



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, 2009

SDRS MISSION STATEMENT

To plan, implement and administer income replacement programs, and to encourage additional savings for retirement, all of which offer SDRS members and their families the resources and 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 2009 HIGHLIGHTS

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Total membership	72,531
Active contributing members	38,596
Inactive non-contributing members	13,986
Benefit recipients	19,949
Net assets held in trust for pension benefits	\$5,648,767,146
Actuarial value of assets	\$6,778,520,575
Actuarial accrued liability (AAL)	\$7,387,406,340
Investment return	(20.36)%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 306,769,037
Refunds paid	<u>24,225,249</u>
Total	\$ 330,994,286
<u>Contributions</u>	
Member	\$ 95,457,518
Employer	<u>94,244,915</u>
Total	\$ 189,702,433
Funding period	20 years
Funded ratio (actuarial value of assets/AAL)	91.8%



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A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2009

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.

All paper used for this project met or exceeded the minimum post-consumer content level requirements as indicated in the document titled "South Dakota Recycled Paper Requirements".

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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, 2008

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.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2009***

Presented to

South Dakota Retirement System

In recognition of meeting professional standards for
plan funding 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 black ink that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

INTRODUCTION



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

To Our Members:

While the South Dakota Retirement System (SDRS) benefits remain secure, the current financial crisis has driven the plan's funded status to its lowest level in more than 20 years. The SDRS trust fund investment 2009 return was negative 20.36% and well below the assumed investment return assumption of 7.75%. SDRS assets fell to \$5.6 billion, as of June 30, 2009, from \$7.3 billion in fiscal year 2008.

Even with this drop in value, SDRS continues to be a big contributor to the South Dakota economy. The System distributed over \$330 million in benefit payments during the last fiscal year. (See the Statistical section of this report for more details.)

In order to maintain long-term strength and sustainability, the Board of Trustees will propose a comprehensive package of legislative changes to improve SDRS's financial condition and reduce benefit subsidies. The effort is designed to slow the growth of benefits without decreasing current benefits and to insure that SDRS remains viable today and throughout the foreseeable future.

During the coming months, the Board of Trustees will continue to study the benefit needs of members in order to redefine the long-term benefit goals and objectives of the System. This analysis will not only consider the income provided by SDRS, but also Social Security and personal savings. In addition, the costs and availability of retiree healthcare and long-term care will be considered.

SDRS also continues to focus on customer service. Our Retirement Planners assist our members every day and travel the state each week. The Regional Retirement Planning meetings and Retirement Income Management workshops will be expanded in the coming year so all SDRS members will have access to these outstanding programs.

SDRS will be expanding our web-based services in the coming year. The *My SDRS* section of our website will continue to provide up-to-date information to help members in their retirement planning efforts and our toll-free telephone number allows members to contact SDRS at no cost.

The financial integrity of the System, the fiduciary responsibilities of the SDRS Board of Trustees and staff, and the service provided to members will continue to be our top priorities. 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



Robert A. Wylie
Executive Director/Administrator

LETTER OF TRANSMITTAL

South Dakota Retirement System
222 East Capitol Suite 8
PO Box 1098
Pierre, South Dakota 57501-1098
Toll-Free (888) 605-SDRS
Telephone (605) 773-3731
Fax (605) 773-3949
www.sdrs.sd.gov



South Dakota Retirement System

December 9, 2009

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, 2009. 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.

Plan History

SDRS was established July 1, 1974, as a multi-employer public employee retirement system. The plan currently provides retirement, disability, and survivor benefits to over 72,000 members. Basic to SDRS' history is the growth in the systems' benefit provisions.

Investments

The SDRS trust fund is managed by the South Dakota Investment Council. The most important overall objective of the Investment Council is to prudently manage the SDRS assets to achieve and exceed the returns that the broad capital markets provide over the long term.

The total return on the SDRS trust fund was (20.36) percent for fiscal year (FY) 2009, the investment council benchmark return of (18.0) percent. The 10-year annualized return of 3.6 percent exceeds the benchmark return of 2.9 percent.

History of Benefit Improvements

Benefit Category	Status in 1974	Benefit Improvements
Benefit Formula * Class A Standard	1.0%	1982 - 1.1% 1986 - 1.2% 1989 - 1.25% 1991 - 1.30% 1994 - 1.30%/1.40% (for applicable years) 1997 - 1.40% prior to 1997/1.30% thereafter 1998 - 1.475% prior to 1998/1.30% thereafter 1999 - 1.55% prior to 2000/1.30% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2008 - 1.7% prior to 2008/1.55% thereafter
Alternate	2.0%	1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325 % prior to 2002/2.0% thereafter 2002 - 2.325 % prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
* Class B Public Safety	2.0%	1994 - 2.0%/2.10% (for applicable years) 1997 - 2.10% prior to 1997/2.0% thereafter 1998 - 2.175% prior to 1998/2.0% thereafter 1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325% prior to 2002/2.0% thereafter 2008 - 2.4% prior to 2008/2.0% thereafter
* Class B Judicial	3.333% / 2.0%	1994 - 3.333%/3.433% (for applicable years) 2.0%/2.10% (for applicable years) 1997 - 3.433% prior to 1997/3.333% thereafter 2.10% prior to 1997/2.0% thereafter 1998 - 3.508% prior to 1998/3.333% thereafter 2.175% prior to 1998/2.0% thereafter 1999 - 3.583% prior to 2000/3.333% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 3.658% prior to 2002/3.333% thereafter 2.325% prior to 2002/2.0% thereafter 2008 - 3.733% prior to 2008/3.333% thereafter
Class A Retiree Benefit Formula	Variable	Standard - Alternate 1982 - 1.0% - 2.0% 1987 - 1.05% - 2.0% 1988 - 1.1% - 2.0% 1989 - 1.25% - 2.0% 1991 - 1.30% - 2.0% 1994 - 1.30%/1.40% (for applicable years) - 2.0% 1997 - 1.40% prior to 1997/1.30% thereafter - 2.0% 1998 - 1.475% prior to 1998/1.30% thereafter - 2.0% 1999 - 1.55% prior to 2000/1.30% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2.325% prior to 2002/2.0% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2.325% prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
Improvement Factor	2% Simple	1978 - 2.0% compound (indexed) 1982 - 3.0% compound (indexed) 1988 - 3.0% compound 1993 - 3.1% compound 1998 - 3.1% compound and prorated for partial years

LETTER OF TRANSMITTAL (CONTINUED)

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Early Retirement * Class A * Class B Public Safety * Class B Judicial	Early Retirement: Age 55 with 6% per year reduction Early Retirement: Age 45 with 6% per year reduction Early retirement: Age 55 with 6% per year reduction	1978 - Reduction decreased to 3% per year 1986 - Rule of 85 (age 60) 1989 - Removed "at work" limitation 1991 - Rule of 85 (age 58) 1993 - Rule of 85 (age 55) 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) 1978 - Reduction decreased to 3% per year 1990 - Rule of 80 (age 55)
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 \$600 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 * Class A * Class B Public Safety * Class B Judicial	Buy at 10% of compensation Buy at 12% of compensation Buy at 12% of compensation	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 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 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
Contribution Rate		
* Class A	5%	2002 - 6%
* Class B Public Safety	6%	1978 - 8% 1982 - For current member increasing 1/8 of 1% to maximum of 10%; for new members 8% 1989 - 8% for all members
* Class B Judicial	6%	1978 - 8% 1982 - 1/8 of 1% to maximum of 10% 1989 - capped at 9%

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Normal Retirement Age for Class B Public Safety	Age 55	1982 - New members age 60 1989 - Age 55 for all members
Refund of Accumulated Contributions	Member contributions only	1986 - Guaranteed refund of the balance of all employer/member contributions if member dies after retirement 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 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
Interest on Accumulated Contributions	5% on member contributions only	1986 - No greater than 90% of the 91-day T-bill rate; 5% minimum, 10% maximum 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
Retire/return to work * Normal or Special Early Retirement * Early Retirement	- Benefits, including the COLA, paid during reemployment without adjustment - Rehired member treated as continuing member - Add-on benefit paid at re-retirement considers all periods of employment - Benefits, including the COLA suspended during reemployment - Rehired member treated as continuing member - Add-on benefit paid at re-retirement considers all periods of employment	2004 - Benefits paid during reemployment but COLA eliminated (except for Class B Public Safety member who is rehired as Class A member) - 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 2004 - Benefits, including the COLA, suspended during reemployment - Rehired member treated as new member - Add-on benefit paid at re-retirement considers reemployment period only
Compensation Basis for Benefit Calculations	- Retirement benefit based on final average compensation (three-year average) - Disability and survivor benefits (for members who die before retirement) based on highest one-year pay	2004 - All SDRS benefits (retirement, disability, and survivor) based on final average compensation
Eligibility Requirements * Vested Retirement Benefits * Disability Benefits	- Five years of credited service that includes purchased service - Five years of credited service unless disabled in an accident at work, then no specific amount of credited service is required	1998 - Three years of credited service including purchased service 2004 - Three years of contributory service, does not include purchased service 1998 - Three years of credited service including purchased service 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

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2008 actuarial valuation, two measures were used to evaluate the actuarial soundness and funding progress of SDRS:

- funded ratio
- funding period

The most pertinent of these is the funded ratio. This ratio is equal to the actuarial value of assets divided by actuarial accrued liability (AAL). The AAL is the portion of the present value of benefits for all members assigned to prior periods. SDRS' funded ratio as of June 30, 2009, was 91.8 percent.

Major Initiatives

During FY 2009, the South Dakota Retirement System continued its strategic planning process; redefined its mission statement; established future income replacement goals; completed financial statements, an actuarial valuation, and a comprehensive audit; reviewed the actions of the 2009 legislature; analyzed benefit trends and practices for public retirement plans; 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.

This letter of transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. The SDRS MD&A can be found immediately following the 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 Consultants. 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.

Certificate of Achievement/Public Pension Standards Award

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, 2008. 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 14th 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.

The Public Pension Coordinating Council awarded the Public Pension Standards Award to the South Dakota Retirement System in recognition of meeting the professional standards for plan design and administration. This is the 6th year that SDRS received the award.

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 Governor, the South Dakota State Legislature, and the citizens of South Dakota.

Respectfully submitted,



Robert A. Wylie
Executive Director/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 teachers
Board service began in July 2006
Public school teacher
Sioux Falls Schools
Sioux Falls
Chuck Holmstrom

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 public safety members
Board service began in July 2006
Lieutenant
City of Rapid City
Black Hawk
James Johns

Janice Coleman Represents school boards
Board service began in July 2008
Member
Wagner School Board
Wagner

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

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

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

Cathy Druckrey Represents municipal employees
Board service began in July 2007
Human Resources
City of Rapid City
Rapid City

Represents county employees
Board service began in July 1997
Chief deputy auditor
Pennington County
Rapid City
Kathy "K.J." Peterson

Laurie Gustafson Represents state employees
Board service began in July 2005
Labor law compliance officer
Department of Transportation
Pierre

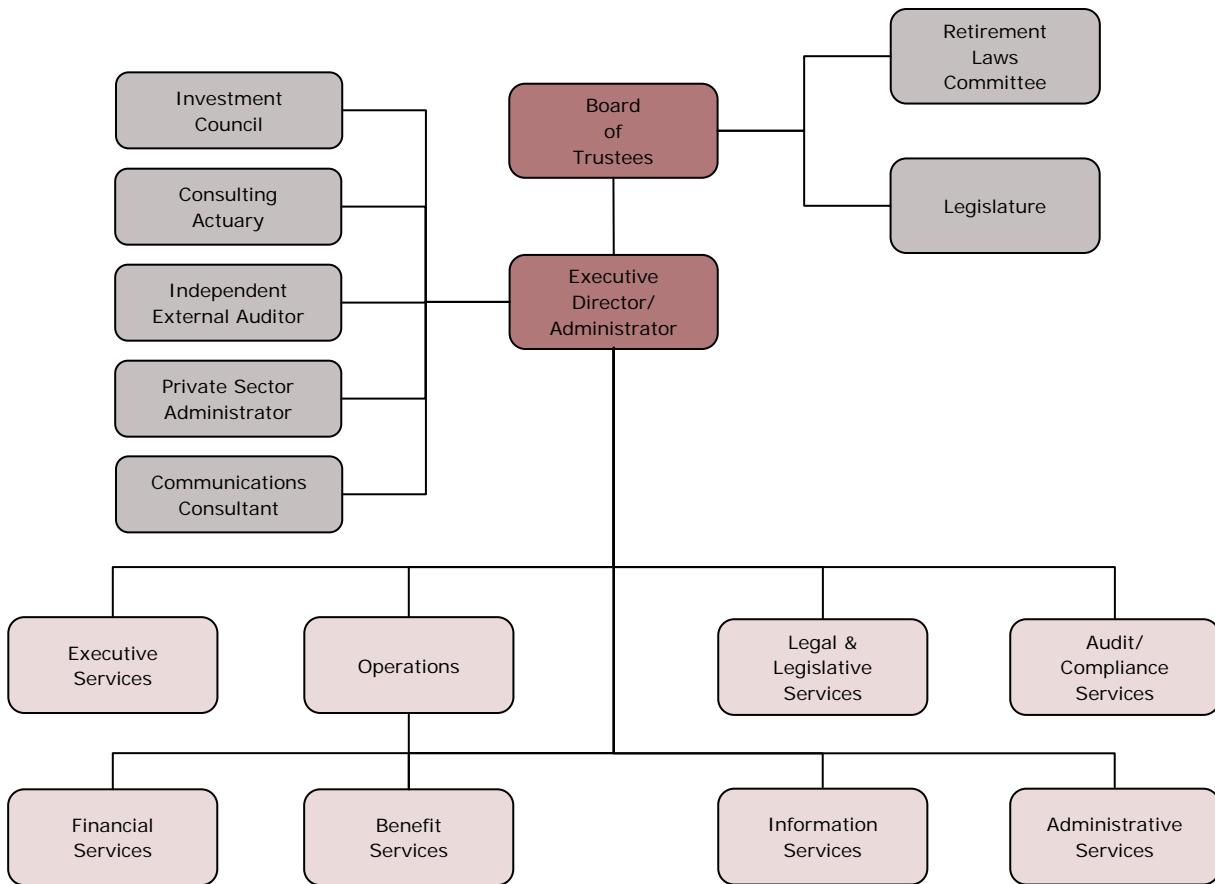
Represents state employees
Board service began in July 2004
Engineering supervisor
Department of Transportation
Glenham
Eric Stroeder

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

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

Ray Hofman Represents elected municipal officials
Board service began in December 2005
City Council member
City of Vermillion
Vermillion

ORGANIZATIONAL CHART



Administration

EXECUTIVE DIRECTOR/
ADMINISTRATOR **Robert A. Wylie**
EXECUTIVE ASSISTANT **Dawn Smith**

Management Group

DIRECTOR OF OPERATIONS **Damian Prunty**
GENERAL COUNSEL **Wade A. Hubbard**
CHIEF FINANCIAL OFFICER **Jane Roberts**
BENEFITS/MEMBER SERVICES
MANAGER **Travis W. Almond**
INTERNAL AUDIT/
COMPLIANCE MANAGER **Susan Jahraus**
ADMINISTRATIVE SERVICES
MANAGER **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

Scott Schroeder (BIT)
Pierre, SD



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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

AUDITOR'S OPINION



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, 2009, 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, 2009, 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 the South Dakota Retirement System as of June 30, 2009, and the changes in its plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

As explained in note 2 to the financial statements, the financial statements include investments valued at \$1,728,274,069 (31% of net assets) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2009 on our consideration of SDRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



Management's discussion and analysis on pages 22 through 25, the schedule of funding progress, and schedule of employer contributions on page 35 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 activity expenses on page 36 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 16, 2009

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, 2009. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

Financial Highlights

- The plan net assets of SDRS decreased by \$1.663 billion during fiscal year 2009. This decrease was primarily due to the investment performance of (20.36) percent, which was below the assumed rate of 7.75 percent.
- SDRS funded ratio decreased to 91.8 percent in 2009 from 97.2 percent in 2008.
- SDRS paid \$306.8 million to benefit recipients in fiscal year 2009 compared to \$273.2 million in 2008. SDRS received \$189.7 million in member and employer contributions in fiscal year 2009 compared to \$181.7 million in 2008.

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, 2009, 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, 2008, and 2009

Assets	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 5,308,826	\$ 5,963,982
Receivables	28,262,118	60,568,165
Investments, at fair value	5,676,926,340	7,374,351,658
Securities lending collateral	—	321,644,668
Other assets	<u>47,810</u>	<u>45,725</u>
Total assets	\$5,710,545,094	\$7,762,574,198
Liabilities		
Accounts payable and accrued expenses	\$ 2,538,567	\$ 2,569,051
Securities sold, but not yet purchased	52,023,535	90,627,779
Unsettled investment purchases	6,991,033	35,462,682
Securities lending collateral	—	321,644,668
Due to brokers	<u>224,813</u>	<u>162,557</u>
Total liabilities	\$ 61,777,948	\$ 450,466,737
Net assets held in trust for pension benefits	<u>\$5,648,767,146</u>	<u>\$7,312,107,461</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 new 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

	2009	2008	Change
Funded ratio	91.8%	97.2%	(5.4)%

Additions to the plan net assets include member and employer contributions and net investment income (loss). 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.

Change in Plan Net Assets

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 7.75 percent at June 30, 2009. The investment returns were (20.36) percent for 2009 and (8.65) percent for 2008.

Deductions from plan net assets are primarily benefit payments. During 2009, SDRS paid \$306 million to benefit and refund recipients, or 12 percent more than 2008. The increase is due to added recipients and the annual 3.1 percent cost-of-living adjustment. Refunds of accumulated contributions during 2009 decreased 14 percent. Administrative costs of SDRS represent less than 0.07 percent of plan net assets.

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

	2009	2008	% Change
Additions:			
Employee contributions	\$ 95,457,518	\$ 91,978,502	3.8
Employer contributions	94,244,915	89,766,090	5.0
Investment income (loss)	(1,518,619,609)	(723,013,055)	110.0
Total additions	<u>(1,328,917,176)</u>	<u>(541,268,413)</u>	145.5
Deductions:			
Benefits	306,769,037	273,236,767	12.3
Refunds of contributions	24,225,249	28,203,655	(14.1)
Administrative expenses	3,428,853	3,352,380	2.3
Total deductions	<u>334,423,139</u>	<u>304,792,802</u>	9.7
Net increase (decrease) in plan net assets	(1,663,340,315)	(846,061,215)	96.6
Net assets held in trust for pension benefits:			
Beginning of year	<u>7,312,107,461</u>	<u>8,158,168,676</u>	<u>(10.4)</u>
End of year	<u>\$5,648,767,146</u>	<u>\$7,312,107,461</u>	<u>(22.7)</u>

Investments

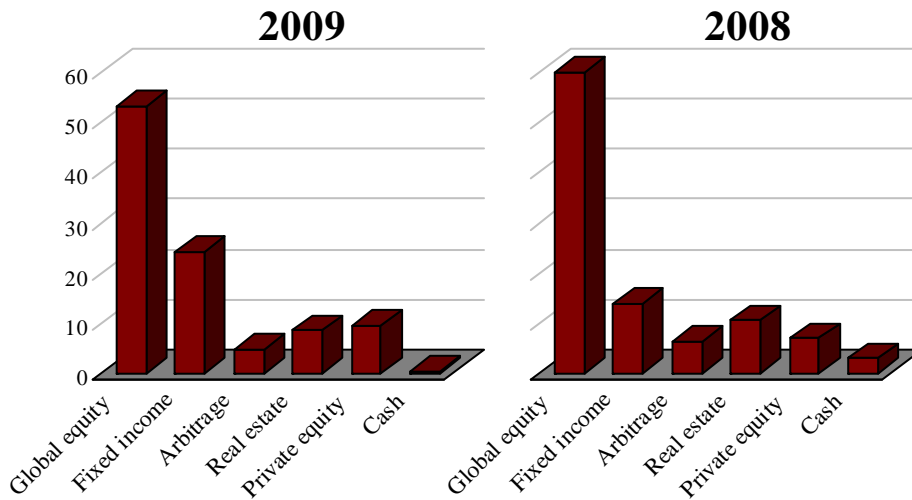
SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council. The South Dakota Investment Office is the primary investment manager, but the Investment Council may utilize the services of external money managers.

Investment performance during 2009 and 2008 was (20.36) percent and (8.65) percent, respectively.

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.



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.

Plan Status

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.

Requests for Information

BASIC FINANCIAL STATEMENTS

**Statement of Plan
Net Assets
As of June 30, 2009**

Assets		
Cash and cash equivalents		\$5,308,826
Receivables		
Employer	2,030,430	
Employee	3,747,237	
Benefits	69,328	
Unsettled investment sales	5,329,178	
Accrued interest and dividends	17,085,945	
Total receivables		28,262,118
Investments, at fair value		
Fixed income	1,653,852,882	
Equities	3,010,020,431	
Real estate	481,769,465	
Private equity	<u>531,283,562</u>	
Total investments		5,676,926,340
Other assets		<u>47,810</u>
Total assets		5,710,545,094
Liabilities		
Accounts payable and accrued expenses	2,538,567	
Securities sold, but not yet purchased, at fair value	52,023,535	
Unsettled investment purchases	6,991,033	
Due to brokers—futures transactions	224,813	
Total liabilities		<u>61,777,948</u>
Net assets held in trust for pension benefits		<u>\$5,648,767,146</u>

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



Additions		
Contributions:		
Employer	\$95,457,518	
Employee	<u>94,244,915</u>	
Total contributions		\$189,702,433
Investment income (loss):		
<i>From investing activities</i>		
Net depreciation in fair value of investments	(1,658,907,460)	
Interest	89,038,929	
Dividends	87,597,360	
Real estate	<u>4,239,650</u>	
Investment loss	(1,478,031,521)	
Less investment activity expense	<u>(40,948,698)</u>	
Net investment activity loss		(1,518,980,219)
<i>From security lending activities</i>		
Security lending income	1,620,163	
Security lending expenses	<u>(1,259,553)</u>	
Net security lending activity income		<u>360,610</u>
Total investment loss		\$(1,518,619,609)
Total additions		\$(1,328,917,176)
Deductions		
Benefits	306,769,037	
Refunds of contributions	24,225,249	
Administrative expenses	<u>3,428,853</u>	
Total deductions		\$334,423,139
Net decrease in plan net assets		<u>(1,663,340,315)</u>
Net assets held in trust for pension benefits		
Beginning of year		<u>7,312,107,461</u>
End of year		<u>\$5,648,767,146</u>

**Statement of
Changes in Plan
Net Assets
As of June 30, 2009**

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

BASIC FINANCIAL STATEMENTS (CONTINUED)

Notes to Financial Statements

1. General Description of the System:

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer, public employee retirement system (PERS) established to provide retirement benefits for employees of the State of South Dakota (the State) and its political subdivisions. Members of SDRS include full-time 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 full-time 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 ex-officio non-voting 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 justice, judge, or magistrate judge; 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; 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, in which the Internal Revenue Service stated that the System, as then designated, was in compliance with the applicable requirements of the Internal Revenue Code. SDRS has been amended since receiving the determination letter and has requested a new determination letter. SDRS believes that the System currently is designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and, therefore, SDRS continues to be tax-exempt as of June 30, 2009. Therefore, no provision for income taxes has been included in SDRS’ financial statements.

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 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, 2009, the number of participating governmental employers is as follows:

School districts	172
State of South Dakota	1
Board of Regents	1
Municipalities	144
Counties	64
Boards and commissions	86
Total employers	468



At June 30, 2009, SDRS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	18,822
Class B Public Safety and Judicial employees	1,127
Total retirees and beneficiaries	19,949
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	13,488
Class B Public Safety and Judicial employees	498
Total terminated members	13,986
Current active members:	
Vested:	
Class A (general employees)	28,480
Class B Public Safety and Judicial employees	1,988
Non-vested:	
Class A (general employees)	7,490
Class B Public Safety and Judicial employees	638
Total current active members	38,596
Grand total	72,531

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. Employee and employer contributions are recognized when due pursuant to formal commitment, as well as statutory requirements. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. 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 accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and changes therein. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(b) Method Used to Value Investments:

Investments are reported at fair value. 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.

The fair value of investments in securities are determined based on closing market prices at June 30, 2009, 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, as available. In general, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. Purchases and sales are recorded as of the trade date.

Alternative investments consist of investments in a variety of markets and industries through partnerships, corporate entities, co-investments, and other investment vehicles. For alternative investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, values these investments in good faith based upon the investment's current financial statements or other information provided by the underlying investment advisor. For all of these alternative investments, SDRS has determined that net asset value reported by the underlying fund approximates the fair value of the investment. These fair value estimates are, by their nature, subjective and based on judgment. These alternative investments were valued at \$1,728,274,069 (31% of net assets) at June 30, 2009. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

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:

(a) 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, 2009, actuarial valuation of the plan determined

BASIC FINANCIAL STATEMENTS (CONTINUED)

that the contractually required employer contributions equals the requirements for the annual required contribution of the employers under Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; 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, 2009). The maximum contributions limits are not considered in the projection of pension benefit liabilities. 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*.

<u>Year ending June 30</u>	<u>Employers</u>	<u>% Contributed</u>
2009	\$94,244,915	100
2008	89,766,090	100
2007	85,361,762	100

Contributions during fiscal year 2009 totaling \$189,702,433 (\$95,457,518 employee and \$94,244,915 employer) were made in accordance with statutory rates. These contributions represent 13.1 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>Employees</u>
2010	\$645,365
2011	454,108
2012	356,123
2013	278,671
2014	210,198
Later	<u>40,596</u>
	1,985,061
Less amount representing interest	<u>285,850</u>
Deferred contributions receivable at June 30, 2009	<u>\$1,699,211</u>

(b) Reserves:

The reserve for funding of long-term benefit goals is designed to fund benefit improvements and provide the plan with protection against adverse experience. The reserve for funding of long-term benefits goals is equal to the cumulative amounts

credited or debited annually based on the immediate recognition of actuarial investment losses, the five-year recognition of actuarial investment gains, and the five-year recognition of SDRS liability gains or losses, less reductions described below. If benefit improvements are enacted into law and funded from the reserve for funding of long-term benefit goals, the reserve for funding of long-term benefit goals is reduced by the present value of all benefits for those improvements. The reserve for funding of long-term benefit goals may also be reduced to offset unfavorable experience, if required, to meet the funding objectives of SDRS as established by the Board of Trustees. As of June 30, 2009, the balance in the revenue for funding of long-term benefit goals is \$(2.0) billion.

4. Funded Status and Funding Progress—Pension Plan:

As of June 30, 2009, the most recent actuarial valuation date, the plan was 91.8% funded. The actuarial accrued liability for benefits was \$7.40 billion, and the actuarial value of assets was \$6.78 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$608.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.45 billion, and the ratio of the UAAL to the covered payroll was 42.0%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements on page 35, present multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In the June 30, 2009, actuarial valuation, the entry age frozen unfunded actuarial accrued liability method was used. The actuarial assumptions included (a) 7.75% investment rate of return and (b) projected salary increases ranging from 4.15% to 8.13%. Both (a) and (b) include the inflation component of 3.1%. The actuarial value of assets was determined by the following 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% to 120% of market. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009, was 20 years.

5. Cash and Investments:

Cash and cash equivalents are held by the State Treasurer and were invested in the state's pooled investment fund. Investment 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.

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, private equity, etc.). Below is a detail of the investment balances and amounts managed by the respective fund managers:

	<u>Cost</u>	<u>Fair Value</u>
State of South Dakota Investment Council	\$4,376,827,620	\$3,948,956,312
Blackstone Real Estate Partners	593,925,977	342,465,802
Cargill North American Real Estate Partners	157,722,668	92,801,976
CINVIN Fund 4	61,430,668	37,828,860
Research Affiliates	81,422,616	64,823,606
Capital Guardian Global Equity Fund	103,972,210	84,979,411
CVI Global Value Fund	166,768,192	131,511,736
CVI Specialized Ventures Fund	26,270,235	12,705,060
PIMCO Distressed Mtg Fund II	81,680,056	76,960,183
TCW Specialized Mtg Credits	135,371,194	123,201,266
Oaktree Loan Fund 2x	53,038,029	45,140,019
Blackstone Distressed Securities	20,055,848	18,510,360
Blackstone Credit Liquidity	27,966,624	19,995,195
Silver Lake Partners LP	93,754,184	73,476,277
KKR Associates	65,197,095	42,887,657
Cypress Merchant Banking Partners LP	26,802,173	8,960,871
Apollo Real Estate Advisors LP	38,724,182	29,122,002
Bridgewater Pure Alpha Fund II	50,000,000	52,924,648
Dimensional Fund Advisors, Inc.	8,918,381	26,957,592
Blackstone Private Equity	211,259,976	144,075,963
Doughty Hanson & Co. Private Equity IV	87,941,555	70,060,988
Brandes Investment Partners	36,172,888	26,600,200
Lehman Crossroads Investment Advisors LP	15,349,679	11,151,689
Doughty Hanson & Co. European Real Estate	29,152,530	17,379,685
CVC	40,022,638	39,399,508
AIG Capital Partners	15,427,815	11,398,601
Carlyle IV	36,968,502	31,908,334
Riverstone	11,025,047	11,508,488
GE Asset Management	40,920,000	55,686,636
Elevation Partners	23,564,386	20,464,919
DLJ Merchant Banking Partners LP	4,391,930	3,082,496
Total investments	6,722,044,898	5,676,926,340
Securities sold, but not yet purchased	(50,170,520)	(52,023,535)
Total	\$6,671,874,378	\$5,624,902,805

(a) Securities Lending

Securities lending transactions are permitted by the Board. These transactions involve the lending of securities to broker-dealers and other entities for collateral in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending securities for collateral of the following percentages:

<u>Collateral type</u>	<u>Margin required</u>
Cash	100%
U.S. government	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.

The contract with the lending agent requires the agent to indemnify the SDRS if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. The program agreement allows all securities loans to be terminated on demand by either the SDRS or the borrower. 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 in a segregated collateral investment portfolio.

During the year, SDRS suspended the securities lending program with the lending agent. None of the portfolios had securities on loan at the end of the year. As a result, SDRS had no credit risk exposure to borrowers.

(b) Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are held in the possession of an outside party. SDRS has no formal deposit policy specific to custodial credit risk. At June 30, 2009, SDRS has bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, \$7,172,242 was exposed to custodial credit risk.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. SDRS has no formal policy for investment custodial credit risk. Collateral securities in the securities lending program are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in SDRS's name. No collateral securities were held at June 30, 2009.

(c) 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 investment grade fixed income portfolio's duration must fall between 70% and 130% of the duration on the Citigroup Broad Investment Grade (BIG) Index. Modified

BASIC FINANCIAL STATEMENTS (CONTINUED)

duration estimates the sensitivity of a bond's price to interest rate changes. The durations of the various investment types are listed in the following table:

Investment type	Fair value	Duration
U.S. Treasuries	\$59,182,299	9.13
U.S. Treasury strips	31,759,732	13.81
U.S. Treasury Bills	3,598,808	0.22
U.S. agencies	51,777,058	5.08
Investment grade corporates	275,408,884	3.35
High-yield corporates	239,129,894	3.79
Mortgage-backed securities	318,638,023	2.93
Mutual funds	103,043,618	—
FDIC Temporary Liquidity Guarantee Program	28,773,218	3.13
Total	\$1,111,311,534	

(d) 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, 2009, 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.

Moody's rating	Fair value
Aaa	\$422,461,986
Aa	23,350,976
A	111,384,258
Baa	98,287,204
Ba	112,753,354
B	60,878,518
Caa	19,845,768
Ca	—
C	—
Not rated	88,038,701
Total	\$937,000,765

(e) Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of SDRS' investment in a single issue. SDRS does not have guidelines to limit its investments in any particular investment. SDRS does not have investments in any one issuer which represent 5 percent or more of the total fair value of investments as of June 30, 2009 (excluding those issued by or explicitly guaranteed by the U.S. Government).

(f) 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 and fixed income 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, 2009, is as follows (in U.S. dollar fair value):

Currency	Equities U.S. dollar fair value	Fixed income U.S. dollar fair value	Cash U.S. dollar fair value	Total
Australian Dollar	\$1,849,842	—	\$9,084	\$1,858,926
Brazilian Real	1,209,732	—	—	1,209,732
British Pound	136,323,902	—	2,214,006	138,537,908
Canadian Dollar	49,568,988	—	85,600	49,654,588
Danish Kroner	163,951	—	32,186	196,137
Euro	269,075,169	—	4,192,685	273,267,854
Hong Kong Dollar	3,127,002	—	22,174	3,149,176
Japanese Yen	133,235,996	—	516,969	133,752,965
Korean Won	8,726,965	—	—	8,726,965
Malaysian Ringgit	247,319	—	—	247,319
New Zealand Dollar	436,982	—	—	436,982
Norwegian Krone	3,709,638	—	1	3,709,639
South African Rand	298,979	—	—	298,979
Swedish Krona	3,628,058	—	58,602	3,686,660
Swiss Franc	92,832,459	—	40,935	92,873,394
Turkish Lira	923,304	—	—	923,304
Total fair value	\$705,358,286	—	\$7,172,242	\$712,530,528

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, 2009, was \$987,974,116. The total fair value of global equity, arbitrage equity, and distressed and high yield fixed income investments managed by outside managers was \$363,601,589, \$79,882,240, and \$296,512,083, respectively.

(g) Return on Investments

During fiscal year 2009, SDRS' investments (including investments bought and sold, as well as held during the year) depreciated in value by \$1,658,907,460.

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 Investments

	Year ended June 30, 2009
Depreciation in fair value of investments:	
Equities	\$(317,391,442)
Fixed-income	(49,029,523)
Real estate	(507,899,762)
Private equity	(271,171,443)
Total decrease in fair value	(1,145,492,170)
Realized gain (loss) on investments sold:	
Equities	(605,124,978)
Fixed-income	(6,515,667)
Real estate	(7,444,942)
Private equity	3,891,357
Total net realized losses	(615,194,230)
Net gain on futures contracts	101,778,940
Net depreciation in fair value of investments	<u>\$(1,658,907,460)</u>

6. 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 its outside managers.

The South Dakota Investment Council purchases and sells financial, interest rate and commodity 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, 2009, are as follows:

<u>Description</u>	<u>Open position</u>	<u>Number of contracts</u>	<u>Fair value</u>
S&P 500 Index due September 17, 2009	Long	140	\$32,176,200
U.S. Treasury note due September 21, 2009	Long	135	20,214,975

A futures contract is a contract to buy or sell units of an index, financial instrument, or commodities 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.

The hedging guidelines of the SDRS arbitrage portfolios managed by the South Dakota Investment Council provide that stock and other non-cash considerations to be received may be hedged. The two arbitrage portfolios had short sales valued at \$52,023,535 as of June 30, 2009. 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, 2009, was \$4,609,838. This amount does not include limited partnerships and certain global equity investments with outside managers, which may also enter into foreign exchange forward contracts.

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, 2009, was \$317,253,682. 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. Details regarding the interest rate risks for these investments are included with the interest rate risk disclosures above.

BASIC FINANCIAL STATEMENTS (CONTINUED)

7. Compensated Absences:

Annual leave is earned by all SDRS employees. Upon termination, SDRS employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2009, a liability existed for accumulated annual leave calculated at the employees' June 30, 2009, pay rate in the amount of \$115,179. 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, 2009, a liability existed for accumulated and accrued sick leave, calculated at the employees' June 30, 2009, pay rate in the amount of \$129,635.

	2009	2008	% change
Total compensated absences	\$244,814	\$229,391	6.72%

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

8. Operating Leases:

The SDRS has entered into an agreement to lease office space. The lease was effective September 2007 and has a term of five years. A schedule of minimum office rental payments as of June 30, 2009, is as follows for the fiscal year ending June 30:

2010	\$105,389
2011	105,389
2012	105,389
Total remaining minimum payments	<u>\$316,167</u>

9. 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 SRP, 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 \$111,809,479 net assets available for plan benefits at June 30, 2009, \$69,856,319 was held in trust for employees of the State, while the remaining \$41,953,160 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$507,589 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2009.

10. Special Pay Plan:

The Special Pay Plan (SPP) 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 SPP mandates that qualifying employees (over age 55 and \$600 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 \$16,096,014 net assets available for plan benefits at June 30, 2009, \$9,277,490 was held in trust for employees of the State, while the remaining \$6,818,524 represents the assets held in trust for employees of other jurisdictions.

11. 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).

12. Commitments:

At June 30, 2009, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$495,182,689 and to real estate limited partnerships totaling approximately \$491,163,094. The commitments may be called at the discretion of the general partner or may never be called. As capital is called, it is funded from capital and earnings returned by the limited partnerships or from other assets.

REQUIRED SUPPLEMENTARY INFORMATION

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 liability [UAAL] (b-a)	Funded ratio (a/b)	(c) Covered payroll	UAAAL as a percentage of covered payroll [(b-a)/c]
6/30/2004	\$4,937.5	5,051.7	114.2	97.7%	\$1,164.0	9.8%
6/30/2005	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
6/30/2007	6,526.5	6,718.8	192.3	97.1	1,297.3	14.8
6/30/2008	6,784.3	6,976.8	192.5	97.2	1,363.9	14.1
6/30/2009	6,778.5	7,387.4	608.9	91.8	1,450.7	42.0

Schedule of Employer Contributions

For the year ended June 30	Annual required contributions	Percentage contributed
2004	\$74,854,496	100
2005	77,474,967	100
2006	80,829,338	100
2007	85,361,762	100
2008	89,766,090	100
2009	94,244,915	100

Notes to Trend Data

Valuation date	6/30/2009
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 return¹	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, 2009

	Accrual Basis
Personal services	
Salary and per diem	\$1,379,472
Employee benefits	360,879
Total personal services	1,740,351
Operating expenses	
Travel	61,536
Contractual services:	
Finance	104,366
Valuations	104,498
Consulting	91,922
Studies	79,162
Special studies	40,339
Legal	4,779
Communications	62,459
Medical	13,353
Operations	835,987
Total contractual services	1,336,865
Supplies and materials	244,548
Capital assets	45,553
Total operating expenses	1,688,502
Total administrative expenses	\$3,428,853

Schedule of Investment Activity Expenses for the Year Ended June 30, 2009

	Management expenses
Investment managers	
State of South Dakota Investment Council	\$5,123,848
AIG	652,378
AllianceBernstein Global Strategic Fund	183,338
Apollo Real Estate Advisors LP	218,438
Blackstone Distressed Debt	571,935
Blackstone Private Equity	2,790,484
Blackstone Real Estate Partners	9,728,019
Brandes Investment Partners	258,181
Capital International	1,057,291
Cargill North American Real Estate Partners	1,922,306
Carlyle	709,840
CINVIN	2,450,361
CVC	1,226,269
CVI	2,880,543
Cypress Merchant Banking Partners LP	187,301
Dimensional Fund Advisors, Inc.	107,519
Doughty Hanson & Co. European Real Estate	1,662,386
Doughty Hanson & Co. Private Equity IV	1,805,738
Elevation Partners	730,457
GE Asset Management China	711,227
KKR Associates	393,026
Lehman Crossroads Investment Advisors LP	412,147
Oaktree Loan Fund 2x	387,142
PIMCO Distressed Mtg Fund II	320,716
Post Advisory Group LLC	4,387
Research Affiliates	116,714
Riverstone	578,927
Silver Lake Partners LP	2,242,691
TCW Specialized Mtg Credits	1,515,089
Total investment manager expenses	\$40,948,698

ACTUARIAL SUMMARY



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

ACTUARY'S OPINION



November 2, 2009

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, 2009.

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, 2009 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 policy 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 a period not to exceed 30 years.

As noted below, this objective is not currently being met and is not projected to continue to be met without changes in future benefits or contributions.

Our calculations and analysis indicate that the System is not currently meeting its funding objectives. The combined statutory Employer/Member Contributions are not sufficient to pay the current Normal Costs and Expenses of the System and amortize the Unfunded Actuarial Accrued Liability over 30 years or less from July 1, 2009. The contractual Employer Contribution Rates to SDRS meet the requirements of the Annual Required Contributions of the Employers of GASB Statement No. 25.

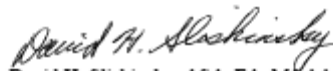
The SDRS Board of Trustees measures and compares the funding progress of SDRS on several bases. The Actuarial Accrued Liability Funded Ratio of SDRS as of June 30, 2009 is 91.8%.

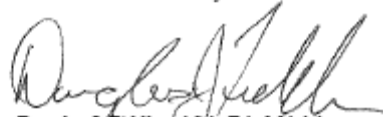
Based on member data and asset information provided by SDRS, we have prepared the Schedule of Funding Progress and Schedule of Employer Contributions that are included in the Financial section of the CAFR.

The undersigned are Enrolled Actuaries, Associates of the Society of Actuaries and Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Standards of Practice. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

Changes in future benefits or contributions may be necessary for SDRS to be actuarially sound.

Respectfully submitted,


David H. Sliskinsky, ASA, EA, MAAA
Principal and Consulting Actuary


Douglas J. Fiddler, ASA, EA, MAAA
Director, Retirement Actuary

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ACTUARIAL OVERVIEW

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

In the 2009 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.

	2009 actuarial valuation	2008 actuarial valuation
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	91.8%	97.2%
Funding period	N/A*	20 years

*Current member and employer contributions are not sufficient to amortize the frozen unfunded actuarial accrued liability over any period.

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was negative 20.36 percent, significantly less than the assumed rate of 7.75 percent for fiscal year 2009. The dollar-weighted annualized investment performance based on the market value of assets for the period was negative 21.0 percent. This results in an actuarial investment loss of \$2,039 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, 2009, and increased by the total liability loss of \$35 million. The reserve for funding of long-term benefits goals was decreased from a balance of negative \$283 million as of June 30, 2008, to a balance of negative \$2,031 million as of June 30, 2009, as a result of investment returns below expectations for fiscal year 2009.

Actuarial Accrued Liability

Measures of Actuarial Soundness

Actuarial Investment Return Gains/Losses

For the year ended June 30, 2009

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2009

Item Gain	Amount of liability gain (loss)	Percentage of present value of all benefits
Due to compensation increases	\$4M	0.04%
(Loss) due to decrements	(19M)	(0.21)%
(Loss) due to rehired and new members	(18M)	(0.20)%
Miscellaneous (loss)	(2 M)	(0.03)%
Total system loss	\$(35M)	(0.40)%

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 two changes in the actuarial assumptions or methods since the 2008 actuarial valuation. The expense assumption was decreased from 2.2% to 2.0% of contributions and the funding period for amortizing the Frozen Unfunded Actuarial Liability under Board policy was increased from 20 years to a period not to exceed 30 years.

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

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.

Summary of Actuarial Assumption Changes

Cushion

Reserve for Funding of Long-term Benefit Goals

Balance as of June 30, 2008	\$(282,891,421)
Fiscal year 2009 experience	(2,045,761,808)
Amortization of prior gain and losses	297,760,923
Less present value of all benefits for improvements enacted into law funded from reserve	0
Balance as of June 30, 2009	<u>\$(2,030,892,306)</u>

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Assumption Tables

Sample Separation Rates

Annual Rate per 100 Members

Age	Mortality		Disabled	Disablement	
	Male	Female	Mortality	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

Annual Turnover Rate per 100 Members

Age	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 2009 fiscal year. The June 30, 2009, 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

	2008 actuarial valuation results	System investment and liability experience for year ¹	Membership changes and maturity of system ²	Assumption changes effective July 1, 2009 ³	2009 actuarial valuation results
Normal cost rate with expense provision	11.502%	—	0.070%	(0.025)%	11.547%
Funding period	20 years	N/A ⁴	—	—	N/A ⁴
Unfunded actuarial accrued liability	\$193M	\$416M	—	—	\$609M
Actuarial accrued liability funded ratio	97.2%	(5.6)%	0.2%	—	91.8%

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. Due to the considerable asset losses for the year ending June 30, 2009, the actuarial value of assets was reduced to remain within the 80%/120% corridor around the market value of assets and the unfunded actuarial accrued liability was increased by the same amount that the actuarial value of assets was reduced.

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

³ As of June 30, 2009, the decrease in the expense assumption reduced the normal cost rate.

⁴ Current member and employer contributions are not sufficient to amortize the frozen unfunded actuarial accrued liability.

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 2009, expressed as a percentage of payroll and total contributions, are based on the 2009 actuarial valuation and are summarized in the chart below.

SDRS 2009 Funding Requirements		
	As a percentage of payroll	As a percentage of contributions
Matching statutorily required employer/member contribution rate	12.462 ¹	100.0
Normal contribution rate at mid-period	11.298	90.7
Expense allowance	.249	2.0
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	11.547	92.7
Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation (12.462%-11.547%)	.915 ²	7.3

The 2009 actuarial valuation indicates a contribution rate of 0.915 percent of payroll allocated to the unfunded actuarial accrued liability is not sufficient to pay interest and amortize the principal over 30 years or less from 2009.

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

¹ 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 member's compensation in excess of the Social Security maximum taxable compensation. The total statutory contributions to SDRS as of July 1, 2009, are 12.462 percent of considered compensation.

² A contribution of 0.915% of considered compensation is not sufficient to amortize frozen unfunded actuarial accrued liability over 30 years or less from 2009.

The 2009 actuarial valuation confirms that:

- a. Funding of current benefit levels for active members and expenses requires 93 percent of the total contributions under the current actuarial assumptions and methods.
- b. The unfunded actuarial accrued liability is only 7 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 and 2008 through 2009.
- d. SDRS currently has a cushion of negative \$1,130 million and a balance of negative \$2,031 million in the reserve for funding of long-term benefit goals.

The actuarial valuation methodology results in the reduction 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 2009 actuarial valuation indicates that the employer-member contribution rates are not sufficient to pay the current costs of the system (normal cost plus expenses) and amortize the unfunded actuarial accrued liability over 30 years or less. The SDRS funding period was increased from 20 years to a period not to exceed 30 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 frozen unfunded actuarial accrued liability result in the system not currently meeting its funding objectives. Changes in future benefits or contributions may be necessary for SDRS to be actuarially sound.

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 2009 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).

In most years, 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; however, due to the considerable investment losses experienced in the year ending June 30, 2009, current member and employer contributions are not sufficient to pay the normal costs and fund the unfunded frozen actuarial accrued liability.

Development of the SDRS Actuarial Value of Assets

As of June 30, 2009

Actuarial value of assets as of June 30, 2008	\$6,784,291,685
Contributions and disbursements	
Contributions	189,702,433
Benefit payments and refunds	(330,994,286)
Administrative expenses	<u>(3,428,853)</u>
Total	\$(144,720,706)
Expected investment return	\$520,174,678
SDRS liability loss	\$(34,837,606)
Projected actuarial value of assets as of June 30, 2009	\$7,194,583,263
Present value of all benefits for improvements enacted into laws as of June 30, 2009, and funded from reserve	<u>0</u>
Preliminary actuarial value of assets as of June 30, 2009	\$7,194,583,263
Market value of assets as of June 30, 2009	\$5,648,767,146
Constraining values	
80% of market value of assets	\$4,519,013,717
120% of market value of assets	\$6,778,520,575
Actuarial value of assets as of June 30, 2009	<u>\$6,778,520,575</u>

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

- Lifetime income replacement of at least 85 percent of final pay for career employees (including Social Security)
- Income replacement of at least 55% of final average compensation from SDRS defined benefits
- 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
2007	6,718,761,091	6,526,534,941	97.1	20 years
2008	6,976,811,927	6,784,291,685	97.2	20 years
2009	7,387,406,340	6,778,520,575	91.8	N/A*

*Current member and employer contributions are not sufficient to amortize the frozen unfunded accrued liability.

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 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
2007	6,718,761,091	6,526,534,941	97.1	192,226,150	1,297.2	14.8
2008	6,976,811,927	6,784,291,685	97.2	192,520,242	1,363.9	14.1
2009	7,387,406,340	6,778,520,575	91.8	608,885,765	1,450.7	42.0



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				Portion of actuarial accrued liability covered by actuarial value of assets for		
	(1)	(2)	(3)	Actuarial value of assets	(1)	(2)	(3) ¹
	Member contributions	Current retirees and beneficiaries and terminated employees	Current employees: employer financed				
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
2007	894,141,271	3,405,374,537	2,419,245,283	6,526,534,941	100.0	100.0	92.1
2008	946,604,328	3,811,968,488	2,218,239,111	6,784,291,685	100.0	100.0	91.3
2009	1,008,833,732	4,041,735,745	2,336,836,863	6,778,520,575	100.0	100.0	73.9

Valuation date	# of active members	Covered payroll (000,000)	Average annual pay	% increase in average pay
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
2007	37,311	1,297.2	34,769	2.0
2008	37,707	1,363.9	36,170	4.0
2009	38,596	1,450.7	37,586	3.9

Schedule of Active Member Valuation Data

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 added to payroll	Annual pension removed from payroll	Annual pension benefit amount	Average annual benefit	% increase in average benefit
2002	15,390	1,051	548	15,893	\$14,781,382	\$4,286,698	\$175,339,813	\$11,033	5.4
2003	15,893	1,112	564	16,441	16,904,111	4,612,777	191,738,495	11,662	5.7
2004	16,441	1,207	619	17,029	19,647,803	4,991,607	211,424,721	12,416	6.5
2005	17,029	1,121	602	17,458	16,955,458	4,970,672	228,469,621	13,020	4.9
2006	17,458	1,130	602	18,076	17,273,416	5,866,751	245,707,324	13,593	4.4
2007	18,076	1,306	663	18,719	20,128,796	5,699,854	265,922,928	14,206	4.5
2008	18,719	1,279	677	19,321	20,931,066	6,957,387	297,672,788	15,407	8.5
2009	19,321	1,295	667	19,949	21,285,086	7,429,345	318,556,151	15,969	3.6

SUMMARY OF BENEFIT PROVISION CHANGES

	2008 actuarial valuation	2009 actuarial valuation	% change
Active members			
Number	37,707	38,596	2.4
Average age	45.7	45.8	0.2
Average credited service	11.1	11.2	0.9
Annual prior year's compensation of members	\$1,363,865,982	\$1,450,681,887	6.4
Average annual compensation	\$36,170	\$37,586	3.9

Comparison of Actuarial Valuation Results

Benefit recipients

RETIRED MEMBERS			
Number ¹	16,170	16,762	3.7
Average age	71.9	71.8	(0.1)
Total annualized benefits	\$269,603,017	\$288,788,959	7.1
Average annualized benefits	\$16,673	\$17,229	3.3
BENEFICIARIES			
Number	2,809	2,862	1.9
Total annualized benefits	\$24,135,399	\$25,733,263	6.6
Average annualized benefits	\$8,592	\$8,991	4.6
DISABILITIES			
Number	342	325	(5.0)
Total annualized benefits	\$3,934,422	\$4,033,929	2.5
Average annualized benefits	\$11,504	\$12,412	7.9

Total benefit recipients

Number	19,321	19,949	3.3
Total annual benefits	\$297,672,788	\$318,556,151	7.0
Average annual benefits	\$15,407	\$15,969	3.6

Terminated members

Number—vested	7,477	7,418	(0.8)
Number—non-vested ² (entitled to accumulated contributions only)	6,929	6,568	(5.2)
Total terminated members	14,406	13,986	(2.9)
Total system members	71,434	72,531	1.5

Results of actuarial valuation

Normal cost (without expenses)	11.228%	11.298%	0.6
(with expenses)	11.502%	11.547%	0.4
Frozen unfunded actuarial accrued liability	\$192,520,242	\$608,885,765	216.3
Market value of assets	\$7,312,107,461	\$5,648,767,146	(22.7)
Actuarial value of assets	\$6,784,291,685	\$6,778,520,575	(0.1)
Actuarial accrued liability (AAL)	\$6,976,811,927	\$7,387,406,340	5.9

Actuarial accrued liability funded ratio

(actuarial value of assets/AAL)	97.2%	91.8%	(5.6)
(market value of assets/AAL)	104.8%	76.5%	(27.0)
Projected years to fund level funding requirements	20	N/A ³	N/A

There were no benefit improvements or substantive benefit provision changes made to SDRS during the 2009 South Dakota legislative session.

Summary of Benefit Provision Changes

¹ In addition, there are 44 and 48 members or beneficiaries as of July 1, 2008, and July 1, 2009, respectively, whose benefits are currently suspended, but who are entitled to future benefits.

² Entitled to accumulated contributions only.

³ Current member and employer contributions are not sufficient to amortize the frozen unfunded actuarial accrued liability.

PLAN SUMMARY

South Dakota Retirement System (SDRS)

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

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

The board of trustees appoints an administrator as the system's chief executive officer.

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

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

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



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

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

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

Class A members constitute 94 percent of SDRS membership.

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

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

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

Service Considered

Compensation

PLAN SUMMARY (CONTINUED)

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 I.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 are 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

1.7 percent times final average compensation times years of credited service as a Class A member before July 1, 2008, plus

Base Benefit

1.55 percent times final average compensation times years of credited service as a Class A member after July 1, 2008.

OR

Alternate Formula

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class A member before July 1, 2008, plus

Base Benefit

2.25 percent times final average compensation times years of credited service as a Class A member after July 1, 2008, 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

2.4 percent times final average compensation times years of credited service as a Class B Public Safety member before July 1, 2008, 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, 2008.

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 years, as follows:

First 15 Years of Credited Service

Enhanced Benefit

3.733 percent times final average compensation times the first 15 years of credited service as a Class B Judicial member before July 1, 2008, 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, 2008.

PLUS

Years of Credited Service in Excess of 15 Years

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class B Judicial member before July 1, 2008, 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, 2008.

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 their 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 90 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
 - 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 at date of disability

PLAN SUMMARY (CONTINUED)

The maximum benefit is 90 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 benefits 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 spouse'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 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 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, 2009.

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
- Asset Allocation
- Time-Weighted Rates of Return
- Time-Weighted Annualized Rates of Return

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

The Investment Council

The data in the investment section of this report was prepared by the South Dakota Investment Council, using time-weighted rates of return as defined by CFA standards. 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 ANALYSIS (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 key investment policy decision made by the Investment Council is asset allocation. The policy reflects their best judgment of the risk versus return trade-off that all investors must make. The Investment Council makes this judgment 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 judgment 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 2009 was (20.36) percent. The Investment Council's benchmark return for FY 2009 was (18.0) percent. This capital market benchmark was 57 percent global equity, 24 percent fixed income, 7 percent arbitrage, 5 percent real estate, 5 percent private equity, 1 percent cash, and 1 percent TIPS. The 10-year annualized return was 3.6 percent versus the benchmark return of 2.9 percent.

Performance

The internal equity fund earned (20.8) percent in FY 2009 versus a benchmark return of (27.9) percent. The 10-year return for the internal equity fund was (0.3) percent versus a benchmark return of (0.5) percent.

SDRS' bond fund returned 7.8 percent in FY 2009 versus a benchmark return of 6.4 percent. The 10-year return for the internal bond fund was 6.5 percent versus a benchmark return of 6.4 percent.

Returns earned by other portfolios and outside managers in FY 2009 (included in total fund returns) were: 1.4 percent merger arbitrage; 8.4 percent convertible arbitrage; (17.7) percent DFA; (62.1) percent MW Post; (51.1) percent AllianceBernstein Global Strategic; (13.0) percent Brandes; (29.6) percent Capital Guardian; 24.8 percent GE Asset Management; (27.1) percent Research Affiliates; (59.9) percent Bernstein; (18.1) percent CVI Global Value Fund; (7.4) percent CVI Specialized Ventures; (22.4) percent TCW; (9.3) percent Oaktree; (19.3) percent Blackstone Distressed Securities; (57.2) percent Blackstone Credit Liquidity; (30.8) percent Blackstone Kalix Offshore, and (13.1) percent Bridgewater. Blackstone, Cypress, Apollo, AIG, Capital International, Doughty Hanson, Kohlberg Kravis Roberts Associates, Lehman Brothers, Silver Lake, Carlyle, CINVIN Fund 4, CVC, and Elevation do not have time-weighted rates of return because of the nature of their investments.

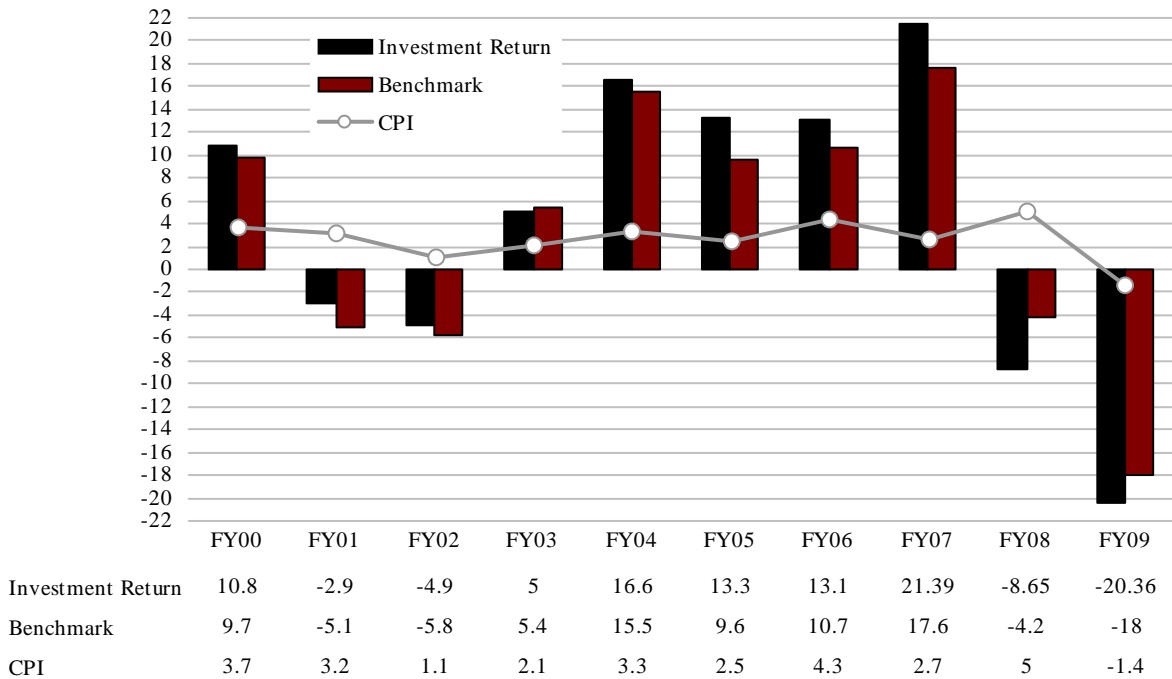
The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS' total return over time is a key indicator of the financial strength of the system.

Real Rates of Return

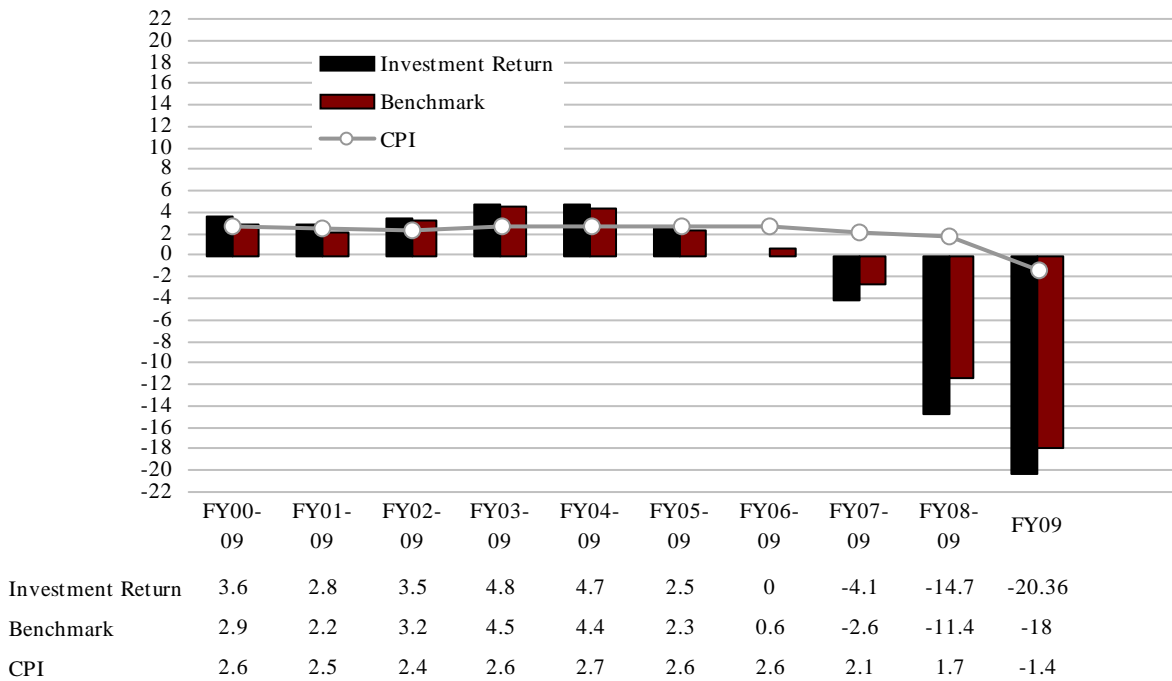
During FY 2009 inflation averaged (1.4) percent while SDRS' total return was (20.36) percent. Over the last 10 years, inflation has averaged 2.6 percent and total returns 3.6 percent, creating a real return of 1.0 percent.

INVESTMENT ANALYSIS (CONTINUED)

Investment Performance Compared to Capital Market Benchmark and Inflation



Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation





As of June 30, 2009, the South Dakota Investment Office managed 70 percent of SDRS' investments. The remaining 30 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. The CVI Specialized Ventures Fund [\$12.7 million], PIMCO Distressed Mtg Fund II [\$77.0 million], TCW Specialized Mtg Credits [\$123.2 million], Oaktree Loan Fund 2x [\$45.1 million], Blackstone Distressed Securities [\$18.5 million], and Blackstone Credit Liquidity [\$20.0 million] invest in distressed and high-yield fixed-income securities. Bridgewater Pure Alpha Fund II [\$53.0 million], Brandes Investment Partners [\$26.6 million], CVI Global Value Fund [\$131.5 million], Research Affiliates [\$64.8 million], Capital Guardian Global Equity Fund [\$85.0 million], GE Asset Management [\$55.7 million], and Dimensional Fund Advisors Inc. [\$27.0 million] invest in global equities. Blackstone Real Estate Partners [\$342.5 million], Doughty Hanson & Co European Real Estate [\$17.4 million], Apollo Real Estate Advisors LP [\$29.1 million], and Cargill North American Real Estate Partners [\$92.8 million] invest in real estate. CINVIN Fund IV [\$37.8 million], DLJ Merchant Banking Partners LP [\$3.1 million], KKR Associates [\$42.9 million], Lehman Crossroads Investment Advisors LP [\$11.2 million], Silver Lake Partners LP [\$73.5 million], Doughty Hanson Private Equity [\$70.1 million], Blackstone Private Equity [\$144.1 million], AIG Capital Partners [\$11.4 million], Elevation Partners [\$20.5 million], CVC [\$39.4 million], Carlyle IV [\$31.9 million], Riverstone [\$11.5 million], and Cypress Merchant Banking Partners LP [\$9.0 million] invest in private equity.

Investment Managers

Investment managers	Management expenses
State of South Dakota Investment Council	\$5,123,848
AIG	652,378
Alliance Bernstein Global Strategic Fund	183,338
Apollo Real Estate Advisors LP	218,438
Blackstone Distressed Debt	571,935
Blackstone Private Equity	2,790,484
Blackstone Real Estate Partners	9,728,019
Brandes Investment Partners	258,181
Capital International	1,057,291
Cargill North American Real Estate Partners	1,922,306
Carlyle	709,840
CINVIN	2,450,361
CVC	1,226,269
CVI	2,880,543
Cypress Merchant Banking Partners LP	187,301
Dimensional Fund Advisors, Inc.	107,519
Doughty Hanson & Co. European Real Estate	1,662,386
Doughty Hanson & Co. Private Equity IV	1,805,738
Elevation Partners	730,457
GE Asset Management China	711,227
KKR Associates	393,026
Lehman Crossroads Investment Advisors LP	412,147
Oaktree Loan Fund 2x	387,142
PIMCO Distressed Mtg Fund II	320,716
Post Advisory Group LLC	4,387
Research Affiliates	116,714
Riverstone	578,927
Silver Lake Partners LP	2,242,691
TCW Specialized Mtg Credits	1,515,089
Total investment manager expenses	<u>\$40,948,698</u>

Schedule of Investment Management Expenses and Commissions

For the Year Ended
June 30, 2009

INVESTMENT ANALYSIS (CONTINUED)

Summary of Broker Commissions¹

Investment type	Commissions
Fixed income	\$889,830.91
Global equity	3,996,827.60

Summary of Investment Portfolios

As of June 30, 2009

	Market value	Future Positions	Exposure with futures	Percentage with futures overlay on cash markets
Fixed Income				
Internal Investment Grade	\$719,126,228	\$20,247,975		
Internal High Yield	133,082,102			
Internal High Yield—Single B	57,604,512			
Blackstone	38,505,555			
CarVal	144,216,796			
Oaktree	45,140,019			
PIMCO	76,960,183			
TCW	123,201,266		1,358,084,636	24.1
Global Equity				
Internal Global Equity	2,717,873,450			
Alliance Bernstein	16,484			
Brandes	26,808,304			
Capital Guardian	59,900,492			
Dimensional Fund Advisors	26,957,592			
GE Asset Management	55,686,636			
Research Affiliates	64,919,545			
Equity Futures		32,176,200	2,984,338,703	52.9
Arbitrage Equity				
Internal Merger Arbitrage	55,220,735			
Internal Convertible Arbitrage	160,600,682			
Bridgewater	52,924,649		268,746,066	4.8
Real Estate				
AREA Property Partners	29,122,003			
Blackstone	342,465,802			
CarVal	92,801,977			
Doughty Hanson	17,379,686		481,769,468	8.5
Private Equities				
AIG	11,398,601			
Blackstone	144,075,963			
Capital International	25,078,918			
Carlyle	43,416,822			
CINVIN	37,828,860			
Credit Suisse	3,082,496			
CVC	39,399,502			
Cypress	8,960,872			
Doughty Hanson	70,060,988			
Elevation	20,464,918			
KKR	42,887,657			
Neuberger Berman	11,151,689			
Silver Lake	73,476,277		531,283,563	9.4
Cash and Cash Equivalents				
Internal Shift Account	67,783,933	(52,424,175)	15,359,758	0.3
Total	<u>\$5,639,582,194</u>	<u>\$0</u>	<u>\$5,639,582,194</u>	<u>100%</u>

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



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	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Price/earnings ratio	27.0	26.0	26.8	22.9	19.2	15.6	16.6	16.0	13.67	12.87
Dividend yield	1.2%	1.4%	1.8%	1.9%	2.0%	2.3%	2.5%	2.3%	2.91%	3.33%
Price/book value ratio	10.4	5.4	4.2	4.0	3.8	3.1	3.5	3.7	2.66	2.76
Benchmark										
Price/earnings ratio	30.3	25.6	26.2	23.5	21.5	20.8	19.2	20.1	17.57	12.42
Dividend yield	1.1%	1.3%	1.6%	1.7%	1.7%	2.2%	2.2%	2.0%	2.48%	3.05%
Price/book value ratio	11.2	5.7	4.5	4.2	4.1	4.0	3.6	4.0	3.80	3.01

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
Pfizer, Inc.	2.5%
JPMorgan Chase & Co.	2.4
Microsoft Corp.	2.3
ConocoPhillips	2.2
Cisco Systems, Inc.	2.0
Wells Fargo & Co.	1.9
Honda Motor Co.	1.7
Bank of America Corp.	1.6
U.S. Bancorp	1.6
General Electric Co.	1.6
Total	19.8%

Distribution by Market Sector

Market sector	SDRS total equity	Bench
Consumer discretionary	14.6%	8.7%
Consumer staples	8.2	11.0
Energy	13.3	11.9
Financials	21.6	17.6
Health care	11.6	11.5
Industrials	8.5	9.8
Information technology	12.3	14.1
Materials	4.4	5.8
Telecommunications services	2.5	4.9
Utilities	2.4	4.7
Cash equivalents	0.6	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 ANALYSIS (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 Citigroup Broad Investment Grade 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	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of issues	60	67	76	77	83	74	86	100	120	129
Average coupon	6.23%	6.68%	6.41%	5.87%	5.62%	5.20%	5.38%	5.50%	5.42%	5.39%
Yield to maturity	7.76%	7.01%	6.72%	4.73%	5.44%	4.70%	6.00%	6.00%	5.67%	5.17%
Average maturity (years)	6.88	7.02	8.40	7.46	7.50	5.80	5.47	6.14	6.60	5.20
Duration (years)	5.56	5.56	5.92	5.20	5.78	4.10	4.65	5.00	5.38	4.10
Average quality ¹	3.22	3.33	3.01	3.24	3.24	3.38	3.49	3.37	3.29	2.98
Cash equivalent %	5.80%	0.50%	0.50%	4.70%	1.2%	13.8%	12.3%	7.6%	3.0%	3.0%

Bond Index

Average coupon	6.85%	6.75%	6.44%	6.00%	5.32%	5.24%	5.30%	5.41%	5.37%	4.91%
Yield to maturity	7.24%	6.10%	5.21%	3.60%	4.68%	4.51%	5.81%	5.69%	4.99%	3.82%
Average maturity (years)	7.77	8.24	6.91	6.70	7.47	6.21	7.28	7.39	7.80	6.27%
Duration (years)	4.91	4.74	4.54	3.90	4.77	4.67	5.06	5.12	5.36	4.88

Distribution Profile

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

Distribution by Duration

	Percent
0 to 2 years	13.2%
2 to 3 years	31.0
3 to 4 years	20.6
4 to 5 years	10.6
5 to 6 years	11.4
6 to 8 years	4.9
Above 8 years	8.3
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/cash equivalents	3.0%
U.S. Gov't/Aaa	57.5
Aa	2.7
A	11.4
Baa	10.5
Ba	12.7
B	1.7
Caa	0.5
Total	100.0%

Distribution by Coupon

	Percent
Cash/cash equivalents	3.0%
0.00% - 4.00%	7.7
4.01% - 5.00%	30.9
5.01% - 6.00%	32.1
6.01% - 8.00%	21.3
8.01% and over	5.0
Total	100.0%

Distribution by Issue

	Percent
Cash/cash equivalents	3.0%
U.S. Treasuries/Agencies/FDIC	20.1
Mortgage backed securities	37.4
Investment grade corporates	24.5
High yield corporates	15.0
Total	100.0%

¹ (Aaa=4, Aa=3, A=2, Baa or lower=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 the likelihood of achieving the investment objectives for the South Dakota Retirement System.

Asset Allocation

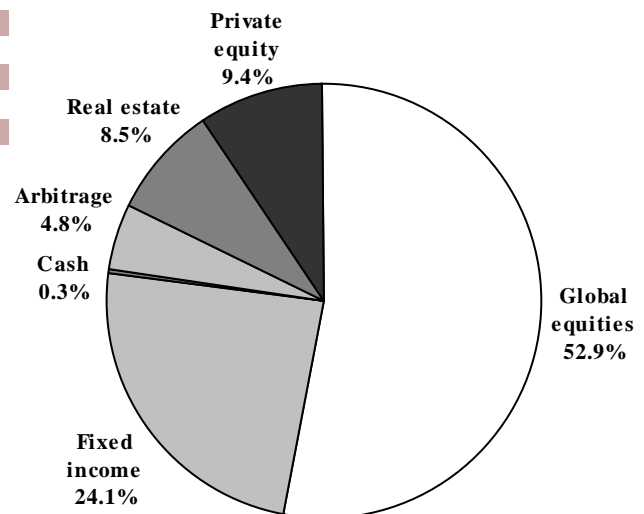
The Investment Office prepares a risk return analysis for use by the Investment Council when establishing the Capital Markets Benchmark each year. The primary factors include the expected long-term return, the volatility for each asset category and the correlation (degree to which they move in the same direction) of the returns of each category to each of the others. This analysis indicates an expected long-term return of 8.2%. This excludes any value added or detracted relative to index returns resulting from managing the portfolio. When adjusted to capture real-world frequency of adverse events, the estimated annual standard deviation is 15.1%. The statistics suggest there is a 66% chance the return for any year would be between (6.9)% and 23.3%. There would be a 95% chance that the return would be between (22.0)% and 38.4%.

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 severe decline scenarios.

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, 2009

	6/30/07	6/30/08	6/30/09
Global equities	53.5%	49.8%	52.9%
Fixed income	15.2%	19.6%	24.1%
Cash	7.7%	1.3%	0.3%
Arbitrage	6.3%	6.5%	4.8%
Real estate	10.5%	13.0%	8.5%
Private equity	6.8%	9.8%	9.4%



INVESTMENT ANALYSIS (CONTINUED)

Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
TOTAL INVESTMENT FUND	14.6%	10.8%	(2.9)%	(4.9)%
Cash equivalents	5.1%	5.7%	6.0%	2.5%
Investment office bond fund	2.4%	4.3%	10.0%	5.9%
Combined internal equity fund	19.5%	10.9%	(12.0%)	(12.2)%
Arbitrage convertible fund	7.6%	8.7%	6.5%	3.8%
Arbitrage merger fund	16.5%	18.4%	6.2%	2.1%
INDICES				
Bond index				
Fixed income benchmark	2.9%	3.8%	11.2%	7.0%
COMBINED INTERNAL EQUITY BENCHMARK	18.3%	11.0%	(17.1)%	(15.0)%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ fund	11.5%	11.1%	(5.8)%	(6.6)%
Capital market benchmark	13.3%	9.7%	(5.1)%	(5.8)%
CONSUMER PRICE INDEX	2.0%	3.7%	3.2%	1.1%

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 2000-2009	Fiscal 2001-2009	Fiscal 2002-2009	Fiscal 2003-2009
TOTAL INVESTMENT FUND	3.6%	2.8%	3.5%	4.8%
Cash equivalents	3.4%	3.1%	2.7%	2.8%
Investment office bond fund	6.5%	6.8%	6.4%	6.2%
Combined internal equity fund	(0.3)%	(1.4)%	0.0%	1.9%
Arbitrage convertible fund	6.0%	5.7%	5.6%	5.9%
Arbitrage merger fund	4.6%	3.2%	2.8%	2.9%
INDICES				
Bond index				
Fixed income benchmark	6.4%	6.6%	6.1%	6.0%
COMBINED INTERNAL EQUITY BENCHMARK	(0.5)%	(1.7)%	0.4%	2.8%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ fund	2.8%	2.0%	3.0%	4.4%
Capital market benchmark	2.9%	2.2%	3.2%	4.5%
CONSUMER PRICE INDEX	2.6%	2.5%	2.4%	2.6%

Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
5.0%	16.6%	13.3%	13.1%	21.39%	(8.65)%	(20.36)%
1.4%	0.9%	2.1%	4.2%	5.3%	4.2%	1.5%
14.4%	1.3%	9.1%	(0.2)%	6.7%	6.7%	7.8%
(2.0)%	22.9%	9.9%	12.6%	22.0%	(21.0)%	(20.8)%
13.1%	1.0%	0.9%	5.5%	6.3%	6.5%	8.4%
8.5%	7.4%	3.0%	11.7%	8.7%	(17.4)%	1.4%
13.4%	1.3%	7.9%	0.2%	6.7%	6.5%	6.4%
(0.8)%	23.6%	9.0%	14.7%	23.6%	(11.0)%	(27.9)%
3.1%	16.9%	14.8%	10.7%	17.7%	(5.0)%	(17.6)%
5.4%	15.5%	9.6%	10.7%	17.6%	(4.2)%	(18.0)%
2.1%	3.3%	2.5%	4.3%	2.7%	5.0%	(1.4)%

Fiscal 2004-2009	Fiscal 2005-2009	Fiscal 2006-2009	Fiscal 2007-2009	Fiscal 2008-2009	Fiscal 2009
4.7%	2.5%	0.0%	(4.1)%	(14.7)%	(20.36)%
3.0%	3.4%	3.8%	3.6%	2.8%	1.5%
5.2%	6.0%	5.2%	7.1%	7.3%	7.8%
2.5%	(1.1)%	(3.7)%	(8.6)%	(20.9)%	(20.8)%
4.7%	5.5%	6.7%	7.0%	7.4%	8.4%
2.0%	0.9%	0.4%	(3.1)%	(8.5)%	1.4%
4.8%	5.5%	4.9%	6.5%	6.4%	6.4%
3.5%	(0.2)%	(2.3)%	(7.4)%	(19.9)%	(27.9)%
4.7%	2.4%	0.5%	(2.7)%	(11.6)%	(17.6)%
4.4%	2.3%	0.6%	(2.6)%	(11.4)%	(18.0)%
2.7%	2.6%	2.6%	2.1%	1.7%	(1.4)%

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 38,596 total active members as of June 30, 2009.

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

Executive Management	Lottery
Agriculture	Military and Veterans Affairs
Commerce and Regulation	Revenue & Regulation
Corrections Dept. of Public Safety	Social Services
Education & Cultural Affairs	Tourism & State Development
Game, Fish and Parks	Transportation
Governor's Office	Vocational Rehabilitation
Health	Enviro. and Natural Resources
Human Services	Attorney General
Labor	Public Utilities Commission

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: 17,559

Percentage of total active members: 45.5%
 Units: 172

Legislative, Executive, and Judicial Agencies Membership: 8,164

Percentage of total active members: 21.2%
 Units: 1

Institutions of Higher Education Membership: 4,376

Percentage of total active members: 11.3%
 Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities
Membership: 4,000
Percentage of total active members: 10.4%
Units: 144

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

Counties
Membership: 3,834
Percentage of total active members: 9.9%
Units: 64

Aurora	Clay	Shannon	Hyde	McPherson	Spink
Beadle	Codington	Faulk	Jackson	Meade	Springdale
Bennett	Corson	Grant	Jerauld	Mellette	Township
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: 663
Percentage of total active members: 1.7%
Units: 86

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



SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

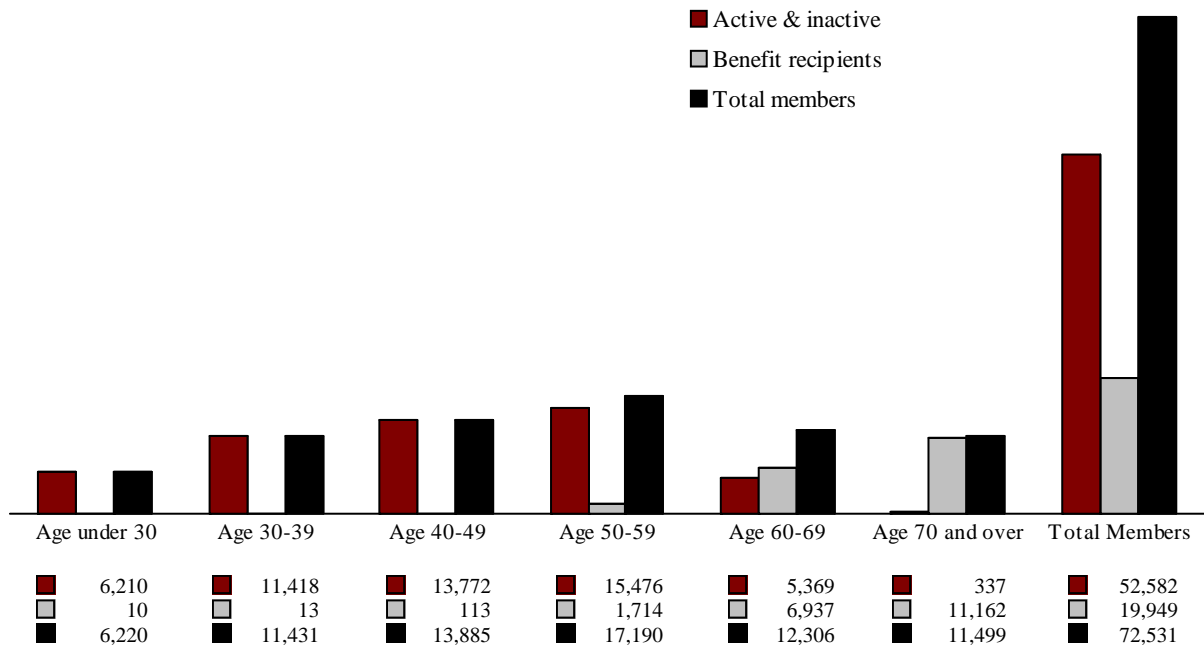
County	FY 2009 members receiving benefits	Annualized benefits	County	FY 2009 members receiving benefits	Annualized benefits
Aurora	102	1,168,512	Hyde	47	421,360
Beadle	442	6,552,824	Jackson	41	645,921
Bennett	34	425,606	Jerauld	56	678,150
Bon Homme	252	3,262,861	Jones	34	452,723
Brookings	1,064	20,037,571	Kingsbury	121	1,533,772
Brown	935	15,649,713	Lake	345	5,502,180
Brule	116	1,607,225	Lawrence	653	11,160,523
Buffalo	5	52,507	Lincoln	247	3,616,409
Butte	213	2,573,465	Lyman	56	950,517
Campbell	44	551,665	Marshall	132	1,747,466
Charles Mix	205	2,716,378	McCook	94	1,247,650
Clark	104	1,020,098	McPherson	65	724,798
Clay	497	9,500,197	Meade	455	7,095,677
Codington	598	10,426,996	Mellette	41	402,133
Corson	32	475,296	Miner	54	662,855
Custer	236	3,522,924	Minnehaha	2,122	42,762,040
Davison	483	7,921,946	Moody	133	1,670,293
Day	187	2,500,680	Pennington	2,145	38,462,424
Deuel	87	827,959	Perkins	73	882,762
Dewey	61	819,734	Potter	90	1,188,303
Douglas	59	709,436	Roberts	208	2,793,558
Edmunds	81	1,148,548	Sanborn	61	719,360
Fall River	232	2,496,579	Shannon	10	132,087
Faulk	107	1,172,623	Spink	380	4,474,758
Grant	176	2,391,354	Stanley	149	2,715,301
Gregory	119	1,579,492	Sully	43	422,587
Haakon	42	551,458	Todd	51	715,567
Hamlin	127	1,744,151	Tripp	152	2,008,475
Hand	90	1,179,606	Turner	187	2,210,576
Hanson	37	462,166	Union	230	3,367,280
Harding	24	230,869	Walworth	188	2,626,621
Hughes	1,150	23,538,543	Yankton	662	9,888,811
Hutchinson	199	2,793,349	Ziebach	14	145,437
Total benefits payable by county			17,479	285,640,705	

SDRS Benefits Paid Outside of South Dakota

State	Members receiving benefits	Annualized benefits	State	Members receiving benefits	Annualized benefits
Arizona	257	3,999,152	North Dakota	99	1,203,727
California	78	1,079,662	Texas	148	1,952,552
Colorado	126	1,752,368	Wisconsin	73	1,019,791
Florida	90	1,339,520	Wyoming	96	909,377
Iowa	167	1,849,623			
Kansas	60	809,212	Other states and foreign countries	694	9,808,001
Minnesota	345	4,537,579			
Nebraska	237	2,654,882			
Total benefits payable outside South Dakota			2,470	32,915,446	
Total benefit recipients and benefit payable			<u>19,949</u>	<u>318,556,151</u>	

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	306	Faulk	322	Mellette	208
Beadle	1,289	Grant	497	Miner	210
Bennett	165	Gregory	390	Minnehaha	9,125
Bon Homme	795	Haakon	185	Moody	444
Brookings	4,001	Hamlin	529	Pennington	7,521
Brown	3,156	Hand	242	Perkins	237
Brule	427	Hanson	182	Potter	240
Buffalo	10	Harding	113	Roberts	659
Butte	819	Hughes	4,397	Sanborn	220
Campbell	141	Hutchinson	612	Shannon	117
Charles Mix	700	Hyde	149	Spink	1,217
Clark	313	Jackson	167	Stanley	617
Clay	1,875	Jerauld	168	Sully	165
Codington	2,071	Jones	117	Todd	455
Corson	162	Kingsbury	520	Tripp	558
Custer	844	Lake	1,114	Turner	640
Davison	1,319	Lawrence	2,267	Union	923
Day	504	Lincoln	1,275	Walworth	593
Deuel	333	Lyman	282	Yankton	2,287
Dewey	368	Marshall	430	Ziebach	113
Douglas	226	McCook	384	Out of state/ Other	8,816
Edmunds	272	McPherson	196		
Fall River	772	Meade	1,760		

Total membership 72,531



	Active members			Inactive members			Total members	Membership by Group
	Vested	Non-vested	Total active	Vested	Non-vested	Total inactive		
Board of Regents								
Female	973	297	1,270	370	190	560	1,830	
Male	1,123	317	1,440	418	198	616	2,056	
Total	2,096	614	2,710	788	388	1,176	3,886	
County General								
Female	1,258	379	1,637	272	264	536	2,173	
Male	1,079	315	1,394	179	197	376	1,770	
Total	2,337	694	3,031	451	461	912	3,943	
County Public Safety								
Female	120	50	170	9	31	40	210	
Male	462	171	633	42	58	100	733	
Total	582	221	803	51	89	140	943	
Judicial								
Female	10	0	10	0	0	0	10	
Male	38	8	46	3	0	3	49	
Total	48	8	56	3	0	3	59	
Municipal General								
Female	1,003	362	1,365	260	359	619	1,984	
Male	1,441	395	1,836	248	240	488	2,324	
Total	2,444	757	3,201	508	599	1,107	4,308	
Municipal Public Safety								
Female	29	15	44	4	12	16	60	
Male	594	161	755	61	60	121	876	
Total	623	176	799	65	72	137	936	
Public School & Board of Regents Classified								
Female	4,668	1,663	6,331	1,480	1,940	3,420	9,751	
Male	1,626	723	2,349	372	651	1,023	3,372	
Total	6,294	2,386	8,680	1,852	2,591	4,443	13,123	
State General								
Female	3,079	920	3,999	685	771	1,456	5,455	
Male	2,558	604	3,162	463	430	893	4,055	
Total	5,637	1,524	7,161	1,148	1,201	2,349	9,510	
State Public Safety and Penitentiary								
Female	138	57	195	19	40	59	254	
Male	588	164	752	45	109	154	906	
Total	726	221	947	64	149	213	1,160	
Teachers								
Female	7,213	1,112	8,325	1,804	761	2,565	10,890	
Male	2,468	415	2,883	684	257	941	3,824	
Total	9,681	1,527	11,208	2,488	1,018	3,506	14,714	
Grand Total								
Female	18,491	4,855	23,346	4,903	4,368	9,271	32,617	
Male	11,977	3,273	15,250	2,515	2,200	4,715	19,965	
Total	30,468	8,128	38,596	7,418	6,568	13,986	52,582	

MEMBERSHIP PROFILE (CONTINUED)

Benefit Recipients by Group	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2009	2008	2009	2008	2009	2008	2009	2008
Board of Regents								
Male	868	841	5	6	10	11	883	858
Female	330	315	7	8	212	209	549	532
Total	1,198	1,156	12	14	222	220	1,432	1,390
County General								
Male	586	574	28	34	42	43	656	651
Female	652	615	17	18	284	285	953	918
Total	1,238	1,189	45	52	326	328	1,609	1,569
County Public Safety								
Male	154	150	3	2	2	1	159	153
Female	12	11	3	2	24	20	39	33
Total	166	161	6	4	26	21	198	186
Judicial								
Male	36	35	0	0	0	0	36	35
Female	3	2	0	0	19	18	22	20
Total	39	37	0	0	19	18	58	55
Municipal General								
Male	582	567	24	23	34	28	640	618
Female	402	376	8	9	266	262	676	647
Total	984	943	32	32	300	290	1,316	1,265
Municipal Public Safety								
Male	391	385	10	10	0	0	401	395
Female	6	5	0	1	66	64	72	70
Total	397	390	10	11	66	64	473	465
Public School & Board of Regents Classified								
Male	784	746	32	32	139	140	955	918
Female	2,199	2,096	41	40	297	286	2,537	2,422
Total	2,983	2,842	73	72	436	426	3,492	3,340
State General								
Male	1,683	1,638	38	42	108	109	1,829	1,789
Female	1,554	1,489	50	55	644	638	2,248	2,182
Total	3,237	3,127	88	97	752	747	4,077	3,971
State Public Safety and Penitentiary								
Male	318	300	3	4	2	2	323	306
Female	24	21	2	2	44	43	70	66
Total	342	321	5	6	46	45	393	372
Teachers								
Male	2,092	2,016	17	16	259	245	2,368	2,277
Female	4,086	3,990	37	38	410	403	4,533	4,431
Total	6,178	6,006	54	54	669	648	6,901	6,708
Grand Total								
Male	7,494	7,252	160	169	596	579	8,250	8,000
Female	9,268	8,920	165	173	2,266	2,228	11,699	11,321
Total	16,762	16,172	325	342	2,862	2,807	19,949	19,321



**Average Benefits
Payments
Last 10 Fiscal Years**

Retirement effective dates	Years of credited service						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
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	53,4796
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
Period 7/1/2006—6/30/2007							
Average monthly benefit	1,314	504	625	888	1,376	1,798	2,433
Average final average salary	59,031	34,464	33,727	36,760	42,499	42,894	52,517
Number of retired members	50	144	136	155	154	186	326
Period 7/1/2007—6/30/2008							
Average monthly benefit	815	627	627	904	1,304	1,908	2,829
Average final average salary	46,315	36,834	33,419	36,097	38,532	44,273	56,589
Number of retired members	57	138	131	140	165	191	318
Period 7/1/08—6/30/09							
Average monthly benefit	572	686	725	1,009	1,465	1,974	2,949
Average final average salary	41,216	39,703	36,098	39,009	43,405	47,726	64,770
Number of retired members	48	184	136	147	176	192	293

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	2004	2005	2006	2007	2008	2009
Board of Regents	1,172	1,237	1,288	1,336	1,390	1,432
County general	1,453	1,475	1,513	1,537	1,569	1,609
County public safety	136	153	159	177	186	198
Judicial	478	46	50	54	55	58
Municipal general	1,169	1,179	1,203	1,232	1,265	1,316
Municipal public safety	410	430	439	458	465	473
Public school & Board of Regents classified	2,763	2,900	3,032	3,196	3,340	3,492
State general	3,728	3,780	3,855	3,930	3,971	4,077
State public safety & penitentiary	293	302	327	356	372	393
Teachers	5,857	6,046	6,210	6,443	6,708	6,901
Total benefit recipients	17,029	17,548	18,076	18,719	19,321	19,949
Total benefits paid during period	\$211,373,732	\$217,550,207	\$234,825,875	\$253,545,120	\$273,236,767	\$306,994,286
Average benefits paid during period	\$12,413	\$12,397	\$12,991	\$13,545	\$14,142	\$15,389

Active and Inactive Members

Group	2004	2005	2006	2007	2008	2009
Board of Regents	3,287	3,403	3,468	3,360	3,759	3,886
County general	3,782	3,857	3,913	3,981	4,011	3,943
County public safety	746	771	821	827	866	943
Judicial	62	62	58	56	58	59
Municipal general	3,891	3,975	4,066	4,169	4,235	4,308
Municipal public safety	878	876	874	886	921	936
Public school & Board of Regents classified	11,279	11,492	11,671	12,707	12,996	13,123
State general	9,118	9,328	9,381	9,374	9,496	9,510
State public safety & penitentiary	1,044	1,069	1,122	1,139	1,132	1,160
Teachers	14,436	14,450	14,490	14,517	14,639	14,714
Total active and inactive members	48,523	49,283	49,882	51,316	52,113	52,582



Benefit and Expenses by Type

	Retirement benefits	Disability benefits	Survivor benefits	Refund benefits	Total benefits & refunds	Administrative expenses
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
Fiscal year 2007	228,311,937	4,070,439	21,162,743	28,777,398	282,322,518	3,033,519
Fiscal year 2008	246,422,506	4,133,578	22,680,683	28,203,655	301,440,421	3,352,380
Fiscal year 2009	277,258,613	4,116,984	25,393,440	24,225,249	330,994,286	3,428,853

Changes in Net Assets Last 10 Fiscal Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Additions										
Member contributions	58,508,147	62,310,957	66,311,285	80,806,422	104,655,550	89,158,629	82,464,727	86,932,782	91,978,502	95,457,518
Employer contributions	52,622,437	55,697,940	58,544,918	71,989,308	74,854,496	77,474,967	80,829,338	85,361,762	89,766,090	94,244,915
Investment income (loss) (net of expenses)	490,386,117	(154,774,807)	(248,826,201)	209,901,823	776,890,949	716,237,979	783,993,684	1,426,600,535	(723,013,005)	(1,518,619,609)
Total additions (deductions) to plan net assets	601,516,701	(36,765,910)	(123,969,988)	362,697,553	956,400,995	882,871,575	947,287,749	1,598,895,079	(541,268,413)	(1,328,917,176)
Deductions										
Benefit payments	133,775,649	153,192,955	166,265,639	181,265,287	198,454,410	217,550,207	234,825,875	253,545,120	273,236,767	306,769,037
Refunds	26,213,018	24,227,022	22,130,027	19,338,147	21,414,639	20,840,323	25,069,548	28,777,398	28,203,655	24,225,249
Administrative expenses	2,348,991	2,403,024	2,440,353	2,796,941	2,493,039	2,772,121	2,697,571	3,033,519	3,352,380	3,428,853
Total deductions from plan net assets	162,337,658	179,823,001	190,836,019	203,400,375	222,362,088	241,162,651	262,592,994	285,356,037	304,792,802	334,423,139
Change in net assets	439,179,043	(216,588,911)	(314,806,017)	159,297,178	734,038,907	641,708,924	684,694,755	1,313,539,042	(846,061,215)	(1,663,340,315)

MEMBERSHIP PROFILE (CONTINUED)

Principal Participating Employers	2009			
	Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota		8,164	1	21%
Board of Regents		4,376	2	11%
Sioux Falls Schools		2,793	3	7%
Rapid City Schools		1,882	4	5%
City of Rapid City		723	5	2%
Watertown Schools		644	6	2%
City of Brookings and Hospital		595	7	2%
Pennington County		592	8	2%
Minnehaha County		507	9	1%
Aberdeen Schools		502	10	1%
All Other		17,818		46%
Total (468 governments)		<u>38,596</u>		<u>100%</u>

Principal Participating Employers	1999			
	Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota		7,353	1	22%
Board of Regents		3,786	2	11%
Rapid City Schools		1,709	3	5%
Sioux Falls Schools		1,441	4	4%
Watertown Schools		581	5	2%
City of Rapid City		567	6	2%
City of Brookings and Hospital		541	7	2%
Pennington County		443	8	1%
Todd County Schools		435	9	1%
Minnehaha County		405	10	1%
All Other		16,403		49%
Total (431 governments)		<u>33,664</u>		<u>100%</u>



Retired Members By Type and Amount of Benefit

As of June 30, 2009

Amount of monthly benefit	Normal	Early Unreduced	Early Reduced	Disability	Survivor of Active Member	Spouse Option	Survivor of Retired Member	Level Income Unreduced	Level Income Reduced
\$1—\$250	567	112	1,066	19	30	0	636	1	96
\$251—\$500	719	143	1,326	68	63	0	577	9	148
\$501—\$750	505	166	1,026	63	59	5	382	16	126
\$751—\$1,000	360	255	681	32	40	12	261	50	124
\$1,001—\$1,250	270	368	464	39	25	24	199	117	111
\$1,251—\$1,500	197	470	330	34	29	18	140	170	114
\$1,501—\$1,750	156	537	188	23	18	7	106	193	76
\$1,751—\$2,000	130	547	111	14	12	10	67	242	41
Over \$2,000	502	2530	236	33	27	18	82	1,075	106
	<u>3,406</u>	<u>5,128</u>	<u>5,428</u>	<u>325</u>	<u>303</u>	<u>94</u>	<u>2,450</u>	<u>1,873</u>	<u>942</u>

NOTES



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

South Dakota Retirement System
P.O. Box 1098
Pierre, South Dakota 57501-1098
Phone: (605) 773-3731
Fax: (605) 773-3949
Toll-Free: (888) 605-SDRS
(7377)

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

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SOUTH DAKOTA RETIREMENT SYSTEM

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