Mid-Dak Water Redev	SD Assoc of Cty Officials
Davison Cons Dist	Milbank Housing & Redev	Spink Cty Cons
Day Cty Cons	Miller Housing & Redev	Walworth Cty Cons
Deuel Cty Cons	Mina Lake Water Dist	Webster Housing
East Dakota Water Dev	Miner Cty Cons	West River Water Dev Dist
Edmunds Cty Cons	Minnehaha Cty Cons	
Grant Cty Cons	Missouri Valley Ambul	

## Other Public Entities

**Membership: 296**

**Percentage of Total Active Members: 0.9%**

**Units: 67**

# MEMBERSHIP PROFILE (CONTINUED)

## SDRS Benefits Paid

### SDRS Benefits Paid by County of Residence

County	Members Receiving Benefits	Annual Benefits <sup>1</sup>	County	Members Receiving Benefits	Annual Benefits <sup>1</sup>
Aurora	88	\$680	Hyde	30	226
Beadle	411	4,143	Jackson	32	390
Bennett	35	345	Jerauld	29	213
Bon Homme	218	1,882	Jones	29	270
Brookings	864	10,342	Kingsbury	87	860
Brown	764	8,645	Lake	306	3,005
Brule	97	895	Lawrence	503	5,305
Buffalo	2	7	Lincoln	174	1,680
Butte	132	847	Lyman	53	518
Campbell	40	270	Marshall	125	1,108
Charles Mix	163	1,497	McCook	64	696
Clark	94	588	McPherson	53	460
Clay	406	5,085	Meade	323	3,212
Codington	444	5,162	Mellette	31	214
Corson	29	368	Miner	63	496
Custer	179	1,797	Minnehaha	1327	18,050
Davison	391	4,240	Moody	99	888
Day	135	1,150	Pennington	1556	19,312
Deuel	86	519	Perkins	71	523
Dewey	47	469	Potter	77	677
Douglas	39	331	Roberts	139	1,177
Edmunds	63	624	Sanborn	64	528
Fall River	189	1,419	Shannon	9	80
Faulk	111	803	Spink	346	2,522
Grant	144	1,325	Stanley	85	1,071
Gregory	89	762	Sully	25	142
Haakon	37	325	Todd	33	223
Hamlin	86	930	Tripp	116	1,076
Hand	74	723	Turner	172	1,565
Hanson	36	310	Union	159	1,387
Harding	29	209	Walworth	155	1,561
Hughes	841	11,572	Yankton	568	5,392
Hutchinson	175	1,765	Ziebach	12	101

**Total Benefits Payable by County 13,453 \$144,959**

### SDRS Benefits Paid Outside of South Dakota

State	Members Receiving Benefits	Annual Benefits <sup>1</sup>	State	Members Receiving Benefits	Annual Benefits <sup>1</sup>
Arizona	271	\$3,032	Texas	91	727
California	86	645	Washington	49	401
Colorado	91	770	Wyoming	75	559
Florida	61	658			
Iowa	106	881	Other States and Foreign Countries	627	4,899
Minnesota	227	1,839			
Nebraska	176	1,194			
North Dakota	77	564			

**Total Benefits Payable Outside South Dakota 1,937 \$16,169**

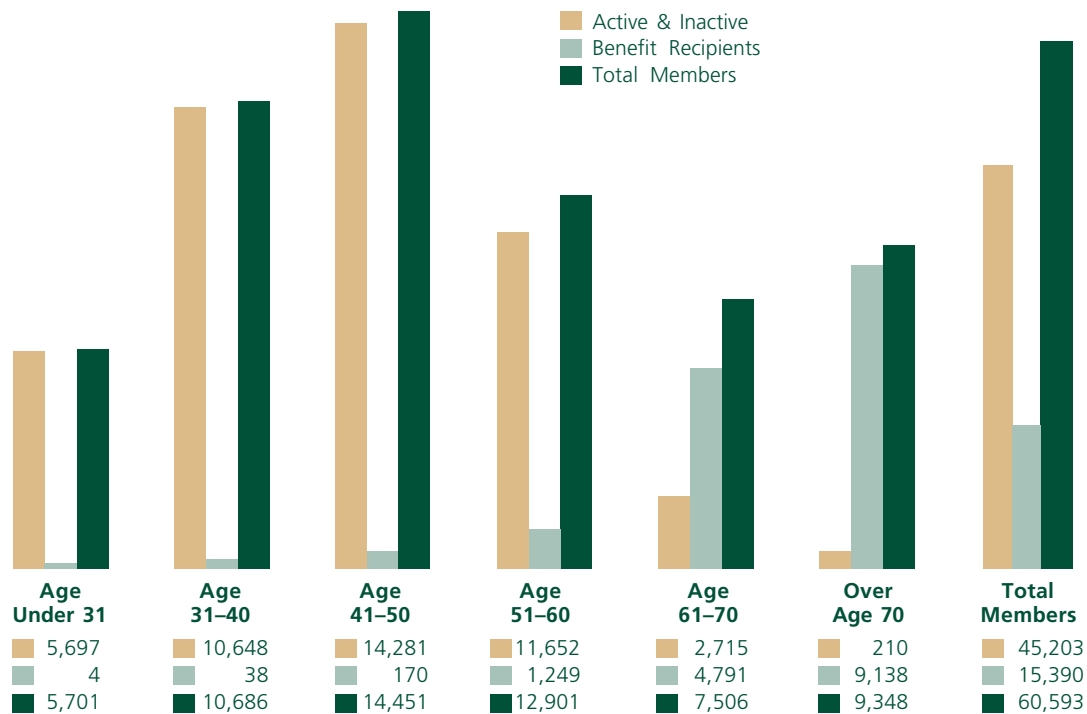
**Total Benefit Recipients and Benefits Payable 15,390 \$161,128**

<sup>1</sup> In thousands

<sup>2</sup> Total represents the annualized benefits payable as of July 1, 2001.



## Membership by Age



County	Total Members	County	Total Members	County	Total Members
Aurora	321	Fall River	732	McPherson	184
Beadle	1,266	Faulk	303	Meade	1,482
Bennett	145	Grant	416	Mellette	197
Bon Homme	748	Gregory	367	Miner	215
Brookings	3,651	Haakon	183	Minnehaha	6,100
Brown	2,820	Hamlin	454	Moody	417
Brule	420	Hand	245	Pennington	6,325
Buffalo	5	Hanson	172	Perkins	235
Butte	309	Harding	125	Potter	243
Campbell	134	Hughes	3,870	Roberts	569
Charles Mix	661	Hutchinson	554	Sanborn	221
Clark	334	Hyde	129	Shannon	120
Clay	1,863	Jackson	141	Spink	1,213
Codington	1,828	Jerauld	51	Stanley	511
Corson	218	Jones	117	Sully	131
Custer	765	Kingsbury	412	Todd	453
Davison	1,244	Lake	1,026	Tripp	507
Day	477	Lawrence	2,059	Turner	601
Deuel	329	Lincoln	814	Union	745
Dewey	305	Lyman	238	Walworth	501
Douglas	215	Marshall	401	Yankton	2,109
Edmunds	241	McCook	325	Ziebach	100
				Out of State	5,981

**Total Membership 60,593**

## Membership by County of Residence

**Active, Inactive and Retired Members**

# MEMBERSHIP PROFILE (CONTINUED)

## Membership by Group

	Active Members			Inactive Members			Total Members
	Vested	Non-Vested	Total Active	Vested	Non-Vested	Total Inactive	
<b>Board of Regents</b>							
Female	653	202	855	190	148	338	1,193
Male	1,012	246	1,258	292	139	431	1,689
<b>Total</b>	<b>1,665</b>	<b>448</b>	<b>2,113</b>	<b>482</b>	<b>287</b>	<b>769</b>	<b>2,882</b>
<b>County General</b>							
Female	1,056	466	1,522	206	224	430	1,952
Male	1,014	405	1,419	126	178	304	1,723
<b>Total</b>	<b>2,070</b>	<b>871</b>	<b>2,941</b>	<b>332</b>	<b>402</b>	<b>734</b>	<b>3,675</b>
<b>County Public Safety</b>							
Female	28	22	50	2	7	9	59
Male	260	135	395	17	12	29	424
<b>Total</b>	<b>288</b>	<b>157</b>	<b>445</b>	<b>19</b>	<b>19</b>	<b>38</b>	<b>483</b>
<b>Judicial</b>							
Female	10	0	10	0	1	1	11
Male	42	4	46	4	0	4	50
<b>Total</b>	<b>52</b>	<b>4</b>	<b>56</b>	<b>4</b>	<b>1</b>	<b>5</b>	<b>61</b>
<b>Municipal General</b>							
Female	794	389	1,183	190	260	450	1,633
Male	1,303	382	1,685	132	163	295	1,980
<b>Total</b>	<b>2,097</b>	<b>771</b>	<b>2,868</b>	<b>322</b>	<b>423</b>	<b>745</b>	<b>3,613</b>
<b>Municipal Public Safety</b>							
Female	12	8	20	4	5	9	29
Male	523	166	689	27	33	60	749
<b>Total</b>	<b>535</b>	<b>174</b>	<b>709</b>	<b>31</b>	<b>38</b>	<b>69</b>	<b>778</b>
<b>Public School &amp; Board of Regents Classified</b>							
Female	3,343	1,777	5,120	880	1,441	2,321	7,441
Male	1,220	636	1,856	233	545	778	2,634
<b>Total</b>	<b>4,563</b>	<b>2,413</b>	<b>6,976</b>	<b>1,113</b>	<b>1,986</b>	<b>3,099</b>	<b>10,075</b>
<b>State General</b>							
Female	2,565	1,025	3,590	550	545	1,095	4,685
Male	2,376	767	3,143	376	346	722	3,865
<b>Total</b>	<b>4,941</b>	<b>1,792</b>	<b>6,733</b>	<b>926</b>	<b>891</b>	<b>1,817</b>	<b>8,550</b>
<b>State Public Safety &amp; Penitentiary</b>							
Female	90	63	153	7	38	45	198
Male	501	167	668	35	71	106	774
<b>Total</b>	<b>591</b>	<b>230</b>	<b>821</b>	<b>42</b>	<b>109</b>	<b>151</b>	<b>972</b>
<b>Teachers</b>							
Female	6,893	1,155	8,048	1,439	634	2,073	10,121
Male	2,690	487	3,177	543	273	816	3,993
<b>Total</b>	<b>9,583</b>	<b>1,642</b>	<b>11,225</b>	<b>1,982</b>	<b>907</b>	<b>2,889</b>	<b>14,114</b>
<b>Grand Total</b>							
Female	15,445	5,106	20,551	3,468	3,303	6,771	27,322
Male	10,941	3,395	14,336	1,785	1,760	3,545	17,881
<b>Total</b>	<b>26,386</b>	<b>8,501</b>	<b>34,887</b>	<b>5,253</b>	<b>5,063</b>	<b>10,316</b>	<b>45,203</b>

## Benefit Recipients by Group

	Retirement Benefits		Disability Benefits		Survivor Benefits		Total Benefits	
	2000	2001	2000	2001	2000	2001	2000	2001
<b>Board of Regents</b>								
Male	625	651	6	7	6	9	637	667
Female	184	198	2	3	150	156	336	357
Total	809	849	8	10	156	165	973	1,024
<b>County General</b>								
Male	482	487	41	44	31	32	554	563
Female	510	527	15	16	251	262	776	805
Total	992	1,014	56	60	282	294	1,330	1,368
<b>County Public Safety</b>								
Male	73	77	3	4	1	1	77	82
Female	5	5	0	0	13	13	18	18
Total	78	82	3	4	14	14	95	100
<b>Judicial</b>								
Male	31	28	0	0	0	0	31	28
Female	1	1	0	0	15	16	16	17
Total	32	29	0	0	15	16	47	45
<b>Municipal General</b>								
Male	471	482	31	30	19	21	521	533
Female	292	299	8	8	237	237	537	544
Total	763	781	39	38	256	258	1,058	1,077
<b>Municipal Public Safety</b>								
Male	253	261	30	32	0	0	283	293
Female	2	2	4	4	57	56	63	62
Total	255	263	34	36	57	56	346	355
<b>Public School &amp; Board of Regents Classified</b>								
Male	588	607	30	31	83	84	701	722
Female	1,423	1,487	40	38	229	227	1,692	1,752
Total	2,011	2,094	70	69	312	311	2,393	2,474
<b>State General</b>								
Male	1,381	1,419	60	54	74	79	1,515	1,552
Female	1,203	1,242	53	50	565	589	1,821	1,881
Total	2,584	2,661	113	104	639	668	3,336	3,433
<b>State Public Safety &amp; Penitentiary</b>								
Male	187	196	4	6	1	1	192	203
Female	6	7	0	0	31	34	37	41
Total	193	203	4	6	32	35	229	244
<b>Teachers</b>								
Male	1,372	1,455	24	21	207	212	1,603	1,688
Female	3,162	3,226	56	51	300	305	3,518	3,582
Total	4,534	4,681	80	72	507	517	5,121	5,270
<b>Grand Total</b>								
Male	5,463	5,663	229	229	422	439	6,114	6,331
Female	6,788	6,994	178	170	1,848	1,895	8,814	9,059
<b>Total</b>	<b>12,251</b>	<b>12,657</b>	<b>407</b>	<b>399</b>	<b>2,270</b>	<b>2,334</b>	<b>14,928</b>	<b>15,390</b>

## MEMBERSHIP PROFILE (CONTINUED)

### Historical Views

#### Benefit Recipients and Benefits Paid

Group	1996	1997	1998	1999	2000	2001
Board of Regents	804	867	902	931	973	1,024
County General	1,153	1,198	1,225	1,292	1,330	1,368
County Public Safety	68	79	82	88	95	100
Judicial	49	51	48	49	47	45
Municipal General	948	968	996	1,029	1,058	1,077
Municipal Public Safety	278	306	319	327	346	355
Public School & Board of Regents Classified	1,957	2,109	2,230	2,283	2,393	2,474
State General	2,987	3,132	3,196	3,239	3,336	3,433
State Public Safety & Penitentiary	217	237	244	254	229	244
Teachers	4,557	4,715	4,824	4,880	5,121	5,270
<b>Total Benefit Recipients</b>	<b>13,018</b>	<b>13,662</b>	<b>14,066</b>	<b>14,372</b>	<b>14,928</b>	<b>15,390</b>
<b>Total Benefits Paid During Period</b>	<b>\$81,908,211</b>	<b>\$89,903,989</b>	<b>\$100,699,600</b>	<b>\$113,705,428</b>	<b>\$133,775,649</b>	<b>\$153,192,955</b>
<b>Average Benefits Paid During Period</b>	<b>\$6,292</b>	<b>\$6,581</b>	<b>\$7,159</b>	<b>\$7,912</b>	<b>\$8,961</b>	<b>\$9,954</b>

#### Active and Inactive Members

Group	1996	1997	1998	1999	2000	2001
Board of Regents	2,622	2,668	2,781	2,798	2,830	2,822
County General	3,157	3,247	3,369	3,460	3,608	3,675
County Public Safety	335	346	371	366	425	483
Judicial	58	56	57	57	58	61
Municipal General	2,930	3,005	3,283	3,299	3,409	3,613
Municipal Public Safety	690	709	739	750	750	778
Public School & Board of Regents Classified	7,670	7,840	8,342	8,772	9,446	10,075
State General	7,990	7,670	7,938	8,054	8,254	8,550
State Public Safety & Penitentiary	796	801	952	919	969	972
Teachers	13,062	13,159	13,525	13,650	13,863	14,114
<b>Total Active and Inactive Members</b>	<b>39,310</b>	<b>39,501</b>	<b>41,357</b>	<b>42,125</b>	<b>43,612</b>	<b>45,203</b>

#### Benefits and Expenses by Type

	Retirement Benefits	Disability Benefits	Survivor Benefits	Refund Benefits	Total Benefits	Administrative Expenses
Fiscal Year 1993	51,992,224	1,438,896	5,333,474	6,097,198	64,861,792	1,835,327
Fiscal Year 1994	56,791,494	1,697,128	6,001,326	5,621,935	70,111,883	1,804,657
Fiscal Year 1995	64,519,329	1,984,534	6,808,584	6,542,145	79,854,592	2,130,027
Fiscal Year 1996	71,435,953	2,759,606	7,712,652	8,643,978	90,552,189	1,868,261
Fiscal Year 1997	78,464,626	3,310,265	8,129,098	10,386,335	100,290,324	1,984,493
Fiscal Year 1998	87,649,535	3,350,470	9,699,594	7,114,027	107,813,627	2,055,131
Fiscal Year 1999	100,549,552	3,284,394	9,871,299	34,431,120	148,136,365	2,536,815
Fiscal Year 2000	118,415,493	3,816,883	11,543,273	26,213,018	159,988,667	2,348,991
Fiscal Year 2001	135,507,333	3,999,932	13,685,690	24,227,022	177,419,977	2,403,024

#### Revenue by Source

	Employee Contributions	Employer Contributions	Total Contributions	Investment Income	Total Revenue
Fiscal Year 1993	\$41,707,536	\$39,319,892	\$81,027,428	\$265,259,205	\$346,286,633
Fiscal Year 1994	46,164,879	43,991,265	90,156,144	98,012,985	188,169,130
Fiscal Year 1995	50,412,248	46,238,393	96,650,641	300,943,775	397,594,416
Fiscal Year 1996	50,488,958	45,022,762	95,511,720	411,522,763	507,034,483
Fiscal Year 1997	50,499,239	47,664,275	98,163,514	610,759,156	708,922,671
Fiscal Year 1998	51,708,722	47,145,364	98,854,086	666,000,707	764,854,793
Fiscal Year 1999	55,001,264	50,069,614	105,070,878	591,101,260	696,172,138
Fiscal Year 2000	58,508,147	52,622,437	111,130,584	490,386,117	601,516,701
Fiscal Year 2001	62,310,957	55,697,940	118,008,897	(154,774,807)	(36,765,910)



**For More Information**

For more information on the South Dakota Retirement System, write or call:

South Dakota Retirement System  
P.O. Box 1098  
Pierre, South Dakota 57501-1098  
Phone: (605) 773-3731  
Fax: (605) 773-3949  
TDD: (605) 773-3958

A comprehensive brochure explaining the system's provisions is available on request.



# SOUTH DAKOTA RETIREMENT SYSTEM

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

**A Pension Trust Fund of the State of South Dakota  
for the Fiscal Year Ended June 30, 2001**

## SDRS MISSION STATEMENT

*To plan, implement and administer income replacement programs that give SDRS members and their families the opportunity to achieve financial security at retirement, death or disability by providing an outstanding, appropriate and equitable level of benefits.*

*The Board of Trustees believes this mission is achievable with the resources available in a progressive working environment, by sound and efficient management, through superior investment performance and by exercising the fiduciary responsibility associated with the proper stewardship of member assets.*

## FISCAL YEAR 2001 HIGHLIGHTS

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Total Membership	<b>60,593</b>
Active Contributing Members	<b>34,887</b>
Inactive Non-Contributing Members	<b>10,316</b>
Benefit Recipients	<b>15,390</b>
Net Assets Held in Trust for Pension Benefits	<b>\$4,939,705,889</b>
Actuarial Value of Assets	<b>\$4,521,403,578</b>
Actuarial Accrued Liability (AAL)	<b>\$4,688,408,562</b>
Investment Return	<b>-2.9%</b>
<u>Benefits and Refunds Paid</u>	
Benefits Paid	<b>\$ 153,192,955</b>
Refunds Paid	<b><u>24,227,022</u></b>
Total	<b>\$ 177,419,977</b>
<u>Contributions</u>	
Member	<b>\$ 62,310,957</b>
Employer	<b><u>55,697,940</u></b>
Total	<b>\$118,008,897</b>
Funding Period	<b>20 years</b>
Funded Ratio (Actuarial Value of Assets/AAL)	<b>96.4%</b>