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February 27, 2015

Steve Russo, Executive Director  
Indiana Public Retirement System  
One North Capitol, Suite 001  
Indianapolis, IN 46204

We have reviewed the audit report prepared by McGladrey LLP, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Indiana Public Retirement System, as of June 30, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

# Indiana Public Retirement System



## 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the Fiscal Year Ended June 30, 2014*

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## Independent Auditor's Report



### Independent Auditor's Report

Board of Trustees  
Indiana Public Retirement System

#### Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Indiana Public Retirement System (System), a component unit of the State of Indiana, as of and for the year ended June 30, 2014, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Indiana Public Retirement System as of June 30, 2014, and the changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### *Emphasis of Matter*

As discussed in Note 2 of the financial statements, in 2014, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

#### *Other Matters*

##### *Prior-Year Comparative Information:*

The financial statements of the System, as of and for the year ended June 30, 2013, were audited by other auditors whose report dated November 20, 2013 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Independent Auditor's Report, continued

### *Required Supplementary Information:*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 28 through 37 and the schedules of changes in net position liability and net pension liability, contributions, and investment returns on pages 92 through 103 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information:*

Our audit for the year ended June 30, 2014 was conducted for the purpose of forming an opinion on the System's financial statements. The other supplementary information consisting of Supporting Schedules in the financial section, and the accompanying introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information for the year ended June 30, 2014 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2014 and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2014. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

The System's basic financial statements for the year ended June 30, 2013 (not presented herein), were audited by other auditors whose report dated November 20, 2013 expressed an unmodified opinion on the basic financial statements. The report of the other auditors dated November 20, 2013, stated that the Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, and Schedule of Investment Expenses for the year ended June 30, 2013 was subjected to the auditing procedures applied in the audit of the 2013 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

*McGladrey LLP*

Indianapolis, Indiana  
December 17, 2014

## Management's Discussion and Analysis

**M**anagement's Discussion and Analysis (MD&A) of the Indiana Public Retirement System (INPRS) provides a narrative summary of INPRS financial position and performance for fiscal year ended June 30, 2014, including highlights and comparative data. The MD&A is presented as required supplementary information to the financial statements of the INPRS Comprehensive Annual Financial Report (CAFR) and should be read in conjunction with the Letter of Transmittal included in the Introductory Section, and the Financial Statements, the Notes to the Financial Statements, Required Supplementary Information, and the Other Supplementary Schedules presented in the Financial Section.

INPRS is an independent instrumentality of the State of Indiana, administering nine (9) pension trust funds including eight (8) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) other postemployment benefit funds (Death Benefits), and one (1) agency fund. The following retirement plans and non-retirement funds are included in the INPRS financial statements. In this regard, refer to the Notes to the Financial Statements for descriptions of these retirement plans and non-retirement funds.

### Defined Benefit Retirement Plans:

1. Public Employees' Retirement Fund (PERF)
2. Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996)
3. Teachers' Retirement Fund 1996 Account (TRF 1996)
4. 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
5. Judges' Retirement System (JRS)
6. State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan)
7. Prosecuting Attorneys' Retirement Fund (PARF)
8. Legislators' Retirement System – Legislators' Defined Benefit Plan (LEDB Plan)

### Defined Contribution Retirement Plan:

1. Legislators' Retirement System – Legislators' Defined Contribution Plan (LEDC Plan)

### Other Postemployment Benefit Funds:

1. State Employees' (SE) Death Benefit Fund
2. Public Safety Officers' (PSO) Special Death Benefit Fund

### Agency Fund:

1. Pension Relief Fund (PR Fund)

## Financial Highlights

- Total net position of INPRS was \$30,197 million as of June 30, 2014, which is restricted for future pension and death benefit payments.

## Management's Discussion and Analysis, continued

- Total net position of INPRS increased by \$3,149 million, or 11.6 percent, during fiscal year 2014. The increase in net position from fiscal year 2013 to fiscal year 2014 was primarily due to net investment income of \$3,434 million. Contributions of \$2,063 million and other additions of \$16 million were offset with benefit payments/other deductions of \$2,363 million.
- INPRS contributions primarily from employers, members, and non-employer contributing entities decreased to \$2,063 million during fiscal year 2014, or by \$201 million (8.9 percent), from contributions of \$2,264 million during fiscal year 2013. The major reason for this decrease was due to the State appropriating an additional \$329 million from State excess reserves in accordance with 2012 HB 1376 in fiscal year 2013.
- For fiscal year 2014 INPRS time-weighted rate of return was 12.7 percent based on a market value of \$3,434 million, compared to a time-weighted rate of return of 6.0 percent based on a market value of \$1,514 million for fiscal year 2013. The money-weighted rate of return for fiscal year 2014 was 12.7 percent compared to a money-weighted rate of return in fiscal year 2013 of 5.6 percent.
- INPRS paid \$2,304 million in pension and disability benefits, special death benefits, and distributions of contributions and interest during fiscal year 2014. This represented an increase of \$73 million, or 3.3 percent, from the \$2,231 million paid during fiscal year 2013.
- INPRS membership was 450,184 as of June 30, 2014. There were 222,497 active members, 133,128 benefit recipients, 30,722 terminated vested members, and 63,837 terminated non-vested members. As of June 30, 2014, the date of the most recent actuarial valuation, the aggregate INPRS (excluding the TRF Pre-1996 Pay-As-You-Go plan) market value of assets funded ratio was 90.2 percent. This represents an increase of 6.1 percentage points from the 84.1 percent market value of assets funded ratio as of June 30, 2013. The increase was mostly due to the very strong investment return in fiscal year 2014.

## Overview of the Financial Statements

The Financial Section is comprised of four (4) components: (1) Financial Statements, (2) Notes to the Financial Statements, (3) Required Supplementary Information, and (4) Other Supplementary Schedules. The information available in each of these sections is briefly summarized as follows:

### 1. Financial Statements

The Statement of Fiduciary Net Position is a point-in-time snapshot of the INPRS assets and liabilities at fiscal year end June 30, 2014 and 2013. It reports the net position (assets less liabilities equals net position) restricted for pension benefits, death benefits and pool participants. This statement reflects INPRS investments, at fair value, along with cash, receivables, and other assets and liabilities at June 30, 2014 and 2013.

The Statement of Changes in Fiduciary Net Position displays the effect of financial transactions that occurred during fiscal year 2014, where additions less deductions equal net increase (or net decrease) in net position. Additions come primarily from contributions by employers, members, and non-employer contributing entities which include State appropriations, lottery proceeds and taxes, as well as net investment income resulting from investing and securities lending activities during the period. Deductions are pension, disability and death benefit distributions, administrative and project expenses, and other deductions. This increase (or decrease) in net position reflects the change in the value of Fiduciary Net Position that occurred between June 30, 2014 and 2013.

## Management's Discussion and Analysis, continued

### 2. Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the financial statements and provide additional detailed information that is essential for a full understanding of the data provided in the INPRS financial statements.

Note 1. – provides a general description of the retirement plans and non-retirement funds administered by INPRS. Information regarding membership, member, employer and nonemployer contributing entity contributions, retirement benefits, and disability and survivor benefits for each of the retirement plans is also provided.

Note 2. – provides a summary of significant accounting policies, including the basis of accounting, investment accounting policies, management's use of estimates, and other significant accounting policies.

Note 3. – provides information on cash and investments.

Note 4. – provides information on derivative financial instruments.

Note 5. – provides information on long-term commitments for alternative investments.

Note 6. – provides information on risk management.

Note 7. – provides information on contingent liabilities.

Note 8. – provides information on the net pension liability, funded status and other actuarial information for each of the defined benefit retirement plans.

Note 9. – provides information on subsequent events to fiscal year-end 2014.

Note 10. – summarizes the Required Supplementary Information and Other Supplementary Schedules.

### 3. Required Supplementary Information

Because of the long-term nature of public defined benefit pension plans, financial statements for the past fiscal year alone cannot provide sufficient information to properly reflect the plan fiduciary net position as a percent of the total pension liability of the plans. Therefore, in addition to the basic financial statements, three (3) required schedules of historical trend information related to the defined benefit plans are presented as Required Supplementary Information (RSI) in the INPRS CAFR Financial Section. The three (3) RSI schedules consist of the Schedule of Changes in Net Pension Liability and Net Pension Liability, the Schedule of Contributions, and the Schedule of Investment Returns. These three (3) schedules give historical trend information which is designed to provide decision-usefulness of the financial reports, improved value for assessing accountability and greater transparency related to measures of net pension liabilities impacting INPRS.

### 4. Other Supplementary Schedules

The Other Supplementary Schedules consist of a Schedule of Pension Relief Changes in Assets and Liabilities, Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, and Schedule of Investment Expenses.

### Financial Analysis

#### Statement of Fiduciary Net Position

As shown in the table below, the total net position for INPRS was \$30,197 million as of June 30, 2014, which represents an increase of \$3,149 million, or 11.6 percent, compared to total net position of \$27,048 million as of June 30, 2013.

<b>Net Position</b> (dollars in thousands)				
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase / (Decrease)</u>	<u>Percentage Change</u>
<b>Assets</b>				
Cash	\$ 15,001	\$ 11,295	\$ 3,706	32.8 %
Receivables	4,611,123	2,526,780	2,084,343	82.5
Investments	32,698,227	28,798,529	3,899,698	13.5
Net Capitalized and Other Assets	9,611	12,458	(2,847)	(22.9)
<b>Total Assets</b>	<b>\$ 37,333,962</b>	<b>\$ 31,349,062</b>	<b>\$ 5,984,900</b>	<b>19.1 %</b>
<b>Liabilities</b>				
Investments Payable	\$ 7,010,833	\$ 4,161,023	\$ 2,849,810	68.5 %
All Other Liabilities	125,977	140,012	(14,035)	(10.0)
<b>Total Liabilities</b>	<b>\$ 7,136,810</b>	<b>\$ 4,301,035</b>	<b>\$ 2,835,775</b>	<b>65.9 %</b>
<b>Total Net Position</b>	<b>\$ 30,197,152</b>	<b>\$ 27,048,027</b>	<b>\$ 3,149,125</b>	<b>11.6 %</b>

- Total assets of INPRS were \$37,334 million as of June 30, 2014, compared to \$31,349 million as of June 30, 2013, which represents an increase in total assets of \$5,985 million, or 19.1 percent. The primary reasons for this increase are as follows:
  - Cash increased by \$4 million, or 32.8 percent, as cash from contributions was received late in the month, which prevented a transfer to investments.
  - Receivables increased by \$2,084 million, or 82.5 percent, primarily due to an increase in the foreign currency futures contracts receivable of \$2,010 million. The increase was driven by hiring additional managers that are using foreign currency forwards to hedge foreign currency exposure.
  - Investments increased by \$3,900 million, or 13.5 percent, driven primarily by the positive time-weighted rate of return of 12.7 percent. The money-weighted rate of return on investments was 12.7 percent for fiscal year 2014. Of the \$3,900 million increase, alternative investments increased by \$1,331 million (17.1 percent), securities lending increased by \$1,088 million (100.7 percent), equities increased by \$971 million (14.5 percent), fixed income investments increased by \$752 million (6.5 percent), short-term investments decreased by \$202 million (13.2 percent), repurchase agreements decreased by \$29 million (100.0 percent), and derivatives decreased by \$11 million (29.3 percent).
  - Net Capitalized and Other Assets decreased by \$2.8 million, or 22.9 percent, due to the amortization of software costs related to the modernization projects.



## Management's Discussion and Analysis, continued

- Total liabilities of INPRS were \$7,137 million as of June 30, 2014, compared to \$4,301 million as of June 30, 2013, which represents an increase in total liabilities of \$2,836 million, or 65.9 percent. The primary reasons for the increase are as follows:
  - Investments Payable including Securities Lending Obligations, Foreign Exchange Contracts Payable and Obligations Under Reverse Repurchase Agreement increased by \$2,850 million, or 68.5 percent, due to the timing of transactions at the end of fiscal year 2014 and an increase related to Foreign Exchange Contracts. This increase in Foreign Exchange Contracts was driven by hiring additional managers that are using foreign currency forwards to hedge foreign currency exposure.
  - All Other Liabilities decreased by \$14 million, or 10.0 percent, primarily due to a decrease in Due to Other Governments relating to the net change in the Pension Relief Fund.

A summary of net position by fund compared to the prior fiscal year is as follows:

### Summary of Net Position by Fund (dollars in thousands)

	June 30, 2014	June 30, 2013	Increase / (Decrease)	Percentage Change
PERF	\$ 14,104,288	\$ 12,720,601	\$ 1,383,687	10.9%
TRF Pre-1996	5,501,867	5,215,202	286,665	5.5
TRF 1996	5,189,442	4,433,677	755,765	17.0
1977 Fund	4,757,978	4,116,861	641,117	15.6
JRS	432,730	375,752	56,978	15.2
EG&C Plan	110,657	97,019	13,638	14.1
PARF	54,507	47,920	6,587	13.7
LEDB Plan	3,489	3,337	152	4.6
LEDC Plan	29,103	25,322	3,781	14.9
SE Death Benefit Fund	7,917	7,683	234	3.0
PSO Special Death Benefit Fund	5,174	4,653	521	11.2
<b>Total Net Position</b>	<b>\$ 30,197,152</b>	<b>\$ 27,048,027</b>	<b>\$ 3,149,125</b>	<b>11.6%</b>

### Liquidity

The System's defined benefit liquidity needs are met through employer, nonemployer contributing entity and other contributions, earnings from investments, and the well diversified portfolio of INPRS. On June 30, 2014, INPRS held over \$4.5 billion in Money Market Sweep Vehicles and U.S. Government and Agency Securities. INPRS also held approximately \$1.5 billion in highly liquid, Large-Cap Domestic Equities. Because of their characteristics, investments in Asset-Backed Securities, Commingled Funds, Corporate Bonds, Non U.S. Governments, other Domestic Equities, International Equities, and Risk Parity are not considered a primary source of liquidity. Investments in Private Equity, Absolute Return, and Private Real Estate are generally considered illiquid.

### Statement of Changes in Fiduciary Net Position

As shown in the table below, the total net position for INPRS increased by \$3,149 million, or 11.6 percent, for fiscal year 2014, compared to a total net position increase of \$1,502 million, or 5.9 percent as of June 30, 2013.

A summary of changes in net position during the fiscal years ended June 30, 2014 and June 30, 2013, is presented below:

### Changes in Net Position (dollars in thousands)

	June 30, 2014	June 30, 2013	Increase / (Decrease)	Percentage Change
<b>Additions</b>				
Member Contributions	\$ 341,609	\$ 326,518	\$ 15,091	4.6%
Employer Contributions	894,851	933,719	(38,868)	(4.2)
Nonemployer Contributing Entity	826,142	1,004,140	(177,998)	(17.7)
Net Investment Income	3,434,051	1,514,240	1,919,811	126.8
Other Additions	15,754	14,865	889	6.0
<b>Total Additions</b>	<b>\$ 5,512,407</b>	<b>\$ 3,793,482</b>	<b>\$ 1,718,925</b>	<b>45.3 %</b>
<b>Deductions</b>				
Benefits – Pension, Disability, Death	\$ 2,216,926	\$ 2,132,133	\$ 84,793	4.0 %
Distributions of Contributions and Interest	87,375	98,414	(11,039)	(11.2)
Administrative Expenses	34,544	32,149	2,395	7.4
Project Expenses	8,855	13,715	(4,860)	(35.4)
Other Deductions	15,582	14,759	823	5.6
<b>Total Deductions</b>	<b>\$ 2,363,282</b>	<b>\$ 2,291,170</b>	<b>\$ 72,112</b>	<b>3.1 %</b>
<b>Net Increase / (Decrease) in Net Position</b>	<b>\$ 3,149,125</b>	<b>\$ 1,502,312</b>	<b>\$ 1,646,813</b>	<b>109.6 %</b>

#### Additions

Additions to the net position of INPRS needed to finance retirement benefits are accumulated primarily through contributions and investment income. Total additions for INPRS were \$5,512 million for fiscal year 2014, compared to \$3,793 million for fiscal year 2013, which represents an increase in total additions of \$1,719 million, or 45.3 percent. The primary reasons for the increase are as follows:

- Member Contributions increased by \$15 million, or 4.6 percent. The primary reason for this increase was due to a higher wage base.
- Employer Contributions decreased by \$39 million, or 4.2 percent. The primary reason for this decrease was due to the State appropriating an additional \$122 million from State excess reserves in accordance with 2012 HB 1376 in 2013. In addition, contributions due to employer rate increases and other service purchases increased by \$83 million.
- Nonemployer Contributing Entity decreased by \$178 million, or 17.7 percent due to the State appropriating an additional \$207 million from State excess reserves in accordance with 2012 HB 1376 in 2013 to the Teachers' Retirement Fund Pre-1996 Account.
- Net Investment Income increased by \$1,920 million, or 127 percent, driven by a 12.7 percent time-weighted rate of return in fiscal year 2014, compared to a 6.0 percent time-weighted rate of return for fiscal year 2013. The money-weighted rate of return was 12.7 percent, compared to fiscal year 2013 rate of return of 5.6 percent.
- Other Additions increased by \$0.9 million, or 6.0 percent, due to an increase in member reassignments which by their nature, can fluctuate significantly from year to year.

## Management's Discussion and Analysis, continued

### Deductions

Benefit payments, distributions of contributions and interest to members who terminate employment, administrative expenses and project expenses primarily comprise the INPRS expenses, or deductions from net position. Total deductions for INPRS were \$2,363 million for fiscal year 2014, compared to \$2,291 million for fiscal year 2013, which represents an increase in total deductions of \$72 million, or 3.1 percent. The primary reasons for the increase are as follows:

- **Pension, Disability and Death Benefits** increased by \$85 million, or 4.0 percent, due to an increase in the number of retirees.
- **Distribution of Contributions and Interest** decreased by \$11 million, or 11.2 percent, as a result of fewer inactive members withdrawing their funds.
- **Administrative Expenses** increased by \$2.4 million or 7.4 percent, primarily due to higher Data Processing and increased Amortization Expense because modernization was completed in fiscal year 2014.
- **Project Expenses** decreased by \$4.9 million, or 35.4 percent, primarily because modernization was completed with the final system going live in fiscal year 2014.
- **Other Deductions** increased by \$0.8 million, or 5.6 percent, due to higher member reassignments which, by their nature, can fluctuate significantly from year to year.

### Consolidated Defined Benefit Asset Allocation and Rate of Return on Investments

In October 2011, the INPRS Board of Trustees adopted a new Investment Policy Statement effective January 1, 2012. This new strategic asset allocation is for the Consolidated Defined Benefit Assets. Substantially all of the investments for the retirement plans administered by INPRS are pooled in the Consolidated Defined Benefit Retirement Assets. The following table presents the INPRS Consolidated Defined Benefit Assets investment allocation as of June 30, 2014, compared to the INPRS current target investment allocation and actual allocation as of June 30, 2013.

### Consolidated Defined Benefit Asset Allocation

	June 30, 2014 Actual	June 30, 2014 Target	June 30, 2013 Actual	Allowable Range For Investments <sup>1</sup>
Public Equity	23.6%	22.5%	24.2%	20.0% to 25.0%
Private Equity	12.7	10.0	13.0	7.0% to 13.0%
Fixed Income - Ex Inflation-Linked	22.2	22.0	22.0	19.0% to 25.0%
Fixed Income - Inflation-Linked	9.4	10.0	10.0	7.0% to 13.0%
Commodities	7.8	8.0	7.3	6.0% to 10.0%
Real Estate	5.4	7.5	5.3	4.0% to 11.0%
Absolute Return	8.7	10.0	8.6	6.0% to 14.0%
Risk Parity	10.2	10.0	9.6	5.0% to 15.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<sup>1</sup>See Notes to the Financial Statements, Note 3, for additional information.

The Consolidated Defined Benefit Assets (i.e., INPRS-controlled asset allocation) time-weighted rate of return on investments was positive 13.7 percent for fiscal year 2014, compared to the 6.75 percent actuarial-assumed long-term rate of return. The fiscal year 2014 time-weighted rate of return of 13.7 percent was 7.7 percentage points higher than fiscal year 2013 time-weighted rate of return of 6.0 percent. The following provides a brief summary of the rate of return for each asset class for fiscal year 2014,

## Management's Discussion and Analysis, continued

compared to the respective benchmark for each asset class. The Investment Section provides additional information for the INPRS investments.

- **Public Equity**, which seeks to provide long-term capital appreciation and income through exposure to public equity securities, had a return on investment of positive 22.5 percent for fiscal year 2014. This return compared (0.9) percentage points unfavorable to the benchmark of positive 23.4 percent for the MSCI All Country World IMI Index.
- **Private Equity**, which seeks to provide risk-adjusted returns in excess of the public equity markets while simultaneously decreasing the volatility of the INPRS investment portfolio through diversification, had a return on investment of positive 19.6 percent for fiscal year 2014. This return compared (8.6) percentage points unfavorable to the benchmark of positive 28.2 percent for the Russell 3000 Index plus 300 basis points.
- **Fixed Income – Ex Inflation-Linked**, which seeks to generate current income and long-term risk-adjusted returns through investments in debt securities, had a return on investment of positive 7.1 percent for fiscal year 2014. This return was 1.9 percentage points favorable to the benchmark of positive 5.2 percent for Global Inflation 70/30.
- **Fixed Income – Inflation-Linked**, or Treasury Inflation Protected Securities (TIPS), which seeks to generate long-term risk-adjusted returns through investments in inflation-linked securities and to provide protection against unanticipated inflation, had a return on investment of positive 5.4 percent for fiscal year 2014. This return compared 0.7 percentage points favorable to the benchmark of positive 4.7 percent for the Barclays Capital Global Inflation-Linked Bond Index.
- **Commodities**, which seek to enhance long-term risk-adjusted returns by preserving investment capital, lowering overall volatility, and providing a hedge against unanticipated inflation, had a return on investment of positive 12.8 percent for fiscal year 2014. This return compared 0.9 percentage points favorable to the benchmark of positive 11.9 percent for a 50/50 blend of the Dow Jones UBS Commodity Index and the Goldman Sachs Commodity Index.
- **Real Estate**, which seeks to generate attractive risk-adjusted returns by providing stable current income, preserving investment capital, and reducing volatility by providing a hedge against unanticipated inflation, had a return on investment of positive 10.2 percent for fiscal year 2014. This return compared (2.5) percentage points unfavorable to the benchmark of positive 12.7 percent for the NCREIF Open End Diversified Core Equity Index.
- **Absolute Return**, which seeks to enhance the long-term risk-adjusted returns by providing diversification benefits, while preserving capital and reducing volatility, had a return on investment of positive 10.3 percent for fiscal year 2014. This return compared 3.9 percentage points favorable to the benchmark of positive 6.4 percent for the HFRI Fund of Funds Composite Index.
- **Risk Parity**, which seeks to create risk-balance that is capable of delivering consistent and high risk-adjusted returns in several macro-economic environments, had a return on investment of positive 16.7 percent for fiscal year 2014. This return compared 0.8 percentage points favorable to the benchmark of positive 15.9 percent for the blended benchmark of the MSCI ACWI IMI Index (equities – 60 percent) and Barclays Global Aggregate Bond Index (40 percent).

## Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. A pension fund is fully funded when it has enough money in reserve to meet all expected future obligations to participants. The goal for the defined benefit retirement plans is to make progress toward achieving full funding.

## Management’s Discussion and Analysis, continued

With the implementation of GASB Statement No. 67, the Actuarial Value of Assets (AVA) is no longer to be used for financial reporting purposes. The Market Value of Assets (MVA) is required for financial reporting purposes; however, the Actuarial Value of Assets will continue to be used for funding purposes as presented in the Actuarial Section.

The market value funded ratios of the defined benefit pension plans administered by INPRS as of the latest actuarial valuations were as follows:

<b>Historical Trends</b>		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b><u>Pre-Funded Defined Benefit Pension Trust Funds</u></b>		
PERF	84.3%	78.8%
TRF 1996 Account	99.1	93.4
1977 Fund	101.1	93.7
JRS	93.1	82.9
EG&C Plan	89.5	82.2
PARF	83.4	77.4
LEDB Plan	83.7	77.9
<b><u>Pay-As-You-Go Defined Benefit Pension Trust Fund</u></b>		
TRF Pre-1996 Account <sup>1</sup>	33.6%	31.7%

An analysis of the funding progress, contributions and a discussion of actuarial assumptions and methods is set forth in Note 8 and in the Required Supplementary Information of the Financial Section. For additional actuarial-related information on a funding basis, refer to the Actuarial Section of the CAFR.



## Statement of Fiduciary Net Position As of June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)<sup>1</sup>

(dollars in thousands)

### Pension Trust Funds

	Public Employees' Retirement Fund	Teachers' Retirement Fund Pre-1996 Account	Teachers' Retirement Fund 1996 Account	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	Legislators' Defined Benefit Plan	Legislators' Defined Contribution Plan
<b>Assets</b>									
Cash	\$ 6,303	\$ 450	\$ 1,958	\$ 1,332	\$ 3,597	\$ 8	\$ -	\$ -	\$ 4
Receivables:									
Contributions Receivable	4,284	84	1,967	2,311	-	-	-	-	-
Miscellaneous Receivables	2,411	81	293	101	67	-	93	-	889
Investments Receivable	217,921	83,743	81,479	82,477	7,442	1,922	944	61	489
Foreign Exchange Contracts Receivable	1,842,979	648,324	672,206	765,324	69,049	17,836	8,758	562	2,161
Interest and Dividends	41,097	16,089	14,929	13,626	1,229	318	156	10	63
Due From Other Funds	5,022	910	1,231	-	-	-	-	-	-
<b>Total Receivables</b>	<b>2,113,714</b>	<b>749,231</b>	<b>772,105</b>	<b>863,839</b>	<b>77,787</b>	<b>20,076</b>	<b>9,951</b>	<b>633</b>	<b>3,602</b>
Investments:									
Short Term Investments	12,768	24,314	2,184	-	-	-	-	-	33
Pooled Unit Trust Assets:									
Repurchase Agreements	-	-	-	-	-	-	-	-	-
Short Term Investments	587,919	215,687	214,805	227,581	20,533	5,304	2,604	167	826
Fixed Income	5,962,143	2,401,241	2,113,034	1,681,194	151,680	39,180	19,238	1,234	6,207
Equities	3,436,676	1,559,370	1,379,779	1,114,954	100,593	25,984	12,758	819	17,632
Alternative Investments	4,186,657	1,438,578	1,514,698	1,769,015	159,574	41,219	20,239	1,299	3,581
Derivatives	12,376	4,449	4,549	5,054	456	118	58	4	18
Securities Lending Collateral	992,239	340,947	358,988	419,261	37,826	9,771	4,798	308	849
<b>Total Investments</b>	<b>15,190,778</b>	<b>5,984,586</b>	<b>5,588,037</b>	<b>5,217,059</b>	<b>470,662</b>	<b>121,576</b>	<b>59,695</b>	<b>3,831</b>	<b>29,146</b>
Other Assets	408	-	-	-	-	-	-	-	-
Gross Capitalized Assets	13,550	2,583	2,382	579	23	21	17	1	3
Less: Accumulated Depreciation and Amortization	(6,919)	(1,398)	(1,303)	(301)	(12)	(11)	(9)	(1)	(2)
<b>Net Capitalized Assets</b>	<b>6,631</b>	<b>1,185</b>	<b>1,079</b>	<b>278</b>	<b>11</b>	<b>10</b>	<b>8</b>	<b>-</b>	<b>1</b>
<b>Total Assets</b>	<b>17,317,834</b>	<b>6,735,452</b>	<b>6,363,179</b>	<b>6,082,508</b>	<b>552,057</b>	<b>141,670</b>	<b>69,654</b>	<b>4,464</b>	<b>32,753</b>
<b>Liabilities</b>									
Accounts Payable	\$ 3,731	\$ 564	\$ 610	\$ 39	\$ 4	\$ 1	\$ 1	\$ 1	\$ -
Retirement Benefits Payable	447	84,654	6,473	1,706	-	176	-	-	-
Salaries and Benefits Payable	3,236	-	-	-	-	-	-	-	-
Investments Payable	256,402	118,007	92,697	90,291	8,146	2,103	1,033	67	540
Foreign Exchange Contracts Payable	1,851,948	651,533	675,497	769,003	69,381	17,922	8,800	565	2,173
Securities Lending Obligations	992,239	340,947	358,988	419,261	37,826	9,771	4,798	308	849
Obligations Under Reverse Repurchase Agreement	103,402	35,530	37,411	43,691	3,942	1,018	500	32	88
Due to Other Funds	2,141	2,350	2,061	539	28	22	15	2	-
Due to Other Governments	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>3,213,546</b>	<b>1,233,585</b>	<b>1,173,737</b>	<b>1,324,530</b>	<b>119,327</b>	<b>31,013</b>	<b>15,147</b>	<b>975</b>	<b>3,650</b>
<b>Total Net Position Restricted</b>	<b>\$ 14,104,288</b>	<b>\$ 5,501,867</b>	<b>\$ 5,189,442</b>	<b>\$ 4,757,978</b>	<b>\$ 432,730</b>	<b>\$ 110,657</b>	<b>\$ 54,507</b>	<b>\$ 3,489</b>	<b>\$ 29,103</b>

<sup>1</sup>The accompanying notes are an integral part of the financial statements.

# Indiana Public Retirement System



## Statement of Fiduciary Net Position, continued As of June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)<sup>1</sup>

(dollars in thousands)	Other Postemployment Benefit Funds		Pension Trust and Other Postemployment Benefit Funds		Agency Fund		INPRS Totals	
	State Employees' Death Benefit Fund	Public Safety Officers' Special Death Benefit Fund	Pension Trust and Other Postemployment Benefit Funds 2014 Totals	Pension Trust and Other Postemployment Benefit Funds 2013 Totals	Pension Relief Fund 2014 Totals	Pension Relief Fund 2013 Totals	2014 Totals	2013 Totals
<b>Assets</b>								
Cash	\$ -	\$ 106	\$ 13,758	\$ 10,241	\$ 1,243	\$ 1,054	\$ 15,001	\$ 11,295
Receivables:								
Contributions Receivable	-	-	8,646	19,711	-	-	8,646	19,711
Miscellaneous Receivables	-	-	3,935	2,302	-	-	3,935	2,302
Investments Receivable	65	42	476,585	389,435	-	-	476,585	389,435
Foreign Exchange Contracts Receivable	-	-	4,027,199	2,017,071	-	-	4,027,199	2,017,071
Interest and Dividends	48	30	87,595	91,424	-	-	87,595	91,424
Due From Other Funds	-	-	7,163	6,837	-	-	7,163	6,837
Total Receivables	113	72	4,611,123	2,526,780	-	-	4,611,123	2,526,780
Investments:								
Short Term Investments	-	-	39,299	65,261	15,933	35,587	55,232	100,848
Pooled Unit Trust Assets:								
Repurchase Agreements	-	-	-	28,800	-	-	-	28,800
Short Term Investments	125	80	1,275,631	1,431,649	-	-	1,275,631	1,431,649
Fixed Income	7,752	4,962	12,387,865	11,636,389	-	-	12,387,865	11,636,389
Equities	-	-	7,648,565	6,678,067	-	-	7,648,565	6,678,067
Alternative Investments	-	-	9,134,860	7,803,938	-	-	9,134,860	7,803,938
Derivatives	-	-	27,082	38,291	-	-	27,082	38,291
Securities Lending Collateral	2,442	1,563	2,168,992	1,080,547	-	-	2,168,992	1,080,547
Total Investments	10,319	6,605	32,682,294	28,762,942	15,933	35,587	32,698,227	28,798,529
Other Assets	-	-	408	304	-	-	408	304
Gross Capitalized Assets	-	-	19,159	18,916	2	2	19,161	18,918
Less: Accumulated Depreciation and Amortization	-	-	(9,956)	(6,762)	(2)	(2)	(9,958)	(6,764)
Net Capitalized Assets	-	-	9,203	12,154	-	-	9,203	12,154
<b>Total Assets</b>	<b>10,432</b>	<b>6,783</b>	<b>37,316,786</b>	<b>31,312,421</b>	<b>17,176</b>	<b>36,641</b>	<b>37,333,962</b>	<b>31,349,062</b>
<b>Liabilities</b>								
Accounts Payable	-	-	4,951	6,268	4	9	4,955	6,277
Retirement Benefits Payable	-	-	93,456	87,692	-	-	93,456	87,692
Salaries and Benefits Payable	-	-	3,236	2,589	-	-	3,236	2,589
Investments Payable	73	46	569,405	903,209	-	-	569,405	903,209
Foreign Exchange Contracts Payable	-	-	4,046,822	2,004,661	-	-	4,046,822	2,004,661
Securities Lending Obligations	2,442	1,563	2,168,992	1,080,547	-	-	2,168,992	1,080,547
Obligations Under Reverse Repurchase Agreement	-	-	225,614	172,606	-	-	225,614	172,606
Due to Other Funds	-	-	7,158	6,822	5	15	7,163	6,837
Due to Other Governments	-	-	-	-	17,167	36,617	17,167	36,617
<b>Total Liabilities</b>	<b>2,515</b>	<b>1,609</b>	<b>7,119,634</b>	<b>4,264,394</b>	<b>17,176</b>	<b>36,641</b>	<b>7,136,810</b>	<b>4,301,035</b>
<b>Total Net Position Restricted</b>	<b>\$ 7,917</b>	<b>\$ 5,174</b>	<b>\$ 30,197,152</b>	<b>\$ 27,048,027</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,197,152</b>	<b>\$ 27,048,027</b>

<sup>1</sup>The accompanying notes are an integral part of the financial statements.



## Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)<sup>1</sup>

(dollars in thousands)

### Pension Trust Funds

	Public Employees' Retirement Fund	Teachers' Retirement Fund Pre-1996 Account	Teachers' Retirement Fund 1996 Account	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	Legislators' Defined Benefit Plan
<b>Additions</b>								
Contributions:								
Member Contributions	\$ 164,189	\$ 47,028	\$ 81,802	\$ 41,791	\$ 2,856	\$ 1,019	\$ 1,334	\$ -
Employer Contributions	526,090	6,325	194,751	140,119	20,895	5,359	1,174	138
Nonemployer Contributing Entity	-	825,617	-	-	-	-	-	-
<b>Total Contributions</b>	<b>690,279</b>	<b>878,970</b>	<b>276,553</b>	<b>181,910</b>	<b>23,751</b>	<b>6,378</b>	<b>2,508</b>	<b>138</b>
Investment Income:								
Net Appreciation/(Depreciation)								
Fair Value of Investments	1,436,345	596,763	546,019	537,372	48,907	12,582	6,211	414
Other Net Investment Income	2,216	805	776	927	74	20	9	1
Net Interest and Dividends Income	200,751	81,046	69,918	64,591	5,876	1,514	746	50
Securities Lending Income	1,854	658	666	781	71	17	9	1
<b>Total Net Investment Income</b>	<b>1,641,166</b>	<b>679,272</b>	<b>617,379</b>	<b>603,671</b>	<b>54,928</b>	<b>14,133</b>	<b>6,975</b>	<b>466</b>
Less Direct Investment Expenses:								
Investment Management Fees	(79,042)	(29,214)	(28,179)	(32,215)	(2,930)	(754)	(371)	(26)
Securities Lending Fees	(256)	(91)	(92)	(108)	(10)	(4)	(1)	-
Direct Investment Expenses	(8,475)	(2,386)	(2,326)	(1,290)	(98)	(36)	(22)	(1)
<b>Net Investment Income / (Loss)</b>	<b>1,553,393</b>	<b>647,581</b>	<b>586,782</b>	<b>570,058</b>	<b>51,890</b>	<b>13,339</b>	<b>6,581</b>	<b>439</b>
Other Additions:								
Miscellaneous Income	52	19	21	30	6	-	4	-
Member Reassignments	3,444	3,250	8,884	-	4	-	-	-
<b>Total Other Additions</b>	<b>3,496</b>	<b>3,269</b>	<b>8,905</b>	<b>30</b>	<b>10</b>	<b>-</b>	<b>4</b>	<b>-</b>
<b>Total Additions</b>	<b>2,247,168</b>	<b>1,529,820</b>	<b>872,240</b>	<b>751,998</b>	<b>75,651</b>	<b>19,717</b>	<b>9,093</b>	<b>577</b>
<b>Deductions</b>								
Pension and Disability Benefits	765,327	1,220,866	97,986	104,802	18,527	5,838	2,347	363
Special Death Benefits	-	-	-	720	-	-	-	-
Distribution of Contributions and Interest	63,031	8,435	10,734	3,572	-	100	51	-
Administrative Expenses	21,756	5,585	5,347	1,439	131	126	96	59
Project Expenses	5,677	1,425	1,360	348	15	15	12	3
Member Reassignments	7,690	6,844	1,048	-	-	-	-	-
<b>Total Deductions</b>	<b>863,481</b>	<b>1,243,155</b>	<b>116,475</b>	<b>110,881</b>	<b>18,673</b>	<b>6,079</b>	<b>2,506</b>	<b>425</b>
<b>Net Increase / (Decrease)</b>	<b>1,383,687</b>	<b>286,665</b>	<b>755,765</b>	<b>641,117</b>	<b>56,978</b>	<b>13,638</b>	<b>6,587</b>	<b>152</b>
<b>Beginning Net Position Restricted</b>	<b>12,720,601</b>	<b>5,215,202</b>	<b>4,433,677</b>	<b>4,116,861</b>	<b>375,752</b>	<b>97,019</b>	<b>47,920</b>	<b>3,337</b>
<b>Ending Net Position Restricted</b>	<b>\$ 14,104,288</b>	<b>\$ 5,501,867</b>	<b>\$ 5,189,442</b>	<b>\$ 4,757,978</b>	<b>\$ 432,730</b>	<b>\$ 110,657</b>	<b>\$ 54,507</b>	<b>\$ 3,489</b>

<sup>1</sup>The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

<sup>2</sup>Please note that as the Pension Relief Fund is an Agency Fund, it is not included in the Statement of Changes in Fiduciary Net Position.

# Indiana Public Retirement System



## Statement of Changes in Fiduciary Net Position, continued For the Year Ended June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)<sup>1</sup>

(dollars in thousands)	Pension Trust Funds	Other Postemployment Benefit Funds		INPRS Totals <sup>2</sup>	
	Legislators' Defined Contribution Plan	State Employees' Death Benefit Fund	Public Safety Officers' Special Death Benefit Fund	Pension Trust and Other Postemployment Benefit Funds 2014 Totals	Pension Trust and Other Postemployment Benefit Funds 2013 Totals
<b>Additions</b>					
Contributions:					
Member Contributions	\$ 1,590	\$ -	\$ -	\$ 341,609	\$ 326,518
Employer Contributions	-	-	-	894,851	933,719
Nonemployer Contributing Entity	-	-	525	826,142	1,004,140
<b>Total Contributions</b>	<b>1,590</b>	<b>-</b>	<b>525</b>	<b>2,062,602</b>	<b>2,264,377</b>
Investment Income:					
Net Appreciation/(Depreciation) Fair Value of Investments	3,465	59	38	3,188,175	1,229,146
Other Net Investment Income	2	-	-	4,830	4,719
Net Interest and Dividends Income	232	186	114	425,024	417,416
Securities Lending Income	2	3	2	4,064	5,870
<b>Total Net Investment Income</b>	<b>3,701</b>	<b>248</b>	<b>154</b>	<b>3,622,093</b>	<b>1,657,151</b>
Less Direct Investment Expenses:					
Investment Management Fees	(84)	(13)	(7)	(172,835)	(127,093)
Securities Lending Fees	-	-	-	(562)	(879)
Direct Investment Expenses	(9)	(1)	(1)	(14,645)	(14,939)
<b>Net Investment Income / (Loss)</b>	<b>3,608</b>	<b>234</b>	<b>146</b>	<b>3,434,051</b>	<b>1,514,240</b>
Other Additions:					
Miscellaneous Income	40	-	-	172	106
Member Reassignments	-	-	-	15,582	14,759
<b>Total Other Additions</b>	<b>40</b>	<b>-</b>	<b>-</b>	<b>15,754</b>	<b>14,865</b>
<b>Total Additions</b>	<b>5,238</b>	<b>234</b>	<b>671</b>	<b>5,512,407</b>	<b>3,793,482</b>
<b>Deductions</b>					
Pension and Disability Benefits	-	-	-	2,216,056	2,130,689
Special Death Benefits	-	-	150	870	1,444
Distribution of Contributions and Interest	1,452	-	-	87,375	98,414
Administrative Expenses	5	-	-	34,544	32,149
Project Expenses	-	-	-	8,855	13,715
Member Reassignments	-	-	-	15,582	14,759
<b>Total Deductions</b>	<b>1,457</b>	<b>-</b>	<b>150</b>	<b>2,363,282</b>	<b>2,291,170</b>
<b>Net Increase / (Decrease)</b>	<b>3,781</b>	<b>234</b>	<b>521</b>	<b>3,149,125</b>	<b>1,502,312</b>
<b>Beginning Net Position Restricted</b>	<b>25,322</b>	<b>7,683</b>	<b>4,653</b>	<b>27,048,027</b>	<b>25,545,715</b>
<b>Ending Net Position Restricted</b>	<b>\$ 29,103</b>	<b>\$ 7,917</b>	<b>\$ 5,174</b>	<b>\$ 30,197,152</b>	<b>\$ 27,048,027</b>

<sup>1</sup>The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

<sup>2</sup>Please note that as the Pension Relief Fund is an Agency Fund, it is not included in the Statement of Changes in Fiduciary Net Position.

## Note 1. Descriptions of System and Plans

### Administration of System and Plans

The Indiana Public Retirement System (INPRS) administers nine (9) pension trust funds including eight (8) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) Other Postemployment Benefit funds and one (1) Agency fund. INPRS is governed by a nine-member Board of Trustees, appointed by the Governor pursuant to the following criteria: one (1) trustee with experience in economics, finance, or investments, one (1) trustee with experience in executive management of benefits administration, one (1) trustee who is an active or retired member of the 1977 Fund, two (2) trustees who are TRF members with at least 10 years of creditable service, one (1) trustee who is a PERF member with at least 10 years of creditable service, Director of the State Budget Agency, or designee, Auditor of State, or nominee, and Treasurer of State, or nominee.

### (A) Public Employees' Retirement Fund

#### Plan Description

The Public Employees' Retirement Fund (PERF) as part of the implementation of GASB Statement No. 67 changed from an agent to a cost-sharing, multiple-employer defined benefit plan effective July 1, 2013 based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). Details of the PERF Hybrid Plan and PERF ASA Only Plan are described below.

#### Membership

PERF members are officers and employees of units of State and local governments in Indiana (referred to as political subdivisions), including counties, cities, towns, townships, libraries, and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the plan. The ordinance or resolution is filed with and approved by INPRS. In order to be a member, employees hired after June 30, 1982, except employees of a participating school corporation, must occupy positions normally requiring performance of service of more than 1,000 hours during a year. Effective July 1, 2008, members who have at least one (1) year of service in both PERF and TRF, have the option of choosing from which of these funds they would like to retire.

As of June 30, 2014, there were 1,125 participating political subdivisions in addition to the State. As of June 30, 2014, PERF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	75,950
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	24,013
Terminated Non-Vested Members Entitled To a Distribution of ASA Balance	50,997
Active Members: Vested and Non-Vested	137,567
Total	<u>288,527</u>
Total Actual Covered Payroll for Active Members (dollars in thousands)	<u>\$4,896,635</u>

## Notes to the Financial Statements, continued June 30, 2014

### Contributions

The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During fiscal year 2014, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 9.7 percent was required from employers during the period of July 1 – December 31, 2013, and an average contribution rate of 11.0 percent was required for the period of January 1 – June 30, 2014. For the ASA Only Plan all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.7 percent for fiscal year 2014 and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective 7/1/2014 the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

### **PERF Hybrid Plan**

#### Plan Description

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

#### Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so, forfeits his/her creditable service. A member

## Notes to the Financial Statements, continued June 30, 2014

who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2014; however, eligible members received a one-time check (a.k.a. 13th check) in September 2013. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

### Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a

## Notes to the Financial Statements, continued June 30, 2014

survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

### Retirement Benefits – Annuity Savings Account

Members are required to participate in an Annuity Savings Account (ASA). The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following eight (8) investment options, with varying degrees of risk and return potential:

- **Guaranteed Fund** – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- **Large Cap Equity Index Fund** – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- **Small/Mid Cap Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- **International Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- **Fixed Income Fund** – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
- **Inflation-Linked Fixed Income Fund** – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- **Target Date Funds** – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.
- **Money Market Fund** – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.

Members may make changes to their investment directions daily and investments are reported at fair value.

## Notes to the Financial Statements, continued June 30, 2014

### ASA Only Plan

#### Plan Description

The PERF ASA Only Plan was established by the Indiana Legislature in 2011, and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12, and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. PERF ASA Only Plan members are full-time employees of the State of Indiana (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013 were members of the PERF Hybrid Plan or (2) on or after March 1, 2013 do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the ASA Only Plan and must offer eligible employees the ASA Only Plan option. Quasi-government agencies and State educational institutions may choose to offer the ASA-Only Plan as an option to their employees. Since inception, 395 members have selected the ASA Only Plan, or approximately 9 percent of eligible new hires of the State.

#### Retirement Account

The PERF ASA Only Plan maintains an annuity savings account for each member. Each member's account consists of two (2) subaccounts within the annuity savings account structure. There is a member contribution subaccount (which is the same as the annuity savings account in the PERF Hybrid Plan) and an employer contribution subaccount.

The member's contribution subaccount consists of the member's contributions, set by statute at three (3) percent of covered payroll as defined by IC 5-10.3-12-23 plus the interest/earnings or losses credited to the member's contribution subaccount. The State shall pay the member's contributions on behalf of the member. The employer contribution subaccount consists of the employer's contributions and the earnings on the employer's contributions. The employer contribution rate is set by INPRS Board of Trustees in accordance with IC 5-10.2-2-11.

The PERF ASA Only Plan allows members to actively participate in managing their retirement benefits through self-directed investment options. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. The members can direct their investments among the following aforementioned eight (8) investment options: Large Cap Equity Index Fund, Small/Mid Cap Equity Fund, International Equity Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Stable Value Fund, and Target Date Funds. A description of each of these Funds is earlier in this note in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section, except for the Stable Value Fund:

- Stable Value Fund (available only to PERF ASA Only members) – This fund's objective is to provide a market rate of return consistent with the preservation of principal through a shorter maturity, high quality portfolio.

A member is immediately vested in the member contribution subaccount. In order to receive contributions and earnings from the employer contribution subaccount, a member must meet vesting requirements (full years of participation) to qualify for a distribution. The vesting schedule is as follows:

- One (1) year of participation = 20%
- Two (2) years of participation = 40%
- Three (3) years of participation = 60%

## Notes to the Financial Statements, continued June 30, 2014

Four (4) years of participation = 80%

Five (5) years of participation = 100%

A member who terminates service with their employer is entitled to withdraw the total amount in the member contribution subaccount. In addition, the member is entitled to withdraw amounts in the employer contribution subaccount to the extent the member is vested in this account. The member must be separated from employment for at least 30 days before the member may take a withdrawal from the member's account. The amount available for withdrawal is the fair value of the participant's account on the processing date. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees as a monthly annuity provided through INPRS.

If a member becomes disabled while in active service, subject to the member providing proof of the member's qualification for social security disability benefits to the Board of Trustees, a member may withdraw the total amount in the member contribution subaccount. To the extent that the member is vested, the member may make a withdrawal from the member's employer subaccount. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or a monthly annuity provided through INPRS if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees.

If a member dies while in active service or after terminating service in a position covered by the Plan, but before withdrawing the member's account, all of the member's contribution subaccount, and to the extent that the member is vested, the employer contribution subaccount, will be paid to the beneficiary or beneficiaries designated by the member. The amount available for payment is the fair value of the participant's account. The beneficiary may elect to have the member's account paid as a lump sum, a direct rollover to another eligible retirement plan, or as a monthly annuity in accordance with the rules of the INPRS Board of Trustees. The monthly annuity is an option only on or after the beneficiary attains normal retirement age and meets other criteria established by the INPRS Board of Trustees. If a member dies in the line of duty while in active service, the designated beneficiary or beneficiaries or surviving spouse or dependents, are entitled to payment of the member's account as described above. In addition, if the member was not fully vested in the employer contribution subaccount, the account is deemed to be fully vested for purposes of withdrawal.

### **(B) Teachers' Retirement Funds**

The Indiana State Teachers' Retirement Fund (TRF) was established by the Indiana General Assembly in 1921. In 1955, TRF was designed as a pay-as-you-go defined benefit retirement plan. In 1995, legislation was passed that closed the pay-as-you-go plan (renamed the TRF Pre-1996 Account) to newly hired members and created a new account (named the TRF 1996 Account) for all members hired after June 30, 1995. TRF is two (2) cost-sharing, multiple-employer defined benefit plans, TRF Pre-1996 Account and TRF 1996 Account. TRF is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.4, and IC 5-10.5.

#### **Teachers' Retirement Fund Pre-1996 Account**

##### Plan Description

The Indiana State Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996) is a pay-as-you-go cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school



## Notes to the Financial Statements, continued June 30, 2014

teachers and administrators, regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees hired before July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date to June 30, 2005. There are two (2) aspects to the TRF Pre-1996 defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the State of Indiana. The second portion of the TRF Pre-1996 benefit structure is the annuity savings account that supplements the defined benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

### Membership

Membership in TRF Pre-1996 is closed to new entrants. Legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees hired before July 1, 2011, are required to participate in TRF as a condition of employment. Generally, members hired prior to 1996 participate in the TRF Pre-1996 Account and members hired after 1996 participate in the TRF 1996 Account (IC 5-10.2-2-2; IC 5-10.4-4-1; IC 5-10.4-7-1; 35 IAC 14-4-16(a)).

As of June 30, 2014, the number of participating employers was 339 in addition to the State. The State of Indiana makes contributions as the sole non-employer contributing entity. As of June 30, 2014, TRF Pre-1996 Account membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	49,345
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	3,314
Terminated Non-Vested Members Entitled To a Distribution of ASA Balance	546
Active Members: Vested and Non-Vested	<u>19,210</u>
Total	<u>72,415</u>
 Total Actual Covered Payroll for Active Members (dollars in thousands)	 <u>\$ 1,262,828</u>

### Contributions

State appropriations are made in accordance with IC 5-10.4-2-4 for each fiscal year. Currently, a three (3) percent year-over-year increase is being provided through State appropriations. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund as part of the assets of the TRF Pre-1996, which was established according to IC 5-10.4-2-5. As a nonemployer contributing entity, the State of Indiana contributed \$825.6 million in fiscal year 2014 to TRF Pre-1996. As part of the \$825.6 million contribution, the State pre-funded a one-time check (a.k.a. 13<sup>th</sup> check) of \$19 million in accordance with 2013 HB 1080 (which went into the Pension Stabilization Fund). Employers contributed \$6.3 million in fiscal year 2014.

TRF Pre-1996 Account members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

### **Teachers' Retirement Fund 1996 Account**

#### Plan Description

The Indiana State Teachers' Retirement 1996 Account (TRF 1996) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school teachers and administrators,

## Notes to the Financial Statements, continued June 30, 2014

regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees (hired before July 1, 2011) hired after June 30, 1995. Members who were hired before July 1, 1995, were members of TRF Pre-1996. However, pursuant to the law in place prior to July 1, 2005, if a member of TRF Pre-1996 left employment and re-employed after June 30, 1995, the member and the liability were transferred to TRF 1996. There are two (2) aspects to the TRF 1996 defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the TRF 1996 benefit structure is the annuity savings account that supplements the defined benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

### Membership

Membership in TRF 1996 is required for all legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees. Additionally, faculty members and professional employees at Ball State University and Vincennes University have the option of selecting membership in the Fund or the alternate University Plan not administered by INPRS. Membership in TRF 1996 is optional for teachers employed by charter schools, employees and officials of the Indiana State Board of Education who were Indiana licensed teachers prior to their employment with the Board, and teachers employed by special management teams as defined under IC 20-31 et Seq.

As of June 30, 2014, the number of participating employers was 362 in addition to the State. As of June 30, 2014, TRF 1996 Account membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	3,665
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	3,103
Terminated Non-Vested Members Entitled To a Distribution of ASA Balance	11,147
Active Members: Vested and Non-Vested	51,204
Total	<u>69,119</u>
Total Actual Covered Payroll for Active Members (dollars in thousands)	<u>\$ 2,598,115</u>

### Contributions

The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As the TRF 1996 Account is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During fiscal year 2014, all participating employers in the TRF 1996 Account were required to contribute 7.5 percent of covered payroll.

TRF 1996 Account members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

### TRF Pre-1996 Account and TRF 1996 Account Retirement Benefits

The TRF retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account as described earlier in this note above. Pension benefits (non

## Notes to the Financial Statements, continued June 30, 2014

ASA) vest after 10 years of creditable service. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity provided through INPRS, or leave the contributions invested with INPRS. Vested TRF members terminating service with an employer, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a future retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so forfeit his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Generally, the average annual compensation in this calculation is the average of the highest five (5) years of annual compensation in a covered position. For TRF members who take a leave of absence to serve as an elected official, the highest one (1) year of salary is used. In order for a salary year to be included as one of the five (5) years, the member must have received at least one-half (1/2) year of service credit for that year as stated in IC 5-10.4-4-2. The five (5) years do not have to be continuous. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

Monthly pension benefits for members in pay status may be increased as COLA. Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2014; however, eligible members did receive a one-time check (a.k.a. 13<sup>th</sup> check) in August 2013. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

### TRF Pre-1996 Account and TRF 1996 Account Disability and Survivor Benefits

TRF also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits, may retire for the duration of the disability if the member has qualified for social

## Notes to the Financial Statements, continued June 30, 2014

security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement.

Members are eligible for a classroom disability benefit once they have earned five (5) years of service, have a temporary or permanent disability that continues for six (6) months or more, and applies for classroom disability benefits within one (1) year of the disability. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet social security disability guidelines. The eligible members may receive \$125 per month plus \$5 for each additional year of service credit over five (5) years.

Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after March 31, 1990, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

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

#### Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to all full-time police officers and firefighters who are hired (or rehired) after April 30, 1977. The 1977 Fund was established in 1977 and is governed by the INPRS Board of Trustees in accordance with IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township or county.

#### Membership

As of June 30, 2014, the number of participating employers totaled 162. As of June 30, 2014, the 1977 Fund membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	3,491
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	129
Terminated Non-Vested Members Entitled To a Distribution of Contributions	796
Active Members: Vested and Non-Vested	<u>13,295</u>
Total	<u><u>17,711</u></u>
Total Actual Covered Payroll for Active Members (dollars in thousands)	<u><u>\$ 710,581</u></u>

Covered Payroll is the applicable first class officer pay for each member.

#### Contributions

The funding policy for the 1977 Fund requires remittances of member and employer contributions based on percentages of the salary of a first class officer or firefighter rather than actual payroll. The employer contribution rate is actuarially

## Notes to the Financial Statements, continued June 30, 2014

determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 36-8-8-6. As the 1977 Fund is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During fiscal year 2014, all participating employers were required to contribute 19.7 percent of the salary of a first class officer or firefighter.

The member contribution rate is established by statute IC 36-8-8-8 at six (6) percent of the salary of a first class officer or firefighter. Each fund member shall contribute during the period of the fund member's employment or for 32 years, whichever is shorter. The employer may pay all or a part of the contribution for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the fund member completes 20 years of active service. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing 20 years of service. The INPRS Board of Trustees shall return to the fund member in a lump sum the fund member's contributions plus interest as determined by the INPRS Board of Trustees in accordance with IC 36-8-8-8.

### Retirement Benefits

A member vests after 20 years of service. If the member retires at or after the age of 52 with 20 years of service, the benefit is equal to 50 percent of the salary of a first class officer, as reported by the employer in the year the 1977 Fund member ended service plus one (1) percent of that salary for each six (6) months of active service over 20 years to a maximum of 12 years. At age 50 and with 20 years of service, a member may elect to receive a reduced benefit by a factor established by the fund's actuary (IC 36-8-8-11).

The monthly pension benefits for members in pay status may be increased annually in accordance with the cost of living adjustment (COLA) statute (IC 36-8-8-15). A member is entitled to an annual increase in the member's benefit based on the percentage increase in the Consumer Price Index (January-March); however, the maximum increase is 3.0 percent. There was a COLA increase of 1.7 percent effective July 1, 2013.

### Disability and Survivor Benefits

The 1977 Fund also provides disability and survivor benefits. An active member may file an application for disability benefits. A determination is then made by the local pension board, and reviewed by the INPRS Board of Trustees, as to whether the member has a covered impairment and whether the impairment was incurred in the line of duty or not. The calculation for disability benefits is based on when the member was first hired, the type of impairment and other factors. In addition, the heirs or estate of a fund member may be entitled to receive \$12,000 upon the member's death.

If a member dies while receiving retirement or disability benefits, there are provisions for the surviving spouse and child(ren) to receive a portion of the benefits. The member's surviving spouse is entitled to a monthly benefit equal to 60 percent of the member's monthly benefit during the spouse's lifetime. Each of the member's surviving child(ren) is entitled to a monthly benefit equal to 20 percent of the member's monthly benefit until the age of 18, or age 23, if a full-time student. If there is no eligible surviving spouse or child(ren), a dependent parent(s) may receive 50 percent of the member's monthly benefit during their lifetime.

### Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP) for the 1977 Fund was established by the Indiana Legislature in 2002 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 36-8-8.5. Members of the 1977 Fund that

## Notes to the Financial Statements, continued June 30, 2014

are eligible to retire may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remains in active service contributing to the fund until that date. The DROP retirement date must be not less than twelve (12) months and not more than thirty-six (36) months after their DROP entry date, and not after the date they reach any mandatory retirement age that may apply. The member may make an election to enter the DROP only once in their lifetime. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time of retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2014, the amount held by the plan pursuant to the DROP is \$45 million.

### (D) Judges' Retirement System

#### Plan Description

The Judges' Retirement System (JRS) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to judges and magistrates. JRS was established in 1985, and is governed through the INPRS Board of Trustees by IC 33-38-6, IC 33-38-7 (judges beginning service before September 1, 1985) and IC 33-38-8 (judges beginning service after August 31, 1985). Coverage is for any person who has served, is serving, or shall serve, as a regular judge or justice of the (1) Supreme Court of the State of Indiana, (2) Court of Appeals, (3) Indiana Tax Court, (4) Circuit Court of a Judicial Circuit, or (5) county courts including: Superior, Criminal, Probate, Juvenile, Municipal and County.

#### Membership

The Judges' Retirement System consists of two classes of members (the 1977 System and the 1985 System). The 1977 System includes all individuals who began service as a judge before September 1, 1985, unless the individual, within twenty days after becoming a judge, filed an irrevocable election not to participate in the 1977 System. The 1985 System covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 System. Beginning January 1, 2011, full-time magistrates who were serving on July 1, 2010, may elect to be members of the 1985 System. The 1985 System is for all new judges, and beginning January 1, 2011, all new full-time magistrates (IC 33-38-8-10).

As of June 30, 2014, the Judges' Retirement System membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	321
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	67
Terminated Non-Vested Members Entitled To a Distribution of Contributions	32
Active Members: Vested and Non-Vested	<u>365</u>
Total	<u><u>785</u></u>
 Total Actual Covered Payroll for Active Members (dollars in thousands)	 <u><u>\$ 46,041</u></u>

#### Contributions

The funding policy for the Judges' Retirement System is in accordance with statute IC 33-38-6-17 that requires an appropriation by the Indiana General Assembly, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to the Judges' Retirement System computed on an actuarially funded basis and the recommendation of the actuary. The statute also provides for remittance of docket fees and court fees which are considered employer contributions. For fiscal 2014, employer contributions were \$20.9 million.

## Notes to the Financial Statements, continued June 30, 2014

The member contribution rate is established by statute IC 33-38-7-10 (1977 System) and IC 33-38-8-11 (1985 System) at six (6) percent of salary. Each fund member shall contribute during the period of the fund member's employment, or for 22 years, whichever is shorter. The employer may pay all or a part of the contributions for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before being eligible for a retirement benefit. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS Board of Trustees in accordance with IC 33-38-7-13 (1977 System) and IC 33-38-8-12 (1985 System).

### Retirement Benefits

A member vests after eight (8) years of creditable service. Judges who retire at or after age 65 with eight (8) years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated in accordance with the statute.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service, multiplied by a percentage for years of service as defined in the statute. Applicable salary for participants in the 1985 Judges' System is defined in IC 33-38-8-14(e). The pension benefit for participants of the 1977 Judges' System is based on the salary being paid for the office that the participant held at the time of separation from service [IC 33-38-7-11(d)]. The statute provides for the percentage to be prorated for partial years of service. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as computed per IC 33-38-7-11, is less than the benefit the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit.

A member may retire at age 62 with the requisite years of service, however the participant's benefit is reduced by 0.1 percent for each month the member's age on the date the participant begins receiving a retirement benefit precedes the participant's 65<sup>th</sup> birthday.

The monthly pension benefits of the retired judges that were former participants in the 1977 System receive benefit increases whenever the salary of the position the retiree held at separation from service increases. Before fiscal year 2011, benefits of judges who are members of the 1985 System were tied to the salary of the position at the time the participant separated from service and did not increase if the salary of the position increased after the participant separated from service. Before fiscal year 2011, the General Assembly provided COLA increases to participants in the 1985 System on an "ad hoc" basis. Beginning after June 30, 2010, a participant in the 1985 System receives an increase in the monthly benefit of the same percentage by which the salary of the office of the participant held at separation from service increases. The percentage increase to the monthly benefit takes effect at the same time the salary increase takes effect (IC 33-38-8-25). There was a COLA increase of 3.1 percent effective July 1, 2013, for eligible participants in the 1977 System and 1985 System.

### Disability and Survivor Benefits

There is no vesting requirement for permanent disability benefits. For both the 1977 System and the 1985 System, a participant is considered permanently disabled if the INPRS Board of Trustees receives a written certification by at least two (2) licensed and practicing physicians appointed by the INPRS Board of Trustees. A participant receiving disability benefits must be reexamined at least once a year by at least two (2) physicians appointed by the INPRS Board of Trustees.

## Notes to the Financial Statements, continued June 30, 2014

Surviving spouses or dependent child(ren) are entitled to benefits if the participant had qualified to receive a retirement or disability benefit, or had completed at least eight (8) years of service and was in service as a judge. The minimum survivor benefit is \$12,000.

### **(E) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan**

#### Plan Description

The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to certain employees of the (1) Indiana Department of Natural Resources, (2) Indiana Alcohol and Tobacco Commission and (3) any Indiana State excise police officer, Indiana State conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties. The EG&C Plan was established in 1972 and is governed by the INPRS Board of Trustees in accordance with IC 5-10-5.5.

#### Membership

As of June 30, 2014, the EG&C Plan membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	193
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	4
Terminated Non-Vested Members Entitled To a Distribution of Contributions	87
Active Members: Vested and Non-Vested	<u>473</u>
Total	<u><u>757</u></u>
Total Actual Covered Payroll for Active Members (dollars in thousands)	<u><u>\$ 25,825</u></u>

#### Contributions

The funding policy for the EG&C Plan is in accordance with statute IC 5-10-5.5-8.5. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. During fiscal year 2014, the State of Indiana was required to contribute 20.75 percent of covered payroll.

The member contribution rate is established by statute IC 5-10-5.5-8 at four (4) percent of a participant's salary to be contributed to the participant's savings account. The employer may pay all or a part of the contribution for the participant. Member contributions are used to fund a portion of the defined benefit payment. Any participant who terminates employment before accumulating 15 years of creditable service and before attaining the age of 45 shall be entitled to a lump sum refund of all contributions in the participant's savings account plus accumulated interest as determined by the INPRS Board of Trustees in accordance with IC 5-10-5.5-17.

#### Retirement Benefits

Generally, pension benefits vest after 15 years of creditable service. Officers becoming participants after age 50 are vested after completion of 10 years of service. A participant is entitled to an annual pension benefit, paid in equal monthly installments beginning on the participant's normal retirement date, equal to 25 percent of the participant's average annual salary. A participant who completes more than 10 years of creditable service is entitled to receive an additional amount



## Notes to the Financial Statements, continued June 30, 2014

equal to 1.67 percent of the participant's average annual salary for each completed year of creditable service over 10 years. However, a participant's annual pension benefit may not exceed 75 percent of the participant's average annual salary.

Each participant is required to retire on or before the first day of the month following the participant's 65<sup>th</sup> birthday. However, a participant who is hired after age 50 must retire upon the earlier of: (1) the first day of the month following the participant's 65<sup>th</sup> birthday; or (2) the first day of the month following the date the participant completes 15 years of creditable service. A participant, who is at least 55 years of age and the sum of the participant's years of creditable service and age in years, equals at least 85, may retire and become eligible for full retirement benefits. In addition, a participant may elect full retirement benefits at age 50 with 25 years of service. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with at least 15 years of creditable service. The monthly benefit is reduced by 0.25 percent for each full month by which the participant's early retirement date precedes the participant's 60<sup>th</sup> birthday.

Any participant who terminates service before accumulating 15 years of creditable service may become a member of the Public Employees' Retirement Fund (PERF). Upon payment of contributions and interest required by the INPRS Board of Trustees, the withdrawing participant shall be entitled to transfer creditable service to PERF.

The monthly pension benefits for members in pay status may be increased periodically as COLA. Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2014; however, eligible members did receive a one-time check (a.k.a. 13<sup>th</sup> check) in September 2013. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

### Disability and Survivor Benefits

A participant who becomes permanently or temporarily disabled from performing all suitable and available work "on the force" for which the participant is or may be capable of becoming qualified, considering reasonable accommodation to the extent required by the Americans and Disability Act, is entitled to receive a disability benefit. The amount of the disability benefit paid to a participant depends on whether the disability arose in the line of duty, the degree of impairment as determined by INPRS Board of Trustees' medical authority, and the participant's monthly salary. A participant is entitled to receive creditable service for the time the participant receives disability benefits under a State disability plan established under IC 5-10-8-7.

If a participant has more than 15 years of creditable service at the time of death, survivor benefits are payable to the surviving spouse, parents, or dependent children, as nominated by the participant's written direction, acknowledged, and filed with the INPRS Board of Trustees. The surviving spouse or the parent(s) is entitled to an annual survivor's allowance for life equal to 50 percent of the amount the participant would have been entitled to if he/she had retired on the date of death. If nominated and eligible, surviving unmarried minor child(ren) are entitled to an annual survivor's allowance equal to 50 percent of the amount the participant would have been entitled to if he/she had retired, divided equally between or among all nominated and eligible children. This benefit will continue until the child reaches 18 years of age or marries, whichever occurs first.

## Notes to the Financial Statements, continued June 30, 2014

### Deferred Retirement Option Plan

The DROP for the EG&C Plan was established by the Indiana Legislature in 2008 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10-5.5-22. Members of the EG&C Plan that are eligible to retire at an unreduced annual retirement allowance, may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remains in active service contributing to the plan until that date. The DROP retirement date must be not less than twelve (12) months and not more than thirty-six (36) months after their DROP entry date, and not after the date they reach any mandatory retirement age that may apply. The member may make an election to enter the DROP only once in their lifetime. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time of retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2014, the amount held by the plan pursuant to the DROP is \$2 million.

### **(F) Prosecuting Attorneys' Retirement Fund**

#### Plan Description

The Prosecuting Attorneys' Retirement Fund (PARF) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to prosecuting attorneys. PARF was established in 1989 and is governed through the INPRS Board of Trustees by IC 33-39-7. Coverage is for individuals who: (1) serve as a prosecuting attorney or a chief deputy prosecuting attorney; or (2) serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a State-paid deputy prosecuting attorney. These individuals' salaries are paid from the General Fund of the State of Indiana.

#### Membership

As of June 30, 2014, the PARF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	95
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	83
Terminated Non-Vested Members Entitled To a Distribution of Contributions	162
Active Members: Vested and Non-Vested	210
Total	550
Total Actual Covered Payroll for Active Members (dollars in thousands)	\$ 20,608

#### Contributions

The funding policy for PARF is in accordance with statute IC 33-39-7-23 that requires an appropriation, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to PARF computed on an actuarially funded basis and the recommendation of the actuary. For fiscal year 2014, employer contributions were \$1.2 million.

The member contribution rate is established by statute IC 33-39-7-12 at six (6) percent of salary. The employer may elect to pay the contributions for a member. Members receive interest earnings at a rate specified by the INPRS Board of Trustees in accordance with IC 33-39-7-14. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the member completes eight (8) years of creditable service. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest as determined by the INPRS Board of Trustees in accordance with IC 33-39-7-13.

## Notes to the Financial Statements, continued June 30, 2014

### Retirement Benefits

A participant is entitled to a retirement benefit if the participant: (1) is at least age 62; (2) has at least eight (8) years of service credit; and (3) is not receiving salary for services currently performed. A member whose service ended prior to July 1, 2006 must have at least ten (10) years of service.

The retirement benefit of a participant who is at least age 65 is calculated by multiplying: (1) the highest annual salary paid to the participant before the participant's separation from service; by (2) a percentage based on the participant's years of service. The percentages range from 24 percent for eight (8) years of service to 60 percent for 22 or more years of service. If a participant is at least 62 years of age with at least eight (8) years of creditable service, a participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by 0.25 percent per month for each month the participant retires prior to age 65.

In addition, a PARF participant is a member of PERF. A PARF participant's retirement benefit is reduced by the amount of the employer-financed pension benefit that would be payable to the participant had the participant retired from PERF on the date of the participant's retirement from the fund. However, the benefits payable to a participant from the fund are not reduced by any payments made to the participant from the participant's PERF annuity savings account. The employer may elect to make the contributions on behalf of the member.

### Disability and Survivor Benefits

PARF also provides disability and survivor benefits. A participant who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for 5 to 10 years of service to 50 percent for 20 or more years of service. These benefits are reduced by any benefits payable to the participant from PERF.

The surviving spouse or designated beneficiary of a participant is entitled to a benefit if, on the date of the participant's death, the participant: (1) was receiving benefits; (2) has completed at least eight (8) years of service and was in service as a prosecuting attorney or chief deputy prosecuting attorney, executive director or assistant executive director of the Indiana Prosecuting Attorneys Council, or as a State-paid deputy prosecuting attorney; or (3) had met the requirements for a disability benefit.

Regardless of the participant's age at death, the surviving spouse's benefit is equal to the greater of: (1) \$7,000 annually; or (2) 50 percent of the amount of retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death; survivor benefits are not subject to reduction for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

## **(G) Legislators' Retirement System**

### Plan Description

The Legislators' Retirement System was established in 1989 by IC 2-3.5 and accordingly are governed by the INPRS Board

## Notes to the Financial Statements, continued June 30, 2014

of Trustees. The retirement system is for certain members of the General Assembly of the State of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two (2) separate and distinct plans. The Legislators' Defined Benefit Plan (LEDB Plan) (IC 2-3.5-4), a single-employer (the State of Indiana) defined benefit plan, applies to members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LEDC Plan) (IC 2-3.5-5) applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General Assembly who: (a) served before April 30, 1989; (b) were not serving on April 20, 1989; and (c) are subsequently reelected or reappointed to the General Assembly.

### Membership

As of June 30, 2014, the Legislators' Retirement System membership consisted of:

	<b>Legislators'</b>	
	Defined Benefit Plan	Defined Contribution Plan
Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	68	-
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	9	-
Terminated Non-Vested Members Entitled To a Distribution of Contributions	-	70
Active Members: Vested and Non-Vested	24	149
<b>Total</b>	<b>101</b>	<b>219</b>

A member of the LEDB Plan, under certain circumstances, may also be a member of the LEDC Plan.

### **Legislators' Defined Benefit Plan**

The LEDB Plan provides retirement, disability and survivor benefits. The LEDB Plan is closed to new entrants, as members of the General Assembly who began service after April 30, 1989, are not members of this plan.

### Contributions

For the LEDB Plan, the funding policy is in accordance with statute IC 2-3.5-4-9 and IC 2-3.5-4-10. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the State of Indiana General Fund for each biennium. For fiscal year 2014, employer contributions were \$0.1 million.

### Retirement Benefits

A participant is entitled to an unreduced monthly retirement benefit if the participant is: (1) at least age 65 and has at least 10 years of service as a member of the General Assembly; (2) at least age 55 and whose years of service as a member of the General Assembly plus years of age equal at least 85; or (3) at least age 60 and has at least 15 years of service as a member of the General Assembly. To qualify for a monthly retirement benefit, the member: (1) must have terminated service as a member of the General Assembly; (2) has at least 10 years of service as a member of the General Assembly; and (3) is not receiving and is not entitled to receive a salary from the State.

## Notes to the Financial Statements, continued June 30, 2014

The monthly retirement benefit is equal to the lesser of: (1) \$40 multiplied by the number of years of service in the General Assembly completed before November 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by 12.

A participant who has reached at least age 55, has terminated service as a member of the General Assembly, has at least 10 years of service as a member of the General Assembly, and is not receiving, nor is entitled to receive, a salary from the State of Indiana, is eligible for early retirement with a reduced benefit. The reduction in the benefit is equal to: (1) 0.1 percent a month between ages 60 and 65; and (2) 5/12 percent a month between ages 55 and 60.

The monthly pension benefits for members in pay status are increased periodically as COLA. COLA increases for the LEDB Plan are equal to the increase for the PERF Plan in accordance with IC 2-3.5-4-13 on an "ad hoc" basis and are generally based on date of retirement, and other eligibility factors. There was no COLA for the year ended June 30, 2014.

The LEDB Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. If a participant dies while receiving retirement benefits, or had completed at least 10 years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to 50 percent of the amount of retirement benefits that the participant was receiving at the time of death or that the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

### **Legislators' Defined Contribution Plan**

For the LEDC Plan, each participant is required to contribute five (5) percent of annual salary in accordance with statute IC 2-3.5-5-4. In addition, the State of Indiana is required by statute IC 2-3.5-5-5.5 to contribute a percentage of the member's annual salary on behalf of the participant as determined by INPRS Board of Trustees and confirmed by the State Budget Agency each year. This rate, by statute, cannot exceed the total contribution rate paid that year by the State to PERF for State employees. The State contribution rate is the sum of: (1) the State's employer contribution rate for State employees, and (2) the rate the State pays on behalf of State employees to their annuity savings accounts (3.0 percent).

The contribution rate for calendar year 2013 was 12.7 percent and the rate for calendar year 2014 is 14.2 percent.

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and return potential. There are nine (9) investment options available to LEDC Plan members: Defined Benefit Unitized Assets, Stable Value Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Small/Mid Cap Equity Fund, Large Cap Equity Index Fund, International Equity Fund and Target Date Funds. Members may make changes to their investment directions daily and investments of the plan are reported at fair value.

A participant of the LEDC Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions to the LEDC Plan. The amount available for withdrawal is the fair market value

## Notes to the Financial Statements, continued June 30, 2014

of the participant's account on the processing date. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum, a partial lump sum, a monthly annuity as purchased by the INPRS Board of Trustees, or a series of monthly installment payments over 60, 120, or 180 months as elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from the LEDC Plan, the participant's account is to be paid to the beneficiary(ies) or to the survivor(s) if there is no properly designated beneficiary, or if no beneficiary survives the participant. The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the processing date.

### **(H) Non-Retirement Plans**

#### **State Employees' Death Benefit Fund**

Indiana Code 5-10-11 established the State Employees' Death Benefit program, which is an Other Postemployment Benefit plan (OPEB). Under the program as of July 1, 2013, a death benefit of \$100,000 is to be paid in a lump sum to the surviving spouse, or if there is no surviving spouse, to the surviving child(ren) and stepchildren (to be shared equally) of a State of Indiana employee who dies in the line of duty as defined in the statute. The children and stepchildren must also be dependent on the State employee who died in the line of duty.

The law provides that "the State may provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." It was determined that a program of self-insurance would be established, and effective with the State's pay period ended October 23, 1993, the State assessed State agencies 0.1 percent of gross pay to fund this program. Due to the size of the fund and the infrequency of payments, collection of the assessment was ceased in November 1999. The measurement of potential liability and the related disclosures required for Other Postemployment Benefit plans, have been excluded as they would not be material to the INPRS system.

#### **Public Safety Officers' Special Death Benefit Fund**

Indiana Code 5-10-10 established the Public Safety Officers' Special Death Benefit Fund, which is an Other Postemployment Benefit plan (OPEB). The fund was established for the purpose of paying a lump sum death benefit of \$150,000 to the surviving spouse or child(ren) of a public safety officer (as defined by IC 5-10-10-4) or other eligible officers (as defined by IC 5-10-10-4.5) who die in the line of duty. If there is no surviving spouse or child(ren), the benefit is paid to the parent(s) in equal shares. The fund consists of bail bond fees remitted under IC 35-33-8-3.2, payments under IC 5-10-10-4.5, and investment earnings of the fund. The measurement of potential liability and the related disclosures required for Other Postemployment Benefit plans, have been excluded as they would not be material to the INPRS system.

#### **Pension Relief Fund**

The Pension Relief Fund (PR Fund) was created by the Indiana General Assembly in 1980 (IC 5-10.3-11) and is an Agency Fund. The purpose of the PR Fund is to give financial relief to pension funds maintained by units of local government for their police officers' and firefighters' retirement plan benefits.

Funding for the PR Fund is derived from contributions from the State of Indiana from a portion of cigarette and alcohol taxes, a portion of the State's lottery proceeds, interest earned by the Public Deposit Insurance Fund, investment income earned, and appropriations from the General Assembly.

## Notes to the Financial Statements, continued June 30, 2014

Distributions are made from the PR Fund to units of local government in two equal installments before July 1 and before October 2 of each year. Effective January 1, 2009, the distribution is determined by an estimate of the total amount of pension, disability and survivors benefits from the 1925 Police Pension Fund (IC 36-8-6), the 1937 Firefighters' Pension Fund (IC 36-8-7), and the 1953 Police Pension Fund (IC 36-8-7.5). The estimate is prepared by the actuary on a city-by-city basis, and on a departmental basis.

As defined by IC 36-8-8-20, the PR Fund also pays a lump sum line of duty death benefit of \$150,000. As defined by IC 36-8-8-14.1, the benefit is paid to the following relative(s) of a fund member who dies in the line of duty: (1) to the surviving spouse; (2) if there is no surviving spouse, to the surviving child(ren) (to be shared equally); (3) if there is no surviving spouse or child(ren), to the parent(s) in equal shares.

In accordance with IC 5-10.3-11-6, separate accounts are maintained by INPRS for each unit of local government for amounts that have not been distributed to the local units. These amounts remain invested in the fund and are available to the units of local government at their request. As of June 30, 2014, units of local government had investments with a market value of approximately \$2.1 million on deposit in the PR Fund.

## Note 2. Summary of Significant Accounting Policies

### (A) Reporting Entity

Established July 1, 2011, the Indiana Public Retirement System and the governing board of trustees merged the administration of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). INPRS is an independent body corporate and politic and is not a department or agency of the State, but is an independent instrumentality exercising essential government functions (Public Law 23-2011). For these reasons, INPRS is a pension trust fund of the State of Indiana for financial statement reporting purposes.

The financial statements presented in this report represent only those funds for which the INPRS Board of Trustees has responsibility and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State.

The INPRS Board of Trustees administers nine (9) pension trust funds [eight (8) Defined Benefit plans and one (1) Defined Contribution plan], two (2) death benefit funds accounted for as other postemployment benefit funds, and an agency fund. These fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The following funds are included in the financial statements:

- Public Employees' Retirement Fund (PERF);
- Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996);
- Teachers' Retirement Fund 1996 Account (TRF 1996);
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
- Judges' Retirement System (JRS);
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan);
- Prosecuting Attorneys' Retirement Fund (PARF);
- Legislators' Defined Benefit Plan (LEDB Plan);
- Legislators' Defined Contribution Plan (LEDC Plan);
- State Employees' Death Benefit Fund;
- Public Safety Officers' Special Death Benefit Fund; and
- Pension Relief Fund (PR Fund).

See Note 1 for descriptions of these funds.

### (B) Basis of Accounting

The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations.



## Notes to the Financial Statements, continued June 30, 2014

### **(C) Use of Estimates**

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

### **(D) Reclassifications**

Certain reclassifications have been made within the fiscal year 2013 financial statements to conform with the classifications for fiscal year 2014. These changes have no material impact on total net position for either fiscal year presented.

### **(E) Contributions Receivable**

Contributions are recognized as revenues when earned, pursuant to legal requirements. Member and employer contributions are earned on the employers' payroll date. The estimate for contributions receivable at year-end was calculated utilizing member and employer contributions from the last reported payroll period. Contributions receivable and revenue pursuant to service purchase credits are recognized in full in the year in which the service purchase contract is signed.

In addition to actuarially determined contractually required contributions, one employer also makes quarterly installment payments, including interest at 7.25 percent per year, for the cost of service credits granted retroactively when the employer resolved to enlarge participation in the Public Employees' Retirement Fund. As of June 30, 2014, the outstanding balance was \$1.1 million. This agreement was entered into effective July 1, 2000, to be amortized over forty (40) years.

### **(F) Deposit and Investment Policies and Provisions**

Oversight of INPRS' assets is the responsibility of the INPRS Board of Trustees. Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as a fiduciary for all assets under its control. The INPRS Board of Trustees is required to diversify investments in accordance with the prudent investor standards.

At June 30, 2014, cash and investments of the funds were held by banks or trust companies under custodial agreements with INPRS. The INPRS Board of Trustees contracts with investment counsel, trust companies or banks to assist INPRS in its investment program. The Investment Policy Statement adopted by the INPRS Board of Trustees including the asset allocation approved by the Board of Trustees contains target allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. See Note 3 for more information.

There were no investment policy changes during the fiscal year.

Investment purchases and sales of securities are recorded as of their trade date.

## Notes to the Financial Statements, continued June 30, 2014

### **(G) Method Used to Value Investments**

The pooled and non-pooled investments are reported at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

### **(H) Pooled Investment Unit Trust Accounting**

Pooled unit trust accounting involves assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The per-unit value of all participating funds will increase or (decrease) based on investment earnings or (losses) and appreciation or (depreciation). Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a daily basis.

In accordance with GASB criteria for internal investment pools, the assets and liabilities are allocated pro rata to each of the funds within the pool. This includes investment and foreign exchange contract receivables, interest and dividend receivables, securities lending collateral, investment and foreign exchange contract payables, securities lending obligations, obligations under reverse repurchase agreements and the investment holdings.

## Notes to the Financial Statements, continued June 30, 2014

The INPRS Board of Trustees approved unitizing investment assets in order to provide for a consolidated rate of return and to invest in a diversified manner.

The INPRS Board of Trustees unitized, into a consolidated pool, the defined benefit assets of the following retirement funds and pension systems known collectively as the Consolidated Defined Benefit Assets:

- Public Employees' Retirement Fund (PERF)
- Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996)
- Teachers' Retirement Fund 1996 Account (TRF 1996)
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
- Judges' Retirement Fund (JRS)
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund (EG&C Plan)
- Prosecuting Attorneys' Retirement Fund (PARF)
- Legislators' Defined Benefit Plan (LEDB Plan)

The INPRS Board of Trustees unitized into two separate consolidated pools that include the ASA investment assets of PERF, TRF Pre-1996 and TRF 1996 and, the Defined Contribution Assets of LEDC. The first pool is comprised of the PERF, TRF Pre-1996, and TRF 1996 assets in the Guaranteed Fund, also known as the ASA Guaranteed Fund Assets. The second pool is comprised of all other ASA assets and the LEDC Defined Contribution assets.

The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund are pooled into the Death Benefit Unit Trust.

A summary of the pooled unit trust investments held by unitized value and fund is as follows:

*(dollars in thousands)*

Trust Fund	Consolidated Defined Benefit Assets (1)	ASA Guaranteed Fund Assets	All Other ASA/Defined Contribution Assets (2)	Death Benefit Funds	Pooled Unit Trust Investments
Public Employees' Retirement Fund	\$ 11,256,330	\$ 1,867,992	\$ 964,461	\$ -	\$ 14,088,783
Teachers' Retirement Fund Pre-1996 Account	3,867,814	958,256	760,655	-	5,586,725
Teachers' Retirement Fund 1996 Account	4,072,474	577,599	541,986	-	5,192,059
1977 Police Officers' and Firefighters' Pension and Disability Fund	4,756,240	-	-	-	4,756,240
Judges' Retirement System	429,086	-	-	-	429,086
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	110,837	-	-	-	110,837
Prosecuting Attorneys' Retirement Plan	54,422	-	-	-	54,422
Legislators' Defined Benefit Plan	3,492	-	-	-	3,492
Legislators' Defined Contribution Plan	9,628	-	18,582	-	28,210
State Employees' Death Benefit Fund	-	-	-	7,917	7,917
Public Safety Officers' Special Death Benefit Fund	-	-	-	5,068	5,068
<b>Total INPRS Unitized Investments</b>	<b>\$ 24,560,323</b>	<b>\$ 3,403,847</b>	<b>\$ 2,285,684</b>	<b>\$ 12,985</b>	<b>\$ 30,262,839</b>

<sup>1</sup>Assets represent members of the LEDC Plan who have elected the Consolidated Defined Benefit Assets option.

<sup>2</sup>All other ASA/Defined Contribution Assets consist of PERF, TRF Pre-1996 and TRF 1996 ASA assets which are not invested into the Guaranteed Fund plus other Legislators' defined contributions that are not invested into the Consolidated Defined Benefit Assets.

## Notes to the Financial Statements, continued June 30, 2014

### (I) Investments and Foreign Exchange Contracts Receivable and Investments and Foreign Exchange Contracts Payable

Investments and foreign exchange contracts receivable in addition to investments and foreign exchange contracts payable, consist primarily of receivables or payables for securities purchased or sold, but not settled as of June 30, 2014.

See Note 4 for additional information related to foreign exchange contract receivables and payables.

### (J) Capitalized Assets

Capital assets, fixed and intangible are capitalized at historical cost when total cost is \$25,000 or more. The cost of items like normal maintenance, repairs, and software license agreements that do not add to the value of the assets or materially extend assets' lives are not capitalized. Depreciation and amortization are calculated using straight-line method over the estimated useful life of assets exceeding one (1) year life; depreciation and amortization expenses are recognized in administrative expenses.

The following are net capitalized asset values as of June 30, 2014:

*(dollars in thousands)*

Capitalized Assets	Gross Cost	Accumulated Depreciation Amortization	Net Capitalized Assets
Land	\$ 547	\$ -	\$ 547
Building	2,893	(1,433)	1,460
Equipment	87	(87)	-
Software	15,634	(8,438)	7,196
<b>Total</b>	<b>\$ 19,161</b>	<b>\$ (9,958)</b>	<b>\$ 9,203</b>

INPRS owns and occupies the land and building at 143 W. Market Street, Indianapolis, Indiana. The building is being depreciated over 20 years.

All capitalized equipment is currently fully depreciated. No new equipment was capitalized during the current fiscal year.

INPRS just completed the process of implementing new computer systems. Amortization is computed over five (5) years when assets are placed in service. Costs for purchase and development of computer software meeting minimum cost and service life estimates are capitalized as incurred. A new retirement processing system was placed in service during fiscal year 2014.

### (K) Benefits and Distributions

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

## Notes to the Financial Statements, continued June 30, 2014

### **(L) Due To/From Other Funds and Member Reassignments**

Total Due to/from other funds represent routine transfers between funds for initial retirements and payments of shared administrative expenses as part of the agency's operations. Payments of interfund balances are funded on a routine basis between funds.

When statute allows, member reassignments occur resulting in the movement of member and employer reserves between funds due to a retiring member having service in multiple funds. Once a member selects which fund he/she wishes to retire from, creditable service covered by the other fund and the related annuity savings account (ASA) balance will be moved to the fund selected in calculating the member's retirement benefit. At the time the retirement is calculated, the fund selected sets up a receivable from the other fund for both the ASA balance and the calculated reserve for the service credit brought in from the other fund. This receivable is included as a line item in the Receivables section of Statement of Fiduciary Net Position. On the reverse side, a payable is recognized in the Liabilities section of the Statement of Fiduciary Net Position.

### **(M) Due To Other Governments**

Total Due to Other Governments represents a liability account reflecting amounts owed by INPRS to another government (e.g., county or municipality). INPRS acts as an agent of the Pension Relief Fund.

### **(N) Compensated Absences**

INPRS' full-time employees accumulate earned but unused vacation, sick pay, compensatory time, and personal time each pay period. Bonus vacation days are awarded upon completion of five (5), 10 and 20 years of employment with INPRS and/or the State of Indiana. Upon separation from service, employees in good standing will be paid for a maximum of 30 unused vacation leave days.

Vacation, compensatory time and personal leave are reported as part of the Salaries and Benefits Payable line in the Liabilities section of the Statement of Fiduciary Net Position. No liability is reported for unpaid accumulated sick leave since it is not probable that sick leave will be paid.

### **(O) Administrative, Project and Direct Investment Expenses**

An annual budget for the administrative, project and direct investment expenses of INPRS is reviewed and approved by the INPRS Board of Trustees. These expenses are paid from plan assets and investment earnings.

The PERF plan pays the shared administrative, project and direct investment expenses of all the funds. At June 30, a receivable is established in the PERF plan and a payable in the other funds for the amount due to the PERF plan for the other funds' administrative expenses. The payable and receivable are settled routinely.

### **(P) Federal Income Tax Status**

Plans administered by INPRS qualify under Section 401(a) of the Internal Revenue Code (IRC) and are exempt from federal income taxes under Section 501(a) of the IRC.

## Notes to the Financial Statements, continued June 30, 2014

### (Q) Reserves and Designations

The following are the legally required reserves.

**1. Member Reserve** – The member reserve represents member contributions made by or on behalf of the members plus any interest or earnings, less amounts distributed or transferred to the Benefits in Force reserve for retirement, disability, or other benefits. For the PERF and TRF plans, this reserve includes the members’ annuity savings accounts.

**2. Employer Reserve** – This reserve consists of the accumulated employer contributions, plus earnings, less transfers made to the Benefits in Force reserve of the actuarial pension cost for retirement, disability, or other benefits.

**3. Benefits in Force** – This reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled and survivors of members who died in service. The accumulated contributions of the members who elect to annuitize their annuity savings accounts and the actuarial pension cost are transferred to the reserve upon retirement, disability, or death.

**4. Undistributed Investment Income Reserve** – This reserve is credited with all investment earnings. Interest transfers are made periodically during the year to the other reserves as allowed or required by the individual funds’ statutes. The transfers are at rates established by the INPRS Board of Trustees, statutes or the actual earning rates of the investment options, depending on the statutes of the individual funds. Any remaining balance (positive or negative) is transferred to the employer reserve.

The following are the balances of the reserves as of June 30, 2014:

*(dollars in thousands)*

Pension Trusts Funds	Member Reserve	Employer Reserve <sup>1</sup>	Benefits in Force	Undistributed Income	Total Reserves
PERF	\$ 2,860,023	\$ 5,437,878	\$ 5,806,387	\$ -	\$ 14,104,288
TRF Pre-1996	1,715,340	-	3,786,527	-	5,501,867
TRF 1996	1,120,729	3,414,036	654,677	-	5,189,442
1977 Fund	805,257	2,739,023	1,213,698	-	4,757,978
Judges’ Retirement System	32,101	194,635	205,994	-	432,730
EG&C Plan	7,934	51,910	50,813	-	110,657
PARF	26,006	7,717	20,784	-	54,507
Legislators’ Retirement System –					
LEDB Plan	N/A	660	2,829	-	3,489
LEDC Plan	29,103	N/A	N/A	-	29,103

<sup>1</sup>The employer reserve includes \$454K of reserve monies for the unvested portion of the ASA Only Plan.

### (R) New Accounting Pronouncements

The GASB has issued Statement No. 65, “Items Previously Reported as Assets and Liabilities.” This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management has evaluated GASB Statement No. 65 and determined the amendment does not have an impact on INPRS’ financial reporting.

## Notes to the Financial Statements, continued June 30, 2014

The GASB has issued Statement No. 66, *“Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62,”* to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *“Fund Balance Reporting and Governmental Fund Type Definitions,”* and No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.”* The provisions of GASB Statement No. 66 are effective for financial statements for periods beginning after December 15, 2012. Management has evaluated GASB Statement No. 66 and determined the amendment does not have an impact on INPRS’ financial reporting.

The GASB has issued Statement No. 67, *“Financial Reporting for Pension Plans; an amendment of GASB Statements No. 25.”* This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013. The provisions of GASB Statement No. 67 have been implemented as INPRS’ financial statements reflect any required changes to actuarial calculations for accounting purposes, note disclosures and new schedules in the required supplementary information.

The GASB has issued Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* which will improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is an amendment to the requirements of Statement No. 27, *“Accounting for Pensions by State and Local Governmental Employers,”* as well as the requirements of Statement No. 50, *“Pension Disclosures,”* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of GASB Statement No. 68 are effective for financial statements for periods beginning after June 15, 2014. GASB Statement No. 68 will require employers to record their proportionate share of net pension liability, deferred outflows and inflows of resources and pension expense, more extensive note disclosures and required supplementary information. Independent schedules for employers are planned to be issued by INPRS to communicate employer’s proportionate share of net pension liability, deferred outflows and inflows of resources, and pension expense for each of the plans.

The GASB has issued Statement No. 69, *“Government Combinations and Disposals of Government Operations.”* This Statement establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all State and local governmental entities. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. However, earlier application of the Statement is encouraged. Management is currently evaluating GASB Statement No. 69 and, if applicable, will implement it in the financial statements for fiscal year 2015.

## Notes to the Financial Statements, continued June 30, 2014

The GASB has issued Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees.”* This Statement establishes accounting and financial reporting standards for situations where a State or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a State or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013. Management has evaluated GASB Statement No. 70 and determined the amendment does not have an impact on INPRS’ financial reporting.

The GASB has issued Statement 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date,”* which addresses the transition provisions of, and is an amendment to Statement No. 68, *“Accounting and Financial Reporting for Pensions.”* The Statement eliminates a potential source of understatement of beginning net position and expense in a government’s first year of implementing Statement 68. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014. In conjunction with GASB Statement No. 68, management is determining how best to assist employers to implement GASB Statement No. 71 in their financial statements for fiscal year 2015.



## Note 3. Cash and Investments

### (A) Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the INPRS Board of Trustees and govern all its investments. Under statute (IC 5-10.3-5-3(a)) for PERF and (IC 5-10.4-3-10(a)) for TRF, the Board of Trustees must “invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.” The Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the INPRS Board of Trustees has broad authority to invest the assets of the plans. The INPRS Board of Trustees utilizes external investment managers, each with specific mandates to collectively achieve the investment objectives of the retirement funds. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the INPRS Board of Trustees. An asset allocation review is conducted periodically.

In October 2011, the INPRS Board of Trustees adopted a new Investment Policy Statement effective January 1, 2012, and the new strategic asset allocation for the Consolidated Defined Benefit Assets is as follows:

Global Asset Classes	Target Allocation	Target Range
Public Equity	22.5%	20.0% to 25.0%
Private Equity	10.0%	7.0% to 13.0%
Fixed Income – Ex Inflation-Linked	22.0%	19.0% to 25.0%
Fixed Income – Inflation-Linked	10.0%	7.0% to 13.0%
Commodities	8.0%	6.0% to 10.0%
Real Estate	7.5%	4.0% to 11.0%
Absolute Return	10.0%	6.0% to 14.0%
Risk Parity	10.0%	5.0% to 15.0%

Contributions and asset reallocation in the PERF, TRF Pre-1996 and TRF 1996 Annuity Savings Accounts and the Legislators’ Defined Contribution Plan (LEDC) are directed by the members in each plan and as such, the asset allocation will differ from that of the Consolidated Defined Benefit Assets.

The Pension Relief Fund (PR Fund) is invested 100 percent in a money market fund.

The State Employees’ Death Benefit Fund and the Public Safety Officers’ Special Death Benefit Fund are 100 percent invested in short-term and fixed income investments.

## Notes to the Financial Statements, continued June 30, 2014

### (B) Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense is as follows:

Pension Trust Funds <sup>1</sup>	2014 Annual Money Weighted Rate of Return
Public Employees' Retirement Fund	12.33%
Teachers' Retirement Fund Pre-1996 Account <sup>2</sup>	12.71%
Teachers' Retirement Fund 1996 Account <sup>2</sup>	12.71%
1977 Police Officers' and Firefighters' Pension and Disability Fund	13.70%
Judges' Retirement System	13.69%
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	13.69%
Prosecuting Attorneys' Retirement Fund	13.70%
Legislators' Defined Benefit Plan	13.65%
<b>Total INPRS<sup>3</sup></b>	<b>12.69%</b>

<sup>1</sup>Excludes the Legislators' Defined Contribution Plan

<sup>2</sup>The Teachers' Retirement Fund Accounts are combined for investment purposes

<sup>3</sup>Rate of return also includes Legislators' Defined Contribution Plan, State Employees' Death Benefit Fund, Public Safety Officers' Special Death Benefit Fund and Pension Relief Fund

### (C) Cash in Bank and Deposits

Cash balances represent both operational demand deposit accounts held at the bank and, investment related cash and short-term investments, both pooled and non-pooled, on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested in a short-term investment account, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities section of the Statement of Fiduciary Net Position.

The table below presents the INPRS total deposits and short-term investment funds as of June 30, 2014.

(dollars in thousands)

Cash Deposits	Total
Demand Deposit Account – Bank Balances (Insured by FDIC up to \$250 thousand per financial institution)	\$ 10,050
Held with Indiana Treasurer of State (Fully Insured)	4,951
Demand Deposit – Outstanding Check Float	(39,299)
Held with Custodian Bank (Uncollateralized)	161,544
Short Term Investment Funds held at Bank (Collateralized)	963,462
<b>Total</b>	<b>\$ 1,100,708</b>

## Notes to the Financial Statements, continued June 30, 2014

### (D) Summary of Investments Held

A summary of investments held as of June 30, 2014, exclusive of operational cash and the securities lending program which is fully disclosed in Section (I), is as follows:

*(dollars in thousands)*

Investment Type <sup>1</sup>	Fair Value	% of Total Investments
<u>Short Term<sup>2</sup></u>		
Cash at Brokers	\$ 161,544	0.5%
Money Market Sweep Vehicle	963,462	3.2
Commercial Paper	3,474	-
U.S. Treasury Obligations	150,803	0.5
U.S. Agencies	34,418	0.1
Non-U.S. Governments	17,162	0.1
Total Short Term Investments	1,330,863	4.4
<u>Fixed Income</u>		
U.S. Governments	4,380,484	14.4
Non-U.S. Governments	2,474,447	8.1
U.S. Agencies	747,558	2.5
Corporate Bonds	2,898,294	9.5
Asset-Backed Securities	928,810	3.0
Commingled Fixed Income Funds	958,272	3.1
Total Fixed Income Investments	12,387,865	40.6
<u>Equity</u>		
Domestic Equities	3,212,707	10.5
International Equities	2,860,157	9.4
Commingled Equity Funds	1,575,701	5.1
Total Equity Investments	7,648,565	25.0
<u>Alternative Investments</u>		
Private Equity	4,802,039	15.7
Absolute Return	1,425,500	4.7
Private Real Estate	410,929	1.3
Risk Parity	2,496,392	8.2
Total Alternative Investments	9,134,860	29.9
<u>Derivatives</u>		
	27,082	0.1
<b>Total Investments</b>	<b>\$ 30,529,235</b>	<b>100.0%</b>

<sup>1</sup>The amounts disclosed above will differ from the Asset Allocation Summary shown in the Investment Section. The investment type disclosure groups assets according to the security type assigned to each investment by the Custodian. The Asset Allocation summary groups assets according to the investment objective of each investment manager.

<sup>2</sup>Short Term Investments include highly liquid assets, both non-pooled and pooled, that are an integral part of the pension investments.

### (E) Custodial Credit Risk

Deposits, investment securities, and collateral securities are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, INPRS will not be able

## Notes to the Financial Statements, continued June 30, 2014

to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of INPRS and are held by either the counterparty or the counterparty trust department's agent, but not in INPRS' name.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. At June 30, 2014, there were no investment or collateral securities subject to custodial credit risk and \$171,344 thousand of cash on deposit which was uninsured and uncollateralized and therefore exposed to credit risk as disclosed in Section (C).

Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5 for PERF and IC 5-10.4-3-14(a) and IC 5-10.4-3-13 for TRF, securities are required to be held for the fund under custodial agreements. INPRS' custody agreement with the custodian requires that the custodian segregate the securities on the custodian's books and records from the custodian's own property. In addition, any investment manager for INPRS is not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

### (F) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The INPRS Investment Policy Statement recognizes interest rate risk as a market risk factor that is monitored on an absolute and relative basis.

As of June 30, 2014, debt securities had the following duration information:

*(dollars in thousands)*

<b>Debt Security Type</b>	<b>Fair Value</b>	<b>% of All Debt Securities</b>	<b>Portfolio Weighted Average Effective Duration (Years)</b>
<b>Short Term Investments</b>			
Money Market Sweep Vehicle	\$ 963,462	7.0%	0.01
Commercial Paper	3,474	0.1	0.16
U.S. Treasury Obligations	150,803	1.1	0.11
U.S. Agencies	34,418	0.2	0.12
Non-U.S. Government	17,162	0.1	0.22
Duration Not Available	161,544	1.2	N/A
<b>Total Short Term Investments</b>	<b>1,330,863</b>	<b>9.7</b>	
<b>Fixed Income Investments</b>			
U.S. Governments	4,380,484	31.9	7.64
Non-U.S. Government	2,474,447	18.0	6.44
U.S. Agencies	747,558	5.5	2.77
Corporate Bonds	2,823,689	20.6	5.28
Asset-Backed Securities	899,519	6.6	1.07
Duration Not Available	1,062,168	7.7	N/A
<b>Total Fixed Income Investments</b>	<b>12,387,865</b>	<b>90.3</b>	
<b>Total Debt Securities</b>	<b>\$ 13,718,728</b>	<b>100.0%</b>	

The \$1,224 million, for which no duration was available, is primarily made up of cash and commingled debt funds.

## Notes to the Financial Statements, continued June 30, 2014

### (G) Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligations. The INPRS Investment Policy Statement recognizes credit (quality) risk as a market and strategic risk factor that is monitored on an absolute and relative basis.

The quality rating of investments in debt securities as described by Moody's at June 30, 2014 is as follows:

*(dollars in thousands)*

Moody's Rating	Short Term Investments	Fixed Income Securities	Total	% of All Debt Securities
U.S. Government Guaranteed	\$ -	\$ 4,443,101	\$ 4,443,101	32.4%
Aaa	185,222	1,852,621	2,037,843	14.9
Aa	-	1,469,909	1,469,909	10.7
A	-	915,584	915,584	6.7
Baa	-	1,633,392	1,633,392	11.9
Ba	-	306,423	306,423	2.2
B	-	161,455	161,455	1.2
Below B	-	125,534	125,534	0.9
Unrated	1,145,641	1,479,846	2,625,487	19.1
<b>Total</b>	<b>\$ 1,330,863</b>	<b>\$12,387,865</b>	<b>\$13,718,728</b>	<b>100.0%</b>

The \$2,625 million not rated by Moody's is primarily in the following security types: cash at broker, money market sweep vehicles, asset-backed securities, commercial mortgages, CMO/Remics and commingled debt funds.

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis.

INPRS Investment Policy Statement has placed an upper limit on the concentration of assets placed with an investment manager.

No investment manager shall manage more than 10 percent of the system's assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 15 percent of the system's assets in actively managed portfolios without Board approval.

No investment manager shall manage more than 15 percent of the system's assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 20 percent of the system's assets in passively managed portfolios without Board approval.

No investment manager shall manage more than 25 percent of the system's assets in a combination of actively and passively managed portfolios.

At June 30, 2014, single issuer exposure in the portfolio did not exceed 5 percent of the total net investments.

## Notes to the Financial Statements, continued June 30, 2014

### (H) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. INPRS' foreign currency exposure is focused primarily in international fixed income and equity holdings.

At June 30, 2014, INPRS did not have a currency hedging program at the total fund level. However, at the manager level, hedging currency risk is allowed and certain managers actively manage currency exposure. INPRS monitors currency risk at the total fund level, portfolio level, and asset class level.

INPRS has exposure to foreign currency risk at June 30, 2014 as follows:

(dollars in thousands)

#### Foreign Currency Held at June 30, 2014

Currency:	Short Term	Fixed Income	Equity	Other Investments	Grand Total	% of Total
Australian Dollar	\$ (240)	\$ 47,965	\$ 61,627	\$ (22,796)	\$ 86,556	0.3%
Brazilian Real	189	53,493	20,386	(3,250)	70,818	0.2
Canadian Dollar	470	113,912	107,955	(105,261)	117,076	0.4
Chilean Peso	-	1,887	-	2,767	4,654	-
Chinese R Yuan HK	-	-	-	24,650	24,650	0.1
Chinese Yuan Renminbi	-	-	-	(11)	(11)	-
Colombian Peso	43	20,316	-	(881)	19,478	0.1
Czech Koruna	-	-	5,837	-	5,837	-
Danish Krone	66	15,275	29,440	(3,194)	41,587	0.1
Dominican Rep Peso	-	2,270	-	-	2,270	-
Egyptian Pound	-	-	324	-	324	-
Euro Currency Unit	13,441	1,126,815	653,170	(385,168)	1,408,258	4.8
Hong Kong Dollar	491	-	135,074	609	136,174	0.4
Hungarian Forint	81	3,257	2,445	3,282	9,065	-
Indian Rupee	110	3,571	38,701	21,500	63,882	0.2
Indonesian Rupiah	3	18,135	5,673	4,238	28,049	0.1
Israeli Shekel	21	-	2,500	(7,752)	(5,231)	-
Japanese Yen	1,682	231,495	412,522	(79,120)	566,579	1.9
Malaysian Ringgit	3,419	20,388	1,556	10,360	35,723	0.1
Mexican Peso	14,503	57,573	5,224	(14,435)	62,865	0.2
New Taiwan Dollar	170	-	62,185	(8,010)	54,345	0.2
New Turkish Lira	25	29,372	21,298	(15,686)	35,009	0.1
New Zealand Dollar	73	2,392	2,682	(4,020)	1,127	-
Nigerian Naira	798	553	-	1,716	3,067	-
Norwegian Krone	212	2,812	34,165	35,480	72,669	0.2
Peruvian Nuevo Sol	-	1,267	-	2,803	4,070	-
Philippines Peso	18	1,019	1,436	679	3,152	-
Polish Zloty	104	23,614	4,120	20,662	48,500	0.2
Pound Sterling	2,094	412,571	351,701	(146,264)	620,102	2.1
Qatari Riyal	-	-	2,197	-	2,197	-
Romania Leu	27	4,840	-	(71)	4,796	-
Russian Ruble	7	20,450	-	1,492	21,949	0.1
S Africa Comm Rnd	265	20,974	29,815	2,699	53,753	0.2
Singapore Dollar	73	6,539	32,908	(11,832)	27,688	0.1
South Korean Won	30	(474)	76,720	19,973	96,249	0.3
Swedish Krona	281	67,815	61,147	(40,175)	89,068	0.3
Swiss Franc	1,431	3,032	144,227	(17,110)	131,580	0.4
Thai Baht	136	11,288	6,456	(3,865)	14,015	-
UAE Dirham	-	-	1,666	-	1,666	-
Zambia Kwacha	-	339	-	-	339	-
<b>Held in Foreign Currency</b>	<b>\$ 40,023</b>	<b>\$ 2,324,755</b>	<b>\$ 2,315,157</b>	<b>\$ (715,991)</b>	<b>\$ 3,963,944</b>	<b>13.1%</b>

## Notes to the Financial Statements, continued June 30, 2014

The foreign currency exposure consists of unhedged assets within the investment portfolio. The short term investment, debt securities and equity securities include accruals. Other investments include foreign holdings of other investments, derivatives and receivables/payables.

### (I) Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which certain securities held by the custodian on behalf of INPRS may be loaned. The statute requires that collateral initially in excess of the total fair value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total fair value of the loaned securities.

The purpose of such a program is to provide additional revenue for the Consolidated Defined Benefits Assets. The INPRS Investment Policy Statement requires that collateral securities and/or cash be initially pledged at 102 percent of the fair value of the securities lent for domestic securities and 105 percent for international securities. No more than 40 percent of the Consolidated Defined Benefit Assets may be lent at one time. The custodian bank and/or its securities lending sub-agents provide 100 percent indemnification of the Consolidated Defined Benefit Assets against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral cannot be pledged or sold unless the borrower defaults.

At June 30, 2014, INPRS had no credit risk exposure since the collateral value held exceeded the fair value of securities on loan.

*(dollars in thousands)*

#### Securities Lending as of June 30, 2014

Security Type	Fair Value of Securities on Loan	Collateral Value (Securities and Cash)
U.S. Governments	\$ 1,621,578	\$ 1,667,028
Corporate Bonds	168,003	172,057
International Bonds	65,422	67,243
Domestic Equities	632,347	654,485
International Equities	83,079	90,866
<b>Total</b>	<b>\$ 2,570,429</b>	<b>\$ 2,651,679</b>

Cash collateral can be reinvested. The reinvested assets are subject to the investment guidelines specified by the INPRS Investment Policy Statement. It states that the maximum weighted average days to maturity may not exceed 60. The securities lending agent matches the maturities of the cash collateral investments with stated securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities. INPRS retains the fair value risk with respect to the investment of the cash collateral.

## Notes to the Financial Statements, continued June 30, 2014

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2014 is as follows:

*(dollars in thousands)*

Standard and Poor's Rating	Commercial Paper	Repurchase Agreements	U.S. Agencies	Floating Rate Notes	Certificates of Deposit	Fair Value of Reinvested Cash Collateral	Percent of Portfolio
A-1 and A-1+	\$ 707,030	\$ -	\$ 36,600	\$ -	\$ 166,519	\$ 910,149	42.0%
AA+	-	-	-	16,712	-	16,712	0.8
AA-	-	-	-	379,448	-	379,448	17.5
A+	-	-	-	221,806	-	221,806	10.2
A	-	-	-	17,405	-	17,405	0.8
Unrated	-	623,472	-	-	-	623,472	28.7
<b>Total</b>	<b>\$ 707,030</b>	<b>\$ 623,472</b>	<b>\$ 36,600</b>	<b>\$ 635,371</b>	<b>\$ 166,519</b>	<b>\$ 2,168,992</b>	<b>100.0%</b>

The majority of the unrated reinvested cash collateral investments consist of repurchase agreements.

### (J) Repurchase Agreements

A repurchase agreement is an agreement in which INPRS transfers cash to a broker-dealer or financial institution. The broker-dealer or financial institution transfer securities to INPRS and promises to repay the cash plus interest in exchange for the same securities. Repurchase agreements are assets with the security collateral held at INPRS' custodian bank.

An obligation under reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Obligations under reverse repurchase agreements are liabilities with INPRS' security collateral held at the broker dealer or financial institution's custodian bank.

Cash received and reinvested in securities are not required to match the maturities of the securities posted as collateral.

At June 30, 2014, INPRS did not have a repurchase agreement or an obligation under reverse repurchase agreement program at the total fund level. However, at the manager level, repurchase agreements and obligations under reverse repurchase agreements are allowable investments.

There were no repurchase agreements held at June 30, 2014 outside of the securities lending collateral holdings that are disclosed in (I). The amounts held at June 30, 2014 for obligations under reverse repurchase agreements, exclusive of securities lending reinvested cash collateral, are as follows:

*(dollars in thousands)*

Obligations Under Reverse Repurchase Agreements by Collateral Type	Cash Collateral Posted	Fair Value
U.S. Treasury	\$ 225,614	\$ 227,143

At June 30, 2014, INPRS had no credit risk exposure related to obligations under reverse repurchase agreements since the collateral value posted exceeded the fair value of the liability held.



## Note 4. Derivative Financial Instruments

### (A) Overview of Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps and forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded." Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

The derivative instruments held by INPRS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

All investment derivatives discussed below are included within the Investment Risk Schedules, which precede this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio. INPRS holds investments in limited partnership and commingled investment funds, which may utilize derivatives from time to time for hedging purposes, and any derivatives held by these types of investment vehicles are not included in the information describing the INPRS' derivatives.

#### Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

INPRS' investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, INPRS' investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. No short sales of equity securities or equity index derivatives are permitted.

As the fair value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

#### Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

## Notes to the Financial Statements, continued June 30, 2014

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the option to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange-traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services, using various proprietary methods, based upon the type of option.

### Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value is determined by external pricing services using various proprietary methods.

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk. The fair value is determined by external pricing services using various proprietary methods.

### Forwards

A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Position. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Position.

## Notes to the Financial Statements, continued June 30, 2014

The Fund enters into foreign currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

### (B) Derivative Contracts

The table below summarizes INPRS' derivative contracts for the year ended June 30, 2014:

*(dollars in thousands)*

Investment Derivatives	Change in Fair Value	Fair Value	Notional
<b>Futures:</b>			
Index Futures – Long	\$ 13,719	\$ 13,719	\$ 624,486
Commodity Futures – Long	25,474	25,474	1,277,538
Fixed Income Futures – Long	1,212	1,212	443,391
Fixed Income Futures – Short	(699)	(699)	(572,292)
Foreign Currency Futures – Long	29	29	38,388
Foreign Currency Futures – Short	(435)	(435)	(383,873)
Total Futures	39,300	39,300	1,427,638
<b>Options:</b>			
Currency Spot Options Bought	(147)	796	59,840
Currency Spot Options Written	184	(986)	84,349
Interest Rate Options Bought	(986)	6,372	333,220
Interest Rate Options Written	649	(1,326)	144,320
Fixed Income Options Bought	(140)	36	36
Fixed Income Options Written	121	(18)	(18)
Foreign Currency Options Bought	(113)	66	160
Foreign Currency Options Written	79	(5)	(5)
Credit Default Single Issuer Swaptions Written	23	(60)	97,800
Credit Default Index Swaptions Written	21	(17)	22,700
Inflation Rate Swaptions Bought	(8)	7	6,955
Total Options	(317)	4,865	749,357
<b>Swaps:</b>			
Interest Rate Swaps – Pay Fixed Receive Variable	(14,747)	(26,533)	937,072
Interest Rate Swaps – Pay Variable Receive Fixed	12,700	5,310	1,014,556
Forward Volatility Agreement Straddle	(29)	268	2,600
Currency Swaps	24	27	13,102
Credit Default Swaps Single Name – Buy Protection	(1,237)	404	72,062
Credit Default Swaps Single Name – Sell Protection	936	1,130	50,900
Credit Default Swaps Index – Buy Protection	(816)	1,432	32,916
Credit Default Swaps Index – Sell Protection	290	879	45,555
Total Swaps	(2,879)	(17,083)	2,168,763
<b>Total Derivatives</b>	<b>\$ 36,104</b>	<b>\$ 27,082</b>	<b>\$ 4,345,758</b>

## Notes to the Financial Statements, continued June 30, 2014

The table below summarizes the swap maturity profile as of June 30, 2014.

(dollars in thousands)

Swap Type	Swap Maturity Profile at June 30, 2014					Total
	< 1 yr	1-5 yrs	5-10 yrs	10-20 yrs	20+ yrs	
Interest Rate Swaps – Pay Fixed Receive Variable	\$ -	\$ (1,841)	\$ (12,345)	\$ (7,861)	\$ (4,486)	\$ (26,533)
Interest Rate Swaps – Pay Variable Receive Fixed	-	6,372	(1,370)	308	-	5,310
Forward Volatility Agreement Straddle	268	-	-	-	-	268
Currency Swaps	-	29	(2)	-	-	27
Credit Default Swaps Single Name – Buy Protection	-	(1,004)	774	-	634	404
Credit Default Swaps Single Name – Sell Protection	-	1,251	(121)	-	-	1,130
Credit Default Swaps Index – Buy Protection	-	(181)	-	-	1,613	1,432
Credit Default Swaps Index – Sell Protection	-	879	-	-	-	879
<b>Total Swap Fair Value</b>	<b>\$ 268</b>	<b>\$ 5,505</b>	<b>\$ (13,064)</b>	<b>\$ (7,553)</b>	<b>\$ (2,239)</b>	<b>\$ (17,083)</b>

### (C) Credit Risk

Counterparty credit risk exists on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract.

INPRS' investment managers use International Swaps and Derivative Association Master Agreements to further reduce counterparty risk by specifying credit protection mechanisms and providing standardization that improves legal certainty, thereby reducing the probability of unforeseen losses. Furthermore, the master agreements can provide additional credit protection through the requirement of collateral exchange and certain event of default and mutual termination provisions. Securities eligible as collateral are typically United States government bills and U.S. dollar cash.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements, is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in an unrealized gain position at June 30, 2014, was \$33,677 thousand, of which \$31,587 thousand was uncollateralized.

The table below summarizes the counterparty positions as of June 30, 2014:

(dollars in thousands)

Swaps Counterparty	S&P Rating	Fair Value		Collateral		
		Receivable Unrealized Gain	Payable (Unrealized Loss)	Total Fair Value	Posted	Received
Bank of America	A-	\$ 259	\$ (225)	\$ (101)	\$ 360	\$ (1,160)
Barclays	A-	181	(197)	(197)	200	-
Citibank	A-	895	(2,011)	2,176	877	(3,167)
CME Central	AA-	30,181	(28,927)	(18,286)	-	-
Credit Suisse	A-	20	(59)	(4)	50	(72)
Deutsche Bank	A	167	(1,141)	(944)	-	(4,449)
Goldman Sachs	A-	826	(1,353)	885	510	(570)
HSBC Securities Inc.	A+	4	(132)	(132)	-	-
IntercontinentalExchange Inc.	A	417	(348)	273	-	-
JPMorgan Chase Bank	A	108	(334)	(262)	-	(530)
London Clearing House	A-	530	(935)	(651)	-	-
Royal Bank of Canada (RBC)	AA-	17	(2)	(2)	1,600	-
UBS	A	72	-	92	20	(810)
<b>Total</b>		<b>\$ 33,677</b>	<b>\$ (35,664)</b>	<b>\$ (17,153)</b>	<b>\$ 3,617</b>	<b>\$ (10,758)</b>

## Notes to the Financial Statements, continued June 30, 2014

### (D) Interest Rate Risk

The System has exposure to interest rate risk due to investments in interest rate and inflation swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule in Note 3.

The table below summarizes INPRS' Investments that are highly sensitive to interest rate changes:

*(dollars in thousands)*

#### Derivative Instruments Highly Sensitive to Interest Rate Changes

Reference Currency	Pays	Receives	Fair Value	Notional
<b>Interest Rate Swap- Pay Fixed Receive Variable:</b>				
U.S Dollar	0.0265% to 4.37%	3M USD LIBOR	\$ (13,623)	\$ 630,430
Euro Currency Unit	1.50 % to 3.25%	6M EURIBOR REUTERS	(5,130)	63,967
Pound Sterling	1.00% to 3.75%	6M GBP LIBOR BBA	(52)	27,888
Chilean Peso	3.85% to 5.36%	6M CLP CLICP BLOOMBERG	(71)	5,784
Australian Dollar	3.75% to 5.50%	6M AUD BBR BBSW	(6,392)	101,851
Polish Zloty	3.76% to 4.20%	6M WIBOR WIBO	(89)	1,874
Japanese Yen	0.75% to 1.65%	6M JPY LIBOR BBA	(165)	59,184
Swiss Franc	2.50%	3M CHF LIBOR BBA	(254)	5,864
Malaysian Ringgit	0.00% to 4.49%	3M MYR KLIBOR BNM	(4)	4,893
South Korean Won	3.00% to 3.63%	3M KRW KWDC COD	(491)	19,744
Norwegian Krone	4.00%	6M NOK NIBOR BBG	(95)	2,752
Swedish Krona	1.75%	3M SEK STIBOR SIDE	(179)	10,952
South African Rand	8.55%	3M ZAE JIBAR SAFEX	(5)	178
Colombian Peso	2.11% to 5.92%	COP DTF90 RATE	10	785
Colombian Peso	5.19% to 5.35%	1D COP COOVIBR	7	926
			<b>\$ (26,533)</b>	<b>\$ 937,072</b>
<b>Interest Rate Swap- Pay Variable Receive Fixed:</b>				
U.S Dollar	3M USD LIBOR	1.00% to 4.50%	\$ (1,682)	\$ 170,480
Brazilian Real	1D BRL CDI	8.86% to 10.37%	(823)	28,683
South African Rand	3M ZAE JIBAR SAFEX	6.15% to 8.52%	(457)	13,343
Australian Dollar	6M AUD BBR BBSW	3.5% to 4.50%	7,576	644,574
Euro Currency Unit	6M EURIBOR REUTERS	1.50%	459	11,720
Japanese Yen	6M JPY LIBOR BBA	1.25% to 1.88%	274	37,475
Canadian Dollar	3M CAD BA CDOR	2.75% to 4.00%	143	15,096
Pound Sterling	6M GBP LIBOR BBA	2.25% to 3.75%	(26)	43,362
New Zealand Dollar	3M NZD BBR FRA	4.50% to 5.00%	(86)	15,804
Swedish Krona	3M SEK STIBOR SIDE	2.50%	71	2,019
Chilean Peso	6M CLP CLICP BLOOMBERG	4.61%	(6)	281
South Korean Won	3M KRW KWDC COD	2.85% to 2.89%	17	3,041
Mexican Peso	1M MXN TIIE BANXICO	6.81% to 6.83%	18	10,620
Brazilian Real	ZCS BZDIOVRA	11.68%	(168)	18,057
			<b>\$ 5,310</b>	<b>\$ 1,014,555</b>

## Notes to the Financial Statements, continued June 30, 2014

### (E) Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 3.

At June 30, 2014, INPRS' investments included the following currency forwards balances:

*(dollars in thousands)*

Foreign Currency Contract Receivable	\$ 4,027,199
Foreign Currency Contract Payable	(4,046,822)

The aggregate realized gain/loss recognized for the year ended June 30, 2014 due to foreign currency transactions was a \$71,413 thousand realized loss.

### Note 5. Long Term Commitments for Alternative Investments

INPRS enters into long-term commitments for funding other investments in private equity and private real estate. These amounts include Euro currency, Norwegian Krone and British Pound Sterling denominated commitments to limited liability partnerships. The remaining amount of unfunded commitments, converted to U.S. dollars using the closing exchange rate, as of June 30, 2014, is as follows:

*(dollars in thousands)*

Currency	Total Unfunded Commitments
U.S. Dollar	\$ 2,010,868
Euro Currency Unit	156,072
Norwegian Krone	6,108
British Pound Sterling	1,696
<b>Total Commitments</b>	<b>\$ 2,174,744</b>

### Note 6. Risk Management

INPRS is exposed to various risks that could lead to loss and disruption to its operations, including damage to property owned by INPRS; personal injury or property damage liabilities; errors, omissions and theft by employees; certain employee death benefits, employee health benefits and unemployment and worker's compensation costs for INPRS employees; and breach of fiduciary responsibility.

For risks related to physical loss and liability, employee benefits and fiduciary responsibility, INPRS purchases commercial insurance for property, general liability, employee crime, employee health and unemployment, and fiduciary responsibility. INPRS records expenses for losses, if any, as the liabilities are incurred or replacement items are purchased.

## Note 7. Contingent Liabilities

INPRS participates in lawsuits that, in management's opinion, will not have a material effect on the financial statements.

## Note 8. Net Pension Liability and Actuarial Information – Defined Benefit Plans

The components of the net pension liability of each defined benefit retirement plan as of June 30, 2014:

(dollars in thousands)

<b>Pre-Funded Defined Benefit Pension Trust Funds</b>	<b>Total Pension Liability (a)</b>	<b>Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Surplus) (a) - (b)</b>	<b>Fiduciary Net Position as a Percent of Total Pension Liability (b) / (a)</b>
PERF	\$ 16,732,223	\$ 14,104,288	\$ 2,627,935	84.3%
TRF 1996 Account	5,236,993	5,189,442	47,551	99.1
1977 Fund	4,706,998	4,757,978	(50,980)	101.1
JRS	464,855	432,730	32,125	93.1
EG&C Plan	123,601	110,657	12,944	89.5
PARF	65,336	54,507	10,829	83.4
LEDB Plan	4,166	3,489	677	83.7
<b><u>Pay-As-You-Go Defined Benefit Pension Trust Fund</u></b>				
TRF Pre-1996 Account	\$ 16,355,216	\$ 5,501,867	\$ 10,853,349	33.6%

The total pension liability is determined by our actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

The accompanying Schedule of Contributions in the Required Supplementary Information presents trend information about the amounts contributed to the plan by employers and a nonemployer contributing entity in comparison to the Actuarially Determined Contribution (ADC). The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and the amortization of any unfunded actuarial accrued liability (or funding excess) over 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for

## Notes to the Financial Statements, continued June 30, 2014

financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

Description	PERF	TRF Pre-1996 Account	TRF 1996 Account	1977 Fund	JRS	EG&C Plan	PARF	LEDB Plan
Valuation Date:	June 30, 2014							
Assets	June 30, 2014							
Liabilities	June 30, 2013 – Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2013 to June 30, 2014.							
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)							
Actuarial Assumptions:								
Experience Study Date	Period of 5 years ended June 30, 2010	Period of 4 years ended June 30, 2011		Period of 5 years ended June 30, 2010				
Investment Rate of Return	6.75%, net of investment expense, including inflation							
Cost of Living Increases (COLA) or "Ad Hoc" COLA (see Note 1.)	1.0%	1.0%	1.0%	2.25%	4.0%	1.0%	N/A	1.0%
Future Salary Increases, including Inflation	3.25% – 4.5%	3.0% – 12.5%		3.25%	4.0%	3.25%	4.0%	3.0%
Inflation	3.0%							

The long-term return expectation for the INPRS defined benefit retirement plans has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

	Geometric Basis	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public Equity	22.5%	6.0%
Private Equity	10.0%	7.7%
Fixed Income – Ex Inflation-Linked	22.0%	2.1%
Fixed Income – Inflation-Linked	10.0%	0.5%
Commodities	8.0%	2.5%
Real Estate	7.5%	3.9%
Absolute Return	10.0%	1.8%
Risk Parity	10.0%	4.3%



## Notes to the Financial Statements, continued June 30, 2014

Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the Board, and contributions required by the State of Indiana (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

*(dollars in thousands)*

<b>Pre-Funded Defined Benefit Pension Trust Funds</b>	<b>1% Decrease (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1% Increase (7.75%)</b>
PERF	\$ 4,218,734	\$ 2,627,935	\$ 1,280,117
TRF 1996 Account	782,000	47,551	(561,000)
1977 Fund	691,739	(50,980)	(679,715)
JRS	85,443	32,125	(14,742)
EG&C Plan	28,722	12,944	(749)
PARF	18,219	10,829	4,341
LEDB Plan	964	677	414
<b>Pay-As-You-Go Defined Benefit Pension Trust Fund</b>			
TRF Pre-1996 Account	\$ 12,327,000	\$ 10,853,349	\$ 9,579,000

## Note 9. Subsequent Events

### Financial Statement Events

Events or transactions that were known prior to the date the financial statements were issued, that provided additional evidence about conditions that existed at June 30, 2014, were not material to the financial statements and were not recognized in the financial statements for the year ended June 30, 2014.

Events or transactions that were known prior to the date the financial statements were issued, that provided additional evidence about conditions that did not exist at June 30, 2014, were not material to the financial statements and were not disclosed in the financial statements for the year ended June 30, 2014.

## Notes to the Financial Statements, continued June 30, 2014

### Legislative Changes

Below is a summary of significant legislative changes that are effective July 1, 2014. These changes have been reflected in the actuarial valuations as of June 30, 2014.

#### Public Employees' Retirement Fund

- PERF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

#### Teachers' Retirement Fund – TRF Pre-1996 Account

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

#### Teachers' Retirement Fund – TRF 1996 Account

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

#### 1977 Police Officers' and Firefighters' Pension and Disability Fund

- A 1.4 percent COLA was approved for eligible participants effective July 1, 2014, in accordance with IC 36-8-8-15.

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

- EG&C Plan members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

#### PERF and TRF Annuities

- Provide that INPRS keeps the annuity program in-house until January 1, 2017.
- Provides that between October 1, 2014 and September 30, 2015, the Board shall provide annuities to retiring and retired PERF and TRF members at a 5.75% interest rate. Between October 1, 2015 and December 31, 2016, the interest rate will be the greater of the market rate or 4.5%. After December 31, 2016, whenever the Board enters into an agreement with a third party provider, the interest rate will be the market rate.

## Note 10. Required Supplementary Information and Other Supplementary Schedules

The historical trend information is designed to provide decision-usefulness of the financial reports, improved value for assessing accountability and greater transparency related to measures of net pension liabilities impacting INPRS. The Schedules of Changes in Net Pension Liability and Net Pension Liability, Schedule of Contributions, and Schedule of Investment Returns are included immediately following the Notes to the Financial Statements. Other Supplementary Schedules (i.e., Schedule of Administrative and Project Expenses; Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Investment Expenses; Schedule of Project Contractual and Professional Services Expenses) are presented for the purpose of additional analysis and are not a required part of the Financial Statements.



## Required Supplementary Information

### Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup> Public Employees' Retirement Fund Fiscal Year Ended June 30

(dollars in thousands)

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	\$ 16,145,681	\$ 15,784,240
Annuity Savings Account (ASA) – Beginning of Year	2,796,103	2,749,449
Excluding ASA - Beginning of Year	13,349,578	13,034,791
Service Cost	258,070	270,974
Interest Cost	895,454	875,616
Experience (Gains) / Losses	(15,161)	(104,471)
Assumption Changes	-	-
Plan Amendments	(42,985)	(167,486)
Benefit Payments <sup>2</sup>	(680,203)	(662,283)
ASA Annuityizations	119,094	107,520
Net Member Reassignment <sup>3</sup>	(3,125)	(5,083)
Other	-	-
Net Change in Total Pension Liability – Excluding ASA	531,144	314,787
Net Change in Total Pension Liability – ASA	55,398	46,654
<b>Net Change in Total Pension Liability</b>	<b>586,542</b>	<b>361,441</b>
Total Pension Liability – Excluding ASA – End of Year	13,880,722	13,349,578
Total Pension Liability – ASA – End of Year	2,851,501	2,796,103
<b>Total Pension Liability – End of Year</b>	<b>\$ 16,732,223</b>	<b>\$ 16,145,681</b>
<b>Fiduciary Net Position</b>		
<b>Fiduciary Net Position – Beginning of Year</b>	<b>\$ 12,720,601</b>	<b>\$ 12,243,755</b>
Employer Contributions	526,090	455,658
Member Contributions	164,189	156,408
Net Investment Income	1,553,393	691,332
Benefit Payments <sup>4</sup>	(828,358)	(791,360)
Net Member Reassignment <sup>5</sup>	(4,246)	(6,042)
Administrative and Project Expenses	(27,433)	(29,181)
Other	52	31
<b>Net Change in Fiduciary Net Position</b>	<b>1,383,687</b>	<b>476,846</b>
<b>Fiduciary Net Position – End of Year</b>	<b>\$ 14,104,288</b>	<b>\$ 12,720,601</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 16,732,223	\$ 16,145,681
Plan Fiduciary Net Position	14,104,288	12,720,601
<b>Net Pension Liability</b>	<b>\$ 2,627,935</b>	<b>\$ 3,425,080</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>84.3%</b>	<b>78.8%</b>
Covered-Employee Payroll (Actual) <sup>6</sup>	\$ 4,896,635	\$ 4,700,000
Net Pension Liability as a Percentage of Covered-Employee Payroll	53.7%	72.9%

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

<sup>3</sup>Includes net interfund transfers, except for interfund transfers of ASA balances.

<sup>4</sup>Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

<sup>5</sup>Includes net interfund transfers.

<sup>6</sup>2013 covered-employee payroll was adjusted to reflect actual contribution rates.

### Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup> Teachers' Retirement Fund Pre-1996 Account Fiscal Year Ended June 30

(dollars in thousands)

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	\$ 16,463,598	\$ 16,522,015
Annuity Savings Account (ASA) – Beginning of Year	1,814,049	1,974,076
Excluding ASA - Beginning of Year	14,649,549	14,547,939
Service Cost	68,860	81,343
Interest Cost	961,628	957,228
Experience (Gains) / Losses	(70,517)	(40,719)
Assumption Changes	-	-
Plan Amendments	(25,524)	-
Benefit Payments <sup>2</sup>	(1,034,563)	(988,335)
ASA Annuitizations	93,982	86,941
Net Member Reassignment <sup>3</sup>	(3,802)	-
Other	263	5,152
Net Change in Total Pension Liability – Excluding ASA	(9,673)	101,610
Net Change in Total Pension Liability – ASA	(98,709)	(160,027)
<b>Net Change in Total Pension Liability</b>	<b>(108,382)</b>	<b>(58,417)</b>
Total Pension Liability – Excluding ASA – End of Year	14,639,876	14,649,549
Total Pension Liability – ASA – End of Year	1,715,340	1,814,049
<b>Total Pension Liability – End of Year</b>	<b>\$ 16,355,216</b>	<b>\$ 16,463,598</b>
<b>Fiduciary Net Position</b>		
<b>Fiduciary Net Position – Beginning of Year</b>	<b>\$ 5,215,202</b>	<b>\$ 5,058,910</b>
Employer Contributions	6,325	9,484
Non-Employer Contributing Entity Contributions	825,617	1,003,596
Member Contributions	47,028	45,421
Net Investment Income	647,581	315,598
Benefit Payments <sup>4</sup>	(1,229,301)	(1,212,945)
Net Member Reassignment <sup>5</sup>	(3,594)	3,059
Administrative and Project Expenses	(7,010)	(7,926)
Other	19	5
<b>Net Change in Fiduciary Net Position</b>	<b>286,665</b>	<b>156,292</b>
<b>Fiduciary Net Position – End of Year</b>	<b>\$ 5,501,867</b>	<b>\$ 5,215,202</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 16,355,216	\$ 16,463,598
Plan Fiduciary Net Position	5,501,867	5,215,202
<b>Net Pension Liability</b>	<b>\$ 10,853,349</b>	<b>\$ 11,248,396</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>33.6%</b>	<b>31.7%</b>
Covered-Employee Payroll (Actual) <sup>6</sup>	\$ 1,262,828	\$ 1,383,428
Net Pension Liability as a Percentage of Covered-Employee Payroll	859.4%	813.1%

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

<sup>3</sup>Includes net interfund transfers, except for interfund transfers of ASA balances.

<sup>4</sup>Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

<sup>5</sup>Includes net interfund transfers.

<sup>6</sup>2013 represents anticipated covered-employee payroll.

### Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup> Teachers' Retirement Fund 1996 Account Fiscal Year Ended June 30

(dollars in thousands)

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	\$ 4,748,149	\$ 4,338,309
Annuity Savings Account (ASA) – Beginning of Year	990,705	899,339
Excluding ASA – Beginning of Year	3,757,444	3,438,970
Service Cost	155,314	147,337
Interest Cost	262,263	240,282
Experience (Gains) / Losses	504	(15,995)
Assumption Changes	-	-
Plan Amendments	(4,504)	-
Benefit Payments <sup>2</sup>	(77,253)	(68,793)
ASA Annuitizations	15,151	11,621
Net Member Reassignment <sup>3</sup>	6,922	-
Other	423	4,022
Net Change in Total Pension Liability – Excluding ASA	358,820	318,474
Net Change in Total Pension Liability – ASA	130,024	91,366
<b>Net Change in Total Pension Liability</b>	<b>488,844</b>	<b>409,840</b>
Total Pension Liability – Excluding ASA – End of Year	4,116,264	3,757,444
Total Pension Liability – ASA – End of Year	1,120,729	990,705
<b>Total Pension Liability – End of Year</b>	<b>\$ 5,236,993</b>	<b>\$ 4,748,149</b>
<b>Fiduciary Net Position</b>		
<b>Fiduciary Net Position – Beginning of Year</b>	<b>\$ 4,433,677</b>	<b>\$ 4,018,149</b>
Employer Contributions	194,751	180,714
Member Contributions	81,802	77,532
Net Investment Income	586,782	258,111
Benefit Payments <sup>4</sup>	(108,720)	(97,157)
Net Member Reassignment <sup>5</sup>	7,836	2,806
Administrative and Project Expenses	(6,707)	(6,482)
Other	21	4
<b>Net Change in Fiduciary Net Position</b>	<b>755,765</b>	<b>415,528</b>
<b>Fiduciary Net Position – End of Year</b>	<b>\$ 5,189,442</b>	<b>\$ 4,433,677</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 5,236,993	\$ 4,748,149
Plan Fiduciary Net Position	5,189,442	4,433,677
<b>Net Pension Liability</b>	<b>\$ 47,551</b>	<b>\$ 314,472</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>99.1%</b>	<b>93.4%</b>
Covered-Employee Payroll (Actual)	\$ 2,598,115	\$ 2,442,496
Net Pension Liability as a Percentage of Covered-Employee Payroll	1.8%	12.9%

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

<sup>3</sup>Includes net interfund transfers, except for interfund transfers of ASA balances.

<sup>4</sup>Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

<sup>5</sup>Includes net interfund transfers.

**Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup>  
1977 Police Officers' and Firefighters' Pension and Disability Fund  
Fiscal Year Ended June 30**

*(dollars in thousands)*

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	\$ 4,392,947	\$ 4,122,436
Service Cost	133,075	130,912
Interest Cost	301,824	283,733
Experience (Gains) / Losses	(11,754)	(39,592)
Assumption Changes	-	(4,810)
Plan Amendments	-	-
Benefit Payments <sup>2</sup>	(109,094)	(99,803)
Net Member Reassignment <sup>3</sup>	-	71
Other	-	-
<b>Net Change in Total Pension Liability</b>	<b>314,051</b>	<b>270,511</b>
<b>Total Pension Liability – End of Year</b>	<b>\$ 4,706,998</b>	<b>\$ 4,392,947</b>
<b>Plan Fiduciary Net Position</b>		
<b>Plan Fiduciary Net Position – Beginning of Year</b>	\$ 4,116,861	\$ 3,817,013
Employer Contributions	140,119	137,111
Member Contributions	41,791	40,786
Net Investment Income	570,058	223,510
Benefit Payments <sup>2</sup>	(109,094)	(99,803)
Net Member Reassignment <sup>3</sup>	-	71
Administrative and Project Expenses	(1,787)	(1,845)
Other	30	18
<b>Net Change in Plan Fiduciary Net Position</b>	<b>641,117</b>	<b>299,848</b>
<b>Plan Fiduciary Net Position – End of Year</b>	<b>\$ 4,757,978</b>	<b>\$ 4,116,861</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 4,706,998	\$ 4,392,947
Plan Fiduciary Net Position	4,757,978	4,116,861
<b>Plan Net Pension Liability</b>	<b>\$ (50,980)</b>	<b>\$ 276,086</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>101.1%</b>	<b>93.7%</b>
Covered-Employee Payroll (Actual) <sup>4</sup>	\$ 710,581	\$ 695,000
Net Pension Liability as a Percentage of Covered-Employee Payroll	(7.2%)	39.7%

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Includes refunds of employee contributions.

<sup>3</sup>Includes net interfund transfers.

<sup>4</sup>2013 covered-employee payroll was adjusted to reflect actual contribution rates.



**Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup>  
Judges' Retirement Fund  
Fiscal Year Ended June 30**

*(dollars in thousands)*

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	<b>\$ 453,110</b>	<b>\$ 437,854</b>
Service Cost	15,302	16,084
Interest Cost	30,992	30,047
Experience (Gains) / Losses	(16,026)	(13,603)
Assumption Changes	-	186
Plan Amendments	-	-
Benefit Payments <sup>2</sup>	(18,527)	(17,579)
Net Member Reassignment <sup>3</sup>	4	121
Other	-	-
<b>Net Change in Total Pension Liability</b>	<b>11,745</b>	<b>15,256</b>
<b>Total Pension Liability – End of Year</b>	<b>\$ 464,855</b>	<b>\$ 453,110</b>
<b>Plan Fiduciary Net Position</b>		
<b>Plan Fiduciary Net Position – Beginning of Year</b>	<b>\$ 375,752</b>	<b>\$ 262,326</b>
Employer Contributions	20,895	111,419
Member Contributions	2,856	2,631
Net Investment Income	51,890	16,955
Benefit Payments <sup>2</sup>	(18,527)	(17,579)
Net Member Reassignment <sup>3</sup>	4	121
Administrative and Project Expenses	(146)	(126)
Other	6	5
<b>Net Change in Plan Fiduciary Net Position</b>	<b>56,978</b>	<b>113,426</b>
<b>Plan Fiduciary Net Position – End of Year</b>	<b>\$ 432,730</b>	<b>\$ 375,752</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 464,855	\$ 453,110
Plan Fiduciary Net Position	432,730	375,752
<b>Plan Net Pension Liability</b>	<b>\$ 32,125</b>	<b>\$ 77,358</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>93.1%</b>	<b>82.9%</b>
Covered-Employee Payroll (Actual) <sup>4</sup>	\$ 46,041	\$ 47,595
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	<b>69.8%</b>	<b>162.5%</b>

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Includes refunds of employee contributions.

<sup>3</sup>Includes net interfund transfers.

<sup>4</sup>2013 represents anticipated covered-employee payroll.

**Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup>  
State Excise Police, Gaming Agent, Gaming Control Officer,  
and Conservation Enforcement Officers' Retirement Plan  
Fiscal Year Ended June 30**

*(dollars in thousands)*

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	\$ 118,097	\$ 113,282
Service Cost	3,841	3,811
Interest Cost	8,031	7,740
Experience (Gains) / Losses	(430)	(1,845)
Assumption Changes	-	(40)
Plan Amendments	-	-
Benefit Payments <sup>2</sup>	(5,938)	(4,836)
Net Member Reassignment <sup>3</sup>	-	(15)
Other	-	-
<b>Net Change in Total Pension Liability</b>	<b>5,504</b>	<b>4,815</b>
<b>Total Pension Liability – End of Year</b>	<b>\$ 123,601</b>	<b>\$ 118,097</b>
<b>Plan Fiduciary Net Position</b>		
<b>Plan Fiduciary Net Position – Beginning of Year</b>	\$ 97,019	\$ 76,543
Employer Contributions	5,359	19,740
Member Contributions	1,019	1,006
Net Investment Income	13,339	4,702
Benefit Payments <sup>2</sup>	(5,938)	(4,836)
Net Member Reassignment <sup>3</sup>	-	(15)
Administrative and Project Expenses	(141)	(121)
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>13,638</b>	<b>20,476</b>
<b>Plan Fiduciary Net Position – End of Year</b>	<b>\$ 110,657</b>	<b>\$ 97,019</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 123,601	\$ 118,097
Plan Fiduciary Net Position	110,657	97,019
<b>Plan Net Pension Liability</b>	<b>\$ 12,944</b>	<b>\$ 21,078</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>89.5%</b>	<b>82.2%</b>
Covered-Employee Payroll (Actual) <sup>4</sup>	\$ 25,825	\$ 24,675
Net Pension Liability as a Percentage of Covered-Employee Payroll	50.1%	85.4%

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Includes refunds of employee contributions.

<sup>3</sup>Includes net interfund transfers.

<sup>4</sup>2013 covered-employee payroll was adjusted to reflect actual contribution rates.

**Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup>  
Prosecuting Attorneys' Retirement Fund  
Fiscal Year Ended June 30**

*(dollars in thousands)*

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	\$ 61,940	\$ 56,080
Service Cost	1,587	1,568
Interest Cost	4,207	3,816
Experience (Gains) / Losses	-	1,474
Assumption Changes	-	(109)
Plan Amendments	-	1,346
Benefit Payments <sup>2</sup>	(2,398)	(2,235)
Net Member Reassignment <sup>3</sup>	-	-
Other	-	-
<b>Net Change in Total Pension Liability</b>	<b>3,396</b>	<b>5,860</b>
<b>Total Pension Liability – End of Year</b>	<b>\$ 65,336</b>	<b>\$ 61,940</b>
<b>Plan Fiduciary Net Position</b>		
<b>Plan Fiduciary Net Position – Beginning of Year</b>	\$ 47,920	\$ 27,689
Employer Contributions	1,174	19,443
Member Contributions	1,334	1,271
Net Investment Income	6,581	1,897
Benefit Payments <sup>2</sup>	(2,398)	(2,235)
Net Member Reassignment <sup>3</sup>	-	-
Administrative and Project Expenses	(108)	(145)
Other	4	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>6,587</b>	<b>20,231</b>
<b>Plan Fiduciary Net Position – End of Year</b>	<b>\$ 54,507</b>	<b>\$ 47,920</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 65,336	\$ 61,940
Plan Fiduciary Net Position	54,507	47,920
<b>Plan Net Pension Liability</b>	<b>\$ 10,829</b>	<b>\$ 14,020</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>83.4%</b>	<b>77.4%</b>
Covered-Employee Payroll (Actual) <sup>4</sup>	\$ 20,608	\$ 18,805
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	<b>52.5%</b>	<b>74.6%</b>

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Includes refunds of employee contributions.

<sup>3</sup>Includes net interfund transfers.

<sup>4</sup>2013 represents anticipated covered-employee payroll.

### Schedules of Changes in Net Pension Liability and Net Pension Liability<sup>1</sup> Legislators' Defined Benefit Plan Fiscal Year Ended June 30

(dollars in thousands)

	2014	2013
<b>Total Pension Liability</b>		
<b>Total Pension Liability – Beginning of Year</b>	\$ 4,285	\$ 4,497
Service Cost	3	2
Interest Cost	277	291
Experience (Gains) / Losses	(36)	(140)
Assumption Changes	-	-
Plan Amendments	-	-
Benefit Payments <sup>2</sup>	(363)	(365)
Net Member Reassignment <sup>3</sup>	-	-
Other	-	-
<b>Net Change in Total Pension Liability</b>	<b>(119)</b>	<b>(212)</b>
<b>Total Pension Liability – End of Year</b>	<b>\$ 4,166</b>	<b>\$ 4,285</b>
<b>Plan Fiduciary Net Position</b>		
<b>Plan Fiduciary Net Position – Beginning of Year</b>	\$ 3,337	\$ 3,385
Employer Contributions	138	150
Member Contributions	-	-
Net Investment Income	439	201
Benefit Payments <sup>2</sup>	(363)	(365)
Net Member Reassignment <sup>3</sup>	-	-
Administrative and Project Expenses	(62)	(34)
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>152</b>	<b>(48)</b>
<b>Plan Fiduciary Net Position – End of Year</b>	<b>\$ 3,489</b>	<b>\$ 3,337</b>
<b>Net Pension Liability</b>		
Total Pension Liability	\$ 4,166	\$ 4,285
Plan Fiduciary Net Position	3,489	3,337
<b>Plan Net Pension Liability</b>	<b>\$ 677</b>	<b>\$ 948</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>83.7%</b>	<b>77.9%</b>
Covered-Employee Payroll (Actual) <sup>4</sup>	N/A	N/A
Net Pension Liability as a Percentage of Covered-Employee Payroll <sup>4</sup>	N/A	N/A

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Includes refunds of employee contributions.

<sup>3</sup>Includes net interfund transfers.

<sup>4</sup>Is a closed plan with no payroll.

## Required Supplementary Information, continued

### Schedule of Contributions Fiscal Year Ended June 30

(dollars in thousands)

Fiscal Year End	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC <sup>1</sup>	Contribution Deficiency (Excess)	Contributions as a Percentage of ADC	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
<b>PUBLIC EMPLOYEES' RETIREMENT FUND</b>						
6/30/2005 <sup>2</sup>	\$ 222,357	\$ 206,323	\$ 16,034	92.8%	\$ 4,700,000	4.4%
6/30/2006 <sup>2</sup>	230,966	230,357	609	99.7%	4,600,000	5.0%
6/30/2007 <sup>2</sup>	259,768	260,150	(382)	100.1%	4,325,000	6.0%
6/30/2008 <sup>2</sup>	303,700	303,877	(177)	100.1%	4,550,000	6.7%
6/30/2009 <sup>2</sup>	326,170	323,151	3,019	99.1%	4,850,000	6.7%
6/30/2010 <sup>2</sup>	329,731	331,090	(1,359)	100.4%	4,800,000	6.9%
6/30/2011 <sup>2</sup>	351,000	342,779	8,221	97.7%	4,500,000	7.6%
6/30/2012 <sup>2</sup>	449,388	397,843	51,545	88.5%	4,550,000	8.7%
6/30/2013 <sup>2</sup>	464,047	455,658	8,389	98.2%	4,700,000	9.7%
6/30/2014 <sup>2,3</sup>	528,562	519,576	8,986	98.3%	4,896,635	10.6%
<b>TEACHERS' RETIREMENT FUND PRE-1996 ACCOUNT (TRF PRE-1996)</b>						
6/30/2005 <sup>4</sup>	\$ 516,267	\$ 394,387	\$ 121,880	76.4%	\$ 2,305,725	17.1%
6/30/2006 <sup>4</sup>	556,460	601,259	(44,799)	108.1%	2,237,380	26.9%
6/30/2007 <sup>4</sup>	602,904	636,039	(33,135)	105.5%	2,376,390	26.8%
6/30/2008 <sup>4</sup>	678,050	675,682	2,368	99.7%	2,295,816	29.4%
6/30/2009 <sup>4</sup>	700,307	706,366	(6,059)	100.9%	2,030,484	34.8%
6/30/2010 <sup>4</sup>	850,493	731,149	119,344	86.0%	1,865,102	39.2%
6/30/2011 <sup>4</sup>	894,507	748,978	145,529	83.7%	1,762,750	42.5%
6/30/2012 <sup>4</sup>	866,207	764,423	101,784	88.2%	1,637,066	46.7%
6/30/2013 <sup>4,5</sup>	873,751	1,013,080	(139,329)	115.9%	1,383,428	73.2%
6/30/2014 <sup>4</sup>	879,072	831,942	47,130	94.6%	1,262,828	65.9%
<b>TEACHERS' RETIREMENT FUND 1996 ACCOUNT</b>						
6/30/2005 <sup>2</sup>	\$ 109,843	\$ 90,392	\$ 19,451	82.3%	\$ 1,325,000	6.8%
6/30/2006 <sup>2</sup>	119,558	100,081	19,477	83.7%	1,425,000	7.0%
6/30/2007 <sup>2</sup>	150,415	117,001	33,414	77.8%	1,675,000	7.0%
6/30/2008 <sup>2</sup>	130,305	132,446	(2,141)	101.6%	1,825,000	7.3%
6/30/2009 <sup>2</sup>	125,330	147,425	(22,095)	117.6%	2,075,000	7.1%
6/30/2010 <sup>2</sup>	99,000	154,491	(55,491)	156.1%	2,200,000	7.0%
6/30/2011 <sup>2</sup>	135,057	166,633	(31,576)	123.4%	2,225,000	7.5%
6/30/2012 <sup>2</sup>	154,800	181,067	(26,267)	117.0%	2,400,000	7.5%
6/30/2013 <sup>2</sup>	167,311	180,714	(13,403)	108.0%	2,442,496	7.4%
6/30/2014 <sup>2</sup>	177,711	194,751	(17,040)	109.6%	2,598,115	7.5%
<b>1977 POLICE OFFICERS' AND FIREFIGHTERS' PENSION AND DISABILITY FUND</b>						
12/31/2005 <sup>2</sup>	\$ 102,243	\$ 108,766	\$ (6,523)	106.4%	\$ 519,000	21.0%
12/31/2006 <sup>2</sup>	134,354	143,272	(8,918)	106.6%	682,000	21.0%
12/31/2007 <sup>2</sup>	114,075	122,712	(8,637)	107.6%	585,000	21.0%
12/31/2008 <sup>2</sup>	123,825	133,196	(9,371)	107.6%	635,000	21.0%
6/30/2009 <sup>2,6</sup>	64,285	64,285	-	100.0%	330,000	19.5%
6/30/2010 <sup>2</sup>	94,135	130,775	(36,640)	138.9%	670,000	19.5%
6/30/2011 <sup>2</sup>	117,820	133,726	(15,906)	113.5%	687,000	19.5%
6/30/2012 <sup>2</sup>	132,549	135,605	(3,056)	102.3%	690,000	19.7%
6/30/2013 <sup>2</sup>	112,590	137,111	(24,521)	121.8%	695,000	19.7%
6/30/2014 <sup>2</sup>	103,425	140,119	(36,694)	135.5%	710,581	19.7%

<sup>1</sup>Contributions are from employers except for the Teachers' Retirement Fund TRF Pre-1996 Account, which are predominately from a nonemployer contributing entity

<sup>2</sup>Actuarially determined contribution and covered-employee payroll were adjusted to reflect actual employee payroll

<sup>3</sup>Contributions exclude specific financed liabilities of \$6,514 thousand

<sup>4</sup>Covered-employee payroll represents anticipated covered-employee payroll except for 6/30/2014, which represents actual employee payroll

<sup>5</sup>In FY2013, the State of Indiana appropriated additional monies to: TRF Pre-1996 - \$206,796 thousand, JRS - \$90,187 thousand, EG&C Plan - \$14,619 thousand, and PARF - \$17,363 thousand

<sup>6</sup>Represents only a half year of activity

### Schedule of Contributions Fiscal Year Ended June 30

(dollars in thousands)

Fiscal Year End	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC <sup>1</sup>	Contribution Deficiency (Excess)	Contributions as a Percentage of ADC	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
<b>JUDGES' RETIREMENT SYSTEM (JRS)</b>						
6/30/2005 <sup>4</sup>	\$ 10,064	\$ 13,540	\$ (3,476)	134.5%	\$ 32,231	42.0%
6/30/2006 <sup>4</sup>	14,932	13,537	1,395	90.7%	34,065	39.7%
6/30/2007 <sup>4</sup>	12,249	14,662	(2,413)	119.7%	29,712	49.3%
6/30/2008 <sup>4</sup>	10,028	15,920	(5,892)	158.8%	33,729	47.2%
6/30/2009 <sup>4</sup>	16,131	20,861	(4,730)	129.3%	36,196	57.6%
6/30/2010 <sup>4</sup>	16,077	18,631	(2,554)	115.9%	36,722	50.7%
6/30/2011 <sup>4</sup>	18,910	19,200	(290)	101.5%	45,764	42.0%
6/30/2012 <sup>4</sup>	19,664	18,896	768	96.1%	45,138	41.9%
6/30/2013 <sup>4,5</sup>	25,458	111,419	(85,961)	437.7%	47,595	234.1%
6/30/2014 <sup>4</sup>	27,648	20,895	6,753	75.6%	46,041	45.4%
<b>STATE EXCISE POLICE, GAMING AGENT, GAMING CONTROL OFFICER, AND CONSERVATION ENFORCEMENT OFFICERS' RETIREMENT PLAN (EG&amp;C PLAN)</b>						
6/30/2005 <sup>2</sup>	\$ 2,471	\$ 2,164	\$ 307	87.6%	\$ 13,500	16.0%
6/30/2006 <sup>2</sup>	3,198	2,498	700	78.1%	15,600	16.0%
6/30/2007 <sup>2</sup>	4,410	3,359	1,051	76.2%	21,000	16.0%
6/30/2008 <sup>2</sup>	4,918	4,854	64	98.7%	23,700	20.5%
6/30/2009 <sup>2</sup>	5,294	5,294	-	100.0%	25,500	20.8%
6/30/2010 <sup>2</sup>	4,200	5,256	(1,056)	125.1%	25,300	20.8%
6/30/2011 <sup>2</sup>	4,112	5,197	(1,085)	126.4%	25,000	20.8%
6/30/2012 <sup>2</sup>	4,556	5,054	(498)	110.9%	24,300	20.8%
6/30/2013 <sup>2,5</sup>	4,794	19,740	(14,946)	411.8%	24,675	80.0%
6/30/2014 <sup>2</sup>	5,341	5,359	(18)	100.3%	25,825	20.8%
<b>PROSECUTING ATTORNEYS' RETIREMENT FUND (PARF)</b>						
6/30/2005 <sup>4</sup>	\$ 889	\$ 961	\$ (72)	108.1%	\$ 16,659	5.8%
6/30/2006 <sup>4</sup>	952	170	782	17.9%	19,225	0.9%
6/30/2007 <sup>4</sup>	1,044	190	854	18.2%	18,092	1.1%
6/30/2008 <sup>4</sup>	1,040	170	870	16.3%	20,617	0.8%
6/30/2009 <sup>4</sup>	1,340	170	1,170	12.7%	20,782	0.8%
6/30/2010 <sup>4</sup>	1,663	170	1,493	10.2%	21,016	0.8%
6/30/2011 <sup>4</sup>	1,960	170	1,790	8.7%	18,082	0.9%
6/30/2012 <sup>4</sup>	2,037	1,839	198	90.3%	21,705	8.5%
6/30/2013 <sup>4,5</sup>	2,542	19,443	(16,901)	764.9%	18,805	103.4%
6/30/2014 <sup>4</sup>	2,345	1,174	1,171	50.1%	20,608	5.7%
<b>LEGISLATORS' RETIREMENT SYSTEM – DEFINED BENEFIT PLAN<sup>7</sup></b>						
6/30/05	\$ 89	\$ 206	\$ (117)	231.5%	N/A	N/A
6/30/06	91	100	(9)	109.9%	N/A	N/A
6/30/07	120	100	20	83.3%	N/A	N/A
6/30/08	66	100	(34)	151.5%	N/A	N/A
6/30/09	45	100	(55)	222.2%	N/A	N/A
6/30/10	63	-	63	0.0%	N/A	N/A
6/30/11	113	-	113	0.0%	N/A	N/A
6/30/12	113	112	1	99.1%	N/A	N/A
6/30/13	140	150	(10)	107.1%	N/A	N/A
6/30/14	138	138	-	100.0%	N/A	N/A

<sup>1</sup>Contributions are from employers except for the Teachers' Retirement Fund TRF Pre-1996 Account, which are predominately from a nonemployer contributing entity

<sup>2</sup>Actuarially determined contribution and covered-employee payroll were adjusted to reflect actual employee payroll

<sup>4</sup>Covered-employee payroll represents anticipated covered-employee payroll except for 6/30/2014, which represents actual employee payroll

<sup>5</sup>In FY2013, the State of Indiana appropriated additional monies to: TRF Pre-1996 – \$206,796 thousand, JRS – \$90,187 thousand, EG&C Plan – \$14,619 thousand, and PARF – \$17,363 thousand

<sup>7</sup>Is a closed plan with no payroll

## Schedule of Investment Returns<sup>1</sup> Annual Money-Weighted Rate of Return, Net of Investment Expense

(dollars in thousands)	Fiscal Year Ended June 30	
	2014	2013
<b>Pension Trust Funds<sup>2</sup></b>		
Public Employees' Retirement Fund	12.33%	5.79%
Teachers' Retirement Fund Pre-1996 Account <sup>3</sup>	12.71%	5.11%
Teachers' Retirement Fund 1996 Account <sup>3</sup>	12.71%	5.11%
1977 Police Officers' and Firefighters' Pension and Disability Fund	13.70%	5.85%
Judges' Retirement System	13.69%	5.24%
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	13.69%	5.48%
Prosecuting Attorneys' Retirement Fund	13.70%	4.84%
Legislators' Defined Benefit Plan	13.65%	6.16%
<b>Total INPRS<sup>4</sup></b>	<b>12.69%</b>	<b>5.57%</b>

<sup>1</sup>The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

<sup>2</sup>Excludes the Legislators' Defined Contribution Plan.

<sup>3</sup>The Teachers' Retirement Fund Accounts are combined for investment purposes.

<sup>4</sup>Rate of return also includes Legislators' Defined Contribution Plan, State Employees' Death Benefit Fund, Public Safety Officers' Special Death Benefit Fund and Pension Relief Fund.

### Schedule of Notes to Required Supplementary Information Fiscal Year Ended June 30

#### Schedules of Changes In Net Pension Liability and Net Pension Liability

##### Plan Amendments

In 2014, HB 1075 impacted the Public Employees' Retirement Fund, the Teachers' Retirement Fund Pre-1996 Account, and the Teachers' Retirement Fund 1996 Account by reducing the Annuity Savings Account (ASA) interest crediting rate on annuities from 7.5% to 5.75% effective October 1, 2014. Effective October 1, 2015 the rate becomes the greater of 4.5% or market rate. On January 1, 2017, the ASA annuities are allowed to be outsourced to a third party provider.

In 2013, HB 1057 changed the benefits in the Prosecuting Attorneys' Retirement Fund to be comparable to the Judges' Retirement Fund.

##### Assumption Changes

In 2013, the interest crediting rate on member contributions was changed to a consistent interest rate of 3.5% for the 1977 Police Officers' and Firefighters' Pension and Disability Fund (formerly 5.5%), the Judges' Retirement Fund (formerly 0.0%), the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund (formerly 6.75%), and the Prosecuting Attorneys' Retirement Fund (formerly 5.5%).

#### Schedule of Contributions

##### Methods and Assumptions Used in Calculating Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30 and the newly calculated contribution rates will become effective either July 1, 2015 or January 1, 2016. The following actuarial methods and assumptions were used to determine the contribution rates:

Description	PERF	TRF Pre-1996 Account	TRF 1996 Account	1977 Fund	JRS	EG&C Plan	PARF	LEDB Plan
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)							Traditional Unit Credit
Actuarial Amortization Method for Unfunded Liability	Level Dollar							
Actuarial Amortization Period for Unfunded Liability	30 Years, Closed							
Asset Valuation Method	4-year smoothing of gains and losses on the Market Value of assets subject to a 20% corridor							
Investment Rate of Return	6.75%, net of investment and administrative expenses, including inflation							
Future Salary Increases, including Inflation	3.25% - 4.5%	3.0% - 12.5%		3.25%	4.0%	3.25%	4.0%	3.0%
Inflation	3.0%							

##### Trends

Contributions in fiscal year 2014 are lower than in fiscal year 2013 for certain pension trust funds due to 2012 HB 1376, which appropriated additional monies for the following pension trust funds: Teachers' Retirement Fund Pre-1996 Account – \$206,796 thousand, Judges' Retirement Fund – \$90,187 thousand, State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan – \$14,619 thousand, and the Prosecuting Attorneys' Retirement Fund – \$17,363 thousand.



### Schedule of Pension Relief Changes in Assets and Liabilities

*(dollars in thousands)*

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
<b>Assets</b>				
Cash	\$ 1,054	\$ 57,441	\$ 57,252	\$ 1,243
Short Term Investments	35,587	881,435	901,089	15,933
<b>Total Assets</b>	<b>\$ 36,641</b>	<b>\$ 938,876</b>	<b>\$ 958,341</b>	<b>\$ 17,176</b>
<b>Liabilities</b>				
Accounts Payable	\$ 9	\$ 222,222	\$ 222,227	\$ 4
Due to Other Funds	15	17	27	5
Due to Other Governments	36,617	716,637	736,087	17,167
<b>Total Liabilities</b>	<b>\$ 36,641</b>	<b>\$ 938,876</b>	<b>\$ 958,341</b>	<b>\$ 17,176</b>

## Schedule of Administrative and Project Expenses

(dollars in thousands)

	Fiscal Year Ended June 30	
	2014	2013
<b>Personnel Services:</b>		
Salaries and Wages	\$ 10,083	\$ 9,518
Employee Benefits	4,403	4,061
Temporary Services	4,356	5,950
<b>Total Personnel Services</b>	<b>18,842</b>	<b>19,529</b>
<b>Contractual and Professional Services:</b>		
Benefit Payment Processing Fees	2,698	2,555
Consulting Services	965	817
Actuarial Services	821	759
Legal Services	217	102
<b>Total Contractual and Professional Services</b>	<b>4,701</b>	<b>4,233</b>
<b>Information Technology Services:</b>		
Data Processing	2,537	1,427
Software and Licenses	1,699	1,473
Other Computer Services	700	2
<b>Total Information Technology Services</b>	<b>4,936</b>	<b>2,902</b>
<b>Communications:</b>		
Postage	707	829
Telephone	343	369
Printing	184	281
E-communications	96	120
<b>Total Communications</b>	<b>1,330</b>	<b>1,599</b>
<b>Miscellaneous:</b>		
Depreciation and Amortization	3,195	2,370
Office Rent and Expenses	992	1,007
Memberships and Training	135	148
Travel	87	61
Equipment Rental	72	178
Other Administrative Expenses	296	166
<b>Total Miscellaneous</b>	<b>4,777</b>	<b>3,930</b>
<b>Subtotal Administrative Expenses</b>	<b>\$ 34,586</b>	<b>\$ 32,193</b>
Less Amount Allocated to Pension Relief Fund	(42)	(44)
<b>Total Administrative Expenses</b>	<b>\$ 34,544</b>	<b>\$ 32,149</b>
<b>Subtotal Project Expenses</b>	<b>\$ 8,856</b>	<b>\$ 13,728</b>
Less Amount Allocated to Pension Relief Fund	(1)	(13)
<b>Total Project Expenses</b>	<b>\$ 8,855</b>	<b>\$ 13,715</b>
<b>Total Administrative and Project Expenses</b>	<b>\$ 43,399</b>	<b>\$ 45,864</b>

### Schedule of Administrative Contractual and Professional Services Expenses

*(dollars in thousands)*

Vendor Name	Fiscal Year Ended June 30		Nature of Services
	2014	2013 <sup>1</sup>	
Xerox	\$ 2,777	\$ 2,576	Benefit Payment Services
PricewaterhouseCoopers LLP	684	651	Actuarial Services
Indiana State Board of Accounts	233	193	Audit Services
Callan	140	-	ASA Annuity/Xerox Renewal Consulting
Nyhart, Inc.	137	108	Actuarial Services
Ice Miller LLP	136	67	Legal Services
Orion	112	-	Quality Management
AIRvan Consulting LLC	75	65	Research Services
Gartner, Inc.	61	70	IT Research
Omkar Markand, M.D.	55	58	Medical Consulting
Automatic Data Processing, Inc.	42	33	Payroll Processing Services
Ernst & Young LLP	41	34	Management Consulting
CEM Benchmarking, Inc.	40	40	Benchmarking Services
Loyalty Research Center	34	-	Research Services
Gonzalez Saggio Harlan	30	3	Legal Services
United States Treasury	28	-	Cycle C Filings
ERP Control Specialists, LLC	21	29	Internal Audit Software
Krieg DeVault LLP	13	12	Legal Services
Fleming Stage	12	4	Legal Services
Protiviti Inc.	11	219	Enterprise Risk Management/Vendor Management
Briljant	10	14	Training Services
Flashpoint	-	16	Management Consulting
Segal	-	15	Management Consulting
Other Contractual and Professional Services	9	26	Other Services
<b>Total Administrative Contractual and Professional Services Expenses</b>	<b>\$ 4,701</b>	<b>\$ 4,233</b>	

*Fees paid to investment professionals can be found in the Investment Section.*

<sup>1</sup>*Schedule of Administrative Contractual and Professional Services Expenses as of June 30, 2013, has been restated to provide greater transparency and is reflected as comparable to INPRS' June 30, 2014, reporting classifications.*

## Schedule of Project Expenses

	Fiscal Year Ended June 30	
	2014	2013
<i>(dollars in thousands)</i>		
<b>Personnel Services:</b>		
Temporary Services	\$ 4,393	\$ 4,444
Salaries and Wages	624	371
Employee Benefits	264	128
<b>Total Personnel Services</b>	<b>5,281</b>	<b>4,943</b>
<b>Contractual and Professional Services:</b>		
Consulting Services	3,084	7,244
<b>Total Contractual and Professional Services</b>	<b>3,084</b>	<b>7,244</b>
<b>Information Technology Services:</b>		
Data Processing	484	1,419
Software and Licenses	(1)	172
<b>Total Information Technology Services</b>	<b>483</b>	<b>1,591</b>
<b>Communications and Miscellaneous</b>	<b>8</b>	<b>(50)</b>
<b>Subtotal Project Expenses</b>	<b>\$ 8,856</b>	<b>\$ 13,728</b>
Less Amount Allocated to Pension Relief Fund	(1)	(13)
<b>Total Project Expenses</b>	<b>\$ 8,855</b>	<b>\$ 13,715</b>

## Schedule of Project Contractual and Professional Services Expenses

Vendor Name	Fiscal Year Ended June 30		Nature of Services
	2014	2013	
CherryRoad Technologies Inc.	\$ 1,506	\$ 3,389	Strategic Assessment and IT Consulting
Oracle America, Inc.	500	1,941	Strategic Assessment and IT Consulting
IBM Corporation	401	159	Software Licenses
Briljent	399	1,051	Training Documentation
KPMG LLP	147	121	Strategic Assessment and IT Consulting
Xerox	131	532	Strategic Assessment and IT Consulting
Guidesoft	-	51	Training Documentation
<b>Total Project Contractual and Professional Services Expenses</b>	<b>\$ 3,084</b>	<b>\$ 7,244</b>	

*Fees paid to investment professionals can be found in the Investment Section.*

## Schedule of Investment Expenses<sup>1</sup>

(dollars in thousands)

	Fiscal Year Ended June 30	
	2014	2013
<b>Direct Investment Expenses</b>		
<b><u>Investment Consultants:</u></b>		
Strategic Investment Solutions	\$ 900	\$ 1,000
Aksia	500	500
ORG Portfolio Management LLC	330	322
Capital Cities	85	105
Institutional Shareholder Services	50	7
Other	28	13
CitiGroup	25	-
Xerox	21	69
<b>Total Investment Consultants</b>	<b>1,939</b>	<b>2,016</b>
<b><u>Investment Custodian:</u></b>		
BNY Mellon	515	513
<b>Total Investment Custodian</b>	<b>515</b>	<b>513</b>
<b>Broker Commissions</b>	<b>3,463</b>	<b>3,652</b>
<b>Investment Recordkeeper Fees</b>	<b>5,541</b>	<b>5,705</b>
<b>Investment Staff Expenses</b>	<b>2,305</b>	<b>1,817</b>
<b>Investment Administrative Expenses</b>	<b>888</b>	<b>1,242</b>
<b>Total Direct Investment Expenses</b>	<b>14,651</b>	<b>14,945</b>
<b>Investment Management Fees</b>	<b>172,835</b>	<b>127,093</b>
<b>Subtotal Investment Expenses</b>	<b>\$ 187,486</b>	<b>\$ 142,038</b>
Less Amount Allocated to Pension Relief Fund	(6)	(6)
<b>Total Project Expenses</b>	<b>\$ 187,480</b>	<b>\$ 142,032</b>

<sup>1</sup>Schedule of Investment Expenses as of June 30, 2013, has been restated to provide greater transparency and is reflected as comparable to INPRS' June 30, 2014, reporting classifications.

