

Indiana Public Retirement System

**Teachers' Retirement Fund 1996 Account
Report on Allocation of Pension Amounts**

For the Year Ended June 30, 2018

Indiana Public Retirement System

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Year Ended June 30, 2018

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Independent Auditor's Report

Board of Trustees
Indiana Public Retirement System

Report on the Schedules

We have audited the accompanying Schedule of Employer Allocations of the Indiana Public Retirement System (System) Teachers' Retirement Fund 1996 Account as of and for the years ended June 30, 2018 and 2017, and the related Notes to the Schedule. We have also audited the total for all entities of the columns titled beginning net pension liability, ending net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying Schedule of Pension Amounts by Employer of the System as of and for the year ended June 30, 2018, and the related Notes to the Schedules.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these Schedules 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 the Schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule of Employer Allocations and the specified column totals included in the Schedule of Pension Amounts by Employer based on our audits. We conducted our audits 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 Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer, 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 Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer 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 Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer.

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

Opinions

In our opinion, the Schedules referred to above present fairly, in all material respects, the employer allocations as of and for the years ended June 30, 2018 and 2017, and the total for all entities of the columns titled beginning net pension liability, ending net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying Schedule of Pension Amounts by Employer of the System as of and for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Indiana Public Retirement System as of and for the year ended June 30, 2018, and our report thereon, dated November 16, 2018, expressed an unmodified opinion on those financial statements.

Other Information:

Our audit for the year ended June 30, 2018 was conducted for the purpose of forming opinions on the Schedules. The other information (pages 30 – 43) is presented for the purpose of additional analysis and is not a required part of the Schedules. The other information has not been subjected to the auditing procedures applied in the audit of the Schedules, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of the management and the Board of Trustees of Indiana Public Retirement System, and System employers and their auditors and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

Indianapolis, Indiana
December 13, 2018

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Notes to the Schedules of Employer Allocations and Pension Amounts by Employer Year Ended June 30, 2018

Nature of the Schedules

The purpose of these schedules is to provide employers information, with regard to GASB Statement No. 68, for their financial statements. As of the measurement date, the schedules provide each employer with their proportionate share of the net pension liability, deferred outflows and inflows of resources, and pension expense. The net pension liability as of the previous measurement date is provided as a beginning balance. Deferred outflows and inflows of resources, and pension expense include: each employer's proportionate share of plan level amounts such as differences between expected and actual experience, the net difference between projected and actual investment earnings on pension plan investments and changes in assumptions, plus amounts specifically related to the individual employer such as a change in proportion, differences between the employer's contributions and the employer's proportionate share of collective contributions, and employer service purchase credits.

Basis of the Allocation

Wages reported by employers relative to the collective wages of the plan serve as the basis to determine the employer's proportionate share. This basis of allocation measures the proportionate relationship of an employer to all employers, and is consistent with the manner in which contributions to the pension plan are determined. This pension plan does not have a special funding situation, as there is not a nonemployer contributing entity legally responsible for making contributions that are used to provide pension benefits to members of the pension plan.

Net Pension Liability

The net pension liability for fiscal year 2018 is calculated as set forth in the following table:

Net pension liability - beginning July 1, 2017	\$	662,196,733
Total pension expense		226,407,404
Change in deferred outflows of resources		(250,312,201)
Change in deferred inflows of resources		(291,662,695)
Defined benefit plan employer contributions*		(235,717,254)
Net pension liability - ending June 30, 2018	\$	<u>110,911,987</u>

* Does not include \$101,777 in employer contributions for INPRS members

Average Expected Remaining Service Lives

The average expected remaining service lives of the members of the pension plan which is determined by taking the calculated total future service years of the plan divided by the number of people in the plan including retirees. The total future service years of the plan are determined using the mortality, termination, retirement and disability assumptions associated with the plan. The average expected remaining service lives is used to amortize all deferred outflows and inflows of resources, except for the difference between expected and actual investment earnings, which is amortized over five years.

	<u>Years</u>
June 30, 2018	11.47
June 30, 2017	14.00
June 30, 2016	14.00
June 30, 2015	14.00
June 30, 2014	13.00

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Notes to the Schedules of Employer Allocations and Pension Amounts by Employer Year Ended June 30, 2018

Types of Deferred Outflows and Inflows of Resources

Difference between expected and actual experience: the actuaries use assumptions such as future salary increases and inflation to develop what they expect to be the experience of the pension plan. Each year the difference between the expected experience and the actual experience is amortized over the average expected remaining service lives of the plan participants.

Net difference between projected and actual investment earnings: the actuaries use the pension plan's expected long term rate of return to project investment earnings net of investment expenses. The difference between the expected and the actual investment earnings is deferred and amortized over five years. The deferred outflows and the deferred inflows are offset against each other.

Changes in assumptions: The COLA assumption was changed due to passage of Senate Enrolled Act No. 373. In lieu of a 1% COLA occurring beginning on January 1, 2020, the Plan now assumes that the COLA will be replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2022, changing to 0.5% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.

In 2017, two mortality tables, healthy and disabled, were utilized. An assumption study was performed in April 2015. Key assumptions are as follows:

- Inflation remained at 2.25%
- The future salary increase remained a table ranging from 2.5% to 12.5%
- Mortality remained the same, as healthy members assume the RP-2014 (with MP-2014 improvement removed) White Collar mortality tables. Disabled members assume the RP-2014 Disabled mortality tables (with MP-2014 mortality removed). Both tables assume future mortality improvement projected generationally using mortality improvement inherent in the Social Security Administration's 2014 Trustee report.
- Retirement and Termination rates remained the same

A change in an employer's proportionate share: represents the change as of the current year measurement date versus the prior year measurement date, and is amortized over the average expected remaining service lives of the plan.

The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the members of the plan.

Pension Expense

As part of the plan pension expense, employer's service purchase credits are expensed in the year purchased. Total pension expense has been reduced by the amount of contributions paid by INPRS.

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**Notes to the Schedules of Employer Allocations and Pension Amounts by Employer
Year Ended June 30, 2018**

Pension Expense (Continued)

The components of pension expense are:

Service cost	\$	182,558,143
Interest on the total pension liability		382,297,585
Member contributions		(108,795)
Projected earnings on plan investments		(333,063,288)
Miscellaneous (income)/expense		(140,150)
Pension plan administrative expenses		5,106,623
Recognition of outflow (inflow) of resources due to amortization		<u>(10,386,506)</u>
Total pension expense before reconciling items		226,263,612
Reconciling items:		
Employer specific liability payments		<u>143,792</u>
Total pension expense - Schedule of Pension Amounts	\$	<u><u>226,407,404</u></u>

Access to INPRS Comprehensive Annual Financial Report (CAFR) and Actuarial Valuations

Link to the INPRS June 30, 2018 CAFR

www.in.gov/inprs/files/2018_INPRSCAFRBook.pdf

Link to the June 30, 2018 Actuarial Valuations

www.in.gov/inprs/actuarialvaluation.htm

**OTHER INFORMATION
(UNAUDITED)**

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**Notes to the Schedule of Additional Pension Amounts by Employer (Unaudited)
Year Ended June 30, 2018**

Nature of the Schedule

The purpose of this schedule is to provide employers supplemental information, with regard to GASB Statement No. 68, for their financial statements.

Contributions

As of the measurement date, the schedule provides each employer their contributions and reflects the reversal of any prior year accrual and the addition of any current year accrual. Total contributions have been reduced by the amount of contributions paid by INPRS of \$101,777.

Amortization of Net Deferred Outflows and Inflows of Resources

For each employer this schedule provides the amortization of net deferred outflows and inflows of resources for the next five years and thereafter.

Discount Rate Sensitivity

The discount rate sensitivity for each employer's net pension liability is provided assuming a 1% decrease and a 1% increase in the pension plan's discount rate.