

Budget Committee Presentation

December 8, 2010



Agenda

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- Overview
- Pensions 101 – Contribution Rates
- Fund Updates & Budgetary Impacts
- HEA 1205 Update
- Investments & Operational Performance
- National Issues & Trends

Overview – Plans & Funds

- Seven Retirement Plans

- PERF
- TRF
- '77 Police and Fire
- Judges
- Excise Police, Gaming Agents and Conservation Officers
- Prosecuting Attorneys
- Legislators

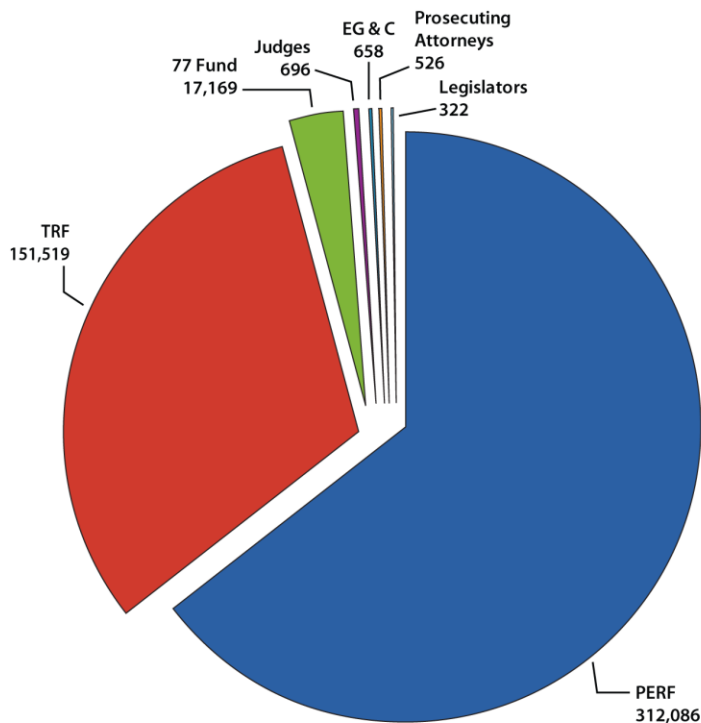
- Three Non-Retirement Funds

- Pension Relief
- Public Safety Officers' Special Death Benefit Fund
- State Employees' Death Benefit Fund

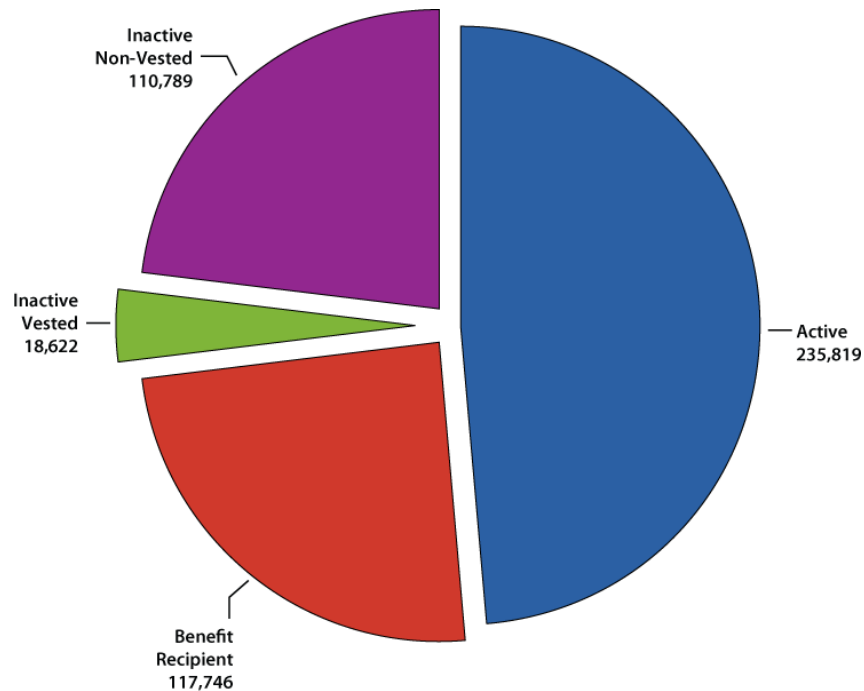
Overview – Member Demographics

480,000 + Members

Members By Fund

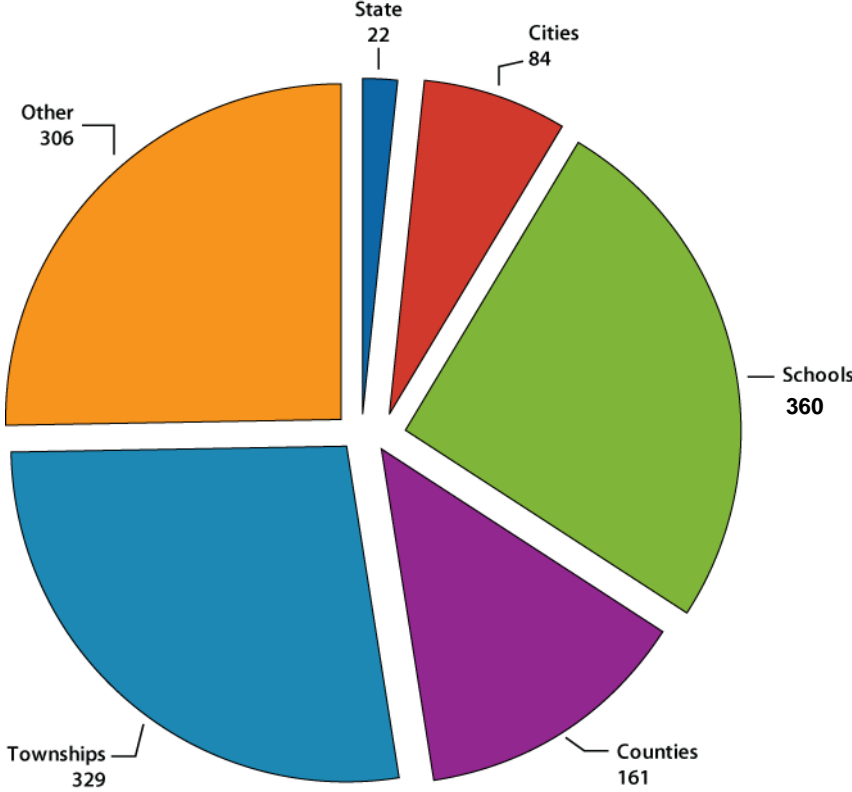


Members By Status



Overview – Employer Demographics

1,200 + Employers



Overview – FY10 Change In Net Assets

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Net Assets – June 30, 2009		\$19.6B
Contributions	+ \$1.9B	
Investment Income	+ \$2.6B	
Payments	- \$1.9B	
Net Assets – June 30, 2010		\$22.2B

Pensions 101 – Actuarial Required Contributions (ARC)

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- Pay-as-you-go plan ARC = Current Benefit Obligation
- Actuarial prefunded plan ARC = % pay based upon actuarial science (Contribution rate)
 - Actuary Calculated Contribution Rate is composed of two elements
 - Normal Cost
 - Amortization of the Unfunded Liability
 - The actual contribution rate charged to employers is set by the Board of Trustees taking into consideration
 - Actuary calculated rate
 - Scenario analysis
 - Stability over time

SOLID PLANS PAY THE ARC
INDIANA HAS A LONGSTANDING HISTORY OF PAYING THE ARC

Public Employees Retirement Fund (PERF) Fund Overview

MEMBERSHIP: *Full-time employees of the state and political subdivisions that elect to participate*

TYPE: *Defined Benefit - Hybrid (Defined Benefit + Annuity Savings Account)*

FUNDING RATIO: 93.10%

UNFUNDED LIABILITY: \$937M

BENEFITS

Benefit Formula: *1.1% x Avg. High 5 Yr. Salary x Yrs. Service (plus ASA)*

Vesting: *DB - 10 years, ASA - Immediate*

Full Retirement Age: *65 w/ 10 years service, 60 w/ 15 years service, 55 - rule of 85*

Avg. Overall Retiree Benefit: *\$7,470*

Projected Benefit Payments	
<u>FY12</u>	<u>FY13</u>
\$667.1M	\$712.9M

FUNDING SOURCES

Employee Contribution: *3% salary to member ASA*

Employer Contribution (State): *Actuarily Calculated Contribution Rate (FY11 = 7.0%)*

Employer Contribution (Subdivisions): *Actuarily Calculated Contribution Rate (Avg FY11 = 7.88%)*

<u>FY12</u>	<u>FY13</u>
\$166.4M	\$173.1M
\$211.6M	\$250.8M
<u>\$382.4M</u>	<u>\$444.8M</u>
\$760.4M	\$868.7M

Teachers Retirement Fund (TRF) Fund Overview

MEMBERSHIP: *Teachers of K12 public schools and certain state universities*
Consists of two accounts (Pre-1996 and 1996)

TYPE: *Defined Benefit - Hybrid (Defined Benefit + Annuity Savings Account)*

FUNDING RATIO: *41.9% (Pre 1996 - 31.9%, 1996 - 93.1%)*

UNFUNDED LIABILITY: \$11,133M

BENEFITS

Benefit Formula: *1.1% x Avg. High 5 Yr. Salary x Yrs. Service (plus ASA)*
 Vesting: *DB - 10 years, ASA - Immediate*
 Full Retirement Age: *65 w/ 10 years service, 60 w/ 15 years service, 55 - rule of 85*
 Avg. Overall Retiree Benefit: *\$17,292*

Projected Benefit Payments	
FY12	FY13
\$891.0M	\$957.0M

FUNDING SOURCES

Employee Contribution: *3% salary to member ASA*
 General Fund Appropriation: *Pre-96 Pay-as-you-go benefit obligation*
 Pension Stabilization Fund: *Pre-96 Pay-as-you-go benefit obligation*
 Employer Contribution: *1996 Account Actuarially Calculated Contribution Rate (FY11 = 7.5%)*
 Other: *Lottery (Pre-96)*

FY12	FY13
\$132.5M	\$136.9M
\$725.4M	\$747.2M
\$81.3M	\$117.0M
\$209.0M	\$230.0M
\$30.0M	\$30.0M
\$1,178.2M	\$1,261.1M

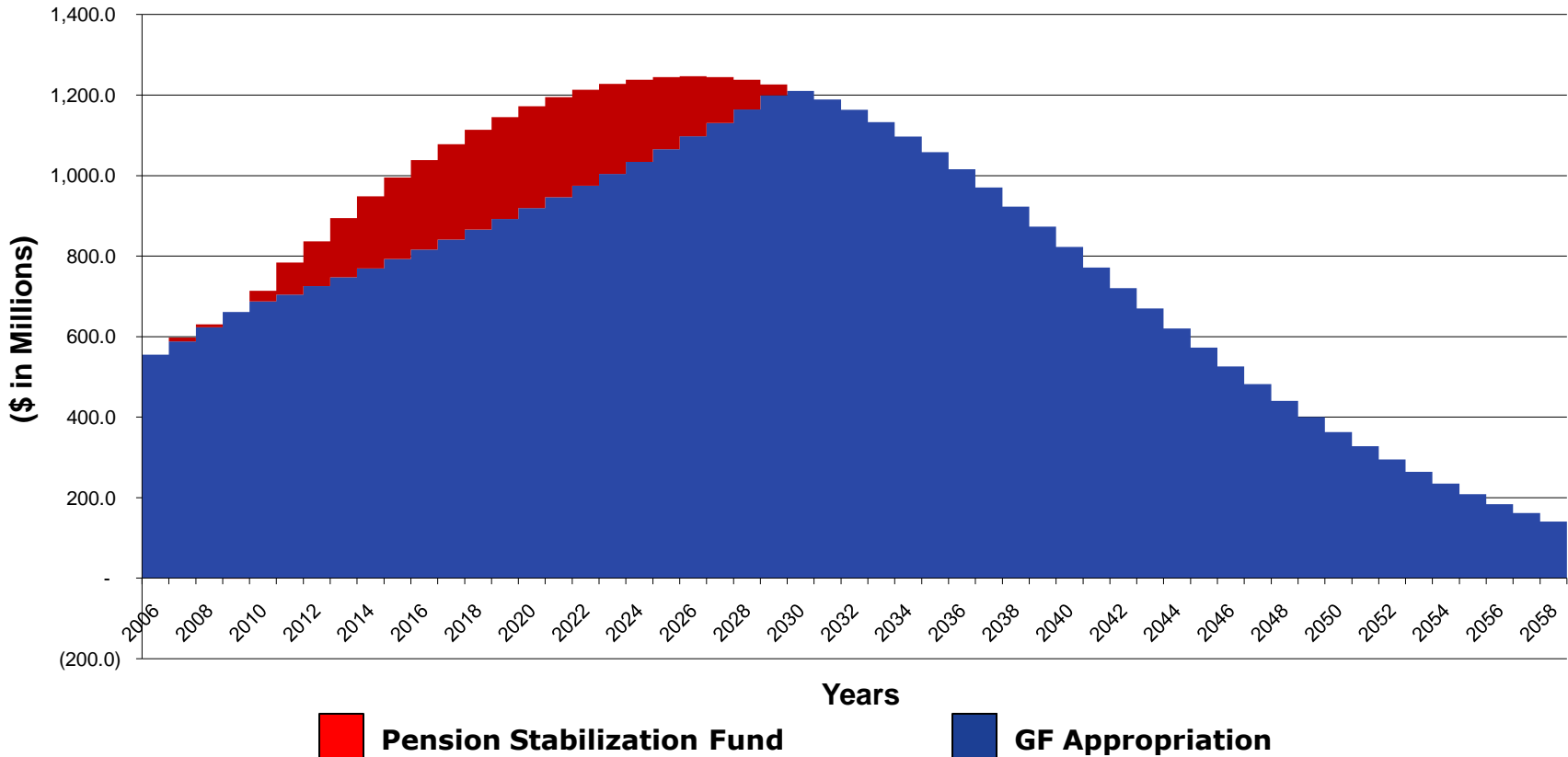
Teachers' Retirement Fund (TRF) Pre-96 Account Budgetary Impacts

Proposed 3% year over year appropriations growth for FY12 – FY13

\$ Millions	<u>Actual FY09</u>	<u>Actual FY10</u>	<u>Forecast FY11</u>	<u>Forecast FY12</u>	<u>Forecast FY13</u>
<u>Total:</u>					
Benefit Payments	\$661.4	\$714.1	\$784.0	\$836.7	\$894.2
General Fund Allotments	\$662.6	\$687.3	\$704.3	\$725.4	\$747.2
Actual (O)/U Allotments	\$1.2	(\$26.8)	(\$79.7)	(\$111.3)	(\$147.0)
Amt. withdrawn from PSF	\$0.0	\$26.8	\$79.7	\$111.3	\$147.0

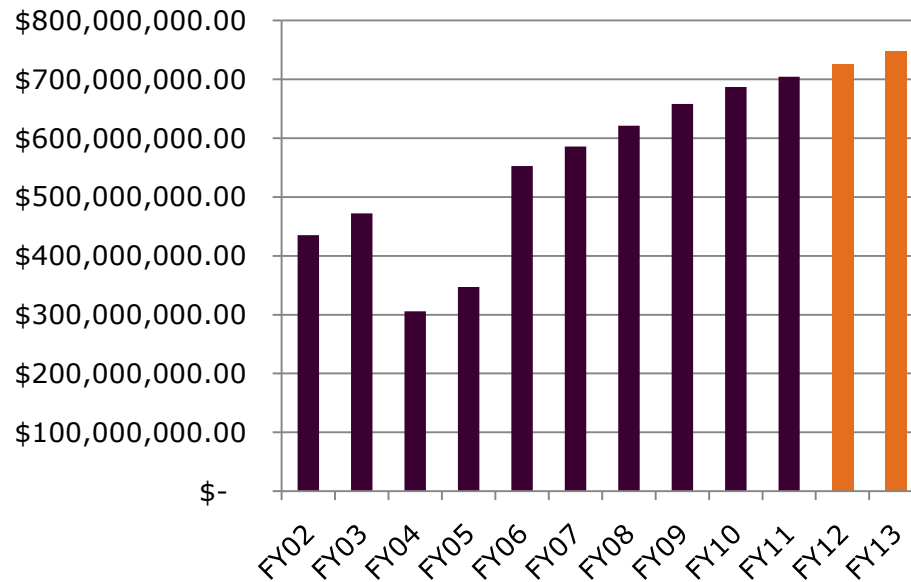
Teachers Retirement Fund (TRF) Pre-96 Account Budgetary Impacts

Pre-96 Account DB Appropriations Forecast assumes 3% per yr. state appropriations



Teachers Retirement Fund (TRF) Pre-96 General Fund Appropriations

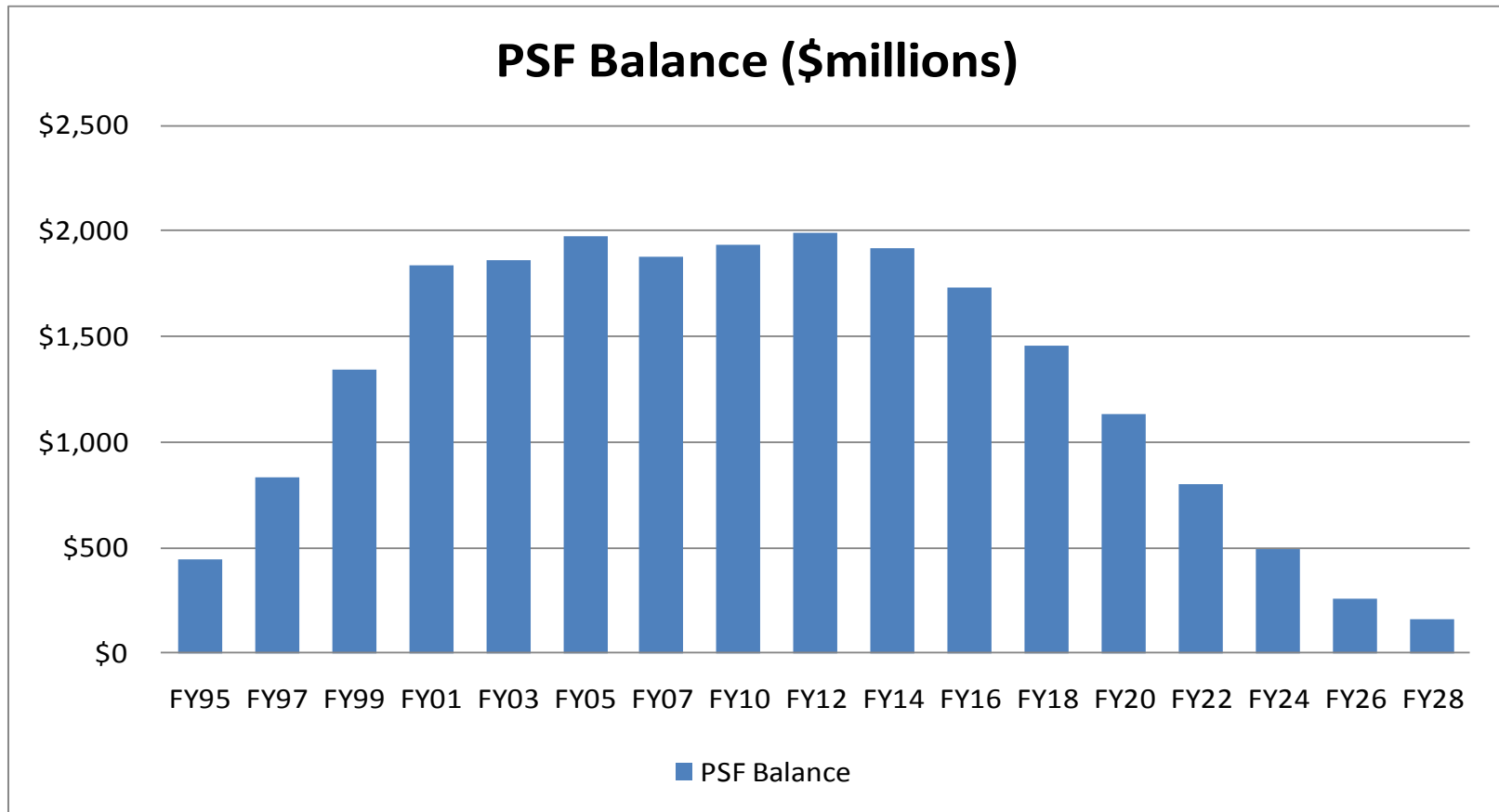
- 103% appropriations growth safely provides benefit payments and maintains a reasonable PSF balance
- Complies with existing Indiana Code IC 5-10.4-2-5(d)
- Maintains lottery revenue and continued appropriations growth



TRF Pre-96 PSF Historical & Projected Balances

Projections based on 103% yr. over yr. GF Appropriations

WITH \$30M/year Lottery Revenue



Impact of 103% verses 106%

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- **DOES NOT:**

- Take the projected PSF balance negative
- Jeopardize TRF's ability to pay benefits

- **DOES:**

- Maintain predictable TRF State Appropriations growth

- **HOWEVER:** Going any lower than 103% and/or redirecting the \$30M per year lottery revenue away from the PSF adds significant risk

'77 Police and Fire Retirement Fund

MEMBERSHIP: *Local full-time police and firefighters hired after April 30, 1977*

TYPE: *Defined Benefit*

FUNDING RATIO: 98.00%

UNFUNDED LIABILITY: \$67M

BENEFITS

Benefit Formula: *50% of first class officer salary*

Vesting: *20 years*

Full Retirement Age: *52 with at least 20 years service*

Avg. Overall Retiree Benefit: *\$23,727*

Projected Benefit Payments	
<u>FY12</u>	<u>FY13</u>
\$78.2M	\$81.3M

FUNDING SOURCES

Employee Contribution: *6% of first class officer salary (max. 32 years)*

Employer Contribution: *Actuarially Calculated Contribution Rate (FY11 = 19.5%)*

<u>FY12</u>	<u>FY13</u>
\$42.1M	\$43.8M
<u>\$156.2M</u>	<u>\$175.2M</u>
\$198.3M	\$219.0M

Judges' Retirement System

MEMBERSHIP: *Judges of the Indiana Supreme Court, Indiana Circuit Court. Indiana Tax Court, County and Municipal Courts*

TYPE: *Defined Benefit - Consists of two plans: 1977 System and the 1985 System*

FUNDING RATIO: 72.90%

UNFUNDED LIABILITY: \$90M

BENEFITS

Benefit Formula: *Final Salary x percent factor established in IAC (24% - 60%)*

Vesting: 8 years

Full Retirement Age: *65 with at least 8 years service, 55 - rule of 85*

Avg. Overall Retiree Benefit: \$66,180

Projected Benefit Payments	
<u>FY12</u>	<u>FY13</u>
\$16.1M	\$16.7M

FUNDING SOURCES

Employee Contribution: *6% salary (max. 22 years)*

General Fund Appropriation: *Actuarially Calculated Contribution Rate (FY11 = 54.8%)*

Other: *Certain docket and court fees*

<u>FY12</u>	<u>FY13</u>
\$2.4M	\$2.4M
\$17.9M	\$19.5M
\$5.1M	\$5.1M
\$25.4M	\$27.0M

Excise, Gaming & Conservation Officers Retirement Fund

MEMBERSHIP: *State Excise Police, Gaming Agents, Gaming Control Officers, and Conservation Enforcement Officers*

TYPE: *Defined Benefit*

FUNDING RATIO: 76.30%

UNFUNDED LIABILITY: \$21M

BENEFITS

Benefit Formula: *(Average high five salary x 25%) + (1.67% x yrs service beyond 10 years)*

Vesting: 10 years

Full Retirement Age: *60 if hired before age 50, mandatory at 65*

Avg. Overall Retiree Benefit: \$24,549

Projected Benefit Payments	
<u>FY12</u>	<u>FY13</u>
\$3.7M	\$3.9M

FUNDING SOURCES

Employee Contribution: *Pre '77 hires - 3% of first \$8,500, Post '77 hires - 4% of total salary*

Employer Contribution: *Actuarially Calculated Contribution Rate (FY11 = 20.75%)*

<u>FY12</u>	<u>FY13</u>
\$1.1M	\$1.2M
\$6.0M	\$6.5M
\$7.1M	\$7.7M

Prosecuting Attorneys' Retirement Fund

MEMBERSHIP: Prosecutors or a chief deputy prosecutors serving after December 31, 1989

Executive Director or Dep Executive Director of the Prosecutors Council, or state paid dep. prosecutors hired after June 30, 199

TYPE: *Defined Benefit*

FUNDING RATIO: 59.30%

UNFUNDED LIABILITY: \$18M

BENEFITS

Benefit Formula: *High Salary x percent factor established in IAC (24% - 60%)*

Vesting: 8 years

Full Retirement Age: 65 with at least 8 years service

Avg. Overall Retiree Benefit: \$21,635

Projected Benefit Payments	
<u>FY12</u>	<u>FY13</u>
\$1.3M	\$1.3M

FUNDING SOURCES

Employee Contribution: 6% salary

General Fund Appropriation: *Actuarially Calculated Contribution Rate (FY11 = 10.25%)*

<u>FY12</u>	<u>FY13</u>
\$1.4M	\$1.4M
<u>\$2.6M</u>	<u>\$2.9M</u>
\$4.0M	\$4.3M

Legislators' Retirement System

MEMBERSHIP: *Members of the Indiana General Assembly*

TYPE: *Defined Benefit - Members serving on April 30, 1989 who elected to participate*
Defined Contribution - Members serving on or after April 30, 1989 who elect to participate

FUNDING RATIO: 93.00%

UNFUNDED LIABILITY: \$0.4M

BENEFITS

Benefit Formula: *Lessor of \$480 x yrs service before '89 OR high consecutive three year salary*

Vesting: 10 years

Full Retirement Age: 65 with at least 10 years service, 55 - rule of 85, 60 w/ 15 yrs service

Avg. Overall Retiree Benefit: \$6,846

Projected Benefit Payments	
<u>FY12</u>	<u>FY13</u>
\$0.5M	\$0.5M

FUNDING SOURCES

Employer Contribution: 10% of salary for the DC plan

Employer Contribution: Actuarially Calculated Contribution for the DB plan

<u>FY12</u>	<u>FY13</u>
\$1.2M	\$1.2M
\$0.2M	\$0.2M
\$1.4M	\$1.4M

Funded Status as of June 30, 2009

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	FUNDING RATIOS	UNFUNDED LIABILITY
PERF	93.10%	\$937M
77 Police & Fire	98.00%	\$67M
Judges	72.90%	\$90M
E, G & C	76.30%	\$21M
Prosecutors	59.30%	\$18M
Legislators' DB	93.00%	\$0.4M
TRF 1996	<u>93.10%</u>	<u>\$215M</u>
Aggregate Prefunded Plans	93.40%	\$1,348M
TRF Pre-1996	31.90%	\$10,918M

FY10 Results Available by December 31, 2010

Other Non-Retirement Funds

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- **Public Safety Officers' Death Benefit Fund**
 - \$150,000 line of duty death survivor benefit
 - \$3.3M net assets as of June 30, 2010
 - Partially funded by bail bond fees (\$39K collected in FY10)
 - No appropriations needed in FY12-13 budget
- **State Employees' Death Benefit Fund**
 - \$50,000 line of duty death survivor benefit
 - \$7.1M net assets as of June 30, 2010
 - Funded by the state
 - No appropriations needed in FY12-13 budget

Pension Relief Fund

- Created in 1977 to give relief to police and fire pension funds maintained by units of local government
- State now pays 100% of the local liabilities
- Bi-annual distributions are made to local units based upon
 - Estimated following year liabilities
 - Prior year actual experience

	FY10 Actual	FY11 Forecast	FY12 Forecast	FY13 Forecast
Contributions				
<i>General Fund</i>	\$136.0M	\$112.0M	\$131.0M	\$180.0M
<i>Pension Relief Fund*</i>	<u>\$77.0M</u>	<u>\$107.7M</u>	<u>\$101.4M</u>	<u>\$56.6M</u>
Distributions	\$213.0M	\$219.7M	\$232.4M	\$236.6M

* Revenue sources include a dedicated portion of lottery revenue, liquor taxes, and cigarette taxes

Pension Funding Sources Summary

	FY12		FY13	
	<u>GF Appropriation</u>	<u>Other*</u>	<u>GF Appropriation</u>	<u>Other*</u>
PERF		\$760.4		\$868.7
TRF	\$725.4	\$452.8	\$747.2	\$513.9
1977 Police & Fire		\$198.3		\$219.0
Judges	\$17.9	\$7.5	\$19.5	\$7.5
EG&C		\$7.1		\$7.7
Prosecutors	\$2.6	\$1.4	\$2.9	\$1.4
Legislators		\$1.4		\$1.4
Pension Relief	\$131.0	\$101.4	\$180.0	\$56.6
TOTAL	\$876.9	\$1,530.3	\$949.6	\$1,676.2

* Other includes Employee, Employer, PSF, Lottery, and other dedicated tax contributions

PERF / TRF Merge Update (HEA 1205)

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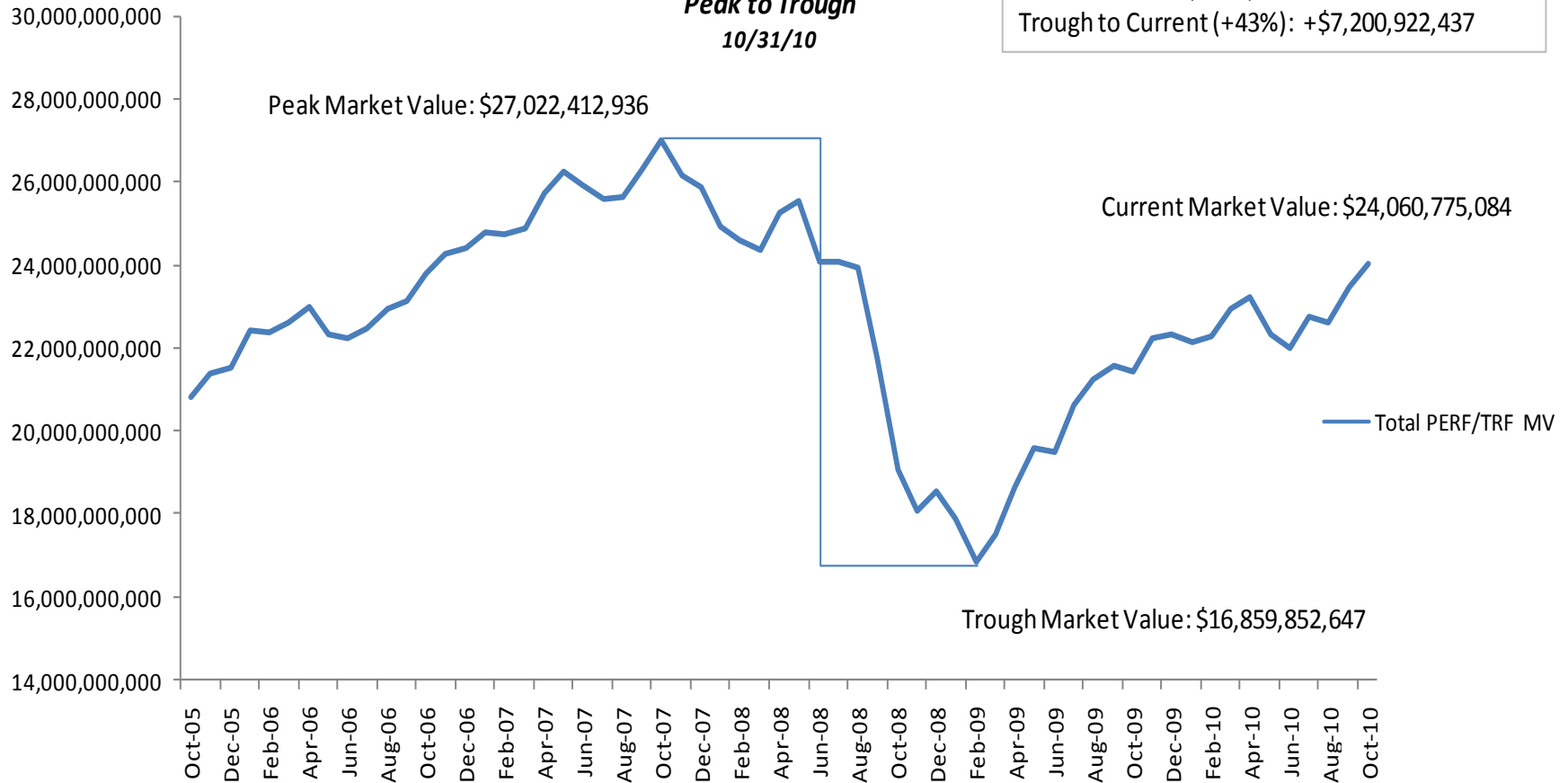
- Requires the PERF & TRF boards to jointly appoint a common director and to cooperate to the extent practical and feasible in the investing of fund assets
 - A common director was appointed on May 10, 2010
 - A common executive staff was implemented on June 18, 2010
 - Administrative Cost Savings = \$1.5M/year
 - Investments cooperation is already yielding savings
 - Recurring= \$8.8M/year
 - Net Present Value= \$126.0M
 - Lack of a single legal entity will prevent some savings (\$1M - \$5M)

Investments Performance

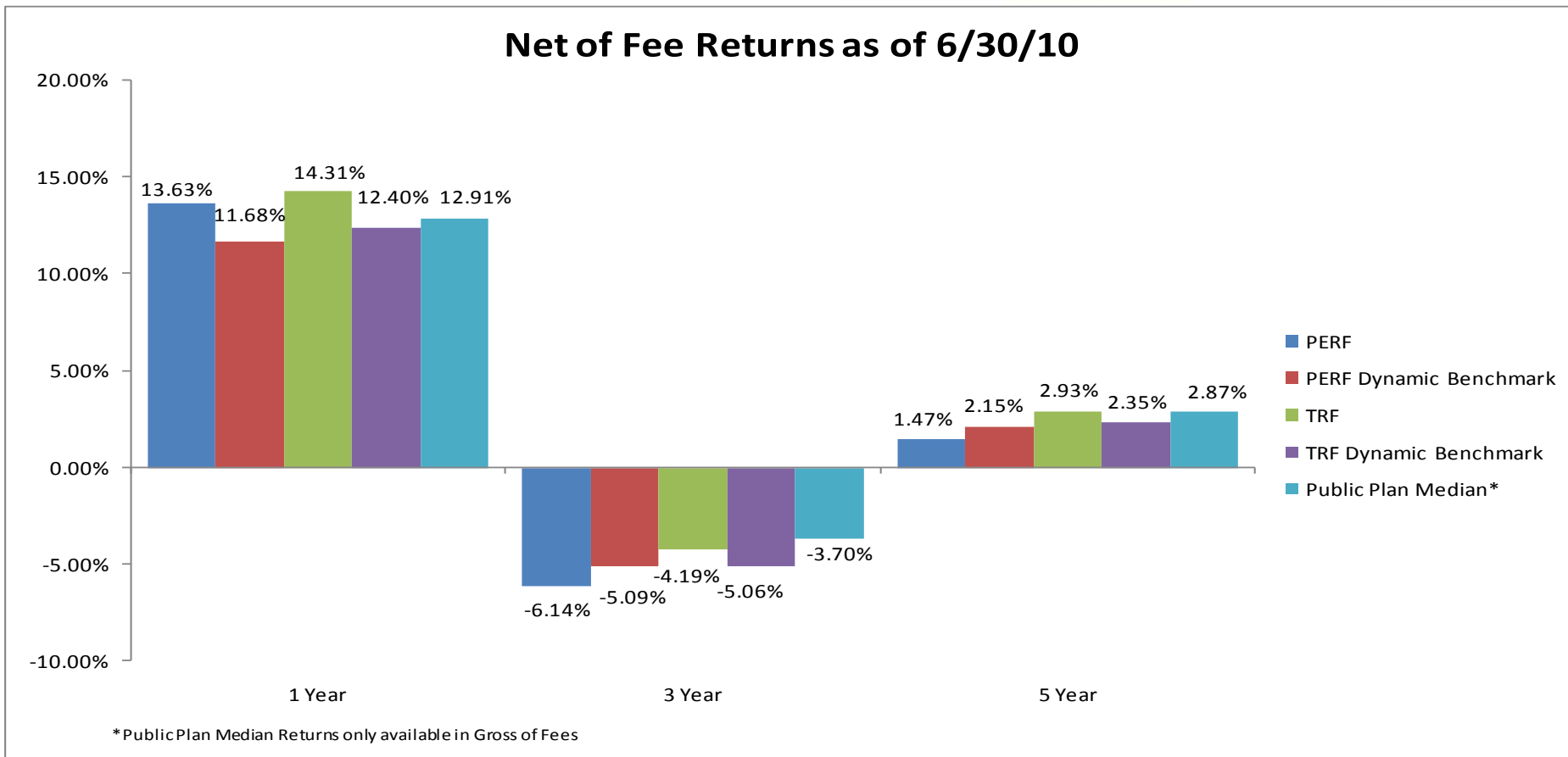
PERF/TRF Market Value

Peak to Trough
10/31/10

Peak to Trough (-38%): -\$10,162,560,289
Peak to Current (-11%): -\$2,961,637,852
Trough to Current (+43%): +\$7,200,922,437



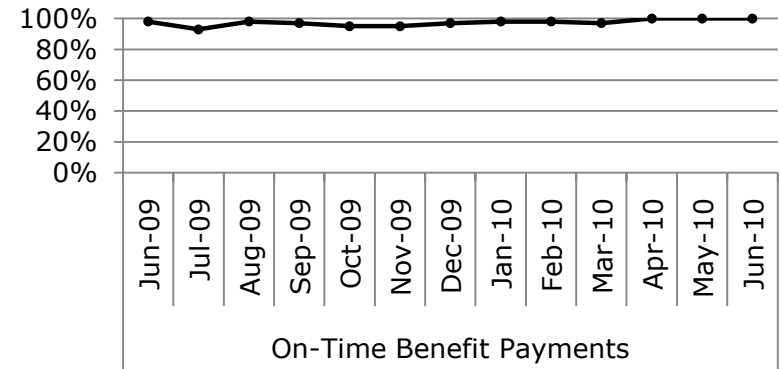
Investments Performance



- PERF and TRF outperformed their respective benchmarks as well as the public plan median over the last year.
- PERF was awarded the Large Public Plan of the Year award by Institutional Investor News.

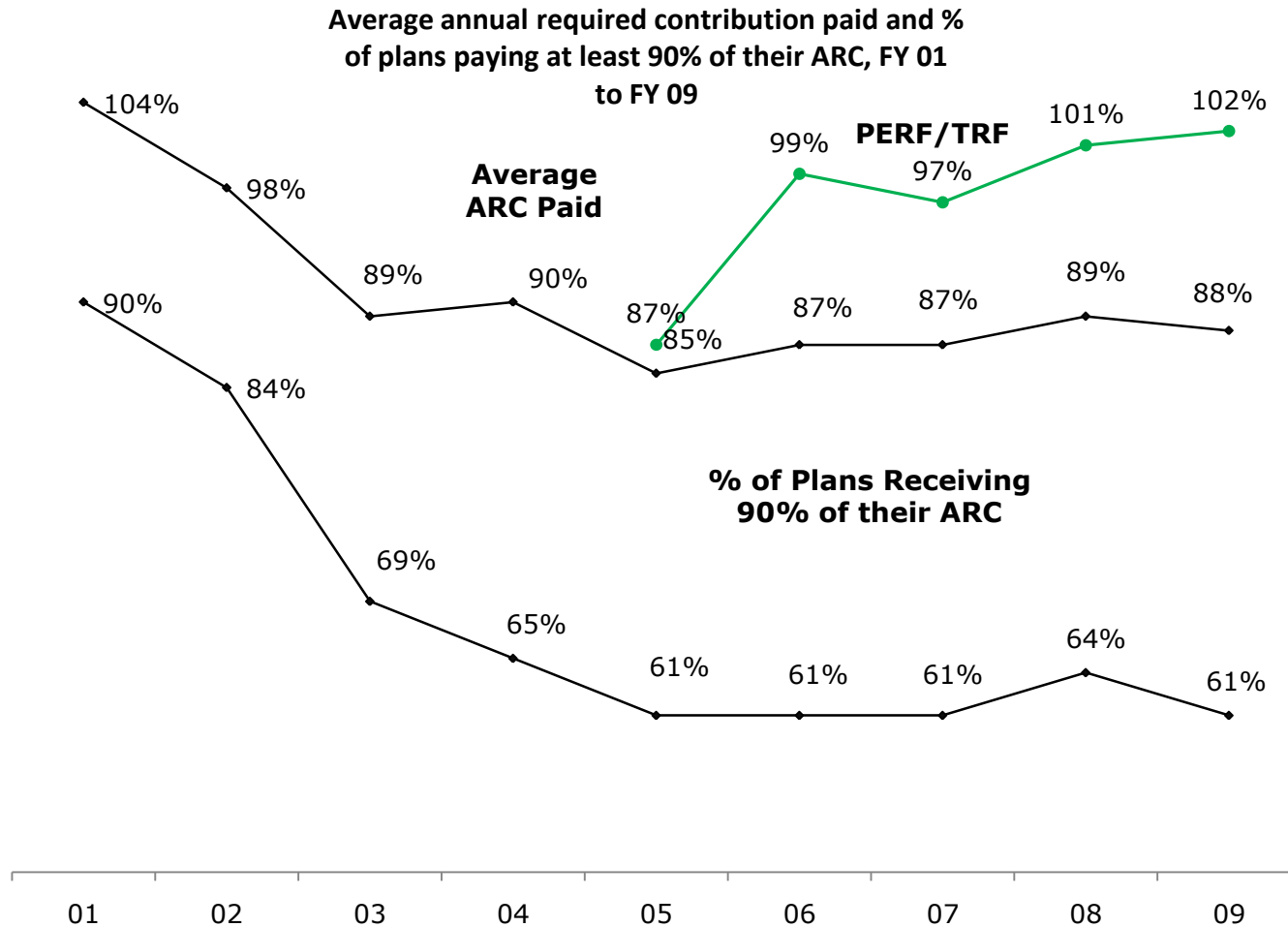
Operational Performance

Consistently achieving high levels of performance



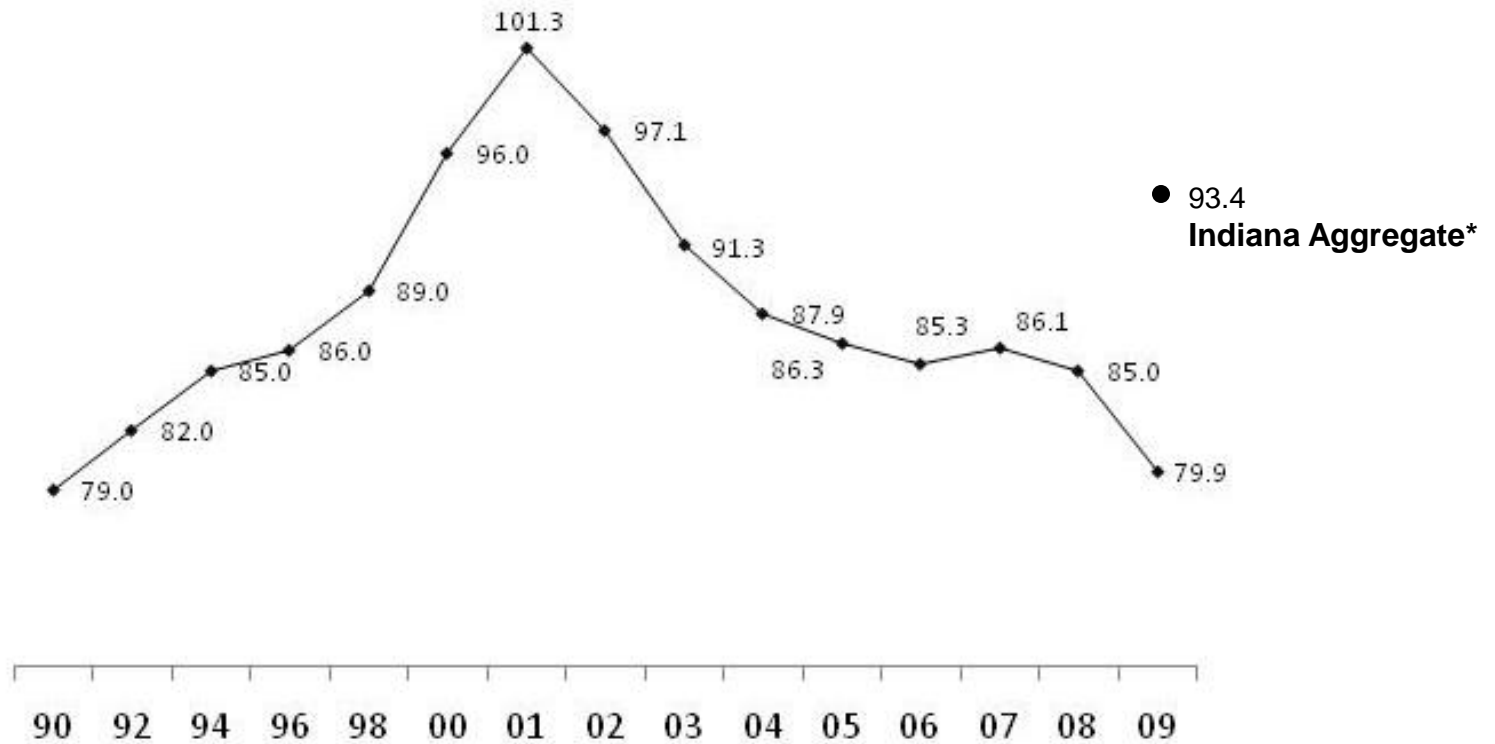
- Recognized leader in customer service and administrative efficiency by a global pension system benchmarking firm
- Certificates of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA)
- Public Pension Standards Awards for Funding and Administration from the Public Pensions Coordinating Council (PPCC)

National Issues & Trends



National Issues & Trends

Aggregate funding levels are likely to drift lower through FY13



* TRF Pre-'96 Pay-As-You-Go Excluded

National Issues & Trends

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Some states are changing plan designs and financing structures

- Hybrid DB/DC or DC-only plan designs
- Higher employee contributions
- Increased normal retirement provisions
- Lower benefit accruals
- Eliminating automatic COLAs