TO: Members of the Board of Trustees  
FROM: William E. Sullivan, Treasurer and Chief Financial Officer  
DATE: August 15, 2016  
RE: Approval of Final Payment Concerning PERF Soft Freeze Liability

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 was not received by this date, INPRS had 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.

At its June 17, 2016, meeting, the Board of Trustees passed a resolution authorizing a down payment of Purdue’s soft-freeze liability in the amount of $2,242,668. On June 28, 2016, INPRS and Purdue agreed that the total soft-freeze liability was $22,426,683. Thus, the final balance of Purdue’s liability is $20,184,015. I am requesting authorization to make this final payment to INPRS on or before August 31, 2016. In exchange for Purdue’s payment in full, INPRS has agreed that the amount entirely funds Purdue’s soft-freeze liability and no interest will be charged. INPRS has also agreed to release and fully discharge Purdue from any liability related to Purdue’s withdrawal of employees or employee groups from PERF participation, or its freeze in participation in PERF.

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

This Agreement is made and entered into by and between the Indiana Public Retirement System and The Trustees of Purdue University as of the 28th day of June, 2016.

DEFINITIONS

“Agreement” shall mean this Agreement.

“Effective Date” shall mean the date first set forth above.

“INPRS” shall collectively mean the Indiana Public Retirement System and its past and present officers, attorneys, employees, trustees, agents, affiliates, principals, related foundations, insurers, subsidiaries, predecessors (including without limitation PERF), successors and assigns.

The “Parties” shall mean INPRS and the University.

“PERF” shall mean the Public Employees’ Retirement Fund.

“Purdue” or the “University” shall collectively mean The Trustees of Purdue University, The Board of Trustees of Purdue University, Purdue University, Purdue University Calumet, Purdue North Central, Purdue Northwest, Indiana University Purdue University Fort Wayne and their past and present officers, attorneys, employees, trustees, agents, affiliates, principals, related foundations, insurers, subsidiaries, predecessors, successors and assigns.

RECITALS

WHEREAS, in May 2013, Purdue authorized a “freeze” of its PERF participation under which all non-exempt employees hired by Purdue on or after September 9, 2013, would enroll in a Defined Contribution plan instead of the PERF Defined Benefit plan administered by INPRS;

WHEREAS, in 2015, the Indiana General Assembly passed Public Law 241-2015, which retroactively imposed new funding obligations for employers who had previously made the decision to freeze their PERF participation;

WHEREAS, pursuant to Public Law 241-2015, Purdue must make a supplemental contribution to PERF for purposes of funding the Unfunded Actuarial Accrued Liability attributable to current and former Purdue employees and retirees (“UAAL contribution”);

WHEREAS, pursuant to Public Law 241-2015, the Parties must collaborate to determine the actuarial method of calculating the UAAL contribution as well as the means of funding the UAAL contribution;
WHEREAS, the Parties have engaged in lengthy and careful collaborative discussions regarding the actuarial method of calculating the UAAL contribution;

WHEREAS, the Parties agree that Purdue's UAAL contribution to PERF for purposes of funding Purdue's share of the PERF unfunded pension liability attributable to current and former Purdue employees and retirees as described on line 5 (using Asset Method 2) in Attachment A is $22,426,683.00; and

WHEREAS, the parties desire to enter into this Agreement to provide for a means of funding the UAAL contribution and to completely and finally resolve all matters that have been, or could have been, asserted by the Parties against each other with respect to the UAAL contribution and all other matters described herein.

NOW THEREFORE, in consideration of the mutual promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

Section 1. The Parties agree that the University will fund its UAAL contribution as follows:

(a) The University shall make payment to INPRS in the amount of $2,242,668.00 on or before June 30, 2016, which sum shall be applied by INPRS to fund Purdue's share of the PERF unfunded pension liability attributable to current and former Purdue employees and retirees.

(b) The University shall make payment to INPRS on or before August 31, 2016, which shall fund the entirety of the balance of its UAAL contribution, in the amount of $20,184,015.00.

(c) No interest shall accrue on the payments described in this Section 1 a & b if the amounts are paid by June 30, 2016 and August 31, 2016. If the amounts are not paid by the dates specified in Section 1 a & b, interest will accrue at a rate of 6.75% per annum.

(d) Beginning on July 1, 2016, and until the University no longer has any active members in the PERF, Purdue shall make contributions to PERF at a rate of 11.2% of the total gross payroll of the University's active PERF members, until such time, if ever, that INPRS assigns a contribution rate that is higher than 11.2% to all employers participating in PERF, in which case Purdue shall contribute at the same rate as all other employers for the University's active PERF members. Purdue shall contribute at a rate of 11.2% even if INPRS assigns a contribution rate that is lower than 11.2% to employers participating in PERF.
Section 2. Characterization of Payments. INPRS agrees to take such steps as may be required to treat the payments described in Section 1(a)-1(b) of this Agreement as an asset attributable to the University in order to reduce the University's net pension liability, as that term is defined by the Governmental Accounting Standards Board in its Statement No. 68.

Section 3. Mutual Release of Claims. As a material inducement to the Parties to enter into this Agreement and in consideration of the mutual releases set forth herein, the Parties provide the releases as set forth in this Section to the fullest extent permitted by law.

Each party, as defined herein, hereby covenants to the other not to sue or make any demand or claim against, and hereby irrevocably, unconditionally and forever releases and discharges, the other party for, from and/or relating to any and all complaints, claims, demands, liabilities, obligations, debts, charges, expenses, damages, causes of actions, rights of actions, suits, proceedings, promises, agreements and compensation of any nature whatsoever (including, but not limited to, attorneys' fees, interest and costs), whether known or unknown, matured or unmatured, suspected or unsuspected, at law or in equity, or otherwise, that exist as of, or may have existed prior to, the Effective Date of this Agreement, related to Public Law 241-2015, or any similar law, and resulting from any withdrawal by Purdue of employees or employee groups from PERRF participation, or any freeze in participation in PERF by Purdue, prior to the Effective Date. Notwithstanding the foregoing, this release does not affect, release, or waive any claim or action by either party for enforcement of this Agreement.

Section 4. Miscellaneous.

(a) Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors, assigns, executors, and representatives.

(b) Waiver; Amendment. Either party hereto may, by a writing signed by the waiving party, waive the performance by the other party of any of the covenants or agreements to be performed by such other party under this Agreement. The waiver by either party hereto of a breach of or noncompliance with any provision of this Agreement shall not operate or be construed as a continuing waiver or a waiver of any other or subsequent breach or noncompliance hereunder. The failure or delay of either party at any time to insist upon the strict performance of any provision of this Agreement or to enforce its rights or remedies under this Agreement shall not be construed as a waiver or relinquishment of the right to insist upon strict performance of such provision, or to pursue any of its rights or remedies for any breach heretofore, at a future time. This Agreement may be amended, modified, or supplemented only by a written agreement executed by the University and INPRS.

(c) Headings. The headings in this Agreement have been inserted solely for ease of reference and shall not be considered in the interpretation, construction, or enforcement of this Agreement.

(d) Severability. All provisions of this Agreement are severable from one another. In case any one or more of the provisions (or any portion thereof) contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement,
but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions (or portion thereof) had never been contained herein.

(e) **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same agreement.

(f) **Governing Law; Jurisdiction; Venue; Waiver of Jury Trial.** This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana, without reference to any choice of law provisions, principles or rules thereof (whether of the State of Indiana or any other jurisdiction) that would cause the application of any laws of any jurisdiction other than the State of Indiana. The parties hereto hereby agree that all demands, claims, actions, causes of action, suits, proceedings, counterclaims and litigation between or among the parties relating to this Agreement, shall be filed, tried and litigated only in a federal or state court located in the State of Indiana. In connection with the foregoing, the parties hereto irrevocably consent to the jurisdiction of or proper venue by such court. THE UNIVERSITY AND INPRS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TO, THE MAXIMUM EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO A TRIAL BY JURY IN ANY DEMAND, CLAIM, ACTION, SUIT, PROCEEDING, LITIGATION OR COUNTERCLAIM ARISING OUT OF OR OTHERWISE RELATING TO THIS AGREEMENT.

(g) **Recitals.** The recitals and “Whereas” clauses are expressly incorporated into and made a part of this Agreement.

(h) **Non-Admission.** The University and INPRS hereby agree that this Agreement does not constitute an admission or evidence of any (i) violation by the University or INPRS of any statute, law, rule or regulation, or (ii) wrongdoing on the part of the University or INPRS.

(i) **Entire Agreement.** This Agreement constitutes the entire understanding of the agreement between the parties hereto relating to the subject matter hereof and thereof.

[SIGNATURE PAGE FOLLOWS]
IN WITNESS WHEREOF, the University and INPRS have made, entered into, executed
and delivered this Agreement as of the day and year first above written.

"INPRS"
INDIANA PUBLIC RETIREMENT
SYSTEM

By: ____________________________
   Steven Russo
   Executive Director

"University"
THE TRUSTEES OF PURDUE UNIVERSITY

By: ____________________________
   William E. Sullivan
   Chief Financial Officer and Treasurer
Indiana Public Retirement System
Public Employees' Retirement Fund
'Soft Freeze' Employer Withdrawal Analysis - Incremental Unfunded Liability Cost

'Soft Freeze' Employer Information:

- Unit Name
- Unit ID
- 'Soft Freeze' Withdrawal Date
- 'Soft Freeze' Withdrawal Calculation Date: Valuation Date Closest to 'Soft Freeze' Withdrawal Date

Employer's Unfunded Actuarial Accrued Liability ("UAAL") as of the 'Soft Freeze' Withdrawal Calculation Date:

- Entry Age Normal Liability as of June 30, 2014: $246,591,955

Market Value of Assets as of June 30, 2014:

- Market Value of Assets for all State employers as of June 30, 2014: $1,299,159,461
- Percentage of State Assets Attributable to Employer: 1.66%
- Market Value of Assets for Employer as of June 30, 2014: $26,865,876

UAAL as of June 30, 2014:

- UAAL as of June 30, 2014: $216,671,799

Present Value of Future Cost-Sharing Payments:

- Present Value of Employer Contributions:
  - Present Value of Contributions at Funding Rate as of June 30, 2014: $117,583,725
  - Present Value of Normal Cost Contributions as of June 30, 2014: $40,510,846
  - Present Value of Projected UAAL Payments as of June 30, 2014: $60,772,877

Incremental UAAL Payment:

- Incremental UAAL Payment as of June 30, 2014: $147,874,802

Present Value of All Future Payments:

- Present Value of All Future Payments After the 'Soft Freeze' Date:
  - Present Value of All Future Payments After the 'Soft Freeze' Date: $22,426,683

Notes:

1. The liability was developed based on the assumptions, methods, and provisions used in the June 30, 2014 valuation, including the June 30, 2013 census data.

2. For Asset Method 1, the Market Value of Assets for the employer was determined as the ratio of the employer's ledger value of assets to the ledger value of assets for all State employers multiplied by the Market Value of Assets for all State employers, after fully funding the ASA and Liability attributed to members in payment status.

3. For Asset Method 2, the Market Value of Assets for the employer was determined as the ratio of the employer's Entry Age Normal Liability to the Entry Age Normal Liability for all State employers multiplied by the Market Value of Assets for all State employers after fully funding the ASA and Liability attributed to members in payment status.

4. The total PERP contribution rates approved for funding purposes through the June 30, 2014 valuation are reflected in the analysis and all future contribution rates are assumed to remain at 13.2% as directed by IPFRS.

PwC May 16, 2016
### Table: Projection of Payments toward the Unfunded Actuarial Assumed Liability

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<tr>
<th>Valuation Date</th>
<th>Number of Employees</th>
<th>Average Annual Earnings</th>
<th>Aggregate Payroll Contributions</th>
<th>Present Value of Liability</th>
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<td>$1,210,000</td>
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</tbody>
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### Notes
1. Projections of payments are based on assumptions and calculations used in the Social Security Administration's models, unless otherwise stated. Values are rounded to the nearest thousand dollars.
2. The present value of the liability is calculated using discounting methods as determined by the Social Security Administration.