



A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2014

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 2014 HIGHLIGHTS

Total membership	79,505
Active contributing members	38,951
Inactive non-contributing members	15,992
Benefit recipients	24,562
Net position restricted for pension benefits	\$10,607,554,492
Actuarial value of assets	\$ 9,887,095,388
Actuarial accrued liability (AAL)	\$ 9,887,095,388
Net pension liability/(asset)	\$ (720,459,104)
Investment return—Gross of fees	19.32%
Investment return—Net of fees	18.90%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 425,823,928
Refunds paid	<u>24,666,785</u>
Total	\$ 450,490,713
<u>Contributions</u>	
Member	\$ 106,175,381
Employer	104,952,984
Cement Plant	<u>7,598,498</u>
Total	\$ 218,726,863
Funding period	N/A
Actuarial value funded ratio (actuarial value of assets/AAL)	100.0%
Fair value funded ratio (fair value of assets/AAL)	107.3%



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, 2014

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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* The notes to the financial statements are an integral part of the basic financial statements.

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, 2013

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2014***

Presented to

South Dakota Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

INTRODUCTION



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

To Our Members:

December 24, 2014

On July 1, 2014, the South Dakota Retirement System (SDRS) celebrated the 40th anniversary of becoming a consolidated retirement system for the public employees of South Dakota. The system has grown since its simple beginnings in 1974. The SDRS Trust Fund, under the management of the South Dakota Investment Council, has grown substantially from \$50 million in 1974 to over \$10 billion in 2014. Annual benefits paid in 1974 totaled \$3 million; by 2014, that amount soared to over \$425 million. Membership has also experienced considerable growth from 23,500 members, including 2,900 benefit recipients, in 1974 to over 79,000 total members in 2014, of which over 24,000 are receiving benefits. For further information on current membership and benefit details, please see the Statistical Summary of this report.

Even while SDRS has matured into a robust system, its roots are still embedded in conservative fiscal operations, prudent benefit designs, and long-term sustainability. SDRS remains among the best funded public pension plans nationwide, which is impressive considering that the SDRS investment return assumption is among the most conservative used by statewide plans. In addition, the SDRS Board of Trustees adopted new mortality assumptions effective for the June 30, 2014 actuarial valuation that are also among the most conservative in use by statewide plans.

SDRS continues to be fully funded on both a fair value basis and an actuarial value basis at 107.3 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. The SDRS Trust Fund investment returns for fiscal year 2014 topped 18.9 percent net of investment fees, exceeding the investment benchmark and generating over \$1 billion in earnings above expectations. SDRS continues to be a financially sound public employee retirement system and is well-positioned to confront challenges in the future.

During fiscal year 2014, the South Dakota Cement Plant Retirement Fund was merged into SDRS. Because of appropriations to fully fund the Cement Plant Retirement Fund, the merger had no adverse impact on the funded status of SDRS.

SDRS continues to focus on services provided to members, particularly in the areas of education and communication. In 2014, SDRS implemented an early and mid-career workshop that focuses on financial and retirement planning; the SDRS pre-retirement workshop was expanded to provide members with a more holistic approach to retirement planning. A retiree forum was introduced this year to extend additional support to members after retirement. In the upcoming year, SDRS will continue to emphasize the importance of additional personal retirement savings through a communication initiative to SDRS members.

As SDRS moves forward, 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 24, 2014

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, 2014. 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 multiple employer public employee retirement system. The plan provides retirement, disability, and survivor benefits to over 79,000 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 net of investment expenses for the SDRS trust fund was 18.9 percent for fiscal year (FY) 2014. The Investment Council's benchmark return was 17.5 percent for the same period. The money-weighted investment return for the SDRS trust fund net of investment expenses was 18.9 percent.

Funding and Actuarial Measures

In the 2014 actuarial valuation, three important actuarial measures were calculated to evaluate the actuarial soundness and funding progress of SDRS. They are the funded ratio, the funding period when the unfunded actuarial accrued liability is greater than \$0, and the risk management contribution when the unfunded actuarial accrued liability is equal to \$0.

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 fair 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.

SDRS is fully funded with an actuarial value funded ratio of 100.0 percent and a fair value funded ratio of 107.3 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.

The risk management contribution is the amount that statutory contributions exceed the normal cost and amortization payment on the unfunded actuarial accrued liability. When it exists, the risk management contribution will increase the cushion and reserve, thereby better protecting SDRS against future unfavorable experience.

Major Initiatives

SDRS staff continues to focus its efforts on educating our members about the important benefit base provided by SDRS, 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 3,600 members in one-on-one counseling sessions, group events, and requested visits throughout the state during fiscal year 2014.

SDRS also maintains 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.

LETTER OF TRANSMITTAL (CONTINUED)

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, 2013. 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 19th 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 and Administration to the South Dakota Retirement System in recognition of meeting the professional standards for plan funding and administration. This is the 11th 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 Alternate * Class B Public Safety * Class B Judicial	1.0% 2.0% 2.0% 3.333% / 2.0%	1982 - 1.1% 1986 - 1.2% 1989 - 1.25% 1991 - 1.30% 1994 - 1.30%/1.40% (for applicable years) 1997 - 1.40% prior to 1997/1.30% thereafter 1998 - 1.475% prior to 1998/1.30% thereafter 1999 - 1.55% prior to 2000/1.30% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2008 - 1.7% prior to 2008/1.55% thereafter 1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325 % prior to 2002/2.0% thereafter 2002 - 2.325 % prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits 1994 - 2.0%/2.10% (for applicable years) 1997 - 2.10% prior to 1997/2.0% thereafter 1998 - 2.175% prior to 1998/2.0% thereafter 1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325% prior to 2002/2.0% thereafter 2008 - 2.4% prior to 2008/2.0% thereafter 1994 - 3.333%/3.433% (for applicable years) 2.0%/2.10% (for applicable years) 1997 - 3.433% prior to 1997/3.333% thereafter 2.10% prior to 1997/2.0% thereafter 1998 - 3.508% prior to 1998/3.333% thereafter 2.175% prior to 1998/2.0% thereafter 1999 - 3.583% prior to 2000/3.333% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 3.658% prior to 2002/3.333% thereafter 2.325% prior to 2002/2.0% thereafter 2008 - 3.733% prior to 2008/3.333% thereafter 2.4% prior to 2008/2.0% thereafter
Class A Retiree Benefit Formula Improvement Factor	Variable 2% Simple	Standard - Alternate 1982 - 1.0% - 2.0% 1987 - 1.05% - 2.0% 1988 - 1.1% - 2.0% 1989 - 1.25% - 2.0% 1991 - 1.30% - 2.0% 1994 - 1.30%/1.40% (for applicable years) - 2.0% 1997 - 1.40% prior to 1997/1.30% thereafter - 2.0% 1998 - 1.475% prior to 1998/1.30% thereafter - 2.0% 1999 - 1.55% prior to 2000/1.30% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2.325% prior to 2002/2.0% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2.325% prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits 1978 - 2.0% compound (indexed) 1982 - 3.0% compound (indexed) 1988 - 3.0% compound 1993 - 3.1% compound 1998 - 3.1% compound and prorated for partial years 2010 - 2.1% to 3.1% compound, dependent on funded status of System and CPI

LETTER OF TRANSMITTAL (CONTINUED)

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Early Retirement * Class A * Class B Public Safety * Class B Judicial	Early Retirement: Age 55 with 6% per year reduction Early Retirement: Age 45 with 6% per year reduction Early retirement: Age 55 with 6% per year reduction	1978 - Reduction decreased to 3% per year 1986 - Rule of 85 (age 60) 1989 - Removed "at work" limitation 1991 - Rule of 85 (age 58) 1993 - Rule of 85 (age 55) 1978 - Reduction decreased to 3% per year 1982 - Early retirement age for new members: age 50 1989 - Early retirement: age 45 for all Class B Public Safety members 1991 - Age 50/25 years of service 1998 - Rule of 75 (age 45) 1978 - Reduction decreased to 3% per year 1990 - Rule of 80 (age 55)
Optional Spouse Coverage (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 public safety members
Board service began in July 2006
Captain
City of Rapid City
Black Hawk
James Johns

Steven Caron
Represents teachers
Board service began in July 2009
Public School Teacher
Aberdeen Central
Aberdeen

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

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

Represents teachers
Board service began in July 2010
Public School Teacher
Sioux Falls Schools
Sioux Falls
Bonnie Mehlbrech

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

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

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

Governor's appointee
Board service began in July 2013
Lieutenant Governor
State of South Dakota
Pierre
Matt Michels

Laurie Gill
Represents elected municipal officials
Board service began in July 2013
Mayor
City of Pierre
Pierre

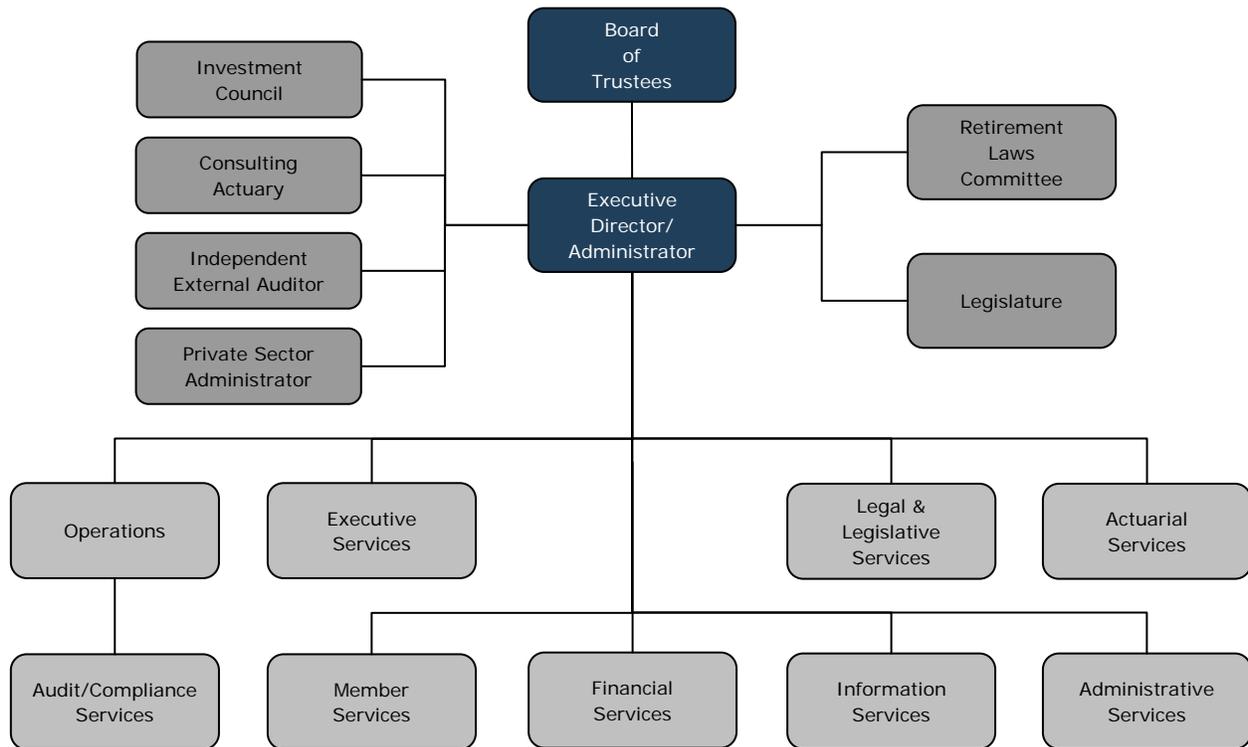
Represents county employees
Board service began in July 1997
Chief Deputy Auditor
Pennington County
Rapid City
Kathy "K.J." Peterson

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

ORGANIZATIONAL CHART



Administration

EXECUTIVE DIRECTOR/
ADMINISTRATOR Robert A. Wylie

EXECUTIVE ASSISTANT Dawn M. Smith, CRC®

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 Scott Schroeder (BIT)
Pierre, SD

S. Lee Huset (BIT)
Pierre, SD

Donelle Beynon (BIT)
Pierre, SD

Management Group

OPERATIONS/COMPLIANCE DIRECTOR Susan Jahraus, CPA, CRC®

GENERAL COUNSEL Jacquelyn Storm, JD

CHIEF FINANCIAL OFFICER Jane Roberts, CRC®

MEMBER SERVICES/
COMMUNICATIONS MANAGER Travis W. Almond, CRC®

SENIOR ACTUARY Douglas J. Fiddler,
ASA, EA, MAAA

ADMINISTRATIVE SERVICES MANAGER Lisa A. Vander Maten

FINANCIAL SUMMARY



- Auditor's Opinion**
- Management's Discussion and Analysis**
- Basic Financial Statements**
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position
 - Notes to Financial Statements
- Required Supplementary Information**
 - Schedule of Changes in the System's Net Pension Asset
 - Schedule of System's Net Pension Asset
 - Schedule of System's Contributions
 - Schedule of Investment Returns
 - Notes to Trend Data
- Other Supplementary Information**
 - Schedule of Administrative Expenses
 - Schedule of Investment Activity Expenses
 - GASB Letter



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 statement of the South Dakota Retirement System (SDRS), which comprise the statement of plan net position as of June 30, 2014, 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.

AUDITOR'S OPINION (CONTINUED)

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, 2014 and 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.

Emphasis of Matter

As described in Note 2 to the financial statements, the financial statements include investments valued at \$3,047,584,045 (28.74% of net position) respective statement of the plan net position of the South Dakota Retirement System, as of June 30, 2014, and the respective statement of changes in plan net position thereof for the year then ended in accordance 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.

Cement Plant Merger and Adoption of New Accounting Standard

As described in Note 15 and Note 16 to the financial statements, the South Dakota Retirement System merged in the Cement Plant Retirement Fund which had a net position of \$54,228,036 as of June 30, 2013. The South Dakota Retirement System elected to early implement the provisions of GASB Statement No. 69, Government Combinations and Disposals of Government Operations and thus updated the previously reported net position to account for the merger in accordance with this statement. Our opinion is not modified with respect to this matter.

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 22-25 and 37-42 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 introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The additional supplementary information listed 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.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2014, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

November 25, 2014
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, 2014. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

Under SDCL 3-12-218, the Cement Plant Retirement Fund was approved to be merged in with SDRS. All members of the Cement Plant Retirement Fund (the Cement Plant), including any retiree and any vested member, became class C members of the South Dakota Retirement System on April 1, 2014. The system will continue to provide the same benefits for the class C members as what they previously received.

Financial Highlights

- The fiduciary net position of SDRS increased by \$1.5 billion during fiscal year 2014. This increase was primarily due to the investment performance of 19.32 percent, which was significantly above the assumed rate of 7.25 percent.
- SDRS paid \$421.9 million to SDRS benefit recipients in fiscal year 2014 compared to \$397.6 million in 2013 and \$4 million to Cement Plant Retirement Fund benefit recipients in fiscal year 2014. SDRS received \$211.1 million in SDRS member and employer contributions in fiscal year 2014 compared to \$202.1 million in 2013. On April 1, 2014, the SDRS received funds of \$66.4 million to fully fund the benefits to be paid for the Cement Plant Retirement Fund.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The System presents the statement of the fiduciary net position as of June 30, 2014, and the statement of changes in fiduciary 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.

Financial Analysis

SDRS is a cost-sharing, multiple-employer public employee retirement system. SDRS provides retirement, disability, and survivor benefits for employees of the state of South Dakota and its political subdivisions. The benefits are funded through member and employer contributions and investment income.

SDRS benefits are based on the members' final average compensation, their years of credited service, and a benefit multiplier and are payable for life with a 60 percent survivor benefit.



A summary of the fiduciary net position is shown below:

Assets	2014	As Restated 2013
Cash and cash equivalents	\$ 2,597,852	\$ 9,285,944
Receivables	33,945,006	51,390,980
Investments, at fair value	10,602,044,751	9,173,940,376
Other assets	353,484	26,442
Due from brokers—futures transactions	—	1,870,102
Total assets	<u>\$10,638,941,093</u>	<u>\$9,236,513,844</u>
Liabilities		
Accounts payable and accrued expenses	\$ 2,354,618	\$ 2,232,483
Securities sold, but not yet purchased	—	55,977,321
Unsettled investment purchases	29,008,600	38,369,296
Due to brokers—futures transactions	23,383	—
Total liabilities	<u>\$ 31,386,601</u>	<u>\$ 96,579,100</u>
Net position restricted for pension benefits	<u>\$10,607,554,492</u>	<u>\$9,139,934,744</u>

**Summary of
Fiduciary Net
Position
June 30, 2014 and 2013**

Additions to the fiduciary 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.

**Change in
Fiduciary Net
Position**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 7.25 percent at June 30, 2014. The gross investment returns were 19.32 percent for 2014 and 19.53 percent for 2013.

Deductions from fiduciary net position are primarily benefit payments. During 2014, SDRS paid \$425.8 million to benefit recipients or 7.1 percent more than 2013. The increase is due to added recipients due to the Cement Plant Retirement Fund merger and the annual 3.1 percent cost-of-living adjustment. Refunds of accumulated contributions during 2014 decreased 2.0 percent. Administrative costs of SDRS increased 7.5 percent during 2014.

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

	2014	2013	% Change
Additions:			
Employee contributions	\$ 106,175,381	\$ 101,678,721	4.4%
Employer contributions	112,551,482	100,376,481	12.1
Investment income	<u>1,703,240,824</u>	<u>1,467,497,091</u>	<u>16.1</u>
Total additions	<u>1,921,967,687</u>	<u>1,669,552,293</u>	<u>15.1</u>
Deductions:			
Benefits	425,823,928	397,620,115	7.1
Refunds of contributions	24,666,785	25,160,994	(2.0)
Administrative expenses	<u>3,857,226</u>	<u>3,588,717</u>	<u>7.5</u>
Total deductions	<u>454,347,939</u>	<u>426,369,826</u>	<u>6.6</u>
Net change in fiduciary net position	<u>1,467,619,748</u>	<u>1,243,182,467</u>	<u>18.1</u>
Fiduciary net position restricted for pension benefits:			
Beginning of year	9,139,934,744	7,842,524,241	16.5
Cement Plant Retirement Fund Merger	<u>—</u>	<u>54,228,036</u>	<u>—</u>
End of year	<u>\$10,607,554,492</u>	<u>\$9,139,934,744</u>	<u>16.1%</u>

Investments

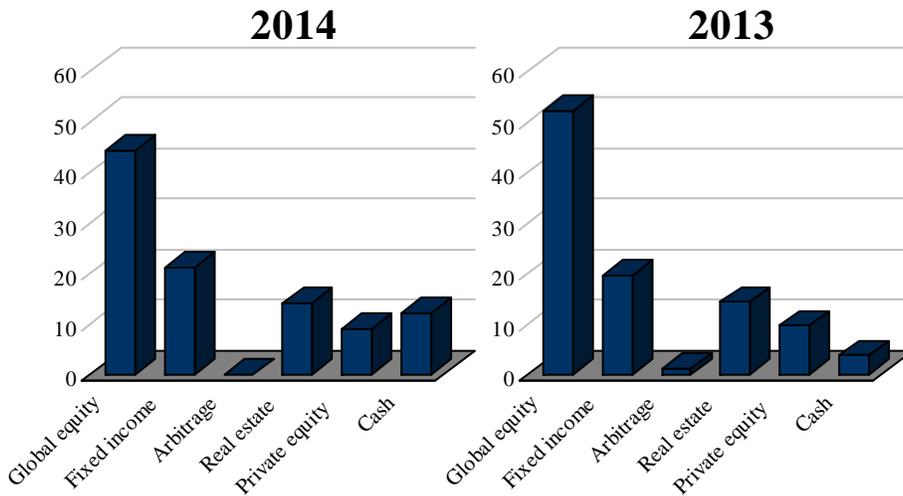
SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council. The South Dakota Investment Office is the primary investment manager, but the Investment Council may utilize the services of external money managers.

Gross investment performance during 2014 and 2013 was 19.32 percent and 19.53 percent, respectively.

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

§4-5-27. Prudent-man standard required in investments. Any investments under the provisions of §4-5-12 to §4-5-39, inclusive, shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Though monthly benefit payments exceed monthly contributions, the SDRS is not subject to sudden, substantial, and unexpected withdrawals. As a result, it is not necessary to maintain a high percentage of assets in short-term investments unless that is deemed to be the best investment strategy. This allows the SDRS trust fund to be fully invested in a diversified portfolio of securities.



Investment Summary

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

Plan Status

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

Requests for Information

BASIC FINANCIAL STATEMENTS

**Statement of
Fiduciary Net
Position
June 30, 2014**

Assets		
Cash and cash equivalents		<u>\$2,597,852</u>
Receivables:		
Employer		2,132,525
Employee		2,271,091
Benefits		43,000
Unsettled investment sales		10,647,176
Accrued interest and dividends		<u>18,851,214</u>
Total receivables		<u>33,945,006</u>
Investments, at fair value:		
Fixed income		2,081,961,273
Equities		6,041,408,091
Real estate		1,518,520,718
Private equity		<u>960,154,669</u>
Total investments, at fair value		<u>10,602,044,751</u>
Property, at cost (net of accumulated depreciation of \$13,728)		<u>14,372</u>
Computer software development in progress		<u>314,935</u>
Other assets		<u>24,177</u>
Total assets		<u>10,638,941,093</u>
Liabilities		
Accounts payable and accrued expenses		2,354,618
Unsettled investment purchases		29,008,600
Due to brokers—futures transactions		<u>23,383</u>
Total liabilities		<u>31,386,601</u>
Net position restricted for pension benefits		<u>\$10,607,554,492</u>

See accompanying notes to financial statements.

**Additions**

Contributions:	
Employee	\$106,175,381
Employer	<u>112,551,482</u>
Total contributions	<u>\$218,726,863</u>

**Statement of
Changes in
Fiduciary
Net Position
Year Ended June 30,
2014**

Investment income:

From investing activities:

Net appreciation in fair value of investments	1,491,542,544
Interest	59,073,636
Dividends	141,733,122
Real estate	<u>43,817,922</u>

Investment activity income 1,736,167,224

Less investment activity expenses (33,653,689)**Net investment activity income** **1,702,513,535***From security lending activities:*

Security lending income	1,045,739
Security lending expenses	<u>(318,450)</u>
	<u>727,289</u>

Total additions **1,921,967,687****Deductions**

Benefits	425,823,928
Refunds of contributions	24,666,785
Administrative expenses	<u>3,857,226</u>

Total deductions **454,347,939****Net change in net position** 1,467,619,748**Net position restricted for pension benefits**

Beginning of year, restated	<u>9,139,934,744</u>
End of year	<u>\$10,607,554,492</u>

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 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; a justice, judge, or magistrate judge; 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 three classes of members: Class A-general members, Class B-public safety and judicial members, and Class C Cement Plant Retirement Fund 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. Class C Cement Plant Retirement Fund members have a normal retirement age of 65 and early retirement is age 55 with the required credited service. Class C provides for disability payments for those disabled on or before March 16, 2001. All participants of the Plan on March 15, 2001, were 100 percent vested.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to consumer price index (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, 2014. Therefore, no provision for income taxes has been included in SDRS’s financial statements.

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

Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

As of June 30, 2014, the number of participating governmental employers is as follows:

School districts	166
State of South Dakota	1
Board of Regents	1
Municipalities	155
Counties	64
Boards and commissions	89
Total employers	476

At June 30, 2014, SDRS membership consists of the following:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	22,867
Class B (public safety and judicial employees)	1,450
Class C (cement plant employees)	245
Total retirees and beneficiaries	24,562

Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	15,211
Class B (public safety and judicial employees)	712
Class C (cement plant employees)	69
Total terminated members	15,992

Current active members:	
Vested:	
Class A (general employees)	28,237
Class B (public safety and judicial employees)	2,125
Class C (cement plant employees)	22
Non-vested:	
Class A (general employees)	7,868
Class B (public safety and judicial employees)	699
Total current active members	38,951

Grand total	79,505
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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 \$3,047,584,045 (28.74 percent of investments) at June 30, 2014. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

Foreign exchange rate gains and losses are included with the net appreciation in fair value in investments. Futures contracts are marked to market based on quoted futures prices with changes in fair value reflected in the current period.

Interest 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.

(d) New Accounting Pronouncements

GASB Statement No. 67, which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of total and net pension asset. It also includes comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension asset to the discount rate, and increased investment activity disclosures.

BASIC FINANCIAL STATEMENTS (CONTINUED)

The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension asset, determined in accordance with GASB No. 67, is presented in Note 4 and in the Required Supplementary Information.

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 and expenses if the System is fully funded or pay the normal costs, expenses, and amortize the frozen unfunded actuarial accrued liability (UAAL) if the System is not fully funded. The June 30, 2014, 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>
2014	\$104,952,985	100%
2013	100,376,481	100
2012	98,866,649	100
2011	98,624,737	100
2010	96,914,192	100

Contributions during fiscal year 2014 totaling \$218,726,863 (\$106,175,381 employee, \$112,551,482 employer, of this, \$7,598,498 was transferred from the general fund to actuarially fund the Cement Plant Retirement Fund) 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>
2015	\$56,540
2016	29,394
2017	20,634
2018	11,705
2019	3,644
Later	<u>11,643</u>
Deferred contributions receivable at June 30, 2014	<u>\$133,560</u>

(b) Reserves

The reserve for funding of long-term benefit goals is designed to fund benefit improvements and provide the plan with protection against adverse experience. The reserve for funding of long-term benefit 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, 2014, the balance in the reserve for funding of long-term benefit goals is (\$946,419,599). The reserve will increase by net gains of \$1,582 million that will be recognized in the reserve for funding of long-term benefit goals over the next four years.

4. Net Pension Asset of the System

The components of the net pension asset of the System at June 30, 2014, was as follows:

Total pension liability	\$ 9,887,095,388
Plan fiduciary net position	<u>(10,607,554,492)</u>
Net pension asset	<u>\$ (720,459,104)</u>
Fiduciary net position as a percentage of net pension asset	107.29%

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Discount rate	7.25% through 2017 and 7.5% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period of July 1, 2005, to June 30, 2010. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Discount Rate—The discount rate used to measure the total pension liability was 7.25 percent through 2017 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of (asset)/liability to changes in the discount rate—The following presents the net pension (asset)/liability of the System, calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the System’s net pension asset would be if it were calculated using a discount rate that is 1 percent lower (6.25/6.50 percent) or 1 percent higher (8.25/8.50 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System’s net pension (asset)/liability	\$711,949,105	\$(720,459,104)	\$(1,888,737,506)

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.

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 a formal deposit policy specific to custodial credit risk and foreign currencies. Policy states that the USD equivalent of any non-USD currency cannot exceed 2.0 percent of any portfolio on a trade date +7 days basis. All portfolios as of June 30, 2014, meet policy guidelines. These deposits are not collateralized or covered by depository insurance. As a result, \$19,650,852 was exposed to custodial credit risk, which are recorded in investments in the statement of fiduciary 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.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2014 (see the discussion of the pension plan’s investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	4.7%
International equity	4.7%
Fixed income	1.8%
Real estate	5.5%
Cash	0.8%

On the following page is a detail of the investment balances and amounts managed by the respective fund managers:

BASIC FINANCIAL STATEMENTS (CONTINUED)

	<u>Cost</u>	<u>Fair Value</u>
State of South Dakota Investment Council	\$5,612,902,682	\$7,286,484,708
Sanders Capital	39,636,291	41,216,331
Blackstone Real Estate Partners	840,528,229	1,281,422,344
Rockpoint RE IV	17,932,084	25,080,513
Starwood RE IX	33,694,272	40,875,107
Cargill North American Real Estate Partners	35,693,429	31,337,742
CINVIN	98,330,996	117,588,712
Pinebridge	6,994,859	5,019,619
CVI Global Value Fund	71,447,826	74,443,559
TCW Opp MBS Strategy	431,479,654	502,630,532
Blackstone Credit Liquidity	2,294,601	532,377
Sanders All Asset Value	18,068,858	22,005,112
Silver Lake Partners LP	112,905,216	149,299,247
KKR Associates	20,751,228	25,494,557
Cypress Merchant Banking Partners LP	5,615,915	6,134,105
Capital International	41,629,225	45,585,552
Apollo	25,497,433	14,698,635
Bridgewater Pure Alpha Fund II	36,742,005	82,115,450
Dimensional Fund Advisors, Inc.	8,977,461	52,706,460
Blackstone Private Equity	187,451,033	298,816,019
Doughty Hanson PE IV	51,736,328	71,043,657
Brandes Global Mid-Cap	56,659,202	61,234,834
Doughty Hanson & Co. European Real Estate	36,763,711	28,294,274
CVC	61,800,189	73,850,991
Carlyle	53,619,808	71,669,443
Elevation Partners	8,410,768	8,178,637
Crossroads Investment Advisors LP	3,347,537	3,033,344
Lone Star Real Estate	93,330,118	96,812,103
Riverstone	63,308,088	84,105,942
DLJ Merchant Banking Partners LP	314,196	334,845
Total	\$8,077,863,242	\$10,602,044,751

(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 investment grade fixed income portfolios of SDRS are benchmarked to the duration of the Citigroup Broad Investment Grade (BIG) Index and must fall between 70 percent and 130 percent of the BIGs duration.

The durations of the various investment types are listed in the following table:

<u>Investment type</u>	<u>Fair value</u>	<u>Duration (in years)</u>
U.S. Treasuries	\$130,738,600	7.03
U.S. Treasury Bills	76,996,443	0.21
U.S. Treasury strips	45,596,218	9.01
U.S. Treasury Inflation Protected Securities	1,805,936	0.79
U.S. agencies	57,894,912	3.73
U.S. agencies discount notes	18,714,370	0.19
Investment grade corporates	414,336,126	4.27
High-yield corporates	116,596,130	3.64
Agency Mortgage-backed securities	304,450,092	4.70
Nonagency mortgage-backed securities	466,271,074	0.51
Total	\$1,633,399,901	3.33

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.

(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, 2014, 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	\$589,808,339
Aa	75,116,611
A	148,760,957
Baa	203,790,812
Ba	79,187,852
B	93,458,403
Caa	195,394,253
Ca	139,728,870
P-1	18,714,370
Unrated	61,760,065
Total	\$1,605,720,532

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of SDRS's 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 that represent 5 percent or more of the total fair value of investment as of June 30, 2014 (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, 2014, is as follows (in U.S. dollar fair value):

<u>Currency</u>	<u>Equities</u>	<u>Fixed income</u>	<u>Cash</u>	<u>Total</u>
Australian Dollar	\$10,384,926	—	\$511,604	\$10,896,530
Brazilian Real	2,172,366	—	—	2,172,366
British Pound	336,068,797	—	2,779,865	338,848,662
Canadian Dollar	124,043,377	—	977,443	125,020,820
Danish Krone	7,075,265	—	—	7,075,265
Euro	382,525,869	—	11,269,975	393,795,844
Hong Kong Dollar	3,801,470	—	52,112	3,853,582
Hungarian Forint	1,243,506	—	—	1,243,506
Japanese Yen	171,562,875	—	3,024,921	174,587,796
Korean Won	56,977,408	—	2,114	56,979,522
Russian Ruble	266,266	—	—	266,266
Swedish Krona	1,762,066	—	805,179	2,567,245
Swiss Franc	313,188,037	—	227,639	313,415,676
Turkish Lira	1,084,675	—	—	1,084,675
Total fair value	\$1,412,156,903	—	\$19,650,852	\$1,431,807,755

Investments with limited partnerships and certain global equity investments with external managers, which are not included in the table on the previous page, 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, 2014, was \$2,478,675,387. The total fair value of global equity and high-yield fixed income investments managed by external managers was \$157,323,778 and \$74,975,936, respectively.

(e) Return on Investments

During fiscal year 2014, SDRS's investments (including investments bought and sold, as well as held during the year) appreciated in value by \$1,484,679,056.

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	\$ 703,533,314
Fixed income	31,681,810
Real estate	185,724,570
Private equity	115,619,330
Change in accrued income	520,691
Total increase in fair value	1,037,079,715
Realized gain (loss) on investments:	
Equities	360,596,558
Fixed income	51,452,428
Real estate	86,279,762
Private equity	73,692,700
Total net realized gains	572,021,448
Futures—change in unrealized gain (loss)	(16,389,517)
Futures—realized gain (loss)	(108,032,590)
Net loss on futures	(124,422,107)
Net appreciation in investments	\$1,484,679,056

(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 for 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, 2014, was \$68,160,093 and the collateral held on the same date was \$69,847,734. 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 fiduciary 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.

(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, 2014, 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's 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, 2014, 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

BASIC FINANCIAL STATEMENTS (CONTINUED)

fluctuation in value of the contract. The pending variation margin at June 30, 2014 of (\$23,383) is presented in the statement of fiduciary net position as “Due to brokers—futures transactions.” The change in fair value of the futures contracts is presented in the statement of changes in fiduciary 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, 2014, was (\$124,422,107).

Futures contract positions at June 30, 2014, were as follows:

Description	Expiration Date	Open position	Number of contracts	Notional contract size	Fair value
U.S. Treasury note	Sept 2014	Long	2,735	100,000 par value 6%, 10-year U.S. Treasury note	\$342,345,078
S&P 500 Index due	Sept 2014	Short	2,900		\$(1,415,490,000)

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 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 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, 2014, was \$(402,767). At June 30, 2014, 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	7/24/2014	\$6,289
Forward sale	19,770,519	CHF	8/5/2014	190,356
Forward sale	18,500,000	EUR	9/22/2014	(215,691)
Forward purchase	129,400,000	CNY	7/24/2014	1,011,559
Forward purchase	128,050,000	CNY	7/28/2014	789,544
Forward purchase	150,250,000	CNY	3/30/2015	(807,190)
Forward purchase	117,237,600	CNY	9/10/2015	789,640
Forward purchase	158,375,000	CNY	11/30/2016	46,713

(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, 2014, the net fair value of foreign currency forward contracts was \$2,834,102. 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	\$2,834,102

(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 \$1,811,220.

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, 2014, a liability existed for accumulated annual leave calculated at the employees' June 30, 2014, pay rate in the amount of \$123,306. 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, 2014, a liability existed for accumulated and accrued sick leave, calculated at the employees' June 30, 2014, pay rate in the amount of \$143,858.

	2014	2013	% change
Total compensated absences	\$267,164	\$295,523	-9.60%

The total leave liability for the current year is on the statement of 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, 2014, is as follows for the fiscal year ending June 30:

2015	\$ 104,471
2016	104,471
2017	104,471
2018	104,471
2019	104,471
Thereafter	<u>313,413</u>
Total remaining minimum payments	<u>\$ 835,768</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 \$253,327,075 net position restricted for plan benefits at June 30, 2014, \$155,535,562 was held in trust for employees of the State, while the remaining \$97,791,513 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$1,033,487 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2014.

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 \$36,528,363 net position restricted for plan benefits at June 30, 2014, \$20,656,279 was held in trust for employees of the State, while the remaining \$15,872,084 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, 2014, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$504,214,950 and to real estate limited partnerships totaling approximately \$443,725,297. 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.

14. Assets Used in Plan Operations

These assets represent computer software development costs used by the System and are recorded at cost. Depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of computer software development costs is 10-15 years.

	<u>2014</u>
Computer software development in progress	\$328,633
Less accumulated amortization	<u>13,724</u>
Total computer software development	\$314,935

In March 2014, development began on the South Dakota Retirement System (RETAPP) system. Costs of the RETAPP system will begin to be capitalized and amortized once the application development phase is completed. The balance on contracts pertaining to the completion of the RETAPP project at June 30, 2014, was \$1.2 million.

15. Cement Plant Retirement Fund Merger

Under SDCL 3-12-218, the Cement Plant Retirement Fund was approved to be merged in with SDRS. All members of the Cement Plant Retirement Fund (the Cement Plant), including any retiree and any vested member, became class C members of the South Dakota Retirement System on April 1, 2014. The system will continue to provide the same benefits for the class C members as what they previously received.

For this merger to be accomplished, the South Dakota Legislature made an appropriation of \$5.6 million to actuarially fully fund the Cement Plant Retirement Fund. Once the Cement Plant Retirement Fund was fully funded, the merger was accomplished with a transfer of cash and investments of \$66,451,940 from the Cement Plant Retirement Fund to the South Dakota Retirement Fund. The South Dakota Retirement System is now responsible for the administration of the Cement Plant Retirement Fund and its 336 active, inactive, and retiree members. As a result of the transfer, SDRS recognized the following assets, liabilities, and net position as of June 30, 2013:

	<u>Carrying values</u>
Transferred Assets (Net)	
Cash and cash equivalents	\$2,938,366
Receivables	364,213
Investments (fair value)	<u>51,216,333</u>
Total assets	<u>54,518,912</u>
Transferred Liabilities	<u>290,876</u>
Net Position of Transferred Cement Plant Operation	
Net position restricted for pension benefits	<u>\$54,228,036</u>

BASIC FINANCIAL STATEMENTS (CONTINUED)

16. Early Implementation

During the year ended June 30, 2014, SDRS early implemented GASB 69, *Government Combinations and Disposals of Government Operations* to account for the transaction described in Note 15. As a result of this accounting principal, the net position as of June 30, 2013, has been updated as required by GASB 69 to account for the merger. The financial statements include all activity for the Cement Plant for the current year within the SDRS financial reports.

Net Position, Beginning of Year— As Previously Stated	\$9,085,706,708
Plus adjustment to incorporate the Cement Plant Retirement Fund assets as of June 30, 2013	<u>54,228,036</u>
Net Position, Beginning of Year— As Restated	\$9,139,934,744

REQUIRED SUPPLEMENTARY INFORMATION

	2014
Total pension liability	
Service cost	\$ 161,697,696
Interest	633,951,211
Changes in benefit terms	(5,082,771)
Differences between expected and actual experience	78,328,269
Changes of assumptions	604,281,184
Cement Plant consolidation	60,649,185
Benefit payments, including refunds	<u>(450,490,712)</u>
Net change in total pension liability	1,083,334,062
Total pension liability—beginning	<u>8,803,761,326</u>
Total pension liability—ending	<u>9,887,095,388</u>
Plan fiduciary net position	
Contributions—employer	104,952,985
Contributions—member	106,175,381
Net investment income	1,695,543,796
Benefit payments, including refunds	(450,490,712)
Administrative expense	(3,853,073)
Cement Plant consolidation	69,519,407
Net change in plan fiduciary net position	1,521,847,784
Plan fiduciary net position—beginning	<u>9,085,706,708</u>
Plan fiduciary net position—ending	<u>\$10,607,554,492</u>
System's net pension liability (asset) - ending	<u>\$ (720,459,104)</u>

Schedule of Changes in the System's Net Pension Asset Last Fiscal Year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years in which information is available.

	2014
Total pension liability	\$ 9,887,095,388
Plan fiduciary net position	<u>10,607,554,492</u>
System's net pension liability (asset)	<u>\$ (720,459,104)</u>
Plan fiduciary net position as a percentage of the total pension liability	107.29%
Actuarial projected covered-employee payroll	\$1,685,627,785
System's net pension liability (asset) as a percentage of covered-employee payroll	-42.741%

Schedule of System's Net Pension Asset Last Fiscal Year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years in which information is available.

See Notes to Required Supplementary Information.

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

Schedule of System's Contributions Last Fiscal Year

	2014
Actuarially determined contribution	\$ 172,001,459
Contributions in relation to the actuarially determined contribution	<u>209,678,082</u>
Contribution deficiency (excess)	<u>\$ (37,676,623)</u>
 Reported covered-employee payroll	 \$1,685,627,785
 Contributions as a percentage of covered-employee payroll	 12.439%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years in which information is available.

Schedule of Investment Returns Last Fiscal Year

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual money-weighted rate or return, net of investment expenses	18.91%	19.01%	1.37%	25.27%	18.20%	-21.05%	-8.93%	21.07%	12.86%	13.12%
Annual time-weighted rate or return, net of investment expenses	18.90%	19.02%	1.45%	25.18%	17.99%	-20.89%	-9.00%	21.06%	12.85%	13.12%

See Notes to Required Supplementary Information.



Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of System's contributions are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Notes to Trend Data

Valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	0 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25% through 2017 and 7.50% thereafter
Projected salary increases	5.83% at entry to 3.87% after 30 years of service
Post-retirement mortality table:	
Active members	RP-2000 Employee Mortality Table projected generationally with Scale BB, with males adjusted by 85% and females by 48%.
Healthy inactive members, retired members and beneficiaries	RP-2000 Combined Healthy Mortality Table projected generationally with Scale BB, with males adjusted by 91% and females by 90%.
Disabled inactive and retired members	RP-2000 Disabled Retiree Mortality Table projected generationally with Scale BB.

¹ Includes inflation at 3.25 percent.

OTHER SUPPLEMENTARY INFORMATION

Schedule of Administrative Expenses Year Ended June 30, 2014

Personal services	Accrual Basis
Salary and per diem	\$1,630,554
Employee benefits	508,106
Total personal services	<u>2,138,660</u>
Operating expenses	
Travel	60,881
Contractual services:	
Audit	93,250
Finance	16,771
Valuations	87,000
Consulting	228,816
Studies	24,292
Special studies	49,822
Legal	17,686
Communications	40,000
Medical	125
Operations	777,540
Total contractual services	<u>1,335,302</u>
Supplies and materials	291,941
Capital assets	30,442
Total operating expenses	<u>1,718,566</u>
Total administrative expenses	<u>\$3,857,226</u>

Schedule of Investment Activity Expenses Year Ended June 30, 2014

Investment managers	Management expenses
State of South Dakota Investment Council	\$ 7,460,132
Apollo	338,677
Blackstone Credit Liquidity	7,640
Blackstone Private Equity	118,040
Blackstone Real Estate Partners	1,692,785
Brandes Global Mid-Cap	241,660
Capital International	1,184,753
Cargill North American Real Estate Partners	312,650
Carlyle	1,664,706
CINVIN	2,564,000
Crossroads Investment Advisors LP	83,019
CVC	451,264
CVI	1,104,998
Cypress Merchant Banking Partners LP	44
Dimensional Fund Advisors, Inc.	211,463
Doughty Hanson & Co. European Real Estate	1,138,484
Doughty Hanson PE IV	511,240
Elevation Partners	134,292
GE Asset Management China	1,426,395
GE Asset Management Commodities	1,427
KKR Associates	(110,747)
Lone Star Real Estate	3,101,093
PIMCO Distressed Mtg Fund II	1,866
Riverstone	1,383,022
Rockpoint RE IV	1,664,098
Sanders All Asset Value	516,723
Sanders Capital	245,204
Silver Lake Partners LP	3,223,879
Starwood RE IX	679,164
TCW Opp MBS Strategy	<u>2,301,418</u>
Total investment activity expenses	<u>\$33,653,389</u>



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the 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, the financial statements of the South Dakota Retirement System (SDRS), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SDRS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SDRS's internal control. Accordingly, we do not express an opinion on the effectiveness of the SDRS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SDRS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Boise, Idaho
November 25, 2014

ACTUARIAL SUMMARY



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- Actuarial Overview**
- Actuarial Valuation**
 - Solvency Test
 - Schedule of Active Member Valuation Data
 - Schedule of Retirees and Beneficiaries Added to
and Removed from Benefit Payroll
 - Comparison of Actuarial Valuation Results
- Plan Summary**

ACTUARY'S OPINION



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November 5, 2014

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, 2014. 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, 2014 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 Actuarially Determined Contribution 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. 67, Financial Reporting for Pension 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 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, 2014, the Unfunded Actuarial Accrued Liability is \$0. The contractual Employer Contribution Rates to SDRS meet the requirements of the Actuarially Determined Contribution of the Employers of GASB Statement No. 67.

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 Fair Value Funded Ratio is 107.3%. (In the past, this measure was identified as the Market Value Funded Ratio.)

Based on Member data and asset information provided by SDRS, we have prepared the Schedule of changes in the Net Pension Liability and Schedule of Employer Contributions in accordance with GASB No. 67 parameters that are included in the Financial section of the CAFR.

The undersigned is an Enrolled Actuary, Associate of the Society of Actuaries and a Member of the American Academy of Actuaries and meets 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.

It is our opinion SDRS is meeting its actuarial funding policy.

Respectfully submitted,

A handwritten signature in black ink that reads "David H. Slisinsky".

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

Disclosure: Use of this report for any other purposes or by anyone other than the Board members and staff of SDRS may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of this report for that purpose. No one may make any representations or warranties based on any statements or conclusions contained in this report without Buck Consultants' written consent.

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 2014 actuarial valuation, three important actuarial measures have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are:

- funded ratios
- funding period when an unfunded actuarial accrued liability (UAAL) exists
- risk management contribution amount when no UAAL exists

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 equal to the actuarial value of assets divided by the AAL. The fair value funded ratio is equal to the fair value of assets divided by the AAL. A ratio in excess of 100 percent indicates that accrued benefits are fully funded. Prior reports identified fair value of assets and fair value funded ratio as market value of assets and market value funded ratio, respectively.

Funding Period

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 to eliminate the unfunded actuarial accrued liability. A similar transfer of \$599 million was made as of June 30, 2014 in order to fund the net increase in actuarial accrued liability due to changes in the mortality assumption and disability and survivor benefits. As a result, the unfunded actuarial accrued liability remains at \$0 as of June 30, 2014 and no funding period is applicable.

Risk Management Contribution

The risk management contribution is equal to statutory contributions in excess of contributions required to fund normal costs, expenses and amortize any unfunded actuarial accrued liabilities. When the risk management contribution exists, it will increase the cushion and reserve for funding long-term benefit goals. During the year ending June 30, 2014, the cushion and reserve for funding long-term benefit goals were increased by a risk management contribution of \$38 million.

Measures of Actuarial Soundness

	2014 actuarial valuation	2013 actuarial valuation
Actuarial value funded ratio (actuarial value of assets/AAL)	100.0%	100.0%
Fair value funded ratio (fair value of assets/AAL)	107.3%	103.2%
Funding period	N/A	N/A
Risk management contribution	\$38M	N/A

The time-weighted annualized investment performance based on the fair value of assets of the system for the most recent year was 18.90 percent after consideration of investment expenses. The money-weighted annualized investment performance based on the market value of assets for the period was 18.91 percent after deducting investment expenses, significantly greater than the assumed rate of 7.25 percent for fiscal year 2014. This resulted in an actuarial investment gain of \$1,067 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, 2014 and increased by the total liability loss of \$70 million. The reserve for funding of long-term benefits goals increased from a balance of negative \$1,106 million as of June 30, 2013, to a balance of negative \$951 million as of June 30, 2014 as a result of investment returns above expectations for fiscal year 2014. Net gains to be allocated to the reserve in the next four fiscal years total \$1,586 million as of June 30, 2014.

Actuarial Investment Return Gains/Losses For the year ended June 30, 2014

	Amount of liability gain (loss)	Percentage of present value of all benefits
(Loss) due to compensation increases	\$(8M)	(0.07)%
(Loss) due to decrements	(41M)	(0.36)%
(Loss) due to rehired and new members	(13M)	(0.12)%
(Loss) due to COLA for continuing inactive	(20M)	(0.18)%
Miscellaneous Gain	15M	0.13%
Total system (Loss)	\$(67M)	(0.60)%

Actuarial Liability Gains/Losses For the year ended June 30, 2014

Liabilities and contributions for funding purposes are computed using the frozen entry age actuarial cost method. Effective June 30, 2013, the frozen unfunded actuarial accrued liability was eliminated through an adjustment to the actuarial value of assets, cushion and reserve for funding of long-term benefit goals and 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 fair value of assets. Under this method, experience gains or losses related to past service adjust the actuarial value of assets and gains and losses related to future service adjust the normal cost. This cost method was selected because it produces a consistent normal cost, as a percentage of payroll from year to year.

Actuarial Cost Method

When an unfunded actuarial accrued liability exists, the contribution requirement will include an amortization payment over a period not to exceed 20 years. No unfunded actuarial accrued liability currently exists.

The actuarial cost method used for financial reporting purposes is the entry age actuarial cost method. As of June 30, 2014, the liabilities and normal cost are identical under the two methods.

Actuarial Assumptions

Significant actuarial assumptions used include: a) a rate of return on the present and future assets of 7.25 percent a year for 5 years beginning July 1, 2012, increasing to 7.50 percent 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 4.9 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 members are based upon the RP-2000

ACTUARIAL OVERVIEW (CONTINUED)

Employee Mortality Table, projected generationally with Scale BB with male rates multiplied by 85% and female rates multiplied by 48%; h) mortality rates for non-disabled pensioners are based upon the RP-2000 Combined Mortality Table, projected generationally with Scale BB with male rates multiplied by 91% and female rates multiplied by 90%; and i) at termination of employment, members will elect the more valuable of the accumulated contributions or the deferred vested benefit payable at retirement.

A detailed experience analysis was conducted in 2011 and 2012, and appropriate modifications in the demographic assumptions regarding assumed rates of member termination, retirement, and disability were made effective with the June 30, 2012 actuarial valuation. Also as a result of the experience analysis in 2012 and further study and debate of the SDRS Board of Trustees, changes were made to the economic actuarial assumptions effective for the June 30, 2012 actuarial valuation.

As a result of an extension of the experience analysis specific to mortality, changes were made to the mortality assumptions effective for the June 30, 2014 actuarial valuation. The mortality assumption changes increased the actuarial accrued liability by \$604 and increased the ongoing normal cost rate.

The actuarial assumptions were recommended by the actuary and adopted by the SDRS Board of Trustees. Please see pages 50 and 51 for tables of actuarial assumption rates.

The actuarial assumptions for funding purposes are identical to the assumptions used for financial reporting purposes

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. It is restricted to a corridor of 80 percent to 120 percent of fair value of assets.

Summary of Actuarial Assumption and Method Changes

As a result of an extension of the experience analysis specific to mortality, changes were made to the mortality assumptions effective for the June 30, 2014 actuarial valuation. The mortality assumption changes increased the actuarial accrued liability by \$604 and increased the ongoing normal cost rate.

Effective for the June 30, 2014 valuation, the SDRS Board of Trustees authorized a transfer from the cushion to the actuarial value of assets to fund the net increase in the actuarial accrued liability due to the mortality assumption change and the disability and survivor benefit changes, thereby maintaining a frozen unfunded actuarial accrued liability of \$0.

Cushion

The cushion is the excess of the fair 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.

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.

Reserve for Funding of Long-term Benefit Goals

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.

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

Balance as of June 30, 2013	\$(1,106,063,511)
Fiscal year 2014 experience	200,007,103
Amortization of prior gains and (losses)	516,860,471
Less transfer from cushion and reserve to actuarial value of assets to fund net impact of mortality assumption and benefit changes	(599,198,413)
Risk management contribution	<u>37,676,623</u>
Balance as of June 30, 2014	\$(950,717,727)
Net gains to be allocated to reserve in next four years	\$1,586,283,240

ACTUARIAL OVERVIEW (CONTINUED)

**Actuarial
Assumption Tables**

Sample Separation Rates

Annual Rate per 100 Members

Age	Active Mortality		Inactive Mortality		Disabled Mortality		Disablement					
	Male	Female	Male	Female	Male	Female	Class A-Teachers		Class A-Non-Teachers		Class B-Public Safety	
							Male	Female	Male	Female	Male	Female
25	0.03	0.01	0.03	0.02	2.16	0.71	0.02	0.02	0.04	0.04	0.08	0.10
30	0.04	0.01	0.04	0.02	2.16	0.71	0.02	0.02	0.05	0.04	0.08	0.11
35	0.06	0.02	0.07	0.04	2.16	0.71	0.02	0.02	0.05	0.04	0.10	0.12
40	0.09	0.03	0.09	0.06	2.16	0.71	0.03	0.03	0.06	0.05	0.12	0.15
45	0.12	0.05	0.13	0.10	2.16	0.71	0.04	0.04	0.09	0.08	0.16	0.22
50	0.17	0.08	0.19	0.14	2.78	1.11	0.06	0.05	0.13	0.08	0.24	0.23
55	0.25	0.11	0.32	0.23	3.40	1.54	0.10	0.08	0.22	0.13	0.40	0.38
60	0.38	0.16	0.56	0.40	3.81	1.90	0.21	0.16	0.46	0.28	0.84	0.80
65	0.54	0.24	0.98	0.74	4.24	2.37	0.43	0.31	0.94	0.54	1.71	1.55

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

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

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

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



Retirement Age Class A

Actuarial Assumption Tables (continued)

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				50.0			30.0	30.0
79				50.0			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

ACTUARIAL VALUATION

Benefit Changes

During the 2014 fiscal year, disability and certain survivor benefits were revised effective for disabilities or deaths after July 1, 2015. In addition, the South Dakota Cement Plant Retirement Plan was merged into SDRS effective April 1, 2014. The June 30, 2014 actuarial valuation completely reflects all the provisions of the system in effect on June 30, 2014, as outlined in the plan summary section of the report.

Summary of Key Actuarial Measures

	2013 actuarial valuation results	System investment and liability experience for year ¹	Membership changes and maturity of system ²	Changes in benefit provisions, actuarial methods or actuarial assumptions effective July 1, 2014 ³	2014 actuarial valuation results
Normal cost rate with expense provision	10.204%	—	(0.108)%	0.715%	10.811%
Funding period	N/A	—	—	—	N/A
Frozen unfunded actuarial accrued liability	\$0	—	—	—	\$0
Actuarial value funded ratio	100.0%	—	—	—	100.0%
Fair value funded ratio	103.2%	11.0%	—	(6.9)%	107.3%

¹ SDRS actuarial investment gains and liability gains and losses impact the cushion and the fair value funded ratio and are smoothed and allocated directly to the reserve for funding of long-term benefit goals over 5 years. All SDRS actuarial investment losses are allocated immediately to the reserve. The actuarial value of assets is increased by the SDRS liability loss or decreased by the SDRS liability gain each year.

² Changes to the membership from year to year will cause minor changes in the normal cost rate.

³ Disability and certain survivor benefit provisions were changed by 2014 legislation. In addition, the board of trustees adopted revisions to the mortality assumption effective for the June 30, 2014 valuation. The net increase in the actuarial accrued liability due to the benefit provision and actuarial assumption changes was funded by a \$599 million transfer from the cushion to the actuarial value of assets.

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.

Actuarial Soundness

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 2014, expressed as a percentage of payroll and total contributions, are based on the 2014 actuarial valuation and are summarized in the chart below.

SDRS 2014 Funding Requirements

	As a percentage of payroll	As a percentage of contributions
Total statutorily required employer and member contribution rate	12.482 ¹	100.0
Normal cost rate at mid-period	10.561	84.6
Expense allowance	0.250	2.0
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	10.811	86.6
Contribution rate available to amortize frozen unfunded actuarial accrued liability (if one exists) (12.482%-10.811%)	1.671 ²	13.4

The 2014 actuarial valuation indicates that the frozen unfunded actuarial accrued liability remains at \$0 and the total statutorily required employer and member contribution rate of 12.482 percent is sufficient to pay the normal cost and expenses of the system and provides an additional amount that will contribute to the cushion and reserve 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, 2014, are 12.482 percent of considered compensation.

² The frozen unfunded actuarial accrued liability is \$0 as of July 1, 2014.

ACTUARIAL VALUATION (CONTINUED)

The 2014 actuarial valuation confirms that:

- a. Funding of current benefit levels for active members and expenses requires 87 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 \$720 million.
- e. SDRS currently has a balance of negative \$951 million in the reserve for funding of long-term benefit goals and net gains of \$1,586 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 and reserve, providing additional resources to offset potential future unfavorable experience.

The 2014 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, 2014, 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 amount of 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.

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.

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 2014 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, 2014**

Actuarial value of assets as of June 30, 2013	\$8,803,761,326
Contributions and disbursements	
Actuarially determined contribution	172,001,459
Purchase of service contributions	1,450,284
Benefit payments and refunds	(450,490,713)
Administrative expenses	<u>(3,853,073)</u>
Total	\$(280,892,043)
Expected investment return	\$628,268,513
SDRS liability gain/(loss)	\$(67,239,772)
Cement Plant Retirement Plan consolidation	\$69,519,407
Preliminary actuarial value of assets as of June 30, 2014	\$9,287,896,975
Transfer from cushion to actuarial value of assets to fund mortality assumption and benefit changes	<u>\$599,198,413</u>
Preliminary actuarial value of assets as of June 30, 2014, with transfer from cushion	\$9,887,095,388
Fair value of assets as of June 30, 2014	\$10,607,554,492
Constraining values	
80% of fair value of assets	\$8,486,043,594
120% of fair value of assets	\$12,729,065,390
Actuarial value of assets as of June 30, 2014	<u>\$9,887,095,388</u>

ACTUARIAL VALUATION (CONTINUED)

Funding Policy

The SDRS Board of Trustees is responsible for maintaining the system's funding policy. The current funding policy includes the funding objectives, the establishment of the cushion and reserve for funding long-term benefit goals, the policy regarding consideration of benefit improvements and the conditions requiring recommendation for corrective actions.

Benefit and Funding Objectives and Historical Summary

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

- Lifetime income replacement 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

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, 2014, the funding period is not applicable.

The SDRS funding 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 funding objective is to maintain an actuarial value funded ratio of 100 percent and a fair value funded ratio of at least 100 percent.

The schedule below presents the actuarial accrued liability funded ratio, the fair 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	Fair value of assets	Actuarial value funded ratio	Fair 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
2014	9,887,095,388	9,887,095,388	10,607,554,492	100.0	107.3	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 and June 30, 2014.



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

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

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

Summary of Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability

Fiscal year	Actuarial accrued liability	Actuarial value of assets	Actuarial as a % of accrued actuarial liability	Unfunded actuarial accrued liability	Total covered payroll (000,000)	Unfunded liability as a % of payroll
1987-88	\$1,078,235,569	\$1,050,836,113	97.5	\$27,399,456	\$530.0	5.2
1989-90	1,404,616,511	1,275,091,534	90.8	129,524,977	582.7	22.2
1991-92	1,714,482,245	1,605,481,514	93.6	109,000,731	694.3	15.7
1993-94	2,108,309,129	1,945,856,251	92.3	162,452,878	788.6	20.6
1995-96	2,539,008,893	2,390,236,436	94.1	148,772,457	820.1	18.1
1997	2,956,497,152	2,813,304,611	95.2	143,192,541	835.1	17.1
1998	3,471,898,003	3,337,293,439	96.1	134,604,564	875.9	15.4
1999	3,997,927,795	3,875,171,467	96.9	122,756,328	902.5	13.6
2000	4,611,913,087	4,427,102,390	96.0	184,810,697	944.6	19.6
2001	4,688,408,562	4,521,403,578	96.4	167,004,984	1,029.7	16.2
2002	4,576,948,810	4,425,392,396	96.7	151,556,414	1,080.1	14.0
2003	4,818,943,695	4,685,890,770	97.2	133,052,925	1,117.2	11.9
2004	5,051,728,157	4,937,493,861	97.7	114,234,296	1,164.0	9.8
2005	5,571,842,384	5,380,999,357	96.6	190,843,027	1,206.1	15.8
2006	5,859,994,198	5,668,535,060	96.7	191,459,138	1,229.9	15.6
2007	6,718,761,091	6,526,534,941	97.1	192,226,150	1,297.2	14.8
2008	6,976,811,927	6,784,291,685	97.2	192,520,242	1,363.9	14.1
2009	7,387,406,340	6,778,520,575	91.8	608,885,765	1,450.7	42.0
2010	7,393,250,948	7,119,874,593	96.3	273,376,355	1,491.1	18.3
2011	7,712,556,672	7,433,776,511	96.4	278,780,161	1,490.5	18.7
2012	8,452,840,068	7,827,601,564	92.6	625,238,504	1,502.7	41.6
2013	8,803,761,326	8,803,761,326	100.0	0	1,519.7	0.0
2014	9,887,095,388	9,887,095,388	100.0	0	1,587.1	0.0

ACTUARIAL VALUATION (CONTINUED)

Solvency Test

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

Fiscal year	Actuarial accrued liability for				Portion of actuarial accrued liability covered by actuarial value of assets for		
	(1)	(2)	(3)	Actuarial value of assets	(1)	(2)	(3) ¹
	Member contributions	Current retirees and beneficiaries and terminated employees	Current employees: employer financed		actuarial value of assets	actuarial value of assets for	actuarial value of assets for
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
2014	1,057,991,944	5,902,266,864	2,926,836,580	9,887,095,388	100.0	100.0	100.0

Schedule of Active Member Valuation Data

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
2014	38,951	1,587.1	40,745	3.5

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



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

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

Valuation date	Beginning of year balance	Number added to payroll	Number removed from payroll	End of year balance	Annual pension added to payroll	Annual pension removed from payroll	Annual pension benefit amount	Average annual benefit	% increase in average benefit
2002	15,390	1,051	548	15,893	\$14,781,382	\$4,286,698	\$175,339,813	\$11,033	5.4
2003	15,893	1,112	564	16,441	16,904,111	4,612,777	191,738,495	11,662	5.7
2004	16,441	1,207	619	17,029	19,647,803	4,991,607	211,424,721	12,416	6.5
2005	17,029	1,121	602	17,458	16,955,458	4,970,672	228,469,621	13,020	4.9
2006	17,458	1,130	602	18,076	17,273,416	5,866,751	245,707,324	13,593	4.4
2007	18,076	1,306	663	18,719	20,128,796	5,699,854	265,922,928	14,206	4.5
2008	18,719	1,279	677	19,321	20,931,066	6,957,387	297,672,788	15,407	8.5
2009	19,321	1,295	667	19,949	21,285,086	7,429,345	318,556,151	15,969	3.6
2010	19,949	1,318	706	20,561	20,287,505	8,415,997	335,034,177	16,295	2.0
2011	20,561	1,575	679	21,457	27,164,131	8,006,912	359,385,525	16,749	2.8
2012	21,457	1,663	712	22,408	26,727,462	8,827,261	386,478,319	17,247	3.0
2013	22,408	1,683	764	23,327	27,259,699	9,535,172	410,679,002	17,605	2.1
2014	23,327	1,975	740	24,562	33,048,542	10,296,988	444,472,655	18,096	2.8

ACTUARIAL VALUATION (CONTINUED)

Comparison of Actuarial Valuation Results

	2013 actuarial valuation	2014 actuarial valuation	% change
Active members			
Number	38,594	38,951	0.9
Average age	45.6	45.3	(0.7)
Average credited service	11.4	11.3	(0.9)
Annual prior year's compensation of members	\$1,519,731,367	\$1,587,075,036	4.4
Average annual compensation	\$39,377	\$40,745	3.5
Benefit recipients			
RETIRED MEMBERS			
Number ¹	20,004	21,139	5.7
Average age	71.6	71.6	0.0
Total annualized benefits	\$374,412,494	\$405,641,717	8.3
Average annualized benefits	\$18,717	\$19,189	2.5
BENEFICIARIES			
Number ¹	3,016	3,116	3.3
Total annualized benefits	\$32,186,807	\$34,736,072	7.9
Average annualized benefits	10,672	\$11,148	4.5
DISABILITIES			
Number	307	307	0.0
Total annualized benefits	\$4,079,701	\$4,094,866	0.4
Average annualized benefits	\$13,289	\$13,338	0.4
Total benefit recipients			
Number	23,327	24,562	5.3
Total annual benefits	\$410,679,002	\$444,472,655	8.2
Average annual benefits	\$17,605	\$18,096	2.8
Terminated members			
Number—vested	8,363	8,702	4.1
Number—non-vested (entitled to accumulated contributions only)	6,819	7,111	4.3
Total terminated members	15,182	15,813	4.2
Total system members	77,103	79,326	2.9
Results of actuarial valuation			
Normal cost (without expenses)	9.954%	10.561%	6.1
(with expenses)	10.204%	10.811%	5.9
Frozen unfunded actuarial accrued liability	\$0	\$0	
Fair value of assets	\$9,085,706,708	\$10,607,554,492	16.7
Actuarial value of assets	\$8,803,761,326	\$9,887,095,388	12.3
Actuarial accrued liability (AAL)	\$8,803,761,326	\$9,887,095,388	12.3
Actuarial value funded ratio	100.0%	100.0%	0.0
Fair value funded ratio	103.2%	107.3%	4.0
Funding period	N/A	N/A	

¹ In addition, there are 168 and 179 members or beneficiaries as of July 1, 2013, and July 1, 2014, respectively, whose benefits are currently suspended, but who are entitled to future benefits.

South Dakota Retirement System (SDRS)

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

Effective Date

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

Type of System

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

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

Employers Included

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

Members

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

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.

PLAN SUMMARY (CONTINUED)

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

- Class A members: all members other than Class B members.
- Class B members: 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 C members: former members of the Cement Plant Retirement Plan which was merged into SDRS effective April 1, 2014

Class A members constitute 93 percent of SDRS membership.

Service Considered

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

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

Credited service may be purchased for public employment for which members are not entitled to retirement benefits, at a cost reflecting an actuarially determined sliding scale based on age, subject to a minimum of 100% of combined member and employer contributions. Credited service purchased after July 1, 2004, shall not be considered contributory service for eligibility purposes. Credited service is purchased with an after-tax payment unless the member's employer elects to permit purchase on a pre-tax basis under Section 414(h) of the Internal Revenue Code.

Compensation

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

Final Average Compensation

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 on the next page.



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

Member Contributions

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

Accumulated contributions are equal to member contributions and 85 percent of employer contributions (or 50 percent of employer contributions for members with less than three years of contributory service) credited with interest on a monthly basis at a rate annually established by the board of trustees, that is no greater than 90 percent of the average 91-day I.S. Treasury Bill rate for the immediately preceding calendar year. Such rate shall have no minimum limitation and shall not be greater than the assumed rate of investment return, which is currently 7.25 percent.

Accumulated Contributions

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

Effective July 1, 2002, employers contribute 6.2 percent of Class A member's calendar year compensation in excess of the maximum taxable amount for Social Security for the calendar year. These additional contributions are not included in accumulated contributions.

Additional Contributions

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

Other Public Benefits

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

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

Cost-of-Living Adjustment (COLA)

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

PLAN SUMMARY (CONTINUED)

Normal Retirement Date

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

Normal Retirement Benefit

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

Class A Benefit

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

Standard Formula

Enhanced Benefit

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

Base Benefit

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

OR

Alternate Formula

Enhanced Benefit

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

Base Benefit

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

80 percent of primary Social Security benefit.

Class B Public Safety Benefit

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

Enhanced Benefit

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

Base Benefit

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

Class B Judicial Benefit

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

First 15 Years of Credited Service

Enhanced Benefit

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

Base Benefit

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

PLUS

Years of Credited Service in Excess of 15 Years

Enhanced Benefit

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

Base Benefit

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

All of the above benefits are paid monthly.

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

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

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

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

Delayed Retirement Benefit

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

Early Retirement Benefit

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

Vested Benefit and Portable Retirement Option

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

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

Disability Benefit

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

For disability applications received on or before June 30, 2015, 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

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).

For disability applications received after June 30, 2015, the disability benefit is equal to the greater of:

- 25 percent of the member's final average compensation at the date of disability
- the unreduced accrued retirement benefit at the date of disability

The above benefits are payable monthly.

For purposes of determining the eligibility of a surviving spouse, the benefit is considered a retirement benefit when the member attains age 65.

Pre-Normal Retirement Age and Post-Disability Deaths

For deaths on or before June 30, 2015:

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.

For deaths after June 30, 2015:

If an active member with at least three years of contributory service, or a member receiving a disability benefit approved after June 30, 2015, dies, the eligible dependent children will receive an immediate benefit equal to the greater of:

- 25 percent of the member's final average compensation at the date of disability
- the unreduced accrued retirement benefit at the date of disability

The benefit will be split equally among any eligible children of the member. The benefit ceases if there are no eligible children. If no benefit is payable as defined above, the spouse is entitled to receive at the spouse's age 65 a benefit equal to 60 percent of the benefit payable above increased by the cost-of-living adjustment for any time between the date of the member's death and payment commencement date. If the benefit ceases due to no eligible children, the benefit is increased by the cost-of-living adjustment for any time between the date benefit ceased and payment commencement date.

As of July 1, 2015, a member's spouse may elect to commence survivor benefits at age 55. The early surviving spouse benefit is reduced by five percent for each year before the spouse's age 65.

Post-Normal Retirement Age and Post-Retirement Deaths

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

Survivor Benefits

PLAN SUMMARY (CONTINUED)

Terminated Member

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

Optional Spouse Coverage

Prior to June 30, 2010, a member could have elected to provide an additional benefit payable to the surviving spouse within 365 days after becoming a member, within 90 days following attainment of age 35, or within 90 days after the first anniversary of marriage. This optional coverage may continue until the member's spouse attains age 65, the death or disability of the member, the death of the member's spouse, termination of the member's marriage to his spouse, or the member's termination of employment.

The elected additional monthly benefit is equal to 40 percent of the member's final average compensation multiplied by the cost-of-living adjustment for each full year between the date of death or disability of the member to payment commencement. Such benefit is paid upon the member's death from the time there are no eligible children until the spouse dies or attains age 65.

The cost of this protection is paid by the member through an additional contribution of 1.5 percent of compensation, which will not be matched by the employer and is not refundable.

Accumulated Contributions as Minimum Benefits

If the aggregate benefit payments received by a member and the member's beneficiary (excluding benefits received under the optional spouse coverage benefit provisions) do not equal the sum of the accumulated contributions, then the difference will be paid to the member's designated beneficiary, children, or estate in a lump sum.

Optional Forms of Retirement Payments

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

Administrative Expenses

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

Retired Members

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

This plan summary is effective July 1, 2014.

INVESTMENT SUMMARY



State Investment Officer's Letter
Investment Analysis

The Investment Council
Investment Objectives and Policy
Prudent Man Standard
Investment Performance
Schedule of Investment Management Expenses
Summary of Investment Portfolios
Asset Allocation
SDRS Rates of Return
Real Estate and Private Equity LP Investments

STATE INVESTMENT OFFICER'S LETTER

TO THE SOUTH DAKOTA RETIREMENT SYSTEM BOARD OF TRUSTEES:

This letter summarizes fiscal year 2014 investment performance for South Dakota Retirement System (SDRS) assets and discusses investment objectives, investing for the long term, and future return expectations. Additional information about the investments may be found in the South Dakota Investment Council annual report available at www.sdicsd.gov.

FISCAL YEAR 2014 PERFORMANCE

The fiscal year 2014 investment return was 18.9% net of investment management cost. This exceeded the Investment Council's market index-based benchmark return of 17.5% and the median state fund net return of 16.9%. The real estate category contributed most significantly to the outperformance followed by global equity. The other categories and allocation across categories did not significantly impact performance relative to the benchmark.

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 two 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 is to add value over the long term versus the Council's market index-based benchmark.

INVESTING FOR THE LONG TERM

The Council has managed SDRS assets since consolidation in 1974. Since inception, investment returns have meaningfully exceeded the Council's market index-based benchmark and other state retirement systems' returns across the nation.

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

Results can vary significantly from year to year with many interim periods of underperformance in the Council's history. Whether an individual year is good, bad, or average, it is important to be mindful that the Council invests for the long term. Actions taken in one year may impact performance several years down the road. The long-term success has resulted primarily from adhering to the long-term strategies during underperforming periods.

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 relate inversely to future results.

As of June 30, 2014, long-term expected returns were 2.5% for bonds and 7.5% for stocks. Low interest rates foreshadow low future bond returns. The expected return for stocks is also lower than earned on average historically. 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. 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 2.0% to 11.6% per annum for a ten-year horizon and 3.4% to 10.2% for a 20-year horizon.

History has shown that following large out-performances, like experienced in the past couple years, opportunities may be sparse for a time. Chasing lesser opportunities has tended to backfire when those assets became much cheaper later. The lesson learned is to wait for worthwhile opportunities, and when absent, to be satisfied with modest results until better opportunities come along.

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

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 and three ex-officio members, 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 Investment Council

The data in the investment section of this report was prepared by the South Dakota Investment Council. 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.

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

Investment Objectives and Policy

Meeting the first 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.

- Achieve favorable total fund performance over the long term relative to the Council's market index-based benchmark

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.

INVESTMENT ANALYSIS (CONTINUED)

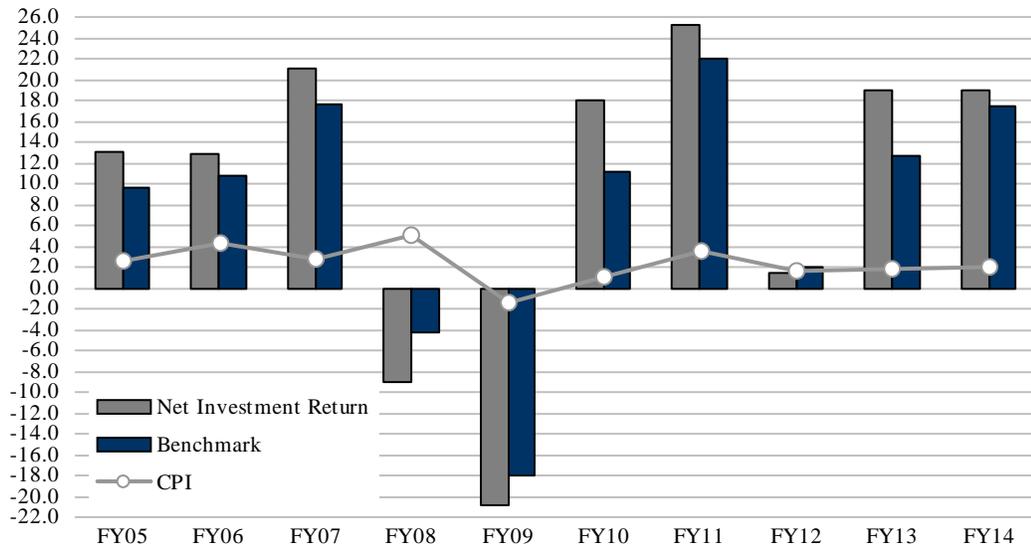
Prudent Man Standard

South Dakota Codified Law 4-5-27 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.

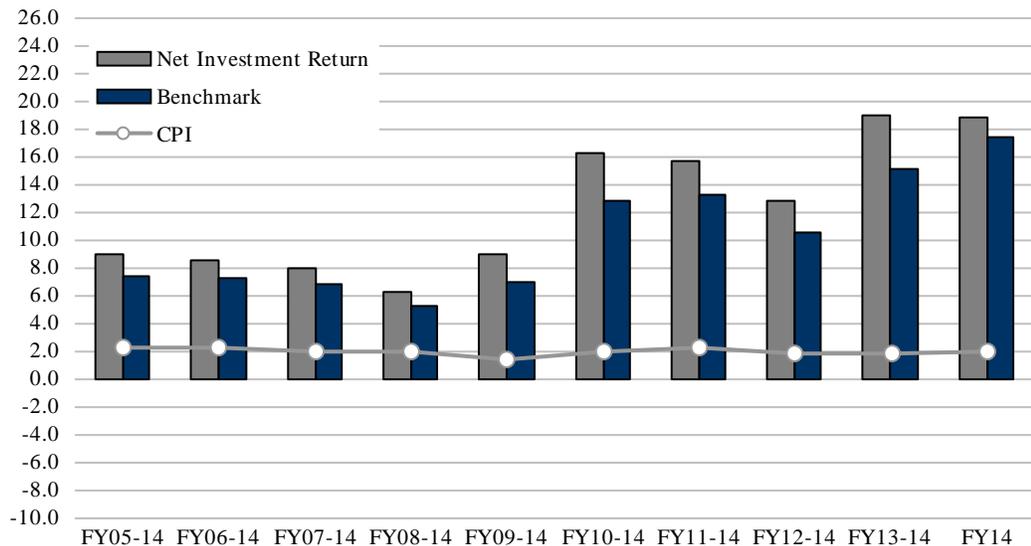
Though monthly benefit payments exceed monthly contributions, the South Dakota Retirement System is not subject to sudden, substantial, and unexpected withdrawals. As a result, it is not necessary to have a high percentage of assets in short-term investments unless this is deemed to be the best investment strategy. This allows the trust fund to be as fully invested in stocks, bonds, and other alternatives as investment strategy dictates.

Investment Performance Compared to Capital Market Benchmark and Inflation



	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Net Investment Return	13.1	12.9	21.1	-9.0	-20.9	18.0	25.2	1.5	19.0	18.9
Benchmark	9.6	10.7	17.6	-4.2	-18.0	11.1	22.1	2.0	12.7	17.5
CPI	2.5	4.3	2.7	5.0	-1.4	1.1	3.6	1.7	1.8	2.1

Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



	FY05-14	FY06-14	FY07-14	FY08-14	FY09-14	FY10-14	FY11-14	FY12-14	FY13-14	FY14
Net Investment Return	9.0	8.5	8.0	6.2	9.0	16.2	15.8	12.8	19.0	18.9
Benchmark	7.5	7.2	6.8	5.3	7.0	12.9	13.3	10.6	15.1	17.5
CPI	2.3	2.3	2.0	1.9	1.4	2.0	2.3	1.8	1.9	2.1

INVESTMENT ANALYSIS (CONTINUED)

**Schedule of
Investment
Management
Expenses
Year Ended
June 30, 2014**

	Management expenses
Investment managers	
South Dakota Investment Council	\$ 7,460,132
Apollo	338,677
Blackstone Credit Liquidity	7,640
Blackstone Private Equity	118,040
Blackstone Real Estate Partners	1,692,785
Brandes	241,660
Capital International	1,184,753
Cargill North American Real Estate Partners	312,650
Carlyle	1,664,706
Cinven	2,564,000
Neuberger Berman	83,019
CVC	451,264
CVI	1,104,998
Cypress Merchant Banking Partners LP	44
Dimensional Fund Advisors, Inc.	211,463
Doughty Hanson & Co. European Real Estate	1,138,484
Doughty Hanson	511,240
Elevation Partners	134,292
GE Asset Management China	1,426,395
GE Asset Management Commodities	1,427
KKR Associates	(110,747)
Lone Star Real Estate	3,101,093
PIMCO	1,866
Riverstone	1,383,022
Rockpoint	1,664,098
Sanders	761,927
Silver Lake Partners LP	3,223,879
Starwood	679,164
TCW	<u>2,301,418</u>
Total investment activity expenses	<u>\$33,653,389</u>



**Summary of
Investment Portfolios
As of June 30, 2014**

	Fair Value	Futures Exposure	Fair Value with Futures	Percent of Fund with Futures	Capital Markets Benchmark Percent
Global Equity					
Internal Global Equity	\$5,182,893,241				
Internal High Quality Equity	244,012,146				
Internal Small/Mid Equity	461,395,215				
Brandes	59,549,976				
Dimensional Fund Advisors	52,706,460				
Sanders Capital	41,246,649				
Equity Index Futures		\$(1,421,166,750)	\$4,620,636,937	43.6	56.0
Private Equity Limited Partnerships					
Blackstone Capital Partners	298,816,019				
Capital International	45,585,552				
Carlyle	71,669,444				
Cinven	117,588,711				
Credit Suisse	334,846				
CVC	73,850,991				
Cypress	6,134,105				
Doughty Hanson	71,043,656				
Elevation	8,178,637				
KKR	25,494,557				
Neuberger Berman	3,033,345				
PineBridge	5,019,618				
Riverstone	84,105,942				
Silver Lake	149,299,246		960,154,669	9.0	7.0
Aggressive Absolute Return (AAR)					
Bridgewater	82,115,450				
Sanders Capital	22,005,112		104,120,562	1.0	0.0
Real Estate Limited Partnerships					
AREA Property Partners	14,698,636				
Blackstone Real Estate Partners	1,281,422,340				
Cargill N.A. Real Estate Partners	31,337,741				
Doughty Hanson	28,294,274				
Lone Star	96,812,104				
Rockpoint	25,080,513				
Starwood	40,875,107		1,518,520,715	14.3	8.0
Fixed Income—Investment Grade/TIPS					
Internal Investment Grade	951,811,089				
Treasury Financial Futures		398,511,380	1,350,322,469	12.7	19.0
Fixed Income—High Yield/Distressed Debt					
Internal High Yield	119,053,270				
Blackstone	532,377				
CarVal	74,443,560				
TCW	502,593,171		696,622,378	6.6	7.0
Commodities					
	0		0	0.0	1.0
Cash and Cash Equivalents					
Internal Shift Account	329,356,396				
Cash from Futures		1,022,655,370	1,352,011,766	12.8	2.0
Total	\$10,602,389,496	\$0	\$10,602,389,496	100%	100%

INVESTMENT ANALYSIS (CONTINUED)

Asset Allocation

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 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 fund 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.

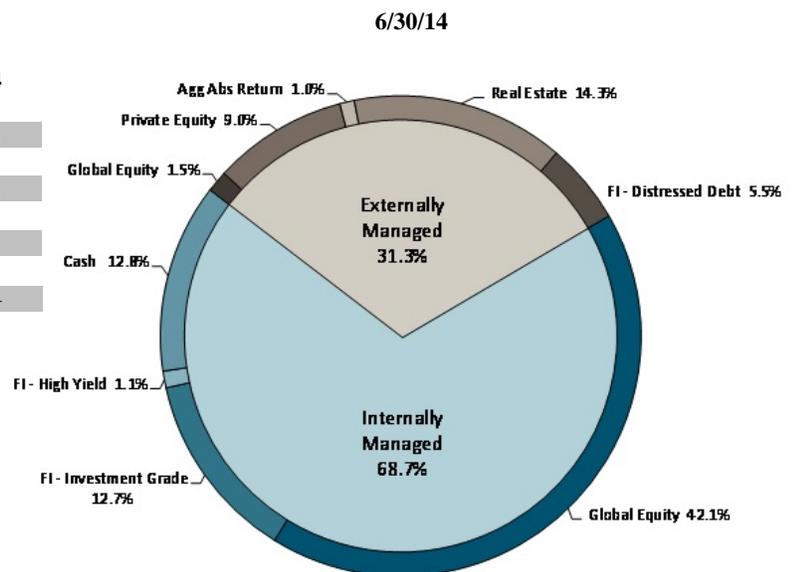
The expected long-term return as of June 30, 2014, was 6.8 percent. This excludes any potential value added or detracted relative to index returns resulting from managing the fund. The rate of inflation embedded in the expected return was 2.5 percent. Standard deviation was estimated to be 15.4 percent after adjustments to capture real-world frequency of adverse events. These statistics indicate a 66 percent chance the return for any year would be between (8.6) percent and 22.1 percent and a 95 percent change the return would be between (23.9) percent and 37.5 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

	6/30/12	6/30/13	6/30/14
Global equities	50.1%	50.7%	43.6%
Fixed income	21.6%	19.7%	19.3%
Cash	0.1%	3.7%	12.8%
Arbitrage/AAR	2.5%	2.3%	1.0%
Real estate	14.4%	14.1%	14.3%
Private equity	11.0%	9.5%	9.0%
Commodities	0.3%	—	—





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
2014	19.3%	18.9%	17.5%	18.9%
2013	19.5%	19.0%	12.7%	19.0%
2012	1.9%	1.5%	2.0%	1.4%
2011	25.8%	25.2%	22.1%	25.3%
2010	18.7%	18.0%	11.1%	18.2%
2009	(20.4)%	(20.9)%	(18.0)%	(21.1)%
2008	(8.7)%	(9.0)%	(4.2)%	(8.9)%
2007	21.4%	21.1%	17.6%	21.1%
2006	13.1%	12.9%	10.7%	12.9%
2005	13.3%	13.1%	9.6%	13.1%

Annualized Returns

	Time Weighted Net of Fees	Capital Markets Benchmark
FY14	18.9%	17.5%
FY13-14	19.0%	15.1%
FY12-14	12.8%	10.6%
FY11-14	15.8%	13.3%
FY10-14	16.2%	12.9%
FY09-14	9.0%	7.0%
FY08-14	6.2%	5.3%
FY07-14	8.0%	6.8%
FY06-14	8.5%	7.2%
FY05-14	9.0%	7.5%

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.

The SDIC has invested in real estate (RE) and private equity (PE) limited partnerships since the mid-1990's. Although these investments are illiquid and have higher fees, the Council believes that they offer diversification and the 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 the use of a since inception internal rate of return (SI-IRR).

Real Estate and Private Equity Limited Partnership Investments

SI-IRR is the calculation that equate the present value of all cash flows (capital calls and distributions) with the period-end value. The public market equivalent (PME) is a method where a public market index is expressed in terms of a SI-IRR, using the same cash flows and timing as those of the partnership investment over the same time period.. The partnership SI-IRR is calculated net-of-fees (management fees, performance based fees and general partner carried interest). Also, a composite SI-IRR that combines the partnerships in each category is calculated.

From November 1995 through June 2014, the net-of-fees SI-IRR for the composite PE limited partnership investments was 9.0 percent. This can be compared to the S&P 500 Index PME of 5.7 percent for the same period. RE limited partnerships net-of-fees SI-IRR composite from December 1994 through June 2014 was 21.5 percent. A PME using the MSCI US REIT Index could not be calculated using the same cash flows because the return of the RE limited partnerships was significantly higher than the index. The annualized time-weighted rate of return for the MSCI US REIT Index was 11.1 percent for the same period of time.

The composite return of the RE limited partnerships has significantly exceeded and the PE limited partnerships has slightly exceeded Council expectations. The SDIC 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: Class A & B

Membership by Age: Class A & B

Membership by County of Residence: Class A & B

SDRS Benefits Paid: Class C

Membership by Age: Class C

Membership by County of Residence: Class C

Membership by Group

Benefit Recipients by Group

Average Benefit Payments

Historical Views

MEMBERSHIP PROFILE

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

The following schedules list SDRS participating entities by group, the number of active members in each group, and each group's percentage of the 38,929 total active members as of June 30, 2014.

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

Public Entities Participating in SDRS

School Districts Membership: 17,517

Percentage of total active
members: 45.0%
Units: 166

Executive Management	Lottery	Attorney General
Agriculture	Military	State Auditor
Corrections	Public Safety	State Treasurer
Education	Revenue	School & Public Lands
Environment & Natural Resources	Social Services	Public Utilities Commission
Game, Fish & Parks	Tourism	Legislative Audit
Governor's Office of Economic Dev	Transportation	Legislative Research Council
Health	Tribal Relations	Unified Judicial System
Human Services	Veterans Affairs	SD Investment Council
Labor & Regulation	Secretary of State	SD Retirement System

Legislative, Executive, and Judicial Agencies Membership: 8,111

Percentage of total active
members: 20.8%
Units: 1

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

Institutions of Higher Education Membership: 4,509

Percentage of total active
members: 11.6%
Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities Membership: 4,191

Percentage of total active
members: 10.8%
Units: 155

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

Counties Membership: 3,849

Percentage of total active
members: 9.9%
Units: 64

Aurora	Clay	Shannon	Hyde	McPherson	Spink
Beadle	Codington	Faulk	Jackson	Meade	Springdale
Bennett	Corson	Grant	Jerauld	Mellette	Township
Bon Homme	Custer	Gregory	Jones	Miner	Stanley
Brookings	Davison	Haakon	Kingsbury	Minnehaha	Sully
Brown	Day	Hamlin	Lake	Moody	Tripp
Brule	Deuel	Hand	Lawrence	Pennington	Turner
Butte	Dewey	Hanson	Lincoln	Perkins	Union
Campbell	Douglas	Harding	Lyman	Potter	Walworth
Charles Mix	Edmunds	Hughes	Marshall	Roberts	Yankton
Clark	Fall River—	Hutchinson	McCook	Sanborn	Ziebach

Other Public Entities Membership: 774

Percentage of total active
members: 1.9%
Units: 89

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



County	FY 2014 members receiving benefits	Annualized benefits	County	FY 2014 members receiving benefits	Annualized benefits
Aurora	114	1,483,592	Hyde	51	531,692
Beadle	489	8,053,370	Jackson	47	834,913
Bennett	38	573,216	Jerauld	57	736,684
Bon Homme	275	4,056,139	Jones	34	544,140
Brookings	1,292	29,146,218	Kingsbury	155	2,260,811
Brown	1,056	19,735,576	Lake	380	7,191,062
Brule	121	1,939,914	Lawrence	787	15,401,214
Buffalo	2	29,643	Lincoln	325	5,270,786
Butte	267	3,775,563	Lyman	77	1,290,551
Campbell	51	751,394	Marshall	158	2,342,299
Charles Mix	239	3,773,304	McCook	120	1,892,839
Clark	125	1,522,384	McPherson	64	761,578
Clay	583	12,990,410	Meade	543	8,998,384
Codington	696	13,961,709	Mellette	48	514,838
Corson	38	559,946	Miner	70	1,140,713
Custer	312	5,072,398	Minnehaha	2,975	64,155,206
Davison	523	9,729,207	Moody	164	2,351,951
Day	215	3,041,712	Pennington	2,726	55,458,025
Deuel	100	1,242,341	Perkins	83	1,166,369
Dewey	71	1,088,577	Potter	96	1,477,959
Douglas	79	1,170,682	Roberts	230	3,367,792
Edmunds	106	1,635,181	Sanborn	68	986,585
Fall River	277	3,356,216	Shannon	14	244,254
Faulk	108	1,284,968	Spink	390	5,301,195
Grant	180	2,770,280	Stanley	166	3,650,783
Gregory	143	1,978,994	Sully	49	601,877
Haakon	47	612,850	Todd	65	1,044,475
Hamlin	154	2,139,105	Tripp	181	2,614,887
Hand	99	1,453,008	Turner	209	2,891,632
Hanson	46	623,802	Union	289	4,808,317
Harding	24	322,297	Walworth	210	3,432,440
Hughes	1,275	29,486,383	Yankton	768	13,301,425
Hutchinson	226	3,536,672	Ziebach	15	237,058
Total benefits payable by county			20,985	\$389,701,785	

SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

Class A, Class B Public Safety and Judicial

State	Members receiving benefits	Annualized benefits	State	Members receiving benefits	Annualized benefits
Arizona	328	5,992,115	North Dakota	153	2,062,719
California	97	1,653,489	Texas	177	2,827,941
Colorado	185	2,531,362	Wisconsin	103	1,518,577
Florida	134	2,450,014	Wyoming	110	1,228,657
Iowa	222	3,120,344			
Minnesota	469	7,245,399	Other states and foreign countries	962	14,620,279
Montana	81	1,281,333			
Nebraska	311	4,114,923			
Total benefits payable outside South Dakota			3,332	\$50,647,152	
Total benefit recipients and benefit payable			<u>24,317</u>	<u>\$440,348,937</u>	

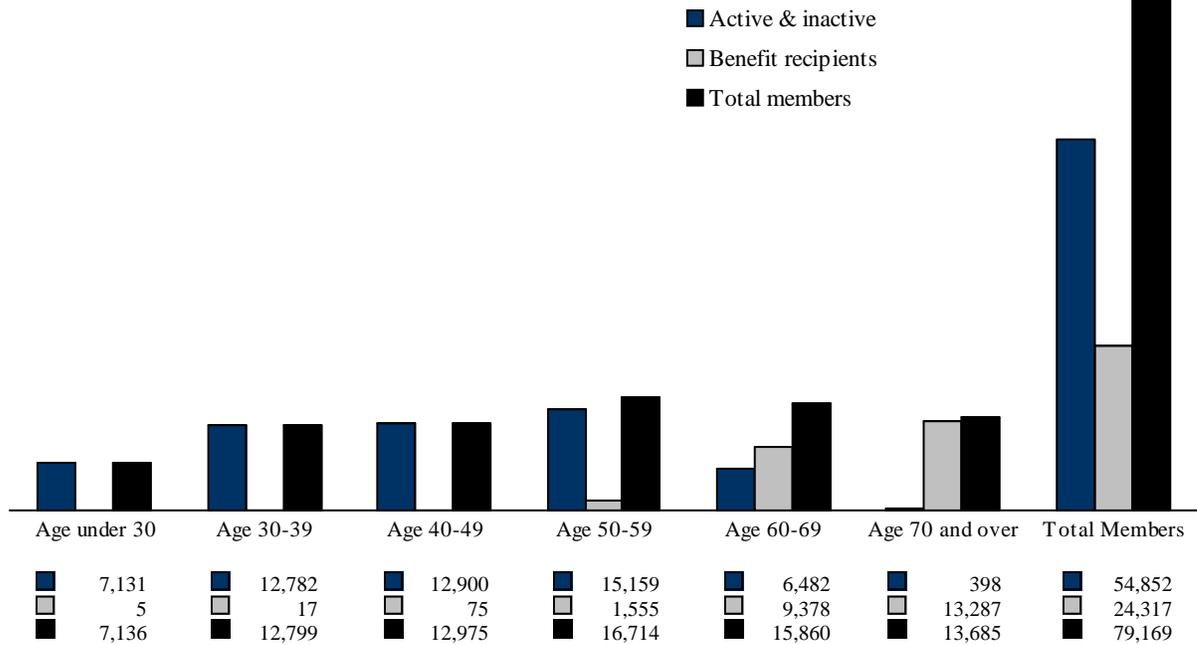
SDRS Benefits Paid Outside of South Dakota

Class A, Class B Public Safety and Judicial

MEMBERSHIP PROFILE (CONTINUED)

Membership by Age

Class A, Class B Public Safety and Judicial



Membership by County of Residence

Active, Inactive, and Retired Members

Class A, Class B Public Safety and Judicial

County	Total members	County	Total members	County	Total members
Aurora	305	Faulk	357	Mellette	208
Beadle	1,388	Grant	498	Miner	215
Bennett	170	Gregory	416	Minnehaha	11,043
Bon Homme	805	Haakon	188	Moody	459
Brookings	4,424	Hamlin	541	Pennington	8,418
Brown	3,351	Hand	241	Perkins	244
Brule	435	Hanson	197	Potter	259
Buffalo	5	Harding	114	Roberts	705
Butte	861	Hughes	4,623	Sanborn	220
Campbell	138	Hutchinson	621	Shannon	124
Charles Mix	757	Hyde	151	Spink	1,230
Clark	311	Jackson	179	Stanley	612
Clay	1,998	Jerauld	186	Sully	179
Codington	2,229	Jones	116	Todd	445
Corson	172	Kingsbury	563	Tripp	573
Custer	857	Lake	1,194	Turner	663
Davison	1,419	Lawrence	2,481	Union	1,006
Day	520	Lincoln	1,543	Walworth	629
Deuel	347	Lyman	294	Yankton	2,435
Dewey	410	Marshall	432	Ziebach	112
Douglas	231	McCook	442	Out of state/ Other	9,643
Edmunds	288	McPherson	179		
Fall River	836	Meade	1,934		

Total membership 79,169



County	FY 2014 members receiving benefits	Annualized benefits	County	FY 2014 members receiving benefits	Annualized benefits
Brown	2	7,442	Lawrence	5	50,861
Butte	1	26,865	Meade	34	611,767
Custer	4	53,066	Minnehaha	5	108,636
Davison	1	24,360	Pennington	156	2,885,924
Fall River	1	25,339	Walworth	1	1,974
Kingsbury	1	9,720			
Total benefits payable by county				211	\$3,805,954

SDRS Benefits Paid

SDRS Benefits Paid by County of Residence

Class C Cement Plant

State	Members receiving benefits	Annualized benefits	State	Members receiving benefits	Annualized benefits
Arizona	3	48,461	Oklahoma	1	22,589
Colorado	5	57,608	Oregon	2	12,151
Florida	1	18,635	S. Carolina	1	6,571
Idaho	2	18,892	Texas	2	8,947
Kansas	1	8,977	Wyoming	3	47,662
Nebraska	2	11,578	Other states	7	20,693
North Dakota	4	35,297			
Total benefits payable outside South Dakota				34	\$318,061
Total benefit recipients and benefit payable				245	\$4,124,015

SDRS Benefits Paid Outside of South Dakota

Class C Cement Plant

County	Total members	County	Total members	County	Total members
Bennett	1	Dewey	1	Minnehaha	10
Brown	2	Fall River	1	Pennington	184
Butte	3	Kingsbury	2	Walworth	1
Charles Mix	1	Lawrence	8	Out of State	71
Custer	4	Lincoln	2		
Davison	1	Meade	44		
Total membership					336

Membership by County of Residence

Active, Inactive, and Retired Members

Class C Cement Plant

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	1,023	362	1,385	486	248	734	2,119
Male	1,127	370	1,497	505	257	762	2,259
Total	2,150	732	2,882	991	505	1,496	4,378
County General							
Female	1,241	365	1,606	324	268	592	2,198
Male	1,082	306	1,388	229	204	433	1,821
Total	2,323	671	2,994	553	472	1,025	4,019
County Public Safety							
Female	127	48	175	16	31	47	222
Male	500	180	680	73	85	158	838
Total	627	228	855	89	116	205	1,060
Judicial							
Female	12	3	15	1	1	2	17
Male	38	7	45	1	0	1	46
Total	50	10	60	2	1	3	63
Municipal General							
Female	1,064	371	1,435	306	401	707	2,142
Male	1,465	431	1,896	259	252	511	2,407
Total	2,529	802	3,331	565	653	1,218	4,549
Municipal Public Safety							
Female	32	16	48	5	12	17	65
Male	636	176	812	77	78	155	967
Total	668	192	860	82	90	172	1,032
Public School & Board of Regents Classified							
Female	4,622	1,635	6,257	1,808	2,087	3,895	10,152
Male	1,686	750	2,436	440	774	1,214	3,650
Total	6,308	2,385	8,693	2,248	2,861	5,109	13,802
State General							
Female	2,991	1,022	4,013	830	886	1,716	5,729
Male	2,387	623	3,010	521	418	939	3,949
Total	5,378	1,645	7,023	1,351	1,304	2,655	9,678
State Public Safety and Penitentiary							
Female	164	57	221	17	67	84	305
Male	598	209	807	68	158	226	1,033
Total	762	266	1,028	85	225	310	1,338
Teachers							
Female	7,155	1,220	8,375	1,946	655	2,601	10,976
Male	2,412	416	2,828	721	229	950	3,778
Total	9,567	1,636	11,203	2,667	884	3,551	14,754
Cement Plant							
Female	1	—	1	12	—	12	13
Male	21	—	21	57	—	57	78
Total	22	—	22	69	—	69	91
Grand Total							
Female	18,432	5,099	23,531	5,751	4,656	10,407	33,938
Male	11,952	3,468	15,420	2,951	2,455	5,406	20,826
Total	30,384	8,567	38,951	8,702	7,111	15,813*	54,764*

* In addition, there are 179 members or beneficiaries as of July 1, 2014, whose benefits are currently suspended, but who are entitled to future benefits.



Benefit Recipients by Group

	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2014	2013	2014	2013	2014	2013	2014	2013
Board of Regents								
Male	1,032	996	6	7	21	18	1,059	1,021
Female	484	440	8	7	241	230	733	677
Total	1,516	1,436	14	14	262	248	1,792	1,698
County General								
Male	708	673	22	24	50	43	780	740
Female	826	794	13	14	271	276	1,110	1,084
Total	1,534	1,467	35	38	321	319	1,890	1,824
County Public Safety								
Male	210	196	6	7	1	2	217	205
Female	32	29	2	2	32	29	66	60
Total	242	225	8	9	33	31	283	265
Judicial								
Male	42	42	0	0	0	0	42	42
Female	5	6	0	0	20	18	25	24
Total	47	48	0	0	20	18	67	66
Municipal General								
Male	771	717	28	27	32	31	831	775
Female	539	503	12	15	263	263	814	781
Total	1,310	1,220	40	42	295	294	1,645	1,556
Municipal Public Safety								
Male	460	444	11	9	0	0	471	453
Female	10	10	0	0	85	82	95	92
Total	470	454	11	9	85	82	566	545
Public School & Board of Regents Classified								
Male	1,030	993	27	29	165	159	1,222	1,181
Female	2,956	2,766	39	37	331	315	3,326	3,118
Total	3,986	3,759	66	66	496	474	4,548	4,299
State General								
Male	1,915	1,859	32	31	131	123	2,078	2,013
Female	1,881	1,837	45	45	650	652	2,576	2,534
Total	3,796	3,696	77	76	781	775	4,654	4,547
State Public Safety and Penitentiary								
Male	411	391	6	6	2	2	419	399
Female	48	41	4	4	57	55	109	100
Total	459	432	10	10	59	57	528	499
Teachers								
Male	2,426	2,347	11	8	257	256	2,694	2,611
Female	5,149	4,920	28	35	473	462	5,650	5,417
Total	7,575	7,267	39	43	730	718	8,344	8,028
Cement Plant								
Male	186	—	7	—	1	—	194	—
Female	17	—	—	—	34	—	51	—
Total	203	—	7	—	35	—	245	—
Grand Total								
Male	9,191	8,658	156	148	660	634	10,007	9,440
Female	11,947	11,346	151	159	2,457	2,382	14,555	13,887
Total	21,138	20,004	307	307	3,117	3,016	24,562	23,327

MEMBERSHIP PROFILE (CONTINUED)

Average Benefits Payments Last 10 Fiscal Years

Retirement effective dates	Years of credited service							Average
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
Period 7/1/2004—6/30/2005								
Average monthly benefit	1,397	538	651	888	1,476	1,884	2,748	1,648
Average final average salary	35,696	29,434	28,721	31,397	37,459	39,472	48,086	38,205
Number of retired members	60	107	110	101	118	174	272	942
Period 7/1/2005—6/30/2006								
Average monthly benefit	743	550	858	922	1,392	1,940	2,789	1,584
Average final average salary	27,869	31,382	35,882	31,482	37,098	41,452	48,863	38,936
Number of retired members	43	131	127	106	139	166	250	962
Period 7/1/2006—6/30/2007								
Average monthly benefit	1,256	473	620	976	1,516	1,946	2,725	1,582
Average final average salary	35,644	30,282	32,042	34,194	40,863	41,666	48,330	39,401
Number of retired members	55	160	137	151	147	175	319	1,144
Period 7/1/2007—6/30/2008								
Average monthly benefit	812	640	622	905	1,335	1,968	2,741	1,588
Average final average salary	34,087	31,758	31,048	35,318	37,144	43,770	49,329	39,919
Number of retired members	56	137	123	134	164	184	308	1,106
Period 7/1/2008—6/30/2009								
Average monthly benefit	556	696	746	1,019	1,492	1,994	2,637	1,550
Average final average salary	33,520	35,083	35,457	38,381	41,543	46,246	48,688	41,638
Number of retired members	50	180	136	143	175	186	291	1,161
Period 7/1/2009—6/30/2010								
Average monthly benefit	563	558	682	1,010	1,476	1,994	2,683	1,447
Average final average salary	31,782	31,647	33,854	39,245	44,464	46,812	50,377	41,082
Number of retired members	83	227	141	150	170	183	278	1,232
Period 7/1/2010—6/30/2011								
Average monthly benefit	460	761	726	1,051	1,490	1,960	2,278	1,634
Average final average salary	34,708	39,038	37,032	41,887	44,039	46,463	52,846	44,667
Number of retired members	63	155	159	152	194	188	357	1,268
Period 7/1/2011—6/30/2012								
Average monthly benefit	531	521	663	1,092	1,456	1,797	2,805	1,472
Average final average salary	34,604	35,033	35,652	40,892	43,466	44,076	53,602	42,723
Number of retired members	101	241	211	163	213	207	370	1,506
Period 7/1/2012—6/30/2013								
Average monthly benefit	570	531	791	1,014	1,510	1,929	2,592	1,447
Average final average salary	37,141	36,802	40,340	40,122	44,113	47,834	50,276	43,489
Number of retired members	89	237	199	172	204	229	329	1,459
Period 7/1/2013—6/30/2014								
Average monthly benefit	618	565	723	1,021	1,407	1,948	2,746	1,409
Average final average salary	34,927	38,589	38,756	43,057	43,358	46,517	52,059	43,495
Number of retired members	75	229	195	152	159	174	263	1,247



Historical Views

Benefit Recipients and Benefits Paid

Group	2009	2010	2011	2012	2013	2014
Board of Regents	1,432	1,464	1,539	1,627	1,698	1,792
County general	1,609	1,639	1,697	1,759	1,824	1,890
County public safety	198	207	227	243	265	283
Judicial	58	57	57	59	66	67
Municipal general	1,316	1,382	1,434	1,495	1,556	1,645
Municipal public safety	473	499	516	528	545	566
Public school & Board of Regents classified	3,492	3,658	3,815	4,094	4,299	4,548
State general	4,077	4,162	4,293	4,392	4,547	4,654
State public safety & penitentiary	393	411	442	463	499	528
Teachers	6,901	7,082	7,437	7,748	8,028	8,344
Cement Plant	—	—	—	—	—	245
Total benefit recipients	19,949	20,561	21,457	22,408	23,327	24,562
Total benefits paid during period	\$306,769,037	\$325,951,211	\$345,942,871	\$371,417,148	\$397,620,115	\$425,823,928
Average benefits paid during period	\$15,378	\$15,853	\$16,123	\$16,575	\$17,045	\$17,337

Active and Inactive Members

Group	2009	2010	2011	2012	2013	2014
Board of Regents	3,886	3,984	4,055	4,150	4,308	4,378
County general	3,943	3,930	3,934	3,971	4,004	4,019
County public safety	943	971	990	1,012	1,058	1,060
Judicial	59	60	60	61	60	63
Municipal general	4,308	4,310	4,328	4,426	4,445	4,549
Municipal public safety	936	951	949	983	994	1,032
Public school & Board of Regents classified	13,123	13,111	13,181	13,200	13,430	13,802
State general	9,510	9,447	9,415	9,468	9,616	9,678
State public safety & penitentiary	1,160	1,158	1,157	1,221	1,270	1,338
Teachers	14,714	14,749	14,622	14,468	14,591	14,754
Cement Plant	—	—	—	—	—	91
Total active and inactive members	52,582	52,671	52,691	52,960	53,776	54,764*

* In addition, there are 179 members or beneficiaries as of July 1, 2014, whose benefits are currently suspended, but who are entitled to future benefits.

MEMBERSHIP PROFILE (CONTINUED)

Benefit and Expenses by Type

	Benefits					Refunds		Total benefits & refunds	Admin. expenses
	Retirement benefits	Disability benefits	Survivor benefits	Supp. Pension benefits	Cement Plant benefits	Member refund benefits	Survivor refund benefits		
Fiscal year 2004	177,038,538	4,129,953	17,285,919	—	—	21,414,639	—	219,869,049	2,493,039
Fiscal year 2005	194,749,213	4,081,290	18,719,704	—	—	20,840,323	—	238,390,530	2,772,121
Fiscal year 2006	210,773,603	4,269,897	19,782,375	—	—	25,069,548	—	259,895,423	2,697,571
Fiscal year 2007	228,311,937	4,070,439	21,162,743	—	—	28,777,398	—	282,322,518	3,033,519
Fiscal year 2008	246,422,506	4,133,578	22,680,683	—	—	28,203,655	—	301,440,421	3,352,380
Fiscal year 2009	277,258,613	4,116,984	25,393,440	—	—	24,225,249	—	330,994,286	3,428,853
Fiscal year 2010	294,880,495	4,182,082	26,888,634	—	—	29,148,085	—	355,099,296	3,402,075
Fiscal year 2011	313,157,736	4,383,174	28,401,961	—	—	25,824,829	—	371,767,700	3,575,854
Fiscal year 2012	337,290,588	4,084,918	30,041,642	—	—	25,942,146	—	397,359,294	3,277,973
Fiscal year 2013	360,995,817	4,351,009	32,273,289	—	—	22,407,180	2,753,814	422,781,109	3,588,717
Fiscal year 2014	383,566,692	4,292,862	33,967,464	28,112	3,968,798	22,085,301	2,581,484	450,490,713	3,857,226

Changes in Net Position Last 10 Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions										
Member contributions	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	106,175,381
Employer contributions	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	112,551,482
Investment income (loss) (net of expenses)	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	1,703,240,824
Total additions (deductions) to plan net position	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	1,921,967,687
Deductions										
Benefit payments	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	425,823,928
Refunds	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	24,666,785
Administrative expenses	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	3,857,226
Total deductions from plan net position	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	454,347,939
Change in net position	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	1,467,619,748

2014	Participating government	Covered employees	Rank	Percentage of total system	Principal Participating Employers
	State of South Dakota	8,111	1	21%	
	Board of Regents	4,509	2	11%	
	Sioux Falls Schools*	2,989	3	8%	
	Rapid City Schools	1,879	4	5%	
	City of Rapid City	755	5	2%	
	Watertown Schools	668	6	2%	
	City of Brookings and Hospital	634	7	2%	
	Pennington County	596	8	1%	
	Minnehaha County	509	9	1%	
	Aberdeen Schools	492	10	1%	
	All Other	17,787		46%	
	Total (475 governments)	<u>38,929</u>		<u>100%</u>	

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

2004	Participating government	Covered employees	Rank	Percentage of total system
	State of South Dakota	7,750	1	22%
	Board of Regents	4,027	2	11%
	Rapid City Schools	1,769	3	5%
	Sioux Falls Schools	1,588	4	5%
	City of Rapid City	655	5	2%
	Watertown Schools	592	6	2%
	City of Brookings and Hospital	539	7	2%
	Minnehaha County	495	8	1%
	Pennington County	495	9	1%
	Todd County Schools	489	10	1%
	All Other	17,009		48%
	Total (458 governments)	<u>35,408</u>		<u>100%</u>

MEMBERSHIP PROFILE (CONTINUED)

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

As of June 30, 2014

**Class A, Class B Public
Safety and Judicial**

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	624	126	1,212	19	34	0	496	1	72
\$251—\$500	693	164	1,563	49	72	1	530	4	152
\$501—\$750	565	192	1,267	66	57	4	376	19	116
\$751—\$1,000	433	229	875	25	47	8	307	39	120
\$1,001—\$1,250	374	432	631	32	39	14	262	78	80
\$1,251—\$1,500	284	509	422	27	35	22	184	160	87
\$1,501—\$1,750	220	577	290	31	29	11	139	208	91
\$1,751—\$2,000	181	746	183	16	18	8	107	222	63
Over \$2,000	815	4,159	358	35	54	16	212	1,192	107
	<u>4,189</u>	<u>7,134</u>	<u>6,801</u>	<u>300</u>	<u>385</u>	<u>84</u>	<u>2,613</u>	<u>1,923</u>	<u>888</u>



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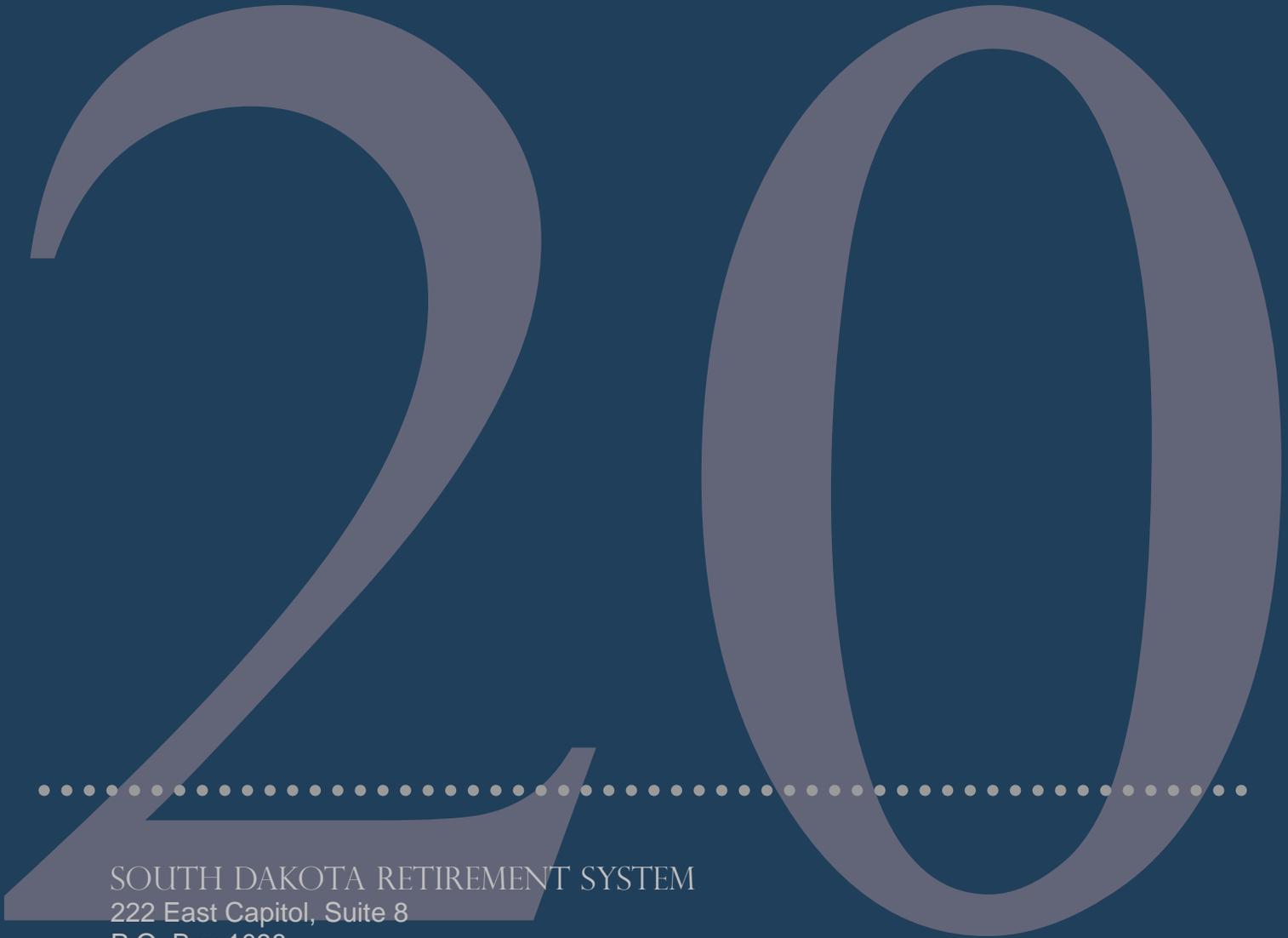
For more information on the South Dakota Retirement System, please contact:

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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