Contacting TCRS

Members may address correspondence to the appropriate section of the retirement system at the address below. Please include your Social Security number on all correspondence.

Tennessee Consolidated Retirement System
502 Deaderick Street
Nashville, Tennessee 37243
Internet Site: tcrs.tn.gov

Counseling Services Division 615-741-1971
- Benefit Estimates — E-mail: TCRS.Counseling@tn.gov
- Pre-Retirement Planning
- Change of Beneficiary
- Disability Retirement 615-253-8693

Member Services 615-741-4868
- Retirement Application Status — E-mail: TCRS.Member-Services@tn.gov
- Prior Service (military, refunded, out-of-state, educational leave)

Financial Services Division 615-253-6781
- Annual Statements — E-mail: TCRS.Financial@tn.gov
- Refunds (account balances, refund information)

TCRS Toll-Free 1-800-770-8277

The ***TCRS Report*** is a publication of the Tennessee Consolidated Retirement System.

David H. Lillard, Jr., State Treasurer
Jill Bachus, Director
Shirley Chatman, Publications Officer

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TCRS **REPORT**

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Produced for active members of the Tennessee Consolidated Retirement System

David H. Lillard, Jr.
Treasurer

A Message to TCRS Participants

As Tennessee's Treasurer, I want to officially welcome you to the newsletter for active employees who are enrolled in the Tennessee Consolidated Retirement System! As you may know, there are approximately 220,000 employees who are enrolled in TCRS. These include not only people who work for the State of Tennessee, but also employees of local governments, school systems and institutions of higher learning across our state. At present, TCRS provides pension benefits to approximately 110,000 retirees.

The purpose of this newsletter is to provide you with information about the financial status of the TCRS pension fund, tips that may help you with retirement planning and other information about TCRS that you may find helpful. If there are questions you would like to see addressed in future issues of this newsletter, please share them with us by calling 615-741-1971 or by e-mail at TCRS.Counseling@tn.gov.

I hope this newsletter will be helpful and informative.

Sincerely,

Treasurer David H. Lillard, Jr.

In This Issue

Treasurer's Message 1
What is TCRS? 2
Annual Statements 3
Retirement Counseling 3
TCRS Investments 4
Saving for Retirement 5
TCRS Financial Health 6
Prior Service 7
Contacting TCRS 8

What Is TCRS?

Whether you are a state employee, a higher education employee, a K-12 public school teacher or an employee of a local government participating in the Tennessee Consolidated Retirement System (TCRS), one of the most valuable benefits of your public service is the defined benefit plan provided by your employer through TCRS. TCRS is a trust fund created to provide retirement, survivor and disability benefits for employees and their beneficiaries.

TCRS is a "defined benefit" retirement plan, which means the amount of any future benefit will be determined by a formula rather than by an account balance in a "defined contribution" plan such as a 401(k) or 403(b). In a defined benefit plan, your employer bears the risk of the investment markets. The individual bears the risk of investments in a defined contribution plan.

Once you meet the vesting requirements, you are guaranteed a retirement benefit when you meet the retirement eligibility criteria. Most employees become vested upon attaining five years of service with a TCRS-covered employer (some local governments have elected 10-year vesting). As you work for a TCRS-covered employer, you accumulate salary and service credit toward retirement eligibility. Upon meeting the eligibility requirements for retirement, you may terminate employment, file a retirement application and begin receiving a monthly, lifetime benefit from TCRS.

The annual benefit you receive is calculated using your years of service credit, your accrual factor (for general employees, the factor is 1.5 percent per year of service) and your average final compensation. Sick leave that you accumulate during employment may be used to increase your monthly retirement benefit. You may also elect to retire under one of the optional payment plans where you would receive a reduced benefit in order to leave an on-going monthly benefit to your beneficiary at your death.

Service retirement benefits are available to vested members upon completing 30 years of service or attaining age 60. A vested member becomes eligible for early retirement benefits upon reaching age 55. The benefit is computed in the same manner as a service retirement benefit except there is a permanent reduction of 0.4 percent for each month the

(Continue on page 3.)

Are you eligible to establish prior service?

The TCRS offers its members several options to establish additional creditable service in the pension plan. Some examples of this type of creditable service – often referred to as prior service - include previously refunded service, certain periods of active duty military service, lost service due to a period of temporary disability, probationary service, service during approved periods of educational leave and out-of-state teaching service. There may or may not be a cost to establish the service, depending on the specific type of service and your membership in TCRS.

If you feel you might be eligible to establish a period of prior service, please contact TCRS Member Services at (800)770-8277, option 5. A service counselor will explain your options and advise you of any information you may need to provide our office.

One of the most common types of prior service purchased in TCRS is previously refunded service. If you have previously taken a refund of your TCRS account and have returned to TCRS-covered employment for at least one year, you may redeposit the previously refunded amount, plus interest, and reestablish the service. For more detailed information regarding the various types of creditable service available to you and the rules to establish prior service, read the publication entitled "Summary of General Provisions" (available at http://treasury.tn.gov/tcrs/Pub.html) or call our office at your convenience.

Upon receipt of a request for prior service, TCRS will review your account in order to determine if the service you wish to establish is creditable in TCRS. Once our office makes a decision on the service, you will be notified in writing of the outcome in approximately four to six weeks. If there is a cost to establish the service, you will be mailed an invoice explaining your payment options for purchasing the service. You can estimate the value of your retirement benefit by using our retirement calculator at http://www.ja.state.tn.us/treasury/tcrs/iirc/index.jsp . You can calculate your monthly benefit with and without your prior service to help you decide whether or not to purchase your prior service. Payments for prior service may be made directly to TCRS in the form of a check, a rollover of funds from another qualified plan (such as a 401(k)) or an automatic monthly draft from a checking or savings account (depending on the type of service being purchased).

TCRS Financial Health

Many articles have been written recently regarding the financial health of public pension plans across the country. In fact, some state plans are poorly funded because officials in those states are not making payments to their plans on an actuarially-sound basis. As a result, some states have begun reducing the benefits provided by their plans in order to resolve their financial problems.

Fortunately, Tennessee's pension plan does not face those problems. In Tennessee, every governor and every General Assembly since 1975 has funded the pension plan at the rate recommended by an independent actuarial firm. As an additional safeguard, every 10 years, a second independent actuarial firm audits the actuarial calculation.

The most recent actuarial audit was performed on the 2009 actuarial valuation. A second actuarial firm replicated and confirmed the results of those calculations. As long as the state of Tennessee continues its practice of funding the pension plan at the rate recommended by the actuary, that means that sufficient assets will always be available to pay the benefits promised to the members. Unlike Social Security, which essentially uses a pay-as-you-go funding method, Tennessee's objective is to pre-fund the promised pension benefits so that sufficient assets will be accumulated prior to a member's retirement to pay the accrued value of benefits.

Tennessee's pension plan is strongly funded. The Standard & Poor's rating agency has given Tennessee's plan the highest possible rating - AAA. In the July 8, 2010 report entitled "*Pension Funding and Policy Challenges Loom for U.S. States,*" Standard & Poor's said only six states have a better-funded ratio than Tennessee. Last February, the Pew Center's "*The Trillion Dollar Gap*" report graded Tennessee as a solid performer - the highest category in the center's rankings. In the July 19, 2010 Forbes magazine article entitled "*Sleep Well Munis,*" writer Marilyn Cohen suggested looking at Tennessee bond issues as an investment consideration because "(Tennessee) has a record of properly funding its retirement system."

In summary, members of the TCRS should feel comfortable knowing that they have a financially-sound plan and that assets will be available to pay promised benefits.

date of retirement precedes service retirement eligibility.

There are two types of disability benefits available from TCRS: regular disability benefits and on-the-job accidental disability benefits. For both regular and accidental disability benefits, the disabling condition must prevent the member from engaging in substantial gainful employment. To be eligible for regular disability benefits, the member must be a vested member (five years of creditable service) of the system. The vesting requirement does not apply to the accidental disability benefit.

TCRS also provides survivor benefits to the beneficiary of members who die prior to retirement.

TCRS Annual Statements

TCRS annual statements were recently distributed to all active TCRS members through your employer. Please carefully review your annual statement for accuracy. Contact us at (615) 741-4913 or TCRS.Financial@tn.gov if you have any questions.

Is your beneficiary designation up-to-date? You may update your beneficiary designation by completing and submitting the Change of Beneficiary form that can be downloaded on the forms tab at www.treasury.tn.gov/tcrs/members.html .

Pre-Retirement Counseling Sessions

Our TCRS counseling staff offers individual counseling sessions in our office or by telephone, as well as group seminars. During individual counseling sessions, our staff will provide an estimate of your monthly retirement benefits, explain the various benefit payment options available and discuss the steps necessary to begin the retirement process. Our group seminars are held upon request of employers and require a minimum of 20 participants. The seminars include information regarding TCRS benefits, estate planning, Social Security benefits and health insurance. Please contact us at (615) 741-1971 or 1-800-770-8277, option 4 to ask questions or schedule one of these valuable planning sessions.

TCRS Investments

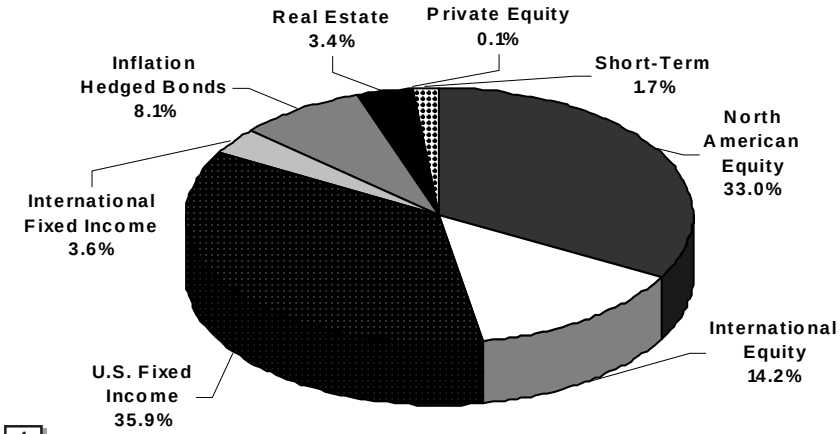
The TCRS fund gained 10.24 percent in the year ended June 30, 2010 and increased $2.2 billion in total value. U.S. stocks gained more than 13.7 percent, international stocks 9.7 percent, U.S. bonds 13.8 percent and inflation-hedged bonds 9.0 percent. The last three-year period was one of exceptional volatility and yet the performance of the fund exceeded 83 percent of comparable plans.

The pension plan's U.S. stocks, bonds and short-term securities are managed in-house by the TCRS investment staff. TCRS staff utilizes external managers and advisors to augment its investment expertise. In-house management provides an economical delivery of investment services which could cost as much as five times more if provided by external sources.

The 25-member TCRS investment staff is highly qualified and educated and has an average of 17 years of professional investment experience. There are 13 Chartered Financial Analysts (CFA), two Certified Public Accounts (CPAs) and a Certified Cash Manager (CCM) on staff. Fourteen staff members have advanced degrees.

TCRS, following guidance from its Board of Trustees and the Council on Pensions and Insurance, has a conservative investment philosophy that has served the plan well for many years. The investment portfolio is well diversified between stocks, bonds and real estate. Having a diversified portfolio means that the plan will not suffer a serious financial loss from owning any single security in the portfolio.

Current Allocation by Asset Class



Asset Allocation	Market Value	Percentage
North American Equity	$ 9,401,977,331	33.0%
International Equity	4,037,242,311	14.2%
U.S. Fixed Income	10,241,577,037	35.9%
International Fixed Income	1,021,746,836	3.6%
Inflation Hedged Bonds	2,326,372,069	8.1%
Real Estate	972,020,533	3.4%
Private Equity	25,821,255	0.1%
Short-Term	474,243,530	1.7%
Total	$ 28,501,000,902	100.0%

There are three sources of revenue that finance the cost of your retirement system: employer contributions, employee contributions and investment earnings. Investment earnings provide the largest source of funding for the pension plan. Investment returns are expected to add over $2 billion annually to the pension plan based on current actuarial assumptions and market values. The actuary estimates that approximately 50 percent of the benefits provided by the plan are funded by investment earnings.

Saving for Your Retirement

If you expect to maintain the same standard of living after retirement that you have before retirement, now is the time to plan for and work toward that goal. Think of a "three-legged stool" as a model for retirement planning. In this model, the three legs of the stool are: (1) a Social Security benefit; (2) a TCRS pension; and (3) personal savings in the form of IRAs, CDs and other investment vehicles such as 401(k), 457 or 403(b) plans.

Planning for your eventual retirement should occur early in your life rather than when you are approaching retirement. By planning early, you can increase the value of your money over time. Contact your employer to discuss any deferred compensation programs available through your employment to help you save for your retirement.