



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, 2005**

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 2005 HIGHLIGHTS

.....

Total membership	66,831
Active contributing members	35,774
Inactive non-contributing members	13,509
Benefit recipients	17,548
Net assets held in trust for pension benefits	\$6,159,934,879
Actuarial value of assets	\$5,380,999,357
Actuarial accrued liability (AAL)	\$5,571,842,384
Investment return	13.34%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 217,550,207
Refunds paid	<u>20,840,323</u>
Total	\$ 238,390,530
<u>Contributions</u>	
Member	\$ 89,158,629
Employer	<u>77,474,967</u>
Total	\$ 166,633,596
Funding period	20 years
Funded ratio (actuarial value of assets/AAL)	96.6%



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, 2005

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



*IN MEMORY OF
ROYCE HUENERS*

1932 – 2005

Representing elected municipal officials, Royce Hueners had served on the SDRS Board of Trustees since 2001. His conscientious approach to his work, his sense of fairness and his kind and friendly manner are missed by all who knew him.

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

The South Dakota Retirement System Comprehensive Annual Financial Report is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, and municipal employees. Fifteen hundred copies of this document were printed by SDRS at a cost of \$3.46 each 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	47
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
Internal 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
Average Benefits Payments	75
Historical Views	76

* 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, 2004

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. Ziehl

President

Jeffrey R. Emer

Executive Director

PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council
Public Pension Standards
2005 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 dark purple ink that reads "Alan H. Winkle". The signature is fluid and cursive.

Alan H. Winkle
Program Administrator

INTRODUCTION



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

To Our Members:

In the fall of 2003, the South Dakota Retirement System implemented a three-part comprehensive review of the financial condition of SDRS and announced a new emphasis on customer service.

With the completion of the fiscal year 2005 financial report and actuarial valuation, that comprehensive review and the recommendations from the review have been accomplished. The legislative and actuarial changes and investment performance during fiscal year 2004 and 2005 have greatly strengthened the financial condition of SDRS at a time when many other retirement plans are faltering.

The 66,000 SDRS members reside in every community, county and region of South Dakota. Therefore, SDRS Retirement Planners are also there. Every week, SDRS staff is on the road to meet our members. Meanwhile, in-house SDRS Retirement Planners are prepared to immediately correspond with members by phone, fax, email or letter. In addition, a new module, *My SDRS*, has been designed for the SDRS website to give every member access to his or her membership information. As always, SDRS will continue to explore new and improved ways to educate and assist our member's in planning for retirement.

The responsibilities of financial integrity and customer service will remain a top priority for the SDRS Board of Trustees and staff. While we feel we are in a great position to meet any situation that arises, the Board will continue to anticipate possible issues and act on them before they turn into problems.

A Great Gift

The SDRS Board of Trustees has had the great pleasure and good fortune to have had the Honorable Mayor of Madison, Royce Hueners, as a member of the trustees from 2001 though 2005. The Mayor brought great insight, wisdom and enthusiasm to every issue. Royce will be missed for he was truly a gift to all who knew him and to all the people of South Dakota. This report is dedicated to his memory.

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
Telephone (605) 773-3731
FAX (605) 773-3949
TDD (605) 773-3958



South Dakota Retirement System

December 8, 2005

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, 2005. 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, Buck, 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, 2005, it provided retirement, disability and survivor benefits to over 66,000 members. Basic to SDRS' history is the growth in the system's benefit provisions.

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	Standard — alternate 1982 — 1.0% – 2.0% 1987 — 1.05% – 2.0% 1988 — 1.1% – 2.0% 1989 — 1.25% – 2.0% 1991 — 1.30% – 2.0% 1994 — 1.30%/1.40% – 2.0% 1997 — 1.40% prior to 1997/1.30% thereafter – 2.0% 1998 — 1.475% prior to 1998/1.30% thereafter – 2.0% 1999 — 1.55% prior to 2000/1.30% thereafter 2.25% prior to 2000/2.0% thereafter 2000 — 1.625% prior to 2002/1.30% thereafter 2.325% prior to 2002/2.0% thereafter 2002 — 1.55% after 2002 2.25% after 2002
Improvement Factor	2% simple	1978 — 2.0% compound (indexed) 1982 — 3.0% compound (indexed) 1988 — 3.0% compound 1993 — 3.1% compound 1998 — 3.1% compound and prorated for partial years
Early Retirement <ul style="list-style-type: none"> Class A 	Early retirement: age 55 with 6% per year reduction	1978 — Reduction decreased to 3% per year 1986 — Rule of 85 (age 60) 1989 — Removed "at work" limitation 1991 — Rule of 85 (age 58) 1993 — Rule of 85 (age 55)

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>
<p>Retire/rehire</p> <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> <ul style="list-style-type: none"> — Rehired member treated as new member — Add-on benefit paid at re-retirement considers reemployment period only — Retired/rehires prior to July 1, 2004 grandfathered under current law <p>2004 — Benefits, including the COLA, suspended during reemployment</p> <ul style="list-style-type: none"> — Rehired member treated as new member — Add-on benefit paid at re-retirement considers reemployment period only
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>
<p>Eligibility Requirements</p> <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)

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 13.34 percent for fiscal year (FY) 2005, the investment council benchmark return of 9.6 percent. The 10-year annualized return of 10.6 percent exceeds the benchmark return of 9.2 percent.

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2005 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, 2005, was 96.6 percent.

Major Initiatives

During FY 2005, 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 2005 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 Buck, Denver, Colorado. The annual financial audit is conducted by the accounting firm of KPMG LLP with the participation of the South Dakota Department of Legislative Audit. SDRS investments are managed by the South Dakota Investment Council. Communication services are provided by Koupal Communications, Pierre, South Dakota, and Buck, 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, 2004. 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 10th 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.

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 municipal employees
Board service began in July 1995
Sioux Falls

**Tracy
Dahl-Webb**
Vice Chair

**Brian
Berghin**

Represents teachers
Board service began in July 1997
Public school teacher
Sioux Falls Public Schools
Sioux Falls

Represents classified employees
Board service began in July 1990
Benefit specialist
South Dakota State University
Brookings

**Louise
Loban**

**Carol
Burch**

Represents teachers
Board service began in July 1994
Public school teacher
Belle Fourche Public Schools
Belle Fourche

Represents Board of Regents employees
Board service began in July 2004
ABS fiscal officer
South Dakota State University
Brookings

**Darwin
Longieliere**

**Matt
Clark**

Represents South Dakota Investment Council
Board service began in January 2005
State Investment Officer
Non-voting ex-officio board member
Sioux Falls

Represents county employees
Board service began in July 1997
Chief deputy auditor
Pennington County
Rapid City

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

**Jason
Dilges**

Governor's appointee
Board service began in November 2004
Commissioner
Bureau of Finance and Management
Pierre

Represents state employees
Board service began in July 2004
Engineering supervisor
Department of Transportation
Glenham

**Eric
Stroeder**

**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**

**Laurie
Gustafson**

Represents state employees
Began board service in July 2005
Labor law compliance officer
Department of Transportation
Pierre

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

**Sandra
Zinter**

**James O.
Hansen**

Represents retirees
Board service began in July 1993
Retired administrator
Pierre

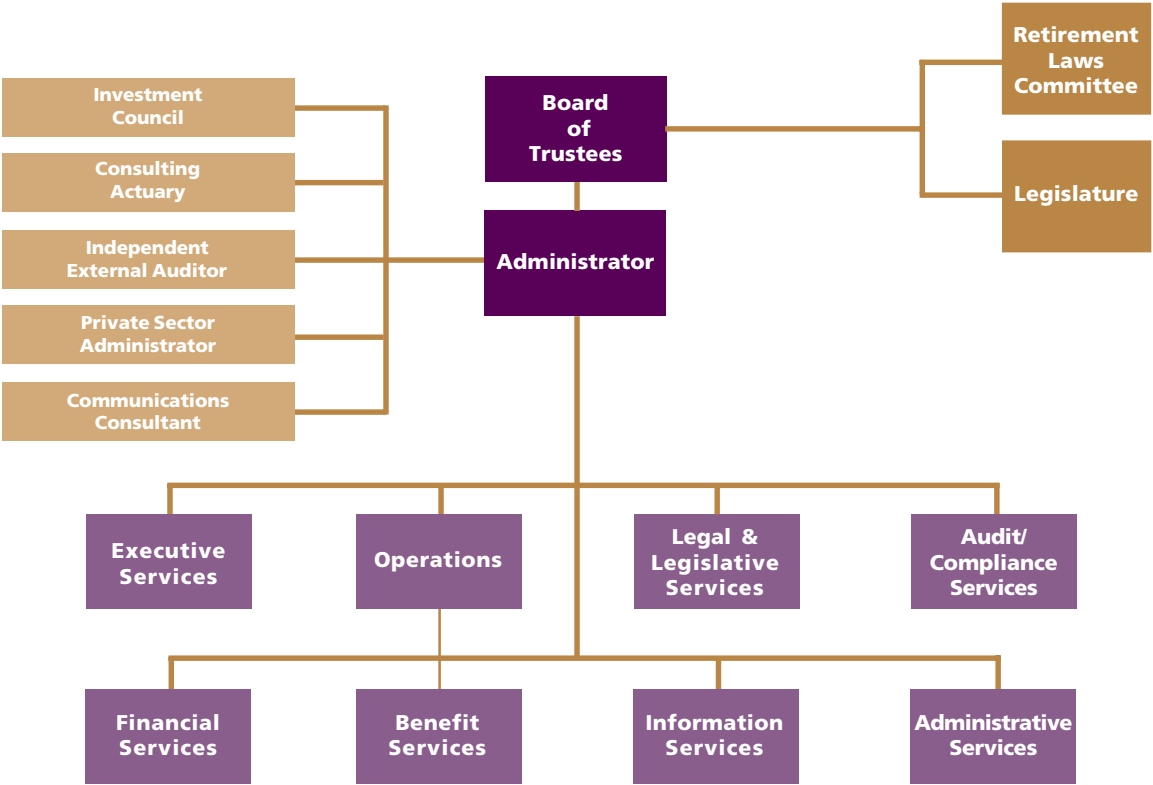
Represents judicial members
Board service began in June 1995
Justice
South Dakota Supreme Court
Pierre

**Justice
Steven
Zinter**

**Ray
Hofman**

Represents Elected Municipal Officials
Board service began December 2005
City Council member
City of Vermillion
Vermillion

ORGANIZATIONAL CHART



Administration

ADMINISTRATOR Robert A. Wylie
 EXECUTIVE ASSISTANT Dawn Smith

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 Buck 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
 INFORMATION SERVICES/ COMPUTER SUPPORT S. Lee Huset (BIT) Pierre, SD
 Ivan Plett (BIT) 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

The Board of Trustees
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, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDRS's internal control over financial reporting. Accordingly, we express no such opinion. 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.

The financial statements present only the financial position and changes in financial position of the State of South Dakota that is attributable to the SDRS. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the fiscal year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDRS as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2005 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 purpose 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.

Management's discussion and analysis on pages 2 through 7, the schedule of funding progress, and schedule of employer contributions on page 24 are not a required part of the basic financial statements, but are 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 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

Omaha, Nebraska
October 27, 2005

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, 2005. 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 \$642 million during fiscal year 2005. This increase was primarily due to the investment performance of 13.34 percent, which was above the assumed rate of 7.75 percent.
- SDRS funded ratio decreased to 96.6 percent in 2005 from 97.7 percent in 2004.
- SDRS reserve for funding of long-term benefit goals is \$228 million.
- SDRS paid \$217.6 million to benefit recipients in fiscal year 2005 compared to \$198 million in 2004. SDRS received \$167 million in member and employer contributions in fiscal year 2005 compared to \$180 million in 2004.

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, 2005 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 2005

Assets	2004	2005
Cash and cash equivalents	\$ 21,591,402	\$ 1,286,942
Receivables	70,288,207	147,354,518
Investments	5,627,580,132	6,208,826,949
Securities lending collateral	315,689,006	383,218,402
Other assets	97,901	45,014
Total assets	\$6,035,246,648	\$6,740,731,825
Liabilities		
Accounts payable	\$ 2,805,170	\$ 2,406,015
Securities sold, but not yet purchased	164,424,053	182,007,945
Unsettled investment purchases	34,102,464	12,640,185
Due to broker	—	524,399
Securities lending collateral	315,689,006	383,218,402
Total liabilities	\$ 517,020,693	\$ 580,796,946
Net assets held in trust for pension benefits	<u>\$5,518,225,955</u>	<u>\$6,159,934,879</u>

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	2005	Change
Funded ratio	97.7%	96.6%	(1.1)%

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 7.75 percent at June 30, 2005. SDRS investment performance has exceeded this assumed rate over the 10-year annualized period with a return of 10.6 percent compared to the benchmark return of 9.2 percent. The investment returns were 13.3 percent for 2005 and 16.6 percent for 2004.

Deductions from plan net assets are primarily benefit payments. During 2005, SDRS paid \$217.6 million to benefit recipients or 9.6 percent more than 2004. The increase is due to added recipients and the annual 3.1 percent cost of living adjustment (COLA). Refunds of accumulated contributions during 2005 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 0.05 percent of plan net assets.

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

	2005	2004	% Change
Additions:			
Member contributions	\$89,158,629	104,655,550	(14.8)%
Employer contributions	77,474,967	74,854,496	3.5%
Investment income	<u>716,237,979</u>	<u>776,890,949</u>	<u>(7.8)%</u>
Total additions	882,871,575	956,400,995	(7.7)%
Deductions:			
Benefits	217,550,207	198,454,410	9.6%
Refunds of contributions	20,840,323	21,414,639	(2.7)%
Administrative expenses	<u>2,772,121</u>	<u>2,493,039</u>	<u>11.2%</u>
Total deductions	241,162,651	222,362,088	8.5%
Net increase	641,708,924	734,038,907	(12.6)%
Net assets held in trust for pension benefits:			
Beginning of year	<u>5,518,225,955</u>	<u>4,784,187,048</u>	15.3%
End of year	<u>\$6,159,934,879</u>	<u>5,518,225,955</u>	11.6%



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.

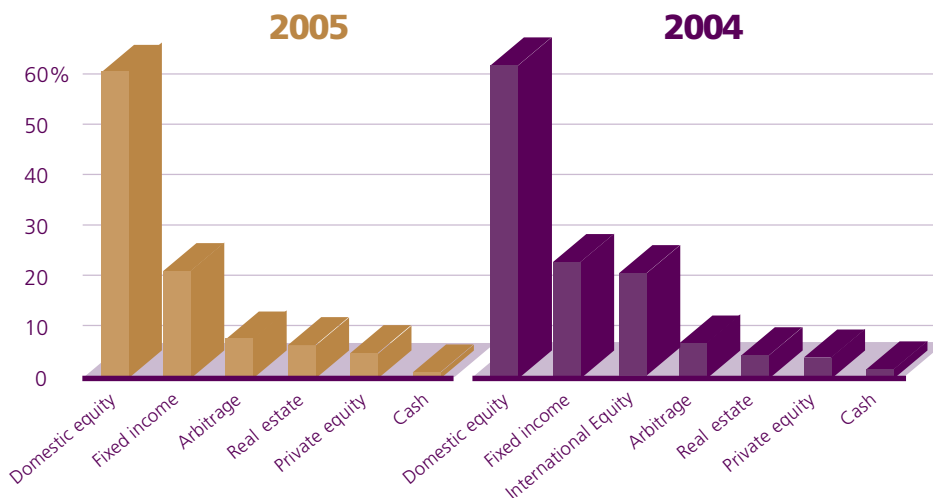
Investments

Investment performance during the last two years was 13.34 percent in 2005 and 16.6 percent in 2004. The Investment Council 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.sdrs.sd.gov.

Requests for Information

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Assets

As of June 30, 2005

Assets

Cash and cash equivalents \$1,286,942

Receivables

Employer 2,377,435

Employee 10,627,292

Benefits 123,235

Unsettled investment sales 113,504,904

Accrued interest and dividends 20,721,652

Total receivables

147,354,518

Investments, at fair value

Fixed income 1,695,013,174

Equities 3,835,784,663

Real estate 415,746,602

Private equity 262,282,510

Total investments

6,208,826,949

Invested securities lending collateral

383,218,402

Other assets

45,014

Total assets

6,740,731,825

Liabilities

Payables

Accounts payable
and accrued expenses 2,406,015

Securities sold, but not yet
purchased, at fair value 182,007,945

Unsettled investment
purchases 12,640,185

Securities lending collateral 383,218,402

Due to brokers

Futures transactions 524,399

Total liabilities

580,796,946

Net assets held in trust for pension benefits \$6,159,934,879

(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	\$ 89,158,629
Employer	<u>77,474,967</u>

Total contributions	\$ 166,633,596
----------------------------	-----------------------

Investment income:

From investing activities

Net appreciation in fair value of investments	541,803,743	
Interest	79,719,251	
Dividends	89,201,634	
Real estate	<u>15,195,744</u>	
Investment income	725,920,372	
Less investment activity expenses	<u>11,099,486</u>	
Net investment activity income		714,820,886

From security lending activities

Security lending income	8,271,876	
Security lending expenses	<u>(6,854,783)</u>	
Net security lending activity income		<u>1,417,093</u>

Total investment income	\$ 716,237,979
--------------------------------	-----------------------

Total additions	\$ 882,871,575
------------------------	-----------------------

Deductions

Benefits	217,550,207
Refunds of contributions	20,840,323
Administrative expenses	<u>2,772,121</u>

Total deductions	\$ 241,162,651
-------------------------	-----------------------

Net increase	<u>641,708,924</u>
---------------------	---------------------------

Net assets held in trust for pension benefits	
Beginning of year	<u>5,518,225,955</u>
End of year	<u>\$ 6,159,934,879</u>

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

Statement of Changes in Plan Net Assets

For the year ended
June 30, 2005

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, 2005, the number of participating governmental employers was:

School districts	180
State of South Dakota	1
Board of Regents	1
Municipalities	140
Counties	63
Boards and commissions	77
Total employers	462

At June 30, 2005, SDRS membership consisted of:

Retirees and beneficiaries currently receiving benefits:

Class A (general employees)	16,614
Class B Public Safety and Judicial employees	934
Total retirees and beneficiaries	17,548

Terminated members entitled to benefits but not yet receiving them:

Class A (general employees)	13,085
Class B Public Safety and Judicial employees	424
Total terminated members	13,509

Current active members:

Vested:	
Class A	26,915
Class B Public Safety and Judicial	1,721
Nonvested:	
Class A	6,505
Class B Public Safety and Judicial	633
Total current active members	35,774
Grand total	66,831

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. 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. Fair values were determined based on closing market prices at June 30, 2005 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. 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, 2005 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, 2005).

Contributions during fiscal 2005 totaling \$166,633,596 (\$89,158,629 employee and \$77,474,967 employer) were made in accordance with statutory rates. These contributions represent 13.8 percent of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

SDRS allows participating entities to pay their deferred contributions for funding of accrued benefits over periods of up to 20 years and members to pay for the purchase of certain prior service over periods of up

BASIC FINANCIAL STATEMENTS (CONTINUED)

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>
2006	\$ 4,379	\$3,334,894
2007	0	2,037,061
2008	0	1,459,630
2009	0	1,030,381
2010	0	650,286
Later	<u>0</u>	<u>1,344,873</u>
	4,379	9,857,125
Less amount representing interest	<u>207</u>	<u>1,651,652</u>
Deferred contributions receivable	\$ <u>4,172</u>	\$ <u>8,205,473</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, 2005, the actuarial value of assets equaled \$5.381 billion. The reserve is added to both the present value of future benefits and the actuarial value of assets. As of June 30, 2005, the balance in the reserve for funding of long-term benefit goals is \$228 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 \$1,286,942 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, 2005 were managed by the following:

	<u>Cost</u>	<u>Fair value</u>
State of South Dakota		
Investment Council	4,459,848,738	\$5,007,208,471
Blackstone Real Estate Partners	213,662,966	309,719,086
Post Advisory Group LLC	160,178,994	177,255,055
Research Affiliates	100,195,866	100,464,544
Capital International, Inc.	66,920,226	103,648,989
Cypress Merchant		
Banking Partners LP	55,713,414	67,529,579
Apollo Real Estate Advisors LP	53,076,189	55,410,235
Lehman Crossroads		
Investment Advisors LP	50,468,841	45,384,104
Nicholas Applegate	38,471,271	49,618,418
Cargill North American		
Real Estate Partners	33,163,104	32,193,597
Brandes Investment Partners	30,513,296	29,230,758
KKR Associates	29,997,218	39,500,494
Dimensional Fund Advisors, Inc.	25,000,000	48,405,103
Silver Lake Partners LP	23,772,024	36,414,137
AllianceBernstein Global		
Strategic Fund	20,006,716	20,194,814
AIG Capital Partners	19,574,997	17,643,943
Doughty Hanson & Co.		
Private Equity IV	16,072,155	16,798,274
Doughty Hanson & Co.		
European Real Estate	14,976,639	18,423,683
Blackstone Private Equity	11,736,062	18,909,025
AllianceBernstein Global		
Opportunities Offshore Hedge Fund	10,000,000	9,802,000
DLJ Merchant Banking		
Partners LP	7,210,213	5,072,640
Total investments	5,440,558,929	6,208,826,949
Securities sold, but not yet purchased	(163,436,006)	(182,007,945)
Total	5,277,122,923	\$6,026,819,004

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. The Post Advisory Group LLC invests in distressed and high yield fixed income securities. AllianceBernstein Global Opportunities Offshore Hedge Fund, AllianceBernstein Global Strategic Fund, Brandes Investment Partners and Research Affiliates invest in global equities. Capital International, Inc. Emerging Market Fund, Nicholas Applegate, and Dimensional Fund Advisors, Inc. invest in international equities.

Blackstone Real Estate Partners, Doughty Hanson & Co. European Real Estate, Apollo Real Estate Advisors, and Cargill North American Real Estate Partners invest in real estate. DLJ Merchant Banking Partners, KKR Associates, AIG Capital Partners, Capital International, Inc. Private Equity Funds, Lehman Crossroads Investment Advisors, Silver Lake Partners, Doughty Hanson Private Equity IV, Blackstone Private Equity, and Cypress Merchant Banking Partners invest in private equity.

Change in Fair Value of Investment

	Year ended June 30, 2005
Appreciation (depreciation) in fair value of investments:	
Equity securities	\$33,006,230
Fixed income securities	12,918,158
Real estate	100,855,147
Private equity	17,125,434
Total increase in fair value	163,904,969
Realized gain on investments sold:	
Equity securities	241,214,587
Fixed income securities	33,080,566
Real estate	54,879,591
Private equity	46,425,804
Total net realized gains	375,600,548
Net gain on futures contracts	2,298,226
Net appreciation in fair value of investments	\$541,803,743

During fiscal year 2005, the system's investments (including investments bought, sold, as well as held during the year) appreciated in value by \$541,803,743.

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 currencydenominated 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, 2005, is as follows (in U.S. dollar fair value):

Currency	Equities U.S. dollar fair value	Fixed income U.S. dollar fair value	Cash U.S. dollar fair value	Total
Australian dollar	\$—	\$—	\$336,986	\$336,986
Bermuda dollar	(1,723)	1,576,332	—	1,574,609
Brazilian real	834,693	—	—	834,693
British pound	349,618,456	—	1,047,615	350,666,071
Canadian dollar	49,427,605	—	167,593	49,595,198
Chinese renminbi	197,754	—	4,872	202,626
Danish kroner	3,231,939	—	131,353	3,363,292
Euro	421,659,039	8,315,740	29,402,187	459,376,966
Hong Kong dollar	1,042,196	—	12,864	1,055,060
Hungarian forint	223,411	—	—	223,411
Israeli shekel	185,702	659,228	4,756	849,686
Japanese yen	220,913,081	—	1,810,020	222,723,101
Korean won	35,557,431	—	—	35,557,431
Mexican peso	—	1,222,697	—	1,222,697
New Zealand dollar	1,538,798	—	58	1,538,856
Norwegian krone	13,760,547	—	204,326	13,964,873
Philippines peso	312,408	—	—	312,408
Singapore dollar	8,656,981	—	434,529	9,091,510
Swedish krona	8,769,703	—	206,106	8,975,809
Swiss franc	146,999,573	—	7,779,577	154,779,150
Taiwan dollar	645,240	—	—	645,240
Total fair value	\$1,263,572,834	\$11,773,997	\$41,542,842	\$1,316,889,673

Investments with outside managers, which are not included in the table above, may expose the system's portfolio to additional foreign currency risk. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2005, was \$678,029,114. The total fair value of global equity investments managed by outside managers was \$196,444,193.

Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a bank failure, SDRS' deposits may not be returned. At June 30, 2005, 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 investments	\$10,349,809
Security lending collateral	383,100,517
Total fair value	\$393,450,326

BASIC FINANCIAL STATEMENTS (CONTINUED)

Securities lending transactions are permitted by the Board. These transactions involve the lending of securities to brokerdealers and other entities for collateral in the form of 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%
U.S. governments	102
U.S. agencies	102
U.S. 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's 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	\$ 111,180,894	9.14
U.S. Treasury strips	27,286,914	17.73
U.S. agencies	29,974,166	13.45
Investment grade corporates	257,153,136	3.76
High-yield corporates	432,574,232	3.61
Mortgage-backed securities	302,533,750	2.41
Mutual funds	209,106,224	1.49
Bank debt	21,234,171	1.00
Total	\$1,391,043,487	3.73

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, 2005, 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	\$ 425,090,934
Aa	58,912,427
A	85,646,045
Baa	124,663,066
Ba	194,198,606
B	55,244,020
Caa	22,885,401
Ca	3,012,548
C	109,562
Not rated	100,721,367
Total	\$1,070,483,976

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, 2005 were as follows:

Description	Open position	Number of contracts	Fair value
S&P 500 Index due September 2005	Long	320	\$95,306,400

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 noncash 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 \$182,007,945 as of June 30, 2005. 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. The unrealized gain on foreign exchange forward contracts as of June 30, 2005 was \$10,999,888. This amount does not include investments with outside managers, which may also enter into foreign exchange forward contracts. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2005, was \$678,029,114. The total fair value of global equity investments managed by outside managers was \$196,444,193.

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's, FHLMC's, and FNMA's. The fair value of these securities as of June 30, 2005 was \$385,695,323. These securities may be subject to prepayment by the 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, 2005, a liability existed for accumulated annual leave calculated at the employees' June 30, 2005, pay rate in the amount of \$112,739. 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.

BASIC FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2005 a liability existed for accumulated and accrued sick leave, calculated at the employees' June 30, 2005 pay rate in the amount of \$127,380.

	<u>2005</u>	<u>2004</u>	<u>% change</u>
Total compensated absences	\$240,119	\$209,870	14.41%

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, 2005 is as follows:

<u>Fiscal year ending June 30</u>	<u>Amount</u>
2006	\$ 81,347
2007	<u>81,347</u>
Total remaining minimum payments	<u>\$162,694</u>

8. Supplemental Retirement Plan:

SDRS offers a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. SRP 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 held in trust for the exclusive benefit of the participants until made available to a participant or the participant's beneficiary.

Of the \$95,862,844 net assets available for plan benefits at June 30, 2005, \$65,306,082 was held in trust for employees of the state while the remaining \$30,556,762 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$1,663,974 is included in the state total and the State's Comprehensive Annual Financial Report for the year ended June 30, 2005.

9. Special Pay Plan:

The plan was established in July 2004 as a qualified plan pursuant to Internal Revenue Code Section 401(a) under the administrative responsibility of the South Dakota Retirement System Board of Trustees. South Dakota state government and the South Dakota Board of Regents are participating units and every state political subdivision may become a participating unit in the plan. The plan mandates that qualifying employees (over age 55 and \$2,000 or more in "special" pay) of participating units defer one hundred percent of their special lump-sum termination pay to the plan. The participating unit transfers the deferred pay to the fund. This deferred pay is available to a participant immediately after termination or upon later retirement, or to beneficiaries or an estate upon the participant's death.

Of the \$3,530,119 net assets available for plan benefits at June 30, 2005, \$1,978,645 was held in trust for employees of the state while the remaining \$1,551,474 represents the assets held in trust for employees of other jurisdictions.

10. Plan Termination:

SDRS is administered in accordance with South Dakota statutes. The statutes provide for full vesting in accrued benefits upon termination of the plan (SDCL 3-12-72.2).

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	(a)	(b)	Unfunded actuarial liability [UAAL] (b-a)	Funded ratio (a/b)	(c)	UAAL as a percentage of covered payroll ((b-a)/c)
	Actuarial value of assets	Actuarial liability — entry age [AAL]			Covered payroll	
6/30/2000 ¹	4,427.1	4,611.9	184.8	96.0	944.6	19.6
6/30/2001	4,521.4	4,688.4	167.0	96.4	1,029.7	16.2
6/30/2002	4,425.4	4,576.9	151.5	96.7	1,080.1	14.0
6/30/2003	4,685.8	4,818.9	133.1	97.2	1,117.3	11.9
6/30/2004 ¹	4,937.5	5,051.7	114.2	97.7	1,164.0	9.8
6/30/2005 ¹	5,381.0	5,571.8	190.8	96.6	1,206.1	15.8

For the year ended June 30	Annual required contributions	Percentage contributed
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
2005	77,474,967	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	6/30/2005
Actuarial cost method	Entry age with frozen unfunded actuarial accrued liability
Amortization method	Level percentage-open
Remaining amortization period	20 years
Asset valuation method	Assets credited with assumed rate of investment return, debited/credited with liability gain/loss for the year, and constrained to a range of 80 percent to 120 percent of market.
Actuarial assumptions:	
Investment rate of return²	7.75%
Projected salary increase²	
based on age, with average of 5.5%	4.2% to 8.1%
Cost-of-living adjustments	3.1%

¹ Actuarial assumption changes occurred during fiscal years 1991, 2000, 2004 and 2005.

² Includes inflation at 4.0 percent.

SUPPORTING SCHEDULES

Schedule of Administrative Expenses for the Year Ended June 30, 2005

	Cash basis	Accrual basis
Personal services		
Salary and per diem	\$1,142,509	\$1,166,344
Employee benefits	<u>298,233</u>	<u>305,267</u>
Total personal services	1,440,742	1,471,611
Operating expenses		
Travel	52,978	54,902
Contractual services		
Finance	8,049	7,145
Valuations	103,924	92,255
Consulting	190,510	169,118
Studies	52,267	46,398
Legal	12,277	10,898
Communications	113,321	99,709
Medical	42,825	38,017
Operations	<u>513,753</u>	<u>513,421</u>
Total contractual services	1,036,926	976,961
Supplies and materials	200,963	226,074
Capital assets	<u>45,699</u>	<u>42,573</u>
Total operating expenses	1,336,566	1,300,510
Total administrative expenses	<u>\$2,777,308</u>	<u>\$2,772,121</u>

Schedule of Investment Expenses for the Year Ended June 30, 2005

	Management expense
Investment managers	
South Dakota Investment Council	\$ 3,298,025
Alliance Bernstein Global Strategy	374
Apollo	572,507
Blackstone Private Equity	(17,014)
Blackstone Real Estate Partners	(1,717,359)
Brandes Global MidCap	49,412
Cargill	2,329,565
Crossroads	627,332
Cypress Merchant Banking	217,469
Dimensional Fund Advisors, Inc.	192,911
DLJ Merchant Bankers	22,621
Doughty Hanson	934,047
Doughty Hanson Private Equity IV	1,213,191
KKR	353,475
MW Post Advisors Partners L.P.	1,119,705
Nicholas Applegate	424,379
Research Affiliates	424,192
Silver Lake	801,337
The Carlyle IV	<u>253,317</u>
Total investment manager expenses	<u>\$11,099,486</u>

ACTUARIAL SUMMARY



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

ACTUARY'S OPINION



November 7, 2005

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

This report summarizes the results of Buck Consultants, LLC's annual Actuarial Valuation of the South Dakota Retirement System (SDRS) as of June 30, 2005.

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, 2005 have been considered in this Actuarial Valuation.

The assumptions and methods used to determine the Annual Required Contributions of the Employers to SDRS have been selected by Buck Consultants, 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. Buck 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, 2005. 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, 2005 is 96.6%.

SDRS is actuarially sound.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Koren L. Holden".

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

1200 17th Street, Suite 1200 • Denver, CO 80202
720.359.7700 • 720.359.7701 (fax)

A handwritten signature in black ink, appearing to read "David H. Slushinsky".

David H. Slushinsky, A.S.A., E.A.
Principal and Consulting Actuary

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 2005 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

	2004 actuarial valuation	2005 actuarial valuation
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	97.7%	96.6%
Funding period	20 years	20 years

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2005

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was 13.3 percent, significantly more than the assumed rate of 8 percent for fiscal year 2005 (7.75 percent effective July 1, 2005). The dollar-weighted annualized investment performance based on the market value of assets for the period was 13.1 percent. This results in an actuarial investment gain of \$324 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, 2005 and increased by the total liability loss of \$126 million. The reserve for funding of long-term benefit goals was increased from a balance of (\$88) million as of June 30, 2004, to a balance of \$228 million as a result of strong investment returns above expectations for fiscal year 2005.

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2005

Item	Amount of liability gain (loss) (\$ in millions)	Percentage of present value of all benefits
Gain due to compensation increases	\$26M	0.40%
Loss due to decrements	(32M)	(0.50%)
Loss due to rehired and new members	(10M)	(0.15%)
Miscellaneous loss	(12M)	(0.18%)
Total experience loss	\$(28M)	(0.43%)
Loss due to changes in economic actuarial assumptions	\$(98M)	(1.50%)
Total system gain	\$(126M)	(1.93%)

Actuarial Assumptions

Significant actuarial assumptions used include: a) a rate of return on the present and future assets of 7.75 percent a year compounded annually plus prefunding of improvement factor; b) projected Social Security cost-of-living increases of 4.0 percent and wage base increases of 5.5 percent per year compounded annually; c) post-retirement benefit increases of 3.1 percent per year compounded annually; d) active participant experience including projected salary increases that average 5.5 percent per year compounded annually; e) 80 percent of active members and 75 percent of retired and terminated members are assumed to be married; f) the male spouse is assumed to be three years older than the female spouse; g) mortality rates for active and non-disabled pensioners are based upon the 1995 Buck Mortality Table; and h) at termination of employment, members will elect the more valuable of the accumulated contributions or the deferred vested benefit.

A detailed experience analysis was conducted in 2003 and 2005, and appropriate modifications in the demographic assumptions regarding assumed rates of member termination, retirement and disability were made effective with the June 30, 2005, actuarial valuation.

Also as a result of the experience analysis in 2003 and 2004, and further study and debate of the SDRS Board of Trustees, changes were made to the economic actuarial assumptions effective for the June 30, 2005 actuarial valuation. These changes increased the unfunded actuarial accrued liability by slightly more than \$75 million and created a liability loss of \$98 million to the system based on the present value of all benefits. The changes are listed in the "Summary of Actuarial Assumption Changes" section of this report.

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.

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 was 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 economic actuarial assumptions effective July 1, 2005, are summarized as follows:

- **Investment return:** decrease in assumed rate of investment return from 8.0 percent per annum, to 7.75 percent per annum;
- **Compensation progression:** decrease in assumed rate of compensation increases, per age, from an average increase of 6.0 percent, per annum to 5.5 percent, per annum;
- **Future Social Security increases:** decrease in assumed rate of compensation increases from 4.5 percent, per annum to 4.0 percent, per annum and decrease in assumed wage base increases from 6.0 percent, per annum to 5.5 percent, per annum;
- **Credited interest on accumulated contributions:** decrease in assumed interest rate granted accumulated contributions from 5.0 percent, per annum to 4.5 percent, per annum;
- **Compensation progression for the determination of funding period:** decrease in assumed rate of compensation increases, for purposes of amortizing the frozen unfunded actuarial accrued liability, from 5.5 percent, per annum to the current assumed rate of inflation.

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, 2005 increased as follows:

Reserve for funding of long-term benefit goals as of June 30, 2004	\$ 88,284,949
Fiscal year 2005 experience	39,640,685
Amortization of prior gains	100,251,906
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, 2005	\$228,177,540

Actuarial Assumption Tables

Sample Separation Rates

Age	Annual Rate per 100 Members				
	Mortality		Disabled mortality	Disablement	
	Male	Female		Male	Female
25	0.07	0.02	0.68	0.08	0.10
30	0.06	0.02	1.06	0.08	0.11
35	0.07	0.04	1.14	0.10	0.12
40	0.10	0.06	1.35	0.12	0.15
45	0.14	0.09	2.00	0.16	0.22
50	0.22	0.14	3.16	0.24	0.23
55	0.35	0.21	3.78	0.40	0.38
60	0.64	0.32	4.25	0.84	0.80
65	1.24	0.66	5.12	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	16.80
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

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, 2005 measures of actuarial soundness reflect changes in benefit provisions enacted by the South Dakota State Legislature in 2005, effective June 30, 2005.

There were no benefit improvements or substantive benefit provision changes during the 2005 fiscal year. The June 30, 2005 actuarial valuation directly reflects the provisions of the system as stated in the Plan Summary section of this report.

Benefit Changes

Summary of Key Actuarial Measures

	2004 actuarial valuation results	System investment and liability experience for year ¹	Membership changes and maturity of system ²	Benefit changes effective July 1, 2005	Actuarial assumption changes effective July 1, 2005 ³	2005 actuarial valuation results
Normal cost rate with expense provision	11.861%	—	(.002%)	—	(.016%)	11.843%
Funding period	20 years	—	—	—	—	20 Years
Unfunded actuarial accrued liability	\$114M	—	\$2M	—	\$75M	\$191M
Actuarial accrued liability funded ratio	97.7%	—	0.2%	—	(1.3%)	96.6%

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.

³ The economic actuarial assumption changes increased the frozen unfunded actuarial accrued liability by \$75 million and the total present value of benefits by \$98 million, which resulted in a 1.3 percent decrease in the actuarial accrued liability funded ratio.

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 2005, expressed as a percentage of payroll and total contributions, are based on the 2005 actuarial valuation and are summarized in the chart below.

	SDRS 2005 Funding Requirements	
	As a percentage of payroll	As a percentage of contributions
Matching statutorily required employer/member contribution rate	12.487% ³	100.0%
Entry age normal contribution rate at mid-period	11.568%	92.6%
Expense allowance	.275%	2.2%
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	11.843%	94.8%
Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation	.644% ⁴	5.2%

The 2005 actuarial valuation indicates a contribution of .644 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.

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, 2005 are 12.5 percent of compensation.

⁴ Will amortize frozen unfunded actuarial accrued liability over 20 years from 2005.

The 2005 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 3 percent of the present value of all benefits of the system.
- 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 \$779 million and a balance of \$228 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 7.75 (effective July 1, 2005) 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 2005 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 2005 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, 2005

Actuarial value of assets as of June 30, 2005	\$ 4,937,493,861
Contributions and disbursements	
Contributions	166,633,596
Benefit payments and refunds	(238,390,530)
Administrative expenses	<u>(2,772,120)</u>
Total	\$ (74,529,054)
Expected investment return	\$ 392,018,347
SDRS liability loss	\$ 126,016,203
Projected actuarial value of assets as of June 30, 2005	\$5,380,999,357
Present value of all benefits for improvements enacted into law as of June 30, 2005, and funded from reserve	<u>0</u>
Preliminary actuarial value of assets as of June 30, 2005	\$5,380,999,357
Market value of assets as of June 30, 2005	\$6,159,934,879
Constraining values	
80% of market value of assets	\$4,927,947,903
120% of market value of assets	\$7,391,921,855
Actuarial value of assets as of June 30, 2005	\$5,380,999,357



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
2005	5,571,842,384	5,380,999,357	96.6	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 accrued 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
2005	5,571,842,384	5,380,999,357	96.6	190,843,027	1,206.1	15.8



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

Solvency Test

Fiscal year	Actuarial accrued liability for			Actuarial value of assets	Portion of actuarial accrued liability covered by actuarial value of assets for		
	(1) Member contributions	(2) Current retirees and beneficiaries and terminated employees	(3) Current employees: employer financed		(1)	(2)	(3) 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
2005	831,968,303	2,987,636,584	1,752,237,497	5,380,999,357	100.0	100.0	89.1

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
2005	35,774	1,206.1	33,715	2.6

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

ACTUARIAL VALUATION (CONTINUED)

Schedule of Retirees and Beneficiaries Added to and Removed from Benefit Payroll

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

Valuation date	Beginning of year balance	Number added to payroll	Number removed from payroll	End of year balance	Annual pension benefit amount	Average annual benefit	% Increase in average benefit
1987 – 88 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
2005	17,029	1,121	602	17,548	228,469,621	13,020	4.9

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

SUMMARY OF BENEFIT PROVISION CHANGES

	2004 actuarial valuation	2005 actuarial valuation	% change
Active members			
Number	35,408	35,774	1.0
Average age	44.9	45.1	0.5
Average credited service	11.1	11.2	0.9
Annual compensation of members	\$1,164,036,045	\$1,206,131,510	3.6
Average annual compensation	\$32,875	\$33,715	2.6
Benefit recipients			
RETIRED MEMBERS			
Number ¹	14,102	14,551	3.2
Average age	72	72.0	0.0
Total annualized benefits	\$189,530,995	\$205,397,590	8.4
Average annualized benefits	\$13,440	\$14,116	5.0
BENEFICIARIES			
Number ¹	2,547	2,610	2.5
Total annualized benefits	\$17,982,543	\$19,034,034	5.8
Average annualized benefits	\$7,060	\$7,293	3.3
DISABILITIES			
Number	380	387	1.8
Total annualized benefits	\$3,911,183	\$4,037,997	3.2
Average annualized benefits	\$10,293	\$10,434	1.4
Terminated members			
Number — vested	6,573	6,808	3.6
Number — non-vested ²	6,545	6,701	2.4
Results of actuarial valuation			
Normal cost (without expenses)	11.586%	11.568%	(0.2%)
(with expenses)	11.861%	11.843%	(0.2%)
Frozen unfunded actuarial accrued liability	\$114,234,296	\$190,843,027	67.1%
Market value of assets	\$5,518,225,955	\$6,159,934,879	11.6%
Actuarial value of assets	\$4,937,493,861	\$5,380,999,357	9.0%
Actuarial accrued liability (AAL)	\$5,051,728,157	\$5,571,842,384	10.3%
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	97.7%	96.6%	(1.1%)
Projected years to fund level funding requirements	20	20	N/A

Comparison of Actuarial Valuation Results

There were no benefit improvements or substantive benefit provision changes made to SDRS during the 2005 South Dakota legislative session.

Summary of Benefit Provision Changes

¹ In addition, there are 137 and 128 members or beneficiaries, as of July 1, 2004 and July 1, 2005, respectively, whose benefits are currently suspended, but are entitled to future benefits.

² Entitled to accumulated contributions only.

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 94 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, 2005, 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 7.75 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 contributory 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 without improvements and reduced by 75 percent of primary Social Security benefit.

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 the spouses's 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.



Terminated Member

If a terminated member dies prior to benefit commencement, the accumulated contributions are refunded to the 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 upon the member's death disability of the member to payment commencement. Such benefit is paid upon the member's death 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.

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.

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 assets in an amount not to exceed 3 percent of the annual member and employer contributions received by the system.

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

This plan summary is effective July 1, 2005.

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 10 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 2005 was 13.3 percent. The investment council's benchmark return for FY 2005 was 9.6 percent. This capital market benchmark was 57 percent global equity, 27 percent fixed income, 5 percent arbitrage, 6 percent real estate, 4 percent private equity and 1 percent cash. The 10-year annualized return was 10.6 percent versus the benchmark return of 9.2 percent.

Performance

The internal equity fund earned 9.9 percent in FY 2005 versus a benchmark return of 9.0 percent. The 10-year return for the internal equity fund was 11 percent versus a benchmark return of 9.4 percent.

SDRS' bond fund returned 9.1 percent in FY 2005 versus a benchmark return of 7.9 percent. The 10-year return for the internal bond fund was 7.5 percent versus a benchmark return of 7.4 percent.

Returns earned by other portfolios and outside managers in FY 2005 (included in total fund returns) were: 3.0 percent merger arbitrage; 0.9 percent convertible arbitrage; 34.3 percent emerging markets; 33.3 percent DFA; 32.7 percent Nicholas Applegate; 12.5 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.

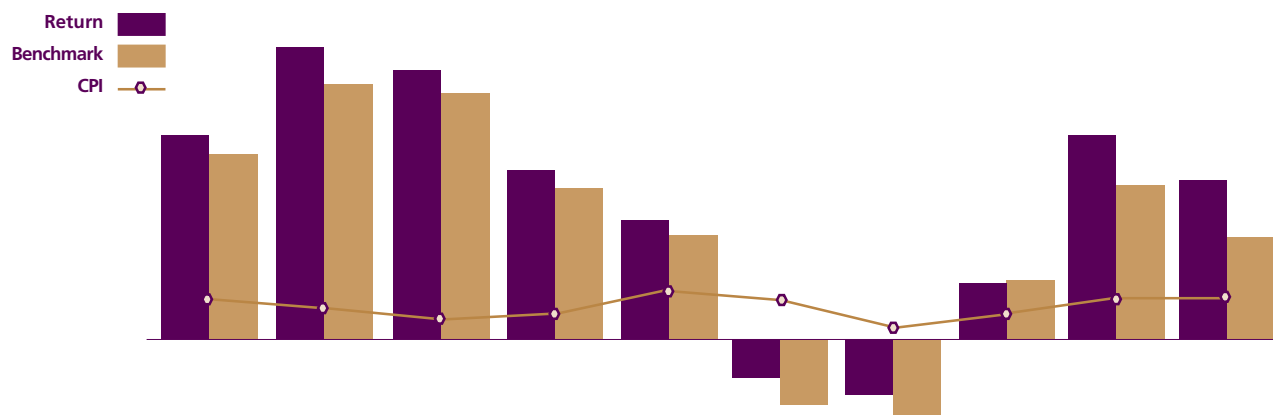
The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS' total return over time is a key indicator of the financial strength of the system.

Real Rates of Return

During FY 2005 inflation averaged 2.5 percent while SDRS' total return was 13.3 percent. Over the last 10 years, inflation has averaged 2.5 percent and total returns 10.6 percent, creating a real return of 8.1 percent.

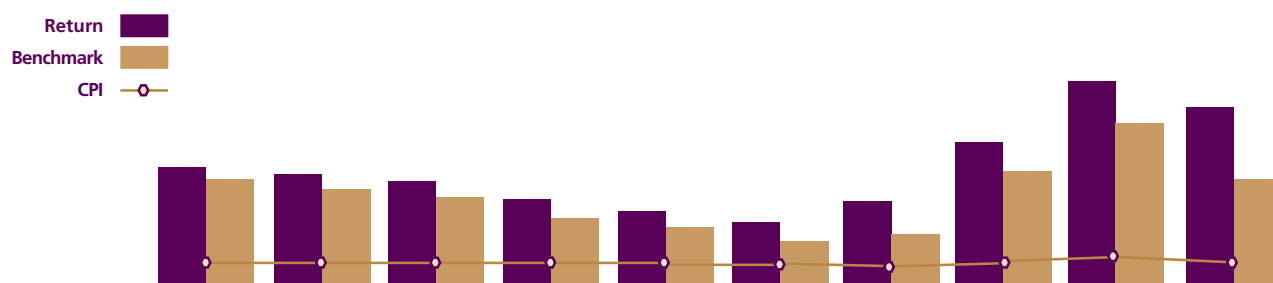
INVESTMENT SUMMARY (CONTINUED)

Investment Performance Compared to Capital Market Benchmark and Inflation



	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Investment Return	16.7%	21.3%	19.3%	14.6%	10.8%	(2.9)%	(4.9)%	5.0%	16.6%	13.3%
Benchmark	15.5%	18.9%	18.4%	13.3%	9.7%	(5.1)%	(5.8)%	5.4%	15.5%	9.6%
CPI	2.8%	2.5%	1.6%	2.0%	3.7%	3.2%	1.1%	2.1%	3.3%	2.5%

Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



	FY96-05	FY97-05	FY98-05	FY99-05	FY00-05	FY01-05	FY02-05	FY03-05	FY04	FY05
Investment Return	10.6%	9.9%	8.6%	7.2%	6.0%	5.1%	7.2%	11.5%	15.0%	13.3%
Benchmark	9.2%	8.5%	7.3%	5.8%	4.6%	3.6%	5.9%	10.1%	12.5%	9.6%
CPI	2.6%	2.5%	2.6%	2.6%	2.6%	2.4%	2.2%	2.6%	2.9%	2.5%

As of June 30, 2005, the South Dakota Investment Office managed 83 percent of SDRS' investments. The remaining 17 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 (\$49.6 million), and Dimensional Fund Advisors (\$48.4 million) invest in international equities. Blackstone (\$309.7 million), Doughty Hanson (\$18.4 million), Apollo (\$55.4 million) and Cargill North American (\$32.2 million) invest in distressed real estate. DLJ Merchant Bankers (\$5.1 million), Capital International (\$9.8 million), AIG (\$17.6 million), KKR (\$39.5 million), Crossroads (\$45.4 million), Silver Lake (\$36.4 million), Cypress (\$67.5 million), Blackstone (\$18.9 million) and Doughty Hanson (\$16.8 million) invest in private equity.

Investment Managers

Schedule of Investment Management Expenses

Investment managers	Management expense
South Dakota Investment Council	\$ 3,298,025
Alliance Bernstein Global Strategy	374
Apollo	572,507
Blackstone Private Equity	(17,014)
Blackstone Real Estate Partners	(1,717,359)
Brandes Global MidCap	49,412
Cargill	2,329,565
Crossroads	627,332
Cypress Merchant Banking	217,469
Dimensional Fund Advisors, Inc.	192,911
DLJ Merchant Bankers	22,621
Doughty Hanson	934,047
Doughty Hanson Private Equity IV	1,213,191
KKR	353,475
MW Post Advisors Partners L.P.	1,119,705
Nicholas Applegate	424,379
Research Affiliates	424,192
Silver Lake	801,337
The Carlyle IV	253,317
Total investment manager expenses	\$11,099,486

Schedule of Investment Management Expenses and Commissions

For the Year Ended
June 30, 2005

Summary of Broker Commissions¹

Investment type	Commissions
Fixed income	\$ 859,067
Global equity	4,398,438

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

INVESTMENT SUMMARY (CONTINUED)

Summary of Investment Portfolios

As of June 30, 2005

	Market value	Future positions	Exposure with futures	Percentage with futures overlay on cash markets
Domestic fixed income				
Internal fixed income	\$1,089,095,968	\$ 0	\$1,268,362,269	20.6%
Post Advisory Group	\$179,266,301			
Global equity				
Internal global equity	\$ 3,289,717,235			
Dimensional Fund Advisors	48,405,103			
Capital International	88,618,672			
Nicholas Applegate Securities	49,618,418			
Alliance Bernstein Global Strategic	20,215,513			
Brandes Non-US Mid Cap	29,301,828			
Research Affiliates	100,593,078			
Equity Futures		95,306,400		
Total international equity	\$3,626,469,847		\$3,626,469,847	60.5
Arbitrage equity				
Internal merger arbitrage	\$ 295,084,553			
Internal convertible arbitrage	160,639,522			
Bernstein Hedge Fund	9,802,000			
Total arbitrage equity	\$ 465,526,075		\$ 465,526,075	7.6
Real estate				
Blackstone Partnerships	\$ 309,719,087			
Apollo	55,410,235			
Doughty Hanson	18,423,683			
Cargill	32,193,597			
Total real estate	\$ 415,746,602		\$ 415,746,602	6.8
Private equities				
Kohlberg Kravis Roberts	\$ 39,500,494			
Crossroads	45,384,104			
Silverlake Partners	36,414,137			
Cypress Associates, L.P.	67,529,579			
Capital International	15,030,317			
AIG	17,643,941			
DLJ Overseas Partners II	5,072,635			
Blackstone	18,909,025			
Doughty Hanson	16,798,274			
Total private equities	\$ 262,282,506		\$ 262,282,506	4.3
Cash and cash equivalents				
Internal shift	\$ 109,086,467	\$ (95,306,400)	\$ 13,780,067	0.2%
Total	\$6,147,473,766	\$ 0	\$6,147,473,766	100.0%



The South Dakota Retirement System trust fund's internally managed equity portfolio characteristics for the past 10 years are presented below. The SDRS internal equity portfolio is compared to the 2/3 S&P Global 1200 Index plus 1/3 S&P 500 Index benchmark.

Internal Equity Profile

South Dakota

Investment Office	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Price/earnings ratio	15.7	22.1	25.0	29.6	27.0	26.0	26.8	22.9	19.2	15.6
Dividend yield	2.3%	1.6%	1.4%	1.4%	1.2%	1.4%	1.8%	1.9%	2.0%	2.3%
Price/book value ratio	3.9	5.2	4.8	7.5	10.4	5.4	4.2	4.0	3.8	3.1

Benchmark

Price/earnings ratio	19.3	21.7	25.9	33.6	30.3	25.6	26.2	23.5	21.5	20.8
Dividend yield	2.2%	1.7%	1.4%	1.2%	1.1%	1.3%	1.6%	1.7%	1.7%	2.2%
Price/book value ratio	4.3	5.0	5.7	8.4	11.2	5.7	4.5	4.2	4.1	4.0

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
Citigroup, Inc.	2.9%
General Electric Co.	2.7
Microsoft Corp.	2.6
Pfizer, Inc.	2.4
GlaxoSmithKline, Plc.	1.9
Cisco Systems, Inc.	1.8
Intel Corp.	1.8
Nestle SA	1.7
Wells Fargo & Co.	1.5
Wal-Mart Stores, Inc.	1.5
Total	20.8%

Distribution by Market Sector

Market sector	SDRS total equity	Russell 1000
Consumer discretionary	12.9%	11.2%
Consumer staples	9.7	9.5
Energy	7.7	9.4
Financials	24.8	22.7
Health care	12.4	11.5
Industrials	6.8	10.3
Information technology	14.8	12.5
Materials	3.9	4.5
Telecommunications services	3.3	4.5
Utilities	1.8	3.9
Cash equivalents	1.9	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	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of issues	48	55	56	62	60	67	76	77	83	74
Average coupon	6.76%	6.87%	6.84%	6.32%	6.23%	6.68%	6.41%	5.87%	5.62%	5.20%
Yield to maturity	7.34%	7.36%	6.66%	7.09%	7.76%	7.01%	6.72%	4.73%	5.44%	4.70%
Average maturity (years)	6.58	7.68	8.51	7.70	6.88	7.02	8.40	7.46	7.50	5.80
Duration (years) ¹	4.92	5.81	5.85	6.07	5.56	5.56	5.92	5.20	5.78	4.10
Average quality ²	3.28	3.12	3.02	3.15	3.22	3.33	3.01	3.24	3.24	3.38
Cash equivalent %	14.60%	0.40%	0.90%	2.20%	5.80%	0.50%	0.50%	4.70%	1.2%	13.8%

Lehman Aggregate Bond Index

Average coupon	7.23%	7.20%	7.06%	6.74%	6.85%	6.75%	6.44%	6.00%	5.32%	5.24%
Yield to maturity	6.95%	6.83%	6.14%	6.58%	7.24%	6.10%	5.21%	3.60%	4.68%	4.51%
Average maturity (years)	8.76	8.53	8.35	8.89	7.77	8.24	6.91	6.70	7.47	6.21
Duration (years) ¹	5.15	5.27	5.37	5.54	4.91	4.74	4.54	3.90	4.77	4.67

Distribution Profile

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

Distribution by Duration

	Percent
0 to 2 years	26.2%
2 to 3 years	21.5
3 to 4 years	17.7
4 to 5 years	8.1
5 to 6 years	7.7
6 to 8 years	8.9
Above 8 years	9.9
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/cash equivalents	13.8%
AAA	48.7
AA	5.4
A	6.4
BAA	7.7
BA	16.2
B	1.8
Total	100.0%

Distribution by Coupon

	Percent
Cash/cash equivalents	13.8%
0.00% – 4.00%	13.2
4.01% – 5.00%	20.3
5.01% – 6.00%	27.8
6.01% – 8.00%	15.6
8.01% and over	9.3
Total	100.0%

Distribution by Issue

	Percent
Cash/cash equivalents	13.8%
U.S. Treasury/agency	20.1
Mortgage backed securities	27.8
Investment grade corporates	20.4
High yield corporates	17.9
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

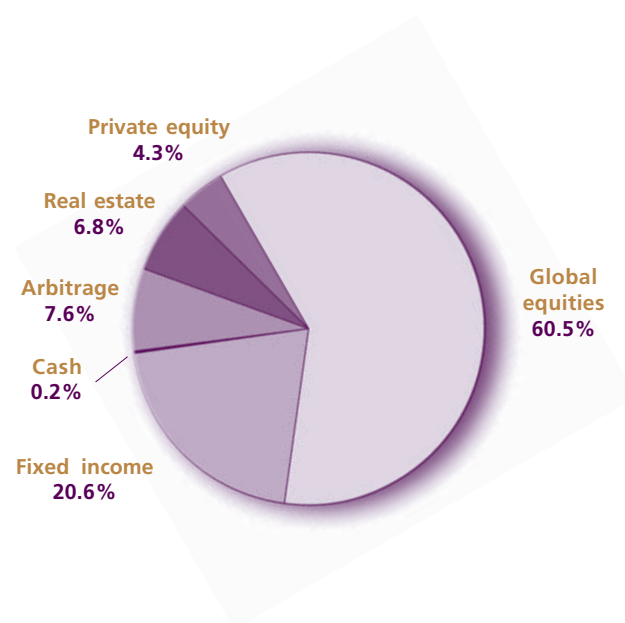
Four years ago, the investment office prepared two in-depth analyses for study by the investment council. The first dealt with the overall domestic equity-like characteristics that are implicit in a diversified portfolio, which invests in a variety of different asset categories. The analysis determined 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, 2005

	6/30/03	6/30/04	6/30/05
Equities	41.5%	42.0%	—
Global equities	—	—	60.5%
Fixed income	23.2	22.0	20.6
Cash	2.9	1.1	0.2
Arbitrage	5.2	6.4	7.6
Real estate	6.2	4.5	6.8
Private equity	4.1	4.4	4.3
International	16.9	19.6	—



Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999
TOTAL INVESTMENT FUND	16.7%	21.3%	19.3%	14.6%
Cash equivalents	5.8	5.3	5.6	5.1
Investment office bond fund	5.9	9.9	12.6	2.4
Combined internal equity fund	27.1	31.7	25.6	19.5
Arbitrage convertible fund	9.9	11.4	10.0	7.6
Arbitrage merger fund	17.6	18.8	21.8	16.5
INDICIES				
Bond index				
Fixed income benchmark	6.2	9.6	11.2	2.9
COMBINED INTERNAL EQUITY BENCHMARK	23.3	28.6	25.6	18.3
TOTAL FUND BENCHMARKS				
Russell/Mellon total bil \$ funds	17.4	20.4	18.4	11.5
Capital market benchmark	15.5	18.9	18.4	13.3
CONSUMER PRICE INDEX	2.8	2.5	1.6	2.0

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1996 – 2005	Fiscal 1997 – 2005	Fiscal 1998 – 2005	Fiscal 1999 – 2005
TOTAL INVESTMENT FUND	10.6%	9.9%	8.6%	7.2%
Cash equivalents	4.0%	3.8%	3.7%	3.4%
Investment office bond fund	7.5%	7.7%	7.4%	6.7%
Combined internal equity fund	11.0%	9.4%	6.9%	4.4%
Arbitrage convertible fund	7.2%	6.9%	6.4%	5.9%
Arbitrage merger fund	11.8%	11.2%	10.3%	8.7%
INDICIES				
Bond index				
Fixed income benchmark	7.4%	7.5%	7.2%	6.7%
COMBINED INTERNAL EQUITY BENCHMARK	9.4%	8.0%	5.7%	3.1%
TOTAL FUND BENCHMARKS				
Russell/Mellon total bil \$ funds	9.6%	9.1%	7.2%	7.9%
Capital market benchmark	9.2%	8.5%	7.3%	5.8%
CONSUMER PRICE INDEX	2.6%	2.5%	2.6%	2.6%

Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
10.8%	(2.9)%	(4.9)%	5.0%	16.6%	13.3%
5.7	6.0	2.5	1.4%	0.9%	2.1%
4.3	10.0	5.9	14.4%	1.3%	9.1%
10.9	(12.0)	(12.2)	(2.0%)	22.9%	9.9%
8.7	6.5	3.8	13.1	1.0	0.9%
18.4	6.2	2.1	8.5%	7.4%	3.0%
3.8	11.2	7.0	13.4%	1.3%	7.9
11.0	(17.1)	(15.0)	(0.8)	23.6	9.0
11.1	(5.8)	(6.6)	3.1%	16.9%	14.8
9.7	(5.1)	(5.8)	5.4%	15.5%	9.6
3.7	3.2	1.1	2.1%	3.3%	2.5

Fiscal 2000 – 2005	Fiscal 2001 – 2005	Fiscal 2002 – 2005	Fiscal 2003 – 2005	Fiscal 2004 – 2005	Fiscal 2005
6.0%	5.1%	7.2%	11.5%	15.0%	13.3%
3.1%	2.6%	1.7%	1.5%	1.5%	2.1%
7.4%	8.1%	7.6%	8.1%	5.1%	9.1%
2.1%	0.4%	3.8%	9.8%	16.2%	9.9%
5.6%	5.0%	4.6%	4.8%	0.9%	0.9%
7.5%	5.4%	5.2%	6.3%	5.2%	3.0%
7.3%	8.1%	7.3%	7.4%	4.5%	7.9%
0.7%	(1.2)%	3.2%	10.2%	16.1%	9.0%
6.2%	4.5%	9.4%	15.7%	13.9%	14.8%
4.6%	3.6%	5.9%	10.1%	12.5%	9.6%
2.6%	2.4%	2.2%	2.6%	2.9%	2.5%

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, 2005.

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

Executive Management
Agriculture
Commerce and Regulation
Corrections
Dept. of Public Safety
Education & Cultural Affairs
Game, Fish and Parks
Governor's Office
Health
Human Services

Labor
Lottery
Military and Veterans Affairs
Revenue & Regulation
Social Services
Tourism & State Development
Transportation
Vocational Rehabilitation
Enviro. and Natural Resources
Attorney General

Public Utilities Commission
School and Public Lands
Secretary of State
State Auditor
State Treasurer
Legislative Audit
Legislative Research Council
Unified Judicial System
SD Investment Council
SD Retirement System

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

Black Hills State University
Dakota State University
South Dakota School for the Visually
Impaired
South Dakota School for the Deaf

Public Entities Participating in SDRS

School Districts

Membership: 15,960
Percentage of total active members: 45%
Units: 180

Legislative, Executive and Judicial Agencies

Membership: 7,924
Percentage of total active members: 21.9%
Units: 1

Institutions of Higher Education

Membership: 4,098
Percentage of total active members: 11.4%
Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities

Membership: 3,736
Percentage of total active members: 10.5%
Units: 140

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

Counties

Membership: 3,595
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: 78

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



FY 2005			FY 2005		
County	members receiving benefits	Annual benefits	County	members receiving benefits	Annual benefits
Aurora	96	892,292	Hyde	41	361,518
Beadle	436	5,232,713	Jackson	37	508,272
Bennett	34	340,464	Jerauld	58	554,925
BonHomme	219	2,220,290	Jones	26	286,051
Brookings	946	14,315,209	Kingsbury	107	1,227,456
Brown	843	11,621,098	Lake	324	4,376,194
Brule	101	1,112,247	Lawrence	570	7,684,407
Buffalo	2	8,028	Lincoln	227	2,703,687
Butte	196	2,048,596	Lyman	52	647,055
Campbell	42	418,154	Marshall	128	1,358,876
Charles Mix	178	2,009,310	McCook	76	1,006,344
Clark	94	776,936	McPherson	60	564,342
Clay	448	7,042,326	Meade	391	4,928,254
Codington	496	7,202,902	Mellette	35	304,545
Corson	35	442,591	Miner	67	623,766
Custer	204	2,586,188	Minnehaha	1,676	27,810,351
Davison	423	5,430,916	Moody	115	1,190,190
Day	157	1,812,454	Pennington	1,856	27,852,557
Deuel	94	644,420	Perkins	69	679,488
Dewey	56	583,466	Potter	74	834,306
Douglas	47	501,138	Roberts	178	1,924,728
Edmunds	69	817,283	Sanborn	68	701,174
Fall River	211	1,768,719	Shannon	8	97,523
Faulk	112	1,052,985	Spink	381	3,451,658
Grant	163	1,777,750	Stanley	119	1,705,451
Gregory	102	1,160,778	Sully	28	226,185
Haakon	39	427,846	Todd	35	362,404
Hamlin	112	1,349,320	Tripp	140	1,571,490
Hand	83	965,471	Turner	180	1,763,137
Hanson	37	356,792	Union	188	2,146,489
Harding	24	187,932	Walworth	179	2,162,220
Hughes	1,019	17,359,750	Yankton	594	6,960,530
Hutchinson	195	2,224,220	Ziebach	13	116,504
Total benefits payable by county			15,413	205,382,660	

SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

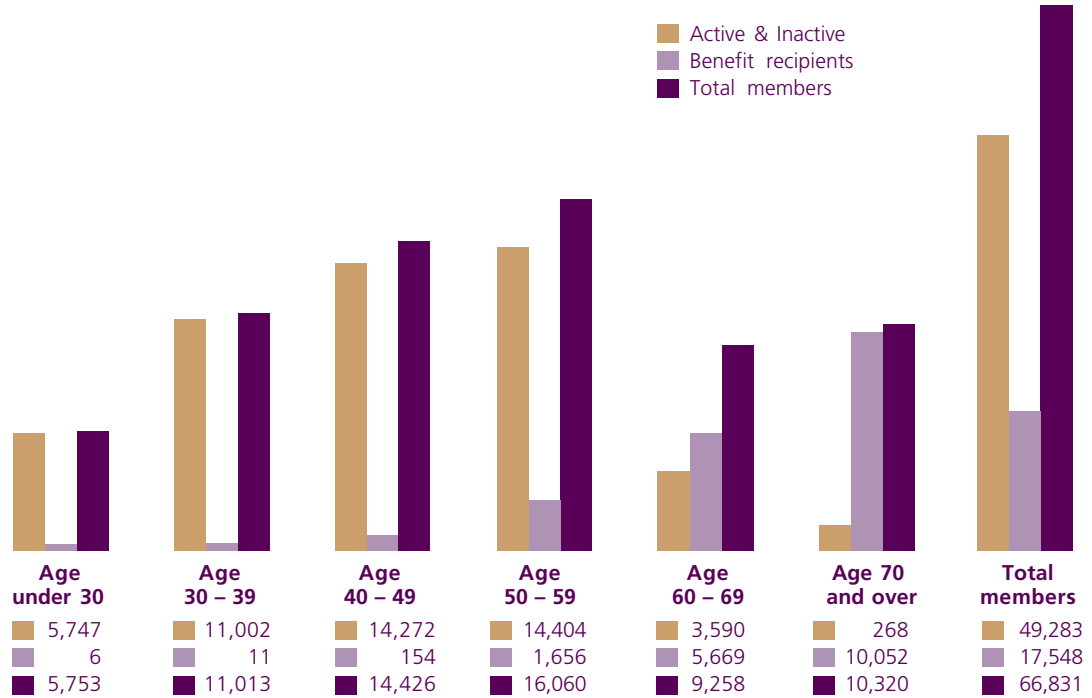
State	Members receiving benefits	Annual benefits	State	Members receiving benefits	Annual benefits
Arizona	276	3,706,799	Texas	125	1,444,324
California	75	781,639	Washington	53	536,757
Colorado	106	1,069,875	Wyoming	82	703,308
Florida	68	810,338			
Iowa	134	1,233,846	Other states and foreign countries	<u>633</u>	<u>7,074,442</u>
Minnesota	285	2,966,102			
Nebraska	218	1,973,610			
North Dakota	80	789,045			
Total benefits payable outside South Dakota			2,135	\$ 23,090,084	

Total benefit recipients and benefits payable 17,548 \$228,472,744

SDRS Benefits Paid Outside of South Dakota

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	299	Faulk	304	Mellette	205
Beadle	1,300	Grant	493	Miner	209
Bennett	158	Gregory	381	Minnehaha	7,359
BonHomme	754	Haakon	185	Moody	442
Brookings	3,835	Hamlin	503	Pennington	7,215
Brown	3,034	Hand	240	Perkins	231
Brule	437	Hanson	180	Potter	241
Buffalo	7	Harding	114	Roberts	657
Butte	831	Hughes	4,246	Sanborn	237
Campbell	146	Hutchinson	584	Shannon	127
Charles Mix	714	Hyde	141	Spink	1,312
Clark	337	Jackson	169	Stanley	612
Clay	1,929	Jerauld	178	Sully	156
Codington	1,931	Jones	116	Todd	446
Corson	226	Kingsbury	478	Tripp	575
Custer	836	Lake	1,074	Turner	625
Davison	1,318	Lawrence	2,265	Union	816
Day	494	Lincoln	1,030	Walworth	591
Deuel	348	Lyman	257	Yankton	2,199
Dewey	366	Marshall	429	Ziebach	108
Douglas	224	McCook	356	Out of State	6,289
Edmunds	261	McPherson	190		
Fall River	799	Meade	1,682		

Total membership 66,831



Membership by Group

	Active members			Inactive members			Total members
	Vested	Non-vested	Total active	Vested	Non-vested	Total inactive	
Board of Regents							
Female	788	257	1,045	281	216	497	1,542
Male	994	306	1,300	376	185	561	1,861
Total	1,782	563	2,345	657	401	1,058	3,403
County general							
Female	1,162	395	1,557	261	276	537	2,094
Male	1,044	336	1,380	175	208	383	1,763
Total	2,206	731	2,937	436	484	920	3,857
County public safety							
Female	80	46	126	10	23	33	159
Male	354	178	532	31	49	80	612
Total	434	224	658	41	72	113	771
Judicial							
Female	10	0	10	0	0	0	10
Male	45	4	49	3	3	6	55
Total	55	4	59	3	3	6	65
Municipal general							
Female	953	292	1,245	228	360	588	1,833
Male	1,392	337	1,729	177	236	413	2,142
Total	2,345	629	2,974	405	596	1,001	3,975
Municipal public safety							
Female	22	8	30	4	10	14	44
Male	544	188	732	40	60	100	832
Total	566	196	762	44	70	114	876
Public school & Board of Regents classified							
Female	4,015	1,308	5,323	1,284	1,945	3,229	8,552
Male	1,452	485	1,937	328	675	1,003	2,940
Total	5,467	1,793	7,260	1,612	2,620	4,232	11,492
State general							
Female	2,917	897	3,814	639	756	1,395	5,209
Male	2,532	658	3,190	459	470	929	4,119
Total	5,449	1,555	7,004	1,098	1,226	2,324	9,328
State public safety and penitentiary							
Female	121	40	161	8	44	52	213
Male	545	169	714	37	105	142	856
Total	666	209	875	45	149	194	1,069
Teachers							
Female	7,094	875	7,969	1,814	783	2,597	10,566
Male	2,572	359	2,931	653	300	953	3,884
Total	9,666	1,234	10,900	2,467	1,083	3,550	14,450
Grand total							
Female	17,162	4,118	21,280	4,529	4,413	8,942	30,222
Male	11,474	3,020	14,494	2,279	2,288	4,567	19,061
Total	28,636	7,138	35,774	6,808	6,701	13,509	49,283

MEMBERSHIP PROFILE (CONTINUED)

Benefit Recipients by Group

	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2005	2004	2005	2004	2005	2004	2005	2004
Board of Regents								
Male	765	733	5	3	12	9	782	745
Female	262	237	6	5	187	185	455	427
Total	1,027	970	11	8	199	194	1,237	1,172
County general								
Male	519	514	43	43	34	41	596	598
Female	581	561	19	18	279	276	879	855
Total	1,100	1,075	62	61	313	317	1,475	1,453
County public safety								
Male	117	104	5	5	1	1	123	110
Female	9	8	0	0	21	18	30	26
Total	126	112	5	5	22	19	153	136
Judicial								
Male	28	29	0	0	0	0	28	29
Female	1	1	0	0	17	18	18	19
Total	29	30	0	0	17	18	46	48
Municipal general								
Male	534	527	31	31	24	28	589	586
Female	335	329	10	10	245	244	590	583
Total	869	856	41	41	269	272	1,179	1,169
Municipal public safety								
Male	349	328	14	16	0	0	363	344
Female	3	2	2	3	62	61	67	66
Total	352	330	16	19	62	61	430	410
Public school & Board of Regents classified								
Male	684	657	35	32	114	98	833	787
Female	1,779	1,700	29	29	259	247	2,067	1,976
Total	2,463	2,357	64	61	373	345	2,900	2,763
State general								
Male	1,571	1,551	53	48	95	92	1,719	1,691
Female	1,388	1,374	57	53	616	610	2,061	2,037
Total	2,959	2,925	110	101	711	702	3,780	3,728
State public safety and penitentiary								
Male	247	239	3	5	1	1	251	245
Female	9	8	1	1	41	39	51	48
Total	256	247	4	6	42	40	302	293
Teachers								
Male	1,810	1,722	19	22	246	234	2,075	1,978
Female	3,560	3,478	55	56	356	345	3,971	3,879
Total	5,370	5,200	74	78	602	579	6,046	5,857
Grand total								
Male	6,624	6,404	208	205	527	504	7,359	7,113
Female	7,927	7,698	179	175	2,083	2,043	10,189	9,916
Total	14,551	14,102	387	380	2,610	2,547	17,548	17,029



Average Benefits Payments

Last 10 Fiscal Years

Years of credited service

Retirement effective dates	0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/95 – 6/30/96							
Average monthly benefit	647	265	442	697	1,395	1,678	2,798
Average final average salary	18,114	20,079	21,022	24,746	32,329	31,723	41,464
Number of retired members	14	100	102	97	128	125	75
Period 7/1/96 – 6/30/97							
Average monthly benefit	540	239	486	708	1,304	1,755	2,471
Average final average salary	26,067	19,394	22,901	24,867	31,405	33,817	37,968
Number of retired members	9	104	94	93	136	111	75
Period 7/1/97 – 6/30/98							
Average monthly benefit	733	282	444	705	1,121	1,517	2,487
Average final average salary	42,872	21,546	23,106	25,701	29,183	32,287	39,369
Number of retired members	6	92	83	75	121	103	136
Period 7/1/98 – 6/30/99							
Average monthly benefit	509	318	437	714	1,284	1,714	3,172
Average final average salary	30,067	21,093	23,242	26,720	30,665	34,581	48,467
Number of retired members	29	103	100	75	124	112	124
Period 7/1/99 – 6/30/2000							
Average monthly benefit	885	413	527	843	1,186	1,813	2,816
Average final average salary	38,322	25,155	24,330	28,999	31,049	39,787	49,545
Number of retired members	32	89	108	94	118	179	225
Period 7/1/2000 – 6/30/2001							
Average monthly benefit	691	338	512	726	1,132	1,803	2,554
Average final average salary	39,676	25,668	26,329	26,739	31,133	40,507	53,494
Number of retired members	39	93	117	108	106	161	210
Period 7/1/2001 – 6/30/2002							
Average monthly benefit	677	404	573	780	1,215	1,785	2,570
Average final average salary	39,676	25,668	26,329	26,739	31,133	40,507	53,496
Number of retired members	44	89	119	102	120	154	214
Period 7/1/2002 – 6/30/2003							
Average monthly benefit	677	404	573	780	1,215	1,785	2,570
Average final average salary	35,272	27,700	29,531	30,228	34,519	40,621	52,727
Number of retired members	44	89	119	102	120	154	214
Period 7/1/2003 – 6/30/2004							
Average monthly benefit	733	417	595	830	1,198	1,776	2,619
Average final average salary	35,433	28,886	29,247	32,105	37,182	41,587	51,738
Number of retired members	47	105	109	117	135	219	364
Period 7/1/2004 – 6/30/2005							
Average monthly benefit	1,177	502	622	825	1,260	1,693	2,568
Average final average salary	57,530	32,948	30,589	33,492	38,344	42,730	57,744
Number of retired members	65	111	120	112	129	188	246

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	2000	2001	2002	2003	2004	2005
Board of Regents	973	1,024	1,086	1,137	1,172	1,237
County general	1,330	1,368	1,376	1,425	1,453	1,475
County public safety	95	100	110	129	136	153
Judicial	47	45	47	48	48	46
Municipal general	1,058	1,077	1,118	1,138	1,169	1,179
Municipal public safety	346	355	376	389	410	430
Public school & Board of Regents classified	2,393	2,474	2,598	2,677	2,763	2,900
State general	3,336	3,433	3,494	3,578	3,728	3,780
State public safety & penitentiary	229	244	261	273	293	302
Teachers	5,121	5,270	5,427	5,647	5,857	6,046
Total benefit recipients	14,928	15,390	15,893	16,441	17,029	17,548
Total benefits paid during period	\$133,775,649	\$153,192,955	\$166,265,639	\$200,613,434	\$211,373,732	\$217,550,207
Average benefits paid during period	\$8,961	\$9,954	\$10,462	\$12,202	\$12,413	12,397

Active and Inactive Members

Group	2000	2001	2002	2003	2004	2005
Board of Regents	2,830	2,882	2,998	3,144	3,287	3,403
County general	3,608	3,675	3,615	3,696	3,782	3,857
County public safety	425	483	641	721	746	771
Judicial	58	61	58	58	62	62
Municipal general	3,409	3,613	3,740	3,806	3,891	3,975
Municipal public safety	750	778	806	852	878	876
Public school & Board of Regents classified	9,446	10,075	10,582	10,885	11,279	11,492
State general	8,254	8,550	8,874	8,915	9,118	9,328
State public safety & penitentiary	969	972	986	1,010	1,044	1,069
Teachers	13,863	14,114	14,292	14,406	14,436	14,450
Total active and inactive members	43,612	45,203	46,592	47,493	48,523	49,283



Benefits and Expenses by Type

	Retirement benefits	Disability benefits	Survivor benefits	Refund benefits	Total Benefits	Administrative Expenses
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	107,813,626	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
Fiscal year 2005	194,749,213	4,081,290	18,719,704	20,840,323	238,390,530	2,772,121

Changes in Net Assets Last 10 Fiscal Years

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Additions										
Member contributions	50,488,958	50,499,238	51,708,722	55,001,264	58,508,147	62,310,957	66,311,285	80,806,422	104,655,550	89,158,629
Employers contributions	45,022,762	47,664,275	47,145,364	50,069,614	52,622,437	55,697,940	58,544,918	71,989,308	74,854,496	77,474,967
Investment Income (loss) (net of expenses)	411,522,763	610,759,156	666,000,707	591,101,260	490,386,117	(154,774,807)	(248,826,201)	209,901,823	776,890,949	716,237,979
Total additions to (deductions) plan net assets	507,034,483	708,922,669	764,854,793	696,172,138	601,516,701	(36,765,910)	(123,969,998)	362,697,553	956,400,995	882,871,575
Deductions										
Benefit payments	81,908,211	89,903,989	100,699,600	113,705,428	133,775,649	153,192,955	166,265,639	181,265,287	198,454,410	217,550,207
Refunds	8,643,978	10,386,335	7,114,027	34,430,937	26,213,018	24,227,022	22,130,027	19,338,147	21,414,639	20,840,323
Administrative expenses	1,868,261	1,984,493	2,055,131	2,536,815	2,348,991	2,403,024	2,440,353	2,796,941	2,493,039	2,772,121
Total deductions from plan net assets	92,420,450	102,274,817	109,868,758	150,673,180	162,337,658	179,823,001	190,836,019	203,400,375	222,362,088	241,162,651
Change in net assets	414,614,033	606,647,852	654,986,035	545,498,958	439,179,043	(216,588,911)	(314,806,017)	159,297,178	734,038,907	641,708,924

MEMBERSHIP PROFILE (CONTINUED)

Principal Participating Employers	2005			Percentage of total system
	Participating government	Covered employees	Rank	
State of South Dakota		7,924	1	22%
Board of Regents		4,098	2	11%
Rapid City Schools		1,764	3	5%
Sioux Falls Schools		1,626	4	5%
City of Rapid City		661	5	2%
Watertown Schools		584	6	2%
City of Brookings and Hospital		545	7	2%
Minnehaha County		509	8	1%
Pennington County		508	9	1%
Aberdeen Schools		457	10	1%
All other		<u>17,098</u>		<u>48%</u>
Total (463 governments)		<u>35,774</u>		<u>100%</u>

Principal Participating Employers	1996			Percentage of total system
	Participating government	Covered employees	Rank	
State of South Dakota		7,360	1	26%
Board of Regents		3,866	2	13%
Rapid City Schools		1,663	3	6%
Sioux Falls Schools		1,419	4	5%
Watertown Schools		544	5	2%
City of Rapid City		543	6	2%
City of Brookings and Hospital		494	7	2%
Pennington County		390	8	1%
Todd County Schools		381	9	1%
Minnehaha County		373	10	1%
All other		<u>11,725</u>		<u>59%</u>
Total (410 governments)		<u>28,758</u>		<u>100%</u>



Retired Members by Type and Amount of Benefit

As of June 30, 2005

Amount of monthly benefit	Type of retirement*								
	1	2	3	4	5	6	7	8	9
\$1 – \$250	677	108	1,280	40	31	2	783	2	133
251 – 500	728	137	1,352	107	50	1	586	14	152
501 – 750	465	175	918	64	36	9	340	25	137
751 – 1,000	353	299	575	42	28	26	232	78	121
1,001 – 1,250	218	390	397	47	26	33	126	140	114
1,251 – 1,500	168	463	204	34	10	14	97	152	80
1,501 – 1,750	122	462	121	15	14	14	48	191	58
1,751 – 2,000	90	396	102	9	4	9	23	211	46
Over 2,000	<u>319</u>	<u>1,377</u>	<u>123</u>	<u>29</u>	<u>13</u>	<u>16</u>	<u>39</u>	<u>804</u>	<u>74</u>
Total number of retired members	<u>3,140</u>	<u>3,807</u>	<u>5,072</u>	<u>387</u>	<u>212</u>	<u>124</u>	<u>2,274</u>	<u>1,617</u>	<u>915</u>

*Type of Retirement

- 1 Normal
- 2 Early unreduced
- 3 Early reduced
- 4 Disability
- 5 Survivor of active member
- 6 Spouse option
- 7 Survivor of retired member
- 8 Level income unreduced
- 9 Level income reduced



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.