



2022 INPRS UPDATE

Indiana State Budget Committee
December 8, 2022

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About INPRS (as of June 30, 2022)

► **With \$42.4 billion in assets, INPRS serves the retirement needs of 517,000 members and more than 1,300 employers**

- **Eight Defined Benefit Retirement Funds**

- Public Employees' Defined Benefit Account (PERF DB)
- Teachers' Pre-1996 Defined Benefit Account (TRF Pre-'96 DB)
- Teachers' 1996 Defined Benefit Account (TRF '96 DB)
- 1977 Police Officers' and Firefighters' Retirement Fund ('77 Fund)
- Prosecuting Attorneys' Retirement Fund (PARF)
- Judges' Retirement System (JRS)
- Excise, Gaming and Conservation Officers' Retirement Fund (EG&C)
- Legislatures' Defined Benefit Fund (LE DB)

- **Five Defined Contribution Retirement Funds**

- Public Employees' Defined Contribution Amount (PERF DC)
- Teachers' Defined Contribution Account (TRF DC)
- Legislatures' Defined Contribution Fund (LE DC)
- My Choice: Retirement Savings Plan for Public Employees (PERF MC DC)
- My Choice: Retirement Saving Plan for Teachers (TRF MC DC)

- **Two Non-Retirement Funds**

- Local Public Safety Pension Relief Fund (LPSPR)
- Special Death Benefit Fund (SDBF)

- **One OPEB (Other Postemployment Benefits) Fund**

- Retirement Medical Benefits Account Plan (RMBA)

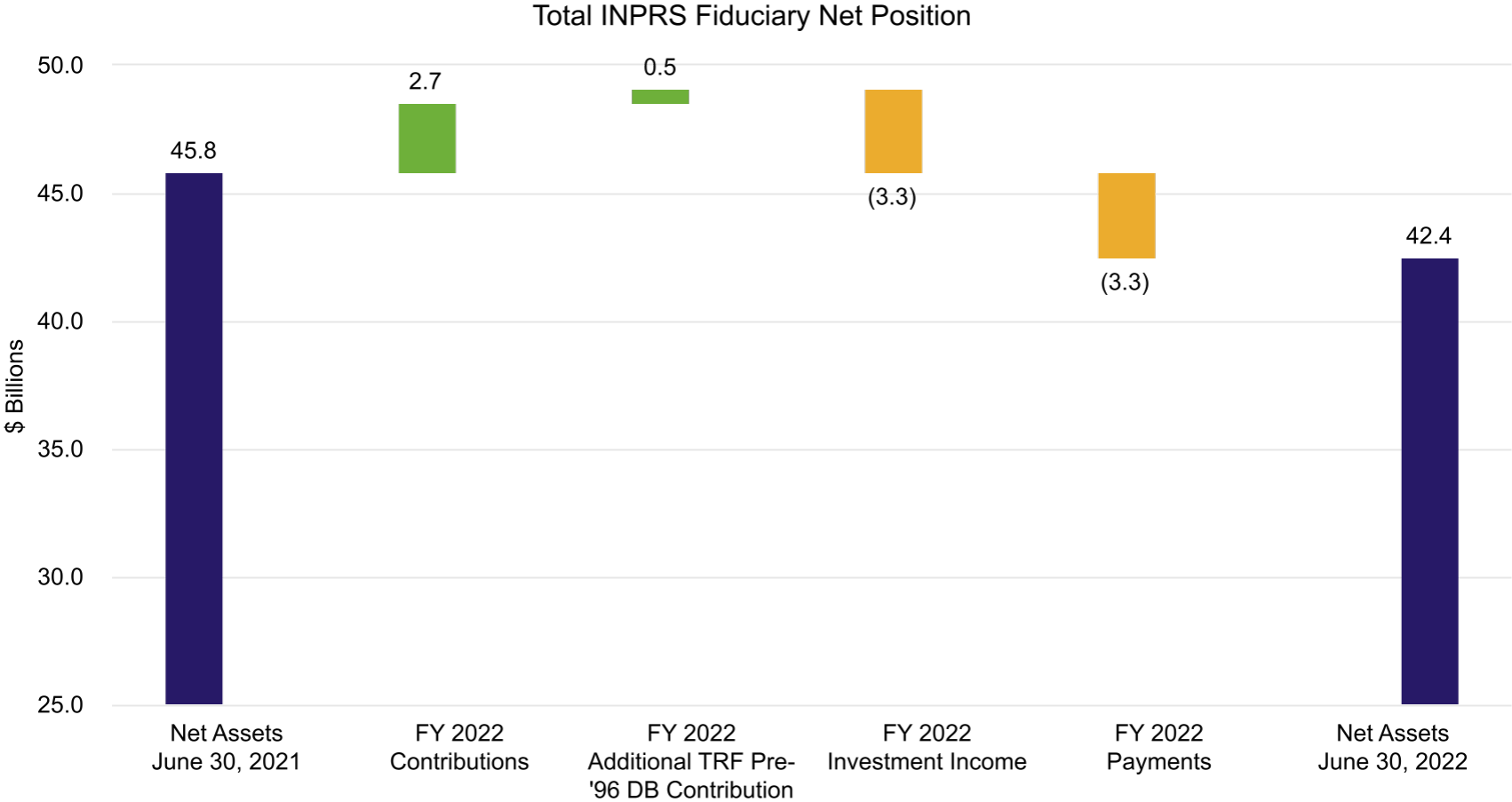


FY 2022 in Review

INPRS's managed pension plans remain well-funded.

- Overall estimated aggregate funded status increased from 71.9% to 74.8%
- Estimated aggregate funded status of the prefunded defined benefit plans increased from 89.0% to 89.6%
 - 2022 investment losses of -6.6% were offset by 2021 deferred investment gains and higher than assumed employer contributions
 - PERF, TRF '96, and EG&C contribution rates will remain unchanged through 2024
 - The '77 Fund contribution rate will increase from 18.0% to 19.1% starting January 1, 2024, primarily due to higher than assumed salary increases
- Teacher Pre-'96 Pay-Go plan improved from significant incremental appropriations in FY22 (\$545M)
 - Funded status increased from 31.7% to 37.5%
 - Additional appropriation of \$2.5B received in FY 2023
 - Potential 100% funded status in 2030
 - \$8.8B in unfunded liabilities

FY22 Change in Net Position (\$ Billions)



Unfunded Liability Review

- ▶ Actuarial accrued liability experience losses are mostly due to higher than assumed increases in salary

Analysis of Financial Experience¹

(dollars in millions)

| | FY 2022 | |
|--|---------|----------|
| Unfunded Actuarial Accrued Liability (UAAL): Beginning of Year | \$ | 13,482.0 |
| Normal Cost and Interest, less Expected Contributions | | (417.5) |
| Expected UAAL at End of Year | | 13,064.5 |
| Actuarial Value of Assets Experience | | (299.1) |
| Contribution Experience and Other | | (698.9) |
| Actuarial Accrued Liabilities Experience | | 397.6 |
| Actuarial Assumption & Methodology Changes | | — |
| Plan Provision Changes | | — |
| Total UAAL (Gain) / Loss | | (600.3) |
| Actual UAAL at End of Year | \$ | 12,464.1 |



1. Results are preliminary and subject to change

Funded Status as of June 30, 2022

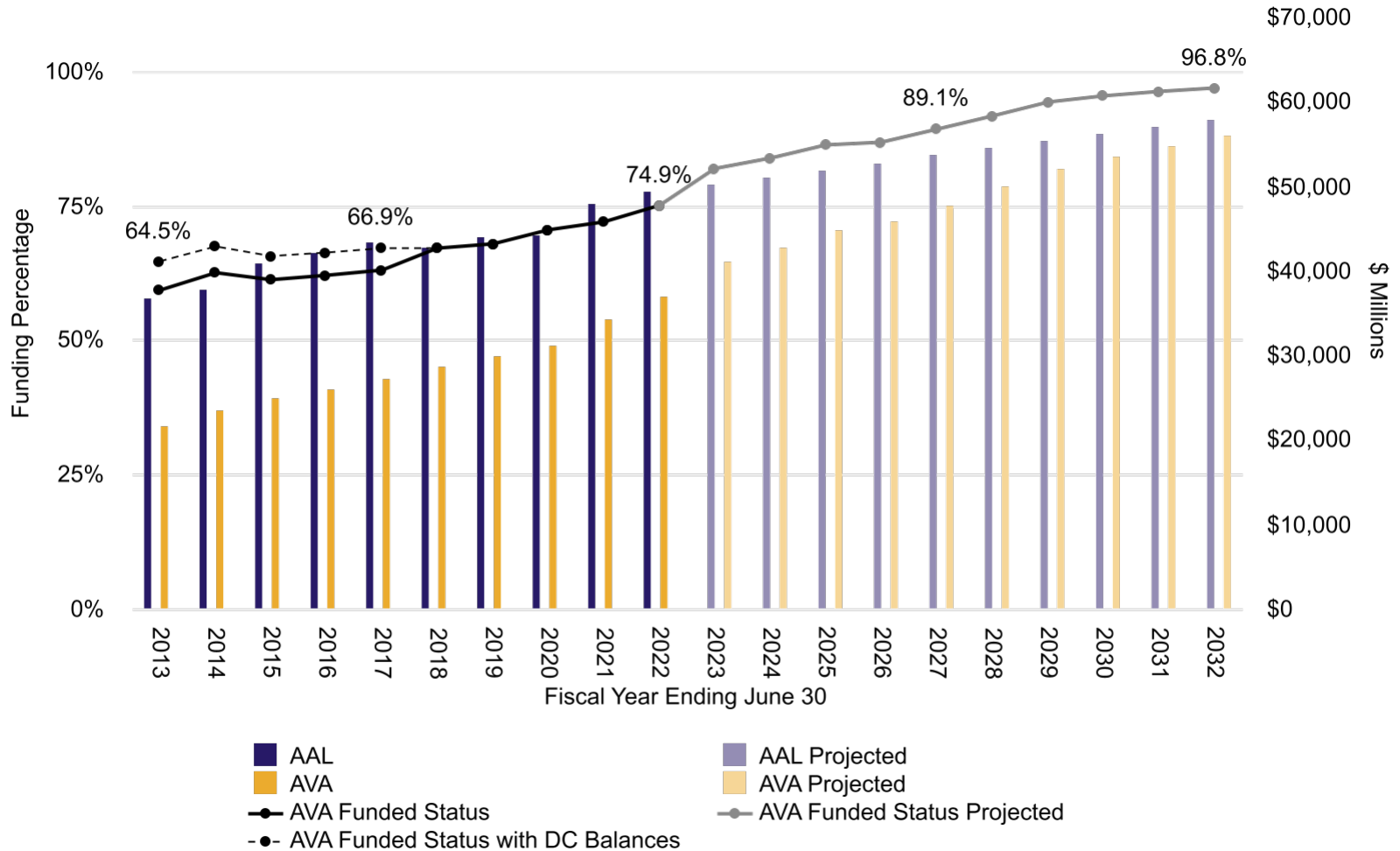
Indiana Public Retirement System (INPRS)

(dollars in
thousands)

| Pre-Funded Defined Benefit Retirement Plans | Actuarial Valuation as of June 30, 2022 | | | | Actuarial Valuation as of June 30, 2021 | | | |
|--|---|---------------------------------|---|-------------------------------|---|---------------------------------|---|-------------------------------|
| | Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability | Actuarial Funded Status | Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability | Actuarial Funded Status |
| PERF DB | \$18,002,194 | \$15,275,804 | \$2,726,390 | 84.9% | \$17,563,157 | \$14,577,352 | \$2,985,805 | 83.0% |
| TRF '96 DB | 8,154,991 | 7,716,351 | 438,640 | 94.6% | 7,517,702 | 7,162,958 | 354,744 | 95.3% |
| '77 Fund | 8,281,865 | 7,844,324 | 437,541 | 94.7% | 7,598,774 | 7,331,655 | 267,119 | 96.5% |
| JRS | 676,859 | 651,415 | 25,444 | 96.2% | 642,172 | 615,755 | 26,417 | 95.9% |
| EG&C | 187,505 | 177,046 | 10,459 | 94.4% | 180,848 | 165,179 | 15,669 | 91.3% |
| PARF | 122,474 | 82,211 | 40,263 | 67.1% | 117,023 | 76,897 | 40,126 | 65.7% |
| LE DB | 2,835 | 3,184 | (349) | 112.3% | 3,034 | 3,137 | (103) | 103.4% |
| Total Pre-Funded DB Retirement Plans | \$35,428,723 | \$31,750,335 | \$3,678,388 | 89.6% | \$33,622,710 | \$29,932,933 | \$3,689,777 | 89.0% |
| TRF Pre-'96 DB | 14,059,122 | 5,273,369 | 8,785,753 | 37.5% | 14,338,188 | 4,546,007 | 9,792,181 | 31.7% |
| Total DB Retirement Plans | \$49,487,845 | \$37,023,704 | \$12,464,141 | 74.8% | \$47,960,898 | \$34,478,940 | \$13,481,958 | 71.9% |



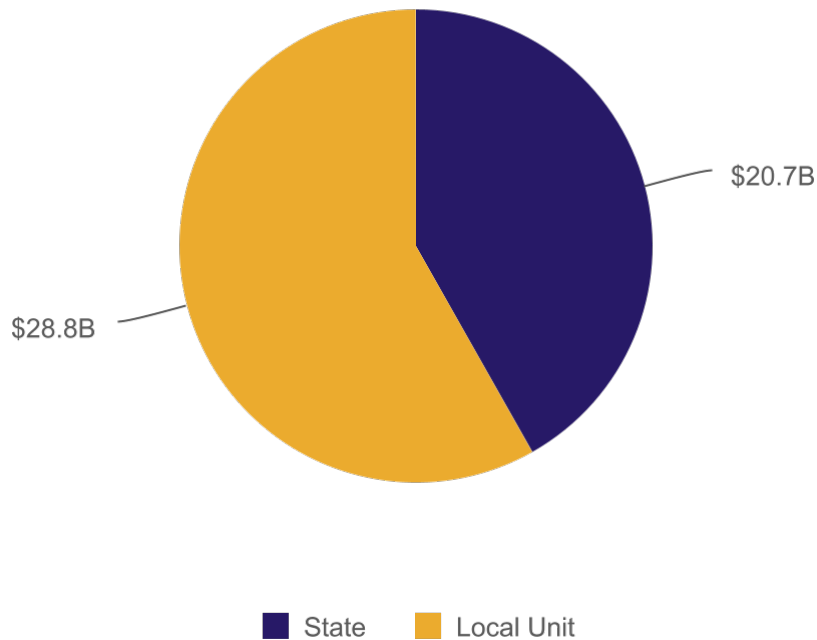
Funding Progress



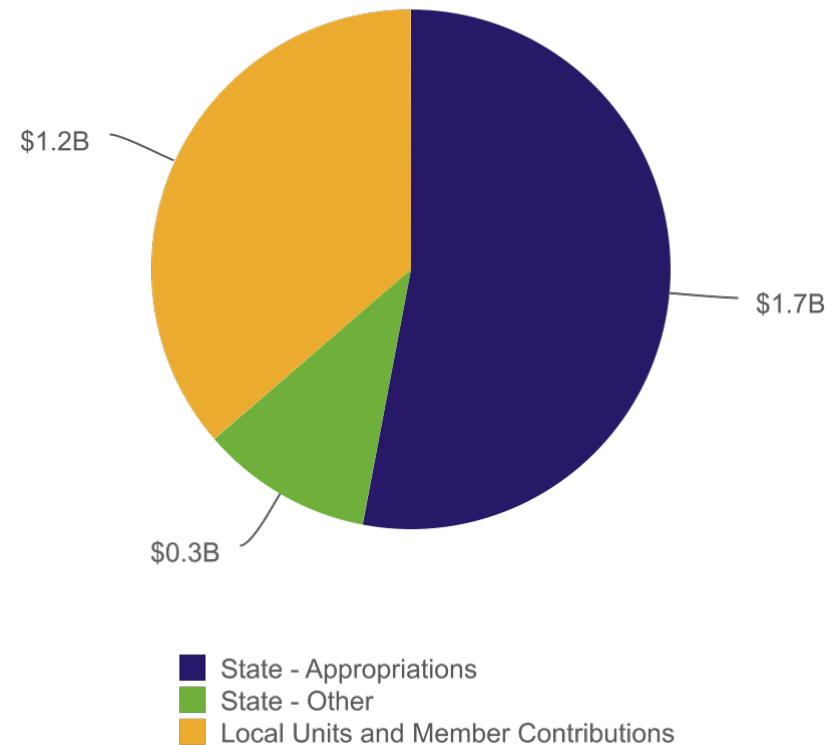
Based on preliminary actuarial results as of June 30, 2022. AAL is Actuarial Accrued Liability. AVA is Actuarial value of Assets. DC Balances (formerly ASA Balances) were moved to their own separate fund starting January 1, 2018.

INPRS Actuarial Accrued Liability and Pension Contributions

Actuarial Accrued Liability as of June 30, 2022



FY22 Pension Contributions



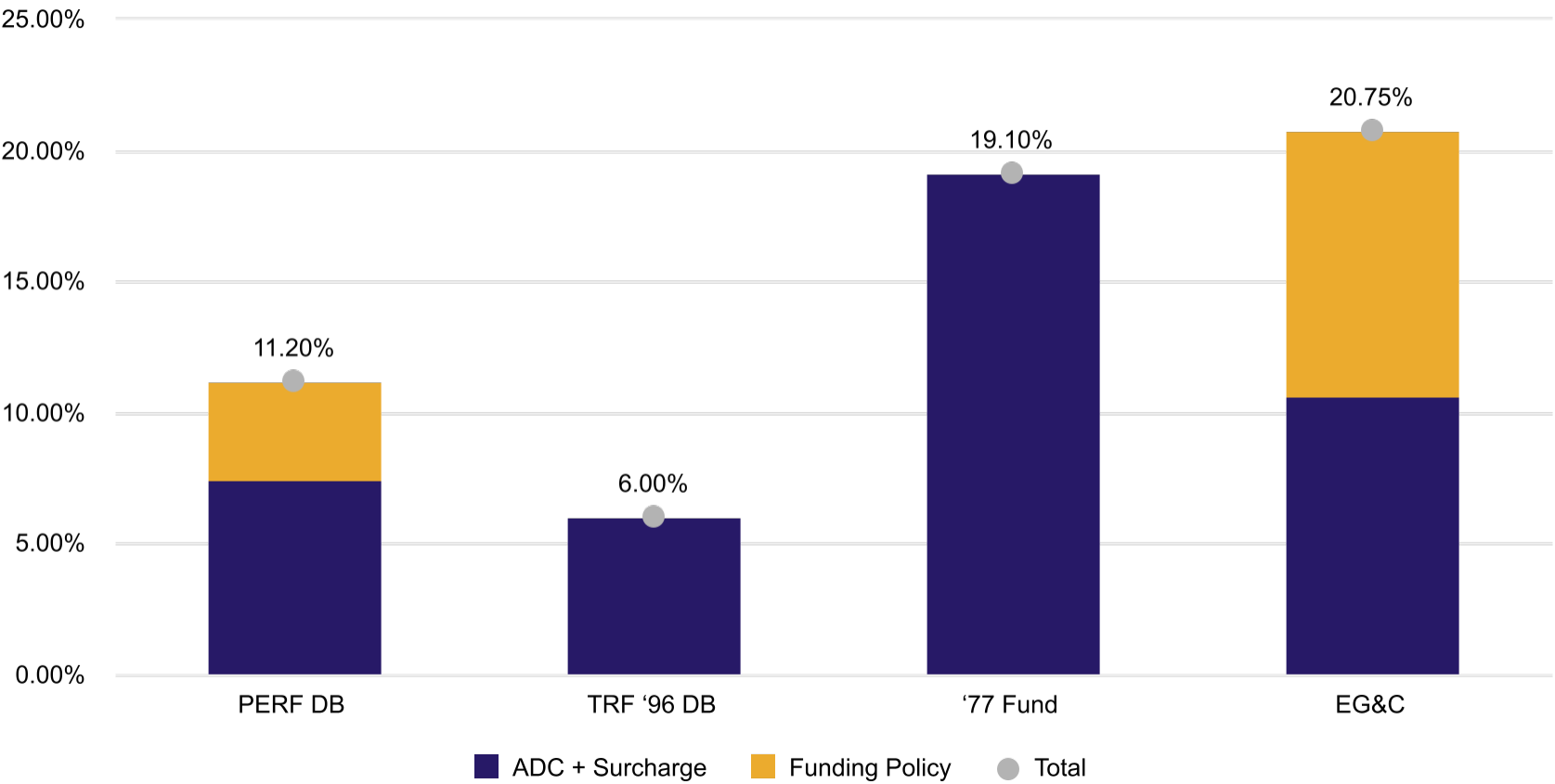
Actuarial Accrued Liability is divided according to GASB Statement No. 68 proportionate share methodology.

FY22 Contributions - A Year in Review

- INPRS's Funding Policy establishes adequate contribution rates that seek appropriate levels of stability
 - At least the amount of the Actuarial Determined Contribution (ADC)
 - Not less than the prior year's rate until 95% funded
- Collected \$3.246B in pension plan contributions
 - \$1,690M General Fund Appropriations
 - \$1,062M Employer contribution
 - \$409M Members Contributions
 - \$85M Other
- Employers paid 111.7% of the Actuarial Determined Contribution (ADC)

Contribution Rates

Employer Contribution Rates

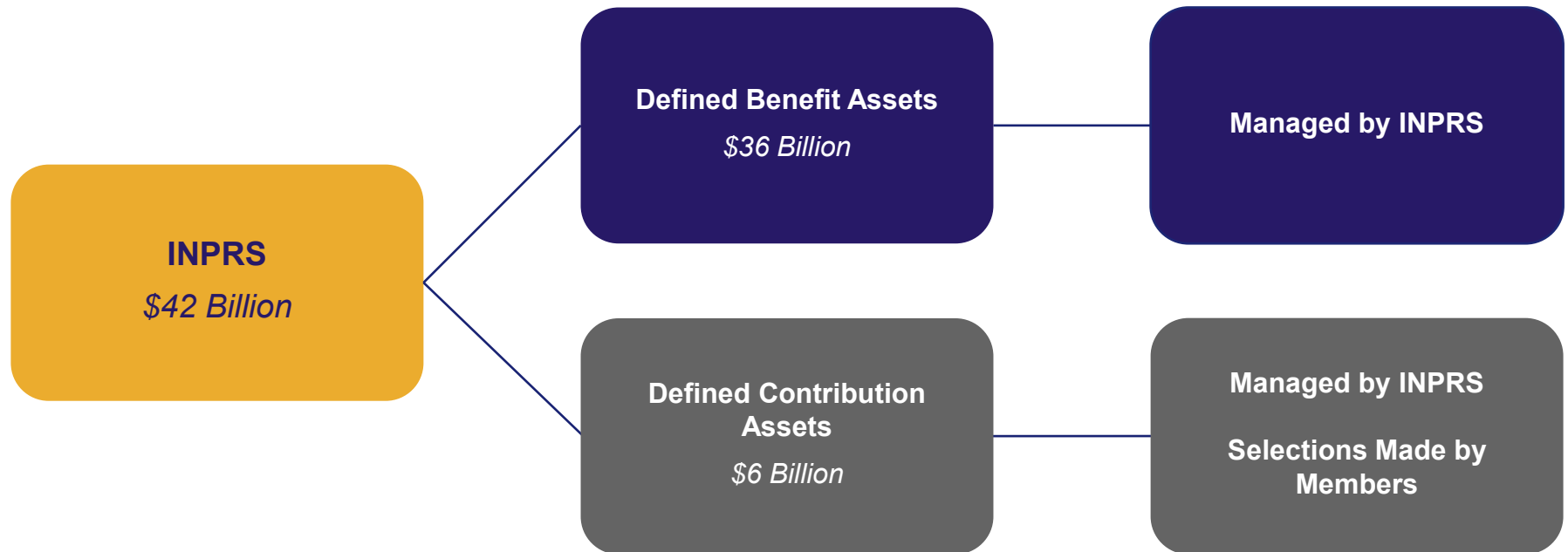


Investments - A Year in Review

- INPRS's total *market value of assets* = \$42.4 billion as of June 30, 2022.
- INPRS's defined benefit plan returned -6.6% for fiscal year 2022.
- The *actuarial value of assets* is used in calculating the funded ratio and actuarial required contributions. Investment returns are smoothed over five years. INPRS's five-year return is 7.1% annualized.
- INPRS continues to target a 6.25% long-term rate of return assumption, a more realistic return assumption among state plans.

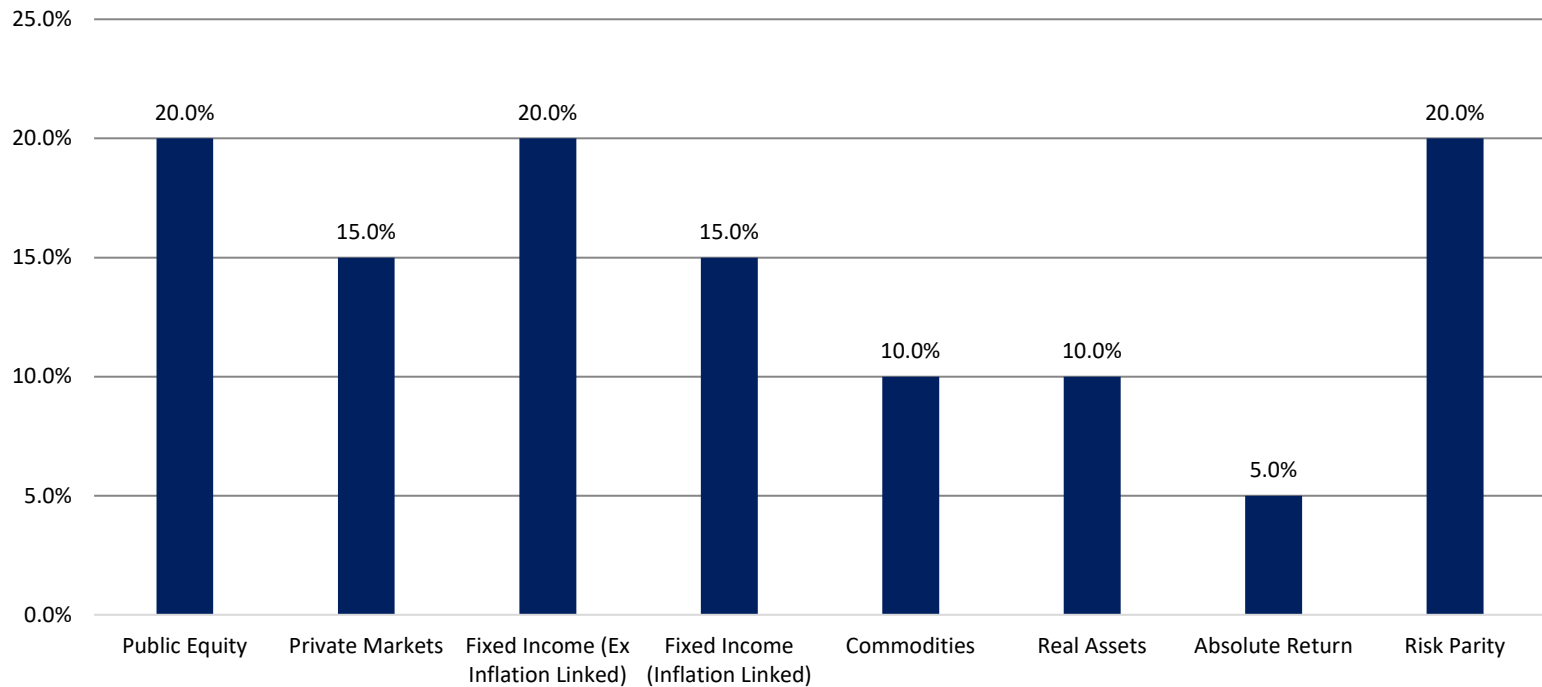
INPRS Assets

INPRS assets are a mix of Defined Benefit and Defined Contribution monies



Defined Contribution assets include the Retirement Medical Benefits Account (\$372,041,415). The Special Death Benefit Fund (\$10,324,936) and Local Public Safety Pension Relief Fund (\$4,391,623), which are not part of the Defined Benefit or Defined Contribution, are excluded from these totals.

Defined Benefit Target Asset Allocation



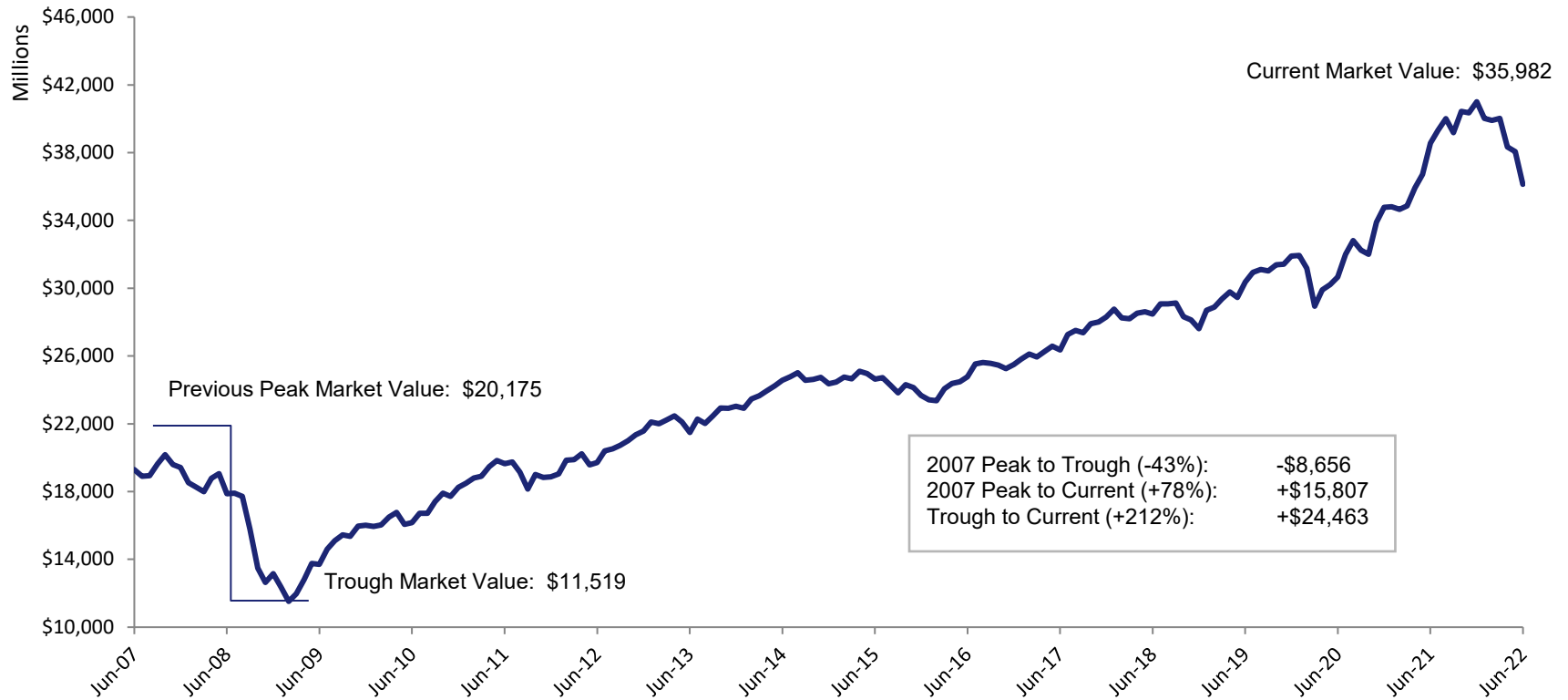
*No changes from the asset-liability study in FY2021.
There will be a new asset-liability study conducted in FY2025.*



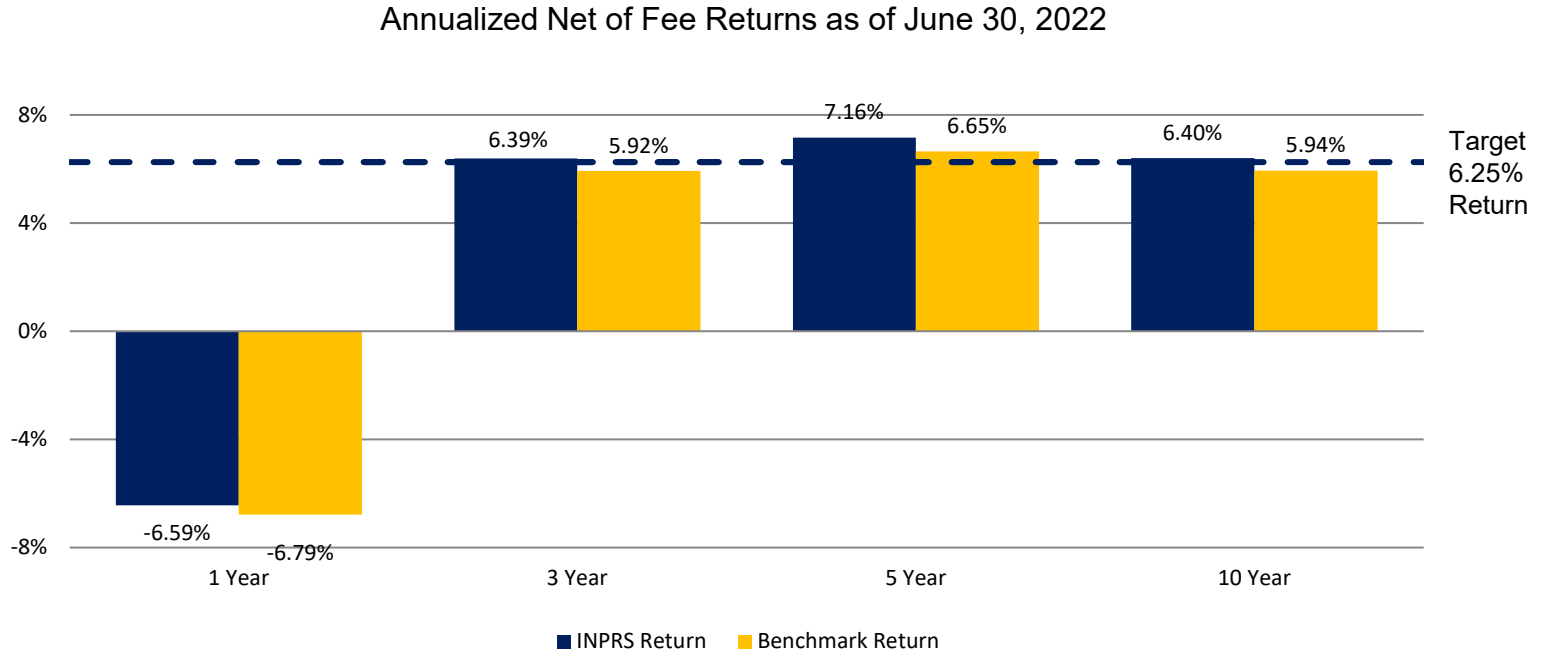
Private Markets includes Private Equity and Private Credit. Real Assets includes Real Estate and Infrastructure.

Defined Benefit Balance Through Time

INPRS DB Market Value as of June 30, 2022 (\$MM)



Defined Benefit Performance vs. Benchmarks

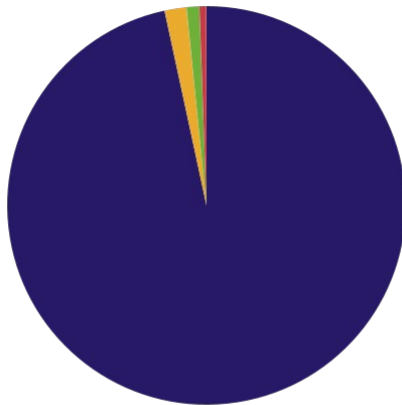


- To evaluate performance, investors must select one or more benchmarks and continuously monitor the portfolio's performance against the chosen benchmark(s).
- Higher than expected inflation and a rise in discount rates contributed to INPRS underperforming its 6.25% target rate of return in FY 2022.

PERF My Choice Highlights

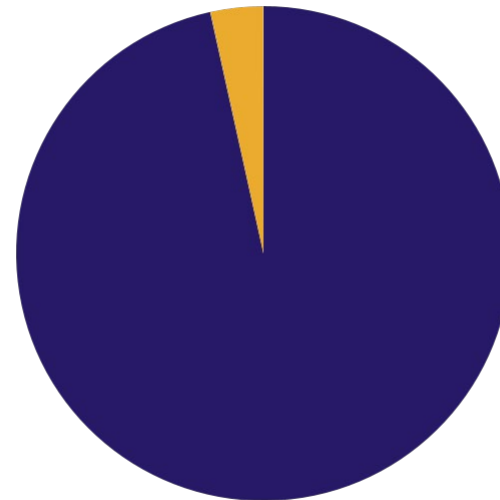
- **Currently 42 employers participate in My Choice**
 - 13 employers are only offering the PERF My Choice to new hires
 - 22 employers are offering new hires a choice between My Choice and Hybrid
 - 7 employers offering to employees by job classification

PERF Offerings by Employer Count



- PERF Only
- PERF / PMCH Decided by Employee Choice
- PMCH to New Hires
- PERF / PMCH Decided by Position

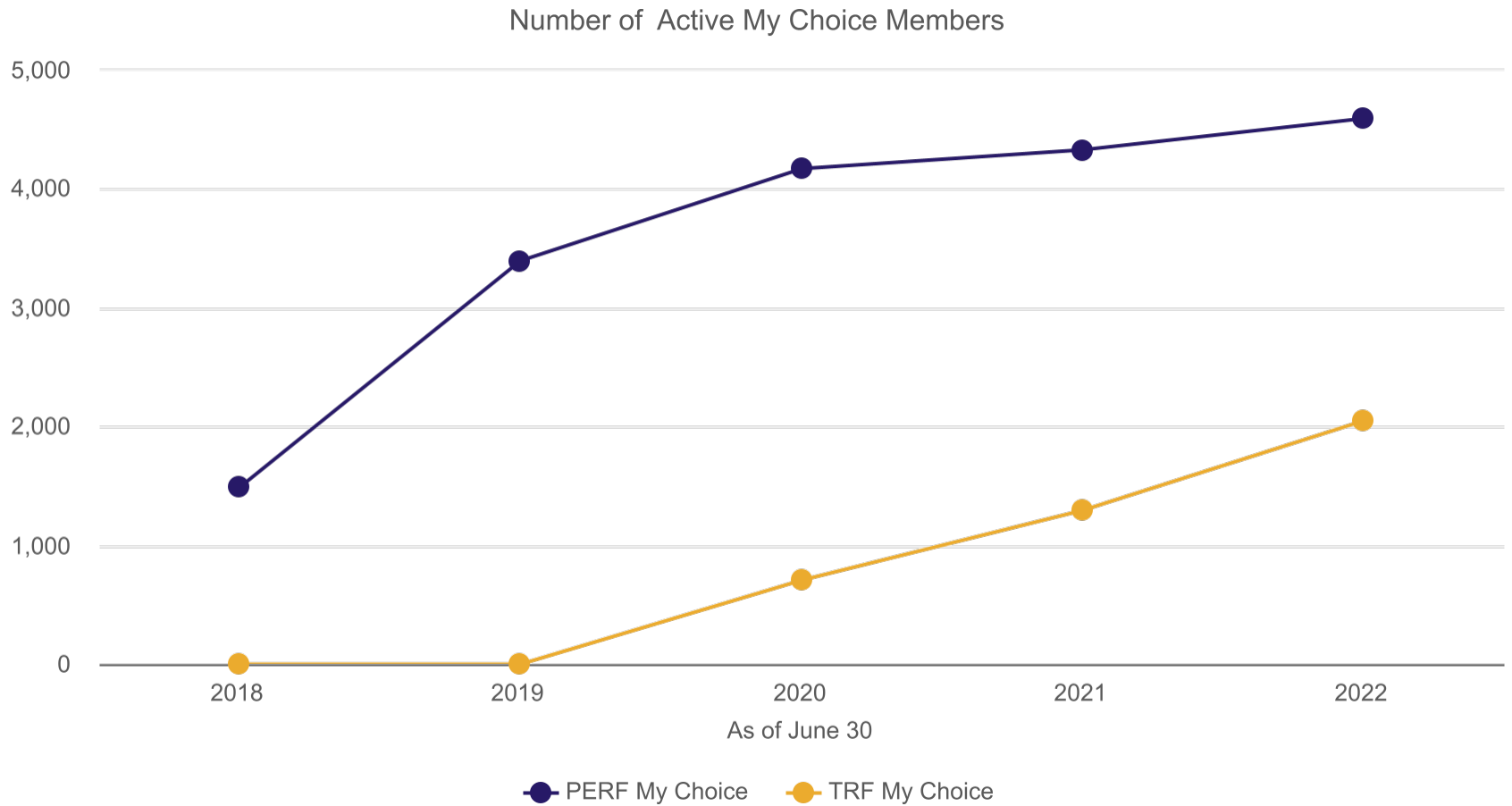
PERF Offerings by Active Member Count



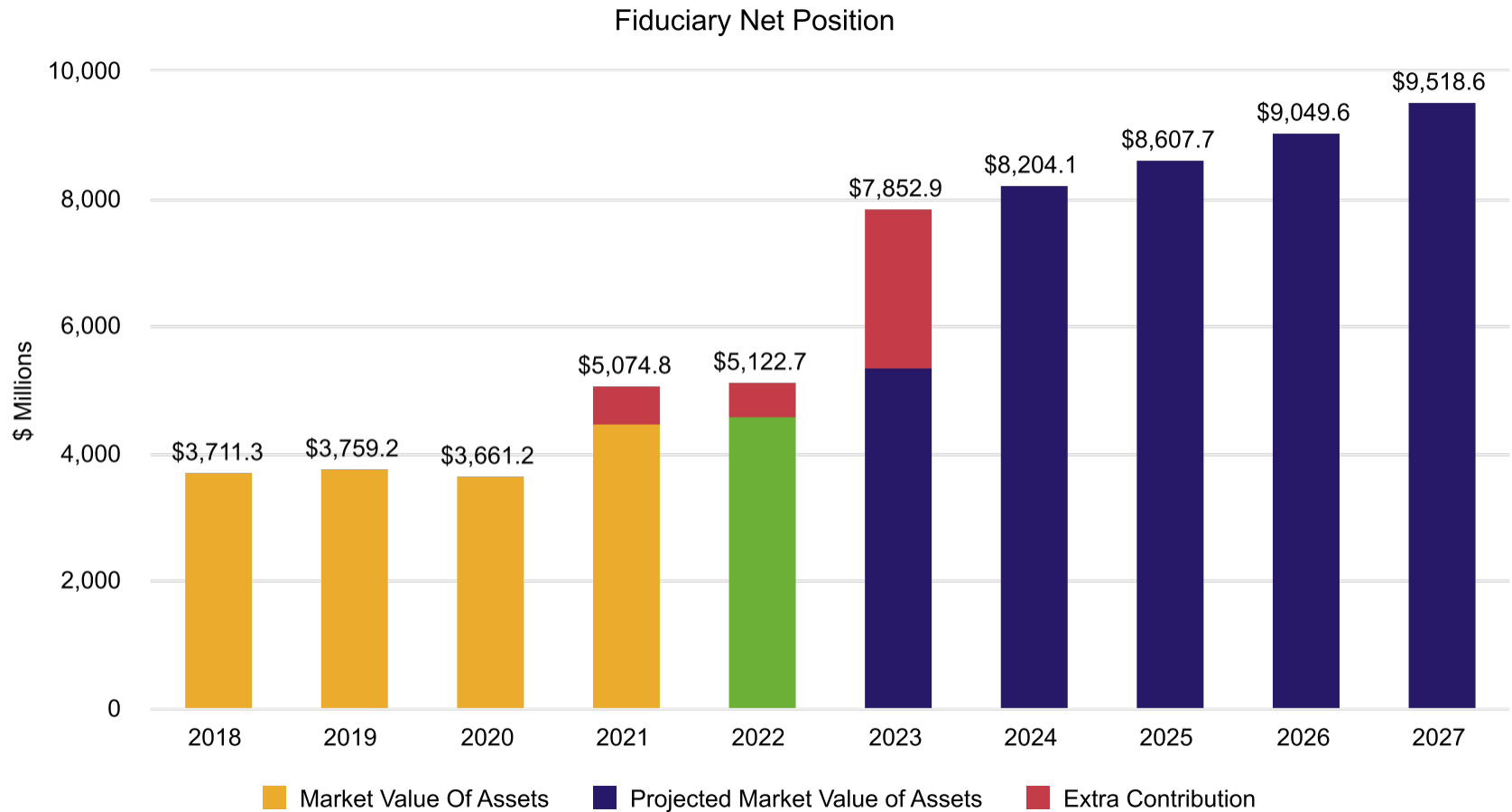
- PERF Hybrid Active
- PERF My Choice Active



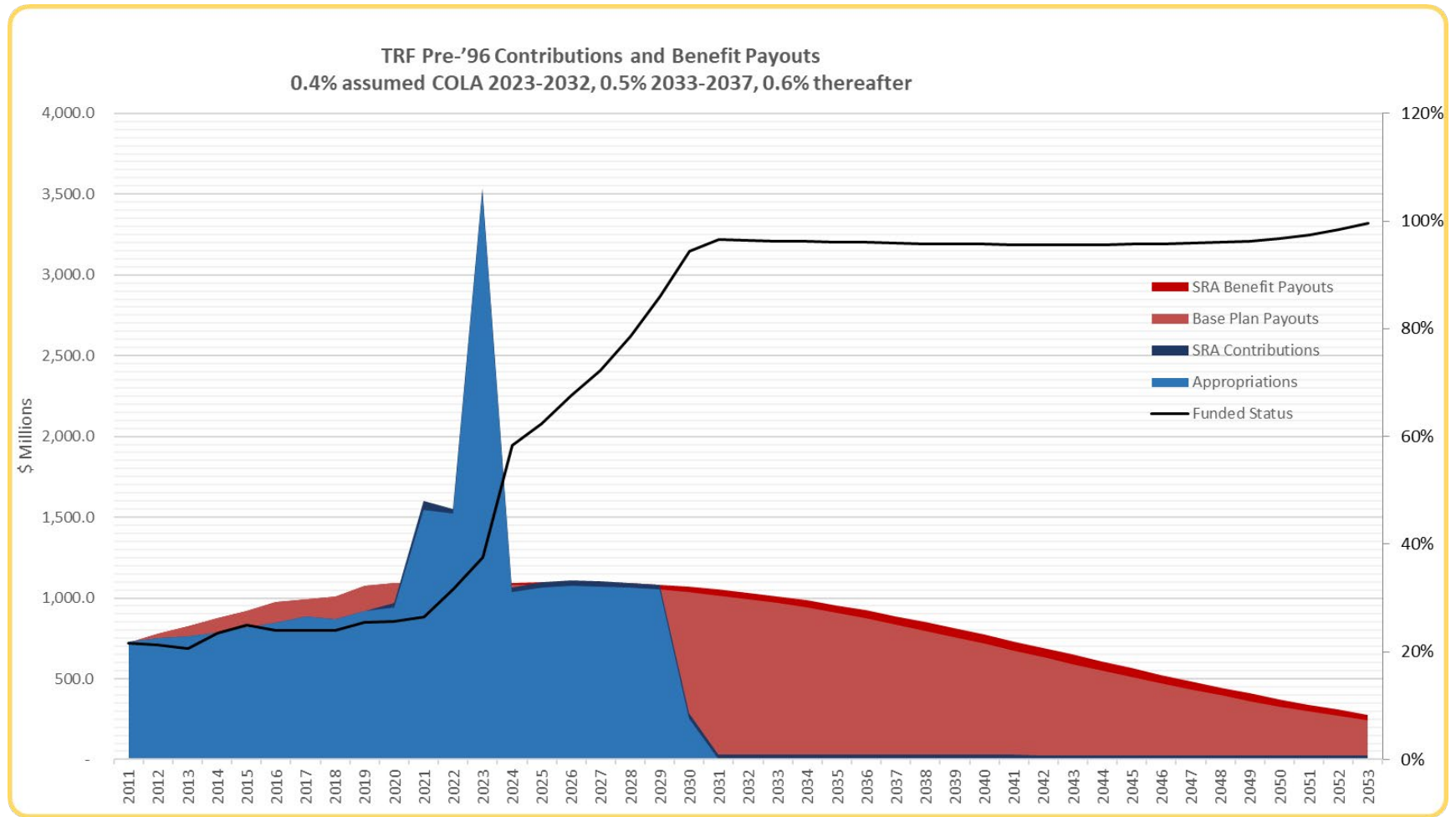
Active My Choice Members by Fund



Teachers' Pre-1996 Defined Benefit Account



Teachers' Pre-1996 DB Account Forecast



Local Public Safety Pension Relief Fund

(\$ Millions)

| | Actual | | | | | Forecast | | |
|---|--------|---------|---------|---------|---------|----------|---------|---------|
| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
| Additions | | | | | | | | |
| Base Appropriations (General Fund) | | \$145.0 | \$145.0 | \$145.0 | \$155.0 | \$152.5 | \$152.5 | \$152.5 |
| Lottery Transfer | | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| Cigarette Tax | | 21.5 | 21.8 | 21.7 | 20.5 | 20.5 | 19.5 | 18.6 |
| Alcohol Tax | | 4.2 | 4.4 | 4.8 | 4.1 | 4.7 | 4.9 | 5.1 |
| Investment Income | | 1.8 | 0.9 | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 |
| Total Additions | | \$202.5 | \$202.1 | \$201.5 | \$209.7 | \$207.8 | \$207.0 | \$206.4 |
| Deductions | | | | | | | | |
| Pension Relief Distributions | | \$212.3 | \$209.2 | \$205.8 | \$207.4 | \$205.6 | \$197.6 | \$192.7 |
| Death Benefits | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other (Local Unit Withdrawal and Admin. Expenses) | | 0.0 | 0.2 | 0.0 | 1.6 | 0.1 | 0.1 | 0.1 |
| Total Deductions | | \$212.3 | \$209.4 | \$205.8 | \$209.0 | \$205.7 | \$197.7 | \$192.8 |
| Pension Relief Fund Balance | \$29.0 | \$19.2 | \$11.9 | \$7.4 | \$8.1 | \$10.2 | \$19.5 | \$33.1 |
| Memo: Local Unit Balance | 1.7 | 1.6 | 1.5 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 |



The decline in cigarette tax revenues is forecasted to accelerate due to a change in federal law

Supplemental Reserve Accounts June 30, 2022

(\$ Thousands)

| | PERF DB | TRF Pre-'96 DB | TRF '96 DB | EG&C DB | LE DB | SRA Total |
|----------------------------------|--------------------|---------------------------|-----------------------|------------------------|--------------|----------------------|
| Net Position - Beginning of Year | \$93,542 | \$134,752 | \$20,092 | \$912 | \$31 | \$249,329 |
| Employer Contribution | \$31,714 | \$0 | \$6,710 | \$290 | \$0 | \$38,714 |
| Lottery | \$0 | \$30,000 | \$0 | \$0 | \$0 | \$30,000 |
| Total Contributions | \$31,714 | \$30,000 | \$6,710 | \$290 | \$0 | \$68,714 |
| Net Investment Income/(Loss) | \$(7,968) | \$(10,199) | \$(1,695) | \$(82) | \$(2) | \$(19,944) |
| Benefit Payouts and expenses | \$(4,085) | \$(6,044) | \$(899) | \$(39) | \$(2) | \$(11,068) |
| Net Inc/(Dec) in Net Position | \$19,661 | \$13,757 | \$4,118 | \$169 | \$(4) | \$37,702 |
| Ending Net Position Restricted | \$113,203 | \$148,509 | \$24,210 | \$1,081 | \$27 | \$287,031 |
| Committed Balance 06/30/2022 | \$85,066 | \$103,711 | \$18,564 | \$816 | \$27 | |
| Uncommitted Balance 06/30/2022 | \$28,137 | \$44,798 | \$5,646 | \$265 | \$0 | |
| 2023 Surcharge Rate | 0.66 % | | 0.21 % | 1.00 % | | |



Note: Lottery money can be split between any of the funds. Currently most \$30M per year is allocated to TRF Pre-'96 DB.

Inflation Impact on INPRS Defined Benefit Plans

- Inflation affects the wages our employers pay, and wages are a component of benefits for all INPRS DB plans
 - Increasing salaries makes past service more valuable, creating new liabilities
 - Increased benefits going forward are not affected materially due to funding methodology
- Inflation affects the benefits retirees receive
 - The legislature grants benefit increases ad hoc for PERF, TRF, LE DB and EG&C
 - Current wages are a component of the benefit for LPSPR, '77 Fund, JRS and PARF
 - '77 Fund benefits are capped to CPI. LPSPR benefits are a mixture of '77 Fund rules and wage indexing, and experienced a substantial increase in 2021
- Inflation affects investment performance
 - Higher than expected inflation has divergent impacts across asset classes, with real assets and inflation-linked bonds typically better positioned for such an environment than equities and nominal bonds.
 - Actions by central banks or governments to control inflation may have the potential to significantly tighten monetary or fiscal policy, potentially causing investment risk premiums to rise and hurting returns across all asset classes.

Pension Funding Sources FY2022 - FY2025

| FUND | FY 2022 Actual | | FY 2023 Forecast | | FY 2024 Forecast | | FY 2025 Forecast | |
|----------------|----------------------------|-----------|----------------------------|-----------|----------------------------|-----------|----------------------------|-----------|
| | General Fund Appropriation | Other | General Fund Appropriation | Other | General Fund Appropriation | Other | General Fund Appropriation | Other |
| PERF DB | | \$629.3 | | \$620.3 | | \$631.1 | | \$639.6 |
| 1% COLA | | | | | | | | |
| TRF Pre-'96 DB | 1,520.4 | 32.3 | 3,505.0 | 30.0 | 1,036.0 | 30.0 | 1,067.0 | 30.0 |
| 1% COLA | | | | | | | | |
| TRF '96 DB | | 211.1 | | 226.4 | | 232.5 | | 239.0 |
| 1% COLA | | | | | | | | |
| 77 Fund | | 236.0 | | 240.1 | | 250.0 | | 259.4 |
| JRS | 10.4 | 11.8 | 10.9 | 11.1 | 14.5 | 11.3 | 15.1 | 11.4 |
| EG&C | | 8.1 | | 8.1 | | 8.0 | | 8.0 |
| 1% COLA | | | | | | | | |
| PARF | 4.0 | 1.5 | 4.2 | 1.4 | 4.4 | 1.5 | 4.5 | 1.6 |
| LE DB* | 0.2 | | 0.0 | | 0.0 | | 0.0 | |
| 1% COLA | | | | | | | | |
| Total | \$1,535.0 | \$1,130.1 | \$3,520.1 | \$1,137.4 | \$1,054.9 | \$1,164.4 | \$1,086.6 | \$1,189.0 |
| PERF DC | | \$197.8 | | \$205.3 | | \$213.1 | | \$221.2 |
| TRF DC | | 143.4 | | 151.2 | | 159.3 | | 167.9 |
| LE DC | | 2.0 | | 2.0 | | 2.1 | | 2.2 |
| Total | | \$343.2 | | \$358.5 | | \$374.5 | | \$391.3 |
| RMBA | | \$27.4 | | \$28.1 | | \$28.9 | | \$29.6 |
| Special Death | | 0.4 | | 0.4 | | 0.4 | | 0.4 |
| Pension Relief | 155.0 | 54.5 | 152.5 | 55.2 | 152.5 | 54.4 | 152.5 | 53.7 |
| Total | \$1,690.0 | \$1,555.6 | \$3,672.6 | \$1,579.6 | \$1,207.4 | \$1,622.6 | \$1,239.1 | \$1,664.0 |



*LE DB will request \$1 per year with augmentation allowed for each of FY24 and FY25.