

Tennessee Consolidated Retirement System

Teacher Retirement Plan, a Cost-Sharing Defined Benefit Plan

GASB Statement No. 67

Actuarial Report

Reporting Date: June 30, 2015

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Accounting Governance Background

Statement No. 25 of the Governmental Accounting Standards Board was amended by Statement No. 67 of the Governmental Accounting Standards Board. Statement No. 67 became effective for the plan's financial statements for the fiscal year beginning after June 15, 2013. Statement No. 67 establishes financial reporting standards for state and local government pension plans that are administered through trusts or equivalent arrangements. The objective of this statement is to improve the usefulness of the information included in pension plan reports.

Purpose and Use

This report has been prepared exclusively for the Tennessee Consolidated Retirement System. Actuarial computations under Statement No. 67 are for purposes of fulfilling employer governmental accounting requirements, and may not be appropriate for other purposes. The calculations reported herein have been made on a basis consistent with our understanding of the statement. Bryan, Pendleton, Swats & McAllister, LLC is not responsible for consequences resulting from the use of any part of this report without prior authorization or approval. This report provides actuarial advice and does not constitute legal, accounting, tax or investment advice. Determinations for other purposes, such as funding, bond ratings, or judging benefit security, may be significantly different from the results shown in this report.

Actuarial findings in this report are based on actuarial assumptions which reflect expected plan experience. Although the deviation of the actual future plan experience and the expected experience inherently creates some uncertainty with the results, in our opinion the actuarial assumptions reasonably reflect the expected future experience of the plan. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. All of these factors can cause volatility in the Net Pension Liability (Asset) over time.

Data

The calculations shown in this report have been prepared using plan documentation furnished by the Tennessee Consolidated Retirement System as of June 30, 2014. Plan asset information and covered-employee payroll were furnished by the Tennessee Consolidated Retirement System for the twelve month period ending June 30, 2015. While we have not audited the data, we have reviewed it for reasonableness and internal consistency. To the best of our knowledge, there are no material limitations to the data provided.

Subsequent Events

We are unaware of any subsequent event after June 30, 2015 which would have a material effect on the results presented in this report.

Assumptions, Methods, and Procedures

The results presented in this report comply with the assumptions, methods, and procedures under Statement No. 67. The results are based on a measurement date and reporting date of June 30, 2015. All assumptions are selected by the TCRS Board of Trustees.

The plan first became effective on July 1, 2014, covering only new employees hired after that date. Since there were no participants in the plan as of the beginning of the current period (July 1, 2014), no actuarial valuation was performed as of that date. Employer and employee contributions have been collected since the plan inception date according to policies adopted by the TCRS Board of Trustees, creating a Plan Fiduciary Net Position greater than zero as of the measurement date. Therefore, a Total Pension Liability has been estimated as of the measurement date based on the contributions to the plan during the period.

Service Cost was approximated based on an assumed annual pension cost of 7.5% of covered-employee payroll. Adjustments were made for interest and benefit payments (or refunds) to arrive at an estimated Total Pension Liability as of the measurement date. For the sensitivity analysis, the duration of plan liabilities was assumed to be 20.

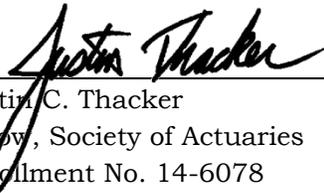
The first actuarial valuation will be performed as of June 30, 2015, and then completed annually for subsequent years. The approximation of the Total Pension Liability made for this report is not expected to be materially different than what will be produced during the next actuarial valuation (given the relatively small size of the plan).

Changes in Plan Provisions, Actuarial Assumptions, and Actuarial Methods

Not Applicable

Professional Qualifications

This report has been prepared under the supervision of Justin C. Thacker, a member of the American Academy of Actuaries, a Fellow of the Society of Actuaries, and a consulting actuary with Bryan, Pendleton, Swats and McAllister, LLC, who has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein. To the best of our knowledge this report has been prepared in accordance with generally accepted actuarial standards and our understanding of Government Accounting Standards Board Statement No. 67, including the overall appropriateness of the analysis, assumptions, and results and conforms to appropriate Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis for the actuarial report. We are not aware of any direct or material indirect financial interest or relationship that could create, or appear to create, a conflict of interest that would impair the objectivity of our work. The undersigned are available to provide supplemental information or explanation.



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December 18, 2015

Date



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Date

Summary of Plan Provisions

Benefit provisions include retirement, death and disability benefits. If applicable, post-retirement cost of living adjustments are included. Tennessee state law provides full documentation of the plan provisions.

Summary of Actuarial Assumptions and Methods

Investment Rate of Return

7.5% per annum, compounded annually

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocations
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three techniques described above.

Discount Rate

7.5% per annum, compounded annually

Paragraph 43 of Statement No. 67 provides for an alternative method to be used other than the projection of the pension plan's fiduciary net position based on projected contributions, benefit payments and investment earnings. The current contribution policy requires contributions of the normal cost plus a closed amortization of the unfunded liabilities (not to exceed 30 years from when the unfunded liability was created). In addition, the employer has a documented history of contributing 100 percent of the actuarially determined contribution requirement. The discount rate utilized assumes that employee contributions will be made at the current applicable rate and that contributions from the employer will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the pension funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on these assumptions and the actuarial methodology adopted, the employer's fiduciary net position is expected to remain positive and to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Actuarial Valuation Method

Not Applicable

Asset Valuation Method

Fair Market Value

Additional Assumptions

Not Applicable

Selection of Assumptions

The TCRS Board of Trustees selected the assumptions described above based on the review of plan experience in conjunction with an experience study conducted as of June 30, 2012 for the Teacher Legacy Pension Plan. A complete plan experience study is conducted every four years.

Summary of Participant Data

Not Applicable

This section presents specific information required under Statement No. 67. The information in this report is to satisfy the reporting for the pension plan. This section contains the following:

- Statement of Change in Fiduciary Net Position
- Net Pension Liability (Asset) including discount rate sensitivity and reconciliation between years

Fiduciary Net Position is the amount of assets available for benefits in the Pension Plan.

Total Pension Liability is the plan liability determined using assumptions listed in the Summary of Actuarial Assumptions.

Net Pension Liability (Asset) is the difference in the Total Pension Liability and the Fiduciary Net Position.

Statement of Changes in Fiduciary Net Position

	<u>June 30, 2015</u>
Additions	
Contributions:	
Employer	\$8,310,132
Employee	<u>10,390,077</u>
Total Contributions	<u>18,700,209</u>
Investment Income:	
Net Investment Income	294,742
Other	<u>0</u>
Total Additions	<u>18,994,951</u>
Deductions	
Benefit Payments / Refunds	34,531
Administrative Expenses	280,047
Other	<u>0</u>
Total Deductions	<u>314,578</u>
Net Increase in Net Position	<u>18,680,373</u>
Net Position Restricted for Pensions	
Beginning of Year	<u>0</u>
End of Year	<u><u>\$18,680,373</u></u>

Net Pension Liability (Asset) (NPL)

Determination of Net Pension Liability (Asset)

The components of the net pension liability (asset) at June 30, 2015 were as follows:

Total Pension Liability	16,129,977
Plan Fiduciary Net Position	<u>(18,680,373)</u>
Net Pension Liability (Asset)	<u><u>\$(2,550,396)</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	115.81%

Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate

The following represents the net pension liability (asset) calculated using the stated discount rate, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
	<u>(6.50%)</u>	<u>(7.50%)</u>	<u>(8.50%)</u>
Net Pension Liability (Asset)	\$589,448	\$(2,550,396)	\$(5,179,946)

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios

	fiscal year ending June 30							
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total Pension Liability								
Service cost	\$--	\$15,581,497						
Interest	--	583,011						
Changes of benefit terms	--	--						
Differences between expected and actual experience	--	--						
Changes of assumptions	--	--						
Benefit Payments / Refunds	--	(34,531)						
Net Change in Total Pension Liability	--	16,129,977						
Total Pension Liability - beginning	--	--						
Total Pension Liability - ending (a)	\$--	\$16,129,977						
Plan Fiduciary Net Position								
Contributions - employer	\$--	\$8,310,132						
Contributions - employee	--	10,390,077						
Net investment income	--	294,742						
Benefit Payments / Refunds	--	(34,531)						
Administrative expenses	--	(280,047)						
Other	--	--						
Net Change in Plan Fiduciary Net Position	\$--	\$18,680,373						
Plan Fiduciary Net Position - beginning	--	--						
Plan Fiduciary Net Position - ending (b)	\$--	\$18,680,373						
Net Pension Liability (Asset) - ending (a) - (b)	\$--	\$(2,550,396)						
Plan Fiduciary Net Position as a % of the Total Pension Liability	--	115.81%						
Covered-employee payroll	\$--	\$207,753,299						
Net Pension Liability (Asset) as a % of covered-employee payroll	--%	-1.23%						

Notes to Schedule

See Summary of Plan Provisions for notes regarding benefit changes. See Summary of Actuarial Assumptions and Methods for notes regarding changes in assumptions.