

Understanding Indiana's Largest Pension System

INDIANA PUBLIC RETIREMENT SYSTEM

December 2025



Funds Overview

The Indiana Public Retirement System (INPRS) includes two of the largest public retirement plans in the state. These plans trace their existence back more than a generation to the early and middle parts of the 20th Century. The Indiana State Teachers' Retirement Fund (TRF) was created in 1921 and the Indiana Public Employees' Retirement Fund (PERF) was created in 1945. In 2011, the Indiana General Assembly integrated the management of the two systems under INPRS. Combined, the integrated system includes eight defined benefit (DB) retirement plans, representing more than 204,000 active members and approximately 176,000 benefit recipients.

INPRS also includes five defined contribution (DC) plans. However, the focus of this paper is the system's defined benefit pension plans.

System Membership: Defined Benefit Active & Retired

FUND	Active Members	Benefit Recipients
Public Employees' Retirement Fund (PERF) DB	122,322	103,192
Teachers' Retirement Fund (TRF) '96 DB	61,850	11,575
Teachers' Retirement Fund (TRF) Pre-'96 DB	4,728	52,013
1977 Police Officers' and Firefighters' Retirement Fund (1977 Fund)	14,771	8,213
Excise, Gaming and Conservation Officers' Retirement Fund (EG&C)	462	287
Judges' Retirement System (JRS)	481	448
Prosecuting Attorneys' Retirement Fund (PARF)	211	219
Legislators' Defined Benefit Fund (LE DB)	3	71
Total DB	204,828	176,018

Source: [Comprehensive Annual Financial Reports \(ACFR\)](#) as of June 30, 2025

In addition to the funds noted above, INPRS manages the Local Public Safety Pension Relief Fund, created by the Indiana General Assembly in 1980 to address the unfunded pension obligations of the police officers' and firefighters' pension systems of Indiana's cities and towns. Administered by the INPRS Board of Trustees, this fund derives its revenues from a portion of cigarette and alcohol taxes, lottery revenue, and investment

income. A fixed distribution formula provides for relief payments two times per year and is based on the number of retirees and amount of benefits paid the previous year.

INPRS is not responsible for the administration of those local pension funds addressed by the Local Public Safety Pension Relief Fund. Those local funds have been closed to new membership since the creation of the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

Hybrid Plans: Members Share Risk

Both PERF and TRF are hybrid plans in which both the employer and member have funds at risk. While the Defined Benefit (DB) pension plan places the financial risk of funding a potential lifetime benefit on the employer, a Defined Contribution (DC) plan, similar to DC plans available via 403(b) and 401(k) plans, places the risk on members. This concept has been part of the Indiana system for a generation. In this system, employers pay a mandatory contribution rate to fund the members' potential DB plan benefit that, when eligible, will provide a member a fixed benefit for life based on average pay and years of service. In addition, Indiana law requires PERF and TRF members to contribute a minimum of 3 percent of salaries to individual DC accounts. This contribution may be made by the employer, the member, or shared by both. Members make the investment decisions in their DC accounts, selecting from options ranging from a Stable Value Fund to a range of target date funds. Increases or losses in the DC account impacts the member, but not employers.

status of more than 100% means it is ahead of target and may be able to reduce contributions or build a buffer against future adverse experience.

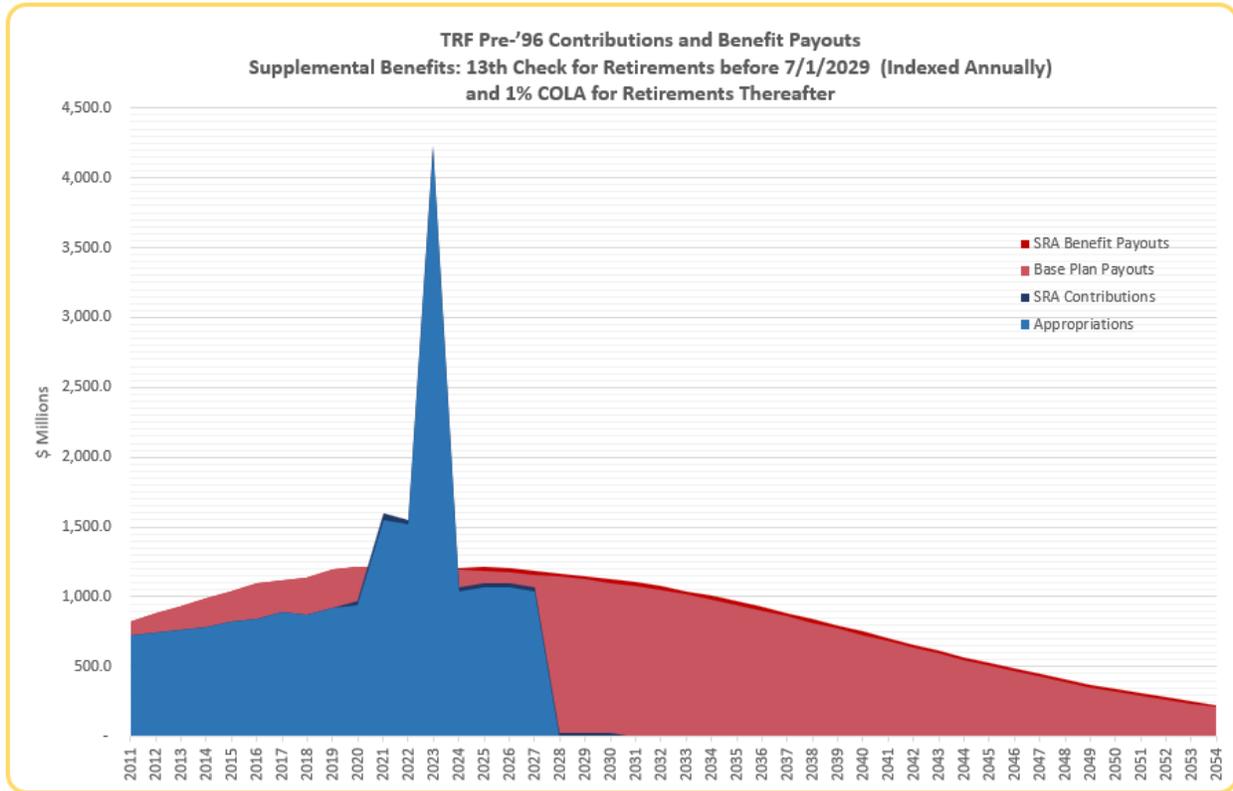
TRF's pre-1996 fund is a pay-as-you-go plan that has been in place since 1921. It was not designed to be pre-funded, and has a history of low funded statuses as a result. Typically, in pay-as-you-go plans, no funds are set aside today to fund projected benefits years in the future. Instead, these plans are funded in the year the benefit payment is provided to the member. The federal Social Security system is pay-as-you-go.

The actuarial accrued liability measure is designed for plans to pre-fund their benefits over an employee's career. Therefore, the funded status on TRF Pre-'96 was low because the assets were not accumulated to pre-fund the plan. Instead, INPRS produces an annual analysis to show how the legally-required contributions will be sufficient to meet benefit payments, or what shortfalls exist. Social Security performs a similar analysis annually.

Pension Stabilization Fund

In the case of Indiana TRF, the state's General Assembly recognized potential risks of the pay-as-you-go approach and, in 1995, established the Pension Stabilization Fund (PSF) to protect TRF retirees against any disruption in payments and to smooth out payments from the state as the baby boomer generation retires. At that time, the TRF Pre-'96 plan was closed to new entrants and the actuarially funded TRF '96 fund was established for all new members.

The PSF was initially funded from \$425 million of employer reserves from the TRF Pre-'96 Account. By law, additional contributions come from the Indiana State General Fund, the Indiana State Lottery, interest earned from the investment of PSF assets and a provision that directs 50 percent of state reserve balances above 10 percent of appropriations into the PSF. State law does not allow the PSF balance to be negative.



TRF Pre-'96 Contributions and Benefit Payouts. In accordance with HEA 1004-2024, a service-based 13th check structure with assumed 2% indexed growth is assumed for retirements before July 1, 2025. Retirements on or after July 1, 2025 are assumed to receive annual 1% COLAs. Projection as of June 30, 2025. Additional appropriations were made in 2020, 2021, and 2023.

System Funded Status: 6/30/2025

Fund	Actuarial Funded Status %
Public Employees' Retirement Fund (PERF) DB	83.7 %
Teachers' Retirement Fund (TRF) Pre-'96 DB	75.8 %
Teachers' Retirement Fund (TRF) '96 DB	86.0 %
1977 Police Officers' and Firefighters' Retirement Fund (1977 Fund)	88.1 %
Excise, Gaming and Conservation Officers' Retirement Fund (EG&C)	84.2 %
Judges' Retirement System (JRS)	98.2 %
Prosecuting Attorneys' Retirement Fund (PARF)	70.4 %
Legislators' Defined Benefit Fund (LE DB)	111.8 %
Total Defined Benefit Retirement Plans	83.3 %

Nationally, State pension plans were funded at about 77 percent according to the 2025 Wilshire Report on state retirement Systems.²

While pension plans must fund their promised benefits when they are due, there is no single level of funded status considered "healthy". Instead, stakeholders should consider a variety of factors and their trends, including but not limited to the funded

status, the relative size of the liabilities to the sponsor and their revenue, the strength of the funding policy, and the investment risk inherent in the assumptions.³

Actuarially Determined Contribution

The actuarially determined contribution (ADC) is the amount an employer is required to contribute each year to fund the plan liabilities over time. The ADC, in effect, recognizes that pension benefits are “earned” and are financial obligations accrued during an employee’s entire period of service. The ADC is the annual amount the plan would have to pay to fund its liabilities over time. The ADC also includes adjustments to fund any shortfalls or clear any surpluses that may have developed.

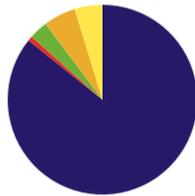
Both the PERF and TRF systems have a long and solid track record of paying the ADC as required for plan health and stability.

Actuarial Assumptions

The amount of funding that INPRS pension funds must set aside each year for future benefits is driven by the work of actuaries assisting the funds by determining how costs should be allocated to a particular year.

Different cost methods have different goals. INPRS uses the Entry Age Normal cost method for most purposes. This is the same cost method used by 90% of large public sector pension plans⁴ and is the method mandated by the Government Accounting Standards Board for its measurements. The Entry Age Normal method spreads out the projected benefit cost as a percentage of payroll over a member's career. This allows for more even costs as the sponsor can budget a percentage of payroll to cover these retirement benefits.

Actuarial Cost Methods in Public Pension Plans,
from FY 2024 in Public Plans Database



Cost Methods	# Plans	% Plans
Entry Age Normal	217	85.8%
Frozen Entry Age	2	0.8%
Projected Unit Credit	8	3.2%
Aggregate	14	5.5%
No Data or Other	12	4.7%

Entry age normal can also be modified to spread the cost as a flat dollar over time, which may be useful in some circumstances, but INPRS uses the percent of payroll method.

Single-employer private sector plans are required to use a different method called the Unit Credit method. The goal of this method is to ensure that accrued benefits are funded. The reason is that single-employer plan sponsors (private companies) can go bankrupt – quickly, in some cases – and therefore it is critical that any promised benefits have been funded at each measurement. Because large governments rarely go bankrupt, this method's goal is not appropriate for the Indiana Public Retirement System.

Plan Health: Comparing Apples to Oranges

Two key factors having a significant influence on the reported actuarially funded status for a plan include Assumed Investment Return (AIR) and Cost of Living Adjustments (COLA). If a plan assumes there will be an annual COLA, this is built into the actuarial assumptions with the result being higher actuarial liabilities. If a plan assumes a higher investment return rate, the result can again impact projected liabilities.

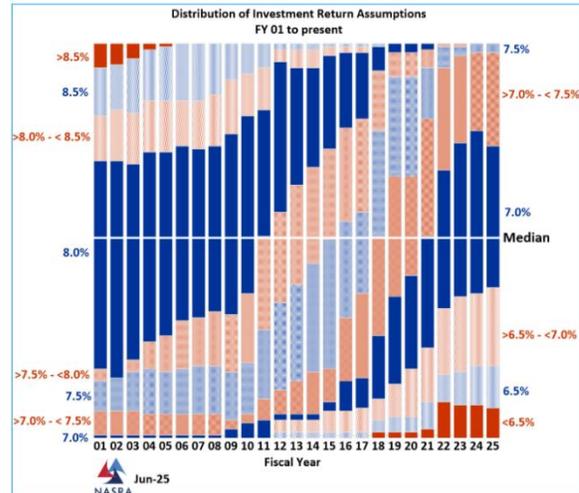
Assumed Rate of Return

INPRS is among systems with the most conservative investment return assumptions in the nation⁵.

In May 2021, INPRS board members approved an assumed rate of return of 6.25%. The previous target of 6.75%, was set in 2012 and reaffirmed in 2015.

An assumed rate of return is what is considered achievable in the long-term for pension fund investments. It recognizes that some years may be significantly better or worse, but will average the assumed rate over many years.

Higher assumed returns on investment mean employers may contribute less to properly fund a pension.



A high assumed rate of return, however, can make a plan appear healthier on paper, and allow lower employer contribution rates. To achieve higher rates of return, the plan must take on more investment risk. However, if pension systems do not achieve the assumed return in the long-term, a significant financial problem may be created.

Accrued liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.25 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.25%), or one percentage point higher (7.25%) than the current rate.

FUND (Thousands)	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Public Employees' Retirement Fund (PERF) DB	\$ 22,809,226	\$ 20,274,066	\$ 18,171,544
Teachers' Retirement Fund (TRF) Pre-'96 DB	\$ 13,858,499	\$ 12,781,567	\$ 11,847,290
Teachers' Retirement Fund (TRF) '96 DB	\$ 12,767,047	\$ 10,833,917	\$ 9,277,927
1977 Police Officers' and Firefighters' Retirement Fund (1977 Fund)	\$ 11,955,852	\$ 10,342,114	\$ 9,043,374
Excise, Gaming and Conservation Officers' Retirement Fund (EG&C)	\$ 293,868	\$ 256,846	\$ 226,579
Judges' Retirement System (JRS)	\$ 838,425	\$ 750,109	\$ 675,931
Prosecuting Attorneys' Retirement Fund (PARF)	\$ 154,603	\$ 137,434	\$ 123,284
Legislators' Defined Benefit Fund (LE DB)	\$ 2,674	\$ 2,524	\$ 2,391
Total Defined Benefit Retirement Plans	\$ 62,680,194	\$ 55,378,577	\$ 49,368,320

Source: June 30, 2025 actuarial valuations

Cost of Living Adjustments (COLA)

Of the eight INPRS defined benefit plans, only two have automatic COLAs – the 1977 Fund and JRS. These COLAs are tied to different measures of inflation as outlined in their governing statutes. PARF has no history of a COLA.

The remaining plans - PERF DB, TRF Pre-'96 DB, TRF '96 DB, EG&C, and LE DB - have ad hoc COLAs and a special funding mechanism for them. Ad hoc COLAs (or 13th checks, or any other form of postretirement benefit increase) are granted by the Indiana General Assembly each time one is issued. Each of these plans has a subaccount called a Supplemental Reserve Account (SRA) which takes in contributions to fund these postretirement benefit increases. Only when enough funding has accumulated in the SRAs can the General Assembly grant an increase. This mechanism mitigates the risk of granting increases without paying for them, helping to assure funding for future benefits. Assumed future 13th checks and COLAs for these subaccounts are based on Indiana Code (IC 5-10.5-4-8).

Conclusion

Many researchers rely on actuarial data supplied by via public records requests or pulled from plan annual reports from throughout the nation. It is essential that the researcher understand – before comparing data – that there may be significant differences in the underlying assumptions that generated the numbers.

INPRS has chosen methods and assumptions to balance the needs of its stakeholders and ensure that promised DB benefits are fulfilled. Comparisons with other systems may not be appropriate without first considering the differences in the goals, methods, and assumptions between the systems. With careful management, INPRS will fulfill our mission of having engaged members able to realize their retirement dreams.

Ultimately, conservative actuarial assumptions avoid artificially low employer contributions, prevent the publishing of an artificially positive funded status, and lead to more stable and sustainable retirement systems.

Citations

- ¹ Brainard, Keith. Brown, Alex. "NASRA Issue Brief: State Hybrid Retirement Plans National Association of State Retirement Administrators." September 2024, Available from <https://www.nasra.org/hybridbrief> Internet; accessed 30 December 2025
- ² "2024 Report on State Retirement Systems: Funding Levels and Asset Allocations" Pensions & Investments. Available from <https://www.pionline.com/pension-funds/funding-ratio-state-pension-plans-slips-2020-wilshire/> Internet; accessed 30 December 2025
- ³ "Issue Brief: The 80% Pension Funding Standard Myth." American Academy of Actuaries. July 2012. Available from https://www.actuary.org/wp-content/uploads/2017/11/80_Percent_Funding_IB_071912.pdf Internet; accessed 30 December 2025
- ⁴ Of those reporting data. Data obtained from Public Plans Data. Available from <https://publicplansdata.org/public-plans-database/download-full-data-set/> Internet; accessed 30 December 2025
- ⁵ Brainard, Keith. "Public Pension Plan Investment Return Assumptions." NASRA Issue Brief. March 2024. <https://www.nasra.org/returnassumptionsbrief> Internet; accessed 30 December 2025