Retiree Advisor

January 1998
Volume 18, No. 1

Retirees Get Biggest Raise in TCRS History!

The Tennessee General Assembly enacted legislation to significantly improve benefits for retired teachers and state employees. Local government employees will be eligible for the improvement if the local governing body passes a resolution authorizing the improvement.

The General Assembly changed the annual cost-of-living adjustment (COLA) from a simple basis to a compound basis. This means that beginning July 1998, the annual COLA will be calculated on your current benefit rather than your initial benefit at retirement.

Included in the compound COLA legislation is a provision to provide a special "catch up" increase for retirees. The catch up increase ranges from .1% to 17.5% with those retired the longest receiving the highest increases. The special catch up increase was designed to benefit retirees who have been most harmed by inflation. Refer to the chart below for the catch up percent applicable to you. The catch up percentage is a permanent, one-time adjustment that will be payable monthly starting with the January 31, 1998 retirement check.

The compound COLA with the catch up provision is the second major benefit improvement enacted by the General Assembly in the last four years. In 1994, the General Assembly enacted a 5% benefit improvement. The compound COLA has an annual cost of more than $100 million, while the 5% benefit improvement had a cost of more than $60 million each year.

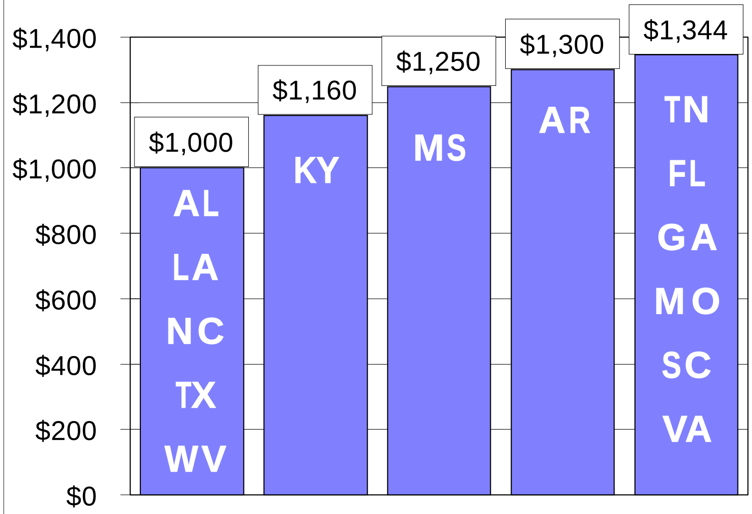
Catch Up Provision

Increase to be granted Jan. 1, 1998

Date of Retirement	Percentage Increase*
Prior to 7/2/1972	17.5%
7/2/72 to 7/1/73	16.8
7/2/73 to 7/1/74	15.1
7/2/74 to 7/1/75	14.1
7/2/75 to 7/1/76	12.9
7/2/76 to 7/1/77	11.7
7/2/77 to 7/1/78	10.5
7/2/78 to 7/1/79	9.5
7/2/79 to 7/1/80	8.4
7/2/80 to 7/1/81	7.4
7/2/81 to 7/1/82	6.5
7/2/82 to 7/1/83	5.6
7/2/83 to 7/1/84	4.8
7/2/84 to 7/1/85	4.1
7/2/85 to 7/1/86	3.4
7/2/86 to 7/1/87	3.1
7/2/87 to 7/1/88	2.5
7/2/88 to 7/1/89	2.0
7/2/89 to 7/1/90	1.5
7/2/90 to 7/1/91	1.0
7/2/91 to 7/1/92	.7
7/2/92 to 7/1/93	.4
7/2/93 to 7/1/94	.2
7/2/94 to 7/1/95	.1

* *In most cases, the percentage will be applied to the December 1997 gross benefit before any insurance or withholding deductions.*

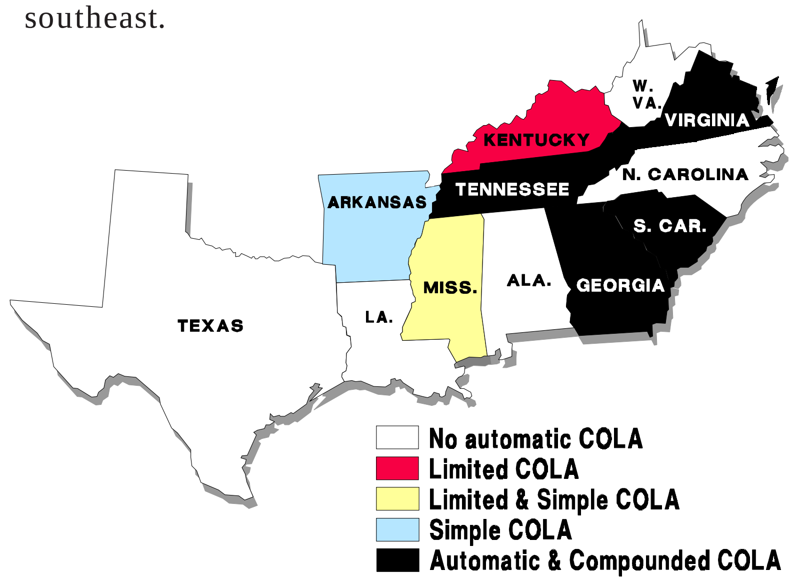
What Retirees Can Expect From A $1,000 Monthly Pension Benefit After 10 Years



Based on current state laws
Assuming annual inflation of 3%

Comparison of COLA Provisions with Other Southeastern States

The states of Alabama, West Virginia, North Carolina, Louisiana, and Texas do not have an automatic CPI-based cost-of-living adjustment after retirement. Mississippi's COLA maximum is 2.5%, while Kentucky's is only 1.5%. Moreover, the COLA provisions in Arkansas and Mississippi are simple rather than compound. Therefore, Tennessee's automatic CPI-based COLA with a 3% maximum equals or exceeds the COLA given by the majority of states in the southeast.

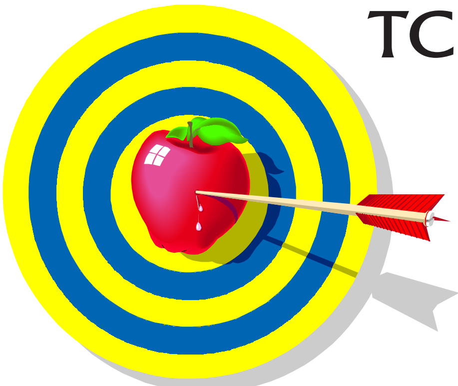


Which Plan Would You Want?

Year of Retirement	No COLA	Simple 3% COLA	Compound 3% COLA
1st	$ 12,000	$ 12,000	$ 12,000
5th	12,000	13,440	13,506
10th	12,000	15,240	15,657
15th	12,000	17,040	18,151
20th	12,000	18,840	21,042
25th	12,000	20,640	24,394

Assumes 3% inflation rate.

TCRS Funded Status is Right on Target



An actuarial valuation of TCRS was performed as of June 30, 1997. The purpose of the actuarial valuation is to determine the appropriate employer contribution rate so that TCRS is funded on an actuarially sound basis.

TCRS is strongly funded, not over funded. This means that current retirees and future retirees should feel assured that assets will be available to pay the benefits that have been promised. If the system were overfunded, employers would not need to contribute $280 million to TCRS as was done this last year. TCRS is funded on an actuarially sound basis based on the recommendations of an independent actuary using an acceptable actuarial method and reasonable actuarial assumptions.

The only acceptable way to determine the funded status of a retirement system is by performing an actuarial valuation using all the records of the members of the retirement system. An actuarial valuation is an extremely detailed process. Any assertions by anyone relative to the funded status of TCRS which are not based on the TCRS actuarial valuation are not valid.

The General Assembly of Tennessee deserves significant recognition for the strongly funded status of TCRS. The General Assembly in Tennessee, unlike other states, has historically included in the annual budget the amount necessary to finance TCRS in accordance with the actuarial recommendation. Many states simply do not contribute to their retirement systems at the actuarially recommended rate. Obviously, these states are not exercising sound financial management, thus causing an even greater pension cost on the taxpayers. Ultimately, the missed contributions plus the forfeited earnings will have to be paid by those states.

Tennessee is paying for the accrued pension cost for all employees on a current basis rather than pushing the cost to future generations of taxpayers.

Because of a significant growth in the retired payroll projected by the system's actuary, it is imperative that promised benefits are funded in advance. The annual retired payroll will be $1 billion by 2006, $2 billion by 2014, $3 billion by 2020, $4 billion by 2025, and $5 billion by 2030.

Tax Time Approaches

All retirees and beneficiaries who received TCRS retirement benefits in 1997 will receive a 1099-R with this newsletter. Following is an explanation of several key factors to assist you in filing your tax returns.

Box 1: This is the total TCRS pension benefits you received. This amount should be reported on your IRS Form 1040, Line 16a.

Box 2a: This amount is the taxable portion of your benefit as calculated by TCRS. This amount should be reported on Line 16b of your IRS Form 1040. TCRS uses the Simplified General Rule to calculate the taxable amount. If you retired on or before July 1, 1986, the amount of your after-tax contributions has already been excluded from your taxable income and your TCRS benefits are now fully taxable.

Disability benefits from TCRS are fully taxable until the benefit is converted to a regular retirement benefit at age 60 or death. After that point, the Simplified General Rule is used to determine the taxable portion of each monthly payment.

Box 4: This indicates the amount of federal income tax withheld by TCRS in 1997. Forms to change or revoke your withholding election may be obtained by calling or writing TCRS.

Box 7: This shows the type of benefit you are receiving. If you are a disability retiree, you may be eligible for a disability tax credit. (Refer to IRS Publication 524.)

Additional tax information may be obtained by calling the IRS toll-free at 1-800-829-1040. In Nashville, call 834-9005.

Schedule for 1998 Retirement Checks

All TCRS retirement checks are mailed on the ***last working day*** of each month. If you have not received your check by the fifth mailing day after the last working day, you should contact our office.

For retirees on direct deposit, retirement payments are credited on the same day the checks are mailed from our office.

The schedule for mailing retirement checks in 1998 is as follows:

January	30	July	31
February	27	August	31
March	31	September	30
April	30	October	30
May	29	November	30
June	30	December	31

Treasury Department; January 1998; Authorization No. 309088; 70,000 copies. This public document was printed at a cost of $.03 per copy.

The *Retiree Advisor* is a publication of TCRS, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243

Telephone: (615) 741-4913 or 1-800-770-8277
Steve Adams, State Treasurer; Steve Curry, Director; Janice Reilly, Editor