INPRS
INDIANA PUBLIC RETIREMENT SYSTEM

THE STRATEGIC PLAN OF THE INDIANA PUBLIC RETIREMENT SYSTEM FOR FISCAL YEARS 2017-2019

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INTRODUCTION

ACCOMPLISHMENTS IN FISCAL YEAR 2015 ENABLE STRATEGIC OBJECTIVES FOR FISCAL YEAR 2016-2018

Asset Management

Following the completion of an asset-liability study, the INPRS investment team recommended and the Board approved a revised asset allocation at the June, 2015 Board meeting. The INPRS investment team was able to successfully shift the portfolio to the new target allocation weights over the course of fiscal year 2016. Also in fiscal year 2016, we issued a Request for Proposal (RFP) for a consultant to assist us with an internal asset management study. As a part of the study, a fee benchmarking analysis was conducted, and the consultants evaluated our capabilities to manage public asset classes (e.g. equities, fixed income, commodities) from "front office to back office." In addition, we renewed the custodian contract to continue the existing relationship with BNY Mellon.

Recordkeeping Transition and Third Party Annuity Provider

A Request for Proposal (RFP) was executed for both Record Keeper and Annuity services. Based on a thorough process of bid solicitation and review, we selected a new record keeper and selected a third party annuity provider to, with Board approval, replace current in-house annuity processing for the Annuity Savings Account ("ASA"). A joint implementation approach will be taken for both new vendors in order to enhance member experience and to efficiently coordinate implementation activities. Planning for this joint implementation was started in January 2016, with full execution of the transitions beginning in spring of 2016. The completion of these joint transitions is currently planned for April 2017.

Annuity Savings Account (ASA) Expansion

In 2015, the Indiana General Assembly (General Assembly) passed HEA 1466, which allows political subdivisions eligible for PERF membership to offer a new retirement plan to their employees in addition to the traditional PERF Hybrid plan (includes a pension and annuity savings account). The new retirement plan is the PERF ASA Only plan. Upon passage of HEA 1466, we launched a cross-functional project team to assess, design, and implement the future state solution. We have designed, developed, and are currently testing this automated solution. The System updates will be effective July 1, 2016.

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We began communicating the plan options and instructions for submitting a resolution to employers in January 2016. Communications and outreach staff developed a robust education program which included direct contact with eligible employers through digital communications, in-person seminars, and one-on-one visits with key decision makers. Political subdivisions may begin offering the PERF Hybrid plan, ASA Only plan, or both to their new employees as of July 1, 2016. Enrollment in the new ASA Only plan will be on a rolling six month schedule, with employers able to begin enrolling employees on July 1 and January 1 each year.

Annuity Rate Change

To reflect the reality of today's financial market conditions, the Indiana General Assembly passed legislation regarding annuity rates in fiscal year 2014. The goal of this legislation was to preserve the financial stability of the funds by adjusting the interest rates used to calculate annuities to better match prevailing market rates. We fully complied with this legislation and Board mandate by successfully establishing a method to dynamically use a market-calculated annuity interest rate for benefit calculations and processing starting with October 2015 retirements. For many years, we used the target rate of return embedded in actuarial factors for the defined benefit plan. In order to mitigate the risk of the defined benefit responsibility for possible investment shortfalls on the ASA annuities and align INPRS with market standards for annuity products, we were directed to lower the interest rate to 5.75% in October 2014 and to a market-calculated rate with a floor of 4.5% in October 2015.

After Jan. 1, 2017 INPRS may enter into an agreement with a third party annuity provider to calculate and administer annuity payments.

Continuous Improvements

The organization focused heavily on continuous improvements during fiscal year 2016 with great success. The focus of our continuous improvement efforts falls into two major categories: Member Service and Administrative Cost. In order to measure our improvement in these areas, we benchmark with 11 retirement plans that are similar in size and style. The latest benchmarking report received in April shows that INPRS Service Score increased at a rate two times the rate of our peer group. During that same time period, INPRS Cost per Active Member was $11 lower than the peer average. These results strongly position INPRS to be a "High Service, Low Cost" retirement plan.

INTRODUCTION

Results like this do not happen by chance. In order to build and sustain a continuous improvement culture, we put a Center of Excellence (CoE) in place to lead operational improvement initiatives. They follow a disciplined approach to problem solving and have led the organization to improve in several key areas including: call center performance, website functionality, and retirement processing.

During fiscal year 2016, we also focused on improving the Balanced Scorecard. We identified the best metrics possible to measure the improvement in the organization's overall performance numbers. INPRS manages and reports 19 different measures to our Board of Trustees on a quarterly basis. All measures except one demonstrate year over year improvement, and most measures show a double digit improvement year over year.

Several objectives are included in our FY2017-2019 strategic plan to continuously improve member satisfaction. The largest initiative in the short term will be changing our recordkeeper and improving many of the critical processes involved in processing member retirements.

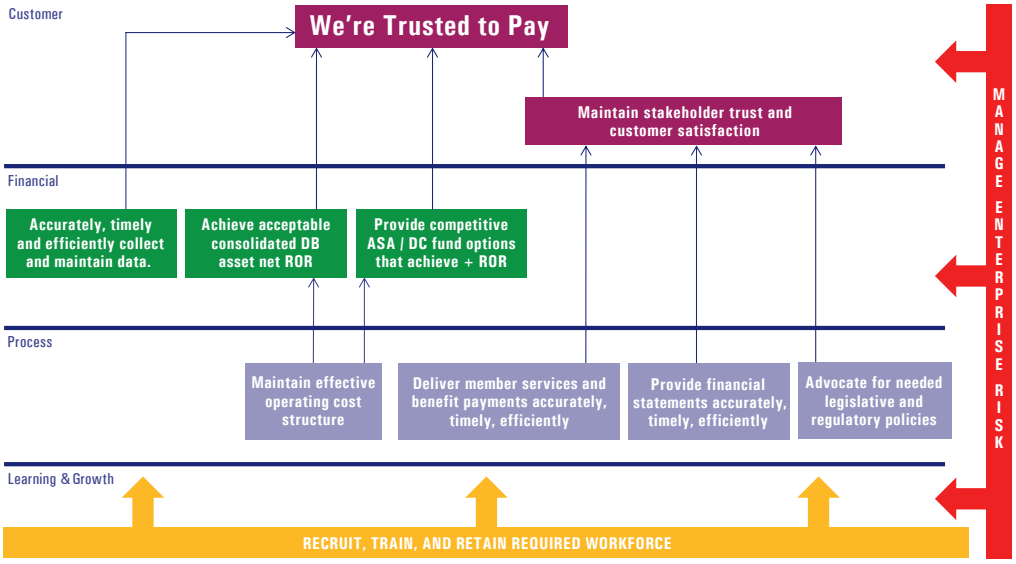
THE STRATEGIC PLANNING PROCESS

To enhance the strategic planning process for fiscal year 2016, we focused on performing a Contextual SWOT, defining an organizational Strategy Map and updating our Vision, Mission and Principles. As a result of these activities, the "one thing" considered by the executive team to be the most important outcome of our strategies is that "We're Trusted to Pay." To affirm our path for Fiscal Year 2017 and to ensure alignment with this "one thing", we completed a SWOT update and risk assessment of the proposed Fiscal Year 2017 Strategic Plan.

The Strategy Map and updated Vision, Mission and Principles guided us for success in Fiscal Year 2016 and remain the foundation for Fiscal Year 2017. Utilizing this model, we are better positioned to meet our defined goals, objectives, key operating requirements (KORs), and legislative requirements. We will continue to align efforts with our published Vision, Mission and Principles.

Moving into Fiscal Year 2017, we will continue to leverage our modernized systems and implement best practices. We will partner with key strategic vendors to implement improved recordkeeping services and annuity offerings. As planned, all of these efforts move us to an improved service model and an improved member experience.

INPRS STRATEGY MAP



VISION, MISSION AND PRINCIPLES

VISION

To be a 100% funded public retirement system trusted and valued by stakeholders

MISSION

Efficiently collect necessary contributions, manage assets and pay earned benefits.

PRINCIPLES

Integrity

We hold ourselves accountable to the highest standards of ethical and professional behavior.

Stewardship

We prudently manage assets held in trust for current and future retirees. We are value oriented. We rigorously identify, measure, and manage risk.

Service

We exist to serve our stakeholders with attentiveness to high quality, respectful customer service.

Trust

We are our stakeholders' trusted source of reliable information.

Collaboration

We seek out stakeholder input when establishing goals and setting priorities.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 1: Deliver member services and benefit payment accurately, timely and efficiently.

Strategic Objectives

A. Develop and execute an integrated vendor business model that optimizes the delivery of services and works towards best-in-class processes.

B. Improve call center performance that maximizes customer experience demonstrated by increasing and consistently meeting extremely/very satisfied (top 2) to 80%.

C. Implement a new and/or enhanced call center structure to maximize customer experience within the integrated vendor business model demonstrated by reducing call transfers to less than 30%.

D. Increase the accuracy, timeliness and efficiency of processing requested defined benefit inceptions demonstrated by reducing the time to set up first payment by 10%.

E. Implement electronic authorization for distributions and eliminate notary requirements.

F. Move the ASA portion of the defined benefit plans to a defined contribution plan ensuring compliance with IRS regulations and defined contribution plan market practices.

G. Increase member use of existing online tools including, but not limited to, online retirement applications.

H. Implement debit cards in place of paper checks in accordance with legislation passed in April 2015.

I. Evaluate and implement workflow capability and associated technologies to streamline transaction processing, and improve efficiency and consistency of service delivery including productivity measurement. Reduce time to implement changes to primary administration systems by 5-10%. Increase processing time between 5-10% and increase quality between 5-10%.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 1: Deliver member services and benefit payments accurately, timely and efficiently.

J. Decrease the time between death notification and receipt of overpayment paperwork through joint activities and process improvements.

K. Evaluate bringing the defined benefit pension disbursements in-house.

Key Operational Requirements

1. Distribute timely and accurate payments to members.
    a. Monthly payroll
    b. Weekly payroll
    c. Retirements
    d. Disability
    e. Death
    f. Annuity Savings Account (ASA)
2. Distribute accurate 1099-R documents by January 31 of every year.
3. Effectively manage complaints and escalated cases.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 2: Maintain stakeholder trust and customer satisfaction through effective communication, education and collaborative relationships.

Strategic Objectives

A. Increase website satisfaction through customer-centered redesign of web experiences.

   1. Improve member satisfaction and access to information through Oracle Service Cloud on the INPRS public website.

   2. Implement an enhanced online retirement application for all funds.

B. Implement a plan to maintain or improve perceptions of trust among stakeholders.

C. Implement an Annual Member Statement for all DB funds for which one does not already exist.

Key Operational Requirements

1. Complete ongoing customer satisfaction surveying.

2. Complete the annual general member survey.

3. Provide required reports to the Legislature including the Pension Management Oversight (PMO) Committee.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 3: Accurately, timely and efficiently collect employer contributions and maintain data.

Strategic Objectives

A. Implement employer soft-freeze / withdrawal provision included in HB1466.

B. Evaluate whether a new amortization period for the unfunded liability should be proposed to the INPRS board.

C. Increase employer satisfaction with Employer Reporting and Maintenance (ERM) through ERM enhancements and communications to employers.

D. Reduce the number of reported employer transaction exceptions through ERM enhancements and communication to employers.

E. Evaluate the cost/benefit of bringing some actuarial work in-house.

Key Operational Requirements

1. Request pension relief information from employers.
2. Process requests for new units and enlargements biannually.
3. Provide Annual Contribution Rate notification to employers.
4. Track and report the timeliness of employer contributions. Explore opportunities to maintain employers' compliance within established contribution time frames.
5. Annually obtain actuarial valuation reports for the defined benefit pension plans.
6. Establish annual employer contribution rates at or above the Actuarially Determined Employer Contribution (ADEC) rates.
7. Track employers that are habitually late and ask the Auditor of State to intercept funds from these employers.
8. Every 3 to 5 years, perform an experience study of the defined benefit pension plans to update the actuarial assumptions, and review the actuarial methods for any necessary changes.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 4: Achieve a consolidated Defined Benefit (DB) asset net rate of return equal to the actuarial rate of return within accepted cost and risk parameters with sufficient cash flow to pay all benefit obligations.

Strategic Objectives

A. Determine whether it makes sense, both organizationally and economically, to implement an internal investment management program by conducting a formal study.

B. Conduct an active management review to determine if active management is warranted within various asset classes.

C. Compile a short-list of Private Credit managers for allocation as funding becomes available from other asset classes.

D. Determine the optimal line-up of Risk Parity managers by conducting a Risk Parity RFP.

E. Evaluate whether the inherent currency exposure within the Public Equity portfolio should be hedged.

F. Reassess the strategy and execution of Indiana-focused investment programs.

Key Operational Requirements

1. Achieve the DB Investment targets and metrics.

2. Annually conduct a review of investment management fees, including benchmarking fees as compared to other public pension funds.

3. Complete the annual Investment Policy Statement (IPS) Review.

4. Complete a long term liquidity analysis of plans, taking into consideration projected cash out flows and the liquidity position of the investment portfolio on an annual basis.

5. Provide and review rolling cash flow forecasts, reflecting incoming contributions and outgoing disbursements.

6. To assist in allocation and rebalancing decision-making, review monthly risk reports from Barra, Verus, and the internal investment staff.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 4: Achieve a consolidated Defined Benefit (DB) asset net rate of return equal to the actuarial rate of return within accepted cost and risk parameters with sufficient cash flow to pay all benefit obligations.

7. Conduct an asset-liability study to recommend, for Board approval, an asset allocation strategy that is expected to meet the target rate of return net of fees while minimizing risk.

8. Monitor securities litigation and opportunistically participate in domestic and/ or international cases to maximize INPRS' loss recovery.

Goal 5: Provide industry competitive Annuity Savings Account (ASA) and Defined Contribution (DC) fund options that achieve rates of returns equal to or greater than the funds' benchmarks.

Strategic Objectives

A. Implement the elimination of the Guaranteed Fund and the introduction of the Stable Value Fund required by the 2016 legislative session.

B. Conduct a review of the target date funds' asset allocation relative to INPRS members' objectives and risk tolerance.

C. Conduct an active management review to determine if active management is warranted within the various stand-alone and/or target date funds.

D. Evaluate the benefits and detriments of self-directed brokerage accounts and Roth options in the ASA. Implement if warranted

E. Evaluate the benefits and detriments of auto-acceleration for ASA only participants. Implement if warranted.

F. Evaluate whether the investment team should dedicate greater resources to the ASA given its growing importance relative to the DB.

Key Operational Requirements

1. Achieve 100% of ASA metrics.

2. Perform an annual review of ASA and DC fund options, including glide path (asset allocation) assumptions for target date funds.

3. Conduct an annual review of Investment fees.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 6: Provide financial statements accurately, timely and efficiently.

Strategic Objectives

A. Implement changes related to new Government Accounting Standards Board (GASB) Fair Value Measurement and Application accounting standard (GASB #72) and external investment pools (GASB #79). Determine if the new Other Post Employment Benefits (OPEB) standards (GASB #74 & #75) have any impact on INPRS.

B. Increase the accuracy, timeliness and efficiency of maintaining financial records through enhancements to the Oracle E-Business Suite and other supporting INPRS's administrative systems.

C. Evaluate enhanced budgeting and tracking tools in conjunction with the technology roadmap for Finance, and create an implementation timeline.

Key Operational Requirements

1. Obtain an annual unmodified opinion from the external auditor.
2. Publish the INPRS Comprehensive Annual Financial Report (CAFR) annually.
3. Obtain an annual Government Finance Officers Association (GFOA) certification of the CAFR.
4. Annually publish audited GASB #68 related schedules for employers.
5. Finalize the monthly financial statement close package by the 12th business day each month.
6. As issued, determine if new Government Accounting Standards Board (GASB) pronouncements have an impact on INPRS.
7. Ensure that any audit findings or control issues identified in the annual external audit have action plans developed to correct the deficiency or material weakness within 30 days after the close of the audit.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 7: Maintain an effective operating cost structure that leverages leading governance practices, management practices, benchmarking and secure business processes.

Strategic Objectives

A. Improve the quality and efficiency of key business processes by continuing to strengthen the quality management culture and support the continuous process improvement initiatives. Measure by maintaining or improving position in benchmarking surveys (CEM, NAGDCA, etc).

B. Create opportunities for a more efficient cost structure by evaluating better tools to analyze costs in conjunction with the technology roadmap for Finance. Develop an implementation timeline.

C. Revise and maintain a General Retention schedule for all documents and emails.

D. Develop a flexible operations workforce that will adjust according to transaction volume fluctuations with the objective to maintain consistent service delivery to our customers.

Key Operational Requirements

1. Maintain a strategic plan on a three-year time horizon to be updated annually.

2. Participate in the annual Cost Effectiveness Measurement (CEM) survey. Coordinate all survey responses and follow the improvement process to develop and implement an INPRS cost and service improvement plan.

3. Continue to identify additional benchmarking in the financial services industry and other areas that will provide insight and continuous improvement ideas.

4. Maintain a Balanced Scorecard that contains a comprehensive set of measures for senior executives to assess INPRS progress towards meeting its Strategic Goals.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 7: Maintain an effective operating cost structure that leverages leading governance practices, management practices, benchmarking and secure business processes.

Key Operational Requirements, cont.

5. Establish an operating budget to be approved by the Board no later than June 30 of each year.
6. Report financial performance to the budget at every Board meeting.
7. Maintain a tracking tool to capture IT costs by activity.
8. Determine appropriate Board education and implement annually.
9. Provide consistent guidelines and processes that define the creation, review, approval, distribution, tracking and updating of policies and procedures used by INPRS.

Goal 8: Proactively manage enterprise risk.

Strategic Objectives

A. Include data integrity as a core component of all INPRS activities creating effective measures and process improvement opportunities in order to improve stakeholder experience and reduce ongoing resource utilization.

B. Maintain and improve information security through execution of the information security program including active testing, improving organizational security awareness and improved data protection.

C. Coordinate the completion of an integrated BCDR (Business Continuity and Disaster Recovery) Plan which utilizes the BIA (Business Impact Analysis) completed in Phase 1. Ensure that roles and responsibilities for testing and maintaining the plan are defined and understood.

D. Complete an assessment of the maturity of INPRS' Enterprise Risk Management and create a plan to ensure best practice and compliance.

Key Operational Requirements

1. Complete a risk assessment of the Strategic Plan and prioritize risks.

2. Ensure customer and staff security by performing IT security access control audits twice per year.

3. Support INPRS business continuity planning by holding an IT disaster recovery test to validate capabilities for timely recovery of application systems.

4. Complete a risk assessment of the organization and develop an annual audit plan.

5. Complete the integrated fraud program that will consider whistleblower input, and include annual training, quarterly articles on the INPRS intranet (PATI), specific fraud testing in each audit, and implement quarterly fraud testing in specific areas.

6. Ensure that any audit findings or control issues identified during audits have action plans developed to correct the deficiency or material weakness and action plans are implemented in the agreed upon timeline.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 8: Proactively manage enterprise risk.

Key Operational Requirements, cont.

7. Monitor the compliance matrix for the Investment Policy Statement (IPS).
8. Complete the biennial review of Board governance documents.
9. Enhance the comprehensive INPRS compliance program to ensure compliance with all federal and state requirements.

Goal 9: Recruit, train and retain the required workforce.

Strategic Objective

A. Complete an assessment of the benefits and ROI of an integrated HRIS (Human Resource Information System) system.

Key Operational Requirements

1. Continuously assess staffing needs and complete recruiting of the required staff.
2. Complete an annual employee survey and create action plans to address employee concerns.
3. Refresh the Succession Plan and review the Position Risk assessment to address retention, development and documentation plans.
4. Educate and communicate to INPRS staff which develops organizational culture through "All Staff" meetings and INPRS Management Team Workshops.

GOALS, OBJECTIVES & KEY OPERATIONAL REQUIREMENTS

Goal 10: Advocate for legislative and regulatory policies needed to achieve strategic goals.

Strategic Objectives

A. Seek plan sponsor input on retirements and benefits that improves fiscal strength, cost effectiveness and efficiencies of the system.

B. Seek plan sponsor input on simplifying the Annuity Savings Account (ASA) structure: DB to DC nuances, move toward DC industry standard, potential new choices and allocation of administrative cost between member and employer.

Key Operational Requirements

1. Conduct a review of Indiana Code for changes needed to achieve INPRS' mission and strategic goals at least annually in advance of the Pension Management Oversight (PMO) Committee annual meetings.

2. Provide all reports as required by Indiana Code to the Administrative and Legislative branches of Indiana state government.

3. Track and communicate pending legislation during legislative sessions to prepare INPRS staff for any required implementations or impacts.

4. Train INPRS functional departments to enable implementation of all legislative changes by their required implementation dates.

5. Complete a monthly review of the nature of member benefit appeals and complaints to assess the need for change to code, policies, processes and procedures.

6. Respond to requests from the Legislative Services Agency (LSA) within timeframes mutually agreed upon between INPRS and LSA to enable appropriate review and response.

7. Provide financial and actuarial support during the legislative sessions to INPRS staff and legislators.