

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 26, 2014

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 26, 2014**

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**POLITICAL SUBDIVISIONS
SEEKING MEMBERSHIP**

**Political Subdivisions Beginning Participation
in the Tennessee Consolidated Retirement System
April 1, 2013**

Political Subdivision	Amount of Service Purchased		Employer Rate	Accrued Liability	Cost of Living	Number of Employees
	Employer	Employee				

**McMinn County
Economic Development
Authority**

Regular Defined Benefit Plan	All Years	0 Years	Normal	6.76 %	\$12,431	Include
			Accrued	1.07 %		
			Adm. Cost	.10 %		
			<u>TOTAL</u>	<u>7.93 %</u>		

Meetings:

- March, 2014 Explained results of actuarial study and participation procedures to the governing body.
- October, 2014 Upon approval by TCRS Board of Trustees, will explain laws, policies and benefit provisions to employees of the district.
- October, 2014 Upon approval by TCRS Board of Trustees, will explain reporting procedures to payroll officer.

Additional Information:

MCEDA will be assuming the 5.00% employee contribution.



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

MEMORANDUM

TO: Sandi Thompson, Division of Local Finance
FROM: Melissa L. Davis, TCRS Field Services *MLD*
SUBJECT: Participation in Tennessee Consolidated Retirement System
DATE: May 8, 2014

The McMinn County Economic Development Authority will begin participation in the Tennessee Consolidated Retirement System effective 7/1/2014.

The Board of Trustees of the TCRS requires a political subdivision to appropriate the necessary funds in their annual budget for retirement costs. The total first year cost for the entity is Eight Thousand, Seven Hundred and Twenty- Two dollars (\$8,722.00.) One Hundred Percent (100%) of this figure is required to be budgeted for the fiscal year 2015 budgeted year ending June 30, 2015.

Enclosed is the fiscal year 2015 budget for this entity. Please let me know if this information is sufficient and accurately reflects adequate funding for retirement costs for this entity.

If you have any questions, please call me at (615) 741-1971.

Enclosure



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
FAX (615) 741-5986

Memorandum

TO: Melissa L. Davis, TCRS Field Services
FROM: Sandra Thompson, Director *Sandra Thompson*
DATE: May 22, 2014
SUBJECT: McMinn County Economic Development Authority

The fiscal year 2015 annual budget submitted by the McMinn County Economic Development Authority appears sufficient to fund the required \$8,722 first year retirement contribution for the fiscal year ending June 30, 2015.

McMinn County Economic Development Authority
Condensed Budget
2015 Budget Year

Revenues	\$	248,200.00
Beginning Cash Reserves		<u>4,619.00</u>
Available Funds		252,819.00
Less: Expenses*		<u>243,581.00</u>
Ending Cash Reserves	\$	9,238.00

*Expenses include a retirement contribution of \$12,431

The financial information received by this Office with the request for the review of the Authority's fiscal year 2015 annual budget represents the Authority's assertions of its financial condition that may or may not reflect the current or future financial condition of the Authority.

If you need additional information, please do not hesitate to contact me.

An actuarial valuation was performed as of April 1, 2014 to examine the cost of any benefits provided by the Tennessee Consolidated Retirement System (TCRS) as it would apply to the McMinn County Economic Development Authority if the group joined the TCRS on that date.

The TCRS offers three different plan design options for political subdivisions, referred to throughout this report as Plan 1, Plan 2, and Plan 3. Each of the three plans has a unique set of benefits and corresponding costs. The description of the benefits can be found in the Plan Provisions section of this report. The summary of the annual employer costs as a percentage of payroll for each of the three plans is shown in the table below. Further, within Plan 1 and Plan 2, each political subdivision can elect whether to include or exclude cost of living benefits in its retirement plan. If cost of living benefits are included, they must be “advance funded” in the same manner as other retirement benefits. Costs have been developed both “with” and “without” cost of living benefits for Plan 1 and Plan 2. Plan 3 is required to include cost of living benefits.

Each political subdivision joining the TCRS also has the option of whether or not to include employees' past service (service earned prior to the date of joining the TCRS) in the determination of benefits. If past service is included, the political subdivision may elect whether or not to limit the past service to a selected number of years. Further, the included years of past service may be fully purchased by the employer, or the employee can be made to be responsible for voluntarily purchasing the past service with the employer accepting its share of the liability for any years that the employee purchases. The prospective annual employer cost as a percentage of payroll for each of the past service scenarios currently considered by the entity is shown below.

	Plan 1		Plan 2		Plan 3
	Without COLA	With COLA	Without COLA	With COLA	With COLA
Past Service Scenarios					
1. All Past Service (Employer purchases all years)	5.47%	7.93%	2.52%	4.09%	1.52%
2. No Past Service	4.86%	7.15%	2.13%	3.61%	1.19%

The above results assume that employees will contribute 5% of pay toward the future cost of their retirement benefit. Alternatively, the entity may elect to charge only 2.5% employee contributions or to require no employee contributions, in which case TCRS will increase the above results by 2.5% or 5%, respectively.

Plan 1 With COLA

	Past Service Scenarios*	
	Scenario 1	Scenario 2
(a) Present Value of Benefits	129,257	119,846
(b) Past Service Liability	12,431	0
(c) Present Value of Future Employee Contributions	50,704	50,792
(d) Present Value of Future Normal Costs (a) - (b) - (c)	66,122	69,054
(e) Present Value of Future Salaries	1,014,084	1,015,832
(f) Normal Cost Rate (d) / (e) x 1.0375	6.76%	7.05%
(g) Current Payroll	109,931	109,931
(h) Normal Cost (f) x (g)	7,431	7,750
(i) Employee Past Service Contribution	0	0
(j) Accrued Liability (b) - (i)	12,431	0
(k) Accrued Liability Contribution (j) x .09125 x 1.0375	1,177	0
(l) Accrued Liability Contribution Rate (k) / (g)	1.07%	0.00%
(m) Active Participant Count	2	2
(n) Administrative Expense (m) x \$57	114	114
(o) Administrative Expense Rate (n) / (g)	0.10%	0.10%
(p) Total Employer Contribution (h) + (k) + (n)	8,722	7,864
(q) Total Employer Contribution Rate (p) + (l) + (o)	7.93%	7.15%

*Past Service Scenarios: Scenario 1 = All Past Service (Employer purchases all years)
 Scenario 2 = No Past Service

Distribution of Active Participants with Average Compensation

Attained Age	Years of Service										Total	
	Under 1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	Over 39		
Under 25												
25 - 29												
30 - 34												
35 - 39	1										1	\$25,000
40 - 44												
45 - 49		1									1	\$80,000
50 - 54												
55 - 59												
60 - 64												
65 - 69												
Over 69												
Total	1	\$25,000	\$80,000								2	\$52,500

Tennessee Consolidated Retirement System

A RESOLUTION to authorize a political subdivision's participation in the Tennessee Consolidated Retirement System in accordance with Tennessee Code Annotated, Title 8, Chapters 34 – 37.

WHEREAS, Tennessee Code Annotated, Title 8, Chapter 35, Part 2 allows a political subdivision to participate in the Tennessee Consolidated Retirement System (“TCRS”) subject to the approval of the TCRS Board of Trustees; and

WHEREAS, the McMinn County Economic Development Authority desires to participate in TCRS under the
(Name of Political Subdivision)

provisions of Tennessee Code Annotated, Title 8, Chapters 34 – 37 and in accordance with the following terms and conditions:

- A. TYPE PLAN. (CHECK BOX 1 OR BOX 2 OR BOX 3). The Political Subdivision adopts the following type plan:
- (1) Regular Defined Benefit Plan.
 - (2) Alternate Defined Benefit Plan.
 - (3) Hybrid Plan (If the Hybrid Plan is chosen, the Political Subdivision MUST also maintain a defined contribution plan on behalf of its employees).
- B. ASSUMPTION OF EMPLOYEE CONTRIBUTIONS. (CHECK BOX 1 OR BOX 2 OR BOX 3). The Political Subdivision shall:
- (1) NOT assume any employee contributions.
 - (2) ASSUME 2.5% of its employees' contributions.
 - (3) ASSUME 5.0% of its employees' contributions.
- C. COST-OF-LIVING INCREASES FOR RETIREES. (CHECK BOX 1 OR BOX 2 – IF THE HYBRD PLAN IS SELECTED ABOVE, COST-OF-LIVING INCREASES FOR RETIREES MUST BE GIVEN AND BOX 2 MUST BE CHECKED). The Political Subdivision shall:
- (1) NOT provide cost-of-living increases for its retirees.
 - (2) PROVIDE cost-of-living increases for its retirees.
- D. ELIBILITY OF PART-TIME EMPLOYEES. (CHECK BOX 1 OR BOX 2). The Political Subdivision shall:
- (1) NOT allow its part-time employees to participate in TCRS.
 - (2) ALLOW its part-time employees to participate in TCRS.
- E. PRIOR SERVICE. (CHECK AND COMPLETE BOX 1 OR BOX 2 OR BOX 3 OR BOX 4 OR BOX 5). For each employee employed with the Political Subdivision on the effective date of the Political Subdivision's participation in TCRS, the Political Subdivision shall:
- (1) Purchase ALL years of prior service credit on behalf of its employees.
 - (2) Purchase NO years of prior service credit on behalf of its employees, but shall accept the unfunded liability should its employees establish ALL years of prior service.
 - (3) NOT allow its employees to establish any prior service credit with the Political Subdivision.
 - (4) Purchase _____ years of prior service credit on behalf of its employees and accept the unfunded liability should its employees establish an additional _____ years of prior service credit.
 - (5) Purchase _____ years of prior service credit on behalf of its employees and no additional prior service credit may be established; and

WHEREAS, the liability for participation and costs of administration shall be the sole responsibility of the Political Subdivision and not the State of Tennessee; and

WHEREAS, the Political Subdivision has passed a budget amendment appropriating the funds necessary to meet such liability and the same is attached hereto; and

WHEREAS, the effective date of participation shall be on a date as determined by the TCRS Board of Trustees, and the initial employer contribution rate shall be 12.93%, which is based on the estimated lump sum accrued liability of \$ 12,431

NOW, THEREFORE, BE IT RESOLVED That the Board of Directors of
(Name of Governing Body)

the McMinn County Economic Development Authority hereby authorizes all its employees in all its departments or
(Name of Political Subdivision)
instrumentalities to become eligible to participate in TCRS in accordance with the above terms and conditions subject to the approval of the TCRS Board of Trustees. It is acknowledged and understood that pursuant to Tennessee Code Annotated, Section 8-35-111 the Political Subdivision shall not make employer contributions to any other retirement or deferred compensation plans on behalf of any employee who participates in TCRS pursuant to this Resolution wherein the total combined employer contributions to such plans exceed 3% of the employee's salary, unless the Hybrid Plan is adopted by the Political Subdivision for such employee. In which case, the Political Subdivision may make employer contributions to the defined contribution plan component of the Hybrid Plan and to any one or more additional tax deferred compensation or retirement plans provided that the total combined employer contributions to such plans on behalf of an employee shall not exceed 7% of the employee's salary.

STATE OF TENNESSEE
COUNTY OF McMinn

I, Joni Belle Walker, clerk of the Board of
the McMinn County Economic Development Authority Board of Directors McMinn County, Tennessee
(Name of Governing Body) (County, City Town, etc.)

Tennessee, do hereby certify that this is a true and exact copy of the foregoing Resolution that was approved and adopted in accordance with applicable law at a meeting held on the 22 day of April, 2014, the original of which is on file in this office.

IN WITNESS WHEREOF, I have hereunto set my hand, and the seal of the McMinn, Etowah
(Name of County, City, Town, etc.)

Joni B. Walker
As Clerk of the Board, as aforesaid

Seal

**Political Subdivisions Beginning Participation
in the Tennessee Consolidated Retirement System
April 1, 2013**

Political Subdivision	Amount of Service Purchased		Employer Rate	Accrued Liability	Cost of Living	Number of Employees
	Employer	Employee				
Upper Cumberland Utility District	12 Years	0 Years	Normal Accrued Adm. Cost <u>TOTAL</u>	\$358,758	Include	5
Regular Defined Benefit Plan			4.46 % 13.50 % .11 % 18.07 %			

Meetings:

August, 2014

Explained results of actuarial study and participation procedures to the governing body.

October, 2014

Upon approval by TCRS Board of Trustees, will explain laws, policies and benefit provisions to employees of the district.

October, 2014

Upon approval by TCRS Board of Trustees, will explain reporting procedures to payroll officer.

Additional Information:

UCUD will be assuming the 5.00% employee contribution.



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

April 29, 2014

Sheila Reed, Audit Manager
Municipal Audit
11th Floor, Bank of America Building
Nashville, TN 37243

Dear Ms Reed:

The Tennessee Consolidated Retirement System (TCRS) allows utility districts created under the 1937 Utility District Act to be considered as political subdivisions for retirement purposes. Before a district can actually begin to participate, a participation process must be completed. The Board of Trustees of the TCRS scrutinizes the financial position of utility districts closely. We would appreciate your office's expertise in this area.

The *Upper Cumberland Gas Utility District* is considering participation in TCRS effective *10/01/2014*. In an attempt to determine the group's ability to fund such a plan, we would appreciate any information or comment your office could provide in writing regarding this district's financial position at the time of recent evaluations performed.

The information provided and your assistance are very much appreciated. If you have any questions, please call me at (615) 253-6134.

Sincerely,

Karen Curtis

Karen Curtis
TCRS Field Services

RTA
MUNAUDIT



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841

May 16, 2014

Karen L. Curtis
Field Services Representative
Tennessee Consolidated Retirement System
502 Deaderick Street
Nashville, TN 37243

Dear Ms. Curtis:

At your request, I have reviewed the financial position of the Upper Cumberland Gas Utility District in consideration of their application for participation as a member of the Tennessee Consolidated Retirement System (TCRS).

My review of the District's economic and financial condition consisted principally of an analysis of three specific indicators: near-term financial position, net position, and economic condition.¹

Near-term financial position

For the fiscal year ended June 30, 2013, the District's financial statements reflected current assets of \$1,027,425.69 available to pay current liabilities of \$508,419.86. The difference between these two amounts, \$519,005.83, represents the District's working capital and demonstrates their ability to meet current expenses. The District also reported a positive working capital for the prior two years.

The financial statements reflected that the District had unrestricted cash of \$318,536.39 and restricted cash of \$2,101,357.18 at June 30, 2013.

Based upon review of the District's operating statements for the past five years, it appears the District is regularly generating adequate revenue to pay for the costs of operation.

Net position

The District's net position has consistently increased over the past five years. During the year ended June 30, 2013 the District reported an increase in net position of \$766,749.35 and an ending net position balance of \$1,963,918.15.

¹ See Chapter 47 of the *Governmental Accounting, Auditing, and Financial Reporting* published by the Government Finance Officer's Association.

Ms. Curtis
Tennessee Consolidated Retirement System
May 16, 2014
Page 2

Other Economic Condition Factors

Based upon statistical information in their financial reports, their customer base has remained fairly constant for at least the past five years. At June 30, 2013 the District reported 2408 customers.

Because the District provides natural gas utility services, as long as there is a customer base and the natural resource is available, it should have the ability to generate its own-source revenues.

Other Issues

The District is currently not subject to the oversight of the Utility Management Review Board (UMRB). However, should the District incur financial losses in future years (i.e., a decrease in net position for two consecutive years), it would be under the purview of the UMRB who works with Tennessee utility districts to ensure their revenue stream is sufficient to meet expenses.

Conclusion

Taking all of the above into consideration, it appears the District should have sufficient future resources to meet pension obligations associated with their participation in the TCRS. I have included a copy of my complete analysis. Additionally, the District's financial statements are available on our website for your review.

Should you have additional questions related to the items addressed in this letter, please feel free to contact me.

Sincerely,



Sheila A. Reed, CPA, Audit Manager
Division of Local Government Audit

3360

Enclosure



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

MEMORANDUM

TO: Sandi Thompson, Division of Local Finance
FROM: Karen Curtis, TCRS Employer Services *KC*
SUBJECT: Participation in Tennessee Consolidated Retirement System
DATE: August 26, 2014

The Upper Cumberland Gas Utility District will begin participation in the Tennessee Consolidated Retirement System effective 10/1/2014.

The Board of Trustees of the TCRS requires a political subdivision to appropriate the necessary funds in their annual budget for retirement costs. The total first year cost for the entity is Forty Five Thousand, Four Hundred and Seventy One Dollars (\$45,471.00) One Hundred Percent (100%) of this figure is required to be budgeted for the fiscal year 2015 budgeted year ending June 30, 2015.

Enclosed is the fiscal year 2015 budget for this entity. Please let me know if this information is sufficient and accurately reflects adequate funding for retirement costs for this entity.

If you have any questions, please call me at (615) 741-1971.

Enclosure



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
FAX (615) 741-5986**

Memorandum

TO: Karen Curtis, TCRS Employer Services
FROM: Sandra Thompson, Director *Sandra Thompson*
DATE: August 26, 2014
SUBJECT: Upper Cumberland Gas Utility District

The fiscal year 2015 annual budget submitted by the Upper Cumberland Gas Utility District appears sufficient to fund the required \$45,471 first year retirement contribution for the fiscal year ending June 30, 2015.

**Upper Cumberland Gas Utility District
Condensed Budget
2015 Budget Year**

Revenues	\$ 3,003,334
Expenses *	<u>2,440,100</u>
Net Operating Income	\$ 563,234

* Expenses include a retirement contribution of \$45,471

The financial information received by this Office with the request for the review of the District's fiscal year 2015 annual budget represents the District's assertions of its financial condition that may or may not reflect its current or future financial condition.

If you need additional information, please do not hesitate to contact me.

An actuarial valuation was performed as of October 1, 2014 to examine the cost of any benefits provided by the Tennessee Consolidated Retirement System (TCRS) as it would apply to the Upper Cumberland Gas Utility District if the group joined the TCRS on that date.

The TCRS offers three different plan design options for political subdivisions, referred to throughout this report as Plan 1, Plan 2, and Plan 3. Each of the three plans has a unique set of benefits and corresponding costs. The description of the benefits can be found in the Plan Provisions section of this report. The summary of the annual employer costs as a percentage of payroll for each of the three plans is shown in the table below. Further, within Plan 1 and Plan 2, each political subdivision can elect whether to include or exclude cost of living benefits in its retirement plan. If cost of living benefits are included, they must be “advance funded” in the same manner as other retirement benefits. Costs have been developed both “with” and “without” cost of living benefits for Plan 1 and Plan 2. Plan 3 is required to include cost of living benefits.

Each political subdivision joining the TCRS also has the option of whether or not to include employees' past service (service earned prior to the date of joining the TCRS) in the determination of benefits. If past service is included, the political subdivision may elect whether or not to limit the past service to a selected number of years. Further, the included years of past service may be fully purchased by the employer, or the employee can be made to be responsible for voluntarily purchasing the past service with the employer accepting its share of the liability for any years that the employee purchases. The prospective annual employer cost as a percentage of payroll for each of the past service scenarios currently considered by the entity is shown below.

	Plan 1		Plan 2		Plan 3
	Without COLA	With COLA	Without COLA	With COLA	With COLA
Past Service Scenarios					
1. 12 Years of Past Service (Employer purchases all years)	14.00%	18.07%	9.45%	12.29%	7.64%
2. 12 Years of Past Service (Employee purchases all years at 5%)	8.08%	12.17%	3.46%	6.29%	1.41%

The above results assume that employees will contribute 5% of pay toward the future cost of their retirement benefit. Alternatively, the entity may elect to charge only 2.5% employee contributions or to require no employee contributions, in which case TCRS will increase the above results by 2.5% or 5%, respectively.

Plan 1 With COLA

	Past Service Scenarios*	
	Scenario 1	Scenario 2
(a) Present Value of Benefits	558,188	560,699
(b) Past Service Liability	358,758	354,242
(c) Present Value of Future Employee Contributions	107,230	107,230
(d) Present Value of Future Normal Costs (a) - (b) - (c)	92,200	99,227
(e) Present Value of Future Salaries	2,144,596	2,144,596
(f) Normal Cost Rate (d) / (e) x 1.0375	4.46%	4.80%
(g) Current Payroll	251,608	251,608
(h) Normal Cost (f) x (g)	11,222	12,077
(i) Employee Past Service Contribution	0	161,270
(j) Accrued Liability (b) - (i)	358,758	192,972
(k) Accrued Liability Contribution (j) x .09125 x 1.0375	33,964	18,269
(l) Accrued Liability Contribution Rate (k) / (g)	13.50%	7.26%
(m) Active Participant Count	5	5
(n) Administrative Expense (m) x \$57	285	285
(o) Administrative Expense Rate (n) / (g)	0.11%	0.11%
(p) Total Employer Contribution (h) + (k) + (n)	45,471	30,631
(q) Total Employer Contribution Rate (f) + (l) + (o)	18.07%	12.17%

*Past Service Scenarios: Scenario 1 = 12 Years of Past Service (Employer purchases all years)
 Scenario 2 = 12 Years of Past Service (Employee purchases all years at 5%)

Distribution of Active Participants with Average Compensation

Attained Age	Years of Service										Total	
	Under 1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	Over 39		
Under 25												
25 - 29												
30 - 34												
35 - 39				1	\$34,221							1 \$34,221
40 - 44												
45 - 49						2	\$41,384					2 \$41,384
50 - 54				1	\$38,501							1 \$38,501
55 - 59												
60 - 64												
65 - 69				1	\$85,792							1 \$85,792
Over 69												
Total				2	\$60,006	3	\$40,423					5 \$48,256

Tennessee Consolidated Retirement System

A RESOLUTION to authorize a political subdivision's participation in the Tennessee Consolidated Retirement System in accordance with Tennessee Code Annotated, Title 8, Chapters 34 – 37.

WHEREAS, Tennessee Code Annotated, Title 8, Chapter 35, Part 2 allows a political subdivision to participate in the Tennessee Consolidated Retirement System ("TCRS") subject to the approval of the TCRS Board of Trustees; and

WHEREAS, the Upper Cumberland Gas Utility District desires to participate in TCRS under the
(Name of Political Subdivision)

provisions of Tennessee Code Annotated, Title 8, Chapters 34 – 37 and in accordance with the following terms and conditions:

- A. TYPE PLAN. (CHECK BOX 1 OR BOX 2 OR BOX 3 OR BOX 4). The Political Subdivision adopts the following type plan:
- (1) Regular Defined Benefit Plan.
 - (2) Alternate Defined Benefit Plan.
 - (3) Local Government Hybrid Plan (If this Plan is chosen, the Political Subdivision MUST also maintain a defined contribution plan on behalf of its employees and pass the attached resolution that describes the type of defined contribution plan the Political Subdivision will adopt. The defined contribution plan could provide for employer contributions of 0% to up to 7% of its employees' salaries).
 - (4) State Employee and Teacher Hybrid Plan (If this Plan is chosen, the Political Subdivision MUST also maintain a defined contribution plan on behalf of its employees whereby the Political Subdivision makes a mandatory employer contribution on behalf of each of its employees participating in the Hybrid Plan equal to 5% of the respective employee's salary subject to the cost controls and unfunded liability controls of the Hybrid Plan. The Political Subdivision must also pass the attached resolution that describes the type of defined contribution plan the Political Subdivision will adopt).
- B. ASSUMPTION OF EMPLOYEE CONTRIBUTIONS. (CHECK BOX 1 OR BOX 2 OR BOX 3 - IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, NO EMPLOYEE CONTRIBUTIONS MAY BE ASSUMED AND BOX 1 MUST BE CHECKED). The Political Subdivision shall:
- (1) NOT assume any employee contributions.
 - (2) ASSUME 2.5% of its employees' contributions.
 - (3) ASSUME 5.0% of its employees' contributions.
- C. COST-OF-LIVING INCREASES FOR RETIREES. (CHECK BOX 1 OR BOX 2 – IF EITHER THE LOCAL GOVERNMENT, OR THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, COST-OF-LIVING INCREASES FOR RETIREES MUST BE GIVEN, SUBJECT TO ANY APPLICABLE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS AND BOX 2 MUST BE CHECKED). The Political Subdivision shall:
- (1) NOT provide cost-of-living increases for its retirees.
 - (2) PROVIDE cost-of-living increases for its retirees.
- D. ELIGIBILITY OF PART-TIME EMPLOYEES. (CHECK BOX 1 OR BOX 2). The Political Subdivision shall:
- (1) NOT allow its part-time employees to participate in TCRS.
 - (2) ALLOW its part-time employees to participate in TCRS.
- E. PRIOR SERVICE. (CHECK AND COMPLETE BOX 1 OR BOX 2 OR BOX 3 OR BOX 4 OR BOX 5 – CAUTION: IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE AND IF BOX 3 BELOW IS NOT CHOSEN, THE EMPLOYER CONTRIBUTION COULD EXCEED 4% THEREBY CAUSING THE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS TO AUTOMATICALLY APPLY. ACCORDINGLY, PRIOR SERVICE IS NOT RECOMMENDED). For each employee employed with the Political Subdivision on the effective date of the Political Subdivision's participation in TCRS, the Political Subdivision shall:

- (1) [] Purchase ALL years of prior service credit on behalf of its employees.
- (2) [] Purchase NO years of prior service credit on behalf of its employees, but shall accept the unfunded liability should its employees establish ALL years of prior service.
- (3) [] NOT allow its employees to establish any prior service credit with the Political Subdivision.
- (4) Purchase 12 years of prior service credit on behalf of its employees and accept the unfunded liability should its employees establish an additional 0 years of prior service credit.
- (5) [] Purchase _____ years of prior service credit on behalf of its employees and no additional prior service credit may be established; and

WHEREAS, the liability for participation and costs of administration shall be the sole responsibility of the Political Subdivision and not the State of Tennessee; and

WHEREAS, the Political Subdivision has passed a budget amendment appropriating the funds necessary to meet such liability and the same is attached hereto; and

WHEREAS, the effective date of participation shall be on a date as determined by the TCRS Board of Trustees, and the initial employer contribution rate shall be 18.07%, which is based on the estimated lump sum accrued liability of \$ 358,758.00

NOW, THEREFORE, BE IT RESOLVED That the Board of Commissioners of
(Name of Governing Body)

Upper Cumberland Gas Utility District
(Name of Political Subdivision)

hereby authorizes all its employees in all its departments or instrumentalities to become eligible to participate in TCRS in accordance with the above terms and conditions subject to the approval of the TCRS Board of Trustees. It is acknowledged and understood that pursuant to Tennessee Code Annotated, Section 8-35-111 the Political Subdivision shall not make employer contributions to any other retirement or deferred compensation plans on behalf of any employee who participates in TCRS pursuant to this Resolution wherein the total combined employer contributions to such plans exceed 3% of the employee's salary, unless the Local Government Hybrid Plan or the State Employee and Teacher Hybrid Plan is adopted by the Political Subdivision for such employee. If either the Local Government Hybrid Plan or the State Employee and Teacher Hybrid Plan is adopted by the Political Subdivision, the Political Subdivision may make employer contributions to the defined contribution plan component of that Plan and to any one or more additional tax deferred compensation or retirement plans on behalf of such employee provided that the total combined employer contributions to such plans on behalf of the employee does not exceed 7% of the employee's salary.

STATE OF TENNESSEE

COUNTY OF Cumberland

I, Steve Stone, clerk of the

Board of Commissioners
(Name of Governing Body)

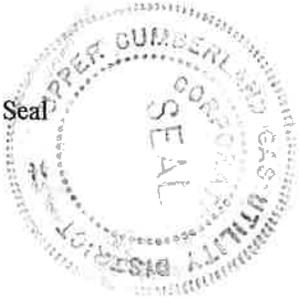
Cumberland County
(County, City Town, etc.)

Tennessee, do hereby certify that this is a true and exact copy of the foregoing Resolution that was approved and adopted in accordance with applicable law at a meeting held on the 21st day of August, 2024, the original of which is on file in this office.

IN WITNESS WHEREOF, I have hereunto set my hand, and the seal of the Upper Cumberland Gas Utility District
(Name of County, City, Town, etc.)



As Clerk of the Board, as aforesaid



**TCRS BOARD OF TRUSTEES
APPOINTMENT**

L. Charles Archer
512 Montezuma Road
Kingsport, TN 37664

L. Charles Archer is a Tax Auditor IV with the Tennessee Department of Revenue. He joined the department in 1980 as a sales and use tax auditor and is currently based in the Johnson City regional office. Charles is a Certified Fraud Examiner, Army veteran, and a great-grandfather. He and his wife, Pam, reside in Kingsport.

FUNDING POLICY OF TCRS

Proposed Funding Policy

Funding Policy of the Tennessee Consolidated Retirement System

The Board of Trustees of the Tennessee Consolidated Retirement System (TCRS) hereby adopts this document as the defined benefit plan funding policy that will be applicable to all participating employers.

Preamble

The intent of this funding policy is to establish a formal methodology for financing the pension obligations accruing under the TCRS. It is intended that current assets plus future assets from employer contributions, employee contributions, and investment earnings should be sufficient to finance all benefits provided by TCRS. The funding policy is intended to reflect a reasonable, conservative approach with each generation of taxpayers financing, to the greatest extent possible, the cost of pension benefits being accrued. This funding policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this funding policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, it is the intent that that this funding policy comply with all applicable laws, rules, and regulations of the State of Tennessee and the Federal Government.

This funding policy is being adopted by the Board both as a prudent action and as its fiduciary duty. Also, Chapter Number 990 of the Public Acts of 2014 requires the Treasurer to develop and recommend a funding policy for the Board. Moreover, adoption of a funding policy is recommended by the Government Finance Officers Association, the Governmental Accounting Standards Board, and the actuarial profession.

Components of this Funding Policy

1. Procurement of actuarial services
2. Actuarial experience study
3. Actuarial valuation
4. Actuarial audit

Procurement of Actuarial Services

TCRS shall acquire the services of professional actuarial firms to perform an actuarial experience study, an actuarial valuation, an actuarial audit, and other necessary actuarial services. Actuarial firms shall be selected by a competitive process. The actuarial firm that performs the actuarial audit shall not be the same firm that performs the actuarial valuation and the actuarial experience study. The contractual agreement with an actuarial firm shall not exceed five years. The actuarial firm shall be independent and shall act as an advisor on actuarial matters on behalf of TCRS.

The lead actuaries of actuarial firms shall have the requisite experience, capabilities, strengths, and qualifications including, but not limited to, the following:

1. Member of the American Academy of Actuaries,
2. Attainment of the Fellowship of the Society of Actuaries (FSA) designation,
3. Attainment of the Enrolled Actuary (EA) designation,
4. At least seven years of actuarial experience in the defined benefit field, and
5. Ineligible to participate in TCRS.

Actuarial Experience Study

An actuarial experience study shall be conducted at least every four years as of June 30. As determined necessary by the Board chair, assumptions may be evaluated on an interim basis.

Assumptions adopted by the Board should be established based on past experience and future expectations as the result of an extensive actuarial experience study.

Demographic assumptions to be established include, but are not limited to, the following:

1. Turnover pattern
2. Pre-retirement mortality based on expected improvement in mortality
3. Pattern of retirement
4. Pattern of disability
5. Post-retirement mortality with expected improvement in mortality to be phased in with the 2016 and 2020 studies, except that expected improvement shall apply immediately to the hybrid plan

Economic assumptions to be established include, but are not limited to, the following:

1. Investment earnings (net of investment expenses)
2. Salary
3. Retiree COLA
4. Social security wage base

Economic assumptions shall include an underlying assumption for inflation.

The actuarial experience study shall also generate administrative factors including, but not limited to, the following: (1) survivorship benefit option factors, (2) social security leveling option factors, (3) early retirement reduction factors, (4) age 65 actuarial equivalent factors, and (5) annuity factors. These factors shall be determined on a cost neutral basis.

Actuarial Valuation

Valuation method and frequency. An actuarial valuation to determine the “Actuarially Determined Contribution (ADC)” rate to finance pension obligations shall be performed annually beginning as of June 30, 2015. The valuation shall utilize the entry-age normal actuarial method. The ADC shall include (1) the normal cost, (2) the unfunded liability cost, and (3) the cost of administration for the operation of TCRS. The ADC shall be calculated and become applicable on July 1 that is 12 months following the valuation date.

Funding the ADC. The ADC, as determined by an actuarial valuation, shall provide funding at a level of no less than 100%. With respect to the obligations of TCRS, the retirement system's budget shall include funding of at least 100% of the ADC. Tenn. Code Ann. §8-37-310(c)(3). Tenn. Code Ann. §8-37-402 requires the general assembly to make appropriations sufficient to provide the amounts of normal contribution and accrued liability contribution to be required on account of state employees; this section further requires the general assembly to make appropriations sufficient to provide the amounts of normal contribution and accrued liability contribution to be required on account of teachers, which is to be included by the commissioner of education in the commissioner's estimate submitted to the general assembly of the funds necessary for the operation of the school system. Similarly, Tenn. Code Ann. §8-35-206 requires a participating political subdivision employer to pay the rate of contribution determined by the retirement system's actuary.

Asset smoothing method. An asset smoothing method shall be utilized to determine the actuarial value of assets. The difference between the amount actually earned and the earnings assumption for a particular year shall be amortized in level amounts. The asset smoothing period shall be ten years. However, there shall be a corridor so that the actuarial value of assets cannot be 20% more than nor 20% less than the market value of assets existing as of the actuarial valuation date.

Amortization methodology for actuarial gains and losses. Unfunded liabilities shall be amortized utilizing the level dollar amortization method over a closed period not to exceed 20 years. A tier approach will be utilized with new actuarial gains and losses from each actuarial valuation. Each tier shall be amortized over a closed, maximum 20 year period. The amortization period may be shortened or extended from valuation to valuation but the gains and losses for a specific tier must be completely amortized within 20 years. Any extension of the amortization period for a specific tier cannot exceed the 20 year maximum less whatever time has elapsed from the beginning of the amortization period.

The unfunded liability based on the 2013 actuarial valuation shall be funded no later than 2033. In subsequent actuarial valuations, new tiers of actuarial gains and losses where actual experience differed from assumed experience, changes in demographic and economic assumptions are made, and changes in benefit provisions are enacted shall be amortized over a closed period not to exceed 20 years.

A participating employer may request an amortization period of more than 20 years but less than 30 years. The participating employer must provide the justification for extending the amortization period. Extending the amortization period to provide benefit enhancements is not an acceptable justification. The Board delegates to the Director of TCRS the authority to approve amortization periods of more than 20 years but less than 30 years. On an annual basis, the Director of TCRS shall report to the Board those entities with amortization periods of more than 20 years.

Demographic data. The demographic data in an actuarial valuation shall include: (1) all active members, (2) all inactive vested members, (3) all inactive non-vested members with an account balance, and (4) all annuitants (including beneficiary annuitants and disability annuitants).

Benefit provisions. The actuarial valuation shall include all benefits being accrued by members of TCRS including, but not limited to, retirement, disability, death benefits, and post-

employment cost-of-living adjustments (COLAs). The valuation shall be based on the benefit eligibility and benefit terms as set out in state law.

Assumptions utilized. Demographic and economic assumptions as determined by an actuarial experience study and adopted by the Board shall be utilized in the actuarial valuation.

Employer groups. Separate actuarial valuations shall be prepared for the following groups and subgroups:

1. State and higher education employees hired before July 1, 2014
 - a. General employees
 - b. Public safety bridge benefits
 - c. State judges
2. State and higher education employees hired after June 30, 2014
 - a. General employees
 - b. Public safety bridge benefits
 - c. State judges and others
3. K-12 teachers hired before July 1, 2014
4. K-12 teachers hired after June 30, 2014
5. Each participating political subdivision by plan (legacy and hybrid)

Actuarial Audit

An actuarial audit by an independent actuarial audit firm shall be conducted at least once in a ten year period. The purpose of the actuarial audit shall be: (1) the validation and verification of actuarial valuation results for both funding and accounting; (2) an evaluation of the reasonableness of actuarial assumptions and methods; (3) compliance with professional standards such as generally accepted actuarial standards; and (4) compliance with state law and Board policy.

Transparency and Accountability

This funding policy, the actuarial experience study, the actuarial valuation, and the actuarial audit shall be readily available for review. Accordingly, the funding policy shall be posted on the departmental website. Further, the actuarial experience study, the actuarial valuation, and the actuarial audit shall be maintained on the departmental website for a period of no less than five years after being published.

Effective Date

This policy shall remain in effect until amended by the Board of Trustees or preempted by state law.

David H. Lillard, Jr.
Chair of the TCRS Board

Date Adopted

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STATISTICAL REPORTS

ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014
Group I Members:							
(State & Higher Ed.)	56,670	55,797	56,008	55,609	55,909	55,958	56,390
Teachers	78,876	78,463	78,303	78,393	78,106	78,244	78,506
General Employees of Polisubs	80,311	79,934	79,984	77,592	76,931	77,706	78,144
General Assembly	129	128	128	127	128	128	128
County Officials	2	2	2	2	2	2	2
PSC							
County Judges	1	1	1	1	1	1	1
Attorneys General	645	650	656	671	669	682	683
Total Group I	216,634	214,975	215,082	212,395	211,746	212,721	213,854
Group II & Prior Class:							
Wildlife Officers	2	2	2	2	2	2	2
Highway Patrol	3	3	3	1	1	1	1
Firemen & Policemen- Political Subdivisions	17	15	14	13	12	8	11
Total Group II & Prior Class	22	20	19	16	15	11	14
Group III and Prior Class:							
State Judges	2	1	1	1	1	1	1
County Judges							
Attorneys General	5	5	4	4	4	3	3
County Officials	5	4	4	4	4	4	4
Total Group III & Prior Class	12	10	9	9	9	8	8
Group IV							
State Judges	181	182	183	184	184	184	184
Total Membership							
Contributing to TCRS	216,849	215,187	215,293	212,604	211,954	212,924	214,060
Teachers Contributing to ORP	11,569	11,610	11,627	11,688	11,659	11,694	11,683
Grand Totals	228,418	226,797	226,920	224,292	223,613	224,618	225,743

**RETIRED PAYROLL
STATISTICS
June 30, 2014**

	<u>Amount</u>	<u># of Retirees</u>
STATE EMPLOYEES	\$51,683,921.70	40536
STATE PAID JUDGES	\$823,648.23	184
COUNTY PAID JUDGES	\$337,012.03	99
ATTORNEY GENERALS	\$971,152.39	256
COUNTY OFFICIALS	\$384,195.00	193
PUBLIC SERVICE COMMISSIONERS	\$9,101.90	5
POLITICAL SUBDIVISIONS	\$26,083,204.71	33695
TEACHERS	\$91,704,954.11	45552
LOCAL TEACHERS	\$3,500,572.80	1948
GOVERNORS AND WIDOWS	\$30,330.00	5
AGED STATE EMPLOYEES	\$135.40	1
AGED TEACHERS	\$1,279.56	9
OTHERS	\$27,114.93	53
Total	\$175,556,622.76	122,536

RETIRED PAYROLL
July 1, 2013
through
June 30, 2014

	<u>Amount</u>	<u># of Retirees</u>
STATE EMPLOYEES	609119397.3	40536
STATE PAID JUDGES	9938525.21	184
COUNTY PAID JUDGES	4136588.28	99
ATTORNEY GENERALS	10658400.97	256
COUNTY OFFICIALS	\$4,761,123.88	193
PUBLIC SERVICE COMMISSIONERS	109222.8	5
POLITICAL SUBDIVISIONS	323380173.9	33695
TEACHERS	1082410748	45552
LOCAL TEACHERS	42902464.47	1948
GOVERNORS AND WIDOWS	363960	5
AGED STATE EMPLOYEES	1624.8	1
AGED TEACHERS	18731.24	9
OTHERS	<u>\$79,334.73</u>	<u>53</u>
Total	\$2,087,880,295.86	122,536

NOTE: NINETY-FIVE PERCENT (95%) OF THE RETIREES ARE ON DIRECT DEPOSIT

NUMBER OF MEMBERS REFUNDED

<u>Month</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
July	1,149	450	894	499	496	475	516
August	675	308	612	406	466	471	782
September	566	316	494	431	447	394	457
October	609	411	369	379	383	375	378
November	492	353	320	293	364	319	314
December	234	257	256	276	257	241	276
January	450	332	257	307	348	338	402
February	308	310	242	265	312	335	310
March	316	291	278	299	262	253	284
April	308	311	687	277	346	311	424
May	619	217	385	662	329	274	866
June	843	340	360	406	339	336	674
TOTAL	<u>6,569</u>	<u>3,896</u>	<u>5,154</u>	<u>4,500</u>	<u>4,349</u>	<u>4,122</u>	<u>5,683</u>

**REFUND EXPENDITURES
2013-2014 FISCAL YEAR**

MONTH	MEMBER'S CONTRIBUTIONS	414(H) CONTRIBUTIONS	MEMBER'S INTEREST	EMPLOYER CONTRIBUTIONS	DEATH PAYMENTS	TOTAL
July	80,406.21	3,225,436.33	1,131,750.56	223,084.94	557,363.27	\$5,218,041.31
August	53,222.62	7,302,687.63	2,351,316.84	67,340.34	207,376.38	\$9,981,943.81
September	18,037.69	3,404,973.24	1,012,820.87	31,545.97	141,533.52	\$4,608,911.29
October	68,325.22	2,877,040.55	950,877.66	24,681.05	174,214.76	\$4,095,139.24
November	64,479.20	2,409,062.87	964,455.18	204,587.51	571,065.31	\$4,213,650.07
December	48,309.27	1,695,364.41	553,580.49	83,951.59	306,347.29	\$2,687,553.05
January	41,233.79	2,855,723.63	1,183,143.96	156,698.25	375,420.62	\$4,612,220.25
February	12,761.15	2,162,144.52	724,171.57	0.00	196,642.89	\$3,095,720.13
March	54,059.38	2,125,005.16	797,992.73	0.00	400,951.08	\$3,378,008.35
April	48,683.55	3,200,194.68	1,015,308.44	14,091.49	457,601.94	\$4,735,880.10
May	28.00	3,308,740.75	1,491,483.47	62,671.25	306,446.06	\$5,169,369.53
June	59,416.11	2,594,589.80	1,021,527.91	78,877.41	262,509.96	\$4,016,921.19
TOTAL	548,962.19	37,160,963.57	13,198,429.68	947,529.80	3,957,473.08	\$55,813,358.32

PRIOR SERVICE ACTIVITY
April 1, 2014 through June 30, 2014

State:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	45	81	\$ 94,304
	Military	20	41	-
	Redeposit	5	30	41,409
	Totals	70	152	\$ 135,712

Teachers:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	18	19	\$ 187,845
	Military	17	29	-
	Redeposit	20	75	328,458
	Totals	55	123	\$ 516,304

Higher Education:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	46	49	\$ 43,282
	Military	7	19	-
	Redeposit	4	24	73,150
	Totals	57	92	\$ 116,431

Political Subdivisions:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	229	525	\$ 407,008
	Military	23	45	2,984
	Redeposit	17	63	178,208
	Totals	269	633	\$ 588,199

Grand Totals:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	338	674	\$ 732,438
	Military	67	134	2,984
	Redeposit	46	192	621,225
	Totals	451	1,000	\$ 1,356,646

DISABILITY RETIREMENT REPORT

Disability Statistical Report

Fourth Quarter 13-14

Disability Applications Received	April	23
	May	23
	June	<u>28</u>
	TOTAL	74
Initial Claims Approved	April	23
	May	17
	June	<u>24</u>
	TOTAL	64
Initial Claims Disapproved	April	10
	May	07
	June	<u>07</u>
	TOTAL	24
Initial Claims Approved after Reconsideration		08
Initial Claims Disapproved after Reconsideration		08
Re-Evaluation Claims Approved		46
Re-Evaluation claims Disapproved		03
Cases Referred to Vocational Rehabilitation		0

**APPROVED FOR DISABILITY
FOURTH QUARTER
2013-2014**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	53	STATE	MACHINIST	356	\$ 43,431.89	B	\$ 1,325.52	CHRONIC LYMPHOCYTIC LEUKEMIA
ACC.	YES	NO	38	TEACHER	TEACHER	22	\$ 47,401.92	A	\$ 1,119.87	PIRIFORMIS SYNDROME/ CHRONIC PAIN/ DEPRESSION
SS-ORD.	YES	NO	47	STATE	SPECIALIST II	246	\$ 43,841.41	A	\$ 1,061.65	MVA/ QUADROPLEGIA/ MULTIPLE SCLEROSIS
ORD.	NO	NO	53	POL SUB	DEPUTY SHERIFF	217	\$ 39,238.11	A	\$ 927.00	LUMBAR SPONDYLOSIS, MULTIPLE HNP, R-HIP MRSA & ARTHRITIS
SS-ORD.	NO	NO	44	POL SUB	SPECIALIST	126	\$ 37,865.35	B	\$ 803.49	LOW BACK PAIN, THORACIC-LUMBAR KYPHOSIS S/P SOLID FUSION
ORD.	NO	NO	56	POL SUB	WATER OPERATOR	106	\$ 34,973.12	A	\$ 523.28	SPINAL STENOSIS, DDD
SS-ORD.	NO	NO	57	STATE	HWY MAINTENANCE III	351	\$ 35,752.08	B	\$ 1,079.03	METASTATIC PROSTATE CANCER
SS-ORD.	YES	NO	47	POL SUB	SUPERVISOR	192	\$ 32,127.57	B	\$ 694.27	STAGE IV METASTATIC BREAST CANCER
INACT.	NO	NO	47	POL SUB	LABORER	184	\$ 23,899.22	A	\$ 564.61	DM, DIABETIC PERIPHERAL NEUROPATHY, CAD
SS-ORD.	NO	NO	52	STATE	MAINTENANCE WORKER	111	\$ 23,605.94	D	\$ 391.89	STAGE IV CANCER
ORD.	NO	NO	52	STATE	ANALYST III	118	\$ 31,896.13	A	\$ 703.31	MS, OPTIC NEURITIS
ORD.	YES	YES	48	TEACHER	TEACHER	267	\$ 40,047.76	B	\$ 1,045.86	FIBROMUSCULAR DYSPLASIA, CARDIOMYOPATHY, UHL'S SYNDROME, CHF
ORD.	NO	NO	54	POL SUB	SPECIALIST	225	\$ 32,680.25	E	\$ 730.84	BREAST CANCER
SS-ORD.	NO	NO	54	TEACHER	TEACHER	254	\$ 60,670.05	C	\$ 1,300.59	DEPRESSION, ANXIETY, BI-POLAR DISORDER
ORD.	YES	NO	44	STATE	MAINTENANCE WORKER	74	\$ 20,184.76	A	\$ 476.86	ANKYLOSING SPONDYLITIS

**APPROVED FOR DISABILITY
FOURTH QUARTER
2013-2014**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	56	TEACHER	TEACHER	216	\$ 41,082.97	A	\$ 970.57	COGNITIVE IMPAIRMENT, ANXIETY, DEPRESSION, OSA
SS-ORD.	NO	NO	60	POL SUB	SECRETARY	307	\$ 28,488.35	A	\$ 860.92	UNCONTROLLED DM, ARTHRITIS, FIBROMYALGIA
ORD.	NO	NO	56	STATE	COMPUTER TECH	162	\$ 35,594.30	E	\$ 678.18	LYMPHEDEMA, FIBROMYALGIA, OA, SLEEP APNEA, OBESITY, MILD DJD
ORD.	NO	NO	51	POL SUB	COMMANDER	229	\$ 33,738.77	B	\$ 689.07	CAD, MYOCARDIAL INFARCTIONS, ANGINA, HTN, MORBID OBESITY
ORD.	NO	NO	54	POL SUB	BUS DRIVER	69	\$ 15,816.50	D	\$ 197.47	S/P CVA WITH RIGHT HEMIPARESIS
ORD.	NO	NO	52	POL SUB	SUPERVISOR	339	\$ 31,505.80	A	\$ 1,051.36	CVA, FIBROMYALGIA, AORTIC STENOSIS, OBESITY, DM, HTN, MYOFACIAL PAIN SYNDROME
ORD.	NO	NO	54	TEACHER	TEACHER	194	\$ 44,777.84	B	\$ 950.30	MYOCARDIAL INFARCTION, CABG, CHF, OBESITY
INACT.	NO	YES	47	POL SUB	TEACHER'S AIDE	95	\$ 13,859.85	A	\$ 327.44	ORTHOSTATIC HTN, VASO-VAGAL SYNCOPAL EPISODES
ORD.	YES	NO	47	POL SUB	DETENTION OFFICER	272	\$ 42,258.31	B	\$ 1,110.08	PARKINSONS DISEASE, DEGENERATIVE DISORDER
ORD.	NO	NO	30	STATE	CORPORAL	87	\$ 26,785.86	A	\$ 632.82	CROHNS DISEASE, COLECTOMY W/COLOSTOMY, ABDOMINAL PAIN, FATIGUE
ORD.	YES	NO	50	POL SUB	CLERK	220	\$ 28,685.29	A	\$ 677.61	COGNITIVE DECLINE, SYNCOPE
ORD.	NO	NO	60	STATE	CLERK	154	\$ 25,667.20	A	\$ 394.14	CEREBRAL ANEURYSM
ORD.	NO	NO	55	STATE	SECURITY/RECEPTIONIST	138	\$ 26,570.40	B	\$ 475.70	HEMIPLEGIA, NEURALGIA, NEURITIS, SEVERE JOIN PAIN
ORD.	YES	YES	46	STATE	SECRETARY	299	\$ 30,754.65	D	\$ 816.48	POSTURAL TACHYCARDIA SYNDROME, FATIGUE, PRE-SYNCOPE, CHRONIC PAIN
SS-ORD.	NO	NO	52	TEACHER	TEACHER	152	\$ 41,420.21	A	\$ 978.55	SCLERODERMA, INTERSTITIAL LUNG DISEASE

**APPROVED FOR DISABILITY
FOURTH QUARTER
2013-2014**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	47	TEACHER	TEACHER	284	\$ 48,569.33	B	\$ 1,256.79	MIXED CONNECTIVE TISSUE DISEASE, PANCREATITIS, DDD W/RADICULOPATHY
SS-ORD.	NO	NO	58	POL SUB	SECRETARY	327	\$ 34,148.67	A	\$ 1,099.21	CHRONIC PAIN, NERVE PALSY, SEVERE ANXIETY
ORD.	NO	NO	58	TEACHER	TEACHER	169	\$ 47,752.20	A	\$ 874.31	COGNITIVE & MEMORY IMPAIRMENTS S/P CEREBRAL CONCUSSION
ORD.	NO	NO	53	STATE	OFFICER	125	\$ 28,977.81	B	\$ 527.97	AMPUTATION, DM, JOINT PAIN
ORD.	YES	NO	43	POL SUB	OFFICER	98	\$ 33,041.63	A	\$ 780.61	MORBID OBESITY, DM, NEUROPATHY, DDD, FORMAL STENOSIS, CHRONIC PAIN
ORD.	NO	NO	55	POL SUB	NUTRITIONALIST	133	\$ 31,468.60	E	\$ 531.18	RECURRENT SEIZURES, UNSTABLE MALIGNANT HTN
ORD.	NO	NO	53	POL SUB	LABORER	176	\$ 23,958.37	A	\$ 566.01	BRACHIAL PLEXOPATHY, ULNAR NEUROPATHY
ORD.	YES	NO	50	STATE	CUSTODIAN	185	\$ 17,863.18	C	\$ 372.72	SCHIZOPHRENIA, DEPRESSION
ORD.	YES	YES	45	STATE	SUPPORT TECH	233	\$ 30,014.85	B	\$ 632.22	RA, DEPRESSION, ANXIETY
ORD.	YES	YES	45	POL SUB	OFFICER	175	\$ 44,293.08	D	\$ 937.18	ALS
ORD.	YES	NO	44	TEACHER	TEACHER	235	\$ 48,838.34	A	\$ 1,153.80	SEVERE DEPRESSION, ANXIETY DISORDER
ORD.	YES	NO	39	POL SUB	TRUCK DRIVER	66	\$ 26,887.77	A	\$ 635.22	ESRD, DM, MALIGNANT HTN, HEMODIALYSIS
ORD.	YES	YES	51	STATE	SERGAENT	297	\$ 38,573.33	A	\$ 1,127.72	DDD
ORD.	YES	NO	49	STATE	ADMINISTRATIVE ASSISTANT	146	\$ 27,473.69	A	\$ 649.06	STAGE IV LUNG CANCER
ORD.	YES	NO	48	TEACHER	TEACHER	215	\$ 50,565.54	B	\$ 1,080.64	QUADRIPLEGIA, MS, FATIGUE

**APPROVED FOR DISABILITY
FOURTH QUARTER
2013-2014**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	YES	46	TEACHER	TEACHER	122	\$ 36,367.44	D	\$ 793.45	BIPOLAR DISORDER, PTSD
SS-ORD.	NO	YES	59	STATE	DISABILITY DETERMINER	136	\$ 50,170.33	A	\$ 716.10	RA, DDD
ORD.	NO	YES	55	POL SUB	COUNSELOR	96	\$ 29,450.25	A	\$ 431.94	DEPRESSION, ANXIETY, PANIC ATTACKS, DM II
ORD.	NO	NO	54	STATE	COORDINATOR	180	\$ 50,880.93	A	\$ 1,202.06	MYASTHENIA GRAVIS, MUSCLE WEAKNESS
SS-ORD.	YES	NO	44	POL SUB	CAFETERIA WORKER	73	\$ 19,554.87	A	\$ 461.97	OVARIAN CANCER, OBESITY
ORD.	NO	NO	57	TEACHER	TEACHER	72	\$ 53,464.34	A	\$ 631.54	LOWER EXTREMITY SPASTICITY, BLADDER DYSFUNCTION
SS-ORD.	NO	NO	58	STATE	CUSTODIAN	113	\$ 19,562.51	A	\$ 259.96	KIDNEY FAILURE, HTN
ORD.	NO	YES	55	STATE	OFFICER	144	\$ 27,684.50	D	\$ 463.98	OA, DM
ORD.	NO	NO	51	POL SUB	PARAMEDIC I	145	\$ 45,572.97	A	\$ 1,076.65	MENINGIOMA S/P CRANIOTOMY W/INOPERABLE SIEZURES
SS-ORD.	NO	NO	52	POL SUB	INVENTORY TECH	139	\$ 23,113.68	A	\$ 518.76	ALS, MUSCLE WEAKNESS
SS-ORD.	YES	YES	40	POL SUB	LABORER	146	\$ 21,290.57	D	\$ 464.60	SCHIZOPHRENIA W/ HALLUCINATIONS, POOR BALANCE
ORD.	YES	YES	39	TEACHER	TEACHER	184	\$ 46,239.59	A	\$ 1,092.40	BIPOLAR DISORDER, DEPRESSION, SOCIAL ANXIETY, FIBROMYALGIA
ORD.	YES	NO	47	TEACHER	TEACHER	159	\$ 41,984.39	A	\$ 991.88	FIBROMYALGIA, MIGRAINE HA'S, CHRONIC FATIGUE SYNDROME, IBS
SS-ORD.	NO	NO	53	POL SUB	OFFICER	204	\$ 43,755.87	B	\$ 910.61	METASTATIC COLON CANCER
SS-ORD.	YES	NO	48	TEACHER	TEACHER	238	\$ 51,699.95	A	\$ 1,221.40	CVA

**APPROVED FOR DISABILITY
FOURTH QUARTER
2013-2014**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	54	STATE	LPN II	251	\$ 38,676.55	A	\$ 955.60	FIBROMYALGIA, OBESITY, CHRONIC PAIN, LUPUS, LOWER EXTREMITY ULCERS, PULMONARY EMBOLISM
ORD.	YES	NO	43	TEACHER	TEACHER	98	\$ 51,160.87	D	\$ 1,079.95	GLAUCOMA, KNEE PAIN
ORD.	NO	NO	51	POL SUB	SECRETARY	72	\$ 22,188.56	B	\$ 350.02	LUPUS, RAYNAUD'S SJOGREN'S DISEASE
ORD.	YES	NO	48	TEACHER	TEACHER	156	\$ 50,042.79	A	\$ 1,182.25	CHF, PULMONARY HTN

**DISAPPROVED FOR DISABILITY
FOURTH QUARTER
2013-2014**

Type	Re-C	Age	Employer	Position	Svc	Disability Summary	Reason Denied
ORD.	NO	48	STATE	SECRETARY	5	LUMBAR DDD W/RADICULOPATHY, ABNORMAL GAIT, DECREASED ROM, OBESITY	CONDITION IMPROVED WITH MEDICATION, CAP SED-MED WORK
ORD.	YES	55	STATE	CUSTODIAN	8	DDD, COPD, RA, DM II, HTN	CAP SED-LGT WORK
ACC.	NO	52	STATE	PSYCH TECH	9	RA	RESPONDING TO MEDICATION, CAP LGT WORK
ORD.	NO	47	STATE	FOOD SERVICE WORKER	9	ASTHMA, ARTHRITIS, FATIGUE, OBESITY	INSUFFICIENT MEDICAL DOCUMENTATION
INACT.	YES	48	POL SUB	TEACHER'S AIDE	7	ORTHOSTATIC HTN, VASO-VAGAL SYNCOPAL EPISODES	INSUFFICIENT MEDICAL DOCUMENTATION
INACT.	NO	48	POL SUB	TEACHER'S AIDE	7	ORTHOSTATIC HTN, VASO-VAGAL SYNCOPAL EPISODES	CAP SED-MED WORK
ORD.	YES	41	STATE	PROGRAM SPECIALIST	9	CHRONIC BAK PAIN, DEGENERATIVE SCOLIOSIS, SCIATICA	CAPABLE OF LIGHT WORK
ORD.	NO	47	POL SUB	SUPERVISOR	9	DEPRESSION, ANXIETY, HTN, C4-C5 CERVICAL STENOSIS	INSUFFICIENT MEDICAL DOCUMENTATION
ORD.	YES	46	STATE	SECRETARY	25	POSTURAL TACHYCARDIA SYNDROME, S/P CVA WITH RESIDUAL ISSUES, FIBROMYALGIA	CAP SED-LGT WORK
ORD.	YES	47	TEACHER	TEACHER	8	S/P KNEE SURGERIES & L-KNEE TOTAL REPLACEMENT, HNP W/BACK PAIN, & DEPRESSION	DIFFERENT TYPE OF WORK POSSIBLE
ORD.	NO	56	POL SUB	OFFICER	19	CERVICAL DISC DISEASE S/P EXTENSIVE CERVICAL SURGERIES	CAP SED WORK
ORD.	NO	44	POL SUB	OFFICER	14	DDD W/MYELOPATHY, R-LE SPASTICITY & WEAKNESS, POSSIBLE ALS	QUESTIONABLE ALS, CAP SED-LGT WORK
ORD.	NO	41	POL SUB	EDUCATIONAL ASSISTANT	15	DDD, CHRONIC BACK PAIN	CAPABLE OF LIGHT WORK
ORD.	YES	40	TEACHER	TEACHER	10	LUMBAR DISC DISEASE, SEIZURE D/O	CAP SED-MED WORK
ORD.	YES	47	STATE	CUSTODIAN	11	LUPUS, SJOGREN'S SYNDROME, R-ANKLE & FOOT PAIN	CAP OF LGT-MED WORK

**DISAPPROVED FOR DISABILITY
FOURTH QUARTER
2013-2014**

Type	Re-C	Age	Employer	Position	Svc	Disability Summary	Reason Denied
ORD.	YES	48	STATE	CUSTODIAN I	11	LUPUS, SJOGREN'S SYNDROME, R-ANKLE/FOOT PAIN	CAP OF LGT-MED WORK
ORD.	NO	32	POL SUB	CLERK	12	DM, HEP C, DEPRESSION	CAP MED-LGT WORK
ORD.	NO	38	STATE	SUPERVISOR	12	MS W/SPASTICITY, NEUROGENIC BLADDER, MAJOR ANXIETY & DEPRESSION	CAP AT LEAST SED WORK
ORD.	NO	56	POL SUB	COUNSELOR	8	DEPRESSION, ANXIETY, PANIC ATTACKS, DM II	CAP SED-MED WORK
ORD.	YES	56	STATE	PROGRAM ASSISTANT	13	CHRONIC FATIGUE SYNDROME	CONDITION NOT TOTALLY DISABLING
ORD.	NO	56	STATE	PROGRAM ASSISTANT	12	CHRONIC FATIGUE SYNDROME	INSUFFICIENT MEDICAL DOCUMENTATION
ORD.	NO	41	POL SUB	OFFICER	16	COPD, ANXIETY, DEPRESSION	CAP SED-LGT WORK
ORD.	YES	55	STATE	OFFICER	11	OA, DM	CAP SED WORK
ACC.	NO	43	TEACHER	TEACHER	15	S/P MULTIPLE OJA'S RESULTING IN HNP, PTSD, ANXIETY & PANIC DISORDER	CAP SED-MED WORK, CHANGE OF WORK ENVIRONMENT POSSIBLE

FINANCIAL STATEMENTS

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF PLAN NET POSITION
AS OF JUNE 30, 2014

ASSETS	
Cash and cash equivalents	\$380,646,576.90
<hr/>	
Receivables	
Member receivable	27,653,025.81
Employer receivable	80,047,540.62
Accrued interest receivable	92,469,667.71
Accrued dividends receivable	54,866,835.39
Real estate income receivable	1,777,063.04
Investments sold	316,698,148.78
Total receivables	<hr/> 573,512,281.35 <hr/>
Investments, at fair value	
Short-term securities	34,655,585.15
Government securities	8,833,775,239.76
Corporate securities	5,760,726,828.47
Corporate stocks	24,715,744,379.70
Strategic Lending	321,607,543.00
Private Equities	779,279,897.48
Real estate	2,278,482,101.10
Total investments	<hr/> 42,724,271,574.66 <hr/>
Capital Assets (net)	<hr/> 28,341,603.62 <hr/>
TOTAL ASSETS	<hr/> 43,706,772,036.53 <hr/>
LIABILITIES	
Retired payroll payable	184,629.91
Retiree insurance premium payable	8,279,852.82
Accounts payable	14,929,367.24
Investments purchased	777,003,310.59
Other investment payables	1,267,347.00
TOTAL LIABILITIES	<hr/> 801,664,507.56 <hr/>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<hr/> \$ 42,905,107,528.97 <hr/>

See Accompanying Notes to the Financial Statements

UNAUDITED

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET POSITION
JULY 1, 2013 THROUGH JUNE 30, 2014

ADDITIONS	
Contributions	
Member contributions	\$270,551,014.69
Employer contributions	1,034,694,150.80
Total contributions	<u>1,305,245,165.49</u>
Investment income	
Net Appreciation in fair value of investments	5,123,202,799.66
Interest	468,346,284.39
Dividends	497,073,671.28
Real Estate income, net of operating expenses	108,071,446.87
Total investment income	<u>6,196,694,202.20</u>
Less: Investment expense	(42,190,618.70)
Net income from investing activities	<u>6,154,503,583.50</u>
Securities lending activities	
Securities lending income	6,282,989.03
Less: Securities lending expense	(934,268.25)
Net income from securities lending activities	<u>5,348,720.78</u>
Net investment income	<u>6,159,852,304.28</u>
TOTAL ADDITIONS	<u>7,465,097,469.77</u>
DEDUCTIONS	
Annuity benefits	2,056,980,100.51
Death benefits	3,912,205.07
Refunds	54,045,937.10
Administrative expenses	9,957,060.56
TOTAL DEDUCTIONS	<u>2,124,895,303.24</u>
NET INCREASE	5,340,202,166.53
NET POSITION RESTRICTED FOR PENSION BENEFITS	
JULY 1, 2013	37,564,905,362.44
JUNE 30, 2014	<u>\$42,905,107,528.97</u>

See Accompanying Notes to the Financial Statements

UNAUDITED

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2014

The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents includes cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2014

5. **Capital Assets** - Capital assets consist of internally generated computer software in development and the completed phases of internally generated computer software, which are reported at historical cost, less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Software in development will be amortized using the straight line method over the ten year estimated life of the system once a phase is implemented. The first phase of the computer software was implemented during the fiscal year ended June 30, 2012 and the second phase was implemented during the fiscal year ended June 30, 2013. Amortization of both these phases has been reflected in the statements.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2011, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	<u>135,588</u>	<u>79,488</u>
Total	241,496	122,790
Number of participating employers	140	482

State Employees, Teachers and Higher Education Employees Pension Plan

Plan Description - SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

Superseded Systems and Certain Employment Classifications - Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2014

benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

Contributions and Reserves - Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve.

Political Subdivisions Pension Plan

Plan Description - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

Contributions and Reserves - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2014

Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve.

C. DEPOSITS AND INVESTMENTS

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

State statute also authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2014

- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed ten percent (10 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic stock index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed five percent (5 percent) of the market value of total assets.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

Asset-Backed Securities - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates.

Derivatives - The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2014

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Forward currency forward contracts expose the TCRS to foreign currency risk as they are denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statement.

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TCRS policy to conduct derivative transactions through the custodian bank and high quality money center banks or brokerage firms. The credit risk of foreign currency forward contracts is managed by limiting the term of the forward contracts and restricting the trading to high quality banks. The credit risk of futures contracts is managed by maintaining a daily variation margin.

D. COMMITMENTS

Standby Commercial Paper Purchase Agreement - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 25 basis points on the \$350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 40 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 75 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2014

TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.