PENSION MANAGEMENT OVERSIGHT COMMISSION

Legislative Services Agency
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Indianapolis, Indiana 46204-2789
Tel: (317) 233-0696 Fax: (317) 232-2554

MEETING MINUTES[1]

Meeting Date:	**August 3, 2011**
Meeting Time:	**1:00 P.M.**
Meeting Place:	**State House, 200 W. Washington St., Room 431**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**1**

Members Present: **Sen. Greg Walker, Chairperson; Sen. R. Michael Young; Sen. Lindel Hume; Rep. Jeffery Thompson; Rep. David Niezgodski; Rep. Win Moses; Steve Meno; Kip White; Gary Lewis; James Scheetz.**

Members Absent: **Sen. Karen Tallian; Rep. Woody Burton.**

The Chair, Senator Walker, called the first meeting of the Pension Management Oversight Commission (PMOC) to order at 10:10 a.m.

Commission members introduced themselves.

The Commission's operating procedures were reviewed. (Exhibit 1)

Cost of Living Adjustments (COLA) for Spouses of Judges

Senator Walker described the assigned study topic regarding the issue of whether widows

[1] These minutes, exhibits, and other materials referenced in the minutes can be viewed electronically at http://www.in.gov/legislative Hard copies can be obtained in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for hard copies may be mailed to the Legislative Information Center, Legislative Services Agency, West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for hard copies.

of judges should receive COLAs or other increases in the survivor benefits. Commission members were provided with some information regarding the study topic and COLAs. (Exhibits 2 through 5)

Indiana Public Retirement System (INPRS) Update

The Chair then recognized Steve Russo, INPRS Executive Director, who provided a PowerPoint presentation (Exhibit 6).

Overview

Mr. Russo began by providing a overview of the funds administered by INPRS. He noted that INPRS oversees seven funds (Public Employees' Retirement Fund (PERF); Indiana State Teachers' Retirement Fund (TRF); 1977 Police and Fire; Judges' Retirement System; Excise Police, Gaming Agents, Conservation Officers; Legislators' Retirement System; and the Prosecuting Attorneys' Retirement Fund). There are currently more than 480,000 members in all the funds. Also, INPRS currently serves over 1,200 employers. The member/employer contributions paid in FY 2011 totaled $1.9 B for all INPRS funds. In the same year, benefits to retirees and beneficiaries amounted to $3.9 B. As of June 30, 2011, INPRS had net assets worth $25.7 B.

Mr. Russo then discussed the funding of the plans. He began the discussion by describing actuarial required contributions (ARC). Mr. Russo said that the ARC for "pay-as-you-go" plans equals the current benefit obligation of the plan while the ARC for actuarial pre-funded plans equal a payment percentage based upon actuarial science (contribution rate). The contribution rates for pre-funded plans are based on normal costs (cost of benefit) and the amortization of the unfunded liability. The amortization of the unfunded liability is generally based on the calculation of a 30 year time horizon. Mr. Russo clarifired that a plan that is 100% funded would only pay the normal costs. The contribution rate charged to employers is set by the Board of Trustees taking into account the actuary calculated rate, scenario analysis, and stability of the fund over time. PERF and TRF received 102% of the plans ARC in FY 2009. Mr. Russo said that this helped Indiana maintain its AAA credit rating.

Senator Young asked why the Judges' Retirement System has a low funding ratio while it has a high unfunded liability. Mr. Russo responded that the Judges' Retirement System is a pay-as-you-go plan. He went on to describe how the state has recently began to treat the fund as a pre-funded plan.

Mr. Russo stated that five percent of the state's revenue is currently used to support public pensions. He went on to explain that the aggregate funded ratio of the pre-funded plans currently administered by INPRS is 93.4%. INPRS expects the aggregate funding ratio to drift lower through FY 2013 because of smoothing requirements for investment gains or losses.

Mr. Russo then discussed the TRF's pre-1996 account. The pre-1996 account has a $10.9 B liability. He then discussed the state's funding plan for the pre-1996 account. The state has provided a mechanism to provide a six percent annual growth in appropriations.[2] This

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[2] IC 5-10.4-2-5(d) provides that the "[t]he pension stabilization percentage is one hundred six percent (106%)". Pursuant to IC 5-10.4-2-5(c), this percentage is multiplied by the state's prior year state general fund payments for the pre-1996 account to calculate current fiscal year payments from the PSF.

will be supplemented with proceeds from the Pension Stabilization Fund (PSF). The PSF was established in 1994 with an appropriation of $440 M for the purpose of managing baby boomer retirements. Currently, the PSF has approximately $2 B. The PSF will decline slowly until FY 2028.

INPRS predicts that benefit payments from the TRF pre-1996 fund will peak in approximately 2025 and will slowly decline thereafter.

Mr. Russo then discussed how every state is unique as to how public pensions are funded and stressed the need for adequate funding by the General Assembly.

Investment Performance

Mr. Russo stated that the rates of return of all asset classes were positive and have exceeded their respective benchmarks. Indiana is likely to be close to the national average given INPRS's allocation strategy.

Asset Allocation

INPRS is currently working to consolidate the asset allocations of the various plans. A new allocation plan is expected by the end of 2011. Implementation of the plan should take approximately 12 to 24 months.

Operational Performance

Mr. Russo then briefly discussed the operational performance of INPRS. He indicated that INPRS consistently provides over 90% customer satisfaction and is very good at timely providing benefits to its members. INPRS has been recognized in customer service and administrative efficiency by a global pension system benchmarking firm. It has also received certificates of achievement for excellence in financial reporting from the Government Finance Officers Association and has received public pension standards awards for funding and administration from the Pubic Pensions Coordinating Council.

PERF/TRF Consolidation Update

Mr. Russo provided an update on the consolidation of PERF and TRF. In HEA 1205-2010, the General Assembly required the PERF and TRF boards of trustees to jointly appoint a common director and to cooperate to the extent practical and feasible in the investing of fund assets. Also, SEA 549-2011 established INPRS to be governed by a nine member board of trustees.

Currently, INPRS calculates administrative cost savings from the consolidations at $1.5 M per year. Mr. Russo stated that current investment consolidation savings are $10.6 M per year and he stated that additional investment cost savings will occur as a combined asset allocation is implemented.

Use of Placement Agents

Mr. Russo described a placement agent (broker) as a third party marketing and consulting service provider to investment management firms. He then discussed how some "pay-to-play" scandals have brought increased scrutiny on the use of placement agents. He used an example from New York in which an investment fund with a board composed of a single person required the use of a particular placement agent, who in turn provided the board member with a portion of the placement agent's fees collected.

INPRS contractually prohibits the payment of placement agent fees by the investment manager or any affiliate in connection with an INPRS investment without the investment manager disclosing if fees are paid. Also, INPRS board members and staff are governed by an Indiana code of ethics that prohibits the receipt of compensation or gifts from those who do business with or are seeking business from the fund.

Mr. Russo indicated that most of the investment manager selection has been delegated by the INPRS board of trustees to staff members and that the investment manager recommendations are independently vetted by a consultant hired by the INPRS board of trustees. INPRS investment staff sign an affidavit of compliance form for each recommended investment and now file annual financial disclosure statements with the State Ethics Commission.

Governmental Accounting Standards Board (GASB) Rule Changes

Mr. Russo then discussed proposed GASB rule changes to bring consistency to various public retirement fund reporting requirements. He stated that INPRS already follows most of the GASB proposed rules. However, the new GASB rules mandate a five year smoothing on investment gains and losses whereas INPRS currently uses a four year smoothing on investments. Also, the proposed GASB rules will require local units of government to report their share of a cost-sharing plan's net pension liability.

Actuarial Assumptions

Mr. Russo briefly discussed actuarial assumptions used by INPRS. He stated that the investment rate of return assumption and the asset valuation method are two of the most influential assumptions used by INPRS. He then stated that INPRS uses an investment rate of return assumption of seven percent, which is one of the lowest in the country. The inflation assumption is a major component of assumed wage growth. The spread between investment rate of return and wage growth is a key driver of active participant costs.

COLAs

Mr. Russo next described COLAs for the various funds. He indicated that COLAs of the various funds are ad-hoc with the exception of the Judges' Retirement System and the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund). Actuaries figure in ad-hoc COLAs based upon historical experience. With the exception of the TRF pre-1996 account, COLAs are funded by the employer as part of their contribution rate. The TRF pre-1996 account is funded from an appropriation from the state general fund. In response to a question from the Chairperson, Mr. Russo indicated that COLAs for the 1977 Fund apply to surviving spouses, whereas COLAs for the Judges Retirement System do not apply to surviving spouses. Mr. Russo concluded by explaining that at least three states are being sued by fund members because that particular state eliminated an automatic COLA.

Senator Young commented on the difference between the average teacher's retirement benefit versus the average retirement benefit received by a judge.

Next Meeting Date

The Chairperson indicated that he would like to discuss a potential COLA for a surviving spouse of a member of the Judges' Retirement System at the next meeting. He went on to state that he would like to discuss the merits of a defined contribution plan versus a defined benefit plan. Representative Niezgodski asked whether the Chairperson's intent was to require members of a defined benefit plan to roll over their benefits into an individual retirement account. Senator Walker responded that he was not anticipating a mandated rollover and wanted to study the effect on the defined benefit plan if members could voluntarily switch from a defined benefit plan to a defined contribution plan.

The Commission selected September 28, 2011 at 1:00 p.m. as the next meeting date.

Adjournment

The Chairperson adjourned the meeting at 3:05 p.m.

EXHIBIT 1
PMOC 1st meeting AUG 3, 2011

LEGISLATIVE COUNCIL RESOLUTION 10-02
(As Adopted June 2, 2010)

BE IT RESOLVED BY THE INDIANA LEGISLATIVE COUNCIL:

POLICIES GOVERNING STUDY COMMITTEES

SECTION 1. **DEFINITIONS.** For the purposes of this resolution, "study committee" means a committee or commission which has been established by the Legislative Council or statute and:

(1) is chaired by a member of the General Assembly and has members of the General Assembly serving as at least one-half of its voting membership;
(2) is required by law to be staffed by the Legislative Services Agency (LSA) or to operate under procedures or policies established by the Legislative Council;
(3) whose chairman by law must be selected by the Chairman of the Legislative Council, the Speaker of the House, or the President Pro Tempore of the Senate; or
(4) is comprised of standing committees of both the House and Senate.

SECTION 2. **APPLICATION AND INTERPRETATION OF RESOLUTION.** (a) Study committees as defined in SECTION 1 of this resolution are under the jurisdiction of the Legislative Council. The LSA shall provide staff support to those committees as directed by the Legislative Council.

(b) In the event of a conflict between a statute governing a study committee and a provision of this resolution, that statute supersedes such a provision only to the extent of the conflict. If the statute in question is silent with regard to a provision of this resolution, this resolution prevails.

SECTION 3. **TERMS OF CERTAIN COMMITTEE CHAIRMANSHIPS.** Unless otherwise provided by a statute or by Council resolution, the appointment of a chairman of a statutory or Council-created study committee expires on December 31 of the year in which the chairman is appointed.

SECTION 4. **CREATION OF SUBCOMMITTEES PROHIBITED.** (a) As used in this section, "subcommittee" refers to any entity consisting wholly or partially of a subset of members of a study committee.

(b) Unless required or specifically authorized by statute, or authorized by the Legislative Council, a study committee chairman may not create subcommittees. The chairman of a subcommittee must be a legislator member of the study committee whose members form all or part of the subcommittee.

(c) Notwithstanding subsection (b), a study committee chair may establish informal work groups made up of study committee members so long as the work groups operate as follows:

(1) No official action will be taken by a work group. The work group may report on its activities to the full study committee.

(2) The LSA will not staff or take minutes during a work group meeting.

(3) A lay member of a study committee is not entitled to a per diem or any expense reimbursement for activities related to the work group.

(4) A legislative member of a study committee may request the Senate or House to receive a per diem and other expense reimbursement for activities related to the work group.

SECTION 5. **PER DIEM AND MILEAGE AUTHORIZATION.** (a) The LSA is authorized to pay per diem and mileage or travel allowances, in the amounts provided by law, to:

(1) any member of the General Assembly who is appointed by the Governor, Speaker of the House, President or President Pro Tempore of the Senate, House or Senate Minority Leader, or Legislative Council, to serve on any board or commission or on any research, study, or survey committee and who attends a meeting of that body;

(2) any member of the General Assembly who attends an out-of-state meeting as authorized by the Speaker of the House of Representatives or the President Pro Tempore of the Senate, as the case may be; and

(3) any person who is not a member of the General Assembly, but who is appointed by the Governor, Speaker of the House of Representatives, President or President Pro Tempore of the Senate, House or Senate Minority Leader, or Legislative Council to serve on any study committee under the jurisdiction of the Legislative Council and who attends a meeting of that committee.

(b) In addition to per diem and mileage, a lay member may request lodging reimbursement not to exceed a total of $85 per night (inclusive of all applicable hotel taxes) for in-state committee meetings held outside of Marion County.

SECTION 6. **STUDY COMMITTEE MEETING DEADLINE.** (a) Per diem and mileage or travel allowances may be paid for attendance at a meeting of a study committee only if the meeting is held before November 1, 2010. This subsection does not apply to the Legislative Council or to a study committee created by statute, if that statute specifically requires or permits meetings during other times of the year (a statutory provision stating that a study committee shall meet upon the call of the chairman is not specific authority for meetings after October 31, 2010).

(b) The Executive Director of the LSA may withdraw staff support from committees which propose to meet after organization day for the 2011 Regular Session, if in the Executive Director's opinion staff resources cannot reasonably be diverted from legislative session work.

SECTION 7. **FUNDING FOR STUDY COMMITTEES.** (a) The budget of a study committee is $9,500, unless a greater amount is authorized in writing by the Legislative Council Chairman and Vice-Chairman.

(b) Notwithstanding subsection (a), the budget of the Legislative Council and any study committee consisting of at least 16 members is $16,500, unless a greater amount is authorized in writing by the Chairman and Vice-Chairman.

(c) The Legislative Council is committed to limiting study committee spending to the budgeted amounts specified in (a) and (b) above and authorization for greater amounts will only be approved in extraordinary circumstances.

(d) Payments for the following are chargeable against the budgets of study committees:
(1) Payment of per diem, mileage, or travel allowances as permitted by SECTION 5 of this resolution.
(2) Payment of per diem, mileage, and travel allowances to Legislative Services Agency committee staff when a committee meets outside Indianapolis.
(3) Payment of any expert witness or outside staff compensation or expenses approved under SECTION 9 of this resolution.
(4) Payment for any special materials or publications purchased specifically for use by a study committee.
(5) If approved by the chairman, payments for other necessary expenses of a committee.

(e) The budget of a study committee created by the Legislative Council takes effect on adoption of this resolution and expires on November 30, 2010.

(f) The budgets of any study committees created by statute during the 2010 regular legislative session take effect on the adoption of this resolution, and expire June 30, 2011. However, the budgets of study committees previously created by statute take effect on July 1, 2010, and expire June 30, 2011.

SECTION 8. **STUDY COMMITTEE REPORT DEADLINES.** (a) Each study committee created by the Legislative Council shall submit a final report to the Council within 10 working days after the final meeting of the study committee; however, the Council Chairman and Vice-Chairman may jointly extend the due date for a committee's final report beyond that 10-day period. The final report shall set forth in separate sections background information, the committee's findings, and its recommendations concerning the topics identified in its work program.

(b) Study committees created by statute shall submit final reports at such times and containing such information as the Council directs.

(c) Study committees created by statute to which topics have been referred by the Council are requested to report their findings and recommendations on those topics to the Council within 10 working days after their final meeting for the interim. Requests for any minority reports on those topics must follow the procedures outlined in SECTION 12 of this resolution.

SECTION 9. **EXPERT WITNESS COMPENSATION.** If a study committee wishes to compensate an expert witness or outside staff for his or her services, the chairman must obtain the prior written approval of the Chairman of the Legislative Council.

Requests for expert witness or outside staff compensation must be submitted to the Chairman in writing, and must indicate the amount of honorarium (if any) and the estimated amount of expense reimbursement (travel and lodging) that is desired. Once approved, the honorarium (if any) and reimbursement will be paid from funds appropriated to the Legislative Council and the LSA and allocated to that committee, unless a study committee has its own appropriation.

SECTION 10. **STUDY COMMITTEE POLICY RECOMMENDATIONS.** A study committee may not direct a public policy recommendation (except in its final report) to any public or private entity (except the Indiana House of Representatives, the Indiana Senate, or the Legislative Council) unless that committee has first obtained the written approval of the Personnel Subcommittee of the Legislative Council to do so.

SECTION 11. **TAKING ACTION BY STUDY COMMITTEES.** (a) Unless there are specific contrary provisions in a statute, a study committee may not recommend a final bill draft, or a final report, unless that draft or report has been approved by a majority of the voting members appointed to serve on that committee. All such votes taken by a study committee must be taken at a public meeting of the committee and shall be recorded in the committee's final report.

(b) A member of a study committee must be present at a meeting of the study committee to cast a vote. Proxy votes are never in order at a study committee meeting.

(c) Absence from one or more meetings of a study committee does not disqualify a member of the study committee from casting votes at a subsequent meeting.

SECTION 12. **STUDY COMMITTEE MINORITY REPORTS.** LSA study committee staff may not prepare a "minority report" for members of a study committee unless at least 4 legislator members of that committee jointly make such a request in writing to the Executive Director of the LSA. The request must be made within 5 working days after adoption of a final report, and the minority report must be completed by not later than 10 working days after the date the request is made. No more than 1 minority report may be prepared for any study committee.

SECTION 13. **LOCATION OF STUDY COMMITTEE MEETINGS HELD**

OUTSIDE OF THE STATE HOUSE. If a study committee meeting is to be held at a site other than the State House, the chairman of the study committee should select a site that accommodates the needs of individuals with disabilities. However, this SECTION does not apply to any part of a meeting that consists of an on-site inspection of a project or program.

SECTION 14. **ISSUANCE OF SUBPOENA.** A study committee does not have the power to subpoena or otherwise compel the production of testimony or documents except to the extent such power is specifically granted to the study committee by the Legislative Council under IC 2-5-1.1.

SECTION 15. **DURATION OF THIS RESOLUTION.** This resolution, as amended from time to time, remains in force until specifically repealed or superseded.

EXHIBIT 2
PMOC 1st meeting Aug. 3, 2011

EXCERPT FROM LEGISLATIVE COUNCIL RESOLUTION 11-01
(As Adopted June 7, 2011)

PENSION MANAGEMENT OVERSIGHT COMMISSION (IC 2-5-12)

THE COMMISSION IS CHARGED WITH STUDYING THE FOLLOWING TOPIC:

Cost of living adjustments or other increases in the survivor benefits for widows of judges (Senator Long).

EXHIBIT 3
PMOC 1st meeting Aug 3, 2011

,·ranklin Parrish

From: Franklin Parrish
Sent: Tuesday, April 06, 2010 1:05 PM
To: 's23@in.gov'
Subject: RE: JUDGES' WIDOW'S RETIREMENT BENEFITS April 6, 2010
Attachments: Judge Myles F. Parrish of Adams County Circuit Court 1948-1981.pdf; Lugar LTR response Indiana Judges' Retirement Income.pdf; Judge Schurger's response letter.pdf

RE: **JUDGES' WIDOW'S RETIREMENT BENEFITS** April 6, 2010

Dear Chairman Boots:

Please see my attached correspondence to Chief Justice Shepard, of The Indiana Supreme Court and Judge Fred Schurger of The Adams Circuit Court. Also, see attached response from Senator Richard G. Lugar and Judge Schurger.

My correspondence regards the unacceptable and desperate economic situation my Mother, Beulah M. Parrish, (age 92) faces as the surviving spouse of my late Father. The Honorable Myles F. Parrish was Judge of The Adams Circuit Court from 1948 until his death in 1981. Prior thereto, he was a Special Agent in the FBI, a Lieutenant in Naval Intelligence during The Second World War, and Prosecuting Attorney for Adams County.

My Mother only receives $1000 per month in Judge's retirement benefits. This amount has never been increased since September, 1981, the month following my Father's sudden death while serving on the bench. There is no inflation or cost of living adjustment. This payment is below the poverty level, and ranks 49th in state Judge's retirements benefits, only in excess of that provided by the State of Mississippi.

I would appreciate your immediate intercession to rectify this injustice. As you will note Senator Lugar and Judge Schurger totally agree with my position. **Widows of surviving Judges have no organized lobby like other state workers and labor unions.** Please advise as to what actions you will personally take to rectify this matter.

With kindest regards,
I am sincerely,

M. Franklin Parrish, Esq.
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SAN FRANCISCO, SAN JOSE
SANTA ROSA, MENLO PARK

April 5, 2011

PERSONAL AND CONFIDENTIAL

The Honorable Richard G. Lugar
United States Senate
306 Hart Senate Office Building
Washington, D.C. 20510-1401

Re: **Indiana Circuit Court Judge's Widow's Retirement Pension (Beulah M. Parrish- Widow of The Late Judge Myles F. Parrish):**

Dear Senator Lugar:

Approximately one (1) year ago I wrote to you a personal letter regarding the parsimonious retirement benefits my Mother, Beulah M. Parrish, age 93, is now receiving from The State of Indiana.

As noted in the prior correspondence, my Father was the late Myles F. Parrish. He was the Judge for The 26th Judicial Circuit in Indiana. The Circuit Court was located in Decatur, Indiana, County Seat for Adams County. My Father died at age 64, and was the youngest elected Circuit Court Judge in Indiana history at age 28. He was reelected five (5) times and in his thirty-fourth (34th) year as a Judge dropped dead at age 64.

I am my parents' only child, and I had to alone make the decision at age 29 to cease artificial life support for my Father. Prior to my Father being elected to the position of Circuit Court Judge, he was the Prosecuting Attorney for Adams County following the Second World War. During the War years my Father was a Special Agent in the FBI, as well as a Lieutenant in The United States Navy (Naval Intelligence Division).

At my Father's death my Mother was granted one-half (1/2) of his retirement pension. My Father died on Monday, August 24, 1981. My Mother began to receive in September of 1981 a retirement check for One Thousand Dollars ($1000.00) from The Indiana Judges' Association. Since that date, in 1981, three (3) decades ago, my Mother has never received one cost of living adjustment. I find this to be an outrage that One Thousand Dollars ($1000.00) in 1981 is now valued at Three Hundred Dollars ($300.00) in purchasing power. This is due to our Federal

Government's spendthrift policies of both political parties. I find such conduct by the State of Indiana offensive to my Mother.

The Parrish Family was one of the founding families of the City of Decatur. The town square on which the Court House now stands was built in 1876, and such land was donated by my Great Great Great Uncle. In addition, my Father was born and died in the same home which was purchased by my Great Grandfather, who was a veteran of the Civil War (Joshua Parrish-Corporal 89th Indiana Volunteer Infantry). Joshua Parrish was wounded by Confederate soldiers in Louisiana in 1863, survived the war, and thereafter had eight (8) children. My Father's Great Great Great Grandfather, Thomas Archibold, is the only Revolutionary War Veteran from Adams County. My Father was a Charter Member of the Adams County Historical Society and The Sons Of The American Revolution.

I bring my Father's background to your attention due to the fact that since my prior correspondence, no elected Indiana representative has done anything to help my 93-year-old widowed Mother. In addition to my Father's paltry retirement check, Mother is also the recipient of a monthly check from the Indiana State Teachers' Association. She began teaching elementary grade school in 1938 for One Hundred Dollars ($100.00) per month. Today her retirement stipend is One Hundred Three Dollars ($103.00) per month. Seventy (70) years later Mother is only receiving Three Dollars ($3.00) more a month in retirement pay than she received as an active teacher in 1938. I find both payments an insult to the intelligence of an individual with a conscience.

Recently I read an article in *The Wall Street Journal* quoting Indiana's Governor as stating: "I am proud that Indiana is in the black." I applaud him for his accomplishment in comparison to the financial nightmare caused by illegal aliens and many worthless welfare programs in California.

Now I am asking for your personal intervention on behalf of my Mother, Beulah M. Parrish. She cannot live on the above payments in combination with a Social Security monthly check of Twelve Hundred Dollars ($1200.00). Her care at Decatur's Evergreen Assisted Living retirement complex, administered by the Adams County Memorial Hospital, costs Twenty-Four Hundred Dollars ($2400.00) per month, not including the additional private care I pay of Fifteen Hundred Dollars ($1500.00) to another caregiver because of the unwillingness of the staff to assist my Mother. **By comparison, the compensation for the President of the Adams County Memorial Hospital approaches Two Hundred Thousand Dollars ($200,000) per year. He is the highest-paid public figure in the County.**

No elected public official has done one thing to help my Mother. As Pontius Pilate, each has "Washed their hands of the matter." They all had suggestions which went nowhere. Obviously, Widows have no Union. They are not a political force in Indiana or elsewhere. Likewise, they can make little if any monetary contributions to your reelection campaigns. However, I believe these elected public figures should burn in Hell to knowingly allow a retirement plan to exist without any inflation or cost of living

<u>adjustment to exist for the past thirty (30) years. Would you allow such a travesty to occur for your surviving spouse?</u>

I want this letter to be published in the local newspapers so the electorate can see how our "public servants" treat the elderly. Such inaction is an insult to the career of my Father. I expect no less that you can personally take corrective actions and not "pass the buck" for this grievous wrong.

Thank you for your time and consideration. Your personal response will be most appreciated.

I am sincerely,

M. Franklin Parrish

MFP:jnz

CC: The Honorable Randall T. Shepard
The Honorable Mitchell E. Daniels
The Honorable Daniel Coats
The Honorable Frederick A. Schurger
Senator Karen Tallian
Senator James Arnold

EXHIBIT 4
PMOC 1st meeting AUG 3, 2011

Visit the GRS website at:
www.gabrielroeder.com

GRS INSIGHT

April 2011

In This Issue

The sharp investment declines in 2008-2009 and the resulting economic and financial pressures have led state and local governments to search for ways of controlling pension costs and stabilizing contributions.

This search includes reviewing the costs associated with postemployment cost-of-living adjustments (COLAs). While COLAs are an important component of pension plan design, different types of COLAs have different advantages and disadvantages.

Recent changes to COLA designs may be seen as working to find some middle ground between ad hoc and automatic COLAs. In some cases, the COLA remains automatic but is also contingent on the plan's funded ratio or on amounts accumulated in a reserve account. In other cases, the COLA remains ad hoc but is provided on an actuarial basis.

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Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends

By Paul Zorn, Mark Randall, and Joe Newton

The following article is based on a study done by GRS for the Wyoming Retirement System (WRS). Our thanks go to Thomas Williams, Executive Director of WRS, for his permission to use the study as the basis for our article. Our thanks also go to David Stella, Secretary of the Wisconsin Department of Employee Trust Funds, for his help in describing Wisconsin's postemployment benefit adjustment.

The sharp investment decline that occurred in 2008-2009 and the resulting financial pressures on state and local governments have led government officials to search for ways of controlling pension costs and stabilizing required contributions. As a result, many pension plans and plan sponsors are reviewing their plan designs, including reviewing the costs associated with postemployment cost-of-living adjustments (COLAs). This article discusses the purpose of COLAs, how they are provided, and the advantages and disadvantages of different types of COLAs. It also discusses recent changes in public-sector COLAs and the relative costs of COLA designs.

The Purpose of COLAs

To protect retiree benefits from inflation, many public retirement systems provide COLAs. Inflation is typically measured through one of two indexes, both produced by the U.S. Bureau of Labor Statistics. The first is the Consumer Price Index for All Urban Consumers (CPI-U) and the other is the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).[1] Over the past 30 years, both measures have shown similar patterns of inflation. Chart 1 on the next page shows inflation based on the CPI-U.

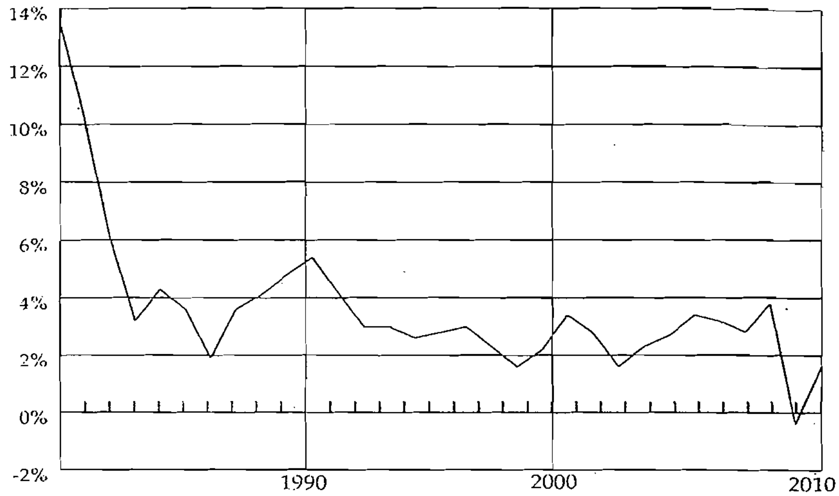
As measured by the CPI-U, inflation averaged 3.3% over the past 30 years and ranged from 13.5% in 1980 to -0.4% in 2009. Over the past 10 years,

[1] The CPI measures average changes over time in the prices of goods and services, including food, clothing, shelter, fuels, transportation, medical services, and other items people buy for day-to-day living. The CPI-U measures the average change in prices for approximately 87% of the U.S. population, and is collected from 87 urban areas across the country. The CPI-W is a narrower measure than the CPI-U, in that it only covers wage earners and clerical workers, who make up about 32% of the U.S. population.

inflation averaged 2.4% and ranged from 3.8% in 2008 to -0.4% in 2009. For people receiving retirement benefits that are not adjusted for inflation, even relatively small rates of inflation can significantly reduce their purchasing power when applied over extended periods of time.

As shown below in Chart 2, annual inflation of 3% would cause the purchasing power of a $50,000 initial benefit to fall to $27,700 after 20 years (a 45% reduction) and $20,600 after 30 years (a 59% reduction). Similarly, annual inflation of 4% reduces purchasing power by 54% over 20 years and 69% over 30 years. Even a relatively low inflation rate of 2% reduces purchasing power by 33% after 20 years and 45% after 30 years.

Chart 1: Changes in the CPI for All Urban Consumers (1980-2010)

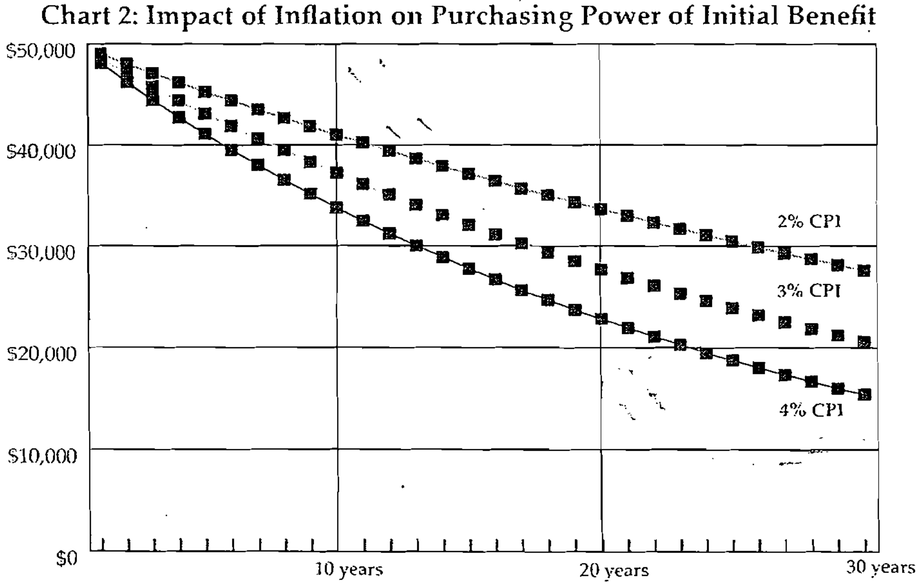


Changes in the CPI-U averaged 2.4% over the last 10 years and 3.3% over the last 30 years.

COLAs Provided by Public Plans

Most public pension plans have provided postemployment COLAs either on an ad hoc basis or on an automatic basis. A key feature of ad hoc COLAs is that they require the approval of the plan sponsor's governing body (or in some cases the plan's board). In contrast, automatic COLAs do not require the governing body's approval and are often based either on a fixed annual rate (e.g., 3%) or on the CPI - often with an upper limit (e.g., CPI up to 3%).

Chart 2: Impact of Inflation on Purchasing Power of Initial Benefit



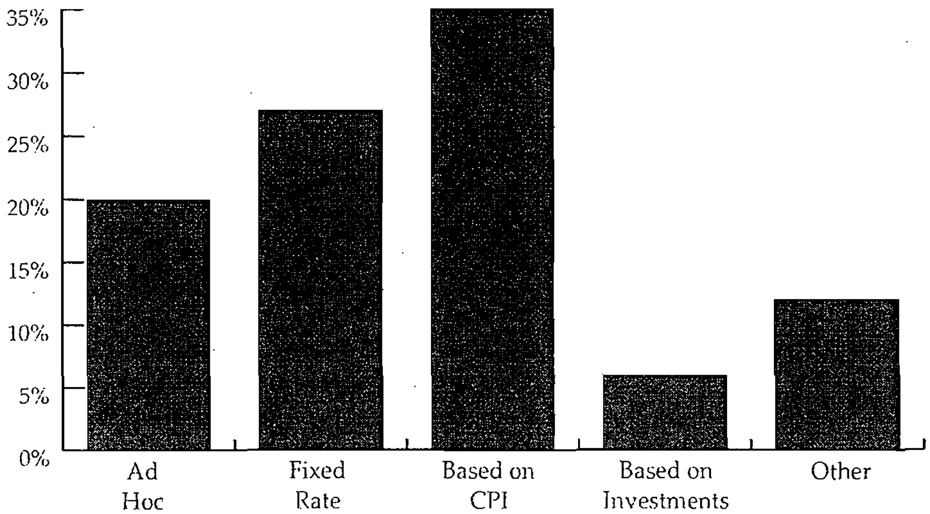
Several public pension plans base COLAs on investment earnings that are above some benchmark rate of return for the year (e.g., the assumed long-term rate of return). COLAs based on investment returns were introduced in the 1990s due, in part, to the relatively high investment returns earned in that decade. More recently, some plans have implemented a combined approach, including a relatively low fixed COLA (e.g., 2%) in combination with a COLA based on investment earnings that exceed long-term expected returns.

On the next page, Chart 3 summarizes the general COLA approaches used by over 100 large public plans included in the Public Fund Survey conducted by the National Association of State Retirement Administrators (NASRA) and the National Council on Teacher Retirement (NCTR).

About 20% of the plans use ad hoc COLAs, 27% use a fixed rate (often 3%), and 35% base their COLAs on the CPI (often capped at 3%). Only about 6% base their COLAs solely on investment returns. However, of the 12% that provide COLAs through other approaches, about half include COLAs based partly on investment returns.

These other approaches include COLAs that are based on amounts

Chart 3: COLA Approaches Used by Large Public Pension Plans



Source: Authors' calculations based on NASRA/NCTR Public Fund Survey

that accumulate in reserve accounts and ad hoc COLAs that are provided when plan resources are judged sufficient to fund the COLA on an actuarial basis (e.g., "Break-Even" COLAs). Further discussion of "Break-Even" COLAs and COLAs based on a reserve account is provided later in this article (on page 4).

The advantages and disadvantages of different COLA designs are discussed in Table 1, below.

Table 1: Advantages and Disadvantages of COLA Designs

Type of COLA	Key Feature	Advantages	Disadvantages
Ad Hoc	COLA is provided at the discretion of the sponsoring employer's governing body (or the plan's board)	• COLA is provided when judged affordable by the sponsoring entity	• COLA may be infrequent and not sufficient to protect retirees' purchasing power • COLA may not be included in actuarially determined contributions and so not prefunded
Fixed Rate	COLA is provided automatically at a fixed rate (e.g., 3%) each year	• COLA can be relied on to protect some portion of retirees' purchasing power • COLA is included in actuarially determined contributions and so is likely to be prefunded	• COLA may be higher than necessary to protect against inflation in some years and lower than necessary in other years
Based on CPI	COLA is provided automatically as some proportion of the CPI increase (e.g., 100% of the CPI up to 3%) each year	• COLA can be relied on to protect some portion of retirees' purchasing power • COLA is included in actuarially determined contributions and so is more likely to be funded • COLA is not higher than necessary to protect against inflation	• COLA may be lower than necessary to protect against inflation in some years, if limited to a set percentage • In periods of high inflation, the COLA may sharply increase contributions, unless capped
Based on Investment Earnings	COLA is provided when annual investment earnings exceed some benchmark (e.g., exceed the actuarially assumed long-term rate of return)	• COLA is provided from investment returns rather than current contributions	• COLAs may be infrequent and not sufficient to protect retirees' purchasing power • Using investment returns to pay the COLA lowers the effective investment returns and so may increase future contributions or lead to a lower funded status
Based on Break-Even Contributions	COLA is provided to the extent the Annual Required Contribution (including the COLA) does not exceed the current contribution policy (e.g., the statutorily required contributions)	• COLA is provided when judged affordable by the sponsoring entity • COLA is included in actuarially determined contributions and so is more likely to be funded	• COLA may be infrequent and not sufficient to protect retirees' purchasing power • When given routinely, a Break-Even COLA may reduce plan surpluses that protect against future investment market downturns
Based on Reserve Account	COLA is provided to the extent funds held in a separate reserve account are sufficient to pay the COLA	• COLA can be funded by plan investments or by an external source • COLA is provided when judged affordable by the sponsoring entity • COLA is provided (partly or fully) to the extent funds have been set aside	• COLA may be infrequent and not sufficient to protect retirees' purchasing power • Using investment returns to pay the COLA lowers the effective investment return and so may increase future contributions or lead to a lower funded status

Recent Changes to Public Pension COLAs

As a result of the recent investment declines and resulting economic pressures, a significant number of public plan sponsors and retirement systems have redesigned their COLAs in order to control their overall plan costs. According to the *Pensions and Retirement Plan Enactments* reports by Ron Snell at the National Conference of State Legislatures (NCSL), these changes include:[2]

- **Lowering the COLA.** In 2008, the Board of Trustees of the Georgia Employees Retirement System lowered its ad hoc COLA from 3% to 2% and expressed caution about providing future COLAs until additional funding becomes available or its funded ratio improves.
- **Capping the COLA.** In 2010, the State of Rhode Island changed its COLA to only apply cost-of-living increases to the first $35,000 of the annual retirement benefit.
- **Extending the date the retiree becomes eligible to receive the COLA.** In 2010, Illinois passed legislation providing that the COLA will become available one year after the beneficiary begins receiving benefits or age 67, whichever is later. In Rhode Island, in addition to the $35,000 cap, the State is also delaying payment of the first COLA to the later of age 65 or the member's third anniversary of retirement.
- **Lowering the amount of the CPI provided by the COLA.** In 2010, the Illinois legislature lowered its COLA from a fixed 3% rate to the lesser of 3% or one-half of the CPI, but not less than zero.
- **Making the COLA contingent on the plan's funded ratio.** In 2010, South Dakota passed legislation linking the COLA to the system's funded ratio based on the market value of assets. The COLA is 2.1% if the funded ratio is below 80%; 2.4% if the ratio is between 80% and 89%; 2.8% if the ratio is between 90% and 99%; and 3.1% if the ratio is 100% or more.
- **Allowing a member to self-fund a fixed-rate COLA through a reduction in the member's initial retirement benefit.** In 2009, Louisiana passed legislation allowing members to self-fund a guaranteed 2.5% annual COLA through an actuarial reduction in benefits.
- **Establishing a reserve account to fund the COLA.** The Teachers' Retirement System of Louisiana maintains a reserve account (referred to as an Experience Account) funded by one-half of investment earnings in excess of 8.25%. COLAs are payable only if there are sufficient funds in the account and the COLA is approved by the state legislature. In 2009, the Louisiana legislature tightened the rules for determining the COLAs paid from the account.

It should also be noted that in several states, changes in automatic COLAs are being legally challenged by retirees on the grounds that reductions in vested pension benefits violate contract protections included in the U.S. Constitution and many state constitutions.

COLA Case Studies - Wyoming and Wisconsin

Wyoming and Wisconsin have innovative COLA designs. Generally, the Wyoming Retirement System uses an ad hoc postemployment COLA.[3] For seven of the Wyoming funds, an ad hoc "Break-Even" COLA is determined each year by the System's Board of Trustees in consultation with the System's actuary. In essence, these are actuarially based ad hoc COLAs.

Under the Break-Even COLA, the maximum COLA allowable each year is limited to an increase in benefits that the actuary determines to be actuarially sound (but not more than the lesser of 3% or the Wyoming Cost of Living Index). The maximum COLA is determined by taking the difference between the statutorily required contribution and the annually required contribution (ARC)[4] and calculating a COLA that could be provided to current and future retirees in perpetuity.

For example, assume that the statutorily required contribution is 14% of payroll and the ARC is 12%. The Break-Even COLA is the actuarially determined COLA that the 2% difference could provide to current and future retirees over their retired lifetimes.

After the COLA is given, it remains in effect over the retirees' lifetimes. However, any future COLAs (over and above those already provided) must be approved by the Trustees. Due to the investment decline in 2008,

[2] These reports provide an excellent summary of the changes enacted by state legislatures related to public pensions and other retirement benefits. The studies are available at: www.ncsl.org/?tabid=13399

[3] Currently, only the Wyoming Paid Firemen's Retirement Plan A has a guaranteed COLA.

[4] The annually required contribution (ARC) is determined in accordance with the Governmental Accounting Standards Board's Statements Nos. 25 and 27.

the Board of Trustees has not granted a COLA for the past three years. Moreover, state legislation has put a hold on future COLAs, at least until June 2012.[5]

The Wisconsin Retirement System's postemployment benefit adjustment also has an interesting design. If investment returns produce a surplus in the retired life reserve account (the account used to pay monthly pension benefits), the pension benefits may be increased (i.e., paid as a "dividend" in their terms). The dividend is structured so that investment earnings have to be higher than 5% for a dividend to occur. Investment returns are smoothed over a five-year period to dampen dividend volatility.

The dividends are not guaranteed and may be reduced. In fact, dividends may actually be negative if the reserve account falls below the value of the pension liabilities. For example, the 2008 investment downturn caused assets in the reserve account to fall below the liabilities. As a result, a "negative dividend" of -2.1% was applied to all annuities that had received positive dividends in prior years. The dividend is designed so that an individual's pension benefit does not fall below the amount of the original benefit.

This structure helps to allocate plan funding risks over employers and retirees. It dampens the growth of plan liabilities when investment returns are low and provides additional benefits when returns are high. Also, while the COLA is automatic, it is also variable. The COLAs have averaged 4.7% over the past 28 years and 1.3% over the past 10 years. However, dividends have been negative over the past three years as a result of the 2008 investment declines.

[5] However, as required under state law, the System has paid the 3% COLA to the Wyoming Paid Firemen's Retirement Fund Plan A.

Relative Costs of Different COLA Designs

Exhibit 1 below shows the relative estimated cost impact of several different COLA designs. The first line of Exhibit 1 shows a cost factor of 1.0 for a retirement plan with no cost-of-living adjustments (our baseline). The following COLA alternatives then show the relative cost impact of the alternative COLA designs in relation to the baseline cost factor of 1.0. For example, a 3% compound COLA with a cost factor of 1.26 is 26% more expensive than the baseline of no COLA.

Conclusions

As discussed in this article, there are a variety of ways that COLAs can be designed and funded. They can be provided on an ad hoc basis, which helps ensure that the COLA is only provided when judged affordable. However, this may also result in the COLA being offered infrequently, and the cost not being prefunded in the actuarially determined contributions.

Alternatively, COLAs can be provided automatically, which helps ensure that the cost-of-living adjustments are provided on a regular basis. However, this may also

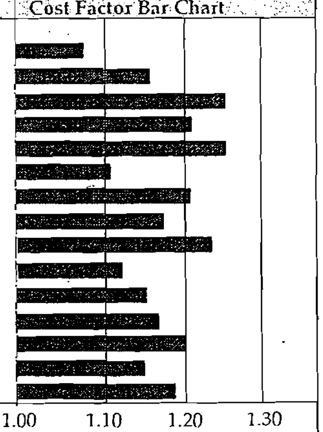
Exhibit 1

COLAs and Their Relative Cost Impact

(Assumes Cost-of-Living Increases at 3% Annually, Unless Otherwise Noted)

COLA Scenario	Notes	Cost Factor
No COLA		1.00
1% COLA	Compound	1.07
2% COLA	Compound	1.16
3% COLA	Compound	1.26
3% Simple COLA	3% of original benefit with fixed-dollar increases	1.21
Full Consumer Price Index (CPI)	Assumes 3% compound increase	1.26
50% of CPI	Assumes 1.5% compound increase	1.11
CPI capped at 3%	Assumes 2.5% per year to approximate cap	1.21
CPI deferred to age 65	Assumes later of 2 year deferral or age 65	1.17
CPI deferred for 3 years	Deferred 3 years instead of 2 years	1.23
CPI only on first $12,000	Maximum annual COLA = $360	1.12
CPI only on first $12,000 - indexed	Index $12,000 cap at 3% assumed COLA	1.15
CPI only on first $24,000	Maximum annual COLA = $720	1.17
CPI only on first $24,000 - indexed	Index $24,000 cap at 3% assumed COLA	1.20
CPI prorated on service less than 30 years	Maximum 3% COLA with 30 years of service	1.16
CPI capped at 50% of original benefit	Maximum benefit = 150% of original benefit	1.19

Cost Factor Bar Chart



put additional strain on the plan if inflation spikes or sudden investment downturns result in increased funding pressures.

Recent changes to COLA designs may be seen as working to find some middle ground. In some cases, the COLA remains automatic but is also contingent on the plan's funded ratio or on amounts accumulated in a reserve account. In other cases, the COLA remains ad hoc but is provided on an actuarial basis. Combinations of approaches are also possible.

Finally, in evaluating the advantages and disadvantages of various COLA designs, it is important to consider how COLAs might be affected by proposed future changes in pension accounting standards currently being discussed by the Governmental Accounting Standards Board. As tentatively decided by the Board, changes in benefits related to inactive or retired plan members would be recognized immediately in the plan sponsor's pension expense. If this tentative decision is included in the final rules, it would mean that changes in postemployment COLAs would no longer be amortized over time, but rather immediately recognized in the pension expense.

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Reduced Post-Retirement Benefit Increase

2010 and 2011

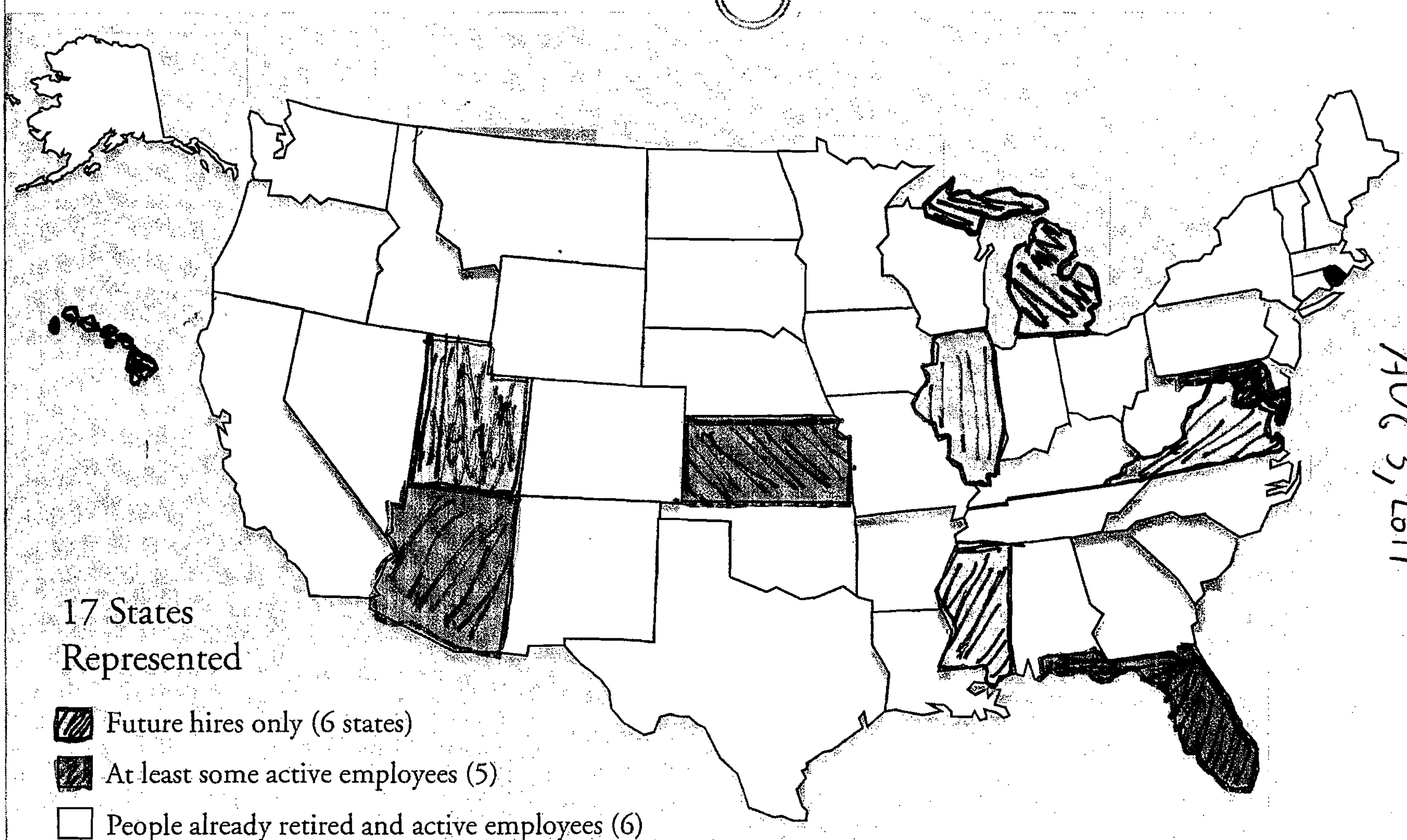


EXHIBIT 5
PMOC 1ST MEETING
AUG 3, 2011

State Retirement Legislation in 2010 and 2011
Cost-of-Living Adjustments (COLAs)
(Excerpts from summaries prepared by Ron Snell of the National Conference of State Legislatures)

I. Reduced COLAs That Apply to Future Hires Only

Hawaii. Chapter 163, Laws of 2011 (House Bill 1038) reduces the annual post-retirement benefit increase for those who become members of the Hawaii Retirement System after July 1, 2012, from 2.5% to 1.5%.

Illinois. Public Act 96-0889 (SB 1946) affects most statewide pension plans. The bill's provisions include the Chicago Teachers' Pension Fund, Metropolitan Water Reclamation District, Cook County employees, Chicago municipal employees, Cook County Forest Preserve, Chicago Park District, Judges Retirement System, General Assembly Retirement System, State Employees Retirement System, Illinois Municipal Retirement Fund, Teachers Retirement System, Chicago laborers, and the State Universities Retirement System. Excluded from the bill are the Chicago Transit Authority, Chicago fire or police, downstate and suburban fire and police plans, and those covered by the sheriff's formula in the Illinois Municipal Retirement Fund. Provisions apply to those who become members of plans on or after January 1, 2011.

Post-retirement increases will be available one year after a beneficiary begins receiving benefits or reaches the age of 67, whichever is later. The increase will be 3% or 50% of CPI, whichever is less, but not less than zero. The increases will apply only to the base annuity, and will not be compounded. Current law provides an annual 3% increase for SERS and TRS, compounded. For members of the General Assembly plan and judges, the annual post-retirement increase will be at full CPI.

Michigan. Act 75 of 2010 (SB 1227) provides that all newly hired school employees after July 1, 2010 will be enrolled in a hybrid defined benefit and defined contribution system. The hybrid plan eliminates cost of living adjustments to pension allowances.

Mississippi. Chapter 469, Laws of 2011 (Senate Bill 2439), Section 2, changes COLA provisions for people who join the retirement system on or after July 1, 2011. For people who became members of the system before July 1, 2011, the COLA is equal to the sum of 3% for each full fiscal year in retirement before the member reaches age 55, plus 3% compounded for each full fiscal year in retirement after the member reaches age 55. For those hired on or after July 1, 2011, the COLA will remain at 3% but the age at which the compounding begins will increases from age 55 to age 60.

Utah. Chapter 266, laws of 2010 (SB 63), §25, closes the existing defined benefit plans of the Utah State Retirement System and replaces them with the New Public Employees' Tier II Contributory Retirement Plans, which includes alternative plans: a defined contribution plan and a hybrid plan. Employees hired on or after July 1, 2011, may choose to join one of the two. Those failing to make a choice will become members of the hybrid plan, except for legislators and governors, who may join only the defined contribution plan.

The defined contribution plan will provide individual employee accounts to which employers will contribute 10% of employee compensation for public employees, legislators and the governor. The contribution rate will be 12% for public safety and firefighter members. Employees are not required to contribute but may do so, either to the same DC plan or to any other DC plan the employer offers. Employee contributions are immediately vested. Employer contributions will be vested after four years' covered employment. Employees may direct the investment of their contributions and the investment of employer contributions after those are vested.

The hybrid plan (§29) will include a defined benefit and a defined contribution component.

For the DB component, employers will pay up to 10 percentage points of an employee's compensation toward the amount that is required to keep the plan actuarially sound. (The 2010 employer contribution rate for the existing non-contributory plan is 14.22%.) The employee will contribute any additional amount required to make up the actuarial requirement. In the event this is required, it will be the only mandatory contributory element in the two plans. The member contribution is vested and nonforfeitable in case of the employee's departure from covered service without taking a retirement benefit, will be held in an individual account for the member or the member's beneficiary, and will earn interest.

Employers will also make contribution necessary to amortize existing liabilities of the Tier I retirement plan.

Benefits provided under the DB plan may not be increased until all the plans created in the bill reach 100% of their actuarial funding requirement.

For the DC component, employers will contribute 10% of employee compensation less the amount the employer contributes to the DB component. The employer contribution will be deposited in a 401(k) plan to which the member may choose, but is not required, to make additional contributions. Employer contributions will vest after four years' membership in the plan; employee contributions vest immediately. The member may direct the investment of his or her contributions immediately, and those of the employer after they are vested.

Eligibility for the DB benefit is at age 65 with four years of service, 60/20, 62/10, or any age with 35 years of service. The plan provides an option for the purchase of five years of service credit immediately before retirement.

The benefit formula for people who retire at 65 or who have 35 years of service will be 1.5% of final average salary (FAS) times years of service. FAS will be the average of the highest five years (as opposed to the highest three years in the old non-contributory plan).

An actuarial reduction will apply for those who retire between age 60 and 65, unless they have 35 years of service.

An annual cost-of-living increase applies: CPI to an annual maximum of 2.5%. Amounts of CPI greater than 2.5% will be accumulated and applied to the COLA in years when the CPI is less than 2.5%.

Comparable new plans are created for firefighters and public safety officers, with a higher employer contribution and earlier retirement ages for the defined benefit portion of the hybrid plan. Employers are required to provide disability coverage for professional and voluntary firefighters and public safety officers.

Virginia. Chapter 737, Laws of 2010 (HB 1189/SB 232), for those hired or rehired after July 1, 2010, reduces the portion of the increase in the Consumer Price Index used for determining annual retirement allowance supplements ("COLA") from three percent plus one-half of the next four percent to two percent plus one-half of the next eight percent.

II. Reduced COLAs That Apply to At Least Some Active Employees

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) revises the structure of cost-of-living adjustments for members of the Elected Officials', the Public Safety Personnel's and the Correction Officers' retirement plans.

• The new provisions require a total return of more than 10.5% for the prior fiscal year to allow for a cost of living increase, and limit that increase to:

Ratio of actuarial value of assets to accrued liability	Percentage of benefit being received on preceding June 30
60% or more but less than 65%	2.0%
65% or more but less than 70%	2.5%
70% or more but less than 75%--	3.0%

75% or more but less than 80%--	3.5%
At least 80%	4.0%

• States that the amount available to fund the increase to be 100% of the earnings of the fund that exceed 10.5% of the total return of the fund for the fiscal year ending June 30 of the calendar year preceding the July 1 of the increase. If that 100% is insufficient to fully fund the present value of the appropriate percentage increase, the increase is limited to the percentage that can be fully funded.
• Reverts any earnings in excess of the amount necessary to fully pay that amount to the appropriate public fund. Such earnings will not be available for future benefit increases.
• Allows the Legislature to enact permanent one-time increases, from and after December 31, 2015, after an analysis of the effect of the increase on the plan by the Joint Legislative Budget Committee (JLBC).

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) eliminates the cost-of-living adjustment (COLA) for service earned on or after July 1, 2011. Subject to the availability of funding and the Legislature's enacting sufficient employer contributions specifically for the purpose of funding the reinstatement of the COLA, the new COLA formula will expire effective June 30, 2016, and the current 3% cost-of-living adjustment will be reinstated.

Kansas. House Bill 2194 (signed by the governor May 25, 2011) increases employee and employer contributions to the Kansas Public Employees' Retirement System (KPERS), contingent upon each chamber's voting on recommendations a study commission has been instructed to submit to the Legislature on January 6, 2012.

Kansas has long capped the statutory annual contribution rate from state, school and local employers, which has prevented employers from making contributions at the rate actuarially-required to amortize the KPERS unfunded actuarial accrued liability (UAAL). Under this bill, the statutory state, school and local employer contribution annual rate caps of 0.6% would increase as follows:

• 0.9% in FY2014 (and January 1, 2014 for local employers);
• 1.0% in FY2015 (and January 1, 2015 for local employers);
• 1.1% in FY2016 (and January 1, 2016 for local employers); and
• 1.2% in FY2017 (and January 1, 2017 for local employers).

The legislation also makes adjustments in employee contribution adjustments, contingent upon the 2012 legislative votes mentioned previously. These add two options applicable to all active KPERS Tier 1 members [Tier 1 member are those who joined KPERS before July 1, 2009.]:

• Tier 1 members as the default option would have an employee contribution increase from 4% to

6% and also would be given an increase in multiplier from 1.75% to 1.85% for future years of service; or if an election is permitted by the IRS, then the alternative option could be chosen: Tier 1 members would be able to elect freezing the employee contribution rate at 4% and reducing their future multiplier from 1.75% to 1.4%.

• Two options would also be available, with IRS approval, to all Tier 2 members. The default option would continue the existing employee contribution rate of 6% of salary and eliminate post-retirement cost-of-living benefit increases. The alternative option would also continue the 6% contribution rate. It would retain the post-retirement COLA, but reduce the benefit multiplier from 1.75% to 1.4%.

Inactive KPERS members upon return to covered employment will be offered an election for alternative options in their respective tier before July 1, 2013. After that date, or if there were no election approved, inactive members would be given the default option in their tier upon returning to covered employment.

The bill also provides that 80% of the proceeds from the sale of surplus state real property will transferred to KPERS for reducing the unfunded actuarial liability.

Maryland. Chapters 56 and 57, Laws of **2010** (SB 317 and HB 775), require that retirement allowances for most Maryland State Retirement and Pension System (MSRPS) retirees not be subject to COLAs in fiscal 2011 if the average change in the CPI-U from 2008 to 2009 is negative. If COLAs are not applied in fiscal 2011, then fiscal 2012 retirement allowances must be reduced by the difference between fiscal 2010 allowances and the allowances that would have been paid in fiscal 2011 if COLAs had been applied. The acts do not apply to retirees of the Legislative Pension Plan or the Judges' Retirement System, whose benefits are linked to the salaries of active legislators and judges, respectively. The Acts also require the MSRPS Board of Trustees to study options for addressing future situations in which the CPI-U is negative and report its findings and recommendations to the General Assembly.

Maryland. House Bill 72, the Budget Reconciliation and Financing Act, included extensive changes to Maryland retirement plans. The bill became law without the governor's signature on April 8, **2011.**

Under current law, all SRPS retirement benefits are adjusted automatically to account for annual inflation, but the size of the adjustments varies by plan. Retirees of the Employees' Pension System (EPS) and Teachers' Pension System (TPS), as well as the Law Enforcement Officers' Pension System (LEOPS), receive automatic annual COLAs linked to inflation, subject to a 3% cap. The State Police Retirement System (SPRS) and the Correctional Officers' Retirement System (CORS) also receive COLAs linked to inflation, but they are not subject to a cap.

The changes in House Bill 72 do not affect COLAs for individuals retired as of July 1, 2011, but do affect COLAs that current active members in EPS, TPS, LEOPS, SPRS, and CORS will receive when they retire. For service credit earned after June 30, 2011, the COLA will be linked to the performance of the SRPS investment portfolio. If the portfolio earns its actuarial target rate

(7.75% for fiscal 2011), the COLA is subject to a 2.5% cap. If the portfolio does not earn the target rate, the COLA is subject to a 1% cap. For service credit earned before July 1, 2011, the COLA provisions in effect during that time still apply for each plan.

The COLA provisions do not apply to current or future retirees of the Judges' Retirement System (JRS) or the Legislative Pension Plan (LPP) because their benefit increases are linked to the salaries of current judges and legislators, respectively, and not limited to inflation rates.

Rhode Island. Public Law 23 of 2010 (HB 7397(the budget bill), Article 6, reduces post-retirement benefit increases for state employees, teachers, justices and judges who are ineligible for retirement as of the date of enactment. The legislation limits post-retirement cost of living adjustments for such future retirees to the first $35,000 of retirement benefits, with that base to be increased annually by the CPI-U or 3%, whichever is less.

III. Reduced COLAs That Apply to Retirees and Active Employees

Colorado. Chapter 2, Laws of 2010 (SB 1), reduces Colorado's Public Employees' Retirement Association's (PERA) commitment to post-retirement cost of living adjustments.

Reduces the COLA to the lesser of 2% or inflation for 2010, and requires the inflation calculation to be based on periods in 2009, resulting in a 0% COLA;

Limits the COLA to 2% in 2011 and future years, unless PERA experiences a negative investment return, in which case the COLA will be calculated as the lesser of the inflation from the preceding 3 years or 2 percent;

Provides for COLA adjustments to be made with the July benefit, and requires those that retire after January 1, 2011, to receive benefits for at least 12 months before receiving a COLA adjustment; and

Sets rules for adjusting the COLA based on PERA's actuarial funded ratio.

Suit filed in state trial court challenging the reduction in benefits as a violation of the contract clause of the Colorado Constitution (Art.V, Sec.48). Case was decided in the state's favor by summary judgment on June 29, 2011. The court found no contractual right to the specific COLA formula in place at retirement for post-retirement benefit adjustments.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) makes changes that affect state employees, legislators and judges. The retiree cost-of-living adjustment will be frozen for three years, and then capped at 3% in future years based on the Consumer Price Index (CPI). Retirees will receive a COLA on their first $20,000 of benefits. The cap amount will be indexed, or increased, each year by the CPI for that year. A non-cumulative, one-time COLA may be awarded if funds are available, but such payments would not become a permanent part of the retiree's benefit.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), provided for post-retirement increase rate reductions or suspensions. Generally speaking, for state-administered plans, post-retirement increases are reduced from existing rates until plans attain a 90% funding ratio, based on the market value of assets as a percentage of the AAL. For example, for Minnesota State Retirement Plan general employees, legislators, constitutional officers and some others, the rate is reduced from 2.5% to 2 % and for the State Patrol Plan from 2.5% to 1.5%. For Public Employee Retirement Association members other than Police & Fire, the rate is reduced from 2.5% to 1%. For the Teachers Retirement Association, the post-retirement increase is suspended for 2011 and 2012, to be followed by 2% increases until the plan is 90% funded. The bill also requires a retiree or beneficiary of any State Retirement or Teachers Retirement Association plan to have been retired at least six months before qualifying for an initial post-retirement adjustment.

Legal challenge to reduction in COLA formula filed in state court based on violations of the contracts and takings clauses of the United States and Minnesota Constitutions. Summary judgment for the state granted on July 29, 2011. The court found: (1) no contract right to the COLA formula in effect at retirement for future post-retirement adjustments to retirement benefits; and (2) an expectation of future benefit adjustments using a particular formula is not a property right protected by the takings clause.

New Jersey. Senate Bill 2937 (signed by the governor June 27, 2011) makes numerous changes to the operations and benefit provisions of state-administered retirement plans. It terminates post-retirement cost-of-living adjustments for current and future retirees, and provides a mechanism for their potential reactivation when the retirement plans meet specified funding ratios in the future.

South Dakota. Chapter 20, Laws of 2010 (SB 20), makes various cost-saving changes affecting post-retirement increases. The bill:

Removes COLAs for retirees in the first year of retirement.

Reduces refunds of employer contributions to people who withdraw from the system after July 1 2010. Current law provides a 75% refund to non-vested members and 100% to vested members; the percentages are reduced, respectively to 50% and 85%.

Pins the annual improvement factor (COLA), currently 3.1%, to 2.1% for one year, and thereafter pins it to the market value funded ratio for the system.

1. If the ratio is 100% or more, the COLA remains at 3.1%

2. If the ratio is 90% to 99.9%, the COLA will be indexed to the CPI with a maximum of 2.8% and a minimum of 2.1%

3. If the ratio is 80% to 89.9%, the COLA will be indexed to the CPI with a maximum of 2.4% and a minimum of 2.1%

4. If the ratio is less than 80% the COLA will be 2.1%

On June 16, 2010, retirees filed a legal challenge on the grounds the law violates the contract clause provisions of the United States and South Dakota Constitutions. The lawsuit is pending in state trial court.

Washington. Chapter 362, Laws of 2011 (House Bill 2021) eliminates further increases of Public Employees' and Teachers' Retirement Systems Plan 1 (PERS Plan 1 and TRS Plan 1) benefits through the annual increase, or "Uniform COLA" above the amount in effect on July 1, 2010, unless a retiree qualifies for the minimum benefit. It reduces the minimum employer contribution rates for the PERS Plan 1 unfunded liability from 5.75 to 3.5%, and for the TRS Plan 1 unfunded liability from 8.0 to 5.75%. The bill also increases the alternative minimum benefit to $1,500, and continues to index the alternative minimum benefit by 3% per year. [The two plans were closed to new members in 1977. Employers are responsible for amortization of the UAAL in the plans.]

IV. Other COLA Legislation

Oklahoma. Chapter 199, Laws of 2011 (House Bill 2132) amends the Oklahoma Pension Legislation Actuarial Analysis Act (OPLAAA), so that cost of living adjustments (COLAs) are considered fiscal retirement bills for purposes of OPLAAA procedures, thus requiring COLAs to be funded by the Legislature at the time of enactment. According to the legislative fiscal analysis of the legislation, the practical application of the concurrent funding requirement would suggest the retirement systems remove their unfunded COLA assumption. According to the legislative actuary's calculations, removal of COLA assumptions will affect the UAAL and the funded ratios of the pension systems as follows:

• Teachers Retirement system: UAAL will decrease by approximately $2.9 billion and increase Oklahoma's Teachers' Retirement System's funded ratio from 48% to 56%.
• Public Employee Retirement System: UAAL will decrease by approximately $1.4 billion and increase the Oklahoma's Pubic Employees' Retirement System funded ratio from 66% to 77%.

Prepared August 2, 2011
Peggy Piety
Indiana Legislative Services Agency
Staff Attorney for the Pension Management Oversight Commission

State Retirement Legislation in 2010 and 2011
by Type of COLA Enacted

I. Ad Hoc

Arizona (alternative after 12/31/15) (*See page 3)*
Maine (non-cumulative; if funds are available) (*See page 6*)
Michigan (*See page 1*)

II. Fixed Rate

Florida (COLA eliminated for service after 6/30/11; may reinstate fixed rate (3%) after 6/30/16) (*See page 4*)
Hawaii (fixed rate reduced from 2.5% to 1.5%) (*See page 1*)
Kansas (eliminates fixed rate COLA; allows certain employees the option to reinstate the COLA with a reduction in the benefit multiplier, if IRS approves) (*See page 4*)
Minnesota (reduced fixed rates until plans attain 90% funding ratio) (*See page 7*)
Mississippi (fixed rate (3%) maintained, but age at which compounding begins increased) (*See page 1*)
New Jersey (eliminates COLAs until specified funding ratios met) *(See page 7*)
South Dakota (fixed or indexed to CPI (with cap), based on plan funding ratio) (*See page 7*)
Washington (eliminates fixed rate COLA (with cap), unless the retiree qualifies for a minimum benefit) (*See page 8*)

III. Based on CPI

Colorado (CPI (with cap) and adjustment based on plan's actuarial funded ratio) (*See page 6*)
Illinois (CPI (with cap); compounding eliminated) (*See page 1*)
Maine (CPI (with cap); COLA applied only to first $20,000 in benefits) (*See page 6*)
Maryland (for 2010, no COLA because CPI-U negative; for later years, retirees COLA based on CPI (with cap) and actives based on investment earnings of plan (with cap)) (*See page 5*)
Rhode Island (CPI (with cap); COLA applied only to first $35,000 in benefits) (*See page 6*)
South Dakota (fixed or indexed to CPI (with cap), based on plan funding ratio) (*See page 7*)
Utah (CPI (with cap); amount of CPI over-cap accumulated and applied to COLA in years when the CPI is less than the cap) (*See page 2*)

Virginia (reduces portion of increase in CPI used in determining annual COLA) (*See page 3*)

IV. Based on Investment Earnings

Arizona (total return of more than 10.5% for the prior fiscal year to allow for a COLA) (*See page 3*)

Maryland (for 2010, no COLA because CPI-U negative; for later years, retirees COLA based on CPI (with cap) and actives based on investment earnings of plan (with cap)) (*See page 5*)

PMOC
1st meeting
Aug 3, 2011

EXHIBIT 6

INDIANA PUBLIC RETIREMENT SYSTEM

2011 INPRS UPDATE

Pension Management Oversight Commission

August 3, 2011

Steve Russo
Executive Director

One North Capitol, Suite 001 ▲ Indianapolis, IN 46204 ▲ (888) 526-1687

EXHIBIT 6

Agenda

- Overview
- PERF/TRF Consolidation Update
- Use of Placement Agents
- Actuarial Assumptions
- COLAs

Overview – Plans & Funds

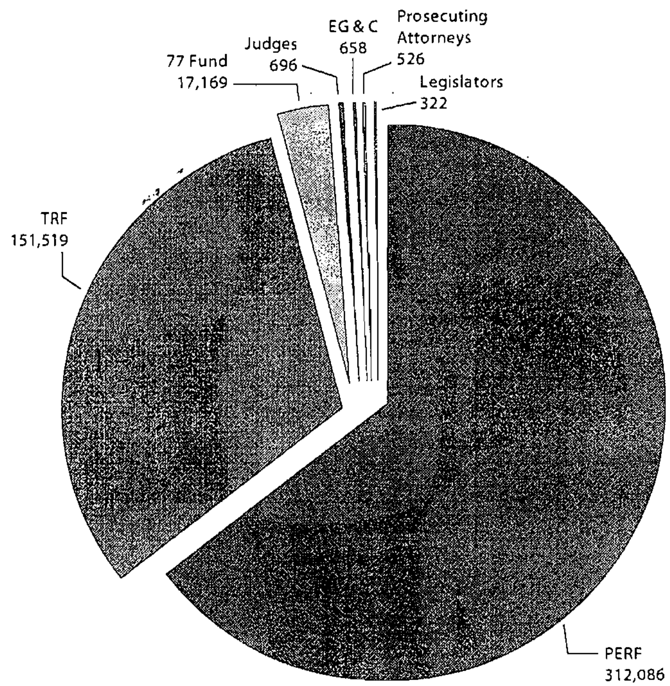
- Seven Retirement Plans
  - PERF
  - TRF
  - '77 Police and Fire
  - Judges
  - Excise Police, Gaming Agents and Conservation Officers
  - Prosecuting Attorneys
  - Legislators

- Three Non-Retirement Funds
  - Pension Relief
  - Public Safety Officers' Special Death Benefit Fund
  - State Employees' Death Benefit Fund

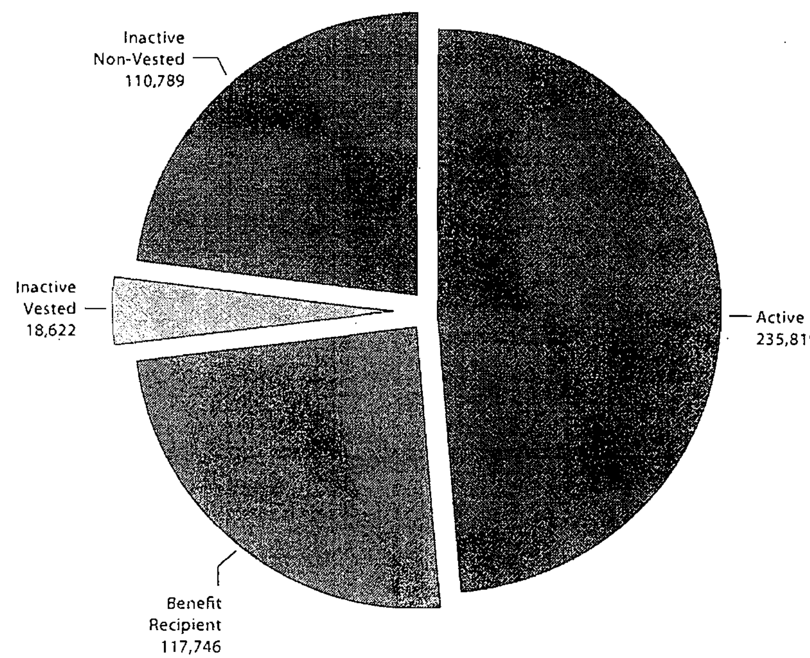
Overview – Member Demographics

480,000 + Members

Members By Fund

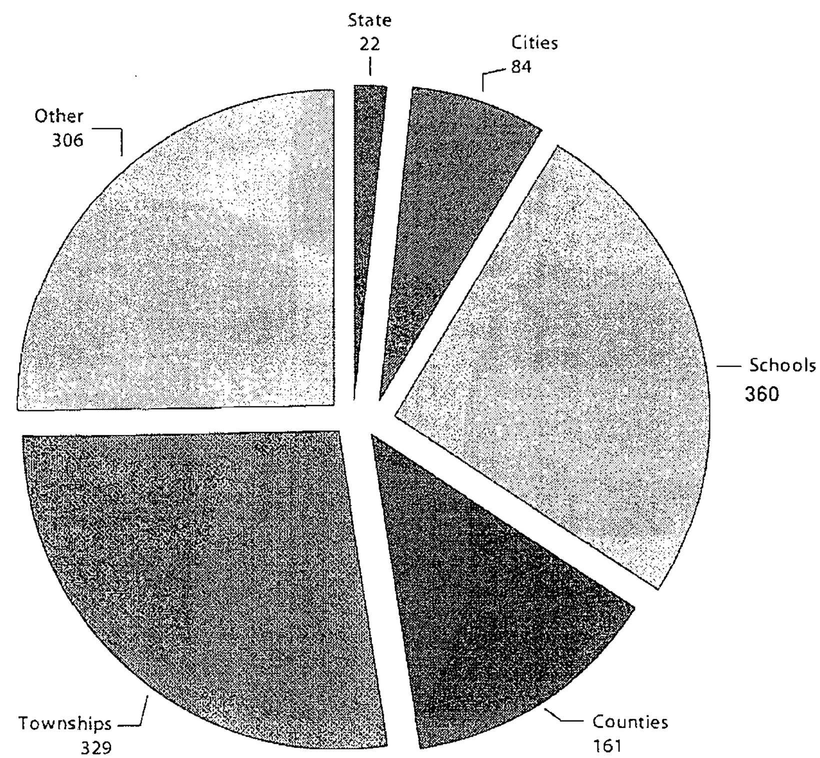


Members By Status



Overview – Employer Demographics

1,200 + Employers



Overview – FY11 Change In Net Assets

Net Assets – June 30, 2010		$22.2B
Contributions	+ $1.9B	
Investment Income	+ $3.9B	
Payments	- $2.3B	
Net Assets – June 30, 2011		$25.7B

Note: FY 2011 Unaudited

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Overview - Pension Funding Sources

$ Millions	FY12		FY13	
	GF Appropriation	Other*	GF Appropriation	Other*
PERF		$607.8		$726.8
TRF	$725.4	$446.1	$747.2	$506.3
1977 Police & Fire		$173.6		$189.1
Judges	$11.8	$9.3	$14.1	$9.4
EG&C		$6.7		$7.0
Prosecutors	$1.8	$1.3	$2.1	$1.3
Legislators	$0.1	$1.4	$0.2	$1.8
Pension Relief	$131.0	$101.4	$180.0	$56.6
TOTAL	$870.1	$1,347.6	$943.6	$1,498.3

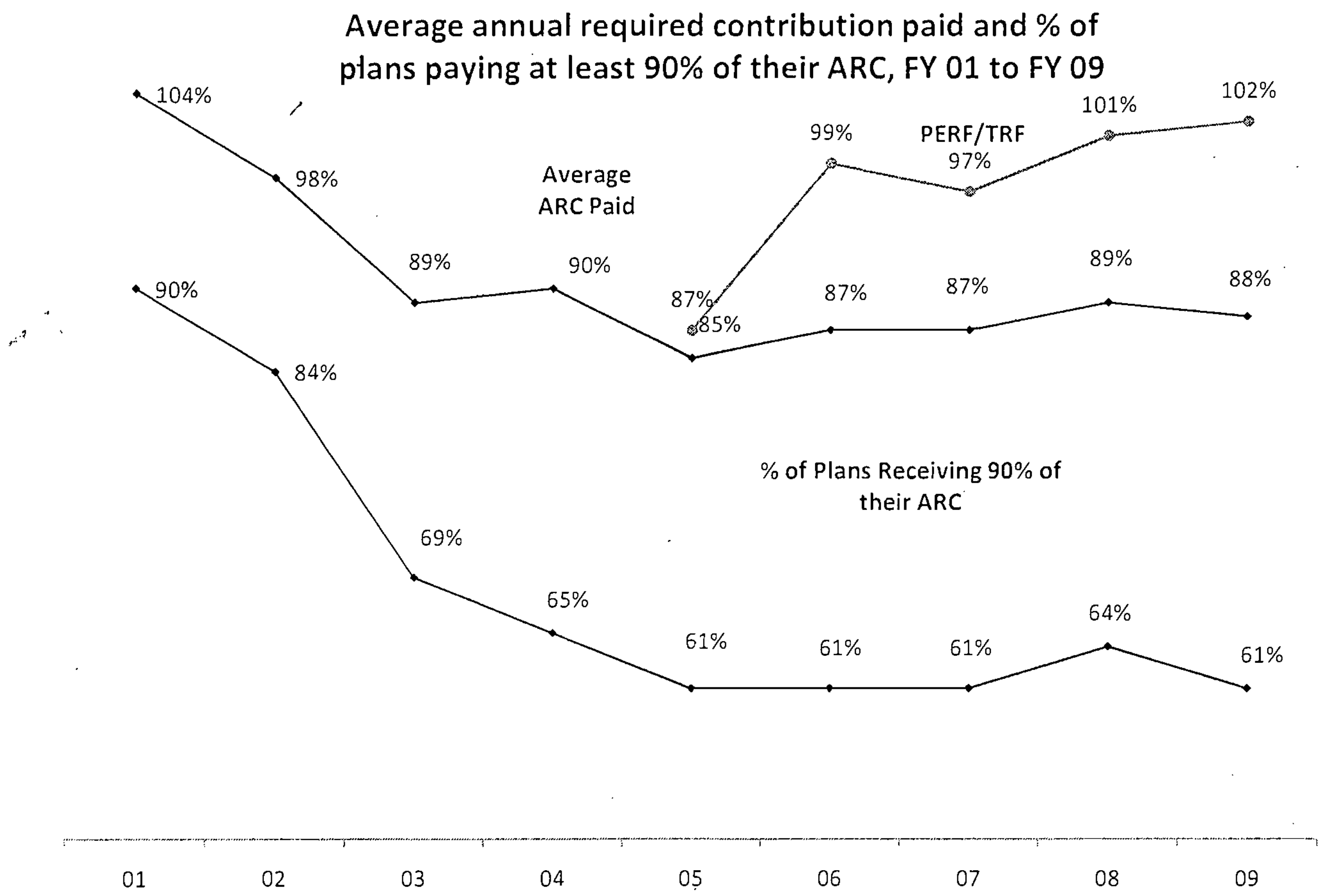
* Other includes Employee, Employer, PSF, Lottery, and other dedicated tax contributions

Actuarial Required Contributions (ARC)

- 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

National Trend - ARC

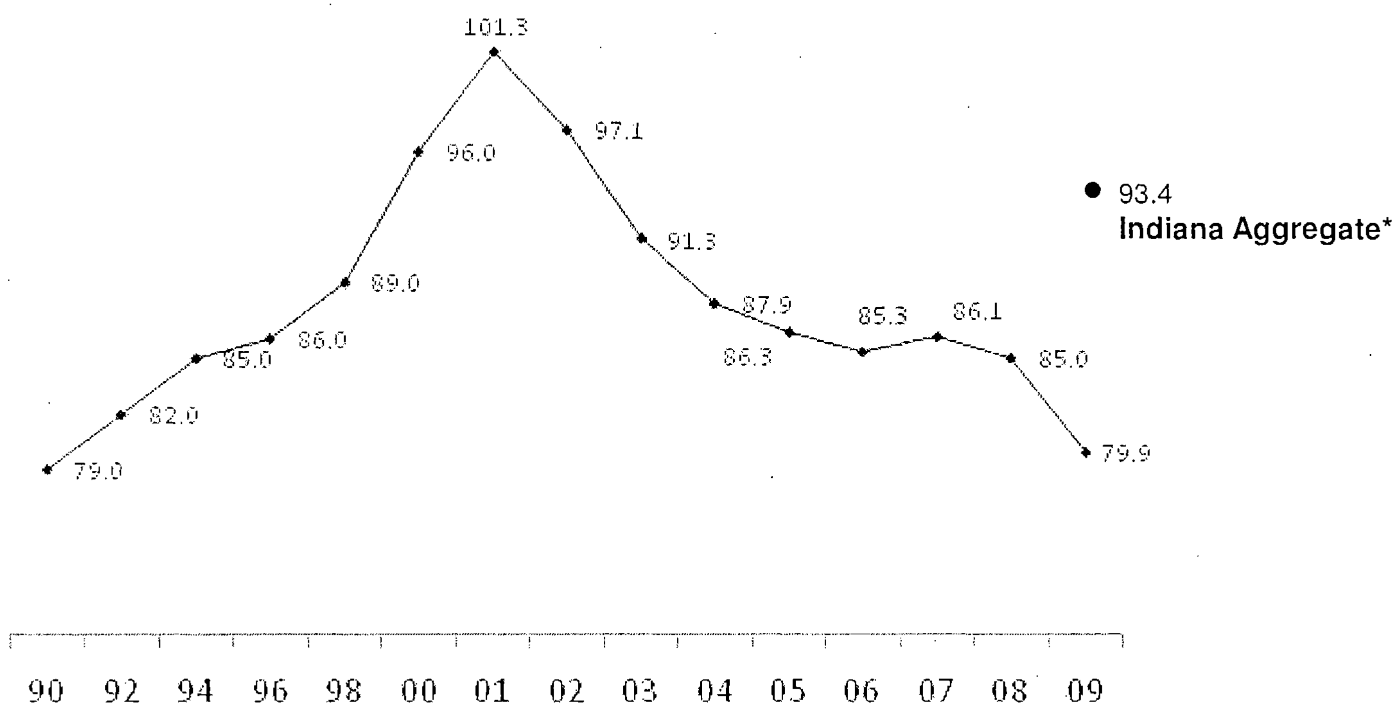


Funded Status as of June 30, 2010

	FUNDING RATIOS	UNFUNDED LIABILITY
PERF	85.10%	$2,160M
77 Police & Fire	92.70%	$265M
Judges	66.50%	$122M
E, G & C	71.90%	$28M
Prosecutors	53.20%	$23M
Legislators' DB	83.00%	$0.8M
TRF 1996	94.70%	$192M
Aggregate Prefunded Plans	**87.50%**	**$2,791M**
TRF Pre-1996	33.10%	$10,900M

National Trend – Funded Ratio

Aggregate funding levels are likely to drift lower through FY13



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

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

3% year over year appropriations growth for FY12 – FY13

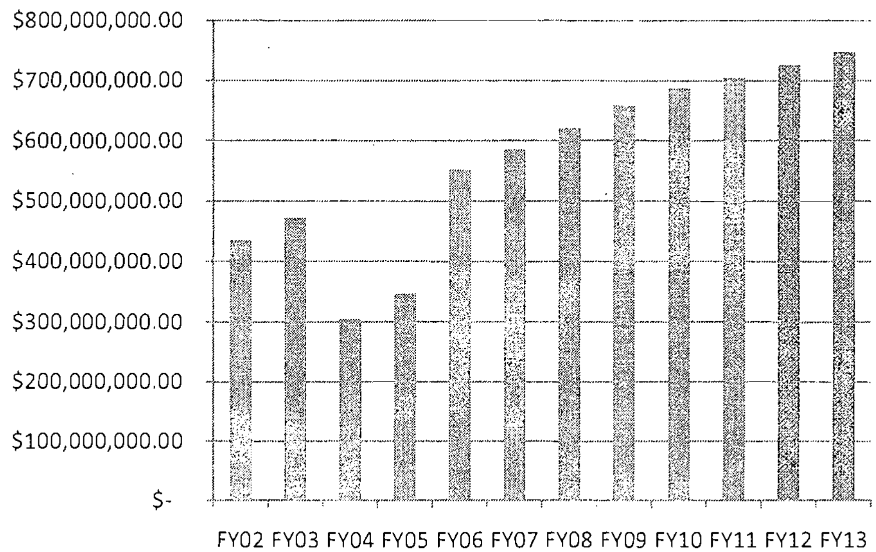
$ Millions	Actual FY09	Actual FY10	Forecast FY11	Forecast FY12	Forecast FY13
Total:					
Benefit Payments	$661.4	$714.1	$784.0	$836.7	$894.2
General Fund Allotments	$662.6	$687.3	$704.3	$725.4	$747.2
Actual (O)/U Allotments	$1.2	($26.8)	($79.7)	($111.3)	($147.0)
Amt. withdrawn from PSF	$0.0	$26.8	$79.7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

Teachers Retirement Fund (TRF)
Pre-96 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)

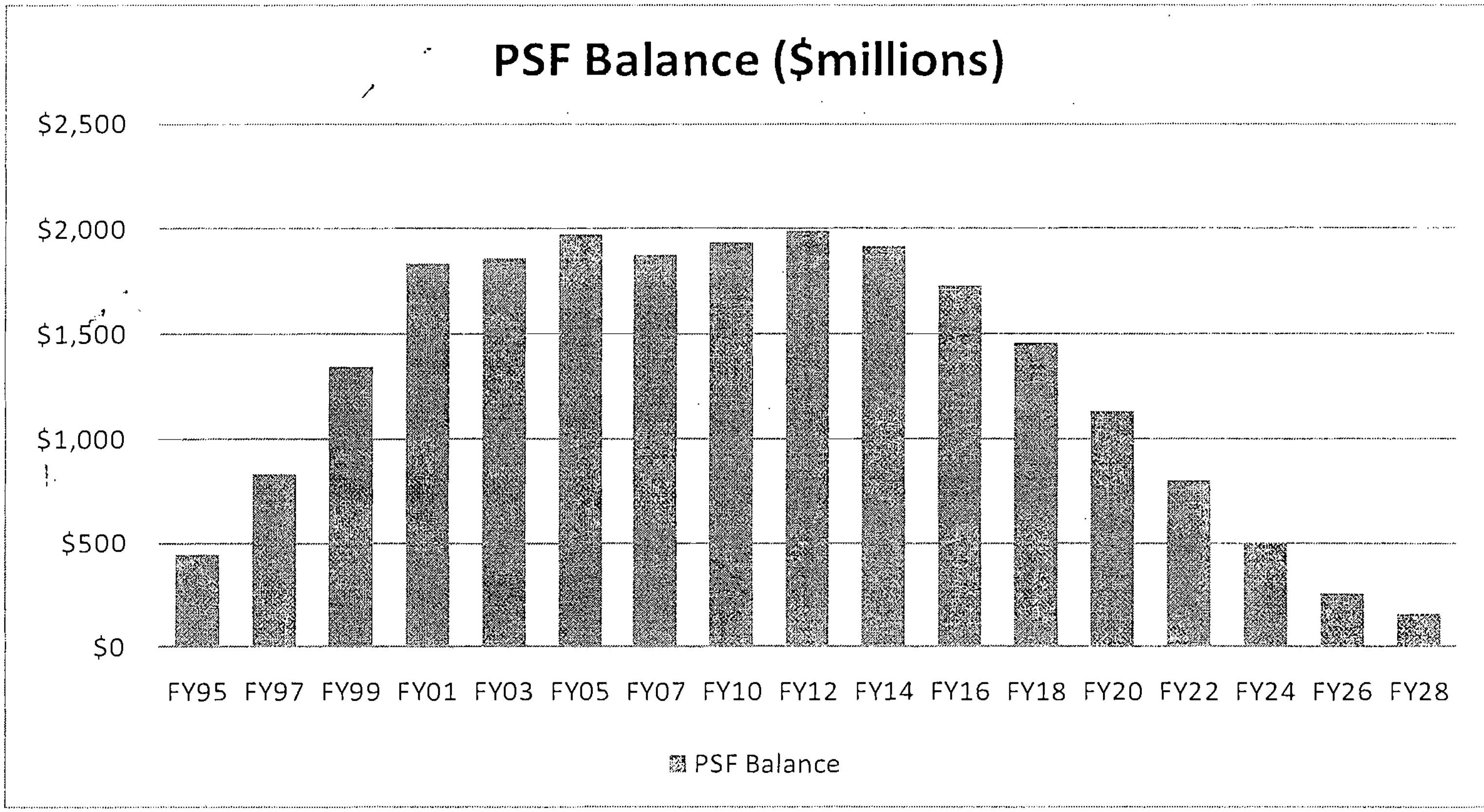
- Maintains lottery revenue and continued appropriations growth



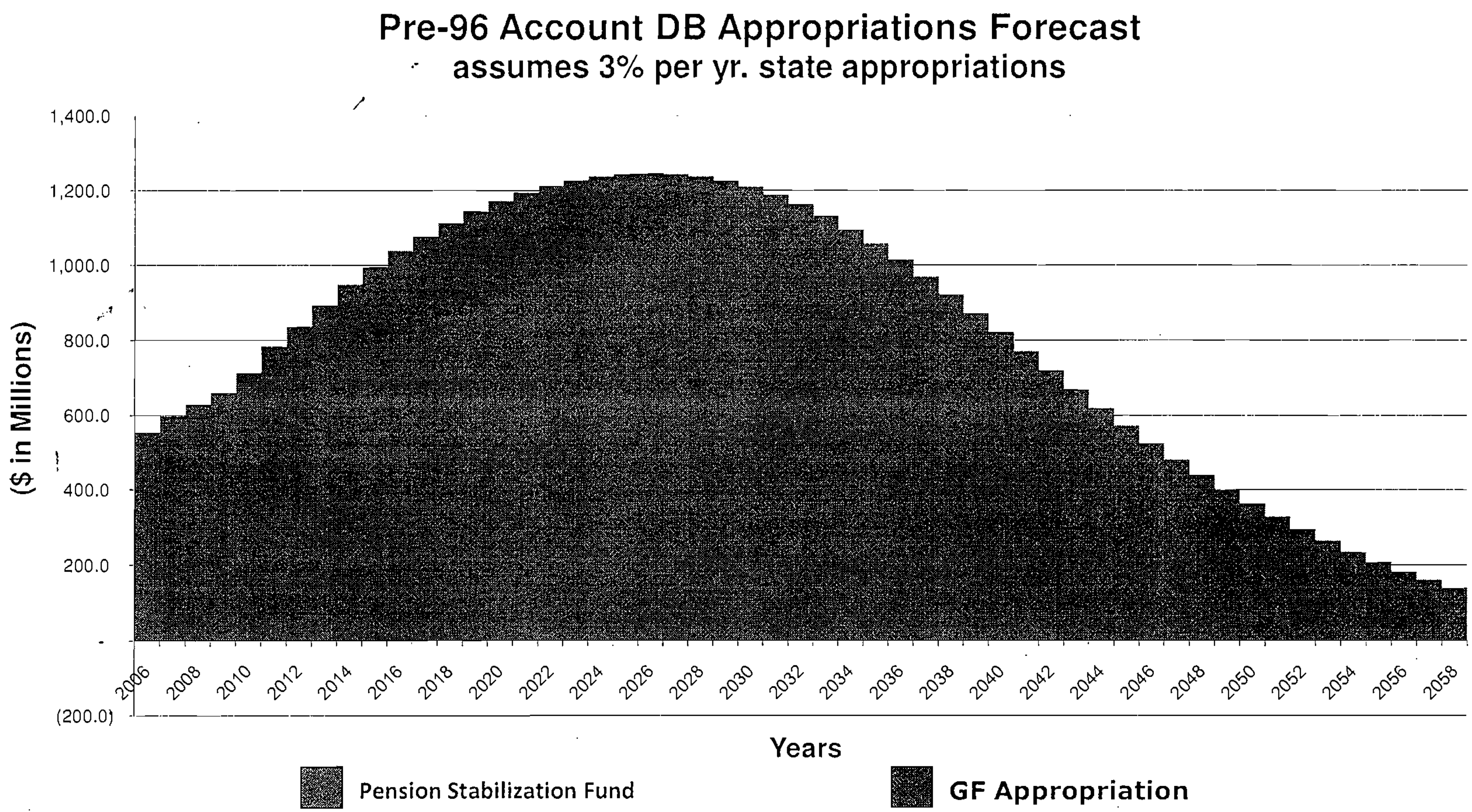
TRF Pre-96 PSF Historical & Projected Balances

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

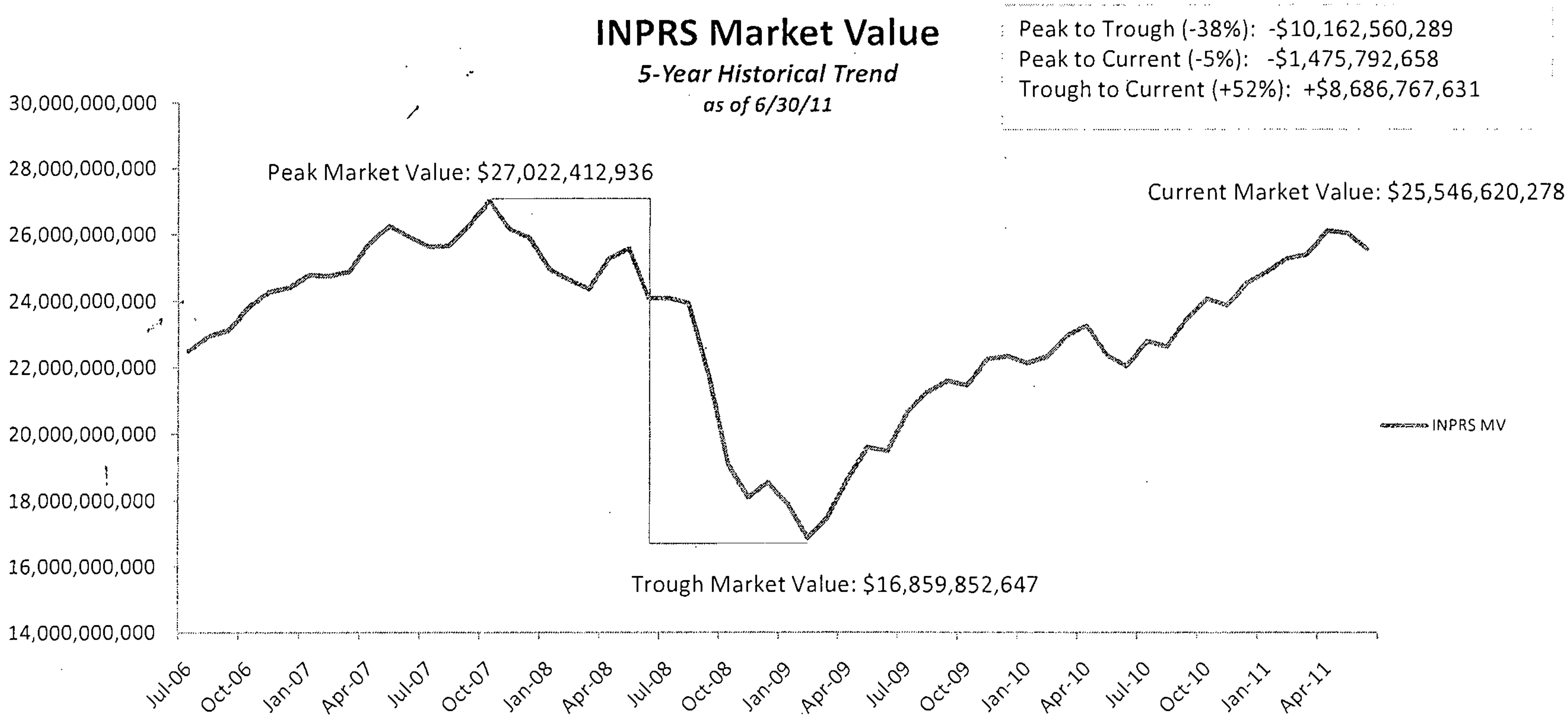
<u>WITH</u> $30M/year Lottery Revenue



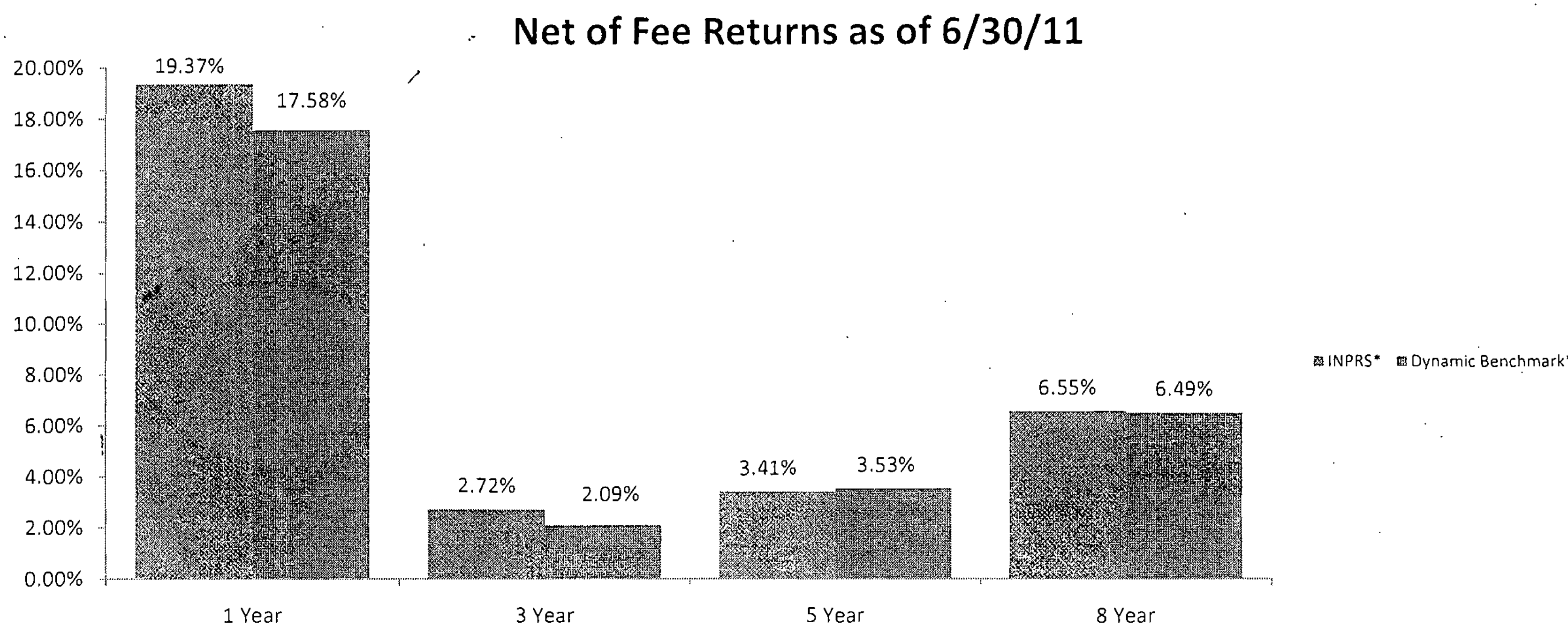
Teachers Retirement Fund (TRF)
Pre-96 Account Budgetary Impacts



Overview - Investments Performance



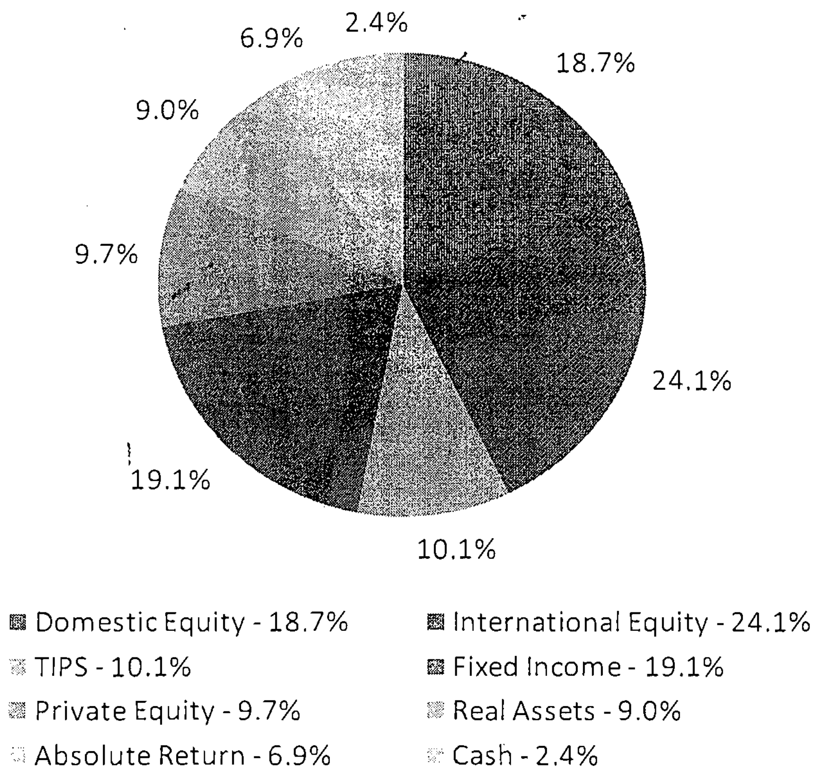
Overview - Investments Performance



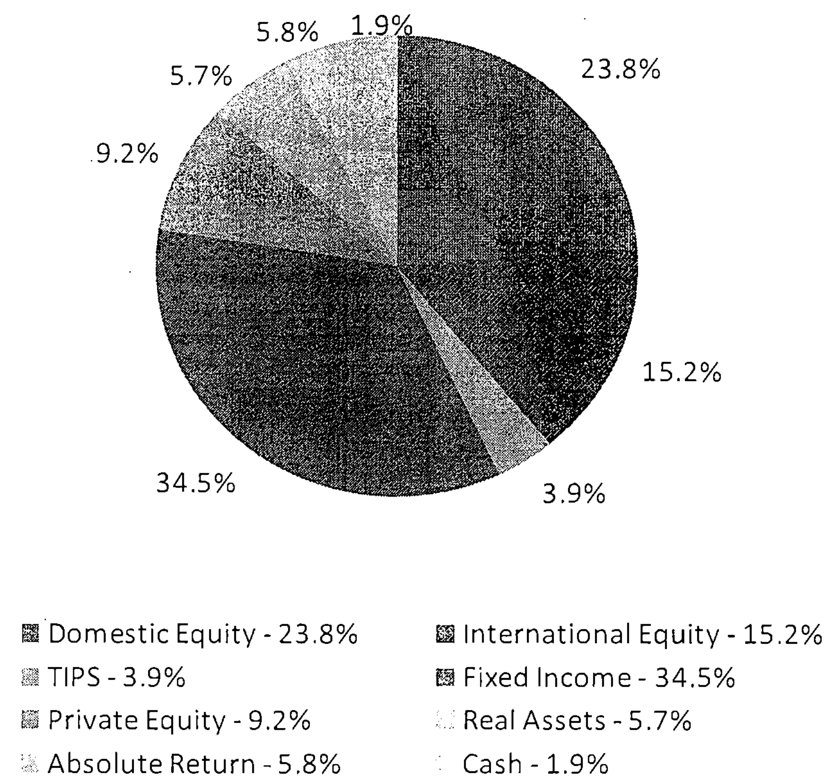
PERF and TRF outperforming their respective benchmarks

Overview – Asset Allocation

PERF Actual Allocation

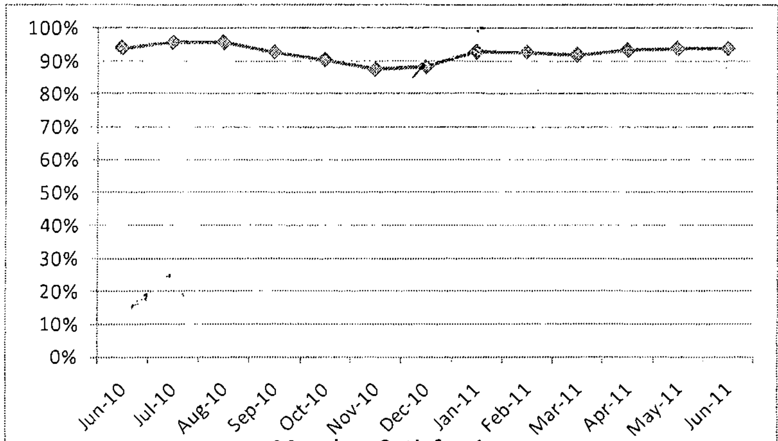


TRF Actual Allocation

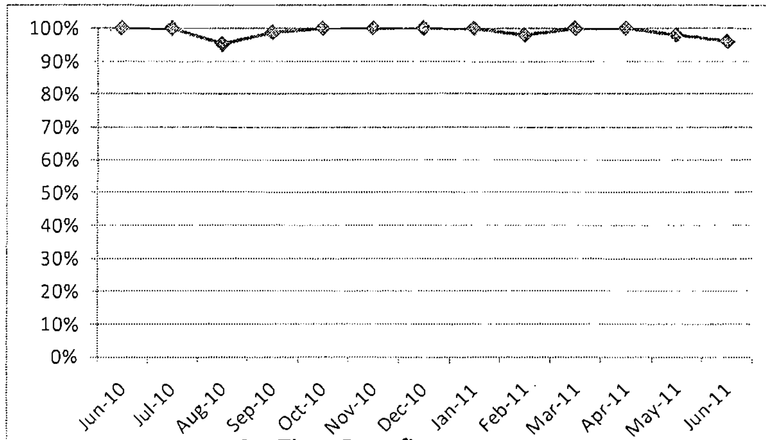


Overview - Operational Performance

Consistently achieving high levels of performance



Member Satisfaction



On-Time Benefit Payments

- 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)

PERF / TRF Consolidation Update

- 2010 - HEA 1205 Required 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 in May 2010
  - A common executive staff was implemented in June 2010

- 2011 – SEA 549 Established INPRS to be governed by a nine member board

Director SBA or designee	Chris Ruhl – OMB Director
State Auditor or designee	Tim Berry – Auditor of State
State Treasurer or designee	Jodi Golden – Indiana Education Savings Authority Director
2 Governor designees	Gregory Hahn, Bret Swanson
2 Vested TRF members	Cari Whicker, (vacant)
1 Vested PERF member	Ken Cochran
1 '77 Police & Fire member	Michael Pinkham

PERF / TRF Consolidation Savings

- Administrative Cost Savings $ 1.5M/year
- Investments Consolidation Savings $ 10.6M/year
- Net Present Value = $ 172.6M

Additional investment cost savings will occur as a combined asset allocation is implemented

Placement Agents

- What is a placement agent?
  - Third party marketing and consulting service provider to investment management firms

- Recent "pay –to –play" scandals have brought increased scrutiny on the use of placement agents

INPRS Placement Agent Policies

- INPRS contractually prohibits the payment of placement agent fees by the investment manager or any affiliate in connection with an INPRS investment or the investment manager must disclose if fees are paid
- INPRS board and staff are governed by a strict Indiana Code of Ethics that prohibit the receipt of compensation or gifts from those who do business or are seeking business from the fund

INPRS Investment Process

- INPRS' rigorous decision making process minimizes the risk of wrong doing
  - Most investment manager selection has been delegated by the board to staff
  - Investment manager recommendations are independently vetted by a consultant hired by the board
  - INPRS' investment staff sign an affidavit of compliance form for each recommended investment and now file annual financial disclosure statements to the state ethics commission

GASB Rule Changes

- GASB is proposing changes to its accounting standards
  - Defines and requires employers to report their Net Pension Liability
  - Changes the discount rate used to project total pension liability
    - Funded liabilities would continue to use the fund's expected long term rate of return
    - Unfunded liabilities would use a 30 yr municipal bond index rate
  - Mandates the use of entry age normal level percent of payroll method for attributing the present value of assets
  - Mandates actuarial valuations at least every two years
  - Mandates automatic COLAs and Ad-hoc COLAs be incorporated into projections
  - Mandates the method for calculating and reporting Pension Expense
  - Mandates 5 year smoothing of investment gains/losses
  - Requires local units of government to report their share of a cost-sharing plan's net pension liability

Actuarial Assumptions

Three Categories:

Demographic

- -Withdrawal
- -Death in Active Service
- -Disability
- -Retirement
- -Mortality

Economic

- -Investment Return
- -Inflation & Pay Growth
- -COLA

Method

- -Actual Cost Method
- -Asset Valuation
  - -Smoothing
  - -Corridor

Most Demographic assumptions are based upon actual fund/plan experience.

Most Economic & Method assumptions are established by statute or the board.

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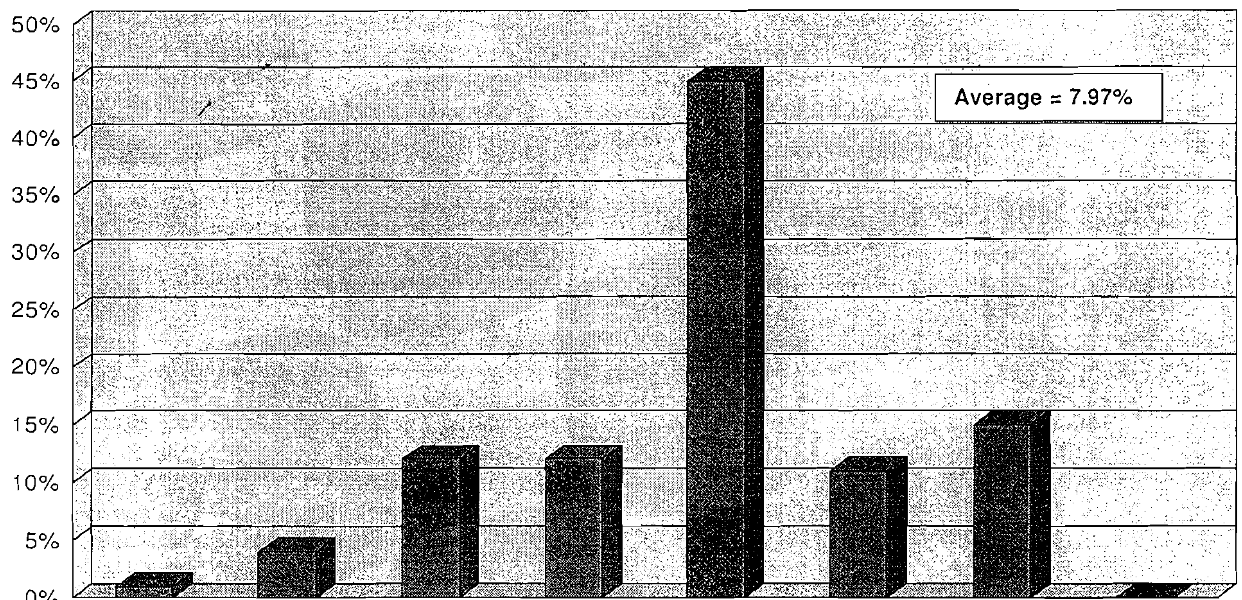
Actuarial Assumptions

- The investment rate of return assumption and the asset valuation method are two of the most influential assumptions.
- The inflation assumption is a major component of assumed wage growth. The spread between investment rate of return and wage growth is a key driver of active participant costs.
- The following three charts compare the PERF and TRF investment rate of return assumptions, inflation assumptions, and asset valuation methods to those used by other large public pension plans.

Results of 2008 Survey of Investment Return Assumption Used by Large Public Plans



	7.00% or Lower	7.01% - 7.25%	7.26% - 7.50%	7.51% - 7.75%	7.76% - 8.00%	8.01% - 8.25%	8.26% - 8.50%	Above 8.5%
Percentage	1%	4%	12%	12%	45%	11%	15%	0%

PERF / TRF : 7.0%

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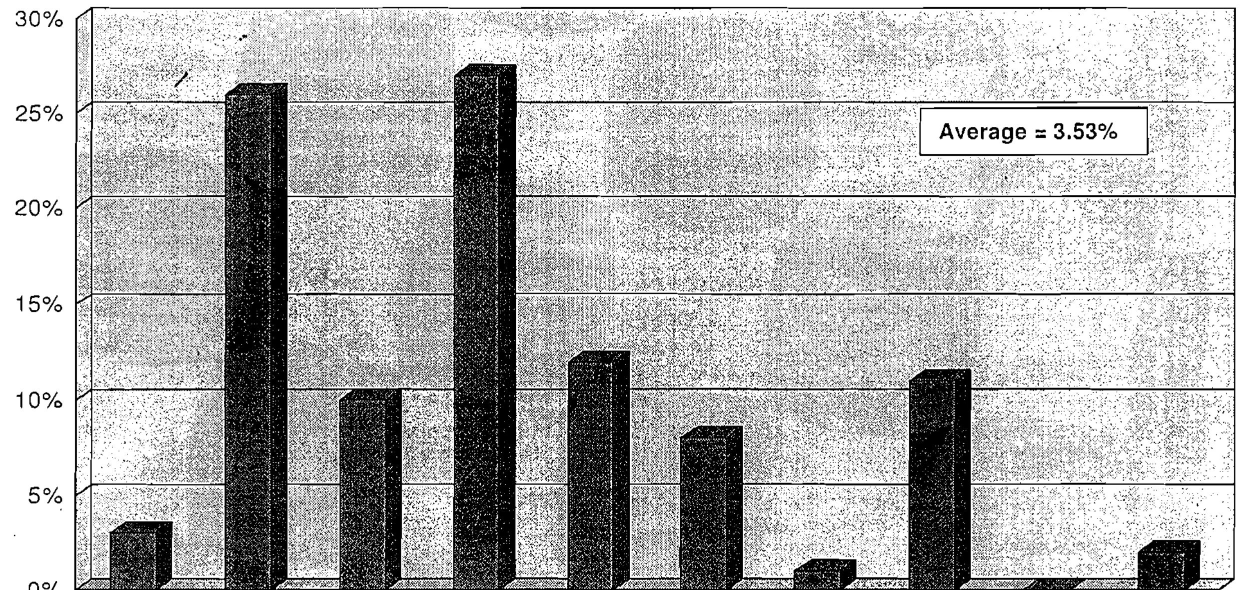
PRS
INDIANA PUBLIC RETIREMENT SYSTEM

Results of 2008 Survey of Inflation Assumption Used by Large Public Plans



	Under 3.00%	3.00% - 3.24%	3.25% - 3.49%	3.50% - 3.74%	3.75% - 3.99%	4.00% - 4.24%	4.25% - 4.49%	4.50% - 4.74%	4.75% - 4.99%	5.00% Plus
Percentage	3%	26%	10%	27%	12%	8%	1%	11%	0%	2%

PERF & TRF: 3.00%

Results of 2008 Survey of Asset Valuation Methods Used by Large Public Plans

	Fair Market Value	3-Year Smoothing	4-Year Smoothing	5-Year Smoothing	6-10 Year Smoothing	Other
Percentage	6%	5%	12%	58%	16%	3%

PERF & TRF:
4-Year Smoothing

INPRS vs. Private Sector Assumptions

- Whereas public plans have some flexibility within GASB, private sector DB plans must comply to more rigid federal rules. Major differences are:
  - Investment Rate of Return – Corporate Bond Yield Index (FY10 = 6.52%, FY11 = 5.90%)
  - Cost Method – Unit credit with no wage inflation
  - Mortality – Current rates not projected forward
  - Asset Smoothing – 3 years with 10% corridor
  - Vesting – 5 years

- What if PERF/TRF had to comply with ERISA rules?
  - PERF from 85.2% to 83.5%
  - TRF 'Pre - 96 from 33.1% to 32.5%
  - TRF '96 from 94.7% to 125.8%

COLAs

	Ad-Hoc	Auto
PERF	✓	
TRF	✓	
'77 Police & Fire		✓
Judges		✓
Excise, Gaming & Conservation Officers	✓	
Prosecuting Attorneys	✓	
Legislators DB	✓	
Legislators DC	N/A	

How are COLAs Funded?

- COLAs are not free!
- "Thirteenth Checks" aren't free either, but are cheaper than COLAs
- Actuaries factor in ad-hoc COLAs based upon historical experience
- For all but the TRF Pre-96 account, COLAs are funded by the employer as part of their contribution rate
- For the TRF Pre-96 account, COLAs are funded directly from the state general fund

Auto COLA History

'77 Police and Fire (CPI, Max. 3%)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.20%	2.90%	1.80%	3.00%	3.00%	2.40%	3.00%	0.00%	2.40%	2.10%

Judges '77 System (Whenever salary of the position changes)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
0%	0%	1.72% - 2.2%	1/1 - 0.5% 7/1 - 15%-22%	2%	7/1 - 4% 12/2 - 1.5%	3.25%	0%	0%	1.3%

Judges '85 System (Ad-Hoc before 2011, same as '77 system after 2010*)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
0%	0%	0%	0%	0%	0%	2%	2%	0%	1.3%

* Only for certain members retired after 12/31/09

National Issues & Trends

<u>Some states are changing plan designs and financing structures</u>

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

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

APPENDIX

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: *85.10%*

UNFUNDED LIABILITY: *$2,160M*

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	
FY12	FY13
$563.6M	$586.1M

FUNDING SOURCES

	FY12	FY13
Employee Contribution: *3% salary to member ASA*	$147.8M	$153.7M
Employer Contribution (State): *Actuarily Calculated Contribution Rate (FY12 = 8.6%)*	$148.8M	$189.0M
Employer Contribution (Subdivisions): *Actuarily Calculated Contribution Rate (Avg FY12 = 9.74%)*	$311.2M	$384.1M
	$607.8M	**$726.8M**

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: *44.3% (Pre 1996 - 33.1%, 1996 - 94.7%)*

UNFUNDED LIABILITY: *$11,092M*

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

		FY12	FY13
Employee Contribution:	*3% salary to member ASA*	$132.9M	$137.2M
General Fund Appropriation:	*Pre-96 Pay-as-you-go benefit obligation*	$725.4M	$747.2M
Pension Stabilization Fund:	*Pre-96 Pay-as-you-go benefit obligation*	$81.3M	$117.0M
Employer Contribution:	*1996 Account Actuarily Calculated Contribution Rate (FY12 = 7.5%)*	$201.9M	$222.1M
Other:	*Lottery (Pre-96)*	$30.0M	$30.0M
		$1,171.5M	**$1,253.5M**

'77 Police and Fire Retirement Fund

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

TYPE: *Defined Benefit*

FUNDING RATIO: *92.70%*

UNFUNDED LIABILITY: *$265M*

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	
FY12	FY13
$84.7M	$88.1M

FUNDING SOURCES

Employee Contribution: *6% of first class officer salary (max. 32 years)*
Employer Contribution: *Actuarily Calculated Contribution Rate (FY12 = 19.7%)*

FY12	FY13
$40.5M	$42.2M
$133.1M	$146.9M
$173.6M	**$189.1M**

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: *66.50%*

UNFUNDED LIABILITY: *$122M*

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	
FY12	FY13
$18.6M	$19.4M

FUNDING SOURCES

	FY12	FY13
Employee Contribution: *6% salary (max. 22 years)*	$2.2M	$2.3M
General Fund Appropriation: *Actuarily Calculated Contribution Rate (FY12 = 51.5%)*	$11.8M	$14.1M
Other: *Certain docket and court fees*	$7.1M	$7.1M
	$21.1M	**$23.5M**

Excise, Gaming & Conservation Officers' Retirement Fund

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

TYPE: *Defined Benefit*

FUNDING RATIO: *71.90%*

UNFUNDED LIABILITY: *$28M*

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	
FY12	FY13
$3.6M	$3.7M

FUNDING SOURCES

Employee Contribution: *Pre '77 hires - 3% of first $8,500, Post '77 hires - 4% of total salary*
Employer Contribution: *Actuarily Calculated Contribution Rate (FY12 = 20.75%)*

FY12	FY13
$1.1M	$1.1M
$5.6M	$5.9M
$6.7M	**$7.0M**

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, 1995

TYPE: *Defined Benefit*

FUNDING RATIO: *53.20%*

UNFUNDED LIABILITY: *$23M*

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	
FY12	FY13
$1.3M	$1.4M

FUNDING SOURCES

Employee Contribution: *6% salary*
General Fund Appropriation: *Actuarily Calculated Contribution Rate (FY12 = 8.75%)*

FY12	FY13
$1.3M	$1.3M
$1.8M	$2.1M
$3.1M	**$3.4M**

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: *83.00%*

UNFUNDED LIABILITY: *$0.8M*

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	
FY12	FY13
$0.5M	$0.5M

FUNDING SOURCES

Employer Contribution: *11.6% of salary for the DC plan*
General Fund Appropriation: *Actuarily Calculated Contribution for the DB plan*

FY12	FY13
$1.4M	$1.8M
$0.1M	$0.2M
$1.5M	**$2.0M**

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