



SOUTH DAKOTA RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2004

Prepared by the SDRS Finance and Audit Departments

South Dakota Retirement System
222 East Capitol, Suite 8, P.O. 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 \$2.89 per document.

CONTENTS

CERTIFICATE OF ACHIEVEMENT.....	4
PUBLIC PENSION STANDARDS AWARD.....	5
INTRODUCTION.....	6
Chair's Letter	7
Letter of Transmittal	8
Board of Trustees	14
Organizational Chart	15
FINANCIAL SUMMARY.....	16
Auditor's Opinion	17
Management's Discussion and Analysis	18
Basic Financial Statements*	22
Statement of Plan Net Assets	22
Statement of Changes in Plan Net Assets	23
Notes to Financial Statements	24
Required Supplementary Information	31
Supporting Schedules	32
ACTUARIAL SUMMARY.....	33
Actuary's Opinion	34
Actuarial Overview	35
Actuarial Valuation	40
Summary of Benefit Provision	46
Plan Summary	48
INVESTMENT SUMMARY.....	56
Investment Analysis	57
The Investment Council	57
Investment Objectives and Policy	57
Prudent Man Standard	58
Performance	59
Real Rates of Return	59
Investment Managers	61
Schedule of Investment Management Expenses and Commissions	61
Summary of Investment Portfolios	62
Equity Profile	63
Bond Profile	64
Distribution Profile	64
Asset Allocation	65
Time-Weighted Rates of Return	66
Time-Weighted Annualized Rates of Return	66
STATISTICAL SUMMARY.....	68
Membership Profile	69
Public Entities Participating in SDRS	69
SDRS Benefits Paid	71
Membership by Age	72
Membership by County of Residence	72
Membership by Group	73
Benefit Recipients by Group	74
Historical Views	75

* The notes to the Financial Statements are an integral part of the Basic Financial Statements.

CERTIFICATE OF ACHIEVEMENT

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, 2003

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.



Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council
Public Pension Standards
2004 Award

Presented to

South Dakota Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in blue ink that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

INTRODUCTION



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

To Our Members:

Fiscal year 2004 proved to be particularly significant because of the scope of retirement legislation passed during session and the dramatic improvement in investment returns.

The Board of Trustees brought the largest number of benefit changes in its history before the 2004 Legislature. The nine bills were designed to limit benefit costs that were higher than anticipated or exceeded the payment amounts intended. The Legislature enacted the proposed changes; they were signed by the governor and implemented on July 1, 2004.

Investment returns of 16.6 percent for fiscal year 2004 ranked in the top 40 percent of state retirement funds. The performance more than doubled the SDRS long-term expected return, which translates into over \$400 million in unanticipated earnings.

In the meantime, SDRS staff continued its stepped-up efforts in customer service. The Regional Retirement Planning Seminars held at four sites across the state attracted over 1,000 SDRS members. Additionally, SDRS trained over 220 authorized agents who represented nearly 40 percent of the system's 460 participating employers. These efforts will continue to expand in the future.

30-years of Growth

Though SDRS started from modest beginnings thirty years ago, it has grown to become a significant part of the South Dakota economy. The system paid over \$200 million in benefits last year and expects to pay its members nearly \$1 billion over the next four years. Of that \$1 billion, 90 percent will remain in South Dakota.

SDRS is in excellent financial condition with one of the highest funded ratios of any public retirement system in the nation. In the upcoming year, we will continue the approach that has made this system so successful — setting customer service as a clear priority, maintaining full communication with the executive branch and holding firmly to our unwavering commitment to a full partnership with the Legislature.

Sincerely,



Elmer Brinkman
Chair, SDRS Board of Trustees

LETTER OF TRANSMITTAL

South Dakota Retirement System
222 East Capitol, Suite 8
P.O. Box 1098
Pierre, South Dakota 57501-1098
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South Dakota Retirement System

December 9, 2004

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, 2004. 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' operations.

This report is divided into five major sections:

Introduction

The Introduction contains the Chair's Letter, the Letter of Transmittal, the Board of Trustees, and the SDRS organizational chart and staff information.

Financial Summary

The Financial Summary contains the report of the independent auditors, KPMG, LLP, Management's Discussion and Analysis, the audited financial statements of the system, required supplemental information and supplemental financial schedules.

Actuarial Summary

The Actuarial Summary contains the report of the independent actuary, Mellon, the results of the annual actuarial valuation, the actuarial assumptions and supporting schedules.

Investment Summary

The Investment Summary contains the investment objectives and policy along with investment profiles, exhibits and performance information.

Statistical Summary

The Statistical Summary includes other significant data pertaining to SDRS and the system's participating units.

Plan History

SDRS was established July 1, 1974, as a multi-employer public employee retirement system. As of June 30, 2004, it provided retirement, disability and survivor benefits to over 65,000 members. Basic to SDRS' history is the growth in the system's benefit provisions.

Revenues

Employee and employer contributions and investment income fund the benefits and pay for the expenses of the system. Revenues from all sources were \$956.4 million for the fiscal year ending June 30, 2004, compared to \$362.7 million in 2003. The increase was due to a 270.1 percent gain in dollars generated by investment returns.

	2003 (Millions)	2004 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
SDRS Revenues				
Contributions:				
Employees ¹	\$ 80.8	\$ 104.7	\$ 23.9	29.5%
Employers	72.0	74.9	2.9	4.0%
Investments	<u>209.9</u>	<u>776.9</u>	<u>567.0</u>	<u>270.1%</u>
Total Revenues	\$362.7	\$956.5	\$593.8	163.7%

¹ 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.

History Of Benefit Improvements

Benefit Category	Status In 1974	Benefit Improvements
Benefit Formula <ul style="list-style-type: none"> Class A Class A Alternate Class B Public Safety Class B Judicial 	<p>1.0%</p> <p>2.0%</p> <p>2.0%</p> <p>3.333% / 2.0%</p>	<p>1982 — 1.1%</p> <p>1986 — 1.2%</p> <p>1991 — 1.30%</p> <p>1994 — 1.30%/1.40% (for applicable years)</p> <p>1997 — 1.40% prior to 1997/1.30% thereafter</p> <p>1998 — 1.475% prior to 1998/1.30% thereafter</p> <p>1999 — 1.55% prior to 2000/1.30% thereafter</p> <p>2000 — 1.625% prior to 2002/1.30% thereafter</p> <p>2002 — 1.55% after 2002</p> <p>1999 — 2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 2.325% prior to 2002/2.0% thereafter</p> <p>2002 — 2.25% after 2002</p> <p>1994 — 2.0%/2.10% (for applicable years)</p> <p>1997 — 2.10% prior to 1997/2.0% thereafter</p> <p>1998 — 2.175% prior to 1998/2.0% thereafter</p> <p>1999 — 2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 2.325% prior to 2002/2.0% thereafter</p> <p>1994 — 3.333% / 3.433% (for applicable years)</p> <p>2.0%/2.10% (for applicable years)</p> <p>1997 — 3.433% prior to 1997/3.333% thereafter</p> <p>2.10% prior to 1997/2.0% thereafter</p> <p>1998 — 3.508% prior to 1998/3.333% thereafter</p> <p>2.175% prior to 1998/2.0% thereafter</p> <p>1999 — 3.583 prior to 2000/3.333% thereafter</p> <p>2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 3.658% prior to 2002/3.333% thereafter</p> <p>2.325% prior to 2002/2.0% thereafter</p>
Class A Retiree Benefit Formula	Variable	<p>Standard — Alternate</p> <p>1982 — 1.0% – 2.0%</p> <p>1987 — 1.05% – 2.0%</p> <p>1988 — 1.1% – 2.0%</p> <p>1989 — 1.25% – 2.0%</p> <p>1991 — 1.30% – 2.0%</p> <p>1994 — 1.30%/1.40% – 2.0%</p> <p>1997 — 1.40% prior to 1997/1.30% thereafter – 2.0%</p> <p>1998 — 1.475% prior to 1998/1.30% thereafter – 2.0%</p> <p>1999 — 1.55% prior to 2000/1.30% thereafter</p> <p>2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 1.625% prior to 2002/1.30% thereafter</p> <p>2.325% prior to 2002/2.0% thereafter</p> <p>2002 — 1.55% after 2002</p> <p>2.25% after 2002</p>
Improvement Factor	2% Simple	<p>1978 — 2.0% Compound (Indexed)</p> <p>1982 — 3.0% Compound (Indexed)</p> <p>1988 — 3.0% Compound</p> <p>1993 — 3.1% Compound</p> <p>1998 — 3.1% Compound and prorated for partial years</p>
Early Retirement <ul style="list-style-type: none"> Class A 	Early Retirement: Age 55 with 6% per Year Reduction	<p>1978 — Reduction Decreased to 3% per Year</p> <p>1986 — Rule of 85 (Age 60)</p> <p>1989 — Removed “at work” Limitation</p> <p>1991 — Rule of 85 (Age 58)</p> <p>1993 — Rule of 85 (Age 55)</p>

LETTER OF TRANSMITTAL (CONTINUED)

History Of Benefit Improvements (continued)		
Benefit Category	Status In 1974	Benefit Improvements
Early Retirement (continued) <ul style="list-style-type: none"> Class B Public Safety Class B Judicial 	<p>Early Retirement: Age 45 with 6% per Year Reduction</p> <p>Early Retirement: Age 55 with 6% per Year Reduction</p>	<p>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)</p> <p>1978 — Reduction Decreased to 3% per Year 1990 — Rule of 80 (Age 55)</p>
Optional Spouse Coverage	1.0% of Compensation	1978 — .8% of Compensation 2004 — 1.2% of Compensation
Final Average Compensation Caps	Last quarter cap 125% of any previous quarter; four quarter average cap 115% of any previous quarter	2004 — Last quarter cap = 115% four quarter average cap = 110% 2005 — Last quarter cap = 105% four quarter average cap = 105%
Special Pay Plan	Termination pay made directly to member with SS, SDRS and income taxes deducted	2004 — Termination pay of \$2,000 or more without SS, SDRS or income tax deductions for a terminating employee of a participating unit who is 55 or older goes to SPP
Purchasing Uncredited Service <ul style="list-style-type: none"> Class A Class B Public Safety Class B Judicial 	<p>Buy at 10% of compensation</p> <p>Buy at 12% of compensation</p> <p>Buy at 12% of compensation</p>	<p>1989 — Buy at 7.5% of compensation 2002 — Buy at 9% of compensation 2004 — Buy at rate dependent on age and varying from 12% to 30% of compensation</p> <p>1978 — Buy at 16% of compensation 1982 — Current members maximum of 20% of compensation; new members 16% of compensation 1989 — Buy at 12% of compensation 2004 — Buy at rate dependent on age and varying from 16% to 40% of compensation</p> <p>1978 — Buy at 16% of compensation 1982 — Buy at maximum 20% of compensation 1989 — Buy at 13.5% of compensation 2004 — Buy at rate dependent on age and varying from 18% to 45% of compensation</p>
Contribution Rate <ul style="list-style-type: none"> Class A Class B Public Safety Class B Judicial 	<p>5%</p> <p>6%</p> <p>6%</p>	<p>2002 — 6%</p> <p>1978 — 8% 1982 — For current members increasing 1/8 of 1% to maximum of 10%; for new members 8% 1989 — 8% for all members</p> <p>1978 — 8% 1982 — 1/8 of 1% to maximum of 10% 1989 — capped at 9%</p>
Normal Retirement Age for Class B Public Safety	Age 55	1982 — New members age 60 1989 — Age 55 for all members

History Of Benefit Improvements (continued)

Benefit Category	Status In 1974	Benefit Improvements
Refund of Accumulated Contributions	Member contributions only	<p>1986 — guaranteed refund of the balance of all employer/member contributions if member dies after retirement.</p> <p>1995 — Portable Retirement Option (PRO) — For PRO members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service</p> <p>1998 — Portable Retirement Option (PRO) — For all members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service</p>
Interest on Accumulated Contributions	5% on member contributions only	<p>1986 — No greater than 90% of the 91-day T-Bill rate; 5% minimum, 10% maximum</p> <p>2004 — No greater than 90% of the 91-day T-bill rate; maximum, the actuarially assumed rate of investment return, currently 8%; minimum, none.</p>
Retire/rehire <ul style="list-style-type: none"> • Normal or Special Early Retirement • Early Retirement 	<p>—Benefits, including the COLA, paid during reemployment without adjustment</p> <p>—Rehired member treated as continuing member</p> <p>—Add-on benefit paid at re-retirement considers all periods of employment</p> <p>—Benefits, including the COLA suspended during reemployment</p> <p>—Rehired member treated as continuing member</p> <p>—Add-on benefit paid at re-retirement considers all periods of employment</p>	<p>2004 — Benefits paid during reemployment but COLA eliminated (except for Class B Public Safety member who is rehired as Class A member)</p> <p>— Rehired member treated as new member</p> <p>— Add-on benefit paid at re-retirement considers reemployment period only</p> <p>— Retired/rehires prior to July 1, 2004 grandfathered under current law</p> <p>2004 — Benefits, including the COLA, suspended during reemployment</p> <p>— Rehired member treated as new member</p> <p>— Add-on benefit paid at re-retirement considers reemployment period only</p>
Compensation Basis for Benefit Calculations	<p>—Retirement benefit based on final average compensation (three-year average)</p> <p>—Disability and survivor benefits (for members who die before retirement) based on highest one-year pay</p>	<p>2004 — All SDRS benefits (retirement, disability and survivor) based on final average compensation</p>
Eligibility Requirements <ul style="list-style-type: none"> • Vested Retirement Benefits • Disability Benefits 	<p>—Five years of credited service that includes purchased service</p> <p>—Five years of credited service unless disabled in an accident at work, then no specific amount of credited service is required</p>	<p>1998 — Three years of credited service including purchased service</p> <p>2004 — Three years of contributory service, does not include purchased service</p> <p>1998 — Three years of credited service including purchased service</p> <p>2004 — Three years of contributory service since reentry into SDRS unless disabled in an accident at work, then no specific amount of contributory service is required</p>

LETTER OF TRANSMITTAL (CONTINUED)

Expenses

In FY 2004, benefit payments comprised 89.3 percent of SDRS' total expenses, while refunds accounted for an additional 9.6 percent. Total benefit payments increased because of the system's cost-of-living allowance and increase in the number of members receiving benefits.

	2003 (Millions)	2004 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
SDRS Expenses				
Benefits	\$181.3	\$198.5	\$17.2	9.5%
Refunds	19.3	21.4	2.1	10.7%
Administrative Expenses	<u>2.8</u>	<u>2.5</u>	<u>(0.3)</u>	<u>(10.9)%</u>
Total Expenses	\$203.4	\$222.4	\$19.0	9.3%

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.

The total return on the SDRS trust fund was 16.6 percent for fiscal year (FY) 2004, the Investment Council benchmark return of 15.5 percent. The 10-year annualized return of 10.7 percent exceeds the benchmark return of 9.9 percent.

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2004 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' AAL funded ratio as of June 30, 2004, was 97.7 percent.

Major Initiatives

During FY 2004, 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 2004 legislature and SDRS' 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).

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.

The Governmental Accounting Standards Board (GASB) issued Statements No. 34 and No. 37, Basic Financial Statements and Management's Discussion and Analysis for state and local governments. Statement No. 34 established a new financial reporting model, which was implemented in the SDRS FY 2002 CAFR. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The SDRS MD&A can be found immediately following auditor's opinion.

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 Mellon, 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 Mellon, 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, 2003. 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 ninth 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.

As we celebrate our 30th anniversary year, we would like to express our gratitude to our staff, the SDRS Board and the many other individuals who have been instrumental in maintaining the quality of service and performance which has become the standard for the South Dakota Retirement System.

Respectfully submitted,



Robert A. Wylie
Administrator



Jane Roberts
Chief Financial Officer

BOARD OF TRUSTEES

Elmer Brinkman
Chair
Represents County Commissioners
Board service began in June 1991
Commissioner
Codington County
Watertown

Represents Board of Regents Employees
Board service began in July 1985
Professor Emeritus of Animal Science
South Dakota State University
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 State Employees
Board service began in July 1985
Supervisor
Trade & Industrial Education
South Dakota Division of Vocational Education
Pierre

David Merrill

Carol Burch
Represents Teachers
Board service began in July 1994
Public school teacher
Belle Fourche Public Schools
Belle Fourche

Represents South Dakota Investment Council
Board service began in July 1974
State Investment Officer
Non-voting ex-officio board member
Sioux Falls

Stephen Myers

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
Cabinet Secretary
South Dakota Department of Labor
Pierre

Pamela S. Roberts

Bryan Gortmaker
Represents Public Safety Members
Board service began in July 2002
Training administrator
Department of Criminal Investigation
Pierre

Represents School Boards
Board service began in July 2001
Member
Brookings School Board
Brookings

Wes Tschetter

James O. Hansen
Represents Retirees
Board service began in July 1993
Retired administrator
Pierre

Represents State Employees
Board service began in July 2000
Agency Integration Specialist
Bureau of Information Technology
Pierre

Donald J. Zeller

Royce Hueners
Represents Elected Municipal Officials
Board service began in July 2001
Mayor
City of Madison
Madison

Governor's Appointee
Board service began in May 1995
Commissioner
South Dakota Bureau of Personnel
Pierre

Sandra Zinter

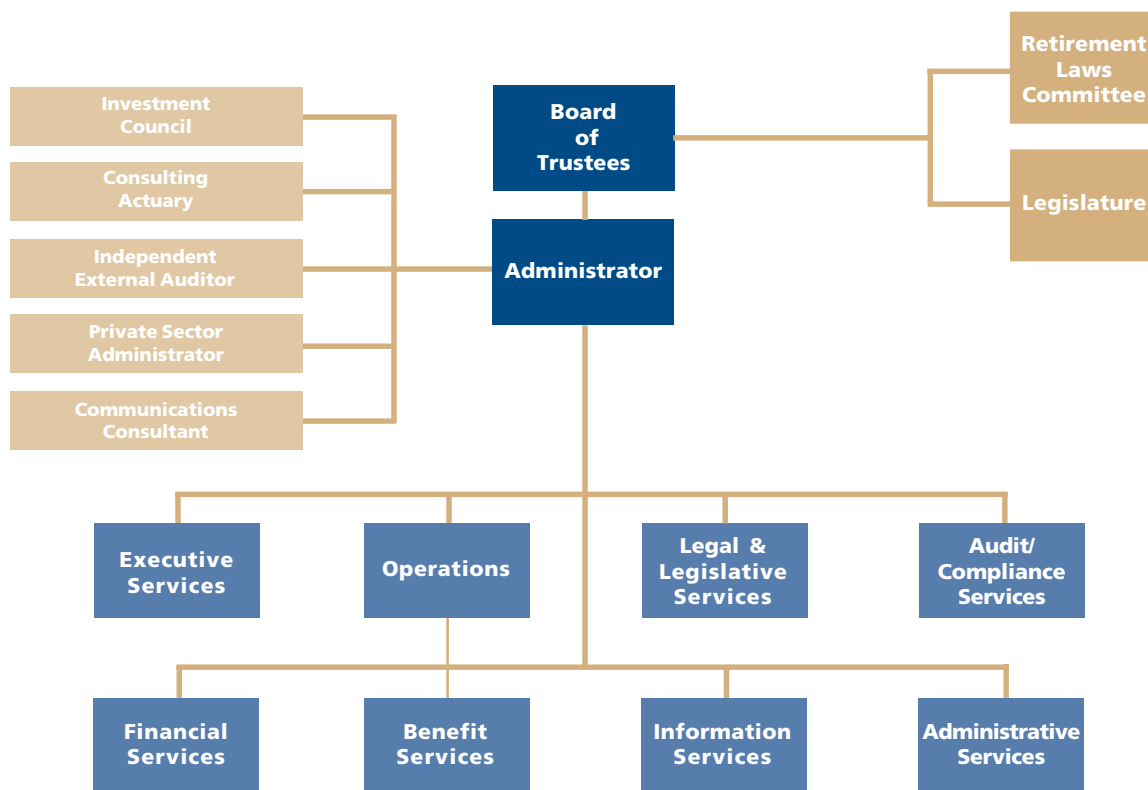
Louise Loban
Represents Classified Employees
Board service began in July 1990
Benefit Specialist
South Dakota State University
Brookings

Represents Judicial Members
Board service began in June 1995
Justice
South Dakota Supreme Court
Pierre

Justice Steven Zinter

Kathy "K.J." McDonald
Represents County Employees
Board service began in July 1997
Chief Deputy Auditor
Pennington County
Rapid City

ORGANIZATIONAL CHART



Administration

ADMINISTRATOR	Robert A. Wylie
EXECUTIVE ASSISTANT/ HUMAN RESOURCES MANAGER	Arlis Ley

Management Group

DIRECTOR OF OPERATIONS	Damian Prunty
GENERAL COUNSEL	Wade A. Hubbard
CHIEF FINANCE OFFICER	Jane Roberts
RETIREMENT BENEFITS MANAGER	Corinne M. Koch
INTERNAL AUDIT/ COMPLIANCE MANAGER	Susan Jahraus
ADMINISTRATIVE SERVICES SUPERVISOR	Lisa A. Vander Maten

Advisors, Auditors and Administrators

CONSULTING ACTUARY	Mellon Consultants, Inc. Denver, CO
EXTERNAL AUDITOR	KPMG LLP Omaha, NE
COMMUNICATIONS CONSULTANTS	Koupal Communications, Inc. Pierre, SD
PRIVATE SECTOR ADMINISTRATOR	Nationwide Retirement Solutions Columbus, OH
COMPUTER SUPPORT	S. Lee Huset (BEI) Pierre, SD Ivan Plett Pierre, SD

FINANCIAL SUMMARY



- Auditor's Opinion**
- Management's Discussion and Analysis**
- Basic Financial Statements**
 - Statement of Plan Net Assets
 - Statement of Changes in
Plan Net Assets
 - Notes to Financial Statements
- Required Supplementary Information**
- Supporting Schedules**



KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Suite 1600
233 South 13th Street
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 of the South Dakota Retirement System (SDRS) as of June 30, 2004, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of SDRS's 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, 2004, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, SDRS adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2004 on our consideration of SDRS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purposes of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of funding progress, employer contributions, notes to required supplementary information, administrative expenses, and investment expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

November 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the South Dakota Retirement System (SDRS or the system) financial position and performance for the year ended June 30, 2004. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS Comprehensive Annual Financial Report.

Financial Highlights

- The net plan assets of SDRS increased by \$734 million during fiscal year 2004. This increase was primarily due to the investment performance of 16.6 percent, which was above the assumed rate of 8 percent.
- SDRS funded ratio increased to 97.7 percent in 2004 from 97.2 percent in 2003.
- SDRS reserve for funding of long-term benefit goals is \$88 million.
- SDRS paid \$198 million to benefit recipients in fiscal year 2004 compared to \$181 million in 2003. SDRS received \$180 million in member and employer contributions in fiscal year 2004 compared to \$153 million in 2003.

Overview of the Financial Statements and Accompanying Information

Basic Financial Statements

The South Dakota Retirement System presents statements of the plan net assets as of June 30, 2004 and statement of changes in plan net assets for the year then ended. These statements reflect resources available for the payment of benefits as of year end and sources and uses of those funds during the year.

Notes to the Basic Financial Statements

The notes to the basic financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the financial statements. Information in the notes provides disclosures concerning SDRS' organization, contributions and reserves, investments, the use of derivatives and security lending, and other pertinent information.

Required Supplemental Information

In addition to this discussion and analysis, the required supplemental information also consists of two schedules of trend data and related notes concerning the funded status of SDRS and employer contributions.

Other Supplementary Schedules

Other supplementary schedules include detailed information on administrative expenses incurred by SDRS and a breakout of investment manager fees.

Financial Analysis

SDRS is a cost-sharing, multiple employer public employee retirement system. SDRS provides retirement, disability and survivor benefits for employees of the State of South Dakota and its political subdivisions. The benefits are funded through member and employer contributions and investment income.

SDRS benefits are based on the members final average compensation, their years of credited service and a benefit multiplier and are payable for life with a 60 percent survivor benefit.

A summary of the plan net assets is shown on the following page.



Summary of Plan Net Assets

June 30, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents	\$ 21,591,402	\$ 10,605,947
Receivables	70,288,207	126,308,317
Investments	5,627,580,132	4,825,331,352
Securities lending collateral	315,689,006	252,146,504
Other assets	97,901	64,388
Total Assets	\$6,035,246,648	\$5,214,456,508

Liabilities		
Accounts payable	\$ 2,805,170	\$ 2,066,920
Securities sold, but not yet purchased	164,424,053	96,913,304
Unsettled investment purchases	34,102,464	78,963,014
Due to broker	—	179,718
Securities lending collateral	315,689,006	252,146,504
Total Liabilities	\$ 517,020,693	\$ 430,269,460

Net Assets Held in Trust for Pension Benefits	<u>\$5,518,225,955</u>	<u>\$4,784,187,048</u>
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The funded ratio is an actuarial measure of funding progress and soundness for SDRS based on the actuarial accrued liability measurement of liabilities. The ratio is equal to the actuarial value of assets divided by the actuarial accrued liabilities. A ratio in excess of 100 percent would indicate that the actuarial accrued liability is fully funded.

The actuarial value of assets is equal to the net actuarial value of assets plus the reserve of funding of long-term benefit goals. The net actuarial value of assets is credited each year with the assumed rate of investment return and debited or credited with the SDRS liability gain or loss for the year. The resulting actuarial value of assets is constrained to a range of 80 percent to 120 percent of the market value of assets and the reserve for funding of long-term benefit goals is adjusted if these limits apply.

The actuarial accrued liability 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 plus the reserve for funding of long-term benefit goals.

	Actuarial Accrued Liability Funded Ratio		
	2004	2003	Change
Funded Ratio	97.7%	97.2%	.5%

Funded Ratio

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summary of Plan Changes

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 8 percent at June 30, 2004. SDRS investment performance has exceeded this assumed rate over the ten year annualized period with a return of 10.71 percent compared to the benchmark return of 9.89 percent. The investment returns were 16.6 percent for 2004 and 5 percent in 2003.

Deductions from plan net assets are primarily benefit payments. During 2004, SDRS paid \$198 million to benefit recipients or 9 percent more than 2003. The increase is due to added recipients and the annual 3.1 percent cost of living adjustment (COLA). The number of refunds of accumulated contributions during 2004 decreased. Terminating members are increasingly leaving their accumulated balances in the system as an investment or in anticipation of receiving a benefit. Administrative costs of SDRS represent less than .05 percent of plan net assets.

A summary of the changes in plan net assets is show below:

	2004	2003	% Change
Contributions:			
Member contributions	\$ 104,655,550	\$ 80,806,420	29.5%
Employer contributions	74,854,496	71,989,308	4.0%
Investment Income	<u>776,890,949</u>	<u>209,901,823</u>	<u>270.1%</u>
Total Additions	\$ 956,400,995	\$ 362,697,551	163.7%
Benefits			
Benefits	\$ 198,454,410	\$ 181,265,287	9.5%
Refunds of contributions	21,414,639	19,338,147	10.7%
Administrative expenses	<u>2,493,039.00</u>	<u>2,796,941</u>	<u>(10.9)%</u>
Total Deductions	\$ 222,362,088	\$ 203,410,375	9.3%
Net Increase	734,038,907	159,287,176	360.8%
Net Assets Held in Trust for Pension Benefits			
Beginning of year	\$4,784,187,048	\$4,624,899,872	3.4%
End of year	<u>\$5,518,225,955</u>	<u>\$4,784,187,048</u>	<u>15.3%</u>



SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council. The South Dakota Investment Office is the primary investment manager, but the Council may utilize the services of external money managers.

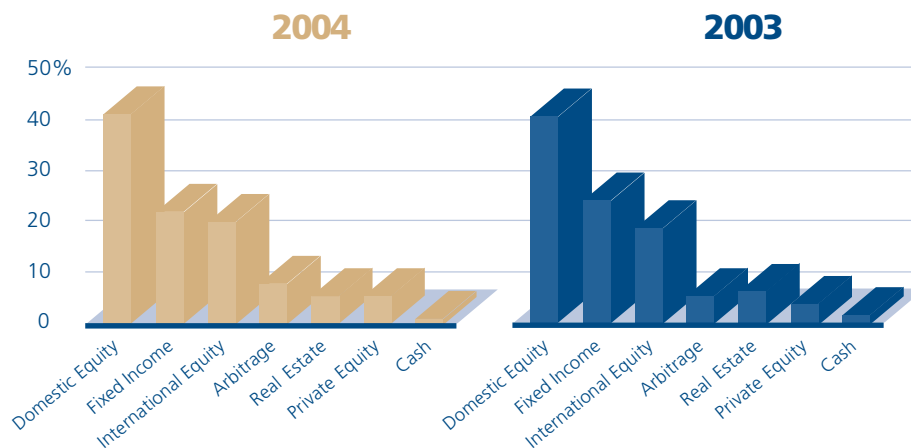
Investments

Investment performance during the last two years was 16.6 percent in 2004 and 5 percent in 2003. While these nominal returns that were below the investment return assumption have occurred in the past, the relative performance is in the top one-third compared to other state plans.

The investment council is governed by the prudent man standard as defined in South Dakota Codified Law 4-5-27:

4-5-27. Prudent-man standard required in investments. Any investments under the provisions of § 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise 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 maintain a high percentage of assets in short-term investments unless that is deemed to be the best investment strategy. This allows the SDRS trust fund to be fully invested in a diversified portfolio of securities.



Investment Summary

While the markets have not made it possible to achieve investment returns necessary to meet long-term assumptions during the last two years, SDRS' funding remains sound. The reserve for funding of long-term benefit goals has provided a process for both improving benefits and protecting the system in down markets.

Plan Status

Requests for information about SDRS may be directed to the South Dakota Retirement System at Box 1098, Pierre, South Dakota 57501. You may also contact SDRS online at www.state.sd.us/sdrs/.

Requests for Information

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Assets

As of June 30, 2004

Assets

Cash and cash equivalents \$21,591,402

Receivables

Employer 2,580,440

Employee 11,110,352

Benefits 64,370

Unsettled investment sales 36,197,805

Accrued interest and dividends 20,335,240

Total receivables

70,288,207

Investments, at fair value

Fixed income 2,239,722,750

Equities 2,898,780,258

Real estate 248,409,458

Private equity 240,667,666

Total investments

5,627,580,132

Invested securities lending collateral

315,689,006

Other assets

97,901

Total Assets

6,035,246,648

Liabilities

Payables

Accounts payable
and accrued expenses 2,805,170

Securities sold, but not yet
purchased, at fair value 164,424,053

Unsettled investment
purchases 34,102,464

Securities lending collateral 315,689,006

Total Liabilities

517,020,693

Net Assets Held In Trust For Pension Benefits \$5,518,225,955

(A schedule of funding progress is presented in the Required Supplemental Information)

The accompanying notes are an integral part of the financial statements



Additions

Contributions:	
Employee	\$ 104,655,550
Employer	<u>74,854,496</u>

Total contributions	\$ 179,510,046
----------------------------	-----------------------

Investment income:

From investing activities

Net decrease in fair value in investments	636,634,223	
Interest	74,660,719	
Dividends	58,269,884	
Real estate	<u>15,481,311</u>	
Investment income	785,046,137	
Less investment activity expenses	<u>9,100,952</u>	
Net investment activity income		775,945,185

From security lending activities

Security lending income	2,656,354	
Security lending expenses	<u>(1,710,590)</u>	
Net security lending activity income		<u>945,764</u>

Total investment income	\$ 776,890,949
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Total additions	\$ 956,400,995
------------------------	-----------------------

Deductions

Benefits	198,454,410
Refunds of contributions	21,414,639
Administrative expenses	<u>2,493,039</u>

Total deductions	\$ 222,362,088
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Net increase	734,038,907
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Net assets held in trust for pension benefits	
Beginning of year	<u>4,784,187,048</u>
End of year	<u>\$ 5,518,225,955</u>

Statement of Changes in Plan Net Assets

For the year ended
June 30, 2004

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

BASIC FINANCIAL STATEMENTS (CONTINUED)

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, 2004, the number of participating governmental employers was:

School Districts	181
State of South Dakota	1
Board of Regents	1
Municipalities	138
Counties	63
Boards and Commissions	74
Total Employers	458

At June 30, 2004, SDRS Membership consisted of:

Retirees and Beneficiaries currently receiving benefits:

Class A (General employees)	16,142
Class B Public Safety and Judicial employees	887
Total Retirees and Beneficiaries	17,029

Terminated members entitled to benefits but not yet receiving them:

Class A (General employees)	12,711
Class B Public Safety and Judicial employees	407
Total Terminated members	13,118

Current active members:

Vested:	
Class A	26,628
Class B Public Safety and Judicial	1,687
Nonvested:	
Class A	6,457
Class B Public Safety and Judicial	636
Total Current active members	35,408
Grand Total	65,555

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 when due pursuant to formal commitment as well as statutory requirements. Benefits and refunds are recognized due and payable in accordance with the terms of the plan. In fiscal year 2004, SDRS implemented Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk and concentration of credit risk. This pronouncement requires additional disclosures to be presented in the notes but has no impact on the net assets of SDRS. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

(b) Method Used to Value Investments:

Investments are carried at fair value to properly reflect the asset values of the fund at June 30, 2004. Fair values were determined based on closing market prices at June 30, 2004 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 appreciation in the fair value of investments held at or traded during the 12 months prior to June 30, 2004 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 — 6 percent of salary
- Class B Judicial members — 9 percent of salary
- Class B Public Safety members — 8 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 1.2 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 and expenses, and to amortize the frozen unfunded actuarial accrued liability. The June 30, 2004 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 and expenses, and to amortize the frozen unfunded actuarial accrued liability over a period of less than 40 years (20 years as of June 30, 2004).

Contributions during fiscal 2004 totaling \$179,510,046 (\$104,655,550 employee and \$74,854,496 employer) were made in accordance with statutory rates. These contributions represent 15.4 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

BASIC FINANCIAL STATEMENTS (CONTINUED)

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>
2005	\$ 19,886	\$4,253,618
2006	2,196	2,048,062
2007	0	1,298,174
2008	0	869,476
2009	0	562,909
Later	0	935,418
	<u>22,082</u>	<u>9,967,657</u>
Less amount representing interest	<u>692</u>	<u>1,454,855</u>
Deferred contributions receivable	<u>\$ 21,390</u>	<u>\$8,512,802</u>

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, 2004, the actuarial value of assets equaled \$4,937,493,861. The reserve is added to both the present value of future benefits and the actuarial value of assets. As of June 30, 2004, the balance in the reserve for funding of long-term benefit goals is \$88 million.

4. Cash and 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 \$21,591,402 was invested in the state's pooled investment fund. The external money managers did not hold cash in SDRS accounts. Investments in the state's pooled investment fund consist primarily of commercial paper rated A1 or P2 or better, short-term U.S. treasury obligations, bank certificate of deposits, and money market funds.

Investments at June 30, 2004 were managed by the following:

	<u>Fair Value</u>	<u>Cost</u>
State of South Dakota		
Investment Council	\$4,838,022,091	\$4,295,074,443
Dimensional Fund		
Advisors, Inc.	36,322,098	25,000,000
Capital International	75,761,671	62,924,691
Blackstone Private Equity	8,770,219	7,496,062
Blackstone Real		
Estate Partners	177,192,098	176,024,496
Apollo	56,277,182	60,477,721
Nicholas Applegate	37,749,463	31,457,228
AIG	22,096,469	19,128,279
DLJ Merchant Bankers	7,959,740	11,973,365
Doughty Hanson	14,940,178	11,894,683
Doughty Hanson PE IV	9,832,940	9,832,940
Crossroads	61,229,348	64,505,883
Silver Lake	36,185,424	19,433,551
KKR	28,975,489	29,264,993
MW Post Advisors		
Partners L.P.	160,442,898	145,990,508
Cypress Merchant Banking	<u>55,822,824</u>	<u>51,237,803</u>
Total Investments	5,627,580,132	5,021,716,646
Securities sold, but not yet purchased	<u>(164,424,053)</u>	<u>(144,879,639)</u>
Total	\$5,463,156,079	\$4,876,837,007

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. MW Post invests in distressed and high yield fixed income securities. Capital International Emerging Markets, 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, Blackstone Private Equity, Doughty Hanson Private Equity IV and Cypress invest in private equity.



Change in Fair Value of Investment

	Year Ended June 30, 2004
Increase (decrease) in fair value of investments:	
Equity securities	\$475,074,302
Fixed income securities	(61,090,572)
Real estate	(11,011,583)
Private equity	<u>23,523,417</u>
Total increase in fair value	\$426,495,564
Realized gain (loss) on investments sold:	
Equity securities	\$ 2,991,027
Fixed income securities	28,406,624
Real estate	45,933,785
Private equity	<u>37,950,657</u>
Total net realized gains	\$115,282,093
Net gain on futures contracts	<u>94,856,566</u>
Net increase in fair value of investments	<u>\$636,634,223</u>

During fiscal year 2004, the system's investments (including investments bought, sold, as well as held during the year) appreciated in value by \$636,634,223.

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.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The system's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated equity investments. SDRS does not hedge foreign currency back to U.S. dollars (to match the unhedged benchmark) but does allow hedging under certain circumstances when deemed appropriate. The portfolio's exposure to foreign currency risk at June 30, 2004, was as follows (in U.S. dollar fair values):

At June 30, 2004, the system's exposure to foreign currency risk is as follows:

Currency	Equities US Dollar Fair Value	Fixed Income US Dollar Fair Value	Cash US Dollar Fair Value
Argentine Peso	\$401,580	—	45,864
Australian Dollar	4,781,591	—	4,943
Brazilian Real	6,278,321	—	—
British Pound	248,797,362	1,373,651	10,652,616
Canadian Dollar	13,892,967	—	113,795
Chilean Peso	211,363	—	—
Czech Koruna	227,518	—	—
Danish Kroner	11,403,678	—	455,629
Euro	255,572,748	18,091,083	7,162,184
Hong Kong Dollar	1,858,794	—	—
Hungarian Forint	924,979	—	—
Indian Rupee	420,511	—	—
Indonesian Rupiah	3,064,803	—	—
Israeli Shekel	3,309,305	—	—
Japanese Yen	181,093,597	—	2,115,234
Korean Won	22,417,507	—	—
Malaysian Ringgit	5,518,978	—	—
Mexican Peso	4,881,118	—	1,471
Norwegian Krone	9,968,587	—	—
Philippines Peso	1,299,143	—	—
Polish Zloty	1,875,385	—	—
Singapore Dollar	8,361,518	—	—
South African Rand	9,019,471	—	335
Swedish Krona	12,421,508	—	3,905,747
Swiss Franc	92,094,978	—	75,585
Taiwan Dollar	7,764,277	—	2,563
Thai Baht	3,574,028	—	—
Turkish Lira	<u>3,800,218</u>	—	<u>70</u>
Total Fair Value	<u>\$915,235,833</u>	<u>\$19,464,734</u>	<u>\$24,536,036</u>

Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a bank failure deposits may not be returned. At June 30, 2004, the following investments were uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in SDRS' name:

Total mutual funds	\$ 611,524,664
Total outside managers	<u>723,591,585</u>
Total investments	\$1,335,116,249
Security lending collateral	<u>311,430,207</u>
Total fair value	<u>\$1,646,546,456</u>

Securities lending transactions are permitted. These transactions involve the lending of securities to broker-dealers and other entities for collateral in the form of

BASIC FINANCIAL STATEMENTS (CONTINUED)

cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending securities for collateral of the following percentages:

<u>Collateral Type</u>	<u>Margin Required</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

The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agents.

At year end, no credit risk exposure to borrowers exists because the amounts owed the borrowers exceed the amounts the borrowers owe. 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.

All securities loans can be terminated on demand by either SDRS or the borrower, although the average term of the loans is one business day. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short-term investments. The ability to pledge or sell collateral securities can be made without borrower default. In addition, no restrictions on the amount of the loans exist.

These loans are part of the investment portfolios. Collateral consisting of cash value of 102 percent of the market value of the securities loaned were placed on account for the securities lending program.

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss that may be contributed to the magnitude of a government's investment in a single issue. SDRS does not have guidelines to limit its investments in any particular investment.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The South Dakota Retirement System fixed income portfolio's duration must fall between 70 percent and 130 percent of the duration of the Citigroup Broad Investment Grade (BIG) Index. The durations of the various investment types are listed in the following table.

<u>Investment type</u>	<u>Fair Value</u>	<u>Duration</u>
U.S. Treasuries	\$ 66,098,695	12.15
U.S. Treasury strips	71,519,258	16.73
U.S. Treasury bills	37,896,152	0.21
U.S. agencies	123,805,123	8.06
U.S. agency discount notes	59,974,225	0.04
Investment grade corporates	351,937,494	4.39
High-yield corporates	371,140,161	3.23
Mortgage-backed securities	279,294,907	4.11
Commercial Paper	104,953,792	0.04
Mutual funds	576,784,047	0.00
Bank debt	17,878,210	1.00
Total	\$2,061,282,064	3.36

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SDRS. The South Dakota Investment Council sets the investment policy annually for the South Dakota Retirement System. This policy establishes the average percentage invested in each asset category and the fund allocation range that each asset category can vary during the fiscal year. As of June 30, 2004, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service.

<u>Moody's Rating</u>	<u>Fair Value</u>
Aaa	\$ 976,643,903
Aa	97,142,891
A	78,000,889
Baa	140,737,960
Ba	240,090,868
B	75,722,002
Caa	30,217,016
Ca	6,315,741
C	1,125,104
P-1 (Commercial Paper)	104,953,792
Not rated	84,293,235
Total	\$1,835,243,401

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, 2004 were as follows:

Description	Open Positions	Number of Contracts	Fair Value
S & P 500 Index due 9/20/2004	Long	2,062	\$588,103,020

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 \$164,424,053 as of June 30, 2004. 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' 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 GNMA, FHLMCs and FNMA. The fair value of these securities as of June 30, 2004 was \$400,603,792. These securities may be subject to prepayment by mortgagees, which may reduce the fair value of these securities. The investment council is using this investment to enhance fixed returns.

6. 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, 2004, a liability existed for accumulated annual leave calculated at the employee's June 30, 2004 pay rate in the amount of \$99,120. 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, 2004, a liability existed for accumulated and accrued sick leave, calculated at the employee's June 30, 2004 pay rate in the amount of \$110,750.

	2004	2003	% Change
Total compensated absences	\$209,869	\$236,897	(11.4)%

The total leave liability for the current year is on the Statement of Net Assets Available for Benefits in accounts payable and accrued expenses.

7. Operating Leases:

The South Dakota Retirement System has entered into an agreement to lease office space. The lease was effective September 2002 and has a term of five years. A schedule of minimum office rental payments as of June 30, 2004 is as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2005	\$ 81,347
2006	81,347
2007	<u>81,347</u>
Total Remaining Minimum Payments	<u>\$244,041</u>

8. 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 \$85,108,992 net assets available for plan benefits at June 30, 2004, \$59,052,327 was held in trust for employees of the State of South Dakota while the remaining \$26,056,665 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 \$296,525 is included in the State of South Dakota total and the state's comprehensive annual financial report for the year ended June 30, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Funding Progress

(Dollar amounts in millions)

Actuarial Valuation Date ¹	(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 Accrued Liability — Entry Age [AAL]				
6-30-90	\$1,275.1	\$1,404.6	\$129.5	90.8%	\$ 582.7	22.2%
6-30-92 ²	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 ²	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
6-30-02	4,425.4	4,576.9	151.5	96.7	1,080.1	14.0
6-30-03	4,683.9	4,806.9	133.1	97.2	1,117.3	11.9
6-30-04	4,937.5	5,051.7	114.2	97.7	1,164.0	9.8

For the Year Ended June 30	Annual Required Contributions	Percentage Contributed
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
2002	58,544,918	100
2003	71,989,308	100
2004	74,854,496	100

Schedule of Employer Contributions

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:

Notes to Trend Data

Valuation Date	6-30-2004
Actuarial Cost Method	Entry Age with Frozen Unfunded Actuarial Accrued Liability
Amortization Method	Level Percentage-Open
Remaining Amortization Period	20 Years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return³	8%
Projected Salary Increase³	
based on age, with average of 6.0%	4.9% to 8.9%
Cost-of-Living Adjustments	3.1%

¹ Prior to fiscal year 1996, SDRS actuarial valuations were performed biennially.

² Actuarial assumption changes occurred during fiscal years 1991 and 2000.

³ Includes Inflation at 4.5 percent

SUPPORTING SCHEDULES

Schedule of Administrative Expenses for the Year Ended June 30, 2004

	Cash Basis	Accrual Basis
Personal Services		
Salary and Per Diem	\$1,013,028	\$973,938
Employee Benefits	<u>256,980</u>	<u>249,269</u>
Total Personal Service	1,270,008	1,223,207
Operating Expenses		
Travel	50,405	49,723
Contractual Services		
Finance	9,296	9,296
Valuations	203,751	211,333
Consulting	150,000	155,720
Studies	6,198	6,198
Legal	14,149	14,149
Communications	112,160	112,160
Medical	8,924	8,924
Operations	<u>455,123</u>	<u>458,706</u>
Total Contractual Services	959,601	976,486
Supplies and Materials	218,170	200,706
Capital Assets	<u>40,446</u>	<u>42,917</u>
Total Operating Expenses	<u>1,268,622</u>	<u>1,269,832</u>
Total Administrative Expenses	<u>\$2,538,630</u>	<u>\$2,493,039</u>

Schedule of Investment Expenses for the Year Ended June 30, 2004

Investment Managers	Management Expense
South Dakota Investment Council	\$3,402,726
Dimensional Fund Advisors, Inc.	149,253
Blackstone Real Estate Partners	(1,591,681)
Blackstone PE	12,089
Apollo	826,409
Nicholas Applegate	467,868
DLJ Merchant Bankers	154,948
KKR	617,887
Crossroads	812,541
Silver Lake	699,235
Doughty Hanson	1,115,645
Doughty Hanson PE	766,770
MW Post	994,524
Cypress Merchant Banking Partners L.P.	<u>672,738</u>
Total Investment Manager Expenses	<u>\$9,100,952</u>

ACTUARIAL SUMMARY



- Actuary's Opinion**
- Actuarial Overview**
- Actuarial Valuation**
- Summary of Benefit Provision Changes**
- Plan Summary**

ACTUARY'S OPINION



Human Resources & Investor Solutions

November 3, 2004

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

This report summarizes the results of Mellon Consultants, LLC's annual Actuarial Valuation of the South Dakota Retirement System (SDRS) as of June 30, 2004.

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, 2004 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 Mellon Consultants, LLC 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. Mellon Consultants, LLC 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, 2004. 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, 2004 is 97.7%.

SDRS is actuarially sound.

Respectfully Submitted,

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

Koren L. Holden, E.A.
Director, Retirement Actuary

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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 2004 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

	2003 Actuarial Valuation	2004 Actuarial Valuation
Actuarial Accrued Liability Funded Ratio (Actuarial Value of Assets/AAL)	97.2%	97.7%
Funding Period	20 years	20 years

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was 16.6 percent, significantly more than the assumed rate of 8 percent. The dollar-weighted annualized investment performance based on the market value of assets for the period was 16.3 percent. This results in an actuarial investment gain of \$404 million. The actuarial value of assets was credited with the assumed rate of return of 8 percent for the one-year period ending June 30, 2004 and decreased by the total liability gain of \$79 million. The reserve for funding of long-term benefit goals was increased from a balance of (\$57) million as of June 30, 2003, to a balance of \$88 million as a result of strong investment returns above expectations for fiscal year 2004.

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2004

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2004

Item	Amount of Liability Gain (Loss)	Percentage of Present Value of All Benefits
Gain due to compensation increases	\$23M	0.38%
Gain due to decrements	15M	0.25%
Loss due to rehired and new members	(7M)	(0.12%)
Nonrecurring loss due to unfavorable unanticipated experience	(93M) ¹	(1.54%)
Miscellaneous Loss	(8M)	(0.13%)
Total Experience Loss	\$(70M)	(1.16%)
Gain due to changes in system provisions that affect anticipated costs	\$43M ¹	0.71%
Gain due to change in actuarial assumptions	106M	1.76%
Total System Gain	\$79M	1.31%

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 6 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 6 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.

A detailed experience analysis was conducted in 2003 and 2004, and appropriate modifications in the demographic assumptions regarding assumed rates of member termination, retirement and disability were made effective with the July 1, 2004, 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.

The actuarial value of assets is credited each year with the assumed rate of investment return plus non-investment cash flow and reduced by liability gains and increased by liability losses for the year.

¹ The changes in system provisions in 2004 are expected to eliminate the unanticipated costs to SDRS in several key areas. Because of the changes effective July 1, 2004, a significant amount of activity occurred in these areas before that date and resulted in unfavorable experience to SDRS. A small portion of the changes also reduces the anticipated costs of SDRS.

The reserve for funding of long-term benefit goals was first implemented as of the year ended June 30, 1995, to fund benefit improvements and provide the system with protection against adverse experience. When implemented, actuarial investment gains (returns above the assumed investment return assumption) and actuarial investment losses (returns below the assumed investment return assumption) were recognized at the rate of 20 percent per year over a five-year period. Effective June 30, 1998, liability gains and losses were reflected in the same manner as investment gains and losses. The reserve was modified again as of June 30, 2001, to immediately recognize actuarial investment losses while still spreading the recognition of actuarial investment gains over five-year periods.

The reserve for funding of long-term benefit goals (if positive), was included in the actuarial value of assets, the actuarial accrued liability and the present value of all benefits from June 30, 1995 through June 30, 2003. Effective June 30, 2004, the reserve is no longer added to the actuarial assets or liabilities. This change was made to more accurately reflect the funded status of the system.

The changes in actuarial assumptions effective June 30, 2004, are summarized as follows:

- **Retirement:** decrease rates at older ages for Class A and Class B Judicial members; increase rates at younger ages and decrease at older ages for Class B Public Safety members;
- **Separation:** increase rates at older ages for Class A School and Class B Public Safety members;
- **Disability:** decrease rates for Class B Public Safety members and at older ages for female members;
- **Credited interest on accumulated contributions:** decreased the assumed credited interest rate from 6 percent to 5 percent per annum;
- **Administrative expenses:** reduce rate from 2.6 percent to 2.2 percent of annual contributions;
- **Benefit commencement age for terminated vested members:** increase assumed commencement age from five to three years prior to normal retirement date;
- **Reserve for funding of long-term benefit goals:** exclude the reserve from the present value of all benefits, the actuarial accrued liability and the actuarial value of assets.

The cushion is the excess of the market value of assets over the actuarial value of assets. The cushion represents funds not currently required to maintain the actuarial soundness of SDRS, and available to protect the system against future unfavorable experience.

Summary of Actuarial Assumption Changes

Cushion

ACTUARIAL OVERVIEW (CONTINUED)

Reserve for Funding of Long-term Benefit Goals

SDRS gains and losses are allocated to the reserve for funding of long-term benefit goals. The amounts currently in the reserve and remaining to be allocated in the next four years are an important indicator of the system's recent cumulative experience. The reserve for funding of long-term benefit goals is also a source of funds to provide future benefit improvements or to protect the system against future unfavorable experience.

The reserve for funding of long-term benefit goals as of June 30, 2004 increased as follows:

Reserve for funding of long-term benefit goals as of June 30, 2003	\$ (56,753,610)
Fiscal year 2004 experience	96,487,163
Amortization of prior gains	48,551,396
Less present value of all benefits for improvements enacted into law funded from reserve	<u>0</u>
Reserve for funding of long-term benefit goals as of June 30, 2004	\$88,284,949

Actuarial Assumption Tables

Sample Separation Rates

Age	Annual Rate per 100 Members				
	Mortality		Disablement		Female
	Male	Female	A ¹	B ²	
25	0.07	0.02	0.08	0.08	0.10
30	0.07	0.02	0.08	0.08	0.11
35	0.07	0.03	0.10	0.10	0.12
40	0.10	0.05	0.12	0.12	0.15
45	0.14	0.07	0.16	0.16	0.22
50	0.22	0.11	0.24	0.24	0.23
55	0.35	0.17	0.40	0.40	0.38
60	0.64	0.24	0.84	0.84	0.80
65	1.24	0.41	1.71	1.71	1.55

Age	Annual Turnover Rate per 100 Members		
	Teachers	Judicial, Municipal and General Members	Class B Public Safety Members
	25	18.20	22.40
30	13.70	16.40	13.20
35	8.60	12.60	9.60
40	6.78	9.50	7.00
45	5.13	7.70	4.80
50	3.98	6.00	7.25
55	2.30	3.06	2.04

¹ Judges, Teachers, Municipal and General members

² Class B Public Safety members

Retirement Age
Class B Public Safety

Age	Annual Rate per 100 Members Eligible to Retire
50	10
51	8
52	8
53	8
54	10
55	15
56	20
57	25
58	30
59	35
60	40
61	45
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	50
69	50
70	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

The June 30, 2004 measures of actuarial soundness reflect changes in benefit provisions enacted by the South Dakota State Legislature in 2004, effective July 1, 2004.

The 2004 changes in system provisions are expected to eliminate the unanticipated costs to SDRS in several key areas. Because of the legislative changes effective July 1, 2004, a significant amount of activity occurred in these areas before that date and resulted in unfavorable experience to SDRS. A small portion of the changes also reduces the anticipated cost of SDRS.

The benefit changes are outlined in the Summary of Benefit Provision Changes section of this report and in the notes to the financial statements.

Benefit Changes

Summary of Key Actuarial Measures

	2003 Actuarial Valuation Results	System Investment and Liability Experience for year ¹	Membership Changes and Maturity of System ²	Benefit Changes Effective July 1, 2004	Actuarial Assumption Changes Effective July 1, 2004	2004 Actuarial Valuation Results
Normal Cost Rate with Expense Provision	11.667%	—	.044%	—	.150%	11.861%
Funding Period	20 years	—	—	—	—	20 Years
Unfunded Actuarial Accrued Liability	\$133M	—	\$1M	—	(\$20M)	\$114M
Actuarial Accrued Liability Funded Ratio	97.2%	—	0.2%	—	0.3%	97.7%

¹ 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.

² 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.

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 cost¹ of the system, system expenses, amortize the unfunded actuarial accrued liability² over a limited time, and pay interest on that liability.

SDRS' funding requirements for 2004, expressed as a percentage of payroll and total contributions, are based on the 2004 actuarial valuation and are summarized in the chart below.

	SDRS 2004 Funding Requirements	
	As a Percentage of Payroll	As a Percentage of Contributions
Matching statutorily required employer/member contribution rate	12.502% ³	100.0%
Entry age normal contribution rate at mid-period	11.586%	92.7%
Expense allowance	.275%	2.2%
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	11.861%	94.9%
Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation	.641% ⁴	5.1%

The 2004 actuarial valuation indicates a contribution of .641 percent of payroll allocated to the unfunded actuarial accrued 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 2004 actuarial valuation confirms that:

- a. Funding of current benefit levels for active members and expenses requires 95 percent of the total contributions under the current actuarial assumptions and methods.
- b. The Unfunded actuarial accrued liability is only 2 percent of the present value of all benefits of the system.

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

² The frozen 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.

³ Class A employers and members each statutorily contribute 6 percent of compensation effective July 1, 2002. Class B employers and members each statutorily contribute 8 percent or 9 percent of compensation. Participating members also contribute for the optional spouse coverage and Class A employers contribute 6.2 percent of members' compensation in excess of the Social Security maximum taxable compensation. The total statutory contributions to SDRS as of July 1, 2004 are 12.5 percent of compensation.

⁴ Will amortize frozen unfunded actuarial accrued liability over 20 years from 2004.

- c. Excess investment income has been the most significant element of favorable experience in the past, even considering the actuarial investment losses in fiscal years 2001 through 2003.
- d. SDRS currently has a cushion of \$581 million and a balance of \$88 million in the reserve for funding of long-term benefit goals.

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 2004 actuarial valuation indicates that the employer-member contribution rates are 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.

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 cushion, the current balance in the reserve for long-term benefit goals and the net amount remaining to be allocated in the future.

The current SDRS benefits combined with the present financing and the relatively small amount of frozen unfunded actuarial accrued liability result in a very well funded system that is providing benefits essentially equal to the resources available.

Actuarial Soundness

ACTUARIAL VALUATION (CONTINUED)

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 2004 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.

Development of the SDRS Actuarial Value of Assets

As of June 30, 2004

Actuarial Value of Assets as of June 30, 2004	\$ 4,685,890,770
Contributions and Disbursements	
Contributions	179,510,046
Benefit Payments and Refunds	(219,869,049)
Administrative Expenses	<u>(2,493,039)</u>
Total	\$ (42,852,042)
Expected Investment Return	\$ 373,157,180
SDRS Liability Gain	\$ (78,702,047)
Projected Actuarial Value of Assets as of June 30, 2004	\$ 4,937,493,861
Present Value of All Benefits for Improvements Enacted into Law as of June 30, 2004, and Funded From Reserve	<u>0</u>
Preliminary Actuarial Value of Assets as of June 30, 2004	\$ 4,937,493,861
Market Value of Assets as of June 30, 2004	\$ 5,518,225,955
Constraining Values	
80% of Market Value of Assets	\$ 4,414,580,764
120% of Market Value of Assets	\$ 6,621,871,146
Actuarial Value of Assets as of June 30, 2004	\$ 4,937,493,861



The benefit objectives of SDRS are to meet the needs of short- and long-term members by providing:

- Lifetime income replacement of 70 percent to 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 contributory 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

Benefit and Funding Objectives and Historical Summary

The funded ratio and funding period are the primary measures of SDRS' 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 actuarial accrued liability funded ratio and the funding period as of each actuarial valuation since 1986.

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
2002	4,576,948,810	4,425,392,396	96.7	20 years
2003	4,818,943,695	4,685,890,770	97.2	20 years
2004	5,051,728,157	4,937,493,861	97.7	20 years

ACTUARIAL VALUATION (CONTINUED)

Summary of Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability

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

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	Actuarial Accrued Liability	Actuarial Value of Assets	Actuarial Assets as a % of 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
2002	4,576,948,810	4,425,392,396	96.7	151,556,414	1,080.1	14.0
2003	4,818,943,695	4,685,890,770	97.2	133,052,925	1,117.2	11.9
2004	5,051,728,157	4,937,493,861	97.7	114,234,296	1,164.0	9.8

Solvency Test

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.

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) ¹
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
2002	691,820,949	2,236,330,911	1,648,796,950	4,425,392,396	100.0	100.0	90.8
2003	741,729,358	2,435,411,371	1,641,802,966	4,685,890,770	100.0	100.0	91.9
2004	807,055,387	2,637,073,090	1,607,599,680	4,937,493,861	100.0	100.0	92.9

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

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

Schedule of Active Member Valuation Data

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
2002	35,130	1,080.1	30,745	4.2
2003	35,114	1,117.2	31,818	3.5
2004	35,408	1,164.0	32,875	3.3

The schedule below identifies retirees and beneficiaries benefits considered in the current and previous actuarial valuations.

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

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 ¹				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
2002	15,390	1,051	548	15,893	175,339,813	11,033	5.4
2003	15,893	1,112	564	16,441	191,738,495	11,662	5.7
2004	16,441	1,207	619	17,029	211,424,721	12,416	6.5

¹ Only biennial data available. Data prior to fiscal year 1988 not available.

SUMMARY OF BENEFIT PROVISION CHANGES

Comparison of Actuarial Valuation Results

	2003 Valuation	2004 Valuation	Change
Active Members			
Number	35,114	35,408	0.8%
Average Age	44.7	44.9	0.4
Average Credited Service	10.8	11.1	2.8
Annual compensation	\$1,117,250,026	\$1,164,036,045	4.2
Average Annual compensation	\$31,818	\$32,875	3.3
Benefit Recipients			
RETIRED MEMBERS			
Number	13,546	14,102	4.1
Average Age	72.2	72.0	0.0
Total Annualized Benefits	\$171,004,624	\$189,530,995	10.8
Average Annualized Benefits	\$12,624	\$13,440	6.5
BENEFICIARIES			
Number	2,501	2,547	1.8
Total Annualized Benefits	\$16,651,770	\$17,982,543	8.0
Average Annualized Benefits	\$6,658	\$7,060	6.0
DISABILITIES			
Number	394	380	(3.6)
Total Annualized Benefits	\$4,082,101	\$3,911,183	(4.2)
Average Annualized Benefits	\$10,361	\$10,293	(0.7)
TOTAL BENEFIT RECIPIENTS			
Number	16,441	17,029	3.6
Total Annualized Benefits	\$191,738,495	\$211,424,721	10.3
Average Annualized Benefits	\$11,662	\$12,416	6.5
Terminated Members			
Number — Vested	6,193	6,573	6.1
Number — Non-Vested	6,186	6,545	5.8
Valuation Results			
Normal Cost (without expenses)	11.343%	11.586%	2.1
(with expenses)	11.667%	11.861%	1.7
Frozen Unfunded Actuarial			
Accrued Liability	\$133,052,925	\$114,234,296	(14.1)
Market Value of Assets	\$4,784,187,048	\$5,518,225,955	15.3
Actuarial Value of Assets	\$4,685,890,770	\$4,937,493,861	5.4
actuarial accrued liability (AAL)	\$4,818,943,695	\$5,051,728,157	4.8
actuarial accrued liability funded ratio (Actuarial Value of Assets/AAL)			
	97.2%	97.7%	0.5
Projected Years to Fund Level			
Funding Requirements	20 Years	20 Years	N/A



There were no benefit improvements made to SDRS during the 2004 South Dakota legislative session; however, changes were made to the SDRS benefit provisions to eliminate unanticipated costs to the system in several key areas and to reflect the removal of the minimum credited interest on accumulated contributions.

Summary of Benefit Provision Changes

The changes in benefit provisions effective July 1, 2004, are listed below:

Plan Provision	Prior Benefit	Benefit Change
1. Determination of Final Average Compensation	<p>Compensation in last quarter cannot exceed 125% of any previous quarter.</p> <p>Average compensation in last four quarters cannot exceed 115% of any previous quarter.</p> <p>Lump sum termination pay included in compensation.</p>	<p>Compensation in last quarter cannot exceed 115%¹ of any previous quarter.</p> <p>Average compensation in last four quarters cannot exceed 110%¹ of any previous quarter.</p> <p>Lump sum termination pay is not included in compensation.</p> <p>No SDRS member or employer contribution is made on termination pay.</p>
2. Optional Spouse Benefits	<p>Cost 0.8% of compensation</p> <p>Open Enrollment Not specified and not prohibited</p> <p>Benefit 40% of highest compensation</p>	<p>Cost 1.2% of compensation</p> <p>Open Enrollment Prohibited</p> <p>Benefit 40% of Final Average compensation</p>
3. Interest on Accumulated Contributions	<p>No greater than 90% of 91-day US Treasury Bills for preceding calendar year</p> <p>— Maximum: 10%</p> <p>— Minimum: 5%</p>	<p>No greater than 90% of 91-day US Treasury Bills for preceding calendar year</p> <p>— Maximum: Assumed rate of investment return, currently 8%</p> <p>— Minimum: None</p>
4. Cost to Purchase Credited Service	<p>75% of the combined member and employer contribution rates</p> <p>Applicable combined contribution rates determined by date of service purchased</p>	<p>Actuarially determined sliding scale based on age</p> <p>Minimum of 100% of combined contributions</p> <p>After July 1, 2004, current combined contribution rates apply for all purchase, regardless of date of service.</p>
5. Retire/Rehire	<p>Benefits, including the COLA, paid during reemployment without adjustment (total benefit suspended for early retirement)</p> <p>Rehired member treated as continuing member</p> <p>Add-on benefit paid at re-retirement considers all periods of employment</p>	<p>Benefits paid during reemployment, but COLA eliminated (total benefit suspended for early retirement)</p> <p>Rehired member treated as new member.</p> <p>Add-on benefit paid at re-retirement considers reemployment period only</p>
6. Compensation Basis for Benefit Calculations	<p>Retirement benefit based on final average compensation (three-year average)</p> <p>Disability and survivor benefits² based on highest one-year compensation</p>	<p>All SDRS benefits (retirement, disability, and survivor) based on final average compensation</p>
7. Eligibility Requirements	<p>Vested Retirement Benefits Three years of credited service that includes purchased service</p> <p>Normal and Early Benefits Specified age and three years of credited service</p> <p>Disability Benefits Three years of credited service unless disabled in an accident at work, then no specific amount of credited service is required</p>	<p>Vested Retirement Benefits Three years of contributory service, does not include purchased service</p> <p>Normal and Early Benefits Specified age and three years of contributory service</p> <p>Disability Benefits Three years of contributory service since last day of employment unless disabled in an accident at work, then no specific amount of contributory service is required.</p>

¹ The 115% and the 110% references will be reduced to 105% effective July 1, 2005.

² Refers to the survivor provisions that apply to members who die before retirement.

PLAN SUMMARY

South Dakota Retirement System (SDRS).

Effective Date 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.

Type of System 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 Included 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.

Members 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

Employees of the Department of Labor hired before July 1, 1980 who elected to remain covered under a former retirement plan, 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 93 percent of SDRS membership.

Credited service is the period of employment for an SDRS member which is considered in determining the amount of benefits. It includes the following:

- Years and fractional years for which member contributions were made (contributory service).
- 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 reflecting an actuarially determined sliding scale based on age, subject to a minimum of 100 percent of combined member and employer contributions. Credited service purchased after July 1, 2004, shall not be considered contributory service for eligibility purposes.

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 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 does not include

Service Considered

Compensation

PLAN SUMMARY (CONTINUED)

lump sum termination pay. 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

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.

Employer Contributions

Employer contributions equal those amounts contributed by members except for the additional contributions noted below.

Member Contributions

Class A members: 6 percent of compensation
Class B Public Safety members: 8 percent of compensation
Class B Judicial members: 9 percent of compensation

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

Accumulated Contributions

Accumulated contributions are equal to member and employer contributions (or 75 percent of employer contributions for members with less than three years of contributory 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 have no minimum limitation and shall not be greater than the assumed rate of investment return, which is currently 8 percent.

Additional Contributions

Effective July 1, 2002, employers contribute 6.2 percent of Class A member's calendar year compensation in excess of the maximum taxable amount for Social Security for the calendar year. These additional contributions are not included in accumulated contributions.

Other Public Benefits

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

Cost-of-Living Adjustment (COLA)

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

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 contributory service for Class A and Class B Judicial members of the system. Normal retirement date is age 55 with three years of contributory service for Class B Public Safety members.

Normal Retirement Date

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.

Normal Retirement Benefit

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

1.55 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

2.25 percent times Final 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.

PLAN SUMMARY (CONTINUED)

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:

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 year 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, except for the portion of benefits attributable to any after tax contributions made prior to July 1, 1984.

Delayed Retirement Benefit

The monthly benefit payable upon retirement after normal retirement date is based on credited service and final average compensation to date of actual retirement.

Special Early Retirement Date (Rule of 85, Rule of 80 and Rule of 75)

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 contributory service can retire in the 10 years preceding normal retirement date. The member will be entitled to receive the normal retirement benefit based on credited service and Final 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.

Early Retirement Benefit

A terminated member with at least three years of contributory 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.

Vested Benefit and Portable Retirement Option

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 redeposit their accumulated contributions plus interest within two years of rehire to reinstate their credited service.

A contributing member, who becomes disabled with at least three years of contributory service, or was disabled by accidental means while performing the usual duties of his job, is entitled to an immediate monthly disability benefit.

Disability Benefit

The disability benefit is equal to:

- For the first 36 months, 50 percent of the member's final average compensation, 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 final average compensation plus 10 percent for each eligible child to a maximum of 90 percent less the amount of primary Social Security.
 - 20 percent of final average compensation increased by the COLA
 - The unreduced accrued retirement benefit

PLAN SUMMARY (CONTINUED)

—if the member is not receiving disability benefits from Social Security, the greater of:

- 20 percent of final average compensation increased by the COLA
- The unreduced accrued retirement benefit

The maximum benefit is 100 percent of final average 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).

Survivor Benefits

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 member's final average compensation, 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 member's final average compensation 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.

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 member's final average compensation 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 1.2 percent of compensation, which amount will not be matched by the employer and is not refundable.

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

This plan summary is effective July 1, 2004

Optional Forms of Retirement Payments

Administrative Expenses

Retired Members

INVESTMENT SUMMARY



Investment Analysis

The Investment Council

Investment Objectives and Policy

Prudent Man Standard

Performance

Real Rates of Return

Investment Managers

Schedule of Investment Management Expenses and Commissions

Summary of Investment Portfolios

Equity Profile

Bond Profile

Distribution Profile

Time-Weighted Rates of Return

Time-Weighted Annualized Rates of Return

Asset Allocation

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 Investment Council

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.

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.

Investment Objectives and Policy

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.

INVESTMENT SUMMARY (CONTINUED)

- 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.

Prudent Man Standard

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.

The total fund return for FY 2004 was 16.6 percent. The investment council's benchmark return for FY 2004 was 15.5 percent. This capital market benchmark was 40 percent domestic equity, 16 percent international equity, 26 percent fixed income, 6 percent arbitrage, 7 percent real estate, 4 percent private equity and 1 percent cash. The 10-year annualized return was 10.7 percent versus the benchmark return of 9.9 percent.

Performance

The internal equity fund earned 17.7 percent in FY 2004 versus a benchmark return of 19.5 percent. The 10-year return for the internal equity fund was 11.6 percent versus a benchmark return of 11.8 percent.

SDRS' bond fund returned 1.3 percent in FY 2004 versus a benchmark return of 1.3 percent. The 10-year return for the internal bond fund was 8 percent versus a benchmark return of 7.8 percent.

Returns earned by other portfolios and outside managers in FY 2004 (included in total fund returns) were: 7.4 percent Merger Arbitrage; 1 percent Convertible Arbitrage; 33 percent Internal International; 42.7 percent International Liquidation; 27.9 percent Emerging Markets; 36.7 percent DFA; 40.5 percent Nicholas Applegate; 15.6 percent MWPost. 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.

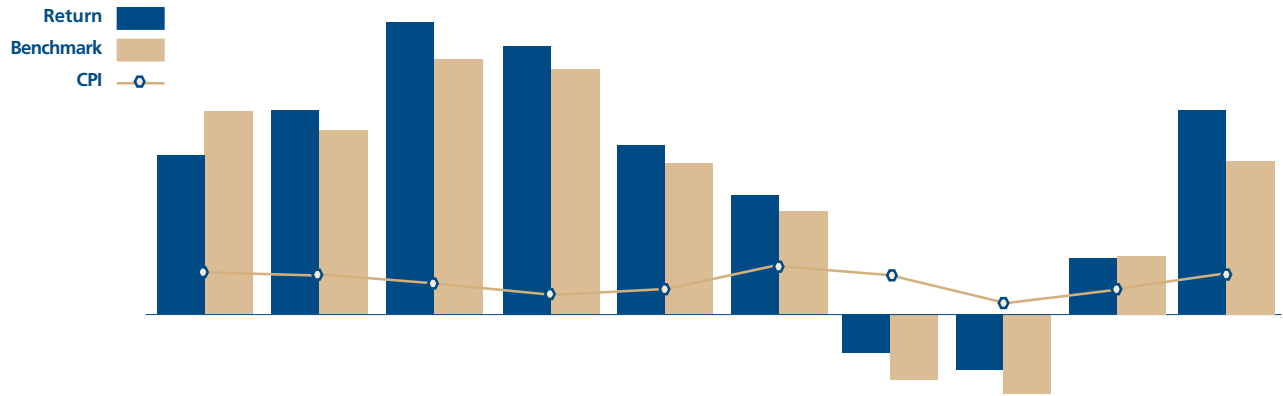
The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS' total return over time is a key indicator of the financial strength of the system.

Real Rates of Return

During FY 2004 inflation averaged 3.3 percent while SDRS' total return was 16.6 percent. Over the last 10 years, inflation has averaged 2.6 percent and total returns 10.7 percent, creating a real return of 8.1 percent.

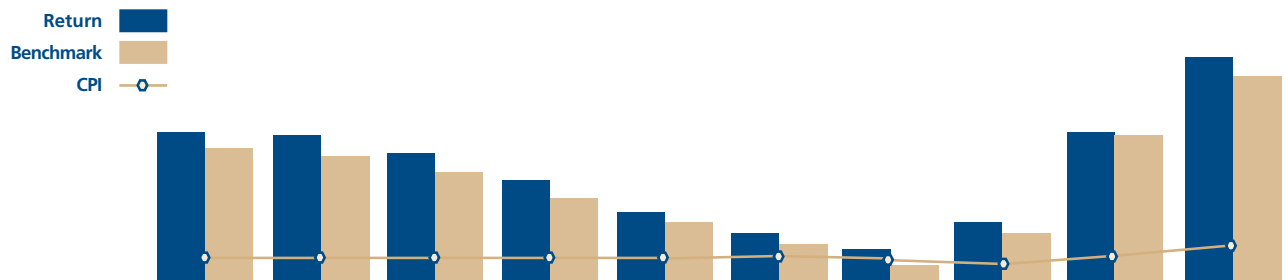
INVESTMENT SUMMARY (CONTINUED)

Investment Performance Compared to Capital Market Benchmark and Inflation



	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Investment Return	14.1%	16.7%	21.3%	19.3%	14.6%	10.8%	-2.9%	-4.9%	5.0%	16.6%
Benchmark	16.9%	15.5%	18.9%	18.4%	13.3%	9.7%	-5.1%	-5.8%	5.4%	15.5%
CPI	3.0%	2.8%	2.5%	1.6%	2.0%	3.7%	3.2%	1.1%	2.1%	3.3%

Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



	FY95-04	FY96-04	FY97-04	FY98-04	FY99-04	FY00-04	FY01-04	FY02-04	FY03	FY04
Investment Return	10.7%	10.3%	9.6%	8.0%	6.2%	4.6%	3.1%	5.2%	10.6%	16.6%
Benchmark	9.9%	9.1%	8.4%	6.9%	5.1%	3.6%	2.1%	4.7%	10.3%	15.5%
CPI	2.6%	2.6%	2.6%	2.6%	2.6%	2.7%	2.4%	2.1%	2.7%	3.3%

As of June 30, 2004, the South Dakota Investment Office managed 86 percent of SDRS' investments. The remaining 14 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 (\$65.9 million), Nicholas Applegate (\$37.7 million), and Dimensional Fund Advisors (\$36.3 million) invest in international equities. Blackstone (\$177.1 million), Doughty Hanson (\$14.9 million) and Apollo (\$56.3 million) invest in distressed real estate. DLJ Merchant Bankers (\$8 million), Capital International (\$9.8 million), AIG (\$22.1 million), KKR (\$28.9 million), Crossroads (\$61.2 million), Silver Lake (\$36.2 million), Cypress (\$55.8 million), Blackstone (\$8.7 million) and Doughty Hanson (\$9.8 million) invest in private equity.

Investment Managers

Schedule of Investment Management Expenses

Investment Managers	Management Expense
South Dakota Investment Council	\$ 3,402,726
Dimensional Fund Advisors, Inc.	149,253
Blackstone Real Estate Partners	(1,591,681)
Blackstone PE	12,089
Apollo	826,409
Nicholas Applegate	467,868
DLJ Merchant Bankers	154,948
KKR	617,887
Crossroads	812,541
Silver Lake	699,235
Doughty Hanson	1,115,645
Doughty Hanson PE	766,770
MW Post	994,524
Cypress Merchant Banking Partners L.P.	<u>672,738</u>
Total Investment Manager Expenses	\$ <u>9,100,952</u>

Schedule of Investment Management Expenses and Commissions

for the Year Ended
June 30, 2004

Summary of Broker Commissions¹

Investment Type	Commissions
Fixed Income	\$ 783,012
Equity	1,379,194
Internal Equity	432,041

¹ For an itemized list of commissions by broker, contact SDRS.

INVESTMENT SUMMARY (CONTINUED)

Summary of Investment Portfolios

As of June 30, 2004

	Market Value	Future Positions	Exposure With Futures	Percentage with Futures Overlay On Cash Markets
Domestic Fixed Income				
Internal Domestic Fixed Income	\$1,207,509,289	\$ 0	\$1,207,509,289	2.2%
Domestic Equity				
Internal Domestic Equity	\$1,716,103,198	\$ 588,103,020	\$2,304,206,218	42
International Equity				
Internal International Equity	\$ 934,374,934			
Dimensional Fund Advisors	36,322,098			
Capital International	65,966,458			
Nicholas Applegate Securities	37,749,464			
Total International Equity	\$1,074,412,954		\$1,074,412,954	19.6
Arbitrage Equity				
Internal Merger Arbitrage	\$ 191,805,511			
Internal Convertible Arbitrage	160,746,546			
Total Arbitrage Equity	\$ 352,552,075		\$ 352,552,075	6.4
Real Estate				
Blackstone Partnerships	\$ 177,192,098			
Apollo	56,277,182			
Doughty Hanson	14,940,178			
Total Real Estate	\$ 248,409,458		\$ 248,409,458	4.5
Private Equities				
KKR	\$ 28,975,489			
Crossroads	61,229,348			
Silverlake	36,185,424			
Cypress Associates, L.P.	55,822,824			
Capital International	9,795,213			
AIG	22,096,470			
DLJ Overseas Partners II	7,959,740			
Blackstone	8,770,219			
Doughty Hanson	9,832,940			
Total Private Equities	\$ 240,667,667		\$ 240,667,667	4.4
Cash and Cash Equivalents				
Internal Shift	\$ 645,872,238	\$(588,103,020)	\$ 57,769,218	1.1
Total	\$5,485,526,879	\$ 0	\$5,485,526,879	100.0%



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 1995 – 04. The Russell 1000 characteristics are presented for the years ended 1995 – 04. Beta is 1.0 for the S&P 500 and Russell 1000 by definition.

Equity Profile

South Dakota

Investment Office	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Price/Earnings Ratio	13.4	15.7	22.1	25	29.6	27.0	26.0	26.8	22.9	19.2
Dividend Yield	2.7%	2.3%	1.6%	1.4%	1.4%	1.2%	1.4%	1.8%	1.9%	2.0%
Price/Book Value Ratio	3.2	3.9	5.2	4.8	7.5	10.4	5.4	4.2	4.0	3.8
Beta	1.02	1.00	1.02	0.99	1.02	1.01	1.01	0.99	1.00	1.02

S&P 500 / Russell 1000

Price/Earnings Ratio	15.8	19.3	21.7	25.9	33.6	30.3	25.6	26.2	23.5	21.5
Dividend Yield	2.5%	2.2%	1.7%	1.4%	1.2%	1.1%	1.3%	1.6%	1.7%	1.7%
Price/Book Value Ratio	3.8	4.3	5.0	5.7	8.4	11.2	5.7	4.5	4.2	4.1

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

	Percent of Equity Portfolio
General Electric Co.	3.8%
Pfizer, Inc.	3.5
Citigroup, Inc.	3.3
Microsoft Corp.	2.8
Exxon Mobil Corp.	2.8
Bank of America Corp.	2.4
Cisco Systems, Inc.	2.4
American International Group, Inc.	2.3
Wells Fargo & Co.	2.1
Johnson & Johnson	2.1
Total	27.5%

Distribution by Market Sector

Market Sector	SDRS Total Equity	Russell 1000
Business Equipment & Services	1.8%	4.2%
Capital Goods/Technology	18.5	18.9
Consumer Durables/Shelter	2.8	3.9
Consumer Non-Durables	6.4	8.1
Consumer Services/Retail	10.0	11.1
Energy	6.6	6.2
Financial Services	22.8	19.7
Healthcare	13.6	13.8
Multi-industry	4.8	4.2
Raw Materials	2.5	2.2
Transportation	1.1	1.3
Utilities	5.6	6.4
Cash Equivalents	3.5	0.0
Total	100.0%	100.0%

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, South Dakota 57106-3784

INVESTMENT SUMMARY (CONTINUED)

Bond Profile

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.

South Dakota Investment Office	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of Issues	47	48	55	56	62	60	67	76	77	83
Average Coupon	7.69%	6.76%	6.87%	6.84%	6.32%	6.23%	6.68%	6.41%	5.87%	5.62%
Yield to Maturity	7.28%	7.34%	7.36%	6.66%	7.09%	7.76%	7.01%	6.72%	4.73%	5.44%
Average Maturity (Years)	9.27	6.58	7.68	8.51	7.70	6.88	7.02	8.40	7.46	7.50
Duration (Years) ¹	5.56	4.92	5.81	5.85	6.07	5.56	5.56	5.92	5.20	5.78
Average Quality ²	3.24	3.28	3.12	3.02	3.15	3.22	3.33	3.01	3.24	3.24
Cash Equivalent %	14.00%	14.60%	0.40%	0.90%	2.20%	5.80%	0.50%	0.50%	4.70%	1.2%

Lehman Aggregate Bond Index

Number of Issues	5,167	5,463	5,799	6,860	7,180	5,974	2,912	3,048	7,454	5,697
Average Coupon	7.41%	7.23%	7.20%	7.06%	6.74%	6.85%	6.75%	6.44%	6.00%	5.32%
Yield to Maturity	6.61%	6.95%	6.83%	6.14%	6.58%	7.24%	6.10%	5.21%	3.60%	4.68%
Average Maturity (Years)	8.64	8.76	8.53	8.35	8.89	7.77	8.24	6.91	6.70	7.47
Duration (Years) ¹	5.09	5.15	5.27	5.37	5.54	4.91	4.74	4.54	3.90	4.77

Distribution Profile

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

Distribution by Duration

	Percent
0 to 2 years	9.2%
2 to 3 years	8.3
3 to 4 years	22.9
4 to 5 years	17.6
5 to 6 years	15.3
6 to 8 years	10.0
Above 8 years	16.7
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/Cash Equivalents	1.2%
AAA	53.4
AA	8.8
A	5.9
BAA	8.2
BA	19.7
B	1.9
CAA	0.3
CA	0.6
Total	100.0%

Distribution by Coupon

	Percent
Cash/Cash Equivalents	1.2%
0.00% – 5.00%	32.7
5.01% – 6.00%	24.4
6.01% – 7.00%	19.6
7.01% – 8.00%	7.0
8.01% and over	15.1
Total	100.0%

Distribution by Issue

	Percent
Cash/Cash Equivalents	1.2%
U.S. Treasury/Agency	25.0
Mortgage Backed Securities	26.7
Investment Grade Corporates	26.3
High Yield Corporates	20.8
Total	100.0%

¹ The weighted average maturity of the stream of payments associated with a bond.

² (AAA = 4, AA = 3, A = 2, BAA = 1)

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 likelihood of achieving the investment objectives for the South Dakota Retirement System.

Asset Allocation

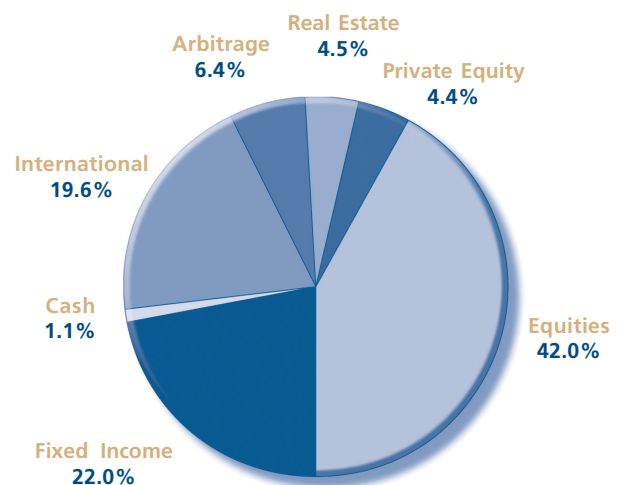
Four years ago, the investment office prepared two in-depth analyses for study by the investment council. The first dealt with the overall domestic equity-like characteristics that are implicit in a diversified portfolio, which invests in a variety of different asset categories. The analysis determined that the equity-like characteristics of the portfolio represent 65 percent of the assets. Under a bad-time scenario the overall equity-like characteristics could rise to 77 percent.

The second important analysis was related to the likelihood that SDRS' 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. In light of the more difficult marketplace of the last year, SDRS will continue to monitor this situation.

SDRS' 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, 2004

	6/30/02	6/30/03	6/30/04
Equities	41.0%	41.5%	42.0%
Fixed Income	25.0	23.2	22.0
Cash	1.1	2.9	1.1
International	18.1	16.9	19.6
Arbitrage	4.7	5.2	6.4
Real Estate	6.4	6.2	4.5
Private Equity	3.7	4.1	4.4



Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998
TOTAL INVESTMENT FUND	14.1%	16.7%	21.3%	19.3%
Cash Equivalents	5.6	5.8	5.3	5.6
Investment Office Bond Fund	14.1	5.9	9.9	12.6
Investment Office Equity Fund	21.8	28.1	33.2	32.5
Internal International	9.2	23.6	26.3	3.0
Arbitrage Convertible Fund	9.8	10.0	11.4	10.0
Arbitrage Merger Fund	12.2	17.6	18.8	21.8
International Composite	7.5	21.9	24.1	-3.4
Global Equity Composite	18.9	27.1	31.7	25.6
INDICIES				
Bond Index				
Fixed Income Benchmark	12.5	6.2	9.6	11.2
Equity Index				
Standard & Poor's 500	26.1	26.0	34.8	30.3
Russell 1000	25.5	26.3	32.3	30.2
International Index				
International Benchmark	5.3	13.7	16.3	10.5
Total Fund Benchmarks				
Russell/Mellon Total Bil \$ Funds	15.8	17.4	20.4	18.4
Capital Market Benchmark	16.9	15.5	18.9	18.4
Consumer Price Index	3.0	2.8	2.5	1.6

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1995 – 2004	Fiscal 1996 – 2004	Fiscal 1997 – 2004	Fiscal 1998 – 2004
TOTAL INVESTMENT FUND	10.7%	10.3%	9.6%	8.0%
Cash Equivalents	4.4%	4.2%	4.1%	3.9%
Investment Office Bond Fund	8.0%	7.3%	7.5%	7.2%
Investment Office Equity Fund	11.6%	10.5%	8.4%	5.3%
Arbitrage Convertible Fund	8.1%	7.9%	7.7%	7.2%
Arbitrage Merger Fund	12.8%	12.8%	12.3%	11.4%
Internal International	11.4%	11.7%	10.3%	8.2%
International Composite	10.1%	10.4%	9.1%	7.1%
Global Equity	11.9%	11.1%	9.3%	6.4%
INDICIES				
Bond Index				
Fixed Income Benchmark	7.8%	7.3%	7.4%	7.1%
Equity Index				
Standard & Poor's 500	11.9%	10.4%	8.6%	5.3%
Russel 1000	11.8%	10.4%	8.6%	5.6%
International Index				
International Benchmark	5.4%	5.4%	4.4%	2.8%
Total Fund Benchmarks				
Russell/Mellon Total Bil \$ Funds	10.5%	9.8%	8.7%	7.1%
Capital Market Benchmark	9.9%	9.1%	8.4%	6.9%
Consumer Price Index	2.6%	2.6%	2.6%	2.6%

Performance information prepared in compliance with AIMR performance presentation standards.

Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
14.6%	10.8%	-2.9%	-4.9%	5.0%	16.6%
5.1	5.7	6.0	2.5	1.4%	0.9%
2.4	4.3	10.0	5.9	14.4%	1.3%
19.0	11.3	-14.9	-18.3	0.0%	17.7%
21.4	9.6	-3.0	4.2	(6.3%)	33.8%
7.6	8.7	6.5	3.8	13.1%	1.0%
16.5	18.4	6.2	2.1	8.5%	7.4%
21.1	11.0	-7.0	3.6	(3.5%)	33.8%
19.5	10.9	-12.0	-12.2	(2.0%)	22.9%
2.9	3.8	11.2	7.0	13.4%	1.3%
22.7	7.4	-14.8	-18.0	0.3%	19.1%
21.9	9.2	-15.0	-17.9	1.0%	19.5%
6.2	16.4	-23.0	-8.4	-4.6%	32.0%
11.5	11.1	-5.8	-6.6	3.1%	16.9%
13.3	9.7	-5.1	-5.8	5.4%	15.5%
2.0	3.7	3.2	1.1	2.1%	3.3%

Fiscal 1999 – 2004	Fiscal 2000 – 2004	Fiscal 2001 – 2004	Fiscal 2002 – 2004	Fiscal 2003 – 2004	Fiscal 2004
6.2%	4.6%	3.1%	5.2%	10.6%	16.6%
3.6%	3.3%	2.7%	1.6%	1.2%	0.9%
6.3%	7.1%	7.8%	7.1%	7.7%	1.3%
1.3%	-1.9%	-4.9%	-1.3%	8.5%	17.7%
6.7%	6.5%	6.0%	5.8%	6.9%	1.0%
9.7%	8.4%	6.0%	6.0%	8.0%	7.4%
9.1%	6.8%	6.1%	9.3%	12.0%	33.8%
9.0%	6.7%	5.6%	10.2%	13.7%	33.8%
3.5%	0.6%	-1.8%	1.9%	9.7%	22.9%
6.5%	7.2%	8.1%	7.1%	7.1%	1.3%
1.6%	-2.2%	-4.4%	-0.7%	9.3%	19.1%
1.9%	-1.6%	-4.2%	-0.3%	9.8%	19.5%
1.6%	0.7%	-2.9%	4.9%	12.2%	32.0%
5.4%	4.1%	1.8%	4.5%	9.9%	16.9%
5.1%	3.6%	2.1%	4.7%	10.3%	15.5%
2.6%	2.7%	2.4%	2.1%	2.7%	3.3%

STATISTICAL SUMMARY



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

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 35,408 total active members as of June 30, 2004.

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

Public Entities Participating in SDRS

School Districts

Membership: 15,932
Percentage of Total Active Members: 45%
Units: 181

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

Legislative, Executive and Judicial Agencies

Membership: 7,750
Percentage of Total Active Members: 21.9%
Units: 1

Board of Regents Central Office	Black Hills State University
University of South Dakota	Dakota State University
South Dakota State University	South Dakota School for the Visually Impaired
South Dakota School of Mines and Technology	South Dakota School for the Deaf
Northern State University	

Institutions of Higher Education

Membership: 4,027
Percentage of Total Active Members: 11.4%
Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities

Membership: 3,701
Percentage of Total Active Members: 10.5%
Units: 138

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

Counties

Membership: 3,537
Percentage of Total Active Members: 10.0%
Units: 63

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

Other Public Entities

Membership: 461
Percentage of Total Active Members: 1.2%
Units: 74

Aberdeen Housing	First District Assoc. of Local Gov.	N.E. Council of Govts
Assoc School Boards	Grant Cty Cons	Pennington Cty Housing Dev
B-Y Water Dist	Haakon Cty Conv Dist	Perkins Cty Cons
Beadle Cty Cons	Hanson-McCook Reg Library	Pierre Housing & Redev
Belle Fourche Irrigation	Harding Cty Cons	Potter County Conservation
Black Hawk Water Dist	Hamlin Cty Cons	District
Black Hills Local Govt	Heartland Consumer Power	Randall Community Water
Brookings County	Hill City Ambulance	Rapid Valley Sanitary Dist
Conservation District	Hill City Fire Protection	Redfield Housing
Brown-Marshall Cons	Hot Springs Housing	School Admin. of SD
Brule-Buffalo Cons	Hyde Cty Cons Dist	Sioux Falls Airport Authority
Butte-Meade Sanitary Dist	Jerauld Cons Dist	Sisseton Housing
Canton Housing and Redev	Kingsbury Cty Cons	South Brown Cty Cons
Central Plains Water	Lake Madison Sanitary Dist	Southeastern Council of Gov.
Central SD Enhancement Dist	Lead-Deadwood Sanitary Dist	Southern Missouri Recycle
Clark Cty Cons	Lemmon Housing Authority	SD Building Authority
Codington Cty Cons	Lennox Housing	SD High School Activities
Dakota Dunes Improvement	Lincoln Cty Cons	Assoc.
Dakota Valley Fire	Marshall Cty Cons	SD Housing Authority
Davison Cons Dist	McCook-Lake Sanitary Dist	SD Municipal League
Day Cty Cons	Meade Cty Housing & Redev	SD Assoc of Cty Comm
Deuel Cty Cons	Miller Housing & Redev	SD Assoc of Cty Officials
East Dakota Water Dev	Mina Lake Water Dist	Spink Cty Cons
Edmunds Cty Cons	Miner Cty Cons	State Bar of SD
Fall River Water	Minnehaha Cty Cons	Walworth Cty Cons
Faulk Cty Cons	Mitchell Housing	

FY 2004			FY 2004		
County	Members Receiving Benefits	Annual Benefits ¹	County	Members Receiving Benefits	Annual Benefits ¹
Aurora	99	\$846	Hyde	38	298
Beadle	442	5,007	Jackson	34	459
Bennett	33	334	Jerauld	59	538
Bon Homme	218	2,093	Jones	29	300
Brookings	936	13,640	Kingsbury	104	1,167
Brown	816	10,738	Lake	315	4,049
Brule	103	1,123	Lawrence	569	7,209
Buffalo	2	8	Lincoln	216	2,433
Butte	190	1,875	Lyman	50	609
Campbell	41	338	Marshall	128	1,376
Charles Mix	177	1,956	McCook	75	948
Clark	93	747	McPherson	58	558
Clay	428	6,297	Meade	365	4,327
Codington	481	6,725	Mellette	35	299
Corson	30	423	Miner	66	589
Custer	200	2,466	Minnehaha	1,594	25,175
Davison	420	5,180	Moody	109	1,050
Day	156	1,690	Pennington	1,794	25,473
Deuel	93	650	Perkins	68	591
Dewey	54	548	Potter	76	811
Douglas	48	455	Roberts	170	1,674
Edmunds	68	744	Sanborn	63	590
Fall River	209	1,708	Shannon	9	100
Faulk	108	922	Spink	356	3,023
Grant	170	1,821	Stanley	113	1,577
Gregory	101	1,093	Sully	24	181
Haakon	44	446	Todd	34	339
Hamlin	109	1,222	Tripp	135	1,454
Hand	85	998	Turner	177	1,687
Hanson	33	296	Union	173	1,869
Harding	25	196	Walworth	180	2,112
Hughes	984	16,201	Yankton	589	6,658
Hutchinson	187	2,117	Ziebach	13	113
Total Benefits Payable by County			15,001	\$190,539	

SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

Members Receiving Benefits			Members Receiving Benefits		
State	Members Receiving Benefits	Annual Benefits ¹	State	Members Receiving Benefits	Annual Benefits ¹
Arizona	274	\$3,511	Texas	109	1,146
California	74	713	Washington	51	467
Colorado	98	981	Wyoming	77	681
Florida	68	836			
Iowa	126	1,113	Other States and Foreign Countries	<u>667</u>	<u>6,149</u>
Minnesota	283	2,848			
Nebraska	208	1,738			
North Dakota	73	650			
Total Benefits Payable Outside South Dakota			2,028	\$ 20,833	

SDRS Benefits Paid Outside of South Dakota

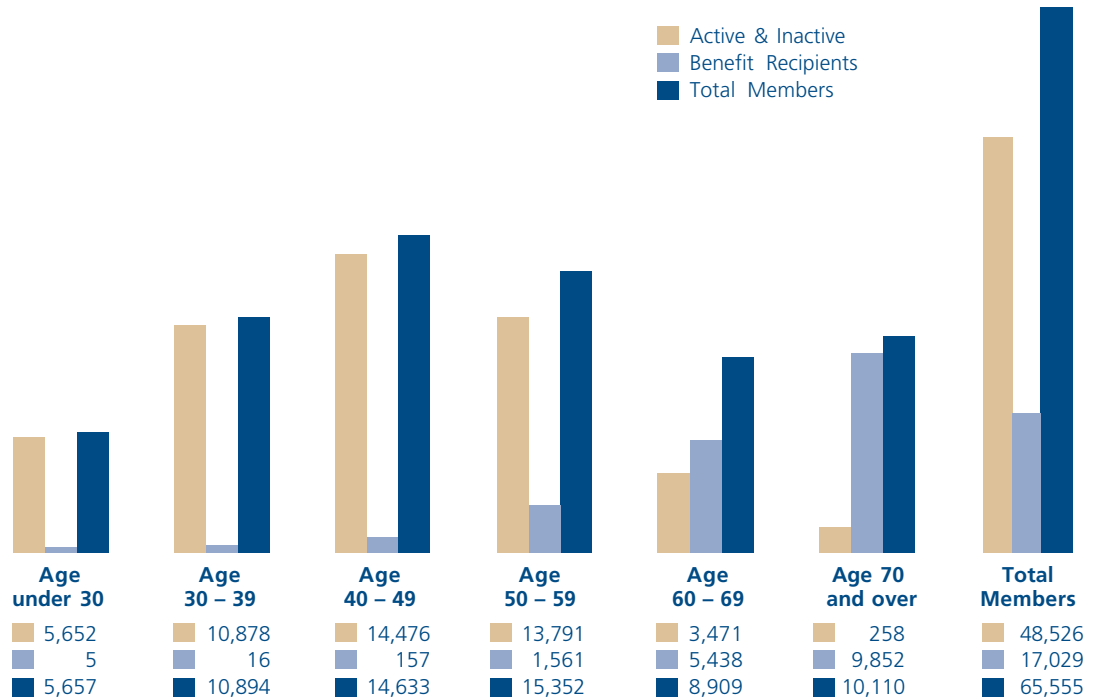
Total Benefit Recipients and Benefits Payable **17,029** **\$211,372**

¹ In thousands

² Total represents the annualized benefits payable as of July 1, 2004.

MEMBERSHIP PROFILE (CONTINUED)

Membership by Age



Membership by County of Residence

Active, Inactive and Retired Members

County	Total Members	County	Total Members	County	Total Members
Aurora	304	Faulk	299	Mellette	220
Beadle	1,297	Grant	500	Miner	205
Bennett	158	Gregory	389	Minnehaha	7,022
Bon Homme	751	Haakon	181	Moody	428
Brookings	3,775	Hamlin	490	Pennington	7,083
Brown	2,963	Hand	241	Perkins	233
Brule	440	Hanson	170	Potter	248
Buffalo	10	Harding	108	Roberts	644
Butte	819	Hughes	4,178	Sanborn	225
Campbell	150	Hutchinson	581	Shannon	130
Charles Mix	719	Hyde	141	Spink	1,299
Clark	329	Jackson	163	Stanley	568
Clay	1,890	Jerauld	183	Sully	145
Codington	1,917	Jones	118	Todd	475
Corson	217	Kingsbury	473	Tripp	566
Custer	823	Lake	1,060	Turner	624
Davison	1,294	Lawrence	2,210	Union	790
Day	492	Lincoln	983	Walworth	568
Deuel	340	Lyman	252	Yankton	2,292
Dewey	364	Marshall	425	Ziebach	110
Douglas	221	McCook	347	Out of State	6,069
Edmunds	258	McPherson	191		
Fall River	763	Meade	1,634		

Total Membership 65,555



Membership by Group

	Active Members			Inactive Members			Total Members
	Vested	Non-Vested	Total Active	Vested	Non-Vested	Total Inactive	
Boards of Regents							
Female	735	264	999	269	192	461	1,460
Male	1,007	290	1,297	354	176	530	1,827
Total	1,742	554	2,296	623	368	991	3,287
County General							
Female	1,124	388	1,512	251	267	518	2,030
Male	1,047	333	1,380	168	204	372	1,752
Total	2,171	721	2,892	419	471	890	3,782
County Public Safety							
Female	80	41	121	8	20	28	149
Male	341	183	524	33	40	73	597
Total	421	224	645	41	60	101	746
Judicial							
Female	10	0	10	0	0	0	10
Male	43	6	49	3	0	3	52
Total	53	6	59	3	0	3	62
Municipal General							
Female	927	297	1,224	222	338	560	1,784
Male	1,370	343	1,713	165	229	394	2,107
Total	2,297	640	2,937	387	567	954	3,891
Municipal Public Safety							
Female	20	9	29	5	6	11	40
Male	541	194	735	48	55	103	838
Total	561	203	764	53	61	114	878
Public School & Board of Regent Classified							
Female	3,955	1,312	5,267	1,196	1,900	3,096	8,363
Male	1,428	509	1,937	304	675	979	2,916
Total	5,383	1,821	7,204	1,500	2,575	4,075	11,279
State General							
Female	2,848	837	3,685	626	739	1,365	5,050
Male	2,477	688	3,165	456	447	903	4,068
Total	5,325	1,525	6,850	1,082	1,186	2,268	9,118
State Public Safety and Penitentiary							
Female	116	43	159	10	45	55	214
Male	536	160	696	43	91	134	830
Total	652	203	855	53	136	189	1,044
Teachers							
Female	7,103	832	7,935	1,759	832	2,591	10,526
Male	2,607	364	2,971	653	289	942	3,913
Total	9,710	1,196	10,906	2,412	1,121	3,533	14,436
Grand Total							
Female	16,918	4,023	20,941	4,346	4,339	8,685	29,626
Male	11,397	3,070	14,467	2,227	2,206	4,433	18,900
Total	28,315	7,093	35,408	6,573	6,545	13,118	48,526

MEMBERSHIP PROFILE (CONTINUED)

Benefit Recipients by Group

	Retirement Benefits		Disability Benefits		Survivor Benefits		Total Benefits	
	2003	2004	2003	2004	2003	2004	2003	2004
Boards of Regents								
Male	717	733	5	3	9	9	731	745
Female	227	237	6	5	173	185	406	427
Total	944	970	11	8	182	194	1,137	1,172
County General								
Male	495	514	46	43	41	41	582	598
Female	552	561	14	18	277	276	843	855
Total	1,047	1,075	60	61	318	317	1,425	1,453
County Public Safety								
Male	99	104	5	5	1	1	105	110
Female	7	8	0	0	17	18	24	26
Total	106	112	5	5	18	19	129	136
Judicial								
Male	29	29	0	0	0	0	29	29
Female	1	1	0	0	18	18	19	19
Total	30	30	0	0	18	18	48	48
Municipal General								
Male	515	527	31	31	22	28	568	586
Female	321	329	10	10	239	244	570	583
Total	836	856	41	41	261	272	1,138	1,169
Municipal Public Safety								
Male	303	328	19	16	0	0	322	344
Female	2	2	3	3	62	61	67	66
Total	305	330	22	19	62	61	389	410
Public School & Board of Regents Classified								
Male	641	657	33	32	93	98	767	787
Female	1,631	1,700	33	29	246	247	1,910	1,976
Total	2,272	2,357	66	61	339	345	2,677	2,763
State General								
Male	1,475	1,551	50	48	87	92	1,612	1,691
Female	1,306	1,374	53	53	607	610	1,966	2,037
Total	2,781	2,925	103	101	694	702	3,578	3,728
State Public Safety and Penitentiary								
Male	221	239	6	5	1	1	228	245
Female	8	8	1	1	36	39	45	48
Total	229	247	7	6	37	40	273	293
Teachers								
Male	1,617	1,722	22	22	236	234	1,875	1,978
Female	3,379	3,478	57	56	336	345	3,772	3,879
Total	4,996	5,200	79	78	572	579	5,647	5,857
Grand Total								
Male	6,112	6,404	217	205	490	504	6,819	7,113
Female	7,434	7,698	177	175	2,011	2,043	9,622	9,916
Total	13,546	14,102	394	380	2,501	2,547	16,441	17,029

Historical Views

Benefit Recipients and Benefits Paid

Group	1999	2000	2001	2002	2003	2004
Board of Regents	931	973	1,024	1,086	1,137	1,172
County General	1,292	1,330	1,368	1,376	1,425	1,453
County Public Safety	88	95	100	110	129	136
Judicial	49	47	45	47	48	48
Municipal General	1,029	1,058	1,077	1,118	1,138	1,169
Municipal Public Safety	327	346	355	376	389	410
Public School & Board of Regents Classified	2,283	2,393	2,474	2,598	2,677	2,763
State General	3,239	3,336	3,433	3,494	3,578	3,728
State Public Safety & Penitentiary	254	229	244	261	273	293
Teachers	4,880	5,121	5,270	5,427	5,647	5,857
Total Benefit Recipients	14,372	14,928	15,390	15,893	16,441	17,029
Total Benefits Paid During Period	\$113,705,428	\$133,775,649	\$153,192,955	\$166,265,639	\$200,613,434	\$211,372,732
Average Benefits Paid During Period	\$7,912	\$8,961	\$9,954	\$10,462	\$12,202	\$12,413

Active and Inactive Members

Group	1999	2000	2001	2002	2003	2004
Board of Regents	2,798	2,830	2,882	2,998	3,144	3,287
County General	3,460	3,608	3,675	3,615	3,696	3,782
County Public Safety	366	425	483	641	721	746
Judicial	57	58	61	58	58	62
Municipal General	3,299	3,409	3,613	3,740	3,806	3,891
Municipal Public Safety	750	750	778	806	852	878
Public School & Board of Regents Classified	8,772	9,446	10,075	10,582	10,885	11,279
State General	8,054	8,254	8,550	8,874	8,915	9,118
State Public Safety & Penitentiary	919	969	972	986	1,010	1,044
Teachers	13,650	13,863	14,114	14,292	14,406	14,436
Total Active and Inactive Members	42,125	43,612	45,203	46,592	47,493	48,526

MEMBERSHIP PROFILE (CONTINUED)

Benefits and Expenses by Type

	Retirement Benefits	Disability Benefits	Survivor Benefits	Refund Benefits	Total Benefits	Administrative Expenses
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
Fiscal Year 2002	147,517,321	3,925,986	14,822,332	22,130,027	188,395,666	2,440,353
Fiscal Year 2003	161,214,537	4,126,182	15,934,568	19,338,147	200,613,434	2,796,941
Fiscal Year 2004	177,038,538	4,129,953	17,285,919	21,414,639	219,869,049	2,493,039

Revenue by Source

	Employee Contributions	Employer Contributions	Total Contributions	Investment Income	Total Revenue
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)
Fiscal Year 2002	66,311,285	58,544,918	124,856,203	(248,826,201)	(123,969,993)
Fiscal Year 2003	80,806,420	71,989,308	152,795,728	209,901,823	362,697,551
Fiscal Year 2004	104,655,550	74,854,496	179,510,046	776,890,949	956,400,995



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.

2004



SOUTH DAKOTA RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2004**

SOUTH DAKOTA RETIREMENT SYSTEM
222 EAST CAPITOL, SUITE 8
P.O. Box 1098
PIERRE, SOUTH DAKOTA 57501-1098
(605) 773-3731

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 2004 HIGHLIGHTS

Total Membership	65,555
Active Contributing Members	35,408
Inactive Non-Contributing Members	13,118
Benefit Recipients	17,029
Net Assets Held in Trust for Pension Benefits	\$5,518,225,955
Actuarial Value of Assets	\$4,937,493,861
Actuarial Accrued Liability (AAL)	\$5,051,728,157
Investment Return	16.6%
<u>Benefits and Refunds Paid</u>	
Benefits Paid	\$ 198,454,410
Refunds Paid	21,414,639
Total	\$ 219,869,049
<u>Contributions</u>	
Member	\$104,655,550
Employer	74,854,496
Total	\$179,510,046
Funding Period	20 years
Funded Ratio (Actuarial Value of Assets/AAL)	97.7%