



# *Indiana Fiscal Policy Institute*

## **NEWS RELEASE**

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### ***The Teachers' Retirement Fund's Pension Stabilization Fund A Trust Fund Insuring Indiana's Commitments.***

The Indiana Fiscal Policy Institute today released its latest report, "The Teachers' Retirement Fund's Pension Stabilization Fund, A Trust Fund Insuring Indiana's Commitments. The report follows five earlier IFPI publications on the Teachers' Retirement Fund (TRF) and continues our review and analysis of the TRF Pension Stabilization Fund (PSF) and the actions taken by the General Assembly. We also provide policy recommendations that will keep the state on the far-sighted and fiscally responsible road chosen in 1989, 1993, and 1995 by the Indiana General Assembly.

According to Mark Brown, Research Director at the Institute who authored the report, the relevant and guiding public (or private) finance tenet is that employers should shoulder the total cost of employing labor at the time that cost is incurred. For TRF, it means that the pensions should be actuarially funded. In spite of actions intended to actuarially fund a new pension plan, an unfunded liability of \$683 million has developed.

Three principles that have been integral to the debate and actions thus far, and are endorsed by the IFPI, are

- ✦ The State of Indiana will recognize and meet its obligation to retired and subsequently retiring teachers.
- ✦ The State of Indiana will act to limit the impact on the General Fund budget by dedicating current resources to reduce the growth of the General Fund obligation from the New Plan.
- ✦ The State of Indiana will move, over time, from a "pay as you go" teachers' pension system to an actuarially sound and funded system.

The report finds that during the enactment of the 2004-2005 budget, some policymakers believed that the Pension Stabilization Fund had accumulated greater assets than was necessary to meet its original intent. This led to the transfer of \$190 million out of the PSF in each year of the 2004-2005 budget. However, those estimates ignored the increasing unfunded liability in the New

Plan, which was a result of teachers transferring from the Old Plan bringing their unfunded liability to the New Plan.

The Report also finds:

- ✦ Due in part to transfers from the Old Plan to the New Plan, the estimated benefit payouts from the Old Plan have decreased over the last 8 years (from 1996 to 2004).
- ✦ 8,901 TRF members have transferred from the Old Plan to the New Plan.
- ✦ The cumulative impact of those 8,901 transfers is the development of \$683 million of unfunded liability in the New Plan.
- ✦ Without changing recent and current practices, the Teachers' Retirement Fund's New Plan is in danger of developing an unfunded liability similar in scope to the Old Plan.
- ✦ COLAs have been granted in 11 of the past 12 years, with those granted in eight of the years not being actuarially funded, thereby adding to unfunded liabilities in both the Old Plan and the New Plan.

Report Recommendations:

- ✦ Make no further dollar transfers from the Pension Stabilization Fund other than those set forth by the Pension Stabilization Percentage triggering mechanism (except as recommended below to cover the unfunded liability in the new plan).
- ✦ Immediately, in fiscal year 2006, resume the transfer of \$30.0 million from Lottery proceeds to the Pension Stabilization Fund.
- ✦ For budgeting and policy analysis purposes, actuarial estimates of future benefit payouts and unfunded liabilities should include an assumption of the granting of annual COLAs.
- ✦ Permanently separate the Old Plan's unfunded liability from the New Plan by:
  - Stopping the transfer of members, and their accompanying unfunded liability, from the Old Plan to the New Plan and
  - Dedicating \$683 million of Pension Stabilization Fund assets to the New Plan, thereby eliminating the unfunded liability in the New Plan that is a result of transfers from the Old Plan
- ✦ Require that the Teachers' Retirement Fund Board set the employer contribution rate for the New Plan at a level sufficient to cover all normal costs and COLAs.
- ✦ Consider reducing the Pension Stabilization Percentage to 105%, which is more in line with recent revenue growth activity and with near term revenue forecasts.

In order to continue on the road to prudent fiscal management of retired teacher pensions and the State's budget, the General Assembly must return to the original guiding principles that led to the sound public policy enacted nearly 10 years ago. Policymakers recognized then, and need to recognize now, that each generation should shoulder the costs it incurs.

Steve Johnson, President of the Indiana Fiscal Policy Institute, in summarizing the importance of the issue, said, "there is more at stake than whether teachers' will receive their pensions. Indiana must maintain its ability to provide adequate services to all Hoosiers and make necessary investments toward a future that has a variety of challenges and uncertainties. Our ability to do so depends on thoughtful, prudent fiscal management that does not pass the current generations' pension obligations to future generations of taxpayers."

Short term budgetary and political pressures often detour policies based on sound public finance principles. Policymakers should keep their hands on the wheel and their eyes on Indiana's future. Generations of Indiana's teachers and taxpayers are counting on it.

Copies of the full report can be obtained by following this link:  
[http://www.indianafiscal.org/pubs.html/IFPI Report 23-TRF PSF.pdf/](http://www.indianafiscal.org/pubs.html/IFPI%20Report%2023-TRF_PSF.pdf/)

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