

2015 Local Pension Report to the Pension Management Oversight Committee (PMOC)

Statutory Requirement

Indiana Code 4-3-22-19 requires the OMB to submit a report in compliance with IC 5-14-6 that summarizes and analyzes retirement plan information to the interim study committee on pension management oversight (PMOC). This report provides an update of the information reported in 2014, and information for the 2015 year which is self reported¹ by local officials through the Gateway portal. Pension data from Gateway may be found at this link:

https://gateway.ifionline.org/report_builder/Default3a.aspx?rptType= afr&rpt=Pension_statewide&rptName=Pension%20Statewide%20Summary%20&%20Detail.

Interim Study Committee on Pension Management Oversight, November 17, 2015 Recommendation

The 2014 report indicated that seven local pension plans had funded ratios of less than 25%. The Committee voted on a motion that would encourage the State Board of Accounts to follow-up with and acquire additional data from the local plans that were funded at less than 25%. The motion was approved by consent.

State Board of Accounts Review

For the calendar year ending December 31, 2014, the following seven plans self-reported net position as a percentage of total pension liability of less than 25%:

| Name of Pension Plan | 2014 Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability (reported in Gateway) | 2014 Actual data from audited CAFR, or actuarial report |
|--|--|--|
| Fort Wayne Sanitary Officers' Pension Plan | 0.00 | 0.50 |
| Clay County Police Retirement Plan | 0.00 | 59.07 |
| Clay County Police Benefit Plan | 0.00 | 147.42 |
| Steuben County Police Benefit Plan | 0.00 | 122.05 |
| Steuben County Police Retirement Plan | 0.00 | 77.65 |
| Parke County Police Benefit Plan | 20.22 | 20.22 |
| Sullivan County Police Benefit Plan | 24.74 | 24.73 |

After completing the review of the actuarial data, four of the seven plans reported incorrect information in Gateway, and were funded above 25%, while three plans were in fact funded below 25%. A copy of the review conducted by the State Board of Accounts can be found in Appendix A.

¹ Data is self-reported by local officials. In most cases a local county auditor will report information for Sheriff Defined Benefit (DB) plans. The actuarial firm that provides valuation data for more than 90% of county DB plans gives local officials numbers to report through Gateway; however, the data is self-reported by locals, may contain errors, and may be incomplete.

Contents of Report

Data contained in the 2015 local pension report was retrieved on September 15, 2016 from the Statewide Pension Report of the Gateway portal. This report summarizes and analyzes data from the 478 plans classified as “Other Plans Reported” on Gateway. Indiana Code 5-11-20 requires the following entities to report pension information through Gateway:

1. Retirement funds for utility employees (IC 36-9)
2. Members of the County Police force pension trust (IC 36-8)
3. Retirement plans adopted by a board of a local health department (IC 16-1-4-25 or IC 16-20-1-3)
4. Retirement benefit program of a joint city-county health department (IC 16-1-7-16)
5. Members of county hospital pension or retirement plans (IC 16-12.1-3-8 or IC 16-22-3-11)
6. Retirement program of the health and hospital corporation (IC 16-12.2-5 or IC 16-23-1)
7. Pension plan provided by city, town, or county housing authority (IC 16-12-21-27 or IC 16-22-8-34)
8. Pension or retirement program of a public transportation corporation (IC 36-7)
9. Pension or retirement benefits of a regional transportation authority (IC 36-9)
10. Pension plan for an airport authority (IC 8-22-3)
11. All systems of pensions and retirement plans provided (IC 36-1-3)

Reporting entities were required to provide the following information in Gateway:

1. Basic plan parameters (type of plan, plan administrator, employer)
2. If Defined Benefit (DB) plan (plan’s funding percentage ratio, actuarial assumptions, plan’s investment returns for the preceding fiscal year)
3. Total amount of contributions made by the plan sponsor during the preceding fiscal year
4. Number of plan participants (actives, retired, and separated from service)
5. Anything else required by the State Board of Accounts

Data & Analysis

Basic Plan Parameters

All Indiana counties except Perry have one sheriff retirement and one sheriff benefit plan; Perry County has neither of these plans. Of the 478 other plans reported, 203² plans were classified as Defined Benefit (DB) plans, though 20 of the plans appear to have erroneously reported as such. The actual number of DB plans reported in Gateway was 183. However, data was retrieved from actuarial reports for 9 additional DB plans that are referenced in Appendix A³, bringing the total to 192 Defined Benefit plans for 2015. There were 255 entities that identified as a Defined Contribution (DC) plan, and 20 were classified as a combination, or Hybrid plan. Within the 192 DB plans, 180 of the plans were police or sheriff county retirement or benefit Plans. County sheriff plans are administered by the respective

² Twenty entities self-reported as a Defined Benefit (DB) plan, however, after review of additional details on Gateway, these entities are likely not DB plans. The actual number of DB plans for 2015 is 183.

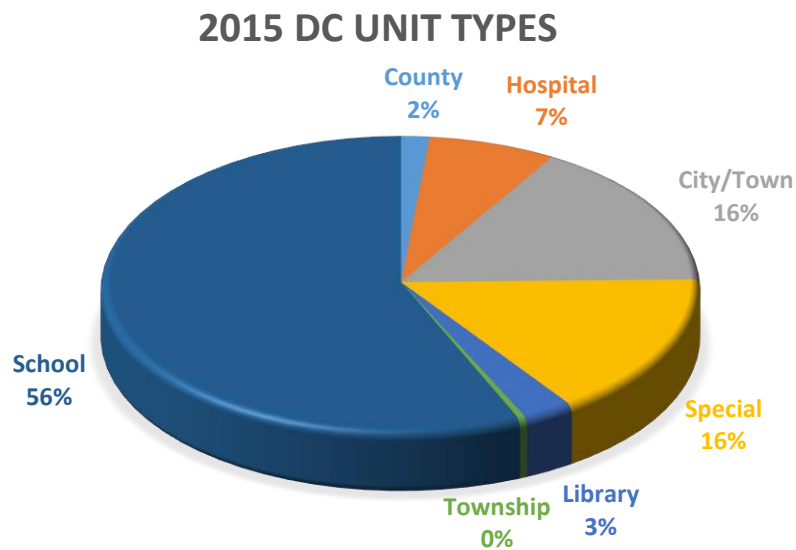
³ As of September 15, 2016 the following counties did not report any police retirement or benefit plan information in Gateway: Crawford, Jefferson, and Fulton. Fulton County attempted to report information on Gateway, but the report was locked to changes post audit as is standard practice. Additionally, Montgomery and Warrick County did not report information for their Police Benefit Plan, and Pike County failed to report on their Police Retirement Plan. Appendix A contains the funded percentage for these counties based upon 2015 actuarial reports. Finally, Vanderburgh County did not report on their Police Benefit Plan, and their Retirement Plan was incorrectly reported as a Defined Contribution Plan.

local county merit boards. Four DB plans were classified as retirement plans for city or town utility employees; three plans were identified as county hospital pensions; and three plans were for a public or regional transportation entity.

As many as 255 units identified their retirement plan as a Defined Contribution plan in 2015. A majority (56%) of the DC plans were for school corporations. Cities/towns as well as special districts each represent 16 percent of the entities with a DC plan. “Special” districts include housing authorities, port authorities, regional planning districts, conservancy districts, and solid waste management entities. The breakout of 251 DC plans from 2014 is provided below:

- Schools = 61%
- City/Town = 17%
- Special = 13%
- Hospital = 3%
- County = 2%
- Library = 2%
- Township = 2%

CHART 1: Defined Contribution Unit Types



Twenty entities identified their retirement plan as a hybrid, or a plan with a combination of DB and DC components. Forty percent of the hybrid plans were for school corporations. The remaining self-reported hybrid plans were for towns, special regional utility districts, and libraries⁴. It is possible that some entities that reported having a hybrid plan should have been classified as a Defined Contribution plan.

Defined Benefit Plan Funding Percentage

More than 140 DB plans in 2015 had a funding percentage ratio of at least 75%, and within this group 66 DB plans were more than 100% funded. Fifty DB plans reported funding levels between 25 and 75

⁴ The reviewer relied on the reporting unit to classify plans correctly. Additional research into the details of the hybrid plans is not analyzed in this report.

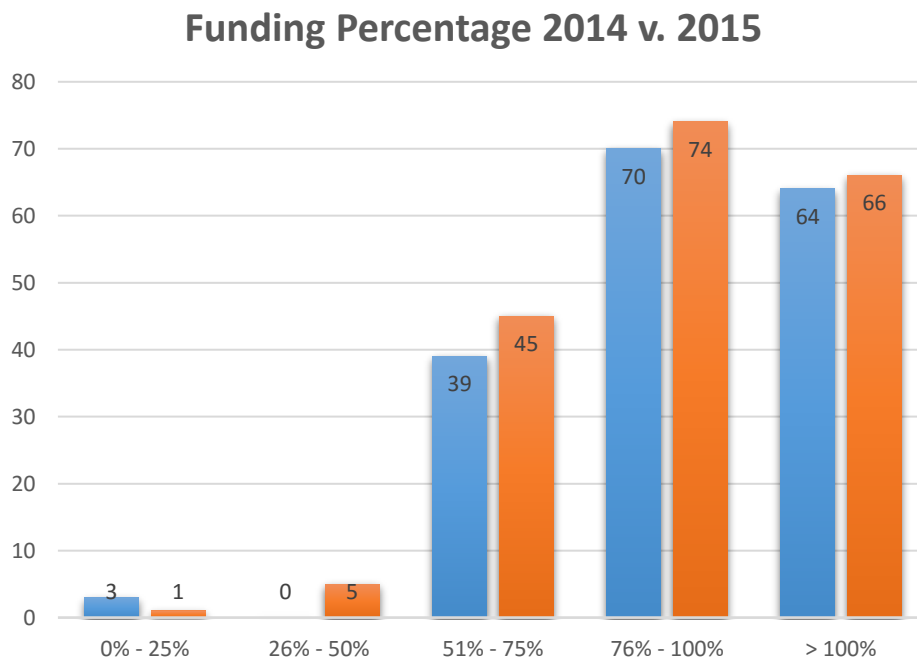
percent. Even though three plans reported being funded at less than 25%, review of data from 2014 for the South Bend Transportation DB plan, and Clinton County Police Retirement Plan’s 2015 actuarial report indicates that the information was reported incorrectly in the Gateway system this year. Only one DB plan (Parke County Police Benefit Plan) was funded at less than 25% in 2015. This county also reported being funded at less than 25% in 2014, and the information was confirmed in SBOA’s analysis of the actuarial report for Parke. In 2014, Sullivan County Police Benefit Plan was funded at 24.74%, but improved their funding status to 27.42% in 2015. Chart 2 displays the DB plans’ funding percentage ratio for 2014 and 2015.

For entities that reported in both years, there were 50 cases in which the fiduciary net position of the fund improved. The fiduciary net position remained generally the same for 14 plans, and was worse off in 2015 than 2014 for 101 plans⁵.

Most DB plans reported making or exceeding the Actuarially Determined Contribution (ADC) in 2015. Only four plans contributed less than the ADC, and two of these plans were funded above 75%. The other two plans were funded at 50.36% and 57.41% in 2015.

Most DB plans in 2015 used an investment rate of return assumption of 6.75%. However, the actual investment return reported for the plan year ending prior to the most recently reported actuarial valuation date averaged 3.72%. Only two plans reported a negative rate of return. A majority of the DB plans also reported a Cost of Living Adjustment of 0% in 2015, which was similar to data reported in 2014.

CHART 2: Defined Benefit Funding Percentage Ratio 2014 v. 2015



⁵ In 21 cases the reviewer was not able to compare 2014 to 2015 data because the entity did not report the information in Gateway for both years. Additionally, some data may be incorrectly self-reported. The South Bend Public Transportation DB Plan seems to be an example of incorrect reporting – in 2014, the FNP was 90.32%, and the plan provided more than the ADC, but has a FNP of 11.46% in 2015. In this case the Plan’s Fiduciary Net Pension was incorrectly reported in 2015.

Plan participants

In total 57,710 plan participants were included in one of the pension plans reported through Gateway. Within this total number, participants were classified in one of four areas:

1. Active and Vested
2. Active and Not Vested
3. Separated and Vested
4. Current Retiree

Most of the DB plan participants (6,652) were active and vested individuals, followed by 3,319 retirees. DC plan participants were mostly active and vested (24,394), followed by a group of 9,909 individuals who were active but not yet vested.

Summary

The number of DB plans with funding percentages of 75% or greater was 140 in 2015. Approximately 98% of entities made the Actuarially Determined Contribution for 2015, though compared to 2014, 55% of entities experienced a decrease in their funding percentage ratio. Though the fiduciary net position decreased from 2014 to 2015 for the majority of plans, more than 66 plans are still more than 100% funded. The Parke County Police Benefit Plan was the only plan to have less than a 25% funded ratio.

Actuarial assumptions for the DB plans seem standard, and actual investment returns for the plan year ending prior to the most recently reported actuarial valuation date averaged 3.72%.

Continued efforts should be made to automate reporting of data for the local pension plans in order to minimize the impact of self-reporting errors.

**ADDITIONAL PENSION INFORMATION
FOR PLANS SELF-REPORTING LESS THAN 25 PERCENT FUNDED**

For the year ended December 31, 2014, the following plans self-reported net position as a percentage of total pension liability of less than 25%.

| Name of Pension Plan | Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability* |
|---------------------------------------|---|
| Sanitary Officers' Pension Plan | 0.00 |
| Clay County Police Retirement Plan | 0.00 |
| Clay County Police Benefit Plan | 0.00 |
| Steuben County Police Benefit Plan | 0.00 |
| Steuben County Police Retirement Plan | 0.00 |
| Parke County Police Benefit Plan | 20.22 |
| Sullivan County Police Benefit Plan | 24.74 |

The audited comprehensive annual financial report for the City of Fort Wayne for the year ended December 31, 2014 was used to compare the Sanitary Officers' Pension Plan. The self-reported plan information for 2014 was compared to data obtained from the pension actuary, McCready and Keene for the other plans above. The results of our comparisons are following.

| <u>2014 Sanitary Officers' Pension Plan</u> | <u>Gateway</u> | <u>City of Fort Wayne CAFR (Audited)</u> |
|---|----------------|--|
| Amount of Employee Contribution: | * | 0 |
| Current Number of Retirees: | 18 | 19 |
| Actual Investment Return Last Year: | 6.00% | 0.00% |
| Inflation Rate: | 0.00% | 3.00% |
| Plans Funding Percentage Ratio (Market Value Only): | 0.40% | * |
| Employer: | 0.00% | * |
| Service Cost: | \$ - | \$ - |
| Actuarially Determined Contribution: | \$ - | \$ 554,448.00 |
| Contributions made: | \$ 343,653.00 | \$ 489,972.00 |
| Plan's Fiduciary Net Position: | \$ - | \$ 49,252.00 |
| Plan's Fiduciary Net Position as a Percentage of Total Pension Liability: | 0.00% | 0.50% |

*Information Not Provided

| <u>Clay County Police Retirement Plan</u> | <u>Gateway</u> | <u>McCready & Keene</u> |
|---|----------------|-----------------------------|
| Amount of Employer Contribution: | \$ 192,691.00 | \$ 118,398.00 |
| Current Number of Retirees: | 5 | 5 |
| Actual Investment Return Last Year: | 4.70% | 9.20% |
| Inflation Rate: | 0% | 3.50% |
| Plans Funding Percentage Ratio (Market Value Only): | 0% | 59.07% |
| Employer: | 34.00% | 21.60% |
| Service Cost: | \$ - | \$ 101,004.00 |
| Actuarially Determined Contribution: | \$ - | \$ 109,054.00 |
| Contributions made: | \$ 192,691.00 | \$ 118,398.00 |
| Plan's Fiduciary Net Position: | \$ - | \$ 1,143,297.00 |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability: | 0% | 59.07% |

| <u>Clay County Police Benefit Plan</u> | <u>Gateway</u> | <u>McCready & Keene</u> |
|---|----------------|-----------------------------|
| Amount of Employer Contribution: | \$ 7,309.00 | \$ 6,602.00 |
| Current Number of Retirees: | 0 | 0 |
| Actual Investment Return Last Year: | 4.70% | 9.40% |
| Inflation Rate: | 0% | 3.50% |
| Plans Funding Percentage Ratio(Market Value Only): | 0% | 147.42% |
| Employer: | 2.00% | 1.30% |
| Service Cost: | \$ - | \$ 3,521.00 |
| Actuarially Determined Contribution: | \$ - | \$ 6,602.00 |
| Contributions made: | \$ 7,309.00 | \$ 6,602.00 |
| Plan's Fiduciary Net Position: | \$ - | \$ 137,425.00 |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability: | 0% | 147.42% |

| <u>Steuben County Police Benefit Plan</u> | <u>Gateway</u> | <u>McCready & Keene</u> |
|---|----------------|-----------------------------|
| Amount of Employer Contribution: | \$ 11,867.00 | \$ 11,867.00 |
| Current Number of Retirees: | 1 | 1 |
| Actual Investment Return Last Year: | 5.50% | 9.80% |
| Inflation Rate: | 0% | 3.00% |
| Plans Funding Percentage Ratio(Market Value Only): | 0% | 122.05% |
| Employer: | 1.40% | 1.40% |
| Service Cost: | \$ - | \$ 5,091.00 |
| Actuarially Determined Contribution: | \$ - | \$ 11,867.00 |
| Contributions made: | \$ 11,867.00 | \$ 11,867.00 |
| Plan's Fiduciary Net Position: | \$ - | \$ 243,189.00 |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability: | 0% | 122.05% |

| <u>Steuben County Police Retirement Plan</u> | <u>Gateway</u> | <u>McCready & Keene</u> |
|---|----------------|-----------------------------|
| Amount of Employer Contribution: | \$ 185,358.00 | \$ 190,251.00 |
| Current Number of Retirees: | 10 | 10 |
| Actual Investment Return Last Year: | 5.50% | 13.50% |
| Inflation Rate: | 0.00% | 3.00% |
| Plans Funding Percentage Ratio(Market Value Only): | 0.00% | 77.66% |
| Employer: | 23.70% | 23.70% |
| Service Cost: | \$ - | \$ 147,636.00 |
| Actuarially Determined Contribution: | \$ - | \$ 185,358.00 |
| Contributions made: | \$ 185,358.00 | \$ 190,251.00 |
| Plan's Fiduciary Net Position: | \$ - | \$ 4,202,934.00 |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability: | 0.00% | 77.65% |

| <u>Parke County Police Benefit Plan</u> | <u>Gateway</u> | <u>McCready & Keene</u> |
|---|----------------|-----------------------------|
| Amount of Employer Contribution: | \$ 41,019.00 | \$ 41,019.00 |
| Current Number of Retirees: | 3 | 3 |
| Actual Investment Return Last Year: | 8.90% | 8.90% |
| Inflation Rate: | 3.50% | 3.50% |
| Plans Funding Percentage Ratio(Market Value Only): | 20.22% | 20.22% |
| Employer: | 10.70% | 10.70% |
| Service Cost: | \$ 40,622.00 | \$ 40,622.00 |
| Actuarially Determined Contribution: | \$ 41,019.00 | \$ 41,019.00 |
| Contributions made: | \$ 41,019.00 | \$ 41,019.00 |
| Plan's Fiduciary Net Position: | \$ 76,568.00 | \$ 76,568.00 |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability: | 20.22 | 20.22% |

| <u>Sullivan County Police Benefit Plan</u> | <u>Gateway</u> | <u>McCready & Keene</u> |
|---|----------------|-----------------------------|
| Amount of Employer Contribution: | \$ 50,772.00 | \$ 50,772.00 |
| Current Number of Retirees: | 4 | 4 |
| Actual Investment Return Last Year: | 7.90% | 7.90% |
| Inflation Rate: | 3.50% | 3.50% |
| Plans Funding Percentage Ratio(Market Value Only): | 24.74% | 24.74% |
| Employer: | 14.50% | 14.50% |
| Service Cost: | \$ 49,605.00 | \$ 49,605.00 |
| Actuarially Determined Contribution: | \$ 20,772.00 | \$ 50,772.00 |
| Contributions made: | \$ 50,772.00 | \$ 50,772.00 |
| Plan's Fiduciary Net Position: | \$ 120,335.00 | \$ 120,335.00 |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability: | 24.74% | 24.73% |

We reviewed the 2015 Gateway self-reporting for the plans above and for any additional plans that were reporting a funding percentage below 25%. Of the 7 pension plans above that had concerns from 2014, the Sanitary Officers' Pension Plan failed to report.

The Sanitary Officers' Pension Plan information was again gathered from the City of Fort Wayne's comprehensive annual financial report which was audited. We found the following information to indicate the plan is funded at 0.96%. It remains a pay-as-you-go plan as there are no active members to make contributions to the plan.

| <u>2015 Sanitary Officers' Pension Plan</u> | <u>Gateway</u> | <u>City of Fort Wayne CAFR (Audited)</u> |
|---|----------------|--|
| Amount of Employee Contribution: | * | \$ - |
| Current Number of Retirees: | * | 19 |
| Actual Investment Return Last Year: | * | 0.00% |
| Inflation Rate: | * | 3.00% |
| Plans Funding Percentage Ratio (Market Value Only): | * | * |
| Employer: | * | * |
| Service Cost: | * | \$ - |
| Actuarially Determined Contribution: | * | \$ 487,644 |
| Contributions made: | * | \$ 531,204 |
| Plan's Fiduciary Net Position: | * | \$ 88,526 |
| Plan's Fiduciary Net Position as a Percentage of Total Pension Liability: | * | 0.96% |

*Information Not Provided

The Parke County Police Benefit Plan remains funded at less than 25%. We noted 2 additional plans in the 2015 Gateway report that are reporting funding at less than 25% for the calendar year ended December 31, 2015. The following table shows all plans self-reporting at less than 25% for 2015.

| Name of Pension Plan | Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability* |
|---------------------------------------|--|
| Parke County Police Benefit Plan | 22.23 |
| South Bend Public Transportation | 11.46 |
| Clinton County Police Retirement Plan | 19.07 |

We compared the self-reported information to data received from the plan actuary, McCready & Keene for both the Parke County Police Benefit Plan and the Clinton County Police Retirement Plan. Parke County's self-reported information agreed with that of the actuary. Clinton County's plan showed discrepancies between the self-reported funding rate and the actuary's report. Per McCready & Keene the funded percentage of total pension liability is 75.76%.

We compared the 2014 and 2015 Gateway information for the South Bend Public Transportation Plan. It appears to be misreported in Gateway for 2015.

Crawford County, Jefferson County, and Fulton County failed to report their police pension information for 2015. Fulton County attempted to amend their report to include this information but the report was locked to changes post audit as is standard practice. The following table contains the funded percentage based on data obtained from their actuary.

| Name of Pension Plan | Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability* |
|---|--|
| Crawford County Police Benefit Plan | 78% |
| Crawford County Police Retirement Plan | 104% |
| Fulton County Police Benefit Plan | 87% |
| Fulton County Police Retirement Plan | 102% |
| Jefferson County Police Benefit Plan | 160% |
| Jefferson County Police Retirement Plan | 98% |

For calendar year 2015, Montgomery County and Warrick County failed to self-report information for their County Police Benefit Plans. For this same year Pike County did not self-report information for the County Police Retirement Plan. The plan's fiduciary net position as a percentage of total pension liability for each of these plans as calculated from the actuarial information is below.

| Name of Pension Plan | Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability* |
|---------------------------------------|--|
| Montgomery County Police Benefit Plan | 116.50% |
| Pike County Police Retirement Plan | 47.12% |
| Warrick County Police Benefit Plan | 115.36% |