ANNUAL REPORT OF THE FUNDED STATUS OF THE SOUTH DAKOTA RETIREMENT SYSTEM TO THE GOVERNOR AND LEGISLATURE OF THE STATE OF SOUTH DAKOTA

JANUARY 2013

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
www.sdrs.sd.gov

South Dakota Retirement System

January 11, 2013

To the Governor and the Legislature of the State of South Dakota

Re: Annual Report of the Funded Status of the South Dakota Retirement System

SDRS' financial condition remains strong and the SDRS Board of Trustees continues its focus on the long-term sustainability of the System, which is so important to over 75,000 members and their beneficiaries.

Conservative and prudent plan design, coupled with outstanding historical investment returns on the Trust Fund assets, favorably positioned SDRS prior to the fiscal upheaval caused by the economic downturn in 2008 and 2009. While the markets continue to be volatile, SDRS has been able to weather the extreme financial conditions of the "great recession" through proactive management of the System.

The corrective action taken in 2010 and recent revisions to the actuarial assumptions have added additional conservatism to SDRS fiscal projections. During fiscal year 2012, the lawsuit challenging the 2010 Legislation that established a cost-of-living adjustment based on both the Consumer Price Index and the funded status of SDRS was resolved favorably for SDRS. In addition, studies regarding recent actuarial experience and projected asset and liability modeling were completed. Upon analysis of these studies, several actuarial assumption and funding method revisions were adopted by the SDRS Board of Trustees. These revisions increased the System's reported liabilities, resulting in a more accurate estimate of future costs and establishing a better base for the SDRS Board of Trustees' on-going review of the System. Even after considering the increased liabilities and recognizing a lower than expected investment return of 1.91 percent in FY 2012 (on a time-weighted basis, before investment expenses), SDRS maintained an enviable funded status of 93 percent as of June 30, 2012.

When 2012 results are released for all statewide plans, we anticipate that SDRS will remain among the best funded public plans nationally with a funded ratio approximately 20 percentage points higher than the averages for all statewide plans. This is more impressive considering that the SDRS investment return assumption is among the most conservative used by statewide retirement systems.

The enclosed information highlights the SDRS Mission Statement and provides an in-depth summary of the changes in actuarial assumptions and methods, current funded status of SDRS, investment and actuarial experience, comparative data, and SDRS initiatives. Supplemental information concerning benefit payments, plan administrative cost, actuarially assumed investment returns of other statewide plans, actuarial assumptions and method changes, and the South Dakota Cement Plant Retirement Fund is included in the appendices.

Throughout 2013, the SDRS Board of Trustees will continue to analyze risks and anticipated future experience, study long-term sustainability, and evaluate long-term benefit goals. SDRS remains fully committed to the fiscally conservative designs inherent in the SDRS hybrid defined benefit plan and strives to provide outstanding service to our membership at the lowest cost possible.

We welcome your comments and questions.

Sincerely,

Robert A. Wylie
Executive Director/Administrator

Elmer P. Brinkman
Chair of the Board of Trustees

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.

LONG-TERM INCOME REPLACEMENT GOALS

SDRS INCOME REPLACEMENT GOAL:
Lifetime income replacement from SDRS resources of at least 55 percent of final average compensation for career employees in each membership class.

RECOMMENDED MEMBER TOTAL INCOME REPLACEMENT GOAL:
Lifetime income replacement of at least 85 percent of final average compensation, including income from SDRS, Social Security, and personal retirement savings of at least one time annual compensation at retirement.

ACTUARIAL ASSUMPTION AND FUNDING METHOD CHANGES

During 2012, the SDRS Board of Trustees completed its review of the economic and demographic actuarial assumptions used to measure the liabilities for benefits payable to members of SDRS. As a result of this review, several assumptions were revised, adding additional conservatism to the measurement of the liabilities. After both the revised actuarial assumptions and the impact of the investment return realized during fiscal year 2012, SDRS continues to meet the long-term funding goals of the Board of Trustees.

The most significant revision was to the investment return assumption, which was reduced from an annual return of 7.75 percent to an annual return of 7.25 percent for five years beginning July 1, 2012, then increasing to 7.50 percent for years beginning July 1, 2017. The two-tiered assumption reflects the belief that the current economic environment will continue to negatively impact investment returns, particularly in the near-term, but economic recovery will eventually allow returns to stabilize at moderately higher levels. This assumption is more conservative than that used by the vast majority of SDRS' peers.

Based on the study of SDRS experience covering the past six fiscal years, additional assumption changes were adopted by the Board of Trustees regarding retirement ages, compensation increases, mortality rates, termination rates, disability rates, and inflation. The actuarial assumption regarding future Improvement Factors (COLAs) was lowered from 2.80 percent to 2.70 percent based on the statutory provisions, current funded status, and the current economic outlook.

In addition, two changes were made to the actuarial funding methods.

First, the Unfunded Actuarial Accrued Liability was reinitialized based on the Actuarial Accrued Liability under the Entry Age Funding Method. The actuarial funding method used by SDRS to calculate the funded status and the sufficiency of statutory contributions is the Frozen Entry Age Actuarial Cost Method. This actuarial funding method was not changed and will continue to be used in future years. However, the underlying measurements of Actuarial Accrued Liability, Unfunded Actuarial Accrued Liability, and Normal Cost were reset to the calculated amounts under the Entry Age Funding Method. The calculations under Entry Age Funding Method were originally used to establish the measurements under the Frozen Entry Age Actuarial Cost Method and resetting the measurements to their fundamental bases after significant assumption changes gives the most accurate allocation of current and future liabilities.

The second change to the actuarial funding method was an increase in the Actuarial Value of Assets, and a corresponding decrease in the Cushion, of $77.4 million. The Cushion is the excess of the Market Value of Assets over the Actuarial Value of Assets. In other words, the Cushion is the amount of Market Value of Assets that is not used in the calculation of the funded status and contribution requirements. This adjustment utilized part of the Cushion in order to reach a Funding Period of 29 years.

The Board of Trustees had established a fixed Funding Period of 20 years from 2000 until the severe financial downturn in 2008 and 2009. The Board of Trustees increased the Funding Period to 30 years for 2010 and 2011. At June 30, 2012, the Board of Trustees has established a Funding Period of 29 years, which will decline by one year annually until a 20-year Funding Period is again achieved.

A summary of the Actuarial Assumption and Method Changes is included in Appendix D.

SDRS FUNDED STATUS REPORT

JUNE 30, 2012 MEASURES OF ACTUARIAL SOUNDNESS

The most important measures of actuarial soundness for a retirement system are the Funding Period and the Funded Ratio.

The Funding Period is a measure of the adequacy of the fixed contributions made to SDRS to provide the fixed benefits. If adequate, the fixed contributions will pay the Normal Costs of the System (the cost of benefits earned each year) and pay down the current Unfunded Actuarial Accrued Liability over a reasonable period of time. As of June 30, 2012, the current member and employer contributions are sufficient to amortize the current Unfunded Actuarial Accrued Liability over 29 years. A retirement plan is considered to be in actuarial balance if the fixed contributions are adequate to pay the Normal Costs and amortize the Unfunded Actuarial Accrued Liability over a finite period, typically 30 years or less.

The Funded Ratio is a measure of the progress of funding the plan benefits to date. It compares the Actuarial Value of Assets to the Actuarial Accrued Liability. The Actuarial Value of Assets is a smoothed value that assumes the assets earn the long-term expected annual rate of investment return each year. The Actuarial Accrued Liability is a measure of the present value of all benefits earned to date, including additional benefits payable due to future salary increases. The Funded Ratio is equal to the SDRS assets at the Actuarial Value divided by the Actuarial Accrued Liability. An alternative Funded Ratio compares the Market Value of Assets to the Actuarial Accrued Liability.

The SDRS Funded Ratio:

- Increased from 40 percent in 1973 to over 90 percent each year since 1988.
- Has consistently been over 95 percent since 1997.
- Decreased to 92 percent due to the asset losses suffered in 2008 and 2009, the Funded Ratio returned to over 95 percent after asset gains in 2010 and 2011 and corrective actions in 2010 restored the Funded Ratio to over 95 percent. The alternative Market Value Funded Ratio increased to 103 percent.
- Decreased to 93 percent due to lower than expected investment returns in 2012, along with the demographic and economic assumption changes, decreased both the Funded Ratio and the alternative Market Value Funded Ratio to 93 percent.

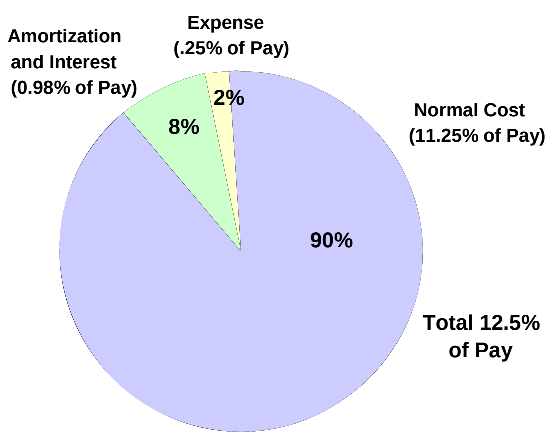
DISTRIBUTION OF FUNDING REQUIREMENTS

Because of the relatively small SDRS Unfunded Actuarial Accrued Liability, only a limited portion of the annual contributions is needed to fund it. The following chart illustrates that the majority of the contributions pay for the cost of the current annual benefits (including System expenses) and only a small portion of the contributions is required to amortize the Unfunded Actuarial Accrued Liability.

The revised actuarial assumptions and the reinitialized actuarial cost method resulted in a lower Normal Cost rate and a higher Unfunded Actuarial Accrued Liability.

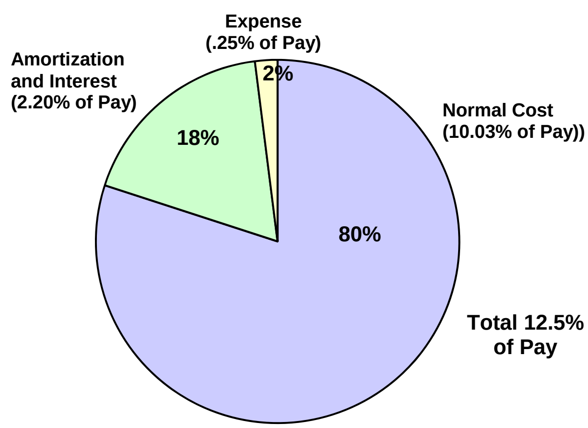
For fiscal year 2013, anticipated contributions will be sufficient to pay the Normal Cost and amortize the Unfunded Actuarial Accrued Liability over 29 years, in accordance with Board policy.

2012 Fiscal Year



Funding Policy Contribution Rate: 12.5% of Pay
Total Anticipated Contribution Rate: 12.5% of Pay

2013 Fiscal Year



Funding Policy Contribution Rate: 12.5% of Pay
Total Anticipated Contribution Rate: 12.5% of Pay

FISCAL YEAR 2012 SDRS EXPERIENCE

The SDRS dollar-weighted investment return based on the Market Value of Assets was 1.37 percent after investment expense (1.91 percent on a time-weighted basis before investment expense). This return was significantly less than the assumed annual rate of return of 7.75 percent, which resulted in an actuarial investment loss of $461M.

Actual Investment Return	$	108M
Less Expected Return		-568M
Actuarial Investment Gain/(Loss)	$	(461)M

All SDRS investment gains and liability gains and losses are allocated to the Reserve for Funding of Long-Term Benefit Goals over five years. Actuarial investment losses are allocated to the Reserve immediately.

FUNDED STATUS COMPARISONS

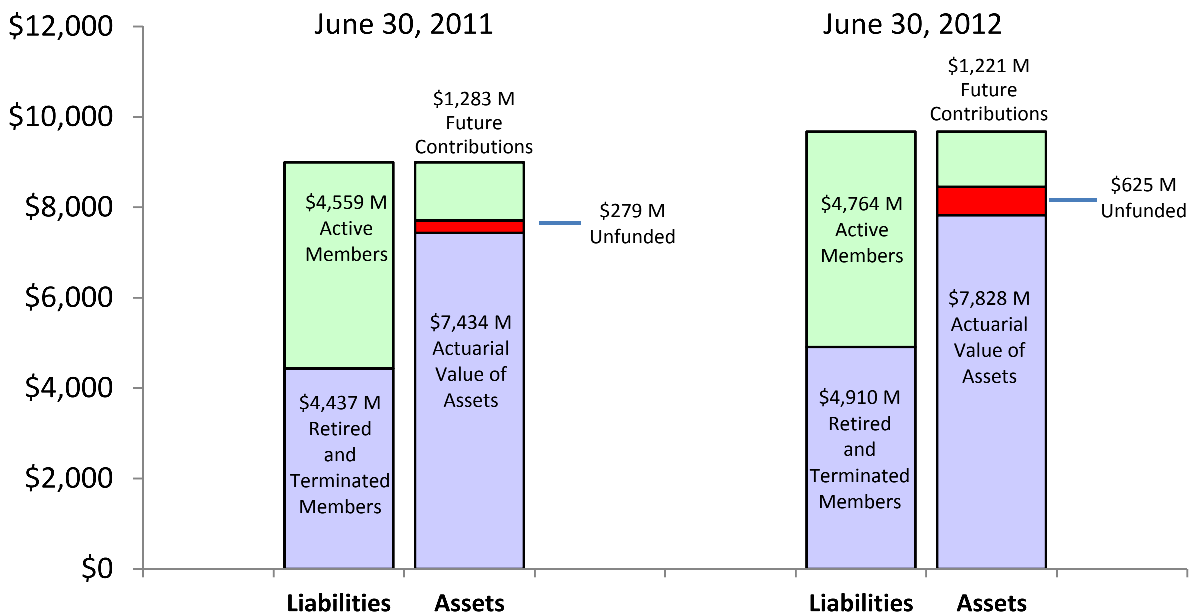
The long-term experience of SDRS has been very favorable, resulting in a funded status that exceeds virtually all other statewide public retirement systems.

	June 30, 2011		June 30, 2012	
	SDRS	Average*	SDRS	Average*
Funded Ratio (Actuarial Value of Assets)	96%	75%	93%	75%
Funded Ratio (Market Value of Assets)	103%	74%	93%	70%

*2011 averages from Wilshire Associates State Retirement Plan Funding Report for statewide public systems. 2012 averages estimated by Buck Consultants.

SDRS LIABILITIES AND RESOURCES

Current SDRS members are projected to receive future benefits from SDRS that have a present value of $9.7B. Of that amount, 51 percent is attributed to current retirees and 49 percent is attributed to current active members. SDRS has existing assets of $7.8B at Actuarial Value and also $7.8B at Market Value to offset those future costs.



The Unfunded Actuarial Accrued Liability increased from $279M in fiscal year 2011 to $625M in fiscal year 2012, while the Normal Cost rate decreased from 11.3 percent to 10.0 percent of pay. Current contributions are sufficient to pay the Normal Cost (the cost of benefits accruing during the current year) and amortize the Unfunded Actuarial Accrued Liability over 29 years.

The volatile investment climate over the last several years has impacted the SDRS Cushion:

- As of June 30, 2007, SDRS assets at Market Value exceeded the Actuarial Value of Assets by $2,114 million, resulting in a substantial Cushion.
- After $355 million in benefit improvements and the 2008 asset loss, the Cushion declined to $528 million as of June 30, 2008.
- Following the 2009 asset loss, the Cushion was eliminated and a deficit resulted, since the Actuarial Value of Assets exceeded the Market Value by $1,130 million.
- The deficit was significantly reduced as of June 30, 2010, because of the 2010 asset gain and the corrective action, but the Actuarial Value of Assets exceeded the Market Value by $623 million.
- As of June 30, 2011, the Market Value of Assets once again exceeded the Actuarial Value, resulting in a Cushion of $502 million.
- As of June 30, 2012, the Market Value of Assets continued to exceed the Actuarial Value; however, the Cushion decreased to $15 million because investment results were below expectations in 2012 and an adjustment was made to the Cushion and Actuarial Value of Assets in order to reach a 29-year Funding Period as of June 30, 2012.

FUNDED STATUS SUMMARY

Although SDRS suffered substantial asset losses during fiscal years 2008 and 2009, asset gains during fiscal years 2010 and 2011, along with the corrective actions, returned the System to a sound funded status that is in accordance with Board policy. With the strengthened actuarial assumptions and the investment results experienced in 2012, SDRS remains in actuarial balance.

With a Market Value of Assets of over $7.8 billion, SDRS is a financially solid retirement system.

SDRS INITIATIVES

During fiscal year 2012, the Board of Trustees began a comprehensive review of SDRS including:

- Consideration of long-term benefit goals and fiscally sustainable benefit designs
- Comprehensive review of economic and demographic actuarial assumptions
- Long-term modeling of asset and liability experience under anticipated as well as unanticipated conditions
- Analysis and assessment of risks facing SDRS and its stakeholders

The reviews of recent investment performance, actuarial assumptions, and anticipated asset and liability experience have been completed and resulted in significant changes to the actuarial assumptions. The consideration of long-term benefit goals, fiscally sustainable benefit designs, and the analysis of risks facing SDRS and its stakeholders will continue in 2013.

SDRS 2013 LEGISLATION

The SDRS Board of Trustees will submit the following four bills for consideration during the 2013 legislative session:

- A bill to allow full-time Sioux Falls employees hired after June 30, 2013, to participate in SDRS
- A bill to clarify the timeframe of Board of Trustees’ recommendations to the legislature under SDCL 3-12-122
- A bill to make technical corrections to comply with Internal Revenue Code
- A technical corrections and clarification bill to revise, convert and clarify provisions in South Dakota Codified Law related to the Special Pay Program.

Appendix A

SDRS BENEFITS

The following exhibit presents a schedule of the annualized benefits payable as of July 1, 2012, by SDRS on a county-by-county basis.

County	Annual Benefits	County	Annual Benefits	County	Annual Benefits
Aurora	$ 1,346,617	Fall River	$ 2,978,986	McPherson	$ 695,960
Beadle	$ 7,375,236	Faulk	$ 1,192,174	Meade	$ 7,942,770
Bennett	$ 489,194	Grant	$ 2,688,974	Mellette	$ 493,561
Bon Homme	$ 3,660,576	Gregory	$ 1,906,058	Miner	$ 818,906
Brookings	$ 25,128,283	Haakon	$ 605,796	Minnehaha	$ 55,689,665
Brown	$ 17,495,536	Hamlin	$ 2,043,010	Moody	$ 2,091,911
Brule	$ 1,778,853	Hand	$ 1,325,495	Pennington	$ 47,802,841
Buffalo	$ 39,286	Hanson	$ 555,208	Perkins	$ 1,081,578
Butte	$ 3,177,268	Harding	$ 234,916	Potter	$ 1,388,467
Campbell	$ 639,373	Hughes	$ 26,270,823	Roberts	$ 3,170,905
Charles Mix	$ 3,337,401	Hutchinson	$ 3,300,420	Sanborn	$ 902,010
Clark	$ 1,275,917	Hyde	$ 543,368	Shannon	$ 205,465
Clay	$ 11,514,366	Jackson	$ 742,005	Spink	$ 4,898,466
Codington	$ 12,578,631	Jerauld	$ 644,838	Stanley	$ 3,158,510
Corson	$ 528,097	Jones	$ 555,969	Sully	$ 511,921
Custer	$ 4,639,887	Kingsbury	$ 1,981,231	Todd	$ 906,797
Davison	$ 8,862,273	Lake	$ 6,282,882	Tripp	$ 2,320,316
Day	$ 2,751,042	Lawrence	$ 13,278,087	Turner	$ 2,634,824
Deuel	$ 1,077,573	Lincoln	$ 4,606,127	Union	$ 4,268,050
Dewey	$ 991,010	Lyman	$ 1,140,353	Walworth	$ 3,023,803
Douglas	$ 841,295	Marshall	$ 2,014,786	Yankton	$ 11,674,834
Edmunds	$ 1,374,587	McCook	$ 1,629,947	Ziebach	$ 179,173

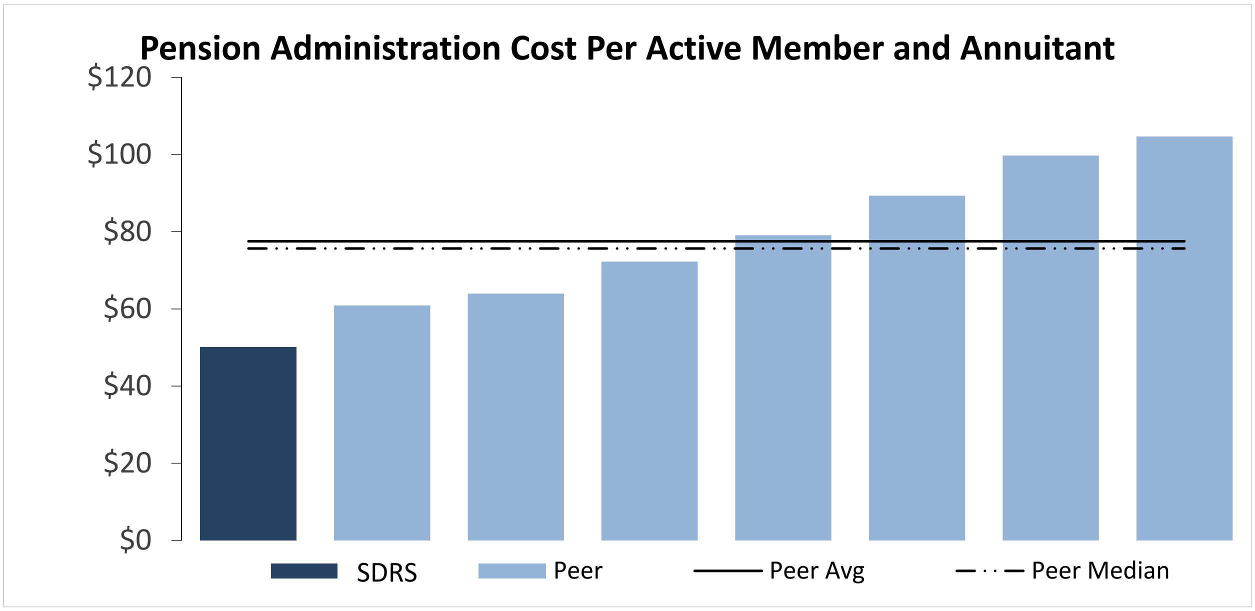
Total SDRS Benefits Paid in South Dakota $ 343,284,487

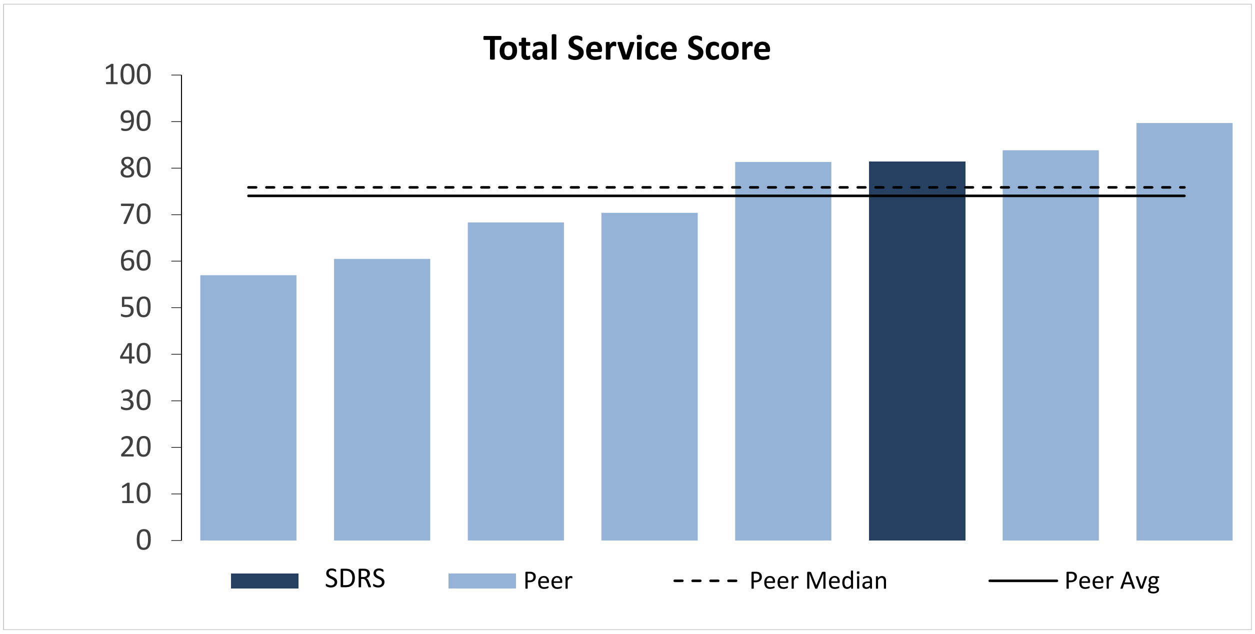
Total SDRS Benefits Paid Outside of South Dakota $ 43,193,832

Total SDRS Benefits $ 386,478,319

Appendix B

The international benchmarking firm, CEM, annually measures and compares the costs and quality of services provided by public employee retirement systems. The graphics below show the CEM comparison of costs and service for SDRS and a peer universe of statewide retirement systems with less than 100,000 members. Based on the CEM information, SDRS administrative costs are the lowest in the peer group while providing above average service to the membership.





Appendix C

INVESTMENT RETURN ASSUMPTIONS OF STATEWIDE RETIRMENT SYSTEMS

The following chart presents the most recently published investment return assumptions for statewide retirement systems. The information was taken from the National Association of State Retirement Administrators (NASRA) website. Systems with an investment return assumption lower than SDRS (a more conservative assumption) are highlighted.

System/Fund	Latest Available Nominal Investment Return Assumption	System/Fund	Latest Available Nominal Investment Return Assumption
Alabama ERS	8.00%	Missouri State Employees	8.50%
Alabama Teachers	8.00%	Missouri Teachers	8.00%
Alaska PERS	8.25%	Montana PERS	7.75%
Alaska Teachers	8.25%	Montana Teachers	7.75%
Arizona Public Safety Personnel	8.00%	Nebraska Schools	8.00%
Arizona SRS	8.00%	Nevada Police Officer and Firefighter	8.00%
Arkansas PERS	8.00%	Nevada Regular Employees	8.00%
Arkansas Teachers	8.00%	New Hampshire Retirement System	7.75%
California PERF	7.50%	New Jersey PERS	7.95%
California Teachers	7.50%	New Jersey Police & Fire	7.95%
Chicago Teachers	8.00%	New Jersey Teachers	7.95%
City of Austin ERS	7.75%	New Mexico PERF	7.75%
Colorado Affiliated Local	7.75%	New Mexico Teachers	7.75%
Colorado Fire & Police Statewide	7.75%	New York City ERS	8.00%
Colorado Municipal	8.00%	New York City Teachers	8.00%
Colorado School	8.00%	New York State Teachers	8.00%
Colorado State	8.00%	North Carolina Local Government	7.25%
Connecticut SERS	8.25%	North Carolina Teachers and State Employees	7.25%
Connecticut Teachers	8.50%	North Dakota PERS	8.00%
Contra Costa County	7.80%	North Dakota Teachers	8.00%
DC Police & Fire	7.00%	NY State & Local ERS	7.50%
DC Teachers	7.00%	NY State & Local Police & Fire	7.50%
Delaware State Employees	7.50%	Ohio PERS	8.00%
Denver Employees	8.00%	Ohio Police & Fire	8.25%
Denver Public Schools	8.00%	Ohio School Employees	7.75%
Duluth Teachers	8.00%	Ohio Teachers	7.75%
Fairfax County Schools	7.50%	Oklahoma PERS	7.50%
Florida RS	7.75%	Oklahoma Teachers	8.00%
Georgia ERS	7.50%	Oregon PERS	8.00%
Georgia Teachers	7.50%	Pennsylvania School Employees	7.50%
Hawaii ERS	7.75%	Pennsylvania State ERS	7.50%
Houston Firefighters	8.50%	Phoenix ERS	8.00%
Idaho PERS	7.75%	Rhode Island ERS /1	7.50%
Illinois Municipal	7.50%	Rhode Island Municipal /1	7.50%
Illinois SERS	7.75%	San Diego County	8.00%
Illinois Teachers	8.00%	San Francisco City & County	7.66%
Illinois Universities	7.75%	South Carolina Police	7.50%
Indiana PERF	6.75%	South Carolina RS	7.50%
Indiana Teachers	6.75%	South Dakota Retirement System	7.25% / 7.50%
Iowa PERS	7.50%	St. Louis School Employees	8.00%
Kansas PERS	8.00%	St. Paul Teachers	8.00%
Kentucky County	7.75%	Texas County & District	8.00%
Kentucky ERS	7.75%	Texas ERS	8.00%

System/Fund	Latest Available Nominal Investment Return Assumption	System/Fund	Latest Available Nominal Investment Return Assumption
Kentucky Teachers	7.50%	Texas LECOS	8.00%
LA County ERS	7.75%	Texas Municipal	7.00%
Louisiana SERS	8.00%	Texas Teachers	8.00%
Louisiana Teachers	8.25%	TN Political Subdivisions	7.50%
Maine Local	7.25%	TN State and Teachers	7.50%
Maine State and Teacher	7.25%	Utah Noncontributory	7.50%
Maryland PERS	7.75%	Vermont State Employees	8.10%
Maryland Teachers	7.75%	Vermont Teachers	7.90%
Massachusetts SERS	8.25%	Virginia Retirement System	7.00%
Massachusetts Teachers	8.25%	Washington LEOFF Plan 1	7.90%
Michigan Municipal	8.00%	Washington LEOFF Plan 2	7.90%
Michigan Public Schools	8.00%	Washington PERS 1	7.90%
Michigan SERS	8.00%	Washington PERS 2/3	7.90%
Minnesota PERF	8.00%	Washington School Employees Plan 2/3	7.90%
Minnesota State Employees	8.00%	Washington Teachers Plan 1	7.90%
Minnesota Teachers	8.00%	Washington Teachers Plan 2/3	7.90%
Mississippi PERS	8.00%	West Virginia PERS	7.50%
Missouri DOT and Highway Patrol	8.25%	West Virginia Teachers	7.50%
Missouri Local	7.25%	Wisconsin Retirement System	7.20%
Missouri PEERS	8.00%	Wyoming Public Employees	8.00%

Appendix D

Summary of Actuarial Assumption and Method Changes Effective June 30, 2012

Section 3-12-121 of SDCL requires reporting of any actuarial assumption changes to the Governor and the Retirement Laws Committee. Based on a detailed experience analysis and the recommendations of the SDRS independent actuary and State Investment Officer, the Board of Trustees approved changes to the actuarial assumptions to better align them with actual past experience and expected future experience. The most significant changes are summarized below:

Investment Return

Prior Assumption: 7.75 percent per annum, net of investment expenses, compounded annually, plus pre-funding of Cost-of-Living Benefit

New Assumption: 7.25 percent per annum, net of investment expenses, for 5 years beginning July 1, 2012, increasing to 7.50 percent after 5 years, compounded annually, plus pre-funding of Cost-of-Living Benefit

Average Annual Cost of Living Benefit Paid After Retirement

Prior Assumption: 2.8 percent

New Assumption: 2.7 percent

Retirement Age

Prior Assumption: Separate unisex rates for Class A/Class B Judicial and Class B Public Safety.

New Assumption: Separate rates for reduced and unreduced retirements, by Class (Teacher/Non-Teacher), and gender.

Annual Compensation Progression

Prior Assumption: Rates based on age declining from 8.1 percent at age 25 to 4.2 percent at age 65.

New Assumption: Rates based on service and reduced to reflect lower expected wage inflation. Rates decline from 5.8 percent in first year of service to 3.8 percent at 31 years of service.

Mortality Rates

Prior Assumption: 1995 Buck Mortality Table.

New Assumption: 1995 Buck Mortality Table-male rates set-back 1 year, which increased life expectancy at age 61 from 20.9 to 22.8 years.

Rate of Termination of Employment

Prior Assumption: Separate rates based on age and for Class A school members, all other Class A members/Class B Judicial members, and Class B Public Safety members.

New Assumption: Changed to Select (reflecting higher rates in early employment years) and Ultimate rates, and eliminated termination rates for Class B Judicial members.

Rate of Disability

Prior Assumption: Gender specific rates for all SDRS members.

New Assumption: Reduced rates for Class A (Teacher/Non-Teacher separately) and eliminated disability rates for Class B Judicial members.

In total, the changes in actuarial assumptions increased the SDRS Present Value of All Benefits by 3.9 percent ($365M).

In addition the Board of Trustees approved the following changes in the funding policy and actuarial methods:

- Unfunded accrued liabilities were funded over a non-declining 30-year period. They are now funded over 29 years from 2012 and the funding period will decline one year each year in the future until a 20-year funding period is achieved.
- The actuarial cost method was re-initialized to better reflect the most accurate allocation of future costs between past and future periods after the assumption changes were adopted.
- The Actuarial Value of Assets was increased by $77M and the Cushion (the excess of Market Value of Assets over the Actuarial Value) was reduced by the same amount.

The Actuarial Valuation Report as of June 30, 2012, provides additional detail.

Supplemental Information

SOUTH DAKOTA CEMENT PLANT RETIREMENT FUND

PLAN HISTORY

The South Dakota Cement Plant Retirement Fund (CPRF) was established in 1968, prior to the consolidation of the South Dakota Retirement System, to provide retirement, disability, and survivor benefits to employees of the Dakotah Cement Plant and their beneficiaries.

The Cement Plant was sold to a private entity on March 16, 2001. At that point, the CPRF was frozen. No new entrants to the plan were allowed, all members became 100 percent vested, and benefit accruals were frozen (earnings, credited service, and primary Social Security benefits as of March 16, 2001, remain unchanged). In addition, service with the successor employer counted toward achieving full early retirement benefits and optional spouse survivor coverage continued for participating employees even though contributions and disability coverage ceased. The Cement Plant Commission administered the retirement plan from its inception until responsibility for the oversight of the fund was transferred to SDRS in 2010.

The CPRF benefit structure is quite similar to SDRS (CPRF benefits were prohibited from exceeding the SDRS benefits), but the lack of on-going contributions and an aging membership group means that the plan's maturity, negative cash flow, and sustainability outlook are very different from SDRS. Even though the CPRF has received several cash infusions since 2001, including a $4 million deposit in September 2010 from the sale of the final remaining Cement Plant property and a $1.0 million appropriation in 2012, the recent declines in the market have had a substantial impact, resulting in an underfunded plan. Since the plan is very mature and has substantial negative cash flow, it would not be prudent to anticipate that investment performance above expectations will cover the current funding shortfall.

RECENT EXPERIENCE

At the time that the Cement Plant was sold, the CPRF was fairly well funded. However, since that time:

- Investment returns in fiscal years 2001, 2002, and 2003 were below expectations and the plan's funded status suffered.
- In FY 2004, 2005, 2006, and 2007 investment returns improved as did the funded status.
- As part of the regular quadrennial review of the plan in 2007, it was determined that certain plan experience was not conforming to plan provisions and actuarial and benefit assumptions were adjusted accordingly. These adjustments and lower investment returns combined to diminish the plan's funded status in 2008.
- The SDRS Board of Trustees reviewed the plan experience in 2012 and as a result decreased the investment return assumption to 6.75 percent and increased the life expectancy assumption to more accurately (and conservatively) determine the future costs of the CPRF benefits.
- The biennial actuarial valuation results in 2012 showed a slight improvement compared to the 2010 results after the assumption changes were made and investment results for FY 2011 and 2012 were realized. Unfunded actuarial accrued liabilities decreased from $14.9 million in FY 2010 to $14.1 million in FY 2012. Annual contributions required to amortize the unfunded actuarial accrued liability over 20 years from July 1, 2008, decreased from $1,458,687 to $1,373,477 over the period.
- Investment performance for the first half of FY 2013 has been solid with estimated returns over 7.0 percent before investment expenses.

CPRF FUNDED STATUS AS OF JUNE 30, 2012:

- The CPRF funded status is near the median for statewide public pensions and has improved since 2010. However, the long-term expectation is that the plan will show a steady decline in the funded status without additional funding as shown in the chart below.
  - *Fiscal Year 2010 Funded Ratio – 72.3 percent*
  - *Fiscal Year 2012 Funded Ratio - 77.2 percent*
- Current Fund assets are $47.6 million and Fund liabilities are $61.7 million *(Present Value of Future Benefits),* resulting in a deficit of $14.1 million.
- Investment performance (time-weighted return before investment expenses) in fiscal years 2011 and 2012 was 24.8 percent and 2.4 percent, respectively.*)*

SUMMARY

With the sale of the Dacotah Cement Plant and the closing and freezing of the South Dakota Cement Plant Retirement Fund, the CPRF is a very mature plan with a very significant negative cash flow and a fairly rapid payout of existing assets. The recent downturn in the markets has accelerated that experience. It is very likely that the CPRF will need periodic infusions of cash to meet the plan liabilities and reduce the annual net negative cash flow. The SDRS Board of Trustees will continue to review the funding issues and work with the stakeholders to define a long-term course to improve the funding and sustainability of this plan.

MEMBERSHIP FACTS

	2001 Membership	2008 Membership	2010 Membership	2012 Membership
Active Members	180	98	71	55
Inactive Members	72	66	59	55
Benefit Recipients	148	204	227	230
Total Members	400	368	357	340