

The logo for nyhart, featuring the word "nyhart" in a white, lowercase, sans-serif font inside a black rectangular box. To the left of this box is a thick black vertical bar, and to its right is a thin red vertical bar.

nyhart

***Indiana State Teachers'  
Retirement Fund***

***GASB No. 67 and GASB No. 68***

*Actuarial Valuation*

*For Fiscal Year Ending*

*June 30, 2014*

**Indiana Public Retirement System - Teachers' Retirement Fund**  
**GASB No. 67 and GASB No. 68 Actuarial Valuation for Fiscal Year Ending June 30, 2014**

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This report is prepared in accordance with our understanding of GASB No. 67 and GASB No. 68 for the purpose of financial reporting for defined benefit pension plans. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report.

The information presented in this report is based on the actuarial assumptions and plan provisions noted in this report and contained in the June 30, 2014 annual actuarial valuation report, provided to INPRS for plan funding purposes. This report complements the June 30, 2014 annual actuarial valuation report. The two valuations should be considered together as a complete report for the plan year ending June 30, 2014. Please see the actuarial valuation report as of June 30, 2014 for additional discussion of the actuarial valuation, including the nature of actuarial calculations and more information related to participant data, economic and demographic assumptions, and benefit provisions.

In our opinion, the assumptions used are individually reasonable, and, in combination, represent a reasonable expectation of future experience under the plan. All calculations have been made in accordance with generally accepted actuarial principles and practice. The undersigned are compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

The actuarial valuation is prepared using information that has been reconciled and reviewed for reasonableness. We are not aware of any material inadequacy in employee census or asset values. The census information and the asset information have been provided to us by the Chief Financial Officer and Staff. We have not audited the information at the source, and, therefore, do not accept responsibility for the accuracy or the completeness of the data on which the information is based.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as plan experience differing from that anticipated by assumptions, changes in assumptions, changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees have any relationships with the plan or plan sponsor that could impair or appear to impair the objectivity of this report.

Nyhart

  
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John L. Dowell, FSA, FCA, EA, MAAA

  
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Michael Zurek, EA, MAAA

12/16/2014

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #67**

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

**Assets**

Cash and Cash Equivalents	\$	449,838
Receivables		
Contributions	\$	84,209
Miscellaneous		81,023
Investments		83,743,213
Foreign Exchange Contracts		648,323,850
Accrued Interest and Dividends		16,089,173
Due from Other Funds		<u>910,235</u>
Total Receivables	\$	749,231,703
Investments		
Short Term	\$	24,313,716
Pooled Unit Trust Assets		
Repurchase Agreements		0
Short Term Investments		215,687,288
Fixed Income		2,401,241,371
Equities		1,559,370,354
Alternatives		1,438,578,099
Derivatives		4,449,350
Securities Lending Collateral		<u>340,946,906</u>
Total Investments	\$	5,984,587,084
Net Capitalized Assets		<u>1,184,460</u>
Total Assets	\$	6,735,453,085

**Liabilities**

Accounts Payable	\$	564,039
Retirement Benefits Payable		84,653,905
Salaries and Benefits Payable		0
Investments Payable		118,008,263
Foreign Exchange Contracts		651,532,659
Securities Lending Obligations		340,946,906
Securities Sold Under Agreement to Repurchase		35,530,239
Due to Other Funds		<u>2,350,199</u>
Total Liabilities	\$	1,233,586,210

**Net Position Restricted for Pensions** align="right">\$ 5,501,866,875

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #67**

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

**Additions**

Contributions		
Member Contributions	\$	47,027,857
Employer Contributions		6,325,502
Nonemployer Contributing Entity Contributions		825,616,000
Other Contributions		<u>0</u>
Total Contributions	\$	878,969,359
Investment Income/(Loss)		
Net Appreciation/(Depreciation) Fair Value of Investments	\$	596,763,079
Other Net Investment Income		804,833
Net Interest and Dividends Income		81,045,765
Miscellaneous Income		0
Securities Lending Income		<u>658,727</u>
Total Investment Income/(Loss)	\$	679,272,404
Less Direct Investment Expenses		
Investment Management Fees	\$	(29,212,783)
Securities Lending Fees		(91,302)
Other Direct Investment Expenses		<u>(2,386,352)</u>
Total Direct Investment Expenses	\$	(31,690,437)
Net Investment Income/(Loss)	\$	647,581,967
Other Additions		
Miscellaneous	\$	18,898
Interfund Transfers		<u>3,250,459</u>
Total Other Additions	\$	3,269,357
Total Additions	\$	1,529,820,683

**Deductions**

Pension and Disability Benefits	\$	1,220,865,922
Special Death Benefits		0
Distributions of Contributions and Interest		8,435,043
Pension Relief Distributions		0
Local Unit Withdrawals		0
Administrative Expenses		5,585,416
Project Expenses		1,425,307
Interfund Transfers		<u>6,843,525</u>
Total Deductions	\$	1,243,155,213

Net Increase/(Decrease) in Net Position	\$	286,665,470
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**Net Position Restricted for Pensions**

Beginning of Year – as of June 30, 2013	\$	5,215,201,405
End of Year – as of June 30, 2014	\$	5,501,866,875

## Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account

### NOTES TO FINANCIAL STATEMENTS UNDER GASB #67

#### Plan Description

##### Plan administration

The Indiana Public Retirement System (INPRS) administers the Indiana State Teachers’ Retirement Fund (TRF). This fund consists of two accounts – the Pre-1996 Account and the 1996 Account. The Pre-1996 Account consists of members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. The 1996 Account consists of members who were hired on or after July 1, 1995. The 1996 Account also includes members hired prior to July 1, 1995 that were either hired by another school corporation or institution covered by TRF prior to June 30, 2005, or were re-hired by a covered prior employer.

The Pre-1996 Account provides pensions for the employees of 339 school corporations in the State of Indiana and some employees of the State of Indiana. The Pre-1996 Account is a cost-sharing multiple-employer defined benefit plan with the State of Indiana being the lone non-employer contributing entity. The State of Indiana is responsible for 100% of the contributions to the Pre-1996 Account. It is essentially funded on a pay-as-you-go basis. The 1996 Account is a cost-sharing multiple-employer defined benefit plan with no non-employer contributing entities. The employers (i.e., the school corporations) are responsible for 100% of the contributions to the 1996 Account. The 1996 Account has been pre-funded based on meeting or exceeding the actuarially calculated contribution each year.

TRF is managed by the INPRS Board of Directors, consisting of nine directors.

##### Plan membership

As of June 30, 2013, plan membership in the TRF Pre-1996 Account consisted of the following:

<u>Classes of members</u>	<u>Number of members</u>
Retired plan members, beneficiaries, and disabled members currently receiving benefits	49,345
Inactive vested plan members entitled to but not yet receiving benefits	3,314
Inactive nonvested plan members entitled to a distribution of their own contributions	546
Active plan members	<u>19,210</u>
Total plan members	<u>72,415</u>

##### Benefits provided

TRF provides retirement, disability, and death benefits to its members. Retirement benefits are calculated to be 1.1% of average annual compensation for each year of service. Average annual compensation is the average of each member’s highest five years of compensation, not necessarily consecutive. Unreduced retirement benefits are available at age 65 with 10 years of service, age 60 with 15 years of service, or as early as age 55 if the sum of age plus service is at least 85. If not eligible for unreduced benefits, members can commence benefits as early as age 50 with 15 years of service, but the calculated retirement benefit is reduced 0.1% for each month from age 65 to age 60 and 5/12ths of 1% for each month from age 60 to the age at commencement. Members are vested in their pension if they reach 10 years of service. Special disability benefits are available for members that become disabled after five years of service and special death benefits are available for the beneficiaries of members that die after 15 years of service. No automatic benefit increases after retirement are provided. However, periodically, unscheduled increases have been granted on an annual basis. In recent years, one-time service-related lump sums have been provided in lieu of increases to monthly benefits.

##### Contributions

The defined benefits payable from the TRF Pre-1996 Account are funded by State appropriations (including approximately \$30 million per year from the State Lottery). Historically, the benefits have been funded on a pay-as-you-go basis. Amounts were appropriated to meet the current year’s defined benefit payments. In 1995, the Pension Stabilization Fund was set up and some pre-funding progress has been made via State appropriations to this account. In several years, State appropriations have been less than the level of defined benefit payments paid out. This year, State appropriations exceeded the level of defined benefit payments paid out, primarily due to a one-time contribution. The State intends to increase their appropriations (excluding the portion from the State Lottery) by 3% each year until the increase is no longer necessary to match the annual benefits paid.

All active members are required by state law to contribute 3% of their salary to their Annuity Savings Account (ASA), a separate lump sum account benefit. These 3% contributions are generally “picked up” by the employers and contributed on a pre-tax basis on behalf of the employee. At retirement, members have the option to convert their ASA benefit to a monthly annuity. Those benefits are funded by the transfer of their member contribution accounts to the defined benefit plan assets. Until that annuitization takes place, the total pension liability for this benefit is exactly offset by the plan’s fiduciary net position.

## Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account

### NOTES TO FINANCIAL STATEMENTS UNDER GASB #67

#### Net Pension Liability

The components of the net pension liability of the TRF Pre-1996 Account as of June 30, 2014 are as follows:

Total pension liability	\$ 16,355,216,031
Pension plan’s fiduciary net position	<u>5,501,866,875</u>
Net pension liability	\$ 10,853,349,156
Pension plan’s fiduciary net position as a percentage of the total pension liability	33.6%

#### Significant Actuarial Assumptions

Measurement date	June 30, 2014
Valuation date Assets	June 30, 2014
Liabilities	June 30, 2013 - Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll-forward techniques were then used to project the total pension liability computed as of June 30, 2013 to the June 30, 2014 measurement date.
Inflation	3.0%
Pay increases	3.00% - 12.50%, including merit, seniority, and inflation
Investment rate of return	GASB Valuation - 6.75%, net of pension plan investment expenses, including inflation Funding Valuation - 6.75%, net of pension plan investment and administrative expenses, including inflation
Ad hoc cost-of-living increases	1.0% compounded annually on pension
Mortality assumption	2013 IRS Static Mortality projected an additional five (5) years with Scale AA
Experience study	The most recent comprehensive experience study was completed in 2012 and was based on member experience covering the period June 30, 2007 through June 30, 2011. The demographic assumptions were updated for the June 30, 2012 actuarial valuation based on the results of the study.
Discount rate	The discount rate used to measure the total pension liability was 6.75% as of June 30, 2014, and is equal to the long-term expected return on plan investments. The projection of cash flows used to determine the discount rate assumed that employer contributions (excluding the portion from the State Lottery) would increase 3% each year until the increase is no longer necessary to match the annual pension benefits paid. Based on this assumption, the pension plan’s fiduciary net position was projected to be available to make all projected 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.

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #67**

**Significant Actuarial Assumptions (continued)**

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the TRF Pre-1996 Account calculated using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (5.75%) or 1% higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	\$ 12,327,000,000	\$ 10,853,349,156	\$ 9,579,000,000
Long-term expected rate of return	6.75%		

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67**

**Schedule of Changes in Net Pension Liability and Related Ratios<sup>1</sup>**

	<u>2014</u>	<u>2013<sup>2</sup></u>
<b>Total Pension Liability</b>		
Total pension liability - beginning of year	\$ 16,463,598,481	\$ 16,522,014,519
Annuity Savings Account (ASA) - beginning of year, (a)	1,814,049,671	1,974,075,962
Excluding ASA - beginning of year, (b)	14,649,548,810	14,547,938,557
Service cost <sup>3</sup>	68,860,011	81,343,107
Interest cost <sup>4</sup>	961,628,534	957,228,337
Experience (gains) / losses <sup>8</sup>	(70,517,351)	(40,718,985)
Assumption changes	0	0
Plan amendments <sup>7</sup>	(25,523,806)	0
Benefit payments <sup>5</sup>	(1,034,563,166)	(988,335,242)
ASA annuitizations	93,981,713	86,941,060
Net member reassignments <sup>6</sup>	(3,801,799)	0
Other	<u>262,911</u>	<u>5,151,976</u>
Net change in total pension liability – Excluding ASA, (c)	\$ (9,672,953)	\$ 101,610,253
Net change in total pension liability – ASA, (d)	(98,709,497)	(160,026,291)
Net change in total pension liability	(108,382,450)	(58,416,038)
Total pension liability – Excluding ASA - end of year, (b) + (c)	\$ 14,639,875,857	\$ 14,649,548,810
Total pension liability – ASA – end of year, (a) + (d)	1,715,340,174	1,814,049,671
Total pension liability - end of year	16,355,216,031	16,463,598,481

**Notes**

1. The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes and prospectively from June 30, 2013 for GASB Statement No. 68 purposes
2. 2013 restated to reflect changes impacted by implementation of GASB Statement No. 67
3. As of the beginning of the year
4. Includes interest of 6.75% on the beginning of the year service cost
5. Excludes ASA lump sum payments to retired members and refunds of accumulated member contributions associated with ASA balances
6. Includes net interfund transfers
7. The reduction in the Total Pension Liability due to Plan amendments reflects the change in the ASA annuity conversion rate as of October 1, 2014
8. The differences between expected and actual experience includes a gain of \$75,200,000 due to the value of the 13th check provided to the retirees being less than the assumed 1.0% COLA

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67<sup>1</sup>**

**Schedule of Changes in Net Pension Liability and Related Ratios**

	<u>2014</u>	<u>2013<sup>2</sup></u>
<b>Fiduciary Net Position</b>		
Fiduciary net position - beginning of year	\$ 5,215,201,405	\$ 5,058,910,388
Employer contributions	6,325,502	9,483,547
Nonemployer contributing entities contributions	825,616,000	1,003,596,233
Member contributions	47,027,857	45,420,617
Net investment income	647,581,967	315,598,000
Benefit payments <sup>4</sup>	(1,229,300,965)	(1,212,945,000)
Net member reassignments <sup>3</sup>	(3,593,066)	3,059,000
Administrative and project expenses	(7,010,723)	(7,926,000)
Other	<u>18,898</u>	<u>4,620</u>
Net change in fiduciary net position	\$ 286,665,470	\$ 156,291,017
Fiduciary net position - end of year	\$ 5,501,866,875	\$ 5,215,201,405
<b>Net Pension Liability and Related Ratios</b>		
Net pension liability - beginning of year	\$ 11,248,397,076	\$ 11,463,104,131
Net pension liability - end of year	\$ 10,853,349,156	\$ 11,248,397,076
Plan's fiduciary net position as a percentage of the total pension liability	33.6%	31.7%
Covered employee payroll (actual)	\$ 1,262,828,000	\$ 1,383,428,000
Net pension liability as a percentage of covered employee payroll	859.4%	813.1%

**Notes**

1. The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes and prospectively from June 30, 2013 for GASB Statement No. 68 purposes
2. 2013 restated to reflect changes impacted by implementation of GASB Statement No. 67
3. Includes net interfund transfers
4. Includes ASA lump sum payments to retired members and refunds of accumulated member contributions associated with ASA balances

Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67

Schedule of Contributions

	<u>2014</u>	<u>2013</u>
Actuarially determined contributions	\$ 879,072,240	\$ 873,751,060
Contributions in relation to the actuarially determined contribution	<u>831,941,502</u>	<u>1,013,079,780</u>
Contribution deficiency/(excess)	<u>\$ 47,130,738</u>	<u>\$ (139,328,720)</u>
Covered employee payroll	\$ 1,262,828,000	\$ 1,383,428,000
Contributions as a percentage of covered employee payroll	65.9%	73.2%

**Notes**

1. The State of Indiana is the sole nonemployer contributing entity.

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67**

**Schedule of Investment Returns**

	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	12.71%	5.11%

**Notes**

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #67**

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

**Assets**

Cash and Cash Equivalents	\$	1,957,794
Receivables		
Contributions	\$	1,966,508
Miscellaneous		293,447
Investments		81,479,179
Foreign Exchange Contracts		672,205,899
Accrued Interest and Dividends		14,929,084
Due from Other Funds		<u>1,230,769</u>
Total Receivables	\$	772,104,886
Investments		
Short Term	\$	2,183,740
Pooled Unit Trust Assets		
Repurchase Agreements		0
Short Term Investments		214,805,070
Fixed Income		2,113,033,612
Equities		1,379,778,762
Alternatives		1,514,698,352
Derivatives		4,548,567
Securities Lending Collateral		<u>358,987,612</u>
Total Investments	\$	5,588,035,715
Net Capitalized Assets		<u>1,079,784</u>
Total Assets	\$	6,363,178,179

**Liabilities**

Accounts Payable	\$	610,245
Retirement Benefits Payable		6,473,481
Salaries and Benefits Payable		0
Investments Payable		92,696,571
Foreign Exchange Contracts Payable		675,496,916
Securities Lending Obligations		358,987,612
Securities Sold Under Agreement to Repurchase		37,410,269
Due to Other Funds		<u>2,060,755</u>
Total Liabilities	\$	1,173,735,849

**Net Position Restricted for Pensions** align="right">\$ 5,189,442,330

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #67**

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

**Additions**

Contributions

Member Contributions	\$ 81,801,667
Employer Contributions	194,750,861
Nonemployer Contributing Entity Contributions	0
Other Contributions	<u>0</u>
Total Contributions	\$ 276,552,528

Investment Income/(Loss)

Net Appreciation/(Depreciation) Fair Value of Investments	\$ 546,019,437
Other Net Investment Income	777,238
Net Interest and Dividends Income	69,918,382
Miscellaneous Income	0
Securities Lending Income	<u>665,734</u>
Total Investment Income/(Loss)	\$ 617,380,791

Less Direct Investment Expenses

Investment Management Fees	\$ (28,178,695)
Securities Lending Fees	(91,980)
Other Direct Investment Expenses	<u>(2,326,469)</u>
Total Direct Investment Expenses	\$ (30,597,144)
Net Investment Income/(Loss)	\$ 586,783,647

Other Additions

Miscellaneous	\$ 20,749
Interfund Transfers	<u>8,883,525</u>
Total Other Additions	\$ 8,904,274

Total Additions	\$ 872,240,449
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**Deductions**

Pension and Disability Benefits	\$ 97,985,767
Special Death Benefits	0
Distributions of Contributions and Interest	10,733,857
Pension Relief Distributions	0
Local Unit Withdrawals	0
Administrative Expenses	5,347,154
Project Expenses	1,360,432
Interfund Transfers	<u>1,048,254</u>
Total Deductions	\$ 116,475,464

Net Increase/(Decrease) in Net Position	\$ 755,764,985
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**Net Position Restricted for Pensions**

Beginning of Year – as of June 30, 2013	\$ 4,433,677,345
End of Year – as of June 30, 2014	\$ 5,189,442,330

## Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account

### NOTES TO FINANCIAL STATEMENTS UNDER GASB #67

#### Plan Description

##### Plan administration

The Indiana Public Retirement System (INPRS) administers the Indiana State Teachers' Retirement Fund (TRF). This fund consists of two accounts – the Pre-1996 Account and the 1996 Account. The Pre-1996 Account consists of members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. The 1996 Account consists of members who were hired on or after July 1, 1995. The 1996 Account also includes members hired prior to July 1, 1995 that were either hired by another school corporation or institution covered by TRF prior to June 30, 2005, or were re-hired by a covered prior employer.

The 1996 Account provides pensions for the employees of 362 school corporations in the State of Indiana and some employees of the State of Indiana. The Pre-1996 Account is a cost-sharing multiple-employer defined benefit plan with the State of Indiana being the lone nonemployer contributing entity. The State of Indiana is responsible for 100% of the contributions to the Pre-1996 Account. It is essentially funded on a pay-as-you-go basis. The 1996 Account is a cost-sharing multiple-employer defined benefit plan with no nonemployer contributing entities. The employers (i.e., the school corporations) are responsible for 100% of the contributions to the 1996 Account. The 1996 Account has been pre-funded based on meeting or exceeding the actuarially calculated contribution each year.

TRF is managed by the INPRS Board of Directors, consisting of nine directors.

##### Plan membership

As of June 30, 2013, plan membership in the TRF 996 Account consisted of the following:

<u>Classes of members</u>	<u>Number of members</u>
Retired plan members, beneficiaries, and disabled members currently receiving benefits	3,665
Inactive vested plan members entitled to but not yet receiving benefits	3,103
Inactive nonvested plan members entitled to a distribution of their own contributions	11,147
Active plan members	<u>51,204</u>
Total plan members	69,119

##### Benefits provided

TRF provides retirement, disability, and death benefits to its members. Retirement benefits are calculated to be 1.1% of average annual compensation for each year of service. Average annual compensation is the average of each member's highest five years of compensation, not necessarily consecutive. Unreduced retirement benefits are available at age 65 with 10 years of service, age 60 with 15 years of service, or as early as age 55 if the sum of age plus service is at least 85. If not eligible for unreduced benefits, members can commence benefits as early as age 50 with 15 years of service, but the calculated retirement benefit is reduced 0.1% for each month from age 65 to age 60 and 5/12ths of 1% for each month from age 60 to the age at commencement. Members are vested in their pension if they reach 10 years of service. Special disability benefits are available for members that become disabled after five years of service and special death benefits are available for the beneficiaries of members that die after 15 years of service. No automatic benefit increases after retirement are provided. However, periodically, uncheduled increases have been granted on an annual basis. In recent years, one-time service-related lump sums have been provided in lieu of increases to monthly benefits.

##### Contributions

The defined benefits payable from the TRF 1996 Account are funded by contributions from the individual employers, i.e. the school districts. The INPRS Board of Directors establishes a contribution rate, based on several factors including the annual actuarial valuation. Each employer is then contractually required to pay that contribution rate. For the fiscal year ended June 30, 2014, employers were required to contribute 7.5% of their active participant payroll to the defined benefit plan.

All active members are required by state law to contribute 3% of their salary to their Annuity Savings Account (ASA), a separate lump sum account benefit. These 3% contributions are generally "picked up" by the employers and contributed on a pre-tax basis on behalf of the employee. At retirement, members have the option to convert their ASA benefit to a monthly annuity. Those benefits are funded by the transfer of their member contribution accounts to the defined benefit plan assets. Until that annuitization takes place, the total pension liability for this benefit is exactly offset by the plan's fiduciary net position.

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #67**

**Net Pension Liability**

The components of the net pension liability of the TRF 1996 Account as of June 30, 2014 are as follows:

Total pension liability	\$ 5,236,993,169
Pension plan’s fiduciary net position	<u>5,189,442,330</u>
Net pension liability	\$ 47,550,839
Pension plan’s fiduciary net position as a percentage of the total pension liability	99.1%

**Significant Actuarial Assumptions**

Measurement date	June 30, 2014
Valuation date	
Assets	June 30, 2014
Liabilities	June 30, 2013 - Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll-forward techniques were then used to project the total pension liability computed as of June 30, 2013 to the June 30, 2014 measurement date.
Inflation	3.0%
Pay increases	3.00% - 12.50%, including merit, seniority, and inflation
Investment rate of return	GASB Valuation - 6.75%, net of pension plan investment expenses, including inflation Funding Valuation - 6.75%, net of pension plan investment and administrative expenses, including inflation
Ad hoc cost-of-living increases	1.0% compounded annually on pension
Mortality assumption	2013 IRS Static Mortality projected an additional five (5) years with Scale AA
Experience study	The most recent comprehensive experience study was completed in 2012 and was based on member experience covering the period June 30, 2007 through June 30, 2011. The demographic assumptions were updated for the June 30, 2012 actuarial valuation based on the results of the study.
Discount rate	The discount rate used to measure the total pension liability was 6.75% as of June 30, 2014, and is equal to the long-term expected return on plan investments. The projection of cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed in accordance with the current funding policy adopted by the Board, which requires payment of the normal cost and amortization of the unfunded actuarially accrued liability in level dollar installments over 30 years utilizing a closed period approach. Since the current funding policy was adopted, the employer contribution rate has been set by the Board at a level equal to or exceeding the actuarially calculated rate. Based on this assumption, the pension plan’s fiduciary net position was projected to be available to make all projected 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.

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #67**

**Significant Actuarial Assumptions (continued)**

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the TRF 1996 Account calculated using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (5.75%) or 1% higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	\$ 782,000,000	\$ 47,550,839	\$ (561,000,000)
Long-term expected rate of return	6.75%		

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67**

**Schedule of Changes in Net Pension Liability and Related Ratios<sup>1</sup>**

	<u>2014</u>	<u>2013<sup>2</sup></u>
<b>Total Pension Liability</b>		
Total pension liability - beginning of year	\$ 4,748,148,931	\$ 4,338,309,018
Annuity Savings Account (ASA) - beginning of year, (a)	990,704,762	899,338,904
Excluding ASA - beginning of year, (b)	3,757,444,169	3,438,970,114
Service cost <sup>3</sup>	155,314,388	147,336,605
Interest cost <sup>4</sup>	262,263,149	240,281,897
Experience (gains) / losses <sup>8</sup>	504,077	(15,994,636)
Assumption changes	0	0
Plan amendments <sup>7</sup>	(4,504,201)	0
Benefit payments <sup>5</sup>	(77,253,362)	(68,792,905)
ASA annuitizations	15,151,081	11,621,194
Net member reassignments <sup>6</sup>	6,922,378	0
Other	<u>422,761</u>	<u>4,021,900</u>
Net change in total pension liability – Excluding ASA, (c)	\$ 358,820,271	\$ 318,474,055
Net change in total pension liability – ASA, (d)	130,023,967	91,365,858
Net change in total pension liability	488,844,238	409,839,913
Total pension liability – Excluding ASA - end of year, (b) + (c)	\$ 4,116,264,440	\$ 3,757,444,169
Total pension liability – ASA – end of year, (a) + (d)	1,120,728,729	990,704,762
Total pension liability - end of year	5,236,993,169	4,748,148,931

**Notes**

1. The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes and prospectively from June 30, 2013 for GASB Statement No. 68 purposes
2. 2013 restated to reflect changes impacted by implementation of GASB Statement No. 67
3. As of the beginning of the year
4. Includes interest of 6.75% on the beginning of the year service cost
5. Excludes ASA lump sum payments to retired members and refunds of accumulated member contributions associated with ASA balances
6. Includes net interfund transfers
7. The reduction in the Total Pension Liability due to Plan amendments reflects the change in the ASA annuity conversion rate as of October 1, 2014
8. The differences between expected and actual experience includes a gain of \$6,700,000 due to the value of the 13th check provided to the retirees being less than the assumed 1.0% COLA

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67**

**Schedule of Changes in Net Pension Liability and Related Ratios<sup>1</sup>**

	<u>2014</u>	<u>2013<sup>2</sup></u>
<b>Fiduciary Net Position</b>		
Fiduciary net position - beginning of year	\$ 4,433,677,345	\$ 4,018,148,837
Employer contributions	194,750,861	180,714,567
Nonemployer contributing entities contributions	0	0
Member contributions	81,801,667	77,532,304
Net investment income	586,783,647	258,111,000
Benefit payments <sup>4</sup>	(108,719,624)	(97,157,000)
Net member reassignments <sup>3</sup>	7,835,271	2,806,000
Administrative and project expenses	(6,707,586)	(6,482,000)
Other	<u>20,749</u>	<u>3,637</u>
Net change in fiduciary net position	\$ 755,764,985	\$ 415,528,508
Fiduciary net position - end of year	\$ 5,189,442,330	\$ 4,433,677,345
<b>Net Pension Liability and Related Ratios</b>		
Net pension liability - beginning of year	\$ 314,471,586	\$ 320,160,181
Net pension liability - end of year	\$ 47,550,839	\$ 314,471,586
Plan’s fiduciary net position as a percentage of the total pension liability	99.1%	93.4%
Covered employee payroll (actual)	\$ 2,598,115,000	\$ 2,442,496,000
Net pension liability as a percentage of covered employee payroll	1.8%	12.9%

**Notes**

1. The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes and prospectively from June 30, 2013 for GASB Statement No. 68 purposes
2. 2013 restated to reflect changes impacted by implementation of GASB Statement No. 67
3. Includes net interfund transfers
4. Includes ASA lump sum payments to retired members and refunds of accumulated member contributions associated with ASA balances

Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67

Schedule of Contributions

	<u>2014</u>	<u>2013</u>
Actuarially determined contributions	\$ 177,711,000	\$ 167,311,000
Contributions in relation to the actuarially determined contribution	<u>194,750,861</u>	<u>180,714,567</u>
Contribution deficiency/(excess)	<u>\$ (17,039,861)</u>	<u>\$ (16,314,567)</u>
Covered employee payroll	\$ 2,598,115,000	\$ 2,442,496,000
Contributions as a percentage of covered employee payroll	7.5%	7.4%

**Notes**

1. Individual employers, i.e. the school districts, are the contributors.

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #67**

**Schedule of Investment Returns**

	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	12.71%	5.11%

**Notes**

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #68**

**Net Pension Liability as of June 30, 2014**

The components of the net pension liability as of June 30, 2014 for the obligation to the Teachers’ Retirement Fund (TRF) Pre-1996 Account is as follows:

Total pension liability	\$ 16,355,216,031
Pension plan’s fiduciary net position	<u>5,501,866,875</u>
Net pension liability	\$ 10,853,349,156
Pension plan’s fiduciary net position as a percentage of the total pension liability	33.6%

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #68**

**Pension Expense for the Fiscal Year Ending June 30, 2014**

The components of the pension expense for the fiscal year ending June 30, 2014 for the obligation to the Teachers’ Retirement Fund (TRF) Pre-1996 Account is as follows:

Service cost	\$	68,860,011
Interest on total pension liability		961,628,534
Projected earnings on pension plan investments		(225,555,094)
Changes of benefit terms		(25,523,806)
Pension plan administrative expenses		7,010,723
Other changes		0
Current period recognition of deferred outflows / (inflows) of resources:		
Differences between expected and actual Experience in measurement of the total pension liability		(35,258,676)
Changes of assumptions		0
Differences between projected and actual earnings on pension plan investments		(55,801,887)
Total	\$	695,359,805

## Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account

### NOTES TO FINANCIAL STATEMENTS UNDER GASB #68

Liability, expense, and deferred outflows of resources and deferred inflows of resources must be reported as a result of the State’s statutory requirement to contribute to the Teachers’ Retirement Fund (TRF) Pre-1996 Account. The following is information about the TRF Pre-1996 Account.

#### General Information about the Pension Plan

##### Plan description

The Indiana Public Retirement System (INPRS) administers the Indiana State Teachers’ Retirement Fund (TRF). This fund consists of two accounts – the Pre-1996 Account and the 1996 Account. The Pre-1996 Account consists of members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. The 1996 Account consists of members who were hired on or after July 1, 1995. The 1996 Account also includes members hired prior to July 1, 1995 that were either hired by another school corporation or institution covered by TRF prior to June 30, 2005, or were re-hired by a covered prior employer.

The Pre-1996 Account provides pensions for the employees of 339 school corporations in the State of Indiana and some employees of the State of Indiana. The Pre-1996 Account is a cost-sharing multiple-employer defined benefit plan with the State of Indiana being the lone non-employer contributing entity. The State of Indiana is responsible for 100% of the contributions to the Pre-1996 Account. It is essentially funded on a pay-as-you-go basis. The 1996 Account is a cost-sharing multiple-employer defined benefit plan with no non-employer contributing entities. The employers (i.e., the school corporations) are responsible for 100% of the contributions to the 1996 Account. The 1996 Account has been pre-funded based on meeting or exceeding the actuarially calculated contribution each year.

TRF is managed by the INPRS Board of Directors, consisting of nine directors.

INPRS issues a publicly available financial report that can be found at [www.in.gov/inprs/](http://www.in.gov/inprs/).

##### Benefits provided

TRF provides retirement, disability, and death benefits to its members. Retirement benefits are calculated to be 1.1% of average annual compensation for each year of service. Average annual compensation is the average of each member’s highest five years of compensation, not necessarily consecutive. Unreduced retirement benefits are available at age 65 with 10 years of service, age 60 with 15 years of service, or as early as age 55 if the sum of age plus service is at least 85. If not eligible for unreduced benefits, members can commence benefits as early as age 50 with 15 years of service, but the calculated retirement benefit is reduced 0.1% for each month from age 65 to age 60 and 5/12ths of 1% for each month from age 60 to the age at commencement. Members are vested in their pension if they reach 10 years of service. Special disability benefits are available for members that become disabled after five years of service and special death benefits are available for the beneficiaries of members that die after 15 years of service. No automatic benefit increases after retirement are provided. However, periodically, unscheduled increases have been granted on an annual basis. In recent years, one-time service-related lump sums have been provided in lieu of increases to monthly benefits.

##### Contributions

The defined benefits payable from the TRF Pre-1996 Account are funded completely by State appropriations (including approximately \$30 million per year from the State Lottery). Historically, the benefits have been funded on a pay-as-you-go basis. Amounts were appropriated to meet the current year’s defined benefit payments. In 1995, the Pension Stabilization Fund was set up and some pre-funding progress has been made via State appropriations to this account. In recent years, State appropriations have been less than the level of defined benefit payments paid out. For the fiscal year ending June 30, 2014, the State contributed \$825,616,000. The State intends to increase their appropriations (excluding the portion from the State Lottery) by 3% each year until the increase is no longer necessary to match the annual benefits paid.

All active members are required by state law to contribute 3% of their salary to their Annuity Savings Account (ASA), a separate defined contribution benefit. These 3% contributions are generally “picked up” by the employers and contributed on a pre-tax basis on behalf of the employee. At retirement, members have the option to convert their ASA benefit to a monthly annuity. Those benefits are funded by the transfer of their member contribution accounts to the defined benefit plan assets. Until that annuitization takes place, this portion of the benefit is excluded from the TRF Pre-1996 Account total pension liability and fiduciary net position.

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #68**

**Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2014, the net pension liability to be reported is \$10,853,349,156. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation on June 30, 2013. The liability was measured at June 30, 2013 and rolled forward to June 30, 2014 reflecting actual benefits paid, plan provision changes, and any applicable assumption changes. The State’s proportionate share is 100% because it is the only contributing entity.

Pension expense of \$695,359,805 must be recognized for the fiscal year ending June 30, 2014.

At June 30, 2014, the deferred outflows / (inflows) of resources based on obligations to the TRF Pre-1996 Account are as follows:

	<u>Initial Balance</u>	<u>Initial Amortization Period</u>	<u>Annual Recognition</u>	<u>6/30/2014 Balance</u>
Differences between expected and actual experience in measurement of the total pension liability				
- Base for year ending 6/30/2014	\$ (70,517,351)	2	\$ (35,258,676)	\$ (35,258,675)
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
Changes of assumptions				
- Base for year ending 6/30/2014	\$ 0	-	\$ 0	\$ 0
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
Differences between projected and actual earnings on pension plan investments				
- Base for year ending 6/30/2014	\$ (279,009,435)	5	\$ (55,801,887)	\$ (223,207,548)
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
Changes in State’s proportion and differences between actual State contributions and State’s proportionate share of contributions				
- Base for year ending 6/30/2014	\$ 0	-	\$ 0	\$ 0
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
<b>Total</b>			<b>\$ (91,060,563)</b>	<b>\$ (258,466,223)</b>

## Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account

### NOTES TO FINANCIAL STATEMENTS UNDER GASB #68

#### Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The balances as of June 30, 2014 of the deferred outflows / (inflows) of resources will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2015	\$ (91,060,563)
2016	\$ (55,801,887)
2017	\$ (55,801,887)
2018	\$ (55,801,886)
2019	\$ 0
Thereafter	\$ 0

#### Significant Actuarial Assumptions

Measurement date	June 30, 2014
Valuation date	
Assets	June 30, 2014
Liabilities	June 30, 2013 - Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll-forward techniques were then used to project the total pension liability computed as of June 30, 2013 to the June 30, 2014 measurement date.
Inflation	3.0%
Pay increases	3.00% - 12.50%, including merit, seniority, and inflation
Investment rate of return	GASB Valuation - 6.75%, net of pension plan investment expenses, including inflation Funding Valuation - 6.75%, net of pension plan investment and administrative expenses, including inflation
Ad hoc cost-of-living increases	1.0% compounded annually on pension
Mortality assumption	2013 IRS Static Mortality projected an additional five (5) years with Scale AA
Experience study	The most recent comprehensive experience study was completed in 2012 and was based on member experience covering the period June 30, 2007 through June 30, 2011. The demographic assumptions were updated for the June 30, 2012 actuarial valuation based on the results of the study.
Discount Rate	The discount rate used to measure the total pension liability was 6.75% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employer contributions (excluding the portion from the State Lottery) would increase 3% each year until the increase is no longer necessary to match the annual pension benefits paid. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected 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.

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #68**

**Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Significant Actuarial Assumptions (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the TRF Pre-1996 Account calculated using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (5.75%) or 1% higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	\$ 12,327,000,000	\$ 10,853,349,156	\$ 9,579,000,000

Long-term expected rate of return 6.75%

Pension Plan’s Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued INPRS financial report.

**Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #68**

**Other Information**

Amortization periods

The change in total pension liability due to differences between expected and actual experience has been amortized over 2 years, the average remaining service of all members with any liability in the plan (pension and/or ASA account balance) as of June 30, 2013.

The change in net pension liability due to differences between projected and actual earnings on pension plan investments has been amortized over 5 years.

Assumption changes

There were no assumption changes applicable for the measurement of liabilities on June 30, 2014.

Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #68

Schedule of the Net Pension Liability

2014

Net pension liability

\$ 10,853,349,156

Pension plan’s fiduciary net position as a  
percentage of the total pension liability

33.6%

Indiana Public Retirement System – Teachers’ Retirement Fund – Pre-1996 Account

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #68

Schedule of Contributions

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contributions	\$ 825,616,000	\$ 1,003,596,000	\$ 764,422,782
Contributions in relation to the statutorily required contribution	<u>825,616,000</u>	<u>1,003,596,000</u>	<u>764,422,782</u>
Contribution deficiency/(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #68**

**Net Pension Liability as of June 30, 2014**

The components of the net pension liability as of June 30, 2014 for the obligation to the Teachers’ Retirement Fund (TRF) 1996 Account is as follows:

Total pension liability	\$	5,236,993,169
Pension plan’s fiduciary net position		<u>5,189,442,330</u>
Net pension liability	\$	47,550,839
Pension plan’s fiduciary net position as a percentage of the total pension liability		99.1%

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**FINANCIAL STATEMENTS UNDER GASB #68**

**Pension Expense for the Fiscal Year Ending June 30, 2014**

The components of the pension expense for the fiscal year ending June 30, 2014 for the obligation to the Teachers’ Retirement Fund (TRF) 1996 Account is as follows:

Service cost	\$	155,314,388
Interest on total pension liability		262,263,149
Projected earnings on pension plan investments		(236,899,056)
Changes of benefit terms		(4,504,201)
Pension plan administrative expenses		6,707,586
Other changes		0
Current period recognition of deferred outflows / (inflows) of resources:		
Differences between expected and actual experience in measurement of the total pension liability		38,775
Changes of assumptions		0
Differences between projected and actual earnings on pension plan investments		(51,111,166)
Total	\$	131,809,475

## Indiana Public Retirement System – Teachers' Retirement Fund – 1996 Account

### NOTES TO FINANCIAL STATEMENTS UNDER GASB #68

Liability, expense, and deferred outflows of resources and deferred inflows of resources must be reported as a result of the employers' contractual requirements to contribute to the Teachers' Retirement Fund (TRF) 1996 Account. The following is information about the TRF 1996 Account.

#### General Information about the Pension Plan

##### Plan description

The Indiana Public Retirement System (INPRS) administers the Indiana State Teachers' Retirement Fund (TRF). This fund consists of two accounts – the Pre-1996 Account and the 1996 Account. The Pre-1996 Account consists of members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. The 1996 Account consists of members who were hired on or after July 1, 1995. The 1996 Account also includes members hired prior to July 1, 1995 that were either hired by another school corporation or institution covered by TRF prior to June 30, 2005, or were re-hired by a covered prior employer.

The 1996 Account provides pensions for the employees of 362 school corporations in the State of Indiana and some employees of the State of Indiana. The Pre-1996 Account is a cost-sharing multiple-employer defined benefit plan with the State of Indiana being the lone non-employer contributing entity. The State of Indiana is responsible for 100% of the contributions to the Pre-1996 Account. It is essentially funded on a pay-as-you-go basis. The 1996 Account is a cost-sharing multiple-employer defined benefit plan with no non-employer contributing entities. The employers (i.e., the school corporations) are responsible for 100% of the contributions to the 1996 Account. The 1996 Account has been pre-funded based on meeting or exceeding the actuarially calculated contribution each year.

TRF is managed by the INPRS Board of Directors, consisting of nine directors.

INPRS issues a publicly available financial report that can be found at [www.in.gov/inprs/](http://www.in.gov/inprs/).

##### Benefits provided

TRF provides retirement, disability, and death benefits to its members. Retirement benefits are calculated to be 1.1% of average annual compensation for each year of service. Average annual compensation is the average of each member's highest five years of compensation, not necessarily consecutive. Unreduced retirement benefits are available at age 65 with 10 years of service, age 60 with 15 years of service, or as early as age 55 if the sum of age plus service is at least 85. If not eligible for unreduced benefits, members can commence benefits as early as age 50 with 15 years of service, but the calculated retirement benefit is reduced 0.1% for each month from age 65 to age 60 and 5/12ths of 1% for each month from age 60 to the age at commencement. Members are vested in their pension if they reach 10 years of service. Special disability benefits are available for members that become disabled after five years of service and special death benefits are available for the beneficiaries of members that die after 15 years of service. No automatic benefit increases after retirement are provided. However, periodically, unscheduled increases have been granted on an annual basis. In recent years, one-time service-related lump sums have been provided in lieu of increases to monthly benefits.

##### Contributions

The defined benefits payable from the TRF 1996 Account are funded by contributions from the individual employers, i.e. the school districts. The INPRS Board of Directors establishes a contribution rate, based on several factors including the annual actuarial valuation. Each employer is then contractually required to pay that contribution rate. For the fiscal year ending June 30, 2014, employers are required to contribute 7.5% of their active participant payroll to the defined benefit plan. Employers made \$194,750,861 in contributions to the defined benefit plan for the year ended June 30, 2014.

All active members are required by state law to contribute 3% of their salary to their Annuity Savings Account (ASA), a separate defined contribution benefit. These 3% contributions are generally "picked up" by the employers and contributed on a pre-tax basis on behalf of the employee. At retirement, members have the option to convert their ASA benefit to a monthly annuity. Those benefits are funded by the transfer of their member contribution accounts to the defined benefit plan assets. Until that annuitization takes place, this portion of the benefit is excluded from the TRF 1996 Account total pension liability and fiduciary net position.

## Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account

### NOTES TO FINANCIAL STATEMENTS UNDER GASB #68

#### Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2014, the net pension liability to be reported is \$47,550,839. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation on June 30, 2013. The liability was measured at June 30, 2013 and rolled forward to June 30, 2014 reflecting actual benefits paid, plan provision changes, and any applicable assumption changes.

Pension expense of \$131,809,475 must be recognized for the fiscal year ending June 30, 2014.

At June 30, 2014, the deferred outflows / (inflows) of resources based on obligations to the TRF 1996 Account are as follows:

	Initial Balance	Initial Amortization Period	Annual Recognition	6/30/2014 Balance
Differences between expected and actual experience in measurement of the total pension liability				
- Base for year ending 6/30/2014	\$ 504,077	13	\$ 38,775	\$ 465,302
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
Changes of assumptions				
- Base for year ending 6/30/2014	\$ 0	-	\$ 0	\$ 0
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
Differences between projected and actual earnings on pension plan investments				
- Base for year ending 6/30/2014	\$ (255,555,829)	5	\$ (51,111,166)	\$ (204,444,663)
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
Changes in XYZ's proportion and differences between actual XYZ contributions and XYZ's proportionate share of contributions				
- Base for year ending 6/30/2014	\$ 0	-	\$ 0	\$ 0
- Base for year ending 6/30/2013	0	-	0	0
- Base for year ending 6/30/2012	0	-	0	0
<b>Total</b>			<b>\$ (51,072,391)</b>	<b>\$ (203,979,361)</b>

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #68**

**Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

The balances as of June 30, 2014 of the deferred outflows / (inflows) of resources will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>		
2015	\$	(51,072,391)
2016	\$	(51,072,391)
2017	\$	(51,072,391)
2018	\$	(51,072,390)
2019	\$	38,775
Thereafter	\$	271,427

Significant Actuarial Assumptions

Measurement date	June 30, 2014
Valuation date	
Assets	June 30, 2014
Liabilities	June 30, 2013 - Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll-forward techniques were then used to project the total pension liability computed as of June 30, 2013 to the June 30, 2014 measurement date.
Inflation	3.0%
Pay increases	3.00% - 12.50%, including merit, seniority, and inflation
Investment rate of return	GASB Valuation - 6.75%, net of pension plan investment expenses, including inflation Funding Valuation - 6.75%, net of pension plan investment and administrative expenses, including inflation
Ad hoc cost-of-living increases	1.0% compounded annually on pension
Mortality assumption	2013 IRS Static Mortality projected an additional five (5) years with Scale AA
Experience study	The most recent comprehensive experience study was completed in 2012 and was based on member experience covering the period June 30, 2007 through June 30, 2011. The demographic assumptions were updated for the June 30, 2012 actuarial valuation based on the results of the study.
Discount Rate	The discount rate used to measure the total pension liability was 6.75% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employer contributions continue to meet or exceed the actuarially calculated contribution each year. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected 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.

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #68**

**Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Significant Actuarial Assumptions (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the TRF 1996 Account calculated using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (5.75%) or 1% higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	\$ 782,000,000	\$ 47,550,839	\$ (561,000,000)

Long-term expected rate of return 6.75%

Pension Plan’s Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued INPRS financial report.

**Indiana Public Retirement System – Teachers' Retirement Fund – 1996 Account**

**NOTES TO FINANCIAL STATEMENTS UNDER GASB #68**

**Other Information**

Amortization periods

The change in total pension liability due to differences between expected and actual experience has been amortized over 13 years, the average remaining service of all members with any liability in the plan (pension and/or ASA account balance) as of June 30, 2013.

The change in net pension liability due to differences between projected and actual earnings on pension plan investments has been amortized over 5 years.

Assumption changes

There were no assumption changes applicable for the measurement of liabilities on June 30, 2014.

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #68**

**Schedule of the Net Pension Liability**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net pension liability	\$ 47,550,839				
Pension plan’s fiduciary net position as a percentage of the total pension liability	99.1%				

**Indiana Public Retirement System – Teachers’ Retirement Fund – 1996 Account**

**REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB #68**

**Schedule of Contributions**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contributions as a percentage of covered employee-payroll	7.5%	7.5%	7.5%