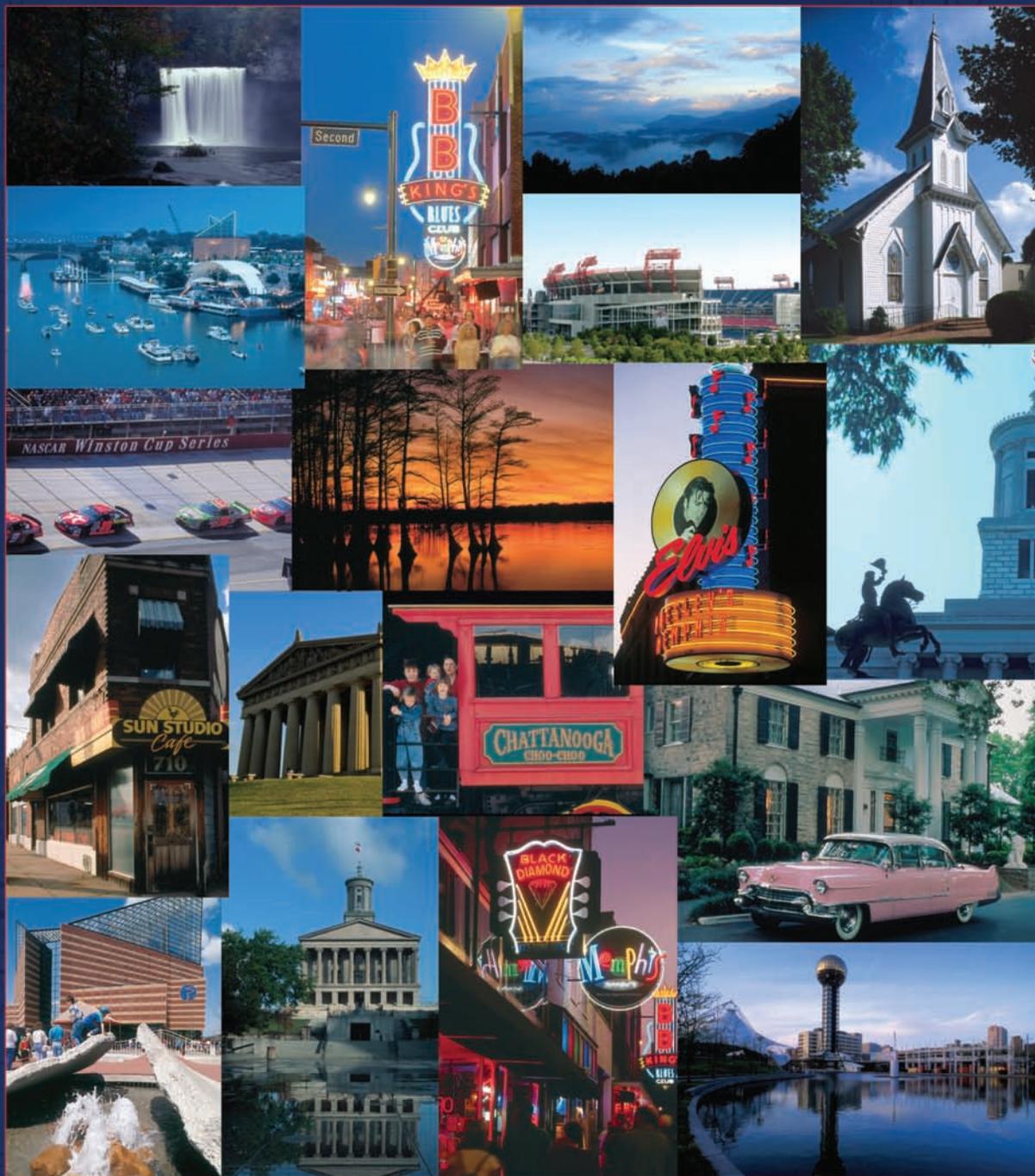




Tennessee Consolidated Retirement System

Pension Trust Funds of the State of Tennessee



Comprehensive Annual Financial Report
for the year ended June 30, 2011

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011
Pension Trust Funds of the State of Tennessee

Prepared by:

State of Tennessee Treasury Department
502 Deaderick Street
Nashville, Tennessee 37243-0201
(615) 741-7063
tcrs.tn.gov

David H. Lillard, Jr., State Treasurer
Jill Bachus, TCRS Director

*The cover and divider pages within this report
feature main attractions located in
Chattanooga, Knoxville, Memphis and Nashville.*

Photographs compliments of:

Kerry Crawford

Jeff Dalzell

Chattanooga Area Convention and Visitors' Bureau

Knoxville Tourism and Sports Corporation

Memphis Convention and Visitors' Bureau

Tennessee's Photographic Services

Tennessee's Department of Tourist Development

This report is available in its entirety on the Internet at:
www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf



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INTRODUCTORY SECTION



Elvis Aaron Presley was born in Tupelo, Mississippi, on January 8, 1935. His twin brother was stillborn, leaving Elvis to grow up as an only child. In 1948, he and his parents moved to Memphis.

In 1954, Elvis began his singing career with the legendary Sun Records label in Memphis. By 1956, he was an international sensation. His unique sound and style challenged the social and racial barriers of the time and he developed a new era of American music and popular culture.

His talent, good looks, sensuality, charisma and good humor endeared him to millions, as did the humility and human kindness he demonstrated throughout his life. Known the world over by his first name, he is regarded as one of the most important figures of twentieth century popular culture. Elvis died at his Memphis home, Graceland, on August 16, 1977.

Photo Credit: State of Tennessee's Photographic Services

The **Women's Basketball Hall of Fame**, located in Knoxville, honors the greatest contributors to the game while celebrating the past, present and future of women's basketball. There is more than 32,000 square feet of fun with an assortment of hands-on interactive experiences, along with the history and personalities of the growing sport of women's basketball. It also includes three indoor basketball courses, a dribble racecourse and an interactive locker room where visitors can hear a coach's actual halftime talk.

Photo Credit: Knoxville Tourism and Sports Corporation



GFOA CERTIFICATE OF ACHIEVEMENT

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Tennessee Consolidated
Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

PUBLIC PENSION COORDINATING COUNCIL AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2011***

Presented to

Tennessee Consolidated Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

CHAIRMAN OF THE BOARD'S LETTER

STATE OF TENNESSEE

DAVID H. LILLARD, JR.
STATE TREASURER615.741.2956
David.Lillard@tn.govTREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

December 21, 2011

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the twenty-fourth consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

Administration: To better serve our members, the TCRS website (located at www.tn.gov/treasury/tcrs) includes a benefit calculation module which allows members to input a limited amount of data to obtain a retirement benefit estimate. Furthermore, TCRS forms and up-to-date information are available online to assist our members and participating employers. Information systems are continuing to be enhanced to allow for additional user-friendly access for members.

Investments: The year ending June 30, 2011 was an exceptional year for investors and TCRS produced a 19.59% return which was the best annual return for the fund since 1986. The fund gained 3.76% annually for the trailing three-year period and 4.54% for the trailing five-year period. While the fund has achieved its targeted return of 7.5% for the long-run, the trailing ten-year return of 4.89% exemplifies the challenging period investors have endured. These positive results are a direct reflection of the conservative, highly-diversified investment strategy implemented by Treasury. Going forward, the fund is well-positioned to continue to produce solid risk-adjusted returns.

Financial Soundness of the Plan: Members of the retirement system should be assured that the benefits promised will be paid. TCRS is considered one of the best-funded pension plans in the nation. TCRS has received a AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's (S&P), the highest possible ratings issued by this nationally-recognized rating agency. The actuarial valuation, as of July 1, 2011, reported a combined state and teacher funding ratio of over 92 percent.

The General Assembly, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, invest the system assets in a prudent manner without undue risk, fund the system on an actuarially-strong basis and provide the best possible services to the members in the system.

Sincerely,

A handwritten signature in cursive script, appearing to read "David Lillard".

David H. Lillard, Jr., State Treasurer
Chairman of the Board

LETTER OF TRANSMITTAL



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
10th FLOOR ANDREW JACKSON BUILDING
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

December 20, 2011

Board of Trustees
Tennessee Consolidated Retirement System
Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) comprehensive annual financial report for the fiscal year ended June 30, 2011. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records. These internal controls have been created to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management's Discussion and Analysis located in the Financial Section of this report.

PROFILE OF TCRS

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers and employees of political subdivisions electing to participate in TCRS. The State of Tennessee is responsible for the pension benefits of state employees and higher education employees and funds a significant portion of the retirement liability for teachers through the Basic Education Program. Each of the 486 participating political subdivisions are responsible for the pension benefits of its employees. The TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

The TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability and retirement benefits; and processing refund and prior service requests.

(continued)

**LETTER OF TRANSMITTAL
(CONTINUED)****ECONOMIC CONDITION**

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial "advanced funding" method is used to provide for the accumulation of assets to fund the cost of retirement, disability and death benefits provided by the system. The funding objective of TCRS is being met as the state and political subdivisions continue to make contributions to the plan at the rates established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm every two years to determine the funding requirements for the employers participating in TCRS. On July 1, 2009, the plan had a combined state and teacher funding ratio of 90 percent. The July 1, 2009 actuarial valuation utilized the assumptions generated from the June 30, 2008 experience study and provided the employer contribution rates effective July 1, 2010. The next actuarial valuation was performed as of July 1, 2011 and the resulting employer contributions will become effective July 1, 2012.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks.

Because TCRS is a well-funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. The investment market outlook continues to create significant challenges in meeting the 7.5 percent investment return assumed by TCRS. A premium will continue to be placed on security selection.

AWARDS AND ACKNOWLEDGMENTS

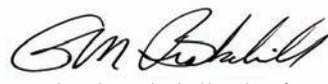
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its comprehensive annual financial report for the fiscal year that ended June 30, 2010. This was the twenty-third consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The TCRS is also the recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers and other interested parties.


Jim Bachus, TCRS Director


Michael Brakebill, Chief Investment Officer

ADMINISTRATION AND MISSION

ADMINISTRATION

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of TCRS are among the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department, which support the operations of TCRS, include Information Systems, Accounting, Management Services, Internal Audit and Human Resources. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the State of Tennessee. Funding for the operation of TCRS is provided by two sources. The State of Tennessee is responsible for the operation cost associated with state employees and higher education employees. The state and local education agencies share the cost related to K-12 teachers. Political subdivisions are responsible for the operation cost associated with their employees.

MISSION

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission will be accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and Insurance and the TCRS membership through the following objectives:

- ❖ *Exemplary Service* – To provide accurate, courteous and prompt service to members of TCRS.
- ❖ *Benefit Standards* – To provide retirement coverage through TCRS, Social Security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ *Funding Standards* – To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ *Staffing* – To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ *Research* – To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ *Management* – To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently while providing the highest level of service.
- ❖ *Ethical Standards* – To maintain the highest ethical standards.
- ❖ *Investment Return* – To obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay benefits when due.

THE COUNCIL ON PENSIONS AND INSURANCE

THE COUNCIL ON PENSIONS AND INSURANCE

Created as a legislative oversight committee, the Council on Pensions and Insurance develops, recommends and establishes pension and retirement standards and maintains a progressive state policy on retirement. Additionally, the Council reviews legislation affecting state-provided insurance programs for both active and retired members of the Tennessee Consolidated Retirement System.

The Council periodically reviews Tennessee’s retirement and state-provided insurance provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems, including those of other states, private industry and the federal government’s Social Security program. All proposed legislation affecting Tennessee’s retirement laws must be reviewed by the Council before the legislature may take action. The Council is authorized to prepare and propose amendments which are

then forwarded to the standing committees. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of the TCRS director also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer and the Director of TCRS.

VOTING MEMBERS - SENATORS



Douglas Henry
*Finance, Ways
& Means Vice-Chair*



James Kyle



Randy McNally
*Council Chair
Finance, Ways
& Means Chair*



Mark Norris



Ron Ramsey
Speaker of the Senate



Jim Tracy
Speaker’s Designee



Bo Watson
*Finance, Ways
& Means Secretary*



Jamie Woodson

(continued)

**THE COUNCIL ON PENSIONS AND INSURANCE
(CONTINUED)**

VOTING MEMBERS – REPRESENTATIVES



Craig Fitzhugh



Michael Harrison
*Finance, Ways
& Means Vice-Chair*



Ryan Haynes
Speaker's Designee



Curtis Johnson
*Finance, Ways
& Means Secretary*



Steve McDaniel



Charles Sargent
*Council Vice-Chair
Finance, Ways & Means Chair*



Johnny Shaw



Beth Harwell
Speaker of the House

NON-VOTING MEMBERS



Jill Bachus
TCRS Director



Mark Emkes
*Commissioner of Finance
& Administration*



Rebecca Hunter
*Commissioner of
Human Resources*



David H. Lillard, Jr.
State Treasurer



Justin Wilson
Comptroller of the Treasury

THE BOARD OF TRUSTEES

THE BOARD OF TRUSTEES

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (*T.C.A.*, Title 8, Chapters 34-37). The 20-member Board meets quarterly and is subject to the call of the chair for special meetings. Nine voting members constitute a quorum and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, nine representatives of the active TCRS membership and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions and Insurance (as nonvoting members), the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chair of the Board and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; one public safety officer and three representatives of local governments. Retiree representation includes a retired teacher and a retired state employee.

Three teachers and one retired teacher are selected for three-year terms by the Speaker of the Senate and the Speaker of the House of Representatives. State employees elect two representatives who also serve three-year terms.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. The public safety representative and the state retiree representative are appointed by the Governor. All employee representatives must be vested members of TCRS.

ELECTED OR APPOINTED MEMBERS



Michael Barker
Retired Teacher
Term Expires: June 30, 2013



Dennis Carroll
Public Safety
Term Expires: June 30, 2013



Greg Elliott
Tennessee Bureau of Investigation
Term Expires: June 30, 2013



Erick Huth
Middle Tennessee Teacher
Term Expires: June 30, 2012



Traci Jefferson
East Tennessee Teacher
Term Expires: June 30, 2013



Bill Kemp
Tennessee County Officials Association
Term Expires: June 30, 2013

(continued)

**THE BOARD OF TRUSTEES
(CONTINUED)**

ELECTED OR APPOINTED MEMBERS *(continued)*



Alfred Laney
*Retired
State Employee
Term Expires:
June 30, 2012*



Patsy Moore
*West Tennessee
Teacher
Term Expires:
June 30, 2014*



Tommie Pendergrass
*Department of
Financial Institutions
Term Expires:
June 30, 2013*



David Seivers
*Tennessee County
Services Association
Term Expires:
June 30, 2013*



Ken Wilber
*Tennessee
Municipal League
Term Expires:
June 30, 2013*

EX-OFFICIO MEMBERS



Jill Bachus
TCRS Director



Mark Emkes
*Commissioner of Finance
& Administration*



Tre Hargett
Secretary of State



Rebecca Hunter
*Commissioner of
Human Resources*



David H. Lillard, Jr.
State Treasurer



Randy McNally
Council Chair



Charles Sargent
Council Vice-Chair



Libby Sykes
Administrative Director of the Courts



Justin Wilson
Comptroller of the Treasury

PROFESSIONAL CONSULTANTS**PROFESSIONAL CONSULTANTS**

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on page 44.

INVESTMENT ADVISORY COUNCIL

The Investment Advisory Council (IAC) was established to assist both the Board of Trustees and the TCRS investment staff. The investment professionals on the IAC serve five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA (retired)
Regions Bank
Nashville, Tennessee

Henry Delicata
Park Street Capital
Boston, Massachusetts

Susan Logan Huffman, CFA
Reliant Investment Management, LLC
Memphis, Tennessee

George B. Stadler, CFA
HMS Capital Management, LLC
Nashville, Tennessee

Chuck Webb, CFA
Weaver C. Barksdale & Associates
Brentwood, Tennessee

GENERAL INVESTMENT AND PRIVATE EQUITY CONSULTANT

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Pete Keliuotis
Strategic Investment Solutions, Inc.
333 Bush Street, Suite 2000
San Francisco, California 94104

INTERNATIONAL EQUITY INVESTMENT MANAGERS

The international equity investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Gerard Branka
Pyramis Global Advisors, LLC
53 State Street
Boston, Massachusetts 02109

Joel Brous
American Century Investments
666 Third Avenue, 23rd Floor
New York, New York 10017

Molly Sodeinde
TT International
Moor House, Level 13, 120 London Wall
London, EC2Y 5ET, UK

Paul Eisenhardt
GE Asset Management, Inc.
3001 Summer Street
Stamford, Connecticut 06904

Robert Job
PanAgora Asset Management, Inc.
260 Franklin Street, 22nd Floor
Boston, Massachusetts 02110

Dr. Kenneth J. Lyall
Walter Scott & Partners, Ltd.
One Charlotte Square
Edinburgh EH2 4DZ
Scotland, UK

Eric Maskalunas
Baring Asset Management, Inc.
Independence Wharf, 470 Atlantic Avenue, 9th Floor
Boston, Massachusetts 02210

Wilson Phillips
Marathon - London
Orion House, 5 Upper St. Martin's Lane
London WC2H 9EA, UK

(continued)

**PROFESSIONAL CONSULTANTS
(CONTINUED)**

REAL ESTATE INVESTMENT CONSULTANT AND ADVISORS

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Richard Brown
The Townsend Group
500 East Eighth Avenue
Suite 300
Denver, Colorado 80203

The real estate investment advisors identify potential co-investors as well as prospective real estate transactions.

Paul Edwards
Capri Capital Partners LLC
875 N. Michigan Avenue #3430
Chicago, Illinois 60611

Paul M. Canning
UBS Realty Investors LLC
242 Trumbull Street
Hartford, Connecticut 06103

Lawrence Ostow
J.P. Morgan Investment Management, Inc.
245 Park Avenue, 2nd Floor
New York, New York 10167

Rob Greer
Clarion Partners LLC
601 13th Street Northwest
Suite 700 North
Washington, DC 20005

Tim Ellsworth
RREEF America LLC
575 Anton Boulevard, #200
Costa Mesa, California 92626

Reid Parker
TA Realty LLC
28 State Street, 10th Floor
Boston, Massachusetts 02109

Steve Wallace
Cornerstone Real Estate Advisers LLC
300 South Wacker Drive
Suite 3550
Chicago, Illinois 60606

MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

THE MEDICAL BOARD

The Medical Board evaluates applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, the panel reviews medical data submitted by disabled retirees who are subject to periodic evaluation. The Medical Board consists of the following:

Suzanne Fletcher, M.D.
Brentwood, Tennessee

Barry R. Siegel, M.D.
Memphis, Tennessee

Lee Carl Whitaker, M.D.
Chattanooga, Tennessee

CONSULTING ACTUARY

An independent consulting firm performs an actuarial valuation every two years to determine the funding status of the TCRS and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Justin Thacker
Bryan, Pendleton, Swats & McAllister, LLC
5301 Virginia Way, Suite 400
Brentwood, Tennessee 37027

OTHER PROFESSIONAL SERVICES

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These officers are as follows:

Robert E. Cooper, Jr.
Attorney General/Reporter
Nashville, Tennessee

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

TREASURY DEPARTMENT EXECUTIVE STAFF**TREASURER'S OFFICE**

Treasurer	David H. Lillard, Jr., JD	615-741-2956
Chief of Staff	Janice H. Cunningham	615-741-2956
Public Policy Advisor	Joy Harris	615-741-2956
Staff Assistant to the Treasurer	Joshua Stites	615-741-2956
Human Resources Director	Ann Taylor-Tharpe	615-532-3347

TCRS INVESTMENTS

Assistant Treasurer, Investments	Bill Abney, JD	615-532-1167
Chief Investment Officer	Michael Brakebill, CFA	615-532-1157
Deputy CIO and Fixed Income Director	Andrew Palmer, CFA	615-532-1183
Equity Director	Michael Keeler, CFA	615-532-1165
Real Estate Director	Peter Katseff	615-532-1160
Private Equity Director	Lamar Villere, CFA	615-532-1154
Director of Cash and Administration	Tim McClure, CTP	615-532-1166

RETIREMENT ADMINISTRATION

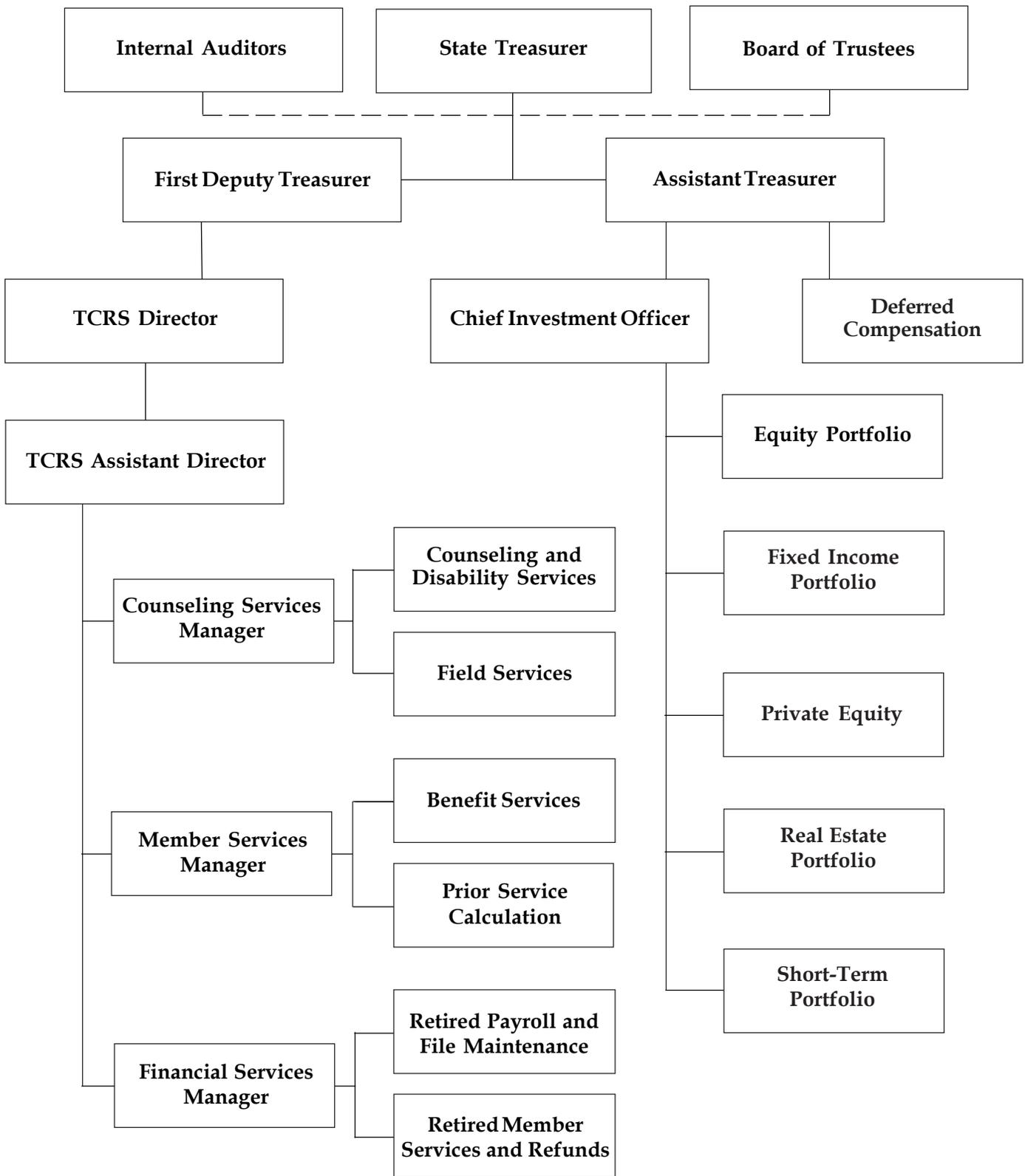
TCRS Director	Jill Bachus, CPA	615-741-7063
TCRS Assistant Director	Jamie Wayman, CPA	615-741-7063
Administrator of Old Age and Survivors Insurance	Mary Griffin, JD	615-741-7902
Manager of Counseling Services	Candy O'Leary	615-741-1971
Manager of Member Benefits	Erica Nale	615-741-4868
Manager of Financial Services	Keevia Battle, CPA	615-741-4913

TREASURY DIVISIONS

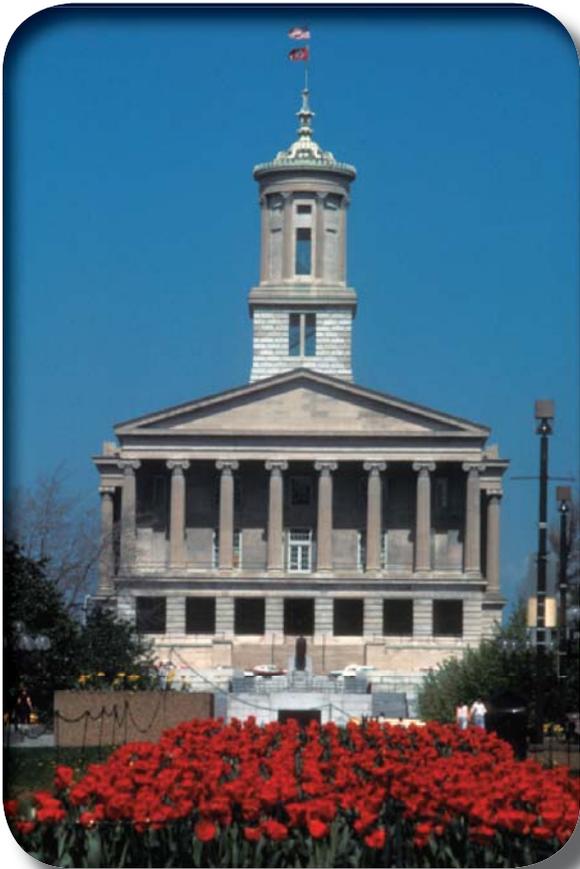
First Deputy Treasurer, Program Services	Steven Curry, CPA-inactive, CEBS, CCM	615-532-8045
Second Deputy Treasurer, Support Services	Rick DuBray, CPA	615-253-5764
Assistant Treasurer, Legal, Compliance and Audit	Christy A. Allen, JD	615-253-3853
General Counsel	Mary Roberts-Krause, JD	615-741-7063
Legal and Compliance Officer	Paul Robertson, JD	615-253-4111
Manager of Deferred Compensation	Kaci Lantz, CFP®	615-532-2347
Director of Accounting	Kim Morrow, CPA	615-532-3840
Assistant Director of Accounting	Brian Derrick, CPA	615-532-8051
Director of Information Systems	Tim Sundell	615-532-0734
Director of Management Services	Kerry Hartley, CPA	615-532-8552
Interim Director of Internal Audit	Brian Derrick, CPA	615-253-2018

*The Treasurer is housed on the 1st floor of the State Capitol Building.
Divisions are housed on the 9th, 10th and 11th floors of the Andrew Jackson Building.*

ORGANIZATION CHART



FINANCIAL SECTION

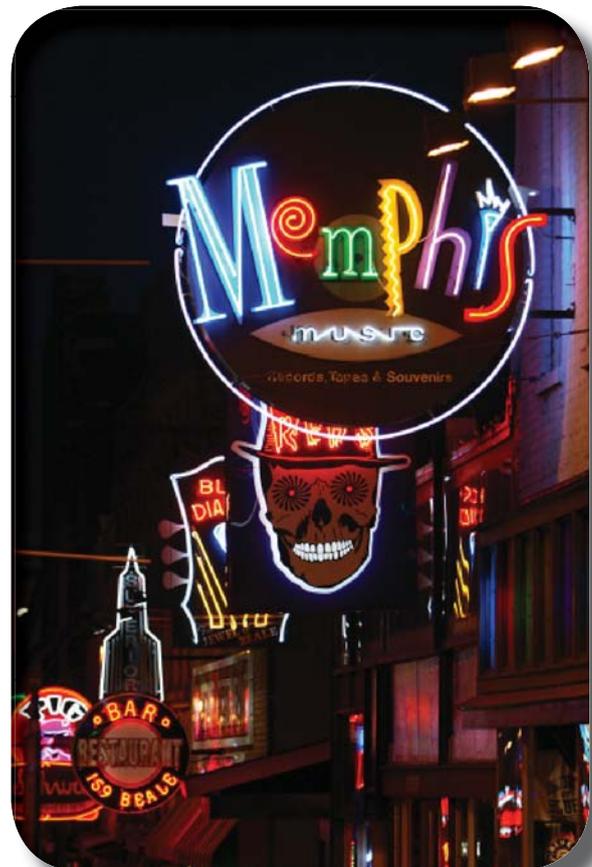


The *State Capitol* was designed by notable Philadelphia architect William Strickland, who oversaw the construction from 1845 to its completion in 1859. It is one of Nashville's most prominent examples of Greek Revival Architecture and is designated as a National Historic Landmark, as well as a National Civil Engineering Landmark by the American Society of Civil Engineers. It is constructed of Tennessee marble and the labor of erecting it was performed by convicts and slaves. At his request, Mr. Strickland was buried within the walls of the Capitol. On the grounds are the tombs of President James K. Polk and his wife, Sarah Childress Polk and statues of Alvin C. York, Andrew Jackson, Andrew Johnson, Sam Davis and Edward Ward Carmack. It is one of the oldest original capitols still in active use in the nation.

Photo Credit: State of Tennessee's Photographic Services

Historic Beale Street is one of America's most famous musical streets. Located in the heart of downtown Memphis with three blocks of more than 30 nightclubs, restaurants, and retail shops. Music includes traditional blues, R&B, jazz and rock 'n' roll. Catch a concert at Handy Park or attend one of the annual festivals or parades.

Photo Credit: State of Tennessee's Photographic Services



INDEPENDENT AUDITOR'S REPORT



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

December 19, 2011

Members of the General Assembly
and
Members of the Board of Trustees
Tennessee Consolidated Retirement System
and
The Honorable David H. Lillard, Jr., Treasurer
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2011, and June 30, 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Tennessee Consolidated Retirement System's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, and do not purport to, and do not, present fairly the financial

(continued)

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

December 19, 2011

Page Two

position of the State of Tennessee as of June 30, 2011, and June 30, 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2011, and June 30, 2010, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 19, 2011, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA
Director

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2011 & JUNE 30, 2010**

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2011 and June 30, 2010. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

FINANCIAL HIGHLIGHTS

- ◆ The plan net assets (total assets minus total liabilities) of the TCRS at June 30, 2011 were \$33.7 billion, increasing nearly \$5.1 billion (17.8 percent) from the plan net assets at June 30, 2010. The net assets are held in trust to meet future benefit obligations.
- ◆ The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2009, the date of the latest actuarial valuation, the TCRS' funded ratio was 90.6 percent for the SETHEPP group and 86.3 percent for the PSPP group.
- ◆ Contribution revenue for fiscal year 2011 totaled \$1,255,926,943 an increase of 15 percent compared to fiscal year 2010.
- ◆ Net investment income for fiscal year 2011 was \$5,528,753,502. During fiscal year 2011, the TCRS received an investment return on its portfolio of 19.59 percent, compared to 10.24 percent for fiscal year 2010.
- ◆ Total benefits and refunds paid for fiscal year 2011 were \$1,688,410,469 – an increase of 7.4 percent over fiscal year 2010 total benefits and refunds paid of \$1,571,610,009.
- ◆ Total administrative expenses for fiscal year 2011 were \$7,156,822 – a 5.1% decrease from fiscal year 2010 administrative expenses of \$7,542,822.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Assets* (on pages 22 through 23), the *Statement of Changes in Plan Net Assets* (on pages 24 through 25), and the *Notes to the Financial Statements* (on pages 26 through 38). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis*, as well as the schedules on page 39.

The *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets* report information about the plan net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those plan net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statement of Plan Net Assets*, or net assets held in trust for pension benefits, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The *Statement of Changes in Plan Net Assets* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net assets of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two basic financial statements, the reader should also review the *Schedules of Funding Progress* and the *Schedules of Employer Contributions* to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment obligations. The *Notes to the Financial Statements* are also essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2011 & JUNE 30, 2010 (CONTINUED)**

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS

At June 30, 2011, the TCRS had plan net assets (total assets in excess of total liabilities) of \$33.7 billion, an increase of nearly \$5.1 billion (17.8 percent) from \$28.6 billion at June 30, 2010, following the fiscal year 2010 increase of over \$2.2 billion (8.4 percent) from the \$26.4 billion of plan net assets as of June 30, 2009. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of strong investment returns in equity and fixed income markets. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows.

PLAN NET ASSETS

	June 30, 2011	June 30, 2010	FY11 - FY10 Percentage Change	June 30, 2009	FY10 - FY09 Percentage Change
ASSETS					
Cash and cash equivalents	\$ 414,134,562	\$ 438,269,286	(5.5) %	\$1,267,296,450	(65.4) %
Member and employer receivables	99,604,471	89,310,527	11.5 %	74,112,021	20.5 %
Investment receivables	1,431,331,905	2,000,061,173	(28.4) %	1,373,061,675	45.7 %
Short-term securities	0	0	0.0 %	391,283,896	(100.0) %
Long-term investments	33,220,879,536	27,911,282,071	19.0 %	24,664,493,110	13.2 %
Capital assets	1,896,671	0	- %	0	0.0 %
TOTAL ASSETS	<u>35,167,847,145</u>	<u>30,438,923,057</u>	15.5 %	<u>27,770,247,152</u>	9.6 %
LIABILITIES					
Death benefits, refunds and other payables	8,544,407	8,205,512	4.1 %	7,364,733	11.4 %
Investment payables	1,495,994,494	1,856,522,455	(19.4) %	1,393,656,704	33.2 %
TOTAL LIABILITIES	<u>1,504,538,901</u>	<u>1,864,727,967</u>	(19.3) %	<u>1,401,021,437</u>	33.1 %
NET ASSETS HELD IN TRUST					
FOR PENSION BENEFITS	<u>\$33,663,308,244</u>	<u>\$28,574,195,090</u>	17.8 %	<u>\$26,369,225,715</u>	8.4 %

ANALYSIS OF REVENUES AND EXPENSES

Contributions to TCRS had a larger than normal increase of \$164.1 million (15%) over contributions for fiscal year 2010 due to the change in employer contribution rates effective July 1, 2010. With the continued increase of investment income of \$2.8 billion (105.4%) for fiscal year 2011 compared to investment income for fiscal year 2010, the overall increase in revenues for 2011 was 79.3% compared to revenues for fiscal year 2010. Employer contribution rates for the TCRS did not change during fiscal year 2010; therefore, the slight change of .1% in contributions from fiscal year 2009 to fiscal year 2010 was due to changes in salary.

Investment expenses for fiscal year 2011 increased \$3.4 million (11.8 %) due to the continued market appreciation in the externally managed assets in 2011. Improved market conditions in fiscal year 2011 resulted in an overall gain to the TCRS investment portfolio of 19.59% and net investment income of \$5.5 billion. Net investment income for fiscal year 2010 was \$2.7 billion due to the start of the improved market conditions in fiscal year 2010.

Total benefits and refunds paid during the year ended June 30, 2011 were \$1,688,410,469, an increase of 7.4 percent over fiscal year 2010 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2010 were \$1,571,610,009, an increase of 5.5 percent over fiscal year 2009 total benefits and refunds paid. The increase in benefit expenses for fiscal year 2011 is attributed to 2.7 percent in cost of living adjustments awarded to retirees on July 1, 2010, as well as more retirees being added to payroll than removed during this fiscal year. The increase in benefit expenses in

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2011 & JUNE 30, 2010 (CONTINUED)**

fiscal year 2010 can be attributed to more retirees being added to payroll than removed during this fiscal year. Total refunds paid decreased \$883,258 (2.4%) in fiscal year 2011 from fiscal year 2010. Total refunds paid had increased \$4.4 million (13.7%) in fiscal year 2010 over fiscal year 2009 and were attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested.

Administrative expenses for the year ended June 30, 2011 were \$7,156,822, a decrease of 5.1 percent from fiscal year 2010 administrative expenses. The decrease was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2010 and not being performed in fiscal year 2011. Administrative expenses for the year ended June 30, 2010 were \$7,542,822, an increase of 4.7 percent over fiscal year 2009 administrative expenses.

Condensed financial information comparing the TCRS' revenues and expenses for the past three fiscal years follows.

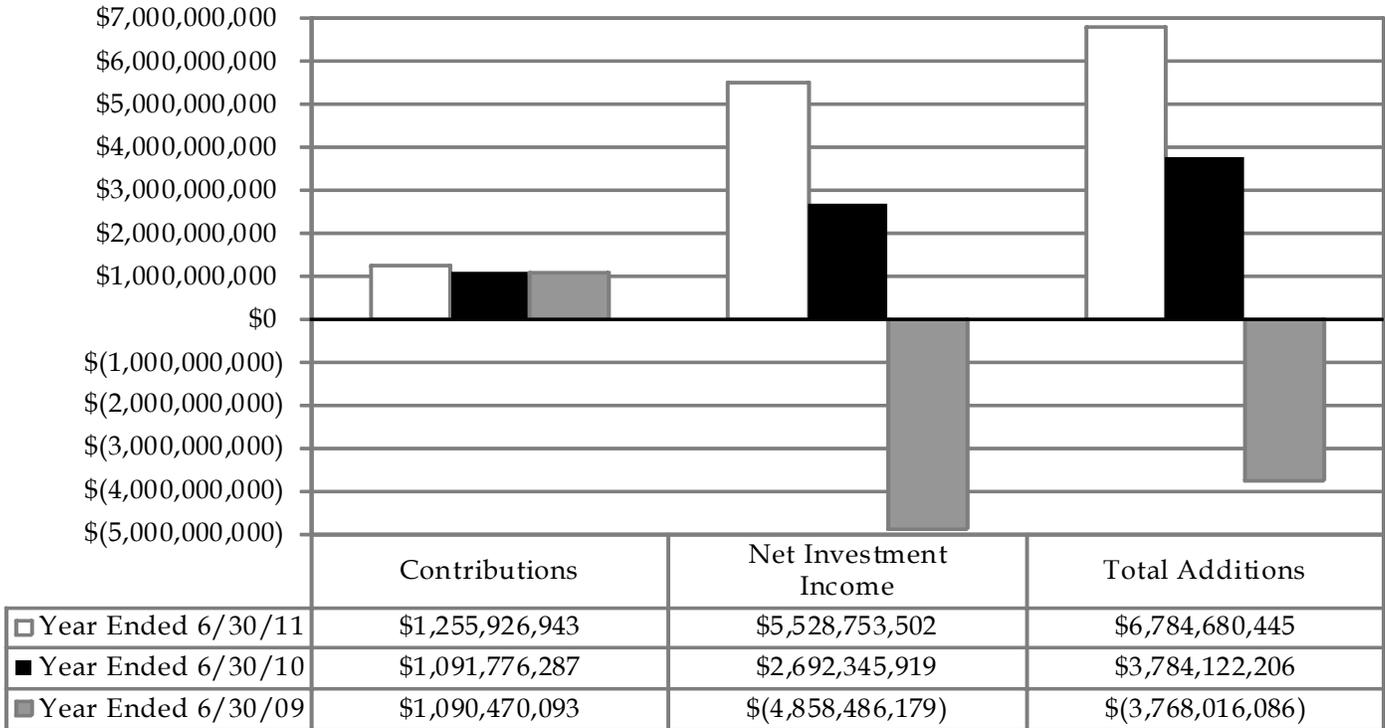
CHANGES IN PLAN NET ASSETS

	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010	FY11 - FY10 Percentage Change	For the Year Ended June 30, 2009	FY10 - FY09 Percentage Change
ADDITIONS					
Contributions	\$ 1,255,926,943	\$ 1,091,776,287	15.0 %	\$ 1,090,470,093	0.1 %
Investment income					
Net appreciation (depreciation) in fair value of investments	4,597,653,001	1,802,314,559	155.1 %	(5,855,240,629)	130.8 %
Interest, dividends and other investment income	963,313,744	918,842,338	4.8 %	1,018,043,263	(9.7) %
Less: Investment expense	(32,213,243)	(28,810,978)	11.8 %	(21,288,813)	35.3 %
Net investment income	5,528,753,502	2,692,345,919	105.4 %	(4,858,486,179)	155.4 %
TOTAL ADDITIONS	6,784,680,445	3,784,122,206	79.3 %	(3,768,016,086)	200.4 %
DEDUCTIONS					
Annuity benefits					
Retirement benefits	1,248,538,286	1,164,713,725	7.2 %	1,083,753,159	7.5 %
Survivor benefits	76,298,394	71,380,041	6.9 %	66,732,833	7.0 %
Disability benefits	32,140,006	30,500,247	5.4 %	29,607,231	3.0 %
Cost of living	290,396,251	261,479,337	11.1 %	271,845,658	(3.8) %
Death benefits	5,498,139	7,114,008	(22.7) %	5,724,443	24.3 %
Refunds	35,539,393	36,422,651	(2.4) %	32,021,785	13.7 %
Administrative expenses	7,156,822	7,542,822	(5.1) %	7,202,572	4.7 %
TOTAL DEDUCTIONS	1,695,567,291	1,579,152,831	7.4 %	1,496,887,681	5.5 %
NET INCREASE (DECREASE)	5,089,113,154	2,204,969,375	130.8 %	(5,264,903,767)	141.9 %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
BEGINNING OF YEAR	28,574,195,090	26,369,225,715	8.4 %	31,634,129,482	(16.6) %
END OF YEAR	\$33,663,308,244	\$28,574,195,090	17.8 %	\$26,369,225,715	8.4 %

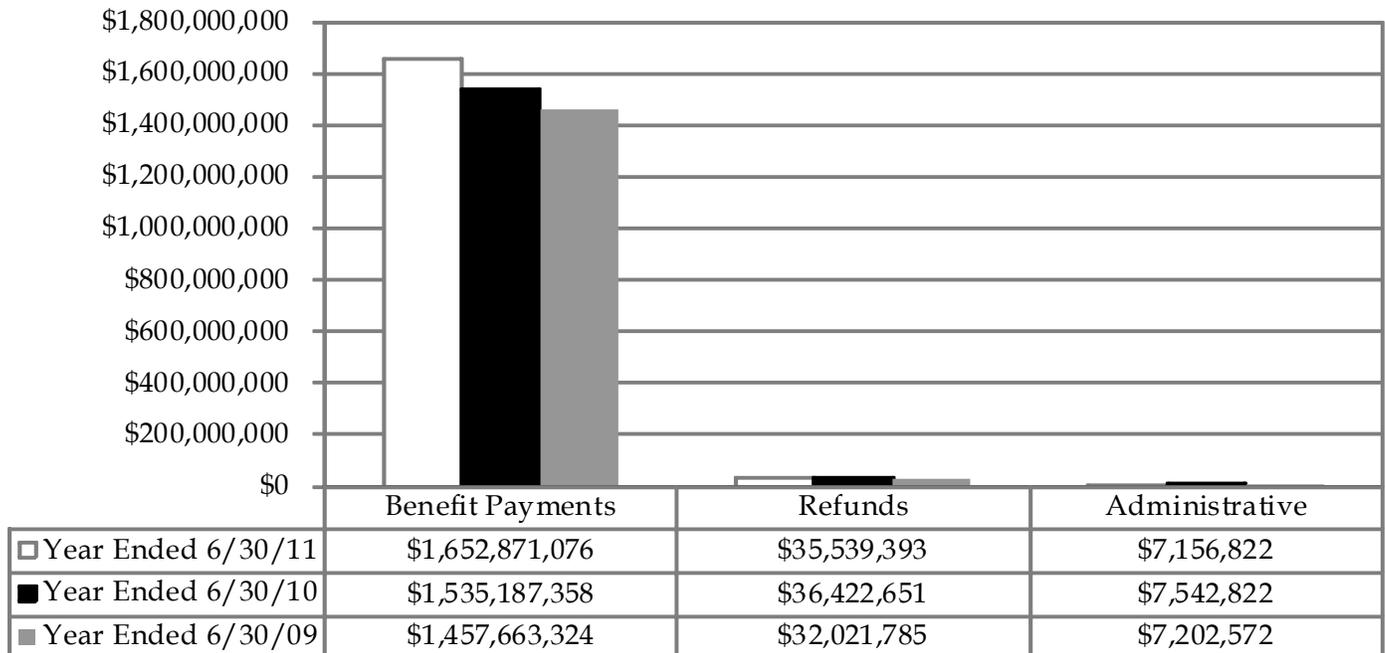
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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2011 & JUNE 30, 2010 (CONTINUED)**

REVENUES BY TYPE



EXPENSES BY TYPE



(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2011 & JUNE 30, 2010 (CONTINUED)**

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2011, the portfolio delivered an exceptional return of 19.59% which was the strongest annual return for the fund since 1986. All major asset classes contributed significantly to the performance of the fund for the fiscal year.

The domestic equity portfolio generated 33.71% building on an increase of 13.73% from the prior year. The S&P 1500 index reported a gain of 31.65% for the fiscal year ended June 30, 2011. The international stock portfolio gained 33.01% for the year following the gain of 9.73% for the year ended June 30, 2010. The international equity market, as represented by the EAFE IMI index, reported a gain of 31.05% in the fiscal year ended June 30, 2011. Domestic fixed income returned 6% for the year and the portfolio transitioned from the use of the Citigroup Broad Investment Graded Index to the Citigroup Large Pension Fund Index. The Large Pension Fund Index returned 3.79% during the fiscal year while the Broad Investment Grade Index returned 3.66%. The Real Estate Portfolio gained 15.50% for the 2011 fiscal year which followed a loss of 16.33% in fiscal year 2010.

Equity and fixed income markets performed extremely well in the 2011 fiscal year largely as the result of significant monetary stimulus in the first quarter of the year along with generalized slow improvement in economic activity. However, the environment was characterized by signs of cyclical economic improvement somewhat offset by continuing deflationary pressures resulting from declining levels of private sector indebtedness. Dramatic monetary support appeared to provide a floor for economic activity during the year. While the overall economic and market outlook has improved, significant questions remain about the vitality and durability of the current rebound.

An actuarial valuation was performed as of July 1, 2009. The employer contribution rates determined in this valuation were effective July 1, 2010. The required contributions to the plan increased primarily due to investment returns and mortality improvements.

In December 2010, TCRS contracted with Deloitte Consulting, LLC, to provide a new pension administration system to replace the retirement information system. The new pension administration system, referred to as Concord, will replace five separate operating systems with one integrated web-based system that will greatly improve the level of service TCRS will provide to members and employers. The multi-year Concord project will be implemented in three major phases: document imaging, retired payroll, and active member. Software development costs have been capitalized and will be amortized over the useful life of the system once the system has been fully implemented.

CONTACTING THE TCRS

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 502 Deaderick Street, Nashville, TN 37243-0201.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2011 AND JUNE 30, 2010

<i>Expressed in Thousands</i>	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ASSETS		
Cash and cash equivalents	<u>\$ 340,115</u>	<u>\$ 74,019</u>
Receivables		
Member receivable	19,570	5,266
Employer receivable	53,975	20,793
Accrued interest receivable	84,099	18,302
Accrued dividends receivable	39,371	8,569
Real estate income receivable	50	11
Derivative instruments receivable	319,386	69,508
Investments sold	732,599	159,437
Total receivables	<u>1,249,050</u>	<u>281,886</u>
Investments, at fair value		
Government securities	7,135,403	1,552,887
Corporate securities	4,554,482	991,198
Corporate stocks	14,640,474	3,186,225
Derivative instruments	9	2
Private equities	61,296	13,340
Real estate	891,538	194,026
Total investments	<u>27,283,202</u>	<u>5,937,678</u>
Capital assets, at cost		
Intangible asset	<u>1,558</u>	<u>339</u>
TOTAL ASSETS	<u>28,873,925</u>	<u>6,293,922</u>
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	1,108	899
Retiree insurance premium payable	5,290	1,151
Other	97	0
Investments purchased	904,384	196,823
Derivative instruments payable	318,780	69,376
Other investment payables	5,446	1,185
TOTAL LIABILITIES	<u>1,235,105</u>	<u>269,434</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedules of funding progress for the plan are presented on page 39.)	<u>\$ 27,638,820</u>	<u>\$ 6,024,488</u>

See accompanying Notes to the Financial Statements.

(continued)

(CONTINUED)

June 30, 2011 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2010 Total
<u>\$ 414,134</u>	<u>\$ 362,240</u>	<u>\$ 76,029</u>	<u>\$ 438,269</u>
24,836	22,006	4,957	26,963
74,768	43,752	18,596	62,348
102,401	88,666	18,610	107,276
47,940	25,731	5,400	31,131
61	75	16	91
388,894	557,809	117,075	674,884
<u>892,036</u>	<u>980,820</u>	<u>205,859</u>	<u>1,186,679</u>
<u>1,530,936</u>	<u>1,718,859</u>	<u>370,513</u>	<u>2,089,372</u>
8,688,290	7,142,965	1,499,198	8,642,163
5,545,680	4,406,274	924,808	5,331,082
17,826,699	10,690,206	2,243,709	12,933,915
11	3,524	740	4,264
74,636	21,996	4,617	26,613
<u>1,085,564</u>	<u>804,412</u>	<u>168,833</u>	<u>973,245</u>
<u>33,220,880</u>	<u>23,069,377</u>	<u>4,841,905</u>	<u>27,911,282</u>
<u>1,897</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>35,167,847</u>	<u>25,150,476</u>	<u>5,288,447</u>	<u>30,438,923</u>
2,007	1,000	792	1,792
6,441	5,137	1,078	6,215
97	198	0	198
1,101,207	969,207	203,422	1,172,629
388,156	560,589	117,659	678,248
<u>6,631</u>	<u>4,667</u>	<u>979</u>	<u>5,646</u>
<u>1,504,539</u>	<u>1,540,798</u>	<u>323,930</u>	<u>1,864,728</u>
<u>\$ 33,663,308</u>	<u>\$ 23,609,678</u>	<u>\$ 4,964,517</u>	<u>\$ 28,574,195</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010**

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ADDITIONS		
Contributions		
Member contributions	\$ 192,467	\$ 67,920
Employer contributions	721,759	273,781
Total contributions	<u>914,226</u>	<u>341,701</u>
Investment income		
Net appreciation in fair value of investments	3,785,947	811,706
Interest	462,425	99,143
Dividends	277,650	59,528
Real estate income, net of operating expenses	53,168	11,399
Total investment income	<u>4,579,190</u>	<u>981,776</u>
Less: Investment expense	<u>(26,453)</u>	<u>(5,760)</u>
Net investment income	<u>4,552,737</u>	<u>976,016</u>
TOTAL ADDITIONS	<u>5,466,963</u>	<u>1,317,717</u>
DEDUCTIONS		
Annuity benefits		
Retirement benefits	1,062,838	185,700
Survivor benefits	64,950	11,348
Disability benefits	27,360	4,780
Cost of living	256,137	34,259
Death benefits	4,054	1,444
Refunds	18,957	16,583
Administrative expense	<u>3,525</u>	<u>3,632</u>
TOTAL DEDUCTIONS	<u>1,437,821</u>	<u>257,746</u>
NET INCREASE	4,029,142	1,059,971
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>23,609,678</u>	<u>4,964,517</u>
END OF YEAR	<u>\$ 27,638,820</u>	<u>\$ 6,024,488</u>

See accompanying Notes to the Financial Statements.

(continued)

(CONTINUED)

For the Year Ended June 30, 2011 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2010 Total
\$ 260,387	\$ 190,635	\$ 64,414	\$ 255,049
995,540	578,403	258,324	836,727
<u>1,255,927</u>	<u>769,038</u>	<u>322,738</u>	<u>1,091,776</u>
4,597,653	1,494,405	307,909	1,802,314
561,568	482,315	99,369	581,684
337,178	226,610	46,687	273,297
64,567	52,952	10,910	63,862
<u>5,560,966</u>	<u>2,256,282</u>	<u>464,875</u>	<u>2,721,157</u>
(32,213)	(23,877)	(4,934)	(28,811)
<u>5,528,753</u>	<u>2,232,405</u>	<u>459,941</u>	<u>2,692,346</u>
<u>6,784,680</u>	<u>3,001,443</u>	<u>782,679</u>	<u>3,784,122</u>
1,248,538	994,439	170,275	1,164,714
76,298	60,945	10,435	71,380
32,140	26,041	4,459	30,500
290,396	231,084	30,395	261,479
5,498	4,694	2,420	7,114
35,540	19,371	17,052	36,423
7,157	3,924	3,619	7,543
<u>1,695,567</u>	<u>1,340,498</u>	<u>238,655</u>	<u>1,579,153</u>
5,089,113	1,660,945	544,024	2,204,969
28,574,195	21,948,733	4,420,493	26,369,226
<u>\$ 33,663,308</u>	<u>\$ 23,609,678</u>	<u>\$ 4,964,517</u>	<u>\$ 28,574,195</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010

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 by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools 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.
5. **Capital Assets** - Capital assets consist of internally generated computer software in development and are reported at historical cost. 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 was valued at June 30, 2009 and June 30, 2010 at zero and at June 30, 2011 was valued at \$1,896,671. Software in development will be depreciated over the ten year estimated life of the system once the system is completely operational.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2009, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	76,955	30,920
Terminated members entitled to but not receiving benefits	21,577	8,823
Current active members	<u>136,147</u>	<u>78,803</u>
Total	234,679	118,546
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; and (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 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. At June 30, 2011, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.7 billion and \$23.93 billion, respectively. At June 30, 2010, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.62 billion and \$19.98 billion, respectively.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

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 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. At June 30, 2011, the plan’s Member Reserve and Employer Reserve were fully funded with balances of \$1.1 billion and \$4.92 billion, respectively. At June 30, 2010, the plan’s Member Reserve and Employer Reserve were fully funded with balances of \$1.05 billion and \$3.91 billion, respectively.

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.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)**

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 fifteen percent (15 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.
- 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 five percent (5 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 equity 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. Gross exposure to approved fixed income financial instruments will be limited to 10% of the market value of the System's total assets for risk mitigating positions and 10% for risk positions. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

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

As of June 30, 2011 and June 30, 2010, the TCRS had the following investments:

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

Investments
(Expressed in Thousands)

2011

Investment Type	Fair Value as of June 30, 2011	U.S. Treasury / Agency (1)	Credit Quality Ratings										Not Rated			
			AAA	AA	A	BBB	BB	B	CCC	CC	D	A1 (3)				
<u>Debt Investments</u>																
U.S. Govt. Agencies	\$ 311,472	\$ 102,034	\$ 164,431	\$ 16,960												\$ 28,047 (2)
U.S. Govt. Inflation Indexed	2,475,914	2,475,914														
U.S. Govt. Treasuries, Notes, Bonds	1,355,666	1,345,642	10,024													
U.S. Govt. Asset Backed	117,625	117,625														
Municipal Bonds	49,480		32,649	55,086	61,745											
Govt. Mortgage Backed	3,667,503	437,001	26,576													3,203,926 (2)
Commercial Mortgage Backed	381,608		306,660	64,905	10,043											
Corporate CMO's	313,391		56,374													3,875
Corporate Bonds	3,764,808		138,541	290,304	1,117,282	196,717	168,915	28,325								53,069
Corporate Asset Backed	1,015,712		769,168	123,431	70,559	41,765										1,637
Non-U.S. Govt./Sovereign	610,630		290,256	320,374												
Short-Term Commercial Paper	388,064															
Total Debt Investments	\$ 14,551,873	\$ 4,478,216	\$ 1,794,679	\$ 871,060	\$ 1,259,629	\$ 2,008,936	\$ 170,936	\$ 97,247	\$ 165,745	\$ 16,730	\$ 10,077	\$ 388,064	\$ 388,064	\$ 3,290,554		
<u>Other Investments</u>																
U.S. Equity	\$ 11,399,485															
Non-U.S. Equity	6,497,376															
Derivatives	11															
Real Estate	1,085,564															
Private Equities	74,636															
Money Market Funds (not rated)	113,893															
Total Other Investments	\$ 19,170,965															
Total Investments	\$ 33,722,838															
Less: Short-term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(5019,588)															
Total Investments as Shown on Statements of Plan Net Assets	\$ 33,220,880															

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.

(3) A1 is the highest rating category for commercial paper.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS’ investments in fixed income securities as of June 30, 2011 and June 30, 2010 are included in the above schedule. Securities are rated using Standard and Poor’s and/or Moody’s and are presented above using the Standard and Poor’s rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

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.

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *State of Tennessee Treasurer’s Report*. That report is available on the state’s website at www.tn.gov/treasury.

Concentration of Credit Risk – A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net assets, in organizations representing five percent or more of plan net assets, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization	June 30, 2011		June 30, 2010	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$2,029,898,227	6.03%	\$1,989,031,439	6.96%

The TCRS’ investment policy limits the maximum amount of a specific corporation’s commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

Interest Rate Risk – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2011 and June 30, 2010.

Debt Investments

(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2011	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 397,214	5.50
Government Bonds	1,870,530	9.25
Government Inflation Indexed	2,475,914	3.80
Government Mortgage Backed	3,667,503	2.89
Government Asset Backed	117,625	6.31
Municipal Bonds	149,480	10.56
Collateralized Mortgage Obligations (CMO)	313,391	3.82
Commercial Mortgage Backed	381,608	2.21
Corporate Asset Backed Securities	1,015,712	0.71
Corporate Bonds	3,764,808	6.83
Guaranteed Fixed Income	10,024	0.25
Short Term Commercial Paper	388,064	0.01
Total Debt Investments	\$ 14,551,873	4.83

Investment Type	Fair Value as of June 30, 2010	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 526,862	5.29
Government Bonds	2,287,577	7.03
Government Inflation Indexed	2,331,362	4.13
Government Mortgage Backed	3,227,127	1.93
Government Asset Backed	141,172	5.75
Municipal Bonds	118,024	9.00
Collateralized Mortgage Obligations (CMO)	410,479	3.44
Commercial Mortgage Backed	454,043	2.31
Corporate Asset Backed Securities	959,443	0.55
Corporate Bonds	3,480,680	5.32
Guaranteed Fixed Income	10,039	0.25
Short Term Commercial Paper	251,101	0.02
Short Term Agencies	160,997	0.02
Total Debt Investments	\$ 14,358,906	4.05

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

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. The fair value of CMOs at June 30, 2011 was \$694,999,254 of which \$427,338,919 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2010 was \$864,521,465 of which \$510,179,228 were CMOs that are generally more sensitive to interest rate changes.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2011 and June 30, 2010 was as follows:

Foreign Currency-Denominated Investments
(Expressed in Thousands)

Currency	Total Fair Value June 30, 2011	Fixed income	Equity	Cash
Australian Dollar	\$ 284,181	\$ 0	\$ 284,011	\$ 170
British Pound Sterling	1,042,358	67,057	975,026	275
Canadian Dollar	1,831,495	112,936	1,717,840	719
Danish Krone	69,323	0	69,163	160
Euro Currency	1,397,786	99,868	1,287,817	10,101
Hong Kong Dollar	134,900	0	134,886	14
Japanese Yen	1,308,285	320,374	984,129	3,782
New Israeli shekel	11,348	0	11,348	0
New Zealand Dollar	4,964	0	4,945	19
Norwegian Krone	89,807	23,985	65,639	183
Singapore Dollar	76,919	0	76,899	20
Swedish Krona	111,190	0	110,983	207
Swiss Franc	321,680	0	321,112	568
Total	\$ 6,684,236	\$ 624,220	\$ 6,043,798	\$ 16,218

Currency	Total Fair Value June 30, 2010	Fixed income	Equity	Cash
Australian Dollar	\$ 211,803	\$ 13,958	\$ 195,247	\$ 2,598
British Pound Sterling	854,109	105,779	746,819	1,511
Canadian Dollar	377,014	118,842	257,339	833
Danish Krone	57,646	0	57,479	167
Euro Currency	1,144,340	263,623	853,859	26,858
Hong Kong Dollar	116,389	0	115,557	832
Japanese Yen	1,445,642	595,061	851,743	(1,162)
New Zealand Dollar	5,809	0	5,809	0
Norwegian Krone	56,697	11,098	45,273	326
Singapore Dollar	58,583	0	57,470	1,113
Swedish Krona	67,405	0	67,393	12
Swiss Franc	241,077	0	240,991	86
Total	\$ 4,636,514	\$ 1,108,361	\$ 3,494,979	\$ 33,174

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

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 futures hedge losses (gains) produced by any deviation from the TCRS' target 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. At year end, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

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 in investment income in the financial statements. At year end, the TCRS was under contract for options and the resulting payable is reflected in the financial statements at fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011 and June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the financial statements are as follows:

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

Derivative Summary

(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2011			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts		\$ (121)		\$ (121)	4,450	AUD
		(1,304)		(1,304)	65,000	CAD
		(953)		(953)	37,260	EUR
	Investment Income	<u>\$ (2,378)</u>	Derivative Instruments Payable	<u>\$ (2,378)</u>		
Futures Contracts	Investment Income	\$ 485,290	Derivative Instruments Receivable	\$ 3,883	\$1,585,441	
Options Contracts	Investment Income	\$ (17)	Derivative Instruments	\$ 11	\$ 11	
TBA Mortgage Backed Securities	Investment Income	\$ (767)	Derivative Instruments Payable	\$ (767)	\$ 260,632	

	Changes in Fair Value		Fair Value at June 30, 2010			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts		\$ 2,575		\$ 2,575	99,000	CAD
		185		185	19,030	EUR
		73		73	8,270	GBP
		(536)		(536)	6,287,850	JPY
	Investment Income	<u>\$ 2,297</u>	Derivative Instruments	<u>\$ 2,297</u>		
Futures Contracts	Investment Income	\$ (23,484)	Derivative Instruments Payable	\$ (3,364)	\$ 105,747	
TBA Mortgage Backed Securities	Investment Income	\$ 1,967	Derivative Instruments	\$ 1,967	\$ 474,634	

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures, Options 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.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

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 60 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, 80 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 105 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 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.

Pending Real Estate Items - At June 30, 2011 the TCRS did not have any commitments for pending real estate purchases. At June 30, 2010 the TCRS had unfunded commitments of \$28,500,000 for pending real estate purchases.

Alternative Investments - The TCRS had unfunded commitments of \$324.1 million and \$298.9 million in limited partnerships as of June 30, 2011 and June 30, 2010, respectively.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of July 1, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

SCHEDULES OF FUNDING PROGRESS						
<i>(Expressed in Thousands)</i>						
	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	\$ 26,335,199	\$ 29,054,966	\$ 2,719,767	90.64%	\$ 6,054,528	44.92%
PSPP	\$ 5,304,455	\$ 6,143,775	\$ 839,320	86.34%	\$ 2,282,082	36.78%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2009, the TCRS reestablished unfunded accrued liabilities for all groups.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND JUNE 30, 2010 (CONTINUED)

Additional information as of the latest actuarial valuation follows:

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2009	July 1, 2009
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years closed period	(1) closed period
Asset valuation method	5-year moving market average for FYE on or before June 30, 2007	5-year moving market average for FYE on or before June 30, 2007
	10-year moving market average for FYE after June 30, 2007	10-year moving market average for FYE after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%
<p>(1) An actuarial valuation is performed on each political subdivision participating in the Political Subdivision Pension Plan. Each political subdivision selects the period over which their unfunded accrued liability is amortized, not to exceed 30 years.</p> <p>(2) Uniform rate that approximates the effect of a graded salary scale.</p>		

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

SCHEDULES OF FUNDING PROGRESS*Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	7/1/2009	\$ 26,335,199	\$ 29,054,966	\$ 2,719,767	90.64%	\$ 6,054,528	44.92%
	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
	7/1/2005	\$ 23,627,161	\$ 23,666,967	\$ 39,806	99.83%	\$ 5,245,989	0.76%
PSPP	7/1/2009	\$ 5,304,455	\$ 6,143,775	\$ 839,320	86.34%	\$ 2,282,082	36.78%
	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%
	7/1/2005	\$ 4,124,013	\$ 4,450,127	\$ 326,114	92.67%	\$ 1,890,968	17.25%

The schedule of funding progress is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SCHEDULES OF EMPLOYER CONTRIBUTIONS*Expressed in Thousands*

Year Ended June 30	SETHEEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2011	\$ 721,759	100.00%	\$ 273,781	100.00%
2010	578,403	100.00%	258,324	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%
2007	562,729	100.00%	231,699	100.00%
2006	474,879	100.00%	191,000	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2011.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 972,927	\$1,002,548	\$1,975,475
Employee benefits	424,007	436,916	860,923
TOTAL PERSONNEL SERVICES	<u>1,396,934</u>	<u>1,439,464</u>	<u>2,836,398</u>
PROFESSIONAL SERVICES			
Accounting	95,288	98,189	193,477
Actuarial services	72,866	75,084	147,950
Data processing	217,290	223,906	441,196
Enterprise system development	0	0	0
Information systems	608,262	626,780	1,235,042
Management services	152,370	157,009	309,379
Medical review	20,232	20,848	41,080
Technology Consulting Services	0	0	0
Administrative, Internal Audit, Legal, Personnel	475,358	489,830	965,188
TOTAL PROFESSIONAL SERVICES	<u>1,641,666</u>	<u>1,691,646</u>	<u>3,333,312</u>
COMMUNICATION			
Travel	14,205	14,638	28,843
Telephone	182,666	188,227	370,893
Printing	34,870	35,932	70,802
Postage	132,736	136,778	269,514
TOTAL COMMUNICATION	<u>364,477</u>	<u>375,575</u>	<u>740,052</u>
MISCELLANEOUS			
Office space	80,065	82,502	162,567
Supplies and maintenance	8,671	8,934	17,605
Other services and charges	32,943	33,945	66,888
TOTAL MISCELLANEOUS	<u>121,679</u>	<u>125,381</u>	<u>247,060</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$3,524,756</u></u>	<u><u>\$3,632,066</u></u>	<u><u>\$7,156,822</u></u>

With 219,914 active members and 117,185 retired members, the operating cost per member was \$21.23 for the year ended June 30, 2011.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$1,151,155	\$1,061,470	\$2,212,625
Employee benefits	470,795	434,114	904,909
TOTAL PERSONNEL SERVICES	<u>1,621,950</u>	<u>1,495,584</u>	<u>3,117,534</u>
PROFESSIONAL SERVICES			
Accounting	90,777	83,705	174,482
Actuarial services	233,854	215,634	449,488
Data processing	193,585	178,503	372,088
Enterprise system development	228,703	210,884	439,587
Information systems	544,698	502,260	1,046,958
Management services	140,196	129,274	269,470
Medical review	19,770	18,230	38,000
Technology consulting services	41,092	37,891	78,983
Administrative, Internal Audit, Legal, Personnel	414,400	382,115	796,515
TOTAL PROFESSIONAL SERVICES	<u>1,907,075</u>	<u>1,758,496</u>	<u>3,665,571</u>
COMMUNICATION			
Travel	16,105	14,850	30,955
Telephone	32,492	29,962	62,454
Printing	35,636	32,859	68,495
Postage	167,615	154,556	322,171
TOTAL COMMUNICATION	<u>251,848</u>	<u>232,227</u>	<u>484,075</u>
MISCELLANEOUS			
Office space	104,440	96,303	200,743
Supplies and maintenance	12,493	11,520	24,013
Other services and charges	26,474	24,412	50,886
TOTAL MISCELLANEOUS	<u>143,407</u>	<u>132,235</u>	<u>275,642</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$3,924,280</u></u>	<u><u>\$3,618,542</u></u>	<u><u>\$7,542,822</u></u>

With 214,711 active members and 112,133 retired members, the operating cost per member was \$23.08 for the year ended June 30, 2010.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 2,087,080	\$ 454,451	\$ 2,541,531
Employee benefits	650,368	141,614	791,982
TOTAL PERSONNEL SERVICES	<u>2,737,448</u>	<u>596,065</u>	<u>3,333,513</u>
PROFESSIONAL SERVICES			
Accounting	269,359	58,652	328,011
Legal services	190,830	41,552	232,382
Data processing	246,506	53,676	300,182
Information systems	314,934	68,575	383,509
Management services	46,801	10,191	56,992
External investment manager fees	14,809,193	3,224,630	18,033,823
Investment consulting fees	1,439,351	313,412	1,752,763
Investment custodian fees	237,868	51,794	289,662
Real estate manager fees	5,462,457	1,189,423	6,651,880
Administrative, Internal Audit, Personnel	458,282	99,789	558,071
TOTAL PROFESSIONAL SERVICES	<u>23,475,581</u>	<u>5,111,694</u>	<u>28,587,275</u>
COMMUNICATION			
Travel	40,742	8,871	49,613
Telephone	30,012	6,535	36,547
Printing	2,970	647	3,617
Postage	871	190	1,061
TOTAL COMMUNICATION	<u>74,595</u>	<u>16,243</u>	<u>90,838</u>
MISCELLANEOUS			
Office space	55,025	11,981	67,006
Supplies and maintenance	7,211	1,570	8,781
Other services and charges	103,330	22,500	125,830
TOTAL MISCELLANEOUS	<u>165,566</u>	<u>36,051</u>	<u>201,617</u>
TOTAL INVESTMENT EXPENSES	<u>\$26,453,190</u>	<u>\$ 5,760,053</u>	<u>\$32,213,243</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 2,018,103	\$ 417,002	\$ 2,435,105
Employee benefits	551,695	113,997	665,692
TOTAL PERSONNEL SERVICES	<u>2,569,798</u>	<u>530,999</u>	<u>3,100,797</u>
PROFESSIONAL SERVICES			
Accounting	177,682	36,714	214,396
Legal services	250,227	51,704	301,931
Data processing	157,195	32,481	189,676
Information systems	286,149	59,127	345,276
Management services	59,575	12,310	71,885
External investment manager fees	13,364,174	2,761,444	16,125,618
Investment consulting fees	608,078	125,647	733,725
Investment custodian fees	318,940	65,902	384,842
Real estate manager fees	5,432,746	1,122,571	6,555,317
Administrative, Internal Audit, Personnel	400,955	82,851	483,806
TOTAL PROFESSIONAL SERVICES	<u>21,055,721</u>	<u>4,350,751</u>	<u>25,406,472</u>
COMMUNICATION			
Travel	33,046	6,828	39,874
Telephone	18,449	3,812	22,261
Printing	2,267	468	2,735
Postage	1,045	216	1,261
TOTAL COMMUNICATION	<u>54,807</u>	<u>11,324</u>	<u>66,131</u>
MISCELLANEOUS			
Office space	77,132	15,938	93,070
Supplies and maintenance	5,757	1,190	6,947
Other services and charges	114,004	23,557	137,561
TOTAL MISCELLANEOUS	<u>196,893</u>	<u>40,685</u>	<u>237,578</u>
TOTAL INVESTMENT EXPENSES	<u>\$23,877,219</u>	<u>\$4,933,759</u>	<u>\$28,810,978</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF EXPENSES FOR CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010

FOR THE YEAR ENDED JUNE 30, 2011

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	\$ 72,866	\$ 75,084	\$ 147,950
TOTAL ACTUARIAL SERVICES	<u>72,866</u>	<u>75,084</u>	<u>147,950</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	8,176	8,424	16,600
Barry Siegel, M.D.	6,540	6,740	13,280
Lee Carl Whitaker, M.D.	5,516	5,684	11,200
TOTAL MEDICAL REVIEW SERVICES	<u>20,232</u>	<u>20,848</u>	<u>41,080</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 93,098</u>	<u>\$ 95,932</u>	<u>\$ 189,030</u>

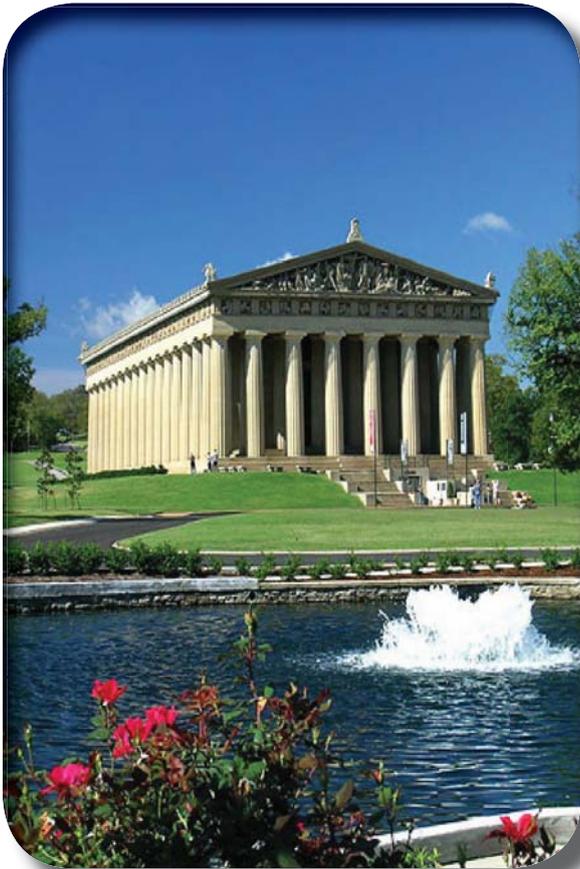
Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

FOR THE YEAR ENDED JUNE 30, 2010

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	\$ 202,710	\$ 186,916	\$ 389,626
Gabriel, Roeder, Smith & Company	31,144	28,718	59,862
TOTAL ACTUARIAL SERVICES	<u>233,854</u>	<u>215,634</u>	<u>449,488</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	5,473	5,047	10,520
Barry Siegel, M.D.	7,305	6,735	14,040
Lee Carl Whitaker, M.D.	6,992	6,448	13,440
TOTAL MEDICAL REVIEW SERVICES	<u>19,770</u>	<u>18,230</u>	<u>38,000</u>
TECHNOLOGY CONSULTING SERVICES			
L. R. Wechsler, Ltd.	17,969	16,569	34,538
The North Highland Company	23,123	21,322	44,445
TOTAL TECHNOLOGY CONSULTING SERVICES	<u>41,092</u>	<u>37,891</u>	<u>78,983</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 294,716</u>	<u>\$ 271,755</u>	<u>\$ 566,471</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

INVESTMENT SECTION

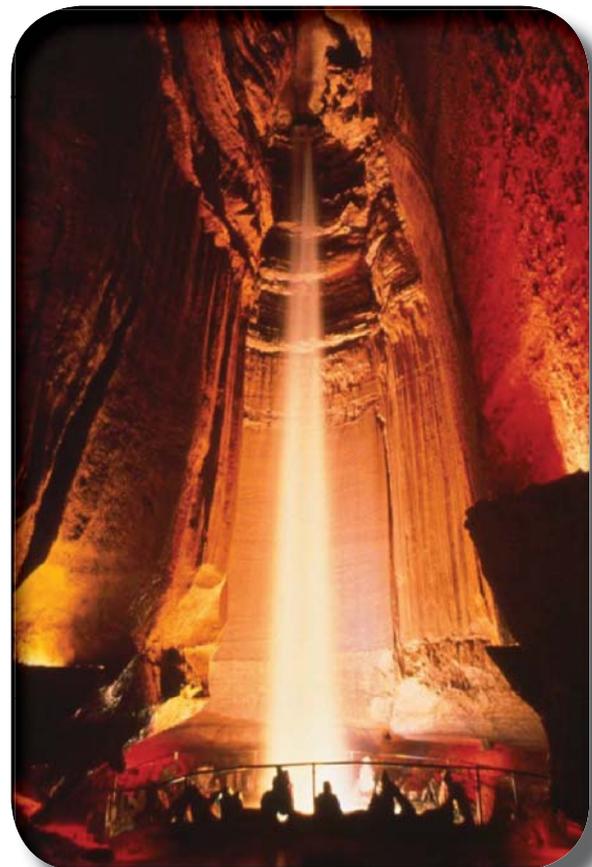


Nashville's Parthenon is the only full-sized reproduction of the original Parthenon, a temple built by the Greeks in Athens during the 5th century B.C. It houses the tallest indoor sculpture in the western world, a statue of Athena, ancient goddess of wisdom and learning, the deity for whom the original Parthenon was erected. Originally built for the Tennessee Centennial Exposition in 1897, the building became unsafe and was rebuilt in 1929. It is an exact replica of the Greek temple, its architecture including not a single straight line; no two columns are the same size, nor are they placed the same distance apart. No two steps are the same size and the floor is not square or level. A proud symbol of Tennessee's Capitol city, the "Athens of the South," the Parthenon houses the city's permanent art collection, plaster casts of the Elgin Marbles, a gift shop, and visitors center.

Photo Credit: Jeff Dalzell, Nashville, TN

Ruby Falls was discovered in 1928 by Leo Lambert, a local cave enthusiast, and named in honor of his wife, Ruby. Tennessee's tallest underground waterfall, the 145-foot majestic, natural wonder is located 1,120 feet beneath the surface of Lookout Mountain in Chattanooga, Tennessee. It is the nation's largest and deepest waterfall open to the public. Hundreds of gallons of water rush over its edge by the minute. Since opening for tours in 1929, it is the oldest tourist attraction in the southeast.

Photo Credit: State of Tennessee's Department of Tourist Development



REPORT BY INVESTMENT CONSULTANT

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

December 2, 2011

Ms. Jill Bachus
Director
Tennessee Consolidated Retirement System
Andrew Jackson Building
Nashville, TN 37243 0230

Dear Jill:

For the quarter and the year ended June 30, 2011, global markets overall performed well. The 19.6% one-year return exceeded the liquidity adjusted benchmark for the fund by 0.2%, and modestly underperformed its policy benchmark by 25 basis points. Small- and mid-cap growth stocks led the US Equity markets for a strong finish to the fiscal year. Although less impressive, international equities were also up strongly. Contrary to the 2010 fiscal year, emerging markets underperformed developed regions. With the exception of Treasuries, bond results were positive across the board; inflation-protected and corporate securities were the leading performers, while nominal Treasuries lagged. Real estate markets gained momentum, and improved significantly from a year ago.

As of June 30, 2011, the System's asset allocation and one-year respective returns were:

Inflation-Indexed Fixed Income	% of Assets	One Year Return
Asset Class	% of Assets	One Year Return
Domestic Equity	40.1%	33.71%
International Equity	15.0%	33.01%
Domestic Fixed Income	30.7%	6.00%
International Fixed Income	1.6%	12.66%
Inflation-Indexed Fixed Income	7.7%	6.94%
Real Estate	3.2%	15.50%
Private Equity	0.2%	12.66%
Cash and Cash Equivalents	1.5%	2.57%
Total	100.0%	19.59%

TCRS trailed State Street's Public Plan Sponsors (> \$100 million) universe median over the past year and for longer periods. Underperformance was attributable primarily to the plan's conservative asset allocation, relative to the majority of other plans in a year when risky assets performed well. Note that the overall asset allocation is geared not to maximize absolute returns but to meet the System's liabilities while minimizing the risk of loss. Within asset classes, strong public equity and fixed income performance boosted results while relative real estate performance impaired returns.

Over the next five years, SIS foresees relatively modest equity and fixed income returns due to continued financial de-leveraging, the effects of the European financial crisis, and continued high unemployment in the US and parts of Western Europe. Bond yields are likely to remain low by historical standards, with credit spreads narrowing. Commercial and residential real estate will likely experience a slow recovery.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large, sophisticated institutional investors.

Best regards,



Pete Keliuotis, CFA

LETTER FROM TCRS CHIEF INVESTMENT OFFICER

STATE OF TENNESSEE

DAVID H. LILLARD, JR.
STATE TREASURERJANICE CUNNINGHAM
CHIEF OF STAFFMICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER**TREASURY DEPARTMENT**
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225JILL BACHUS
DIRECTOR OF TCRS

December 20, 2011

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011.

With over \$33.5 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment performance for TCRS was computed using a market, time-weighted rate of return.

The 2011 fiscal year was encouraging for all investors and the TCRS portfolio experienced a gain of 19.6%. This return was the best return for the plan since 1986. Both short and longer-term results are a function of a risk-averse investment program which preserves capital in difficult environments.

The experienced investment staff of TCRS is committed to providing superior investment returns in a financially-sound manner with the highest ethical and professional standards. With the leadership of our Board, our Treasurer and the work of our dedicated staff, this goal will be met.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael Brakebill".

Michael Brakebill
Chief Investment Officer

STATUTORY INVESTMENT AUTHORITY

STATUTORY INVESTMENT AUTHORITY

The investment authority of TCRS is prescribed in the *Tennessee Code Annotated*, Title 8, Chapter 37. This chapter provides that, with certain enumerated exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies as set forth in *T.C.A.*, Section 56, Chapter 3. The Board of Trustees of TCRS adopts investment policy relative to the investment of TCRS assets. The investment objective is to obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay beneficiaries in a timely manner. A summary of statutory and policy provisions follow.

DOMESTIC STOCKS

- ❖ No more than 50% of the TCRS portfolio may be invested in domestic common stock, preferred stock and convertible bonds.
- ❖ No more than 4.99% of the outstanding shares of any one company may be purchased.

DOMESTIC FIXED INCOME

- ❖ No more than 75% of the TCRS portfolio may be invested in fixed income securities exceeding one year.
- ❖ Only issues that are investment grade securities (four highest ratings) may be purchased.
- ❖ Private placements are limited to 15% of the domestic fixed income portfolio. Private placements may be purchased if staff evaluation determines that the credit quality is equivalent to double A.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.

INTERNATIONAL

- ❖ Combined International equity and fixed income investments are limited to 25% of the TCRS portfolio.

INTERNATIONAL EQUITY

- ❖ No more than 25% of the TCRS portfolio may be invested in international equity securities.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.
- ❖ The countries in the Morgan Stanley Capital International EAFE IMI index have been approved by the Board for international investing.

INTERNATIONAL FIXED INCOME

- ❖ No more than 10% of TCRS portfolio may be invested in international fixed income securities.
- ❖ Investments are limited to countries in the Morgan Stanley Capital International EAFE IMI index.

SHORT-TERM SECURITIES

- ❖ Commercial paper should be rated A1 or P1.

STOCK OPTIONS AND BOND FUTURES

- ❖ Limited to 10% of the portfolio.
- ❖ Only covered call options may be written.

DOMESTIC STOCK INDEX FUTURES

- ❖ Contracts shall not exceed 5% of the TCRS portfolio.
- ❖ Shall only be used for asset allocation purposes and not for speculative leveraging. The system's cash and short-term securities must exceed the amount of the contract obligation.

SECURITIES LENDING

- ❖ May not lend more than 30% of the portfolio.
- ❖ Collateral, other than cash, must have a market value of 102% of the security loaned.

STANDBY NOTE PURCHASE AGREEMENT

- ❖ TCRS may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority.

FOREIGN CURRENCY HEDGING

- ❖ May not exceed 80% of the international securities.

REAL ESTATE

- ❖ No more than 10% of the TCRS portfolio may be invested in real estate.

PRIVATE EQUITY

- ❖ No more than 5% of the TCRS portfolio may be invested in private equity.

PROXY VOTING

- ❖ Shall vote proxies in a manner which will provide the best ultimate value to shareholders.

INVESTMENT PERFORMANCE REVIEW

INVESTMENT PERFORMANCE REVIEW

Periods Ending June 30, 2011

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	19.59 %	3.76 %	4.54 %
Policy Index	19.84 %	4.50 %	5.08 %
Domestic Equity			
TCRS Performance	33.71 %	3.49 %	3.32 %
Benchmark	31.65 %	3.87 %	3.30 %
Domestic Fixed Income			
TCRS Performance	6.00 %	7.21 %	6.75 %
Benchmark	3.99 %	6.67 %	6.77 %
Inflation Hedged Bonds			
Citigroup TIPS Index	6.94 %	5.08 %	7.04 %
Citigroup TIPS Index	7.81 %	5.33 %	6.93 %
International Equity			
TCRS Performance	33.01 %	0.29 %	3.73 %
Benchmark - MSCI EAFE IMI Index	31.05 %	(1.07)%	1.91 %
International Fixed Income			
TCRS Performance	12.66 %	8.43 %	8.23 %
Citigroup G5 - ex US Index	12.41 %	8.27 %	8.43 %
Real Estate			
TCRS Performance	15.50 %	(4.81)%	1.39 %
Benchmark - NCREIF Index	16.03 %	(3.63)%	3.45 %
Short-Term Securities			
TCRS Performance	2.57 %	2.28 %	3.76 %

	Strategic Investment Solutions	
	<u>Percentile Rankings</u>	<u>Risk Adjusted Basis</u>
Ranking of TCRS Portfolio		
Last three years	66	50
Last five years	65	31

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with 1 being the best and 100 being the worst. The investment performance for TCRS was computed using a market, time weighted rate of return by an independent investment consultant.

ASSET ALLOCATION

ASSET ALLOCATION

*as of June 30, 2011**Expressed in Thousands*

Asset Class	Fair Value	Percentage
Domestic Equity	\$11,291,959	33%
Domestic Fixed Income	13,625,885	39%
International Equity	6,534,741	19%
International Fixed Income	608,084	2%
Short-Term Securities	501,968	1%
Real Estate	1,085,564	3%
Private Equities	74,636	0%
Totals	<u>\$33,722,837</u>	<u>100%</u>

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes, convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

LARGEST HOLDINGS

JUNE 30, 2011

LARGEST STOCK HOLDINGS

as of June 30, 2011

by Fair Value

Shares	Security Name	Fair Value
4,573,023	Exxon Mobil Corp Com	\$ 372,152,612
902,794	Apple Inc Com Stk	303,040,862
1,407,500	International Business Machs Corp Com	241,456,625
2,104,930	Chevron Corp Com	216,471,001
10,372,846	General Electric Co	195,631,876
7,312,450	Microsoft Corp Com	190,123,700
2,803,300	Johnson & Johnson Com Usd1	186,475,516
4,513,275	JP Morgan Chase & Co Com	184,773,479
7,987,966	Pfizer Inc Com	164,552,100
4,727,400	Oracle Corp Com	155,578,734

LARGEST BOND HOLDINGS

as of June 30, 2011

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 235,900,000	United States Treasury Infl Index Note	2.15%	01/15/16	Aaa	\$ 297,027,108.62
199,100,000	United States Treasury Infl Index Bond	3.16%	01/15/26	Aaa	246,462,087.19
174,750,000	United States Treasury Note	2.11%	02/15/21	Aaa	182,217,766.50
120,000,000	United States Treasury Infl Index Note	2.51%	01/15/14	Aaa	157,326,267.60
155,350,000	United States Treasury Bond	3.57%	05/15/41	Aaa	155,107,654.00
100,000,000	United States Treasury Infl Index Bond	2.53%	01/15/25	Aaa	137,108,943.00
139,500,000	United States Treasury Note	2.09%	11/15/20	Aaa	134,355,937.50
74,550,000	United States Treasury Infl Index Bond	2.95%	04/15/32	Aaa	124,934,732.30
117,000,000	United States Treasury Note	3.27%	01/15/21	Aaa	124,888,233.60
90,000,000	United States Treasury Infl Index Note	2.51%	01/15/12	Aaa	116,437,957.20

A complete portfolio listing is available upon request.

Key to Ratings: All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se', but are considered the best quality securities.

Moody's rates securities as follows:

Aaa: Best Quality
 Aa: High Quality
 A: Upper Medium Quality
 Baa: Medium Quality
 NR: Not Rated

INVESTMENT SUMMARY

INVESTMENT SUMMARY
as of June 30, 2011

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 3,884,551,989	11.53%	\$ 461,891,826	1.37%	\$ 4,346,443,815	12.90%
Corporate Bonds	3,764,807,282	11.16%	0	0.00%	3,764,807,282	11.16%
Convertible Bonds	0	0.00%	0	0.00%	0	0.00%
Municipal/Provincial Bonds	149,480,502	0.44%	0	0.00%	149,480,502	0.44%
Total Bonds	<u>7,798,839,773</u>	<u>23.13%</u>	<u>461,891,826</u>	<u>1.37%</u>	<u>8,260,731,599</u>	<u>24.50%</u>
Asset Backed	1,128,915,635	3.35%	0	0.00%	1,128,915,635	3.35%
Commercial Mortgage Backed	381,607,895	1.13%	0	0.00%	381,607,895	1.13%
Government Agencies	311,472,197	0.93%	85,742,015	0.25%	397,214,212	1.18%
Government Mortgage Backed Securites	3,666,933,923	10.87%	0	0.00%	3,666,933,923	10.87%
Non-Government CMOs	313,391,359	0.93%	0	0.00%	313,391,359	0.93%
Govt Issued Commercial Mortgaged Backed	4,990,660	0.01%	0	0.00%	4,990,660	0.01%
Guaranteed Fixed Income	10,023,580	0.03%	0	0.00%	10,023,580	0.03%
Preferred Stock	9,710,000	0.03%	60,450,459	0.18%	70,160,459	0.21%
Total Fixed Income	<u>13,625,885,022</u>	<u>40.41%</u>	<u>608,084,300</u>	<u>1.80%</u>	<u>14,233,969,322</u>	<u>42.21%</u>
Common Stock						
Consumer Discretionary	1,221,775,375	3.62%	639,459,182	1.90%	1,861,234,557	5.52%
Consumer Staples	1,073,674,980	3.18%	405,760,018	1.20%	1,479,434,998	4.38%
Energy	1,397,152,907	4.13%	749,182,214	2.23%	2,146,335,121	6.36%
Financials	1,638,328,684	4.86%	1,351,616,095	4.01%	2,989,944,779	8.87%
Healthcare	1,389,187,706	4.12%	438,375,068	1.30%	1,827,562,774	5.42%
Industrials	1,382,053,804	4.10%	898,476,135	2.66%	2,280,529,939	6.76%
Information Technology	2,029,110,936	6.02%	346,642,586	1.03%	2,375,753,522	7.04%
Materials	471,154,626	1.40%	843,810,718	2.50%	1,314,965,344	3.90%
Rights/Warrants	0	0.00%	0	0.00%	0	0.00%
Telecommunication Services	293,760,927	0.87%	224,169,630	0.66%	517,930,557	1.54%
Utilities	383,266,768	1.14%	112,195,219	0.33%	495,461,987	1.47%
Misc/Unclassified	0	0.00%	508,268,247	1.51%	508,268,247	1.51%
Equity Exchange Traded Fund	12,492,000	0.04%	16,785,736	0.05%	29,277,736	0.09%
Unit Trust Equity	0	0.00%	0	0.00%	0	0.00%
Total common stock	<u>11,291,958,713</u>	<u>33.48%</u>	<u>6,534,740,848</u>	<u>19.38%</u>	<u>17,826,699,561</u>	<u>52.86%</u>
Short-term investments						
Certificates of Deposit	0	0.00%	0	0.00%	0	0.00%
Commercial Paper	388,064,409	1.15%	0	0.00%	388,064,409	1.15%
Cash & Cash Equiv. Derivative-Options	10,938	0.00%	0	0.00%	10,938	0.00%
Pooled Funds and Mutual Funds	113,893,100	0.34%	0	0.00%	113,893,100	0.34%
U.S. gov't securities	0	0.00%	0	0.00%	0	0.00%
Total Short term investments	<u>501,968,447</u>	<u>1.49%</u>	<u>0</u>	<u>0.00%</u>	<u>501,968,447</u>	<u>1.49%</u>
Real Estate	1,085,563,917	3.22%	0	0.00%	1,085,563,917	3.22%
Private Equities	74,635,798	0.22%	0	0.00%	74,635,798	0.22%
Total investments	26,580,011,897	78.82%	7,142,825,148	21.18%	33,722,837,045	100.00%
Short Term Investments classified as cash equivalents	<u>(501,957,509)</u>		0		<u>(501,957,509)</u>	
Total investments as Shown on the Statement of Plan Net Assets	<u>\$ 26,078,054,387</u>		<u>\$ 7,142,825,148</u>		<u>\$ 33,220,879,536</u>	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

SCHEDULES OF INVESTMENT FEES AND COMMISSIONS FOR THE YEAR ENDED JUNE 30, 2011

SCHEDULES OF FEES

	Average Assets Under Management	Fees
Asset Management		
International Investment Manager Fees	4.2 Billion	\$ 18,033,823
Real Estate Asset Management	1.0 Billion	6,651,880
Private Equities Asset Management	51.1 Million	0
Total Asset Management		<u><u>\$ 24,685,703</u></u>
Other Investment Services Fees		
Custodian Bank	31.8 Billion	\$ 297,000
General Investment Consultant	31.8 Billion	291,666
Real Estate Investment Consultant	1.0 Billion	125,000
Private Equities Investment Consultant	51.1 Million	1,380,500
Total Investment Services Fees		<u><u>\$ 2,094,166</u></u>

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	DOMESTIC		
	Shares Traded	Commissions	Commission Per Share
Capis	29,154,756	\$ 1,227,553	0.0421
JP Morgan Chase & Company	42,804,407	841,882	0.0197
Barclays Capital	26,313,126	526,263	0.0200
Cowen & Company, LLC	19,441,652	388,833	0.0200
Bank of America Merrill Lynch	18,384,985	367,700	0.0200
BNY ESI & Company	39,781,249	309,380	0.0078
Deutsche Bank Securities, Inc.	14,429,923	288,598	0.0200
RBC Capital Markets Corporation	14,130,147	278,431	0.0197
Citigroup Global Markets, Inc.	13,231,636	264,633	0.0200
Morgan Keegan & Company, Inc.	10,489,733	209,795	0.0200
B.O.E. Securities, Inc.	6,678,261	196,188	0.0294
Sandford C. Bernstein & Company, Inc.	9,652,366	193,047	0.0200
Instinet, LLC	12,222,762	190,044	0.0155
M.R. Beal & Company	4,003,927	117,068	0.0292
Avondale Partners	5,376,301	107,526	0.0200
OTHER BROKERS*	126,635,116	1,194,767	0.0094
Totals	<u><u>392,730,347</u></u>	<u><u>\$ 6,701,708</u></u>	

(continued)

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2011 (CONTINUED)**

Program Trades where total commission cost includes trading commission, liquidity fees and market impact fees.

Broker Name	DOMESTIC		
	Shares Traded	Commissions	Commission Per Share
BNY ESI & Company	73,142,520	\$ 973,737	0.0133
Capis	78,811,519	923,205	0.0117
Credit Suisse	70,889,515	835,872	0.0118
JP Morgan Chase & Company	39,878,001	465,118	0.0117
RBC Capital Markets Corporation	28,542,339	293,030	0.0103
Cowen & Company, LLC	29,768,405	249,375	0.0084
Sandford C. Bernstein & Company, Inc.	25,006,552	214,321	0.0086
DMG Securities, Inc.	20,581,318	203,590	0.0099
Morgan Stanley & Company, Inc.	15,683,361	163,682	0.0104
OTHER BROKERS*	20,853,564	253,104	0.0121
Totals	403,157,094	\$ 4,575,034	

International Exchange Traded Shares

Broker Name	INTERNATIONAL		
	Shares Traded	Commissions	Commission Per Share
JP Morgan Chase & Company	12,093,385	\$ 484,657	0.0401
UBS Securities LLC	13,569,907	403,843	0.0298
Credit Suisse	8,689,244	396,984	0.0457
Citigroup Global Markets, Inc.	10,186,008	384,328	0.0377
Bank of America Merrill Lynch	13,192,590	346,975	0.0263
Nomura Holdings Inc.	765,827	330,439	0.4315
Morgan Stanley & Company, Inc.	28,784,075	322,565	0.0112
Goldman Sachs Group, Inc.	8,171,481	244,538	0.0299
Deutsche Bank Securities, Inc.	2,964,195	223,739	0.0755
Barclays Capital	8,632,423	221,511	0.0257
RBC Capital Markets Corporation	10,858,997	187,853	0.0173
ABN AMRO Group	8,433,479	160,396	0.0190
Macquarie Group LTD	12,730,172	149,079	0.0117
HSBC Bank PLC	2,167,104	125,592	0.0580
Pershing LLC	3,934,554	100,869	0.0256
OTHER BROKERS*	69,136,435	1,379,643	0.0200
TOTALS	214,309,876	\$ 5,463,011	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

*Less than \$100,000 total commission per brokerage firm

ACTUARIAL SECTION



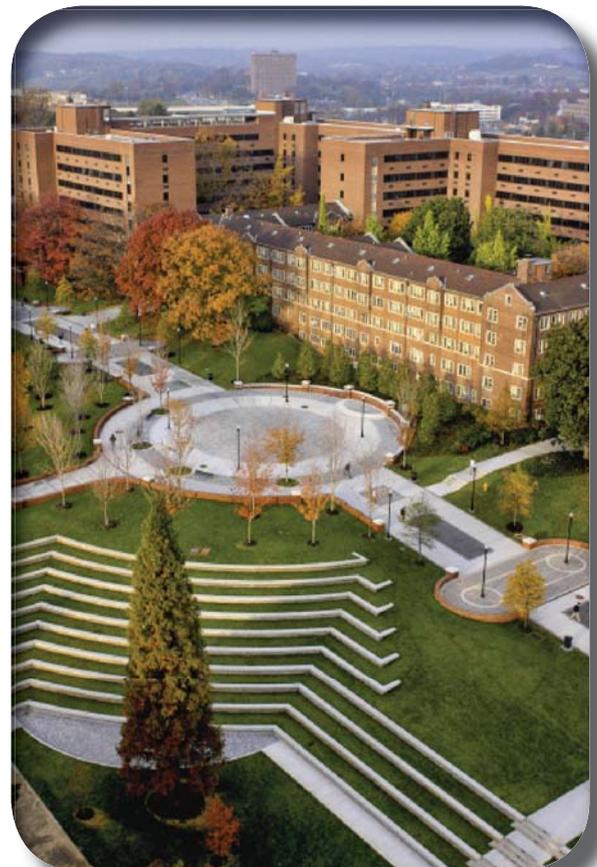
The ***Lorraine Motel***, also known as the National Civil Rights Museum, in Memphis, Tennessee, is the site of the assassination of Dr. Martin Luther King, Jr. on April 4, 1968. The Lorraine Motel remained open following Dr. King's death until 1982. The Martin Luther King, Jr. Memorial Foundation purchased the property and opened the doors of the museum in 1991. Through interpretive exhibits and audio/visual displays, the museum brings to life the most significant moments of civil and human rights struggles and victories gained through the efforts and sacrifices of courageous individuals who stood by their convictions.

Photo Credit: Kerry Crawford

The ***University of Tennessee***, formerly known as Blount College, was established in Knoxville in 1794. Blount College was all-male until 1892 when the first female students were admitted. In 1807, the state legislature changed the name to East Tennessee College. The college's name changed again in 1840 to East Tennessee University.

The medical campus, founded in Nashville and acquired by the university in 1879, moved to Memphis in 1911. The University of Tennessee at Martin, a private institution, became part of the University of Tennessee in 1927. The University of Tennessee at Chattanooga was established in 1969 when the private University of Chattanooga merged with the University of Tennessee. The Space Institute, a graduate research and education center near Tullahoma, opened in 1964. The Institute of Agriculture in Knoxville traces its beginnings to 1869 when UT became Tennessee's land-grant institution and the Institute for Public Service was founded and brought together several government and industrial outreach programs in 1971.

Photo Credit: Knoxville Tourism and Sports Corporation



ACTUARIAL INTRODUCTION**BIENNIAL ACTUARIAL VALUATIONS**

Biennial actuarial valuations of the TCRS are performed by an independent actuarial consulting firm to assess the funding status of the system and to determine employer contribution rates for its various components. The valuation performed as of July 1, 2009 set employer rates effective July 1, 2010 through June 30, 2012. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. A valuation was performed as of July 1, 2011 to establish new employer rates effective July 1, 2012.

FUNDING OF PENSIONS

It is the policy of the state to fund pensions by actuarially-determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost. This policy seeks to ensure that sufficient assets will be available to pay the benefits as promised by the pension plan.

ACCRUED LIABILITY

With the 2009 actuarial valuation, the accrued liability was reestablished for all groups within the plan. This was accomplished by setting the unfunded accrued liability equal to the excess of the Entry Age Normal Past Service Liability over the valuation assets for each group.

SPECIFICS

Valuations are based on demographic data (employee ages, salaries and service credits), economic projections (salary increases, interest rates and investment earnings) and decrement estimates (mortality and disability rates). The economic projections and decrement estimates used for valuation purposes utilized the assumptions recommended by the actuary and adopted by the Board of Trustees based on an actuarial experience study conducted every four years. The earnings rate assumption adopted by the Board is subject to the approval of the Council on Pensions and Insurance.

QUADRENNIAL EXPERIENCE STUDY

A quadrennial experience study was conducted as of June 30, 2008. A number of small changes were made to the economic and decrement assumptions. The system noted significant improvements in mortality. In addition, the COLA assumption was lowered from 3.0 percent to 2.5 percent to reflect actual experience. Assumptions developed from the June 30, 2008 experience study were used in the July 1, 2009 actuarial valuation.

ACTUARY'S CERTIFICATION LETTER



Justin C. Thacker, F.S.A.
Direct Line: (615) 665-5387
Email: Justin.Thacker@bpsm.com

December 1, 2011

Mr. David H. Lillard, Jr.
Chairman, Board of Trustees
Tennessee Consolidated Retirement System
Tenth Floor
Andrew Jackson State Office Building
Nashville, Tennessee 37243-0230

Re: Actuary's Certification Letter

Dear Mr. Lillard:

The purpose of this letter is to certify the actuarial adequacy of contributions being made by the State of Tennessee and participating Political Subdivisions to the Tennessee Consolidated Retirement System and to discuss the approach currently being taken toward meeting the financing objectives of the Plan.

The most recent biennial actuarial valuation completed as of the year ending June 30, 2011 for the Tennessee Consolidated Retirement System was performed as of July 1, 2009. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Assumptions and Methods") which was adopted by the Board of Trustees on the recommendation of the actuary after a study of actual experience under the TCRS during the four-year period ending June 30, 2008.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation.

The Board of Trustees in 1975 established as its financing objective the amortization of unfunded accrued liabilities over the ensuing 40-year period. In the years since then, the implementation of that general goal has involved a gradual strengthening of the methods utilized in computing required annual contributions. This has been accomplished by such steps as (1) taking advance funding of expected cost-of-living increases into account and (2) placing all amortization payments on a "level dollar" basis, a stronger basis than the "percentage of payroll" method previously utilized. As of July 1, 2009, the unfunded accrued liabilities for the major contribution classes were reestablished and amortized over a 20-year period.

In performing the 2009 valuation, we relied on employee data and asset information provided by the administrative staff of the Tennessee Consolidated Retirement System. In the case of employee data, each individual record was audited for reasonableness and internal consistency, although the validity of

**ACTUARY'S CERTIFICATION LETTER
(CONTINUED)**

Mr. David H. Lillard, Jr.
Chairman, Board of Trustees
December 1, 2011
Page Two

the information was not traced to source documents. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

Certain tables presented in the Comprehensive Annual Financial Report are derived from the July 1, 2009 actuarial valuation report prepared by Bryan, Pendleton, Swats and McAllister, LLC. The tables were prepared by the staff of the Tennessee Consolidated Retirement System and examined by our firm. These tables include the following –

Financial Section

- Schedules of Funding Progress
- Schedules of Employer Contributions

Actuarial Section

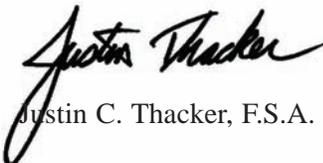
- Summary of Actuarial Assumptions and Methods
- Actuarial Data
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Selected Actuarial Funding Information
- Analysis of Financial Experience

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from prior actuarial valuations through 2009.

The 2009 valuation was prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statement 25. I am a Member of the American Academy of Actuaries with experience in performing valuations for public retirement systems; all calculations were performed either by me or by other qualified actuaries under my direct supervision.

Based upon the valuation results and the contribution rates adopted by the Board of Trustees, it is our opinion that the Tennessee Consolidated Retirement System continues to fund its liabilities in accordance with standard actuarial principles of advance funding, continuing a program first adopted in 1975.

Sincerely,



Justin C. Thacker, F.S.A.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions were adopted by the Board of Trustees for use with the July 1, 2009 valuation based on the consulting actuary’s recommendations resulting from the June 30, 2008 actuarial experience study.

GENERAL ACTUARIAL METHODS

- ❖ *Actuarial Cost Method* (Frozen Entry Age) – The state and teacher unfunded accrued liabilities are being funded over a 20-year period. The amortization period related to local government unfunded accrued liabilities varies by entity.
- ❖ *Treatment of Actuarial Gains and Losses* – Under the Frozen Entry Age Method, any actuarial gains or losses are absorbed into the normal cost.
- ❖ *Asset Valuation Method* – Assets are valued on a basis which reflects a ten-year moving average of the fair market value. The actuarial value of assets must be within 80-120 percent of the market value of assets.
- ❖ *Valuation Data* – The administrative staff of TCRS furnishes the actuary with demographic data relating to the active life members and the retired life members. The fair value of system assets are also provided by retirement system staff. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.
- ❖ *Post-Retirement Adjustments* – Retirement benefits are assumed to increase at the geometric rate of 2.5 percent annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

ECONOMIC ASSUMPTIONS

- ❖ *Investment Return Rate* – Seven and one-half percent (7½%) per annum, compounded annually.
- ❖ *Employee Salary Increases* – Graded scale that reflects the plan experience pattern of declining escalation rates as participant ages increase. No explicit assumption is made regarding the portion attributable to the effects of inflation on salaries. Active membership is assumed to remain constant.
- ❖ *Increase in Social Security Wage Base* – Three and one-half percent (3½%) annual increase.

DECREMENT ASSUMPTIONS

- ❖ *Post-Retirement Mortality* – Specifically adopted tables have been created to accurately reflect patterns that occur among TCRS retirees. Sample rates are below.

<i>Male</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.3%	0.4%
Age 60	0.6%	1.0%
Age 70	1.8%	2.2%

<i>Female</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.2%	0.2%
Age 60	0.5%	0.7%
Age 70	1.1%	1.3%

- ❖ *Preretirement Mortality* – Eighty percent (80%) of the PR-2000 Mortality Table is used for state employees and political subdivision employees. For teachers, the PR-2000 Mortality Table is used with an adjustment of 60 percent (60%).

- ❖ *Withdrawal Due to Disability* – Sample rates of disability based on experience:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.07%	0.03%
Age 40	0.08%	0.16%	0.08%
Age 50	0.17%	0.27%	0.38%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.04%	0.03%
Age 40	0.08%	0.14%	0.08%
Age 50	0.17%	0.33%	0.38%

(continued)

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(CONTINUED)

❖ *Turnover Assumption* – Tables for probabilities of separation due to termination of employment are developed utilizing a “two-year select and ultimate” approach.

<i>Teachers</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
Male			
Age 30	18.0%	13.5%	6.0%
Age 40	18.0%	13.5%	2.0%
Age 50	19.7%	14.2%	2.0%
Female			
Age 30	18.0%	13.5%	7.6%
Age 40	18.0%	13.5%	2.3%
Age 50	19.7%	14.2%	1.6%

<i>State</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
Male			
Age 30	23.0%	18.6%	9.6%
Age 40	18.6%	13.8%	2.6%
Age 50	14.8%	11.1%	2.2%
Female			
Age 30	23.0%	18.6%	10.3%
Age 40	18.6%	13.8%	3.4%
Age 50	14.8%	11.1%	2.3%

<i>Political Subdivisions</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
Male			
Age 30	21.8%	17.9%	7.4%
Age 40	19.2%	15.9%	3.5%
Age 50	17.0%	13.0%	2.8%
Female			
Age 30	21.8%	17.9%	11.1%
Age 40	19.2%	15.9%	5.4%
Age 50	17.0%	13.0%	3.8%

Retirement – The probabilities of retirement for members eligible to retire:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 60	15.0%	8.5%	10.5%
Age 61	16.0%	11.0%	15.0%
Age 62	22.0%	16.0%	20.0%
Age 63	16.0%	12.0%	17.5%
Age 64	18.0%	14.0%	17.5%
Age 65	35.0%	22.0%	24.0%
Age 70	16.0%	15.5%	18.0%
Age 75	100.0%	100.0%	100.0%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 60	17.0%	9.0%	11.0%
Age 61	20.0%	12.0%	13.0%
Age 62	26.0%	18.0%	18.0%
Age 63	19.5%	12.0%	16.0%
Age 64	24.0%	14.0%	16.0%
Age 65	37.5%	22.0%	22.0%
Age 70	34.0%	17.0%	19.0%
Age 75	100.0%	100.0%	100.0%

In addition, for members younger than age 60, a loading factor of 12.5 percent for teachers and 7.5 percent for state and political subdivision employees is added during the year the member is first eligible for unreduced retirement. After age 60, for those members with 15 or more years of service, an 8.0 percent load is added for teachers and 2.0 percent for state employees and political subdivision employees.

ACTUARIAL DATA

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Actuarial Valuation		Annual Payroll	Average	Average Annual Percentage Increase
July 1	Number	In Thousands	Annual Pay	In Average Pay
1991	158,820	\$3,636,495	\$22,897	4.61%
1993	166,443	3,943,079	23,690	1.72%
1995	175,584	4,580,041	26,085	4.93%
1997	180,637	4,940,816	27,352	2.40%
1999	189,592	5,473,774	28,871	2.74%
2001	195,946	5,997,047	30,606	2.96%
2003	200,597	6,504,434	32,425	2.93%
2005	206,150	7,136,956	34,620	3.33%
2007	212,725	7,824,823	36,784	3.08%
2009	214,950	8,336,609	38,784	2.68%

SCHEDULE OF RETIRED MEMBER VALUATION DATA

Actuarial Valuation		Annual Allowances	Average	Average Annual Percentage Increase
July 1	Number	In Thousands	Annual Allowances	In Annual Allowances
1991	55,146	\$ 315,248	\$ 5,717	5.86%
1993	58,268	367,844	5,313	5.08%
1995	61,992	449,310	7,248	7.15%
1997	66,908	535,485	8,003	5.08%
1999	71,812	663,140	9,234	7.42%
2001	77,831	795,676	10,223	5.22%
2003	83,279	919,582	11,042	3.93%
2005	89,893	1,082,823	12,046	4.45%
2007	98,230	1,291,999	13,153	4.49%
2009	107,875	1,486,839	13,783	2.37%

SCHEDULE OF RETIRED MEMBER ACTIVITY

Expressed in Thousands

Actuarial Valuation	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
2001	10,526	\$ 163,723	4,507	\$ 31,187	77,831	\$ 795,676	19.99%	\$ 10,223
2003	11,128	168,529	5,680	44,623	83,279	919,582	15.57%	11,042
2005	12,161	208,722	5,547	45,481	89,893	1,082,823	17.75%	12,046
2007	13,833	257,958	5,496	48,782	98,230	1,291,999	19.32%	13,153
2009	15,438	252,231	5,793	57,391	107,875	1,486,839	15.08%	13,783

Note: Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes.

ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

The Board adopted the contribution rates as recommended by the actuary.

ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET
as of July 1, 2009

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Political Subdivision Pension Plan (PSPP)	Total
ASSETS			
Present assets creditable to			
Employer accumulation fund	\$ 22,775,436,290	\$ 4,293,104,552	\$ 27,068,540,842
Members' accumulation fund	3,559,762,929	1,011,350,909	4,571,113,838
Total present assets	<u>26,335,199,219</u>	<u>5,304,455,461</u>	<u>31,639,654,680</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	3,975,132,757	1,312,768,669	5,287,901,426
Accrued liability	<u>2,719,767,478</u>	<u>839,320,076</u>	<u>3,559,087,554</u>
Total employer accumulation	6,694,900,235	2,152,088,745	8,846,988,980
Member's accumulation fund	<u>1,754,226,527</u>	<u>569,888,332</u>	<u>2,324,114,859</u>
Total prospective contributions	<u>8,449,126,762</u>	<u>2,721,977,077</u>	<u>11,171,103,839</u>
TOTAL ASSETS	<u>\$ 34,784,325,981</u>	<u>\$ 8,026,432,538</u>	<u>\$ 42,810,758,519</u>
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	\$ 14,122,766,225	\$ 2,190,077,255	\$ 16,312,843,480
Present active members	20,002,441,459	5,624,931,055	25,627,372,514
Former members	<u>659,118,297</u>	<u>211,424,228</u>	<u>870,542,525</u>
TOTAL LIABILITIES	<u>\$ 34,784,325,981</u>	<u>\$ 8,026,432,538</u>	<u>\$ 42,810,758,519</u>

UNAUDITED

SHORT-TERM SOLVENCY TEST

SHORT-TERMSOLVENCYTEST

The financing objective of the Tennessee Consolidated Retirement System is to pay for the benefits provided by the plan through contributions that remain approximately level from year to year as a percentage of payroll, except that the strategy to fund the unfunded accrued liability is to make level-dollar payments over an established amortization period. A short-term solvency test is one means of checking a system’s progress under its funding program. In a short-term solvency test, the plan’s present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present

retired lives; and (3) the liabilities for service already rendered by active members. In a system that has been following the approach of level percent of payroll financing for some time, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) should be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time.

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	Actuarial Accrued Liabilities for:			Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1997 SETHEEPP (1)	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP (1)	426.4	743.5	1,117.9	2,226.9	100%	100%	95%
Total	\$ 2,568.1	\$ 6,199.6	\$ 9,303.0	\$ 17,898.6	100%	100%	98%
1999 SETHEEPP	\$ 2,396.6	\$ 6,401.8	\$ 9,621.8	\$ 18,327.1	100%	100%	99%
PSPP	501.4	877.1	1,512.4	2,690.8	100%	100%	87%
Total	\$ 2,898.0	\$ 7,278.9	\$ 11,134.2	\$ 21,017.9	100%	100%	97%
2001 SETHEEPP	\$ 2,638.6	\$ 7,837.6	\$ 10,366.0	\$ 20,761.0	100%	100%	99%
PSPP	592.0	1,104.2	1,831.9	3,188.0	100%	100%	81%
Total	\$ 3,230.6	\$ 8,941.8	\$ 12,197.9	\$ 23,949.0	100%	100%	97%
2003 SETHEEPP	\$ 2,908.2	\$ 9,071.1	\$ 10,172.5	\$ 22,099.3	100%	100%	99%
PSPP	691.1	1,304.9	1,927.4	3,605.5	100%	100%	84%
Total	\$ 3,599.3	\$ 10,376.0	\$ 12,099.9	\$ 25,704.8	100%	100%	97%
2005 SETHEEPP	\$ 3,167.4	\$ 10,599.5	\$ 9,900.1	\$ 23,627.2	100%	100%	100%
PSPP	797.0	1,563.9	2,089.2	4,124.0	100%	100%	84%
Total	\$ 3,964.4	\$ 12,163.4	\$ 11,989.3	\$ 27,751.2	100%	100%	97%
2007 SETHEEP	\$ 3,386.8	\$ 12,544.7	\$ 11,308.6	\$ 26,215.0	100%	100%	91%
PSPP	896.8	1,902.9	2,676.0	4,898.0	100%	100%	78%
Total	\$ 4,283.6	\$ 14,447.6	\$ 13,984.6	\$ 31,113.0	100%	100%	89%
2009 SETHEEP	\$ 3,559.8	\$ 14,122.8	\$ 11,372.4	\$ 26,335.2	100%	100%	76%
PSPP	1,011.3	2,190.0	2,942.4	5,304.5	100%	100%	71%
Total	\$ 4,571.1	\$ 16,312.8	\$ 14,314.8	\$ 31,639.7	100%	100%	75%

(1) Includes effect of compound COLA and 3.6 percent indexing improvements.

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

<p>The unfunded accrued liability represents the excess of the accrued actuarial liability over the actuarial value of assets. For funding purposes, the Board of Trustees of TCRS has adopted the frozen initial liability method.</p> <p>Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2027. Also, actuarial gains and losses are absorbed in normal cost rather than as part of the unfunded liability. The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses.</p> <p>For the July 1, 2009 actuarial valuation, the Board reestablished the unfunded accrued liability. In an</p>	<p>inflationary economy where the covered payroll continues to grow, the level-dollar amounts which are being contributed to fund the unfunded accrued liability will, if expressed as a percentage of payroll, continue to decrease.</p> <p>While concern is generally expressed regarding the dollar amount of the unfunded accrued liability, an analysis should also include the method being used to fund this liability as well as a review of this liability expressed as a percentage of active member payroll. The smaller the ratio of unfunded liabilities to the active member payroll, the stronger the system. A review of this ratio over a period of years will give an indication of whether the system is becoming financially stronger or weaker with respect to its unfunded liabilities.</p>
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SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Ratio Assets to AAL	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1997 (3)	\$ 18,070.8	\$ 17,898.6	99.00%	\$ 172.2 (1)(2)	\$ 4,940.8	3.00%
1999	21,311.1	21,017.9	99.00%	293.2	5,473.8	5.00%
2001	24,370.4	23,949.0	98.00%	421.4 (2)	5,997.0	7.00%
2003	26,075.2	25,704.8	99.00%	370.4	6,504.4	6.00%
2005	28,117.1	27,751.2	99.00%	365.9 (2)	7,137.0	5.00%
2007	32,715.8	31,113.0	95.10%	1,602.8 (1)	7,824.8	20.48%
2009	35,198.7	31,639.7	89.89%	3,559.0 (1)(2)	8,336.6	42.69%

Notes:

- (1) Unfunded accrued liability was reestablished.
- (2) Includes adjustments for changes in actuarial assumptions.
- (3) Includes effect of compound COLA and 3.6 percent indexing improvement.

SELECTED ACTUARIAL FUNDING INFORMATION

SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEEPP	PSPP	
1997 (2)	7.50%	5.50%	\$ 111,172,072	\$ 61,012,975	18
1999	7.50%	5.50%	93,022,745	200,161,388	16
2001	7.50%	4.75% (3)	81,226,933	340,147,400	14
2003	7.50%	4.75% (3)	52,493,209	317,945,618	12
2005	7.50%	4.75% (3)	39,806,610	326,114,462	10
2007 (4)	7.50%	4.75% (3)	1,025,156,148	577,645,568	20
2009 (4)	7.50%	4.75% (3)	2,719,767,478	839,320,076	20

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
- (2) Includes effect of compound COLA and 3.6 percent indexing improvement.
- (3) Graded Scale.
- (4) Unfunded liability was reestablished for all groups.

ANALYSIS OF FINANCIAL EXPERIENCE

GAIN AND LOSS ANALYSIS, JULY 1, 2009 VALUATION

	State and Higher Education	Teacher
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2007 Valuation	13.11%	6.42%
Investment Results	5.62%	5.43%
Salary Increases: If there are smaller pay increases than assumed, the normal cost is reduced; if there are greater increases than assumed, the normal cost is increased.	(0.35%)	(0.53%)
New Entrants: Includes the effect where normal cost for new entrants, since the previous valuation, differs from the normal cost of the group.	(0.04%)	0.31%
Cost-of-Living Escalation: COLA in 2009 was 0.00%	(0.92%)	(0.88%)
Prior Service Purchases: Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions	0.10%	0.10%
Contribution rate change delay	(0.07%)	0.03%
Retiree mortality	0.85%	0.63%
Other	(0.03%)	(0.81%)
Assumption changes resulting from 2008 experience study	(2.54%)	(1.35%)
Reestablishment of unfunded liability (20-year amortization)	(0.72%)	(0.30%)
Effective Employer Normal Cost Rate Pursuant to 2009 Valuation	15.01%	9.05%

**RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES
STATE EMPLOYEES, TEACHERS AND HIGHER EDUCATION EMPLOYEES**

Unfunded Actuarial Liabilities at June 30, 2010	\$ 2,656,962,087
Interest Accrual Fiscal Year 2010-2011	180,659,044
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2010-2011)	(248,174,839)
Unfunded Actuarial Liabilities at June 30, 2011	\$ 2,589,446,292

PLAN SUMMARY

HISTORY AND ADMINISTRATION

The TCRS was established in 1972 by an Act of the Tennessee General Assembly. Seven existing retirement systems were consolidated to provide retirement, disability and death benefits to state employees, public school teachers, higher education employees and the employees of participating local governments. State laws governing the plan may be found in Chapters 34-37, 39 of Title 8, *Tennessee Code Annotated*. Amendments to the plan can only be made by legislation enacted by the General Assembly of the State of Tennessee.

A 20-member Board of Trustees has the responsibility to manage and oversee the operation of the consolidated system. The Board consists of nine ex-officio members from the executive, legislative and judicial branches of state government, nine representatives of the active TCRS membership and two representatives for retirees. Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; three representatives of local governments; one public safety officer; one retired state employee representative; and one retired teacher representative. Local government representatives are appointed for two-year terms by each of the following organizations: the Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. All employee representatives must be vested members of TCRS.

TCRS is administered by the Treasury Department under the legislative branch of state government. By state law, the State Treasurer serves as chairman of the Board of Trustees and as custodian of the funds of the system. The Director of the retirement system is appointed by the Treasurer and serves as the chief administrative officer of the plan.

The state is responsible for the pension cost of state employees; pension costs for teachers are the responsibility of the local education agencies in Tennessee; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balances. The operating budget is funded by local governments on a per-member fee basis and by state government as part of the employer contribution rate.

MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, K-12 teachers, higher education general employees and the employees of participating local governments. Membership is optional for part-time state employees and the part-time employees of political subdivisions which have authorized such coverage.

Interim teachers and part-time teachers have optional membership. The faculty employees of institutions of higher education may elect participation in either TCRS or an optional retirement program (ORP), a defined contribution plan for higher education faculty.

CONTRIBUTIONS

TCRS membership became noncontributory on July 1, 1981 for most state employees, teachers in state supported institutions of higher education and teachers employed in the Department of Education. At that time, the contributions, up to five percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual members' accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts.

Participating political subdivisions may either adopt noncontributory retirement provisions or require employee contributions. The contribution rate for local government employees is five percent up to the Social Security wage base and 5.5 percent above that base, unless the employing government has authorized a level five percent rate. Public school teachers contribute at a rate of five percent of gross salary.

Individual accounts are maintained for all contributory members with interest credited annually at a rate of five percent. Since the TCRS is a defined benefit plan, benefits are based upon the member's average final compensation and years of creditable service. The member's account balance including interest accrued has no bearing on the monthly benefit amount payable at retirement. Account balances plus interest are fully refundable upon termination of service or death.

(continued)

PLAN SUMMARY (CONTINUED)

Contributory members are now covered by Section 414(h) of the Internal Revenue Code. Under this provision, retirement contributions are made on a tax-deferred basis, with income tax due only when contributions are returned to members as benefits or refunds. Political subdivisions may adopt the 414(h) provision for their employees.

The state also makes contributions on behalf of higher education faculty members who select membership in the ORP. These contributions are equal to 10 percent of salary up to Social Security wage base and 11 percent of any excess salary.

BENEFITS

TCRS provides three valuable benefits to its members: disability, death and service retirement benefits. Disability benefits are available to qualified TCRS members who become totally disabled before meeting the requirements for service retirement. Two types of disability retirement are available: ordinary and accidental.

To qualify for ordinary disability, a member must have a minimum of five years of TCRS service credit. The ordinary disability benefit is equal to 90 percent of what the member would receive under service retirement. If a disabled retiree has less than 20 years of service credit, the service is projected to age 60 or 20 years, whichever comes first. When service is projected, the actual and projected service combined cannot exceed 20 years. If the member's actual service credit exceeds 20 years, the benefit is based on actual service only.

There is no minimum service requirement to qualify for an accidental disability benefit. However, the disability must be the result of a job-related accident that occurs without negligence on the part of the member during the performance of duty. Prior to the onset of Social Security benefits, an accidental disability benefit is equal to 50 percent of the member's average final compensation (AFC). Once Social Security benefits begin, the accidental benefit is 33.3 percent of AFC. For members joining TCRS on or after July 1, 1997, accidental disability benefits are determined in the same manner as ordinary disability using the projection of service method. Disability benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. The

accidental benefit is adjusted if the member's combined benefits from Social Security and/or workers' compensation exceed 75 percent of his AFC.

One of several death benefits may be payable to the designated beneficiary of an active member who dies prior to retirement. The type of death benefit payable will be determined by whether or not death occurred while in service, who is named as beneficiary and the member's length of service.

A member may designate one or more persons, his estate, an institution or any combination of such as his beneficiary. However, estates, institutions and/or multiple beneficiaries are only eligible for a lump-sum refund of the member's accumulated contributions and interest unless one of the beneficiaries named is the surviving spouse. Other death benefits offered by TCRS include a 100 percent Joint and Surviving Spouse Annuity after 10 Years Service, a 100 percent Joint and Survivor Annuity for any beneficiary and a Line of Duty Benefit. Any beneficiary of a member who had 10 years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over 10 years.

All members, with the exception of state judges, joining TCRS after 1976 enter the same membership group. The benefit formula for this group provides 1.5 percent of AFC computed over five years for each year of service credit. If a member's AFC exceeds the Social Security integration level (SSIL) applicable at retirement, the formula provides an additional 0.25 percent of the amount of the excess for each service year. These benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members.

Members become eligible for regular service retirement at age 60 if vested or at any age with 30 years. Vested members are eligible for reduced early retirement benefits when they have reached age 55 or have completed 25 years of service. Members joining TCRS after June 30, 1979 attain vesting rights after five years of service; the vesting period for members who joined prior to July 1, 1979 is four years. Five-year vesting and 25-year retirement are benefits that are optional to local governments. Otherwise, vesting for local governments is 10 years of service.

SERVICES FOR ACTIVE AND RETIRED MEMBERS

SERVICES FOR ACTIVE MEMBERS

TCRS provides a number of services for active members through its various sections.

Field Services

- ❖ TCRS staff is available to conduct employee presentations on all aspects of the retirement system.
- ❖ Employer seminars are conducted biennially to educate payroll officers on legislation affecting TCRS and inform them of the employer contribution rates effective for the next two fiscal years.

Membership

- ❖ Comprehensive membership statements are provided to all members annually.
- ❖ Computer-generated membership letters and membership pamphlets are mailed to all new members.
- ❖ Membership booklets are available to members upon request.

Prior Service

- ❖ An automated calculation and eligibility system generates billings for members who wish to establish prior service.
- ❖ An installment program is available to purchase certain types of prior service.
- ❖ Prior Service may be purchased with a rollover from a tax-deferred 401(a) plan, 401(k) plan, 403(b) plan, 457 plan or a traditional or Roth IRA.

Benefits

- ❖ Interactive benefit calculator via Internet.
- ❖ Computer-generated benefit estimates are available for those members approaching retirement age.
- ❖ Employee benefit counseling workshops are available to educate potential retirees.
- ❖ TCRS counseling staff provides personal counseling to members by telephone and in their Nashville office.

- ❖ TCRS seminars, which explain all facets of pre-retirement planning, are provided for members.

SERVICES FOR RETIRED MEMBERS

A number of services are made available to TCRS retirees.

- ❖ A toll-free telephone line.
- ❖ Retiree identification cards.
- ❖ Semiannual retiree newsletter: *The Retiree Advisor*.
- ❖ Direct deposit service.
- ❖ Continuation of medical insurance.
- ❖ Continuation of dental insurance.
- ❖ Medicare supplement coverage.
- ❖ Income tax information.
- ❖ Certification of monthly benefits.
- ❖ Certification of student discounts.
- ❖ Credit Union deductions.
- ❖ Tennessee State Employee Association deductions.
- ❖ Tennessee Retired Teachers Association deductions.

SAMPLE BENEFIT CALCULATIONS

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
for Calendar Year 2011

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	9,420		9,420		9,420		9,420		9,420	
	Total	<u>\$ 12,964</u>	86.4%	<u>\$ 14,145</u>	94.3%	<u>\$ 15,326</u>	102.2%	<u>\$ 16,508</u>	110.1%	<u>\$ 17,689</u>	117.9%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	10,944		10,944		10,944		10,944		10,944	
	Total	<u>\$ 15,669</u>	78.3%	<u>\$ 17,244</u>	86.2%	<u>\$ 18,819</u>	94.1%	<u>\$ 20,394</u>	102.0%	<u>\$ 21,969</u>	109.8%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	12,456		12,456		12,456		12,456		12,456	
	Total	<u>\$ 18,362</u>	73.4%	<u>\$ 20,331</u>	81.3%	<u>\$ 22,300</u>	89.2%	<u>\$ 24,269</u>	97.1%	<u>\$ 26,237</u>	104.9%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	13,980		13,980		13,980		13,980		13,980	
	Total	<u>\$ 21,068</u>	70.2%	<u>\$ 23,430</u>	78.1%	<u>\$ 25,793</u>	86.0%	<u>\$ 28,155</u>	93.9%	<u>\$ 30,518</u>	101.7%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	15,492		15,492		15,492		15,492		15,492	
	Total	<u>\$ 23,761</u>	67.9%	<u>\$ 26,517</u>	75.8%	<u>\$ 29,273</u>	83.6%	<u>\$ 32,030</u>	91.5%	<u>\$ 34,786</u>	99.4%
\$40,000	TCRS	\$ 9,450		\$ 12,600		\$ 15,750		\$ 18,900		\$ 22,050	
	Social Security	17,004		17,004		17,004		17,004		17,004	
	Total	<u>\$ 26,454</u>	66.1%	<u>\$ 29,604</u>	74.0%	<u>\$ 32,754</u>	81.9%	<u>\$ 35,904</u>	89.8%	<u>\$ 39,054</u>	97.6%
\$45,000	TCRS	\$ 10,631		\$ 14,175		\$ 17,719		\$ 21,263		\$ 24,806	
	Social Security	18,528		18,528		18,528		18,528		18,528	
	Total	<u>\$ 29,159</u>	64.8%	<u>\$ 32,703</u>	72.7%	<u>\$ 36,247</u>	80.5%	<u>\$ 39,791</u>	88.4%	<u>\$ 43,334</u>	96.3%
\$50,000	TCRS	\$ 11,813		\$ 15,750		\$ 19,688		\$ 23,625		\$ 27,563	
	Social Security	20,040		20,040		20,040		20,040		20,040	
	Total	<u>\$ 31,853</u>	63.7%	<u>\$ 35,790</u>	71.6%	<u>\$ 39,728</u>	79.5%	<u>\$ 43,665</u>	87.3%	<u>\$ 47,603</u>	95.2%
\$55,000	TCRS	\$ 12,994		\$ 17,325		\$ 21,656		\$ 25,988		\$ 30,319	
	Social Security	21,336		21,336		21,336		21,336		21,336	
	Total	<u>\$ 34,330</u>	62.4%	<u>\$ 38,661</u>	70.3%	<u>\$ 42,992</u>	78.2%	<u>\$ 47,324</u>	86.0%	<u>\$ 51,655</u>	93.9%
\$60,000	TCRS	\$ 14,199		\$ 18,932		\$ 23,664		\$ 28,397		\$ 33,130	
	Social Security	22,044		22,044		22,044		22,044		22,044	
	Total	<u>\$ 36,243</u>	60.4%	<u>\$ 40,976</u>	68.3%	<u>\$ 45,708</u>	76.2%	<u>\$ 50,441</u>	84.1%	<u>\$ 55,174</u>	92.0%
\$65,000	TCRS	\$ 15,577		\$ 20,769		\$ 25,961		\$ 31,154		\$ 36,346	
	Social Security	22,752		22,752		22,752		22,752		22,752	
	Total	<u>\$ 38,329</u>	59.0%	<u>\$ 43,521</u>	67.0%	<u>\$ 48,713</u>	74.9%	<u>\$ 53,906</u>	82.9%	<u>\$ 59,098</u>	90.9%
\$70,000	TCRS	\$ 16,955		\$ 22,607		\$ 28,258		\$ 33,910		\$ 39,561	
	Social Security	23,448		23,448		23,448		23,448		23,448	
	Total	<u>\$ 40,403</u>	57.7%	<u>\$ 46,055</u>	65.8%	<u>\$ 51,706</u>	73.9%	<u>\$ 57,358</u>	81.9%	<u>\$ 63,009</u>	90.0%

* Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

This chart is based on a date of retirement in 2011. Social Security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions:

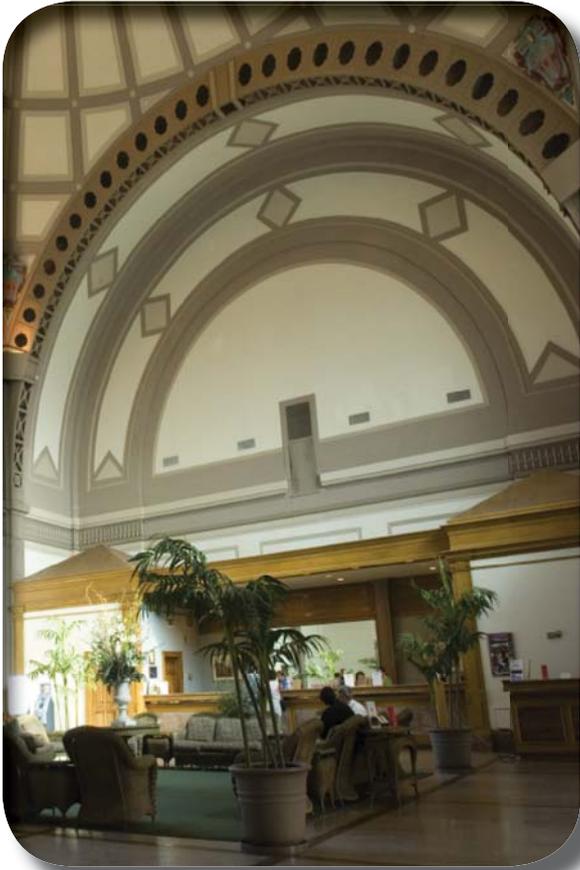
- (1) Retirement is taking place at age 65 in 2011;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: tcrs.tn.gov

MAJOR LEGISLATIVE IMPROVEMENTS

<p>1972 Benefit formula improved from 1.12 percent of salary up to the SSIL to 1.5 percent of salary up to the SSIL.</p> <p>1973 Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.</p> <p>1974 Disability retirement eligibility requirement reduced from 10 years to 5 years of service.</p> <p>Maximum annual cost-of-living increase raised to 3 percent.</p> <p>Provision to increase retirees’ benefits whenever the benefit formula is improved.</p> <p>Service credit authorized for unused accumulated sick leave.</p> <p>1976 Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.</p> <p>Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.</p> <p>1978 A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.</p> <p>An optional retirement plan established for teachers in the Board of Regents system.</p> <p>1980 Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member’s accrued benefit for the spouse.</p> <p>1981 Noncontributory retirement for state employees and higher education employees adopted. Employees’ contributions, up to 5 percent, were assumed by the state.</p> <p>1983 An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p>1984 Credit for out-of-state service for the purpose of determining retirement eligibility authorized.</p> <p>Retirement credit for armed conflict approved.</p> <p>Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.</p> <p>1985 \$22 million ad-hoc increase granted to retirees.</p>	<p>1987 Service credit for half of peacetime military service made available.</p> <p>\$17 million ad-hoc increase granted to retirees.</p> <p>Retirement incentive for state employees.</p> <p>Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.</p> <p>1990 Retirement incentive for state employees.</p> <p>1991 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.</p> <p>1992 Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p>1993 Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5 percent authorized.</p> <p>1997 Compounded COLA for retirees approved.</p> <p>1998 Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80 percent.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p>1999 Group 1 benefit maximum increased to 90 percent.</p> <p>2000 Group 2 benefit maximum increased to 80 percent.</p> <p>2001 Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p>2005 Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p>2006 Ad-hoc increase granted to members retired prior to 1989.</p> <p>2007 Public Safety Officer benefits were enhanced.</p>
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STATISTICAL SECTION

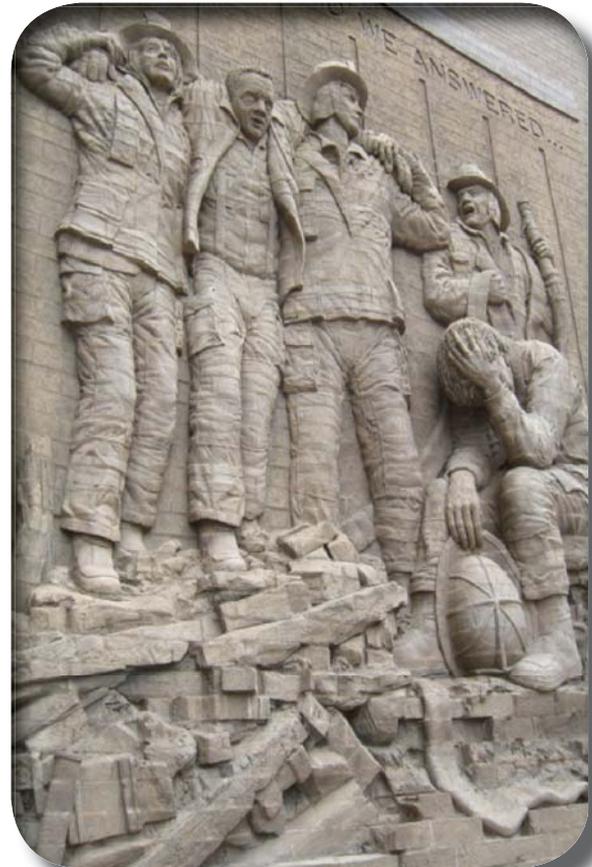


The ***Chattanooga Choo Choo*** was erected in 1908 with an 85-foot cast iron dome rising majestically over the lobby. The Terminal Station served thousands of passengers until the trains stopped running in 1970. In 1973, authentic rail cars were remodeled as uniquely furnished sleeping quarters. Now, the dome is decorated with magnificent colors and it is stunning when lit up at night. There is also a variety of shops and dining options on the 35-acre complex. The world's largest model railroad setup shows a scale version of the Chattanooga valley, an authentic 1880s steam engine (the only one of its type in the area) and the beautifully restored Terminal Station.

Photo Credit: Chattanooga Area Convention and Visitors' Bureau

The ***Fire Museum of Memphis*** is located in Fire Engine House No. 1, which was built in 1910. It features interactive and historical exhibits that teach the history of Memphis firefighting and fire safety. Major attractions include the Fire Room where you can see what it feels like to be in a burning house while learning safety practices needed to escape. There is also the 1897 Hale Water Tower, the 1910 horse-drawn steam engine, the historic fires exhibit, the Black firefighters exhibit, the EMS exhibit, the Ladder Company game, the Fire Safety House, the Escape Maze and a Memorial Wall dedicated to Memphis Firefighters who died in the line of duty.

Photo Credit: Memphis Convention and Visitors' Bureau



STATISTICAL INTRODUCTION**STATISTICAL SECTION OVERVIEW**

The statistical section presents additional information to provide financial statement users with added historical perspective, context, and detail to assist in using the information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the system's financial condition.

FINANCIAL TRENDS

The schedules presented on pages 72-75 show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- ❖ Historical Fair Value
- ❖ Analysis of Member and Employer Reserves
- ❖ Schedules of Changes in Net Assets
- ❖ Schedules of Benefit Expenses

OPERATING INFORMATION

The remaining schedules presented on pages 76-93 contain benefits, service, and employer data to help the reader understand how the System's financial report relates to the services of the system and the activities it performs. In addition, a description of political subdivision participation and a listing of participating entities have been included in this section.

HISTORICAL FAIR VALUE

HISTORICAL FAIR VALUE

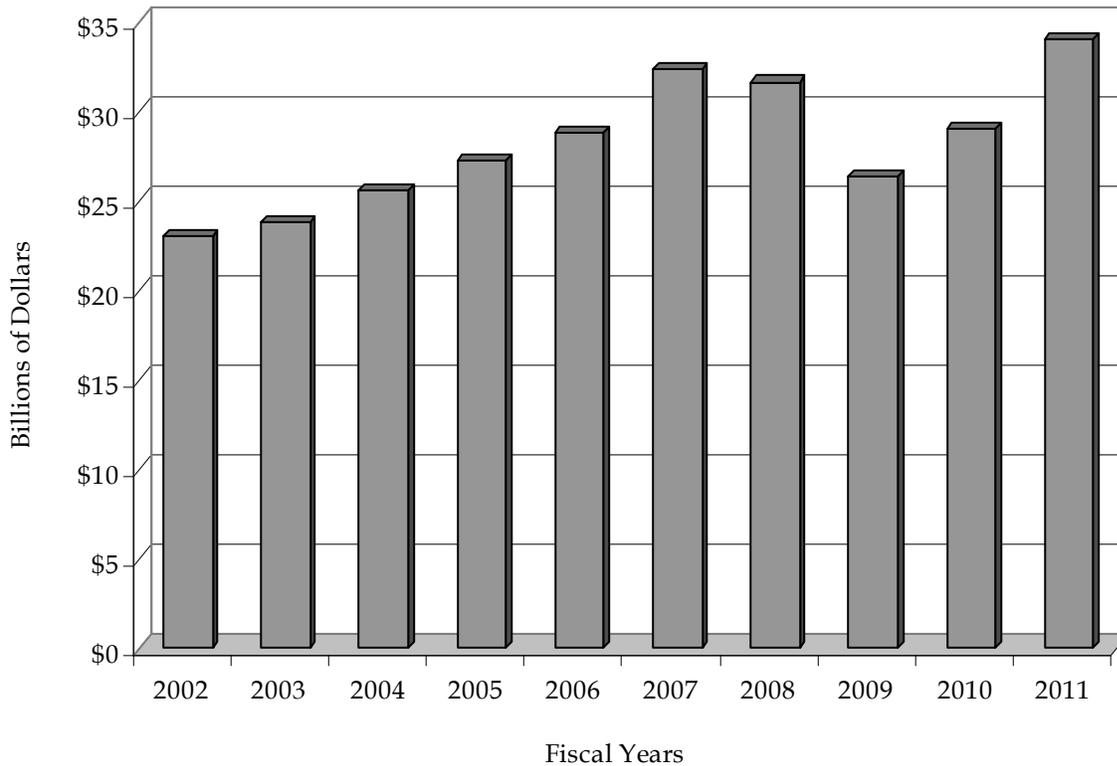
Fiscal Years 2002-2011

Expressed in Thousands

As of June 30	Fair Value	As of June 30	Fair Value
2002	\$ 22,982,880	2007	\$ 32,365,969
2003	23,778,484	2008	31,634,129
2004	25,586,516	2009	26,369,226
2005	27,216,262	2010	28,574,195
2006	28,820,635	2011	33,663,308

HISTORICAL FAIR VALUE

Fiscal Years 2002-2011



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES
FOR THE YEAR ENDED JUNE 30, 2010**

MEMBER RESERVE FUND

The legislation which created the TCRS established two funds, the Member Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plans. The Member Reserve Fund represents the accumulation of employee contributions plus interest.

	SETHEEPP	PSPP	Total
<i>June 30, 2010 Member Reserve Fund</i>	\$3,626,333,264	\$1,053,436,800	\$ 4,679,770,064
Member Contributions	192,466,975	67,920,498	260,387,473
Employer Provided Contributions	13,887,907	9,164,636	23,052,543
Interest	167,388,238	49,510,164	216,898,402
Refunded Account Balances	(18,956,794)	(16,582,599)	(35,539,393)
Transfers to Employer Fund of Retiring Members	<u>(276,454,331)</u>	<u>(60,969,812)</u>	<u>(337,424,143)</u>
<i>June 30, 2011 Member Reserve Fund</i>	<u>\$ 3,704,665,259</u>	<u>\$ 1,102,479,687</u>	<u>\$ 4,807,144,946</u>

EMPLOYER RESERVE FUND

The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

	SETHEEPP	PSPP	Total
<i>June 30, 2010 Employer Reserve Fund</i>	\$19,983,345,124	\$3,911,079,902	\$ 23,894,425,026
Employer Contributions	721,758,358	273,781,112	995,539,470
Investment Income	4,552,737,517	976,015,985	5,528,753,502
Transfers from Retiring Members' Account	276,454,331	60,969,812	337,424,143
Employer Provided Contributions	(13,887,907)	(9,164,636)	(23,052,543)
Interest Credited to Members' Account	(167,388,238)	(49,510,164)	(216,898,402)
Lump-Sum Death Benefits	(4,054,245)	(1,443,894)	(5,498,139)
Retirement and Survivors Annuities	(1,411,285,493)	(236,087,444)	(1,647,372,937)
Administrative Expenses	<u>(3,524,756)</u>	<u>(3,632,066)</u>	<u>(7,156,822)</u>
<i>June 30, 2011 Employer Reserve Fund</i>	<u>\$ 23,934,154,691</u>	<u>\$ 4,922,008,607</u>	<u>\$ 28,856,163,298</u>

SCHEDULES OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011

SCHEDULES OF CHANGES IN NET ASSETS

Expressed in Thousands

Year Ending	Additions			Deductions			Total Change in Net Assets
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
SETHEPP							
6/30/2002	\$142,126	\$243,498	\$ (383,371)	\$711,537	\$2,714	\$12,689	\$ (724,687)
6/30/2003	148,493	264,320	959,110	764,837	2,631	14,250	590,205
6/30/2004	154,334	271,298	1,870,972	826,938	2,935	15,305	1,451,426
6/30/2005	160,686	448,154	1,579,232	891,259	3,008	15,329	1,278,476
6/30/2006	166,984	474,879	1,594,214	972,680	3,336	17,751	1,242,310
6/30/2007	175,743	562,729	3,202,706	1,062,764	3,385	19,231	2,855,798
6/30/2008	181,236	593,412	(361,408)	1,148,496	3,711	19,113	(758,080)
6/30/2009	185,729	583,985	(4,059,222)	1,254,824	3,616	16,503	(4,564,451)
6/30/2010	190,635	578,403	2,232,405	1,317,203	3,924	19,371	1,660,945
6/30/2011	192,467	721,759	4,552,737	1,415,339	3,525	18,957	4,029,142
PSPP							
6/30/2002	\$ 47,139	\$103,374	\$ (60,412)	\$106,554	\$2,290	\$11,616	\$ (30,359)
6/30/2003	49,218	134,014	153,368	116,395	2,425	12,381	205,399
6/30/2004	50,650	139,808	310,881	127,513	2,599	14,621	356,606
6/30/2005	54,921	181,096	271,135	137,657	2,738	15,487	351,270
6/30/2006	59,327	191,000	283,084	151,511	2,877	16,960	362,063
6/30/2007	57,003	231,699	588,698	167,667	3,084	17,113	689,536
6/30/2008	64,617	244,847	(68,651)	184,219	3,491	26,863	26,240
6/30/2009	67,830	252,926	(799,264)	202,839	3,586	15,519	(700,452)
6/30/2010	64,414	258,324	459,941	217,984	3,619	17,052	544,024
6/30/2011	67,920	273,781	976,016	237,531	3,632	16,583	1,059,971

SCHEDULES OF BENEFIT EXPENSES

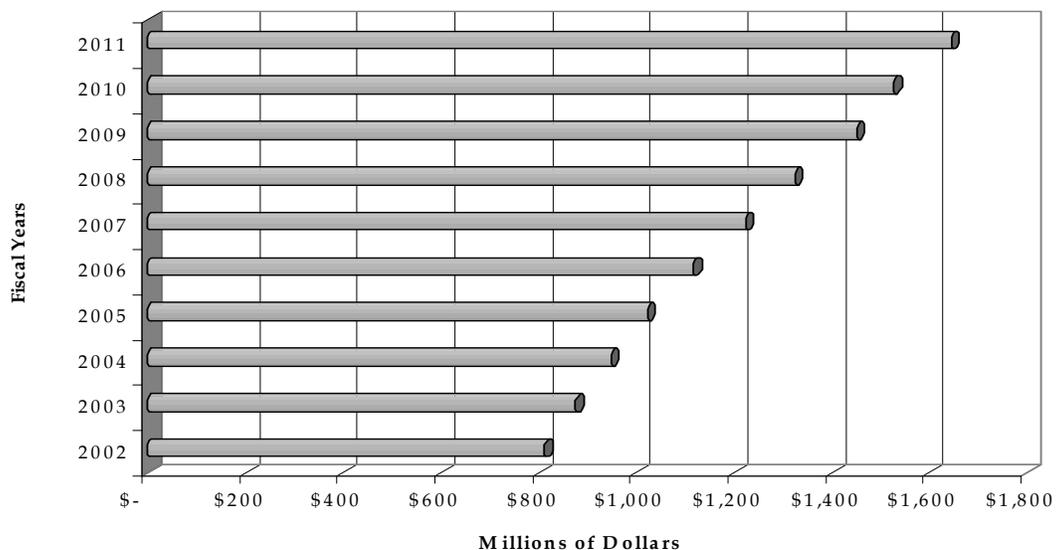
SCHEDULES OF BENEFIT EXPENSES

Expressed in Thousands

Year Ending	Base Annuity	Disability Annuity	Survivor Annuity	Cost of Living	Lump-Sum Death Benefits	Total Benefits	Refunds	Total
SETHEEPP								
6/30/2002	\$ 528,471	\$ 17,405	\$ 33,518	\$ 129,918	\$ 2,225	\$ 711,537	\$ 12,689	\$ 724,226
6/30/2003	571,703	18,809	36,818	134,455	3,052	764,837	14,250	779,087
6/30/2004	617,659	20,341	40,022	145,767	3,149	826,938	15,305	842,243
6/30/2005	668,340	21,229	43,437	154,522	3,731	891,259	15,329	906,588
6/30/2006	726,109	22,225	46,495	173,624	4,227	972,680	17,751	990,431
6/30/2007	789,603	22,971	50,032	196,439	3,719	1,062,764	19,231	1,081,995
6/30/2008	851,426	24,111	53,840	215,810	3,309	1,148,496	19,113	1,167,609
6/30/2009	927,977	25,351	57,141	240,293	4,062	1,254,824	16,503	1,271,327
6/30/2010	994,439	26,041	60,945	231,084	4,694	1,317,203	19,371	1,336,574
6/30/2011	1,062,838	27,360	64,950	256,137	4,054	1,415,339	18,957	1,434,296
PSPP								
6/30/2002	\$ 82,084	\$ 2,704	\$ 5,206	\$ 15,417	\$ 1,143	\$ 106,554	\$ 11,616	\$ 118,170
6/30/2003	90,372	2,973	5,820	16,236	994	116,395	12,381	128,776
6/30/2004	98,680	3,250	6,394	17,860	1,329	127,513	14,621	142,134
6/30/2005	106,943	3,397	6,951	19,186	1,180	137,657	15,487	153,144
6/30/2006	117,074	3,584	7,497	21,915	1,441	151,511	16,960	168,471
6/30/2007	128,937	3,751	8,170	25,025	1,784	167,667	17,113	184,780
6/30/2008	141,867	4,017	8,971	27,765	1,599	184,219	26,863	211,082
6/30/2009	155,776	4,256	9,592	31,553	1,662	202,839	15,519	218,358
6/30/2010	170,275	4,459	10,435	30,395	2,420	217,984	17,052	235,036
6/30/2011	185,700	4,780	11,348	34,259	1,444	237,531	16,583	254,114

ANNUAL BENEFIT PAYMENTS

Fiscal Years 2002-2011



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Service Credit

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
0-4	10,604	20,733	5,029	28,743	65,109
5-9	10,102	17,593	3,293	19,249	50,237
10-14	6,653	14,773	2,341	14,475	38,242
15-19	4,113	10,042	1,677	8,352	24,184
20-24	3,657	5,988	1,509	5,667	16,821
25-29	3,664	4,945	1,161	2,967	12,737
30-34	1,933	3,214	801	1,612	7,560
35-39	1,045	1,848	432	556	3,881
40-44	288	384	134	132	938
Over 44	83	63	32	27	205
Total	42,142	79,583	16,409	81,780	219,914

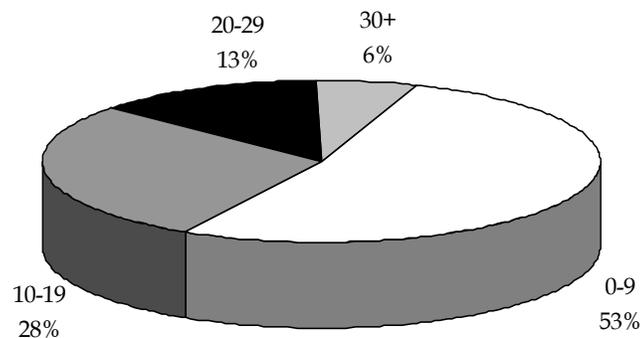
SCHEDULE OF ACTIVE MEMBERS

by Enrollment Date

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1940s	5	15	1	19	40
1950s	26	9	3	4	42
1960s	218	287	81	31	617
1970s	2,565	4,794	1,121	1,474	9,954
1980s	8,020	10,687	2,868	7,679	29,254
1990s	9,989	22,531	3,724	21,265	57,509
2000s	18,234	35,915	7,184	42,977	104,310
2010s	3,085	5,345	1,427	8,331	18,188
Total	42,142	79,583	16,409	81,780	219,914

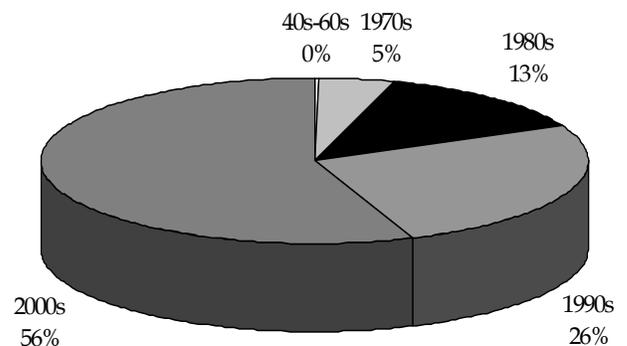
PERCENTAGE OF ACTIVE MEMBERS

by Service Credit



PERCENTAGE OF ACTIVE MEMBERS

by Enrollment Date



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than 20	14	6	1	32	53
20-29	3,199	10,324	1,073	6,633	21,229
30-39	8,049	22,477	2,632	15,146	48,304
40-49	10,448	20,390	4,103	23,437	58,378
50-54	6,763	9,486	2,745	12,576	31,570
55-59	6,599	9,462	2,819	11,418	30,298
60-64	4,782	6,046	1,940	7,724	20,492
65-69	1,635	1,180	763	3,103	6,681
Over 69	653	212	333	1,711	2,909
Total	42,142	79,583	16,409	81,780	219,914

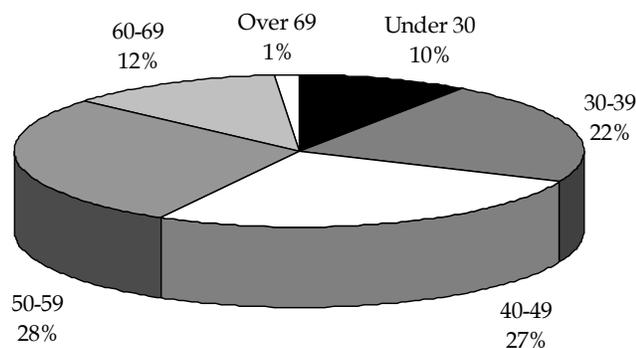
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than 20	1,164	149	253	1,239	2,805
20-24	8,207	26,411	2,528	10,655	47,801
25-29	9,092	20,911	3,128	12,287	45,418
30-34	6,303	10,829	2,626	12,705	32,463
35-39	5,367	8,602	2,322	13,469	29,760
40-44	4,299	6,046	1,947	11,472	23,764
45-49	3,307	3,540	1,573	8,290	16,710
50-54	2,371	1,946	1,144	5,718	11,179
55-59	1,438	883	631	3,604	6,556
60-64	446	228	196	1,597	2,467
65-69	116	29	45	543	733
Over 70	32	9	16	201	258
Total	42,142	79,583	16,409	81,780	219,914

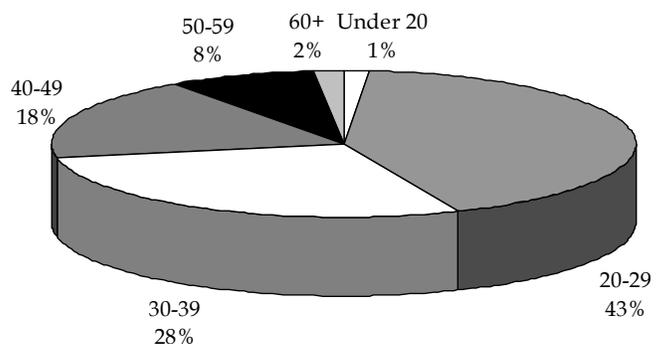
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



SCHEDULES OF ACTIVE MEMBERS

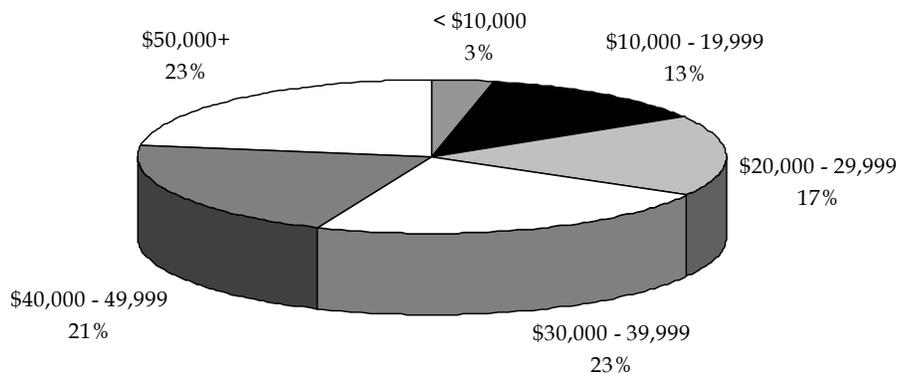
SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than \$10,000	1,154	228	527	5,252	7,161
\$10,000 - 19,999	2,728	876	1,687	23,380	28,671
\$20,000 - 29,999	11,127	1,874	4,492	19,722	37,215
\$30,000 - 39,999	11,402	19,103	3,770	16,947	51,222
\$40,000 - 49,999	6,843	28,120	2,285	8,586	45,834
\$50,000+	8,888	29,382	3,648	7,893	49,811
Total	42,142	79,583	16,409	81,780	219,914

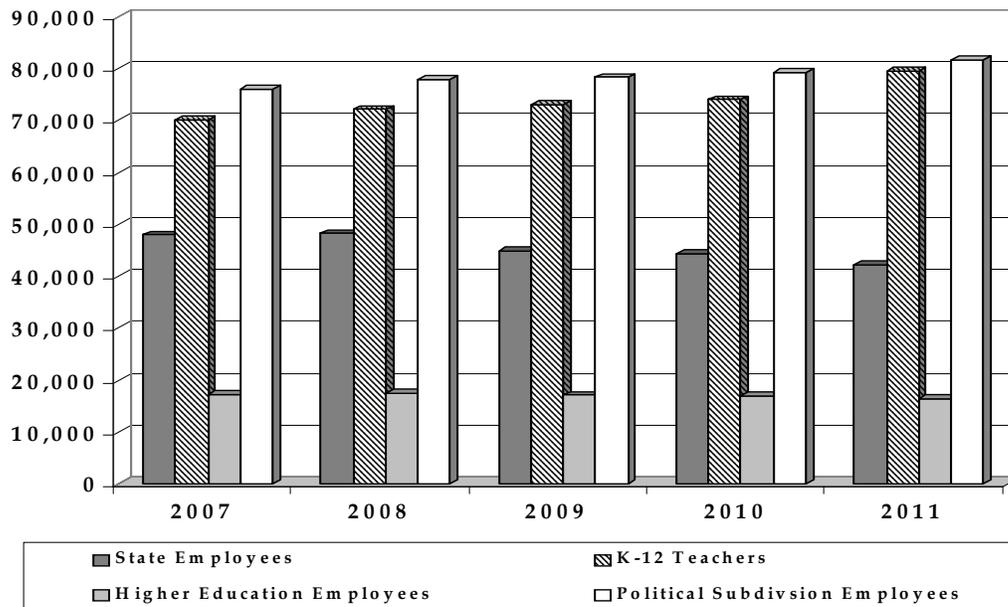
PERCENTAGE OF ACTIVE MEMBERS

by Salary



ACTIVE MEMBERS

Fiscal Years 2007-2011



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

Benefit Plan	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Regular	14,193	23,911	7,399	21,099	66,602
Option I	4,115	3,103	2,572	4,480	14,270
Option II	1,311	1,228	828	1,158	4,525
Option III	3,586	3,702	1,716	3,482	12,486
Option IV	2,516	3,422	1,327	1,773	9,038
S.S. Leveling	2,149	4,331	580	1,673	8,733
Subtotal	<u>27,870</u>	<u>39,697</u>	<u>14,422</u>	<u>33,665</u>	<u>115,654</u>
Survivors	<u>631</u>	<u>264</u>	<u>218</u>	<u>418</u>	<u>1,531</u>
Total	<u>28,501</u>	<u>39,961</u>	<u>14,640</u>	<u>34,083</u>	<u>117,185</u>

- *Regular Maximum Plan - No Survivor Benefits
- *Option I 100% Joint and Survivor Annuity
- *Option II 50% Joint and Survivor Annuity
- *Option III 100% Joint and Survivor Annuity with Pop-up Feature
- *Option IV 50% Joint and Survivor Annuity with Pop-up Feature
- *S.S. Leveling Benefit Level Coordinated with Social Security

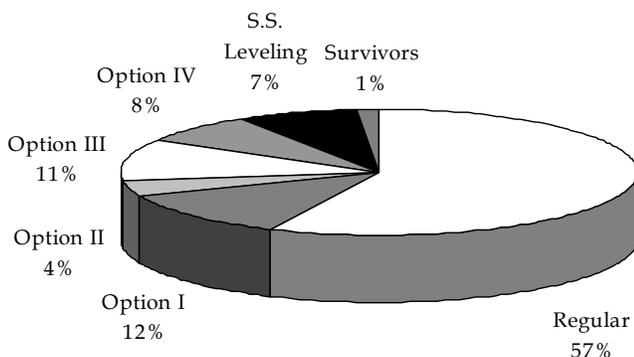
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Retirees:					
Service	22,148	33,466	11,445	26,333	93,392
Early	3,779	5,071	2,242	4,978	16,070
Disability	1,943	1,160	735	2,354	6,192
Total Retirees	<u>27,870</u>	<u>39,697</u>	<u>14,422</u>	<u>33,665</u>	<u>115,654</u>
Survivors	<u>631</u>	<u>264</u>	<u>218</u>	<u>418</u>	<u>1,531</u>
Total	<u>28,501</u>	<u>39,961</u>	<u>14,640</u>	<u>34,083</u>	<u>117,185</u>

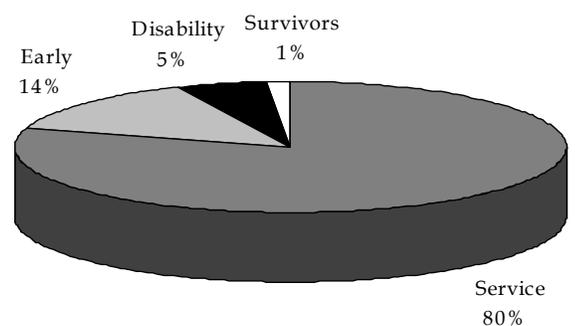
PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Average Monthly Benefit

STATE EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0 - 500	8,756	6,068	1,733	730	225	4,660	1,439	348	1,081	586	417	225
501 - 1,000	6,919	4,634	1,167	950	168	3,730	1,008	269	828	534	382	168
1,001 - 1,500	4,698	3,838	558	208	94	2,384	575	185	579	387	494	94
1,501 - 2,000	3,350	3,034	207	44	65	1,542	408	121	479	362	373	65
2,001 - 2,500	2,056	1,959	63	6	28	859	245	101	272	279	272	28
2,501 - 3,000	1,175	1,126	29	3	17	475	163	63	152	159	146	17
3,001 - 3,500	625	597	14	0	14	240	111	56	98	81	25	14
3,501 - 4,000	347	336	5	0	6	115	62	34	53	57	20	6
over 4,000	575	556	3	2	14	188	104	134	44	71	20	14
Totals	28,501	22,148	3,779	1,943	631	14,193	4,115	1,311	3,586	2,516	2,149	631

TEACHERS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0 - 500	4,524	3,381	973	151	19	2,864	481	177	477	295	211	19
501 - 1,000	5,861	3,755	1,606	451	49	3,609	641	194	565	463	340	49
1,001 - 1,500	6,645	4,857	1,350	384	54	3,781	555	182	695	563	815	54
1,501 - 2,000	7,951	7,034	714	140	63	4,405	561	216	899	828	979	63
2,001 - 2,500	7,118	6,741	313	29	35	4,402	385	180	572	648	896	35
2,501 - 3,000	4,021	3,913	77	4	27	2,439	253	130	266	310	596	27
3,001 - 3,500	1,977	1,942	24	1	10	1,205	111	65	131	160	295	10
3,501 - 4,000	959	944	11	0	4	587	57	45	63	82	121	4
over 4,000	905	899	3	0	3	619	59	39	34	73	78	3
Totals	39,961	33,466	5,071	1,160	264	23,911	3,103	1,228	3,702	3,422	4,331	264

HIGHER EDUCATION EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0 - 500	5,051	3,642	1,041	304	64	2,895	808	241	548	324	171	64
501 - 1,000	3,488	2,428	680	337	43	1,919	572	153	385	306	110	43
1,001 - 1,500	2,057	1,657	294	75	31	998	342	137	238	212	99	31
1,501 - 2,000	1,297	1,127	129	15	26	527	251	82	179	153	79	26
2,001 - 2,500	826	752	56	2	16	312	177	50	121	100	50	16
2,501 - 3,000	617	582	21	2	12	230	121	47	92	78	37	12
3,001 - 3,500	427	407	12	0	8	171	96	33	55	45	19	8
3,501 - 4,000	289	276	5	0	8	92	68	25	47	42	7	8
over 4,000	588	574	4	0	10	255	137	60	51	67	8	10
Totals	14,640	11,445	2,242	735	218	7,399	2,572	828	1,716	1,327	580	218

POLITICAL SUBDIVISIONS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0 - 500	20,196	15,038	3,497	1,462	199	13,329	2,634	564	1,915	883	672	199
501 - 1,000	7,773	5,915	1,005	739	114	4,979	947	246	768	386	333	114
1,001 - 1,500	2,994	2,530	277	129	58	1,563	425	140	379	195	234	58
1,501 - 2,000	1,490	1,322	125	17	26	626	218	79	221	125	195	26
2,001 - 2,500	751	695	43	5	8	267	117	48	107	83	121	8
2,501 - 3,000	399	374	19	2	4	145	57	35	43	46	69	4
3,001 - 3,500	213	201	8	0	4	67	30	26	30	30	26	4
3,501 - 4,000	118	113	4	0	1	57	21	7	8	10	14	1
over 4,000	149	145	0	0	4	66	31	13	11	15	9	4
Totals	34,083	26,333	4,978	2,354	418	21,099	4,480	1,158	3,482	1,773	1,673	418

SCHEDULES OF RETIRED MEMBERS

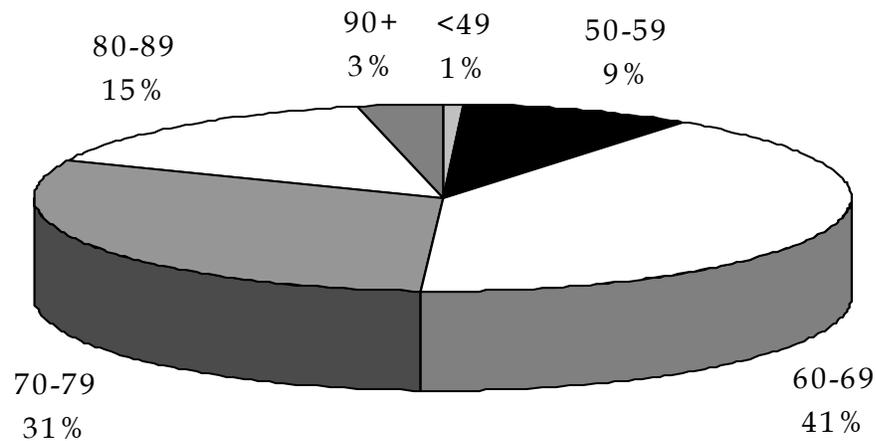
SCHEDULE OF RETIRED MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 40	123	72	28	98	321
40-44	106	51	34	97	288
45-49	187	95	62	179	523
50-54	661	428	257	579	1,925
55-59	2,419	3,109	851	2,139	8,518
60-64	5,318	9,199	2,230	5,720	22,467
65-69	6,025	8,938	3,070	7,441	25,474
70-74	4,868	6,242	2,794	6,601	20,505
75-79	3,701	4,580	2,187	5,223	15,691
80-84	2,697	3,571	1,648	3,256	11,172
85-89	1,592	2,081	985	1,757	6,415
90-94	647	1,066	402	800	2,915
95-99	144	439	82	170	835
Over 99	13	90	10	23	136
Total	28,501	39,961	14,640	34,083	117,185

PERCENTAGE OF TOTAL RETIRED MEMBERS

by Current Age



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Date of Retirement

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1950s	0	5	0	2	7
1960s	10	42	2	2	56
1970s	442	989	177	414	2,022
1980s	2,675	4,518	1,478	2,848	11,519
1990s	8,045	10,478	4,524	8,782	31,829
2000s	14,620	19,739	7,332	18,282	59,973
2011s	2,709	4,190	1,127	3,753	11,779
Total	28,501	39,961	14,640	34,083	117,185

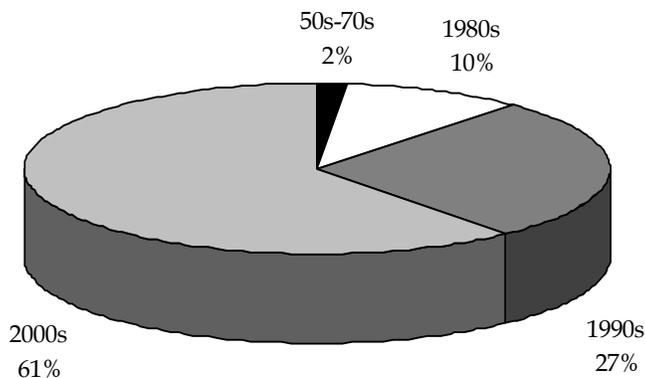
SCHEDULE OF RETIRED MEMBERS

by Service Credit at Retirement

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 10	5,981	3,072	2,860	7,776	19,689
10-14	3,620	2,530	2,034	6,323	14,507
15-19	3,123	2,924	1,771	5,460	13,278
20-24	3,440	4,243	1,792	4,888	14,363
25-29	2,991	5,370	1,642	3,724	13,727
30-34	5,926	13,844	2,757	4,153	26,680
35-39	2,242	5,671	1,151	1,285	10,349
40-44	922	1,996	490	386	3,794
Over 44	256	311	143	88	798
Total	28,501	39,961	14,640	34,083	117,185

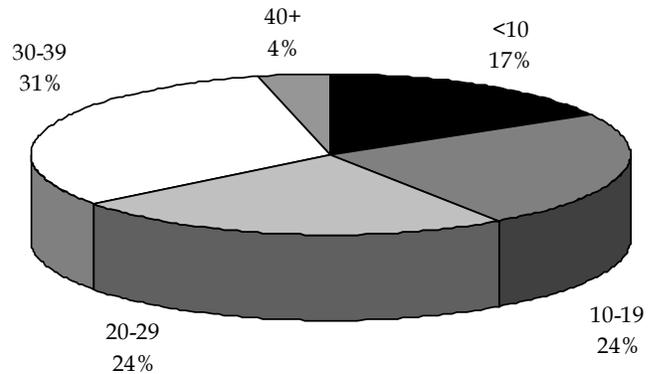
PERCENTAGE OF RETIRED MEMBERS

by Date of Retirement



PERCENTAGE OF RETIRED MEMBERS

by Service Credit at Retirement



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

UNITED STATES

Alabama	640	Maryland	72	South Carolina	262	Indonesia	1
Alaska	18	Massachusetts	20	South Dakota	16	Ireland	1
Arizona	142	Michigan	104	Tennessee	108,340	Italy	1
Arkansas	395	Minnesota	22	Texas	456	Japan	1
California	183	Mississippi	1,119	Utah	19	Kenya	1
Colorado	89	Missouri	159	Vermont	9	Mexico	1
Connecticut	13	Montana	13	Virginia	504	Panama	1
Delaware	9	Nebraska	10	Washington	57	Poland	1
District of Columbia	10	Nevada	41	West Virginia	34	Romania	1
Florida	1,181	New Hampshire	17	Wisconsin	31	South Africa	1
Georgia	1,069	New Jersey	24	Wyoming	10	South Australia	1
Hawaii	9	New Mexico	44	Total U.S.	<u>117,146</u>	Spain	1
Idaho	27	New York	60			Switzerland	1
Illinois	152	North Carolina	552	INT'L. COUNTRIES		Thailand	1
Indiana	112	North Dakota	3	Canada	9	UK	1
Iowa	15	Ohio	130	England	1	Total Foreign Countries	<u>31</u>
Kansas	40	Oklahoma	76	France	2	US Virgin Islands	1
Kentucky	599	Oregon	46	Germany	1	Overseas Military Bases	7
Louisiana	72	Pennsylvania	87	Ghana	1	Total U.S.	<u>117,146</u>
Maine	27	Rhode Island	7	Greece	2	Total U.S. & Foreign	<u>117,185</u>

TENNESSEE

Anderson	1,485	Fentress	366	Lauderdale	717	Roane	1,419
Bedford	662	Franklin	819	Lawrence	829	Robertson	1,033
Benton	346	Gibson	1,121	Lewis	282	Rutherford	3,296
Bledsoe	352	Giles	479	Lincoln	644	Scott	480
Blount	2,731	Grainger	333	Loudon	785	Sequatchie	320
Bradley	1,532	Greene	1,984	McMinn	861	Sevier	1,112
Campbell	825	Grundy	305	McNairy	476	Shelby	11,597
Cannon	306	Hamblen	1,229	Macon	261	Smith	363
Carroll	584	Hamilton	5,386	Madison	2,539	Stewart	207
Carter	1,627	Hancock	98	Marion	467	Sullivan	3,316
Cheatem	736	Hardeman	898	Marshall	497	Sumner	2,535
Chester	414	Hardin	627	Maury	1,044	Tipton	811
Claiborne	707	Hawkins	990	Meigs	170	Trousdale	165
Clay	138	Haywood	557	Monroe	693	Unicoi	400
Cocke	637	Henderson	378	Montgomery	2,517	Union	299
Coffee	904	Henry	828	Moore	125	VanBuren	230
Crockett	289	Hickman	524	Morgan	639	Warren	793
Cumberland	1,009	Houston	109	Obion	807	Washington	2,987
Davidson	8,290	Humphreys	427	Overton	509	Wayne	358
Decatur	250	Jackson	250	Perry	239	Weakley	1,030
Dekalb	309	Jefferson	929	Pickett	137	White	562
Dickson	845	Johnson	441	Polk	240	Williamson	2,217
Dyer	594	Knox	6,914	Putnam	2,057	Wilson	1,997
Fayette	952	Lake	236	Rhea	526	Total	<u>108,340</u>

AVERAGE BENEFIT PAYMENTS SCHEDULE

AVERAGE BENEFIT PAYMENT SCHEDULE

Fiscal Year of Retirement

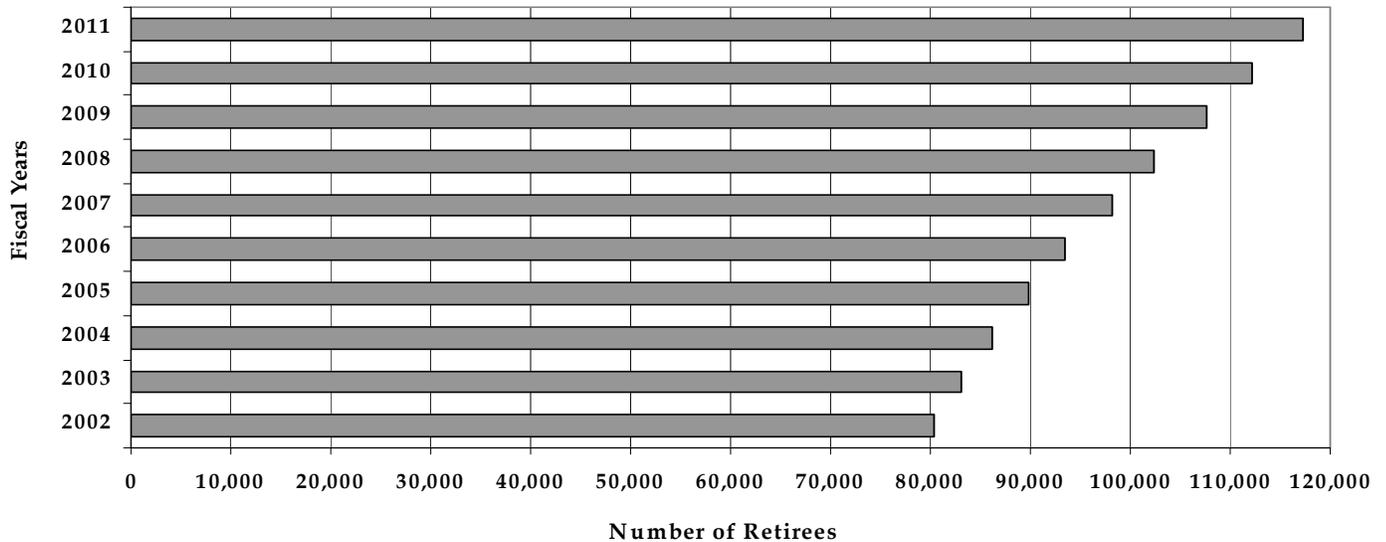
		Years of Service Credit				
		10 - 14	15 - 19	20 - 24	25 - 29	30 or more
2002	Average Monthly Benefit	\$ 524	\$ 862	\$ 1,204	\$ 1,715	\$ 2,551
	Number of Retirees	326	312	339	382	1,573
	Average Final Salary	\$ 25,189	\$ 30,485	\$ 31,958	\$ 37,713	\$ 45,255
2003	Average Monthly Benefit	\$ 579	\$ 840	\$ 1,125	\$ 1,635	\$ 2,507
	Number of Retirees	359	349	333	380	1,551
	Average Final Salary	\$ 28,999	\$ 29,967	\$ 31,513	\$ 37,202	\$ 45,372
2004	Average Monthly Benefit	\$ 574	\$ 821	\$ 1,247	\$ 1,718	\$ 2,541
	Number of Retirees	412	359	386	414	1,927
	Average Final Salary	\$ 29,678	\$ 30,264	\$ 34,996	\$ 39,612	\$ 46,972
2005	Average Monthly Benefit	\$ 545	\$ 840	\$ 1,197	\$ 1,760	\$ 2,559
	Number of Retirees	386	410	412	416	1,930
	Average Final Salary	\$ 29,090	\$ 31,559	\$ 34,740	\$ 41,769	\$ 48,028
2006	Average Monthly Benefit	\$ 870	\$ 879	\$ 1,252	\$ 1,737	\$ 2,553
	Number of Retirees	433	684	472	414	2,091
	Average Final Salary	\$ 31,321	\$ 33,751	\$ 38,204	\$ 42,230	\$ 49,184
2007	Average Monthly Benefit	\$ 593	\$ 852	\$ 1,270	\$ 1,805	\$ 2,649
	Number of Retirees	661	449	549	517	2,215
	Average Final Salary	\$ 32,857	\$ 33,360	\$ 38,953	\$ 44,648	\$ 51,555
2008	Average Monthly Benefit	\$ 571	\$ 894	\$ 1,295	\$ 1,640	\$ 2,502
	Number of Retirees	589	487	528	420	2,074
	Average Final Salary	\$ 33,476	\$ 36,853	\$ 41,163	\$ 43,512	\$ 51,053
2009	Average Monthly Benefit	\$ 555	\$ 921	\$ 1,240	\$ 1,701	\$ 2,550
	Number of Retirees	689	580	690	576	2,638
	Average Final Salary	\$ 32,420	\$ 38,024	\$ 39,595	\$ 44,849	\$ 51,345
2010	Average Monthly Benefit	\$ 585	\$ 954	\$ 1,252	\$ 1,676	\$ 2,609
	Number of Retirees	677	517	614	597	2,288
	Average Final Salary	\$ 35,104	\$ 40,461	\$ 41,190	\$ 45,723	\$ 53,587
2011	Average Monthly Benefit	\$ 643	\$ 918	\$ 1,320	\$ 1,744	\$ 2,650
	Number of Retirees	707	619	664	617	2,218
	Average Final Salary	\$ 39,014	\$ 39,497	\$ 43,998	\$ 48,196	\$ 54,713

Note: This schedule represents the average monthly benefits under the maximum plan of members retiring with an unreduced service retirement benefit. It excludes members retiring with a reduced early retirement benefit or under disability.

**RETIRED MEMBERS ON PAYROLL
AND PRIOR SERVICE ESTABLISHED**

NUMBER OF RETIREES ON PAYROLL

Fiscal Years 2002-2011



PRIOR SERVICE ESTABLISHED

for the Year Ended June 30, 2011

	Type of Service	Members	Years of Service	Payments
State:	Backpayment	111	104	\$ 699,497
	Military	98	195	16,555
	Redeposit	55	232	603,962
	Totals	<u>264</u>	<u>531</u>	<u>\$ 1,320,014</u>
Teachers:	Backpayment	73	39	\$ 896,248
	Military	35	60	0
	Redeposit	111	541	1,496,219
	Totals	<u>219</u>	<u>640</u>	<u>\$ 2,392,467</u>
Higher Education:	Backpayment	141	95	\$ 138,416
	Military	38	88	0
	Redeposit	10	70	198,191
	Totals	<u>189</u>	<u>253</u>	<u>\$ 336,606</u>
Political Subdivisions:	Backpayment	575	619	\$ 611,002
	Military	78	154	497
	Redeposit	42	175	270,807
	Totals	<u>695</u>	<u>948</u>	<u>\$ 882,306</u>
Total by Category:	Backpayment	900	857	\$ 2,345,163
	Military	249	497	17,051
	Redeposit	218	1,018	2,569,178
	Totals	<u>1,367</u>	<u>2,372</u>	<u>\$ 4,931,392</u>

TREASURY RETIREMENT INSTALLMENT PLAN

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative payment method for members who have prior service to be established. Previously, prior service payments were required to be made in a lump sum payment. TRIP has allowed these members to establish their prior service by making monthly installment payments in the form of Automated Clearing House (ACH) withdrawals from a designated bank account. Service is credited to the member's account once the balance has been paid off.

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for their prior service, a statement is generated showing a lump sum payment. In addition, TRIP information is given with regard to financing over 6 to 60 months. The member may elect to finance the entire amount or elect to make a down payment and finance the balance. The member may choose at any time to pay off the remaining balance.

TREASURY RETIREMENT INSTALLMENT PLAN

Payments Received for the Year Ended June 30, 2011

	Type of Service	Number of Members	Total Years of Service	Payments (Net of Refunds)
State:	Backpayment	3	8	\$ 12,012
	Military	0	0	0
	Redeposit	28	145	78,064
	Totals	31	153	\$ 90,076
Teachers:	Backpayment	9	16	\$ 13,403
	Military	0	0	0
	Redeposit	47	226	254,651
	Totals	56	242	\$ 268,054
Higher Education:	Backpayment	4	6	\$ 5,217
	Military	0	0	0
	Redeposit	5	15	8,396
	Totals	9	20	\$ 13,613
Political Subdivisions:	Backpayment	22	103	\$ 61,610
	Military	0	0	0
	Redeposit	32	178	80,584
	Totals	54	281	\$ 142,194
Grand Totals:	Backpayment	38	133	\$ 92,242
	Military	0	0	0
	Redeposit	112	563	421,694
	Totals	150	696	\$ 513,937

REFUND ACTIVITY AND POLITICAL SUBDIVISION PARTICIPATION

REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
2002	4,259	\$ 24,304,536
2003	4,540	26,631,386
2004	4,688	29,925,762
2005	4,724	30,815,700
2006	5,916	34,710,966
2007	4,830	36,343,972
2008	6,569	45,975,984
2009	3,896	32,029,927
2010	5,154	36,422,653
2011	4,500	35,539,393

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees and certain political subdivisions, resulting in fewer refunds for members withdrawing from the system.

POLITICAL SUBDIVISION PARTICIPATION

Schedule by Category

Year Ended June 30	Number of Cities	Number of Counties	Miscellaneous Political Subdivisions	Total
2002	158	87	166	411
2003	160	88	170	418
2004	163	88	179	430
2005	169	88	187	444
2006	173	88	196	457
2007	177	88	202	467
2008	177	89	207	473
2009	177	89	216	482
2010	177	89	220	486
2011	176	89	218	483

HISTORICAL EMPLOYER CONTRIBUTION RATES

HISTORICAL EMPLOYER CONTRIBUTION RATES

Expressed as a Percentage of Salary

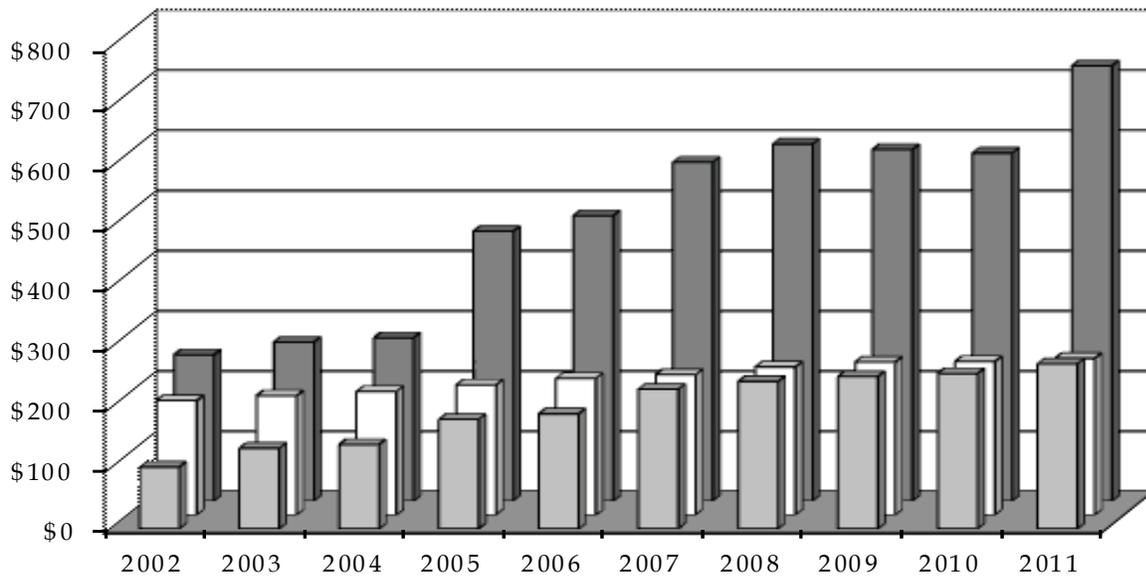
Year Ended June 30	State Employees	Teachers	Higher Education Employees
2002	6.19	3.72	6.19%
2003	7.30	3.40	7.30
2004 (1)	7.29	3.39	7.29
2005	10.54	5.50	10.54
2006 (2)	10.31	5.50	10.31
2007	13.62	6.13	13.62
2008	13.62	6.24	13.62
2009	13.02	6.42	13.02
2010	13.02	6.42	13.02
2011	14.91	9.05	14.91

The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

- (1) As part of a statewide request for budget reductions, TCRS reduced the administrative component of the employer contribution rate by 0.01%.
- (2) A reduction in the contribution rate was made due to return to work reform.

RETIREMENT CONTRIBUTIONS

Fiscal Years 2002-2011



SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEEPP

2011				2002			
Participating Government	Covered Employees	Rank	% of Total System	Participating Government	Covered Employees	Rank	% of Total System
Teachers	141,067	1	52.35%	Teachers	108,166	1	49.25%
State Employees	87,749	2	32.57%	State Employees	75,227	2	34.26%
Higher Education Employees	40,645	3	15.08%	Higher Education Employees	36,212	3	16.49%
Total	<u>269,461</u>		<u>100.00%</u>	Total	<u>219,605</u>		<u>100.00%</u>

PSPP

2011				2002			
Participating Government	Covered Employees	Rank	% of Total System	Participating Government	Covered Employees	Rank	% of Total System
Memphis City Schools	8,361	1	5.60%	Memphis City Schools	6,589	1	5.89%
Hamilton County	6,239	2	4.18%	Hamilton County	5,910	2	5.28%
Rutherford County	3,764	3	2.52%	Shelby County	3,014	3	2.69%
Williamson County	3,673	4	2.46%	Montgomery County	2,364	4	2.11%
Shelby County	3,497	5	2.34%	Rutherford County	2,342	5	2.09%
Montgomery County	3,493	6	2.34%	Williamson County	2,243	6	2.00%
Sumner County	3,289	7	2.20%	Sullivan County	2,177	7	1.95%
Sullivan County	2,496	8	1.67%	Sumner County	2,115	8	1.89%
Kingsport	2,066	9	1.38%	Kingsport	1,817	9	1.62%
Johnson City	2,044	10	1.37%	Johnson City	1,755	10	1.57%
Others	110,417		73.94%	Others	81,613		72.91%
Total	<u>149,339</u>		<u>100.00%</u>	Total	<u>111,939</u>		<u>100.00%</u>

INTRODUCTION TO POLITICAL SUBDIVISION PARTICIPATION

PARTICIPANTS

TCRS has established pension plans for four groups of public employees: state employees, higher education employees, teachers and the employees of governmental entities (political subdivisions). Employees of political subdivisions may participate in TCRS if the entity's governing body authorizes participation and accepts all liability associated with coverage for their employees.

Participation is subject to the approval of the Board of Trustees. At June 30, 2011, there were 483 political subdivisions participating in TCRS.

Participation as of June 30, 2011:

Cities	176
Counties	89
Utility Districts	66
Special School Districts	19
Joint Ventures	22
Housing Authorities	11
911 Emergency Communication Districts	43
Miscellaneous Authorities	<u>57</u>
Total	483

ADMINISTRATION

TCRS administers the pension plan for political subdivisions in accordance with state statute. Each employer is responsible for the pension cost for its employees. The cost is not shared with other political subdivisions nor with the state. A separate fund balance is maintained by the retirement system for each participating political subdivision and employer contribution rates are determined individually.

APPLICATION

To apply for TCRS participation, the chief governing body of the political subdivision must first pass a resolution authorizing an actuarial study to estimate the potential cost of participation. Once the governing body has had an opportunity to review the estimated pension cost and liability, a second resolution must then be passed in order to authorize TCRS participation. Political subdivisions electing TCRS coverage accept the liability for pension benefits to be accrued by their employees.

COVERAGE

A political subdivision is required to offer coverage under the same terms and conditions to all the employees of each of its departments and agencies.

Political subdivisions have the option of purchasing or allowing their employees to purchase retirement credit for service rendered prior to the employer's date of participation. The amount of prior service allowed may be limited.

Political subdivisions opting to join TCRS do so under the plan provisions that exist at the time of their participation. Subsequent legislative changes, however, are optional if they result in increased cost to the political subdivision. These optional improvements may be adopted by resolutions approved by the chief governing body.

**THE TCRS PROVIDES
THE ADMINISTRATION
OF A RETIREMENT
PROGRAM FOR 483
LOCAL GOVERNMENTS.**

OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

<p>MEMBERSHIP</p> <ul style="list-style-type: none"> ❖ Optional membership for part-time employees ❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years. <p>CONTRIBUTIONS</p> <ul style="list-style-type: none"> ❖ Employee contributions at a level five percent both below and above the Social Security wage base. ❖ Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code. ❖ Noncontributory retirement plan ❖ Discontinue noncontributory retirement plan and implement contributory retirement plan for new employees ❖ Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation <p>CREDITABLE SERVICE</p> <ul style="list-style-type: none"> ❖ Credit for service credit lost as a result of advanced age ❖ Service credit for unused sick leave ❖ Service credit for military service during periods of armed conflict at no cost to the employee ❖ Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment ❖ Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975 ❖ Purchase of service credit for probation period 	<p>SURVIVOR BENEFITS</p> <ul style="list-style-type: none"> ❖ 100 percent joint and survivor spouse death benefit for members with 10 years of service ❖ Provide inactive members with certain death and disability benefits ❖ 50 percent of five year average salary benefits for surviving spouse for members killed in the line of duty <p>RETIREMENT BENEFITS</p> <ul style="list-style-type: none"> ❖ Provide current retirees and members a five percent increase in base retirement benefit ❖ Discontinue five percent increase in base retirement benefit for new employees ❖ The actuarial equivalent of an age 65 benefit for employees retiring after age 65 ❖ 25-year retirement with actuarially reduced benefits ❖ Minimum benefit level increase to \$8, \$14, \$20 per year of service ❖ Mandatory retirement with supplemental bridge benefit for public safety officers ❖ Service retirement at age 55 with 25 years of service for public safety officers ❖ Discontinue enhanced public safety officer benefits for new public safety officers <p>RETIRED MEMBERS</p> <ul style="list-style-type: none"> ❖ Exclusion of cost-of-living adjustments at the date of participation for all employees or at a later date for new employees ❖ Compounded cost-of-living adjustment (COLA) to current and future retirees
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POLITICAL SUBDIVISION PARTICIPANTS

<p>911 EMERGENCY COMMUNICATION DISTRICTS</p> <p>Campbell County Carroll County Carter County Cheatham County Claiborne County Cocke County DeKalb County Fayette County Fentress County Gibson County Grainger County Greene County Hamblen County Hamilton County Hardeman County Hardin County Hawkins County Humphreys County Jefferson County Johnson County Lauderdale County Lawrence County Madison County Maury County Monroe County McNairy County Montgomery County Overton County Roane County Robertson County Rutherford County Sequatchie County Sevier County Shelby County Sullivan County Tipton County Union County Van Buren County Warren County Washington County Weakley County White County Wilson County</p> <p>CITIES</p> <p>Adams Alamo Alcoa Ashland City Athens* Atoka Atwood Baileyton Baxter</p>	<p>Belle Meade Bells Benton Big Sandy Bluff City Bolivar Bradford Brentwood Brighton Bristol Brownsville Byrdstown Camden Carthage Caryville Centerville Charleston Charlotte Church Hill Clarksville Cleveland Clifton Clinton Collegedale Collinwood Cookeville Cornersville Cowan Crossville Cumberland Dandridge Dayton Decatur Decaturville Decherd Dickson Dover Ducktown Dunlap Dyer East Ridge Elizabethton Erin Erwin Estill Springs Etowah Fairview Fayetteville Friendship Friendsville Gainesboro Gatlinburg Gleason Goodlettsville Gordonsville Greenbrier Greeneville</p>	<p>Greenfield Harriman Hartsville Henderson Hendersonville Hohenwald Humboldt Huntland Jacksboro Jackson Jamestown Jefferson City Jonesborough Kenton Kimball Kingsport Kingston Kingston Springs Lafayette Lafollette Lake City Lakeland Lawrenceburg Lebanon Lenoir City* Linden Livingston Lobelville Lookout Mountain Loretto Loudon Luttrell Madisonville Manchester Martin Maryville Maury City Maynardville McEwen McKenzie McMinnville Medina Middleton Milan Millersville Millington Monterey Morrison Morristown Moscow Mosheim Mountain City Mt. Carmel Mt. Juliet Munford Murfreesboro* New Johnsonville</p>	<p>New Tazewell Newport Nolensville Norris Oak Ridge Oakland Obion Oliver Springs Paris Parsons Pegram Pikeville Pittman Center Pleasant View Portland Puryear Red Bank Ripley Rockwood Rogersville* Rutherford Rutledge Savannah Selmer Sevierville Signal Mountain Soddy Daisy Somerville South Carthage South Pittsburg Sparta Spencer Spring Hill Spring City Springfield Surgoinsville Sweetwater Tazewell Tellico Plains Townsend Trenton Tusculum Unicoi Union City Vonore Waynesboro Waverly Westmoreland White House White Pine Whiteville Whitwell Woodbury</p>	<p>COUNTIES</p> <p>Anderson Bedford Benton Bledsoe Blount Bradley Campbell Cannon Carroll Carter Cheatham Chester Claiborne Clay Cocke Coffee Crockett Cumberland Decatur DeKalb Dickson Fayette Fentress Franklin Gibson Giles Grainger Greene Grundy Hamblen Hamilton Hardeman Hardin Hawkins Haywood Henderson Henry Hickman Humphreys Jackson Jefferson Johnson Lake Lauderdale Lawrence Lewis Lincoln Loudon Macon Madison Marion Marshall Maury McMinn McNairy Monroe</p>	<p>Montgomery Moore* Morgan Obion Overton Perry Pickett Polk Putnam Rhea Roane Robertson Rutherford Scott Sequatchie Sevier Shelby* Smith Stewart Sullivan Sumner Tipton Trousdale Unicoi Union Van Buren Warren Washington Wayne Weakley White Williamson Wilson</p> <p>HOUSING AUTHORITIES</p> <p>Bristol Clinton Cookeville Hartsville Hohenwald Lawrenceburg Maryville Memphis Morristown Rockwood Sweetwater</p> <p><i>*All departments not covered by TCRS.</i></p> <p><i>(continued)</i></p>
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**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

JOINT VENTURES

Argie Cooper Public Library
 Bradley-Cleveland Civil Defense
 Bradley-Cleveland Comm. Svc. Agency
 Clarksville/Montgomery Co. Public Lib.
 Clarksville/Montgomery Co. Reg.
 Plan. Comm.
 Cleveland/Bradley Co. E-911
 Edward Gauche Fisher Public Library
 Fayetteville/Lincoln Co. Public Library
 Gorham/MacBane Public Library
 Johnson City/Washington Co. EMS
 Kinser Park
 Lawrence Co. Library
 Linebaugh Public Library
 Morristown/Hamblen Co. Landfill
 Sevier Solid Waste
 Smyrna/Rutherford Co. Airport Auth.
 Tellico Area Svc. System
 Tri-City Airport Comm.
 Tri-County Vocational School
 W. G. Rhea Public Library
 Washington Co./Johnson City Animal
 Control Center
 Wilson Emergency Mgt. Agency

MISCELLANEOUS AGENCIES

Anderson Co. Economic Dev. Assoc.
 Anderson Co. Water Authority
 Beech River Watershed
 Blount County Fire Protection Dist.
 Blount County Library
 Books from Birth
 Carter County Tomorrow
 Cocke Co. Partnership, Inc.
 County Officials Assoc. of Tenn.
 Delta Human Resource Agency
 Douglas Cherokee Economic Auth.
 East Tenn. Community Svc. Agency
 Fayetteville-Lincoln Co. Ind. Dev. Bd.
 First Tenn. Dev. District
 First Tenn. Human Resource Agency
 Four Lake Reg. Industrial Dev. Auth.
 Greater Nashville Regional Council
 Hamilton Co. Comm. Svc. Agency
 Knox Co. Community Services Agency
 Loudon Co. Economic Dev. Agency
 Mid-Cumberland Comm. Svc. Agency
 Networks Sullivan Partnership
 Northeast Community Svc. Agency
 Northwest Tenn. Comm. Svc. Agency
 Sequatchie Valley Plan. & Dev. Dist.
 Sevier Co. Economic Dev. Council
 Shelby Co. Community Svc. Agency
 South Central Tenn. Comm. Serv. Ag.
 South Central Tenn. Dev. Dist.
 South Central Tenn. Workforce Board
 Southeast Tenn. Comm. Svc. Agency

Southeast Tenn. Dev. District
 Southeast Tenn. Human Res. Agency
 Southwest Tenn. Comm. Svc. Agency
 Southwest Tenn. Dev. District
 Southwest Tenn. Human Res. Agency
 Tenn. Assoc. of Assessing Officers
 Tenn. Assoc. of County Mayors
 Tenn. Co. Commissioners Assoc.
 Tenn. Co. Highway Officials Assoc.
 Tenn. County Services Assoc.
 Tenn. Duck River Dev. Agency
 Tenn. Education Assoc.
 Tenn. Historical Society
 Tenn. Municipal Bond Fund
 Tenn. Municipal League
 Tenn. Mun. League Risk Mgt. Pool
 Tenn. School Board Assoc.
 Tenn. Secondary Sch. Athletic Assoc.
 Tenn. Sheriffs Assoc.
 Tenn. State Employees Assoc.
 Tenn. Veterans Home Board
 Upper Cumberland Community
 Services Agency
 Upper Cumberland Human Res. Agency
 Upper East Tenn. Human Dev. Agency
 Workforce Solutions

SPECIAL SCHOOL DISTRICTS

Bradford
 Clinch Powell Education Coop.
 Elizabethton Board of Education
 Franklin
 Gibson County Schools District
 Hollow Rock-Bruceton
 Huntingdon
 Lebanon
 Little Tenn. Valley Education Coop.
 McKenzie
 Memphis
 Milan
 Oak Ridge Board of Education
 Oneida
 Paris
 South Carroll Special School District
 Trenton
 Union City Board of Education
 West Carroll County

UTILITY DISTRICTS

Alpha-Talbott
 Arthur Shawnee
 Big Creek
 Bloomingdale
 Bondecroft
 Bristol Electric System
 Cagle Fredonia Utility District
 Castalian Springs/Bethpage
 Chuckey Utility District
 Citizen's Gas

Consolidated Utility District of
 Rutherford County
 County Wide
 Crab Orchard
 Cross Anchor Utility District
 Cumberland Utility District of Roane
 and Morgan Counties
 DeWhite
 Double Springs
 Dyersburg Suburban
 East Fork
 East Montgomery
 East Side
 Fall Creek Falls
 First Carter County
 First Tipton County
 First Hawkins County
 Gladepville
 Glen Hills
 Greater Dickson Gas Authority
 Greeneville Light & Power
 Hampton
 Hardeman-Fayette County
 Hendersonville
 Hixson
 Jackson County
 Johnson City Power Bd.
 Lake County
 Lakeview
 Lincoln County Board of Public Utilities
 Loudon
 Middle Tennessee
 New Market
 North Utility District of Decatur and
 Benton Counties
 Northeast Henry County
 Oak Ridge
 O'Connor Utility District
 Old Gainesboro Road
 Old Hickory
 Paris-Henry Utility District
 Persia
 Plateau
 Poplar Grove
 Quebec-Walling
 Reelfoot Lake Regional
 Riceville
 River Road
 Savannah Valley
 Sevier County
 Siam
 Sylvia-Tennessee City Pond Water
 Sneedville
 Soddy Daisy-Falling Water
 Smith
 South Elizabethton
 Weakley County Municipal Electric
 Webb Creek
 West Overton