

Members

Sen. Phil Boots, Chairperson  
Sen. Greg Walker  
Sen. Lindel Hume  
Sen. Karen Tallian  
Rep. Woody Burton  
Rep. Jeffrey Thompson  
Rep. David Niezgodski  
Rep. Charles Moseley  
Steve Meno  
Kip White  
Gary Lewis  
Kurt Meade



# PENSION MANAGEMENT OVERSIGHT COMMISSION

*Legislative Services Agency*  
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Dan Paliganoff, Attorney for the Commission

Authority: IC 2-5-12-1

## MEETING MINUTES<sup>1</sup>

**Meeting Date:** August 27, 2013  
**Meeting Time:** 10:00 A.M.  
**Meeting Place:** State House, 200 W. Washington St.,  
Room 431  
**Meeting City:** Indianapolis, Indiana  
**Meeting Number:** 1

**Members Present:** Sen. Phil Boots, Chairperson; Sen. Greg Walker; Sen. Lindel Hume;  
Sen. Karen Tallian; Rep. Woody Burton; Rep. Jeffrey Thompson;  
Rep. David Niezgodski; Rep. Charles Moseley; Steve Meno; Kip  
White; Gary Lewis; Kurt Meade.

**Members Absent:** None.

Senator Phil Boots, Chairperson, called the meeting to order at 10:00 a.m. Members and staff of the Commission introduced themselves.

### Indiana Public Retirement System (INPRS) Overview

Steve Russo, Executive Director of the Indiana Public Retirement System (INPRS), presented his annual overview to the Commission on the state of INPRS (see Exhibit A).

Director Russo discussed the funding status, revenue sources, and funding options for the seven different pension plans administered by INPRS. Preliminary estimates indicate that the funded status of all of the plans improved between FY 2012 and FY 2013 (state fiscal years ending June 30, 2012, and June 30, 2013, respectively). As in previous years, Director Russo outlined the long-term funding options for and budget impacts of the Pre-1996 Teachers Retirement Fund (TRF).

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<sup>1</sup> 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.

A discussion of the defined benefit investments performance indicated that the investment performance of INPRS has improved since 2008. In FY 2013, the assets of INPRS reached an all-time high, at \$28.3 billion.

Director Russo addressed rule changes made by the Government Accounting Standards Board (GASB) that will affect the method for calculating and reporting net pension liability and pension expense. Additionally, GASB requires that the discount rate used to project total pension liability will be a blended rate, with funded liabilities using the fund's expected long-term rate of return (6.75%) and unfunded liabilities using a 20-year municipal bond index rate. These changes are effective in FY 2014 for INPRS, and in FY 2015 for all other state and local government units.

Director Russo and Commission members also discussed cost-of-living adjustments (COLAs) versus Thirteenth Checks.

Director Russo updated the Commission on the status of the 401(h) accounts, as well as the Annuity Savings Account (ASA) only Public Employee Retirement Fund (PERF) plan. It is expected that implementation of the 401(h) accounts will begin on July 1, 2014. Between March 1, 2013, and July 31, 2013, 9% of eligible new state employees enrolled in the ASA-only plan, and it appears that the level of enrollment into the ASA-only plan should continue to climb. Director Russo briefly outlined FY 2014 INPRS initiatives and strategic priorities, system and process modernization, as well as national public pension trends.

Director Russo outlined recent changes that the INPRS board has made in regard to the annuitization of PERF and TRF members' ASA balances upon or after retirement. Prior practice was to calculate these annuities using a 7.5% interest rate and outdated mortality tables. The INPRS board adopted a resolution in July 2013 to provide members ASA annuities at market-based rates through a third-party annuity provider effective July 1, 2014. Director Russo indicated that he will ask the INPRS board to change this effective date to August 1, 2014, in order to accommodate retirement time frames under TRF.

Representative Niezgodski, Senator Tallian, Senator Boots, and Director Russo discussed this recent change to ASA annuitization. It was determined that this issue will be more thoroughly examined by the Commission and will include public testimony at the second Commission meeting.

### **PERF and TRF ASA Fund Choices, Guaranteed Fund, and Fees.**

Director Russo also described the history of ASAs and the Guaranteed Fund. Specifically, he discussed the different ASA investment options now available to PERF and TRF members, as well as fees and rates of return (see Exhibit B).

Sixty-six percent of ASA assets are currently in the Guaranteed Fund, as it has a promised rate of return and the Guaranteed Fund does not charge participant accounts any administrative fees, unlike the other ASA investment options. In 2010, ASA accounts in the Guaranteed Fund became daily valued with daily liquidity.

For participants in the ASA-only PERF plan, the Guaranteed Fund is not an investment option for these accounts.

The INPRS board has been considering how to manage the risks of the Guaranteed Fund, as well as who should pay the costs to administer the ASA accounts invested in the Guaranteed Fund.

The Guaranteed Fund is a legislatively mandated option that does provide some risk to employers, as it promises a guaranteed rate of return. Should the legislature want to eliminate

all risks associated with the Guaranteed Fund, legislative action will be required.

### **Benefits for Municipal Emergency Medical Service (EMS) Workers**

Mr. Michael Whited and Mr. Tony Murray from the Professional Fire Fighters Union of Indiana presented on their request to provide an optional short-term disability program for EMS workers who did not fall under similar existing programs for firefighters or police. Specifically, the worker would receive up to one year of temporary disability (depending on whether the injury or disability occurred in the line of duty) or six months of temporary disability (for injuries not occurring in the line of duty) with compensation in an amount of 50% of their salary.

There was some question from Senator Tallian on how this proposed program would work in conjunction with Worker's Compensation. Chairman Boots indicated that this question needs to be addressed before the Commission could proceed to review the proposal.

### **Indiana State Police (ISP) Retiree Health Benefits**

Superintendent Carter and Major Phillip Parker discussed the ISP health care plan for retirees. Typically, the state has not directly paid for any of this liability, with the plan being historically operated as a pay-as-you-go plan. Due to GASB changes, this is no longer an option. Therefore, plan premiums, employer premiums, federal government subsidies, as well as other funding sources have been used in recent years to fund a 401(h) program to raise the funded ratio of the plan. In FY 2014 and FY 2015, the state will pay roughly one-half of ISP's annual required contribution into the plan each year. Ongoing continued state contributions towards this obligation of one-half of the required contribution is optimal, according to Major Parker. The goal is to have the plan fully funded within 15 years.

A brief discussion took place between Major Parker and Senator Tallian regarding how the ISP plan works with Medicare. Many retired troopers are not Medicare-eligible (either because they are not yet 65 when they retire or because they entered ISP service prior to 1986). In those cases where a retired trooper is eligible for Medicare, then the plan may act as a Medicare supplement only.

### **Agenda for the Next Commission Meeting**

After discussion by the Commission members on what topics to cover in subsequent Commission meetings, Chairman Boots agreed that the following topics would be included in the next agenda:

- (1) PERF and TRF ASA Annuitization
- (2) State-Assisted Retirement Plans
- (3) COLAs, Thirteenth Checks, Minimum Benefit Increases
- (4) Medical Retirement Benefit Accounts

### **Next Meeting Date**

The Commission selected Monday, September 23, 2013, at 10:00 a.m. as its next meeting date.

### **Adjournment**

The Chairman adjourned the meeting at 1:00 p.m.



# 2013 INPRS UPDATE

Pension Management Oversight Commission

August 27, 2013

*Steve Russo*  
*Executive Director*

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

*Exhibit A PMOC 8/27/2013*

# Agenda

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- General Update
- COLAs & Thirteenth Checks
- 401(h) Program Update
- Optional ASA Only Plan for State Employees Update
- PERF & TRF ASA Annuities
- National Trends

# Overview – Plans & Funds

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- 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

# FY2013 Actual Change In Net Position

INPRS' Net Assets increased 6% from July 1, 2012 to June 30, 2013

<b>Net Assets – June 30, 2012</b>		<b>\$25.6B</b>
Investment Income	+ \$1.5B	
Contributions	+ \$2.5B	
Payments	- \$2.5B	
<b>Net Assets – June 30, 2013</b>		<b>\$27.1B</b>

# Estimated Funded Status as of June 30, 2013

## Funded status is improving!

\$ in Millions

Defined Benefit Retirement Plans	Actuarial Valuation as of June 30, 2013 (Estimate)				Actuarial Valuation as of June 30, 2012			
	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Status	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Status
PERF	\$ 16,381.9	\$ 12,952.5	\$ 3,429.4	79.1%	\$ 15,784.2	\$ 12,088.2	\$ 3,696.0	76.6%
TRF 1996 Account	4,739.4	4,453.5	285.9	94.0%	4,338.3	3,936.4	401.9	90.7%
1977 Fund	4,426.9	4,181.2	245.7	94.4%	4,122.4	3,786.6	335.8	91.9%
Judges	463.2	381.1	82.1	82.3%	437.9	260.1	177.8	59.4%
EG&C Plan	119.8	98.5	21.3	82.2%	113.3	76.0	37.3	67.1%
PARF	60.6	48.7	11.9	80.4%	56.1	27.5	28.6	49.0%
LEDB	4.5	3.4	1.1	75.6%	4.5	3.4	1.1	75.0%
<b>Aggregate Pre-Funded Plans</b>	<b>\$ 26,196.3</b>	<b>\$ 22,118.9</b>	<b>\$ 4,077.4</b>	<b>84.4%</b>	<b>\$ 24,856.7</b>	<b>\$ 20,178.2</b>	<b>\$ 4,678.5</b>	<b>81.2%</b>
TRF Pre-1996 Account (Pay-As-You-Go)	16,413.8	5,206.7	11,207.1	31.7%	16,522.0	4,978.1	11,543.9	30.1%
<b>Aggregate All INPRS Plans</b>	<b>\$ 42,610.1</b>	<b>\$ 27,325.6</b>	<b>\$ 15,284.5</b>	<b>64.1%</b>	<b>\$ 41,378.7</b>	<b>\$ 25,156.3</b>	<b>\$ 16,222.4</b>	<b>60.8%</b>
<i>Memo:</i>								
Total Teachers' Retirement Fund	\$ 21,153.2	\$ 9,660.2	11,493.0	45.7%	\$ 20,860.3	\$ 8,914.5	11,945.8	42.7%

# GASB Rule Changes

- GASB has issued changes to its accounting standards related to pensions
  - Defines the method for calculating and reporting Net Pension Liability and Pension Expense
  - Requires state and local units of government to report their share of Net Pension Liability and Pension Expense in their financial statements
  - Defines how certain actuarial methods and assumptions are to be used for calculating Net Pension Liability and Pension Expense
  - Changes the discount rate used to project total pension liability
    - Funded liabilities will continue to use the fund's expected long-term rate of return (6.75%)
    - Unfunded liabilities will use a 20-year municipal bond index rate
  - Effective date for INPRS is FY2014; for state & local government is FY2015
- INPRS working with Auditor of State, local units of government, and actuaries to determine impact prior to implementation of standards

**GASB rule changes DO NOT change how pensions are funded**

# Where does the money come from?

## Indiana Pension Receipts 1993 - 2009

Employers: 51%

Investment Earnings: 36%

Employees:  
13%



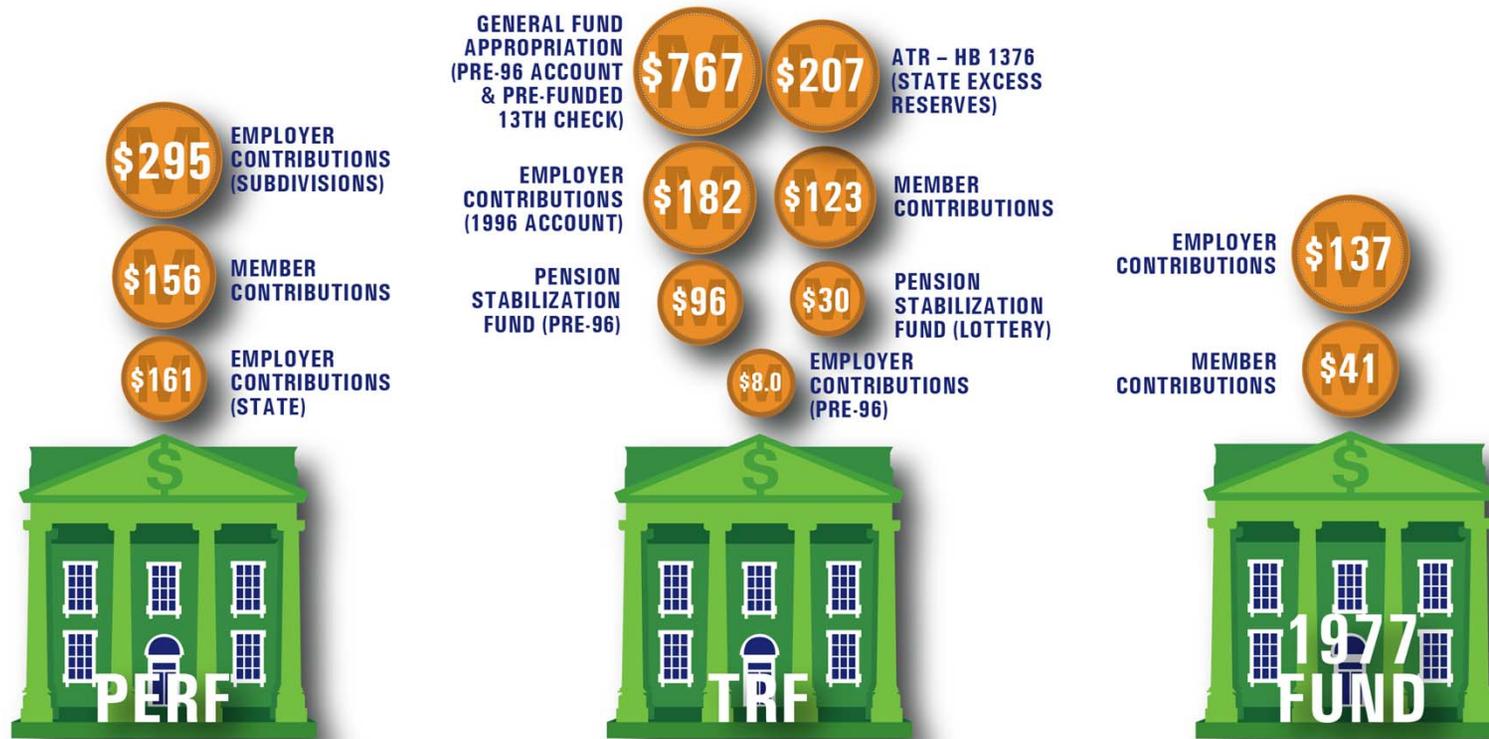
Source: National Institute On Retirement Security - Pensionomics 2012

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# INPRS' Funding Sources – FY 2013

115% of Actuarial Required Contributions (ARC) Paid in FY13\*



\* Estimates pending final actuarial analysis

# INPRS' Funding Sources – FY 2013



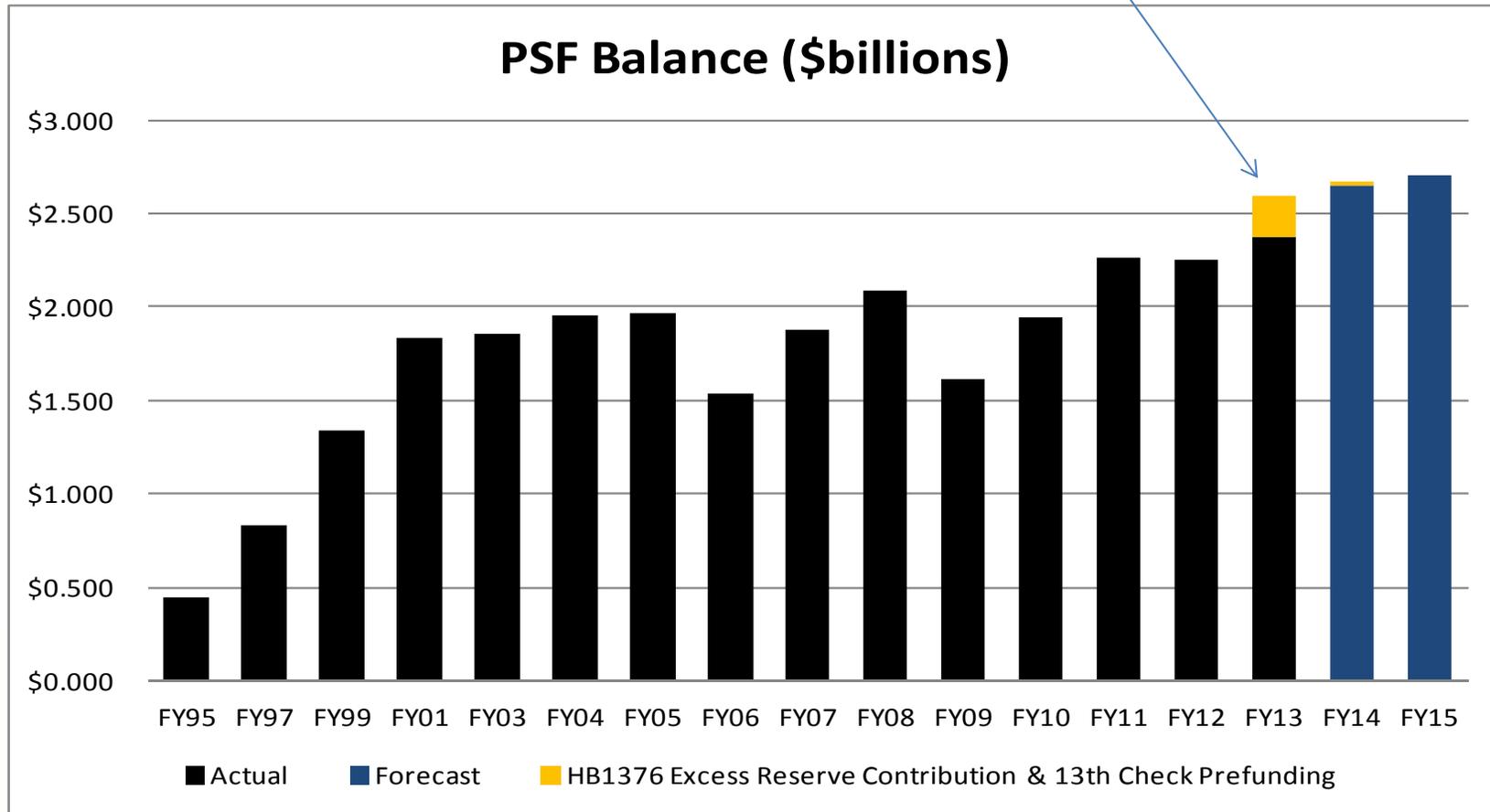
# Teachers' Retirement Fund (TRF) Pre-1996 Account Budget Impacts

- 3% year-over-year appropriations growth for FY2013 – FY2015

<i>\$ Millions</i>	Actual <u>FY09</u>	Actual <u>FY10</u>	Actual <u>FY11</u>	Actual <u>FY12</u>	Actual <u>FY13</u>	Forecast <u>FY14</u>	Forecast <u>FY15</u>
<b>Total:</b>							
Benefit Payments	(\$661.4)	(\$714.1)	(\$769.4)	(\$823.9)	(\$873.4)	(\$885.0)	(\$929.9)
General Fund Appropriations	\$662.6	\$687.3	\$704.3	\$725.4	\$747.2	\$769.6	\$792.7
Amount Withdrawn from PSF	\$1.2	(\$26.8)	(\$65.1)	(\$98.5)	(\$126.2)	(\$115.4)	(\$137.2)
Lottery Transfer	\$30.0	\$30.0	\$35.0	\$30.0	\$30.0	\$30.0	\$30.0
Other Income	\$9.5	\$13.1	\$7.5	\$11.8	\$13.6	\$12.5	\$11.4
Investment Gains / (Losses)	(\$510.8)	\$312.3	\$343.1	\$43.7	\$142.5	\$128.4	\$131.1
13th Check Prefunding	-	-	-	-	\$19.6	\$19.3	-
State Excess Reserve Income	-	-	-	-	\$206.8	-	-
Transfer COLA Reserve Account	-	-	-	-	\$58.7	-	-
PSF Balance	\$1,614.4	\$1,943.0	\$2,263.5	\$2,250.5	\$2,595.5	\$2,670.3	\$2,705.6

# TRF Pre-1996 Pension Stabilization Fund

Balance as of June 30, 2013 = \$2.6B



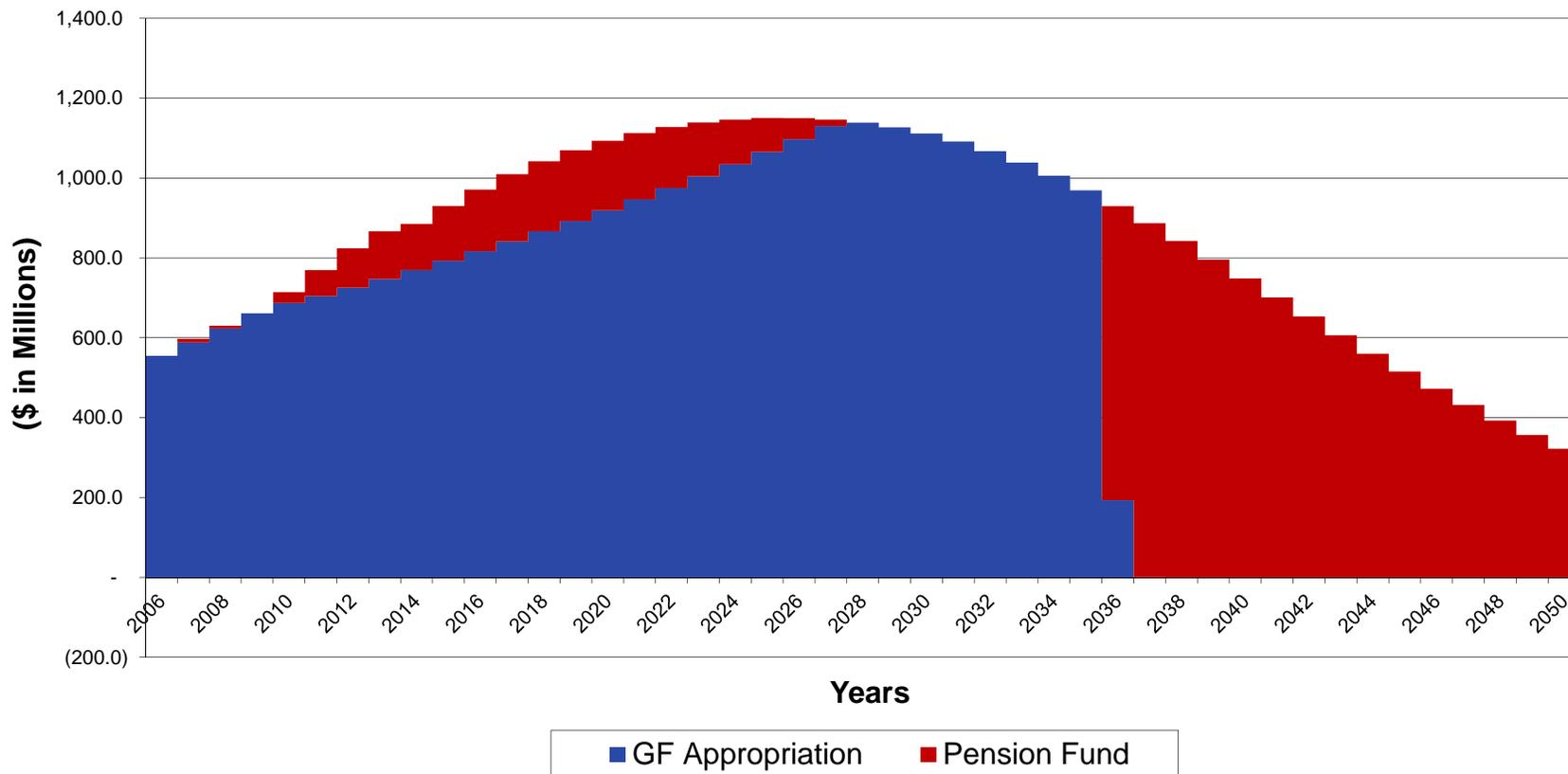
# Long Term TRF Pre-96 Funding Options

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- While near term GF appropriations should maintain 3% growth, the legislature will have options in the future
  - Option A – Maintain 3% appropriations growth until 100% funded
  - Option B – Manage appropriations to maintain positive PSF balance

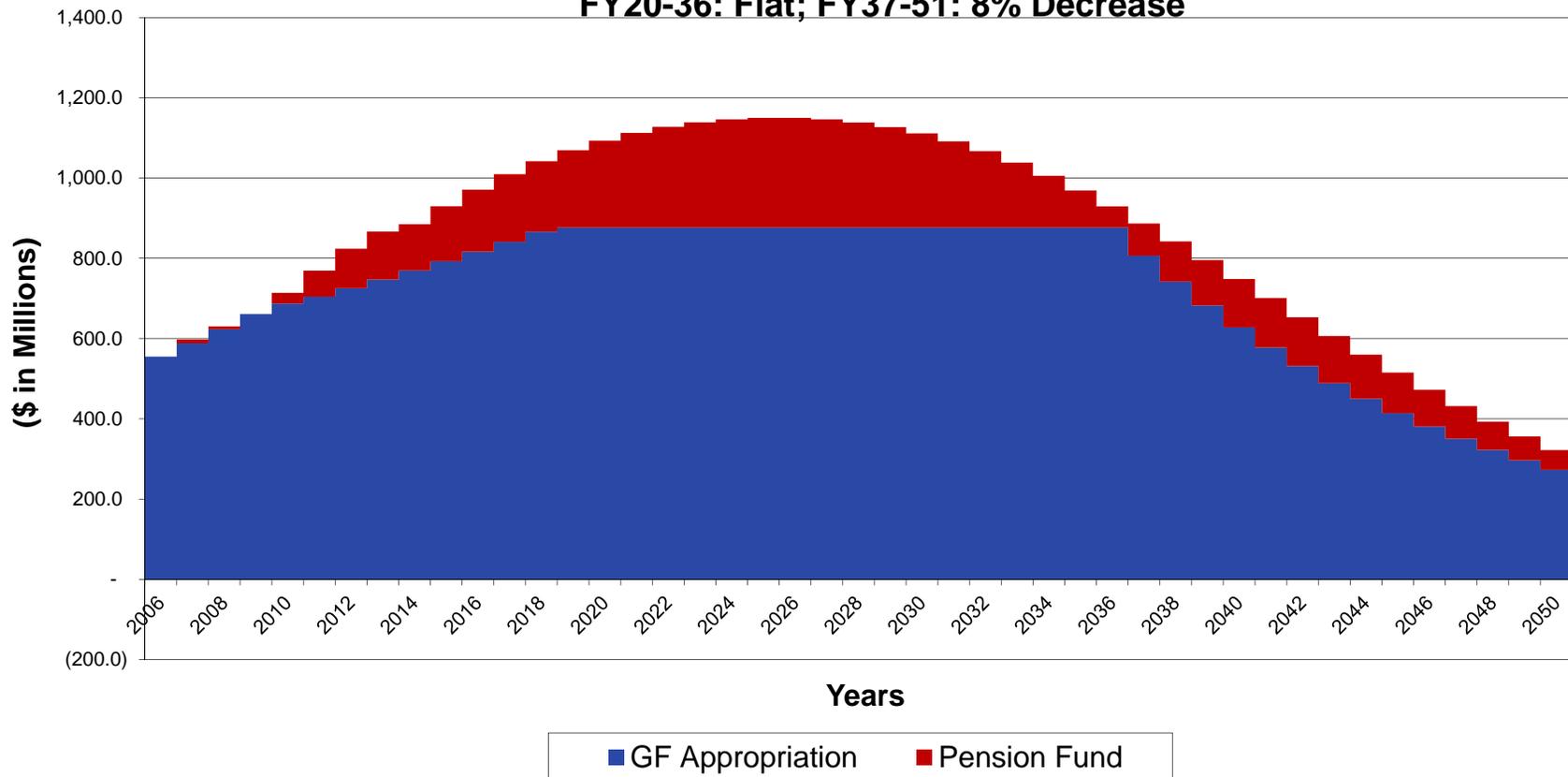
# Teachers' Retirement Fund (TRF) Pre-1996 Account Forecast – Option A

**Pre-96 Account DB Benefit Payment Forecast**  
assumes 3% per yr. state appropriations growth until 100% funded



# Teachers' Retirement Fund (TRF) Pre-1996 Account Forecast – Option B

**Pre-96 Account DB Benefit Payment Forecast**  
 FY13: \$747M; FY14-18: 3% Increase; FY19: 1.2% Increase;  
 FY20-36: Flat; FY37-51: 8% Decrease



# Pension Relief

Established in 1977 to help cities and towns with the costs of legacy police and firefighter retirement plans

\$ in millions

	FY2009 Balance	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Forecast	FY2015 Forecast
<b><u>Additions</u></b>							
General Fund Appropriation (State)		\$ 136.0	\$ 112.0	\$ 131.0	\$ 180.0	\$ 145.0	\$ 175.0
Lottery (State)		30.0	35.0	30.0	30.0	30.0	30.0
Cigarette Tax (State)		25.8	25.6	24.3	24.7	21.6	21.5
Alcohol Tax (State)		3.2	3.1	3.3	3.4	3.0	3.0
Public Deposit Insurance Fund (PDIF)		8.3	1.2	1.4	0.5	0.3	0.3
Investment Income		11.9	0.2	0.1	0.1	0.1	0.1
<b>Total Additions</b>		<b>\$ 215.2</b>	<b>\$ 177.1</b>	<b>\$ 190.1</b>	<b>\$ 238.7</b>	<b>\$ 200.0</b>	<b>\$ 229.9</b>
<b><u>Deductions</u></b>							
Pension Relief Distributions		\$ 213.0	\$ 219.4	\$ 224.2	\$ 219.8	\$ 221.4	\$ 222.9
Death Benefits		0.5	0.5	0.1	0.3	0.5	0.5
Public Deposit Insurance Fund (PDIF)		8.3	-	-	-	-	-
Other (Local Unit Withdrawals & Admin. Expenses)		0.1	3.0	0.3	0.4	1.8	0.1
<b>Total Deductions</b>		<b>\$ 221.9</b>	<b>\$ 222.9</b>	<b>\$ 224.6</b>	<b>\$ 220.5</b>	<b>\$ 223.7</b>	<b>\$ 223.5</b>
<b>Pension Relief Fund Balance</b>	<b>\$ 105.4</b>	<b>\$ 98.7</b>	<b>\$ 52.9</b>	<b>\$ 18.4</b>	<b>\$ 36.6</b>	<b>\$ 12.9</b>	<b>\$ 19.3</b>
Memo: Local Unit Balances		\$ 7.7	\$ 4.8	\$ 4.5	\$ 4.2	\$ 2.5	\$ 2.5

# Investments - A Year in Review

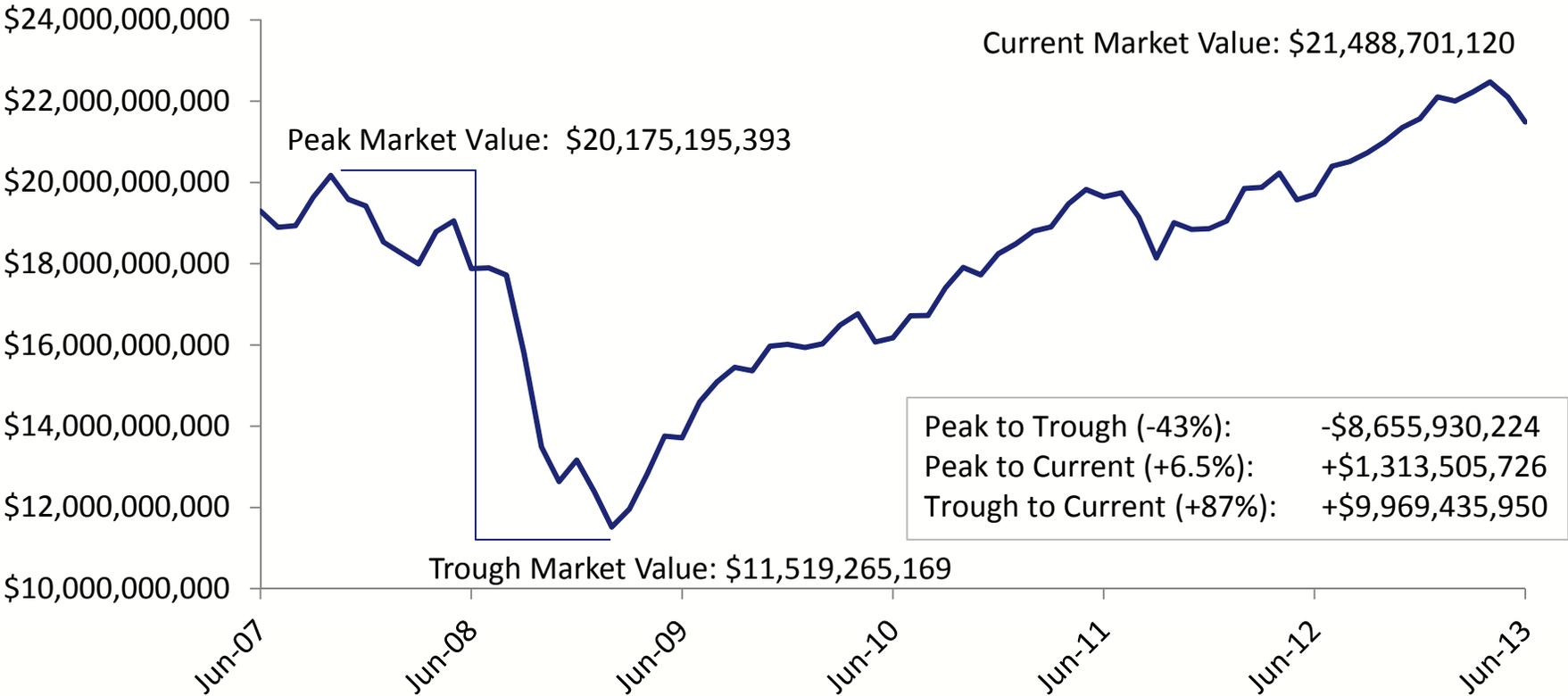
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- New all-time high for INPRS assets of \$28.3 billion hit in FY2013
- First 10 months of FY13 unusually calm, while last 2 months rocked by remarks from the Federal Reserve
- All asset classes within target asset allocation ranges
- Leveraging combined PERF/TRF assets continues to reduce fees

One-time Savings:	\$14.7M
Ongoing Annual Savings:	\$21.3M/yr.
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Total NPV:	\$330.7M

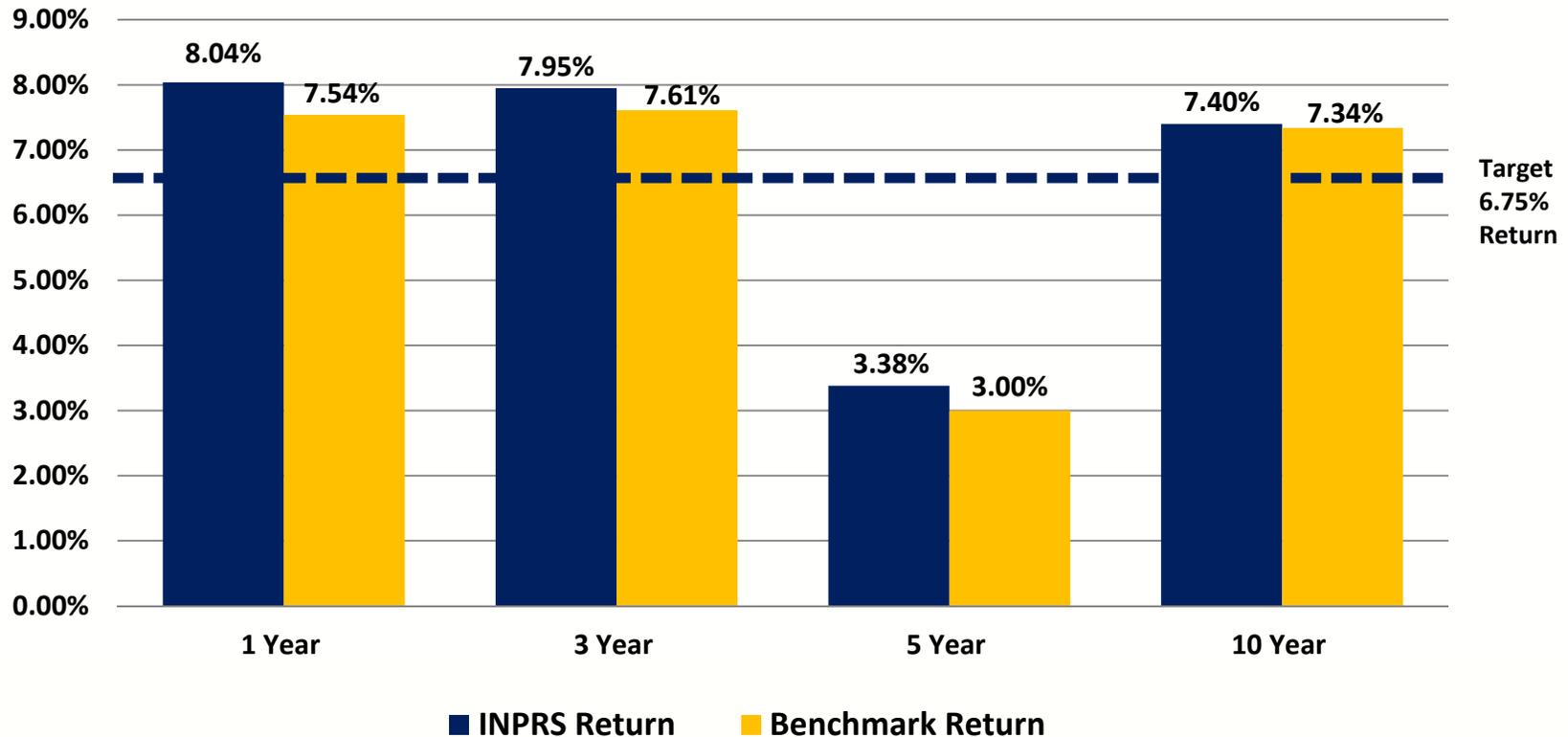
# Defined Benefit Investments Performance

**INPRS DB Market Value** (As of 6/30/2013)



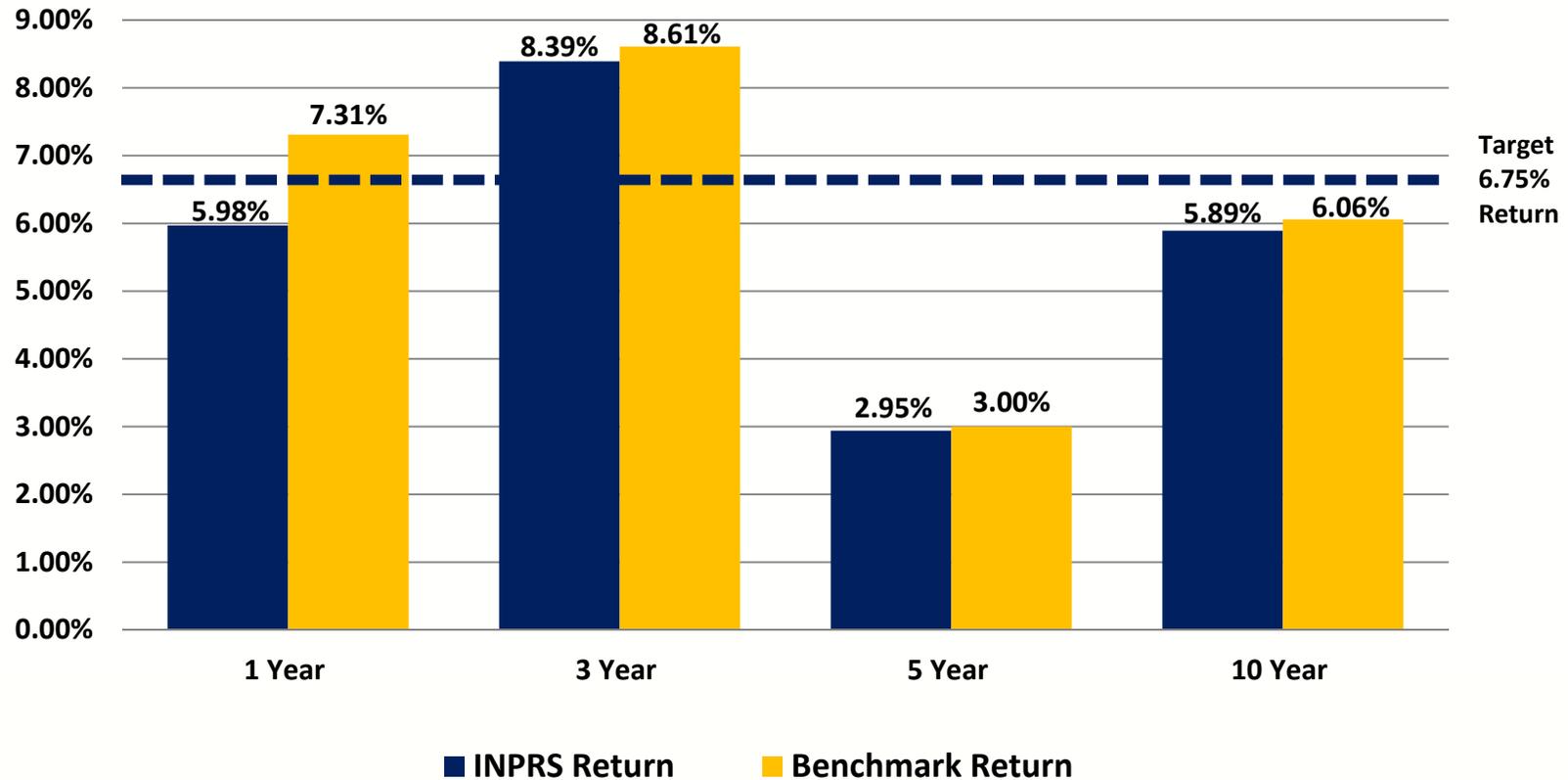
# Investments Performance

Annualized Net of Fee Returns as of 3/31/13



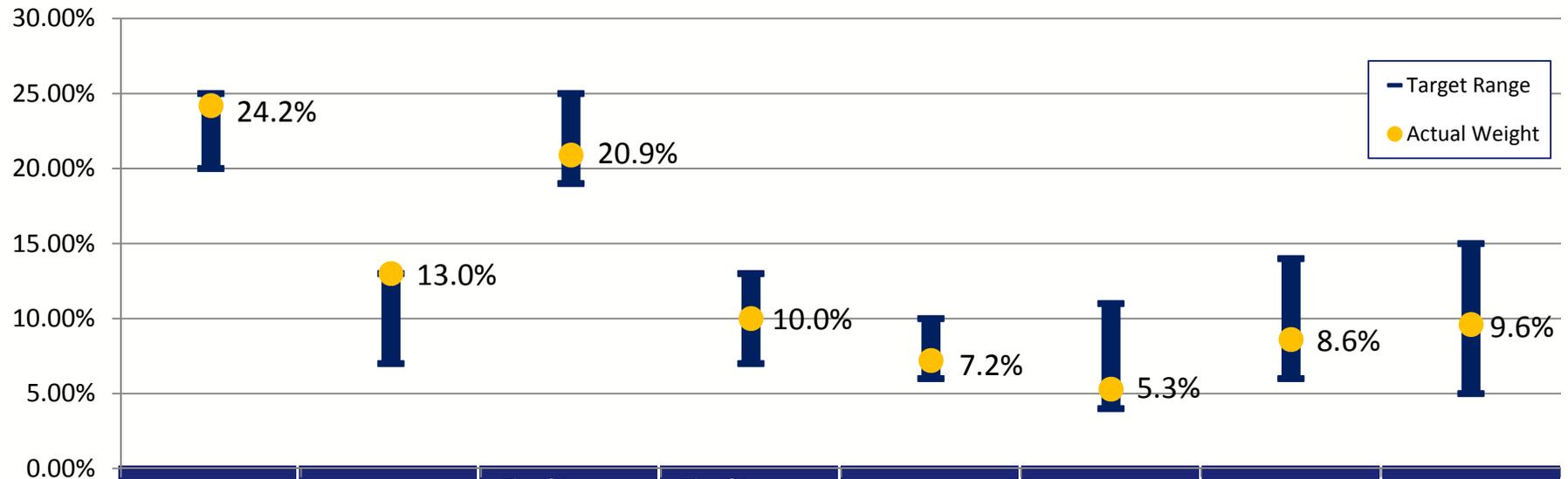
# Investments Performance

Annualized Net of Fee Returns as of 6/30/13



# Asset Allocation & Performance

## As of 6/30/13



	Public Equity	Private Equity	Fixed Income (Ex Inflation-Linked)	Fixed Income (Inflation-Linked)	Commodities	Real Estate	Absolute Return	Risk Parity
1 Year Return	18.17%	11.71%	0.52%	-3.59%	-4.41%	13.77%	6.92%	-0.43%
3 Year Return	13.49%	14.09%	4.54%	5.30%	2.84%	13.81%	4.89%	
5 Year Return	4.30%	6.80%	6.12%	4.65%		2.58%	1.57%	
10 Year Return		10.61%	6.25%	5.38%				

# Sudan and Terror State Divestment Update 2013

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- ✓ 21 publically traded companies, representing less than 0.3% of INPRS assets are on-track for divestment per legislative mandate

*INPRS continues to be in full compliance with the Sudan and Terror States Divestment legislation*

# Operational Performance

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- Recognized leader in customer service by a global pension system benchmarking firm
- Recognized by peers as a leader in enterprise risk management
- 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)

# System & Process Modernization Update

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- Modernization Nearing Completion
  - ✓ Benefit Payment Processing – Completed 2009
  - ✓ Modern Financial System – Completed 2010
  - ✓ ASA Modernization – Completed 2011
  - ✓ New Employer Reporting System – Completed 2012
- New Benefits Administration System – Go-live Fall 2013

# FY14 INPRS Initiatives

INPRS Three Year Strategic Plan available on the INPRS website

[www.in.gov/inprs](http://www.in.gov/inprs) under Publications

## Top Five FY14 Strategic Priorities

- Leverage new systems to increase member/employer satisfaction and self service
- Assess member engagement and education alternatives
- Assess internal asset management
- Seek plan sponsor input on ASA structure
- Enhance risk management, build vendor management, establish quality management

## Top Five FY14 Tactical Priorities

- Implement new defined benefit administration system
- Implement updated actuarial factors and market based ASA annuities
- Restructure of IT and Operations functions to a post modernization environment
- Prepare for new GASB financial reporting requirements
- Develop an investments crisis contingency plan

# COLAs & Thirteenth Checks

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- COLAs are not free! (1% PERF + TRF COLA = \$143M)
- “Thirteenth Checks” aren’t free either, but are cheaper than COLAs (\$46M)
- Actuaries factor in ad-hoc COLAs based upon historical experience (1%)
- 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 and thirteenth checks are funded directly from the state general fund (1% COLA = \$81.6M, 13<sup>th</sup> Check = \$19.3M)

# 401(h) Accounts Update

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- Plan established in Indiana Code for state employees that transfers unpaid vacation \$'s upon retirement into a tax free account for payment of eligible medical expenses
- Implementation was pending IRS approval, which did occur in August 2012
- Implementation planning identified issues that drove a need to delay implementation
  - Who is eligible to participate? - 2012 SEA499 clarified membership
  - Who & how are administrative fees paid? – Accounts will be charged \$3/month fee + \$1.50 per mailed statement
  - What is the definition of “upon retirement”? - Now defined as “a submitted retirement application on or before their last payroll date”
- 2012 HEA1001 delayed implementation to July 1, 2014

# Optional ASA Only Plan Update

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- 2011 SEA524 created an optional ASA Only plan for first time newly hired State of Indiana PERF eligible employees
  - Employee contributes 3% (same as PERF Hybrid plan & by statute, state picks up the contribution)
  - State contributes the same as the PERF DB contribution rate (Currently 11.2%)
    - Employee receives at least 3% and not greater than the actuarial normal cost of the PERF DB plan (currently 4.7%)
    - The amount not credited to the member is applied to the PERF DB unfunded liability (currently 6.5%)
- IRS approval received in October 2012 and plan went live on March 1, 2013
- Between March 1, 2013 and July 31, 2013
  - 14% were not eligible to enroll
  - 63% defaulted to the hybrid plan
  - 14% proactively enrolled in the hybrid plan
  - 9% enrolled in the ASA Only Plan

# PERF & TRF ASA Annuities

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- PERF & TRF members can elect to annuitize all or part of their ASA balance upon or after retirement
- Prior practice was to calculate the annuity using a 7.5% interest rate and outdated mortality tables
- INPRS board reviewed current market practices
- After a thorough review of all options, the INPRS board adopted a resolution to provide members ASA annuities at market based rates through a 3<sup>rd</sup> party annuity provider effective July 1, 2014

# National Public Pension Trends

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- Funding ratios continue to decline and are expected to bottom out in FY13
- Ratio of active employees to annuitants continues to decline
- While private sector employment is growing, public sector employment continues to decline
- Private sector wages are increasing 1.5%-2.0% annually while public sector wages are increasing at 1%
- Employer contribution rates continue to rise while employee contribution rates have remained flat
- % of plans receiving >90% of actuarial required contributions remains flat at 55%
- Bond rating agencies are revising their pension measurement methodologies
- According to the GAO, state and local governments face long-term structural deficits primarily due to Medicaid and retiree health care costs

# Key Features of Well Funded Plans\*

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

## Indiana



\* National Institute on Retirement Security Study – June 2011

# APPENDIX

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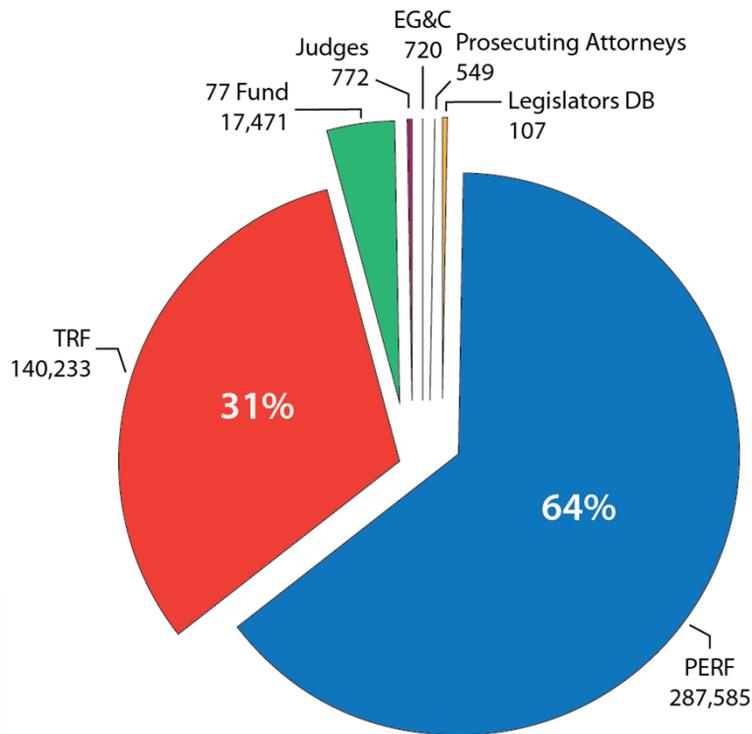


# Overview – Member Demographics

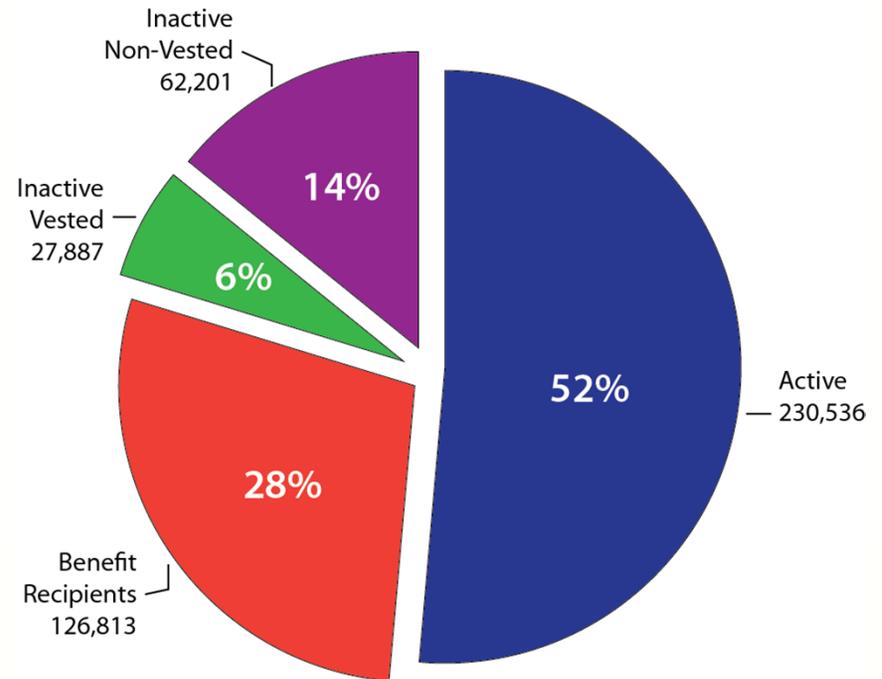
(as of June 30, 2012)

## 447,000 + Members

### Members By Fund



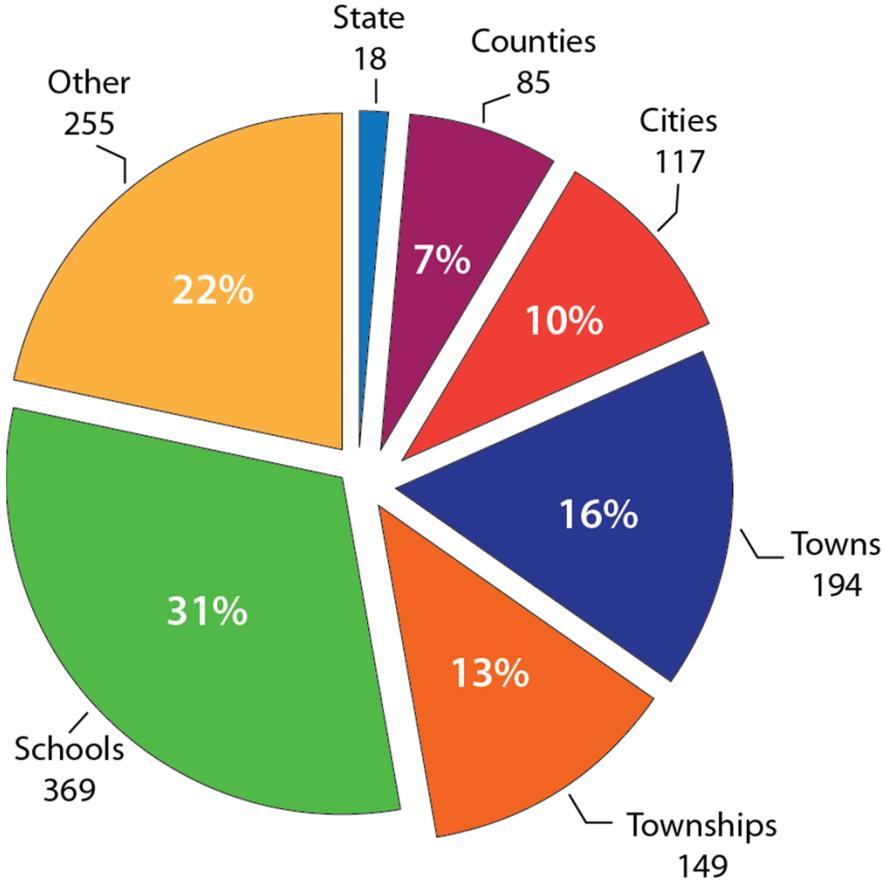
### Members By Status



# Overview – Employer Demographics

(as of June 30, 2012)

## 1,100 + Employers



# Pension Funding Sources

## FY2013 – FY2015

\$ in Millions

Fund	FY2013 Actual			FY2014 Forecast		FY2015 Forecast	
	General Fund Appropriation	ATR (HB 1376) State Excess Reserves	Other <sup>1</sup>	General Fund Appropriation	Other <sup>1</sup>	General Fund Appropriation	Other <sup>1</sup>
PERF	-	-	612.1	-	691.0	-	732.0
TRF	747.2	206.8	439.3	769.6	470.1	792.7	514.3
- Pre-Funded 13th Check	19.6	-	-	19.3	-	-	-
1977 Fund	-	-	177.9	-	184.0	-	189.0
JRS	14.1	90.2	9.8	13.7	10.0	13.9	10.0
EG&C Plan	-	14.6	6.1	-	6.6	-	6.7
PARF	2.0	17.4	1.3	1.2	1.4	1.1	1.4
LEDB & LEDC	0.2	-	1.5	0.1	1.6	0.1	1.6
Pension Relief	180.0	-	58.7	145.0	78.7	175.0	54.9
<b>Total</b>	<b>963.1</b>	<b>329.0</b>	<b>1,306.7</b>	<b>948.9</b>	<b>1,443.4</b>	<b>982.8</b>	<b>1,509.9</b>

<sup>1</sup> Other includes member contributions, employer contributions, Pension Stabilization Fund drawdown, lottery proceeds, docket & court fees, cigarette & alcohol taxes, and Pension Relief Fund drawdown

# Estimated FY13 INPRS Actuarial Required Contributions (ARC)

*\$ in Thousands*

Defined Benefit Retirement Plans	FY2013 (Preliminary)				Memo: Excluding Excess State Reserves of \$329.0 Mil.	FY2012 Actual		
	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed			Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
PERF	\$ 501,208	\$ 455,658	90.9%	90.9%	\$ 509,724	\$ 397,843	78.1%	
TRF 1996 Account	188,916	181,638	96.1%	96.1%	173,651	181,067	104.3%	
1977 Fund	90,789	137,111	151.0%	151.0%	141,988	135,605	95.5%	
Judges	25,458	111,418	437.7%	83.4%	19,664	18,896	96.1%	
EG&C Plan	4,908	19,740	402.2%	104.3%	5,532	5,054	91.4%	
PARF	2,542	19,443	764.9%	81.8%	2,037	1,839	90.3%	
LEDB	140	150	107.1%	107.1%	113	112	99.1%	
<b>Aggregate Pre-Funded Plans</b>	<b>\$ 813,961</b>	<b>\$ 925,158</b>	<b>113.7%</b>	<b>98.7%</b>	<b>\$ 852,709</b>	<b>\$ 740,416</b>	<b>86.8%</b>	
TRF Pre-1996 Account (Pay-As-You-Go)	873,751	1,012,156	115.8%	92.2%	866,207	764,423	88.2%	
<b>Aggregate All INPRS Plans</b>	<b>\$ 1,687,712</b>	<b>\$ 1,937,314</b>	<b>114.8%</b>	<b>95.3%</b>	<b>\$ 1,718,916</b>	<b>\$ 1,504,839</b>	<b>87.5%</b>	
<i>Memo:</i>								
Total Teachers' Retirement Fund	\$ 1,062,667	\$ 1,193,794	112.3%	92.9%	\$ 1,039,858	\$ 945,490	90.9%	

# Sudan and Terror States Divestment

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## HEA 1067 (Sudan Divestment)

If a company continues to have scrutinized active business operations 90 days after the Fund first sends written notice to the company, the Fund shall sell, redeem, divest, or withdraw all publicly traded securities of the company that are held by the Fund, as follows:

- At least 50% in 9 months
- 100% in 15 months.

## HEA 1547 (Terror States Divestment)

If a company continues to have scrutinized active business operations 180 days after the Fund first sends written notice to the company, the Fund shall sell, redeem, divest, or withdraw all publicly traded securities of the company that are held by the Fund, as follows:

- At least 50% in 3 years
- At least 75% in 4 years
- 100% in 5 years

# Sudan and Terror States Divestment Update 2013

## HEA 1067 (Sudan Divestment)

Companies New to List as of 1/1/2013 - Need to be 50% divested by October 20, 2013 and 100% divested by April 20, 2014

<u>Asset Description</u>	<u>Market Value</u>	<u>% of INPRS Total Market Value</u>
Schneider Electric SA	\$ 7,771,577	0.04%

## HEA 1547 (Terror States Divestment)

Companies Still on List from 2011 - Need to be 50% divested by May 16, 2014, 75% divested by May 16, 2015, and 100% divested by May 16, 2016

<u>Asset Description</u>	<u>Market Value</u>	<u>% of INPRS Total Market Value</u>
Etablissements Maurel et Prom	\$ 29,018	0.00%
Royal Dutch Shell PLC	\$ 10,910,418	0.05%
Sasol Ltd	\$ 384,974	0.00%
Total SA	\$ 19,165,772	0.09%

Companies Still on List from 2012 - Need to be 50% divested by April 15, 2015, 75% divested by April 15, 2016, and 100% divested by April 15, 2017

<u>Asset Description</u>	<u>Market Value</u>	<u>% of INPRS Total Market Value</u>
Mazda Motor Corp	\$ 295,213	0.00%
Repsol SA	\$ 500,805	0.00%
Russian Federation	\$ 1,115,299	0.01%
Statoil ASA	\$ 689,883	0.00%

Companies New to List as of 1/1/2013 - Need to be 50% divested by April 15, 2016, 75% divested by April 15, 2017, and 100% divested by April 15, 2018

<u>Asset Description</u>	<u>Market Value</u>	<u>% of INPRS Total Market Value</u>
BP PLC	\$ 17,460,543	0.08%
Cosmo Oil Co Ltd	\$ 182,383	0.00%
Dundee Corp	\$ 23,731	0.00%
Eni SpA	\$ 6,795,750	0.03%
Essar Global Ltd	\$ 19,068	0.00%
Isuzu Motors Ltd	\$ 772,406	0.00%
JX Holdings Inc	\$ 324,718	0.00%
Mitsubishi Corp	\$ 6,436,650	0.03%
MTN Group Ltd	\$ 2,511,669	0.01%
Showa Shell Sekiyu KK	\$ 318,728	0.00%

# INPRS Return Expectations

	INPRS Target Weight	Expected Long-Term Returns* (May 2013)
U.S. Inflation		2.4%
U.S. Large Cap Stock	9.1%	7.7%
U.S. Small Cap Stock	1.0%	8.0%
Int'l Developed Mkt Stock	9.7%	8.0%
Emerging Mkt Stock	2.7%	8.5%
Private Equity	10.0%	10.2%
Fixed Income	22.0%	3.7%
Inflation-Linked Bonds (TIPS)	10.0%	2.2%
Commodities	8.0%	4.0%
Real Estate	7.5%	6.2%
Hedge Funds	10.0%	4.9%
Risk Parity	10.0%	6.5%
<b>INPRS Long-Term Expected Return</b>		<b>6.60%</b>

Source: SIS

\*Annualized. Due to the macro environment's low interest rates and slow global growth, expectations have been lowered.

# COLAs

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

# Auto COLA History

## 1977 Police and Fire (CPI, Max. 3%)

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1.2%	2.9%	1.8%	3.0%	3.0%	2.4%	3.0%	0.0%	2.4%	2.1%	2.8%	1.7%

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

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
0.0%	0.0%	1.72%-2.2%	1/1-0.5%	2.0%	7/1-4.0%	3.25%	0.0%	0.0%	1.3%	2.2%	3.1%
			7/1-15.0%-22.0%		12/2-1.50%						

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

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	1.3%	2.2%	3.1%

\*Only for members who retired after 12/31/09

# COLA & One-time Check Cost Impacts

TRF	
1% COLA	\$87.3M
13th Check	\$20.4M
Combined	\$107.7M

PERF	State	Political Subdivision
1% COLA	\$20.4M	\$35.1M
13th Check	\$8.4M	\$16.7M
Combined	\$28.8M	\$51.8M

C&E	
1% COLA	\$442K
13th Check	\$65K
Combined	\$507K

# Public Employees' Retirement Fund (PERF) Fund Overview

As of June 30, 2013 (Estimate)

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

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

**FUNDED RATIO:** *79.1% (Estimate)*

**UNFUNDED LIABILITY:** *\$3,429 M (Estimate)*

## 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 Annual Retiree Benefit (2012): *\$7,901 (ASA Annuitized)*

Actual	Projected Benefit Payments	
	FY13	FY15
\$643 M	\$684 M	\$731 M

## FUNDING SOURCES

Employee Contribution: *3% salary to member ASA*

Employer Contribution (State): *Actuarially Calculated Contribution Rate (FY13 = 9.7%; FY14 = 11.2%)*

Employer Contribution (Subdivisions): *Actuarially Calculated Contribution Rate (FY13 = 9.7%; FY14 = 11.2%)*

Actual	Projected Contributions	
	FY13	FY15
\$156 M	\$151 M	\$155 M
\$161 M	\$190 M	\$194 M
\$295 M	\$350 M	\$383 M
\$612 M	\$691 M	\$732 M

# Teachers' Retirement Fund (TRF)

## Fund Overview

As of June 30, 2013 (Estimate)

**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)*

**FUNDED RATIO:** *45.7% (Pre 1996 - 31.7%, 1996 - 94.0%) (Estimate)*

**UNFUNDED LIABILITY:** *\$11,493 M (Estimate)*

### 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 Annual Retiree Benefit (2012): *\$19,081 (ASA Annuitized)*

Actual	Projected Benefit Payments		
	FY13	FY14	FY15
\$1,054 M	\$1,075 M	\$1,136 M	

### FUNDING SOURCES

Employee Contribution: *3% salary to member ASA*

General Fund Appropriation: *Pre-96 Pay-as-you-go benefit obligation*

General Fund Appropriation: *Pre-Funded 13th Check*

Pension Stabilization Fund: *Pre-96 Pay-as-you-go benefit obligation*

Pension Stabilization Fund: *Lottery (Pre-96)*

ATR (HB 1376): *State Excess Reserves (To PSF)*

Employer Contribution: *1996 Account Actuarially Calculated Contribution Rate (FY13 & FY14 = 7.5%)*

Other: *Pre-96 Employer Contribution (AOS, FSP, HEP)*

Actual	Projected Contributions		
	FY13	FY14	FY15
\$123 M	\$131 M	\$134 M	
\$747 M	\$770 M	\$793 M	
\$ 20 M	\$ 19 M	-	
\$ 96 M	\$ 85 M	\$107 M	
\$ 30 M	\$ 30 M	\$ 30 M	
\$207 M	-	-	
\$182 M	\$214 M	\$233 M	
\$ 8 M	\$ 10 M	\$ 10 M	
\$1,413 M	\$1,259 M	\$1,307 M	

# 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) Fund Overview

As of June 30, 2013 (Estimate)

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

**TYPE:** *Defined Benefit*

**FUNDED RATIO:** *94.4% (Estimate)*

**UNFUNDED LIABILITY:** *\$246 M (Estimate)*

## BENEFITS

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

Vesting: *20 years*

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

Avg. Overall Annual Retiree Benefit (2012): *\$23,977*

Actual	Projected Benefit Payments	
	FY13	FY15
\$ 97 M	\$104 M	\$118 M

## FUNDING SOURCES

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

Employer Contribution: *Actuarially Calculated Contribution Rate (FY13 & FY14 = 19.7%)*

Actual	Projected Contributions	
	FY13	FY15
\$ 41 M	\$ 42 M	\$ 43 M
\$137 M	\$142 M	\$146 M
\$178 M	\$184 M	\$189 M

# Judges' Retirement System Fund Overview

As of June 30, 2013 (Estimate)

**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*

**FUNDED RATIO:** *82.3% (Estimate)*

**UNFUNDED LIABILITY:** *\$82 M (Estimate)*

## 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 Annual Retiree Benefit (2012): *\$54,751*

Actual FY13	Projected Benefit Payments	
	FY14	FY15
\$17.5 M	\$19.2 M	\$20.5 M

## FUNDING SOURCES

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

General Fund Appropriation: *Actuarially Calculated*

Other: *Certain docket and court fees*

ATR (HB 1376): *State Excess Reserves*

Actual FY13	Projected Contributions	
	FY14	FY15
\$ 2.6 M	\$ 2.8 M	\$ 2.9 M
\$14.1 M	\$13.7 M	\$13.9 M
\$ 7.2 M	\$ 7.2 M	\$ 7.2 M
\$90.2 M	-	-
<b>\$114.1 M</b>	<b>\$23.7 M</b>	<b>\$23.9 M</b>

# State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan Fund Overview

As of June 30, 2013 (Estimate)

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

**TYPE:** *Defined Benefit*

**FUNDED RATIO:** *82.2% (Estimate)*

**UNFUNDED LIABILITY:** *\$21 M (Estimate)*

## 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 Annual Retiree Benefit (2012): *\$23,810*

Actual FY13	Projected Benefit Payments	
	FY14	FY15
\$ 4.8 M	\$ 5.1 M	\$ 5.5 M

## FUNDING SOURCES

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

Employer Contribution: *Actuarially Calculated Contribution Rate (FY13 & FY14 = 20.75%)*

ATR (HB 1376): *State Excess Reserves*

Actual FY13	Projected Contributions	
	FY14	FY15
\$ 1.0 M	\$ 1.1 M	\$ 1.1 M
\$ 5.1 M	\$ 5.5 M	\$ 5.6 M
\$14.6 M	-	-
<b>\$ 20.7 M</b>	<b>\$ 6.6 M</b>	<b>\$ 6.7 M</b>

# Prosecuting Attorneys' Retirement Fund (PARF) Fund Overview

As of June 30, 2013 (Estimate)

**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*

**FUNDED RATIO:** *80.4% (Estimate)*

**UNFUNDED LIABILITY:** *\$12 M (Estimate)*

## 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, 55 - rule of 85*

Avg. Overall Annual Retiree Benefit (2012): *\$21,853*

Actual	Projected Benefit Payments	
	FY13	FY14
\$ 2.0 M	\$ 2.7 M	\$ 3.0 M

## FUNDING SOURCES

Employee Contribution: *6% salary*

General Fund Appropriation: *Actuarially Calculated*

ATR (HB 1376): *State Excess Reserves*

Actual	Projected Contributions	
	FY13	FY14
\$ 1.3 M	\$ 1.4 M	\$ 1.4 M
\$ 2.0 M	\$ 1.2 M	\$ 1.1 M
\$17.4 M	-	-
<b>\$20.7 M</b>	<b>\$ 2.6 M</b>	<b>\$ 2.5 M</b>

# Legislators' Retirement System Fund Overview

As of June 30, 2013 (Estimate)

**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:** *75.6% (Estimate)*

**UNFUNDED LIABILITY:** *\$ 1.1 M (Estimate)*

## BENEFITS

Benefit Formula: *Lesser 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 Annual Retiree Benefit (2012): *\$5,536 (DB Plan Only)*

Actual	Projected Benefit Payments	
	FY13	FY15
\$ 0.4 M	\$ 0.4 M	\$ 0.4 M

## FUNDING SOURCES

Employer Contribution: *State rate plus 3% of salary for the DC plan*

General Fund Appropriation: *Actuarially Calculated Contribution for the DB plan*

Actual	Projected Contributions	
	FY13	FY15
\$ 1.5 M	\$ 1.6 M	\$ 1.6 M
\$ 0.2 M	\$ 0.1 M	\$ 0.1 M
\$ 1.7 M	\$ 1.7 M	\$ 1.7 M



# PERF & TRF ASA Fund Choices, Guaranteed Fund, and Fee

Exhibit B PMOC 8/27/2013

# Background

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- 1955 - PERF and TRF became hybrid plans
  - Mandatory 3% employee contribution into a dedicated member account - Annuity Savings Account / Guaranteed Fund
  - Contributions invested alongside DB assets in fixed income securities only
  - Indiana Code established a member crediting rate to be established by the boards annually, not to exceed 3%
  - At retirement, the ASA account balance was annuitized and added to the member's base DB benefit
- 1970's era of inflation – legislature tinkered throughout the decade with the member crediting rate landing in 1979 at “the Board shall annually establish an interest credit rate equal to or less than the investment income earned”

# Background

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- 1985 – Several Reforms
  - Employers allowed to pick-up the 3% employee contribution
  - Lump Sum ASA Distributions were permitted
  - Alternatives to the Guaranteed Fund established
- 1995 – Constitution amendment permitting investment of DB pension assets in securities other than fixed income
- 2008 – Great Recession: Guaranteed Fund underlying investments suffered significant losses.
- 2010 – ASA accounts became daily valued with daily liquidity
- 2013 – Optional ASA Only Plan established for newly hired state employees (Guaranteed Fund not an option for ASA Only participants)

# PERF & TRF ASA Statistics

## Annuity Savings Account Assets as of June 30, 2013

(\$ millions)

Guaranteed Fund	\$3,701	66%
Large Cap Equity	\$689	12%
Small/Mid Cap Equity	\$577	10%
International Equity	\$191	3%
Fixed Income	\$189	3%
Target Date Funds	\$174	3%
Inflation Linked Fixed Income	\$51	1%
Money Market Fund	<u>\$25</u>	0%
Total	\$5,597	

## Number of Member Accounts

100% Allocated to Guaranteed Fund	178,000
Some Allocation to other options	<u>141,000</u>
Total	319,000

# Recent INPRS Board Considerations

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- How to manage the risks of the Guaranteed Fund?
- Who should pay the costs to administer the ASA accounts?

# Managing Guaranteed Fund Risks

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- Given that the Guaranteed Fund is a legislatively mandated option
  - 2010 – Boards adopted a rate setting methodology based upon 2-year US Treasuries
  - 2011 – Transitioned investment of the underlying assets from the DB asset allocation to a separate asset allocation targeted to match rate setting methodology
- Risk to employers has been reduced, but not eliminated
- Should the legislature want to eliminate the risks associated with the Guaranteed Fund, legislative action would be needed to replace the Guaranteed Fund with another option such as a Stable Value Fund

# Current ASA Fee Structure

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- Member ASA accounts, excluding the Guaranteed Fund, are charged for third party investment management fees
  - Approximately \$2M/year of third party investment management fees are charged to \$1.7B of non Guaranteed Fund assets (0.12%) across 141,000 members
  - Approximately \$3M/year of third party investment management fees are not charged to \$4.1B of Guaranteed Fund assets (0.07%) across 178,000 members who are 100% allocated to the Guaranteed Fund

Why not? INPRS interpretation of Indiana Code

- Member ASA accounts are not charged for any administrative costs such as record keeping and other INPRS administrative costs
  - \$5.8M/year in third party record keeping (\$18.24 per member/year or 0.10%)
  - \$2M - \$10M / year in other INPRS administrative costs
    - \$2M/year if incremental costs to administer DB plan allocated to ASA accounts
    - \$10M/year if costs allocated as a percent of total INPRS assets

# What if?

	<u>Current State</u>	<u>Alternative</u>	<u>DC Industry Average*</u>
<b>Investment Management Fees</b>	\$2M / year	\$5M / year	
<b>Administrative Costs</b>	\$0	\$8M - \$16M / year	
<b>TOTAL</b>	\$2M / year	\$13M - \$21M / year	
<b>% of Assets</b>	0.03	0.22 - 0.36	0.72 - 0.93

\* Deloitte study of 130 participating DC plans - 2009

Change from the current state would require change to Indiana Code

## **Municipal EMS in INPERS: Temporary Disability Program**

Proposal: Legislation to allow Local Government EMS Agencies, with members who belong to Indiana Public Employee Retirement System (INPERS), to provide short term disability programs.

EMS workers have a mentally and physically stressful job. These workers often become injured or disabled, rendering them unable to perform the necessary job functions required on an emergency scene. Often, the sick leave or vacation schedule provided does not allow for adequate recovery time for injuries.

The PFFUI is requesting that the Pension Management Oversight Commission to consider legislation to assist these EMS responders that allows the following:

- Non line of duty: Up to six (6) month temporary disability.
- Line of Duty: Up to one (1) year temporary disability.
- During disability leave, the EMS worker would be entitled to receive compensation in an amount equal to fifty percent (50%) of their salary on the date their leave began.
- Optional program. No mandate on any Local unit to provide this benefit.
- Must be adopted by legislative branch or governing board of the local unit of government or municipal agency and approved by the executive.

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