AARP in the STATES

SNAPSHOT: The Indiana Public Employees' Retirement Fund

Overview

The Indiana Public Employees' Retirement Fund (PERF) is a part of the Indiana Public Retirement System (INPRS). INPRS administers eight pension trust funds, including seven defined benefit retirement plans and one defined contribution retirement plan, two other employment benefit trust funds, and one investment trust fund.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Key Facts

- Employees contribute 3% of salary to help fund their retirement.
- Employers contribute between 7.9% and 8.8% to the fund.
- Each dollar invested by Indiana taxpayers in PERF supported $3.70 in total economic activity in the state.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

In 2012, legislation was passed to give newly hired PERF members the option of participating only in the Annuity Savings Account (ASA), instead of the defined benefit pension plan. The ASA is a 401k-type plan, established in 1955, that is supplemental for other PERF members. Employees choosing the ASA-only option will receive a contribution 3% of pay plus the actuarial equivalent up to the DB plan's normal cost.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k)-type plan, generally have the greatest opportunity to achieve financial security in retirement.

Key Indiana Data[1]

The chart below summarizes the key PERF data, as of June 30, 2012:

Total active employees	145,519
Total retired members, disabled members, and beneficiaries	72,992
Average annual benefit*	$7,901
Employer contribution rate	State: 8.6% Political subdivisions: 7.9% from July to December; 8.8% from January to June
Employee contribution rate**	3.0%
Actuarial value of assets	$12.1 billion
Funded ratio	76.6%
Unfunded actuarial accrued liability	$3.7 billion
Percent of ARC contributed	94.5% (2007); 104.3% (2008); 102.2% (2009); 91.9% (2010); 70.8% (2011); 78.1% (2012)

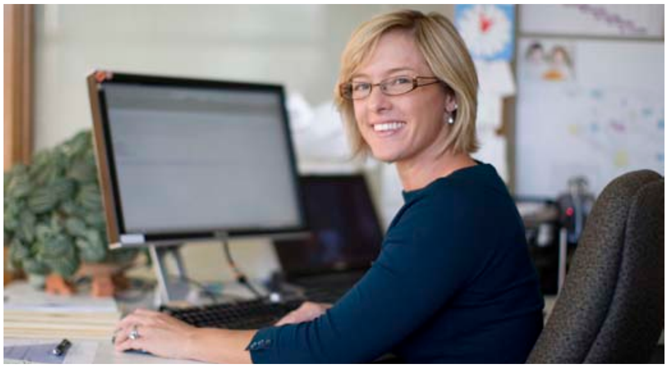
* Includes member annuities.
** Contribution goes to the ASA account.

The Economic Impact of Indiana Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Indiana communities and the state economy. Within the state of Indiana, 2012 expenditures stemming from state and local pensions supported:

- 32,159 jobs that paid $1.4 billion in wages and salaries
- $5.2 billion in total economic output
- $633.2 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.78 in total economic activity in Indiana. Each dollar "invested" by Indiana taxpayers in these plans supported $3.70 in total economic activity in the state.



[1] All data, unless otherwise noted, as of June 30, 2012.

[2] Rhee, N. 2014. *Pensionomics 2014 Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

AARP in the STATES

The Indiana Public Employees' Retirement Fund By the Numbers

The following provides a snapshot of key data relative to the **Indiana Public Employees' Retirement Fund (PERF)**. PERF provides retirement benefits for state employees in Indiana. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$3.70 The total economic activity in Indiana for each dollar invested by Indiana taxpayers in PERF.

$5.2 billion Total economic output in Indiana created in 2012 when public sector retirees spent their pension income.

$633.2 million Federal, state and local tax revenues generated by spending of Indiana public pension income.

32,159 Jobs created from pension income spending by Indiana state and local government retirees.

145,519 Total active members of PERF.

$7,901 Average annual benefit from the DB pension for a PERF retiree.

3.0 Percentage of salary that PERF employees contribute from every paycheck to their retirement benefit to share the funding responsibility.

5.0 Median employee contribution rate nationally.

33 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service.

80 Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data come from either the Indiana Public Retirement System or the National Institute on Retirement Security.

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AARP in the STATES

SNAPSHOT: The Indiana State Teachers' Retirement Fund

Overview

The Indiana State Teachers' Retirement Fund (TRF) is a part of the Indiana Public Retirement System (INPRS). INPRS administers eight pension trust funds, including seven defined benefit retirement plans and one defined contribution retirement plan, two other employment benefit trust funds, and one investment trust fund.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k)-type plan, generally have the greatest opportunity to achieve financial security in retirement.

Key Facts

- Employees contribute 3% of salary to TRF.
- Employers contribute 7.5% of salary to the fund.
- Each dollar invested by Indiana taxpayers in TRF supported $3.70 in total economic activity in the state.

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Key Indiana Teachers' Data[1]

The chart below summarizes the key TRF data, as of June 30, 2012:

Total active employees	70,573
Total retired members, disabled members, and beneficiaries	49,971
Average annual benefit*	$19,081
Employer contribution rate	7.5%
Employee contribution rate**	3.0%
Actuarial value of assets	$8.9 billion
Funded ratio	42.7%
Unfunded actuarial accrued liability	$11.9 billion
Percent of ARC contributed	101.4% (2007); 101.0% (2008); 104.2% (2009); 93.0% (2010); 87.3% (2011); 90.9% (2012)

* Includes member annuities.
** Employee contribution goes to the Annuity Savings Account.

The Economic Impact of Indiana Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Indiana communities and the state economy. Within the state of Indiana, 2012 expenditures stemming from state and local pensions supported:

- 32,159 jobs that paid $1.4 billion in wages and salaries
- $5.2 billion in total economic output
- $633.2 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.78 in total economic activity in Indiana.

Each dollar "invested" by Indiana taxpayers in these plans supported $3.70 in total economic activity in the state.

[1] All data, unless otherwise noted, as of June 30, 2012.

[2] Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

AARP in the STATES

The Indiana State Teachers' Retirement Fund By the Numbers

The following provides a snapshot of key data relative to the **Indiana State Teachers' Retirement Fund (TRF).** TRF provides retirement benefits for public school employees in Indiana. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$3.70 The total economic activity in Indiana for each dollar invested by Indiana taxpayers in TRF.

$5.2 billion Total economic output in Indiana created in 2012 when public sector retirees spent their pension income.

$633.2 million Federal, state and local tax revenues generated by spending of Indiana public pension income.

32,159 Jobs created from pension income spending by Indiana state and local government retirees.

70,573 Total active members of TRF.

$19,081 Average annual benefit from the DB plan for a retired teacher in Indiana.

3.0 Percentage of salary that employees contribute from every paycheck to their retirement benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

33 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

271 The number of teachers retained each year solely due to the defined benefit (DB) plan.

$3.4 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the Indiana Public Retirement System or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Indiana Teachers

Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."[1]

Key Facts

- Employees contribute 3% of salary out of each paycheck to the retirement fund.
- The average retirement benefit is $19,081 per year, or $1,590 per month.
- TRF covers 70,573 active school employees and 49,917 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The DB pension replaces 33% of pre-retirement income for a teacher with 30 years of service.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.[2]

Public school teachers in Indiana have pension coverage through the Indiana State Teachers' Retirement Fund (TRF).

TRF covers 70,573 active employees of public educational institutions, and 49,917 retired school employees and beneficiaries. Employees contribute 3.0% out of each of their paychecks to the help fund their retirement benefit. The average retirement benefit is $19,081 per year, or $1,590 per month.

The DB pension replaces 33% of pre-retirement income for a teacher with 30 years of service. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

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Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.[3] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[4] Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 82% of Americans indicated that those with pensions are more likely to have a secure retirement, and 82% believe all workers should have access to a pension plan.[5]

Pensions Help Retain Quality Teachers in Indiana[6]

Better teachers are experienced teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.

In Indiana:

- The cost of turnover in Indiana is $12,556 per teacher.
- 271 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $3.4 million in teacher turnover costs in 2003 in school districts across the state.

About NRTA

NRTA: *AARP's Educator Community* is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.

[1, 2] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[3] Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years*. Washington, DC: National Institute on Retirement Security.

[4] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[5] Oakley, D, and K. Kenneally. 2013. Pensions and Retirement Security 2013: A Roadmap for Policy Makers. Washington, DC: National Institute on Retirement Security.

[6] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement.* Washington, DC: National Institute on Retirement Security.