

**THE STRATEGIC PLAN OF THE
INDIANA PUBLIC RETIREMENT SYSTEM
FOR THE PERIOD OF FISCAL YEARS**

INPRS

2016-2018

INDIANA PUBLIC RETIREMENT SYSTEM

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INTRODUCTION

ACCOMPLISHMENTS IN FISCAL YEAR 2015 ENABLE STRATEGIC OBJECTIVES FOR FISCAL YEAR 2016-2018

Asset Management

NPRS is a steward of nearly \$25 billion of defined benefit assets held in trust for members and their beneficiaries. In fiscal year 2015, we completed an Asset Liability study that analyzed the balance between the two funding sources of the defined benefit plan: employer contributions and investment returns. Given our desire to minimize the volatility of employer contributions, the asset allocation was constructed to have greater diversification and produce less volatile investment returns. At the same time, we continue to seek other ways to become more efficient. We have initiated research to determine the advantages and disadvantages of managing a portion of the defined benefit assets internally. We have also implemented improvements to the cash management and rebalancing processes to better position the plan for shifts in global market conditions. All of these initiatives will continue during the upcoming strategic plan period.

Annuity Savings Account (ASA) Expansion

We are also the steward of over \$5 billion in Annuity Savings Account (ASA) and Defined Contribution assets. Members choose how to allocate their monies across a variety of options like those found in most private sector defined contribution plans. Recent legislation passed by the Indiana General Assembly expands the option for the PERF (Public Employees Retirement Fund) ASA Only plan to political subdivisions as well as new Indiana state employees. The ASA Only plan gives employers and employees more options for contributions and investments. This legislation goes into effect during fiscal year 2016; therefore, preparing communication and administration for these new options is a top priority during the upcoming fiscal year.

Quality Management

We changed focus to quality management and process improvement after modernization of our major IT systems was completed. Several multi-disciplinary teams were trained on quality management principles and then used their proactive problem solving skills to work on continuous improvement projects. We will continue on this path through the next strategic plan period.

INTRODUCTION

Annuity Rate Change

To reflect the reality of today's financial market conditions, the Indiana General Assembly passed legislation in fiscal year 2014. The goal of this legislation was to preserve the financial stability of the funds by reducing the interest rate used to convert Annuity Savings Account (ASA) monies into annuities. The first step of this legislation required a step down to a lower rate. This was completed in October 2014. The second step down will occur in the upcoming fiscal year. This legislation also enables us to outsource conversion of ASA monies to a third party annuity provider any time after January 2017.

Third-Party Annuity Provider and Recordkeeping RFP

We decided to combine our search for a third party annuity provider with an RFP for recordkeeping services. Since we outsourced our recordkeeping services over five years ago, we decided to analyze the marketplace to ensure that services and fees are optimized. During fiscal year 2015, we prepared and issued an RFP for recordkeeping services and a third party annuity provider. Responses to this RFP will be reviewed during the upcoming fiscal year. Action plans for the strategic plan period will be developed as strategic partners are identified.

Operations Improvements

The step down in annuity rates caused retirements to temporarily spike by 30% in fiscal year 2015. Members tested our internal operations' process and system limits. This required timely information to make critical decisions. We resolved issues with the call center and online annuity calculators. We maintained overall excellent service levels despite the spike in volume. We listened to members taking the satisfaction survey and improvements to the INPRS website are planned. Several strategic objectives are included in our FY2016-2018 strategic plan to continue to improve member satisfaction.

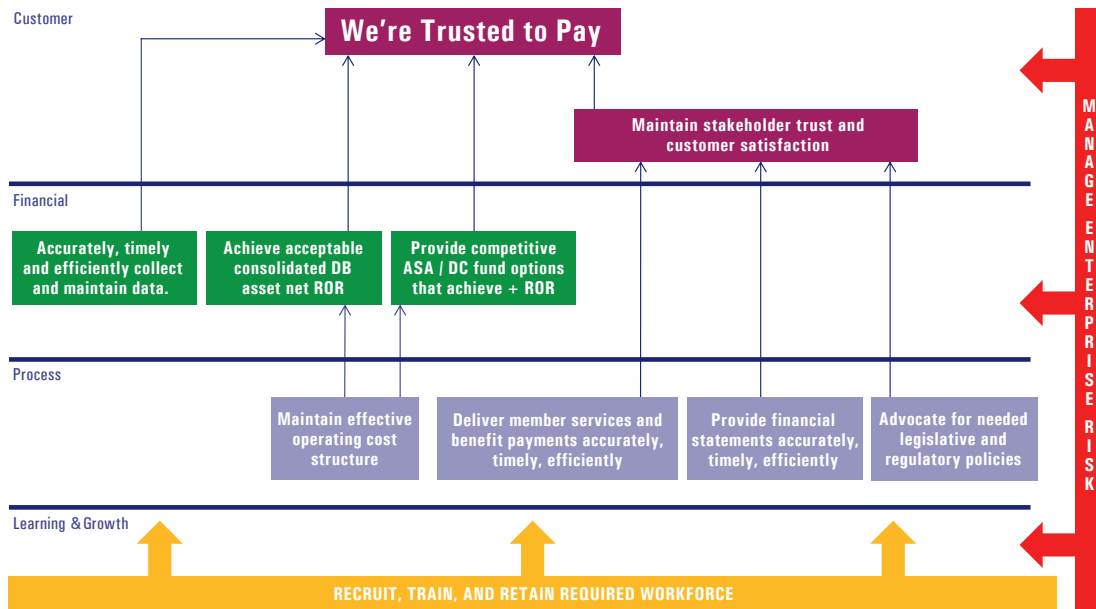
THE STRATEGIC PLANNING PROCESS

Contextual S.W.O.T.

Understanding the issues that will impact our ability to get from our current state to our desired future state is critical. Traditionally, the INPRS executive team completed an exercise with output as a list of Strengths, Weaknesses, Opportunities, and Threats, better known as S.W.O.T. However, this year the analysis was carried out in such a way that the "context" for each item was also identified. The product of this exercise became more useful in developing strategies for the plan.

INTRODUCTION

INPRS STRATEGY MAP



Strategic Mapping

We created an INPRS Strategy Map as another enhancement to the strategic planning process. A strategy map is a one-page blueprint that articulates our overall strategy in a very concise manner.

The strategy mapping exercise started with a discussion of interrelationships that exist among the goals, which was then shown by drawing arrows between them. The resulting strategy map is a series of cause-and-effect statements following the sequence of arrows. The goals are also arranged in different layered categories known as perspectives. The perspectives, which are ordered from the bottom to the top on the map, show the hierarchy of goals and how they build towards a collective endpoint.

Our hierarchy of goals starts with a foundation in the Learning & Growth perspective. This perspective is where the strategies to create and refine fundamental skill sets necessary to carry out our mission are formulated. The strategies then built upon this foundation through the goals related to the Process and Financial perspectives. The hierarchy ends in the Customer perspective, which reflects our high commitment to stakeholders. Managing Enterprise Risk is shown concurrently with every other perspective since the proper management of risks is essential for any of the other goals in the plan to be successfully realized.

INTRODUCTION

As mentioned, a strategy map also reveals the collective endpoint that all goals point towards. This is the “one thing” that is considered by the executive team to be most important outcome of our strategies. The endpoint that our team established is “We’re Trusted to Pay.”

The strategy map developed during the planning process is shown on page six.

Update to the Vision, Mission and Principles

With the common understanding of our future path and destination, our Vision, Mission and Principles statements were revised to be more concise and focused in alignment with the results of the mapping exercise. Our mission statement now corresponds directly with the main components of the strategy map since it focuses on the same key outcomes. Our vision statement is also now a clearer and more concise statement of the long-term destination that goes beyond the current plan time period and complements “We’re Trusted to Pay.”

The updated Vision, Mission and Principles are:

Vision

To be a 100 percent funded public retirement system trusted and valued by stakeholders.

Mission

Efficiently collect necessary contributions, manage assets and pay earned benefits.

Principles

Integrity. We hold ourselves accountable to the highest standards of ethical and professional behavior.

Stewardship. We prudently invest assets held in trust for current and future retirees. We wisely manage expenses to maximize value to our stakeholders. We rigorously identify, measure, and manage risk across the organization.

Service. We exist to serve our stakeholders with attentiveness to high quality, respectful customer service.

Trust. We are our stakeholders’ trusted source of reliable information.

Collaboration. We seek out stakeholder input when establishing goals and setting priorities.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 1: Deliver member services and benefit payments accurately, timely and efficiently.

Strategic Objectives

- Develop and execute an integrated vendor business model that optimizes the delivery of services and positions INPRS as a desirable partner.
- Improve call center performance that maximizes customer experience.
- Implement new and/or enhanced call center structure to maximize customer experience within the integrated vendor business model.
- Increase the accuracy, timeliness and efficiency of processing requested defined benefit inception.
- Implement electronic authorization for distributions and eliminate notary requirements.
- Modify transaction processing that conforms to standard Defined Contribution (DC) market practices.
- Increase member use of existing online tools including, but not limited to, online retirement applications and the online retirement tracker.
- Implement process for all new retirees to receive first time payment via direct deposit unless a signed waiver is on file with INPRS.
- Implement debit cards in place of paper checks in accordance with legislation passed in April 2015.
- Evaluate and implement workflow capability and associated technologies to streamline transaction processing, and improve efficiency and consistency of service delivery including productivity measurement.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 1: Deliver member services and benefit payments accurately, timely and efficiently.

Key Operational Requirements

- Distribute timely and accurate payments to members.
 - Monthly Payroll
 - Weekly Payroll
 - Retirements
 - Disability
 - Death
 - Annuity Savings Account (ASA)
- Distribute accurate 1099-R documents by January 31 of every year.
- Effectively manage complaints and escalated cases.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 2: Maintain stakeholder trust and customer satisfaction through effective communication, education and collaborative relationships.

Strategic Objectives

- Increase website satisfaction through customer-centered redesign of web experiences.
 - Implement an improved member interface for the secure website.
 - Improve member satisfaction and access to information through “smart” Frequently Asked Questions (FAQs) service on the INPRS public website.
 - Provide an improved retirement benefits calculator on INPRS-controlled secure site.
 - Implement enhanced online retirement application for all funds.
- Develop a plan to maintain or improve perceptions of trust among stakeholders.
- Implement an improved PERF and TRF annual member statement format that includes relevant Defined Benefit (DB) information, Annuity Savings Account (ASA) information, and service credit history.
- Increase the number of members reporting an intentional asset allocation through education regarding ASA investment options.

Key Operational Requirements

- Complete ongoing customer satisfaction surveying.
- Complete the annual general member survey.
- Provide required reports to the Legislature including the Pension Management Oversight (PMO) Committee.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 3: Accurately, timely and efficiently collect employer contributions and maintain data.

Strategic Objectives

- Implement the employer soft-freeze / withdrawal provision included in HB1466.
- Evaluate whether a new amortization period for the unfunded liability should be proposed to the INPRS Board.
- Increase employer satisfaction with Employer Reporting and Maintenance (ERM) through ERM enhancements and communications to employers.
- Reduce the number of reported employer transaction exceptions through ERM enhancements and communication to employers.

Key Operational Requirements

- Request pension relief information from employers.
- Process requests for new units and enlargements biannually.
- Provide Annual Contribution Rate notification to employers.
- Track and report the timeliness of employer contributions. Explore opportunities to maintain employers' compliance within established contribution timeframes.
- Complete actuarial valuation reports annually.
- Establish annual employer contribution rates at or above the Actuarially Determined Employer Contribution (ADEC) rates.
- Track employers that are habitually late and ask the Auditor of State to intercept funds from these employers.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 4: Achieve a consolidated Defined Benefit (DB) asset net rate of return equal to the actuarial assumed rate of return, within accepted cost and risk parameters, with sufficient cash flow to pay all benefit obligations.

Strategic Objectives

- Successfully negotiate the custodian contract.
- Develop “SAFE” mode plan in order to quickly rebalance the investment portfolio in response to anticipated or actual major shifts in global market conditions and/or negative political events.
- Implement any asset allocation changes approved by the Board as a result of the asset / liability study.
- Conduct an internal asset management study.
- Transition from risk monitoring to risk management through risk rebalancing optimization.

Key Operational Requirements

- Achieve the DB investment targets and metrics.
- Annually conduct a review of investment management fees, including benchmarking fees as compared to other public pension funds.
- Complete the annual Investment Policy Statement (IPS) Review.
- Provide all pension benefits, member refunds, administrative payments and all other payments from available cash balances without unplanned and/or premature liquidation of desired investment assets.
- Complete a long term liquidity analysis of plans, taking into consideration projected cash out flows and the liquidity position of the investment portfolio on an annual basis.
- Provide and review rolling cash flow forecasts, reflecting incoming contributions and outgoing disbursements.
- Monitor securities litigation and opportunistically participate in domestic and/or international cases to maximize INPRS’ loss recovery.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 5: Provide industry competitive Annuity Savings Account (ASA) and Defined Contribution (DC) fund options that achieve rates of return equal to or greater than the funds' benchmarks.

Strategic Objectives

- Successfully implement the third party ASA annuity rate changes directed by the Indiana Legislature.
- Implement the enhancements and the changes to the ASA Only option required by the 2015 legislative session.
- Evaluate the benefits and detriments of self-directed brokerage accounts and Roth options in the ASA. Implement if warranted.
- Evaluate the benefits and detriments of auto-acceleration for ASA only participants. Implement if warranted.
- Evaluate annuity providers in relation to potential recordkeeping partners.

Key Operational Requirements

- Perform an annual review of ASA and DC fund options, including glide path (asset allocation) assumptions for target date funds.
- Achieve ASA metrics.
- Annually conduct a review of investment fees.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 6: Provide financial statements accurately, timely and efficiently.

Strategic Objectives

- Assist employers with their implementation of GASB #68. Implement changes related to new Government Accounting Standards Board (GASB) Fair Value Measurement and Application accounting standard, GASB #72, to ensure receipt of an unmodified audit opinion for INPRS. When issued, determine if new standards have any impact on INPRS.
- Increase the accuracy, timeliness and efficiency of maintaining financial records through enhancements to the Oracle E-Business Suite and other supporting INPRS' administrative systems.
- Evaluate enhanced budgeting and tracking tools.

Key Operational Requirements

- Obtain an annual unmodified opinion from the external auditor.
- Publish the INPRS Comprehensive Annual Financial Report (CAFR) annually.
- Obtain an annual Government Finance Officers Association (GFOA) certification of the CAFR.
- Finalize the monthly financial statement close package by 12th business day each month.
- Annually publish audited GASB #68 related schedules for employers.
- Enhance data quality and increase integrity of system interfaces used to transmit financial data which impacts the financial records.
- Ensure that any audit findings or control issues identified in the annual external audit have action plans developed to correct the deficiency or material weakness within 30 days after the close of the audit.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 7: Maintain an effective operating cost structure that leverages leading governance practices, management practices, benchmarking and secure business processes.

Strategic Objectives

- Implement a Balanced Scorecard that contains a comprehensive set of measures for senior executives to assess INPRS progress towards meeting its Strategic Goals.
- Continue to enhance the process to review and prioritize projects and resources to enable the best return on investment. Develop a tracking tool to capture time worked on projects.
- Improve the quality and efficiency of key business processes by continuing to strengthen the quality management culture and support the continuous process improvement initiatives.
- Create opportunities for a more efficient cost structure by evaluating better tools to analyze costs.
- Evaluate the overall cost/benefit of tracking costs by activity, and implement where valuable.
- Revise and maintain a General Retention schedule for all documents and emails.

Key Operational Requirements

- Maintain a strategic plan on a three-year time horizon to be updated annually.
- Participate in the annual Cost Effectiveness Measurement (CEM) survey. Coordinate all survey responses and follow the improvement process to develop and implement an INPRS cost and service improvement plan.
- Continue to identify additional benchmarking in the financial services industry and other areas that will provide insight and continuous improvement ideas.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 7: Maintain an effective operating cost structure that leverages leading governance practices, management practices, benchmarking and secure business processes.

Key Operational Requirements, cont.

- Establish an operating budget to be approved by the Board no later than June 30 of each year.
- Report financial performance to the budget at every Board meeting.
- Maintain a tracking tool to capture IT costs by activity.
- Determine appropriate Board education and implement annually.
- Provide consistent guidelines and processes that define the creation, review, approval, distribution, tracking and updating of policies and procedures used by INPRS.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 8: Proactively manage enterprise risk.

Strategic Objectives

- Improve timely and accurate access to information for better business decisions by further developing the base infrastructure of the INPRS Reporting Portal (IRP) and the addition of business specific data for integrated reporting and measurement.
- Integrate new Software Quality Assurance service model including test automation to improve effectiveness, speed and accuracy of services in order to reduce risks of changes to technology.
- Improve disaster Recovery Time Objectives (RTO) to 72 hours and Recovery Point Objectives (RPO) to one hour utilizing current Recovery as a Service (RaaS) technologies.
- Establish data integrity as a core component of all INPRS activities including identifying effective measures and process improvements.
- Maintain and improve information security through execution of the information security program including active testing, improving organizational security awareness and improved data protection.
- Enhance the comprehensive INPRS compliance program to ensure compliance with all federal and state requirements.
- Update and enhance the COOP (Continuity of Operations Plan) to ensure that essential services to stakeholders are continued in the short-term and recovered to “Business As Usual” in the long-term in the event that a major incident disrupts operations.

Key Operational Requirements

- Continue to integrate enterprise risk analysis into the Project and Portfolio Management (PPM) process.
- Complete a risk assessment on the Strategic Plan, assess and prioritize risks, complete any deep dives identified for each fiscal year, and facilitate risk owners’ reporting on decisions related to risk.
- Ensure customer and staff security by performing IT security access control audits twice per year.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 8: Proactively manage enterprise risk.

Key Operational Requirements, cont.

- Support INPRS business continuity planning by holding an IT disaster recovery test to validate capabilities for timely recovery of application systems at least on an annual basis.
- Complete a risk assessment of the organization and develop an annual audit plan.
- Continue the integrated fraud program that will consider whistleblower input, and include annual training, quarterly articles on the INPRS intranet (PATI), specific fraud testing in each audit, and implement quarterly fraud testing in specific areas.
- Ensure that any audit findings or control issues identified during audits have action plans developed to correct the deficiency or material weakness and that action plans are implemented in the agreed upon timeline.
- Monitor the compliance matrix for the Investment Policy Statement (IPS).
- Complete the biennial review of Board governance documents.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 9: Recruit, train and retain the required workforce.

Strategic Objective

- Develop a Human Resources plan that supports the Strategic Plan and Operational Plans.

Key Operational Requirements

- Continuously assess staffing needs and complete recruiting of the required staff.
- Complete an annual employee survey and create action plans to address employee concerns.
- Refresh the Succession Plan and review the Position Risk assessment to address retention, development and documentation plans.
- Educate and communicate to INPRS staff which develops organizational culture through “All Staff” meetings.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 10: Advocate for legislative and regulatory policies needed to achieve strategic goals.

Strategic Objectives

- Seek plan sponsor input on retirements and benefits that improves fiscal strength, cost effectiveness and efficiencies of system.
- Seek plan sponsor input on Annuity Savings Account (ASA) structure: Guaranteed Fund, potential new choices and allocation of administrative costs between member and employer.

Key Operational Requirements

- Conduct a review of Indiana Code for changes needed to achieve INPRS' mission and strategic goals at least annually in advance of the Pension Management Oversight (PMO) committee meetings.
- Provide all reports as required by Indiana Code to the Administrative and Legislative branches of Indiana state government.
- Track and communicate pending legislation during legislative sessions to prepare INPRS staff for any required implementations or impacts.
- Train INPRS functional departments to enable implementation of all legislative changes by their required implementation dates.
- Complete a monthly review of the nature of member benefit appeals and complaints to assess the need for change to code policies, processes and procedures.
- Respond to requests from the Legislative Services Agency (LSA) within timeframes mutually agreed upon between INPRS and LSA to enable appropriate review and response.
- Provide financial and actuarial support during the legislative sessions to INPRS staff and legislators.