



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, 2013

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 2013 HIGHLIGHTS

Total membership	77,103
Active contributing members	38,594
Inactive non-contributing members	15,182
Benefit recipients	23,327
Net position restricted for pension benefits	\$9,085,706,708
Actuarial value of assets	\$8,803,761,326
Actuarial accrued liability (AAL)	\$8,803,761,326
Investment return—Gross of fees	19.53%
Investment return—Net of fees	19.02%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 397,620,115
Refunds paid	<u>25,160,994</u>
Total	\$ 422,781,109
<u>Contributions</u>	
Member	\$ 101,678,721
Employer	<u>100,376,481</u>
Total	\$ 202,055,202
Funding period	N/A
Actuarial value funded ratio (actuarial value of assets/AAL)	100.0%
Market value funded ratio (market value of assets/AAL)	103.2%



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A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2013

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



Government Finance Officers Association

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, 2012

Executive Director/CEO

RECOGNITION AWARD FOR FUNDING



Public Pension Coordinating Council

***Recognition Award for Funding
2013***

Presented to

South Dakota Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive style with a large, prominent 'A' and 'W'.

Alan H. Winkle
Program Administrator

INTRODUCTION



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

To Our Members:

December 19, 2013

During fiscal year 2013, the South Dakota Retirement System (SDRS) Board of Trustees continued to focus on conservative fiscal operations, prudent benefit designs, and long-term sustainability. Based on the results of the actuarial valuation at year-end, the Board of Trustees took an unprecedented action to completely payoff the plan's unfunded liabilities. For the first time in its history, SDRS is fully funded on both a market value basis and an actuarial value basis at 103.2 percent and 100.0 percent, respectively. This exceptional achievement was realized as a result of the conservative oversight of the Board of Trustees, the outstanding long-term success of the South Dakota Investment Council, and through the on-going support of the Executive and Legislative branches of state government and the SDRS membership. SDRS continues to be one of the most financially sound public employee retirement systems in the nation.

The SDRS Trust Fund, which is managed by the South Dakota Investment Council, produced a time-weighted investment return of 19.5 percent (gross of fees) for fiscal year 2013, exceeding the investment benchmark by more than 5 percent and generating nearly \$1 billion in earnings above expectations. Beginning in fiscal year 2014, new governmental pension accounting and reporting standards will require SDRS to report investment returns net of expenses, including the inflows and outflows of the Trust Fund. The results of this new methodology, called money-weighted return, will be disclosed in the SDRS financial statements along with the time-weighted returns.

SDRS continues to be a financial engine for South Dakota. Citizens in cities and counties across our state benefit from SDRS. During the past year, over \$400 million in benefit payments were made to SDRS members and their beneficiaries. (See the Statistical Summary of this report for more details.)

SDRS continues to expand on the services provided to our membership. SDRS Retirement Planners counsel members throughout their careers and into retirement. Our seminars and workshops provide SDRS members with access to outstanding educational programs that help to prepare them for the retirement transition. In 2013, SDRS implemented financial and retirement planning workshops designed specifically for women and members in the early and mid-stages of their careers. Moving into 2014, SDRS will be introducing a pre-retirement planning workshop and a retiree forum. Through efforts such as these, SDRS strives to educate members on the overall importance of holistic retirement planning.

SDRS also continues to expand on our member communications. The *My SDRS* section of the SDRS website continues to provide secure, up-to-date information to assist members in their retirement planning efforts. An email communication service has allowed SDRS to provide subscribing members with timely updates on SDRS-related issues and legislative activities. This past year, SDRS implemented a Facebook page to engage members through social media by providing an additional opportunity to stay up-to-date on topics of importance.

As SDRS embarks on its 40th year, the financial integrity of the system and the services provided to our members will continue to be the main priorities of the SDRS Board of Trustees and staff. Thank you for your continued support in our efforts to maintain a sound system for our members and their families.

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 19, 2013

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, 2013. 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 77,000 members. The system's benefit provisions have been improved numerous times throughout this period to meet the needs of our members as shown on pages 13-15.

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 investment return before deducting investment expenses for the SDRS trust fund was 19.5 percent for fiscal year (FY) 2013. The Investment Council's benchmark return was 12.7 percent for the same period. The money-weighted investment return for the SDRS trust fund after deducting investment expenses was 19.0 percent.

Funding and Actuarial Measures

In the 2013 actuarial valuation, two important actuarial measures were calculated to evaluate the actuarial soundness and funding progress of SDRS. They are the funded ratio and the 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. Each year, an actuarial value funded ratio and a market value funded ratio are calculated. A ratio in excess of 100 percent indicates that accrued benefits are fully funded.

The Funding Period measures 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. A shorter funding period results in a more favorable actuarial measure.

In 2013, the South Dakota Retirement System Board of Trustees took action to transfer funds from the cushion to the actuarial value of assets in order to eliminate the system's unfunded AAL. As a result, the unfunded AAL as of June 30, 2013 is \$0 and no funding period is applicable. SDRS is fully funded with an actuarial value funded ratio of 100.0 percent and a market value funded ratio of 103.2 percent.

Since its inception, SDRS has been funded by statutorily fixed member and employer contribution rates that historically met the actuarially determined requirements of the system. With the unfunded AAL eliminated, the portion of contributions previously assigned to pay down the unfunded AAL can now be used to build the cushion to protect the system against future unfavorable experience and enhance the system's sustainability.

Major Initiatives

SDRS staff continues to focus its efforts on educating our members of the important benefit base provided by SDRS, as well as Social Security, in achieving financial security, the many challenges retirees face, and ways to extend and enhance financial security throughout retirement. Our outreach efforts continue to expand. SDRS Retirement Planners met with nearly 3,400 members in one-on-one counseling sessions, group events, and requested visits throughout the state during fiscal year 2013. In our endeavors to provide outstanding educational programs, SDRS implemented workshops designed specifically for women and those members who are in the early and middle of their careers. In 2014, SDRS will offer a new pre-retirement planning workshop as well as a retiree forum.

SDRS also created a Facebook page to engage members through social media. While our newsletter and website continue to be the main sources for the most current SDRS information, these avenues provide additional methods of communication to our membership.

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 South Dakota 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.

This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) 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 Eide Bailly 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, 2012. 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 18th 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 Recognition Award for Funding to the South Dakota Retirement System in recognition of meeting the professional standards for plan funding. This is the 10th year that SDRS received an award from the Public Pension Coordinating Council.

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

History of Benefit Improvements

Benefit Category	Status in 1974	Benefit Improvements
Benefit Formula * Class A Standard	1.0%	1982 - 1.1% 1986 - 1.2% 1989 - 1.25% 1991 - 1.30% 1994 - 1.30%/1.40% (for applicable years) 1997 - 1.40% prior to 1997/1.30% thereafter 1998 - 1.475% prior to 1998/1.30% thereafter 1999 - 1.55% prior to 2000/1.30% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2008 - 1.7% prior to 2008/1.55% thereafter
Alternate	2.0%	1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325 % prior to 2002/2.0% thereafter 2002 - 2.325 % prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
* Class B Public Safety	2.0%	1994 - 2.0%/2.10% (for applicable years) 1997 - 2.10% prior to 1997/2.0% thereafter 1998 - 2.175% prior to 1998/2.0% thereafter 1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325% prior to 2002/2.0% thereafter 2008 - 2.4% prior to 2008/2.0% thereafter
* Class B Judicial	3.333% / 2.0%	1994 - 3.333%/3.433% (for applicable years) 2.0%/2.10% (for applicable years) 1997 - 3.433% prior to 1997/3.333% thereafter 2.10% prior to 1997/2.0% thereafter 1998 - 3.508% prior to 1998/3.333% thereafter 2.175% prior to 1998/2.0% thereafter 1999 - 3.583% prior to 2000/3.333% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 3.658% prior to 2002/3.333% thereafter 2.325% prior to 2002/2.0% thereafter 2008 - 3.733% prior to 2008/3.333% thereafter 2.4% prior to 2008/2.0% thereafter
Class A Retiree Benefit Formula	Variable	Standard - Alternate 1982 - 1.0% - 2.0% 1987 - 1.05% - 2.0% 1988 - 1.1% - 2.0% 1989 - 1.25% - 2.0% 1991 - 1.30% - 2.0% 1994 - 1.30%/1.40% (for applicable years) - 2.0% 1997 - 1.40% prior to 1997/1.30% thereafter - 2.0% 1998 - 1.475% prior to 1998/1.30% thereafter - 2.0% 1999 - 1.55% prior to 2000/1.30% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2.325% prior to 2002/2.0% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2.325% prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
Improvement Factor	2% Simple	1978 - 2.0% compound (indexed) 1982 - 3.0% compound (indexed) 1988 - 3.0% compound 1993 - 3.1% compound 1998 - 3.1% compound and prorated for partial years 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 (no new enrollees after July 1, 2010)	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

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 1990
Assistant Director of Human Resources
South Dakota State University
Volga
Louise Loban

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

Jilena Faith
Represents classified employees
Board service began in September 2012
Human Resources Generalist
South Dakota State University
Brookings

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

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

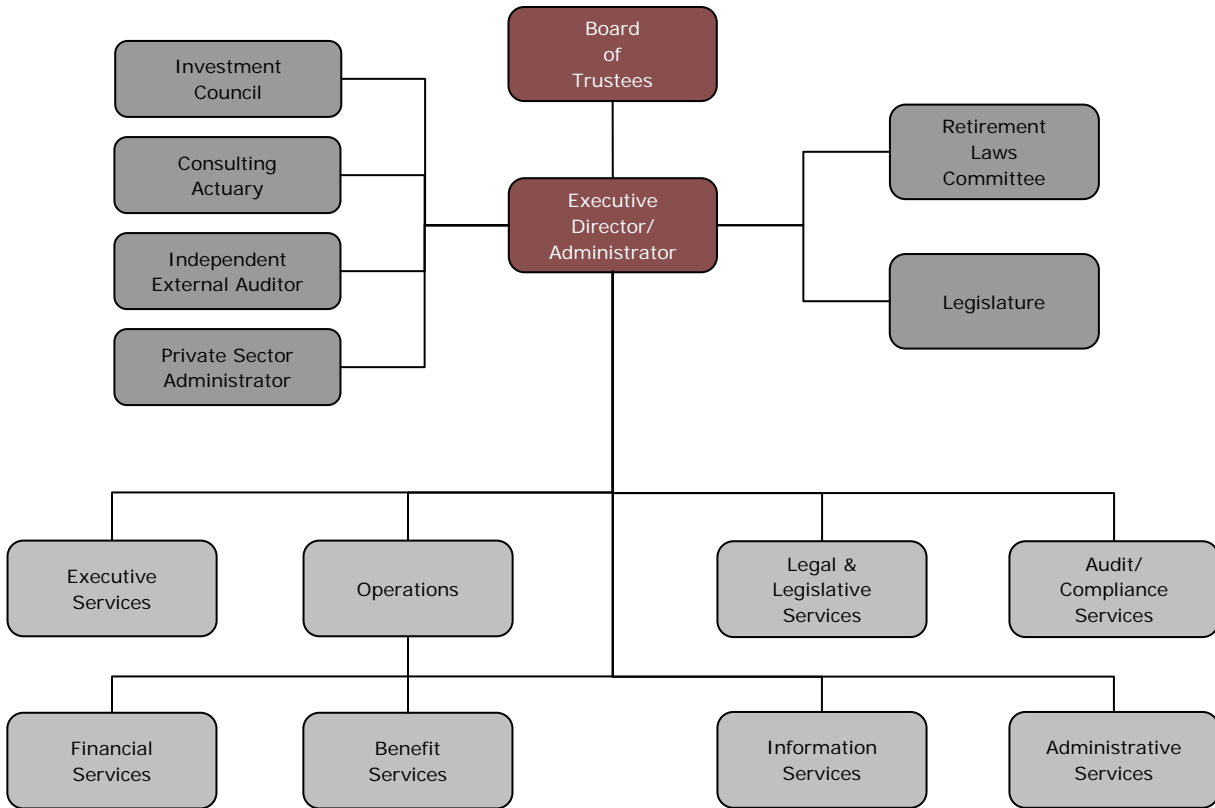
Represents state employees
Board service began in July 2004
Engineering supervisor
Department of Transportation
Glenham
Eric Stroeder

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

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

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

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 Eide Bailly LLP
Boise, ID
PRIVATE SECTOR
ADMINISTRATOR Nationwide Retirement Solutions
Columbus, OH
RETIREMENT CONSULTANT R. Paul Schrader
Denver, CO
INFORMATION SERVICES/
COMPUTER SUPPORT S. Lee Huset (BIT)
Pierre, SD
Donelle Samuelson (BIT)
Pierre, SD
Scott Schroeder (BIT)
Pierre, SD

FINANCIAL SUMMARY



- Auditor's Opinion**
- Management's Discussion and Analysis**
- Basic Financial Statements**
 - Statement of Plan Net Position
 - Statement of Changes in Plan Net Position
 - Notes to Financial Statements
- Required Supplementary Information**
 - Schedule of Funding Progress
 - Schedule of Employer Contributions
- Other Supplementary Information**
 - Schedule of Administrative Expenses
 - Schedule of Investment Activity Expenses



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Trustees
South Dakota Retirement System
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Retirement System (SDRS), which comprise the statement of plan net position as of June 30, 2013, and the related statement of changes in plan net position, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective statement of the plan net position of the South Dakota Retirement System, as of June 30, 2013, and the respective statement of changes in plan net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

1

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AUDITOR'S OPINION (CONTINUED)

Emphasis of Matter

As described in Note 2 to the financial statements, the financial statements include investments valued at \$2,704,546,343 (29.8% of net position) 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 21-24 and 34 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SDRS's basic financial statements as a whole.

The additional supplementary information accompanying financial information listed as supplemental schedules in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying financial information listed as supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 07, 2013, on our consideration of the SDRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDRS's internal control over financial reporting and compliance.



November 07, 2013
Boise, Idaho

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, 2013. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

- The plan net position of SDRS increased by \$1.2 billion during fiscal year 2013. This increase was primarily due to the investment performance of 19.53 percent, which was significantly above the assumed rate of 7.25 percent.
- SDRS funded ratio increased to 100.0 percent in 2013 from 92.6 percent in 2012.
- SDRS paid \$397.6 million to benefit recipients in fiscal year 2013 compared to \$371.4 million in 2012. SDRS received \$202.1 million in member and employer contributions in fiscal year 2013 compared to \$199.4 million in 2012.

The basic financial statements consist of:

Financial Statements

The System presents the statement of the plan net position as of June 30, 2013, and the statement of changes in plan net position 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's 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.

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.

Financial Highlights

Overview of the Financial Statements and Accompanying Information

Financial Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summary of Plan Net Position June 30, 2013 and 2012

A summary of the plan net position is shown below:

Assets	2013	2012
Cash and cash equivalents	\$ 6,347,578	\$ 4,334,563
Receivables	51,026,767	24,808,359
Investments, at fair value	9,122,724,043	7,868,732,360
Other assets	26,442	22,720
Due from brokers—futures transactions	<u>1,870,102</u>	<u>—</u>
Total assets	<u>\$9,181,994,932</u>	<u>\$7,897,898,002</u>
Liabilities		
Accounts payable and accrued expenses	\$ 2,232,483	\$ 2,087,340
Securities sold, but not yet purchased	55,977,321	46,263,220
Unsettled investment purchases	38,078,420	6,711,319
Due to brokers—futures transactions	<u>—</u>	<u>311,882</u>
Total liabilities	<u>\$ 96,288,224</u>	<u>\$ 55,373,761</u>
Net position restricted for pension benefits	<u>\$9,085,706,708</u>	<u>\$7,842,524,241</u>

Funded Ratio

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

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

The actuarial accrued liability is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future normal cost contributions.

Actuarial Accrued Liability Funded Ratio

	2013	2012	Change
Funded ratio	100.0%	92.6%	7.4%

Change in Plan Net Position

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

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 7.25 percent at June 30, 2013. The investment returns were 19.53 percent for 2013 and 1.91 percent for 2012.

Deductions from plan net position are primarily benefit payments. During 2013, SDRS paid \$397.6 million to benefit recipients or 7.1 percent more than 2012. The increase is due to added recipients and the annual 3.1 percent cost-of-living adjustment. Refunds of accumulated contributions during 2013 decreased 3.0 percent. Administrative costs of SDRS represent less than 0.04 percent of plan net position.

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

	2013	2012	% Change
Additions:			
Employee contributions	\$ 101,678,721	\$ 100,484,113	1.2%
Employer contributions	100,376,481	98,866,649	1.5
Investment income	<u>1,467,497,091</u>	<u>107,541,250</u>	<u>59.8</u>
Total additions	<u>1,669,552,293</u>	<u>306,892,012</u>	<u>50.4</u>
Deductions:			
Benefits	397,620,115	371,417,148	7.1
Refunds of contributions	25,160,994	25,942,146	(3.0)
Administrative expenses	<u>3,588,717</u>	<u>3,277,973</u>	<u>9.5</u>
Total deductions	<u>426,369,826</u>	<u>400,637,267</u>	<u>6.4</u>
Net change in plan net position	1,243,182,467	(93,745,255)	69.8
Net position restricted for pension benefits:			
Beginning of year	<u>7,842,524,241</u>	<u>7,936,269,496</u>	<u>(1.2)</u>
End of year	<u>\$9,085,706,708</u>	<u>\$7,842,524,241</u>	<u>15.9%</u>

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

Investments

Investment performance during 2013 and 2012 was 19.53 percent and 1.91 percent, respectively.

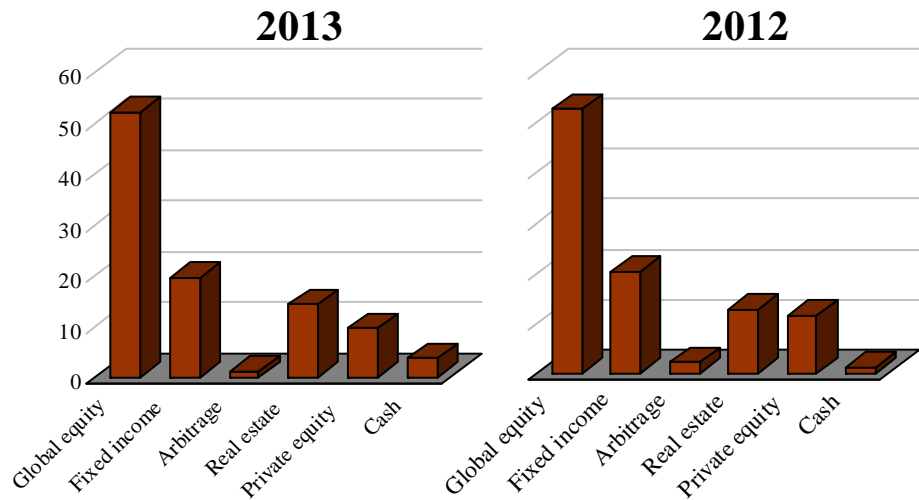
The Investment Council is governed by the prudent-man standard, as defined in South Dakota Codified Law §4-5-27:

§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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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



Plan Status

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

Requests for Information

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.

BASIC FINANCIAL STATEMENTS

Assets		Statement of Plan Net Position June 30, 2013
Cash and cash equivalents	\$6,347,578	
Receivables:		
Employer	2,223,068	
Employee	2,594,082	
Benefits	61,924	
Unsettled investment sales	27,806,373	
Accrued interest and dividends	<u>18,341,320</u>	
Total receivables	<u>51,026,767</u>	
Investments, at fair value:		
Fixed income	1,958,995,995	
Equities	5,020,038,052	
Real estate	1,284,334,590	
Private equity	<u>859,355,406</u>	
Total investments, at fair value	<u>9,122,724,043</u>	
Due from brokers—futures transactions	<u>1,870,102</u>	
Property, at COST (net of accumulated depreciation of \$10,643)	<u>5,258</u>	
Other assets	<u>21,184</u>	
Total assets	<u>9,181,994,932</u>	
Liabilities		
Accounts payable and accrued expenses	2,232,483	
Securities sold, but not yet purchased, at fair value	55,977,321	
Unsettled investment purchases	<u>38,078,420</u>	
Total liabilities	<u>96,288,224</u>	
Net position restricted for pension benefits	<u>\$9,085,706,708</u>	

See accompanying notes to financial statements.

BASIC FINANCIAL STATEMENTS (CONTINUED)

<p>Statement of Changes in Plan Net Position Year Ended June 30, 2013</p>	<p>Additions</p> <p>Contributions:</p> <table border="0" style="width: 100%;"> <tr> <td style="padding-left: 20px;">Employee</td> <td style="text-align: right;">\$101,678,721</td> </tr> <tr> <td style="padding-left: 20px;">Employer</td> <td style="text-align: right;"><u>100,376,481</u></td> </tr> <tr> <td>Total contributions</td> <td style="text-align: right;">\$202,055,202</td> </tr> </table> <p>Investment income:</p> <p><i>From investing activities:</i></p> <table border="0" style="width: 100%;"> <tr> <td style="padding-left: 20px;">Net appreciation in fair value of investments</td> <td style="text-align: right;">1,278,299,836</td> </tr> <tr> <td style="padding-left: 20px;">Interest</td> <td style="text-align: right;">74,193,432</td> </tr> <tr> <td style="padding-left: 20px;">Dividends</td> <td style="text-align: right;">126,514,828</td> </tr> <tr> <td style="padding-left: 20px;">Real estate</td> <td style="text-align: right;"><u>23,274,159</u></td> </tr> <tr> <td style="padding-left: 40px;">Investment activity income</td> <td style="text-align: right;">1,502,282,255</td> </tr> <tr> <td style="padding-left: 40px;">Less investment activity expenses</td> <td style="text-align: right;"><u>(35,665,820)</u></td> </tr> <tr> <td>Net investment activity income</td> <td style="text-align: right;">1,466,616,435</td> </tr> </table> <p><i>From security lending activities:</i></p> <table border="0" style="width: 100%;"> <tr> <td style="padding-left: 20px;">Security lending income</td> <td style="text-align: right;">1,258,076</td> </tr> <tr> <td style="padding-left: 20px;">Security lending expenses</td> <td style="text-align: right;"><u>(377,420)</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>880,656</u></td> </tr> <tr> <td>Total additions</td> <td style="text-align: right;">1,669,552,293</td> </tr> </table> <p>Deductions</p> <table border="0" style="width: 100%;"> <tr> <td style="padding-left: 20px;">Benefits</td> <td style="text-align: right;">397,620,115</td> </tr> <tr> <td style="padding-left: 20px;">Refunds of contributions</td> <td style="text-align: right;">25,160,994</td> </tr> <tr> <td style="padding-left: 20px;">Administrative expenses</td> <td style="text-align: right;"><u>3,588,717</u></td> </tr> <tr> <td>Total deductions</td> <td style="text-align: right;">426,369,826</td> </tr> </table> <p>Net change in plan net position 1,243,182,467</p> <table border="0" style="width: 100%; background-color: black; color: white;"> <tr> <td colspan="2">Net position restricted for pension benefits</td> </tr> <tr> <td style="padding-left: 20px;">Beginning of year</td> <td style="text-align: right;">7,842,524,241</td> </tr> <tr> <td style="padding-left: 20px;">End of year</td> <td style="text-align: right;"><u>\$9,085,706,708</u></td> </tr> </table>	Employee	\$101,678,721	Employer	<u>100,376,481</u>	Total contributions	\$202,055,202	Net appreciation in fair value of investments	1,278,299,836	Interest	74,193,432	Dividends	126,514,828	Real estate	<u>23,274,159</u>	Investment activity income	1,502,282,255	Less investment activity expenses	<u>(35,665,820)</u>	Net investment activity income	1,466,616,435	Security lending income	1,258,076	Security lending expenses	<u>(377,420)</u>		<u>880,656</u>	Total additions	1,669,552,293	Benefits	397,620,115	Refunds of contributions	25,160,994	Administrative expenses	<u>3,588,717</u>	Total deductions	426,369,826	Net position restricted for pension benefits		Beginning of year	7,842,524,241	End of year	<u>\$9,085,706,708</u>
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See accompanying notes to 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 nonvoting representative of the South Dakota Investment Council. The elected representatives of the Board are two teacher members; two State employee members; a participating municipality member; a participating county member; a participating classified employee member; a 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. SDRS believes that the system currently is designed and being operated in compliance with the applicable requirements of the Internal Revenue Code, and therefore, SDRS continues to be tax-exempt as of June 30, 2013. 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.

BASIC FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2013, the number of participating governmental employers is as follows:

School districts	166
State of South Dakota	1
Board of Regents	1
Municipalities	154
Counties	64
Boards and commissions	88
Total employers	474

At June 30, 2013, SDRS membership consists of the following:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	21,946
Class B (public safety and judicial employees)	1,381
Total retirees and beneficiaries	23,327

Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	14,525
Class B (public safety and judicial employees)	657
Total terminated members	15,182

Current active members:	
Vested:	
Class A (general employees)	28,649
Class B (public safety and judicial employees)	2,091
Non-vested:	
Class A (general employees)	7,189
Class B (public safety and judicial employees)	665
Total current active members	38,594

Grand total	77,103
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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, co-investments, and other investment vehicles. For alternative investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, values these investments in good faith based upon the investment's current financial statements or other information provided by the underlying investment advisor. For all of these alternative investments, SDRS has determined that net asset value reported by the underlying fund approximates the fair value of the investment. These fair value estimates are, by their nature, subjective and based on judgment. These alternative investments were valued at \$2,704,546,343 (29.8% of net position) at June 30, 2013. 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 (closed to new enrollees after July 1, 2010).

SDRS is funded by fixed member and employer contributions at a rate established by South Dakota law. On an annual basis, an independent actuarial valuation of SDRS is performed to determine the adequacy of the fixed contributions to pay the normal costs, expenses, and amortize the frozen unfunded actuarial accrued liability (UAAL). The June 30, 2013, actuarial valuation of the plan determined that the System is fully funded and that the statutorily required employer contributions meet the requirements for the annual required contributions 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 statutorily required employer contributions are sufficient to pay the employer normal cost and expenses. Annual required contributions of the employers equal to the statutorily 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>
2013	\$100,376,481	100
2012	98,866,649	100
2011	98,624,737	100
2010	96,914,192	100
2009	94,244,915	91

Contributions during fiscal year 2013 totaling \$202,055,202 (\$101,678,721 employee and \$100,376,481 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>
2014	\$231,192
2015	56,410
2016	43,734
2017	30,976
2018	7,605
Later	<u>6,144</u>

Deferred contributions receivable
at June 30, 2013 \$376,061

(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 or to meet the funding objectives of SDRS as established by the Board of Trustees. As of June 30, 2013, the balance in the reserve for funding of long-term benefit goals is \$1,106 million. The reserve will increase by net gains of \$1,303 million that will be recognized in the reserve for funding of long-term benefit goals over the next four years.

4. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 100.0 percent funded. The actuarial accrued liability for benefits was \$8.8 billion, and the actuarial value of assets was \$8.8 billion, resulting in an UAAL of \$0. The covered payroll (annual payroll of active employees covered by the plan) was \$1.6 billion, and the ratio of the UAAL to the covered payroll was 0.0 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements on page 34, 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, 2013, actuarial valuation, the entry age frozen UAAL method was used. The actuarial assumptions included (a) investment rate of return of 7.25 percent for four years and 7.5 percent thereafter, 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 increasing or decreasing prior year assets with net actual cash flow (increasing by contributions and decreasing by benefit payments and expenses) and crediting it with the assumed rate of investment return. The actuarial value of assets is also debited/credited with liability gains/losses for the year and constrained to a range of 80 percent to 120 percent of market value of assets. In addition, for the June 30, 2013 valuation, \$634 million was transferred from the cushion to the actuarial value of assets to eliminate the UAAL in accordance with the Board of Trustees funding policy objectives. As a result, the UAAL is \$0 as of June 30, 2013.

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 short-term U.S. Treasury and Agency obligations, short-term US Corporate securities, bank certificates of deposit, and money market funds.

BASIC FINANCIAL STATEMENTS (CONTINUED)

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, 2013, SDRS has bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, \$11,463,635 was exposed to custodial credit risk, which is recorded in investments in the statement of plan net position.

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	\$5,147,977,583	\$6,120,819,618
Sanders Capital	27,811,527	33,619,962
Blackstone Real Estate Partners	859,629,666	1,138,390,846
Rockport RE IV	15,509,890	19,183,471
Starwood RE IX	10,446,662	12,329,122
Cargill North American Real Estate Partners	45,403,232	29,543,771
CINVIN	88,046,337	98,477,588
Pinebridge	7,104,045	4,806,821
CVI Global Value Fund	85,430,213	95,414,971
CVI Specialized Ventures Fund	5,739,053	4,219,638
TCW Opp MBS Strategy	400,270,767	447,837,677
PIMCO Distressed Mtg Fund II	145,993	116,245
Blackstone Credit Liquidity	2,431,587	1,360,337
Sanders All Asset Value	17,206,955	19,693,158
Silver Lake Partners LP	113,015,546	125,841,530
KKR Associates	42,507,636	42,500,790
Cypress Merchant Banking Partners LP	5,815,153	4,711,980
Capital International	31,394,546	31,651,050
Apollo Real Estate Advisors LP	27,975,441	17,144,353
Bridgewater Pure Alpha Fund II	36,510,303	72,183,617
Dimensional Fund Advisors, Inc.	8,918,381	44,964,081
Blackstone Private Equity	216,325,450	264,217,264
Doughty Hanson & Co. Private Equity IV	66,295,329	86,422,923
Brandes Global Mid-Cap	42,787,090	47,228,870
Doughty Hanson & Co. European Real Estate	34,466,858	19,609,719
CVC	57,465,992	68,283,859
Carlyle	40,666,530	58,353,533
Riverstone	46,174,492	57,289,887
GE Asset Management	92,730,000	91,575,887
Elevation Partners	12,113,359	13,122,570
Crossroads Investment Advisors LP	5,175,182	3,213,149
Lonestar Real Estate	44,195,123	48,133,308
DLJ Merchant Banking Partners LP	388,412	351,448
Total investments	7,638,074,333	9,122,724,043
Securities sold, but not yet purchased	(46,243,682)	(55,977,321)
Total	\$7,591,830,651	\$9,066,746,722

(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's 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's internally managed high-yield fixed income portfolio's

duration must fall between 85 percent and 115 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	\$128,778,875	6.46
U.S. Treasury strips	43,759,723	9.99
U.S. Treasury Bills	21,998,033	0.22
U.S. agencies	57,189,922	4.57
U.S. Treasury Inflation		
Protected Securities	1,788,964	1.54
Investment grade corporates	362,652,463	4.12
High-yield corporates	173,142,638	3.61
Agency Mortgage-backed securities	319,135,372	4.97
Nonagency mortgage-backed securities	432,959,133	0.58
Total	\$1,541,405,123	3.56

The SDRS fixed income portfolios invest in mortgage-backed securities. These securities are sensitive to prepayments by mortgagees, which is likely in declining interest rate environments, thereby reducing the value of these securities. The SDIC invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk.

(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, 2013, 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	\$455,191,398
Aa	65,109,899
A	109,951,973
Baa	185,672,773
Ba	63,826,051
B	112,753,649
Caa	177,326,685
Ca	134,336,808
Not rated	111,006,279
Total	\$1,415,175,515

(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 percent or more of the total fair value of investment as of June 30, 2013 (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's 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, 2013, is as follows (in U.S. dollar fair value):

Currency	Equities	Fixed income	Cash	Total
Australian Dollar	\$10,120,137	—	\$238,414	\$10,358,551
Brazilian Real	1,868,540	—	—	1,868,540
British Pound	268,094,206	—	4,921,610	273,015,816
Canadian Dollar	65,137,338	—	348,679	65,486,017
Danish Krone	8,309,828	—	29,487	8,339,315
Euro	312,773,012	—	2,951,241	315,724,253
Hong Kong Dollar	2,936,526	—	48,988	2,985,514
Hungarian Forint	862,698	—	70,679	933,377
Japanese Yen	181,140,594	—	1,777,749	182,918,343
Korean Won	30,820,966	—	1,749	30,822,715
Norwegian Krone	1,463,303	—	1,061,893	2,525,196
Singapore Dollar	675,895	—	4,258	680,153
Swedish Krona	478,789	—	—	478,789
Swiss Franc	247,808,331	—	8,887	247,817,218
Total fair value	\$1,132,490,163	—	\$11,463,634	\$1,143,953,797

Investments with limited partnerships and certain global equity investments with external managers, which are not included in the table above, may expose SDRS's portfolio to additional foreign currency risk. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2013, was \$2,143,689,981. The total fair value of global equity, hedge fund, and distressed and high-yield fixed income investments managed by external managers was \$217,388,801, \$91,876,775, and \$101,111,191 respectively.

(e) Return on Investments

During fiscal year 2013, SDRS's investments (including investments bought and sold, as well as held during the year) appreciated in value by \$1,278,299,836.

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

Appreciation in fair value of investments:	
Equities	\$758,352,700
Fixed income	28,978,913
Real estate	149,734,376
Private equity	21,322,708
Commodities	(273,090)
Change in accrued income	471,140
Total increase in fair value	958,856,747

Realized gain (loss) on investments:	
Equities	151,296,168
Fixed income	71,670,839
Real estate	13,702,791
Private equity	83,439,851
Commodities	665,596
Total net realized gains	320,775,245

Futures—change in unrealized gain (loss)	1,913,939
Futures—realized gain (loss)	(2,966,477)
Net loss on futures	(1,052,538)
Net appreciation in investments	\$1,278,309,454

(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's securities custodian is an agent in lending securities and shall accept only U.S. government securities or its 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.

The fair value of securities on loan as of June 30, 2013 was \$43,777,748 and the collateral held on the same date was \$46,309,192. 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 position. 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.

BASIC FINANCIAL STATEMENTS (CONTINUED)

(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 in the preceding Securities Lending section. As of June 30, 2013, the SDRS does not have custodial credit risk with regard to the security lending collateral.

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 external 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, 2013, 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, 2013 of \$1,870,102 is presented in the statement of plan net position as "Due from brokers—futures transactions." The change in fair value of the futures contracts is presented in the statement of changes in plan net position as "Net appreciation in fair value of investments." The net change in fair value from futures contracts for fiscal year ended June 30, 2013, was \$1,052,538. Futures contract positions at June 30, 2013, were as follows:

Description	Open position	Number of contracts	Notional contract size	Fair value
U.S. Treasury note due September 2013	Long	1,525	100,000 par value 6%, 10 year U.S. Treasury note	\$193,007,813
S&P 500 Index due September 2013	Short	(1,090)		\$(435,809,250)

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 Position as Investments, at fair value—Equities. The change in fair value of the forward contracts is presented in the Statement of Changes in Plan Net Position 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, 2013, was \$3,197,930. At June 30, 2013, the foreign currency forward contracts outstanding were as follows:

Description	Notional amount	Currency	Maturity date	Fair value (US dollars)
Forward sale	(1,943,536)	CHF	7/25/2013	\$12,753
Forward sale	(19,770,519)	CHF	8/2/2013	316,745
Forward sale	(20,777,375)	EUR	9/20/2013	355,975
Forward sale	(115,000,000)	JPY	8/8/2013	1,721
Forward purchase	129,400,000	CNY	7/24/2014	548,163
Forward purchase	128,050,000	CNY	7/28/2014	330,883
Forward purchase	117,237,600	CNY	9/10/2015	359,684
Forward purchase	150,250,000	CNY	3/30/2015	(1,337,837)
Forward purchase	158,375,000	CNY	11/30/2016	(473,115)

(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, 2013, the net fair value of foreign currency forward contracts was \$1,925,924. 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
A1	1	\$(1,913,172)
Aa3	1	(12,753)

(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 \$114,972.

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, 2013, a liability existed for accumulated annual leave calculated at the employees' June 30, 2013, pay rate in the amount of \$135,413. 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, 2013, a liability existed for accumulated and accrued sick leave, calculated at the employees' June 30, 2013, pay rate in the amount of \$160,110.

	2013	2012	% change
Total compensated absences	\$295,523	\$270,438	9.27%

The total leave liability for the current year is on the statement of plan net position available for benefits in accounts payable and accrued expenses.

8. Operating Leases

The SDRS has entered into an agreement to lease office space effective September 2012 and has a term of ten years. A schedule of minimum office rental payments as of June 30, 2013, is as follows for the fiscal year ending June 30:

2014	\$ 104,471
2015	104,471
2016	104,471
2017	104,471
2018	104,471
2019	104,471
2020	104,471
2021	104,471
2022	<u>104,471</u>
Total remaining minimum payments	<u>\$ 940,239</u>

9. Supplemental Retirement Plan

SDRS offers a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. SRP is available to all public employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

All amounts of compensation deferred under the SRP, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are at all times held in trust for the exclusive benefit of the participants until made available to a participant or the participant's beneficiary.

Of the \$209,543,260 net position restricted for plan benefits at June 30, 2013, \$129,643,753 was held in trust for employees of the State, while the remaining \$79,899,507 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$801,756 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2013.

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 \$31,668,746 net position restricted for plan benefits at June 30, 2013, \$18,067,484 was held in trust for employees of the State, while the remaining \$13,601,262 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, 2013, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$620,736,309 and to real estate limited partnerships totaling approximately \$300,455,932. 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 claw-back 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 working on this. The pending legal action does not represent an immediate negative contingency.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in millions)

Actuarial valuation date	(a)	(b)	Unfunded actuarial liability [UAAL] (b-a)	Funded ratio (a/b)	(c)	UAAL as a percentage of covered payroll [(b-a)/c]
	Actuarial value of assets	Actuarial accrued liability—entry age [AAL]			Covered payroll	
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
6/30/2013	8,803.7	8,803.7	—	100.0	1,519.7	—

Schedule of Employer Contributions Last Six Years

	For the year ended June 30	Annual required contributions	Percentage contributed
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
2013		100,376,481	100

Notes to Trend Data

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:

Valuation date	6/30/2013
Actuarial cost method	Entry age with frozen unfunded actuarial accrued liability
Amortization method	Level percentage-closed
Remaining amortization period	0 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.

OTHER SUPPLEMENTARY INFORMATION

Personal services	Accrual Basis
Salary and per diem	\$1,528,499
Employee benefits	455,428
Total personal services	<u>1,983,927</u>

Operating expenses	
Travel	59,485
Contractual services:	
Audit	117,320
Finance	13,108
Valuations	77,730
Consulting	224,888
Studies	19,367
Special studies	82,673
Legal	11,610
Communications	4,290
Medical	15,040
Operations	644,116
Total contractual services	<u>1,210,142</u>
Supplies and materials	320,541
Capital assets	14,622
Total operating expenses	<u>1,604,790</u>

Total administrative expenses **\$3,588,717**

Investment managers	Management expenses
State of South Dakota Investment Council	\$5,713,364
Pinebridge	179,652
Apollo Real Estate Advisors LP	357,347
Blackstone Distressed Securities and Credit Liquidity	(21,577)
Blackstone Private Equity	418,641
Blackstone Real Estate Partners	6,271,824
Brandes Investment Partners	388,187
Capital International	1,277,005
Cargill North American Real Estate Partners	739,869
Carlyle	604,908
CINVIN	2,731,550
Crossroads Investment Advisors LP	161,185
CVC	765,250
CVI	1,818,082
Cypress Merchant Banking Partners LP	62,096
Dimensional Fund Advisors, Inc.	204,949
Doughty Hanson & Co. European Real Estate	725,267
Doughty Hanson & Co. Private Equity IV	898,904
Elevation Partners	185,367
GE Asset Management China	1,130,174
GE Asset Management Commodities	259,941
KKR Associates	160,687
Lonestar Real Estate	1,681,012
Oaktree Loan Fund 2x	59,031
PIMCO Distressed Mtg Fund II	919,479
Riverstone	1,510,027
Rockpoint RE IV	2,113,018
Sanders All Asset Value	225,766
Sanders Capital	204,192
Starwood RE IX	1,052,645
Silver Lake Partners LP	1,370,643
TCW	<u>1,497,335</u>

Total investment activity expenses **\$35,665,820**

Schedule of Administrative Expenses for the Year Ended June 30, 2013

Schedule of Investment Activity Expenses for the Year Ended June 30, 2013

ACTUARIAL SUMMARY



- Actuary's Opinion**
- 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**



A Xerox Company

November 5, 2013

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, 2013. 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, 2013 have been considered in this Actuarial Valuation. SDRS benefit provisions considered, Member data, and Trust Fund information are summarized in the Appendices in this report.

The assumptions and methods used to determine the Annual Required Contributions of the Employers to SDRS as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Buck Consultants, LLC is solely responsible for the actuarial data presented in this report.

SDRS is funded by Employer and Member Contribution Rates as established by South Dakota law. The funding objective for SDRS is that these statutory rates continue to be sufficient to fund the System benefits as a level as a percent of Member Compensation. The SDRS Board of Trustees has also established funding policy objectives that the System be fully funded, resulting in no Unfunded Actuarial Accrued Liability and that the statutorily required contributions meet or exceed the amount required to pay the Normal Costs of SDRS, System Expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of Member Compensation over a period not to exceed 20 years if the System is not fully funded.

As noted below, the fully funded objectives are currently being met and are 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 exceed the amount required to pay the current Normal Costs and Expenses of the System. As of June 30, 2013, the Unfunded Actuarial Accrued Liability is \$0. The contractual Employer Contribution Rates to SDRS meet the requirements of the Annual Required Contributions of the Employers of GASB Statement No. 25.

The SDRS Board of Trustees measures and compares the funding progress of SDRS on several bases. The Actuarial Value Funded Ratio is 100.0% and the Market Value Funded Ratio is 103.2% as of June 30, 2013.

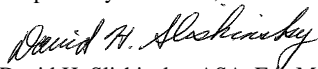
Based on Member data and asset information provided by SDRS, we have prepared the Schedule of Funding Progress and Schedule of Employer Contributions in accordance with GASB No. 25 parameters that are included in the Financial section of the CAFR.

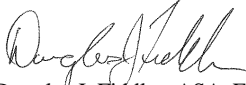
The undersigned are Enrolled Actuaries, Associates of the Society of Actuaries and Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance 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.

Future actuarial measurements may differ significantly from current measurements presented in this report due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Due to the limited scope of this report, an analysis of the potential range of such future measurements has not been performed.

SDRS is meeting its actuarial funding policy.

Respectfully submitted,


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


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

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ACTUARIAL OVERVIEW

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

In the 2013 actuarial valuation, two important actuarial measures have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are:

- funded ratio
- funding period

Actuarial Accrued Liability

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. Two measurements of the funded ratio are calculated each year. The actuarial value funded ratio is a required accounting disclosure and is equal to the actuarial value of assets divided by the AAL. The market value funded ratio is equal to the market value of assets divided by the AAL. A ratio in excess of 100 percent indicates that accrued benefits are fully 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. In accordance with the Board of Trustees' funding policy objectives, a transfer of \$634 million was made as of June 30, 2013 from the cushion to the actuarial value of assets in order to eliminate the unfunded actuarial accrued liability. As a result, the unfunded actuarial accrued liability is \$0 as of June 30, 2013 and no funding period is applicable.

Measures of Actuarial Soundness

	2013 actuarial valuation	2012 actuarial valuation
Actuarial value funded ratio (actuarial value of assets/AAL)	100.0%	92.6%
Market value funded ratio (market value of assets/AAL)	103.2%	92.8%
Funding period	N/A	29 years

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2013

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was 19.53 percent prior to consideration of investment expenses. The money-weighted annualized investment performance based on the market value of assets for the period was 18.98 percent after deducting investment expenses, significantly greater than the assumed rate of 7.25 percent for fiscal year 2013. This resulted in an actuarial investment gain of \$908 million. The actuarial value of assets was credited with the assumed rate of return of 7.25 percent for the one-year period ending June 30, 2013, and increased by the total liability loss of \$7 million. The reserve for funding of long-term benefits goals was decreased from a balance of negative \$982 million as of June 30, 2012, to a balance of negative \$1,106 million as of June 30, 2013, as a result of investment returns above expectations for fiscal year 2013 and a transfer from the cushion to the actuarial value of assets. Net gains to be allocated to the reserve in the next four fiscal years total \$1,303 million as of June 30, 2013.



Actuarial Liability Gains/Losses

For the year ended
June 30, 2013

	Amount of liability gain (loss)	Percentage of present value of all benefits
Gain due to compensation increases	\$38M	0.38%
(Loss) due to decrements	(43M)	(0.43)%
(Loss) due to rehired and new members	(24M)	(0.24)%
Gain due to COLA for continuing inactive	28M	0.28%
Miscellaneous (Loss)	(6M)	(0.06)%
Total system (loss)	\$(7M)	(0.07)%

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 thereafter, compounded annually plus prefunding of improvement factor (COLA); b) projected Social Security cost-of-living increases of 3.25 percent and wage inflation of 3.75 percent per year compounded annually; c) pre-retirement and post-retirement COLA increases of 2.7 percent per year compounded annually; d) active member 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.

Actuarial Assumptions

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 increase of \$366 million to the system based on the present value of all benefits.

Effective for the June 30, 2012 valuation, the frozen unfunded actuarial accrued liability was eliminated through a transfer from the cushion and reserve for funding of long-term benefit goals to the actuarial value of assets. The entry age actuarial cost method will be used in future years to determine the normal cost. The frozen unfunded actuarial accrued liability will remain at \$0 unless and until it is increased to recognize a change in plan provisions or actuarial assumptions or to recognize a decrease in actuarial value of assets required to remain in the 20 percent corridor around market value of assets. Under this method, experience gains or losses (i.e., decreases or increases in liabilities attributable to deviations in experience from the actuarial assumptions) related to past service adjust the actuarial value of assets and gains and losses related to future service adjust the normal cost.

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.

ACTUARIAL OVERVIEW (CONTINUED)

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.

Summary of Actuarial Assumption and Method Changes

The SDRS Board of Trustees approved a change in the actuarial value of assets. A transfer of \$634 million was made as of June 30, 2013 from the cushion to the actuarial value of assets in order to eliminate the frozen unfunded actuarial accrued liability. The SDRS Board of Trustees also revised its funding policy objectives. The revised objectives include an actuarial value funded ratio of 100 percent and a market value funded ratio of at least 100 percent. With the transfer to the actuarial value of assets from the cushion (and adjustment to the reserve), SDRS currently meets these objectives. As a result, statutorily required employer and member contributions meet all actuarially required contributions and will contribute to the cushion and reserve in future years.

Cushion

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.



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.

Reserve for Funding of Long-term Benefit Goals

Balance as of June 30, 2012	\$(981,549,491)
Fiscal year 2013 experience	180,285,935
Amortization of prior gain and losses	329,607,015
Less transfer from cushion and reserve to actuarial value of assets to eliminate frozen unfunded actuarial accrued liability	(634,406,970)
Balance as of June 30, 2012	<u>\$(1,106,053,511)</u>
Net gains to be allocated to reserve in next four years	<u>\$1,303,115,302</u>

Sample Separation Rates

Actuarial Assumption Tables

Annual Rate per 100 Members

Age	Mortality		Disabled Mortality	Disablement					
	Male	Female		Class A-Teachers		Class A-Non-Teachers		Class B-Public Safety	
				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

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Assumption Tables (continued)

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	12.7
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



There were no benefit improvements or substantive benefit provision changes during the 2013 fiscal year. The June 30, 2013, actuarial valuation completely reflects all the provisions of the system in effect on June 30, 2013, as outlined in the plan summary section of the report.

Benefit Changes

Summary of Key Actuarial Measures

	2012 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, 2013	2013 actuarial valuation results
Normal cost rate with expense provision	10.279%	—	(0.075)%	—	10.204%
Funding period	29 years	—	—	(29) years	N/A
Frozen unfunded actuarial accrued liability	\$625M	—	\$9M	\$(634)M	\$0
Actuarial accrued liability funded ratio	92.6%	0.2%	—	7.2%	100.0%

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.

ACTUARIAL VALUATION

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

An important measure of actuarial soundness is the adequacy of combined statutorily required member and employer contribution rates¹ to pay the normal cost of the system, system expenses, and amortize the unfunded actuarial accrued liability² (if one exists) over a limited time, including interest on the liability.

This measure of actuarial soundness is currently met. The funding requirements for SDRS for 2013, expressed as a percentage of payroll and total contributions, are based on the 2013 actuarial valuation and are summarized in the chart below.

SDRS 2013 Funding Requirements

	As a percentage of payroll	As a percentage of contributions
Total statutorily required employer and member contribution rate	12.478 ¹	100.0
Normal cost rate at mid-period	9.954	79.8
Expense allowance	.250	2.0
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	10.204	81.8
Contribution rate available to amortize frozen unfunded actuarial accrued liability (if one exists) (12.478%-10.204%)	2.274 ²	18.2

The transfer of \$634 million from the cushion to the actuarial value of assets as of June 30, 2013, eliminated the frozen unfunded actuarial accrued liability as of June 30, 2013. The 2013 actuarial valuation indicates that the total statutorily required employer and member contribution rate of 12.478 percent is sufficient to pay the normal cost and expenses of the system and provides an additional amount that will contribute to the cushion in future years and be available to amortize the frozen unfunded actuarial accrued liability when one exists.

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, 2013, are 12.478 percent of considered compensation.

² The unfunded frozen actuarial accrued liability is \$0 as of June 30, 2013.

The 2013 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. No unfunded actuarial accrued liability exists and the portion of the statutorily fixed contributions available to amortize the unfunded actuarial accrued liability is available to increase the cushion and reserve for funding of long-term benefit goals.
- 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 \$282 million.
- e. SDRS currently has a balance of negative \$1,106 million in the reserve for funding of long-term benefit goals and net gains of \$1,303 million to be allocated to the reserve in the next four years.

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.
- c. During periods when the frozen unfunded actuarial accrued liability is \$0, contributions over the normal cost and expenses of the system contribute to the cushion, providing additional resources to offset potential unfavorable experience.

The 2013 actuarial valuation indicates that the statutorily required employer-member contribution rates are sufficient to pay the current costs of the system (normal cost plus expenses). As of June 30, 2013, the frozen unfunded actuarial accrued liability is \$0.

The most important indicators of the long-term actuarial soundness of the system are determined by the annual actuarial valuation of the system. The soundness is measured by the relationship of the normal cost to the total contributions available, the amount (if any) of the unfunded actuarial accrued liability, by the length of the funding period when an unfunded actuarial accrued liability exists, by the cushion, the current balance in the reserve for funding of long-term benefit goals, and the net amount remaining to be allocated to the reserve in the future.

Actuarial Soundness

The current SDRS benefits combined with the present financing and the \$0 frozen unfunded actuarial accrued liability result in a well-funded system that is providing benefits essentially equal to the resources available.

ACTUARIAL VALUATION (CONTINUED)

SDRS is a consolidated, multiple-employer, cost-sharing retirement system that does not attempt to determine separate or unique funding requirements for entities within SDRS. However, the 2013 actuarial valuation confirmed that the two major employee groups within SDRS with different funding and benefit provisions (Class A and Class B) are generally 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 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 expenses and contribute to the cushion and reserve for funding of long-term benefit goals or fund the frozen unfunded actuarial accrued liability when one exists.

Development of the SDRS Actuarial Value of Assets

As of June 30, 2013

Actuarial value of assets as of June 30, 2012	\$7,827,601,564
Contributions and disbursements	
Contributions	202,055,202
Benefit payments and refunds	(422,781,109)
Administrative expenses	<u>(3,588,717)</u>
Total	\$(224,314,624)
Expected investment return	\$559,511,978
SDRS liability gain/(loss)	\$(6,555,438)
Preliminary actuarial value of assets as of June 30, 2013	\$8,169,354,356
Transfer from cushion to actuarial value of assets to eliminate unfunded actuarial accrued liability	<u>\$634,406,970</u>
Preliminary actuarial value of assets as of June 30, 2013, with transfer from cushion	\$8,803,761,326
Market value of assets as of June 30, 2013	\$9,085,706,708
Constraining values	
80% of market value of assets	\$7,268,565,367
120% of market value of assets	\$10,902,848,050
Actuarial value of assets as of June 30, 2013	<u>\$8,803,761,326</u>



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

- Lifetime income replacement from SDRS resources of at least 55 percent of final average compensation for Class A members with 30 years of credited service
- Lifetime income replacement of at least 85 percent of final average compensation, including income from SDRS, Social Security, and personal savings of at least one times annual compensation at retirement
- Provide limited inflation protection based on the SDRS funded status and annual cost-of-living adjustments
- Early retirement opportunities
- Vesting after three years of contributory service
- Disability and survivor income protection
- A portable retirement option that allows members to elect a refund of both member and employer contributions, plus interest
- Risk-free market interest rate credited on member and employer contributions

Benefit and Funding Objectives and Historical Summary

The funded ratio and funding period are the primary measures of SDRS' soundness. However, when no frozen unfunded actuarial accrued liability exists, as is the case at June 30, 2013, the funding period is not applicable.

The SDRS objective was to maintain a funded ratio in excess of 95 percent and a funding period of 30 years or less. Effective with the 2013 valuation, the SDRS objective is to maintain an actuarial value funded ratio of 100 percent and a market value funded ratio of at least 100 percent.

The schedule below presents the actuarial accrued liability funded ratio, the market value funded ratio, and the funding period, where applicable, as of each actuarial valuation since 1988.

Valuation date	Actuarial accrued liability	Actuarial value of assets	Market value of assets	Actuarial value funded ratio	Market value funded ratio	Funding period
1988	\$1,078,235,569	\$1,050,836,113	\$1,192,526,624	97.5%	110.6%	6 years
1990	1,404,616,511	1,275,091,534	1,417,163,483	90.8	100.8	46 years
1992	1,714,482,245	1,605,481,514	1,783,732,116	93.6	104.0	16 years
1994	2,108,309,129	1,945,856,251	2,179,759,081	92.3	103.4	38 years
1996	2,539,008,893	2,390,236,436	2,909,982,912	94.1	114.6	30 years
1997	2,956,497,152	2,813,304,611	3,516,630,764	95.2	118.9	23 years
1998	3,471,898,003	3,337,293,439	4,171,616,799	96.1	120.2	22 years
1999	3,997,927,795	3,875,171,467	4,717,115,757	96.9	118.0	21 years
2000	4,611,913,087	4,427,102,390	5,156,294,800	96.0	111.8	20 years
2001	4,688,408,562	4,521,403,578	4,939,705,889	96.4	105.4	20 years
2002	4,576,948,810	4,425,392,396	4,624,866,872	96.7	101.0	20 years
2003	4,818,943,695	4,685,890,770	4,784,187,048	97.2	99.3	20 years
2004	5,051,728,157	4,937,493,861	5,518,225,955	97.7	109.2	20 years
2005	5,571,842,384	5,380,999,357	6,159,934,879	96.6	110.6	20 years
2006	5,859,994,198	5,668,535,060	6,844,629,634	96.7	116.8	20 years
2007	6,718,761,091	6,526,534,941	8,158,168,676	97.1	121.4	20 years
2008	6,976,811,927	6,784,291,685	7,312,107,461	97.2	104.8	20 years
2009	7,387,406,340	6,778,520,575	5,648,767,146	91.8	76.5	N/A ¹
2010	7,393,250,948	7,119,874,593	6,496,634,989	96.3	87.9	30 years
2011	7,712,556,672	7,433,776,511	7,936,269,496	96.4	102.9	30 years
2012	8,452,840,068	7,827,601,564	7,842,524,241	92.6	92.8	29 years
2013	8,803,761,326	8,803,761,326	9,085,706,708	100.0	103.2	N/A ²

¹Member and employer contributions were not sufficient to amortize the frozen unfunded actuarial accrued liability.

²Frozen unfunded actuarial accrued liability is \$0 as of June 30, 2013.

ACTUARIAL VALUATION (CONTINUED)

Summary of Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability

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

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

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

Fiscal year	Actuarial accrued liability	Actuarial value of assets	Actuarial as a % of accrued actuarial liability	Unfunded actuarial accrued liability	Total covered payroll (000,000)	Unfunded liability as a % of payroll
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
2013	8,803,761,326	8,803,761,326	100.0	0	1,519.7	0.0



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

Solvency Test

Fiscal year	Actuarial accrued liability for				Portion of actuarial accrued liability covered by actuarial value of assets for		
	(1) 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
2013	1,053,144,685	5,199,059,332	2,551,557,309	8,803,761,326	100.0	100.0	100.0

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
2013	38,594	1,519.7	39,377	0.1

Schedule of Active Member Valuation Data

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

ACTUARIAL VALUATION (CONTINUED)

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

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

Valuation date	Beginning of year balance	Number added to payroll	Number removed from payroll	End of year balance	Annual pension added to payroll	Annual pension removed from payroll	Annual pension benefit amount	Average annual benefit	% increase in average benefit
2002	15,390	1,051	548	15,893	\$14,781,382	\$4,286,698	\$175,339,813	\$11,033	5.4
2003	15,893	1,112	564	16,441	16,904,111	4,612,777	191,738,495	11,662	5.7
2004	16,441	1,207	619	17,029	19,647,803	4,991,607	211,424,721	12,416	6.5
2005	17,029	1,121	602	17,458	16,955,458	4,970,672	228,469,621	13,020	4.9
2006	17,458	1,130	602	18,076	17,273,416	5,866,751	245,707,324	13,593	4.4
2007	18,076	1,306	663	18,719	20,128,796	5,699,854	265,922,928	14,206	4.5
2008	18,719	1,279	677	19,321	20,931,066	6,957,387	297,672,788	15,407	8.5
2009	19,321	1,295	667	19,949	21,285,086	7,429,345	318,556,151	15,969	3.6
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
2013	22,408	1,683	764	23,327	27,259,699	9,535,172	410,679,002	17,605	2.1

Summary of Benefit Provision Changes

There were no benefit improvements or substantive benefit provision changes made to SDRS during the 2013 South Dakota Legislative session.



	2012 actuarial valuation	2013 actuarial valuation	% change
Active members			
Number	38,207	38,594	1.0
Average age	45.8	45.6	(0.4)
Average credited service	11.5	11.4	(0.9)
Annual prior year's compensation of members	\$1,502,652,938	\$1,519,731,367	1.1
Average annual compensation	\$39,329	\$39,377	0.1

Comparison of Actuarial Valuation Results

Benefit recipients

RETIREED MEMBERS			
Number ¹	19,133	20,004	4.6
Average age	71.6	71.6	0.0
Total annualized benefits	\$352,284,553	\$374,412,494	6.3
Average annualized benefits	\$18,412	\$18,717	1.7
BENEFICIARIES			
Number ¹	2,975	3,016	1.4
Total annualized benefits	\$30,281,007	\$32,186,807	6.3
Average annualized benefits	10,178	10,672	4.9
DISABILITIES			
Number	300	307	2.3
Total annualized benefits	\$3,912,759	\$4,079,701	4.3
Average annualized benefits	\$13,043	\$13,289	1.9

Total benefit recipients

Number	22,408	23,327	4.1
Total annual benefits	\$386,478,319	\$410,679,002	6.3
Average annual benefits	\$17,247	\$17,605	2.1

Terminated members

Number—vested	8,135	8,363	2.8
Number—non-vested (entitled to accumulated contributions only)	6,618	6,819	3.0
Total terminated members	14,753	15,182	2.9
Total system members	75,368	77,103	2.3

Results of actuarial valuation

Normal cost (without expenses)	10.029%	9.954%	(0.7)
(with expenses)	10.279%	10.204%	(0.7)
Frozen unfunded actuarial accrued liability	\$625,238,504	\$0	(100.0)
Market value of assets	\$7,842,524,241	\$9,085,706,708	15.9
Actuarial value of assets	\$7,827,601,564	\$8,803,761,326	12.5
Actuarial accrued liability (AAL)	\$8,452,840,068	\$8,803,761,326	4.2
Actuarial value funded ratio	92.6%	100.0%	8.0
Market value funded ratio	92.8%	103.2%	11.2
Funding period	29 years	N/A	

¹ In addition, there are 43 and 168 members or beneficiaries as of July 1, 2012, and July 1, 2013, respectively, whose benefits are currently suspended, but who are entitled to future benefits.

PLAN SUMMARY

South Dakota Retirement System (SDRS)

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

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

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

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

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

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



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

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

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

Class A members constitute 93 percent of SDRS membership.

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

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

Service Considered

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

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

Compensation is W-2 wages, plus any amount used to purchase a member's individual retirement plan, plus a member's contribution to SDRS made on a before-tax basis, plus any amount contributed to a Section 125 cafeteria plan, paid during the period of credited service. Compensation does not include lump-sum termination pay. Compensation for members hired after June 30, 1996, is limited as prescribed in Section 401(a)(17) of the Internal Revenue Code.

Compensation

PLAN SUMMARY (CONTINUED)

Final Average Compensation	Final average compensation is the highest average annual compensation earned by a member during 12 consecutive calendar quarters of the last 40 such quarters during periods of credited service. The final average compensation is limited by statutory provisions that prevent extraordinary increases in compensation immediately before retirement.
Employer Contributions	Employer contributions equal those amounts contributed by members except for the additional contributions noted below.
Member Contributions	<p>Class A members: 6 percent of compensation Class B Public Safety members: 8 percent of compensation Class B Judicial members: 9 percent of compensation</p> <p>Member contributions are made on a pre-tax basis as permitted under Section 414(h) of the Internal Revenue Code.</p>
Accumulated Contributions	<p>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.</p> <p>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.</p>
Additional Contributions	Effective July 1, 2002, employers contribute 6.2 percent of Class A member's calendar year compensation in excess of the maximum taxable amount for Social Security for the calendar year. These additional contributions are not included in accumulated contributions.
Other Public Benefits	Eighty percent of the benefits provided as "primary insurance amount or primary Social Security" under the Federal Social Security Act.
Cost-of-Living Adjustment (COLA)	<p>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:</p> <ul style="list-style-type: none">• 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<ul style="list-style-type: none">* 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 <p>All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.</p>



The normal retirement date is age 65 with three years of contributory service for Class A and Class B Judicial members of the system. Normal retirement date is age 55 with three years of contributory service for Class B Public Safety members.

Normal Retirement Date

Members are entitled to retire with a benefit commencing the first of the month in which they reach normal retirement date and are payable for life, with an automatic 60 percent surviving spouse's benefit paid for the spouse's lifetime.

Normal Retirement Benefit

Class A Benefit

The Class A benefit is the larger of that provided by the following standard formula or alternate formula:

Standard Formula

Enhanced Benefit

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

Base Benefit

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

OR

Alternate Formula

Enhanced Benefit

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

Base Benefit

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

80 percent of primary Social Security benefit.

Class B Public Safety Benefit

The Class B benefit for Class B Public Safety members is:

Enhanced Benefit

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

Base Benefit

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

PLAN SUMMARY (CONTINUED)

Class B Judicial Benefit

The Class B benefit for Class B Judicial members is determined by adding the enhanced and base benefit for both the first 15 years of credited service and years of credited service in excess of 15 years, as follows:

First 15 Years of Credited Service

Enhanced Benefit

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

Base Benefit

3.333 percent times final average compensation times all other such years of credited service as a Class B Judicial member after July 1, 2008.

PLUS

Years of Credited Service in Excess of 15 Years

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class B Judicial member before July 1, 2008, in excess of 15 years, plus

Base Benefit

2.0 percent times final average compensation times all other such years of credited service as a Class B Judicial member after July 1, 2008.

All of the above benefits are paid monthly.

SDRS benefits are limited to the maximum benefit under Section 415 of the Internal Revenue Code, except for the portion of benefits attributable to any after-tax contributions made prior to July 1, 1984.

Delayed Retirement Benefit

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

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

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

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

Any member with at least three years of contributory service can retire in the ten years preceding their normal retirement date. The member will be entitled to receive the normal retirement benefit based on credited service and final average compensation to date of retirement, reduced by 1/4 of 1 percent for each full month by which commencement of payments precedes the earlier of the normal retirement date or the special early retirement date. Benefits commence on the first of the month following retirement (or the date chosen for payment to commence) and 30 days after the application for retirement benefits has been received by SDRS.

Early Retirement Benefit

A terminated member with at least three years of contributory service will be entitled to receive the normal or early retirement benefit payable at either normal or early retirement based on the member's credited service at the time of termination of employment and increased by the cost-of-living adjustment from the date of termination to the date benefits commence.

Vested Benefit and Portable Retirement Option

In lieu of any monthly lifetime retirement benefits under the system, a terminating member may receive a lump-sum of his accumulated contributions under the portable retirement option. Members who are rehired may redeposit their accumulated contributions plus interest within two years of rehire to reinstate their credited service.

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

Disability Benefit

The disability benefit is equal to:

- For the first 36 months, 50 percent of the member's final average compensation, increased 10 percent for each eligible child to a maximum of four children.
- 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

PLAN SUMMARY (CONTINUED)

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).

Survivor Benefits

Pre-Normal Retirement Age and Post-Disability Deaths

If an active member with at least one year of contributory service, or a member receiving a disability benefit commencing after July 1, 1974, dies, the surviving spouse having the care of eligible dependent children will receive an immediate benefit equal to 40 percent of the member's final average compensation, increased 10 percent for each child to a maximum of six children. If the surviving eligible dependent children are under the care of a guardian, the benefit payable will be 20 percent of the member's final average compensation for each child (to a maximum of five children).

The above survivor benefits are all payable monthly without improvements and reduced by 75 percent of primary Social Security benefit.

If no benefit is payable as defined above or payment has ceased, and the member's accumulated contributions have not been withdrawn, the spouse is entitled to receive at the spouse's age 65 a benefit equal to 60 percent of the normal retirement benefit that would have been payable to the deceased member at normal retirement date based on projected credited service and projected compensation, and further increased by the cost-of-living adjustment for any time between normal retirement date and payment commencement date.

Post-Normal Retirement Age and Post-Retirement Deaths

Upon the death of a retiree or any member at or beyond normal retirement age, the surviving spouse is entitled to receive 60 percent of the monthly retirement benefit the member was receiving or was eligible to receive.



Terminated Member

If a member dies prior to benefit commencement, the accumulated contributions are refunded to the designated beneficiary, children, or estate in a lump sum.

Optional Spouse Coverage

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.

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

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

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

This plan summary is effective July 1, 2013.

Optional Forms of Retirement Payments

Administrative Expenses

Retired Members

INVESTMENT SUMMARY



- Investment Council's Letter**
- Investment Analysis**
- The Investment Council
- Investment Objectives and Policy
- Prudent Man Standard
- Performance
- Real Rates of Return
- Investment Managers
- Schedule of Investment Management Expenses
and Commissions
- Summary of Investment Portfolios
- Internal Equity Profile
- Bond Profile
- Distribution Profile
- Asset Allocation
- Time-Weighted Rates of Return
- Time-Weighted Annualized Rates of Return

INVESTMENT COUNCIL'S LETTER

TO THE SOUTH DAKOTA RETIREMENT SYSTEM BOARD OF TRUSTEES:

This letter summarizes the South Dakota Investment Council fiscal year 2013 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 Investment Council's annual report available on the Council's website at sdic.sd.gov.

FISCAL YEAR 2013 PERFORMANCE

The fiscal year 2013 investment return was 19.5% before deducting investment management cost. This exceeded the Council's market index-based benchmark return of 12.7% and the median corporate pension fund return of 10.0%, also reported gross of cost. The return net of cost was 19.0% which exceeded the median state fund net return of 12.3%. Global equity was the largest contributor.

Beginning with fiscal year 2014, the Council will deemphasize comparison to corporate plans. In recent years, corporate pension plans have shifted investment allocations toward fixed income and away from stocks due to changes in accounting rules and to minimize impact on corporate balance sheets. Primary focus will also switch to returns net of all investment cost.

Since the financial crisis began, there have been numerous highly consequential years. Returns were favorable in fiscal years 2010, 2011, and 2013 and very painful in 2008 and 2009. 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. 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 resulted from adherence to strategies during underperforming periods. History has shown that following large out-performances, opportunities may be sparse for a time. Chasing inferior opportunities tends to backfire. The lesson is to be patient in waiting for worthwhile opportunities.

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 the impact of risk on the rate used to discount cash flows to present value.

RETURN EXPECTATIONS

The Council believes market return expectations should be based on forward-looking long-term cash flows rather than extrapolation of past returns which tend to be inversely related to future results.

As of June 30, 2013, expected returns were 2.5% for bonds and 7.9% for stocks. Low interest rates foreshadow low future bond returns. The expected return for stocks is lower than the historic average, but compares favorably to bonds and 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 6.8% to 7.2% depending on inflation expectations. This excludes any impact of withdrawals from the fund and any value added or detracted relative to index returns.

It is important to note the expected return is the mid-point of a range of possible outcomes. The one standard deviation range, which statistically encompasses the central two-thirds of potential outcomes, is 1.8% to 11.8% per annum for a ten-year horizon and 3.2% to 10.4% for a 20-year horizon.

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.

Submitted by:



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 Commissioner of School and Public Lands, 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, Eide Bailly, 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 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 Council, or the Council simply fails, to achieve the estimated return over the long term, South Dakota law may require benefit reductions, contribution 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 Council's capital markets benchmark and versus peer funds.

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

This is the most important specific investment objective in judging the 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 Council's selected capital markets benchmark. The key investment policy decision made by the 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 Council compares its performance to 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.

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 time-weighted gross and net rates of return for FY 2013 were 19.5 percent and 19.0 percent, respectively. The Council's benchmark return for FY 2013 was 12.7 percent. This capital market benchmark was 56 percent global equity, 7 percent private equity, 8 percent real estate, 18 percent fixed income-investment grade, 1 percent fixed income-TIPS, 7 percent fixed income-high yield/distressed debt, 1 percent commodities, and 2 percent cash. The 10-year annualized time-weighted gross and net rates of return were 9.2 percent and 8.7 percent, respectively, versus the benchmark return of 7.3 percent.

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 2013 inflation averaged 1.8 percent while SDRS' total time-weighted net rate of return was 19.02 percent. Over the last 10 years, inflation has averaged 2.4 percent and the annualized time-weighted net rate of return 8.7 percent, creating a real return of 6.3 percent.

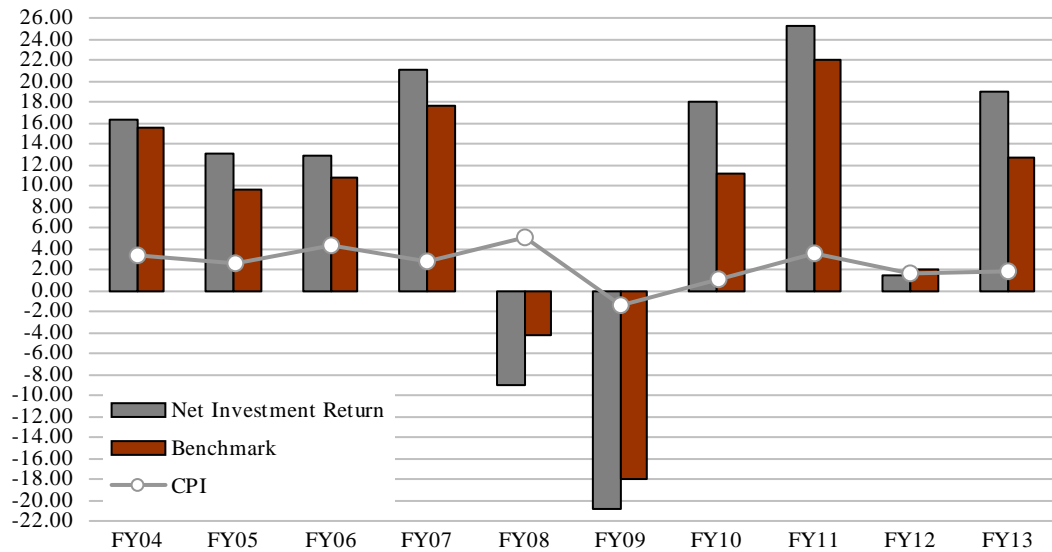
Prudent Man Standard

Performance

Real Rates of Return

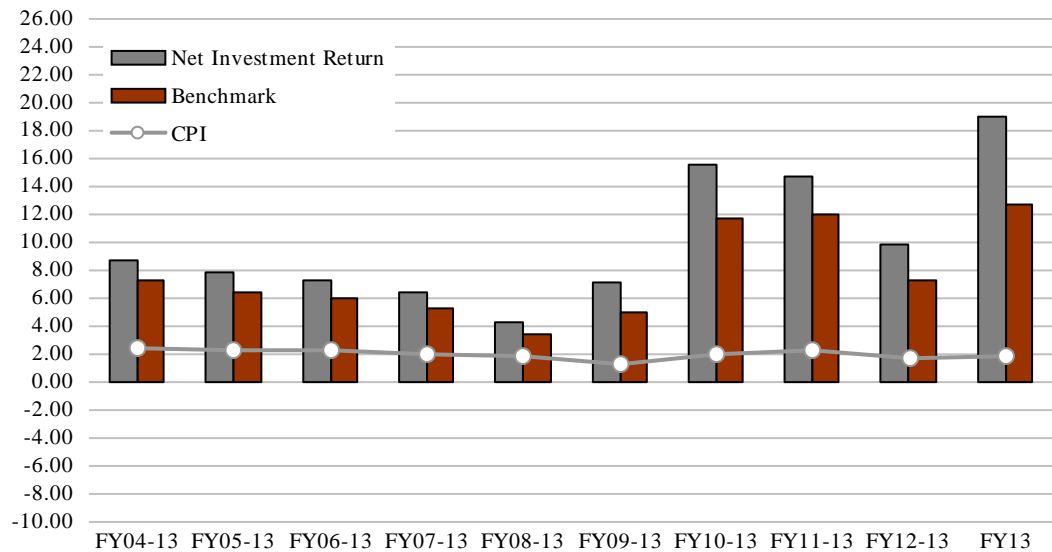
INVESTMENT ANALYSIS (CONTINUED)

Investment Performance Compared to Capital Market Benchmark and Inflation



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Net Investment Return	16.38	13.12	12.85	21.06	-9.00	-20.89	17.99	25.18	1.45	19.02
Benchmark	15.54	9.60	10.74	17.57	-4.20	-18.00	11.12	22.06	2.02	12.73
CPI	3.30	2.50	4.30	2.70	5.00	-1.40	1.10	3.60	1.70	1.80

Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



	FY04-13	FY05-13	FY06-13	FY07-13	FY08-13	FY09-13	FY10-13	FY11-13	FY12-13	FY13
Net Investment Return	8.73	7.91	7.27	6.50	4.25	7.12	15.56	14.76	9.88	19.02
Benchmark	7.29	6.41	6.01	5.35	3.44	5.05	11.76	11.97	7.24	12.73
CPI	2.40	2.30	2.30	2.00	1.90	1.30	2.00	2.30	1.70	1.80



Investment managers	Management expenses
State of South Dakota Investment Council	\$5,713,364
Pinebridge	179,652
Apollo Real Estate Advisors LP	357,347
Blackstone Distressed Securities and Credit Liquidity	(21,577)
Blackstone Private Equity	418,641
Blackstone Real Estate Partners	6,271,824
Brandes Investment Partners	388,187
Capital International	1,277,005
Cargill North American Real Estate Partners	739,869
Carlyle	604,908
CINVIN	2,731,550
Crossroads Investment Advisors LP	161,185
CVC	765,250
CVI	1,818,082
Cypress Merchant Banking Partners LP	62,096
Dimensional Fund Advisors, Inc.	204,949
Doughty Hanson & Co. European Real Estate	725,267
Doughty Hanson & Co. Private Equity IV	898,904
Elevation Partners	185,367
GE Asset Management China	1,130,174
GE Asset Management Commodities	259,941
KKR Associates	160,687
Lonestar Real Estate	1,681,012
Oaktree Loan Fund 2x	59,031
PIMCO Distressed Mtg Fund II	919,479
Riverstone	1,510,027
Rockpoint RE IV	2,113,018
Sanders All Asset Value	225,766
Sanders Capital	204,192
Starwood RE IX	1,052,645
Silver Lake Partners LP	1,370,643
TCW	<u>1,497,335</u>
Total investment activity expenses	<u>\$35,665,820</u>

Schedule of Investment Management Expenses and Commissions

For the Year Ended
June 30, 2013

INVESTMENT ANALYSIS (CONTINUED)

Summary of Investment Portfolios

As of June 30, 2013	Fair Value	Futures Exposure	Fair Value with Futures	Percent of Fund with Futures
Global Equity				
Internal Global Equity	\$4,367,530,626			
Internal High Quality Equity	201,036,745			
Internal Small/Mid Equity	258,664,265			
Brandes	46,999,793			
Dimensional Fund Advisors	44,964,081			
GE Asset Management	91,575,888			
Sanders Capital	33,639,703			
Equity Index Futures		\$(437,711,300)	\$4,606,699,801	50.7
Private Equity Limited Partnerships				
Blackstone Capital Partners	264,217,262			
Capital International	31,651,052			
Carlyle	58,353,534			
Cinven	98,477,586			
Credit Suisse	351,449			
CVC	68,283,857			
Cypress	4,711,982			
Doughty Hanson	86,422,927			
Elevation	13,122,569			
KKR	42,500,790			
Neuberger Berman	3,213,150			
PineBridge	4,806,819			
Riverstone	57,289,887			
Silver Lake	125,952,530		859,355,394	9.5
Arbitrage & Aggressive Absolute Return				
Internal Convertible Arbitrage	114,151,808			
Bridgewater	72,183,617			
Sanders Capital	19,693,158		206,028,583	2.3
Real Estate Limited Partnerships				
AREA Property Partners	17,144,354			
Blackstone Real Estate Partners	1,138,390,843			
Cargill N.A. Real Estate Partners	29,543,770			
Doughty Hanson	19,609,720			
Lone Star	48,133,307			
Rockpoint	19,183,471			
Starwood	12,329,122		1,284,334,587	14.1
Fixed Income—Investment Grade/TIPS				
Internal Investment Grade	906,562,476			
Treasury Financial Futures		227,106,050	1,133,668,526	12.5
Fixed Income—High Yield/Distressed Debt				
Internal High Yield	108,040,119			
Blackstone	1,360,337			
CarVal	99,634,608			
PIMCO	116,244			
TCW	444,188,004		653,339,312	7.2
Commodities	0		0	0.0
Cash and Cash Equivalents				
Internal Shift Account	122,504,036			
Cash from Futures		210,605,250	333,109,286	3.7
Total	<u>\$9,076,535,489</u>	<u>\$0</u>	<u>\$9,076,535,489</u>	<u>100%</u>



The South Dakota Retirement System's internal global equity portfolio characteristics as of June 30, 2013, are presented below. The SDRS internal global 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	13.1%	11.7%
Consumer Staples	9.3	10.7
Energy	13.0	10.0
Financials	20.6	19.3
Health Care	14.9	11.6
Industrials	7.3	10.5
Information Technology	14.8	14.0
Materials	3.3	5.0
Telecommunications Services	1.4	3.8
Utilities	1.6	3.4
Cash equivalents	<u>0.7</u>	<u>0.0</u>
Total	100.0%	100.0%

Ten Largest Country Weights

	SDRS	Bench
United States	73.6%	68.7%
Great Britain	6.0	6.0
Switzerland	5.3	2.5
Japan	3.9	5.5
Germany	2.5	2.3
France	2.4	2.5
Canada	2.0	2.6
Netherlands	1.1	0.7
South Korea	0.6	0.7
Ireland	<u>0.5</u>	<u>0.1</u>
Total	97.9%	91.6%

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 Retirement System										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Yield to maturity	5.44%	4.70%	6.00%	6.00%	5.67%	5.17%	3.65%	2.60%	2.0%	2.4%
Average maturity (years)	7.50	5.80	5.47	6.14	6.60	5.20	5.41	5.00	5.4	5.0
Duration (years)	5.78	4.10	4.65	5.00	5.38	4.10	4.04	4.40	4.7	4.9

Bond Index										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Yield to maturity	4.68%	4.51%	5.81%	5.69%	4.99%	3.82%	2.63%	2.6%	1.8%	2.3%
Average maturity (years)	7.47	6.21	7.28	7.39	7.80	6.27	5.96	6.50	6.3	6.9
Duration (years)	4.77	4.67	5.06	5.12	5.36	4.88	4.55	4.80	5.0	5.3

Distribution Profile

The South Dakota Retirement System's internal investment grade (IG) and high yield (HY) bond portfolio characteristics as of June 30, 2013, are presented below:

Distribution by Duration

	IG	HY
0 to 2 years	7.5%	22.9%
2 to 3 years	11.8	13.9
3 to 4 years	21.0	12.6
4 to 5 years	18.7	17.3
5 to 6 years	8.3	20.4
6 to 8 years	20.7	9.2
Above 8 years	12.0	3.7
Total	100.0%	100.0%

Distribution by Quality Rating

	IG	HY
U.S. Gov't/Aaa	63.8%	4.6%
Aa	7.2	0.0
A	11.3	0.0
Baa	17.7	0.4
Ba	0.0	25.7
B	0.0	51.3
Caa and lower	0.0	18.0
Total	100.0%	100.0%

Distribution by Coupon

	IG	HY
0.00% - 4.00%	64.9%	5.2%
4.01% - 5.00%	16.4	0.0
5.01% - 6.00%	13.8	4.8
6.01% - 7.00%	3.9	15.5
7.01% - 8.00%	0.0	32.4
8.01% - 9.00%	1.0	22.4
9.01% and over	0.0	19.7
Total	100.0%	100.0%

Distribution by Sector

	IG	HY
Cash/cash equivalents	3.0%	4.6%
U.S. Treasuries	19.0	0.0
Agency Debentures/FDIC	6.3	0.0
Agency Mortgage-Backed Securities	34.5	0.0
Investment Grade Corporates	37.2	0.4
High Yield Corporates	0.0	95.0
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

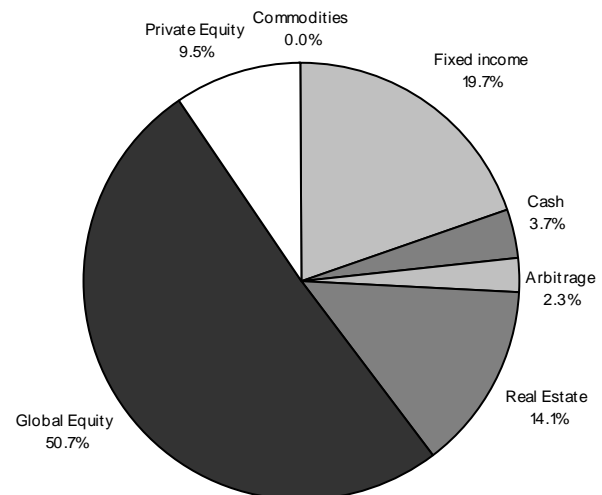
Asset category risk is measured by standard deviation, which is a measure of volatility. The degree that categories diversify each other is measured by correlation. Overall portfolio risk is a function of the standard deviation of the individual asset categories and the correlation among them. Fund liquidity 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, 2013, was 6.8 percent. This excludes any potential value added or detracted relative to index returns resulting from managing the fund. 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 (9.0) percent and 22.6 percent.

An additional risk measure is the amount of equity-like risk in the overall fund. It can be difficult to understand overall fund 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 fund 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, 2013

	6/30/11	6/30/12	6/30/13
Global equities	51.1%	50.1%	50.7%
Fixed income	20.5%	21.6%	19.7%
Cash	0.4%	0.1%	3.7%
Arbitrage	3.2%	2.5%	2.3%
Real estate	12.8%	14.4%	14.1%
Private equity	11.6%	11.0%	9.5%
Commodities	0.4%	0.3%	—



INVESTMENT ANALYSIS (CONTINUED)

SDRS Rates of Return

Annual Returns

Fiscal Year	Time Weighted Gross of Fees	Time Weighted Net of Fees	Capital Markets Benchmark	Money Weighted Net of Fees
2013	19.53%	19.02%	12.73%	19.01%
2012	1.9%	1.45%	2.02%	1.37%
2011	25.8%	25.18%	22.06%	25.27%
2010	18.7%	17.99%	11.12%	18.20%
2009	(20.36)%	(20.89)%	(18.00)%	(21.05)%
2008	(8.65)%	(9.00)%	(4.20)%	(8.93)%
2007	21.39%	21.06%	17.57%	21.07%
2006	13.1%	12.85%	10.74%	12.86%
2005	13.3%	13.12%	9.60%	13.12%
2004	16.6%	16.38%	15.54%	16.35%

Annualized Returns

	Time Weighted Net of Fees	Capital Markets Benchmark
FY13	19.02%	12.73%
FY12-13	9.88%	7.24%
FY11-13	14.76%	11.97%
FY10-13	15.56%	11.76%
FY09-13	7.12%	5.05%
FY08-13	4.25%	3.44%
FY07-13	6.50%	5.35%
FY06-13	7.27%	6.01%
FY05-13	7.91%	6.41%
FY04-13	8.73%	7.29%

Time-Weighted Rate of Return is the rate of investment growth earned on a unit of assets held continuously for the entire period measured and is used to compare returns against other investment managers and indexes.

Money-Weighted Rate of Return considers the changing amounts actually invested during a period and weights the amount of pension plan investment by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates (1) the sum of the weighted external cash flows into and out of pension plan investments to (2) the ending fair value of the pension plan investment.

Capital Markets Benchmark is the asset allocation policy approved by the Investment Council applied to the appropriate index returns.

Real Estate and Private Equity Limited Partnership Investments

The South Dakota Investment Council (SDIC) has invested a portion of the South Dakota Retirement System trust in real estate and private equity limited partnerships since the mid-1990's. These partnerships are typically organized with experienced real estate or private equity firms serving as the general partner. Outside investors, such as SDRS, are then sought to provide financing for the partnership in exchange for a share of ownership as limited partners.

Although these investments are illiquid and have higher fees, the SDIC believes they offer diversification and opportunity for added value net-of-fees over public market investments. The funding of these investments is made over several years as the partnerships call money from investors to buy assets and later return it when assets are sold. According to industry standards, the return analysis for these investments requires use of a since inception internal rate of return (SI-IRR).

As of June 30, 2013, 14.1 percent of the SDRS portfolio was invested in real estate limited partnerships and 9.5 percent was invested in private equity limited partnerships. From December 1994 through June 2013, the net-of-fees SI-IRR for the composite of SDRS real estate limited partnership investments was 21.4 percent. The annualized rate of return for the related benchmark real estate index for the same period of time was 10.9 percent. From November 1995 through June 2013, the net-of-fees SI-IRR for the composite private estate limited partnership investments was 8.0 percent. This can be compared to a similarly calculated IRR for the S&P 500 index of 4.5 percent for the same period.

The Real Estate limited partnerships composite return has significantly exceeded SDIC expectations. The Private Equity limited partnerships composite return has also somewhat exceeded SDIC expectations. The South Dakota Investment Council will continue its ongoing evaluation of RE and PE limited partnerships.

See the South Dakota Investment Council Annual Report on the SDIC website, www.sdic.sd.gov, for more details on this topic.

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

Public Entities Participating in SDRS

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 38,594 total active members as of June 30, 2013.

School Districts Membership: 17,342

Percentage of total active
members: 45.0%
Units: 166

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

Legislative, Executive, and Judicial Agencies Membership: 8,074

Percentage of total active
members: 20.9%
Units: 1

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	

Institutions of Higher Education Membership: 4,500

Percentage of total active
members: 11.7%
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	

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

Municipalities

Membership: 4,069

Percentage of total active members: 10.5%

Units: 154

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

Counties

Membership: 3,876

Percentage of total active members: 10.0%

Units: 64

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

Other Public Entities

Membership: 733

Percentage of total active members: 1.9%

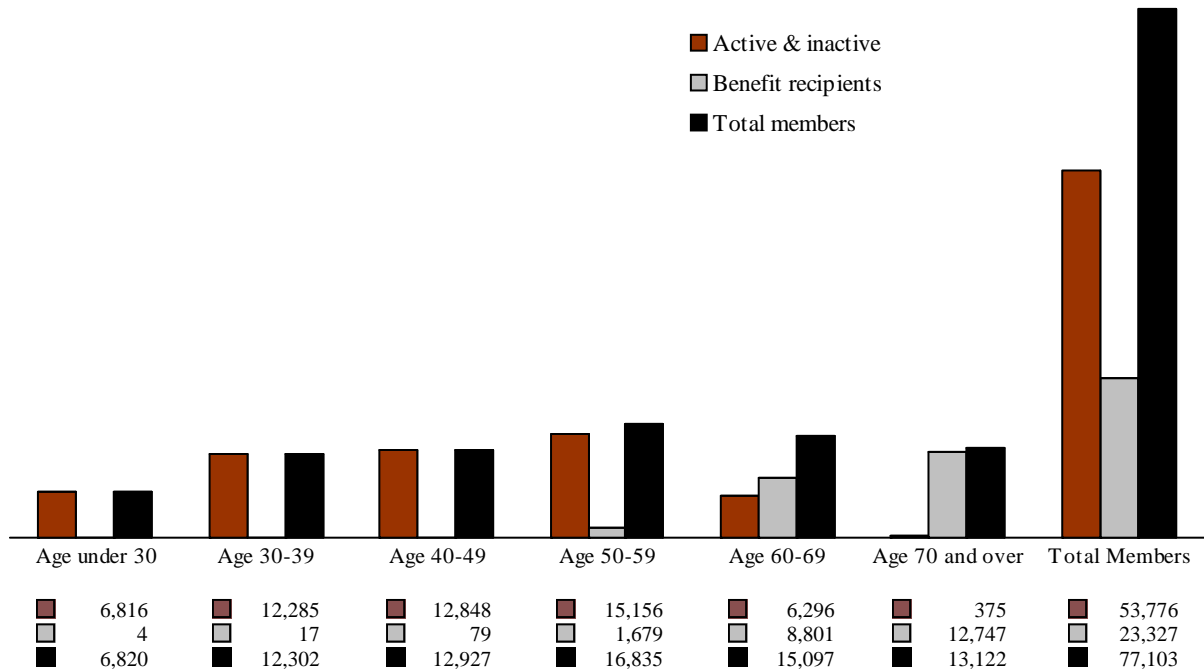
Units: 88

MEMBERSHIP PROFILE (CONTINUED)

SDRS Benefits Paid			SDRS Benefits Paid by County of Residence		
	FY 2013 members receiving benefits	Annualized benefits		FY 2013 members receiving benefits	Annualized benefits
County			County		
Aurora	108	1,375,763	Hyde	53	546,998
Beadle	475	7,629,879	Jackson	47	787,991
Bennett	39	555,322	Jerauld	56	662,509
Bon Homme	272	3,863,664	Jones	36	567,803
Brookings	1,214	26,316,020	Kingsbury	149	2,035,956
Brown	1,021	18,413,386	Lake	365	6,699,912
Brule	120	1,835,603	Lawrence	742	14,158,310
Buffalo	3	33,129	Lincoln	306	5,002,661
Butte	253	3,465,700	Lyman	71	1,183,979
Campbell	52	655,163	Marshall	150	2,243,139
Charles Mix	234	3,549,096	McCook	114	1,758,000
Clark	119	1,376,817	McPherson	60	642,303
Clay	569	12,215,213	Meade	505	8,264,250
Codington	687	13,323,793	Mellette	46	494,036
Corson	35	530,630	Miner	65	1,018,680
Custer	301	4,864,301	Minnehaha	2,817	60,020,862
Davison	512	9,193,709	Moody	159	2,143,852
Day	208	2,879,860	Pennington	2,620	51,507,791
Deuel	99	1,125,646	Perkins	84	1,105,066
Dewey	70	1,061,164	Potter	101	1,496,696
Douglas	74	1,029,259	Roberts	228	3,292,842
Edmunds	97	1,464,356	Sanborn	65	930,840
Fall River	278	3,204,368	Shannon	14	226,560
Faulk	111	1,252,486	Spink	384	5,004,558
Grant	178	2,733,854	Stanley	159	3,495,468
Gregory	137	1,853,141	Sully	47	560,834
Haakon	49	612,724	Todd	62	945,477
Hamlin	151	2,021,064	Tripp	176	2,467,643
Hand	99	1,393,705	Turner	201	2,658,423
Hanson	43	531,298	Union	271	4,391,309
Harding	20	233,662	Walworth	203	3,193,262
Hughes	1,234	27,590,975	Yankton	732	12,300,777
Hutchinson	222	3,429,300	Ziebach	14	182,936
		Total benefits payable by county		20,186	\$363,605,773

SDRS Benefits Paid Outside of South Dakota					
	Members receiving benefits	Annualized benefits		Members receiving benefits	Annualized benefits
State			State		
Arizona	311	5,581,053	North Dakota	145	1,964,911
California	84	1,352,852	Texas	178	2,680,764
Colorado	169	2,346,620	Wisconsin	99	1,460,613
Florida	120	2,161,435	Wyoming	105	1,157,041
Iowa	211	2,926,102			
Minnesota	432	6,598,507	Other states and foreign countries	911	13,803,006
Montana	76	1,230,724			
Nebraska	300	3,809,601			
		Total benefits payable outside South Dakota		3,141	\$47,073,229
		Total benefit recipients and benefit payable		23,327	\$410,679,002

Membership by Age



County	Total members	County	Total members	County	Total members
Aurora	295	Faulk	342	Mellette	196
Beadle	1,363	Grant	499	Miner	208
Bennett	163	Gregory	410	Minnehaha	10,509
Bon Homme	807	Haakon	194	Moody	455
Brookings	4,237	Hamlin	539	Pennington	8,134
Brown	3,287	Hand	243	Perkins	241
Brule	424	Hanson	196	Potter	256
Buffalo	6	Harding	105	Roberts	669
Butte	831	Hughes	4,518	Sanborn	219
Campbell	139	Hutchinson	608	Shannon	132
Charles Mix	738	Hyde	149	Spink	1,197
Clark	306	Jackson	176	Stanley	611
Clay	1,943	Jerauld	177	Sully	167
Codington	2,195	Jones	119	Todd	408
Corson	171	Kingsbury	548	Tripp	566
Custer	845	Lake	1,157	Turner	632
Davison	1,374	Lawrence	2,398	Union	987
Day	516	Lincoln	1,456	Walworth	599
Deuel	349	Lyman	288	Yankton	2,358
Dewey	397	Marshall	424	Ziebach	115
Douglas	234	McCook	411	Out of state/ Other	9,703
Edmunds	284	McPherson	183		
Fall River	834	Meade	1,863		
			Total membership		77,103

Membership by County of Residence

Active, Inactive, and Retired Members

MEMBERSHIP PROFILE (CONTINUED)

Membership by Group	Active members			Inactive members			Total members
	Vested	Non-vested	Total active	Vested	Non-vested	Total inactive	
Board of Regents							
Female	1,003	368	1,371	470	240	710	2,081
Male	1,140	387	1,527	467	233	700	2,227
Total	2,143	755	2,898	937	473	1,410	4,308
County General							
Female	1,264	344	1,608	315	261	576	2,184
Male	1,114	291	1,405	217	198	415	1,820
Total	2,378	635	3,013	532	459	991	4,004
County Public Safety							
Female	126	58	184	11	31	42	226
Male	507	172	679	77	76	153	832
Total	633	230	863	88	107	195	1,058
Judicial							
Female	10	4	14	1	0	1	15
Male	39	3	42	3	0	3	45
Total	49	7	56	4	0	4	60
Municipal General							
Female	1,055	346	1,401	298	383	681	2,082
Male	1,483	358	1,841	279	243	522	2,363
Total	2,538	704	3,242	577	626	1,203	4,445
Municipal Public Safety							
Female	35	13	48	2	14	16	64
Male	607	172	779	77	74	151	930
Total	642	185	827	79	88	167	994
Public School & Board of Regents Classified							
Female	4,798	1,501	6,299	1,693	1,934	3,627	9,926
Male	1,719	649	2,368	406	730	1,136	3,504
Total	6,517	2,150	8,667	2,099	2,664	4,763	13,430
State General							
Female	2,995	993	3,988	786	865	1,651	5,639
Male	2,463	579	3,042	522	413	935	3,977
Total	5,458	1,572	7,030	1,308	1,278	2,586	9,616
State Public Safety and Penitentiary							
Female	159	51	210	14	61	75	285
Male	594	184	778	65	142	207	985
Total	753	235	988	79	203	282	1,270
Teachers							
Female	7,163	1,002	8,165	1,951	689	2,640	10,805
Male	2,466	379	2,845	709	232	941	3,786
Total	9,629	1,381	11,010	2,660	921	3,581	14,591
Grand Total							
Female	18,608	4,680	23,288	5,541	4,478	10,019	33,307
Male	12,132	3,174	15,306	2,822	2,341	5,163	20,469
Total	30,740	7,854	38,594	8,363	6,819	15,182	53,776



Benefit Recipients by Group	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2013	2012	2013	2012	2013	2012	2013	2012
Board of Regents								
Male	996	968	7	4	18	13	1,021	985
Female	440	406	7	7	230	229	677	642
Total	1,436	1,374	14	11	248	242	1,698	1,627
County General								
Male	673	644	24	25	43	46	740	715
Female	794	749	14	14	276	281	1,084	1,044
Total	1,467	1,393	38	39	319	327	1,824	1,759
County Public Safety								
Male	196	183	7	5	2	2	205	190
Female	29	23	2	3	29	27	60	53
Total	225	206	9	8	31	29	265	243
Judicial								
Male	42	40	0	0	0	0	42	40
Female	6	4	0	0	18	15	24	19
Total	48	44	0	0	18	15	66	59
Municipal General								
Male	717	679	27	26	31	35	775	740
Female	503	471	15	14	263	270	781	755
Total	1,220	1,150	42	40	294	305	1,556	1,495
Municipal Public Safety								
Male	444	430	9	11	0	0	453	441
Female	10	9	0	0	82	78	92	87
Total	454	439	9	11	82	78	545	528
Public School & Board of Regents Classified								
Male	993	939	29	30	159	153	1,181	1,122
Female	2,766	2,623	37	36	315	313	3,118	2,972
Total	3,759	3,562	66	66	474	466	4,299	4,094
State General								
Male	1,859	1,811	31	23	123	111	2,013	1,945
Female	1,837	1,746	45	49	652	652	2,534	2,447
Total	3,696	3,557	76	72	775	763	4,547	4,392
State Public Safety and Penitentiary								
Male	391	367	6	6	2	2	399	375
Female	41	33	4	5	55	50	100	88
Total	432	400	10	11	57	52	499	463
Teachers								
Male	2,347	2,311	8	12	256	254	2,611	2,577
Female	4,920	4,698	35	30	462	443	5,417	5,171
Total	7,267	7,009	43	42	718	697	8,028	7,748
Grand Total								
Male	8,658	8,372	148	142	634	616	9,440	9,130
Female	11,346	10,762	159	158	2,382	2,358	13,887	13,278
Total	20,004	19,134	307	300	3,016	2,974	23,327	22,408

MEMBERSHIP PROFILE (CONTINUED)

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 7/1/2003—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
Period 7/1/2012—6/30/2013							
Average monthly benefit	570	531	791	1,014	1,510	1,929	2,592
Average final average salary	37,141	36,802	40,340	40,122	44,113	47,834	50,276
Number of retired members	89	237	199	172	204	229	329



Historical Views

Benefit Recipients and Benefits Paid

Group	2008	2009	2010	2011	2012	2013
Board of Regents	1,390	1,432	1,464	1,539	1,627	1,698
County general	1,569	1,609	1,639	1,697	1,759	1,824
County public safety	186	198	207	227	243	265
Judicial	55	58	57	57	59	66
Municipal general	1,265	1,316	1,382	1,434	1,495	1,556
Municipal public safety	465	473	499	516	528	545
Public school & Board of Regents classified	3,340	3,492	3,658	3,815	4,094	4,299
State general	3,971	4,077	4,162	4,293	4,392	4,547
State public safety & penitentiary	372	393	411	442	463	499
Teachers	6,708	6,901	7,082	7,437	7,748	8,028
Total benefit recipients	19,321	19,949	20,561	21,457	22,408	23,327
Total benefits paid during period	\$273,236,767	\$306,769,037	\$325,951,211	\$345,942,871	\$371,417,148	\$397,620,115
Average benefits paid during period	\$14,142	\$15,378	\$15,853	\$16,123	\$16,575	\$17,045

Active and Inactive Members

Group	2008	2009	2010	2011	2012	2013
Board of Regents	3,759	3,886	3,984	4,055	4,150	4,308
County general	4,011	3,943	3,930	3,934	3,971	4,004
County public safety	866	943	971	990	1,012	1,058
Judicial	58	59	60	60	61	60
Municipal general	4,235	4,308	4,310	4,328	4,426	4,445
Municipal public safety	921	936	951	949	983	994
Public school & Board of Regents classified	12,996	13,123	13,111	13,181	13,200	13,430
State general	9,496	9,510	9,447	9,415	9,468	9,616
State public safety & penitentiary	1,132	1,160	1,158	1,157	1,221	1,270
Teachers	14,639	14,714	14,749	14,622	14,468	14,591
Total active and inactive members	52,113	52,582	52,671	52,691	52,960	53,776

MEMBERSHIP PROFILE (CONTINUED)

Benefit and Expenses by Type

	Benefits			Refunds		Total benefits & refunds	Administrative expenses
	Retirement benefits	Disability benefits	Survivor benefits	Member refund benefits	Survivor refund benefits		
Fiscal year 2003	161,214,537	4,126,182	15,934,568	19,338,147	N/A	200,613,434	2,796,941
Fiscal year 2004	177,038,538	4,129,953	17,285,919	21,414,639	N/A	219,869,049	2,493,039
Fiscal year 2005	194,749,213	4,081,290	18,719,704	20,840,323	N/A	238,390,530	2,772,121
Fiscal year 2006	210,773,603	4,269,897	19,782,375	25,069,548	N/A	259,895,423	2,697,571
Fiscal year 2007	228,311,937	4,070,439	21,162,743	28,777,398	N/A	282,322,518	3,033,519
Fiscal year 2008	246,422,506	4,133,578	22,680,683	28,203,655	N/A	301,440,421	3,352,380
Fiscal year 2009	277,258,613	4,116,984	25,393,440	24,225,249	N/A	330,994,286	3,428,853
Fiscal year 2010	294,880,495	4,182,082	26,888,634	29,148,085	N/A	355,099,296	3,402,075
Fiscal year 2011	313,157,736	4,383,174	28,401,961	25,824,829	N/A	371,767,700	3,575,854
Fiscal year 2012	337,290,588	4,084,918	30,041,642	25,942,146	N/A	397,359,294	3,277,973
Fiscal year 2013	360,995,817	4,351,009	32,273,289	22,407,180	2,753,814	422,781,109	3,588,717

Changes in Net Assets

Last 10 Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Member contributions	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	101,678,721
Employer contributions	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	100,376,481
Investment income (loss) (net of expenses)	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	1,466,616,435
Total additions (deductions) to plan net assets	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	1,669,552,293
Deductions										
Benefit payments	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	397,620,115
Refunds	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	25,160,994
Administrative expenses	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	3,588,717
Total deductions from plan net assets	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	426,369,826
Change in net assets	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)	1,243,182,467



2013

Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota	8,074	1	21%
Board of Regents	4,500	2	12%
Sioux Falls Schools*	2,910	3	7%
Rapid City Schools	1,868	4	5%
City of Rapid City	740	5	2%
Watertown Schools	659	6	2%
City of Brookings and Hospital	625	7	2%
Pennington County	599	8	1%
Minnehaha County	507	9	1%
Aberdeen Schools	488	10	1%
All Other	17,624		46%
Total (474 governments)	<u>38,594</u>		<u>100%</u>

Principal Participating Employers

* Sioux Falls schools enrolled their classified employees in SDRS in 2006.

2003

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	1,756	3	5%
Sioux Falls Schools	1,553	4	4%
City of Rapid City	646	5	2%
Watertown Schools	593	6	2%
City of Brookings and Hospital	538	7	2%
Todd County Schools	486	8	1%
Pennington County	474	9	1%
Minnehaha County	467	10	1%
All Other	17,125		49%
Total (465 governments)	<u>35,114</u>		<u>100%</u>



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

As of June 30, 2013

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	604	130	1,196	21	30	0	519	1	82
\$251—\$500	682	166	1,508	55	66	0	537	5	153
\$501—\$750	544	183	1,204	56	58	5	380	18	124
\$751—\$1,000	426	235	834	24	40	8	297	42	118
\$1,001—\$1,250	349	439	595	35	35	21	259	97	79
\$1,251—\$1,500	260	506	385	32	35	19	170	165	100
\$1,501—\$1,750	203	591	263	30	26	11	144	219	92
\$1,751—\$2,000	167	695	167	17	18	7	88	214	60
Over \$2,000	721	3,793	326	37	48	17	178	1,160	103
	<u>3,956</u>	<u>6,738</u>	<u>6,478</u>	<u>307</u>	<u>356</u>	<u>88</u>	<u>2,572</u>	<u>1,921</u>	<u>911</u>



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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.

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A large, stylized number '20' in a dark red color, positioned at the top of the page. A horizontal dotted line runs across the page, passing through the bottom of the '2' and the top of the '0'.

SOUTH DAKOTA RETIREMENT SYSTEM

222 East Capitol, Suite 8

P.O. Box 1098

Pierre, SD 57501-1098

Toll-Free (888) 605-SDRS

Local (605) 773-3731