

# 2019

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019



*INPRS is a component unit and a pension trust fund of the State of Indiana.*



Prepared through the joint efforts of INPRS's team members.  
Available online at [www.in.gov/inprs](http://www.in.gov/inprs)

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INPRS is a component unit and a pension trust fund of the State of Indiana.

INPRS is a trust and an independent body corporate and politic. The system is not a department or agency of the state, but is an independent instrumentality exercising essential governmental functions (IC 5-10.5-2-3).

## FUNDS MANAGED BY INPRS

## ABBREVIATIONS USED

### Defined Benefit

1. Public Employees' Defined Benefit Account
2. Teachers' Pre-1996 Defined Benefit Account
3. Teachers' 1996 Defined Benefit Account
4. 1977 Police Officers' and Firefighters' Retirement Fund
5. Judges' Retirement System
6. Excise, Gaming and Conservation Officers' Retirement Fund
7. Prosecuting Attorneys' Retirement Fund
8. Legislators' Defined Benefit Fund

### DB Fund

- PERF DB
- TRF Pre-'96 DB
- TRF '96 DB
- '77 Fund
- JRS
- EG&C
- PARF
- LE DB

### Defined Contribution

9. Public Employees' Defined Contribution Account
10. My Choice: Retirement Savings Plan for Public Employees
11. Teachers' Defined Contribution Account
12. Legislators' Defined Contribution Fund

### DC Fund

- PERF DC
- PERF MC DC
- TRF DC
- LE DC

### Other Postemployment Benefit

13. Special Death Benefit Fund

### OPEB Fund

- SDBF

### Custodial

14. Local Public Safety Pension Relief Fund

### Custodial Fund

- LPSPR

### Contact Information

INPRS | One North Capitol, Suite 001 | Indianapolis, IN, 46204  
 Toll-free (844) GO - INPRS | [www.inprs.in.gov](http://www.inprs.in.gov) | [questions@inprs.in.gov](mailto:questions@inprs.in.gov)



# 2019 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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## Introductory Section

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### Vision

Engaged members able to realize their retirement dreams.

### Mission

As fiduciaries, educate stakeholders, collect necessary contributions, and prudently manage member assets to deliver promised defined benefit and defined contribution benefits and services.

**466,000+**

Members

**1,200+**

Participating employers

**\$36.1 Billion**

Total fund market value

**88.1% Funded**

Excluding TRF Pre-'96



# About INPRS

The Indiana Public Retirement System (INPRS) is an independent body corporate and politic of the state of Indiana, which currently consists of 14 funds (eight defined benefit, four defined contribution, one other postemployment benefit, and one custodial). The Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), two largest retirement plans offered by the State of Indiana, trace their existence back to the early and middle parts of the 20th Century. TRF was established in 1921 and PERF in 1945. Pursuant to statute, the Indiana General Assembly integrated the management of the two systems in 2011, creating INPRS.

In accordance with Indiana Code (IC) 5-10.5, INPRS is governed by a nine-member Board of Trustees. The board is composed of:

- One trustee with experience in economics, finance, or investments;
- One trustee with experience in executive management or benefits administration;
- One trustee who is an active or retired member of the '77 Fund;
- Two trustees who are TRF members with at least 10 years of creditable service;
- One 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;
- Treasurer of State, or nominee.

## Indiana Public Pension Timeline (Calendar Year)

<b>1915</b>	Locally funded teachers retirement fund established.
<b>1921</b>	State funded Teachers' Retirement Fund created; a "pay-as-you-go", multiple-employer pension system.
<b>1945</b>	Public Employees' Retirement Fund created; a multiple-employer retirement system with a defined benefit component (DB).
<b>1953</b>	JRS was created with its own board.
<b>1955</b>	Annuity Savings Accounts (ASA's) created to supplement PERF DB and TRF DB plans resulting in the nation's first pension changes to adopt a hybrid design.
<b>1972</b>	EG&C created.
<b>1977</b>	'77 Fund created for local police officers and firefighters hired after April 30, 1977.
<b>1980</b>	LPSPR created to support police and firefighter pension obligations of Indiana's cities and towns for plans under the "Old Funds".
<b>1983</b>	The 1977 and 1985 Judges' Benefits Fund System (now Judges' Retirement System) were created and administered by the PERF board and the 1953 JRS plan was eliminated and members were transferred to the 1977 Judges' Benefits Fund System.
<b>1989</b>	Legislators' Retirement System created. Participants in the DB plan limited to members serving as of April 30, 1989; otherwise, the plan is Defined Contribution only.
<b>1990</b>	PARF created. Members must also be members of PERF.
<b>1995</b>	Closed TRF Pre-'96 to new entrants and created TRF '96. Also created the Pension Stabilization Fund (PSF) to partially fund TRF Pre-'96.
<b>1996</b>	Amendment to the Indiana Constitution approved allowing funds to invest in equities.
<b>2011</b>	Indiana General Assembly created the Board of Trustees of INPRS to administer public employee retirement plans.
<b>2013</b>	ASA Only (now PERF MC DC) plan offered to state employees who joined after March 1, 2013. Default option remains as PERF Hybrid.
<b>2016</b>	PERF MC DC offered to employees of political subdivisions who join after January 2, 2016. Default option remained as PERF Hybrid.
<b>2017</b>	State Employees' Death Benefit Fund, Public Safety Officer's Death Benefit Fund, and the "in the line of duty" death benefit from the Local Public Safety Pension Relief Fund assets merged into SDBF.
<b>2018</b>	ASA's previously reported within the DB Hybrid funds of PERF, TRF Pre-'96 and TRF '96, are segregated and administered as DC plans.
<b>2018</b>	Supplemental Reserve Accounts (SRA's) established for PERF DB, TRF Pre-'96 DB, TRF '96 DB, EG&C, and LE DB to pay postretirement benefit increases after June 30, 2018.



November 22, 2019

Dear Board Members:

On behalf of all management and staff, we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Indiana Public Retirement System (INPRS) for the year ended June 30, 2019. We are responsible for the accuracy of the content and the completeness and fairness of the presentation, including disclosures. A narrative overview and analysis to accompany the basic financial statements is presented as Management's Discussion and Analysis (MD&A); which can be found immediately following the Independent Auditor's Report in the Financial Section. This Letter of Transmittal is designed to complement the MD&A.

INPRS, an independent body corporate and politic of the state of Indiana, currently consists of 14 funds. As fiduciaries, our mission is to educate stakeholders, collect necessary contributions, and prudently manage member assets to deliver promised defined benefit and defined contribution benefits and services.

### Major Accomplishments

We are proud to look back at the many accomplishments and initiatives that helped us deliver benefits and distributions of \$3.1 billion and provide high quality service at low cost to approximately 467,000 members and 1,244 employers. Details about INPRS's members and employers are found in the Statistical Section.

### Funding Status

INPRS's primary objective is to ensure that at the time benefits commence, sufficient funds will be available to provide retirement, disability, and survivor benefits to its members. In addition, INPRS is committed to sustaining contribution rates that remain level from generation to generation.

The aggregate funded status percentage for all of the pre-funded funds is 88.1 percent. The TRF Pre-'96 DB, which was designed to have a zero funded status, has a funded status of 25.7 percent. In addition, contributions in FY 2019 from members, employers, and nonemployer contributing entities were 116.6 percent of the Actuarial Determined Contribution. Historical progress on meeting the funding objective can be found in the Required Supplementary Information in the Financial Section of this report. Details of the actuarial analysis are in the Actuarial Section.

### Investments

We are pleased to report that the consolidated defined benefit assets returned 7.4 percent net of all fees over the past FY, exceeding the target rate of return, and ending with a fair value of \$30.4 billion. The one year, three year and 10 year total return rates also exceeded our defined benefit long term goal of 6.75 percent. To maximize returns without sacrificing liquidity, we navigated through the volatile investment environment by constantly rebalancing the portfolio while remaining within the Board approved allocation bands for each global asset class. In addition, INPRS administered defined contribution assets of \$5.7 billion.

The investment portfolio is diversified by asset class, investment approach, and individual investments within each global asset class to reduce overall portfolio risk and volatility. For more information on INPRS's portfolio performance, investment strategy, and policy, please refer to the Investment Section.

### Voice of the Customer

INPRS continues to utilize its Voice of the Customer (VOC) program to gain insights from members, employers, and other key stakeholders. We integrate VOC, and our customers' input, as a standard process to improve organizational performance and key service levels that are most important to our members. During the fiscal year, customer feedback, from both members and employers, were used extensively in measuring satisfaction and planning.

### Annual Member Statements

As we continue to engage members to help them realize their retirement dreams, a notable achievement this year was launching an Annual Member Statement initiative for PERF and TRF members. This statement includes key demographic data as well as projected benefits for members' defined benefit and defined contribution accounts. This information, mailed annually, will allow members to not only review and verify the accuracy of their data, but also plan for their retirement goals.

## Data Governance and Technology

Continuous improvement remained a primary business focus. As such, a data management and governance initiative was launched this year with the objective of improving data integrity.

We are mindful that to be successful we need to leverage technology and innovation. Our efforts with implementing enhanced technology helped to streamline the retirement application process which has resulted in members receiving their first retirement check faster than before. As we continue to use improved and sophisticated technology, we recognize the importance of proactively managing enterprise risk and are committed to ongoing improvements of our cybersecurity efforts to identify, prevent, and respond to INPRS's stakeholder information.

## Strategic Plan

The INPRS strategic plan provides the foundation from which INPRS moves towards its vision to be a member-focused organization. A copy of the INPRS strategic plan that includes details of other key initiatives can be found on the INPRS website, [www.in.gov/inprs](http://www.in.gov/inprs).

## Legislative Changes

Several legislative changes were signed into law to improve the benefits of members and beneficiaries. Details can be found in Note 7 of the Financial Section.

## Economic Conditions

The economic condition of INPRS is driven by investment results and contributions from members, employers, and nonemployer contributing entities. Our Chief Investment Officer in partnership with Verus Consulting have evaluated the economic conditions of INPRS's investments, the details of which can be found in the Investment Section. Total defined benefit contributions for fiscal year 2019 have exceeded the actuarially determined contribution. A historical look at this activity is outlined in the Schedule of Contributions in the Required Supplementary Information.

## Management's Responsibility for Financial Reporting

INPRS management is responsible for establishing and maintaining a system of adequate internal accounting controls. A system of internal accounting controls ensures the security of member and employer contributions and provides a reasonable, but not absolute, assurance that assets are properly safeguarded, transactions are properly executed, and financial statements are reliable. Our independent external auditors have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. They have full and unrestricted access to the Board to discuss their audit and related findings concerning the integrity of financial reporting and adequacy of internal controls. The Independent Auditor's Report regarding the fair presentation of the financial statements is in the Financial Section.

## Awards and Acknowledgments

For the 7<sup>th</sup> consecutive year, INPRS received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA), the highest recognition in governmental accounting and financial reporting. For the 7<sup>th</sup> consecutive year, INPRS received a Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council.

We express our gratitude to the staff, advisors, and all who have contributed to the preparation of this report. This report is intended to provide complete and reliable information as a basis for making management decisions, for determining compliance with legal provisions, and as a measurement of responsible stewardship of the assets. The INPRS staff also wishes to express our appreciation to Indiana Governor Eric Holcomb, the Indiana General Assembly, members of the Indiana Committee on Pension Management Oversight, and the INPRS Board of Trustees who provided INPRS staff the privilege of serving the needs of our members and employers.

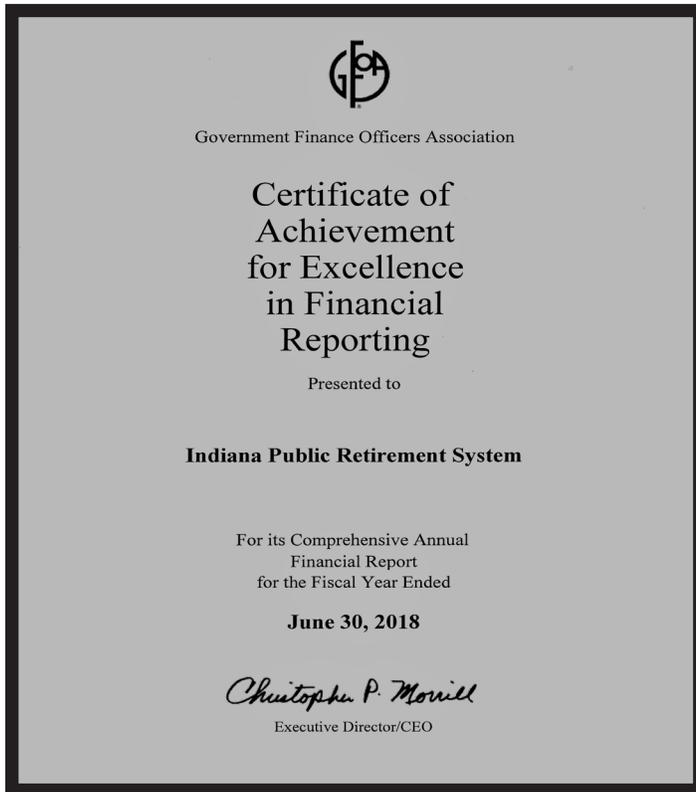
Sincerely,



Steve Russo  
Executive Director

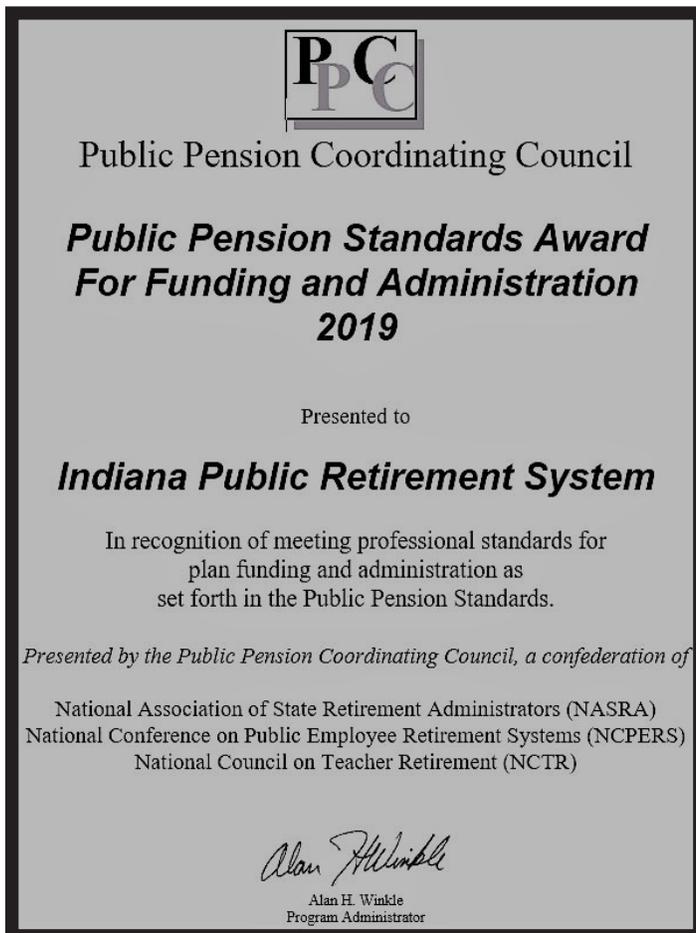


Donna Grotz  
Chief Finance and Administration Officer



### CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to INPRS for its CAFR for the fiscal year ended June 30, 2018. This was the 7th consecutive year that INPRS has achieved this prestigious award. To be awarded the Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements.



### PUBLIC PENSION STANDARDS AWARD

The Public Pension Coordinating Council awarded the Public Pension Standards Award for Funding and Administration to INPRS for the fiscal year ended June 30, 2019. This is the 8th consecutive year that INPRS has achieved this prestigious award. In order to be awarded a Public Pension Standards Award, a public pension program must meet professional standards for plan design and administration as set forth in the Public Pension Standards. A Public Pension Standards Award is valid for a period of one year.

# Governance and Administrative Organization

## Executive Branch



Eric Holcomb  
Governor

Suzanne Crouch  
Lt. Governor

## Board of Trustees <sup>1</sup>



Brian Abbott  
TRF Member  
Nomination/  
Appointment:  
Speaker of House/  
Governor  
Term Expiration:  
6/30/2022



Ken Cochran  
PERF Member  
Nomination/  
Appointment:  
Senate Pro Tempore/  
Governor  
Term Expiration:  
Vacant



David Frick  
Executive Management  
and Benefits Administration  
Nomination/Appointment:  
Governor  
Term Expiration:  
6/30/2021



Tera Klutz  
Auditor of State  
Nomination/  
Appointment:  
Self-nominated/  
Governor  
Term Expiration:  
6/30/2023



Kelly Mitchell  
Treasurer of State  
Nomination/  
Appointment:  
Self-nominated/  
Governor  
Term Expiration:  
6/30/2023



Mike Pinkham  
1977 Fund Member  
Nomination/Appointment:  
Speaker of House/  
Governor  
Term Expiration:  
6/30/2020



Connie Plankenhorn  
TRF Member  
Nomination/  
Appointment:  
Senate Pro Tempore/  
Governor  
Term Expiration:  
6/30/2021



Bret Swanson  
Economics, Finance,  
Investments  
Nomination/  
Appointment:  
Governor  
Term Expiration:  
6/30/2021



Micah Vincent  
OMB Director  
Nomination/Appointment:  
Director of State Budget  
Agency/Governor  
Term Expiration:  
Vacant

<sup>1</sup> As of June 30, 2019, the INPRS Board has two vacancies, Ken Cochran and Micah Vincent.

# Governance and Administrative Organization, continued

## Executive Team



Steve Russo  
Executive Director



Steven Barley  
Chief  
Operations  
Officer and  
Deputy Director



Scott Davis  
Chief Investment  
Officer



Tom Farrer  
Director of Strategic  
Initiatives -  
Retired May 2019



Tony Green  
Chief Legal and  
Compliance Officer



Donna Grotz  
Chief Finance and  
Administration Officer



Mike Himeline  
Chief Information and  
Technology Officer



Jeffrey Hutson  
Chief  
Communication  
Officer



Teresa Snedigar  
Chief Audit and Risk  
Officer

## Professional Consultants <sup>1</sup>

Capital Cities, LLC  
426 East New York Street  
Indianapolis, IN 46202

Cavanaugh Macdonald Consulting, LLC  
3802 Raynor Parkway, Suite 202  
Bellevue, NE 68123

Foster Pepper PLLC  
1111 Third Avenue, Suite 3400  
Seattle, WA 98101

Kutak Rock, LLP  
8601 North Scottsdale Road, #300  
Scottsdale, AZ 85253

Paganelli Law Group  
10401 North Meridian Street, Suite 450  
Indianapolis, IN 46290

Verus  
800 Fifth Avenue, Suite 3900  
Seattle, WA 98104

<sup>1</sup> A complete list of investment professionals that have provided services to INPRS can be found beginning on page 119 of the Investment Section.

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