



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, 2012

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 2012 HIGHLIGHTS

.....

| | |
|---|--------------------------|
| Total membership | 75,368 |
| Active contributing members | 38,207 |
| Inactive non-contributing members | 14,753 |
| Benefit recipients | 22,408 |
| Net assets held in trust for pension benefits | \$7,842,524,241 |
| Actuarial value of assets | \$7,827,601,564 |
| Actuarial accrued liability (AAL) | \$8,452,840,068 |
| Investment return | 1.91% |
| <u>Benefits and refunds paid</u> | |
| Benefits paid | \$ 371,417,148 |
| Refunds paid | <u>25,942,146</u> |
| Total | \$ 397,359,294 |
| <u>Contributions</u> | |
| Member | \$ 100,484,113 |
| Employer | <u>98,866,649</u> |
| Total | \$ 199,350,762 |
| Funding period | 29 years |
| Funded ratio (actuarial value of assets/AAL) | 92.6% |



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A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2012

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.

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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, 2011

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.



Linda C. Dandson

President

Jeffrey R. Enev

Executive Director

PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2012***

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, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

INTRODUCTION



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

To Our Members:

During fiscal year 2012, the South Dakota Retirement System (SDRS) Board of Trustees focused on the plan's benefit design and long-term sustainability. After significant study and deliberation, the Board of Trustees adjusted certain actuarial assumptions to more accurately estimate future experience and add more conservatism to the fiscal projections. The Board of Trustees also implemented actuarial methodology changes. As a result of the Board of Trustees' efforts, the actuarial balance of the system was maintained. SDRS' funded ratio was 93 percent, an envied position amongst other pension plans across the country.

In fiscal year 2013 and beyond, the Board of Trustees will continue to examine the plan's benefit structure to ensure that the plan remains viable, within the resources available, for SDRS' 75,000 members and their beneficiaries.

The SDRS Trust Fund time-weighted investment return, before consideration of plan contributions/withdraws and investment expenses, was 1.91 percent for fiscal year 2012. This time-weighted calculation is the recognized methodology in the investment industry. Effective fiscal year 2014, new pension accounting and reporting standards will also require the disclosure of investment returns, including inflows and outflows in the Trust Fund, net of all investment related expenses. This new methodology is known as money-weighted return or dollar-weighted return and will be disclosed along with the time-weighted return.

With continuous media reports regarding the dire financial condition of some public sector retirement plans, it is important to emphasize that SDRS' financial condition continues to be strong. While not back to the funding levels of 2007, the South Dakota Retirement System remains one of the most financially sound plans in the nation.

As reported in the past, SDRS remains a financial engine for South Dakota. Citizens in every city and county benefit from this plan. The System paid over \$370 million in benefits during the last year. (See the Statistical Summary of this report for more details.)

SDRS continues its focus on customer service. Our Retirement Planners assist our members every day and travel the state every week. The Regional Retirement Planning Seminars and Retirement Income Management Workshops provide SDRS members with access to outstanding programs that prepare them for the transition to retirement. During the next year, retirement planning workshops for women and new and mid-career members will also be available.

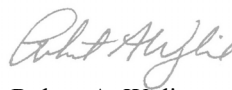
A new SDRS website was introduced in 2011 that expanded web-based services. The *My SDRS* section continues to provide secure, up-to-date information to assist members in their retirement planning efforts. A member communication service has been added to provide email updates to members on SDRS issues and legislative activities.

The financial integrity of the System and the service provided to members will continue to be top priorities for the Board of Trustees and staff. We thank you for your support and encourage you to contact the SDRS office should you have questions or require 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 21, 2012

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, 2012. 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 is accurate in all material respects and is 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 provides retirement, disability, and survivor benefits to over 75,000 members. The system's benefit provisions have been improved numerous times throughout this period to meet the needs of our members as shown below.

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 time-weighted return before investment expenses for the SDRS trust fund was 1.91 percent for fiscal year (FY) 2012, and the investment council benchmark return was 2.02 percent for the same period. The 10-year annualized return of 7.75 percent on a time-weighted basis before investment expenses exceeds the benchmark return of 6.57 percent.

History of Benefit Improvements

| Benefit Category | Status in 1974 | Benefit Improvements |
|---|---|--|
| Benefit Formula * Class A Standard Alternate * Class B Public Safety * Class B Judicial | 1.0% 2.0% 2.0% 3.333% / 2.0% | 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 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 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 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 2.4% prior to 2008/2.0% thereafter |
| Class A Retiree Benefit Formula Improvement Factor | Variable 2% Simple | 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 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 2010 - 2.1% to 3.1% compound, dependent on funded status of System and CPI |

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 - 0.8% of compensation 2004 - 1.2% of compensation 2010 - 1.5% 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 * Class B Public Safety * Class B Judicial | 5% 6% 6% | 2002 - 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 1978 - 8% 1982 - 1/8 of 1% to maximum of 10% 1989 - capped at 9% |
| 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 Actuarial Measures

Since its inception, SDRS has been funded by fixed statutory member and employer contribution rates that meet the actuarially determined requirements of the system. In the 2012 actuarial valuation, two measures were used to evaluate the actuarial soundness and funding progress of SDRS based on revised actuarial assumptions adopted by the Board:

- Funded Ratio
- Funding Period

The Funded 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, 2012, was 92.6 percent.

The Funding Period is the most important measure of the actuarial soundness of the system and determines the length of time the fixed contributions will amortize any unfunded liabilities and meet the on-going benefit costs, interest charges, and expenses of the system. SDRS' Funding Period as of June 30, 2012 is 29 years and is scheduled to decline by one year each year in the future until a 20-year period is attained.

Major Initiatives

SDRS has focused its work on educating our members of the important benefit base provided by SDRS and Social Security in achieving financial security, the added challenges to lifetime retirement security, and ways in which such security can be extended and enhanced. In addition to the educational seminars and workshops already presented to our membership throughout the state, SDRS has been hard at work designing and developing workshops specifically for women preparing for retirement and early to mid-career employees. SDRS will continue to explore avenues of reaching our membership in new and innovative ways.

The "Baby Boom Generation" has been advancing on retirement for several years now. SDRS members can sign on to *My SDRS* on our secure website to generate retirement estimates using their personal account data with the ability to project salary and service and choose different retirement dates. SDRS Retirement Planners met with nearly 3,300 members in one-on-one counseling sessions, group events, and requested visits throughout the state during fiscal year 2012, despite budget cuts.

Accounting System and Internal Control

This report has been prepared to conform to 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. The concept of reasonable assurance is based on the assumption that the cost of internal accounting controls should not exceed the benefits expected to be derived from the implementation. 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.

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, 2011. 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 17th 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 9th 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

Karl Alberts
Represents municipal employees
Board service began in July 2011
Finance Officer
City of Aberdeen
Aberdeen

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

Steven Caron
Represents teachers
Board service began in July 2009
Public school teacher
Aberdeen Central
Aberdeen

Represents teachers
Board service began in July 2010
Public school teacher
Sioux Falls Schools
Sioux Falls
Bonnie Mehlbrech

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 school boards
Board service began in September 2010
Member
Plankinton School Board
Plankinton
David Merrill

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

Represents elected municipal officials
Board service began in July 2010
City Commissioner
City of Vermillion
Vermillion
Kent Osborne

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

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

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

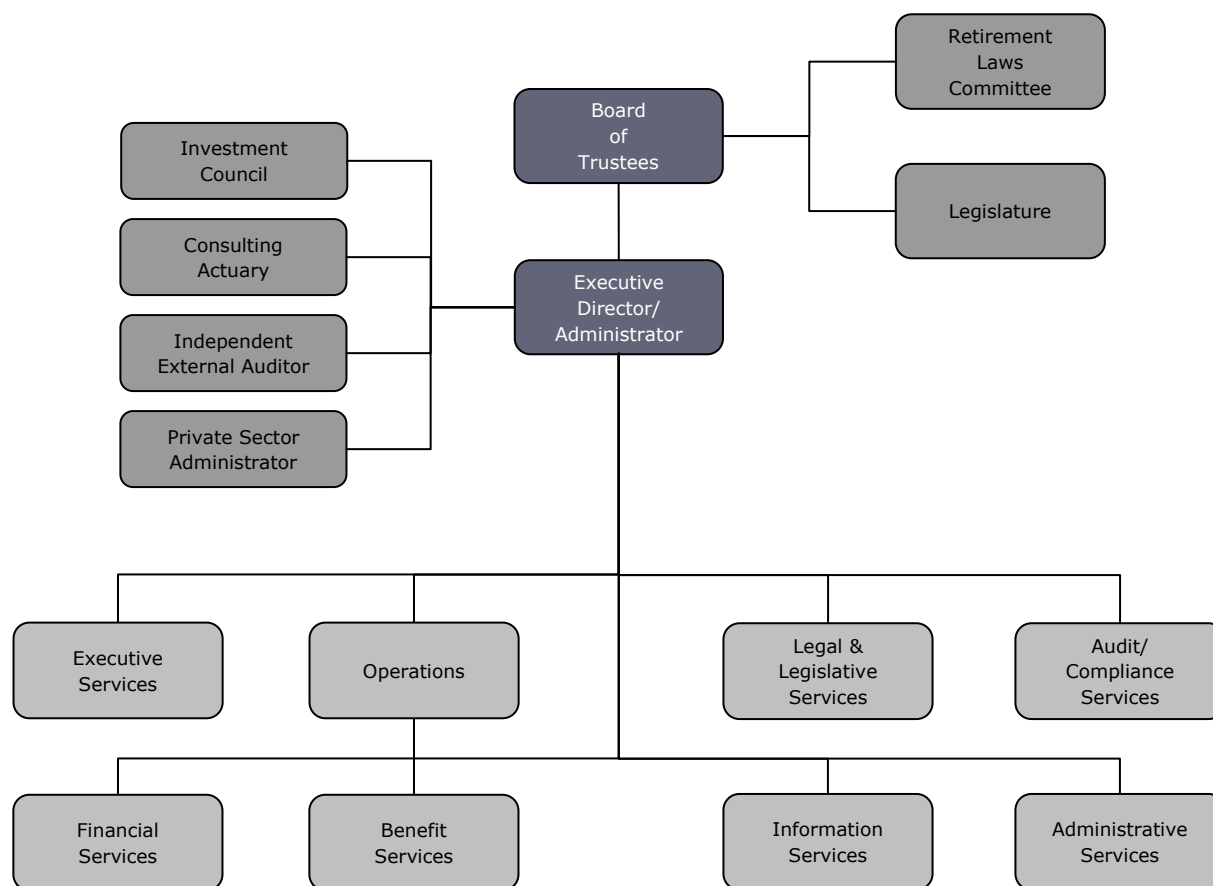
Represents state employees
Board service began in July 2004
Engineering supervisor
Department of Transportation
Glenham
Eric Stroeder

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

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

Louise Loban
Represents classified employees
Board service began in July 1990
Acting Director of Human Resources
South Dakota State University
Volga

ORGANIZATIONAL CHART



Administration

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

Management Group

DIRECTOR OF OPERATIONS Damian Prunty
GENERAL COUNSEL Jacquelyn Storm
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
PRIVATE SECTOR
ADMINISTRATOR Nationwide Retirement Solutions
Columbus, OH
INFORMATION SERVICES/
COMPUTER SUPPORT S. Lee Huset (BIT)
Pierre, SD
Donelle Samuelson (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**
 - Schedule of Funding Progress
 - Schedule of Employer Contributions
- Supporting Schedules**
 - Schedule of Administrative Expenses
 - Schedule of Investment Activity Expenses

AUDITOR'S OPINION



KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

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, 2012, 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 SDRS. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then 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, 2012, 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 \$2,551,821,650 (32.5% 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 20, 2012 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 is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



U.S. generally accepted accounting principles require that management's discussion and analysis on pages 22 through 25, the schedule of funding progress and schedule of employer contributions on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on South Dakota Retirement System's financial statements. The supplemental schedules of administrative expenses and investment activity expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplemental schedules of administrative expenses and investment activity expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules of administrative expenses and investment activity expenses are fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and the actuarial, investment, and statistical summaries are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Omaha, Nebraska
November 20, 2012

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, 2012. 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 \$94 million during fiscal year 2012. This decrease was primarily due to the investment performance of 1.91 percent, which was significantly below the assumed rate of 7.25 percent.
- SDRS funded ratio decreased to 92.6 percent in 2012 from 96.4 percent in 2011.
- SDRS paid \$371.4 million to benefit recipients in fiscal year 2012 compared to \$345.9 million in 2011. SDRS received \$199.4 million in member and employer contributions in fiscal year 2012 compared to \$198.8 million in 2011.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The System presents the statement of the plan net assets as of June 30, 2012, 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 Financial Statements

The notes to 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 securities 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, 2012, and 2011

| Assets | 2012 | 2011 |
|--|-------------------------------|-------------------------------|
| Cash and cash equivalents | \$ 4,334,563 | \$ 7,108,925 |
| Receivables | 24,808,359 | 31,755,965 |
| Investments, at fair value | 7,868,732,360 | 7,986,138,266 |
| Other assets | 22,720 | 37,941 |
| Total assets | \$7,897,898,002 | \$8,025,041,097 |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,087,340 | \$ 2,621,179 |
| Securities sold, but not yet purchased | 46,263,220 | 75,896,079 |
| Unsettled investment purchases | 6,711,319 | 8,954,723 |
| Due to brokers—futures transactions | 311,882 | 1,299,620 |
| Total liabilities | \$ 55,373,761 | \$ 88,771,601 |
| Net assets held in trust for pension benefits | <u>\$7,842,524,241</u> | <u>\$7,936,269,496</u> |

The funded ratio is an actuarial measure of funding progress and soundness for SDRS based on the actuarial accrued liability measurement of liabilities. The ratio is equal to the actuarial value of assets divided by the actuarial accrued liabilities. A ratio in excess of 100 percent would indicate that the actuarial accrued liability is fully funded.

Funded Ratio

The actuarial value of assets is equal to the net actuarial value of assets plus the reserve of funding of long-term benefit goals. The net actuarial value of assets is credited each year with the assumed rate of investment return and debited or credited with the SDRS liability gain or loss for the year. The actuarial value of assets is credited each year with the assumed rate of investment return, debited or credited with the SDRS liability gain or loss for the year and constrained to a range of 80 percent to 120 percent of the market value of assets. If the actuarial value of assets is constrained by the 80 percent/120 percent corridor, the reserve for funding of long-term benefit goals will also be appropriately adjusted.

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

| | 2012 | 2011 | Change |
|---------------------|-------|-------|--------|
| Funded ratio | 92.6% | 96.4% | (3.8)% |

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

**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 7.25 percent at June 30, 2012. The investment returns were 1.91 percent for 2012 and 25.84 percent for 2011.

Deductions from plan net assets are primarily benefit payments. During 2012, SDRS paid \$371.4 million to benefit recipients, or 7.4 percent more than 2011. The increase is due to added recipients and the annual 2.1 percent cost-of-living adjustment. Refunds of accumulated contributions during 2012 increased 0.5 percent. Administrative costs of SDRS represent less than 0.04 percent of plan net assets.

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

| | 2012 | 2011 | % Change |
|---|------------------------|------------------------|----------------|
| Additions: | | | |
| Employee contributions | \$ 100,484,113 | \$ 100,179,938 | 0.3% |
| Employer contributions | 98,866,649 | 98,624,738 | 0.2 |
| Investment income | <u>107,541,250</u> | <u>1,616,173,385</u> | <u>(93.3)</u> |
| Total additions | <u>306,892,012</u> | <u>1,814,978,061</u> | <u>(83.1)</u> |
| Deductions: | | | |
| Benefits | 371,417,148 | 345,942,871 | 7.4 |
| Refunds of contributions | 25,942,146 | 25,824,829 | 0.5 |
| Administrative expenses | <u>3,277,973</u> | <u>3,575,854</u> | <u>(8.3)</u> |
| Total deductions | <u>400,637,267</u> | <u>375,343,554</u> | <u>6.7</u> |
| Net increase (decrease) in plan net assets | (93,745,255) | 1,439,634,507 | (106.5) |
| Net assets held in trust for pension benefits: | | | |
| Beginning of year | <u>7,936,269,496</u> | <u>6,496,634,989</u> | <u>22.2</u> |
| End of year | <u>\$7,842,524,241</u> | <u>\$7,936,269,496</u> | <u>(1.2)%</u> |

Investments

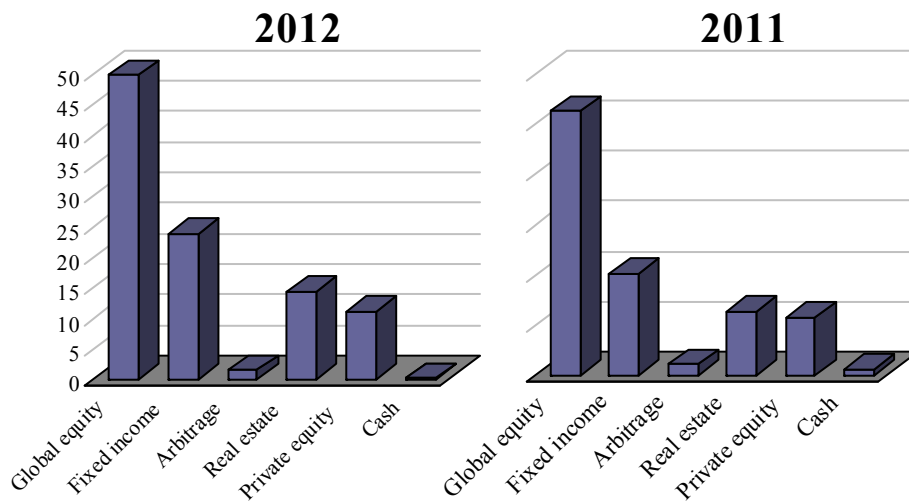
SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council (Investment Council). The South Dakota Investment Office is the primary investment manager, but the Investment Council may utilize the services of external money managers.

Investment performance during 2012 and 2011 was 1.91 percent and 25.84 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, 2012 | Assets | |
| | Cash and cash equivalents | \$4,334,563 |
| | Receivables: | |
| | Employer | 2,099,767 |
| | Employee | 2,818,196 |
| | Benefits | 196,430 |
| | Unsettled investment sales | 2,159,387 |
| | Accrued interest and dividends | <u>17,534,579</u> |
| | Total receivables | <u>24,808,359</u> |
| | Investments, at fair value: | |
| | Fixed income | 1,936,330,724 |
| | Equities | 3,942,768,242 |
| | Real estate | 1,131,601,832 |
| | Private equity | <u>858,031,562</u> |
| | Total investments, at fair value | <u>7,868,732,360</u> |
| | Other assets | <u>22,720</u> |
| | Total assets | <u>7,897,898,002</u> |
| | Liabilities | |
| | Accounts payable and accrued expenses | 2,087,340 |
| | Securities sold, but not yet purchased, at fair value | 46,263,220 |
| | Unsettled investment purchases | 6,711,319 |
| | Due to brokers—futures transactions | <u>311,882</u> |
| | Total liabilities | <u>55,373,761</u> |
| | Net assets held in trust for pension benefits | <u>\$7,842,524,241</u> |

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



| Additions | | Statement of Changes in Plan Net Assets As of June 30, 2012 |
|--|----------------------------|--|
| Contributions: | | |
| Employee | \$100,484,113 | |
| Employer | <u>98,866,649</u> | |
| Total contributions | \$199,350,762 | |
| Investment income: | | |
| <i>From investing activities</i> | | |
| Net appreciation in fair value of investments | (68,698,652) | |
| Interest | 87,228,463 | |
| Dividends | 116,219,557 | |
| Real estate | 7,217,203 | |
| Securities lending, net | <u>716,958</u> | |
| Investment income | 142,683,529 | |
| Less investment activity expense | <u>(35,142,279)</u> | |
| Net investment income | <u>107,541,250</u> | |
| Total additions | 306,892,012 | |
| Deductions | | |
| Benefits | 371,417,148 | |
| Refunds of contributions | 25,942,146 | |
| Administrative expenses | <u>3,277,973</u> | |
| Total deductions | <u>400,637,267</u> | |
| Net increase in plan net assets | <u>(93,745,255)</u> | |
| Net assets held in trust for pension benefits | | |
| Beginning of year | <u>7,936,269,496</u> | |
| End of year | <u>\$7,842,524,241</u> | |

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

Notes to Financial Statements

1. General Description of the System:

The South Dakota Retirement System (SDRS or the System) 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 is 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.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to CPI and based on the SDRS funded status:

- If the SDRS market value funded ratio is 100 percent or more—3.1 percent COLA
- If the SDRS market value funded ratio is 80.0 percent to 99.9 percent, index with the CPI
 - * 90.0 to 99.9 percent funded—2.1 percent minimum and 2.8 percent maximum COLA
 - * 80.0 to 90.0 percent funded—2.1 percent minimum and 2.4 percent maximum COLA
- If the SDRS market value funded ratio is less than 80 percent—2.1 percent COLA

All benefits except those depending on the Member’s Accumulated Contributions are annually increased by the cost-of-living adjustment.

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 last received a favorable determination letter dated July 3, 2012, 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. 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 participates in the various programs administered by the State. These risk management programs are funded through assessments charged to participating entities. The risk management programs include (1) coverage for risks associated with automobile liability and general tort liability (including public officials’ errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State’s Public Entity Pool for Liability Fund, (2) coverage of employee medical claims through the State’s health insurance program, (3) coverage for unemployment benefits through the State’s Unemployment Insurance Fund, and, (4) coverage for workers’ compensation benefits through the State’s Workers’ Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

As of June 30, 2012, the number of participating governmental employers is as follows:

| | |
|------------------------|-------------------|
| School districts | 168 |
| State of South Dakota | 1 |
| Board of Regents | 1 |
| Municipalities | 153 |
| Counties | 64 |
| Boards and commissions | 86 |
| Total employers | <u>473</u> |

At June 30, 2012, SDRS membership consists of the following:

| | |
|---|---------------|
| Retirees and beneficiaries currently receiving benefits: | |
| Class A (general employees) | 21,110 |
| Class B (public safety and judicial employees) | 1,298 |
| Total retirees and beneficiaries | 22,408 |

| | |
|--|---------------|
| Terminated members entitled to benefits but not yet receiving them: | |
| Class A (general employees) | 14,151 |
| Class B (public safety and judicial employees) | 602 |
| Total terminated members | 14,753 |

| | |
|--|----------------------|
| Current active members: | |
| Vested: | |
| Class A (general employees) | 28,984 |
| Class B (public safety and judicial employees) | 2,094 |
| Non-vested: | |
| Class A (general employees) | 6,518 |
| Class B (public safety and judicial employees) | 611 |
| Total current active members | <u>38,207</u> |

| | |
|--------------------|----------------------|
| Grand total | <u>75,368</u> |
|--------------------|----------------------|

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.

(b) Method Used to Value Investments:

Investments are reported at fair value. The fair value of investments in securities is determined based on last reported prices for those securities traded on national and international stock exchanges. In general, fixed income securities not traded on a national or international exchange are valued based on comparable securities of issuers with similar yield and risk.

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, coinvestments, 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 \$2,551,821,650 (32.5% of net assets) at June 30, 2012. 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 market-to-market based on quoted futures prices with changes in fair value reflected in the current period.

Interest is accrued in the period in which it is earned and dividend income is recorded on the ex-dividend date.

(c) Use of Estimates

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.

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 members' contributions. Members may make an additional contribution of 1.5 percent of compensation for optional spouse coverage.

BASIC FINANCIAL STATEMENTS (CONTINUED)

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 (UAAL). The June 30, 2012, actuarial valuation of the plan determined that the contractually required employer contributions equal 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*; and the contractually required employer contributions are sufficient to pay the employer normal cost, expenses, and amortize the frozen UAAL over a period of less than 30 years (29 years as of June 30, 2012). 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>Employer</u> | <u>% Contributed</u> |
|----------------------------|-----------------|----------------------|
| 2012 | \$98,866,649 | 100 |
| 2011 | 98,624,737 | 100 |
| 2010 | 96,914,192 | 100 |
| 2009 | 94,244,915 | 91 |
| 2008 | 89,766,090 | 100 |

Contributions during fiscal year 2012 totaling \$199,350,762 (\$100,484,113 employee and \$98,866,649 employer) were made in accordance with statutory rates. These contributions represent 100 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> |
|----------------------------|------------------|
| 2013 | \$332,860 |
| 2014 | 241,726 |
| 2015 | 48,929 |
| 2016 | 45,618 |
| 2017 | 45,778 |
| Later | <u>43,323</u> |

Deferred contributions receivable
at June 30, 2012 \$758,234

(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, 2012, there is a negative balance of \$982 million in the reserve for funding of long-term benefit goals, which will require favorable experience to eliminate the negative balance prior to providing funds for future benefit improvements or protection against unfavorable experience.

4. Funded Status and Funding Progress:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 92.6 percent funded. The actuarial accrued liability for benefits was \$8.5 billion, and the actuarial value of assets was \$7.8 billion, resulting in an UAAL of \$625.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.5 billion, and the ratio of the UAAL to the covered payroll was 41.6 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements on page 35, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In the June 30, 2012, actuarial valuation, the entry age frozen UAAL method was used. The actuarial assumptions included (a) 7.25 percent investment rate of return and (b) projected salary increases ranging from 3.75 percent to 5.83 percent. Both (a) and (b) include the inflation component of 3.25 percent. 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 percent to 120 percent of market. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 29 years.

5. Cash and Investments:

Cash and Deposits

Cash and cash equivalents are held by the State Treasurer and were invested in the State's pooled investment fund. Investments in the State's pooled investment fund consist primarily of commercial paper rated A1 or P2 or better, short-term U.S. Treasury obligations, bank certificates of deposit, and money market funds.



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, 2012, SDRS has bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, \$60,268,023 was exposed to custodial credit risk, which is recorded in investments in the Statement of Plan Net Assets.

Investments

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC 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 | \$4,749,832,676 | \$5,015,284,884 |
| Sanders All Asset Value | 16,024,660 | 16,264,063 |
| Sanders Capital | 26,200,048 | 26,693,955 |
| Blackstone Real Estate Partners | 823,219,098 | 983,480,525 |
| Cargill North American Real Estate Partners | 102,040,675 | 71,147,039 |
| CINVIN | 81,030,875 | 104,999,723 |
| Pinebridge | 8,835,743 | 7,529,650 |
| CVI Global Value Fund | 144,589,495 | 134,997,441 |
| CVI Specialized Ventures Fund | 7,035,145 | 4,248,526 |
| PIMCO Distressed Mtg Fund II | 153,318,685 | 144,812,806 |
| TCW Specialized Mtg Credits | 258,632,877 | 263,118,883 |
| Oaktree Loan Fund 2x | 21,749,149 | 21,408,974 |
| Blackstone Distressed Securities | — | 606,453 |
| Blackstone Credit Liquidity | 13,071,953 | 14,511,723 |
| Silver Lake Partners LP | 114,232,064 | 127,403,812 |
| KKR Associates | 51,873,170 | 45,958,696 |
| Cypress Merchant Banking Partners LP | 9,152,113 | 5,103,873 |
| Capital International | 34,797,064 | 36,274,245 |
| Apollo Real Estate Advisors LP | 34,617,493 | 20,337,036 |
| Bridgewater Pure Alpha Fund II | 36,510,303 | 69,077,195 |
| Dimensional Fund Advisors, Inc. | 8,918,381 | 41,261,975 |
| Blackstone Private Equity | 235,449,949 | 226,799,689 |
| Doughty Hanson & Co. Private Equity IV | 72,934,799 | 108,691,283 |
| Brandes Global Mid-Cap | 40,478,037 | 34,988,300 |
| Doughty Hanson & Co. European Real Estate | 40,114,758 | 17,144,553 |
| CVC | 57,926,200 | 73,629,823 |
| Carlyle | 40,171,685 | 54,233,639 |
| Riverstone | 22,646,433 | 31,910,880 |
| GE Asset Management | 59,920,000 | 66,550,680 |
| Elevation Partners | 16,736,425 | 30,922,890 |
| Crossroads Investment Advisors LP | 6,114,455 | 4,098,346 |
| Lonestar Real Estate | 34,636,474 | 39,492,679 |
| GE Active Commodities | 25,000,000 | 25,273,090 |
| DLJ Merchant Banking Partners LP | 585,912 | 475,031 |
| Total investments | 7,348,396,794 | 7,868,732,360 |
| Securities sold, but not yet purchased | (42,726,979) | (46,263,220) |
| Total | \$7,305,669,815 | \$7,822,469,140 |

(a) 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' investment grade fixed income portfolio's duration must fall between 70 percent and 130 percent of the duration of the

Citigroup Broad Investment Grade (BIG) Index. The SDRS' internally managed high-yield fixed income portfolio's duration must fall between 70 percent and 130 percent of the Citigroup High-Yield Cash Pay Capped Index durations. Modified 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:

| <u>Investment type</u> | <u>Fair value</u> | <u>Duration</u> |
|--|------------------------|-----------------|
| U.S. Treasuries | \$125,058,449 | 7.07 |
| U.S. Treasury strips | 48,008,599 | 11.01 |
| U.S. Treasury Bills | 2,499,538 | 0.21 |
| U.S. agencies | 56,105,755 | 3.84 |
| U.S. agencies discount notes | 2,059,640 | — |
| Investment grade corporates | 396,427,357 | 4.28 |
| High-yield corporates | 137,625,490 | 3.57 |
| Mortgage-backed securities | 328,966,889 | 3.10 |
| Nonagency mortgage-backed securities | 143,317,500 | 0.09 |
| Mutual funds | 121,621,346 | — |
| FDIC Temporary Liquidity Guarantee Program | 5,011,499 | 0.03 |
| Total | \$1,366,702,062 | 3.55 |

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SDRS. SDIC 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, 2012, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U. S. government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service.

| <u>Moody's rating</u> | <u>Fair value</u> |
|-----------------------|------------------------|
| Aaa | \$463,836,184 |
| Aa | 43,197,904 |
| A | 113,200,718 |
| Baa | 199,994,189 |
| Ba | 38,818,676 |
| B | 73,123,965 |
| Caa | 79,032,862 |
| Ca | 39,427,235 |
| C | 2,198,351 |
| P-1 | 79,057,033 |
| Not rated | 2,059,640 |
| Total | \$1,133,946,757 |

(c) 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 issuer. 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

BASIC FINANCIAL STATEMENTS (CONTINUED)

percent or more of the total fair value of investments as of June 30, 2012 (excluding those issued by or explicitly guaranteed by the U.S. Government).

(d) 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, 2012, is as follows (in U.S. dollar fair value):

| Currency | Equities | Fixed income | Cash | Total |
|-------------------------|----------------------|--------------|---------------------|----------------------|
| Australian Dollar | \$9,577,381 | — | \$48,056 | \$9,625,437 |
| Brazilian Real | 1,134,560 | — | 12,795 | 1,147,355 |
| British Pound | 225,523,224 | — | 2,128,094 | 227,651,318 |
| Canadian Dollar | 49,980,831 | — | 498,251 | 50,479,082 |
| Danish Kroner | 6,086,917 | — | — | 6,086,917 |
| Euro | 247,060,184 | — | 2,204,852 | 249,265,036 |
| Hong Kong Dollar | 2,649,166 | — | 36,510 | 2,685,676 |
| Hungarian Forint | 412,304 | — | — | 412,304 |
| Japanese Yen | 180,087,099 | — | 2,066,752 | 182,153,851 |
| Korean Won | 14,336,467 | — | 1,494 | 14,337,961 |
| Norwegian Krone | 6,118,830 | — | 95,117 | 6,213,947 |
| Singapore Dollar | 275,957 | — | — | 275,957 |
| Swedish Krona | 131,839 | — | 35,956 | 167,795 |
| Swiss Franc | 182,937,229 | — | 3,359,812 | 186,297,041 |
| Turkish Lira | 620,221 | — | — | 620,221 |
| Total fair value | \$926,932,209 | — | \$10,487,689 | \$937,419,898 |

Investments with limited partnerships and certain global equity investments with outside managers, which are not included in the table above, may expose SDRS' portfolio to additional foreign currency risk. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2012, was \$1,989,633,394. The total fair value of global equity, arbitrage equity, and distressed and high-yield fixed income investments managed by outside managers was \$194,767,999, \$85,341,258, and \$583,704,806, respectively.

(e) Return on Investments

During fiscal year 2012, SDRS' investments (including investments bought and sold, as well as held during the year) depreciated in value by \$68,698,652.

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, 2012 |
|---|-----------------------------|
| Appreciation (depreciation) in fair value of investments: | |
| Equities | \$(272,223,984) |
| Fixed-income | (31,565,039) |
| Real estate | 37,837,435 |
| Private equity | (81,395,284) |
| Commodities | (3,979,213) |
| Total decrease in fair value | (351,326,085) |
| Realized gain on investments: | |
| Equities | 141,188,663 |
| Fixed-income | 48,767,676 |
| Real estate | 3,407,086 |
| Private equity | 66,450,308 |
| Total net realized gain | 259,813,733 |
| Net gain on futures contracts | 22,813,700 |
| Net depreciation in investments | \$(68,698,652) |

(f) Securities Lending

State statutes and the SDRS policies permit the use of investments for securities lending transactions. These transactions involve the lending of corporate debt, foreign equity securities, and domestic equity securities to broker-dealers for collateral in the form of securities, with the simultaneous agreement to return the collateral for the same securities in the future. The SDRS' securities custodian is an agent in lending securities and shall accept only U.S. government securities or it agencies as collateral for any loan or loaned securities. The collateral required must equal 102 percent of fair value plus accrued interest for corporate debt securities, 102 percent of fair value of U.S. equity securities, and 105 percent of fair value for foreign securities except in the case of loans of foreign securities, which are denominated and payable in U.S. dollars, in which event the collateral required is 102 percent of fair value. The earnings generated from the collateral investments result in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

At year-end, the SDRS has no credit risk exposure to borrowers because the amounts the SDRS owes the borrowers exceed the amounts the borrowers owe the SDRS. 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.

All securities loans can be terminated on demand by either the SDRS or the borrower. The SDRS does not have the ability to pledge or sell collateral securities unless the borrower defaults; therefore, no asset and corresponding liability for the collateral value of securities received has been established on the Statement of Plan Net Assets. Regarding restrictions on loans, the securities lending agreement does limit the total value of securities that can be out on loan on any given day.



(g) 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 securities lending policies are detailed above. As of June 30, 2012, the SDRS does not have custodial credit risk with regard to the security lending collateral due to the collateral not being reported as an asset on the financials.

6. Derivatives:

Derivatives are generally defined as contracts whose values depend on, or derive from, the value of an underlying asset, reference rate, or index. SDRS is exposed to various derivative products through the investment management of the SDIC and its outside managers. All of the SDRS' derivatives are classified as investment derivatives.

Futures Contracts

A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. The SDIC purchases and sells futures contracts as a means of adjusting the SDRS portfolio mix at a lower transaction cost than the transactions, which would otherwise occur in the underlying portfolios. During fiscal year ended June 30, 2012, S&P 500 futures and 10-year U.S. Treasury note futures were utilized. Upon entering into such a contract, the 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 pending variation margin at June 30, 2012, of \$(311,812) is presented in the Statement of Plan Net Assets as "Due to brokers—futures transactions." The change in fair value of the futures contracts is presented in the Statement of Changes in Plan Net Assets as "Net appreciation in fair value of investments." The net change in fair value from futures contracts for fiscal year ended June 30, 2012, was \$22,813,700. Futures contract positions at June 30, 2012, were as follows:

| Description | Open position | Number of contracts | Notional contract size | Fair value |
|---------------------------------------|---------------|---------------------|---|------------|
| U.S. Treasury note due September 2012 | Long | 610 | 100,000 par value 6% U.S. Treasury note | \$276,498 |

Foreign Currency Forward Contracts

The SDIC enters into foreign exchange forward contracts for SDRS to manage foreign currency exposure, as permitted by portfolio policies. The fair values of the contracts are presented in the Statement of Plan Net Assets as investments—equities. The change in fair value of the forward contracts is presented in the Statement of Changes in Plan Net Assets as "Net appreciation in fair value of investments." The net change in fair value from foreign currency forward contracts for fiscal year ended June 30, 2012, was

\$(3,284,795). At June 30, 2012, the foreign currency forward contracts outstanding were as follows:

| Description | Notional amount | Currency | Maturity date | Fair value (US dollars) |
|------------------|-----------------|---------------|---------------|-------------------------|
| Forward sale | (801,363) | British Pound | 7/13/2012 | \$12,479 |
| Forward sale | (2,122,956) | Swiss Franc | 7/27/2012 | 94,319 |
| Forward sale | (19,770,519) | Swiss Franc | 8/03/2012 | 961,201 |
| Forward sale | (115,000,000) | Japanese Yen | 8/08/2012 | (3,107) |
| Forward sale | (282,573) | Euro | 8/10/2012 | 9,695 |
| Forward sale | (114,780,000) | Japanese Yen | 8/14/2012 | 1,511 |
| Forward sale | (1,587,150) | Euro | 9/04/2012 | (38,552) |
| Forward sale | (630,435) | British Pound | 9/07/2012 | (12,897) |
| Forward sale | (828,930) | British Pound | 9/13/2012 | (7,721) |
| Forward sale | (118,000,000) | Japanese Yen | 9/14/2012 | 11,427 |
| Forward sale | (20,777,375) | Euro | 9/24/2012 | (41,347) |
| Forward purchase | 828,930 | British Pound | 9/13/2012 | 7,212 |
| Forward purchase | 129,400,000 | Chinese Yuan | 7/24/2014 | 219,919 |
| Forward purchase | 128,050,000 | Chinese Yuan | 7/28/2014 | 8,969 |
| Forward purchase | 150,250,000 | Chinese Yuan | 3/30/2015 | (1,522,080) |
| Forward purchase | 117,237,600 | Chinese Yuan | 9/10/2015 | 319,434 |
| Forward purchase | 158,375,000 | Chinese Yuan | 11/30/2016 | (252,476) |
| | | | | (232,014) |

(a) Credit Risk

SDRS is exposed to credit risk on derivative instruments that are in asset positions. The SDIC attempts to minimize credit risk by entering into derivatives contracts with major financial institutions. At June 30, 2012, the net fair value of foreign currency forward contracts was \$(232,014). This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The credit ratings of the counterparties are as follows:

| Moody's credit rating | Number of counterparties | Fair value |
|-----------------------|--------------------------|-------------|
| Aaa | 1 | \$984,389 |
| Aa3 | 1 | (1,216,403) |

(b) Foreign Currency Risk

SDRS is exposed to foreign currency risk on its foreign currency forward contracts because they are denominated in foreign currencies. The net fair value of the foreign currency forward contracts in U.S. dollars is \$(232,014).

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, 2012, a liability existed for accumulated annual leave calculated at the employees' June 30, 2012, pay rate in the amount of \$126,721. 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, 2012, a liability existed for accumulated and accrued sick leave, calculated at the

BASIC FINANCIAL STATEMENTS (CONTINUED)

employees' June 30, 2012, pay rate in the amount of \$143,717.

| | 2012 | 2011 | % change |
|----------------------------|-----------|-----------|----------|
| Total compensated absences | \$270,438 | \$257,426 | 5.05% |

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

8. Operating Leases:

As of June 30, 2012, SDRS was a party to an agreement to lease office space on a month-to-month basis. In September 2012, SDRS entered into a new agreement for the same office space that has a 10-year term.

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 \$177,701,777 net assets available for plan benefits at June 30, 2012, \$110,348,272 was held in trust for employees of the State, while the remaining \$67,353,505 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$811,532 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2012.

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 \$27,762,040 net assets available for plan benefits at June 30, 2012, \$15,665,432 was held in trust for employees of the State, while the remaining \$12,096,608 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, 2012, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$295,824,263 and to real estate limited partnerships totaling approximately \$321,928,867. The commitments may be called at the discretion of the general partner or may never be called.

13. Litigation:

Deutsche Bank and Wilmington Trust Company have filed a number of actions around the country against selling shareholders, and those actions are all now consolidated in a Multi District Panel proceeding in the Southern District of New York (In re: Tribune Company Fraudulent Conveyance Litigation, Case No. 11-MD-2296). A separate adversary proceeding which was pending in Delaware has been consolidated into this action as well (The Official Committee of Unsecured Creditors of Tribune Company, on behalf of Tribune Company vs. Dennis J. Fitzsimmons, et al., Case No. 1:12-cv-02652). SDRS is a defendant as a result of selling Tribune Stock in connection with a leveraged buyout of the Tribune Company in 2007. Through this lawsuit the creditors of Tribune Company are attempting to clawback funds received in connection with the sale of the stock, which, in the case of SDRS, is approximately four million dollars. SDRS contends that it has persuasive arguments favoring dismissal and its counsel is vigorously defending their case.

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 accrued liability [UAAL] (b-a) | Funded ratio (a/b) | (c) Covered payroll | UAAL as a percentage of covered payroll [(b-a)/c] |
|--------------------------|----------------------------------|--|---|--------------------|------------------------|---|
| 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 |
| 6/30/2010 | 7,119.9 | 7,393.3 | 273.4 | 96.3 | 1,491.1 | 18.3 |
| 6/30/2011 | 7,433.8 | 7,712.6 | 278.8 | 96.4 | 1,490.5 | 18.7 |
| 6/30/2012 | 7,828.0 | 8,453.0 | 625.0 | 92.6 | 1,503.0 | 41.6 |

| For the year ended June 30 | Annual required contributions | Percentage contributed |
|----------------------------|-------------------------------|------------------------|
| 2007 | \$85,361,762 | 100% |
| 2008 | 89,766,090 | 100 |
| 2009 | 94,244,915 | 91 |
| 2010 | 96,914,192 | 100 |
| 2011 | 98,624,738 | 100 |
| 2012 | 98,866,649 | 100 |

Schedule of Employer Contributions

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

Notes to Trend Data

| | |
|--|---|
| Valuation date | 6/30/2012 |
| Actuarial cost method | Entry age with frozen unfunded actuarial accrued liability |
| Amortization method | Level percentage-closed |
| Remaining amortization period | 29 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 | 7.25% through 6/30/2017 7.50% thereafter |
| Projected salary increase¹ | |
| based on age, with average of 4.8% | 3.75% to 5.83% |
| Cost-of-living adjustments | 2.70% |

¹ Includes inflation at 3.25 percent.

SUPPORTING SCHEDULES

Schedule of Administrative Expenses for the Year Ended June 30, 2012

| | Accrual Basis |
|--------------------------------------|---------------------------|
| Personal services | |
| Salary and per diem | \$1,528,867 |
| Employee benefits | 396,946 |
| Total personal services | 1,925,813 |
| Operating expenses | |
| Travel | 50,045 |
| Contractual services: | |
| Finance | 32,542 |
| Valuations | 72,327 |
| Consulting | 136,615 |
| Studies | 81,340 |
| Special studies | 27,790 |
| Legal | 7,950 |
| Communications | 5,474 |
| Medical | 25,704 |
| Operations | 665,505 |
| Total contractual services | 1,055,247 |
| Supplies and materials | 214,363 |
| Capital assets | 32,505 |
| Total operating expenses | 1,352,160 |
| Total administrative expenses | <u>\$3,277,973</u> |

Schedule of Investment Activity Expenses for the Year Ended June 30, 2012

| | Management expenses |
|---|--------------------------------|
| Investment managers | |
| State of South Dakota Investment Council | \$5,313,251 |
| Pinebridge | 601,727 |
| Apollo Real Estate Advisors LP | 349,175 |
| Blackstone Distressed Securities and Credit Liquidity | 91,935 |
| Blackstone Private Equity | 1,120,687 |
| Blackstone Real Estate Partners | 3,673,777 |
| Brandes Investment Partners | 366,799 |
| Capital International | 1,691,685 |
| Cargill North American Real Estate Partners | 1,359,716 |
| Carlyle | 466,239 |
| CINVIN | 2,084,773 |
| CVC | 885,275 |
| CVI | 2,530,422 |
| Cypress Merchant Banking Partners LP | 21,656 |
| Dimensional Fund Advisors, Inc. | 190,391 |
| Doughty Hanson & Co. European Real Estate | 1,220,699 |
| Doughty Hanson & Co. Private Equity IV | 2,504,836 |
| Elevation Partners | 242,717 |
| GE Asset Management China | 1,258,736 |
| GE Asset Management Commodities | 278,771 |
| KKR Associates | 262,384 |
| Crossroads Investment Advisors LP | 170,061 |
| Lonestar Real Estate | 2,244,040 |
| Oaktree Loan Fund 2x | 168,462 |
| PIMCO Distressed Mtg Fund II | 2,731,047 |
| Sanders All Asset Value | 197,795 |
| Sanders Capital | 188,548 |
| Riverstone | 565,827 |
| Silver Lake Partners LP | 1,126,407 |
| TCW Specialized Mtg Credits | 1,234,441 |
| Total investment activity expenses | <u>\$35,142,279</u> |

ACTUARIAL SUMMARY



| |
|---|
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| Actuarial Overview |
| Actuarial Valuation |
| Solvency Test |
| Schedule of Active Member Valuation Data |
| Schedule of Retirees and Beneficiaries Added to and Removed from Benefit Payroll |
| Summary of Benefit Provision Changes |
| Plan Summary |

ACTUARY'S OPINION



A Xerox Company

November 20, 2012

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, 2012. Actuarial valuations of SDRS are performed annually.

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, 2012 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. As a result of an experience analysis, actuarial assumptions have been significantly revised as of June 30, 2012.

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 of 29 years effective June 30, 2012, declining by one year until a 20-year funding period is achieved.

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

Our calculations and analysis indicate that the System is meeting its funding objectives and is in actuarial balance. The combined statutory Employer/Member Contributions are sufficient to pay the current Normal Costs and Expenses of the System and amortize the Unfunded Actuarial Accrued Liability over 29 years from July 1, 2012. 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. After significant actuarial assumption changes, the Actuarial Accrued Liability Funded Ratio of SDRS as of June 30, 2012 is 92.6% on an Actuarial Value basis and 92.8% on a Market Value basis.


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.

SDRS is meeting its actuarial funding policy.

Respectfully submitted,


David H. Slushinsky, ASA, EA, MAAA, FCA
Principal and Consulting Actuary


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

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720.359.7700 • 720.359.7701 (fax)

ACTUARIAL OVERVIEW

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

In the 2012 actuarial valuation, two important actuarial measures have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are:

- actuarial accrued liability funded ratio
- funding period

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

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

Actuarial Accrued Liability

| | 2012 actuarial valuation | 2011 actuarial valuation |
|---|--------------------------------|--------------------------------|
| Actuarial accrued liability funded ratio (actuarial value of assets/AAL) | 92.6% | 96.4% |
| Funding period | 29 years | 30 years |

Measures of Actuarial Soundness

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was 1.91 percent, significantly less than the assumed rate of 7.75 percent for fiscal year 2012. The dollar-weighted annualized investment performance based on the market value of assets for the period was 1.37 percent after investment expenses. This results in an actuarial investment loss of \$461 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, 2012, and decreased by the total liability gain of \$51 million. The reserve for funding of long-term benefits goals was decreased from a balance of negative \$764 million as of June 30, 2011, to a balance of negative \$982 million as of June 30, 2012, as a result of investment returns below expectations for fiscal year 2012 and an adjustment to cushion and Actuarial Value of Assets to reach 29-year funding at June 30, 2012. Net gains to be allocated to the reserve in future years total \$912 million as of June 30, 2012.

Actuarial Investment Return Gains/Losses

For the year ended June 30, 2012

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2012

| Item Gain | Amount of liability gain (loss) | Percentage of present value of all benefits |
|---|---------------------------------|---|
| Due to compensation increases | \$102M | 1.03% |
| (Loss) due to decrements | (27M) | (0.27)% |
| (Loss) due to rehired and new members | (5M) | (0.05)% |
| (Loss) due to COLA for continuing inactives | (13M) | (0.13)% |
| Miscellaneous (Loss) | (6M) | 0.06% |
| Total system gain | \$51M | 0.52% |

Actuarial Assumptions

Significant actuarial assumptions used include: a) a rate of return on the present and future assets of 7.25 percent a year for 5 years beginning July 1, 2012, increasing to 7.50 percent after 5 years, compounded annually plus prefunding of improvement factor; b) projected Social Security cost-of-living increases of 3.25 percent and wage base increases of 3.75 percent per year compounded annually; c) post-retirement benefit increases of 2.7 percent per year compounded annually; d) active participant experience including projected salary increases that average 4.8 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, male rates set-back 1 year; 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 2011 and 2012, and appropriate modifications in the demographic assumptions regarding assumed rates of member termination, retirement, and disability were made effective with the June 30, 2012, actuarial valuation.

Also as a result of the experience analysis in 2012, and further study and debate of the SDRS Board of Trustees, changes were made to the economic actuarial assumptions effective for the June 30, 2012, actuarial valuation. These changes, combined with the demographic assumption changes, increased the unfunded actuarial accrued liability by \$266 million and created a liability loss of \$366 million to the system based on the present value of all benefits.

Effective with the year ended June 30, 2012, 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 actuarial cost determined under the frozen entry age normal funding method were reinitialized based on the costs calculated under the entry age normal funding method. Ongoing costs will continue to be determined under the frozen entry age normal cost method. The calculation of the actuarial value of assets was modified as of June 30, 1995.

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

The reserve for funding of long-term benefit goals was first implemented as of the year ended June 30, 1995, to fund benefit improvements and provide the system with protection against adverse experience. When implemented, actuarial investment gains

(returns above the assumed investment return assumption) and actuarial investment losses (returns below the assumed investment return assumption) were recognized at the rate of 20 percent per year over a five-year period. Effective June 30, 1998, liability gains and losses were reflected in the same manner as investment gains and losses. The reserve was modified again as of June 30, 2001, to immediately recognize actuarial investment losses while still spreading the recognition of actuarial investment gains over five-year periods.

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

The changes in actuarial assumptions, effective for the June 30, 2012 valuation, are as follows:

- Investment return: decrease in assumed rate of investment return from 7.75 percent per annum, to 7.25 percent per annum through June 30, 2017 and 7.50 percent per annum thereafter;
- Compensation progression: decrease in assumed rate of compensation increases, per year of service, from an average increase of 5.5 percent per annum to 4.8 percent per annum;
- Future Social Security increases: decrease in assumed rate of cost-of-living increases from 4.0 percent per annum to 3.25 percent per annum and decrease in assumed wage base increases from 5.5 percent per annum to 3.75 percent per annum;
- Credited interest on accumulated contributions: decrease in assumed interest rate granted on accumulated contributions from 4.5 percent per annum to 3.5 percent per annum;
- Compensation progression for the determination of funding period: decrease in assumed rate of compensation increases, for purposes of amortizing the frozen unfunded actuarial liability, from 4.0 percent per annum to 3.75 percent per annum;
- Retirement age: change from unisex rates with separate rates for Class B Public Safety to rates separated by reduced/unreduced retirement, Class (including Teacher/Non-Teacher) and gender;
- Mortality: change from 1995 Buck Mortality Table to 1995 Buck Mortality Table with male rates set-back one year;
- Termination: change from age based rates to select and ultimate rates reflecting increased termination in first years of employment and eliminated termination rates for Judicial members;
- Disability: reduced rates for Class A members (separating rates for Teacher/Non-Teacher) and eliminated disability rates for Judicial Members;
- Improvement factor (COLA): reduced from 2.80 per annum to 2.70 per annum.

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

Summary of Actuarial Assumption and Method Changes

Cushion

ACTUARIAL OVERVIEW (CONTINUED)

Reserve for Funding of Long-term Benefit Goals

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

| | |
|--|------------------------|
| Balance as of June 30, 2011 | \$(764,203,949) |
| Fiscal year 2012 experience | (450,651,324) |
| Amortization of prior gain and losses | 310,725,782 |
| Less adjustment to cushion and Actuarial Value of Assets to reach 29-year funding at June 30, 2012 | (77,420,000) |
| Balance as of June 30, 2012 | <u>\$(981,549,491)</u> |

Actuarial Assumption Tables

Sample Separation Rates

Annual Rate per 100 Members

| Age | Mortality | | Disabled Mortality | Disablement | | | | | |
|-----|-----------|--------|--------------------|------------------|------|----------------------|------|-----------------------|------|
| | | | | Class A-Teachers | | Class A-Non-Teachers | | Class B-Public Safety | |
| | Male | Female | Male | Female | Male | Female | Male | Female | |
| 25 | 0.07 | 0.02 | 0.68 | 0.02 | 0.02 | 0.04 | 0.04 | 0.08 | 0.10 |
| 30 | 0.06 | 0.02 | 1.06 | 0.02 | 0.02 | 0.05 | 0.04 | 0.08 | 0.11 |
| 35 | 0.07 | 0.04 | 1.14 | 0.02 | 0.02 | 0.05 | 0.04 | 0.10 | 0.12 |
| 40 | 0.09 | 0.06 | 1.35 | 0.03 | 0.03 | 0.06 | 0.05 | 0.12 | 0.15 |
| 45 | 0.13 | 0.09 | 2.00 | 0.04 | 0.04 | 0.09 | 0.08 | 0.16 | 0.22 |
| 50 | 0.20 | 0.14 | 3.16 | 0.06 | 0.05 | 0.13 | 0.08 | 0.24 | 0.23 |
| 55 | 0.31 | 0.21 | 3.78 | 0.10 | 0.08 | 0.22 | 0.13 | 0.40 | 0.38 |
| 60 | 0.56 | 0.32 | 4.25 | 0.21 | 0.16 | 0.46 | 0.28 | 0.84 | 0.80 |
| 65 | 1.09 | 0.66 | 5.12 | 0.43 | 0.31 | 0.94 | 0.54 | 1.71 | 1.55 |

Annual Turnover Rate per 100 Members Select Rates During First 5 Years of Employment

| Service | Class A-Teachers | | Class A-Non-Teachers | | Class B-Public Safety |
|---------|------------------|--------|----------------------|--------|-----------------------|
| | Male | Female | Male | Female | |
| 1 | 22.50 | 25.00 | 17.50 | 21.00 | 18.00 |
| 2 | 17.50 | 17.50 | 14.00 | 18.00 | 12.50 |
| 3 | 15.00 | 15.00 | 11.00 | 15.00 | 11.00 |
| 4 | 12.50 | 12.50 | 9.00 | 12.50 | 10.00 |
| 5 | 10.00 | 10.00 | 7.00 | 9.50 | 10.00 |

Annual Turnover Rate per 100 Members Ultimate Rates After First 5 Years of Employment

| Age | Class A-Teachers | | Class A-Non-Teachers | | Class B-Public Safety |
|-----|------------------|--------|----------------------|--------|-----------------------|
| | Male | Female | Male | Female | |
| 25 | 16.80 | 15.80 | 9.90 | 10.80 | 11.00 |
| 30 | 11.20 | 11.20 | 8.20 | 9.10 | 9.50 |
| 35 | 8.50 | 8.50 | 7.10 | 7.60 | 7.30 |
| 40 | 6.47 | 6.60 | 5.90 | 6.70 | 5.30 |
| 45 | 4.75 | 4.55 | 5.20 | 5.90 | 4.50 |
| 50 | 4.25 | 4.25 | 4.70 | 5.20 | 4.50 |
| 55 | 4.25 | 4.25 | 4.50 | 5.00 | 4.50 |

Retirement Age Class A

Annual rate per 100 members eligible to retire

| Age | Class A-Teachers | | | | Class A-Non-Teachers | | | |
|-----|--------------------|--------|----------------------|--------|----------------------|--------|----------------------|--------|
| | Reduced Retirement | | Unreduced Retirement | | Reduced Retirement | | Unreduced Retirement | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 55 | 7.0 | 6.5 | 17.5 | 13.5 | 5.0 | 4.0 | 17.5 | 12.5 |
| 56 | 7.0 | 6.5 | 12.5 | 12.5 | 5.0 | 4.0 | 8.0 | 8.0 |
| 57 | 7.0 | 6.5 | 12.5 | 12.5 | 5.0 | 4.0 | 8.0 | 8.0 |
| 58 | 7.0 | 6.5 | 12.5 | 12.5 | 5.0 | 4.0 | 8.0 | 8.0 |
| 59 | 7.0 | 7.5 | 12.5 | 17.5 | 5.0 | 6.0 | 12.0 | 11.0 |
| 60 | 9.0 | 8.5 | 12.5 | 17.5 | 6.0 | 8.0 | 12.0 | 11.0 |
| 61 | 12.5 | 12.0 | 25.0 | 22.5 | 10.0 | 9.5 | 17.5 | 11.0 |
| 62 | 12.5 | 12.5 | 25.0 | 25.0 | 13.5 | 12.0 | 30.0 | 22.5 |
| 63 | 12.5 | 12.5 | 17.5 | 22.5 | 13.5 | 12.0 | 25.0 | 17.5 |
| 64 | 17.5 | 20.0 | 20.0 | 22.5 | 17.5 | 20.0 | 25.0 | 17.5 |
| 65 | | | 30.0 | 35.0 | | | 40.0 | 32.5 |
| 66 | | | 25.0 | 25.0 | | | 25.0 | 20.0 |
| 67 | | | 25.0 | 25.0 | | | 25.0 | 20.0 |
| 68 | | | 25.0 | 25.0 | | | 25.0 | 20.0 |
| 69 | | | 25.0 | 25.0 | | | 25.0 | 20.0 |
| 70 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 71 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 72 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 73 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 74 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 75 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 76 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 77 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 78 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 79 | | | 30.0 | 30.0 | | | 30.0 | 30.0 |
| 80 | | | 100 | 100 | | | 100 | 100 |

Retirement Age Class B

Annual rate per 100 members eligible to retire

| Age | Class B-Public Safety | | Class B-Judicial | |
|-----|-----------------------|----------------------|--------------------|----------------------|
| | Reduced Retirement | Unreduced Retirement | Reduced Retirement | Unreduced Retirement |
| 45 | 6.0 | 5.0 | | |
| 46 | 6.0 | 5.0 | | |
| 47 | 6.0 | 5.0 | | |
| 48 | 6.0 | 10.0 | | |
| 49 | 6.0 | 10.0 | | |
| 50 | 9.0 | 10.0 | | |
| 51 | 9.0 | 10.0 | | |
| 52 | 9.0 | 10.0 | | |
| 53 | 9.0 | 10.0 | | |
| 54 | 11.0 | 15.0 | | |
| 55 | | 15.0 | 8.0 | 15.0 |
| 56 | | 7.5 | 8.0 | 5.0 |
| 57 | | 7.5 | 2.0 | 5.0 |
| 58 | | 11.0 | 2.0 | 5.0 |
| 59 | | 12.5 | 2.0 | 5.0 |
| 60 | | 12.5 | 2.0 | 10.0 |
| 61 | | 25.0 | 2.0 | 10.0 |
| 62 | | 25.0 | 2.0 | 15.0 |
| 63 | | 25.0 | 2.0 | 12.67 |
| 64 | | 25.0 | 2.0 | 20.0 |
| 65 | | 100 | | 20.0 |
| 66 | | | | 15.0 |
| 67 | | | | 15.0 |
| 68 | | | | 25.0 |
| 69 | | | | 30.0 |
| 70 | | | | 100 |

Compensation Progression Sample Rates

Percentage increase in
year following indicated
year of service

| Service | Percentage increase in year following indicated year of service |
|---------|---|
| 0 | 5.83% |
| 5 | 5.32 |
| 10 | 4.89 |
| 15 | 4.50 |
| 20 | 4.19 |
| 25 | 4.03 |
| 30 | 3.87 |
| 31+ | 3.75 |

ACTUARIAL OVERVIEW (CONTINUED)

Benefit Changes

There were no benefit improvements or substantive benefit provision changes during the 2012 fiscal year. The June 30, 2012, actuarial valuation directly reflects the provisions of the System as stated in the Plan Summary section of this report.

Summary of Key Actuarial Measures

| | 2011 actuarial valuation results | System investment and liability experience for year ¹ | Membership changes and maturity of system ² | Actuarial assumption and method changes effective July 1, 2012 | 2012 actuarial valuation results |
|--|---|---|---|---|---|
| Normal cost rate with expense provision | 11.499% | — | (0.017)% | (1.203)% | 10.279% |
| Funding period | 30 years | — | — | (1) year | 29 years |
| Frozen unfunded actuarial accrued liability | \$279M | — | \$5M | \$341M | \$625M |
| Actuarial accrued liability funded ratio | 96.4% | 0.1% | — | (3.9)% | 92.6% |

¹ SDRS actuarial investment gains and liability gains and losses are smoothed and allocated directly to the reserve for funding of long-term benefit goals over five years. All SDRS actuarial investment losses are allocated immediately to the reserve.

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

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 2012, expressed as a percentage of payroll and total contributions, are based on the 2012 actuarial valuation and are summarized in the chart below.

| SDRS 2012 Funding Requirements | | |
|--|---------------------------------------|---|
| | As a percentage of payroll | As a percentage of contributions |
| Matching statutorily required employer/member contribution rate | 12.482 ¹ | 100.0 |
| Normal contribution rate at mid-period | 10.029 | 80.3 |
| Expense allowance | .250 | 2.0 |
| Total funding requirement before amortization of frozen unfunded actuarial accrued liability | 10.279 | 82.3 |
| Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation (12.482%-10.279%) | 2.203 ² | 17.7 |

The 2012 actuarial valuation indicates a contribution rate of 2.203 percent of payroll allocated to the unfunded actuarial accrued liability is sufficient to pay interest and amortize the principal over 29 years from 2012.

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, 2012, are 12.482 percent of considered compensation.

² Will amortize frozen unfunded actuarial accrued liability over 29 years from 2012.

ACTUARIAL VALUATION (CONTINUED)

The 2012 actuarial valuation confirms that:

- a. Funding of current benefit levels for active members and expenses requires 82 percent of the total contributions under the current actuarial assumptions and methods.
- b. The unfunded actuarial accrued liability is only 6 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 \$15 million and a balance of negative \$982 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 7.25 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 2012 actuarial valuation indicates that the employer-member contribution rates are sufficient to pay the current costs of the system (normal cost plus expenses) and amortize the unfunded actuarial accrued liability over 29 years at June 30, 2012. The SDRS funding period will decline by one year until a 20-year funding period is achieved in accordance with the Board of Trustees funding policy.

Actuarial Soundness

The conclusions reached under the determinations made in the actuarial valuation are the most important indicators of the long-term actuarial soundness of the system. The soundness is measured by the relationship of the normal cost to the total contributions available, by the length of the funding period—a shorter period being more favorable, by the 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 a well-funded system that is providing benefits essentially equal to the resources available.



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 2012 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 normal cost of the benefits provided under these classifications).

SDRS is a well-funded retirement system. The volatility in funding period resulting from asset and liability gains and losses has been minimized by the methods adopted for development of the actuarial value of assets. Current member and employer contributions are sufficient to pay the normal costs and fund the frozen unfunded actuarial accrued liability over 29 years.

| | |
|---|-------------------------------|
| Actuarial value of assets as of June 30, 2011 | \$7,433,776,511 |
| Contributions and disbursements | |
| Contributions | 199,350,762 |
| Benefit payments and refunds | (397,359,294) |
| Administrative expenses | <u>(3,277,973)</u> |
| Total | \$(201,286,505) |
| Expected investment return | \$568,317,828 |
| SDRS liability gain/(loss) | \$50,626,270 |
| Preliminary actuarial value of assets as of June 30, 2012 | \$7,750,181,564 |
| Adjustment to actuarial value of assets from cushion to reach 29-year funding | <u>\$77,420,000</u> |
| Preliminary actuarial value of assets as of June 30, 2012, with adjustment from cushion | \$7,827,601,564 |
| Market value of assets as of June 30, 2012 | \$7,842,524,241 |
| Constraining values | |
| 80% of market value of assets | \$6,274,019,393 |
| 120% of market value of assets | \$9,411,029,090 |
| Actuarial value of assets as of June 30, 2012 | <u>\$7,827,601,564</u> |

Development of the SDRS Actuarial Value of Assets

As of June 30, 2012

ACTUARIAL VALUATION (CONTINUED)

Benefit and Funding Objectives and Historical Summary

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 percent 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

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 1988.

| Valuation date | Actuarial accrued liability | Actuarial value of assets | Actuarial accrued liability funded ratio | Funding period |
|----------------|-----------------------------|---------------------------|--|----------------|
| 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* |
| 2010 | 7,393,250,948 | 7,119,874,593 | 96.3 | 30 years |
| 2011 | 7,712,556,672 | 7,433,776,511 | 96.4 | 30 years |
| 2012 | 8,452,840,068 | 7,827,601,564 | 92.6 | 29 years |

*Member and employer contributions were not sufficient to amortize the frozen unfunded 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.

Summary of Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability

| 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 |
|-------------|-----------------------------|---------------------------|---|--------------------------------------|---------------------------------|--------------------------------------|
| 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 |
| 2010 | 7,393,250,948 | 7,119,874,593 | 96.3 | 273,376,355 | 1,491.1 | 18.3 |
| 2011 | 7,712,556,672 | 7,433,776,511 | 96.4 | 278,780,161 | 1,490.5 | 18.7 |
| 2012 | 8,452,840,068 | 7,827,601,564 | 92.6 | 625,238,504 | 1,502.7 | 41.6 |

ACTUARIAL VALUATION (CONTINUED)

Solvency Test

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

| Fiscal year | Actuarial accrued liability for | | | | Portion of actuarial accrued liability covered by actuarial value of assets for | | |
|-------------|---------------------------------|--|---|---------------------------|---|-------|------------------|
| | (1) Member contributions | (2) Current retirees and beneficiaries and terminated employees | (3) Current employees: employer financed | Actuarial value of assets | (1) | (2) | (3) ¹ |
| 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 |
| 2010 | 1,042,639,270 | 4,125,804,303 | 2,224,807,375 | 7,119,874,593 | 100.0 | 100.0 | 87.7 |
| 2011 | 1,041,479,674 | 4,436,638,326 | 2,234,438,672 | 7,433,776,511 | 100.0 | 100.0 | 87.5 |
| 2012 | 1,046,798,327 | 4,909,919,285 | 2,496,122,456 | 7,827,601,564 | 100.0 | 100.0 | 75.0 |

Schedule of Active Member Valuation Data

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

| Valuation date | # of active members | Covered payroll (000,000) | Average annual pay | % increase in average pay |
|----------------|---------------------|---------------------------|--------------------|---------------------------|
| 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 |
| 2010 | 39,014 | 1,491.1 | 38,220 | 1.7 |
| 2011 | 38,490 | 1,490.5 | 38,725 | 1.3 |
| 2012 | 38,207 | 1,502.7 | 39,329 | 1.6 |

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



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

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

| Valuation date | Beginning of year balance | Number added to payroll | Number removed from payroll | End of year balance | Annual pension 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 |
| 2010 | 19,949 | 1,318 | 706 | 20,561 | 20,287,505 | 8,415,997 | 335,034,177 | 16,295 | 2.0 |
| 2011 | 20,561 | 1,575 | 679 | 21,457 | 27,164,131 | 8,006,912 | 359,385,525 | 16,749 | 2.8 |
| 2012 | 21,457 | 1,663 | 712 | 22,408 | 26,727,462 | 8,827,261 | 386,478,319 | 17,247 | 3.0 |

There were no benefit improvements or substantive benefit provision changes made to SDRS during the 2012 South Dakota Legislative session.

Summary of Benefit Provision Changes

ACTUARIAL VALUATION (CONTINUED)

Comparison of Actuarial Valuation Results

| | 2011 actuarial valuation | 2012 actuarial valuation | % change |
|---|-----------------------------|-----------------------------|-------------|
| Active members | | | |
| Number | 38,490 | 38,207 | (0.7) |
| Average age | 45.9 | 45.8 | (0.2) |
| Average credited service | 11.4 | 11.5 | 0.9 |
| Annual prior year's compensation of members | \$1,490,510,553 | \$1,502,652,938 | 0.8 |
| Average annual compensation | \$38,725 | \$39,329 | 1.6 |
| Benefit recipients | | | |
| RETIREED MEMBERS | | | |
| Number ¹ | 18,219 | 19,133 | 5.0 |
| Average age | 71.7 | 71.6 | (0.1) |
| Total annualized benefits | \$326,961,468 | \$352,284,553 | 7.7 |
| Average annualized benefits | \$17,946 | \$18,412 | 2.6 |
| BENEFICIARIES | | | |
| Number ¹ | 2,915 | 2,975 | 2.1 |
| Total annualized benefits | \$28,372,647 | \$30,281,007 | 6.7 |
| Average annualized benefits | \$9,733 | 10,178 | 4.6 |
| DISABILITIES | | | |
| Number | 323 | 300 | (7.1) |
| Total annualized benefits | \$4,051,410 | \$3,912,759 | (3.4) |
| Average annualized benefits | \$12,543 | \$13,043 | 4.0 |
| Total benefit recipients | | | |
| Number | 21,457 | 22,408 | 4.4 |
| Total annual benefits | \$359,385,525 | \$386,478,319 | 7.5 |
| Average annual benefits | \$16,749 | \$17,247 | 3.0 |
| Terminated members | | | |
| Number—vested | 7,789 | 8,135 | 4.4 |
| Number—non-vested (entitled to accumulated contributions only) | 6,412 | 6,618 | 3.2 |
| Total terminated members | 14,201 | 14,753 | 3.9 |
| Total system members | 74,148 | 75,368 | 1.6 |
| Results of actuarial valuation | | | |
| Normal cost (without expenses) | 11.249% | 10.029% | (10.8) |
| (with expenses) | 11.499% | 10.279% | (10.6) |
| Frozen unfunded actuarial accrued liability | \$278,780,161 | \$625,238,504 | 124.3 |
| Market value of assets | \$7,936,269,496 | \$7,842,524,241 | (1.2) |
| Actuarial value of assets | \$7,433,776,511 | \$7,827,601,564 | 5.3 |
| Actuarial accrued liability (AAL) | \$7,712,556,672 | \$8,452,840,068 | 9.6 |
| Actuarial accrued liability funded ratio | | | |
| (actuarial value of assets/AAL) | 96.4% | 92.6% | (3.9) |
| (market value of assets/AAL) | 102.9% | 92.8% | (9.8) |
| Projected years to fund level funding requirements | 30 | 29 | (3.3) |

¹ In addition, there are 45 and 43 members or beneficiaries as of July 1, 2011, and July 1, 2012, respectively, whose benefits are currently suspended, but who are entitled to future benefits.

South Dakota Retirement System (SDRS)

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

Effective Date

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.

Type of System

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

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

Employers Included

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

Members

- 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

PLAN SUMMARY (CONTINUED)

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

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

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

Class A members constitute 93 percent of SDRS membership.

Service Considered

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

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.



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

Final Average Compensation

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

Employer 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

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

Accumulated contributions are equal to member contributions and 85 percent of employer contributions (or 50 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 7.25 percent.

Accumulated Contributions

For members who terminated prior to July 1, 2010, the percentage of employer contributions is 100 percent with three or more years of contributory service or 75 percent with less than three years of contributory service.

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.

Additional Contributions

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

Other Public Benefits

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to CPI and based on SDRS funded status:

- If the SDRS market value funded ratio is 100 percent or more—3.1 percent COLA
- If the SDRS market value funded ratio is 80 percent to 99.9 percent, index with the CPI
 - * 90 percent to 99.9 percent funded—2.1 percent minimum and 2.8 percent maximum COLA
 - * 80 percent to 90 percent funded—2.1 percent minimum and 2.4 percent maximum COLA
- If the SDRS market value funded ratio is less than 80 percent—2.1 percent COLA

Cost-of-Living Adjustment (COLA)

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

PLAN SUMMARY (CONTINUED)

Normal Retirement Date

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 Benefit

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.

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.

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.

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

The special early retirement date for Class A members is the date at which a member's age plus credited service total 85, but not less than age 55. The special early retirement date for Class B Judicial members is the date at which age plus credited service total 80, but not less than age 55. The special early retirement date for Class B Public Safety members is the date at which age plus credited service total 75, but not less than age 45.

Members are entitled to retire at special early retirement date with a benefit equal to the normal retirement benefit based on credited service and final average compensation to date of retirement, with no reduction for early payment.

Delayed Retirement Benefit

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

Early Retirement Benefit

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.

Vested Benefit and Portable Retirement Option

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.

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.

Disability Benefit

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.

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
 - the unreduced accrued retirement benefit at date of disability
 - 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

The maximum benefit is 100 percent of final average compensation (increased by the cost-of-living adjustment) reduced by earned income and primary Social Security.

The above benefits are payable monthly.

At age 65 (or when there are no eligible children, if later), but not before five years of disability, the benefit payable is converted to the normal retirement 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).

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.

Survivor Benefits

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

Prior to June 30, 2010, a member could have elected 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 1.5 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.

Optional Forms of Retirement Payments

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

Administrative Expenses

Administrative expenses are paid from the system's assets in an amount not to exceed 3 percent of the annual member and employer contributions received by the system.

Retired Members

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, 2012.



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INVESTMENT SUMMARY



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INVESTMENT COUNCIL'S LETTER

TO THE SOUTH DAKOTA RETIREMENT SYSTEM BOARD OF TRUSTEES:

This letter summarizes the South Dakota Investment Council fiscal year 2012 investment performance for South Dakota Retirement System assets. Additional topics include investing for the long term, future expectations, and investment objectives. Additional information may be found in the annual report available on the Council's website at sdic.sd.gov.

FISCAL YEAR 2012 PERFORMANCE

The fiscal year 2012 investment return was 1.9%. This lagged the Council's market index-based benchmark return of 2.0%, meaningfully lagged the median corporate pension fund return of 4.4% and exceeded the median state fund return of 1.4%. In recent years, corporate pension plans have shifted investment allocations toward fixed income and away from stocks due to changes in accounting rules and a desire to minimize the impact of pension plans on corporate balance sheets. The divergence of investment approach impacts performance comparisons to corporate plans, especially over shorter timeframes. The largest positive contributor to FY2012 relative performance was global equity which outperformed after underperforming the previous year. Real estate was the largest underperformer after having outperformed the prior year.

While there was meaningful market volatility during the course of the year, the ending result of a modest 1.9% return was not as consequential as the big positive returns of FY10 and FY11, or the very painful losses in FY08 and FY09. Whether any year is good, bad or average, it is important to be mindful that the Council invests for the long term and believes performance should be judged over the long term. The actions taken in any year may impact performance several years down the road. There have been interim periods of underperformance in the Council's history, and there will be more in the future. Long-term success has primarily resulted from adherence to investment strategies during underperforming periods.

INVESTING FOR THE LONG TERM

The Council has managed SDRS assets since consolidation in 1974. The Council's goal is to add value over the long term versus market indexes and other similar funds. Since inception, investment returns have meaningfully exceeded the Investment Council's market index-based benchmark as well as corporate and state pension fund peer universes.

The Council invests in assets believed to be undervalued from a long-term perspective. The investment valuation process is based on the view that the worth of an asset is the present value of its future cash flows. Internal research efforts focus on estimating future cash flows and assessing risk which impacts the rate used to discount cash flows to present value.

RETURN EXPECTATIONS

In the mid-1990s, the Investment Council began to caution against expecting continuation of the double-digit returns earned during up markets, such as from 1982 to 1999 and more recently 2003 to 2007. The Council believes market return expectations should be based on forward-looking long-term cash flows rather than extrapolation of past returns.

As of June 30, 2012, expected returns were 1.6% for bonds and 8.0% for stocks. Historic low interest rates foreshadow low future bond returns. The expected return for stocks is lower than earned on average in the post-World War II period, but compares favorably to expectations for bonds and to near-zero money market yields. The expected long-term return for the overall SDRS portfolio, which is diversified across a number of asset categories, is roughly 7.0%.

It is important to note the expected return is the mid-point of a range of possible outcomes. For a 10-year horizon, the standard deviation, which statistically encompasses the central two-thirds of potential outcomes, was plus or minus 4.9% around the expected return of 7.0%, for a return range of 2.1% to 11.9%. For a 20-year horizon, it was plus or minus 3.4% for a return range of 3.6% to 10.4%.

INVESTMENT OBJECTIVES

The Council's overall objective is to prudently manage SDRS assets to achieve and exceed the returns available over the long term from the investment markets. The Council has three specific objectives. The first is to achieve and exceed the actuarial estimated return over the long term to help assure the financial health of SDRS. The other two objectives are to add value over the long term versus the Council's market index based benchmark and versus peer funds.

The Council values the excellent cooperative relationship with the SDRS Board of Trustees and staff. The Council believes this teamwork and a disciplined focus on long-term investment value will serve us well in the decades to come.

Sincerely,



Matthew L. Clark, CFA
State Investment Officer

INVESTMENT ANALYSIS

The Investment Council

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

The data in the investment section of this report was prepared by the South Dakota Investment Council, using time-weighted rates of return as defined by CFA Institute 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.

Investment Objectives and Policy

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

Meeting the first objective as follows will assure that this goal is met:

- Achieve and exceed the actuarial required rate of return over the long-term

The actuarial rate of return is an estimate made by a retirement system's actuary of the investment return achievable over the long term through investing in the capital markets. The return estimate, along with other actuarial estimates relating to issues such as member longevity, salary changes, and turnover, are used by the actuary to assess the funding status and overall health of a retirement system. Achievement of the actuarial return estimate is important to continued financial strength of SDRS. Additional return above the actuarial estimate can strengthen the financial condition and/or provide additional resources to address SDRS benefit goals.

If investment markets do not allow the Investment Council, or the Investment Council simply fails, to achieve the estimated return over the long term, South Dakota law may require benefit reductions, contributions changes, or both. It is important that the actuarial estimated return be a reasonable expectation of what the capital markets can deliver, or it may not be realistic to expect to achieve this objective.

The remaining objectives relate to adding value over the long term versus the index returns of the Investment Council's capital markets benchmark and versus peer funds.

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

This is the most important specific investment objective in judging the Investment Council's delivery of a competitive rate of return. The objective is to achieve and exceed the indexed returns that would be earned if SDRS was invested in the Investment Council's selected capital markets benchmark. The key investment policy decision made by the Investment Council is asset allocation.

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 total fund performance over the long-term relative to professionally managed multi-billion dollar pension funds

The Investment Council compares its performance to public and corporate pension fund peers. While there is some variation in liability structure and risk preferences across funds, all pension funds are professionally managed and attempt to produce superior returns for their beneficiaries. Therefore, it makes sense to compare SDRS results to peers.

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 2012 was 1.9 percent. The Investment Council's benchmark return for FY 2012 was 2.0 percent. This capital market benchmark was 58 percent global equity, 26 percent fixed income, 0 percent arbitrage, 8 percent real estate, 5 percent private equity, 1 percent commodities, and 2 percent cash. The 10-year annualized return was 7.8 percent versus the benchmark return of 6.6 percent.

The internal equity fund earned (0.4) percent in FY 2012 versus a benchmark return of (1.3) percent. The 10-year return for the internal equity fund was 5.4 percent versus a benchmark return of 5.8 percent.

SDRS' bond fund returned 7.1 percent in FY 2012 versus a benchmark return of 7.5 percent. The 10-year return for the internal bond fund was 7.0 percent versus a benchmark return of 6.3 percent.

Returns earned by other portfolios and outside managers in FY 2012 (included in total fund returns) were: 1.7 percent merger arbitrage; 5.1 percent convertible arbitrage; 0.8 percent Sanders Capital; (15.4) percent Brandes; (19.2) percent GE Asset Management; (16.2) percent Dimensional; 5.6 percent CVI Global Value Fund; (2.3) percent CVI Specialized Ventures; 3.8 percent TCW; 4.0 percent PIMCO; 0.6 percent Oaktree; (8.4) percent Blackstone Distressed Securities; 6.3 percent Blackstone Credit Liquidity; 1.3 percent Sanders All Asset; 8.2 percent Bridgewater; and (13.6) percent GE Commodities. Blackstone, Cypress, Apollo, Cargill, Capital International, Doughty Hanson, Lonestar, Kohlberg Kravis Roberts Associates, Silver Lake, Carlyle, Riverstone, CINVIN Fund 4, CVC, DLJ, Pineridge, Crossroads, 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.

During FY 2012 inflation averaged 1.7 percent while SDRS' total return was 1.9 percent. Over the last 10 years, inflation has averaged 2.5 percent and total returns 7.8 percent, creating a real return of 5.3 percent.

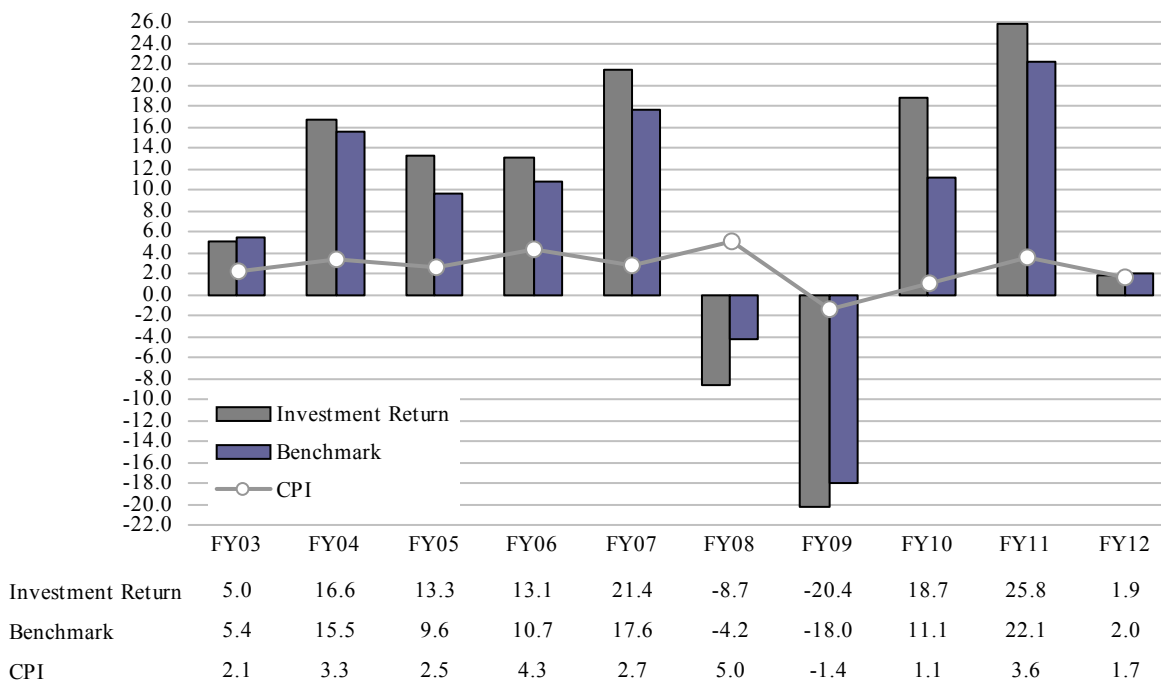
Prudent Man Standard

Performance

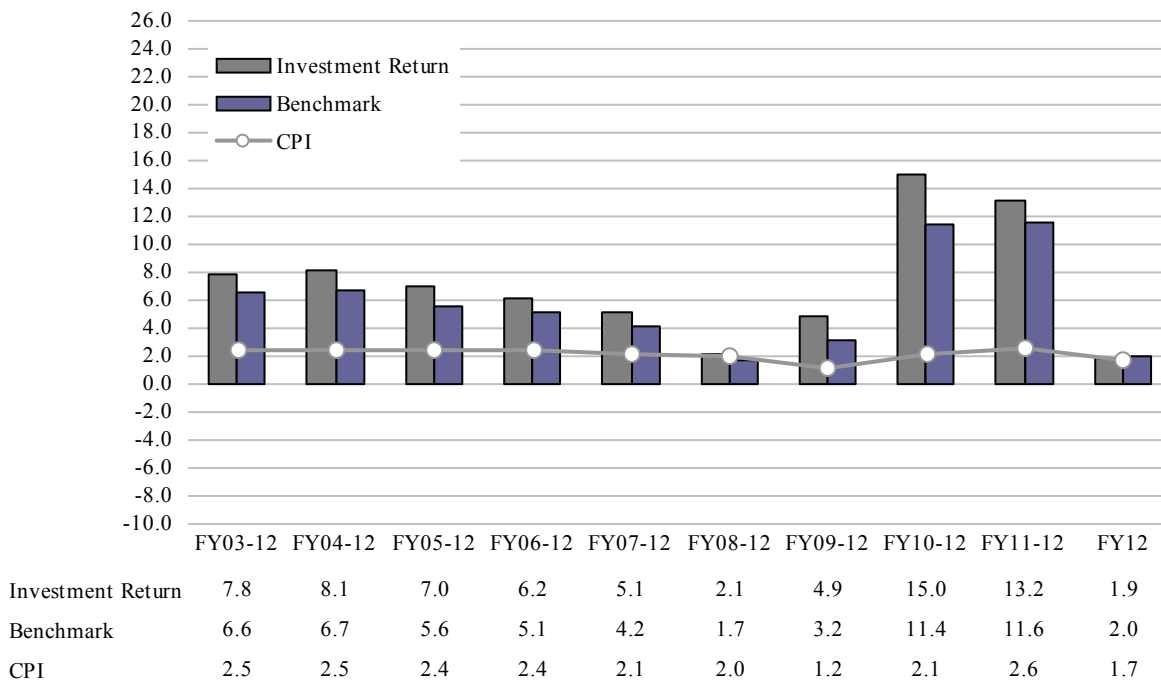
Real Rates of Return

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, 2012, 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 [\$4.2 million], PIMCO Distressed Mtg Fund II [\$144.8 million], TCW Specialized Mtg Credits [\$262.4 million], Oaktree Loan Fund 2x [\$21.4 million], Blackstone Distressed Securities [\$0.6 million], Blackstone Credit Liquidity [\$14.5 million], and Sanders All Asset Value [\$16.3 million] invest in distressed and high-yield fixed-income securities. Bridgewater Pure Alpha Fund II [\$69.1 million], Brandes Global Mid-Cap [\$34.9 million], CVI Global Value Fund II [\$135.0 million], GE Asset Management [\$66.6 million], Dimensional Fund Advisors Inc. [\$41.3 million], and Sanders Capital [\$26.7 million] invest in global equities. Blackstone Real Estate Partners [\$983.5 million], Doughty Hanson & Co European Real Estate [\$55.8 million], Apollo Real Estate Advisors LP [\$20.3 million], Cargill North American Real Estate Partners [\$71.1 million], and Lonestar Real Estate [\$39.5 million] invest in real estate. CINVIN [\$105.0 million], DLJ Merchant Banking Partners LP [\$0.5 million], KKR Associates [\$46.0 million], Crossroads Investment Advisors LP [\$4.1 million], Silver Lake Partners LP [\$127.4 million], Doughty Hanson & Co Private Equity IV [\$108.7 million], Blackstone Private Equity [\$226.8 million], Elevation Partners [\$30.9 million], CVC [\$73.6 million], Carlyle [\$54.2 million], Riverstone [\$31.9 million], Cypress Merchant Banking Partners LP [\$5.1 million], Pinebridge [\$7.5 million], and Capital International [\$36.3 million] invest in private equity. GE Active Commodities [\$25.3 million] invest in commodities.

Investment Managers

| Investment managers | Management expenses |
|---|----------------------------|
| State of South Dakota Investment Council | \$5,313,251 |
| Pinebridge | 601,727 |
| Apollo Real Estate Advisors LP | 349,175 |
| Blackstone Distressed Securities and Credit Liquidity | 91,935 |
| Blackstone Private Equity | 1,120,687 |
| Blackstone Real Estate Partners | 3,673,777 |
| Brandes Investment Partners | 366,799 |
| Capital International | 1,691,685 |
| Cargill North American Real Estate Partners | 1,359,716 |
| Carlyle | 466,239 |
| CINVIN | 2,084,773 |
| CVC | 885,275 |
| CVI | 2,530,422 |
| Cypress Merchant Banking Partners LP | 21,656 |
| Dimensional Fund Advisors, Inc. | 190,391 |
| Doughty Hanson & Co. European Real Estate | 1,220,699 |
| Doughty Hanson & Co. Private Equity IV | 2,504,836 |
| Elevation Partners | 242,717 |
| GE Asset Management China | 1,258,736 |
| GE Asset Management Commodities | 278,771 |
| KKR Associates | 262,384 |
| Crossroads Investment Advisors LP | 170,061 |
| Lonestar Real Estate | 2,244,040 |
| Oaktree Loan Fund 2x | 168,462 |
| PIMCO Distressed Mtg Fund II | 2,731,047 |
| Sanders All Asset Value | 197,795 |
| Sanders Capital | 188,548 |
| Riverstone | 565,827 |
| Silver Lake Partners LP | 1,126,407 |
| TCW Specialized Mtg Credits | 1,234,441 |
| Total investment activity expenses | <u>\$35,142,279</u> |

Schedule of Investment Management Expenses and Commissions

For the Year Ended
June 30, 2012

INVESTMENT ANALYSIS (CONTINUED)

Summary of Investment Portfolios

| As of June 30, 2012 | Market value | Futures Positions | Exposure with futures | Percentage with futures overlay |
|---|-------------------------------|-------------------|-------------------------------|---------------------------------|
| Global Equity | | | | |
| Internal Global Equity | \$3,469,624,280 | | | |
| Internal High Quality Equity | 164,758,453 | | | |
| Internal Small/Mid Equity | 117,732,541 | | | |
| Brandes | 34,921,117 | | | |
| Dimensional Fund Advisors | 41,261,975 | | | |
| GE Asset Management | 66,550,680 | | | |
| Sanders Capital | 26,745,639 | | | |
| Equity Index Futures | | \$0 | \$3,921,594,685 | 50.1 |
| Private Equity Limited Partnerships | | | | |
| Blackstone Capital Partners | 226,799,690 | | | |
| Capital International | 36,274,247 | | | |
| Carlyle | 86,144,520 | | | |
| CINVIN | 104,999,721 | | | |
| Credit Suisse | 475,013 | | | |
| CVC | 73,629,826 | | | |
| Cypress | 5,103,876 | | | |
| Doughty Hanson | 108,691,286 | | | |
| Elevation | 30,922,889 | | | |
| KKR | 45,958,696 | | | |
| Neuberger Berman | 4,098,347 | | | |
| PineBridge | 7,529,649 | | | |
| Silver Lake | 127,403,812 | | 858,031,572 | 11.0 |
| Arbitrage & Aggressive Absolute Return | | | | |
| Internal Merger Arbitrage | 2,453,399 | | | |
| Internal Convertible Arbitrage | 108,576,358 | | | |
| Bridgewater | 69,077,195 | | | |
| Sanders Capital | 16,264,063 | | 196,371,015 | 2.5 |
| Real Estate Limited Partnerships | | | | |
| AREA Property Partners | 20,337,037 | | | |
| Blackstone Real Estate Partners | 983,480,521 | | | |
| Cargill N.A. Real Estate Partners | 71,147,040 | | | |
| Doughty Hanson | 17,144,553 | | | |
| Lone Star | 39,492,680 | | 1,131,601,831 | 14.4 |
| Fixed Income—Investment Grade/TIPS | | | | |
| Internal Investment Grade | 909,247,547 | | | |
| Treasury Financial Futures | | 103,449,900 | 1,012,697,447 | 12.9 |
| Fixed Income—High Yield/Distressed Debt | | | | |
| Internal High Yield | 96,876,926 | | | |
| Blackstone | 15,118,176 | | | |
| CarVal | 139,245,967 | | | |
| Oaktree | 21,408,974 | | | |
| PIMCO | 144,812,805 | | | |
| TCW | 262,391,128 | | 679,853,976 | 8.7 |
| Commodities | | | | |
| GE Asset Management | 25,273,090 | | 25,273,090 | 0.3 |
| Cash and Cash Equivalents | | | | |
| Internal Shift Account | 113,137,605 | | | |
| Cash from Futures | | (103,449,900) | 9,687,705 | 0.1 |
| Total | <u>\$7,835,111,321</u> | <u>\$0</u> | <u>\$7,835,111,321</u> | <u>100%</u> |



The South Dakota Retirement System trust fund's internal global equity portfolio characteristics as of June 30, 2012, are presented below. The SDRS global 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

Distribution by Market Sector

| Market sector | SDRS | Bench |
|-----------------------------|---------------|---------------|
| Consumer Discretionary | 12.8% | 10.4% |
| Consumer Staples | 10.4 | 11.2 |
| Energy | 12.7 | 10.7 |
| Financials | 19.4 | 17.1 |
| Health Care | 14.4 | 10.8 |
| Industrials | 7.9 | 10.5 |
| Information Technology | 15.1 | 15.5 |
| Materials | 3.0 | 5.8 |
| Telecommunications Services | 1.9 | 4.3 |
| Utilities | 1.6 | 3.7 |
| Cash equivalents | <u>0.8</u> | <u>0.0</u> |
| Total | 100.0% | 100.0% |

Ten Largest Country Weights

| | SDRS | Bench |
|---------------|--------------|--------------|
| United States | 72.3% | 68.5% |
| Great Britain | 6.3 | 6.3 |
| Switzerland | 5.6 | 2.3 |
| Japan | 4.9 | 4.9 |
| Germany | 2.9 | 2.1 |
| France | 2.1 | 2.3 |
| Canada | 1.6 | 2.9 |
| Netherlands | 1.0 | 0.7 |
| Ireland | 0.6 | 0.1 |
| South Korea | <u>0.3</u> | <u>0.9</u> |
| Total | 97.6% | 91.0% |

INVESTMENT ANALYSIS (CONTINUED)

Bond Profile

The South Dakota Retirement System internal bond fund portfolio characteristics for the past 10 years are presented below. The Bond Index is presented for comparative purposes.

South Dakota

| Investment Office | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Yield to maturity | 4.73% | 5.44% | 4.70% | 6.00% | 6.00% | 5.67% | 5.17% | 3.65% | 2.60% | 2.0% |
| Average maturity (years) | 7.46 | 7.50 | 5.80 | 5.47 | 6.14 | 6.60 | 5.20 | 5.41 | 5.00 | 5.4 |
| Duration (years) | 5.20 | 5.78 | 4.10 | 4.65 | 5.00 | 5.38 | 4.10 | 4.04 | 4.40 | 4.7 |

Bond Index

| | | | | | | | | | | |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| Yield to maturity | 3.60% | 4.68% | 4.51% | 5.81% | 5.69% | 4.99% | 3.82% | 2.63% | 2.6% | 1.8% |
| Average maturity (years) | 6.70 | 7.47 | 6.21 | 7.28 | 7.39 | 7.80 | 6.27 | 5.96 | 6.50 | 6.3 |
| Duration (years) | 3.90 | 4.77 | 4.67 | 5.06 | 5.12 | 5.36 | 4.88 | 4.55 | 4.80 | 5.0 |

Distribution Profile

The South Dakota Retirement System's internal investment grade (IG) and high yield (HY) bond portfolio characteristics are presented below:

Distribution by Duration

| | IG | HY |
|---------------|---------------|---------------|
| 0 to 2 years | 6.0% | 17.9% |
| 2 to 3 years | 15.5 | 19.6 |
| 3 to 4 years | 36.0 | 16.0 |
| 4 to 5 years | 14.1 | 17.0 |
| 5 to 6 years | 6.6 | 18.9 |
| 6 to 8 years | 10.3 | 7.1 |
| Above 8 years | 11.5 | 3.5 |
| Total | 100.0% | 100.0% |

Distribution by Quality Rating

| | IG | HY |
|----------------|---------------|---------------|
| U.S. Gov't/Aaa | 62.4% | 0.8% |
| Aa | 4.7 | 0.0 |
| A | 12.0 | 0.0 |
| Baa | 20.9 | 0.0 |
| Ba | 0.0 | 21.9 |
| B | 0.0 | 52.7 |
| Caa and lower | 0.0 | 24.6 |
| Total | 100.0% | 100.0% |

Distribution by Coupon

| | IG | HY |
|----------------|---------------|---------------|
| 0.00% - 4.00% | 44.1% | 1.4% |
| 4.01% - 5.00% | 24.8 | 0.0 |
| 5.01% - 6.00% | 22.4 | 4.9 |
| 6.01% - 7.00% | 7.7 | 10.5 |
| 7.01% - 8.00% | 0.0 | 23.5 |
| 8.01% - 9.00% | 1.0 | 23.0 |
| 9.01% and over | 0.0 | 36.7 |
| Total | 100.0% | 100.0% |

Distribution by Sector

| | IG | HY |
|--------------------------------------|---------------|---------------|
| Cash/cash equivalents | 0.1% | 0.8% |
| U.S. Treasuries | 19.0 | 0.0 |
| Agency Debentures/FDIC | 6.7 | 0.0 |
| Agency Mortgage Backed Securities | 35.6 | 0.0 |
| Investment Grade Corporates | 38.6 | 0.0 |
| High Yield Corporates | 0.0 | 99.2 |
| Total | 100.0% | 100.0% |

The allocation of assets to various categories such as stocks, bonds, real estate, and others, has the largest impact on investment outcomes. The Investment Council establishes a benchmark asset allocation which considers expected returns and risk as well as the likelihood of achieving the investment objectives for SDRS over the long term.

Asset Allocation

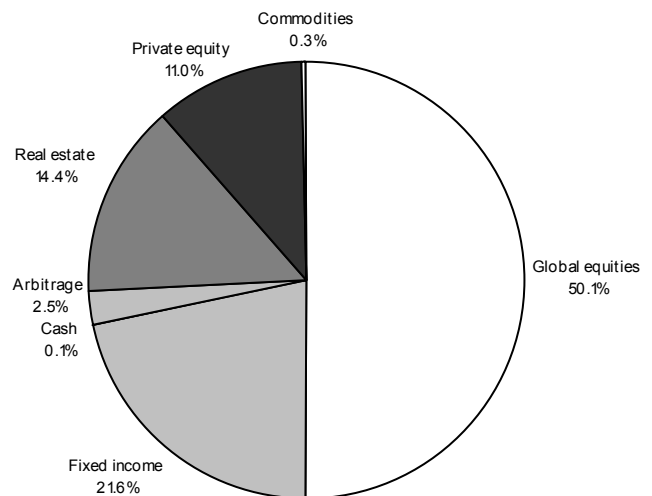
Asset category risk is measured by standard deviation, which is a measure of volatility. The degree that categories diversify each other is measured by correlation. Overall portfolio risk is a function of the standard deviation of the individual asset categories and the correlation among them. Portfolio liquidity is also monitored. Conventional statistical measures of standard deviation and correlation are helpful for understanding risk in normal times but understate real-world frequency and magnitude of severe market declines. The expected long-term return as of June 30, 2012, was 7 percent. This excludes any potential value added or detracted relative to index returns resulting from managing the portfolio. The rate of inflation embedded in the expected return was 2.5 percent. Standard deviation was estimated to be 15.8 percent after adjustments to capture real-world frequency of adverse events. These statistics indicate a 66 percent chance the return for any year would be between (8.8) percent and 22.8 percent.

An additional risk measure is the amount of equity-like risk in the overall portfolio. It can be difficult to understand overall portfolio risk given multiple asset categories that can each behave uniquely. The current equity-like risk measure focuses on the sensitivity of each asset category to a severe stock market decline. The analysis is done separately for inflation and deflation-related stock market declines. The sensitivities are aggregated based on the percentage invested in each category to determine the overall portfolio equity-like risk. The equity-like risk level is adjusted in response to valuation attractiveness.

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, 2012

| | 6/30/10 | 6/30/11 | 6/30/12 |
|------------------------|---------|---------|---------|
| Global equities | 52.2% | 51.1% | 50.1% |
| Fixed income | 22.2% | 20.5% | 21.6% |
| Cash | 0.1% | 0.4% | 0.1% |
| Arbitrage | 4.9% | 3.2% | 2.5% |
| Real estate | 9.3% | 12.8% | 14.4% |
| Private equity | 11.3% | 11.6% | 11.0% |
| Commodities | — | 0.4% | 0.3% |



INVESTMENT ANALYSIS (CONTINUED)

Time-Weighted Rates of Return

| SOUTH DAKOTA RETIREMENT SYSTEM | Fiscal 2002 | Fiscal 2003 | Fiscal 2004 | Fiscal 2005 |
|---|----------------|----------------|----------------|----------------|
| TOTAL INVESTMENT FUND | (4.9)% | 5.0% | 16.6% | 13.3% |
| Cash equivalents | 2.5% | 1.4% | 0.9% | 2.1% |
| Internal bond fund | 5.9% | 14.4% | 1.3% | 9.1% |
| Internal high yield bond fund | — | — | — | — |
| Combined internal equity fund | (12.2)% | (2.0)% | 22.9% | 9.9% |
| Arbitrage convertible fund | 3.8% | 13.1% | 1.0% | 0.9% |
| Arbitrage merger fund | 2.1% | 8.5% | 7.4% | 3.0% |
| INDICES | | | | |
| Bond index | | | | |
| Internal bond fund benchmark | 7.0% | 13.4% | 1.3% | 7.9% |
| Internal high yield bond fund benchmark | — | — | — | — |
| COMBINED INTERNAL EQUITY BENCHMARK | (15.0)% | (0.8)% | 23.6% | 9.0% |
| TOTAL FUND BENCHMARKS | | | | |
| Russell/Mellon total billion \$ fund | (6.6)% | 3.1% | 16.9% | 14.8% |
| Capital market benchmark | (5.8)% | 5.4% | 15.5% | 9.6% |
| CONSUMER PRICE INDEX | 1.1% | 2.1% | 3.3% | 2.5% |

Time-Weighted Annualized Rates of Return

| SOUTH DAKOTA RETIREMENT SYSTEM | Fiscal 2003-2012 | Fiscal 2004-2012 | Fiscal 2005-2012 | Fiscal 2006-2012 |
|---|---------------------|---------------------|---------------------|---------------------|
| TOTAL INVESTMENT FUND | 7.8% | 8.1% | 7.0% | 6.2% |
| Cash equivalents | 1.8% | 1.9% | 2.0% | 2.0% |
| Internal bond fund | 7.0% | 6.2% | 6.8% | 6.4% |
| Internal high yield bond fund | — | — | — | — |
| Combined internal equity fund | 5.4% | 6.3% | 4.4% | 3.6% |
| Arbitrage convertible fund | 6.7% | 6.1% | 6.7% | 7.6% |
| Arbitrage merger fund | 3.3% | 2.7% | 2.1% | 2.0% |
| INDICES | | | | |
| Bond index | | | | |
| Internal bond fund benchmark | 6.3% | 5.6% | 6.1% | 5.9% |
| Internal high yield bond fund benchmark | — | — | — | — |
| COMBINED INTERNAL EQUITY BENCHMARK | 5.8% | 6.6% | 4.7% | 4.1% |
| TOTAL FUND BENCHMARKS | | | | |
| Russell/Mellon total billion \$ fund | 6.8% | 7.3% | 6.1% | 5.5% |
| Capital market benchmark | 6.6% | 6.7% | 5.6% | 5.1% |
| CONSUMER PRICE INDEX | 2.5% | 2.5% | 2.4% | 2.4% |

| Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |
|--------------|---------------|----------------|-----------------|--------------|--------------|-------------|
| 13.1% | 21.39% | (8.65)% | (20.36)% | 18.7% | 25.8% | 1.9% |
| 4.2% | 5.3% | 4.2% | 1.5% | (1.2)% | 0.17% | 0.02% |
| (0.2)% | 6.5% | 8.4% | 9.2% | 9.8% | 4.7% | 7.1% |
| — | 7.7% | 0.1% | 0.7% | 17.5% | 16.0% | 9.2% |
| 12.6% | 22.0% | (21.0)% | (20.8)% | 16.9% | 28.1% | (0.4)% |
| 5.5% | 6.3% | 6.5% | 8.4% | 13.0% | 8.4% | 5.1% |
| 11.7% | 8.7% | (17.4)% | 1.4% | 7.8% | 3.0% | 1.7% |

| | | | | | | |
|-------|-------|---------|---------|-------|-------|--------|
| 0.2% | 6.1% | 7.8% | 7.1% | 9.0% | 3.7% | 7.5% |
| — | 9.2% | 1.2% | 2.3% | 18.9% | 14.8% | 7.9% |
| 14.7% | 23.6% | (11.0)% | (27.9)% | 12.3% | 30.8% | (1.3)% |
| 10.7% | 17.7% | (5.0)% | (17.6)% | 14.5% | 19.7% | 4.3% |
| 10.7% | 17.6% | (4.2)% | (18.0)% | 11.1% | 22.1% | 2.0% |
| 4.3% | 2.7% | 5.0% | (1.4)% | 1.1% | 3.6% | 1.7% |

| Fiscal 2007-2012 | Fiscal 2008-2012 | Fiscal 2009-2012 | Fiscal 2010-2012 | Fiscal 2011-2012 | Fiscal 2012 |
|------------------|------------------|------------------|------------------|------------------|-------------|
| 5.1% | 2.1% | 4.9% | 15.0% | 13.2% | 1.9% |
| 1.6% | 0.9% | 0.11% | (0.34)% | (0.10)% | 0.02% |
| 7.6% | 7.8% | 7.7% | 7.2% | 5.9% | 7.1% |
| 8.3% | 8.5% | 10.7% | 14.2% | 12.6% | 9.2% |
| 2.2% | (1.4)% | 4.2% | 14.2% | 12.9% | (0.4)% |
| 7.9% | 8.2% | 8.7% | 8.8% | 6.7% | 5.1% |
| 0.5% | (1.1)% | 3.4% | 4.1% | 2.4% | 1.7% |

| | | | | | |
|------|--------|-------|-------|-------|--------|
| 6.8% | 7.0% | 6.8% | 6.7% | 5.6% | 7.5% |
| 8.9% | 8.8% | 10.8% | 13.7% | 11.3% | 7.9% |
| 2.4% | (1.4)% | 1.1% | 13.2% | 13.6% | (1.3)% |
| 4.7% | 2.3% | 4.2% | 12.7% | 11.8% | 4.3% |
| 4.2% | 1.7% | 3.2% | 11.4% | 11.6% | 2.0% |
| 2.1% | 2.0% | 1.2% | 2.1% | 2.6% | 1.7% |

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 38,207 total active members as of June 30, 2012.

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

Public Entities Participating in SDRS

School Districts Membership: 17,199

Percentage of total active
members: 45.0%
Units: 168

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

Legislative, Executive, and Judicial Agencies Membership: 7,996

Percentage of total active
members: 20.9%
Units: 1

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

Institutions of Higher Education Membership: 4,379

Percentage of total active
members: 11.5%
Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities
Membership: 4,057
Percentage of total active
members: 10.6%
Units: 153

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

Counties
Membership: 3,854
Percentage of total active
members: 10.1%
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: 722
Percentage of total active
members: 1.9%
Units: 86

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



SDRS Benefits Paid

| County | FY 2012 members receiving benefits | Annualized benefits | County | FY 2012 members receiving benefits | Annualized benefits |
|---|------------------------------------|---------------------|---------------|------------------------------------|---------------------|
| Aurora | 109 | 1,346,617 | Hyde | 53 | 543,368 |
| Beadle | 464 | 7,375,236 | Jackson | 44 | 742,005 |
| Bennett | 36 | 489,194 | Jerauld | 56 | 644,838 |
| Bon Homme | 265 | 3,660,576 | Jones | 37 | 555,969 |
| Brookings | 1,186 | 25,128,283 | Kingsbury | 148 | 1,981,231 |
| Brown | 1,004 | 17,495,536 | Lake | 364 | 6,282,882 |
| Brule | 118 | 1,778,853 | Lawrence | 708 | 13,278,087 |
| Buffalo | 4 | 39,286 | Lincoln | 285 | 4,606,127 |
| Butte | 242 | 3,177,268 | Lyman | 65 | 1,140,353 |
| Campbell | 50 | 639,373 | Marshall | 141 | 2,014,786 |
| Charles Mix | 226 | 3,337,401 | McCook | 109 | 1,629,947 |
| Clark | 114 | 1,275,917 | McPherson | 62 | 695,960 |
| Clay | 554 | 11,514,366 | Meade | 485 | 7,942,770 |
| Codington | 657 | 12,578,631 | Mellette | 46 | 493,561 |
| Corson | 34 | 528,097 | Miner | 55 | 818,906 |
| Custer | 295 | 4,639,887 | Minnehaha | 2,627 | 55,689,665 |
| Davison | 499 | 8,862,273 | Moody | 157 | 2,091,911 |
| Day | 198 | 2,751,042 | Pennington | 2,466 | 47,802,841 |
| Deuel | 100 | 1,077,573 | Perkins | 85 | 1,081,578 |
| Dewey | 67 | 991,010 | Potter | 96 | 1,388,467 |
| Douglas | 69 | 841,295 | Roberts | 223 | 3,170,905 |
| Edmunds | 90 | 1,374,587 | Sanborn | 68 | 902,010 |
| Fall River | 256 | 2,978,986 | Shannon | 13 | 205,465 |
| Faulk | 107 | 1,192,174 | Spink | 381 | 4,898,466 |
| Grant | 179 | 2,688,974 | Stanley | 154 | 3,158,510 |
| Gregory | 136 | 1,906,058 | Sully | 44 | 511,921 |
| Haakon | 47 | 605,796 | Todd | 59 | 906,797 |
| Hamlin | 151 | 2,043,010 | Tripp | 169 | 2,320,316 |
| Hand | 97 | 1,325,495 | Turner | 204 | 2,634,824 |
| Hanson | 43 | 555,208 | Union | 265 | 4,268,050 |
| Harding | 23 | 234,916 | Walworth | 197 | 3,023,803 |
| Hughes | 1,196 | 26,270,823 | Yankton | 712 | 11,674,834 |
| Hutchinson | 223 | 3,300,420 | Ziebach | 14 | 179,173 |
| Total benefits payable by county | | | 19,431 | \$343,284,487 | |

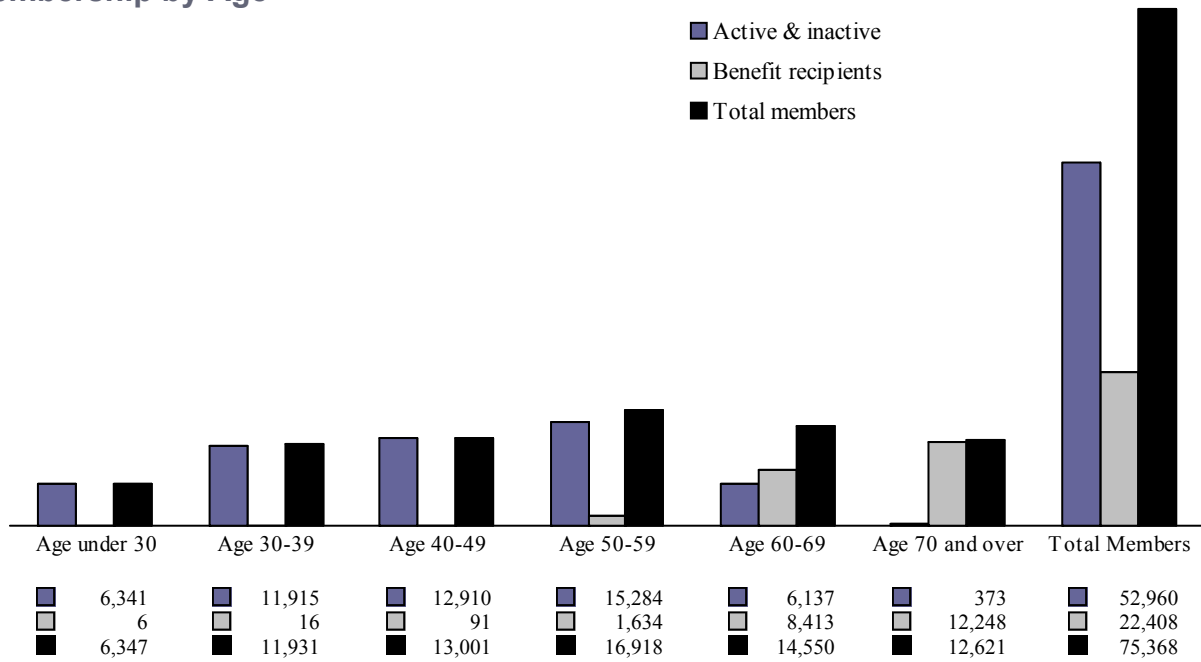
SDRS Benefits Paid by County of Residence

SDRS Benefits Paid Outside of South Dakota

| State | Members receiving benefits | Annualized benefits | State | Members receiving benefits | Annualized benefits |
|---|----------------------------|---------------------|------------------------------------|-----------------------------|---------------------|
| Arizona | 294 | 5,010,612 | North Dakota | 137 | 1,760,106 |
| California | 85 | 1,201,891 | Texas | 172 | 2,513,293 |
| Colorado | 156 | 2,170,792 | Wisconsin | 95 | 1,419,111 |
| Florida | 114 | 1,918,429 | Wyoming | 96 | 1,059,153 |
| Iowa | 194 | 2,536,723 | | | |
| Minnesota | 417 | 6,110,409 | Other states and foreign countries | 867 | 13,015,303 |
| Montana | 68 | 1,046,811 | | | |
| Nebraska | 282 | 3,431,199 | | | |
| Total benefits payable outside South Dakota | | | 2,977 | \$43,193,832 | |
| Total benefit recipients and benefit payable | | | <u>22,408</u> | <u>\$386,478,319</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 | 296 | Faulk | 342 | Mellette | 200 |
| Beadle | 1,314 | Grant | 497 | Miner | 206 |
| Bennett | 161 | Gregory | 409 | Minnehaha | 10,046 |
| Bon Homme | 799 | Haakon | 189 | Moody | 459 |
| Brookings | 4,161 | Hamlin | 536 | Pennington | 7,877 |
| Brown | 3,273 | Hand | 245 | Perkins | 243 |
| Brule | 432 | Hanson | 188 | Potter | 247 |
| Buffalo | 5 | Harding | 104 | Roberts | 662 |
| Butte | 834 | Hughes | 4,449 | Sanborn | 217 |
| Campbell | 140 | Hutchinson | 626 | Shannon | 119 |
| Charles Mix | 719 | Hyde | 148 | Spink | 1,190 |
| Clark | 301 | Jackson | 166 | Stanley | 617 |
| Clay | 1,923 | Jerauld | 173 | Sully | 162 |
| Codington | 2,109 | Jones | 116 | Todd | 419 |
| Corson | 156 | Kingsbury | 541 | Tripp | 553 |
| Custer | 852 | Lake | 1,155 | Turner | 645 |
| Davison | 1,351 | Lawrence | 2,343 | Union | 963 |
| Day | 499 | Lincoln | 1,405 | Walworth | 589 |
| Deuel | 359 | Lyman | 291 | Yankton | 2,324 |
| Dewey | 381 | Marshall | 432 | Ziebach | 115 |
| Douglas | 230 | McCook | 396 | Out of state/ Other | 9,373 |
| Edmunds | 278 | McPherson | 187 | | |
| Fall River | 809 | Meade | 1,822 | | |

Total membership 75,368



| | Active members | | | Inactive members | | | Total members | Membership by Group |
|--|----------------|--------------|---------------|------------------|--------------|----------------|---------------|---------------------|
| | Vested | Non-vested | Total active | Vested | Non-vested | Total inactive | | |
| Board of Regents | | | | | | | | |
| Female | 1,010 | 277 | 1,287 | 458 | 238 | 696 | 1,983 | |
| Male | 1,151 | 344 | 1,495 | 451 | 221 | 672 | 2,167 | |
| Total | 2,161 | 621 | 2,782 | 909 | 459 | 1,368 | 4,150 | |
| County General | | | | | | | | |
| Female | 1,311 | 309 | 1,620 | 289 | 264 | 553 | 2,173 | |
| Male | 1,125 | 267 | 1,392 | 211 | 195 | 406 | 1,798 | |
| Total | 2,436 | 576 | 3,012 | 500 | 459 | 959 | 3,971 | |
| County Public Safety | | | | | | | | |
| Female | 127 | 47 | 174 | 9 | 31 | 40 | 214 | |
| Male | 516 | 152 | 668 | 61 | 69 | 130 | 798 | |
| Total | 643 | 199 | 842 | 70 | 100 | 170 | 1,012 | |
| Judicial | | | | | | | | |
| Female | 12 | 3 | 15 | 0 | 0 | 0 | 15 | |
| Male | 40 | 4 | 44 | 2 | 0 | 2 | 46 | |
| Total | 52 | 7 | 59 | 2 | 0 | 2 | 61 | |
| Municipal General | | | | | | | | |
| Female | 1,071 | 345 | 1,416 | 287 | 372 | 659 | 2,075 | |
| Male | 1,496 | 343 | 1,839 | 271 | 241 | 512 | 2,351 | |
| Total | 2,567 | 688 | 3,255 | 558 | 613 | 1,171 | 4,426 | |
| Municipal Public Safety | | | | | | | | |
| Female | 31 | 12 | 43 | 5 | 15 | 20 | 63 | |
| Male | 596 | 163 | 759 | 86 | 75 | 161 | 920 | |
| Total | 627 | 175 | 802 | 91 | 90 | 181 | 983 | |
| Public School & Board of Regents Classified | | | | | | | | |
| Female | 4,868 | 1,345 | 6,213 | 1,636 | 1,913 | 3,549 | 9,762 | |
| Male | 1,708 | 617 | 2,325 | 424 | 689 | 1,113 | 3,438 | |
| Total | 6,576 | 1,962 | 8,538 | 2,060 | 2,602 | 4,662 | 13,200 | |
| State General | | | | | | | | |
| Female | 3,043 | 852 | 3,895 | 778 | 825 | 1,603 | 5,498 | |
| Male | 2,503 | 560 | 3,063 | 512 | 395 | 907 | 3,970 | |
| Total | 5,546 | 1,412 | 6,958 | 1,290 | 1,220 | 2,510 | 9,468 | |
| State Public Safety and Penitentiary | | | | | | | | |
| Female | 160 | 46 | 206 | 15 | 46 | 61 | 267 | |
| Male | 600 | 173 | 773 | 59 | 122 | 181 | 954 | |
| Total | 760 | 219 | 979 | 74 | 168 | 242 | 1,221 | |
| Teachers | | | | | | | | |
| Female | 7,235 | 918 | 8,153 | 1,899 | 676 | 2,575 | 10,728 | |
| Male | 2,475 | 352 | 2,827 | 682 | 231 | 913 | 3,740 | |
| Total | 9,710 | 1,270 | 10,980 | 2,581 | 907 | 3,488 | 14,468 | |
| Grand Total | | | | | | | | |
| Female | 18,868 | 4,154 | 23,022 | 5,376 | 4,380 | 9,756 | 32,778 | |
| Male | 12,210 | 2,975 | 15,185 | 2,759 | 2,238 | 4,997 | 20,182 | |
| Total | 31,078 | 7,129 | 38,207 | 8,135 | 6,618 | 14,753 | 52,960 | |

MEMBERSHIP PROFILE (CONTINUED)

| Benefit Recipients by Group | Retirement benefits | | Disability benefits | | Survivor benefits | | Total benefits | |
|--|------------------------|---------------|------------------------|------------|----------------------|--------------|-------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Board of Regents | | | | | | | | |
| Male | 968 | 921 | 4 | 4 | 13 | 12 | 985 | 937 |
| Female | 406 | 374 | 7 | 8 | 229 | 220 | 642 | 602 |
| Total | 1,374 | 1,295 | 11 | 12 | 242 | 232 | 1,627 | 1,539 |
| County General | | | | | | | | |
| Male | 644 | 621 | 25 | 29 | 46 | 45 | 715 | 695 |
| Female | 749 | 706 | 14 | 13 | 281 | 283 | 1,044 | 1,002 |
| Total | 1,393 | 1,327 | 39 | 42 | 327 | 328 | 1,759 | 1,697 |
| County Public Safety | | | | | | | | |
| Male | 183 | 176 | 5 | 5 | 2 | 2 | 190 | 183 |
| Female | 23 | 18 | 3 | 2 | 27 | 24 | 53 | 44 |
| Total | 206 | 194 | 8 | 7 | 29 | 26 | 243 | 227 |
| Judicial | | | | | | | | |
| Male | 40 | 38 | 0 | 0 | 0 | 0 | 40 | 38 |
| Female | 4 | 3 | 0 | 0 | 15 | 16 | 19 | 19 |
| Total | 44 | 41 | 0 | 0 | 15 | 16 | 59 | 57 |
| Municipal General | | | | | | | | |
| Male | 679 | 647 | 26 | 29 | 35 | 34 | 740 | 710 |
| Female | 471 | 449 | 14 | 14 | 270 | 261 | 755 | 724 |
| Total | 1,150 | 1,096 | 40 | 43 | 305 | 295 | 1,495 | 1,434 |
| Municipal Public Safety | | | | | | | | |
| Male | 430 | 428 | 11 | 11 | 0 | 0 | 441 | 439 |
| Female | 9 | 6 | 0 | 0 | 78 | 71 | 87 | 77 |
| Total | 439 | 434 | 11 | 11 | 78 | 71 | 528 | 516 |
| Public School & Board of Regents Classified | | | | | | | | |
| Male | 939 | 870 | 30 | 33 | 153 | 148 | 1,122 | 1,051 |
| Female | 2,623 | 2,425 | 36 | 36 | 313 | 303 | 2,972 | 2,764 |
| Total | 3,562 | 3,295 | 66 | 69 | 466 | 451 | 4,094 | 3,815 |
| State General | | | | | | | | |
| Male | 1,811 | 1,780 | 23 | 29 | 111 | 112 | 1,945 | 1,921 |
| Female | 1,746 | 1,678 | 49 | 51 | 652 | 643 | 2,447 | 2,372 |
| Total | 3,557 | 3,458 | 72 | 80 | 763 | 755 | 4,392 | 4,293 |
| State Public Safety and Penitentiary | | | | | | | | |
| Male | 367 | 349 | 6 | 7 | 2 | 2 | 375 | 358 |
| Female | 33 | 30 | 5 | 5 | 50 | 49 | 88 | 84 |
| Total | 400 | 379 | 11 | 12 | 52 | 51 | 463 | 442 |
| Teachers | | | | | | | | |
| Male | 2,311 | 2,232 | 12 | 14 | 254 | 262 | 2,577 | 2,508 |
| Female | 4,698 | 4,468 | 30 | 33 | 443 | 428 | 5,171 | 4,929 |
| Total | 7,009 | 6,700 | 42 | 47 | 697 | 690 | 7,748 | 7,437 |
| Grand Total | | | | | | | | |
| Male | 8,372 | 8,062 | 142 | 161 | 616 | 617 | 9,130 | 8,840 |
| Female | 10,762 | 10,157 | 158 | 162 | 2,358 | 2,298 | 13,278 | 12,617 |
| Total | 19,134 | 18,219 | 300 | 323 | 2,974 | 2,915 | 22,408 | 21,457 |



**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 7/1/2002—6/30/2003 | | | | | | | |
| Average monthly benefit | 773 | 512 | 672 | 875 | 1,356 | 2,151 | 2,690 |
| Average final average salary | 25,569 | 28,462 | 29,910 | 30,175 | 32,724 | 42,045 | 45,382 |
| Number of retired members | 37 | 94 | 116 | 105 | 115 | 170 | 221 |
| Period 7/1/2003—6/30/2004 | | | | | | | |
| Average monthly benefit | 757 | 452 | 615 | 897 | 1,286 | 1,973 | 2,714 |
| Average final average salary | 26,563 | 26,159 | 27,981 | 30,539 | 33,381 | 39,403 | 45,930 |
| Number of retired members | 41 | 99 | 99 | 105 | 119 | 185 | 294 |
| Period 7/1/2004—6/30/2005 | | | | | | | |
| Average monthly benefit | 1,397 | 538 | 651 | 888 | 1,476 | 1,884 | 2,748 |
| Average final average salary | 35,696 | 29,434 | 28,721 | 31,397 | 37,459 | 39,472 | 48,086 |
| Number of retired members | 60 | 107 | 110 | 101 | 118 | 174 | 272 |
| Period 7/1/2005—6/30/2006 | | | | | | | |
| Average monthly benefit | 743 | 550 | 858 | 922 | 1,392 | 1,940 | 2,789 |
| Average final average salary | 27,869 | 31,382 | 35,882 | 31,482 | 37,098 | 41,452 | 48,863 |
| Number of retired members | 43 | 131 | 127 | 106 | 139 | 166 | 250 |
| Period 7/1/2006—6/30/2007 | | | | | | | |
| Average monthly benefit | 1,256 | 473 | 620 | 976 | 1,516 | 1,946 | 2,725 |
| Average final average salary | 35,644 | 30,282 | 32,042 | 34,194 | 40,863 | 41,666 | 48,330 |
| Number of retired members | 55 | 160 | 137 | 151 | 147 | 175 | 319 |
| Period 7/1/2007—6/30/2008 | | | | | | | |
| Average monthly benefit | 812 | 640 | 622 | 905 | 1,335 | 1,968 | 2,741 |
| Average final average salary | 34,087 | 31,758 | 31,048 | 35,318 | 37,144 | 43,770 | 49,329 |
| Number of retired members | 56 | 137 | 123 | 134 | 164 | 184 | 308 |
| Period 7/1/2008—6/30/2009 | | | | | | | |
| Average monthly benefit | 556 | 696 | 746 | 1,019 | 1,492 | 1,994 | 2,637 |
| Average final average salary | 33,520 | 35,083 | 35,457 | 38,381 | 41,543 | 46,246 | 48,688 |
| Number of retired members | 50 | 180 | 136 | 143 | 175 | 186 | 291 |
| Period 7/1/2009—6/30/2010 | | | | | | | |
| Average monthly benefit | 563 | 558 | 682 | 1,010 | 1,476 | 1,994 | 2,683 |
| Average final average salary | 31,782 | 31,647 | 33,854 | 39,245 | 44,464 | 46,812 | 50,377 |
| Number of retired members | 83 | 227 | 141 | 150 | 170 | 183 | 278 |
| Period 7/1/2010—6/30/2011 | | | | | | | |
| Average monthly benefit | 460 | 761 | 726 | 1,051 | 1,490 | 1,960 | 2,278 |
| Average final average salary | 34,708 | 39,038 | 37,032 | 41,887 | 44,039 | 46,463 | 52,846 |
| Number of retired members | 63 | 155 | 159 | 152 | 194 | 188 | 357 |
| Period 7/1/2011—6/30/2012 | | | | | | | |
| Average monthly benefit | 531 | 521 | 663 | 1,092 | 1,456 | 1,797 | 2,805 |
| Average final average salary | 34,604 | 35,033 | 35,652 | 40,892 | 43,466 | 44,076 | 53,602 |
| Number of retired members | 101 | 241 | 211 | 163 | 213 | 207 | 370 |

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients
and Benefits Paid

| Group | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Board of Regents | 1,336 | 1,390 | 1,432 | 1,464 | 1,539 | 1,627 |
| County general | 1,537 | 1,569 | 1,609 | 1,639 | 1,697 | 1,759 |
| County public safety | 177 | 186 | 198 | 207 | 227 | 243 |
| Judicial | 54 | 55 | 58 | 57 | 57 | 59 |
| Municipal general | 1,232 | 1,265 | 1,316 | 1,382 | 1,434 | 1,495 |
| Municipal public safety | 458 | 465 | 473 | 499 | 516 | 528 |
| Public school & Board of Regents classified | 3,196 | 3,340 | 3,492 | 3,658 | 3,815 | 4,094 |
| State general | 3,930 | 3,971 | 4,077 | 4,162 | 4,293 | 4,392 |
| State public safety & penitentiary | 356 | 372 | 393 | 411 | 442 | 463 |
| Teachers | 6,443 | 6,708 | 6,901 | 7,082 | 7,437 | 7,748 |
| Total benefit recipients | 18,719 | 19,321 | 19,949 | 20,561 | 21,457 | 22,408 |
| Total benefits paid during period | \$253,545,120 | \$273,236,767 | \$306,769,037 | \$325,951,211 | \$345,942,871 | \$371,417,148 |
| Average benefits paid during period | \$13,545 | \$14,142 | \$15,378 | \$15,853 | \$16,123 | \$16,575 |

Active and Inactive
Members

| Group | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Board of Regents | 3,360 | 3,759 | 3,886 | 3,984 | 4,055 | 4,150 |
| County general | 3,981 | 4,011 | 3,943 | 3,930 | 3,934 | 3,971 |
| County public safety | 827 | 866 | 943 | 971 | 990 | 1,012 |
| Judicial | 56 | 58 | 59 | 60 | 60 | 61 |
| Municipal general | 4,169 | 4,235 | 4,308 | 4,310 | 4,328 | 4,426 |
| Municipal public safety | 886 | 921 | 936 | 951 | 949 | 983 |
| Public school & Board of Regents classified | 12,707 | 12,996 | 13,123 | 13,111 | 13,181 | 13,200 |
| State general | 9,374 | 9,496 | 9,510 | 9,447 | 9,415 | 9,468 |
| State public safety & penitentiary | 1,139 | 1,132 | 1,160 | 1,158 | 1,157 | 1,221 |
| Teachers | 14,517 | 14,639 | 14,714 | 14,749 | 14,622 | 14,468 |
| Total active and inactive members | 51,316 | 52,113 | 52,582 | 52,671 | 52,691 | 52,960 |



Benefit and Expenses by Type

| | Benefits | | | Refund benefits | Total benefits & refunds | Administrative expenses |
|------------------|---------------------|---------------------|-------------------|-----------------|--------------------------|-------------------------|
| | Retirement benefits | Disability benefits | Survivor benefits | | | |
| 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 |
| Fiscal year 2010 | 294,880,495 | 4,182,082 | 26,888,634 | 29,148,085 | 355,099,296 | 3,402,075 |
| Fiscal year 2011 | 313,157,736 | 4,383,174 | 28,401,961 | 25,824,829 | 371,767,700 | 3,575,854 |
| Fiscal year 2012 | 337,290,588 | 4,084,918 | 30,041,642 | 25,942,146 | 397,359,294 | 3,277,973 |

Changes in Net Assets Last 10 Fiscal Years

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------------|-------------|-------------|-------------|---------------|---------------|-----------------|---------------|---------------|--------------|
| Additions | | | | | | | | | | |
| Member contributions | 80,806,422 | 104,655,550 | 89,158,629 | 82,464,727 | 86,932,782 | 91,978,502 | 95,457,518 | 98,347,135 | 100,179,938 | 100,484,113 |
| Employer contributions | 71,989,308 | 74,854,496 | 77,474,967 | 80,829,338 | 85,361,762 | 89,766,090 | 94,244,915 | 96,914,192 | 98,624,738 | 98,866,649 |
| Investment income (loss) (net of expenses) | 209,901,823 | 776,890,949 | 716,237,979 | 783,993,684 | 1,426,600,535 | (723,013,005) | (1,518,619,609) | 1,011,107,887 | 1,616,173,385 | 107,541,250 |
| Total additions (deductions) to plan net assets | 362,697,553 | 956,400,995 | 882,871,575 | 947,287,749 | 1,598,895,079 | (541,268,413) | (1,328,917,176) | 1,206,369,214 | 1,814,978,061 | 306,892,012 |
| Deductions | | | | | | | | | | |
| Benefit payments | 181,265,287 | 198,454,410 | 217,550,207 | 234,825,875 | 253,545,120 | 273,236,767 | 306,769,037 | 325,951,211 | 345,942,871 | 371,417,148 |
| Refunds | 19,338,147 | 21,414,639 | 20,840,323 | 25,069,548 | 28,777,398 | 28,203,655 | 24,225,249 | 29,148,085 | 25,824,829 | 25,942,146 |
| Administrative expenses | 2,796,941 | 2,493,039 | 2,772,121 | 2,697,571 | 3,033,519 | 3,352,380 | 3,428,853 | 3,402,075 | 3,575,854 | 3,277,973 |
| Total deductions from plan net assets | 203,400,375 | 222,362,088 | 241,162,651 | 262,592,994 | 285,356,037 | 304,792,802 | 334,423,139 | 358,501,371 | 375,343,554 | 400,637,267 |
| Change in net assets | 159,297,178 | 734,038,907 | 641,708,924 | 684,694,755 | 1,313,539,042 | (846,061,215) | (1,663,340,315) | 847,867,843 | 1,439,634,507 | (93,745,255) |

MEMBERSHIP PROFILE (CONTINUED)

| Principal Participating Employers | 2012 | Participating government | Covered employees | Rank | Percentage of total system |
|---|------|--------------------------------|----------------------|------|----------------------------------|
| | | | | | |
| | | State of South Dakota | 7,996 | 1 | 21% |
| | | Board of Regents | 4,379 | 2 | 11% |
| | | Sioux Falls Schools* | 2,850 | 3 | 7% |
| | | Rapid City Schools | 1,832 | 4 | 5% |
| | | City of Rapid City | 731 | 5 | 2% |
| | | City of Brookings and Hospital | 635 | 6 | 2% |
| | | Watertown Schools | 633 | 7 | 2% |
| | | Pennington County | 604 | 8 | 2% |
| | | Minnehaha County | 493 | 9 | 1% |
| | | Aberdeen Schools | 483 | 10 | 1% |
| | | All Other | 17,571 | | 46% |
| | | Total (473 governments) | <u>38,207</u> | | <u>100%</u> |

* Sioux Falls schools enrolled their classified employees in SDRS in 2005.

| | 2002 | Participating government | Covered employees | Rank | Percentage of total system |
|--|------|--------------------------------|----------------------|------|----------------------------------|
| | | | | | |
| | | State of South Dakota | 7,682 | 1 | 22% |
| | | Board of Regents | 3,794 | 2 | 11% |
| | | Rapid City Schools | 1,772 | 3 | 5% |
| | | Sioux Falls Schools | 1,539 | 4 | 4% |
| | | Watertown Schools | 603 | 5 | 2% |
| | | City of Rapid City | 602 | 6 | 2% |
| | | City of Brookings and Hospital | 565 | 7 | 2% |
| | | Pennington County | 478 | 8 | 1% |
| | | Todd County Schools | 475 | 9 | 1% |
| | | Aberdeen Schools | 449 | 10 | 1% |
| | | All Other | 17,171 | | 49% |
| | | Total (444 governments) | <u>35,130</u> | | <u>100%</u> |



**Retired Members
By Type and
Amount of Benefit**

As of June 30, 2012

| 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 | 598 | 131 | 1,162 | 19 | 31 | 0 | 545 | 1 | 87 |
| \$251—\$500 | 646 | 161 | 1,467 | 46 | 63 | 0 | 567 | 8 | 150 |
| \$501—\$750 | 532 | 177 | 1,165 | 60 | 64 | 5 | 381 | 21 | 123 |
| \$751—\$1,000 | 402 | 241 | 801 | 23 | 40 | 8 | 284 | 43 | 112 |
| \$1,001—\$1,250 | 322 | 414 | 548 | 43 | 34 | 23 | 236 | 102 | 88 |
| \$1,251—\$1,500 | 235 | 502 | 389 | 32 | 34 | 18 | 155 | 174 | 101 |
| \$1,501—\$1,750 | 189 | 569 | 253 | 28 | 24 | 12 | 139 | 212 | 92 |
| \$1,751—\$2,000 | 156 | 670 | 144 | 20 | 17 | 7 | 83 | 220 | 61 |
| Over \$2,000 | 652 | 3,460 | 305 | 29 | 42 | 17 | 146 | 1,144 | 103 |
| | <u>3,732</u> | <u>6,325</u> | <u>6,234</u> | <u>300</u> | <u>349</u> | <u>90</u> | <u>2,536</u> | <u>1,925</u> | <u>917</u> |



.....

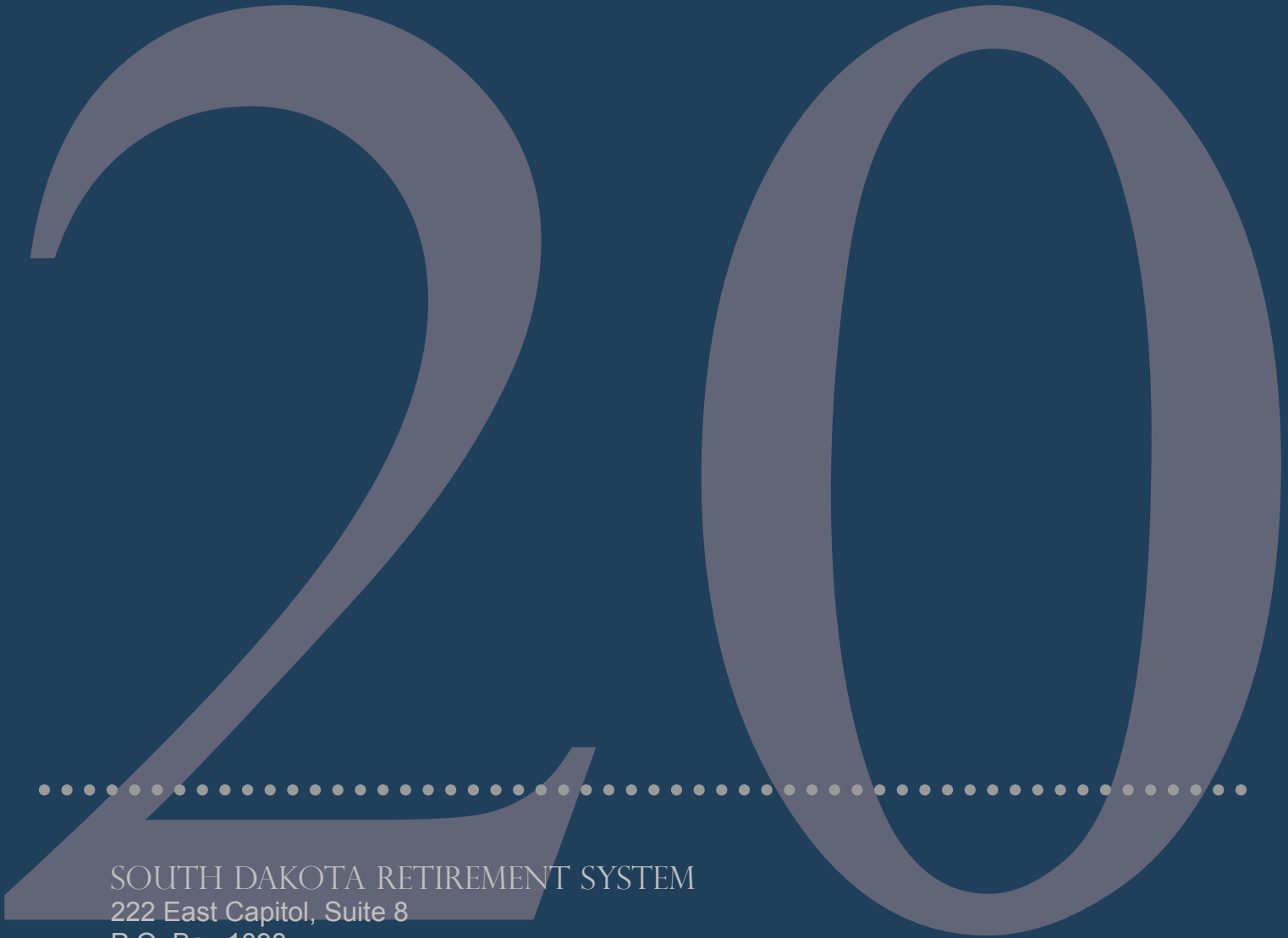
For more information on the South Dakota Retirement System, please contact:

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)

Website: www.sdrs.sd.gov

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



SOUTH DAKOTA RETIREMENT SYSTEM

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