Overview of Indiana’s Pensions & Other Post-Employment Benefits (OPEB)

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Overview

- Indiana Public Retirement System (INPRS)
  - Administers seven funds including public employees (PERF), teachers (TRF), local police and fire (‘77 Fund), judges, prosecutors, legislators, and gaming/conservation officers.
  - 480,000 + members including 234,000 active employees and 122,000 retirees
  - Pays out approximately $2 billion in annual benefits and is funded from investment gains/losses and $2 billion of annual employer and employee contributions. State of Indiana General Fund = $1 billion
  - Total Assets = $25.9 billion (market value as of 2/29/12)
  - Overall Funded Status = 85% (actuarial value as of 6/30/11 excluding TRF Pre-’96 paygo plan. Overall funded status = 63% including TRF Pre-’96)
  - Indiana’s per capita combined pension and long term debt among the lowest in the US

Key Features of Well Funded Plans*

	Indiana
- Pay the ARC	✓
- Employee Contributions	✓
- Funded Benefit Improvements	✓
- Responsible COLAs	✓
- Anti – Spiking Measures	✓
- Reasonable Actuarial Assumptions	✓

* National Institute on Retirement Security Study – June 2011

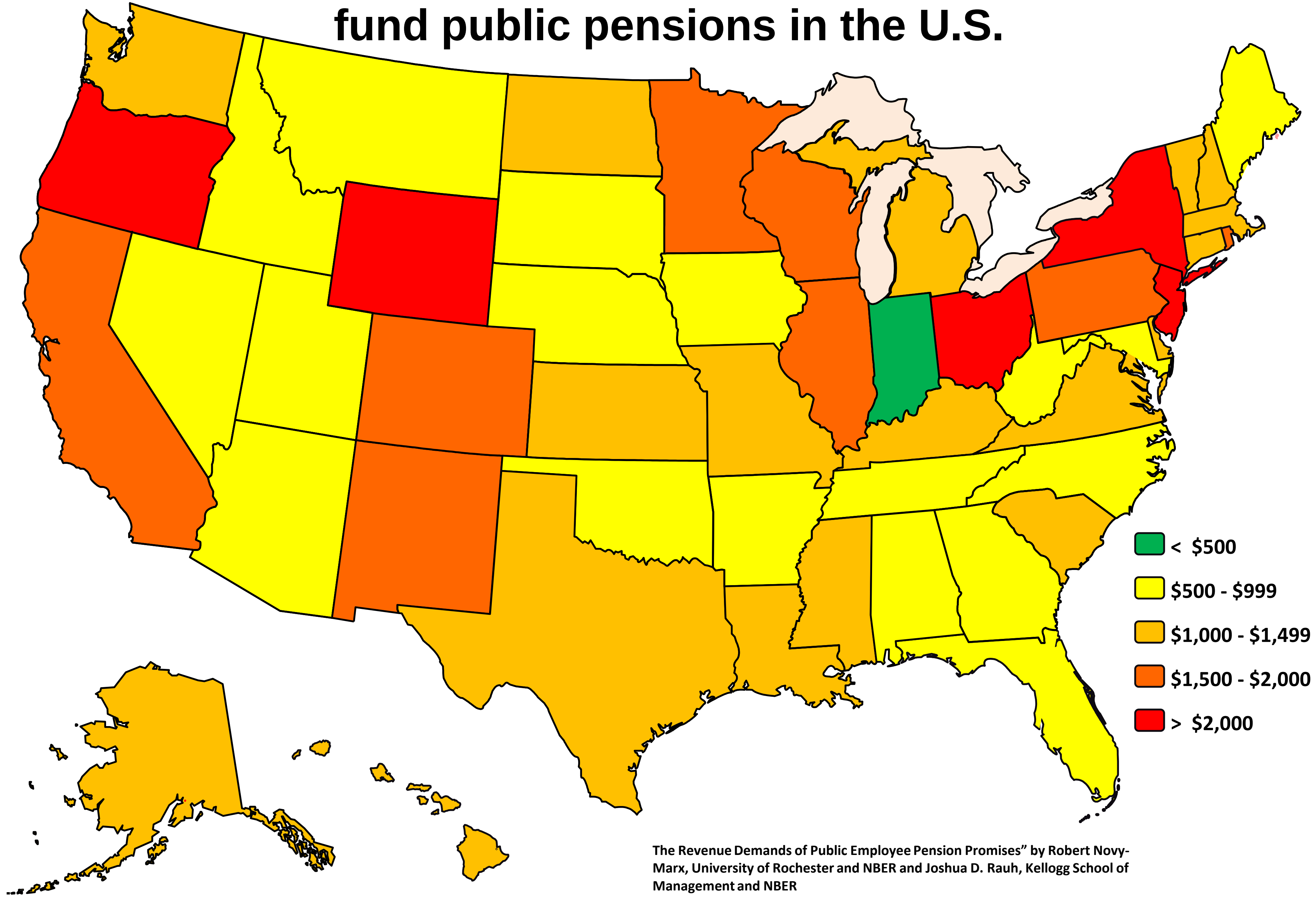
Indiana Pension Strengths

- Hybrid plan—defined contribution and defined benefit. DB average benefit modest relative to government plans in other states/localities
  - Indiana: 10 year vesting. 75% of other plans are 5 years or less
  - Indiana: 1.1x salary multiplier. Average of other plans = 2x
- Governor Daniels put an end to the gimmicks– no pension fund raids, resumed lottery profits going to the pension stabilization fund, no artificial lowering of employer contribution rates
- Recent history of fully funding the ARC
- Conservative investment return assumption
- Ad-hoc cost of living adjustments (recently 13th checks in lieu of COLAs)
- No pension obligation bonds
- Common executive director and staff

Indiana Pension Challenges

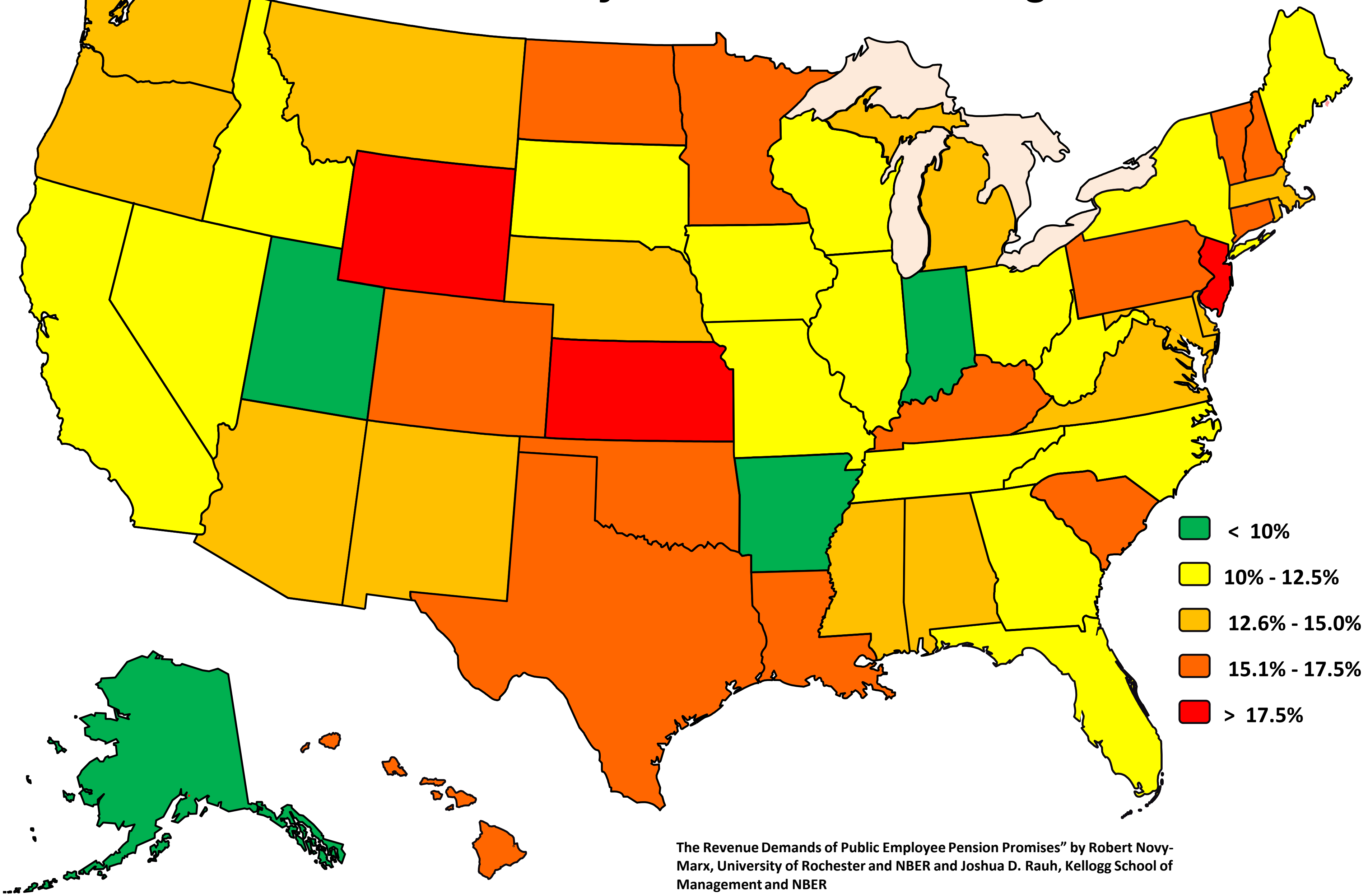
- Pre-1996 Teachers' Plan is misunderstood
  - Sole focus of external constituencies is on the funded status which is in the low 30%s
  - Established in the 1920s as a PAYGO plan. Designed from the outset as an obligation of the state to fund benefits as they come due– i.e. no pre-funding
  - Therefore, the potential challenge is the pressure this liability could place on the state budget
  - Challenge is manageable due to three factors:
    - Closed, legacy plan. New teachers are covered in a pre-funded plan. Fixed, finite liability that peaks around 2030 and then declines
    - Represents only 5% of state budget
    - Pension Stabilization Fund has over $2 billion in assets. PSF is designed to minimize the growth in general fund appropriations. Growth of <2% per year in general fund appropriation is needed to maintain a positive balance in the PSF
  - The key management discipline is to maintain consistent growth in the general fund appropriation and slowly draw down the PSF as designed
- PERF employer contribution rates are likely to rise over the next 2-3 years due to "smoothing" (phase-in) of investment losses from Great Recession

Indiana has the lowest burden per household to fully fund public pensions in the U.S.



The Revenue Demands of Public Employee Pension Promises" by Robert Novy-Marx, University of Rochester and NBER and Joshua D. Rauh, Kellogg School of Management and NBER

3rd-Lowest Percentage Return on Investment Needed to Fully Fund Pension Obligations



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Unfunded Pension Liability as a % of GDP

1	New York	-0.91
2	Nebraska	0.06
3	Wisconsin	0.11
4	North Carolina	0.13
5	**Indiana**	**0.49**
6	Washington	0.59
7	Ohio	0.62
8	Delaware	0.69
9	Missouri	0.8
10	Tennessee	1.08
11	Texas	1.24
12	Nevada	1.25
13	South Dakota	1.65
14	Pennsylvania	1.79
15	Iowa	1.94
16	Georgia	2.34
17	Florida	2.37
18	North Dakota	2.38
19	California	2.69
20	Virginia	2.7
21	Michigan	3.01
22	Utah	3.17
23	Arkansas	3.75
24	Arizona	3.97
25	Wyoming	4.09

26	Kansas	4.2
27	Vermont	4.28
28	Minnesota	5.31
29	Alabama	5.43
30	Massachusetts	5.9
31	New Hampshire	5.9
32	Idaho	6.09
33	Maryland	6.4
34	New Jersey	6.47
35	Oregon	6.65
36	Louisiana	7.13
37	Colorado	7.21
38	Connecticut	7.34
39	Montana	7.37
40	Alaska	7.38
41	South Carolina	7.71
42	Maine	8.03
43	Hawaii	8.09
44	New Mexico	8.66
45	Oklahoma	8.99
46	Rhode Island	9.19
47	Kentucky	9.54
48	Illinois	9.85
49	Mississippi	11.18
50	West Virginia	11.31

Source: Moody's January 2011 report

Combined Pension and Long-Term Debt Liability as a % of GDP

1	Nebraska	0.1
2	**Indiana**	**1.7**
3	South Dakota	1.9
4	North Carolina	1.9
5	Tennessee	1.9
6	Iowa	2.1
7	Texas	2.3
8	Missouri	2.8
9	Ohio	2.9
10	Nevada	3.1
11	North Dakota	3.1
12	Pennsylvania	3.9
13	Wyoming	4.2
14	Wisconsin	4.2
15	Delaware	4.3
16	New York	4.4
17	Virginia	4.5
18	Arkansas	4.7
19	Michigan	5
20	Georgia	5.1
21	Washington	5.2
22	Florida	5.2
23	Utah	5.6
24	Arizona	5.9
25	Vermont	6

26	Kansas	6.8
27	California	7.4
28	Minnesota	7.4
29	New Hampshire	7.4
30	Alabama	7.6
31	Idaho	7.7
32	Colorado	8
33	Montana	8.3
34	Alaska	9.3
35	Louisiana	9.7
36	Maryland	9.8
37	Maine	10.1
38	Oklahoma	10.4
39	South Carolina	10.4
40	Oregon	11
41	New Mexico	12.2
42	New Jersey	13.2
43	Illinois	13.6
44	Rhode Island	13.9
45	Massachusetts	14.2
46	Kentucky	14.2
47	West Virginia	14.5
48	Connecticut	15.2
49	Mississippi	15.9
50	Hawaii	16.2

Source: Moody's January 2011 report

Automatic Taxpayer Refund

- 50% of state’s excess reserves will be transferred into state pension funds
- In FY 2013, the following pension funds will receive transfers to increase their funded status to 80%:
  - Indiana State Police
  - Conservation and Excise Officers
  - Judges
  - Prosecutors
- The Pre-1996 Teachers’ Pension Fund will receive the remaining excess
- In future years, the entire 50% will be transferred into the Pre-1996 Teachers’ Pension Fund

Other Post-Employment Benefits

- Lowest unfunded OPEB liability per capita of any state
  - As of June 30, 2011, Indiana’s unfunded OPEB liability totaled $383 million
  - Reduction of more than 25% compared to June 30, 2010
- Pre-funding of plans began in FY 2011
- Further reductions in the unfunded liability projected for June 30, 2012 valuation

Lowest Unfunded Liability for Retiree Health Care Per Capita

Rank	State	Unfunded OPEB Liability Per Capita
1	Alaska	$16,742
2	Connecticut	8,281
3	Hawaii	7,933
4	New Jersey	7,597
5	Delaware	6,527
6	Michigan	4,269
7	West Virginia	3,785
8	North Carolina	3,451
9	Illinois	3,421
10	Alabama	3,201
11	New York	2,932
12	Maryland	2,831
13	New Hampshire	2,618
14	Vermont	2,591
15	Louisiana	2,543
16	Ohio	2,531
17	Massachusetts	2,269
18	Texas	2,182
19	California	2,076
20	Georgia	2,010
21	South Carolina	1,989
22	Maine	1,854
23	Kentucky	1,717
24	New Mexico	1,625
25	Pennsylvania	1,3834

Rank	State	Unfunded OPEB Liability Per Capita
26	Rhode Island	$736
27	Nevada	685
28	Arkansas	640
29	Washington	563
30	Montana	547
31	Virginia	538
32	Missouri	513
33	Wyoming	451
34	Tennessee	361
35	Colorado	340
36	Wisconsin	274
37	Florida	257
38	Mississippi	245
39	Minnesota	221
40	Iowa	177
41	North Dakota	160
42	Utah	153
43	Oregon	131
44	Arizona	105
45	Kansas	98
46	Oklahoma	96
47	Idaho	90
48	South Dakota	87
49	**Indiana**	**59**

* Data for Nebraska was not available

Source: *Bloomberg, Pew Center on the States, U.S. Census*