



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, 2006**

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 2006 HIGHLIGHTS

.....

Total membership	67,958
Active contributing members	36,074
Inactive non-contributing members	13,808
Benefit recipients	18,076
Net assets held in trust for pension benefits	\$6,844,629,634
Actuarial value of assets	\$5,668,535,060
Actuarial accrued liability (AAL)	\$5,859,994,198
Investment return	13.11%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 234,825,875
Refunds paid	25,069,548
Total	\$ 259,895,423
<u>Contributions</u>	
Member	\$ 82,464,727
Employer	80,829,338
Total	\$ 163,294,065
Funding period	20 years
Funded ratio (actuarial value of assets/AAL)	96.7%



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, 2006

Prepared by the SDRS Finance and Audit Departments

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

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

The South Dakota Retirement System Comprehensive Annual Financial Report is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, and municipal employees. Fifteen hundred copies of this document were printed by SDRS at a cost of \$2.93 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 Changes	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, 2005

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.



President

Executive Director

PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council
Public Pension Standards
2006 Award

Presented to

South Dakota Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

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

Alan H. Winkle
Program Administrator

INTRODUCTION



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

To Our Members:

It is a pleasure to once again inform you that SDRS remains financially sound with a funded status that is among the most secure in the nation. Fiscal Year 2006, much like 2004 and 2005, proved to be very successful.

As exhibited in this report, the annual financial statements showed improvement, the annual audit recognized no reporting weaknesses and the actuarial status of the plan continued to improve. In addition, SDRS has again benefited greatly from the excellent investment performance provided by the South Dakota Investment Council.

Total SDRS assets are nearly \$7 billion and the system currently pays approximately \$250 million in benefits annually. From humble beginnings back in 1974, SDRS has blossomed into a financial engine for South Dakota. Citizens in every city and county benefit from this plan (see the Statistical section of this report for more details).

Along with an emphasis on financial security, SDRS also continues to focus on customer service. Our Retirement Planners can be reached by phone, fax, email, or letter. SDRS Retirement Planners travel the state each week and will likely be in your area in the near future. The My SDRS section of our website assists our members in their retirement planning efforts. A toll-free telephone number has also been implemented so you may contact SDRS at no cost to you.

Even with the current successes at SDRS, there is growing concern over the financial future of the Social Security and Medicare programs. In addition, the costs of healthcare and long-term care continue to increase while personal savings rates are at all-time lows. All of these issues may put a significant drain on a member's financial resources during retirement.

To begin addressing these issues, SDRS will be initiating a workshop program in the next year to promote personal savings and planning for retirement. These workshops will cover a broad spectrum of topics to assist mid-career members in planning for a successful retirement.

The financial integrity of the system and the service provided to members will continue to be the top priority of the SDRS Board of Trustees and staff. We thank you for your support and encourage you to contact the SDRS office should you need any assistance.

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 18, 2006

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, 2006. 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, 2006, it provided retirement, disability and survivor benefits to over 67,500 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	<p>Standard — alternate</p> <p>1982 — 1.0% – 2.0%</p> <p>1987 — 1.05% – 2.0%</p> <p>1988 — 1.1% – 2.0%</p> <p>1989 — 1.25% – 2.0%</p> <p>1991 — 1.30% – 2.0%</p> <p>1994 — 1.30%/1.40% – 2.0%</p> <p>1997 — 1.40% prior to 1997/1.30% thereafter – 2.0%</p> <p>1998 — 1.475% prior to 1998/1.30% thereafter – 2.0%</p> <p>1999 — 1.55% prior to 2000/1.30% thereafter</p> <p>2.25% prior to 2000/2.0% thereafter</p> <p>2000 — 1.625% prior to 2002/1.30% thereafter</p> <p>2.325% prior to 2002/2.0% thereafter</p> <p>2002 — 1.55% after 2002</p> <p>2.25% after 2002</p>
Improvement Factor	2% simple	<p>1978 — 2.0% compound (indexed)</p> <p>1982 — 3.0% compound (indexed)</p> <p>1988 — 3.0% compound</p> <p>1993 — 3.1% compound</p> <p>1998 — 3.1% compound and prorated for partial years</p>
Early Retirement <ul style="list-style-type: none"> Class A 	Early retirement: age 55 with 6% per year reduction	<p>1978 — Reduction decreased to 3% per year</p> <p>1986 — Rule of 85 (age 60)</p> <p>1989 — Removed "at work" limitation</p> <p>1991 — Rule of 85 (age 58)</p> <p>1993 — Rule of 85 (age 55)</p>

LETTER OF TRANSMITTAL (CONTINUED)

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Early Retirement (continued) <ul style="list-style-type: none"> Class B Public Safety Class B Judicial 	<p>Early retirement: age 45 with 6% per year reduction</p> <p>Early retirement: age 55 with 6% per year reduction</p>	<p>1978 — Reduction decreased to 3% per year 1982 — Early retirement age for new members: age 50 1989 — Early retirement: age 45 for all Class B Public Safety members 1991 — Age 50/25 years of service 1998 — Rule of 75 (Age 45)</p> <p>1978 — Reduction decreased to 3% per year 1990 — Rule of 80 (age 55)</p>
Optional Spouse Coverage	1.0% of compensation	1978 — .8% of compensation 2004 — 1.2% of compensation
Final Average Compensation Caps	Last quarter cap 125% of any previous quarter; four quarter average cap 115% of any previous quarter	2004 — Last quarter cap = 115% four quarter average cap = 110% 2005 — Last quarter cap = 105% four quarter average cap = 105%
Special Pay Plan	Termination pay made directly to member with SS, SDRS and income taxes deducted	2004 — Termination pay of \$2,000 or more without SS, SDRS or income tax deductions for a terminating employee of a participating unit who is 55 or older goes to SPP
Purchasing Uncredited Service <ul style="list-style-type: none"> Class A Class B Public Safety Class B Judicial 	<p>Buy at 10% of compensation</p> <p>Buy at 12% of compensation</p> <p>Buy at 12% of compensation</p>	<p>1989 — Buy at 7.5% of compensation 2002 — Buy at 9% of compensation 2004 — Buy at rate dependent on age and varying from 12% to 30% of compensation</p> <p>1978 — Buy at 16% of compensation 1982 — Current members maximum of 20% of compensation; new members 16% of compensation 1989 — Buy at 12% of compensation 2004 — Buy at rate dependent on age and varying from 16% to 40% of compensation</p> <p>1978 — Buy at 16% of compensation 1982 — Buy at maximum 20% of compensation 1989 — Buy at 13.5% of compensation 2004 — Buy at rate dependent on age and varying from 18% to 45% of compensation</p>
Contribution Rate <ul style="list-style-type: none"> Class A Class B Public Safety Class B Judicial 	<p>5%</p> <p>6%</p> <p>6%</p>	<p>2002 — 6%</p> <p>1978 — 8% 1982 — For current members increasing 1/8 of 1% to maximum of 10%; for new members 8% 1989 — 8% for all members</p> <p>1978 — 8% 1982 — 1/8 of 1% to maximum of 10% 1989 — capped at 9%</p>
Normal Retirement Age for Class B Public Safety	Age 55	1982 — New members age 60 1989 — Age 55 for all members

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Refund of Accumulated Contributions	Member contributions only	<p>1986 — Guaranteed refund of the balance of all employer/member contributions if member dies after retirement.</p> <p>1995 — Portable Retirement Option (PRO) — for PRO members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service</p> <p>1998 — Portable Retirement Option (PRO) — for all members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service</p>
Interest on Accumulated Contributions	5% on member contributions only	<p>1986 — No greater than 90% of the 91-day T-bill rate; 5% minimum, 10% maximum</p> <p>2004 — No greater than 90% of the 91-day T-bill rate; maximum, the actuarially assumed rate of investment return, currently 7.75%; 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 13.11 percent for fiscal year (FY) 2006, the investment council benchmark return of 10.74 percent. The 10-year annualized return of 10.29 percent exceeds the benchmark return of 8.72 percent.

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2006 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, 2006, was 96.7 percent.

Major Initiatives

During FY 2006, 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 2006 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) and Special Pay Plan (SPP).

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, 2005. 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 11th 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 judicial members
Board service began in June 1995
Justice
South Dakota Supreme Court
Pierre

**Justice
Steven
Zinter**
Vice Chair

**Brian
Berglin**

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

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

**Ray
Hofman**

**Carol
Christianson**

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

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

**Louise
Loban**

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

**Darwin
Longjeliere**

**Tracy
Dahl-Webb**

Represents municipal employees
Board service began in July 1995
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

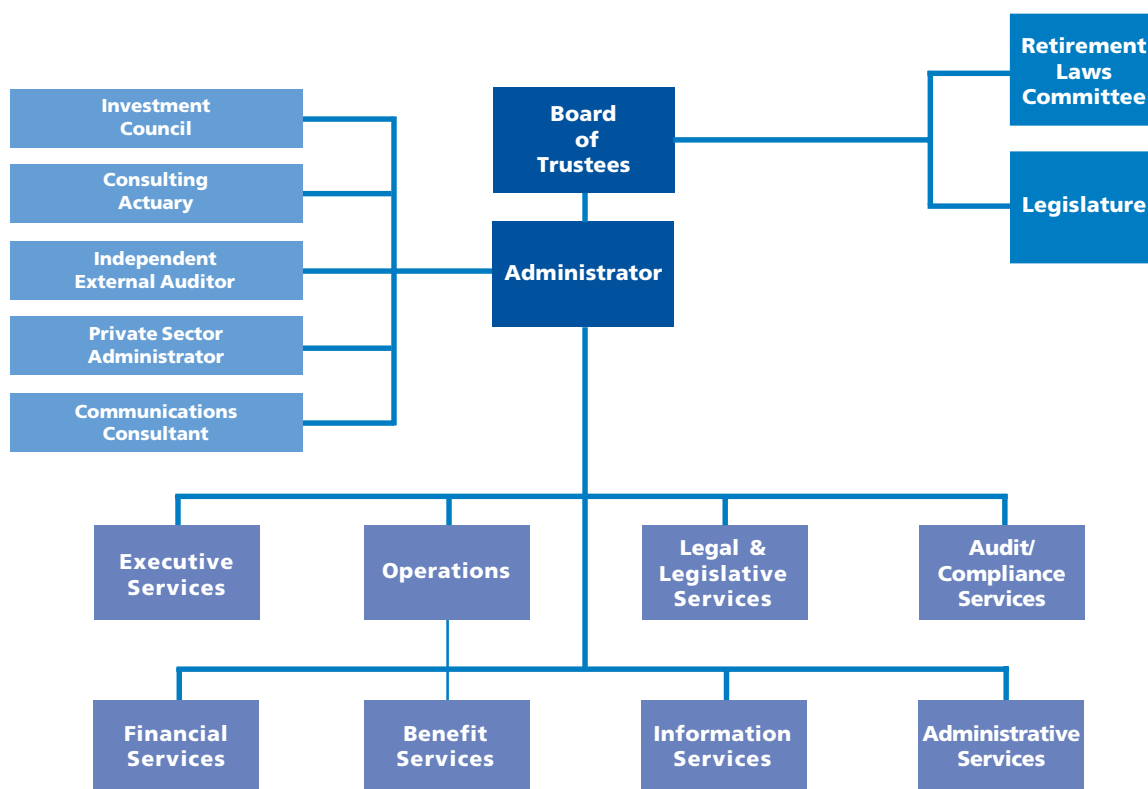
Governor's appointee
Board service began in May 1995
Commissioner
South Dakota Bureau of Personnel
Pierre

**Sandra
Zinter**

**James O.
Hansen**

Represents retirees
Board service began in July 1993
Retired administrator
Pierre

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, 2006, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006, and the changes in its financial position and its cash flows, where applicable, for the fiscal year ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDRS as of June 30, 2006, and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 2006 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 3 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 U.S. generally accepted accounting principles. 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 on page 25 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
November 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the South Dakota Retirement System's (SDRS or the System) financial position and performance as of and for the year ended June 30, 2006. 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 plan net assets of SDRS increased by \$684.7 million during fiscal year 2006. This increase was primarily due to the investment performance of 13.11 percent, which was above the assumed rate of 7.75 percent.
- SDRS funded ratio increased to 96.7 percent in 2006 from 96.6 percent in 2005.
- SDRS reserve for funding of long-term benefit goals is \$453 million.
- SDRS paid \$234.8 million to benefit recipients in fiscal year 2006 compared to \$217.6 million in 2005. SDRS received \$163.3 million in member and employer contributions in fiscal year 2006 compared to \$166.6 million in 2005.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The South Dakota Retirement System presents the statement of the plan net assets as of June 30, 2006 and the statement of changes in plan net assets for the year then ended. These statements reflect resources available for the payment of benefits as of the year-end and sources and uses of those funds during the year.

Notes to the Financial Statements

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

Supplemental Information

In addition to this discussion and analysis, the 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 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 below:

Summary of Plan Net Assets

June 30, 2005 and 2006

Assets	2005	2006
Cash and cash equivalents	\$ 1,286,942	\$ 2,872,712
Receivables	147,354,518	84,588,570
Investments	6,208,826,949	6,964,893,712
Securities lending collateral	383,218,402	565,300,475
Other assets	45,014	41,265
Total assets	\$6,740,731,825	\$7,617,696,734

Liabilities		
Accounts payable and accrued expenses	\$ 2,406,015	\$ 2,250,406
Securities sold, but not yet purchased	182,007,945	154,925,750
Unsettled investment purchases	12,640,185	50,590,469
Securities lending collateral	383,218,402	565,300,475
Due to broker	524,399	—
Total liabilities	\$ 580,796,946	\$ 773,067,100

Net assets held in trust for pension benefits	<u>\$6,159,934,879</u>	<u>\$6,844,629,634</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.

Funded Ratio

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.

	Actuarial Accrued Liability Funded Ratio		
	2005	2006	Change
Funded ratio	96.6%	96.7%	0.1%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Change in Plan Net Assets

Additions to the plan net assets include member and employer contributions and net investment income. The fixed member and employer contribution rates are established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contribution rates to pay the normal cost of benefits, expenses, and amortize the unfunded actuarial accrued liability. In addition to the fixed contributions, members and employers may make additional contributions to purchase uncredited prior service. These purchase or acquisition payments are also included as contributions. As the SDRS membership ages, the number and amount of purchases have grown.

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 7.75 percent at June 30, 2006. SDRS investment performance has exceeded this assumed rate over the ten-year annualized period, with a return of 10.29 percent compared to the benchmark return of 8.72 percent. The investment returns were 13.11 percent for 2006 and 13.34 percent for 2005.

Deductions from plan net assets are primarily benefit payments. During 2006, SDRS paid \$234.8 million to benefit recipients or 7.9 percent more than 2005. The increase is due to added recipients and the annual 3.1 percent cost of living adjustment (COLA). Refunds of accumulated contributions during 2006 increased. Administrative costs of SDRS represent less than 0.04 percent of plan net assets.

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

	2006	2005	% Change
Additions:			
Member contributions	\$ 82,464,727	\$ 89,158,629	(7.5)%
Employer contributions	80,829,338	77,474,967	4.3%
Investment income	<u>783,993,684</u>	<u>716,237,979</u>	<u>9.5%</u>
Total additions	\$ 947,287,749	\$ 882,871,575	7.3%
Deductions:			
Benefits	\$ 234,825,875	\$ 217,550,207	7.9%
Refunds of contributions	25,069,548	20,840,323	20.3%
Administrative expenses	<u>2,697,571</u>	<u>2,772,121</u>	<u>(2.7)%</u>
Total deductions	\$ 262,592,994	\$ 241,162,651	8.9%
Net increase	\$ 684,694,755	\$ 641,708,924	6.7%
Net assets held in trust for pension benefits:			
Beginning of year	<u>\$6,159,934,879</u>	<u>\$5,518,225,955</u>	<u>11.6%</u>
End of year	<u>\$6,844,629,634</u>	<u>\$6,159,934,879</u>	<u>11.1%</u>



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

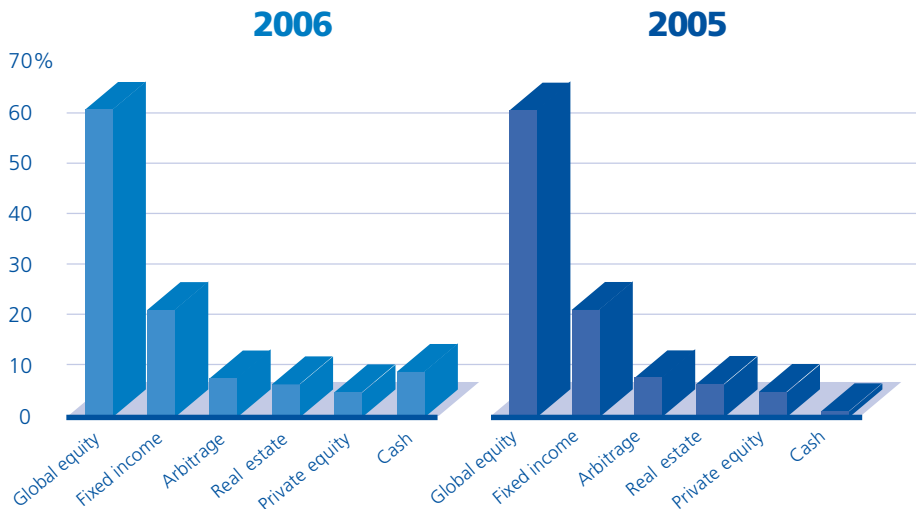
Investment performance during the last two years was 13.11 percent in 2006 and 13.34 percent in 2005. The investment performance is in the top one-third compared to other state plans.

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 SDRS 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.

Investments



Investment Summary

While the markets have not always made it possible to achieve the long-term assumptions, the System's funding remains solid. The reserve for long-term benefit goals has provided a process for both improving benefits and protecting the System in down markets.

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

Plan Status

Requests for Information

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Assets

As of June 30, 2006

Assets

Cash and cash equivalents		\$2,872,712
Receivables		
Employer	2,491,140	
Employee	7,797,938	
Benefits	106,334	
Unsettled investment sales	52,411,003	
Accrued interest and dividends	21,315,755	
Due from brokers— futures transactions	<u>466,400</u>	

Total receivables		84,588,570
--------------------------	--	-------------------

Investments, at fair value

Fixed income	1,930,920,764	
Equities	4,255,956,562	
Real estate	437,294,808	
Private equity	<u>340,721,578</u>	

Total investments		6,964,893,712
--------------------------	--	----------------------

Invested securities lending collateral		565,300,475
--	--	-------------

Other assets		<u>41,265</u>
--------------	--	---------------

Total assets		7,617,696,734
---------------------	--	----------------------

Liabilities

Payables

Accounts payable and accrued expenses	2,250,406	
Securities sold, but not yet purchased, at fair value	154,925,750	
Unsettled investment purchases	50,590,469	
Securities lending collateral	<u>565,300,475</u>	

Total liabilities		773,067,100
--------------------------	--	--------------------

Net assets held in trust for pension benefits		\$6,844,629,634
--	--	------------------------

(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	\$ 82,464,727
Employer	<u>80,829,338</u>

Total contributions **\$ 163,294,065**

Investment income:

From investing activities

Net appreciation in fair value of investments	590,265,798	
Interest	90,041,825	
Dividends	103,344,107	
Real estate	<u>13,583,173</u>	
Investment income	797,234,903	
Less investment activity expenses	<u>(14,720,762)</u>	
Net investment activity income		782,514,141

From security lending activities

Security lending income	18,871,215	
Security lending expenses	<u>(17,391,672)</u>	
Net security lending activity income		<u>1,479,543</u>

Total investment income **\$ 783,993,684**

Total additions **\$ 947,287,749**

Deductions

Benefits	234,825,875
Refunds of contributions	25,069,548
Administrative expenses	<u>2,697,571</u>

Total deductions **\$ 262,592,994**

Net increase **684,694,755**

Net assets held in trust for pension benefits

Beginning of year	<u>6,159,934,879</u>
End of year	<u>\$ 6,844,629,634</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, 2006

BASIC FINANCIAL STATEMENTS (CONTINUED)

Notes to Financial Statements

1. General Description of the System:

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

SDRS is considered a part of the State 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 (the Board) is the governing authority of SDRS. The Board consists of 14 elected representatives from participating groups, two appointees of the governor, and an exofficio nonvoting representative of the South Dakota Investment Council. The elected representatives of the Board 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 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.

SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of contributory 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 contributory 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 adjustment 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 dated August 13, 1996.

SDRS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors, and omissions; injuries to employees; and natural disasters. SDRS is uninsured for property loss. SDRS participates in the various programs administered by the State of South Dakota (the State). These risk management programs are funded through assessments charged to participating entities. The risk management programs include (1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, (2) coverage of employee medical claims through the State's health insurance program, (3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and, (4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

As of June 30, 2006, the number of participating governmental employers is as follows:

School districts	183
State of South Dakota	1
Board of Regents	1
Municipalities	143
Counties	64
Boards and commissions	86
Total employers	478



At June 30, 2006, SDRS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	17,098
Class B Public Safety and Judicial employees	978
Total retirees and beneficiaries	18,076
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	13,351
Class B Public Safety and Judicial employees	457
Total terminated members	13,808
Current active members:	
Vested:	
Class A	26,959
Class B Public Safety and Judicial	1,832
Nonvested:	
Class A	6,679
Class B Public Safety and Judicial	604
Total current active members	36,074
Grand total	67,958

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 U.S. generally accepted accounting principles 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 when due and payable in accordance with the terms of the plan.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reported at fair value. Fair value is determined based on closing market prices at June 30, 2006 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 markets. 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, expenses, and amortize the frozen unfunded actuarial accrued liability. The June 30, 2006 actuarial valuation of the plan determined that the contractually required employer contributions equals the requirements for the annual required contribution of the employers under Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, since the contractually required employer contributions are sufficient to pay the employer normal cost, expenses, and amortize the frozen unfunded actuarial accrued liability over a period of less than 30 years (20 years as of June 30, 2006). Annual required contributions of the employer equal to the contractually required contributions have been listed below pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

BASIC FINANCIAL STATEMENTS (CONTINUED)

<u>Year ending June 30</u>	<u>Employers</u>	<u>% Contributed</u>
2006	\$80,829,338	100%
2005	77,474,967	100%
2004	74,854,496	100%

Contributions during fiscal 2006 totaling \$163,294,065 (\$82,464,727 employee and \$80,829,338 employer) were made in accordance with statutory rates. These contributions represent 13.3 percent of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

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

Future payments will be received as follows:

<u>Year ending June 30</u>	<u>Employers</u>	<u>Employees</u>
2007	\$ 183	\$2,035,713
2008	0	1,400,581
2009	0	997,148
2010	0	619,747
2011	0	461,521
Later	<u>0</u>	<u>807,413</u>
	183	6,322,123

Less amount representing interest	<u>13</u>	<u>1,065,086</u>
Deferred contributions receivable at June 30, 2006	<u>\$ 170</u>	<u>\$5,257,037</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, 2006, the actuarial value of assets equaled \$5.669 billion. The reserve is added to both the present value of future benefits and the actuarial value of assets. As of June 30, 2006, the balance in the reserve for funding of long-term benefit goals is \$453 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 South Dakota Investment Council investment policies dictate limits on the percentage 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 \$2,872,712 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 certificates of deposit, and money market funds.

Investments at June 30, 2006 were managed by the following:

	<u>Cost</u>	<u>Fair value</u>
State of South Dakota Investment Council	5,085,411,454	5,690,442,554
Blackstone Real Estate Partners	225,578,910	261,740,161
Research Affiliates	107,234,683	111,155,861
Capital Guardian Global Equity Fund	100,000,167	100,366,042
Cargill North American Real Estate Partners	103,858,652	100,350,096
Post Advisory Group LLC	64,716,221	70,435,104
Silver Lake Partners LP	59,078,777	68,466,473
KKR Associates	38,163,365	50,889,749
Cypress Merchant Banking Partners LP	42,712,278	50,376,451
Apollo Real Estate Advisors LP	47,863,689	50,190,424
Nicholas Applegate	39,824,005	48,497,198
Bridgewater Pure Alpha Fund II	50,000,000	48,267,999
Dimensional Fund Advisors, Inc.	19,275,373	48,083,495
Blackstone Private Equity	36,688,669	42,169,610
Doughty Hanson & Co. Private Equity IV	39,239,807	39,965,926
Brandes Investment Partners	34,586,597	32,880,374
Lehman Crossroads Investment Advisors LP	41,590,402	31,532,573
Doughty Hanson & Co. European Real Estate	16,257,561	25,014,127
AllianceBernstein Global Strategic Fund	20,783,849	24,668,007
CVC	12,946,299	13,067,527
AIG Capital Partners	17,070,616	12,707,463
AllianceBernstein Global Opportunities Offshore Hedge Fund	10,000,000	12,080,692
Carlyle IV	10,139,298	10,139,298
Capital International, Inc.	9,501,806	9,477,472
Elevation Partners	7,124,886	7,155,506
DLJ Merchant Banking Partners LP	6,435,811	4,773,530
Total investments	6,246,083,175	6,964,893,712
Securities sold, but not yet purchased	(136,267,818)	(154,925,750)
Total	6,109,815,357	\$6,809,967,962

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, Bridgewater Pure Alpha Fund II, Brandes Investment Partners, Research Affiliates, Capital Guardian Global Equity Fund, Nicholas Applegate, and Dimensional Fund Advisors, Inc. invest in global equities. Blackstone Real Estate Partners, Doughty Hanson & Co. European Real Estate, Apollo Real Estate Advisors LP, and Cargill North American Real Estate Partners invest in real estate. DLJ Merchant Banking Partners LP, KKR Associates, AIG Capital Partners, Capital International, Inc., Lehman Crossroads Investment Advisors LP, Silver Lake Partners LP, Doughty Hanson Private Equity IV, Blackstone Private Equity, Elevation Partners, CVC, Carlyle IV, and Cypress Merchant Banking Partners LP invest in private equity.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SDRS' exposure to foreign currency risk derives from its positions in foreign currency and foreign-currency denominated equity investments. SDRS does not hedge foreign currency back to U.S. dollars (to match the unhedged benchmark), but does allow hedging under certain circumstances, when deemed appropriate. The portfolio's exposure to foreign currency risk at June 30, 2006 is as follows (in U.S. dollar fair value):

Currency	Equities	Fixed income	Cash	Total
	U.S. dollar fair value	U.S. dollar fair value	U.S. dollar fair value	
Australian dollar	\$3,077,095	—	\$12,913	\$3,090,008
Brazilian real	1,640,236	—	—	1,640,236
British pound	337,694,544	—	8,552,326	346,246,870
Canadian dollar	87,853,947	—	3,309,340	91,163,287
Chinese renminbi	424,462	—	5,674	430,136
Danish kroner	—	—	27,951	27,951
Euro	441,365,380	5,799,411	4,448,846	451,613,637
Hong Kong dollar	2,299,731	—	1,120	2,300,851
Hungarian forint	187,575	—	—	187,575
Indonesian Rupiah	316,941	—	—	316,941
Israeli shekel	771,173	—	2,668	773,841
Japanese yen	209,222,401	—	22,545,454	231,767,855
Korean won	28,952,052	—	—	28,952,052
Malaysian Ringgit	419,024	—	—	419,024
New Zealand dollar	486,646	—	195	486,841
Norwegian krone	17,901,633	—	261,311	18,162,944
Singapore dollar	11,251,148	—	352,046	11,603,194
Swedish krona	3,688,844	—	88,622	3,777,466
Swiss franc	134,751,195	—	3,975,363	138,726,558
Taiwan dollar	879,687	—	—	879,687
Total fair value	\$1,283,183,714	\$5,799,411	\$43,583,829	\$1,332,566,954

Investments with limited partnerships and certain global equity investments with outside managers, which are not included in the table above, may expose SDRS'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, 2006 was \$778,016,386. The total fair value of global equity investments managed by outside managers was \$257,295,426.

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, 2006, 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	\$ 7,004,761
Security lending collateral	564,894,775

Total fair value	\$571,899,536
-------------------------	----------------------

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:

Collateral type	Margin required
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

BASIC FINANCIAL STATEMENTS (CONTINUED)

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 attributed 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 SDRS'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	\$104,184,396	7.84
U.S. Treasury strips	24,138,212	16.68
U.S. agencies	114,469,981	6.28
Investment grade corporates	298,748,059	3.90
High-yield corporates	276,987,991	3.53
Mortgage-backed securities	329,314,056	4.62
Mutual funds	517,438,877	0.00
Bank debt	4,328,329	0.34
Total	<u>\$1,669,609,901</u>	<u>3.36</u>

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 SDRS. 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, 2006, 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	\$ 922,884,826
Aa	77,398,916
A	80,451,506
Baa	90,161,259
Ba	197,180,253
B	70,737,281
Caa	15,889,062
Ca	—
C	(403,813)
Not rated	<u>39,034,435</u>

Total	<u>\$1,493,333,725</u>
--------------	-------------------------------

During fiscal year 2006, SDRS's investments (including investments bought and sold, as well as held during the year) appreciated in value by \$590,265,798.

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.

Change in Fair Value of Investment

	Year ended June 30, 2006
Appreciation (depreciation) in fair value of investments:	
Equity securities	\$82,769,306
Fixed income securities	(60,399,346)
Real estate	(57,131,707)
Private equity	(11,519,923)

Total increase in fair value	<u>(46,281,670)</u>
-------------------------------------	----------------------------

Realized gain on investments sold:	
Equity securities	349,468,997
Fixed income securities	15,163,640
Real estate	172,740,028
Private equity	84,812,766

Total net realized gains	<u>622,185,431</u>
---------------------------------	---------------------------

Net gain on futures contracts	<u>14,362,037</u>
--------------------------------------	--------------------------

Net appreciation in fair value of investments	<u>\$590,265,798</u>
--	-----------------------------

5. Derivatives:

Derivatives are generally defined as contracts whose value depends on, or derives 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 that would otherwise occur in the underlying portfolios. Futures contracts outstanding at June 30, 2006 are as follows:

<u>Description</u>	<u>position</u>	<u>contracts</u>	<u>value</u>
S&P 500 Index due September 2006	Short	(583)	\$(185,131,650)

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 raises 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 South Dakota 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 \$154,925,750 as of June 30, 2006. 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 South Dakota 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 loss on foreign exchange forward contracts as of June 30, 2006 was \$3,313,293. This amount does not include limited partnerships and certain global equity 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, 2006 was \$778,016,386. The total fair value of global equity investments managed by outside managers was \$257,295,426.

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, 2006 was \$441,356,320. These securities may be subject to prepayment by the mortgagees, which may reduce the fair value of these securities. The South Dakota 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, 2006, a liability existed for accumulated annual leave calculated at the employees' June 30, 2006 pay rate in the amount of \$86,783. Employees who have been continuously employed by SDRS and the State for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment for one fourth of their accumulated sick leave balance with such payment not to exceed the sum of 12 weeks of the employee's annual compensation. For employees who have not been employed for seven continuous years, an accrued liability is calculated assuming the likelihood that they will meet the seven-year threshold in the future. At June 30, 2006 a liability existed for accumulated and accrued sick

BASIC FINANCIAL STATEMENTS (CONTINUED)

leave, calculated at the employees' June 30, 2006 pay rate in the amount of \$111,166.

	<u>2006</u>	<u>2005</u>	<u>% change</u>
Total compensated absences	\$197,949	\$240,119	(17.56)%

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 SDRS 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, 2006 is as follows:

<u>Fiscal year ending June 30, 2007</u>	<u>Amount</u>
	\$81,347
Total remaining minimum payments	<u>\$81,347</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 \$105,274,336 net assets available for plan benefits at June 30, 2006, \$71,600,537 was held in trust for employees of the State, while the remaining \$33,673,799 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$418,580 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2006.

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 SDRS 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 100 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, upon later retirement, or to beneficiaries or an estate upon the participant's death.

Of the \$6,822,859 net assets available for plan benefits at June 30, 2006, \$3,831,627 was held in trust for employees of the State, while the remaining \$2,991,232 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) Actuarial value of assets	(b) Actuarial accrued liability — entry age [AAL]	Unfunded actuarial accrued liability [UAAL] (b-a)	Funded ratio (a/b)	(c) Covered payroll	UAAL as a percentage of covered payroll ((b-a)/c)
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	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%
6/30/2006	5,668.5	5,859.9	191.4	96.7%	1,229.9	15.6%

For the year ended June 30	Annual required contributions	Percentage contributed
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
2006	80,829,338	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	6/30/2006
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%	4.15% to 8.13%
Cost-of-living adjustments	3.1%

¹ Assumption changes occurred during fiscal year 2005.

² Includes inflation at 4.0 percent.

SUPPORTING SCHEDULES

Schedule of Administrative Expenses for the Year Ended June 30, 2006

	Cash basis	Accrual basis
Personal services		
Salary and per diem	\$1,187,442	\$1,180,077
Employee benefits	<u>311,499</u>	<u>276,280</u>
Total personal services	1,498,941	1,456,357
Operating expenses		
Travel	65,321	60,907
Contractual services		
Finance	6,000	5,880
Valuations	126,051	130,144
Consulting	129,446	133,474
Studies	46,011	45,091
Legal	4,688	4,594
Communications	42,008	41,168
Medical	52,449	51,400
Operations	<u>516,209</u>	<u>519,113</u>
Total contractual services	922,862	930,864
Supplies and materials	213,925	194,927
Capital assets	<u>80,033</u>	<u>54,515</u>
Total operating expenses	<u>1,282,142</u>	<u>1,241,214</u>
Total administrative expenses	<u>\$2,781,083</u>	<u>\$2,697,571</u>

Schedule of Investment Expenses for the Year Ended June 30, 2006

	Management expense
Investment managers	
South Dakota Investment Council	\$ 3,363,581
AllianceBernstein Global Strategic Fund	233,847
Apollo Real Estate Advisors LP	1,382,315
Blackstone Private Equity	1,084,292
Blackstone Real Estate Partners	(2,228,710)
Brandes Investment Partners	322,996
Cargill North American Real Estate Partners	1,767,518
CVC	695,596
Cypress Merchant Banking Partners LP	183,670
Dimensional Fund Advisors, Inc.	251,485
DLJ Merchant Banking Partners LP	38,475
Doughty Hanson & Co. European Real Estate	1,456,164
Doughty Hanson & Co. Private Equity IV	517,571
Elevation Partners	1,097,687
KKR Associates	375,563
Lehman Crossroads Investment Advisors LP	608,821
Nicholas Applegate	588,993
Post Advisory Group LLC	1,182,267
Research Affiliates	566,872
Silver Lake Partners LP	1,006,838
The Carlyle Group	224,921
Total investment manager expenses	<u>\$14,720,762</u>

ACTUARIAL SUMMARY



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

ACTUARY'S OPINION



November 7, 2006

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, 2006.

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, 2006 have been considered in this Actuarial Valuation. SDRS benefit provisions considered, Member data, and Trust Fund information are summarized in the Appendices in this report.

The assumptions and methods used to determine the Annual Required Contributions of the Employers to SDRS as outlined in this report and 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 actuarial data presented in this report.

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, 2006. 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, 2006 is 96.7%.

SDRS is actuarially sound.

Respectfully Submitted,

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

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

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

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 2006 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

	2005 actuarial valuation	2006 actuarial valuation
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	96.6%	96.7%
Funding period	20 years	20 years

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2006

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was 13.1 percent, significantly more than the assumed rate of 7.75 percent for fiscal year 2006. The dollar-weighted annualized investment performance based on the market value of assets for the period was 12.8 percent. This results in an actuarial investment gain of \$371 million. The actuarial value of assets was credited with the assumed rate of return of 7.75 percent for the one-year period ending June 30, 2006 and decreased by the total liability gain of \$26 million. The reserve for funding of long-term benefit goals was increased from a balance of \$228 million as of June 30, 2005, to a balance of \$453 million as a result of strong investment returns above expectations for fiscal year 2006.

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2006

Item	Amount of liability gain (loss) (\$ in millions)	Percentage of present value of all benefits
Gain due to compensation increases	\$21M	0.30%
Gain due to decrements	2M	0.03%
Loss due to rehired and new members	(11M)	(0.15%)
Miscellaneous gain	14M	0.20%
Total system gain	\$26M	0.38%

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 payable at retirement.

A detailed experience analysis was conducted in 2003 and 2004, and appropriate modifications in the demographic assumptions regarding assumed rates of member termination, retirement and disability were made effective with the June 30, 2004, 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.

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.

There were no changes in economic or demographic actuarial assumptions since the June 30, 2005 actuarial valuation. However, a change in actuarial valuation software resulted in a reduction in the normal cost rate of the system.

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, 2006 increased as follows:

Reserve for funding of long-term benefit goals as of June 30, 2005	\$228,177,540
Fiscal year 2006 experience	79,431,810
Amortization of prior gains	145,789,249
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, 2006	\$453,398,599

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	0
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	8.39	8.13%
30	5.76	6.83
35	4.15	6.63
40	3.07	5.63
45	2.37	4.84
50	1.89	4.51
55	1.52	4.37
60	1.23	4.25
64	1.04	4.15

There were no benefit improvements or substantive benefit provision changes during the 2006 fiscal year. The June 30, 2006 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

	2005 actuarial valuation results	System investment and liability experience for year ¹	Membership changes and maturity of system ²	Benefit changes effective July 1, 2006	2006 actuarial valuation results
Normal cost rate with expense provision	11.843%	(0.452%)	(0.038%)	—	11.429%
Funding period	20 years	—	—	—	20 Years
Unfunded actuarial accrued liability	\$191M	—	—	—	\$191M
Actuarial accrued liability funded ratio	96.6%	—	0.1%	—	96.7%

¹ SDRS actuarial investment gains and liability gains and losses are smoothed and allocated directly to the reserve for funding of long-term benefit goals over five years. All SDRS actuarial investment losses are allocated immediately to the reserve. Change in actuarial valuation software resulted in a reduction in the normal cost rate.

² Future SDRS membership changes will cause minor changes in the normal cost rate even with smoothing of asset and liability gains and losses. The actuarial accrued liability funded ratio will gradually increase as the frozen unfunded actuarial accrued liability becomes a smaller percentage of the total SDRS liabilities.

ACTUARIAL VALUATION

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

In order for the system to be actuarially sound, the combined employer/member contribution rate must be adequate to pay the normal cost¹ of the system, system expenses, amortize the unfunded actuarial accrued liability² over a limited time, and pay interest on that liability.

SDRS' funding requirements for 2006, expressed as a percentage of payroll and total contributions, are based on the 2006 actuarial valuation and are summarized in the chart below.

	SDRS 2006 Funding Requirements	
	As a percentage of payroll	As a percentage of contributions
Matching statutorily required employer/member contribution rate	12.480% ³	100.0%
Entry age normal contribution rate at mid-period	11.154%	89.4%
Expense allowance	.275%	2.2%
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	11.429%	91.6%
Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation	1.051% ⁴	8.4%

The 2006 actuarial valuation indicates a contribution of 1.051 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. 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, 2006 are 12.480 percent of compensation.

⁴ Will amortize frozen unfunded actuarial accrued liability over 20 years from 2006.

.....

The 2006 actuarial valuation confirms that:

- a. Funding of current benefit levels for active members and expenses requires 92 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 \$1,176 million and a balance of \$453 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 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 2006 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 2006 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, 2006

Actuarial value of assets as of June 30, 2005	\$ 5,380,999,357
Contributions and disbursements	
Contributions	163,294,065
Benefit payments and refunds	(259,895,423)
Administrative expenses	<u>(2,697,571)</u>
Total	\$ (99,298,929)
Expected investment return	\$ 413,179,617
SDRS liability loss	\$ 26,344,985
Projected actuarial value of assets as of June 30, 2006	\$5,668,535,060
Present value of all benefits for improvements enacted into law as of June 30, 2006, and funded from reserve	<u>0</u>
Preliminary actuarial value of assets as of June 30, 2006	\$5,668,535,060
Market value of assets as of June 30, 2006	\$6,844,629,634
Constraining values	
80% of market value of assets	\$5,475,703,707
120% of market value of assets	\$8,213,555,561
Actuarial value of assets as of June 30, 2006	\$5,668,535,060



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
2006	5,859,994,198	5,668,535,060	96.7	20 years

ACTUARIAL VALUATION (CONTINUED)

Summary of Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability

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

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

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

Fiscal year	Actuarial accrued liability	Actuarial value of assets	Actuarial assets as a % of 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
2006	5,859,994,198	5,668,535,060	96.7	191,459,138	1,229.9	15.6



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
2006	854,928,129	3,174,042,596	1,831,023,473	5,668,535,060	100.0	100.0	89.5

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
2006	36,074	1,229.9	34,094	1.1

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
2006	17,548	1,130	602	18,076	245,707,324	13,593	4.4

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

SUMMARY OF BENEFIT PROVISION CHANGES

	2005 actuarial valuation	2006 actuarial valuation	% change	Comparison of Actuarial Valuation Results
Active members				
Number	35,774	36,074	0.8	
Average age	45.1	45.3	0.4	
Average credited service	11.2	11.5	2.7	
Annual compensation of members	\$1,206,131,510	\$1,229,909,679	2.0	
Average annual compensation	\$33,715	\$34,094	1.1	
Benefit recipients				
RETIRED MEMBERS				
Number ¹	14,551	15,040	3.4	
Average age	72.0	72.1	0.1	
Total annualized benefits	\$205,397,590	\$221,358,486	7.8	
Average annualized benefits	\$14,116	\$14,718	4.3	
BENEFICIARIES				
Number ¹	2,610	2,685	2.9	
Total annualized benefits	\$19,034,034	\$20,434,928	7.4	
Average annualized benefits	\$7,293	\$7,611	4.4	
DISABILITIES				
Number	387	351	(9.3)	
Total annualized benefits	\$4,037,997	\$3,913,910	(3.1)	
Average annualized benefits	\$10,434	\$11,151	6.9	
Total Benefit Recipients				
Number	17,548	18,076	3.0	
Total annual benefits	\$228,469,621	\$245,707,324	7.5	
Average annual benefits	\$13,020	\$13,593	4.4	
Terminated members				
Number — vested	6,808	7,136	4.8%	
Number — non-vested ²	6,701	6,672	(0.4%)	
Total terminated members	13,509	13,808	2.2%	
Total system members	66,831	67,958	1.7%	
Results of actuarial valuation				
Normal cost (without expenses)	11.568%	11.154%	(3.6)%	
(with expenses)	11.843%	11.429%	(3.5)%	
Frozen unfunded actuarial accrued liability	\$190,843,027	\$191,459,138	0.3%	
Market value of assets	\$6,159,934,879	\$6,844,629,634	11.1%	
Actuarial value of assets	\$5,380,999,357	\$5,668,535,060	5.3%	
Actuarial accrued liability (AAL)	\$5,571,842,384	\$5,859,994,198	5.2%	
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	96.6%	96.7%	0.1%	
(market value of assets/AAL)	110.6%	116.8%	5.6%	
Projected years to fund level funding requirements	20	20	NA	

There were no benefit improvements or substantive benefit provision changes made to SDRS during the 2006 South Dakota legislative session.

Summary of Benefit Provision Changes

¹ In addition, there are 128 and 67 members or beneficiaries, as of July 1, 2005 and July 1, 2006, 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 93 percent of SDRS membership.

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

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

Credited service may be purchased for public employment for which members are not entitled to retirement benefits, at a cost reflecting an actuarially determined sliding scale based on age, subject to a minimum of 100 percent of combined member and employer contributions. Credited service purchased after July 1, 2004, shall not be considered contributory service for eligibility purposes.

Credited service is purchased with an after-tax payment unless the member's employer elects to permit purchase on a pre-tax basis under Section 414(h) of the Internal Revenue Code.

Compensation is W-2 wages, plus any amount used to purchase a member's individual retirement plan, plus a member's contribution to SDRS made on a before-tax basis, plus any amount contributed to a Section 125 cafeteria plan, paid during the period of credited service. Compensation does not include

Service Considered

Compensation

PLAN SUMMARY (CONTINUED)

lump sum termination pay. Compensation for members hired after June 30, 1996 is limited as prescribed in Section 401(a)(17) of the Internal Revenue Code.

Final Average Compensation

Final average compensation is the highest average annual compensation earned by a member during 12 consecutive calendar quarters of the last 40 such quarters during periods of credited service. The final average compensation is limited by statutory provisions that prevent extraordinary increases in compensation immediately before retirement.

Employer Contributions

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

Member Contributions

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

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

Accumulated Contributions

Accumulated contributions are equal to member and employer contributions (or 75 percent of employer contributions for members with less than three years of contributory service) credited with interest on a monthly basis at a rate annually established by the board of trustees, that is no greater than 90 percent of the average 91-day U.S. Treasury Bill rate for the immediately preceding calendar year. Such rate shall have no minimum limitation and shall not be greater than the assumed rate of investment return, which is currently 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 years of credited service as a Class B Judicial member after July 1, 2002.

PLUS

Years of Credited Service in Excess of 15

Enhanced Benefit

2.325 percent times final average compensation times years of credited service as a Class B Judicial member before July 1, 2002, in excess of 15 years, **plus**

Base Benefit

2.0 percent times final average compensation times all other such years of credited service as a Class B Judicial member after July 1, 2002.

All of the above benefits are paid monthly.

SDRS benefits are limited to the maximum benefit under Section 415 of the Internal Revenue Code, 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 ten 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 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 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, 2006.

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 were prepared by the South Dakota Investment Council. 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

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 2006 was 13.11 percent. The investment council's benchmark return for FY 2006 was 10.74 percent. This capital market benchmark was 57 percent global equity, 24 percent fixed income, 7 percent arbitrage, 6 percent real estate, 4 percent private equity, 1 percent cash and 1 percent TIPS. The 10-year annualized return was 10.29 percent versus the benchmark return of 8.72 percent.

Performance

The internal equity fund earned 12.6 percent in FY 2006 versus a benchmark return of 14.7 percent. The 10-year return for the internal equity fund was 9.7 percent versus a benchmark return of 8.7 percent.

SDRS' bond fund returned (0.2) percent in FY 2006 versus a benchmark return of 0.2 percent. The 10-year return for the internal bond fund was 6.9 percent versus a benchmark return of 6.7 percent.

Returns earned by other portfolios and outside managers in FY 2006 (included in total fund returns) were: 11.7 percent merger arbitrage; 5.5 percent convertible arbitrage; 42.6 percent emerging markets; 28.8 percent DFA; 50.2 percent Nicholas Applegate; 13.6 percent MWPost. Blackstone, Cypress, Apollo, AIG, Capital International Emerging Markets Private Equity, Doughty Hanson, KKR, Crossroads, Silver Lake and DLJ Merchant Bankers do not have time-weighted rates of return because of the nature of their investments.

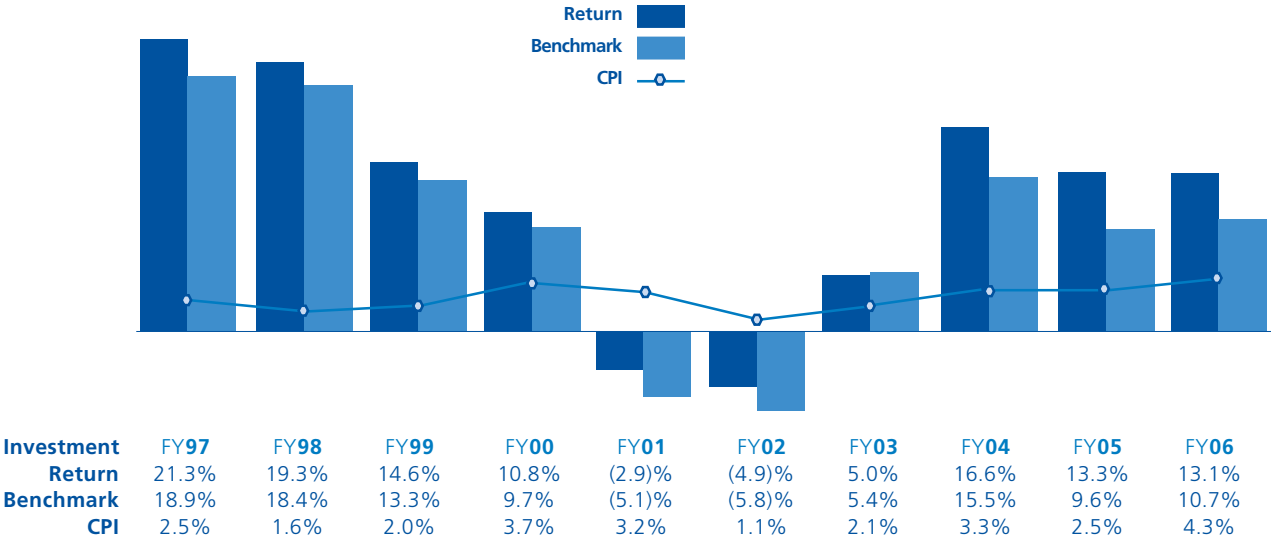
The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS' total return over time is a key indicator of the financial strength of the system.

Real Rates of Return

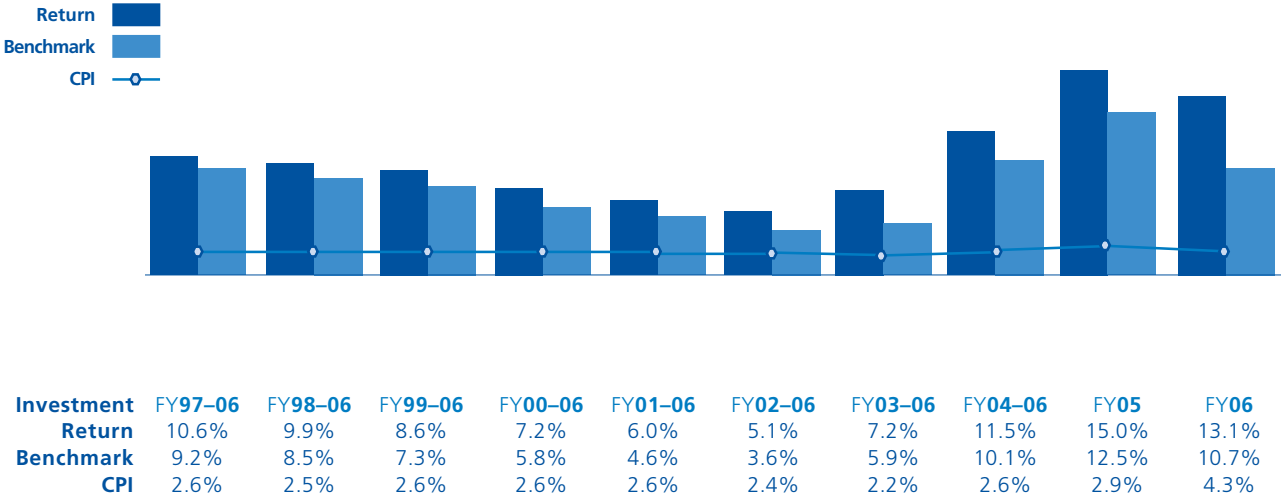
During FY 2006 inflation averaged 4.3 percent while SDRS' total return was 13.11 percent. Over the last 10 years, inflation has averaged 2.6 percent and total returns 10.3 percent, creating a real return of 7.7 percent.

INVESTMENT SUMMARY (CONTINUED)

Investment Performance Compared to Capital Market Benchmark and Inflation



Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation





As of June 30, 2006, the South Dakota Investment Office managed 84 percent of SDRS' investments. The remaining 16 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 (\$100.4 million), Nicholas Applegate (\$48.5 million), and Dimensional Fund Advisors (\$48.1 million) invest in international equities. Blackstone (\$261.7 million), Doughty Hanson (\$25.0 million), Apollo (\$50.2 million) and Cargill North American (\$100.4 million) invest in distressed real estate. DLJ Merchant Bankers (\$4.8 million), Capital International (\$9.5 million), AIG (\$12.7 million), KKR (\$50.9 million), Crossroads (\$31.5 million), Silver Lake (\$68.5 million), Cypress (\$50.4 million), Blackstone (\$42.2 million) and Doughty Hanson (\$39.9 million), Elevation Partners (\$7.2 million), Carlyle (\$10.1 million) and CVC (\$13.1 million) invest in private equity.

Investment Managers

Schedule of Investment Management Expenses

Investment managers	Management expense
South Dakota Investment Council	\$ 3,363,582
Alliance Bernstein Global Strategy	233,847
Brandes Global MidCap	322,996
Research Affiliates	566,872
Dimensional Fund Advisors, Inc.	251,485
Blackstone Real Estate Partners	(2,228,710)
Blackstone Private Equity	1,084,292
Elevation Partners	1,097,687
CVC	695,596
Carlyle IV	224,921
Apollo	1,382,315
Cargill	1,767,518
Nicholas Applegate	588,993
DLJ Merchant Bankers	38,475
KKR	375,563
Crossroads	608,821
Silver Lake	1,006,838
Doughty Hanson	1,456,164
Doughty Hanson Private Equity IV	517,571
MW Post Advisors Partners L.P.	1,182,267
Cypress Merchant Banking	183,670
Total investment manager expenses	<u>\$14,720,762</u>

Schedule of Investment Management Expenses and Commissions

For the Year Ended
June 30, 2006

Summary of Broker Commissions¹

Investment type	Commissions
Fixed income	\$ 803,686
Global equity	4,091,708

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

INVESTMENT SUMMARY (CONTINUED)

Summary of Investment Portfolios

As of June 30, 2006

	Market value	Future positions	Exposure with futures	Percentage with futures overlay on cash markets
Domestic fixed income				
Internal fixed income	\$1,056,619,107	\$ 0	\$1,128,417,172	16.5%
Post Advisory Group	\$71,798,065			
Global equity				
Internal global equity	\$ 3,703,435,520			
Dimensional Fund Advisors	48,083,495			
Capital Guardian	100,366,042			
Nicholas Applegate Securities	48,497,198			
Alliance Bernstein Global Strategic	25,445,343			
Brandes Non-US Mid Cap	32,921,579			
Research Affiliates	111,297,331			
Equity Futures		(185,131,650)		
Total global equity	\$4,070,046,508		\$3,884,914,858	56.9%
Arbitrage equity				
Internal merger arbitrage	\$ 223,132,444			
Internal convertible arbitrage	190,066,936			
Bernstein	12,080,692			
Bridgewater	48,267,999			
Total arbitrage equity	\$ 473,548,071		\$ 473,548,071	6.9%
Real estate				
Blackstone	\$ 261,740,162			
Apollo	50,190,425			
Doughty Hanson	25,014,127			
Cargill	100,350,096			
Total real estate	\$ 437,294,810		\$ 437,294,810	6.4%
Private equities				
Kohlberg Kravis Roberts	\$ 50,889,750			
Crossroads	31,532,573			
Silverlake Partners	68,466,473			
Cypress	50,376,451			
Capital International	9,477,472			
AIG	12,707,461			
DLJ Overseas Partners II	4,773,530			
Blackstone	42,169,610			
Doughty Hanson	39,965,926			
Carlyle	10,139,298			
CVC	13,067,527			
Elevation	7,155,506			
Total private equities	\$ 340,721,577		\$ 340,721,577	5.0%
Cash and cash equivalents				
Internal shift	\$ 383,207,537	\$ 185,131,650	\$ 568,339,187	8.3%
Total	\$6,833,235,675	\$ 0	\$6,833,235,675	100.0%



The South Dakota Retirement System trust fund's internal global 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	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Price/earnings ratio	22.1	25.0	29.6	27.0	26.0	26.8	22.9	19.2	15.6	16.6
Dividend yield	1.6%	1.4%	1.4%	1.2%	1.4%	1.8%	1.9%	2.0%	2.3%	2.5%
Price/book value ratio	5.2	4.8	7.5	10.4	5.4	4.2	4.0	3.8	3.1	3.5

Benchmark

Price/earnings ratio	21.7	25.9	33.6	30.3	25.6	26.2	23.5	21.5	20.8	19.2
Dividend yield	1.7%	1.4%	1.2%	1.1%	1.3%	1.6%	1.7%	1.7%	2.2%	2.2%
Price/book value ratio	5.0	5.7	8.4	11.2	5.7	4.5	4.2	4.1	4.0	3.6

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.	3.4%
General Electric Co.	3.3
Pfizer, Inc.	2.8
Microsoft Corp.	2.6
Wal-Mart Stores, Inc.	2.3
Cisco Systems, Inc.	1.9
Nestle SA	1.9
American International Group, Inc.	1.9
JP Morgan Chase & Co.	1.7
Intel Corp.	1.5
Total	23.3%

Distribution by Market Sector

Market sector	SDRS total equity	Bench
Consumer discretionary	12.9%	10.1%
Consumer staples	9.6	8.8
Energy	8.1	10.1
Financials	25.8	24.5
Health care	12.1	10.5
Industrials	7.3	10.7
Information technology	13.6	11.9
Materials	3.8	5.2
Telecommunications services	3.3	4.2
Utilities	2.0	4.0
Cash equivalents	1.5	0.0
Total	100.0%	100.0%

Additional holdings are 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	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of issues	55	56	62	60	67	76	77	83	74	86
Average coupon	6.87%	6.84%	6.32%	6.23%	6.68%	6.41%	5.87%	5.62%	5.20%	5.38%
Yield to maturity	7.36%	6.66%	7.09%	7.76%	7.01%	6.72%	4.73%	5.44%	4.70%	6.00%
Average maturity (years)	7.68	8.51	7.70	6.88	7.02	8.40	7.46	7.50	5.80	5.47
Duration (years) ¹	5.81	5.85	6.07	5.56	5.56	5.92	5.20	5.78	4.10	4.65
Average quality ²	3.12	3.02	3.15	3.22	3.33	3.01	3.24	3.24	3.38	3.49
Cash equivalent %	0.40%	0.90%	2.20%	5.80%	0.50%	0.50%	4.70%	1.2%	13.8%	12.3%

Lehman Aggregate Bond Index

Average coupon	7.20%	7.06%	6.74%	6.85%	6.75%	6.44%	6.00%	5.32%	5.24%	5.30%
Yield to maturity	6.83%	6.14%	6.58%	7.24%	6.10%	5.21%	3.60%	4.68%	4.51%	5.81%
Average maturity (years)	8.53	8.35	8.89	7.77	8.24	6.91	6.70	7.47	6.21	7.28
Duration (years) ¹	5.27	5.37	5.54	4.91	4.74	4.54	3.90	4.77	4.67	5.06

Distribution Profile

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

Distribution by Duration

	Percent
0 to 2 years	14.9%
2 to 3 years	8.0
3 to 4 years	21.0
4 to 5 years	22.1
5 to 6 years	16.0
6 to 8 years	9.0
Above 8 years	9.0
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/cash equivalents	12.3%
Aaa	54.1
Aa	8.4
A	4.8
Baa	4.8
Ba	14.0
B	1.6
Total	100.0%

Distribution by Coupon

	Percent
Cash/cash equivalents	12.3%
0.00% – 4.00%	6.5
4.01% – 5.00%	33.5
5.01% – 6.00%	27.6
6.01% – 8.00%	14.6
8.01% and over	5.5
Total	100.0%

Distribution by Issue

	Percent
Cash/cash equivalents	12.3%
U.S. Treasuries/Agencies	22.0
Mortgage backed securities	31.2
Investment grade corporates	19.8
High yield corporates	14.7
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

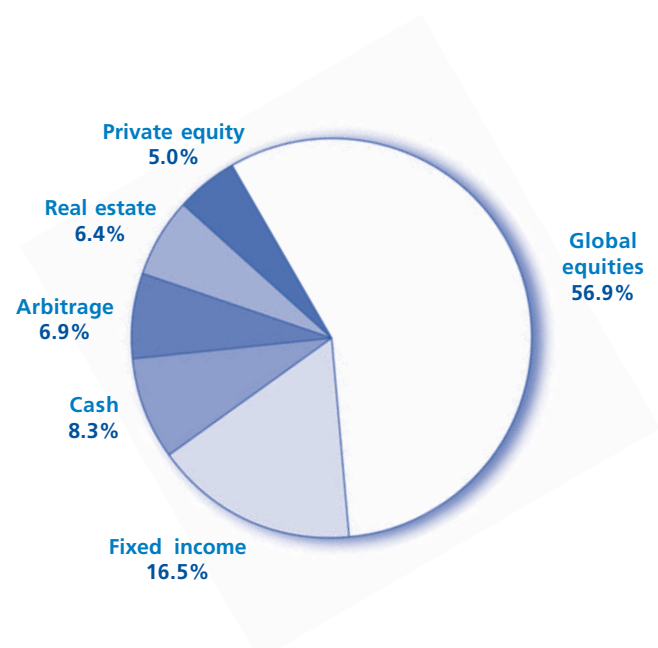
The Investment Office prepares a risk return analysis for use by the Investment Council when establishing the Capital Markets Benchmark each year. The primary factors include the expected long-term return, the volatility for each asset category and the correlation (degree to which they move in the same direction) of the returns of each category to each of the others. This analysis indicates an expected long-term return of 7.7 percent. This excludes any value added or detracted relative to index returns resulting from managing the portfolio. The estimated annual standard deviation is 11.6 percent. The statistics suggest there is a 66 percent chance the return for any year would be between (3.9) percent and 19.4 percent. There would be a 95 percent chance that the return would be between (15.6) percent and 30.9 percent.

The second analysis deals with the amount of equity-like characteristics implicit in the overall portfolio. The analysis focuses on the risk to the portfolio of a decline in the U.S. equity market which is thought to be the single largest risk exposure. Most asset categories have at least some degree of sensitivity to a U.S. stock market decline. The analysis is performed for a moderate decline and again for a severe decline scenario.

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, 2006

	6/30/04	6/30/05	6/30/06
Equities	42.0%	—	—
Global equities	—	60.5%	56.9%
Fixed income	22.0	20.6	16.5
Cash	1.1	0.2	8.3
Arbitrage	6.4	7.6	6.9
Real estate	4.5	6.8	6.4
Private equity	4.4	4.3	5.0
International	19.6	—	—



Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000
TOTAL INVESTMENT FUND	21.3%	19.3%	14.6%	10.8%
Cash equivalents	5.3	5.6	5.1	5.7
Investment office bond fund	9.9	12.6	2.4	4.3
Combined internal equity fund	31.7	25.6	19.5	10.9
Arbitrage convertible fund	11.4	10.0	7.6	8.7
Arbitrage merger fund	18.8	21.8	16.5	18.4
INDICIES				
Bond index				
Fixed income benchmark	9.6	11.2	2.9	3.8
COMBINED INTERNAL EQUITY BENCHMARK	28.6	25.6	18.3	11.0
TOTAL FUND BENCHMARKS				
Russell/Mellon total bil \$ funds	20.4	18.4	11.5	11.1
Capital market benchmark	18.9	18.4	13.3	9.7
CONSUMER PRICE INDEX	2.5	1.6	2.0	3.7

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1997 – 2006	Fiscal 1998 – 2006	Fiscal 1999 – 2006	Fiscal 2000 – 2006
TOTAL INVESTMENT FUND	10.3%	8.6%	7.2%	6.0%
Cash equivalents	3.9%	3.7%	3.5%	3.2%
Investment office bond fund	6.9%	6.5%	5.8%	6.3%
Combined internal equity fund	9.7%	7.5%	5.4%	3.5%
Arbitrage convertible fund	6.8%	6.3%	5.8%	5.6%
Arbitrage merger fund	11.3%	10.4%	9.1%	8.1%
INDICIES				
Bond index				
Fixed income benchmark	6.7%	6.4%	5.9%	6.3%
COMBINED INTERNAL EQUITY BENCHMARK	8.7%	6.6%	4.5%	2.6%
TOTAL FUND BENCHMARKS				
Russell/Mellon total bil \$ funds	8.6%	7.4%	6.1%	5.3%
Capital market benchmark	8.7%	7.7%	6.4%	5.4%
CONSUMER PRICE INDEX	2.6%	2.7%	2.8%	2.9%

Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
(2.9)%	(4.9)%	5.0%	16.6%	13.3%	13.1%
6.0	2.5	1.4%	0.9%	2.1%	4.2%
10.0	5.9	14.4%	1.3%	9.1%	(0.2)%
(12.0)	(12.2)	(2.0%)	22.9%	9.9%	12.6%
6.5	3.8	13.1	1.0	0.9%	5.5%
6.2	2.1	8.5%	7.4%	3.0%	11.7%
11.2	7.0	13.4%	1.3%	7.9	0.2%
(17.1)	(15.0)	(0.8)	23.6	9.0	14.7%
(5.8)	(6.6)	3.1%	16.9%	14.8	10.7
(5.1)	(5.8)	5.4%	15.5%	9.6	10.7
3.2	1.1	2.1%	3.3%	2.5	4.3

Fiscal 2001 – 2006	Fiscal 2002 – 2006	Fiscal 2003 – 2006	Fiscal 2004 – 2006	Fiscal 2005 – 2006	Fiscal 2006
5.1%	8.3%	11.9%	14.3%	13.2%	13.1%
2.8%	2.2%	2.2%	2.4%	3.1%	4.2%
6.6%	6.0%	6.0%	3.3%	4.3%	(0.2)%
2.4%	5.5%	10.5%	15.0%	11.3%	12.6%
5.0%	4.8%	5.0%	2.4%	3.2%	5.5%
6.4%	6.5%	7.6%	7.3%	7.3%	11.7%
6.7%	5.8%	5.6%	3.1%	4.0%	0.2%
1.3%	5.4%	11.3%	15.6%	11.8%	14.7%
4.4%	6.6%	10.1%	12.6%	10.5%	10.7%
4.7%	6.8%	10.3%	11.9%	10.2%	10.7%
2.8%	2.7%	3.1%	3.4%	3.4%	4.3%

STATISTICAL SUMMARY



Membership Profile

Public Entities Participating in SDRS

SDRS Benefits Paid

Membership by Age

Membership by County of Residence

Membership by Group

Benefit Recipients by Group

Historical Views

MEMBERSHIP PROFILE

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

The following schedules list SDRS participating entities by group, the number of active members in each group and each group's percentage of the 36,074 total active members as of June 30, 2006.

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

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: 15,873
Percentage of total active members: 44.1%
Units: 183

Legislative, Executive and Judicial Agencies

Membership: 8,023
Percentage of total active members: 22.2%
Units: 1

Institutions of Higher Education

Membership: 4,166
Percentage of total active members: 11.5%
Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities

Membership: 3,791
Percentage of total active members: 10.5%
Units: 143

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

Counties

Membership: 3,696
Percentage of total active members: 10.2%
Units: 64

Aurora	Clay	Shannon	Hyde	McPherson	Spink
Beadle	Codington	Faulk	Jackson	Meade	Springdale
Bennett	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

Other Public Entities

Membership: 525
Percentage of total active members: 1.5%
Units: 86

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



FY 2006			FY 2006		
County	members receiving benefits	Annual benefits	County	members receiving benefits	Annual benefits
Aurora	96	951,867	Hyde	41	341,051
Beadle	451	5,546,758	Jackson	37	532,090
Bennett	34	349,963	Jerauld	57	556,626
BonHomme	223	2,339,319	Jones	29	376,419
Brookings	967	15,324,754	Kingsbury	108	1,326,806
Brown	882	12,804,119	Lake	335	4,687,763
Brule	109	1,330,936	Lawrence	586	8,267,775
Buffalo	2	8,277	Lincoln	231	2,832,792
Butte	198	2,128,324	Lyman	56	711,758
Campbell	40	404,385	Marshall	132	1,527,979
Charles Mix	183	2,063,723	McCook	82	1,091,323
Clark	96	861,851	McPherson	64	616,449
Clay	462	7,709,019	Meade	392	5,196,862
Codington	526	7,944,948	Mellette	37	338,928
Corson	38	500,265	Miner	64	610,129
Custer	211	2,779,514	Minnehaha	1,756	30,468,573
Davison	436	5,914,669	Moody	121	1,305,596
Day	160	1,900,006	Pennington	1,927	29,796,547
Deuel	95	713,786	Perkins	66	689,231
Dewey	60	701,445	Potter	76	871,134
Douglas	52	543,330	Roberts	180	2,042,165
Edmunds	68	822,143	Sanborn	65	681,376
Fall River	217	1,876,926	Shannon	7	96,548
Faulk	111	1,076,757	Spink	375	3,588,817
Grant	160	1,755,986	Stanley	126	1,865,940
Gregory	104	1,182,359	Sully	33	276,890
Haakon	39	446,781	Todd	38	415,566
Hamlin	118	1,429,639	Tripp	146	1,647,517
Hand	86	1,020,760	Turner	187	1,950,495
Hanson	42	378,213	Union	193	2,399,444
Harding	24	193,812	Walworth	180	2,214,657
Hughes	1,036	18,462,745	Yankton	598	7,427,644
Hutchinson	193	2,284,494	Ziebach	13	111,863
Total benefits payable by county			15,857	220,616,629	

SDRS Benefits Paid

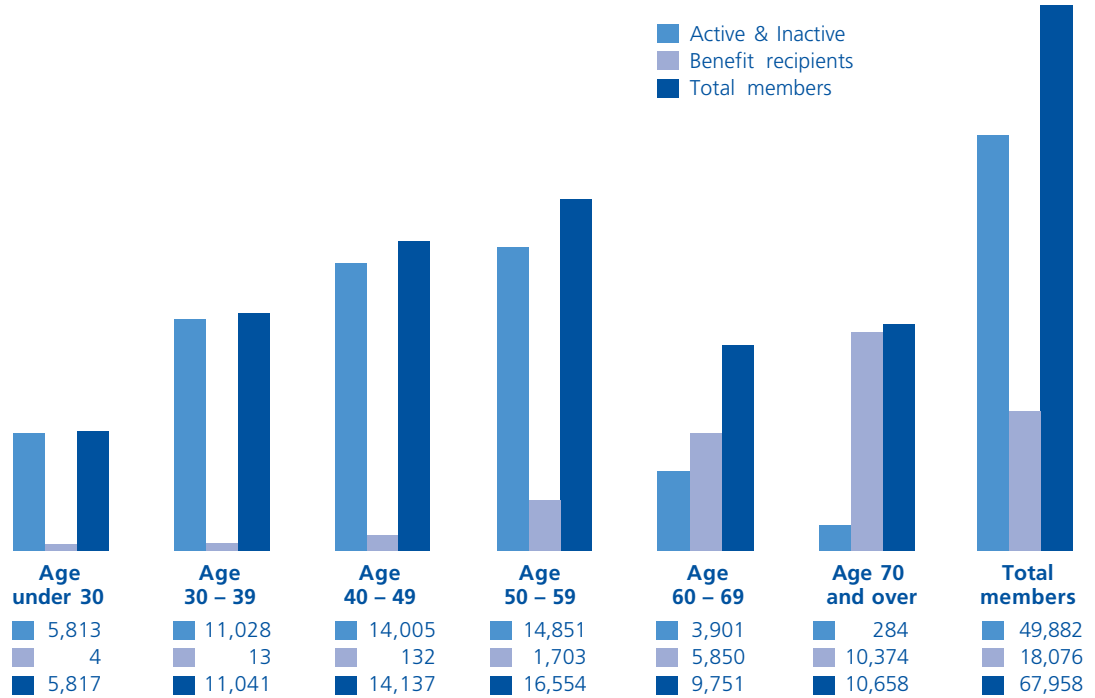
SDRS Benefits Paid by County of Residence

State	Members receiving benefits	Annual benefits	State	Members receiving benefits	Annual benefits
Arizona	277	3,963,767	Texas	125	1,433,797
California	74	810,718	Wisconsin	71	809,856
Colorado	111	1,151,972	Wyoming	83	693,955
Florida	72	944,906			
Iowa	142	1,435,646	Other states and Foreign Countries	657	7,710,191
Minnesota	294	3,202,889			
Nebraska	228	2,054,919			
North Dakota	85	878,307			
Total benefits payable outside South Dakota			2,219	25,090,921	
Total benefit recipients and benefits payable			18,076	245,707,550	

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	300	Faulk	321	Mellette	202
Beadle	1,325	Grant	490	Miner	209
Bennett	183	Gregory	376	Minnehaha	7,585
BonHomme	773	Haakon	181	Moody	447
Brookings	3,914	Hamlin	514	Pennington	7,355
Brown	3,130	Hand	246	Perkins	222
Brule	445	Hanson	182	Potter	238
Buffalo	9	Harding	115	Roberts	666
Butte	833	Hughes	4,297	Sanborn	238
Campbell	145	Hutchinson	583	Shannon	124
Charles Mix	710	Hyde	145	Spink	1,278
Clark	333	Jackson	173	Stanley	609
Clay	1,939	Jerauld	174	Sully	163
Codington	1,983	Jones	119	Todd	459
Corson	234	Kingsbury	474	Tripp	588
Custer	847	Lake	1,094	Turner	639
Davison	1,322	Lawrence	2,281	Union	811
Day	498	Lincoln	1,071	Walworth	595
Deuel	350	Lyman	259	Yankton	2,232
Dewey	381	Marshall	432	Ziebach	109
Douglas	221	McCook	363	Out of State	6,402
Edmunds	256	McPherson	196		
Fall River	826	Meade	1,744		

Total membership 67,958



Membership by Group

	Active members			Inactive members			Total members
	Vested	Non-vested	Total active	Vested	Non-vested	Total inactive	
Board of Regents							
Female	811	274	1,085	314	196	510	1,595
Male	1,011	292	1,303	383	187	570	1,873
Total	1,822	566	2,388	697	383	1,080	3,468
County General							
Female	1,212	396	1,608	263	264	527	2,135
Male	1,074	319	1,393	177	208	385	1,778
Total	2,286	715	3,001	440	472	912	3,913
County Public Safety							
Female	89	47	136	15	32	47	183
Male	393	166	559	30	49	79	638
Total	482	213	695	45	81	126	821
Judicial							
Female	10	1	11	0	0	0	11
Male	44	0	44	3	0	3	47
Total	54	1	55	3	0	3	58
Municipal General							
Female	971	302	1,273	238	364	602	1,875
Male	1,391	362	1,753	208	230	438	2,191
Total	2,362	664	3,026	446	594	1,040	4,066
Municipal Public Safety							
Female	19	13	32	2	8	10	42
Male	589	144	733	41	58	99	832
Total	608	157	765	43	66	109	874
Public School & Board of Regents Classified							
Female	4,000	1,379	5,379	1,398	1,956	3,354	8,733
Male	1,451	486	1,937	331	688	1,019	2,956
Total	5,451	1,865	7,316	1,729	2,644	4,373	11,689
State General							
Female	2,961	899	3,860	651	757	1,408	5,268
Male	2,510	691	3,201	465	447	912	4,113
Total	5,471	1,590	7,061	1,116	1,204	2,320	9,381
State Public Safety and Penitentiary							
Female	122	49	171	11	50	61	232
Male	554	182	736	47	107	154	890
Total	676	231	907	58	157	215	1,122
Teachers							
Female	7,045	912	7,957	1,891	772	2,663	10,620
Male	2,534	369	2,903	668	299	967	3,870
Total	9,579	1,281	10,860	2,559	1,071	3,630	14,490
Grand Total							
Female	17,240	4,272	21,512	4,783	4,399	9,182	30,694
Male	11,551	3,011	14,562	2,353	2,273	4,626	19,188
Total	28,791	7,283	36,074	7,136	6,672	13,808	49,882

MEMBERSHIP PROFILE (CONTINUED)

Benefit Recipients by Group

	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2006	2005	2006	2005	2006	2005	2006	2005
Board of Regents								
Male	790	765	5	5	11	12	806	782
Female	275	262	9	6	198	187	482	455
Total	1,065	1,027	14	11	209	199	1,288	1,237
County General								
Male	547	519	36	43	35	34	618	596
Female	591	581	20	19	284	279	895	879
Total	1,138	1,100	56	62	319	313	1,513	1,475
County Public Safety								
Male	123	117	4	5	1	1	128	123
Female	9	9	1	0	21	21	31	30
Total	132	126	5	5	22	22	159	153
Judicial								
Male	30	28	0	0	0	0	30	28
Female	1	1	0	0	19	17	20	18
Total	31	29	0	0	19	17	50	46
Municipal General								
Male	545	534	22	31	24	24	591	589
Female	352	335	9	10	251	245	612	590
Total	897	869	31	41	275	269	1,203	1,179
Municipal Public Safety								
Male	363	349	12	14	0	0	375	363
Female	3	3	2	2	59	62	64	67
Total	366	352	14	16	59	62	439	430
Public School & Board of Regents Classified								
Male	714	684	27	35	121	114	862	833
Female	1,870	1,779	36	29	264	259	2,170	2,067
Total	2,584	2,463	63	64	385	373	3,032	2,900
State General								
Male	1,602	1,571	46	53	98	95	1,746	1,719
Female	1,423	1,388	56	57	630	616	2,109	2,061
Total	3,025	2,959	102	110	728	711	3,855	3,780
State Public Safety and Penitentiary								
Male	263	247	3	3	2	1	268	251
Female	14	9	1	1	44	41	59	51
Total	277	256	4	4	46	42	327	302
Teachers								
Male	1,862	1,809	18	19	246	246	2,126	2,074
Female	3,664	3,560	43	55	377	356	4,084	3,971
Total	5,526	5,369	61	74	623	602	6,210	6,045
Grand Total								
Male	6,839	6,623	173	208	538	527	7,550	7,358
Female	8,202	7,927	177	179	2,147	2,083	10,526	10,189
Total	15,041	14,550	350	387	2,685	2,610	18,076	17,547



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 7/1/96 – 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	26,655
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
Period 7/1/2005 – 6/30/2006							
Average Monthly Benefit	902	569	759	827	1,240	1,761	2,999
Average final average salary	38,816	34,021	37,863	32,169	37,944	42,749	60,793
Number of Retired Members	48	140	135	117	145	177	268

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	2001	2002	2003	2004	2005	2006
Board of Regents	1,024	1,086	1,137	1,172	1,237	1,288
County general	1,368	1,376	1,425	1,453	1,475	1,513
County public safety	100	110	129	136	153	159
Judicial	45	47	48	48	46	50
Municipal general	1,077	1,118	1,138	1,169	1,179	1,203
Municipal public safety	355	376	389	410	430	439
Public school & Board of Regents classified	2,474	2,598	2,677	2,763	2,900	3,032
State general	3,433	3,494	3,578	3,728	3,780	3,855
State public safety & penitentiary	244	261	273	293	302	327
Teachers	5,270	5,427	5,647	5,857	6,046	6,210
Total benefit recipients	15,390	15,893	16,441	17,029	17,548	18,076
Total benefits paid during period	\$153,192,955	\$166,265,639	\$200,613,434	\$211,373,732	\$217,550,207	\$234,825,875
Average benefits paid during period	\$9,954	\$10,462	\$12,202	\$12,413	12,397	12,991

Active and Inactive Members

Group	2001	2002	2003	2004	2005	2006
Board of Regents	2,882	2,998	3,144	3,287	3,403	3,468
County general	3,675	3,615	3,696	3,782	3,857	3,913
County public safety	483	641	721	746	771	821
Judicial	61	58	58	62	62	58
Municipal general	3,613	3,740	3,806	3,891	3,975	4,066
Municipal public safety	778	806	852	878	876	874
Public school & Board of Regents classified	10,075	10,582	10,885	11,279	11,492	11,689
State general	8,550	8,874	8,915	9,118	9,328	9,381
State public safety & penitentiary	972	986	1,010	1,044	1,069	1,122
Teachers	14,114	14,292	14,406	14,436	14,450	14,490
Total active and inactive members	45,203	46,592	47,493	48,523	49,283	49,882



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
Fiscal year 2006	210,773,603	4,269,897	19,782,375	25,069,548	259,895,423	2,697,571

Changes in Net Assets Last 10 Fiscal Years

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions										
Member contributions	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	82,464,727
Employers contributions	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	80,829,338
Investment Income (loss) (net of expenses)	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	783,993,684
Total additions to (deductions) plan net assets	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	947,287,749
Deductions										
Benefit payments	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	234,825,875
Refunds	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	25,069,548
Administrative expenses	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	2,697,571
Total deductions from plan net assets	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	262,592,994
Change in net assets	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	684,694,755

MEMBERSHIP PROFILE (CONTINUED)

Principal Participating Employers	2006			Percentage of total system
	Participating government	Covered employees	Rank	
State of South Dakota		8,023	1	22%
Board Of Regents		4,166	2	12%
Rapid City Schools		1,819	3	5%
Sioux Falls Schools		1,630	4	5%
City of Rapid City		675	5	2%
Watertown Schools		599	6	2%
City of Brookings and Hospital		564	7	2%
Pennington County		555	8	2%
Minnehaha County		504	9	1%
Aberdeen Schools		472	10	1%
All Other		17,067		47%
Total (463 governments)		<u>36,074</u>		<u>100%</u>

Participating government	1997			Percentage of total system
	Covered employees	Rank		
State of South Dakota	7,360	1		23%
Board of Regents	3,866	2		12%
Rapid City School	1,681	3		5%
Sioux Falls School	1,435	4		4%
City of Rapid City	554	5		2%
Watertown School	554	6		2%
City of Brookings and Hospital	519	7		2%
Pennington County	416	8		1%
Todd County School	388	9		1%
Minnehaha County	385	10		1%
All Other	15,239			53%
Total (410 governments)	<u>32,397</u>			<u>100%</u>



**Retired Members by
Type and Amount of
Benefit**
As of June 30, 2006

Amount of monthly benefit	Type of retirement*								
	1	2	3	4	5	6	7	8	9
\$1 – \$250	658	106	1,236	33	29	1	756	2	124
\$251 – \$500	710	141	1,360	79	50	2	597	15	156
\$501 – \$750	461	180	937	56	37	8	357	26	137
\$751 – \$1,000	369	303	614	42	26	22	255	76	117
\$1,001 – \$1,250	214	393	415	55	31	29	139	147	129
\$1,251 – \$1,500	165	476	212	35	13	20	114	163	84
\$1,501 – \$1,750	129	489	128	19	13	10	61	203	58
\$1,751 – \$2,000	95	461	109	8	5	12	22	189	45
Over \$2,000	355	1,565	142	24	14	14	47	872	75
	<u>3,156</u>	<u>4,114</u>	<u>5,153</u>	<u>351</u>	<u>218</u>	<u>118</u>	<u>2,348</u>	<u>1,693</u>	<u>925</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

NOTES

A series of 17 horizontal solid blue lines, evenly spaced, providing a writing area for notes.



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.

A large, light blue, stylized number '20' is centered on the page. The '2' has a thick, rounded stroke, and the '0' is a simple, thick oval. A horizontal dotted line passes through the middle of the '2' and the '0'.

.....

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