

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PENSION TRUST FUNDS OF THE STATE OF TENNESSEE

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



*TIGER SWALLOWTAIL BUTTERFLY*  
*BY BRENDA MERCIER, INFORMATION SYSTEMS*

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012 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](http://TCRS.TN.GOV)

DAVID H. LILLARD, JR., STATE TREASURER  
JILL BACHUS, TCRS DIRECTOR

*The cover and divider pages within this report  
feature the beautiful photography  
by Treasury employees taken throughout Tennessee.*

*The cover photo was taken in Brentwood, TN  
by Heather Szczepczenski, State Treasurer's Office.*

**This report is available in its entirety on the Internet at:  
[www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf](http://www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf)**



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# INTRODUCTORY SECTION



*PERCY PRIEST LAKE*  
*BY AMANDA STAGGS*  
*CONCORD*

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, 2011

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.



*Christopher P. Morrell*

President

*Jeffrey R. Emer*

Executive Director

**PUBLIC PENSION COORDINATING COUNCIL AWARD**

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Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2012***

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 7, 2012

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-fifth 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](http://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. TCRS is currently in a multi-year project to develop a new pension administration system. The new system will use a web-based approach, providing enhanced member access and employer reporting.

**Investments:** The 2012 fiscal year was challenging for all investors and the TCRS portfolio experienced a modest gain of 5.6%. This return was one of the best results of any comparable pension plan. Both short and longer-term results are a function of a risk-averse investment program which preserves capital in difficult environments.

**Financial Soundness of the Plan:** 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 black ink, 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**  
 10<sup>th</sup> FLOOR ANDREW JACKSON BUILDING  
 502 DEADERICK STREET  
 NASHVILLE, TENNESSEE 37243-0201

**DAVID H. LILLARD, JR.**  
 STATE TREASURER

**JILL BACHUS**  
 DIRECTOR

December 6, 2012

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, 2012. 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. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely derived, and second, the valuation of the cost and benefits requires estimates and judgments by management. 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 488 participating political subdivisions is 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, 2011, the plan had a combined state and teacher funding ratio of 92 percent. The July 1, 2011 actuarial valuation utilized the assumptions generated from the June 30, 2008 experience study and provided the employer contribution rates effective July 1, 2012. Experience studies are performed on a quadrennial basis. The 2012 experience study is currently in progress.

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 return for fiscal year 2012 was 5.6%.

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, 2011. This was the twenty-fourth 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.



Jill 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 three sources. The State of Tennessee is responsible for the operation cost associated with state employees and higher education employees. Local education agencies are responsible for the operation 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 is 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*



**Dolores Gresham**

*(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



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



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



**Alfred Laney**  
*Retired State Employee*  
Term Expires: June 30, 2014

(continued)

**THE BOARD OF TRUSTEES  
(CONTINUED)**

**ELECTED OR APPOINTED MEMBERS** *(continued)*



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



**Harold Morrison**  
*Middle Tennessee  
Teacher  
Term Expires:  
June 30, 2015*



**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

Carol B. Womack  
Diversified Trust  
Nashville, Tennessee

**GENERAL INVESTMENT AND STRATEGIC LENDING 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.  
San Francisco, California

**PRIVATE EQUITY CONSULTANT**

Sheila Ryan  
Cambridge Associates LLC  
Boston, Massachusetts

**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.

Martin Rosenberg  
The Townsend Group  
Cleveland, Ohio

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

Paul M. Canning  
UBS Realty Investors LLC  
Hartford, Connecticut

Paul Edwards  
Capri Capital Partners LLC  
Chicago, Illinois

Tim Ellsworth  
RREEF America LLC  
Chicago, Illinois

Rob Greer  
Clarion Partners LLC  
Washington, DC

Lawrence Ostow  
J.P. Morgan Investment Management, Inc.  
New York, New York

Reid Parker  
TA Realty LLC  
Boston, Massachusetts

Steve Wallace  
Cornerstone Real Estate Advisers LLC  
Chicago, Illinois

*(continued)*

**PROFESSIONAL CONSULTANTS  
(CONTINUED)**

**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.

Sue Curran  
Pyramis Global Advisors, LLC  
Smithfield, Rhode Island

Jill Farrell  
American Century Investments  
Kansas City, Missouri

Jane Henderson  
Walter Scott & Partners, Ltd.  
Scotland, UK

Robert Job  
PanAgora Asset Management, Inc.  
Boston, Massachusetts

Wilson Phillips  
Marathon - London  
London WC2H 9EA, UK

Robb Rohr  
GE Asset Management, Inc.  
Stamford, Connecticut

Molly Sodeinde  
TT International  
London, EC2Y 5ET, UK

William Tsotsos  
Baring Asset Management, Inc.  
Toronto, Ontario M5J 2S1 Canada

**MASTER CUSTODIAN BANK**

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

Northern Trust Company  
Chicago, Illinois

**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

Thomas Mullady, M.D.  
Chattanooga, Tennessee

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

**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
Deputy Chief of Staff .....	Joy Harris .....	615-741-2956
Staff Assistant to the Treasurer .....	Joshua Stites .....	615-741-2956
Director of Human Resources and Employee Development .....	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**

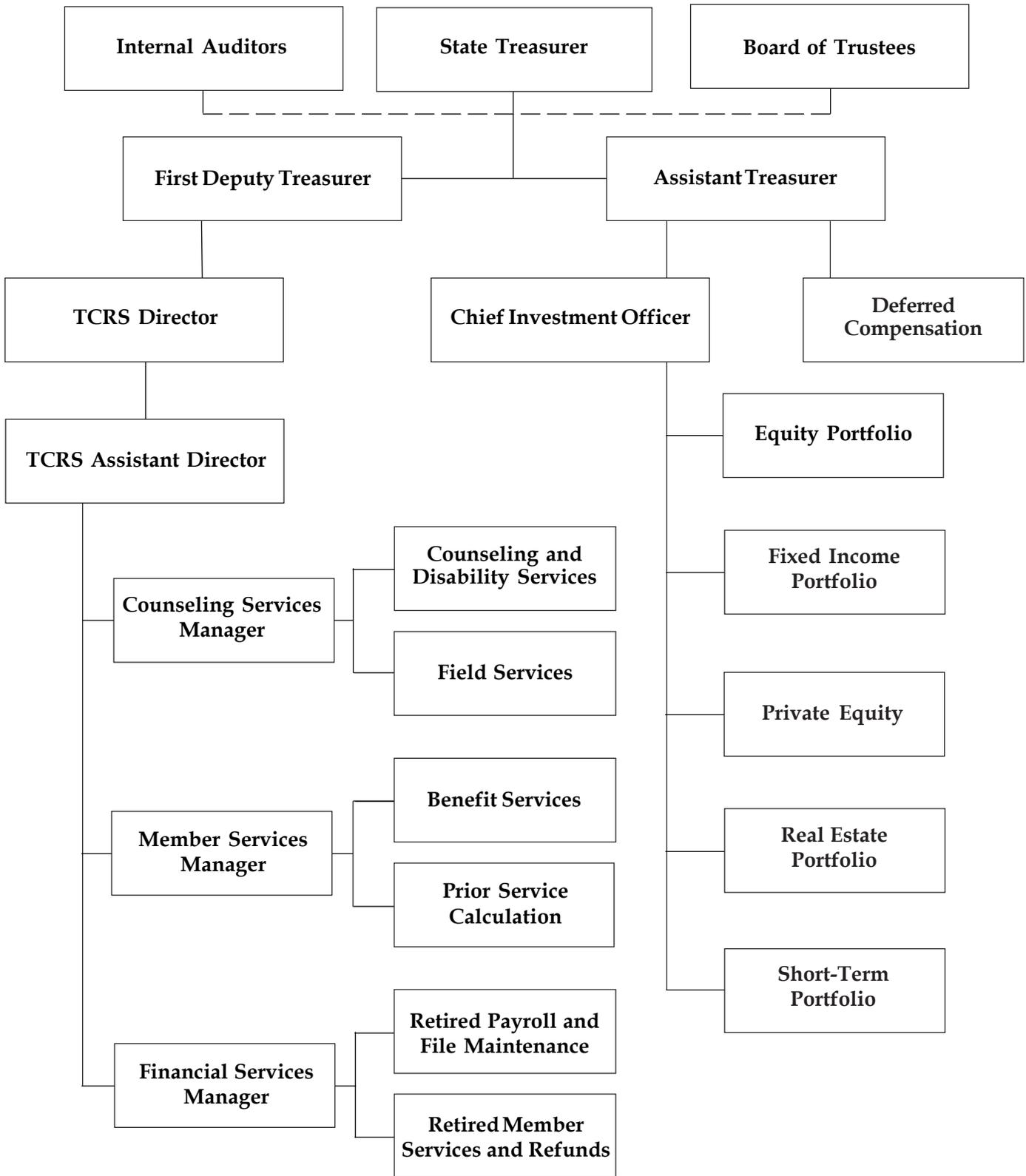
TCRS Director .....	Jill Bachus, CPA .....	615-741-7063
TCRS Assistant Director .....	Jamie Wayman, CPA .....	615-741-7063
Administrator of Old Age and Survivors Insurance .....	Mary Griffin, JD .....	615-741-7902
Manager of Counseling Services .....	Candy O'Leary .....	615-741-1971
Manager of Member 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
Assistant General Counsel .....	Alison Cleaves, JD .....	615-253-6150
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
Director of Internal Audit .....	Andy Furlong, CPA .....	615-253-2018

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

**ORGANIZATION CHART**



# FINANCIAL SECTION



*STATE CAPITOL (SPRING)  
BY HEATHER SCZEPCHENSKI  
STATE TREASURER'S OFFICE*



*STATE CAPITOL (FALL)  
BY DAVID OYSTER  
INFORMATION SYSTEMS*

## 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

November 30, 2012

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, pension trust funds of the State of Tennessee, as of June 30, 2012, and June 30, 2011, 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, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, 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.

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**INDEPENDENT AUDITOR'S REPORT**  
**(CONTINUED)**

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November 30, 2012

Page Two

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, 2012, and June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. 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 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on it.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 30, 2012, 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

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011**

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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, 2012 and June 30, 2011. 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, 2012 were \$34.9 billion, increasing over \$1.2 billion (3.7 percent) from the plan net assets at June 30, 2011. 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, 2011, the date of the latest actuarial valuation, the TCRS' funded ratio was 92.1 percent for the SETHEPP group and 89.2 percent for the PSPP group.
- Contribution revenue for fiscal year 2012 totaled \$1,266,468,685 an increase of 0.8 percent compared to fiscal year 2011.
- Net investment income for fiscal year 2012 was \$1,800,063,989. During fiscal year 2012, the TCRS received an investment return on its portfolio of 5.6 percent, compared to 19.6 percent for fiscal year 2011.
- Total benefits and refunds paid for fiscal year 2012 were \$1,809,901,340 – an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid of \$1,688,410,469.
- Total administrative expenses for fiscal year 2012 were \$7,166,606 – a slight increase from fiscal year 2011 administrative expenses of \$7,156,822.

### 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*, and 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, 2012 & JUNE 30, 2011 (CONTINUED)**

**ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS**

At June 30, 2012, the TCRS had plan net assets (total assets in excess of total liabilities) of \$34.9 billion, an increase of over \$1.2 billion (3.7 percent) from \$33.7 billion at June 30, 2011, following the fiscal year 2011 increase of over \$5.1 billion (17.8 percent) from the \$28.6 billion of plan net assets as of June 30, 2010. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of investment return for the year since contributions stayed at the same level. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows:

**PLAN NET ASSETS**

	June 30, 2012	June 30, 2011	FY12 - FY11 Percentage Change	June 30, 2010	FY11 - FY10 Percentage Change
<b>ASSETS</b>					
Cash and cash equivalents	\$ 426,627,425	\$ 414,134,562	3.0 %	\$ 438,269,286	(5.5) %
Member and employer receivables	107,108,579	99,604,471	7.5 %	89,310,527	11.5 %
Investment receivables	1,044,714,969	1,431,331,905	(27.0) %	2,000,061,173	(28.4) %
Short-term securities	19,781,452	0	- %	0	0 %
Long-term investments	34,272,630,084	33,220,879,536	3.2 %	27,911,282,071	19.0 %
Capital assets	11,426,938	1,896,671	502.5 %	0	- %
<b>TOTAL ASSETS</b>	<u>35,882,289,447</u>	<u>35,167,847,145</u>	2.0 %	<u>30,438,923,057</u>	15.5 %
<b>LIABILITIES</b>					
Death benefits, refunds and other payables	10,193,417	8,544,407	19.3 %	8,205,512	4.1 %
Investment payables	959,323,058	1,495,994,494	(35.9) %	1,856,522,455	(19.4) %
<b>TOTAL LIABILITIES</b>	<u>969,516,475</u>	<u>1,504,538,901</u>	(35.6) %	<u>1,864,727,967</u>	(19.3) %
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>					
	<u>\$ 34,912,772,972</u>	<u>\$ 33,663,308,244</u>	3.7 %	<u>\$ 28,574,195,090</u>	17.8 %

**ANALYSIS OF REVENUES AND EXPENSES**

Employer contribution rates for the TCRS did not change during fiscal year 2012; therefore, the slight change of 0.8 percent in contributions from fiscal year 2011 to fiscal year 2012 was due to changes in salary. Contributions to TCRS had a larger than normal increase of \$164.1 million (15 percent) over contributions for fiscal year 2010 due to the change in employer contribution rates effective July 1, 2010. With the decrease of investment income of \$3.8 billion (67.4 percent) for fiscal year 2012 compared to investment income for fiscal year 2011, the overall decrease in revenues for 2012 was 54.8 percent compared to revenues for fiscal year 2011.

Investment expenses for fiscal year 2012 increased a slight \$166 thousand (0.5 percent). Although market conditions continued to show improvement in fiscal year 2012 which resulted in an overall gain to the TCRS investment portfolio of 5.61 percent and net investment income of \$1.8 billion, the return was not as high as the prior fiscal year. The return for fiscal year 2012 decreased (67.4 percent) from fiscal year 2011. Net investment income for fiscal year 2011 was \$5.5 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, 2012 were \$1,809,901,340, an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2011 were \$1,688,410,470, an increase of 7.4 percent over fiscal year 2010 total benefits and refunds paid. The increase in benefit

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011 (CONTINUED)**

expenses for fiscal year 2012 is attributed to 1.5 percent in cost of living adjustments awarded to retirees on July 1, 2011, as well as more retirees being added to payroll than removed during this fiscal year. The increase in benefit expenses in 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. Total refunds paid increased \$4.5 million (12.81 percent) in fiscal year 2012 from fiscal year 2011 and could be attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested. Total refunds paid had decreased \$883,258 (2.4 percent) in fiscal year 2011 over fiscal year 2010.

Administrative expenses for the year ended June 30, 2012 were \$7,166,606, a slight increase of 0.14 percent over fiscal year 2011 administrative expenses. 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.

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

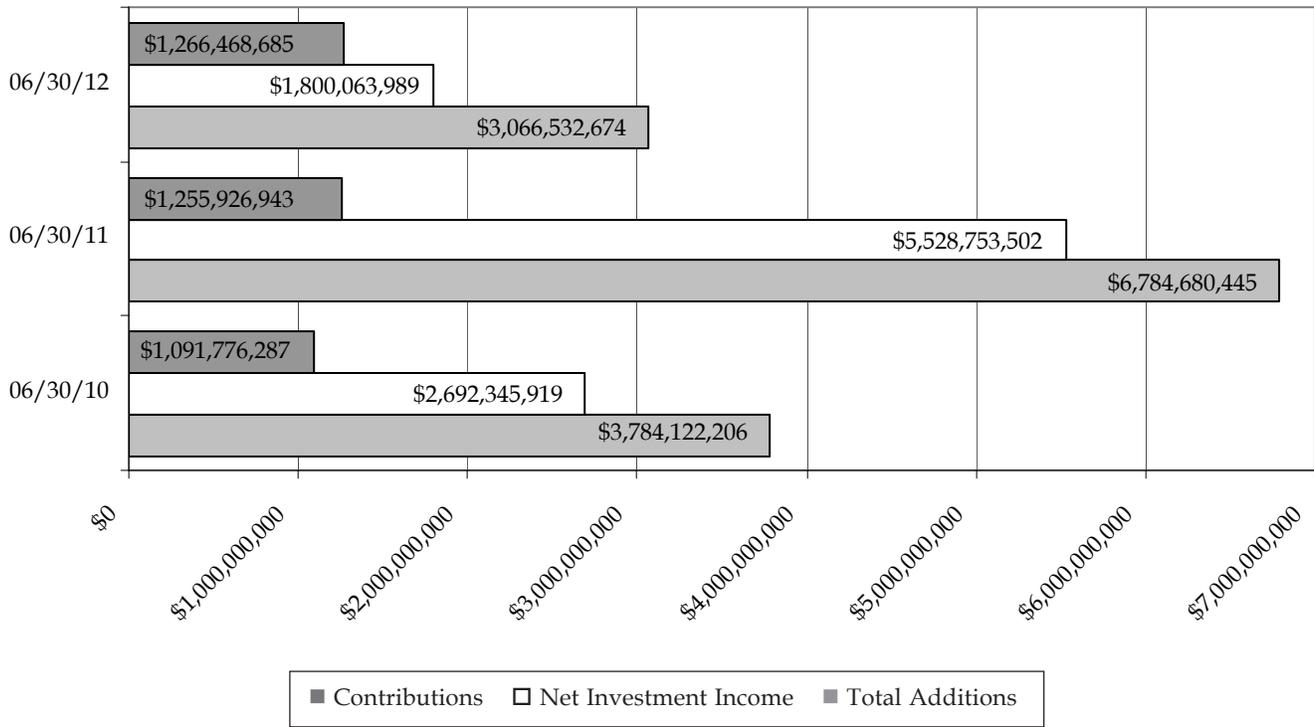
**CHANGES IN PLAN NET ASSETS**

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011	FY12 - FY11 Percentage Change	For the Year Ended June 30, 2010	FY11 - FY10 Percentage Change
<b>ADDITIONS</b>					
Contributions	\$ 1,266,468,685	\$ 1,255,926,943	0.8 %	\$ 1,091,776,287	15.0 %
Investment income					
Net appreciation in fair value of investments	825,366,874	4,597,653,001	(82.0) %	1,802,314,559	155.1 %
Interest, dividends and other investment income	1,007,076,475	963,313,744	4.5 %	918,842,338	4.8 %
Less: Investment expense	(32,379,360)	(32,213,243)	0.5 %	(28,810,978)	11.8 %
Net investment income	1,800,063,989	5,528,753,502	(67.4) %	2,692,345,919	105.4 %
<b>TOTAL ADDITIONS</b>	<b>3,066,532,674</b>	<b>6,784,680,445</b>	<b>(54.8) %</b>	<b>3,784,122,206</b>	<b>79.3 %</b>
<b>DEDUCTIONS</b>					
Annuity benefits					
Retirement benefits	1,346,462,471	1,248,538,286	7.8 %	1,164,713,725	7.2 %
Survivor benefits	80,772,647	76,298,394	5.9 %	71,380,041	6.9 %
Disability benefits	33,906,448	32,140,006	5.5 %	30,500,247	5.4 %
Cost of living	302,464,015	290,396,251	4.2 %	261,479,337	11.1 %
Death benefits	6,204,207	5,498,139	12.8 %	7,114,008	(22.7) %
Refunds	40,091,552	35,539,393	12.8 %	36,422,651	(2.4) %
Administrative expenses	7,166,606	7,156,822	0.1 %	7,542,822	(5.1) %
<b>TOTAL DEDUCTIONS</b>	<b>1,817,067,946</b>	<b>1,695,567,291</b>	<b>7.2 %</b>	<b>1,579,152,831</b>	<b>7.4 %</b>
<b>NET INCREASE</b>	<b>1,249,464,728</b>	<b>5,089,113,154</b>	<b>(75.4) %</b>	<b>2,204,969,375</b>	<b>130.8 %</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>					
<b>BEGINNING OF YEAR</b>	<b>33,663,308,244</b>	<b>28,574,195,090</b>	<b>17.8 %</b>	<b>26,369,225,715</b>	<b>8.4 %</b>
<b>END OF YEAR</b>	<b>\$ 34,912,772,972</b>	<b>\$ 33,663,308,244</b>	<b>3.7 %</b>	<b>\$ 28,574,195,090</b>	<b>17.8 %</b>

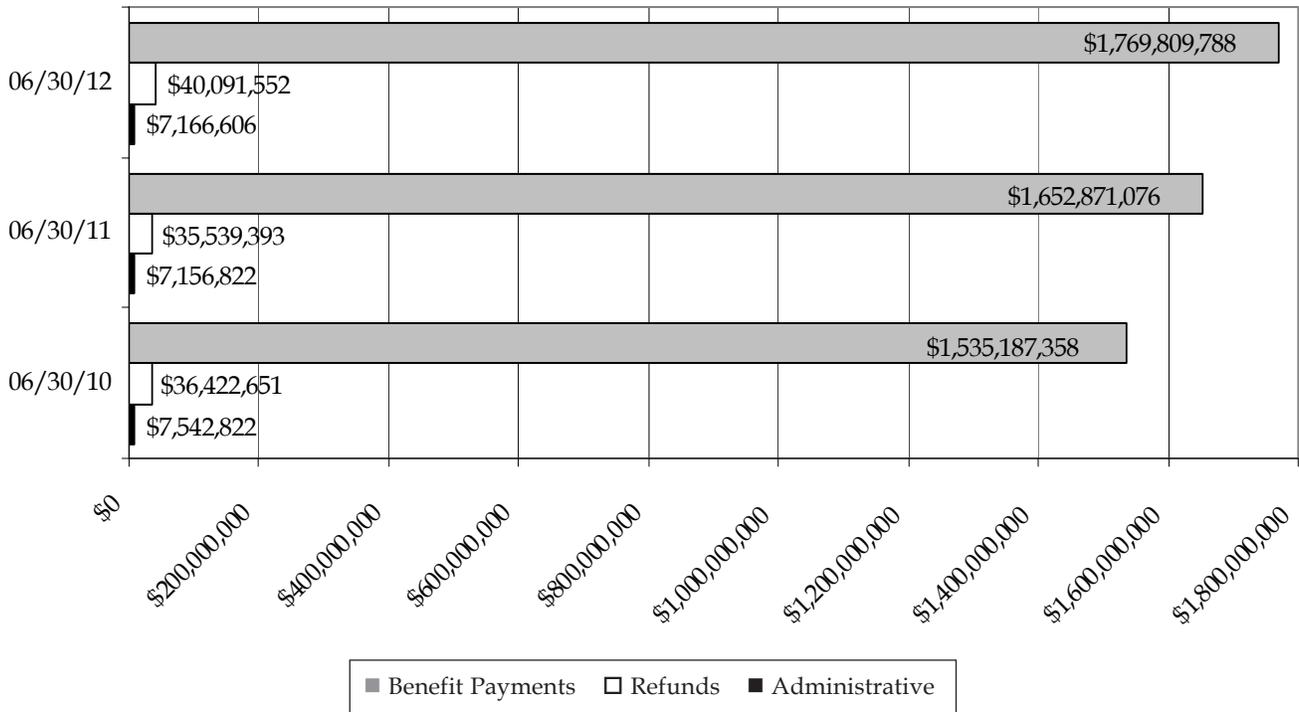
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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011 (CONTINUED)**

**REVENUES BY TYPE**



**EXPENSES BY TYPE**



(continued)

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011 (CONTINUED)**

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### **ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK**

For the year ended June 30, 2012, the portfolio delivered a return of 5.61 percent; an exceptional result which beat 98 percent of comparable funds. The long duration fixed income portfolio was primarily responsible for the result.

The domestic equity portfolio generated 5.03 percent building on a 33.71 percent increase from the prior year. The S&P 1500 index reported a gain of 4.63 percent for the fiscal year ended June 30, 2012. The international stock portfolio lost 10.79 percent for the year following the gain of 33.01 percent for the year ended June 30, 2011. The international equity market, as represented by the EAFE IMI index, lost 13.97 percent for the fiscal year ended June 30, 2012. Domestic fixed income returned 15.63 percent which followed a return of 6 percent for the prior year. The real estate portfolio gained 10.01 percent for the 2012 fiscal year which followed a gain of 15.5 percent in fiscal year 2011.

The investment environment in the 2012 fiscal year was characterized by continued world-wide economic weakness which was countered somewhat by aggressive monetary stimulus provided by global central banks. Dramatic declines in interest rates led to sizeable returns from long duration fixed income portfolios. These strong returns were countered by weak global equity returns.

An actuarial valuation was performed as of July 1, 2011. The employer contribution rates determined in this valuation will be effective July 1, 2012. 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 we provide to our members and employers. The multi-year Concord project will be implemented in three major phases: document imaging, retired payroll, and active member. The first phase of Concord was implemented during fiscal year 2012. Software development costs have been capitalized and are being amortized over the useful life of the system as each phase is 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, 2012 AND JUNE 30, 2011**

*Expressed in Thousands*

	<b>State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)</b>	<b>Political Subdivisions Pension Plan (PSPP)</b>
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 348,330</u>	<u>\$ 78,297</u>
Receivables		
Member receivable	21,313	6,001
Employer receivable	56,430	23,364
Accrued interest receivable	79,795	17,936
Accrued dividends receivable	42,658	9,588
Real estate income receivable	680	153
Derivative instruments receivable	319,335	71,779
Investments sold	<u>410,516</u>	<u>92,275</u>
Total receivables	<u>930,727</u>	<u>221,096</u>
Investments, at fair value		
Short-term securities	16,152	3,630
Government securities	6,736,847	1,514,288
Corporate securities	4,627,801	1,040,222
Corporate stocks	15,374,082	3,455,739
Derivative instruments	531	119
Private equities	142,025	31,924
Real estate	<u>1,101,467</u>	<u>247,585</u>
Total investments	<u>27,998,905</u>	<u>6,293,507</u>
Capital assets (net)	<u>9,330</u>	<u>2,097</u>
<b>TOTAL ASSETS</b>	<u><b>29,287,292</b></u>	<u><b>6,594,997</b></u>
<b>LIABILITIES</b>		
Accounts payable		
Death benefits and refunds payable	1,475	1,537
Retiree insurance premium payable	5,678	1,276
Other	227	0
Investments purchased	467,947	105,184
Derivative instruments payable	308,316	69,303
Other investment payables	<u>7,000</u>	<u>1,573</u>
<b>TOTAL LIABILITIES</b>	<u><b>790,643</b></u>	<u><b>178,873</b></u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u><u><b>\$28,496,649</b></u></u>	<u><u><b>\$6,416,124</b></u></u>

*See accompanying Notes to the Financial Statements.*

*(continued)*

(CONTINUED)

June 30, 2012 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2011 Total
<u>\$ 426,627</u>	<u>\$ 340,115</u>	<u>\$ 74,019</u>	<u>\$ 414,134</u>
27,314	19,570	5,266	24,836
79,794	53,975	20,793	74,768
97,731	84,099	18,302	102,401
52,246	39,371	8,569	47,940
833	50	11	61
391,114	319,386	69,508	388,894
<u>502,791</u>	<u>732,599</u>	<u>159,437</u>	<u>892,036</u>
<u>1,151,823</u>	<u>1,249,050</u>	<u>281,886</u>	<u>1,530,936</u>
19,782	0	0	0
8,251,135	7,135,403	1,552,887	8,688,290
5,668,023	4,554,482	991,198	5,545,680
18,829,821	14,640,474	3,186,225	17,826,699
650	9	2	11
173,949	61,296	13,340	74,636
<u>1,349,052</u>	<u>891,538</u>	<u>194,026</u>	<u>1,085,564</u>
<u>34,292,412</u>	<u>27,283,202</u>	<u>5,937,678</u>	<u>33,220,880</u>
<u>11,427</u>	<u>1,558</u>	<u>339</u>	<u>1,897</u>
<u>35,882,289</u>	<u>28,873,925</u>	<u>6,293,922</u>	<u>35,167,847</u>
3,012	1,108	899	2,007
6,954	5,290	1,151	6,441
227	97	0	97
573,131	904,384	196,823	1,101,207
377,619	318,780	69,376	388,156
<u>8,573</u>	<u>5,446</u>	<u>1,185</u>	<u>6,631</u>
<u>969,516</u>	<u>1,235,105</u>	<u>269,434</u>	<u>1,504,539</u>
<u><u>\$34,912,773</u></u>	<u><u>\$27,638,820</u></u>	<u><u>\$6,024,488</u></u>	<u><u>\$33,663,308</u></u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
STATEMENTS OF CHANGES IN PLAN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

<i>Expressed in Thousands</i>	<b>State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)</b>	<b>Political Subdivisions Pension Plan (PSPP)</b>
<b>ADDITIONS</b>		
Contributions		
Member contributions	\$ 194,180	\$ 69,576
Employer contributions	731,352	271,361
Total contributions	<u>925,532</u>	<u>340,937</u>
Investment income		
Net appreciation in fair value of investments	675,639	149,728
Interest	414,344	91,816
Dividends	353,064	78,237
Real estate income, net of operating expenses	56,987	12,628
Total investment income	<u>1,500,034</u>	<u>332,409</u>
Less: Investment expense	<u>(26,384)</u>	<u>(5,995)</u>
Net investment income	<u>1,473,650</u>	<u>326,414</u>
<b>TOTAL ADDITIONS</b>	<u>2,399,182</u>	<u>667,351</u>
<b>DEDUCTIONS</b>		
Annuity benefits		
Retirement benefits	1,145,293	201,169
Survivor benefits	68,705	12,068
Disability benefits	28,840	5,066
Cost of living	266,674	35,790
Death benefits	4,515	1,689
Refunds	22,575	17,517
Administrative expense	4,751	2,416
<b>TOTAL DEDUCTIONS</b>	<u>1,541,353</u>	<u>275,715</u>
<b>NET INCREASE</b>	857,829	391,636
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
BEGINNING OF YEAR	<u>27,638,820</u>	<u>6,024,488</u>
END OF YEAR	<u>\$28,496,649</u>	<u>\$6,416,124</u>

See accompanying Notes to the Financial Statements.

(continued)

(CONTINUED)

For the Year Ended June 30, 2012 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2011 Total
\$ 263,756	\$ 192,467	\$ 67,920	\$ 260,387
<u>1,002,713</u>	<u>721,759</u>	<u>273,781</u>	<u>995,540</u>
<u>1,266,469</u>	<u>914,226</u>	<u>341,701</u>	<u>1,255,927</u>
825,367	3,785,947	811,706	4,597,653
506,160	462,425	99,143	561,568
431,301	277,650	59,528	337,178
69,615	53,168	11,399	64,567
<u>1,832,443</u>	<u>4,579,190</u>	<u>981,776</u>	<u>5,560,966</u>
(32,379)	(26,453)	(5,760)	(32,213)
<u>1,800,064</u>	<u>4,552,737</u>	<u>976,016</u>	<u>5,528,753</u>
<u>3,066,533</u>	<u>5,466,963</u>	<u>1,317,717</u>	<u>6,784,680</u>
1,346,462	1,062,838	185,700	1,248,538
80,773	64,950	11,348	76,298
33,906	27,360	4,780	32,140
302,464	256,137	34,259	290,396
6,204	4,054	1,444	5,498
40,092	18,957	16,583	35,540
7,167	3,525	3,632	7,157
<u>1,817,068</u>	<u>1,437,821</u>	<u>257,746</u>	<u>1,695,567</u>
1,249,465	4,029,142	1,059,971	5,089,113
<u>33,663,308</u>	<u>23,609,678</u>	<u>4,964,517</u>	<u>28,574,195</u>
<u>\$34,912,773</u>	<u>\$27,638,820</u>	<u>\$6,024,488</u>	<u>\$33,663,308</u>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011**

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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 include cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.
5. **Capital Assets** - Capital assets consist of internally generated computer software in development and the first phase of internally generated computer software, which are reported at historical cost, less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Software in development at June 30, 2011 was valued at \$1,896,671 and at June 30, 2012 \$9,749,457. Software in development will be amortized using the straight line method over the ten year estimated life of the system once a phase is implemented. The first phase of the computer software was implemented during the fiscal year ended June 30, 2012 and amortization was initiated. The computer software was valued at zero at June 30, 2011 and \$1,677,480 at June 30, 2012. Amortization expense was zero in fiscal year 2011 and \$43,012 in fiscal year 2012.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

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

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	<u>135,588</u>	<u>79,488</u>
Total	241,496	122,790
Number of participating employers	140	503

**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 who 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, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.75 billion and \$24.75 billion, respectively. 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.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

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**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, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.15 billion and \$5.27 billion, respectively. 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.

**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.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

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

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- 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 ten percent (10 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, 2012 and June 30, 2011, the TCRS had the following investments:

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Investments**  
*(Expressed in Thousands)*

		<b>2012</b>														
Investment Type	Fair Value as of June 30, 2012	U.S. Treasury/Agency (1)	Credit Quality Ratings													
			AAA	AA	A	BBB	BB	B	CCC	CC	D	A1(3)	Not Rated			
<b>Debt Investments</b>																
U.S. Govt. Agencies	\$ 188,455															
U.S. Govt. Inflation Indexed	2,654,938	\$2,654,938														
U.S. Govt. Treasuries, Notes and Bonds	1,558,334	1,558,334														
U.S. Govt. Asset Backed Municipal Bonds	76,372	76,372														
U.S. Govt. Asset Backed Govt. Mortgage Backed	155,316		2,336	99,328	\$ 53,652											
Comm. Mortgage Backed	3,291,737		176,255	13,277												
Corporate CMO's	268,585		33,643	92,330												
Corporate Bonds	232,639		109,541	95,364	1,182,495	\$2,675,562				\$43,223	\$121,425	\$24,197	\$10,151			
Corporate Asset Backed	4,349,054		573,571	98,607	35,353	24,745				26,616	8,020					
Non-U.S. Govt./Sovereign	782,669		113,408	212,575						1,291						
Short-Term Comm. Paper	325,983															
Short-Term Bills and Notes	113,853															
Short-Term Bills and Notes	304,269															
<b>Total Debt Investments</b>	\$14,302,204	\$4,561,611	\$1,028,086	\$780,604	\$1,271,500	\$2,700,307	\$212,689	\$212,689	\$69,839	\$129,445	\$24,935	\$10,151	\$113,853	\$3,006,493 (2)		
<b>Other Investments</b>																
U.S. Equity	\$12,887,225															
Non-U.S. Equity	5,974,207															
Derivatives	650															
Real Estate	1,349,052															
Private Equities	173,949															
Money Market Funds (not rated)	4,375															
Escrow Claim	3,468															
<b>Total Other Investments</b>	\$20,392,926															
<b>Total Investments</b>	\$34,695,130															
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(402,718)															
<b>Total Investments as Shown on Statements of Plan Net Assets</b>	\$34,292,412															

- (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, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Investments**  
*(Expressed in Thousands)*

<b>2011</b>															
Investment Type	Fair Value as of June 30, 2011	U.S. Treasury/ Agency (1)	Credit Quality Ratings												
			AAA	AA	A	BBB	BB	B	CCC	CC	D	AI(3)	Not Rated		
<b>Debt Investments</b>															
U.S. Govt. Agencies	\$ 311,472	\$ 102,034	\$ 16,960												\$ 28,047 (2)
U.S. Govt. Inflation Indexed	2,475,914	2,475,914													
U.S. Govt. Treasuries, Notes and Bonds	1,355,666	1,345,642													
U.S. Govt. Asset Backed Municipal Bonds	117,625	117,625													
Govt. Mortgage Backed	149,480	32,649	55,086	\$ 61,745											
Comm. Mortgage Backed	3,667,503	26,576	64,905	10,043											3,203,926 (2)
Corporate CMO's	381,608	306,660													
Corporate Bonds	313,391	56,374													3,875
Corporate Asset Backed	3,764,808	138,541	290,304	1,117,282	\$1,967,171	\$156,593	\$ 2,021	\$68,922	168,915	28,325	\$15,529	\$10,077			53,069
Non-U.S. Govt./Sovereign	1,015,712	769,168	123,431	70,559	41,765						9,152				1,637
Short-Term Comm. Paper	610,630	290,256	320,374												
<b>Total Debt Investments</b>	<b>\$14,551,873</b>	<b>\$4,478,216</b>	<b>\$871,060</b>	<b>\$1,259,629</b>	<b>\$2,008,936</b>	<b>\$16,730</b>	<b>\$97,247</b>	<b>\$165,745</b>	<b>\$170,936</b>	<b>\$97,247</b>	<b>\$16,730</b>	<b>\$10,077</b>	<b>\$388,064</b>	<b>\$3,290,554</b>	
<b>Other Investments</b>															
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														
<b>Total Other Investments</b>	<b>\$19,170,965</b>														
<b>Total Investments</b>	<b>\$33,722,838</b>														
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(501,958)														
<b>Total Investments as Shown on Statements of Plan Net Assets</b>	<b>\$33,220,880</b>														

- (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, 2012 AND JUNE 30, 2011 (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, 2012 and June 30, 2011 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 <http://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, 2012		June 30, 2011	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$1,932,517,086	5.54%	\$2,029,898,227	6.03%

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, 2012 AND JUNE 30, 2011 (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, 2012 and June 30, 2011.

**Debt Investments**

*(Expressed in Thousands)*

Investment Type	Fair Value as of June 30, 2012	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 215,919	8.63
Government Bonds	1,856,853	12.08
Government Inflation Indexed	2,654,938	8.82
Government Mortgage Backed	3,291,737	1.38
Government Asset Backed	76,372	5.06
Municipal Bonds	155,316	10.97
Collateralized Mortgage Obligations (CMO)	232,639	3.40
Commercial Mortgage Backed	268,585	2.22
Corporate Asset Backed Securities	782,669	1.52
Corporate Bonds	4,349,054	6.91
Short-Term Commercial Paper	113,853	0.19
Short-Term Bills & Notes	304,269	0.13
Total Debt Investments	\$ 14,302,204	6.09

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

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (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, 2012 was \$501,224,120 of which \$341,027,671 were CMOs that are generally more sensitive to interest rate changes. 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.

**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, 2012 and June 30, 2011 was as follows:

**Foreign Currency-Denominated Investments**

*(Expressed in Thousands)*

Currency	Total Fair Value June 30, 2012	Fixed Income	Equity	Cash
Australian Dollar	\$ 285,935	\$ 0	\$ 285,556	\$ 379
British Pound Sterling	945,058	36,073	908,427	558
Canadian Dollar	1,543,638	8,430	1,535,028	180
Danish Krone	76,389	0	76,373	16
Euro Currency	1,066,157	63,906	968,412	33,839
Hong Kong Dollar	106,932	0	106,775	157
Japanese Yen	1,145,912	212,575	927,031	6,306
New Israeli Shekel	14,916	0	14,819	97
New Zealand Dollar	6,410	0	6,337	73
Norwegian Krone	46,034	13,429	32,603	2
Singapore Dollar	67,835	0	67,753	82
Swedish Krona	93,496	0	93,286	210
Swiss Franc	318,426	0	317,464	962
<b>Total</b>	<b>\$ 5,717,138</b>	<b>\$ 334,413</b>	<b>\$ 5,339,864</b>	<b>\$ 42,861</b>

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
<b>Total</b>	<b>\$ 6,684,236</b>	<b>\$ 624,220</b>	<b>\$ 6,043,798</b>	<b>\$ 16,218</b>

*(continued)*

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

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**Custodial Credit Risk** – Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2012 and June 30, 2011, the TCRS had uninsured and uncollateralized cash deposits of \$42,861,324 and \$16,218,307, respectively in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

**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. Foreign 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, 2012 and June 30, 2011, classified by type, and the changes in fair value of derivative instrument types for the year ended as reported in the financial statements are as follows:

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Derivative Summary**

(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2012			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (360)		\$ (360)	11,210	AUD
		(248)		(248)	18,710	EUR
		120		120	1,489,342	JPY
	Investment		Derivative Instruments			
	Income	<u>\$ (488)</u>	Payable	<u>\$ (488)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ (5,479)	Payable	\$ (2,393)	\$1,520,747	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (9)	Derivative Instruments	\$ 2	\$ 2	
TBA Mortgage	Investment		Derivative Instruments			
Backed Securities	Income	\$ 648	Derivative Instruments	\$ 648	\$ 324,377	

	Changes in Fair Value		Fair Value at June 30, 2011			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (121)		\$ (121)	4,450	AUD
		(1,304)		(1,304)	65,000	CAD
		(953)		(953)	37,260	EUR
	Investment		Derivative Instruments			
	Income	<u>\$ (2,378)</u>	Payable	<u>\$ (2,378)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ 123,632	Receivable	\$ 3,883	\$1,585,441	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (17)	Derivative Instruments	\$ 11	\$ 11	
TBA Mortgage	Investment		Derivative Instruments			
Backed Securities	Income	\$ (767)	Payable	\$ (767)	\$ 260,632	

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, 2012 AND JUNE 30, 2011 (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 37 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, 75 basis points during times when either Moody’s or Standard and Poor’s has assigned ratings of Aa and AA respectively, or 100 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, 2012 the TCRS had unfunded commitments of \$113,088,500 for pending real estate purchases. Subsequent to that time, the TCRS decided to not close on \$74,588,500 of the June 30, 2012 commitment amount. At June 30, 2011 the TCRS did not have any commitments for pending real estate purchases.

**Alternative Investments** – The TCRS had unfunded commitments of \$581.3 million and \$324.1 million in limited partnerships as of June 30, 2012 and June 30, 2011, respectively.

**E. FUNDED STATUS AND FUNDING PROGRESS**

The funded status of each plan as of July 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

<b>SCHEDULES OF FUNDING PROGRESS</b>						
<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)
<b>SETHEEPP</b>	\$ 30,118,179	\$ 32,707,625	\$ 2,589,446	92.08%	\$ 6,058,348	42.74%
<b>PSPP</b>	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2011, 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, 2012 AND JUNE 30, 2011 (CONTINUED)**

Additional information as of the latest actuarial valuation follows:

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2011	July 1, 2011
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	Teachers - 6 years; State - 9 years; closed period	9 years weighted average; (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. The weighted average amortization period for all plans is presented above.</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)
<b>SETHEEPP</b>	7/1/2011	\$ 30,118,178	\$ 32,707,625	\$ 2,589,447	92.08%	\$ 6,058,348	42.74%
	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%
<b>PSPP</b>	7/1/2011	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%
	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%

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
2012	\$ 731,352	100.00%	\$ 271,361	100.00%
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%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2013.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$1,268,733	\$ 645,579	\$1,914,312
Employee benefits	569,476	289,771	859,247
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,838,209</u>	<u>935,350</u>	<u>2,773,559</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	132,533	67,438	199,971
Actuarial services	245,182	124,757	369,939
Data processing	398,573	202,809	601,382
Information systems	754,408	383,871	1,138,279
Management services	142,742	72,632	215,374
Medical review	21,527	10,953	32,480
Administrative, Internal Audit, Legal, Personnel	542,493	276,041	818,534
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>2,237,458</u>	<u>1,138,501</u>	<u>3,375,959</u>
<b>COMMUNICATION</b>			
Travel	19,275	9,808	29,083
Telephone	169,361	86,177	255,538
Printing	44,567	22,677	67,244
Postage	199,253	101,387	300,640
<b>TOTAL COMMUNICATION</b>	<u>432,456</u>	<u>220,049</u>	<u>652,505</u>
<b>MISCELLANEOUS</b>			
Office space	112,219	57,101	169,320
Supplies and maintenance	79,838	40,625	120,463
Amortization of intangible assets	28,507	14,505	43,012
Other services and charges	21,068	10,720	31,788
<b>TOTAL MISCELLANEOUS</b>	<u>241,632</u>	<u>122,951</u>	<u>364,583</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$4,749,755</u>	<u>\$2,416,851</u>	<u>\$7,166,606</u>

With 210,493 active members and 122,499 retired members, the operating cost per member was \$21.52 for the year ended June 30, 2012.

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

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 972,927	\$1,002,548	\$1,975,475
Employee benefits	424,007	436,916	860,923
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,396,934</u>	<u>1,439,464</u>	<u>2,836,398</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	95,288	98,189	193,477
Actuarial services	72,866	75,084	147,950
Data processing	217,290	223,906	441,196
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
Administrative, Internal Audit, Legal, Personnel	475,358	489,830	965,188
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>1,641,666</u>	<u>1,691,646</u>	<u>3,333,312</u>
<b>COMMUNICATION</b>			
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
<b>TOTAL COMMUNICATION</b>	<u>364,477</u>	<u>375,575</u>	<u>740,052</u>
<b>MISCELLANEOUS</b>			
Office space	80,065	82,502	162,567
Supplies and maintenance	8,671	8,934	17,605
Amortization of intangible assets	0	0	0
Other services and charges	32,943	33,945	66,888
<b>TOTAL MISCELLANEOUS</b>	<u>121,679</u>	<u>125,381</u>	<u>247,060</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<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 INVESTMENT EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 2,595,471	\$ 589,698	\$ 3,185,169
Employee benefits	807,895	183,557	991,452
<b>TOTAL PERSONNEL SERVICES</b>	<u>3,403,366</u>	<u>773,255</u>	<u>4,176,621</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	277,649	63,083	340,732
Legal services	240,065	54,543	294,608
Data processing	264,630	60,125	324,755
Information systems	326,329	74,143	400,472
Management services	45,778	10,401	56,179
External investment manager fees	14,012,502	3,183,689	17,196,191
Investment consulting fees	1,539,330	349,741	1,889,071
Investment custodian fees	315,678	71,723	387,401
Real estate manager fees	5,131,060	1,165,795	6,296,855
Administrative, Internal Audit, Personnel	480,611	109,197	589,808
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>22,633,632</u>	<u>5,142,440</u>	<u>27,776,072</u>
<b>COMMUNICATION</b>			
Travel	89,396	20,311	109,707
Telephone	27,285	6,199	33,484
Printing	2,736	622	3,358
Postage	1,003	228	1,231
<b>TOTAL COMMUNICATION</b>	<u>120,420</u>	<u>27,360</u>	<u>147,780</u>
<b>MISCELLANEOUS</b>			
Office space	65,048	14,779	79,827
Supplies and maintenance	7,285	1,655	8,940
Other services and charges	154,921	35,199	190,120
<b>TOTAL MISCELLANEOUS</b>	<u>227,254</u>	<u>51,633</u>	<u>278,887</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$ 26,384,672</u>	<u>\$ 5,994,688</u>	<u>\$ 32,379,360</u>

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

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 2,087,080	\$ 454,451	\$ 2,541,531
Employee benefits	650,368	141,614	791,982
<b>TOTAL PERSONNEL SERVICES</b>	<u>2,737,448</u>	<u>596,065</u>	<u>3,333,513</u>
<b>PROFESSIONAL SERVICES</b>			
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
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>23,475,581</u>	<u>5,111,694</u>	<u>28,587,275</u>
<b>COMMUNICATION</b>			
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
<b>TOTAL COMMUNICATION</b>	<u>74,595</u>	<u>16,243</u>	<u>90,838</u>
<b>MISCELLANEOUS</b>			
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
<b>TOTAL MISCELLANEOUS</b>	<u>165,566</u>	<u>36,051</u>	<u>201,617</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$ 26,453,190</u>	<u>\$ 5,760,053</u>	<u>\$ 32,213,243</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
SCHEDULES OF EXPENSES FOR CONSULTANTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

**FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 245,182	\$ 124,757	\$ 369,939
<b>TOTAL ACTUARIAL SERVICES</b>	<u>245,182</u>	<u>124,757</u>	<u>369,939</u>
<b>MEDICAL REVIEW SERVICES</b>			
Suzanne Fletcher, M.D.	8,855	4,505	13,360
Thomas Mullady, M.D.	1,802	918	2,720
Barry Siegel, M.D.	9,120	4,640	13,760
Lee Carl Whitaker, M.D.	1,750	890	2,640
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>21,527</u>	<u>10,953</u>	<u>32,480</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<u>\$ 266,709</u>	<u>\$ 135,710</u>	<u>\$ 402,419</u>

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

**FOR THE YEAR ENDED JUNE 30, 2011**

	SETHEEPP	PSPP	TOTAL
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 72,866	\$ 75,084	\$ 147,950
<b>TOTAL ACTUARIAL SERVICES</b>	<u>72,866</u>	<u>75,084</u>	<u>147,950</u>
<b>MEDICAL REVIEW SERVICES</b>			
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
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>20,232</u>	<u>20,848</u>	<u>41,080</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<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.

A dirt path winds through a dense forest of tall trees with lush green foliage. The path is narrow and appears to be made of dirt and small stones, leading the eye into the distance. The trees are tall and thin, with a thick canopy of green leaves. Sunlight filters through the leaves, creating dappled shadows on the path. The overall atmosphere is peaceful and natural.

# INVESTMENT SECTION

*NATCHEZ TRACE PARK*  
*BY MARY GRIFFIN*  
*OASI*

## 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

November 26, 2012

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

Dear Jill:

For the year ended June 30, 2012, global equity markets were weak, but were offset by strong fixed income returns. The 5.61% one-year gain by TCRS outperformed its policy index by 32 basis points. Within the U.S., growth strategies led value significantly and large-cap stocks outperformed small- and mid-cap stocks as investors favored higher-growth technology companies and stable dividend-paying stocks. Contrary to fiscal year 2011, international equities were down sharply due to concerns about slower economic growth in Europe and in certain emerging markets; a stronger U.S. dollar added to this weakness. Bond results were positive across the board due to lower interest rates, with Treasuries, inflation-indexed bonds and long-duration strategies leading. Real estate markets fared well as they continue to bounce back from the depths of 2009-10.

As of June 30, 2012, the System's asset allocation and one-year respective returns were:

Asset Class	Percentage of Assets	One Year Return
Domestic Equity	42.4 %	5.03 %
International Equity	13.6 %	(10.79) %
Domestic Fixed Income	29.2 %	15.63 %
International Fixed Income	1.0 %	4.18 %
Inflation-Indexed Fixed Income	7.8 %	12.22 %
Real Estate	3.9 %	10.01 %
Private Equity	0.5 %	7.22 %
Cash and Cash Equivalents	1.7 %	0.86 %
<b>Total</b>	<b>100.0 %</b>	<b>5.61 %</b>

At fiscal year-end, TCRS ranked above the median large public plan (State Street's Public Plan Sponsors > \$100 million) over the trailing one, three, five and ten years. This performance was attributable to the plan's exposure to core and inflation-linked bonds and strong relative performance within international equities and U.S. fixed income. 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.

Over the next five years, SIS foresees continued modest equity and fixed income returns due to financial de-leveraging and slow economic growth in Europe and some developing economies. 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 institutional investors.

Best regards,



Pete Keliuotis, CFA

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**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

October 26, 2012

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

With over \$34.8 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 2012 fiscal year was challenging for all investors and the TCRS portfolio experienced a modest gain of 5.6%. This return was one of the best results of any comparable pension plan. 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,

Handwritten signature of Michael Brakebill in cursive.

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, 2012*

	<b>Annualized Returns</b>		
	<b>Current Year</b>	<b>3-Year</b>	<b>5-Year</b>
<b>Pension Plan Portfolio</b>			
TCRS Performance	5.61 %	11.66 %	3.11 %
Policy Index	5.29 %	11.75 %	3.51 %
Asset Allocated Index	4.93 %	11.40 %	
<b>Domestic Equity</b>			
TCRS Performance	5.03 %	16.89 %	0.50 %
Benchmark	4.63 %	16.76 %	0.46 %
<b>Canadian Equity</b>			
TCRS Performance	(15.09)%		
Benchmark	(15.34)%		
<b>Domestic Fixed Income</b>			
TCRS Performance	15.63 %	11.76 %	8.59 %
Benchmark	15.59 %	9.44 %	8.62 %
<b>Inflation Hedged Bonds</b>			
Benchmark	12.22 %	9.39 %	8.69 %
	12.36 %	9.98 %	8.61 %
<b>International Equity</b>			
TCRS Performance	(10.79)%	9.06 %	(3.37)%
Benchmark	(13.97)%	6.33 %	(5.73)%
<b>International Fixed Income</b>			
TCRS Performance	4.18 %	7.36 %	9.30 %
Benchmark	3.26 %	7.07 %	9.19 %
<b>Real Estate</b>			
TCRS Performance	10.01 %	2.06 %	1.32 %
Benchmark	13.41 %	5.96 %	2.88 %
<b>Short-Term Securities</b>			
TCRS Performance	0.86 %	1.77 %	2.22 %
<b>Private Equity</b>			
TCRS Performance	7.22 %		
Benchmark	11.54 %		

	<b>Strategic Investment Solutions</b>	
	<b>Percentile Rankings</b>	<b>Risk Adjusted Basis</b>
<b>Ranking of TCRS Portfolio</b>		
Last three years	51	7
Last five years	7	4

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, 2012**Expressed in Thousands*

<b>Asset Class</b>	<b>Fair Value</b>	<b>Percentage</b>
Domestic Equity	\$12,767,239	36%
Domestic Fixed Income	13,888,092	40%
International Equity	6,063,236	17%
International Fixed Income	354,794	1%
Short-Term Securities	422,499	1%
Real Estate	1,349,052	4%
Private Equities	173,949	1%
Totals	<u>\$35,018,861</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, 2012

#### LARGEST STOCK HOLDINGS

as of June 30, 2012

by Fair Value

Shares	Security Name	Fair Value
945,500	Apple Inc Com Stk	\$ 552,172,000
4,575,723	Exxon Mobil Corp Com	391,544,617
9,173,500	Microsoft Corp Com	280,617,365
2,468,230	Chevron Corp Com	260,398,265
1,283,800	International Business Machs Corp Com	251,085,604
10,298,900	General Electric Co	214,629,076
5,767,273	Wells Fargo & Co New Com Stk	192,857,609
2,188,500	Philip Morris Intl Com Stk Npv	190,968,510
311,900	Google Inc Cl A	180,923,833
4,947,945	AT&T Inc Com	176,443,719

#### LARGEST BOND HOLDINGS

as of June 30, 2012

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 181,900,000	United States Treasury Index Linked Note	2.00%	01/15/16	Aaa	\$ 233,258,861
139,470,000	United States Treasury Index Linked Bond	2.00%	01/15/26	Aaa	206,291,314
165,000,000	GNMA Pool #000000	4.00%	07/15/39	NR	180,185,115
101,800,000	United States Treasury Infl Index Bond	2.38%	01/15/25	Aaa	163,612,580
139,500,000	United States Treasury Note	2.63%	11/15/20	Aaa	153,330,170
72,550,000	United States Treasury Infl Index Bond	3.38%	04/15/32	Aaa	151,466,954
139,432,000	United States Treasury Note	2.00%	02/15/22	Aaa	144,126,954
110,250,000	United States Treasury Index Linked Note	2.36%	01/15/14	Aaa	142,512,313
126,300,000	United States Treasury Note	3.40%	04/15/16	Aaa	137,004,180
101,100,000	United States Treasury Index Linked Note	2.38%	01/15/17	Aaa	133,091,934

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, 2012

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
<b>Fixed Income</b>						
Government Bonds	\$ 4,208,225,849	12.13%	\$ 303,564,126	0.87%	\$ 4,511,789,975	13.00%
Corporate Bonds	4,349,054,547	12.54%	0	0.00%	4,349,054,547	12.54%
Municipal/Provincial Bonds	155,316,416	0.45%	0	0.00%	155,316,416	0.45%
<b>Total Bonds</b>	<b>8,712,596,812</b>	<b>25.11%</b>	<b>303,564,126</b>	<b>0.87%</b>	<b>9,016,160,938</b>	<b>25.99%</b>
Lehman Brothers Escrow Adjustment	3,468,750	0.01%	0	0.00%	3,468,750	0.01%
Asset Backed	844,633,112	2.43%	0	0.00%	844,633,112	2.43%
Commercial Mortgage Backed	268,585,214	0.77%	0	0.00%	268,585,214	0.77%
Government Agencies	193,484,038	0.56%	27,463,671	0.08%	220,947,709	0.64%
Government Mortgage Backed Securites	3,287,839,874	9.48%	0	0.00%	3,287,839,874	9.48%
Non-Government CMOs	232,638,906	0.67%	0	0.00%	232,638,906	0.67%
Govt Issued Commercial Mortgaged Backed	13,277,315	0.04%	0	0.00%	13,277,315	0.04%
Preferred Stock	7,190,642	0.02%	23,766,572	0.07%	30,957,214	0.09%
<b>Total Fixed Income</b>	<b>13,563,714,663</b>	<b>39.09%</b>	<b>354,794,369</b>	<b>1.02%</b>	<b>13,918,509,032</b>	<b>40.12%</b>
<b>Common Stock</b>						
Consumer Discretionary	1,453,348,832	4.19%	582,429,727	1.68%	2,035,778,559	5.87%
Consumer Staples	1,363,735,236	3.93%	491,425,766	1.42%	1,855,161,002	5.35%
Energy	1,326,800,764	3.82%	624,083,758	1.80%	1,950,884,522	5.62%
Financials	1,887,542,369	5.44%	1,211,273,300	3.49%	3,098,815,669	8.93%
Healthcare	1,534,264,694	4.42%	468,268,261	1.35%	2,002,532,955	5.77%
Industrials	1,367,007,010	3.94%	709,973,852	2.05%	2,076,980,862	5.99%
Information Technology	2,492,190,507	7.18%	276,444,309	0.80%	2,768,634,816	7.98%
Materials	449,822,162	1.30%	650,919,795	1.88%	1,100,741,957	3.17%
Telecommunication Services	384,446,131	1.11%	219,762,250	0.63%	604,208,381	1.74%
Utilities	472,311,769	1.36%	111,043,077	0.32%	583,354,846	1.68%
Misc/Unclassified	0	0.00%	700,857,635	2.02%	700,857,635	2.02%
Equity Exchange Traded Fund	35,769,400	0.10%	0	0.00%	35,769,400	0.10%
Stapled Securities	0	0.00%	16,750,877	0.05%	16,750,877	0.05%
<b>Total Common Stock</b>	<b>12,767,238,874</b>	<b>36.80%</b>	<b>6,063,232,607</b>	<b>17.48%</b>	<b>18,830,471,481</b>	<b>54.28%</b>
<b>Short-Term Investments</b>						
Commercial Paper	113,853,437	0.33%	0	0.00%	113,853,437	0.33%
Pooled Funds and Mutual Funds	4,375,370	0.01%	0	0.00%	4,375,370	0.01%
Short-Term Bills and Notes	304,268,715	0.88%	0	0.00%	304,268,715	0.88%
<b>Total Short-Term Investments</b>	<b>422,497,522</b>	<b>1.22%</b>	<b>0</b>	<b>0.00%</b>	<b>422,497,522</b>	<b>1.22%</b>
Real Estate	1,349,052,197	3.89%	0	0.00%	1,349,052,197	3.89%
Private Equities	173,948,681	0.50%	0	0.00%	173,948,681	0.50%
<b>Total Investments</b>	<b>28,276,451,937</b>	<b>81.50%</b>	<b>6,418,026,976</b>	<b>18.50%</b>	<b>34,694,478,913</b>	<b>100.00%</b>
Derivatives and Options	650,255		0		650,255	
Short Term Investments Classified as Cash Equivalents	(402,717,632)		0		(402,717,632)	
<b>Total Investments as Shown on the Statement of Plan Net Assets</b>	<b>\$ 27,874,384,560</b>		<b>\$ 6,418,026,976</b>		<b>\$ 34,292,411,536</b>	

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, 2012**

**SCHEDULES OF FEES**

	<b>Average Assets Under Management</b>	<b>Fees</b>
<b>Asset Management</b>		
International Investment Manager Fees	4.1 Billion	\$17,196,191
Real Estate Asset Management	1.3 Billion	6,296,855
Private Equities Asset Management	173.9 Million	0
Total Asset Management		<u><u>\$23,493,046</u></u>
<b>Other Investment Services Fees</b>		
Custodian Bank	34.8 Billion	\$ 396,000
General Investment Consultant	34.8 Billion	300,000
Real Estate Investment Consultant	1.3 Billion	125,000
Private Equities Investment Consultant	173.9 Million	1,506,000
Total Investment Services Fees		<u><u>\$ 2,327,000</u></u>

**SCHEDULES OF COMMISSIONS**

*Domestic Exchange Traded Shares*

<b>Broker Name</b>	<b>DOMESTIC</b>		
	<b>Number of Shares Traded</b>	<b>Total Commissions</b>	<b>Commission Per Share</b>
Capis	26,514,408	\$ 1,059,807	0.0400
JP Morgan Chase & Company	30,932,626	618,002	0.0200
Cowen & Company, LLC	29,085,827	581,717	0.0200
Bank of America Merrill Lynch	27,974,206	560,284	0.0200
Barclays Capital	27,579,029	551,581	0.0200
Deutsche Bank Securities, Inc.	23,763,490	475,270	0.0200
Citigroup Global Markets, Inc.	22,117,865	442,357	0.0200
RBC Capital Markets Corporation	17,099,387	341,988	0.0200
Morgan Stanley & Company, Inc.	16,994,250	339,885	0.0200
Sanford C. Bernstein & Company, Inc.	16,657,805	333,156	0.0200
UBS Securities LLC	11,631,908	232,638	0.0200
B.O.E. Securities, Inc.	7,160,188	214,806	0.0300
M.R. Beal & Company	6,821,307	204,639	0.0300
Instinet, LLC	12,023,012	192,832	0.0160
Morgan Keegan & Company, Inc.	9,481,983	189,640	0.0200
Avondale Partners	7,148,032	142,961	0.0200
SunTrust Robinson Humphrey	6,128,407	122,568	0.0200
Sturdivant & Company, Inc.	3,554,800	106,188	0.0299
Other Brokers*	87,568,387	1,119,761	0.0128
<b>Totals</b>	<u><u>390,236,917</u></u>	<u><u>\$ 7,830,079</u></u>	

(continued)

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS  
FOR THE YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	107,132,979	\$ 1,140,393	0.0106
Barclays Capital	78,089,303	630,805	0.0081
Credit Suisse	59,191,341	581,171	0.0098
BNY ESI & Company	48,483,235	486,715	0.0100
Cowen & Company, LLC	58,560,089	468,867	0.0080
Sandford C. Bernstein & Company, Inc.	59,398,051	468,755	0.0079
DMG Securities, Inc.	45,568,000	365,256	0.0080
RBC Capital Markets Corporation	34,684,655	308,905	0.0089
Morgan Stanley & Company, Inc.	36,928,488	307,212	0.0083
JP Morgan Chase & Company	35,274,242	301,468	0.0085
UBS Securities LLC	41,581,720	276,272	0.0066
Lazard Ltd.	34,046,710	261,248	0.0077
Citigroup Global Markets, Inc.	16,760,734	171,727	0.0102
OTHER BROKERS*	7,105,586	59,106	0.0083
<b>Totals</b>	<b>662,805,133</b>	<b>\$ 5,827,901</b>	

*International Exchange Traded Shares*

Broker Name	INTERNATIONAL		
	Number of Shares Traded	Total Commissions	Commission Per Share
Credit Suisse	43,124,424	\$ 425,223	0.0099
UBS Securities LLC	59,063,903	400,805	0.0068
Barclays Capital	63,527,325	391,363	0.0062
JP Morgan Chase & Company	47,447,302	378,460	0.0080
Morgan Stanley & Company, Inc.	45,683,154	356,626	0.0078
Citigroup Global Markets, Inc.	33,290,993	337,506	0.0101
Bank of America Merrill Lynch	42,681,573	333,095	0.0078
Goldman Sachs Group, Inc.	21,956,465	276,881	0.0126
Nomura Holdings Inc.	20,971,572	251,959	0.0120
Deutsche Bank Securities, Inc.	16,613,154	202,501	0.0122
Macquarie Group LTD	14,952,071	135,349	0.0091
OTHER BROKERS*	130,431,640	1,315,759	0.0101
<b>TOTALS</b>	<b>539,743,576</b>	<b>\$ 4,805,528</b>	

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



*MUSIC AND MOLASSES FESTIVAL  
BY MALINDA WAGNER  
BENEFITS & PRIOR SERVICE*



*STONEHENGE GOLF COURSE  
BY HANNAH YOUNG  
ACCOUNTING*

**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**

The unfunded accrued liability within the plan was most recently reestablished with the 2009 actuarial valuation for most groups. 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. With the exception of some local government employers, the unfunded accrued liability was not reestablished with the 2011 actuarial valuation.

**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 and July 1, 2011 actuarial valuations. The 2012 experience study is currently being prepared.

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**ACTUARY'S CERTIFICATION LETTER**

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

December 5, 2012

Mr. David H. Lillard, Jr.  
Chairman, Board of Trustees  
Tennessee Consolidated Retirement System  
502 Deaderick Street  
Nashville, Tennessee 37243-0201

**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, 2012 for the Tennessee Consolidated Retirement System was performed as of July 1, 2011. 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.

In performing the 2011 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 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, 2011 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 -

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

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Mr. David H. Lillard, Jr.  
Chairman, Board of Trustees  
December 5, 2012  
Page Two

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- 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 2011.

The 2011 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, 2011 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 nine-year and six-year period, respectively. 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 RP-2000 Mortality Table is used for state employees and political subdivision employees. For teachers, the RP-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	
<b>Male</b>			
Age 30	18.0%	13.5%	6.0%
Age 40	18.0%	13.5%	2.0%
Age 50	19.7%	14.2%	2.0%
<b>Female</b>			
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	
<b>Male</b>			
Age 30	23.0%	18.6%	9.6%
Age 40	18.6%	13.8%	2.6%
Age 50	14.8%	11.1%	2.2%
<b>Female</b>			
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	
<b>Male</b>			
Age 30	21.8%	17.9%	7.4%
Age 40	19.2%	15.9%	3.5%
Age 50	17.0%	13.0%	2.8%
<b>Female</b>			
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**

<b>Actuarial Valuation</b>	<b>Number</b>	<b>Annual Payroll In Thousands</b>	<b>Average Annual Pay</b>	<b>Average Annual Percentage Increase In Average Pay</b>
July 2001 SETHEEPP	126,863	\$4,451,453	\$35,089	2.85%
PSPP	69,083	1,545,594	22,373	4.13%
July 2003 SETHEEPP	128,656	4,773,299	37,101	2.83%
PSPP	71,941	1,731,135	24,063	3.71%
July 2005 SETHEEPP	132,026	5,245,988	39,735	3.49%
PSPP	74,124	1,890,968	25,511	2.96%
July 2007 SETHEEPP	136,337	5,742,858	42,123	2.96%
PSPP	76,388	2,081,965	27,255	3.36%
July 2009 SETHEEPP	136,158	6,054,528	44,467	2.74%
PSPP	78,792	2,282,081	28,963	3.09%
July 2011 SETHEEPP	135,588	6,058,348	44,682	0.24%
PSPP	79,488	2,354,939	29,626	1.14%

**SCHEDULE OF RETIRED MEMBER VALUATION DATA**

<b>Actuarial Valuation</b>	<b>Number</b>	<b>Annual Allowances In Thousands</b>	<b>Average Annual Allowances</b>	<b>Average Annual Percentage Increase In Annual Allowances</b>
July 2001 SETHEEPP	57,081	\$ 693,788	\$12,154	5.41%
PSPP	20,750	101,888	4,910	5.18%
July 2003 SETHEEPP	60,606	799,029	13,184	4.15%
PSPP	22,673	120,553	5,317	4.06%
July 2005 SETHEEPP	65,094	939,549	14,434	4.63%
PSPP	24,799	143,275	5,777	4.24%
July 2007 SETHEEPP	70,703	1,117,789	15,810	4.66%
PSPP	27,527	174,211	6,329	4.67%
July 2009 SETHEEPP	77,310	1,281,514	16,576	2.39%
PSPP	30,565	205,326	6,718	3.03%
July 2011 SETHEEPP	83,041	1,457,974	17,557	2.92%
PSPP	33,544	241,910	7,212	3.61%

**ACTUARIAL DATA  
(CONTINUED)**

**SCHEDULE OF RETIRED MEMBER ACTIVITY**

Actuarial Valuation July 1	Added to Rolls		Removed from Rolls		Rolls End of Year		Percentage Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
2001 SETHEEPP	n/a	n/a	n/a	n/a	57,081	\$ 693,788	n/a	n/a
PSPP	n/a	n/a	n/a	n/a	20,750	101,888	n/a	n/a
2003 SETHEEPP	7,597	\$141,252	4,072	\$36,011	60,606	799,029	15.17%	\$ 13,184
PSPP	3,320	24,133	1,397	5,468	22,673	120,553	18.32%	5,317
2005 SETHEEPP	8,453	179,572	3,965	39,052	65,094	939,549	17.59%	14,434
PSPP	3,705	29,169	1,579	6,447	24,799	143,275	18.85%	5,777
2007 SETHEEPP	9,427	219,034	3,818	40,794	70,703	1,117,789	18.97%	15,810
PSPP	4,396	38,751	1,668	7,815	27,527	174,211	21.59%	6,329
2009 SETHEEPP	10,677	212,772	4,070	49,047	77,310	1,281,514	14.65%	16,576
PSPP	4,752	39,522	1,714	8,407	30,565	205,326	17.86%	6,718
2011 SETHEEPP	10,090	233,149	4,359	56,689	83,041	1,457,974	13.77%	17,557
PSPP	4,955	47,632	1,976	11,048	33,544	241,910	17.82%	7,212

*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, 2011*

	<b>State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEPP)</b>	<b>Political Subdivision Pension Plan (PSPP)</b>	<b>Total</b>
<b>ASSETS</b>			
Present assets creditable to			
Employer accumulation fund	\$ 26,411,200,293	\$ 5,461,751,471	\$ 31,872,951,764
Members' accumulation fund	3,706,978,263	1,100,852,325	4,807,830,588
Total present assets	<u>30,118,178,556</u>	<u>6,562,603,796</u>	<u>36,680,782,352</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	2,179,663,929	886,440,557	3,066,104,486
Accrued liability	2,589,446,292	799,102,966	3,388,549,258
Total employer accumulation	<u>4,769,110,221</u>	<u>1,685,543,523</u>	<u>6,454,653,744</u>
Member's accumulation fund	<u>1,836,350,124</u>	<u>582,617,580</u>	<u>2,418,967,704</u>
Total prospective contributions	<u>6,605,460,345</u>	<u>2,268,161,103</u>	<u>8,873,621,448</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 36,723,638,901</u></u>	<u><u>\$ 8,830,764,899</u></u>	<u><u>\$ 45,554,403,800</u></u>
<b>LIABILITIES</b>			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	15,941,291,810	2,560,587,467	18,501,879,277
Present active members	20,028,868,907	6,013,575,239	26,042,444,146
Former members	<u>753,478,184</u>	<u>256,602,193</u>	<u>1,010,080,377</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 36,723,638,901</u></u>	<u><u>\$ 8,830,764,899</u></u>	<u><u>\$ 45,554,403,800</u></u>

UNAUDITED

## SHORT-TERM SOLVENCY TEST

### SHORT-TERM SOLVENCY TEST

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 SETHEEP	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP	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 SETHEEP	\$ 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 SETHEEP	\$ 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 SETHEEP	\$ 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 SETHEEP	\$ 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%
2011 SETHEEP	\$ 3,707.0	\$ 15,941.3	\$ 13,059.3	\$ 30,118.2	100%	100%	80%
PSPP	1,100.8	2,560.6	3,700.3	6,562.6	100%	100%	78%
Total	\$ 4,807.8	\$ 18,501.9	\$ 16,759.6	\$ 36,680.8	100%	100%	80%

**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%
2011	40,069.3	36,680.8	91.54%	3,388.5	8,413.3	40.28%

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.

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**SELECTED ACTUARIAL FUNDING INFORMATION**


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**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
2011	7.50%	4.75% (3)	2,589,446,292	799,102,966	9 (5)

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.
- (5) Effective July 1, 2011, the amortization period was reset to six years for teachers and nine years for the state.

## ANALYSIS OF FINANCIAL EXPERIENCE

## GAIN AND LOSS ANALYSIS, JULY 1, 2011 VALUATION

	State and Higher Education	Teacher
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2009 Valuation	15.01%	9.05%
Investment Results	(1.86%)	(1.61%)
Salary Increases: The annual weighted-average rate of salary increase during the 2009-2011 period was below the assumed age-based rate used in preparing the 2009 valuation report. This resulted in a reduction in the contribution rate.	(1.52%)	(1.23%)
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	(0.30%)	(0.07%)
Cost-of-Living Escalation: COLA in 2010 and 2011 were 2.7% and 1.5%, respectively, for combined effect of 2.1%, which is less than the assumed 2.5% per year.	(0.25%)	(0.23%)
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	0.26%	0.31%
Other	0.46%	(0.47%)
Re-amortization of unfunded liability (6-year amortization for teachers, 9-year amortization for State)	3.24%	3.03%
Effective Employer Normal Cost Rate Pursuant to 2011 Valuation	<u>15.14%</u>	<u>8.88%</u>

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

Unfunded Actuarial Liabilities at June 30, 2011	\$ 2,589,446,292
Interest Accrual Fiscal Year 2011-2012	162,130,606
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2011-2012)	(427,704,881)
Unfunded Actuarial Liabilities at June 30, 2012	<u>\$ 2,323,872,017</u>

## 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 2012**

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	9,540		9,540		9,540		9,540		9,540	
	Total	<u>\$13,084</u>	87.2%	<u>\$14,265</u>	95.1%	<u>\$15,446</u>	103.0%	<u>\$16,628</u>	110.9%	<u>\$17,809</u>	118.7%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$11,025	
	Social Security	11,052		11,052		11,052		11,052		11,052	
	Total	<u>\$15,777</u>	78.9%	<u>\$17,352</u>	86.8%	<u>\$18,927</u>	94.6%	<u>\$20,502</u>	102.5%	<u>\$22,077</u>	110.4%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$11,813		\$13,781	
	Social Security	12,576		12,576		12,576		12,576		12,576	
	Total	<u>\$18,482</u>	73.9%	<u>\$20,451</u>	81.8%	<u>\$22,420</u>	89.7%	<u>\$24,389</u>	97.6%	<u>\$26,357</u>	105.4%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$11,813		\$14,175		\$16,538	
	Social Security	14,088		14,088		14,088		14,088		14,088	
	Total	<u>\$21,176</u>	70.6%	<u>\$23,538</u>	78.5%	<u>\$25,901</u>	86.3%	<u>\$28,263</u>	94.2%	<u>\$30,626</u>	102.1%
\$35,000	TCRS	\$ 8,269		\$11,025		\$13,781		\$16,538		\$19,294	
	Social Security	15,600		15,600		15,600		15,600		15,600	
	Total	<u>\$23,869</u>	68.2%	<u>\$26,625</u>	76.1%	<u>\$29,381</u>	83.9%	<u>\$32,138</u>	91.8%	<u>\$34,894</u>	99.7%
\$40,000	TCRS	\$ 9,450		\$12,600		\$15,750		\$18,900		\$22,050	
	Social Security	17,112		17,112		17,112		17,112		17,112	
	Total	<u>\$26,562</u>	66.4%	<u>\$29,712</u>	74.3%	<u>\$32,862</u>	82.2%	<u>\$36,012</u>	90.0%	<u>\$39,162</u>	97.9%
\$45,000	TCRS	\$10,631		\$14,175		\$17,719		\$21,263		\$24,806	
	Social Security	18,636		18,636		18,636		18,636		18,636	
	Total	<u>\$29,267</u>	65.0%	<u>\$32,811</u>	72.9%	<u>\$36,355</u>	80.8%	<u>\$39,899</u>	88.7%	<u>\$43,442</u>	96.5%
\$50,000	TCRS	\$11,813		\$15,750		\$19,688		\$23,625		\$27,563	
	Social Security	20,148		20,148		20,148		20,148		20,148	
	Total	<u>\$31,961</u>	63.9%	<u>\$35,898</u>	71.8%	<u>\$39,836</u>	79.7%	<u>\$43,773</u>	87.5%	<u>\$47,711</u>	95.4%
\$55,000	TCRS	\$12,994		\$17,325		\$21,656		\$25,988		\$30,319	
	Social Security	21,648		21,648		21,648		21,648		21,648	
	Total	<u>\$34,642</u>	63.0%	<u>\$38,973</u>	70.9%	<u>\$43,304</u>	78.7%	<u>\$47,636</u>	86.6%	<u>\$51,967</u>	94.5%
\$60,000	TCRS	\$14,175		\$18,900		\$23,625		\$28,350		\$33,075	
	Social Security	22,356		22,356		22,356		22,356		22,356	
	Total	<u>\$36,531</u>	60.9%	<u>\$41,256</u>	68.8%	<u>\$45,981</u>	76.6%	<u>\$50,706</u>	84.5%	<u>\$55,431</u>	92.4%
\$65,000	TCRS	\$15,482		\$20,643		\$25,804		\$30,965		\$36,125	
	Social Security	23,076		23,076		23,076		23,076		23,076	
	Total	<u>\$38,558</u>	59.3%	<u>\$43,719</u>	67.3%	<u>\$48,880</u>	75.2%	<u>\$54,041</u>	83.1%	<u>\$59,201</u>	91.1%
\$70,000	TCRS	\$16,860		\$22,481		\$28,101		\$33,721		\$39,341	
	Social Security	23,784		23,784		23,784		23,784		23,784	
	Total	<u>\$40,644</u>	58.1%	<u>\$46,265</u>	66.1%	<u>\$51,885</u>	74.1%	<u>\$57,505</u>	82.1%	<u>\$63,125</u>	90.2%

\* 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 2012. 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 2012;
- (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](http://tcrs.tn.gov)

**MAJOR LEGISLATIVE IMPROVEMENTS**

- |   |   |
|---|---|
| <p><b>1972</b> 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><b>1973</b> Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.</p> <p><b>1974</b> 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><b>1976</b> 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><b>1978</b> 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><b>1980</b> 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><b>1981</b> Noncontributory retirement for state employees and higher education employees adopted. Employees' contributions, up to 5 percent, were assumed by the state.</p> <p><b>1983</b> An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p><b>1984</b> 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><b>1985</b> \$22 million ad-hoc increase granted to retirees.</p> | <p><b>1987</b> 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><b>1990</b> Retirement incentive for state employees.</p> <p><b>1991</b> 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><b>1992</b> Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p><b>1993</b> Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5 percent authorized.</p> <p><b>1997</b> Compounded COLA for retirees approved.</p> <p><b>1998</b> 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><b>1999</b> Group 1 benefit maximum increased to 90 percent.</p> <p><b>2000</b> Group 2 benefit maximum increased to 80 percent.</p> <p><b>2001</b> Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p><b>2005</b> Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p><b>2006</b> Ad-hoc increase granted to members retired prior to 1989.</p> <p><b>2007</b> Public Safety Officer benefits were enhanced.</p> <p><b>2012</b> New plan options offered to local governments.</p> |
|---|---|



STATISTICAL SECTION

*BURGESS FALLS*  
*BY GARY WHEELER*  
*CLAIMS ADMINISTRATION*

**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 74-77 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 78-95 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**

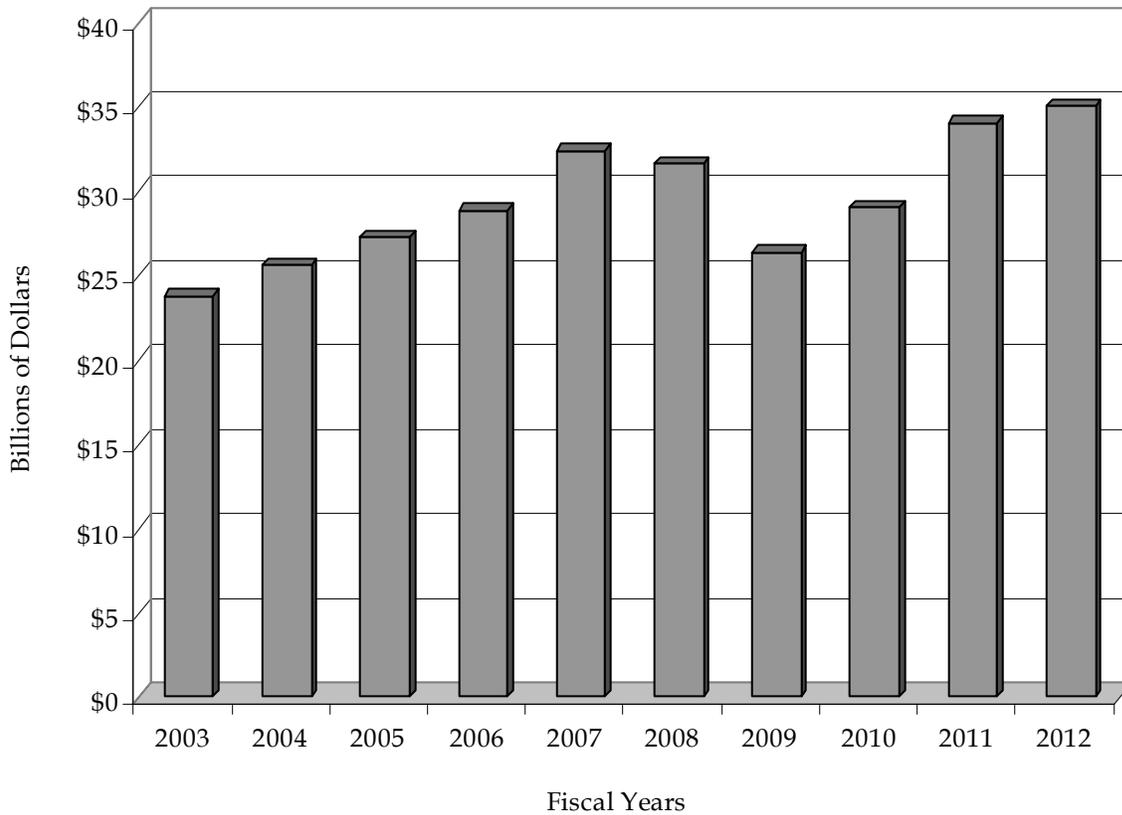
*Fiscal Years 2003-2012*

*Expressed in Thousands*

<b>As of June 30</b>	<b>Fair Value</b>	<b>As of June 30</b>	<b>Fair Value</b>
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
2007	32,365,969	2012	34,912,773

**HISTORICAL FAIR VALUE**

*Fiscal Years 2003-2012*



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES  
FOR THE YEAR ENDED JUNE 30, 2012**

**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.

	<b>SETHEEPP</b>	<b>PSPP</b>	<b>Total</b>
<i>June 30, 2011 Member Reserve Fund</i>	\$3,704,665,259	\$1,102,479,687	\$4,807,144,946
Member Contributions	194,179,660	69,575,901	263,755,561
Employer Provided Contributions	12,384,597	8,521,338	20,905,935
Interest	169,562,875	51,840,355	221,403,230
Refunded Account Balances	(22,574,919)	(17,280,180)	(39,855,099)
Transfers to Employer Fund of Retiring Members	(309,052,346)	(64,112,999)	(373,165,345)
	<u>\$3,749,165,126</u>	<u>\$1,151,024,102</u>	<u>\$4,900,189,228</u>
<i>June 30, 2012 Member Reserve Fund</i>	<u>\$3,749,165,126</u>	<u>\$1,151,024,102</u>	<u>\$4,900,189,228</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.

	<b>SETHEEPP</b>	<b>PSPP</b>	<b>Total</b>
<i>June 30, 2011 Employer Reserve Fund</i>	\$23,934,154,691	\$4,922,008,607	\$28,856,163,298
Employer Contributions	731,352,072	271,361,052	1,002,713,124
Employer Refunds	0	(236,453)	(236,453)
Investment Income	1,473,649,864	326,414,125	1,800,063,989
Transfers from Retiring Members' Account	309,052,346	64,112,999	373,165,345
Employer Provided Contributions	(12,384,597)	(8,521,338)	(20,905,935)
Interest Credited to Members' Account	(169,562,875)	(51,840,355)	(221,403,230)
Lump-Sum Death Benefits	(4,514,543)	(1,689,664)	(6,204,207)
Retirement and Survivors Annuities	(1,509,513,484)	(254,092,096)	(1,763,605,580)
Administrative Expenses	(4,749,757)	(2,416,850)	(7,166,607)
	<u>\$24,747,483,717</u>	<u>\$5,265,100,027</u>	<u>\$30,012,583,744</u>
<i>June 30, 2012 Employer Reserve Fund</i>	<u>\$24,747,483,717</u>	<u>\$5,265,100,027</u>	<u>\$30,012,583,744</u>

## SCHEDULES OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

### 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	
<b>SETHEEPP</b>							
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
6/30/2012	194,180	731,352	1,473,650	1,514,027	4,751	22,575	857,829
<b>PSPP</b>							
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
6/30/2012	69,576	271,361	326,414	255,782	2,416	17,517	391,636

SCHEDULES OF BENEFIT EXPENSES

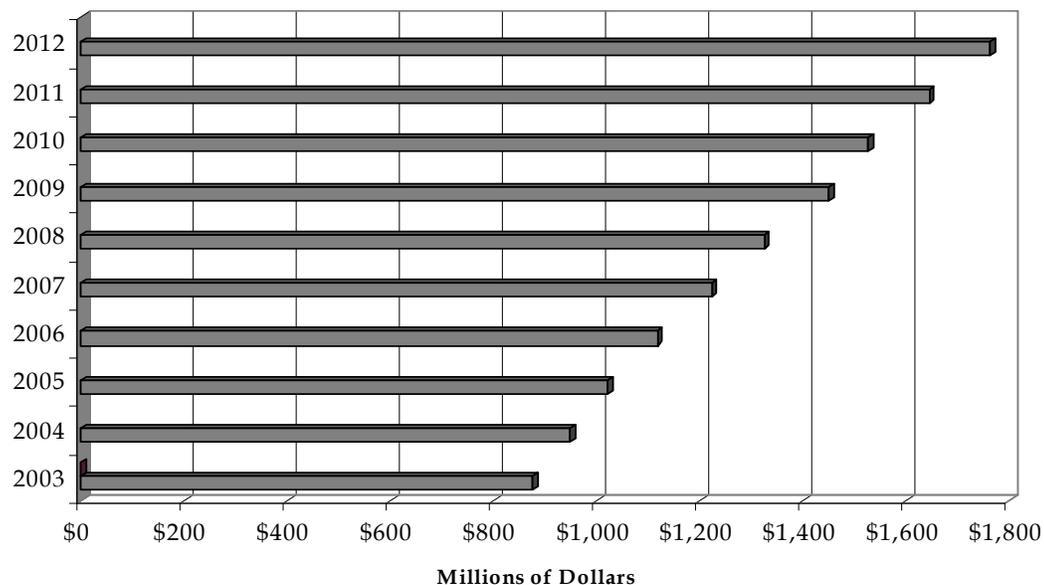
SCHEDULES OF BENEFIT EXPENSES

*Expressed in Thousands*

Year Ending	Base Annuity	Disability Annuity	Survivor Annuity	Cost of Living	Lump-Sum Death Benefits	Total Benefits	Refunds	Total
<b>SETHEPP</b>								
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
6/30/2012	1,145,293	28,840	68,705	266,674	4,515	1,514,027	22,575	1,536,602
<b>PSPP</b>								
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
6/30/2012	201,169	5,066	12,068	35,790	1,689	255,782	17,517	273,299

ANNUAL BENEFIT PAYMENTS

*Fiscal Years 2003-2012*



**SCHEDULES OF ACTIVE MEMBERS**

**SCHEDULE OF ACTIVE MEMBERS**

*by Service Credit*

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
0-4	10,329	18,123	5,098	25,373	58,923
5-9	10,195	17,139	3,462	19,412	50,208
10-14	6,919	13,676	2,418	14,083	37,096
15-19	4,374	9,713	1,687	8,605	24,379
20-24	3,286	5,659	1,442	5,291	15,678
25-29	3,718	4,661	1,172	3,159	12,710
30-34	1,833	2,542	752	1,486	6,613
35-39	1,109	1,541	468	599	3,717
40-44	327	343	160	143	973
Over 44	81	52	34	29	196
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>

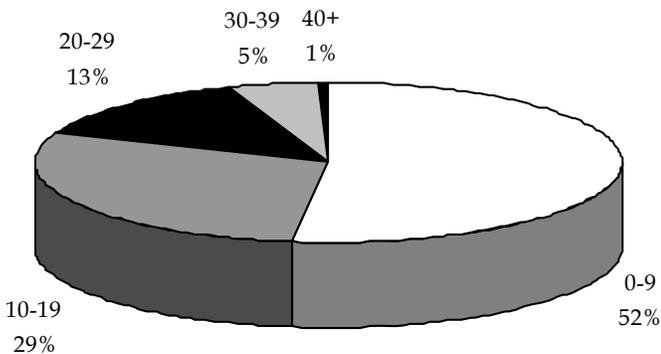
**SCHEDULE OF ACTIVE MEMBERS**

*by Enrollment Date*

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
1940s	4	13	2	21	40
1950s	25	4	2	4	35
1960s	176	182	71	25	454
1970s	2,240	3,476	1,009	1,220	7,945
1980s	7,555	9,083	2,695	6,831	26,164
1990s	9,729	20,261	3,620	19,409	53,019
2000s	17,097	31,805	6,773	38,119	93,794
2010s	5,345	8,625	2,521	12,551	29,042
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>

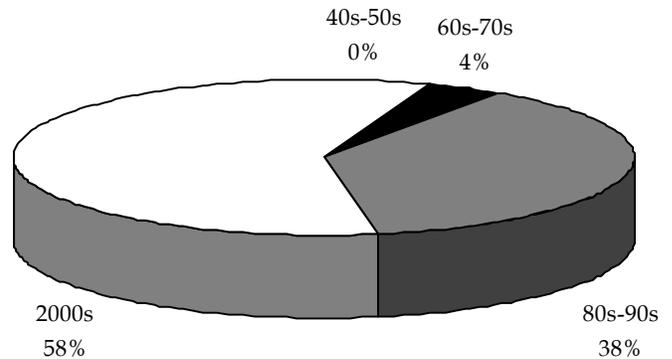
**PERCENTAGE OF ACTIVE MEMBERS**

*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	23	17	4	49	93	
20-29	3,148	9,391	1,102	6,137	19,778	
30-39	8,053	20,893	2,714	14,072	45,732	
40-49	10,393	19,783	4,076	22,292	56,544	
50-54	6,618	8,402	2,750	12,112	29,882	
55-59	6,629	8,344	2,845	11,157	28,975	
60-64	4,777	5,226	2,001	7,406	19,410	
65-69	1,823	1,187	835	3,193	7,038	
Over 69	707	206	366	1,762	3,041	
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>	

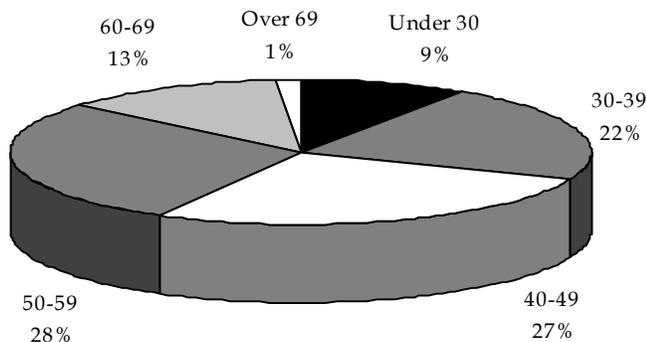
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP		Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees		
Less than 20	1,143	150	253	1,198	2,744	
20-24	8,233	24,388	2,559	10,341	45,521	
25-29	9,167	19,646	3,198	11,852	43,863	
30-34	6,318	10,090	2,652	12,111	31,171	
35-39	5,282	7,858	2,329	12,773	28,242	
40-44	4,274	5,486	1,955	10,988	22,703	
45-49	3,307	3,161	1,625	7,917	16,010	
50-54	2,380	1,685	1,184	5,361	10,610	
55-59	1,449	748	674	3,381	6,252	
60-64	454	203	197	1,546	2,400	
65-69	127	29	47	524	727	
Over 70	37	5	20	188	250	
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>	

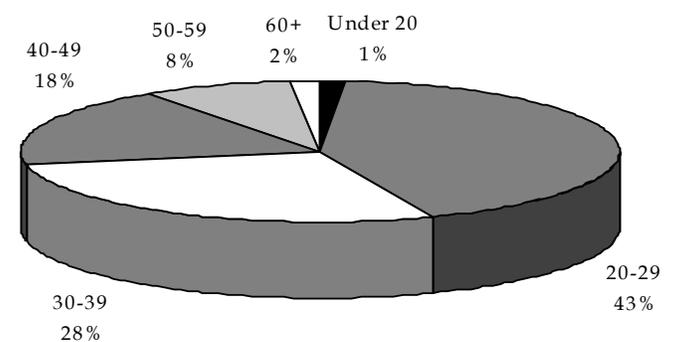
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



## SCHEDULES OF ACTIVE MEMBERS

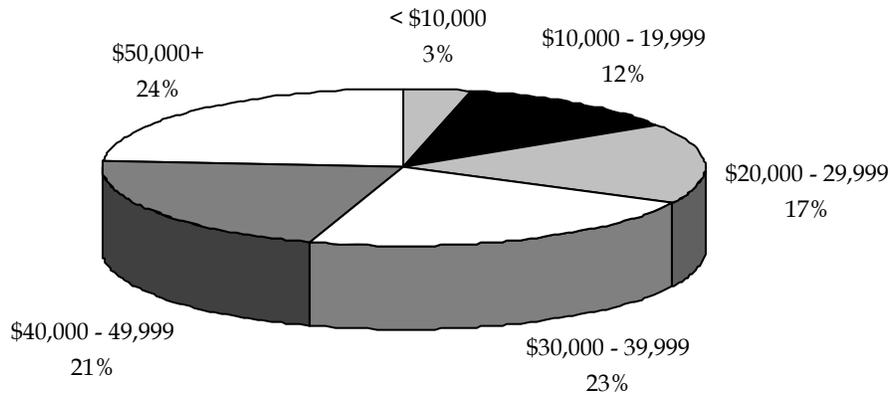
### SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than \$10,000	1,609	221	567	4,950	7,347
\$10,000-19,999	2,498	804	1,281	21,629	26,212
\$20,000-29,999	10,523	1,521	4,181	18,552	34,777
\$30,000-39,999	11,350	15,910	4,025	16,234	47,519
\$40,000-49,999	6,957	26,294	2,488	8,688	44,427
\$50,000+	9,234	28,699	4,151	8,127	50,211
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>

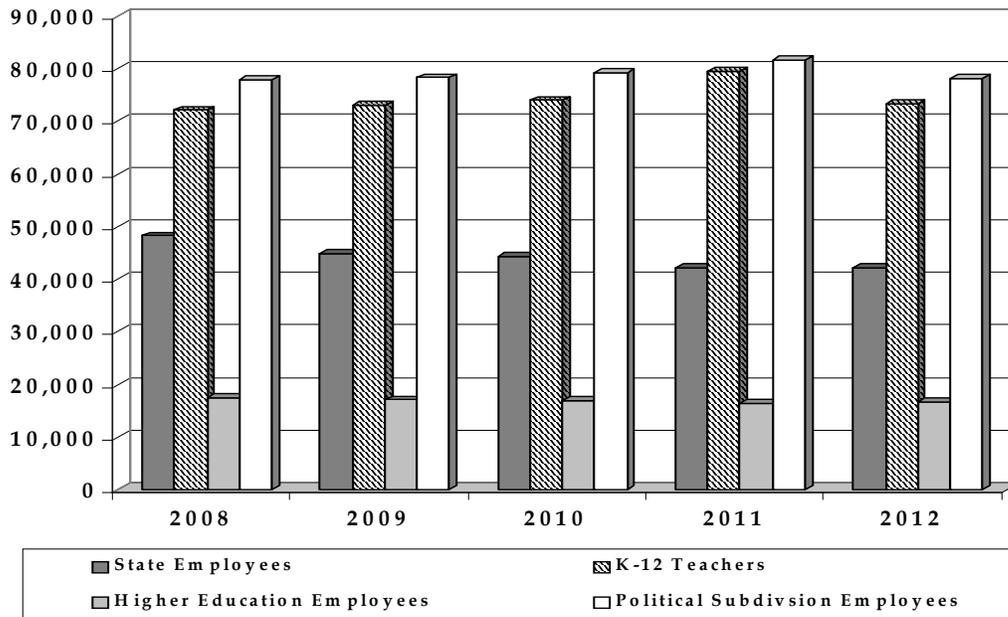
### PERCENTAGE OF ACTIVE MEMBERS

by Salary



### ACTIVE MEMBERS

Fiscal Years 2008-2012



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	15,071	25,153	7,812	22,313	70,349
Option I	4,376	3,290	2,699	4,777	15,142
Option II	1,381	1,253	857	1,232	4,723
Option III	3,905	4,049	1,783	3,733	13,470
Option IV	2,650	3,661	1,371	1,878	9,560
S.S. Leveling	2,307	4,399	635	1,777	9,118
Others	45	23	5	64	137
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

- \*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

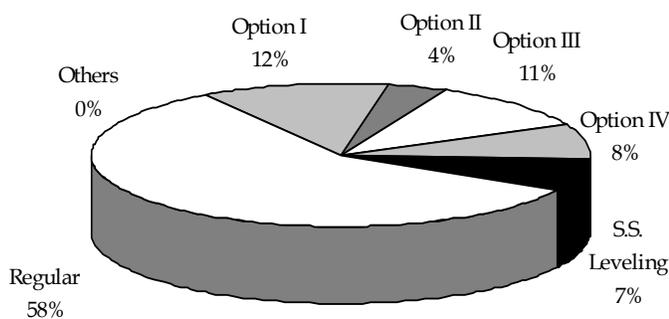
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Retirees:					
Service	23,169	35,122	11,854	27,743	97,888
Early	3,948	5,242	2,330	5,159	16,679
Disability	1,982	1,191	747	2,434	6,354
<b>Total Retirees</b>	<b>29,099</b>	<b>41,555</b>	<b>14,931</b>	<b>35,336</b>	<b>120,921</b>
Survivors	636	273	231	438	1,578
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

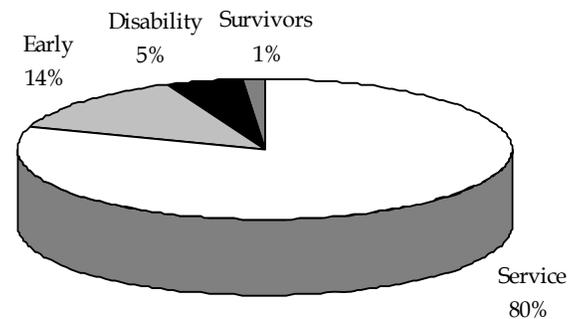
PERCENTAGE OF RETIRED MEMBERS

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	Leveling	Other
0-500	9,097	6,339	1,796	735	227	4,949	1,517	369	1,164	634	456	8
501-1,000	7,084	4,712	1,228	972	172	3,872	1,069	280	904	542	405	12
1,001-1,500	4,904	3,998	592	219	95	2,509	616	199	640	401	523	16
1,501-2,000	3,548	3,226	211	45	66	1,666	442	130	524	377	402	7
2,001-2,500	2,185	2,082	69	6	28	936	261	104	293	303	286	2
2,501-3,000	1,250	1,203	29	3	15	527	171	65	173	169	145	0
3,001-3,500	668	641	14	0	13	264	110	59	103	88	44	0
3,501-4,000	379	368	5	0	6	134	66	38	55	59	27	0
over 4,000	620	600	4	2	14	214	124	137	49	77	19	0
<b>Totals</b>	<b>29,735</b>	<b>23,169</b>	<b>3,948</b>	<b>1,982</b>	<b>636</b>	<b>15,071</b>	<b>4,376</b>	<b>1,381</b>	<b>3,905</b>	<b>2,650</b>	<b>2,307</b>	<b>45</b>

#### TEACHERS

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	4,609	3,467	973	150	19	2,919	485	180	503	304	217	1
501-1,000	6,027	3,856	1,661	459	51	3,728	672	190	603	484	348	2
1,001-1,500	6,877	5,004	1,419	398	56	3,892	590	185	755	587	863	5
1,501-2,000	8,305	7,347	744	150	64	4,618	598	218	982	862	1,018	9
2,001-2,500	7,552	7,169	318	29	36	4,689	419	193	644	722	882	3
2,501-3,000	4,313	4,194	87	4	28	2,666	271	130	303	354	586	3
3,001-3,500	2,112	2,075	26	1	10	1,301	122	69	149	177	294	0
3,501-4,000	1,017	1,000	11	0	6	637	66	42	66	88	118	0
over 4,000	1,016	1,010	3	0	3	703	67	46	44	83	73	0
<b>Totals</b>	<b>41,828</b>	<b>35,122</b>	<b>5,242</b>	<b>1,191</b>	<b>273</b>	<b>25,153</b>	<b>3,290</b>	<b>1,253</b>	<b>4,049</b>	<b>3,661</b>	<b>4,399</b>	<b>23</b>

#### HIGHER EDUCATION EMPLOYEES

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	5,209	3,748	1,089	306	66	3,039	842	243	569	331	184	1
501-1,000	3,570	2,476	707	340	47	1,998	596	157	394	310	115	0
1,001-1,500	2,156	1,739	302	81	34	1,056	363	143	252	224	117	1
1,501-2,000	1,344	1,170	132	15	27	568	257	87	186	158	87	1
2,001-2,500	859	783	57	3	16	333	185	54	126	104	56	1
2,501-3,000	631	596	21	2	12	248	128	47	90	81	37	0
3,001-3,500	444	424	12	0	8	189	97	33	57	48	20	0
3,501-4,000	308	294	6	0	8	100	77	25	52	43	10	1
over 4,000	641	624	4	0	13	281	154	68	57	72	9	0
<b>Totals</b>	<b>15,162</b>	<b>11,854</b>	<b>2,330</b>	<b>747</b>	<b>231</b>	<b>7,812</b>	<b>2,699</b>	<b>857</b>	<b>1,783</b>	<b>1,371</b>	<b>635</b>	<b>5</b>

#### POLITICAL SUBDIVISIONS

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	20,982	15,672	3,605	1,496	209	13,918	2,766	598	2,030	937	718	15
501-1,000	8,223	6,292	1,040	775	116	5,330	1,035	256	832	403	348	19
1,001-1,500	3,210	2,708	305	134	63	1,705	455	156	414	202	257	21
1,501-2,000	1,598	1,423	128	19	28	693	235	85	242	137	200	6
2,001-2,500	815	753	48	6	8	295	133	49	115	92	129	2
2,501-3,000	438	410	20	4	4	159	62	39	50	50	78	0
3,001-3,500	224	210	8	0	6	74	37	27	31	30	25	0
3,501-4,000	124	120	3	0	1	65	22	7	8	10	11	1
over 4,000	160	155	2	0	3	74	32	15	11	17	11	0
<b>Totals</b>	<b>35,774</b>	<b>27,743</b>	<b>5,159</b>	<b>2,434</b>	<b>438</b>	<b>22,313</b>	<b>4,777</b>	<b>1,232</b>	<b>3,733</b>	<b>1,878</b>	<b>1,777</b>	<b>64</b>

SCHEDULES OF RETIRED MEMBERS

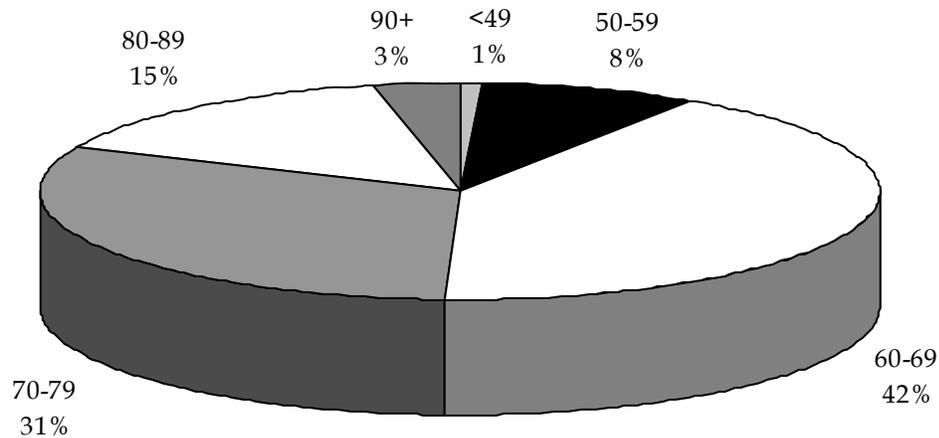
SCHEDULE OF RETIRED MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 40	136	67	24	100	327
40-44	110	58	35	96	299
45-49	178	93	68	184	523
50-54	603	382	252	569	1,806
55-59	2,417	2,944	880	2,158	8,399
60-64	5,329	8,984	2,117	5,714	22,144
65-69	6,676	10,292	3,212	8,143	28,323
70-74	5,185	6,812	2,945	7,034	21,976
75-79	3,850	4,763	2,330	5,338	16,281
80-84	2,715	3,698	1,740	3,547	11,700
85-89	1,684	2,183	1,028	1,884	6,779
90-94	694	1,037	420	805	2,956
95-99	146	430	98	179	853
Over 99	12	85	13	23	133
Total	<u>29,735</u>	<u>41,828</u>	<u>15,162</u>	<u>35,774</u>	<u>122,499</u>

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	34	2	2	48
1970s	371	800	156	336	1,663
1980s	2,451	4,181	1,357	2,598	10,587
1990s	7,777	10,280	4,408	8,473	30,938
2000s	14,406	19,634	7,264	18,050	59,354
2011s	4,720	6,894	1,975	6,313	19,902
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

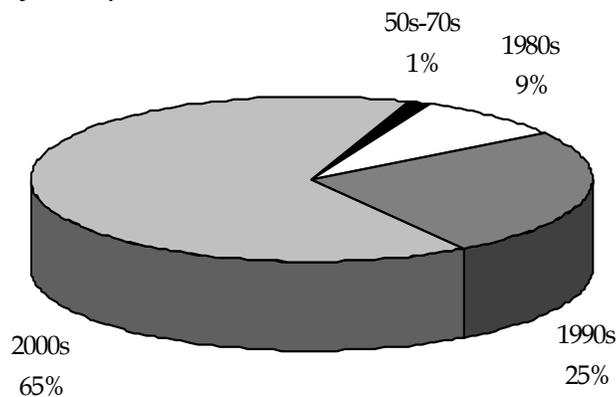
**SCHEDULE OF RETIRED MEMBERS**

*by Service Credit at Retirement*

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 10	6,181	3,218	2,984	8,076	20,459
10-14	3,791	2,706	2,083	6,552	15,132
15-19	3,236	3,106	1,814	5,689	13,845
20-24	3,486	4,449	1,841	5,157	14,933
25-29	3,157	5,580	1,678	3,942	14,357
30-34	6,195	14,249	2,867	4,443	27,754
35-39	2,420	6,019	1,213	1,380	11,032
40-44	1,003	2,163	525	439	4,130
Over 44	266	338	157	96	857
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

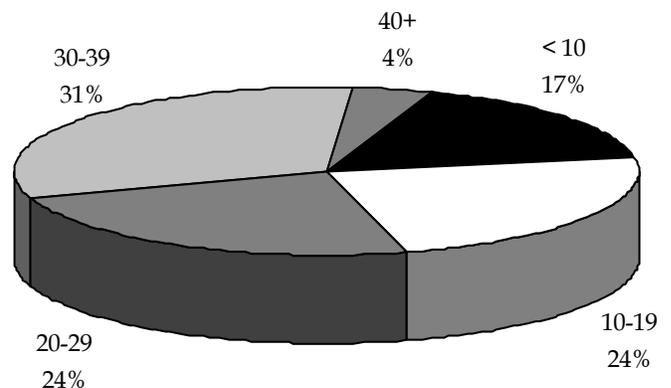
**PERCENTAGE OF RETIRED MEMBERS**

*by Date of Retirement*



**PERCENTAGE OF RETIRED MEMBERS**

*by Service Credit at Retirement*



## RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

### UNITED STATES

Alabama	672	Maryland	77	South Carolina	290	Indonesia	1
Alaska	19	Massachusetts	25	South Dakota	20	Ireland	1
Arizona	138	Michigan	108	Tennessee	113,236	Italy	1
Arkansas	405	Minnesota	26	Texas	452	Japan	1
California	191	Mississippi	1,174	Utah	24	Kenya	1
Colorado	98	Missouri	159	Vermont	9	Mexico	1
Connecticut	13	Montana	15	Virginia	526	Panama	1
Delaware	7	Nebraska	15	Washington	53	Poland	1
District of Columbia	12	Nevada	45	West Virginia	36	Romania	1
Florida	1,255	New Hampshire	17	Wisconsin	28	South Africa	1
Georgia	1,124	New Jersey	32	Wyoming	12	South Australia	1
Hawaii	9	New Mexico	41	Total U.S.	<u>122,460</u>	Spain	1
Idaho	30	New York	66			Switzerland	1
Illinois	147	North Carolina	585	<b>INT'L. COUNTRIES</b>		Thailand	1
Indiana	117	North Dakota	3	Canada	9	UK	<u>1</u>
Iowa	21	Ohio	135	Chile	1	Total Foreign Countries	31
Kansas	39	Oklahoma	77	France	2	US Virgin Islands	1
Kentucky	627	Oregon	52	Germany	1	Overseas Military Bases	7
Louisiana	73	Pennsylvania	90	Ghana	1	Total U.S.	<u>122,460</u>
Maine	28	Rhode Island	7	Greece	2	Total U.S. & Foreign	<u>122,499</u>

### TENNESSEE

Anderson	1,563	Fentress	387	Lauderdale	761	Roane	1,475
Bedford	679	Franklin	872	Lawerence	862	Robertson	1,062
Benton	358	Gibson	1,145	Lewis	294	Rutherford	3,461
Bledsoe	390	Giles	489	Lincoln	668	Scott	490
Blount	2,847	Grainger	350	Loudon	825	Sequatchie	328
Bradley	1,599	Greene	2,111	McMinn	921	Sevier	1,192
Campbell	847	Grundy	306	McNairy	495	Shelby	12,129
Cannon	324	Hamblen	1,286	Macon	263	Smith	369
Carroll	599	Hamilton	5,513	Madison	2,667	Stewart	220
Carter	1,730	Hancock	101	Marion	487	Sullivan	3,434
Cheatem	771	Hardeman	926	Marshall	533	Sumner	2,708
Chester	418	Hardin	652	Mauy	1,119	Tipton	835
Claiborne	753	Hawkins	1,038	Meigs	181	Trousdale	181
Clay	162	Haywood	591	Monroe	731	Unicoi	415
Cocke	690	Henderson	386	Montgomery	2,683	Union	320
Coffee	944	Henry	854	Moore	131	VanBuren	242
Crockett	298	Hickman	544	Morgan	653	Warren	839
Cumberland	1,056	Houston	111	Obion	822	Washington	3,077
Davidson	8,503	Humphreys	452	Overton	524	Wayne	384
Decatur	259	Jackson	254	Perry	245	Weakley	1,052
Dekalb	327	Jefferson	978	Pickett	137	White	588
Dickson	920	Johnson	465	Polk	245	Williamson	2,418
Dyer	632	Knox	7,232	Putnam	2,155	Wilson	2,108
Fayette	989	Lake	237	Rhea	569	Total	<u>113,236</u>

**AVERAGE BENEFIT PAYMENTS SCHEDULE**

**AVERAGE BENEFIT PAYMENT SCHEDULE**

*Fiscal Year of Retirement*

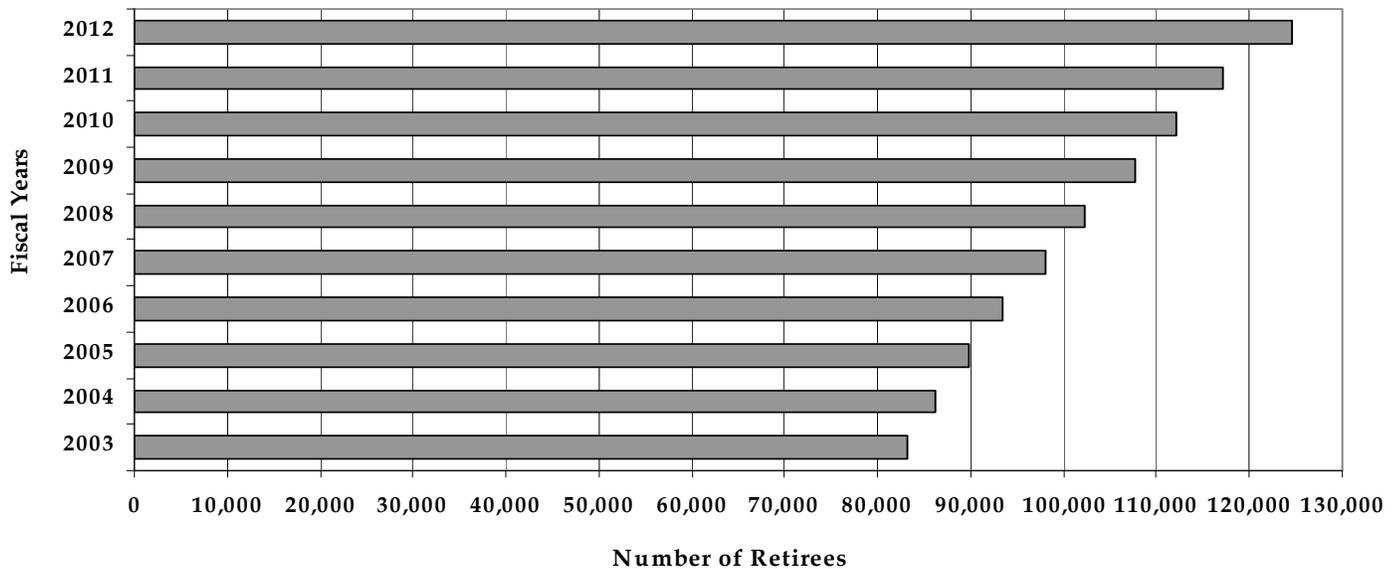
		<b>Years of Service Credit</b>				
		<b>10 - 14</b>	<b>15 - 19</b>	<b>20 - 24</b>	<b>25 - 29</b>	<b>30 or more</b>
2003	Average Monthly Benefit	\$ 578	\$ 842	\$ 1,128	\$ 1,644	\$ 2,503
	Number of Retirees	353	340	329	374	1,527
	Average Final Salary	\$ 29,055	\$ 30,035	\$ 31,584	\$ 37,371	\$ 45,312
2004	Average Monthly Benefit	\$ 576	\$ 823	\$ 1,252	\$ 1,721	\$ 2,541
	Number of Retirees	409	353	381	403	1,901
	Average Final Salary	\$ 29,742	\$ 30,352	\$ 35,121	\$ 39,772	\$ 47,021
2005	Average Monthly Benefit	\$ 548	\$ 841	\$ 1,191	\$ 1,755	\$ 2,558
	Number of Retirees	385	405	407	408	1,900
	Average Final Salary	\$ 29,260	\$ 31,600	\$ 34,614	\$ 40,605	\$ 48,067
2006	Average Monthly Benefit	\$ 575	\$ 882	\$ 1,250	\$ 1,738	\$ 2,556
	Number of Retirees	428	376	467	408	2,069
	Average Final Salary	\$ 31,529	\$ 33,859	\$ 38,164	\$ 42,227	\$ 49,252
2007	Average Monthly Benefit	\$ 593	\$ 855	\$ 1,267	\$ 1,793	\$ 2,651
	Number of Retirees	643	440	536	513	2,191
	Average Final Salary	\$ 32,935	\$ 33,473	\$ 38,904	\$ 44,501	\$ 51,577
2008	Average Monthly Benefit	\$ 572	\$ 890	\$ 1,298	\$ 1,647	\$ 2,502
	Number of Retirees	581	478	522	410	2,062
	Average Final Salary	\$ 33,545	\$ 36,722	\$ 41,246	\$ 43,330	\$ 51,085
2009	Average Monthly Benefit	\$ 557	\$ 920	\$ 1,246	\$ 1,704	\$ 2,548
	Number of Retirees	675	566	672	572	2,616
	Average Final Salary	\$ 32,440	\$ 37,976	\$ 39,783	\$ 44,912	\$ 51,353
2010	Average Monthly Benefit	\$ 587	\$ 957	\$ 1,254	\$ 1,679	\$ 2,619
	Number of Retirees	666	508	608	595	2,259
	Average Final Salary	\$ 35,205	\$ 40,326	\$ 41,173	\$ 45,782	\$ 53,628
2011	Average Monthly Benefit	\$ 624	\$ 910	\$ 1,291	\$ 1,736	\$ 2,648
	Number of Retirees	792	685	736	652	2,405
	Average Final Salary	\$ 37,912	\$ 39,196	\$ 42,973	\$ 48,077	\$ 54,662
2012	Average Monthly Benefit	\$ 640	\$ 984	\$ 1,326	\$ 1,828	\$ 2,759
	Number of Retirees	718	616	633	630	2,284
	Average Final Salary	\$ 38,870	\$ 42,092	\$ 44,264	\$ 50,455	\$ 56,606

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 2003-2012*



**PRIOR SERVICE ESTABLISHED**

*for the Year Ended June 30, 2012*

	Type of Service	Members	Years of Service	Payments
State:	Backpayment	102	108	\$ 381,004
	Military	89	170	9,038
	Redeposit	37	176	566,628
	<b>Totals</b>	<b>228</b>	<b>454</b>	<b>\$ 956,670</b>
Teachers:	Backpayment	53	16	\$ 599,127
	Military	35	73	1,815
	Redeposit	105	467	1,541,119
	<b>Totals</b>	<b>193</b>	<b>556</b>	<b>\$ 2,142,061</b>
Higher Education:	Backpayment	170	145	\$ 68,177
	Military	23	45	0
	Redeposit	11	34	86,936
	<b>Totals</b>	<b>204</b>	<b>224</b>	<b>\$ 155,113</b>
Political Subdivisions:	Backpayment	555	682	\$ 500,494
	Military	79	170	0
	Redeposit	37	157	323,173
	<b>Totals</b>	<b>671</b>	<b>1,009</b>	<b>\$ 823,667</b>
Grand Totals:	Backpayment	880	951	\$ 1,548,802
	Military	226	458	10,853
	Redeposit	190	834	2,517,856
	<b>Totals</b>	<b>1,296</b>	<b>2,243</b>	<b>\$ 4,077,511</b>

**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 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, 2012*

	Type of Service	Number of Members	Total Years of Service	Payments (Net of Refunds)
State:	Backpayment	1	4	\$ 3,121
	Military	0	0	0
	Redeposit	16	90	53,382
	<b>Totals</b>	<u>17</u>	<u>94</u>	<u>\$ 56,503</u>
Teachers:	Backpayment	8	8	\$ 15,077
	Military	0	0	0
	Redeposit	34	146	183,915
	<b>Totals</b>	<u>42</u>	<u>154</u>	<u>\$ 198,992</u>
Higher Education:	Backpayment	3	6	\$ 3,877
	Military	0	0	0
	Redeposit	4	12	11,501
	<b>Totals</b>	<u>7</u>	<u>18</u>	<u>\$ 15,378</u>
Political Subdivisions:	Backpayment	13	62	\$ 35,437
	Military	0	0	0
	Redeposit	36	204	92,055
	<b>Totals</b>	<u>49</u>	<u>266</u>	<u>\$ 127,492</u>
Grand Totals:	Backpayment	25	80	\$ 57,512
	Military	0	0	0
	Redeposit	90	452	340,853
	<b>Totals</b>	<u>115</u>	<u>532</u>	<u>\$ 398,365</u>

## REFUND ACTIVITY AND POLITICAL SUBDIVISION PARTICIPATION

### REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
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
2012	4,349	40,091,553

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
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
2012	178	89	221	488

## HISTORICAL EMPLOYER CONTRIBUTION RATES

### HISTORICAL EMPLOYER CONTRIBUTION RATES

*Expressed as a Percentage of Salary*

Year Ended June 30	State Employees	Teachers	Higher Education Employees
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
2012	14.91	9.05	14.91

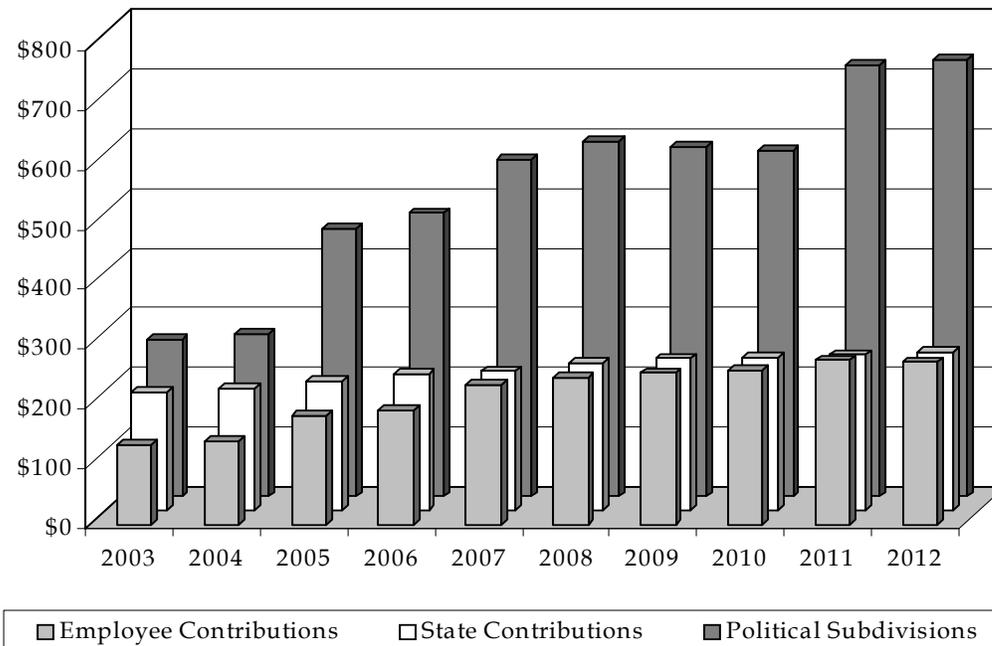
The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

- (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 was made due to return to work reform.

## RETIREMENT CONTRIBUTIONS

*Fiscal Years 2003-2012*

*Expressed in Millions*



SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEPP

Participating Government	2012			Participating Government	2003		
	Covered Employees	Rank	% of Total System		Covered Employees	Rank	% of Total System
Teachers	138,542	1	50.81%	Teachers	110,672	1	49.38%
State Employees	91,704	2	33.64%	State Employees	76,888	2	34.30%
Higher Education Employees	42,406	3	15.55%	Higher Education Employees	36,582	3	16.32%
Total	<u>272,652</u>		<u>100.00%</u>	Total	<u>224,142</u>		<u>100.00%</u>

PSPP

Participating Government	2012			Participating Government	2003		
	Covered Employees	Rank	% of Total System		Covered Employees	Rank	% of Total System
Memphis City Schools	8,736	1	5.70%	Memphis City Schools	6,963	1	5.98%
Hamilton County	6,211	2	4.05%	Hamilton County	5,961	2	5.12%
Rutherford County	3,723	3	2.43%	Shelby County	3,178	3	2.73%
Williamson County	3,704	4	2.42%	Montgomery County	2,503	4	2.15%
Shelby County	3,658	5	2.39%	Rutherford County	2,468	5	2.12%
Montgomery County	3,495	6	2.28%	Williamson County	2,340	6	2.01%
Sumner County	3,236	7	2.11%	Sullivan County	2,306	7	1.98%
Sullivan County	2,463	8	1.61%	Sumner County	2,236	8	1.92%
Johnson City	2,064	9	1.35%	Kingsport	1,863	9	1.60%
Kingsport	2,045	10	1.33%	Johnson City	1,851	10	1.59%
Others	<u>113,891</u>		<u>74.33%</u>	Others	<u>84,764</u>		<u>72.80%</u>
Total	<u>153,226</u>		<u>100.00%</u>	Total	<u>116,433</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, 2012, there were 488 political subdivisions participating in TCRS.

Participation as of June 30, 2012:

Cities	178
Counties	89
Utility Districts	66
Special School Districts	19
Joint Ventures	22
Housing Authorities	11
911 Emergency Communication Districts	47
Miscellaneous Authorities	<u>56</u>
Total	488

### 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 488  
LOCAL GOVERNMENTS.**

**OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS**

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

<p><b>911 EMERGENCY COMMUNICATION DISTRICTS</b></p> <p>Campbell County                  Carroll County                  Carter County                  Cheatham County                  Chester 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                  Loudon County                  Macon County                  Madison County                  Maury County                  McNairy County                  Monroe County                  Montgomery County                  Overton County                  Roane County                  Robertson County                  Rutherford County                  Scott 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><b>CITIES</b></p> <p>Adams                  Alamo                  Alcoa                  Ashland City                  Athens*                  Atoka</p>	<p>Atwood                  Baileyton                  Baxter                  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</p>	<p>Greenbrier                  Greeneville                  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*</p>	<p>New Johnsonville                  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                  Watauga                  Waverly                  Waynesboro                  Westmoreland                  White Bluff                  White House                  White Pine                  Whiteville                  Whitwell                  Woodbury</p>	<p><b>COUNTIES</b></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                  Montgomery</p>	<p>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><b>HOUSING AUTHORITIES</b></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 style="text-align: right;"><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. Municipal 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