TO: Members of the Board of Trustees
FR: William E. Sullivan, Treasurer and Chief Financial Officer
DATE: June 6, 2016
RE: Approval of Down Payment for Soft Freeze Liability (PERF)

In May 2013, the Board of Trustees passed a resolution authorizing that all non-exempt employees hired on or after September 9, 2013 would enroll in a defined contribution plan instead of the defined benefit plan administered by PERF. The decision to freeze participation in PERF was based on an analysis that the University’s contribution to the non-exempt retirement plan would be reduced from 14.2% (PERF) to 8% and deliver a comparable benefit to employees as they entered the Purdue University workforce.

In the 2015 legislative session, the Indiana General Assembly passed legislation that imposed new funding obligations for employers who had previously made the decision to freeze their PERF participation. The legislation requires employers to make a supplemental contribution to fund an amount necessary to pay their share of the unfunded pension liability. This additional funding obligation was not in the statute in 2013 and was not raised as an issue by INPRS when the University communicated its intent to freeze its participation.

In the 2016 legislative session, the Indiana General Assembly passed additional legislation that imposed a deadline of June 30, 2016 for payment in full of the above described liability. If payment is not received by this date, INPRS has the ability to charge, a yet to be determined, interest rate.

Since the legislation has passed, Purdue has worked closely with Indiana University, INPRS and Aon Hewitt to determine a fair method to calculate the cost of the supplemental contribution. While we are very close to the final calculation, we do not anticipate having the agreement finalized by June 30, 2016. At this point, our total supplemental contribution is estimated to be $22,426,683. As a good faith gesture, we have offered to make a down payment of our potential liability in the amount of $2,242,668 (10% of current estimate). INPRS has agreed to not charge interest on the remaining balance until after August 31, 2016 in exchange for this payment.

The funding for this payment will come from the Treasurer’s central reserve funds.