



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

*A Program of the Tennessee Treasury Department
Pension Trust Funds of the State of Tennessee*

Comprehensive Annual Financial Report *For the Fiscal Year Ended June 30, 2014*

Prepared by:
State of Tennessee
Treasury Department
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David H. Lillard, Jr., State Treasurer
Jill Bachus, TCRS Director

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Introductory Section

Letter from the Chairman of the Board

Professional Awards

Letter of Transmittal

Administration and Mission

The Council on Pensions and Insurance

The Board of Trustees

Professional Consultants

Treasury Department Executive Staff

Organization Chart

STATE OF TENNESSEE



DAVID H. LILLARD, JR.
STATE TREASURER

615.741.2956
David.Lillard@tn.gov

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

December 4, 2014

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-seventh 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: TCRS recently upgraded its pension administration system with a goal of providing enhanced operational efficiency and better access to information for our members. This web-based system allows active members and retirees access to real-time information, adjust tax withholding, bank account or address changes affecting the retirement benefit, file retirement applications online and a variety of other services. In addition, employers electronically report pertinent payroll information through the system on a monthly basis. Information about the TCRS pension plans can be found at <http://treasury.tn.gov/tcrs>.

Investments: The 2014 fiscal year was a very good period for all investors and the TCRS portfolio experienced a strong gain of 16.7%. This was the fifth best return in the past 38 years. 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, 2013, reported an overall TCRS funding ratio of over 93.6% on an actuarial value basis and 89.6% on a market value basis.

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

Sincerely,

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

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

PROFESSIONAL AWARDS



CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tennessee Consolidated Retirement System (TCRS) for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the 26th consecutive year that TCRS has achieved this prestigious award.

PUBLIC PENSION STANDARDS AWARD

The Tennessee Consolidated Retirement System (TCRS) was awarded a Public Pension Standards Award for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This prestigious award was presented by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR). TCRS received the award in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.





STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
 15th FLOOR ANDREW JACKSON BUILDING
 502 DEADERICK STREET
 NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
 STATE TREASURER

JILL BACHUS
 DIRECTOR

December 4, 2014

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, 2014. 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

(continued)

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 489 participating political subdivisions is responsible for the pension benefits of its employees. 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.

Beginning July 1, 2014, a new pension plan structure was implemented for new hire state employees and K-12 teachers. The plan combines components of a defined benefit plan through TCRS and a defined contribution plan through the state's deferred compensation program. The structure was designed with cost and unfunded liability controls.

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.

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, 2013, the plan had the following funded ratios on an actuarial basis: state employees, 89.40%; K-12 teachers, 96.03%; and political subdivisions in aggregate 94.97%. On a market value basis, the plan had the following funded ratios: state employees, 85.56%; K-12 teachers, 91.91%; and political subdivisions in aggregate 90.90%. 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 through June 30, 2014. Experience studies are performed on a quadrennial basis. The results of the June 30, 2012 experience study have been incorporated into the July 1, 2013 actuarial valuation which produced employer contribution rates beginning July 1, 2014.

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

(continued)

that has yielded excellent returns with a low level of risks. The investment return for fiscal year 2014 was 16.7%.

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, 2013. This was the twenty-sixth 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.

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

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

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.

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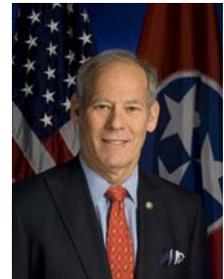
NON-VOTING MEMBERS



David H. Lillard, Jr.
State Treasurer



Jill Bachus
TCRS Director



Justin Wilson
Comptroller of the Treasury



Rebecca Hunter
*Commissioner of
Human Resources*



Larry Martin
*Commissioner of
Finance and Administration*

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VOTING MEMBERS - SENATORS



**Senator
Ron Ramsey**
Speaker of the Senate



**Senator
Douglas Henry**
*Finance, Ways and Means
Chairman Emeritus*



**Senator
James Kyle**



**Senator
Randy McNally**
*Council Vice Chair
Finance, Ways and Means
Chair*



**Senator
Mark Norris**



**Senator
Doug Overbey**
Finance, Ways and Means



**Senator
Jim Tracy**
Speaker's Designee



**Senator
Bo Watson**
*Finance, Ways and Means
First Vice-Chair*

(continued)

VOTING MEMBERS - REPRESENTATIVES



**Representative
Beth Harwell**
Speaker of the House



**Representative
David Alexander**
*Finance, Ways and Means
Vice-Chair*



**Representative
Kent Calfee**
Speaker's Designee



**Representative
Craig Fitzhugh**



**Representative
Michael Harrison**



**Representative
Steve McDaniel**



**Representative
Charles Sargent**
*Council Chair
Finance, Ways & Means
Chair*



**Representative
Johnny Shaw**

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.

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THE BOARD OF TRUSTEES
(CONTINUED)

EX-OFFICIO MEMBERS



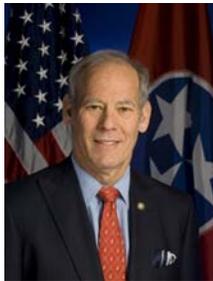
David H. Lillard, Jr.
State Treasurer



Jill Bachus
TCRS Director



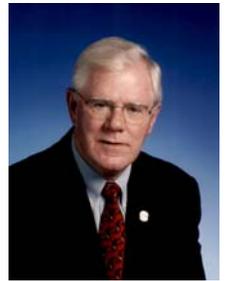
Tre Hargett
Secretary of State



Justin Wilson
Comptroller of the Treasury



**Senator
Randy McNally**
Council Vice-Chair



Charles Sargent
Council Chair



Larry Martin
*Commissioner of
Finance and Administration*



Bill Young
*Administrative Director
of the Courts*



Rebecca Hunter
*Commissioner of
Human Resources*

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ELECTED OR APPOINTED MEMBERS



Michael Barker
Retired Teacher
Term Expires:
June 30, 2016



Charles Archer
State Employee
Term Expires:
June 30, 2016



Kevin Fielden
East Tennessee Teacher
Term Expires:
June 30, 2016



Angie Judish
State Employee
Term Expires:
June 30, 2016



Bill Kemp
*Tennessee County
Officials Association*
Term Expires:
June 30, 2015



Gill Kendrick
Public Safety
Term Expires:
June 30, 2016



Alfred Laney
Retired State Employee
Term Expires:
June 30, 2015



Patsy Moore
West Tennessee Teacher
Term Expires:
June 30, 2017



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



Ken Wilber
*Tennessee
Municipal League*
Term Expires:
June 30, 2015



Robert Wormsley
*Tennessee County
Services Association*
Term Expires:
June 30, 2015

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 46.

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 three- year or five- year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA (retired)
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

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.

Patrick Thomas
Strategic Investment Solutions, Inc.
San Francisco, California

PRIVATE EQUITY CONSULTANT

Sheila Ryan
Cambridge Associates LLC
Boston, Massachusetts

(continued)

**REAL ESTATE INVESTMENT CONSULTANT
AND ADVISORS**

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

Martin Rosenberg
The Townsend Group
Cleveland, Ohio

The real estate investment advisors identify prospective real estate transactions and provide asset management services.

Adam N. Cohen, CFA
Blackrock
New York, New York

Tim Ellsworth
RREEF America LLC
Chicago, Illinois

Rob Greer
Clarion Partners LLC
Washington, DC

Christine M. Mullis
L&B Realty Advisors, LLP
Dallas, Texas

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

**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.
Edinburgh, Scotland, UK

Dawn Henry
GE Asset Management, Inc.
Stamford, Connecticut

Robert Job
PanAgora Asset Management, Inc.
Boston, Massachusetts

Susan Marshall
Baring Asset Management, Inc.
Boston, Massachusetts

Wilson Phillips
Marathon Asset Management
London WC2H 9EA, UK

Molly Sodeinde
TT International
London, EC2Y 5ET, UK

(continued)

**PROFESSIONAL CONSULTANTS
(CONTINUED)**

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

Treasurer	David H. Lillard, Jr., JD, LLM
Chief of Staff	Joy Harris
Staff Assistant to the Treasurer	Ashley Humphrey
Communications Director	Shelli King
Public Policy Advisor	Whitney Goetz
Executive Assistant to the Treasurer	Heather Szczepczenski

TCRS INVESTMENTS

Chief Investment Officer	Michael Brakebill, CFA, CAIA
Deputy CIO and Fixed Income Director	Andrew Palmer, CFA
Equity Director	Michael Keeler, CFA
Real Estate Director	J.P.Rachmaninoff
Private Equity Director	Daniel Crews, CFA
Assistant CIO and Director of Cash Management	Tim McClure, CTP, CGFM, CFP

RETIREMENT ADMINISTRATION

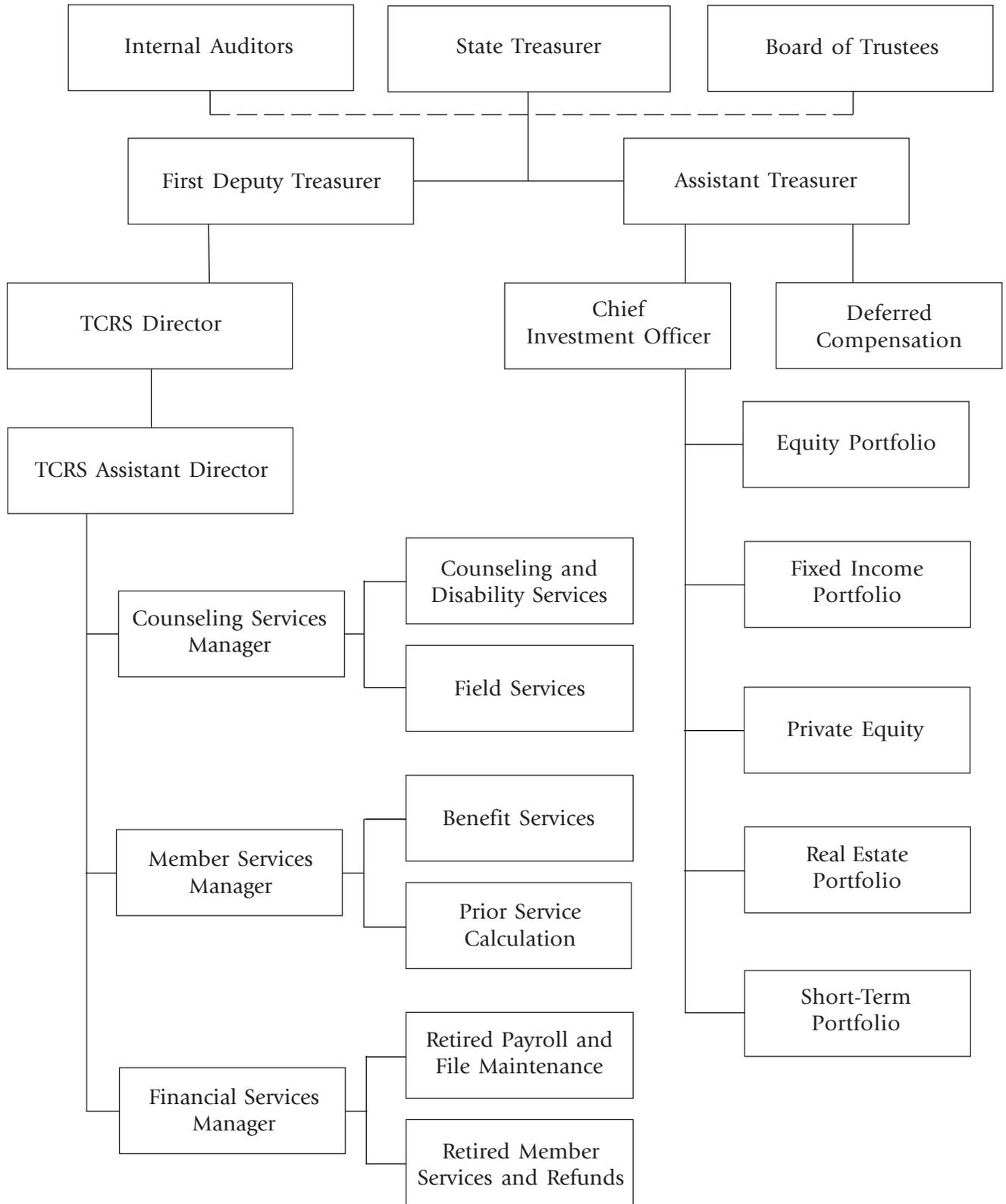
TCRS Director	Jill Bachus, CPA
TCRS Assistant Director	Jamie Wayman, CPA, CEBS
Administrator of Old Age and Survivors Insurance	Mary Griffin, JD
Manager of Counseling Services	Candy O’Leary
Manager of Member Benefits	Erica Nale
Manager of Financial Services	Amy Tower

TREASURY DIVISIONS

First Deputy Treasurer, Program Services	Steven Curry, CPA-inactive, CTP, CEBS, CCM
Second Deputy Treasurer, Support Services	Rick DuBray, CPA
Assistant Treasurer, Legal, Compliance and Audit	Christy A. Allen, JD
Compliance Officer	Jennifer Selliers
Senior Director of Program Services	Steve Summerall
Director of Deferred Compensation	Kaci Lantz, CFP®
Director of Accounting	Kim Morrow, CPA
Deputy Director of Accounting	Brian Derrick, CPA
Assistant Director of Accounting	Kevin Bradley, CPA
Director of Information Systems	Tim Sundell
Director of Management Services	Kerry Hartley, CPA
Director of Internal Audit	Andy Furlong, CPA
Director of Human Resources	Greg Cason

*The Treasurer is housed on the 1st floor of the State Capitol Building.
Divisions are housed on the 13th, 14th and 15th floors of the Andrew Jackson Building.*

ORGANIZATION CHART





Financial Section

Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements
Required Supplementary Information
Supporting Schedules



STATE OF TENNESSEE
 COMPTROLLER OF THE TREASURY
 DEPARTMENT OF AUDIT
 DIVISION OF STATE AUDIT
 SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
 505 DEADERICK STREET
 NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
 FAX (615) 532-2765

Members of the General Assembly
 Members of the Board of Trustees
 The Honorable David H. Lillard, Jr., Treasurer

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, as of June 30, 2014, the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Tennessee Consolidated Retirement System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

(continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Tennessee Consolidated Retirement System as of June 30, 2014 and the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note C, the financial statements of the Tennessee Consolidated Retirement System include investments valued at \$3,379,369,542 (7.88 percent of net position) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

As discussed in Note A.6, the Tennessee Consolidated Retirement System implemented Governmental Accounting Standards Board Statement 67, *Financial Reporting for Pension Plans*, during the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in net pension liability, schedule of net pension liability, schedule of investment returns, and schedule of pension plan contributions 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, which 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 our audit of the basic financial statements.

(continued)

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.

Other Information

Our audit was 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 audit 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, 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, 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 *Government Auditing Standards* in considering the Tennessee Consolidated Retirement System's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 year ended June 30, 2014. 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 position (total assets minus total liabilities) of the TCRS at June 30, 2014 was \$42.9 billion, increasing \$5.3 billion (14.2 percent) from the plan net position at June 30, 2013. The net position is restricted for future benefit obligations. This increase in plan net position is mainly attributable to net investment income where the money-weighted rate of return was 16.5 percent. The strong rate of return was driven by domestic equity returns of more than 25 percent and international equity returns of more than 20 percent.
- Net investment income for fiscal year 2014 was \$6.16 billion. During fiscal year 2014, the TCRS received a time-weighted rate of return on its portfolio of 16.7 percent, compared to 9.9 percent for fiscal year 2013.
- Based on the latest actuarial valuation as of July 1, 2013, the overall funded ratio for all participating employers within TCRS is 93.6% on an actuarial value of assets basis. The funded ratio would be 89.6% using market value of assets.
- Contribution revenue for fiscal year 2014 totaled \$1.31 billion, representing an increase of 2.1 percent compared to fiscal year 2013. Since the actuarially required employer contribution rate did not change, this increase is largely attributable to an increase in the member salary base.
- Total benefits and refunds paid for fiscal year 2014 were \$2.11 billion, representing an increase of 7.7 percent over fiscal year 2013 total benefits and refunds paid of \$1.96 billion. The growth is due to retiring members' benefits exceeding the benefits of long-term retired members whose benefits ceased due to death.
- Total administrative expenses for fiscal year 2014 were \$9.96 million, representing an increase of 21.7 percent from fiscal year 2013 administrative expenses of \$8.18 million. Administrative expenses represent less than one-half of one percent of the total deductions from the TCRS. Administrative expenses represent two basis points (two one-hundredth of one percent) of the average of the beginning and ending net position.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements, which consist of the *Statement of Fiduciary Net Position*, the *Statement of Changes in Fiduciary Net Position*, and the *Notes to the Financial Statements*. In addition, *Required Supplementary Information* and the *Notes to the Required Supplementary Information* are presented, which includes this *Management's Discussion and Analysis*. These financial statements, notes to the financial statements and required supplementary information were prepared in conformity with GASB Statement No. 67, Financial Reporting for Pensions Plans. Collectively, this information presents the combined net position held in trust for pensions for each of the plans administered by TCRS as of June 30, 2014.

The *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position* report information about the fiduciary net position (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in the fiduciary net position 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 Fiduciary Net Position*, or net position restricted for pensions, provides a measurement of the financial

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014 (CONTINUED)**

position of the TCRS as of the end of the fiscal year. The *Statement of Changes in Fiduciary Net Position* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the fiduciary net position of the TCRS are one indicator of whether the system's financial health is improving or deteriorating. The change in fiduciary net position is not the sole basis for evaluating the system's financial health. Other factors include, but are not limited to, actuarial data, investment performance, demographic data, and actuarial assumptions.

The *Notes to the Financial Statements* are 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.

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET POSITION

At June 30, 2014, the TCRS had net position (total assets in excess of total liabilities) of \$42.9 billion, an increase of \$5.3 billion (14.2 percent) from \$37.6 billion at June 30, 2013. 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 increased only slightly from June 30, 2013. Condensed financial information comparing the TCRS' fiduciary net position for the past two fiscal years follows.

PLAN NET POSITION

	June 30, 2014	June 30, 2013	Increase (Decrease) Amount	Percentage Change
ASSETS				
Cash and cash equivalents	\$ 279,661,206	\$ 732,917,328	\$ (453,256,122)	(61.8) %
Cash collateral on loaned securities	3,611,068,696	0	3,611,068,696	--
Member and employer receivables	107,700,566	105,368,164	2,332,402	2.2 %
Investment receivables	1,053,100,529	1,851,534,173	(798,433,644)	(43.1) %
Short-term securities	137,164,148	74,880,166	62,283,982	83.2 %
Long-term investments	42,292,975,604	36,550,793,912	5,742,181,692	15.7 %
Capital assets	28,341,604	21,887,170	6,454,434	29.5 %
TOTAL ASSETS	<u>47,510,012,353</u>	<u>39,337,380,913</u>	<u>8,172,631,440</u>	20.8 %
LIABILITIES				
Death benefits, refunds and other payables	14,105,043	50,816,303	(36,711,260)	(72.2) %
Investment payables	979,681,119	1,721,659,248	(741,978,129)	(43.1) %
Securities Lending collateral	3,611,068,696	0	3,611,068,696	--
TOTAL LIABILITIES	<u>4,604,854,858</u>	<u>1,772,475,551</u>	<u>2,832,379,307</u>	159.8 %
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 42,905,157,495</u>	<u>\$ 37,564,905,362</u>	<u>\$ 5,340,252,133</u>	14.2 %

(continued)

ANALYSIS OF REVENUES AND EXPENSES

Employer contribution rates for the TCRS did not change during fiscal year 2014; therefore, the change of 2.1 percent in contributions from fiscal year 2013 to fiscal year 2014 was due to changes in reported salary of participants and any increase in the number of participants. Gross investment income for fiscal year 2014 increased \$2.8 billion (83.4 percent) over fiscal year 2013.

Investment expenses for fiscal year 2014 totaled \$43.1 million for a 14.9 percent increase over fiscal year 2013. These expenses were split between portfolio management investment expenses of \$42.2 million and \$934 thousand in expenses attributed to the securities lending program that was initiated during the 2014 fiscal year. The TCRS investment portfolio earned a time-weighted rate of return of 16.7 percent and net investment income of \$6.2 billion.

Total benefits paid during the year ended June 30, 2014 were \$2.06 billion, an increase of 7.1 percent over fiscal year 2013 total benefits which can be attributed to an increase in the number of retirees and a 1.7% cost of living adjustment given in July 2013. Total refunds paid increased \$14.5 million, an increase of 36.8 percent, in fiscal year 2014 from fiscal year 2013 and were attributed to the change in structure of two large employers where the members of these employers chose to withdraw their funds when they were not rehired by the new employer.

Administrative expenses for the year ended June 30, 2014 were \$9.96 million, an increase of 21.7 percent from fiscal year 2013 administrative expenses. The increase was primarily due to the first and second phases of the new pension administration system being implemented in the last quarter of fiscal year 2012 resulting in the amortization expense of the software development costs of \$1.2 million for the year. Software development costs are capitalized and amortized over the ten year expected life of this capital asset.

REVENUE BY TYPE

(EXPRESSED IN THOUSANDS)

	Year Ended June 30, 2013		Year Ended June 30, 2014	
	Amount	Percentage of Total	Amount	Percentage of Total
Employee Contributions	\$ 268,557	5.8%	\$ 270,551	3.6%
Employer Contributions	1,010,425	21.9%	1,034,694	13.9%
Net Investment Income	3,344,589	72.3%	6,159,900	82.5%
Total	<u>\$ 4,623,571</u>	<u>100.0%</u>	<u>\$ 7,465,145</u>	<u>100.0%</u>

EXPENDITURES BY TYPE

(EXPRESSED IN THOUSANDS)

	Year Ended June 30, 2013		Year Ended June 30, 2014	
	Amount	Percentage of Total	Amount	Percentage of Total
Benefit Payments	\$ 1,923,742	97.6%	\$ 2,060,890	97.0%
Refunds	39,518	2.0%	54,046	2.5%
Administrative	8,179	0.4%	9,957	0.5%
Total	<u>\$ 1,971,439</u>	<u>100.0%</u>	<u>\$ 2,124,893</u>	<u>100.0%</u>

(continued)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014 (CONTINUED)**

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

CHANGES IN FIDUCIARY NET POSITION

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	Increase (Decrease) Amount	Percentage Change
ADDITIONS				
Contributions	<u>\$ 1,305,245,165</u>	<u>\$ 1,278,982,124</u>	<u>\$ 26,263,041</u>	2.1 %
Investment income				
Net appreciation in fair value of investments	5,123,250,163	2,334,383,940	2,788,866,223	119.5 %
Interest, dividends and other investment income	1,073,491,403	1,047,724,725	25,766,678	2.5 %
Less: Investment expense	(42,190,619)	(37,519,406)	4,671,213	12.5 %
Net income from securities lending activities	<u>5,348,721</u>	<u>0</u>	<u>5,348,721</u>	-
Net investment income	<u>6,159,899,668</u>	<u>3,344,589,259</u>	<u>2,815,310,409</u>	84.2 %
TOTAL ADDITIONS	<u>7,465,144,833</u>	<u>4,623,571,383</u>	<u>2,841,573,450</u>	61.5 %
DEDUCTIONS				
Annuity benefits	2,056,977,497	1,918,686,339	138,291,158	7.2 %
Death benefits	3,912,205	5,056,081	(1,143,876)	(22.6) %
Refunds	54,045,937	39,517,877	14,528,060	36.8 %
Administrative expenses	<u>9,957,061</u>	<u>8,178,696</u>	<u>1,778,365</u>	21.7 %
TOTAL DEDUCTIONS	<u>2,124,892,700</u>	<u>1,971,438,993</u>	<u>153,453,707</u>	7.8 %
NET INCREASE	5,340,252,133	2,652,132,390	2,688,119,743	101.4 %
NET POSITION RESTRICTED FOR PENSIONS				
BEGINNING OF YEAR	<u>37,564,905,362</u>	<u>34,912,772,972</u>	<u>2,652,132,390</u>	7.6 %
END OF YEAR	<u>\$ 42,905,157,495</u>	<u>\$ 37,564,905,362</u>	<u>\$ 5,340,252,133</u>	14.2 %

(continued)

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2014 the portfolio delivered a return of 16.7 percent, which exceeded the actuarial-assumed return of 7.5%, by 9.2 percent. The return of the portfolio for the 2014 fiscal year was satisfying on an absolute basis and also exceeded the returns for the majority of its peers. For the trailing three year period, the fund returned 10.6 percent which exceeded the actuarially required return by over 3 percent and also beat almost 80 percent of comparable portfolios.

The strong results in the 2014 fiscal year were led by a 27.1 percent return for the Canadian Equity portfolio, a 25.2 percent return for the U.S. Equity portfolio and the 20.5 percent return for the International Equity portfolio. Returns were generally good for all asset classes. The Domestic Fixed Income portfolio returned 7.7 percent for the year which is a good result given the low level of interest rates. The Treasury Inflation Protected Securities portfolio gained 4.7 percent which produced the lowest return for the major asset classes.

The Federal Reserve slowed its purchases of fixed income securities throughout the year, in a process widely described as the "taper". Interest rates rose in the fall of 2013 due to concerns about the taper and subsequently fell throughout the first half of 2014 as the limited impact of the taper became more understood. Economic growth in the United States was generally robust during the fiscal year and international growth appeared to rebound for most of the year only to end the year at a tepid rate. Investors began to discount weaker global economic growth late in the year, while the outlook for U.S. growth remained solid.

An actuarial valuation was performed as of July 1, 2011 that determined the employer contribution rates for the period July 1, 2012 through June 30, 2014. The July 1, 2013 actuarial valuation determined the employer contribution rates for the period July 1, 2014 through June 30, 2016. An actuarial experience study to establish demographic and economic assumptions was completed effective June 30, 2012, was adopted by the Board of Trustees during fiscal year 2013, and was utilized in the July 1, 2013 actuarial valuation.

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 and second phases of Concord have been implemented by the end of fiscal year 2013. Software development costs have been capitalized and are being amortized over the useful life of the system as each phase is implemented. The third and final phase will be implemented during fiscal year 2015.

During the 2013 legislative session, a new pension plan for state employees, higher education and K-12 public school teachers hired on or after June 30, 2014 was enacted into law. Members and retirees currently enrolled in TCRS will remain in the legacy plan. The new hybrid plan contains elements of a defined benefit plan and a defined contribution plan. The goals of the new plan were to provide a sufficient retirement benefit to members, a long term sustainable pension plan, and an affordable plan to employers. The new plan contains provisions to control employer cost and unfunded liability.

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.

STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2014

Expressed in Thousands

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total
ASSETS			
Cash and cash equivalents	\$ 141,454	\$ 138,207	\$ 279,661
Cash collateral on loaned securities	1,826,303	1,784,766	3,611,069
Receivables			
Member receivable	5,627	22,027	27,654
Employer receivable	40,458	39,589	80,047
Accrued interest receivable	46,767	45,703	92,470
Accrued dividends receivable	27,749	27,118	54,867
Real estate income receivable	899	878	1,777
Derivative instruments receivable	286,521	280,004	566,525
Investments sold	170,672	166,790	337,462
Total receivables	<u>578,693</u>	<u>582,109</u>	<u>1,160,802</u>
Investments, at fair value			
Short-term securities	69,371	67,793	137,164
Government securities	4,290,150	4,192,577	8,482,727
Corporate securities	2,888,771	2,823,071	5,711,842
Corporate stocks	12,500,018	12,215,726	24,715,744
Derivative instruments	1,665	1,627	3,292
Strategic lending	162,654	158,954	321,608
Private equities	394,122	385,158	779,280
Real estate	1,152,345	1,126,137	2,278,482
Total investments	<u>21,459,096</u>	<u>20,971,043</u>	<u>42,430,139</u>
Capital assets (net)	<u>14,333</u>	<u>14,008</u>	<u>28,341</u>
TOTAL ASSETS	<u>24,019,879</u>	<u>23,490,133</u>	<u>47,510,012</u>
LIABILITIES			
Accounts payable			
Death benefits and refunds payable	3,603	2,003	5,606
Retiree insurance premium payable	4,203	4,077	8,280
Other	111	108	219
Investments purchased	202,310	197,708	400,018
Derivative instruments payable	287,082	280,552	567,634
Other investment payables	6,083	5,946	12,029
Securities lending collateral	1,826,303	1,784,766	3,611,069
TOTAL LIABILITIES	<u>2,329,695</u>	<u>2,275,160</u>	<u>4,604,855</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 21,690,184</u>	<u>\$ 21,214,973</u>	<u>\$ 42,905,157</u>

See accompanying Notes to the Financial Statements.

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Expressed in Thousands

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total
ADDITIONS			
Contributions			
Member contributions	\$ 75,030	\$ 195,521	\$ 270,551
Employer contributions	686,219	348,475	1,034,694
Total contributions	<u>761,249</u>	<u>543,996</u>	<u>1,305,245</u>
Investment income			
Net appreciation in fair value of investments	2,583,110	2,540,140	5,123,250
Interest	236,137	232,209	468,346
Dividends	250,622	246,452	497,074
Real estate income, net of operating expenses	54,489	53,583	108,072
Total investment income	<u>3,124,358</u>	<u>3,072,384</u>	<u>6,196,742</u>
Less: Investment expense	<u>(21,273)</u>	<u>(20,918)</u>	<u>(42,191)</u>
Net income from investing activities	3,103,085	3,051,466	6,154,551
Securities lending activities			
Securities lending income	3,168	3,115	6,283
Less: securities lending expense	<u>(471)</u>	<u>(463)</u>	<u>(934)</u>
Net income from securities lending activities	<u>2,697</u>	<u>2,652</u>	<u>5,349</u>
Net investment income	<u>3,105,782</u>	<u>3,054,118</u>	<u>6,159,900</u>
TOTAL ADDITIONS	<u>3,867,031</u>	<u>3,598,114</u>	<u>7,465,145</u>
DEDUCTIONS			
Annuity benefits	1,043,927	1,013,051	2,056,978
Death benefits	2,275	1,637	3,912
Refunds	31,720	22,326	54,046
Administrative expense	7,294	2,663	9,957
TOTAL DEDUCTIONS	<u>1,085,216</u>	<u>1,039,677</u>	<u>2,124,893</u>
NET INCREASE	2,781,815	2,558,437	5,340,252
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS			
BEGINNING OF YEAR (prior to change in accounting principle)	7,080,898	30,484,007	37,564,905
Change in Accounting Principle			
Report State with other Agent Multiple Employer Plans	11,827,471	(11,827,471)	0
BEGINNING OF YEAR, RESTATED	<u>18,908,369</u>	<u>18,656,536</u>	<u>37,564,905</u>
END OF YEAR	<u>\$ 21,690,184</u>	<u>\$ 21,214,973</u>	<u>\$ 42,905,157</u>

See accompanying Notes to the Financial Statements.

The Tennessee Consolidated Retirement System (TCRS) is a public employee retirement system comprised of defined benefit pension plans covering Tennessee State employees, including employees of the state's higher education systems, teachers, and employees of political subdivisions in Tennessee. The TCRS was established in 1972 by a statutory enactment of the Tennessee General Assembly. The provisions of the TCRS are codified in Tennessee Code Annotated Title 8, Chapters 34-37. In accordance with Tennessee Code Annotated Title 8, Chapter 34, Section 202, all funds invested, securities, cash, and other property of the TCRS are held in trust and can be expended only for the purposes of the trust. Although the assets for all pension plans within the TCRS are commingled for investment purposes, the assets of each separate plan may legally be used only for the payment of benefits to the members of that plan and for its administration, 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 a pension trust fund in the Tennessee Comprehensive Annual Financial Report.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) 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 the accrual method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Plan member and employer contributions are recognized in the period of time for which they are due, in accordance with legal provisions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents includes cash, short-term investments with a maturity date within three months of the acquisition date, cash management pools, and cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services. Cash received by the TCRS, that cannot be invested immediately in securities or is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer.
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. In those years independent appraisals are not conducted, appraisals are completed internally by real estate advisors. The fair value of private equity investments is determined by the fund managers using various methodologies, as applicable under GAAP. 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 in the first two phases of implementation, 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 was valued at \$17,978,338 at year end and 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 (document imaging) and second phase (retired payroll) of the computer software have been implemented

(continued)

at June 30, 2014 and amortization has been initiated. The final phase (active membership, employer membership, and accounting) of the computer software began implementation after June 30, 2014 and expected to be substantially completed by June 30, 2015. The computer software was valued at \$10,363,266 and amortization expense was \$1,204,036.

6. *Adoption of New Accounting Pronouncement* - During the year ended June 30, 2014, the TCRS financial statements included the adoption of GASB Statement No. 67 which addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 necessitate changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total pension liability and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances. This pronouncement also resulted in renaming the statement of plan net position as the statement of fiduciary net position, and the statement of changes in plan net position as the statement of changes in fiduciary net position. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 4 for the cost-sharing Teacher Legacy Pension Plan.
7. *Change in Accounting Principle* - During the 2014 fiscal year, the Tennessee General Assembly passed legislation which clarified that assets accumulated on behalf of teachers of Local Education Agencies (LEAs) shall be for the exclusive benefit of teachers, and assets accumulated on behalf of state employees shall be for the exclusive benefit of state employees. Pursuant to this clarification relative to the legal separation of assets for these two groups of employees, the teachers group, previously reported by the TCRS in the State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP), is now reported under a separate cost-sharing Teacher Legacy Pension Plan. The state employees are reported, along with employees of political subdivisions (previously reported as Political Subdivision Pension Plan (PSPP), within the Public Employee Retirement Plan, an agent multiple-employer pension plan. The net position of the SETHEEPP at June 30, 2013 of \$30,484,007,172 was separated into two groups, with the amount attributed to the Teacher Legacy Pension Plan being \$18,656,535,899, and the amount attributed to the Public Employee Retirement Plan being \$11,827,471,273. The PSPP amount was \$7,080,898,191. The beginning balance of each of the plans has been adjusted for this change in accounting principle.

B. PLAN DESCRIPTIONS

Plan Administration - The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS.

At June 30, 2014, there were two defined benefit pension plans within the TCRS. The Public Employee Retirement Plan is an agent, multiple-employer defined benefit pension plan for state government employees and political subdivisions electing to participate in the TCRS. The Teacher Legacy Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan for teachers of LEAs. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan becomes effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan will be a separate cost-sharing, multiple-employer defined benefit plan.

The general administration and responsibility for proper operation of the TCRS plans are vested in a 20 member Board of Trustees, consisting of 18 voting members and two non-voting members. The Board has nine ex-officio members, two of whom are non-voting. The seven voting ex-officio members are the State Treasurer, Secretary of State, Comptroller of the Treasury, Commissioner of Finance and Administration, Commissioner of Human Resources, Director of the TCRS, and the Administrative Director of the Courts. The two non-voting ex-officio members are the chair and vice-chair of the Legislative Council on Pensions and Insurance.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

Three active teacher members, one from each grand division of the state, and a retired teacher member are selected for three year terms by the Speaker of the House of Representatives and the Speaker of the Senate. Two active state employee members, who are from departments other than those represented by ex-officio members, are elected by state employees for three year terms. A board member is appointed for a two year term by each of the following organizations: Tennessee County Services, Tennessee Municipal League, and the Tennessee County Officials Association. Two members, a public safety employee and a retired state employee, are appointed by the Governor for two year terms. All members must be vested members of the TCRS, except for ex-officio members.

Plan Membership - At June 30, 2014, the membership of the pension plans consisted of the following:

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total
Inactive plan members or beneficiaries currently receiving benefits	87,421	45,869	133,290
Inactive vested plan members entitled to but not yet receiving benefits	31,813	7,334	39,147
Inactive non-vested plan members entitled to refund of member account balance	27,353	17,262	44,615
Active plan members	<u>135,554</u>	<u>78,506</u>	<u>214,060</u>
Total membership	<u><u>282,141</u></u>	<u><u>148,971</u></u>	<u><u>431,112</u></u>
Number of participating employers	520	142	662
<i>Membership above includes all plans whether open or closed.</i>			

Benefits Provided - The TCRS provides retirement, disability, and death benefits. The benefits of the TCRS are established by state law (Tennessee Code Annotated, Title 8, Chapters 34-37). In general, the benefits may be amended prospectively by the General Assembly for employees becoming members of the TCRS after June 30, 2014. Amendments of benefits for employees becoming members before July 1, 2014 may be restricted by precedent established by the Tennessee Supreme Court.

Teacher Legacy Pension Plan

Members of the Teacher Legacy Pension Plan are eligible to retire at age 60 with five years of service credit or after 30 years of service credit regardless of age. Plan members are entitled to receive unreduced service retirement benefits which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA

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is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent.

Public Employee Retirement Plan

State employees are eligible to retire at age 60 with five years of service credit or after 30 years of service credit regardless of age. Plan members are entitled to receive unreduced service retirement benefits which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic COLAs after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the CPI during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. There are additional classes of employees that include state judges, elected members of the general assembly, and public safety officers which have different benefit structures and eligibility requirements. These classifications represent an immaterial percentage of the state employee membership.

For political subdivision employees, there are various tiers of benefits and eligibility requirements. Each political subdivision adopts the benefit structure that the entity provides to its employees. Unreduced service retirement benefits are determined using a multiplier of the member's highest five consecutive year average compensation multiplied by the member's years of service credit. Plan members are eligible for service related disability benefits regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. If adopted as a benefit provision by the political subdivision, member and beneficiary annuitants are entitled to automatic COLAs after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the CPI during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. There are additional classes of employees, local judges, elected officials, and public safety officers, which may have different benefit structures and eligibility requirements. These classifications represent an immaterial percentage of the political subdivisions' membership.

Contributions - Pursuant to Tennessee Code Annotated Title 8, Chapter 37, the Board of Trustees adopted an actuarially-determined contribution (ADC) for each participating employer, as recommended by an independent actuary following an actuarial valuation.

For the Teacher Legacy Pension Plan, LEAs are required by statute to contribute the ADC. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, the unfunded accrued liability, and the cost of administration. Teachers are required by statute to contribute five percent of salary. For the year ended June 30, 2014, the required ADC for LEAs was 8.88 percent of covered-employee payroll.

For the Public Employee Retirement Plan, each governmental entity is required by statute to contribute the ADC. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the plan year, the unfunded accrued liability, and the cost of administration. For the year ended June 30, 2014, the required ADC varied for each participating employer with 20 percent of all employer rates between 8% and 20 percent. By statute, state employees are noncontributory. As adopted by the governmental entity, political subdivision employees may be noncontributory, contribute 2.5 percent of salary, or contribute five percent of salary.

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C. DEPOSITS AND INVESTMENTS

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

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

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed ten percent (10 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic 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.

Investment Policy - The TCRS investment authority is established pursuant to Tennessee Code Annotated Title 8, Chapter 37. The statute provides the Board of Trustees with the responsibility to establish the investment policy of the TCRS. The investment policy may be amended by the Board. The TCRS plan assets are managed on a total

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided by the TCRS. The following was the TCRS Board's adopted asset allocation policy as of June 30, 2014:

Authorized Asset Class	Target Allocation
U.S. Equity	33%
Canadian Equity	4%
Developed Market International Equity	13%
Emerging Market International Equity	5%
Private Equity	3%
U.S. Fixed Income	25%
Inflation Indexed Fixed Income	4%
International Fixed Income	0%
Strategic Lending	5%
Real Estate	7%
Short-Term Securities	1%
Total	100%

Securities Lending - The TCRS is authorized to invest in securities lending investments by TCA 8-37-104(a)(6) with the terms established in the investment policy whereby TCRS loans securities to brokers and dealers (borrower) and in turn, TCRS receives cash as collateral. TCRS pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than thirty percent (30%) of the market value of the total assets in the TCRS portfolio and provided further that such loans are secured by collateral. Securities received as collateral hereunder shall have a market value equal to at least one hundred two percent (102%) of the market value of the loaned domestic security or one hundred five percent (105%) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100%) of the market value of the loaned securities and may be invested by or on behalf of the TCRS in any instrument the TCRS may be directly invested.

The TCRS securities lending program is managed by a third party lending agent, Deutsche Bank AG. The TCRS may loan any debt or equity securities which is owned by TCRS. At June 30, 2014, the TCRS had the following securities on loan and received the cash collateral as shown below:

Securities on Loan	Fair Value of Securities on Loan	Cash/Non-Cash Collateral Received
Fixed	\$1,580,955,871	\$1,623,590,738
Equity	1,935,287,556	1,987,477,958
Total	\$3,516,243,427	\$3,611,068,696

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The TCRS has the ability to sell the collateral securities only in the case of a borrower default.

As of June 30, 2014 the TCRS had the following investments:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments		
Rating	Fair Value (in thousands)	Percentage of Total Investments
AAA	\$ 906,618	2.137%
AA	548,236	1.292%
A	1,079,470	2.544%
BBB	2,917,707	6.901%
BB	295,057	0.671%
B	49,484	0.117%
CCC	110,158	0.260%
CC	1,576	0.004%
D	45,704	0.108%
NR	<u>3,155,001</u>	7.436%
	9,109,011	
Government Agencies and Obligations*	<u>5,323,742</u>	
Total Fixed Income Securities	\$14,432,753	
<i>*Includes obligations of the U.S. government or obligations explicitly guaranteed by U.S. government.</i>		

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit quality distribution for the TCRS' investments in fixed income securities at year end is 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/>.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 (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 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 year end.

Investment Type	Fair Value as of June 30, 2014	Effective Duration (years)
Government Agencies	\$ 245,508	7.24
Government Bonds	2,049,684	12.97
Government Inflation Indexed	2,480,124	8.23
Government Mortgage Backed	3,495,299	4.15
Government Asset Backed	51,791	2.48
Municipal Bonds	156,846	9.94
Non-Government Backed CMOs	127,912	2.04
Commercial Mortgage Backed	429,665	1.82
Corporate Asset Backed Securities	670,436	1.39
Corporate Bonds	4,388,339	8.64
Short-Term Commercial Paper	149,989	0.08
Short-Term Bills & Notes	<u>187,160</u>	<u>0.23</u>
Total Debt Investments	\$14,432,753	7.27

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, 2014 was \$557,576,973 of which \$341,517,633 were CMOs that are generally more sensitive to interest rate changes.

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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 was as follows:

Currency	Total Fair Value June 30, 2014	Fixed Income	Equity	Cash
Australian Dollar	\$ 283,539	\$0	\$ 283,448	\$ 91
British Pound Sterling	1,095,088	0	1,085,973	9,115
Canadian Dollar	1,919,373	0	1,919,233	140
Danish Krone	127,596	0	127,571	25
Euro Currency	1,519,998	0	1,500,315	19,683
Hong Kong Dollar	179,740	0	177,918	1,822
Japanese Yen	1,287,069	0	1,274,238	12,831
New Israeli Shekel	6,513	0	6,513	0
New Zealand Dollar	6,131	0	6,131	0
Norwegian Krone	78,057	0	78,007	50
Singapore Dollar	74,181	0	74,009	172
Swedish Krona	136,993	0	136,993	0
Swiss Franc	457,132	0	455,376	1,756
Total	<u>\$ 7,171,410</u>	<u>\$0</u>	<u>\$ 7,125,725</u>	<u>\$ 45,685</u>

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. At year end, the TCRS had uninsured and uncollateralized cash deposits of \$45,684,593 in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

Rate of Return - For the year, the money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.5 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Derivatives:

Futures - 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. Any resulting payable is reflected in the financial statements at fair value.

Foreign Currency Forward Contracts - 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

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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.

Mortgages - 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.

Options - 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.

The fair value balances and notional amounts of derivative instruments outstanding at year end, 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:

	Changes in Fair Value		Fair Value at June 30, 2014			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts						
		(\$200)		(\$200)	23,203	EUR
		(909)		(909)	14,101,216	JPY
	Investment Income	(\$1,109)	Derivative Instruments Payable	(\$1,109)		
Futures Contracts						
	Investment Income	\$6,481	Derivative Instruments Receivable	\$3,381	\$930,356	
TBA Mortgage Backed Securities						
	Investment Income	\$3,292	Derivative Instruments	\$3,292	\$399,932	

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.

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Alternative Investments - The TCRS has investments in private equity funds and real estate with an estimated fair value of \$3,379,369,542 at June 30, 2014. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. Title to real property invested in by TCRS is held by real estate investment holding companies.

Commitments:

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

Alternative Investments - The TCRS had unfunded commitments of \$2,708,699,810 in private equity, strategic lending, and real estate commitments at year end.

D. NET PENSION LIABILITY (ASSET) OF THE TEACHER LEGACY PENSION PLAN FOR LOCAL EDUCATION AGENCIES

The components of net pension liability of the Teacher Legacy Pension Plan at June 30, 2014, were as follows:

Total Pension Liability	\$21,151,810,794
Plan Fiduciary Net Position	<u>21,214,973,134</u>
Net Pension Liability (Asset)	\$ (63,162,340)
Fiduciary Net Position as a Percentage of the Total Pension Liability	100.30%

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2013, updated to roll forward to June 30, 2014, using the following actuarial assumptions applied to all prior periods included in the measurement:

Inflation	3.0 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of pension plan investment income, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study plus some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the July 1, 2013 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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

Asset Class	Long-Term Expected Real Rate of Return	Target Allocations
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-Term Securities	0.00%	1%
		100%

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

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions from plan members will be made at the statutorily required contribution rates and that employer contributions from LEAs will be made at the actuarially determined rate as required by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the Teacher Legacy Pension Plan's net pension liability for LEAs using the discount rate of 7.5 percent, as well as what its net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	One Percent Decrease (6.5%)	Current Discount Rate (7.5%)	One Percent Increase (8.5%)
Net Pension Liability (Asset)	\$2,677,321,642	\$(63,162,340)	\$(2,332,660,416)

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**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TEACHER LEGACY PENSION PLAN**

TEACHER LEGACY PENSION PLAN'S NET PENSION LIABILITY
FISCAL YEAR ENDED JUNE 30

	2014
Total pension liability	
Service cost	\$ 404,576,942
Interest	1,483,656,307
Change of benefit terms	
Difference between expected and actual experience	
Change of assumptions	
Benefit payments, including refunds of member contributions	(1,037,013,093)
Net change in total pension liability	851,220,156
Total pension liability - beginning	20,300,590,638
Total pension liability - ending (a)	21,151,810,794
Plan fiduciary net position	
Contributions – employer	348,474,888
Contributions - members	195,520,938
Net investment income	3,054,117,821
Benefit payments, including refunds of member contributions	(1,037,013,093)
Administrative expense	(2,663,319)
Net change in plan fiduciary net position	2,558,437,235
Plan fiduciary net position - beginning	18,656,535,899
Plan fiduciary net position - ending (b)	21,214,973,134
Net pension liability (asset) - ending (a) - (b)	\$ (63,162,340)

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE TEACHER LEGACY PENSION PLAN**

TEACHER LEGACY PENSION PLAN'S NET PENSION LIABILITY
FISCAL YEAR ENDED JUNE 30

	<u>2014</u>
Total pension liability	\$ 21,151,810,794
Plan fiduciary net position	21,214,973,134
Net pension liability (asset)	<u>\$ (63,162,340)</u>
Plan fiduciary net position as a percentage of the total pension liability	100.30%
Covered-employee payroll	\$ 3,925,131,835
Net pension liability (asset) as a percentage of covered-employee payroll	-1.61%

TEACHER LEGACY PENSION PLAN'S CONTRIBUTIONS
FISCAL YEAR ENDED JUNE 30

	Actuarially- Determined Contribution	Contributions in Relation to the Actuarially- Determined Contributions	Contribution Deficiency	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$348,474,888	\$348,474,888	\$0	\$3,931,983,889	8.88%
2013	344,534,643	344,534,643	0	3,879,878,989	8.88%
2012	343,594,496	343,594,496	0	3,796,077,699	9.05%
2011	339,833,421	339,833,421	0	3,754,600,827	9.05%
2010	236,545,072	236,545,072	0	3,683,968,661	6.42%
2009	233,214,598	233,214,598	0	3,632,637,952	6.42%
2008	218,862,049	218,862,049	0	3,507,360,900	6.24%
2007	204,370,625	204,370,625	0	3,333,693,142	6.13%
2006	175,719,201	175,719,201	0	3,194,957,343	5.50%
2005	170,392,879	170,392,879	0	3,098,164,695	5.50%

SCHEDULE OF INVESTMENT RETURNS FOR THE
PUBLIC EMPLOYEE RETIREMENT PLAN AND
THE TEACHER LEGACY PENSION PLAN

INVESTMENT RETURNS
FISCAL YEAR ENDED JUNE 30

	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	16.49%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE TEACHER LEGACY PENSION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

Method and Assumptions Used in Calculations of Actuarially-Determined Contributions - The actuarially determined contribution rates for the fiscal year ended June 30, 2014 for Local Education Agencies were calculated as the result of an actuarial valuation performed as of July 1, 2011. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule:

Actuarial Cost Method	Frozen Initial Liability Method
Amortization Method	Level Dollar Amortization
Remaining Amortization Period	Six Years
Inflation	3.0 Percent
Salary Increases	Graded Salary Ranges from 9.49 Percent to 4.22 Percent, Including Inflation, Averaging 4.75 Percent
Investment Rates of Return	7.50 Percent, Net of Pension Plan Investment Expense, Including Inflation

**SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,665,295	\$ 608,084	\$ 2,273,379
Employee benefits	<u>686,153</u>	<u>250,550</u>	<u>936,703</u>
TOTAL PERSONNEL SERVICES	<u><u>2,351,448</u></u>	<u><u>858,634</u></u>	<u><u>3,210,082</u></u>
PROFESSIONAL SERVICES			
Accounting	299,987	109,541	409,528
Actuarial services	340,216	124,230	464,446
Data processing	497,485	181,657	679,142
Information systems	648,968	236,971	885,939
Management services	208,797	76,242	285,039
Medical review	29,742	10,860	40,602
Administrative, Internal Audit, Legal, Personnel	<u>1,015,499</u>	<u>370,812</u>	<u>1,386,311</u>
TOTAL PROFESSIONAL SERVICES	<u><u>3,040,694</u></u>	<u><u>1,110,313</u></u>	<u><u>4,151,007</u></u>
COMMUNICATION			
Travel	48,013	17,532	65,545
Telephone	338,617	123,646	462,263
Printing	66,681	24,348	91,029
Postage	<u>209,027</u>	<u>76,327</u>	<u>285,354</u>
TOTAL COMMUNICATION	<u><u>662,338</u></u>	<u><u>241,853</u></u>	<u><u>904,191</u></u>
MISCELLANEOUS			
Office space	102,892	37,571	140,463
Supplies and maintenance	15,932	5,818	21,750
Amortization of intangible assets	881,979	322,057	1,204,036
Other services and charges	<u>238,459</u>	<u>87,073</u>	<u>325,532</u>
TOTAL MISCELLANEOUS	<u><u>1,239,262</u></u>	<u><u>452,519</u></u>	<u><u>1,691,781</u></u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u><u>\$ 7,293,742</u></u></u>	<u><u><u>\$ 2,663,319</u></u></u>	<u><u><u>\$ 9,957,061</u></u></u>

With 214,060 active members and 133,290 retired members, the operating cost per member was \$28.67 for the year ended June 30, 2014.

**SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,891,371	\$ 1,859,909	\$ 3,751,280
Employee benefits	<u>550,260</u>	<u>541,106</u>	<u>1,091,366</u>
TOTAL PERSONNEL SERVICES	<u>2,441,631</u>	<u>2,401,015</u>	<u>4,842,646</u>
PROFESSIONAL SERVICES			
Accounting	165,834	163,075	328,909
Legal services	411,860	405,008	816,868
Data processing	187,739	184,616	372,355
Information systems	228,370	224,572	452,942
Management services	34,891	34,311	69,202
Securities lending fees	471,052	463,216	934,268
External investment manager fees	10,865,944	10,685,192	21,551,136
Investment consulting fees	1,022,138	1,005,134	2,027,272
Investment custodian fees	194,506	191,270	385,776
Real estate manager fees	5,184,753	5,098,505	10,283,258
Administrative, Internal Audit, Personnel	<u>317,461</u>	<u>312,180</u>	<u>629,641</u>
TOTAL PROFESSIONAL SERVICES	<u>19,084,548</u>	<u>18,767,079</u>	<u>37,851,627</u>
COMMUNICATION			
Travel	70,659	69,484	140,143
Telephone	19,575	19,250	38,825
Printing	1,914	1,882	3,796
Postage	<u>677</u>	<u>666</u>	<u>1,343</u>
TOTAL COMMUNICATION	<u>92,825</u>	<u>91,282</u>	<u>184,107</u>
MISCELLANEOUS			
Office space	50,600	49,758	100,358
Supplies and maintenance	8,181	8,045	16,226
Other services and charges	<u>65,506</u>	<u>64,417</u>	<u>129,923</u>
TOTAL MISCELLANEOUS	<u>124,287</u>	<u>122,220</u>	<u>246,507</u>
TOTAL INVESTMENT EXPENSES	<u>\$ 21,743,291</u>	<u>\$ 21,381,596</u>	<u>\$ 43,124,887</u>

**SCHEDULES OF EXPENSES FOR CONSULTANTS
FOR THE YEAR ENDED JUNE 30, 2014**

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	<u>\$ 340,216</u>	<u>\$ 124,230</u>	<u>\$ 464,446</u>
TOTAL ACTUARIAL SERVICES	<u>340,216</u>	<u>124,230</u>	<u>464,446</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	8,732	3,188	11,920
Thomas Mullady, M.D.	9,259	3,381	12,640
Barry Siegel, M.D.	<u>11,751</u>	<u>4,291</u>	<u>16,042</u>
TOTAL MEDICAL REVIEW SERVICES	<u>29,742</u>	<u>10,860</u>	<u>40,602</u>
BENEFIT PLAN CONSULTING SERVICES			
Cammack Retirement Group	<u>12,074</u>	<u>4,409</u>	<u>16,483</u>
TOTAL BENEFIT PLAN CONSULTING SERVICES	<u>12,074</u>	<u>4,409</u>	<u>16,483</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 382,032</u>	<u>\$ 139,499</u>	<u>\$ 521,531</u>

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



Investment Section

Report by Investment Consultant

Letter from TCRS Chief Investment Officer

Statutory Investment Authority

Investment Performance Review

Asset Allocation

Largest Holdings

Investment Summary

Schedules of Investment Fees and Commissions



PATRICK F. THOMAS, CFA
Managing Director

November 7, 2014

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

Re: 2014 CAFR Performance Letter

Dear Jill:

For the year ended June 30, 2014, TCRS earned a return of (+16.65%), slightly behind its policy index return of (+16.88) but ahead of its as-allocated index by 11 basis points. Strong returns in Domestic Equities (+25.19%) and International Developed Markets (+22.04%) were partially offset by lower results in Domestic Fixed Income (+7.73%) and Inflation Indexed Fixed Income (+4.66%).

As of June 30, 2014, the System’s asset allocation and one-year respective returns were:

Asset Class	% of Assets	One-Year Return
Domestic Equity	35.6%	25.19%
Canada Index Fund	4.4%	27.08%
International Developed Market	13.9%	22.04%
International Emerging Market	4.3%	14.09%
Domestic Fixed Income	27.1%	7.73%
Inflation-Indexed Fixed Income	5.7%	4.66%
Real Estate	5.3%	10.72%
Private Equity	1.4%	23.77%
Strategic Lending	1.4%	n/a
Cash and Cash Equivalents	0.9%	0.73%
Total	100.0%	16.65%

TCRS ranked above the median large public plan (InvestorForce’s Public DB > \$1 billion) over the past year, and was also well ahead for the three-year period, ranking in the top quarter of large public peer plans. These returns were achieved in the context of an asset allocation that is designed to meet the System’s liability obligations while minimizing the risk of loss.

During the year, world economic news continued to be mixed as the developed countries experienced sluggish but sustained growth, and many emerging countries still struggled with the prospect of uncertain capital flows. Global equities enjoyed a robust year, with the United States and Continental Europe leading the way. After last spring’s Federal Reserve induced “taper tantrum” by bond investors, and an attendant period of higher-trending yields, the bond markets rebounded strongly towards fiscal year end. Overall, given the year’s many ongoing global economic uncertainties, capital markets continued to climb a wall of worry to post high returns overall.

After several years of providing investors with elevated returns, SIS believes that global equities have now become more fairly valued, and as such are likely to provide more modest returns over the next several years. Historically low bond yields similarly augur the likelihood of low future returns for investors. The TCRS portfolio, with its emphasis on cost efficiency, safety of capital, and low risk to liabilities, clearly is well designed for the expected environment of lower and more volatile capital market returns.

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,

Patrick F. Thomas, CFA
pthomas@sis-sf.com

LETTER FROM TCRS CHIEF INVESTMENT OFFICER

DAVID H. LILLARD, JR.
STATE TREASURER

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

STATE OF TENNESSEE



TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

JOY HARRIS
CHIEF OF STAFF

JILL BACHUS
DIRECTOR OF TCRS

November 14, 2014

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

With over \$42.8 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 investment 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.

Returns for the 2014 fiscal year were strong and the TCRS portfolio experienced a gain of 16.65% for the fiscal year and an annualized gain of 10.64% for the trailing three-year period. These returns both exceeded the actuarially-required returns by a significant margin and the portfolio was still managed in a manner to protect capital in an adverse environment.

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 our dedicated staff, this goal will be met.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Brakebill".

Michael Brakebill
Chief Investment Officer

STATUTORY INVESTMENT AUTHORITY

The investment authority for the Board of Trustees of TCRS is set out in Tennessee Code Annotated, Section 8-37-104. Pursuant to this authority and the investment terms, conditions and limitations outlined therein, the Board of Trustees approves the TCRS' investment policy.

TCRS' investment objectives, set by the Board for the Treasury Investment Division staff, are 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.

TCRS' policies and the strategies implemented by the Investment Division staff serve to benefit plan members in several ways. The emphasis on a conservative asset allocation and high quality securities helps to ensure the soundness of the system and the ability to provide the needed funds upon a member's retirement.

Funds in the retirement system are actively managed with a diversified portfolio of high-quality domestic and international bonds, domestic and international stocks, real estate, private equity and short-term instruments. From time to time, pursuant to Tennessee Code Annotated, Section 8-37-114, the Treasury Investment Division engages outside investment managers to manage a limited number of asset classes or subclasses. In those instances, the Investment Division endeavors to use emerging investment managers to the greatest extent feasible within the bounds of financial and fiduciary prudence, as prescribed under Tennessee Code Annotated, Section 8-37-113. During the fiscal year 2013-2014, no assets were under the control of emerging investment managers.

To assist in the fiduciary responsibility for managing the TCRS portfolio, Strategic Investment Solutions, Inc. serves as the general investment consultant for TCRS. The Townsend Group serves as the real estate investment consultant and Cambridge Associates serves as the private equity consultant to TCRS.

Northern Trust Company was the master bank custodian for TCRS, providing safekeeping and accounting services for the investment portfolio, during fiscal year 2014.

COST OF INVESTMENT OPERATION

The cost to operate the investment program for TCRS is about ten basis points (.10%) of assets. The cost of ten basis points includes the cost of personnel, operational cost, master bank custodian cost, record keeping and external manager fees. Commission cost for trades are capitalized. Recent peer comparisons of investment management fees and expenses indicate the investment program is managed very cost effectively.

PERFORMANCE MEASUREMENT

TCRS' independent external investment consultant, Strategic Investment Solutions, Inc., provides performance measurement for TCRS. During the 2014 fiscal year, TCRS had a total return of 16.65%. Domestic stocks gained 25.19%, while the S&P 1500 Index gained 24.70%. Domestic bonds gained 7.73% versus the bond benchmark of 6.77%. International stocks gained 20.47% versus a gain of 21.56% for the benchmark. Real estate gained 10.72% versus 11.77% for the NCREIF index.

INVESTMENT PERFORMANCE REVIEW

INVESTMENT PERFORMANCE REVIEW PERIODS ENDING JUNE 30, 2014

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	16.65 %	10.64 %	12.29 %
Policy Index	16.88 %	10.59 %	12.38 %
Asset Allocated Index	16.54 %	10.06 %	11.93 %
Domestic Equity			
TCRS Performance	25.19 %	16.55 %	19.21 %
Benchmark	24.70 %	16.48 %	19.18 %
Canadian Equity			
TCRS Performance	27.08 %	4.13 %	
Benchmark	27.08 %	3.99 %	
Domestic Fixed Income			
TCRS Performance	7.73 %	7.31 %	8.33 %
Benchmark	6.77 %	6.26 %	6.35 %
Inflation Hedged Bonds			
Benchmark	4.66 %	3.62 %	5.35 %
	4.66 %	3.68 %	5.70 %
International Equity			
TCRS Performance	20.47 %	8.21 %	13.09 %
Benchmark	21.56 %	6.17 %	10.83 %
Real Estate			
TCRS Performance	10.72 %	10.28 %	5.32 %
Benchmark	11.17 %	11.69 %	7.89 %
Short-Term Securities			
TCRS Performance	0.73 %	0.86 %	1.41 %
Private Equity			
TCRS Performance	23.77 %	15.81 %	
Benchmark	24.75 %	21.60 %	

Strategic Investment Solutions

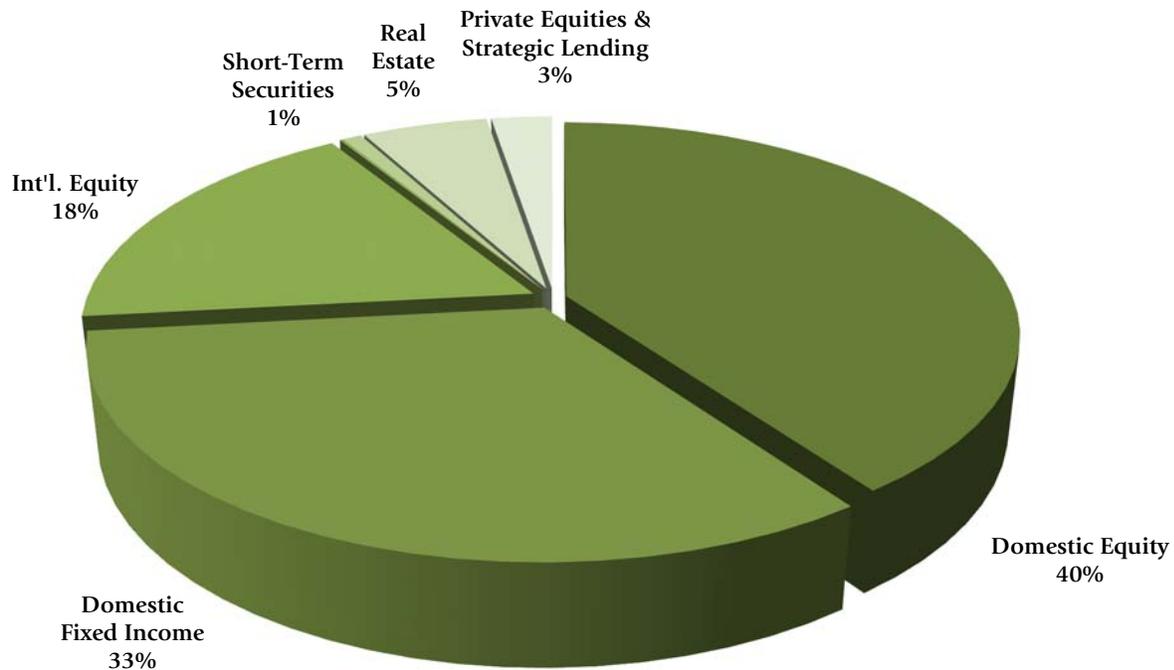
Ranking of TCRS Portfolio	Strategic Investment Solutions	
	Percentile Rankings	Risk Adjusted Basis
Last three years	22	11
Last five years	69	15

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with one 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
AS OF JUNE 30, 2014

Asset Class	Fair Value
Domestic Equity	\$ 17,091,039,079
Domestic Fixed Income	14,154,679,814
International Equity	7,624,296,541
International Fixed Income	40,307,782
Short-Term Securities	353,448,089
Real Estate	2,278,482,101
Private Equities and Strategic Lending	1,100,887,440
Totals	<u>\$ 42,643,140,846</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 STOCK HOLDINGS

*as of June 30, 2014
by Fair Value*

Shares	Security Name	Fair Value
5,590,788	Apple Inc Com Stk	\$ 519,551,929
2,933,315	Exxon Mobil Corp Com	295,326,154
4,472,892	Wells Fargo & Co New Com Stk	235,095,204
4,720,787	Microsoft Corp Com	196,856,818
1,799,346	Johnson & Johnson Com USD1	188,247,579
3,090,700	JP Morgan Chase & Co Com	178,086,134
1,365,553	Berkshire Hathaway Inc-CI B	172,824,388
2,935,489	Merck & Co Inc New Com	169,818,039
3,416,020	Verizon Communications Com	167,145,859

LARGEST BOND HOLDINGS

*as of June 30, 2014
by Fair Value*

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 139,900,000	U.S. Treasury Index Linked Note	(15.32)%	01/15/16	Aaa	\$ 176,157,602
135,000,000	U.S. Treasury Note	0.58%	07/15/20	Aaa	160,802,952
127,000,000	U.S. Treasury Note	0.92%	01/15/21	Aaa	149,071,490
139,800,000	U.S. Treasury Index Linked Note	1.72%	01/15/22	Aaa	147,387,680
95,000,000	U.S. Treasury Index Linked Note	0.12%	01/15/25	Aaa	144,733,812
118,800,000	U.S. Treasury Note	2.89%	07/15/21	Aaa	131,613,743
126,144,967	FNMA POOL #AB6024	2.82%	08/01/42	NR	130,054,199
115,000,000	U.S. Treasury Note	(3.06)%	04/15/17	Aaa	124,145,428
85,000,000	U.S. Treasury Index Linked Note	0.93%	01/15/26	Aaa	119,607,869
107,874,000	U.S. Treasury Bonds	3.19%	08/15/43	Aaa	113,941,913

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
AS OF JUNE 30, 2014

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 4,529,807,462	10.62%	\$ 0	0.00%	\$ 4,529,807,462	10.62%
Corporate Bonds	4,373,262,408	10.26%	0	0.00%	4,373,262,408	10.26%
Convertible Bonds	0	0.00%	0	0.00%	0	0.00%
Municipal/Provincial Bonds	156,846,148	0.37%	0	0.00%	156,846,148	0.37%
Total Bonds	9,059,916,018	21.25%	0	0.00%	9,059,916,018	21.25%
Lehman Brothers Escrow Adjustment	2,906,251	0.01%	0	0.00%	2,906,251	0.01%
Asset Backed	718,751,207	1.69%	0	0.00%	718,751,207	1.69%
Commercial Mortgage Backed	444,741,903	1.04%	0	0.00%	444,741,903	1.04%
Government Agencies	245,508,403	0.58%	0	0.00%	245,508,403	0.58%
Government Mortgage Backed Securites	3,498,774,789	8.20%	0	0.00%	3,498,774,789	8.20%
Non-Government CMOs	127,911,593	0.30%	0	0.00%	127,911,593	0.30%
Government Issued Commercial Mortgaged Backed	0	0.00%	0	0.00%	0	0.00%
Preferred Stock	56,169,650	0.13%	40,307,782	0.09%	96,477,432	0.23%
Total Fixed Income	14,154,679,814	33.19%	40,307,782	0.09%	14,194,987,596	33.29%
Common Stock						
Consumer Discretionary	1,882,644,383	4.41%	860,757,146	2.02%	2,743,401,529	6.43%
Consumer Staples	1,344,733,100	3.15%	419,327,573	0.98%	1,764,060,673	4.14%
Energy	2,011,542,159	4.72%	329,270,589	0.77%	2,340,812,748	5.49%
Financials	3,228,902,222	7.57%	1,071,328,641	2.51%	4,300,230,863	10.08%
Healthcare	2,052,243,175	4.81%	592,174,503	1.39%	2,644,417,678	6.20%
Industrials	1,825,768,716	4.28%	926,449,619	2.17%	2,752,218,335	6.45%
Information Technology	2,937,524,545	6.89%	365,063,711	0.86%	3,302,588,256	7.74%
Materials	819,835,877	1.92%	350,115,334	0.82%	1,169,951,212	2.74%
Rights/Warrants	0	0.00%	118,883	0.00%	118,883	0.00%
Telecommunication Services	451,259,485	1.06%	154,959,832	0.36%	606,219,316	1.42%
Utilities	521,742,805	1.22%	114,810,025	0.27%	636,552,830	1.49%
Miscellaneous/Unclassified	14,842,612	0.03%	595,028,994	1.40%	609,871,606	1.43%
Equity Exchange Traded Fund	0	0.00%	1,829,908,866	4.29%	1,829,908,866	4.29%
Stapled Securities	0	0.00%	14,982,824	0.04%	14,982,824	0.04%
Total Common Stock	17,091,039,079	40.08%	7,624,296,540	17.88%	24,715,335,619	57.96%
Short-Term Investments						
Commercial Paper	149,988,810	0.35%	0	0.00%	149,988,810	0.35%
Pooled Funds and Mutual Funds	16,299,081	0.04%	0	0.00%	16,299,081	0.04%
Short-Term Bills and Notes	187,160,198	0.44%	0	0.00%	187,160,198	0.44%
Total Short-Term Investments	353,448,089	0.83%	0	0.00%	353,448,089	0.83%
Real Estate						
Private Equities and Strategic Lending	2,278,482,101	5.34%	0	0.00%	2,278,482,101	5.34%
	1,100,887,440	2.58%	0	0.00%	1,100,887,440	2.58%
Total Investments	34,978,536,523	82.03%	7,664,604,322	17.97%	42,643,140,845	100.00%
Derivatives and Options	3,282,847		0		0	
Short-Term Investments Classified as Cash Equivalents	(216,283,941)		0		(216,283,941)	
Total Investments as Shown on the Statement of Fiduciary Net Position	\$ 34,765,535,430		\$ 7,664,604,322		\$ 42,430,139,752	

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, 2014

SCHEDULE OF FEES

	Average Assets Under Management	Fees
Asset Management		
International Investment Manager Fees	\$ 5.6 Billion	\$ 21,551,136
Real Estate Asset Management	2.3 Billion	10,283,258
Private Equities Asset Management	1.1 Billion	0
Total Asset Management		<u>\$31,834,394</u>
Other Investment Services Fees		
Custodian Bank	42.8 Billion	\$ 396,000
General Investment Consultant	42.8 Billion	450,000
Real Estate Investment Consultant	2.3 Billion	125,000
Private Equities and Strategic Lending Investment Consultant	1.1 Billion	1,506,000
Total Investment Services Fees		<u>\$ 2,477,000</u>

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	33,088,372	\$ 1,323,535	0.0400
Barclays Capital	34,627,940	687,559	0.0199
Instinet, LLC	17,043,406	340,868	0.0200
Deutsche Bank Securities, Inc.	17,014,728	339,965	0.0200
Cowen & Company, LLC	16,134,283	322,636	0.0200
UBS Securities LLC	19,104,626	302,093	0.0158
Sanford C. Bernstein & Company, Inc.	15,069,534	301,391	0.0200
JP Morgan Chase & Company	13,280,503	255,010	0.0192
Morgan Stanley & Company, Inc.	12,360,278	247,186	0.0200
International Strategy & Investment Inc.	11,852,775	237,056	0.0200
RBC Capital Markets Corporation	11,645,143	232,903	0.0200
Citigroup Global Markets, Inc.	9,676,411	193,528	0.0200
Other Brokers*	68,618,833	1,140,104	0.0166
Totals	<u>279,516,832</u>	<u>\$ 5,923,831</u>	

(continued)

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2014 (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	81,037,526	\$ 1,135,280	0.0140
Credit Suisse	80,083,799	1,032,103	0.0129
Barclays Capital	33,096,990	425,031	0.0128
Morgan Stanley & Company, Inc.	39,202,241	300,347	0.0077
Cowen & Company, LLC	24,285,583	189,903	0.0078
Sandford C. Bernstein & Company, Inc.	26,091,996	184,067	0.0071
Bank of America Merrill Lynch	17,377,228	131,452	0.0076
Other Brokers*	50,969,515	344,560	0.0068
Totals	<u>352,144,878</u>	<u>\$ 3,742,744</u>	

International Exchange Traded Shares

Broker Name	INTERNATIONAL		
	Number of Shares Traded	Total Commissions	Commission Per Share
UBS Securities LLC	31,545,346	\$ 441,062	0.0140
JP Morgan Chase & Company	42,452,519	423,469	0.0100
Citigroup Global Markets, Inc.	30,138,972	357,749	0.0119
Instinet, LLC	70,898,422	347,288	0.0049
Bank of America Merrill Lynch	46,051,223	343,296	0.0075
Goldman Sachs Group, Inc.	34,615,698	309,439	0.0089
Barclays Capital	26,960,247	296,368	0.0110
Morgan Stanley & Company, Inc.	22,170,601	289,648	0.0131
Credit Suisse	19,173,169	271,516	0.0142
Deutsche Bank Securities, Inc.	16,390,911	223,170	0.0136
HSBC Bank PLC	13,339,327	148,620	0.0111
Macquarie Group LTD	9,054,051	139,235	0.0154
Exane	3,467,012	126,415	0.0365
Berenberg	2,358,146	114,112	0.0484
Jefferies LLC	6,530,673	102,873	0.0158
Other Brokers*	122,071,355	1,205,532	0.0099
TOTALS	<u>497,217,672</u>	<u>\$ 5,139,792</u>	

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

Actuarial Introduction

Actuary's Certification Letter

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Services for Active and Retired Members

Sample Benefit Calculations

Major Legislative Improvements

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, 2011 set employer rates effective July 1, 2012 through June 30, 2014. 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, 2013 to establish new employer rates effective July 1, 2014.

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 2013 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.

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, 2012. The system noted improvements in mortality and included an adjustment for projected mortality. In addition, the system lowered the salary scale for all groups. Assumptions developed from the June 30, 2012 experience study were used in the July 1, 2013 actuarial valuation.



Bryan, Pendleton, Swats & McAllister, LLC
A Wells Fargo Company

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

November 17, 2014

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, Local Education Agencies 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, 2014 for the Tennessee Consolidated Retirement System was performed as of July 1, 2013. 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, 2012.

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 2013 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, 2013 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 –

Mr. David H. Lillard, Jr.
Chairman, Board of Trustees
November 17, 2014
Page Two

Financial Section

- Schedules of Funding Progress
- Schedules of Employer Contributions

Actuarial Section

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

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from prior actuarial valuations through 2013.

The 2013 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.

The following assumptions were adopted by the Board of Trustees for use with the July 1, 2013 valuation based on the consulting actuary's recommendations resulting from the June 30, 2012 actuarial experience study.

GENERAL ACTUARIAL METHODS

- * **Actuarial Cost Method** (Frozen Entry Age) — The state and teacher unfunded accrued liabilities are being funded over a thirteen-year and eight-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, unless the unfunded liability is reestablished.
- * **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 two and one-half percent (2½%) 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.

(continued)

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	0.2%	0.3%
Age 60	0.4%	0.9%
Age 70	1.4%	2.0%

<i>Female</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.1%	0.2%
Age 60	0.4%	0.7%
Age 70	0.9%	1.2%

* *Pre-Retirement Mortality* — All groups are based on the 2012 Static Non-annuitant mortality table published by the IRS.

* *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%

* *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 Employment	2nd Year Employment	Ultimate
Male			
Age 30	18.0%	13.5%	6.0%
Age 40	18.0%	13.5%	2.0%
Age 50	19.7%	14.2%	2.0%
Female			
Age 30	18.0%	13.5%	7.6%
Age 40	18.0%	13.5%	2.3%
Age 50	19.7%	14.2%	1.6%

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

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

(continued)

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(CONTINUED)**

* *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 twelve and one-half percent (12½%) for teachers and seven and one-half percent (7½%) 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 eight percent (8%) load is added for teachers and two percent (2%) for state employees and political subdivision employees.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

	Actuarial Valuation July 1	Number	Annual Payroll In Thousands	Average Annual Pay	Average Annual Percentage Increase In Average Pay
2005	SETHEEPP	132,026	\$ 5,245,988	\$39,735	3.49%
	PSPP	74,124	1,890,968	25,511	2.96%
2007	SETHEEPP	136,337	5,742,858	42,123	2.96%
	PSPP	76,388	2,081,965	27,255	3.36%
2009	SETHEEPP	136,158	6,054,528	44,467	2.74%
	PSPP	78,792	2,282,081	28,963	3.09%
2011	SETHEEPP	135,588	6,058,348	44,682	0.24%
	PSPP	79,488	2,354,939	29,626	1.14%
2013	SETHEEPP	132,900	6,236,930	46,929	2.48%
	PSPP	77,064	2,374,948	30,818	1.99%

SCHEDULE OF RETIRED MEMBER VALUATION DATA

	Actuarial Valuation July 1	Number	Annual Payroll In Thousands	Average Annual Allowances	Average Annual Percentage Increase In Annual Allowances
2005	SETHEEPP	65,094	\$ 939,549	\$14,434	4.63%
	PSPP	24,799	143,275	5,777	4.24%
2007	SETHEEPP	70,703	1,117,789	15,810	4.66%
	PSPP	27,527	174,211	6,329	4.67%
2009	SETHEEPP	77,310	1,281,514	16,576	2.39%
	PSPP	30,565	205,326	6,718	3.03%
2011	SETHEEPP	83,041	1,457,974	17,557	2.92%
	PSPP	33,544	241,910	7,212	3.61%
2013	SETHEEPP	90,414	1,682,792	18,612	2.96%
	PSPP	37,157	286,338	7,706	3.37%

The information in this schedule is based on prior actuarial valuations and will be presented differently in future actuarial valuations based on changes due to legislative enactments and GASB pronouncements.

SETHEEPP – State Employees, Teachers, Higher Education Employees Pension Plan
PSPP – Political Subdivisions Pension Plan

(continued)

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		
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
2013 SETHEEPP	12,199	289,437	4,826	64,619	90,414	1,682,792	15.42%	18,612
PSPP	5,858	56,987	2,245	12,559	37,157	286,338	18.37%	7,706

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.

The information in this schedule is based on prior actuarial valuations and will be presented differently in future actuarial valuations based on changes due to legislative enactments and GASB pronouncements.

SETHEEPP – State Employees, Teachers, Higher Education Employees Pension Plan
PSPP – Political Subdivisions Pension Plan

ACTUARIAL BALANCE SHEET
AS OF JULY 1, 2013

	Teacher Legacy Pension Plan	Public Employee Retirement Plan	Total
ASSETS			
Present assets creditable to:			
Employer accumulation fund	\$ 16,306,892,102	\$ 17,986,207,216	\$ 34,293,099,318
Members' accumulation fund	3,186,908,392	1,769,310,216	4,956,218,608
Total present assets	<u>19,493,800,494</u>	<u>19,755,517,432</u>	<u>39,249,317,926</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	1,900,941,405	2,834,849,121	4,735,790,526
Accrued liability	806,790,144	1,857,316,255	2,664,106,399
Total employer accumulation	<u>2,707,731,549</u>	<u>4,692,165,376</u>	<u>7,399,896,925</u>
Member's accumulation fund	<u>1,842,985,351</u>	<u>565,516,463</u>	<u>2,408,501,814</u>
Total prospective contributions	<u>4,550,716,900</u>	<u>5,257,681,839</u>	<u>9,808,398,739</u>
TOTAL ASSETS	<u><u>\$ 24,044,517,394</u></u>	<u><u>\$ 25,013,199,271</u></u>	<u><u>\$ 49,057,716,665</u></u>
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	11,179,309,840	10,643,750,163	21,823,060,003
Present active members	12,528,153,285	13,541,859,239	26,070,012,524
Former members	337,054,269	827,599,424	1,164,653,693
TOTAL LIABILITIES	<u><u>\$ 24,044,517,394</u></u>	<u><u>\$ 25,013,208,826</u></u>	<u><u>\$ 49,057,726,220</u></u>

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:				Portion of Actuarial Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed)	Valuation Assets	(1)	(2)	(3)
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%
2013 SETHEEP	\$3,759.9	\$18,747.4	\$11,616.3	\$31,851.0	100%	100%	80%
PSPP	1,196.3	3,075.7	1,991.6	7,398.3	100%	100%	100%
Total	\$4,956.2	\$21,823.1	\$13,607.9	\$39,249.3	100%	100%	92%

The information in this schedule is based on prior actuarial valuations and will be presented differently in future actuarial valuations based on changes due to legislative enactments and GASB pronouncements.

SETHEEPP – State Employees, Teachers, Higher Education Employees Pension Plan
PSPP – Political Subdivisions Pension Plan

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

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.

Under this method, the unfunded accrued liability is being funded by level-dollar contributions. 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.

For the July 1, 2013 actuarial valuation, the Board reestablished the unfunded accrued liability. In an 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.

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.

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

Dollar Amounts Expressed in Millions

Actuarial Valuation Jul 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
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%
2013	41,913.4	39,249.3	93.64%	2,664.1	8,611.9	30.94%

Notes:

(1) Unfunded accrued liability was reestablished.

(2) Includes adjustments for changes in actuarial assumptions.

The Schedule of Actuarially-Determined and Actual Contributions is presented as Required Supplementary Information on page 42.

SELECTED ACTUARIAL FUNDING INFORMATION

SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEEP	PSPP	
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 (3)	7.50%	4.75% (2)	2,719,767,478	839,320,076	20
2011	7.50%	4.75% (2)	2,589,446,292	799,102,966	9 (4)
2013	7.50%	4.25% (2)	2,272,526,399	391,589,555	13 (5)

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
- (2) Graded Scale
- (3) Unfunded liability was reestablished for all groups.
- (4) Effective July 1, 2011, the amortization period was reset to six years for Teachers and nine years for the State.
- (5) Effective July 1, 2013, the amortization period was reset to eight years for Teachers and 13 years for the State.

GAIN AND LOSS ANALYSIS, JULY 1, 2013 VALUATION

	Consolidated State	Teacher
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2011 Valuation	15.14%	8.88%
Investment Results	2.56%	2.37%
Salary Increases: The annual weighted-average rate of salary increase during the 2011-2013 period was below the assumed age-based rate used in preparing the 2011 valuation report. This resulted in a reduction in the contribution rate.	-0.40%	-0.59%
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	-0.59%	-0.01%
Cost of Living Escalation: COLA in 2012 and 2013 were 3.0% and 1.7%, respectively, for combined effect of 2.35%, which is less than the assumed 2.5% per year.	-0.13%	-0.11%
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	0.02%	-0.02%
Effect of Turnover on total payroll	1.38%	0.74%
Other	0.11%	-0.31%
Assumption Changes resulting from 2012 Experience Study	0.18%	0.30%
Re-amortization of unfunded liability (8-year amortization for teachers, 13-year amortization for State)	-3.23%	-2.31%
Effective Employer Normal Cost Rate Pursuant to 2013 Valuation	<u>15.14%</u>	<u>9.04%</u>

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.

State employees, higher education employees and K-12 public school teachers hired after June 30, 2014 will participate in the Hybrid Pension Plan for State Employees and Teachers.

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'

(continued)

accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts. State employees, teachers in state supported institutions of higher education and teachers employed by the Department of Education hired after June 30, 2014 contribute at a rate of five percent of gross salary.

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.

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.

For ORP participants hired after June 30, 2014, the state will contribute nine percent of salary to the ORP. The employee will contribute five percent of gross salary to the ORP.

BENEFITS

General

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.

(continued)

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.

Legacy Plan for Members Before July 1, 2014

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 hired prior to July 1, 2014, 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.

Hybrid Plan for Members After June 30, 2014

State employees, higher education employees and K-12 teachers, with the exception of state judges, the State Attorney General, elected District Attorneys General, and elected Public Defenders, becoming members after June 30, 2014 enter the same membership group. The benefit formula for this group provides 1.0 percent of AFC computed over five years for each year of service credit. The benefit formula for State judges, the State Attorney General, elected District Attorneys General, and elected Public Defenders provides 1.6 percent of AFC computed over five years for each year of service credit. Local governments have the option to join this plan

Members become eligible for regular service retirement at age 65 if vested or the Rule of 90. The Rule of 90 refers to a combination of age and service that total 90. Vested members are eligible for reduced early retirement benefits at age 60 if vested or the Rule of 80. Members attain vesting rights after five years of service.

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
- * Retiree self-service at www.mytcrs.com

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
FOR CALENDAR YEAR 2014

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	<u>9,756</u>									
	Total	\$13,300	88.7%	\$14,481	96.5%	\$15,662	104.4%	\$16,844	112.3%	\$18,025	120.2%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	<u>11,280</u>									
	Total	\$16,005	80.0%	\$17,580	87.9%	\$19,155	95.8%	\$20,730	103.7%	\$22,305	111.5%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	<u>12,804</u>									
	Total	\$18,710	74.8%	\$20,679	82.7%	\$22,648	90.6%	\$24,617	98.5%	\$26,585	106.3%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	<u>14,328</u>									
	Total	\$21,416	71.4%	\$23,778	79.3%	\$26,141	87.1%	\$28,503	95.0%	\$30,866	102.9%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	<u>15,852</u>									
	Total	\$24,121	68.9%	\$26,877	76.8%	\$29,633	84.7%	\$32,390	92.5%	\$35,146	100.4%
\$40,000	TCRS	\$ 9,450		\$ 12,600		\$ 15,750		\$ 18,900		\$ 22,050	
	Social Security	<u>17,376</u>									
	Total	\$26,826	67.1%	\$29,976	74.9%	\$33,126	82.8%	\$36,276	90.7%	\$39,426	98.6%
\$45,000	TCRS	\$ 10,631		\$ 14,175		\$ 17,719		\$ 21,263		\$ 24,806	
	Social Security	<u>18,900</u>									
	Total	\$29,531	65.6%	\$33,075	73.5%	\$36,619	81.4%	\$40,163	89.3%	\$43,706	97.1%
\$50,000	TCRS	\$ 11,813		\$ 15,750		\$ 19,688		\$ 23,625		\$ 27,563	
	Social Security	<u>20,412</u>									
	Total	\$32,225	64.4%	\$36,162	72.3%	\$40,100	80.2%	\$44,037	88.1%	\$47,975	95.9%
\$55,000	TCRS	\$ 12,994		\$ 17,325		\$ 21,656		\$ 25,988		\$ 30,319	
	Social Security	<u>21,936</u>									
	Total	\$34,930	63.5%	\$39,261	71.4%	\$43,592	79.3%	\$47,924	87.1%	\$52,255	95.0%
\$60,000	TCRS	\$ 14,175		\$ 18,900		\$ 23,625		\$ 28,350		\$ 33,075	
	Social Security	<u>22,956</u>									
	Total	\$37,131	61.9%	\$41,856	69.8%	\$46,581	77.6%	\$51,306	85.5%	\$56,031	93.4%
\$65,000	TCRS	\$ 15,364		\$ 20,486		\$ 25,607		\$ 30,728		\$ 35,850	
	Social Security	<u>23,664</u>									
	Total	\$39,028	60.0%	\$44,150	67.9%	\$49,271	75.8%	\$54,392	83.7%	\$59,514	91.6%
\$70,000	TCRS	\$ 16,742		\$ 22,323		\$ 27,904		\$ 33,485		\$ 39,065	
	Social Security	<u>24,384</u>									
	Total	\$41,126	58.8%	\$46,707	66.7%	\$52,288	74.7%	\$57,869	82.7%	\$63,449	90.6%

* 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 2014. 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 2014;
- (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: treasury.tn.gov/tcrs

- 1972 Benefit formula improved from 1.12 percent of salary up to the SSIL to 1.5 percent of salary up to the SSIL.
- 1973 Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.
- 1974 Disability retirement eligibility requirement reduced from 10 years to 5 years of service.

Maximum annual cost-of-living increase raised to 3 percent.

Provision to increase retirees' benefits whenever the benefit formula is improved.

Service credit authorized for unused accumulated sick leave.
- 1976 Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.

Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.
- 1978 A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.

An optional retirement plan established for teachers in the Board of Regents system.
- 1980 Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member's accrued benefit for the spouse.
- 1981 Noncontributory retirement for state employees and higher education employees adopted. Employees' contributions, up to 5 percent, were assumed by the state.
- 1983 An actuarially-reduced retirement benefit at any age with 25 years of service authorized.
- 1984 Credit for out-of-state service for the purpose of determining retirement eligibility authorized.

Retirement credit for armed conflict approved.

Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.
- 1985 \$22 million ad-hoc increase granted to retirees.
- 1987 Service credit for half of peacetime military service made available.

\$17 million ad-hoc increase granted to retirees.

Retirement incentive for state employees.

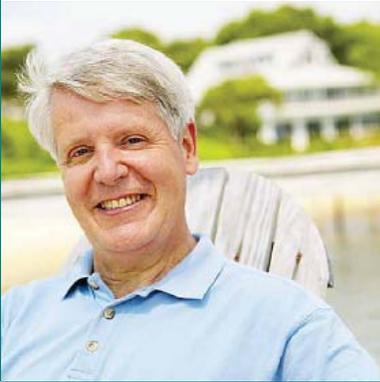
Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.
- 1990 Retirement incentive for state employees.
- 1991 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.
- 1992 Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.
- 1993 Salary portability for service in different classifications authorized effective January 1, 1994.

Benefit improvement up to 5 percent authorized.
- 1997 Compounded COLA for retirees approved.

(continued)

MAJOR LEGISLATIVE IMPROVEMENTS
(CONTINUED)

- | | |
|--|--|
| <p>1998 Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80 percent.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p>1999 Group 1 benefit maximum increased to 90 percent.</p> <p>2000 Group 2 benefit maximum increased to 80 percent.</p> <p>2001 Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> | <p>2005 Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p>2006 Ad-hoc increase granted to members retired prior to 1989.</p> <p>2007 Public Safety Officer benefits were enhanced.</p> <p>2012 New plan options offered to local governments.</p> <p>2013 Hybrid plan enacted for state employees and teachers hired after July 1, 2014.</p> |
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Statistical Section

Statistical Introduction

Historical Fair Value

Analysis of Member and Employer Reserves

Schedules of Changes in Net Position

Schedules of Benefit Expenses

Schedules of Active Members

Schedules of Retired Members

Retired Members by Geographical Distribution

Average Benefit Payments Schedule

Retired Members on Payroll and Prior Service Established

Treasury Retirement Installment Plan

Refund Activity and Political Subdivision Participation

Historical Employer Contribution Rates and Retirement Contributions

Schedules of Principal Participating Employers

Introduction to Political Subdivision Participation

Optional Provisions for Political Subdivisions

Local Government Plan Options

Political Subdivision Participants

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 80-83 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 Position
- * Schedules of Benefit Expenses

OPERATING INFORMATION

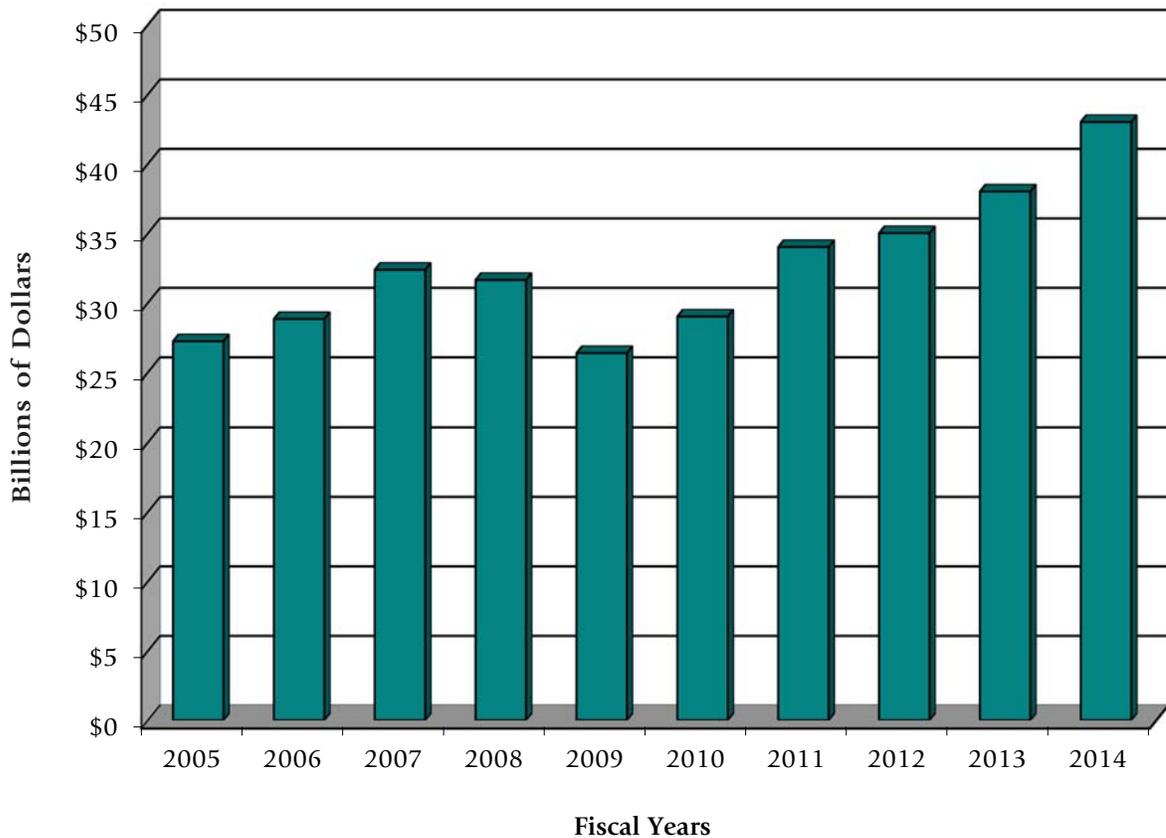
The remaining schedules presented on pages 80-104 contain benefits, service, and employer data to help the reader understand how the System's financial report relates to the services of the system and the activities it performs. In addition, a description of political subdivision participation and a listing of participating entities have been included in this section.

HISTORICAL FAIR VALUE

HISTORICAL FAIR VALUE
FISCAL YEARS 2005-2014
EXPRESSED IN THOUSANDS

As of June 30	Fair Value	As of June 30	Fair Value
2005	\$ 27,216,262	2010	\$ 28,574,195
2006	28,820,635	2011	33,663,308
2007	32,365,969	2012	34,912,773
2008	31,634,129	2013	37,564,905
2009	26,369,226	2014	42,905,157

HISTORICAL FAIR VALUE
FISCAL YEARS 2005-2014



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES
FOR THE YEAR ENDED JUNE 30, 2014**

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. 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.

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total
<i>June 30, 2013 Member Reserve Fund</i>	\$ 1,768,110,652	\$ 3,186,288,630	\$ 4,954,399,282
Member Contributions	75,030,076	195,520,938	270,551,014
Employer Provided Contributions	16,867,331	41,082	16,908,413
Interest	80,025,492	144,325,426	224,350,918
Refunded Account Balances	(31,720,044)	(22,325,893)	(54,045,937)
Transfers to Employer Fund of Retiring Members' Account	(165,804,412)	(277,655,289)	(443,459,701)
<i>June 30, 2014 Member Reserve Fund</i>	<u>\$ 1,742,509,095</u>	<u>\$ 3,226,194,894</u>	<u>\$ 4,968,703,989</u>
<i>June 30, 2013 Employer Reserve Fund</i>	\$ 17,140,258,811	\$ 15,470,247,269	\$ 32,610,506,080
Employer Contributions	686,219,263	348,474,888	1,034,694,151
Investment Income	3,105,781,847	3,054,117,821	6,159,899,668
Transfers from Retiring Members' Account	165,804,412	277,655,289	443,459,701
Employer Provided Contributions	(16,867,331)	(41,082)	(16,908,413)
Interest Credited to Members' Account	(80,025,492)	(144,325,426)	(224,350,918)
Lump-Sum Death Benefits	(2,275,453)	(1,636,752)	(3,912,205)
Retirement and Survivors Annuities	(1,043,927,049)	(1,013,050,448)	(2,056,977,497)
Administrative Expenses	(7,293,741)	(2,663,319)	(9,957,060)
<i>June 30, 2014 Employer Reserve Fund</i>	<u>\$ 19,947,675,267</u>	<u>\$ 17,988,778,240</u>	<u>\$ 37,936,453,507</u>
<i>June 30, 2014 Assets held in Trust for Pension Benefits</i>	<u>\$ 21,690,184,362</u>	<u>\$ 21,214,973,134</u>	<u>\$ 42,905,157,496</u>

**SCHEDULES OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

**SCHEDULES OF CHANGES IN NET POSITION
EXPRESSED IN THOUSANDS**

Year Ending	Additions			Deductions			Total Change in Net Position
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
Public Employee Retirement Plan							
6/30/2014	\$ 75,030	\$ 686,219	\$ 3,105,782	\$ 1,046,202	\$ 7,294	\$ 31,720	\$ 2,781,815
Teacher Legacy Pension Plan							
6/30/2014	\$ 195,521	\$ 348,475	\$ 3,054,118	\$ 1,014,688	\$ 2,663	\$ 22,326	\$ 2,558,437

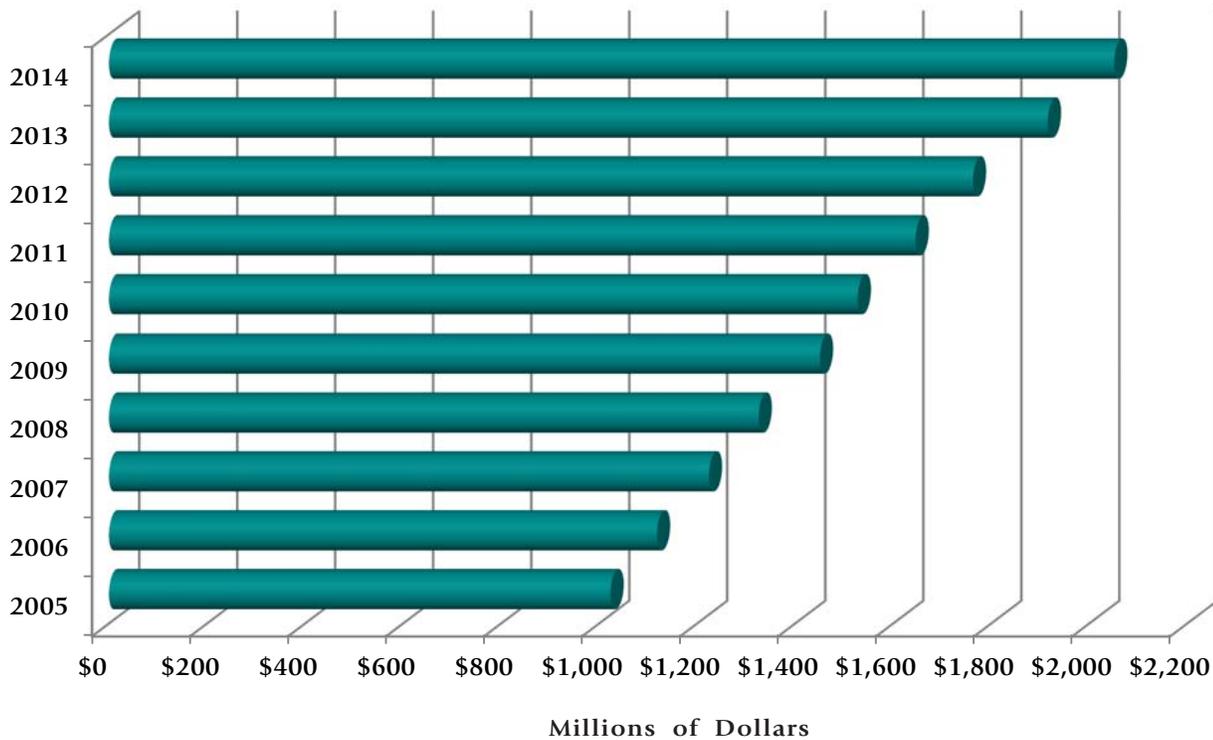
As a result of plan reporting changes due to legislative enactments and GASB pronouncements, historical information is available for one year. Additional years will be added in the future.

SCHEDULES OF BENEFIT EXPENSES
EXPRESSED IN THOUSANDS

Year Ending	Service Retirement	Disability Retirement	Survivor Benefits	Death Benefits	Total Benefits	Refunds	Total
Public Employee Retirement Plan							
6/30/2014	\$ 953,255	\$ 24,670	\$ 66,002	\$ 2,275	\$ 1,046,202	\$ 31,720	\$ 1,077,922
Teacher Legacy Pension Plan							
6/30/2014	\$ 925,061	\$ 23,940	\$ 64,050	\$ 1,637	\$ 1,014,688	\$ 22,326	\$ 1,037,014

As a result of plan reporting changes due to legislative enactments and GASB pronouncements, historical information is available for one year. Additional years will be added in the future.

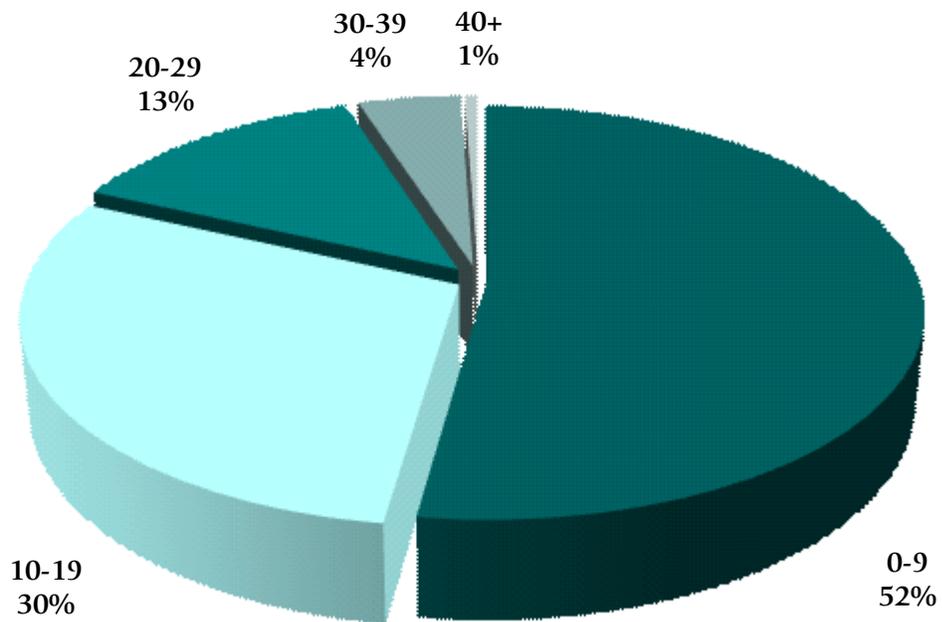
ANNUAL BENEFIT PAYMENTS
FISCAL YEARS 2005-2014



SCHEDULES OF ACTIVE MEMBERS

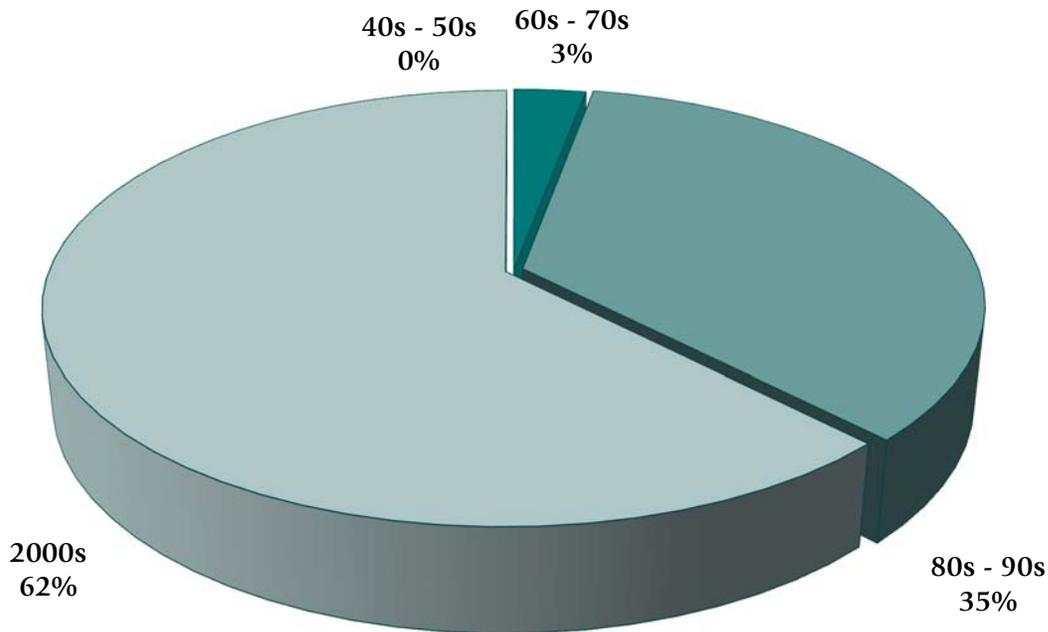
Schedule of Active Members by Service Credit

Years of Service	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
0-4	20,951	10,548	5,270	25,248	62,017
5-9	18,128	9,110	3,643	18,945	49,826
10-14	14,366	6,898	2,448	13,966	37,678
15-19	10,217	4,603	1,654	9,127	25,601
20-24	6,484	3,049	1,368	5,222	16,123
25-29	4,234	3,307	1,136	3,382	12,059
30-34	2,560	1,696	651	1,340	6,247
35-39	1,200	950	445	698	3,293
40-44	313	332	172	175	992
Over 44	53	88	42	41	224
Total	78,506	40,581	16,829	78,144	214,060



Schedule of Active Members
by Enrollment Date

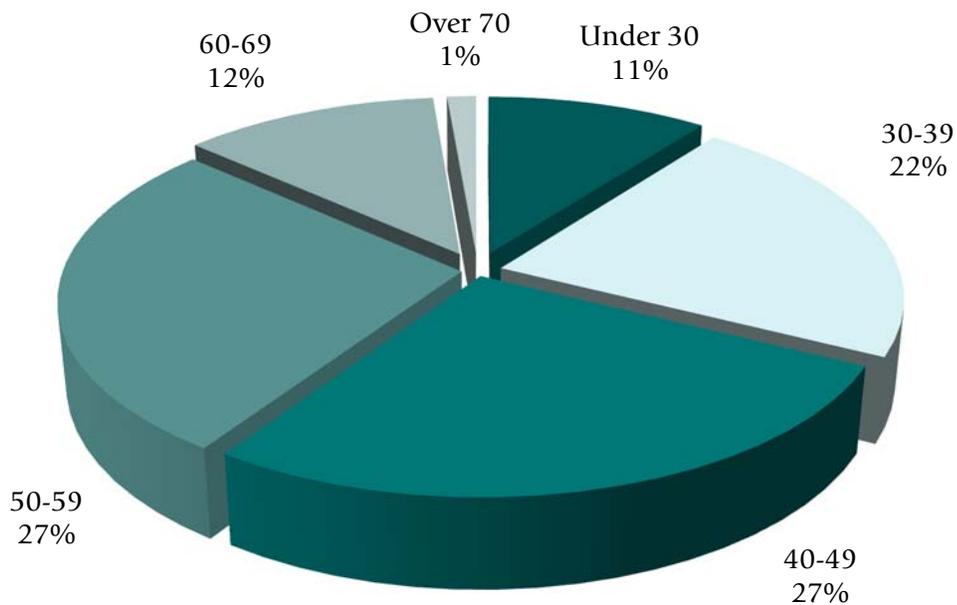
Date of Membership	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
1940s	1	0	0	0	1
1950s	1	18	0	2	21
1960s	84	91	53	20	248
1970s	2,945	1,497	724	878	6,044
1980s	8,581	6,133	2,265	6,486	23,465
1990s	20,146	8,667	3,295	18,691	50,799
2000s	31,605	14,850	6,052	33,141	85,648
2010s	<u>15,143</u>	<u>9,325</u>	<u>4,440</u>	<u>18,926</u>	<u>47,834</u>
Total	<u>78,506</u>	<u>40,581</u>	<u>16,829</u>	<u>78,144</u>	<u>214,060</u>



SCHEDULES OF ACTIVE MEMBERS

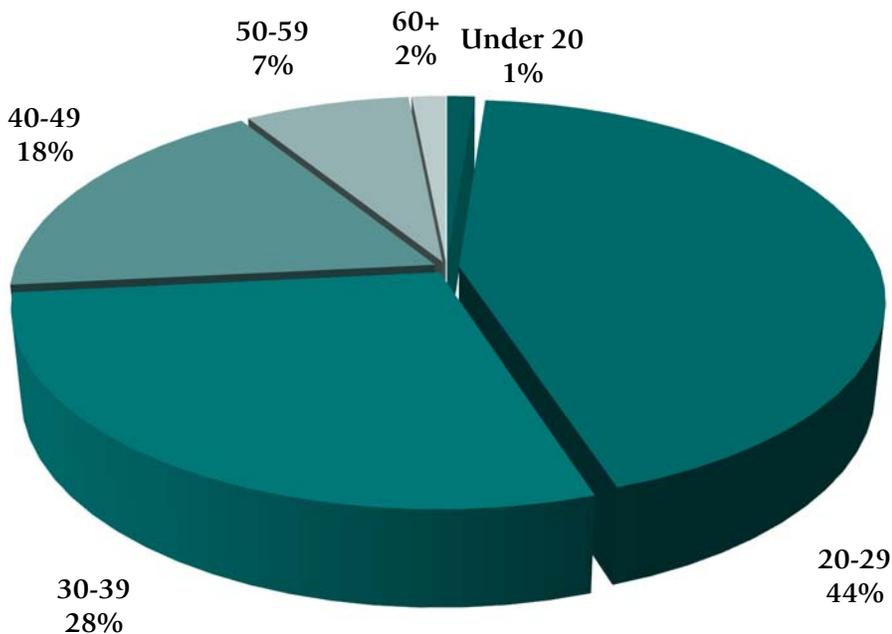
Schedules of Active Members by Current Age

Current Age	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Less than 20	9	32	5	32	78
20-29	11,672	3,168	1,106	6,210	22,156
30-39	22,013	7,890	2,728	14,527	47,158
40-49	21,940	9,675	4,049	22,138	57,802
50-54	8,170	6,565	2,827	12,105	29,667
55-59	8,260	6,291	2,891	11,057	28,499
60-64	4,968	4,565	2,042	7,328	18,903
65-69	1,292	1,705	795	3,091	6,883
Over 69	182	690	386	1,656	2,914
Total	78,506	40,581	16,829	78,144	214,060



Schedules of Active Members
by Age at Enrollment

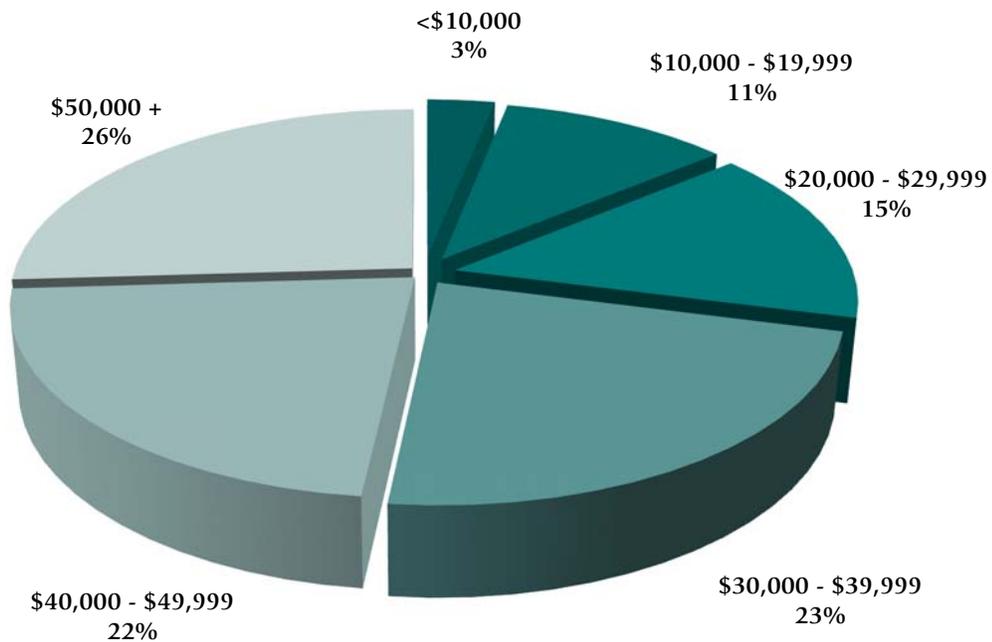
Age at Enrollment	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Less than 20	129	1,031	244	1,256	2,660
20 - 24	26,487	7,977	2,608	10,316	47,388
25 - 29	21,816	9,159	3,268	11,939	46,182
30 - 34	11,261	6,129	2,652	12,306	32,348
35 - 39	8,023	5,341	2,325	12,842	28,531
40 - 44	5,668	4,005	1,963	11,074	22,710
45 - 49	2,797	3,019	1,617	7,735	15,168
50 - 54	1,486	2,132	1,170	5,333	10,121
55 - 59	626	1,238	704	3,107	5,675
60 - 64	183	409	217	1,542	2,351
65 - 69	26	118	47	497	688
70 and	4	23	14	197	238
Total	78,506	40,581	16,829	78,144	214,060



SCHEDULES OF ACTIVE MEMBERS

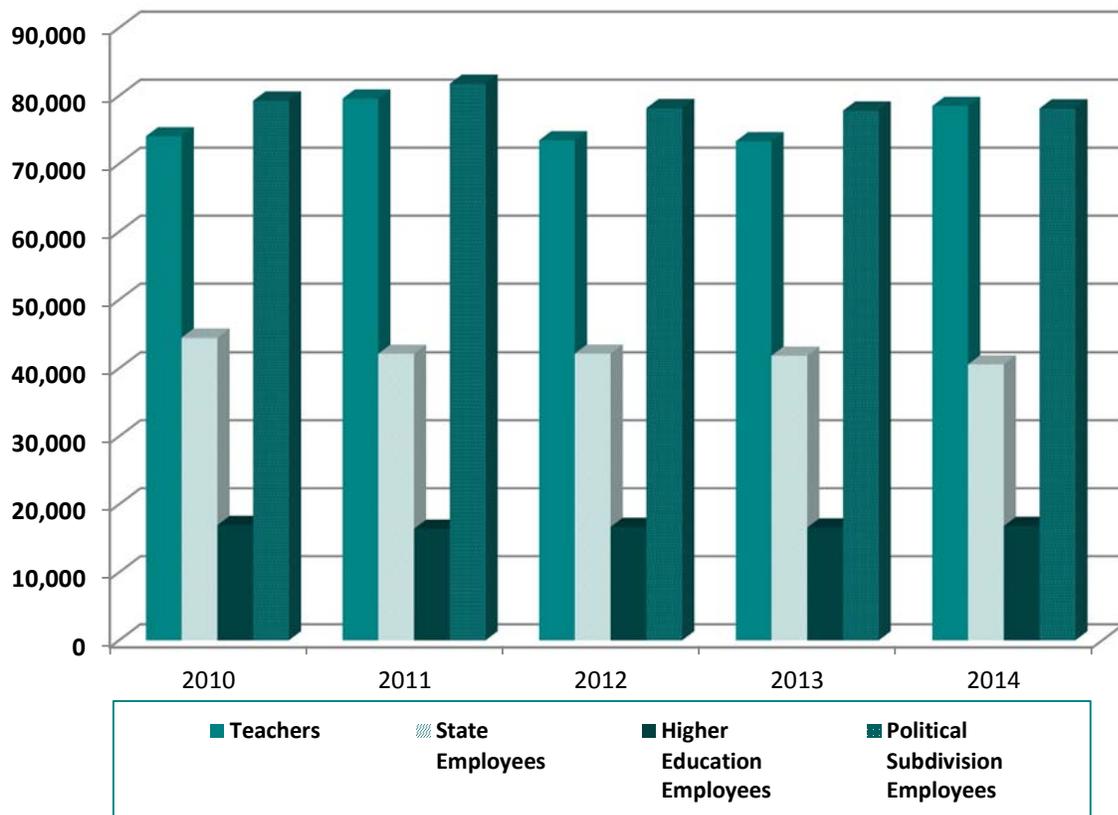
Schedules of Active Members by Salary

Annual Salary	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Less than \$10,000	193	1,325	440	4,839	6,797
\$10,000 - \$19,999	758	1,652	911	19,799	23,120
\$20,000 - \$29,999	1,466	7,932	4,158	18,662	32,218
\$30,000 - \$39,999	16,638	11,015	4,134	16,881	48,668
\$40,000 - \$49,999	27,831	7,831	2,765	9,273	47,700
\$50,000 +	<u>31,620</u>	<u>10,826</u>	<u>4,421</u>	<u>8,690</u>	<u>55,557</u>
Total	<u>78,506</u>	<u>40,581</u>	<u>16,829</u>	<u>78,144</u>	<u>214,060</u>



Active Members
Fiscal Years 2010-2014

Year	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
2010	74,043	44,422	16,957	79,289	214,711
2011	79,583	42,142	16,409	81,780	219,914
2012	73,449	42,171	16,693	78,180	210,493
2013	73,306	41,856	16,590	77,815	209,567
2014	78,506	40,581	16,829	78,144	214,060



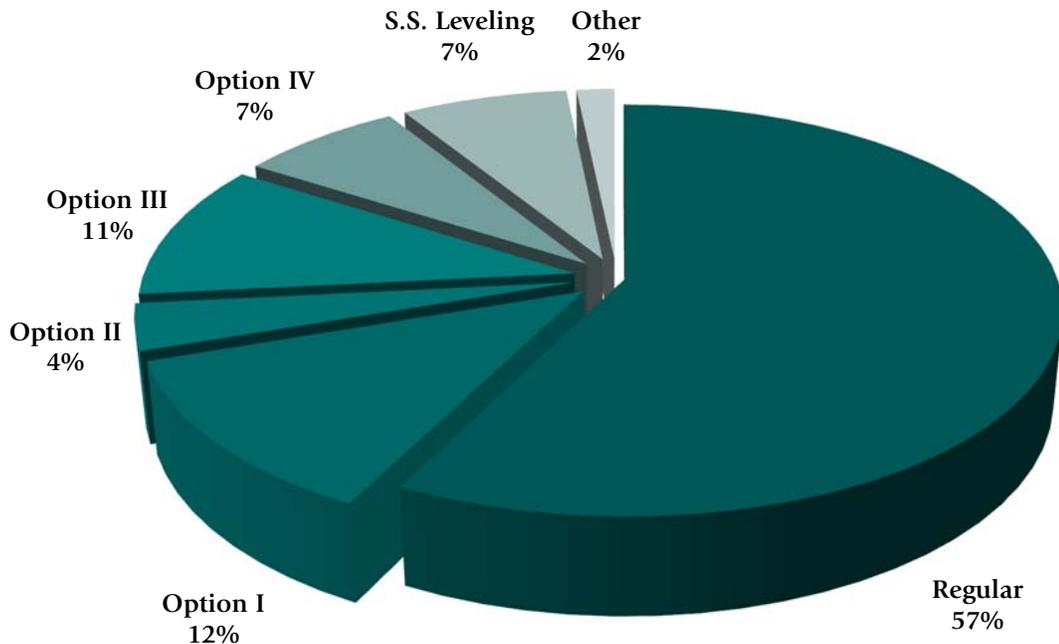
SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

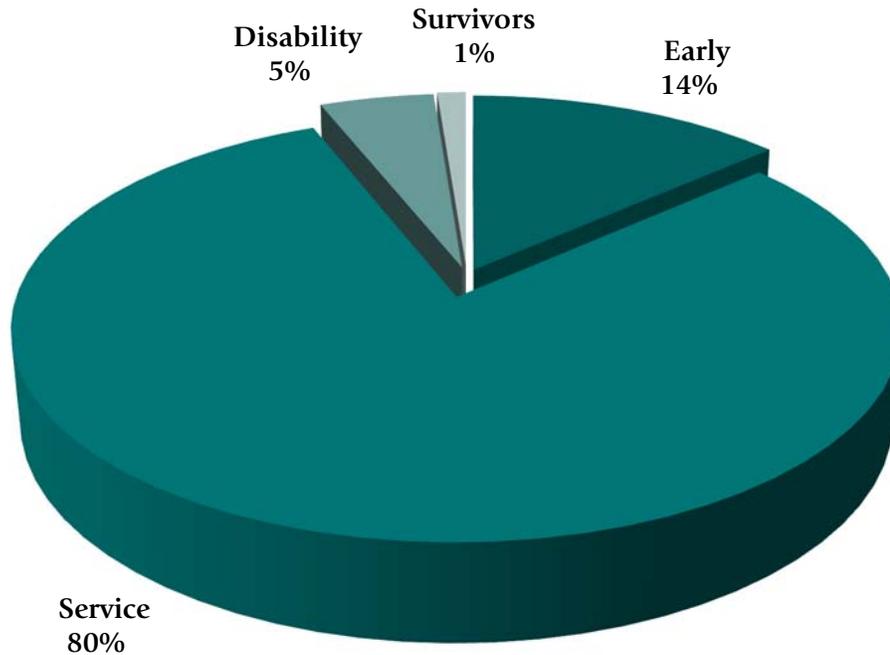
Benefit Plan	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Regular	27,451	17,378	7,120	24,638	76,587
Option I	3,627	5,179	2,291	5,284	16,381
Option II	1,331	1,510	697	1,293	4,831
Option III	4,377	4,370	1,411	4,049	14,207
Option IV	3,775	2,770	993	1,920	9,458
S.S. Leveling	4,564	2,578	551	1,937	9,630
Other	744	741	254	457	2,196
Total	45,869	34,526	13,317	39,578	133,290

- *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	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Retirees:					
Early	5,728	4,673	2,021	5,641	18,063
Service	38,630	27,117	10,391	30,953	107,091
Disability	1,227	2,059	698	2,514	6,498
Total Retirees	45,585	33,849	13,110	39,108	131,652
Survivors	284	677	207	470	1,638
Total	<u>45,869</u>	<u>34,526</u>	<u>13,317</u>	<u>39,578</u>	<u>133,290</u>



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS
by Average Monthly Benefit

STATE EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS	
											Leveling	Other
0-500	10,120	7,223	2,003	685	209	5,662	1,609	379	1,273	614	501	82
501-1,000	7,625	4,991	1,441	1,017	176	4,101	1,186	305	941	571	411	110
1,001-1,500	5,453	4,359	713	283	98	2,688	760	232	684	412	564	113
1,501-2,000	4,182	3,740	315	56	71	1,926	523	172	584	378	490	109
2,001-2,500	2,757	2,586	111	12	48	1,236	361	129	340	293	316	82
2,501-3,000	1,696	1,627	41	4	24	722	252	86	211	196	166	63
3,001-3,500	979	935	26	0	18	389	168	71	129	118	73	31
3,501-4,000	615	590	13	0	12	243	105	44	104	63	29	27
over 4,000	1,099	1,066	10	2	21	411	215	92	104	125	28	124
Totals	<u>34,526</u>	<u>27,117</u>	<u>4,673</u>	<u>2,059</u>	<u>677</u>	<u>17,378</u>	<u>5,179</u>	<u>1,510</u>	<u>4,370</u>	<u>2,770</u>	<u>2,578</u>	<u>741</u>

TEACHERS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS	
											Leveling	Other
0-500	4,099	3,062	905	110	22	2,470	482	146	458	275	224	44
501-1,000	5,666	3,452	1,746	419	49	3,363	648	187	608	468	334	58
1,001-1,500	7,063	4,934	1,607	467	55	3,975	650	201	761	547	834	95
1,501-2,000	8,893	7,778	877	178	60	4,867	650	216	1,030	834	1,110	186
2,001-2,500	8,951	8,463	403	43	42	5,506	506	227	825	815	923	149
2,501-3,000	5,547	5,371	136	9	31	3,601	304	145	366	412	612	107
3,001-3,500	2,774	2,728	34	1	11	1,754	187	81	179	216	316	41
3,501-4,000	1,407	1,384	15	0	8	911	103	51	91	103	121	27
over 4,000	1,469	1,458	5	0	6	1,004	97	77	59	105	90	37
Totals	<u>45,869</u>	<u>38,630</u>	<u>5,728</u>	<u>1,227</u>	<u>284</u>	<u>27,451</u>	<u>3,627</u>	<u>1,331</u>	<u>4,377</u>	<u>3,775</u>	<u>4,564</u>	<u>744</u>

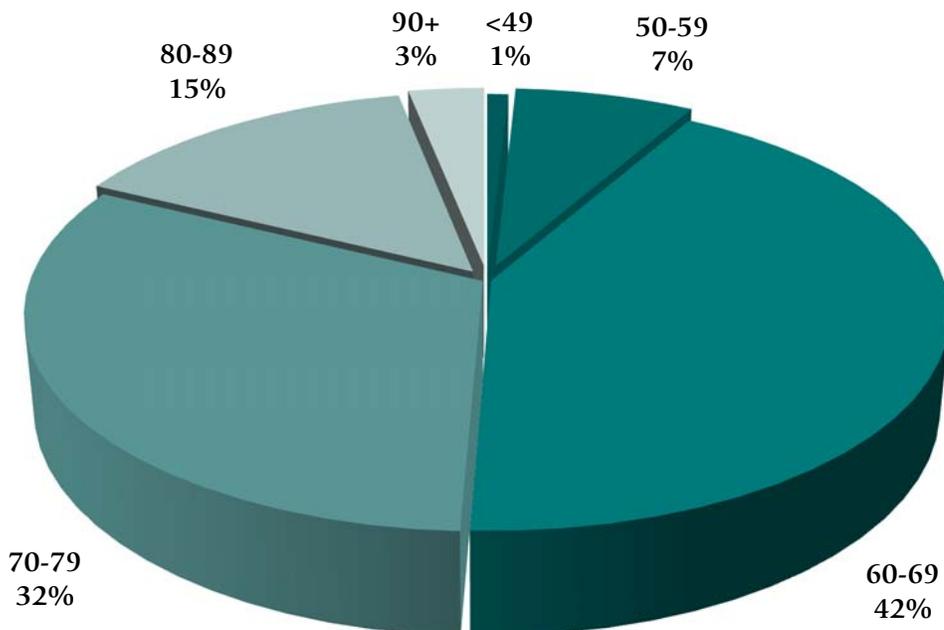
HIGHER EDUCATION EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS	
											Leveling	Other
0-500	3,919	2,744	885	234	56	2,419	600	160	364	183	148	45
501-1,000	3,125	2,085	661	339	40	1,869	469	125	311	191	95	65
1,001-1,500	2,087	1,684	273	100	30	1,056	346	127	233	184	101	40
1,501-2,000	1,291	1,139	110	18	24	577	230	73	169	128	86	28
2,001-2,500	797	721	52	6	18	337	156	41	98	92	50	23
2,501-3,000	610	584	21	1	4	235	135	41	84	58	38	19
3,001-3,500	390	367	11	0	12	164	74	34	52	42	14	10
3,501-4,000	323	310	5	0	8	129	88	18	39	32	11	6
over 4,000	775	757	3	0	15	334	193	78	61	83	8	18
Totals	<u>13,317</u>	<u>10,391</u>	<u>2,021</u>	<u>698</u>	<u>207</u>	<u>7,120</u>	<u>2,291</u>	<u>697</u>	<u>1,411</u>	<u>993</u>	<u>551</u>	<u>254</u>

POLITICAL SUBDIVISION EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS	
											Leveling	Other
0-500	22,373	16,913	3,788	1,456	216	14,801	2,938	606	2,156	934	766	172
501-1,000	9,375	7,174	1,216	853	132	6,050	1,203	292	910	423	374	123
1,001-1,500	3,819	3,178	410	169	62	2,076	526	164	453	224	305	71
1,501-2,000	1,853	1,659	133	26	35	843	271	91	257	138	205	48
2,001-2,500	980	901	63	6	10	384	167	47	140	87	132	23
2,501-3,000	527	495	21	4	7	204	80	37	70	48	77	11
3,001-3,500	292	278	7	0	7	103	50	27	38	33	35	6
3,501-4,000	136	135	1	0	0	66	16	10	10	11	22	1
over 4,000	223	220	2	0	1	111	33	19	15	22	21	2
Totals	<u>39,578</u>	<u>30,953</u>	<u>5,641</u>	<u>2,514</u>	<u>470</u>	<u>24,638</u>	<u>5,284</u>	<u>1,293</u>	<u>4,049</u>	<u>1,920</u>	<u>1,937</u>	<u>457</u>

SCHEDULE OF RETIRED MEMBERS

by Current Age

Current Age	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Under 40	68	150	15	100	333
40-44	60	97	27	117	301
45-49	92	187	64	180	523
50-54	401	599	197	535	1,732
55-59	2,739	2,366	800	2,285	8,190
60-64	9,038	5,776	1,915	6,214	22,943
65-69	12,576	8,283	3,018	9,624	33,501
70-74	8,083	6,096	2,714	7,790	24,683
75-79	5,057	4,526	2,033	5,852	17,468
80-84	3,778	3,217	1,352	3,874	12,221
85-89	2,446	2,055	770	1,945	7,216
90-94	1,052	887	324	821	3,084
95-99	386	251	82	211	930
Over 99	93	36	6	30	165
Total	<u>45,869</u>	<u>34,526</u>	<u>13,317</u>	<u>39,578</u>	<u>133,290</u>

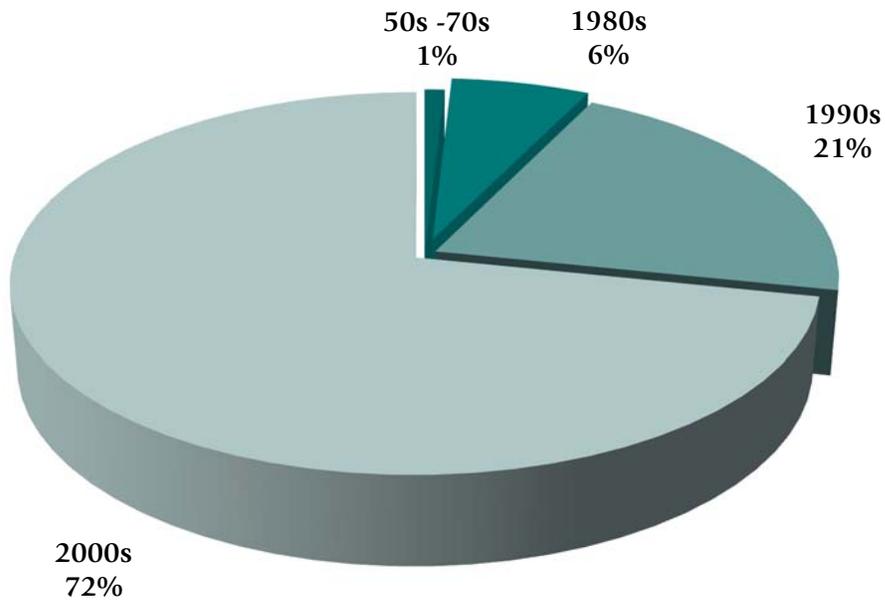


SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

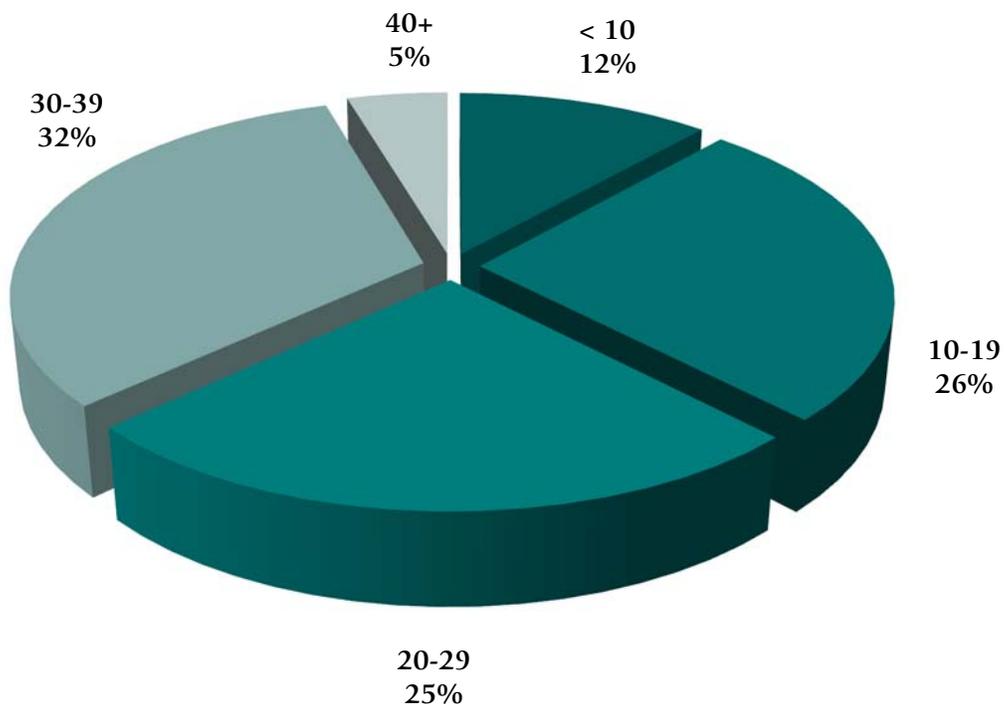
by Date of Retirement

Date of Retirement	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
1950s	3	1	0	0	4
1960s	24	9	0	0	33
1970s	560	347	62	213	1,182
1980s	3,441	2,405	686	1,955	8,487
1990s	9,558	7,832	3,023	7,543	27,956
2000s	19,240	14,191	6,137	17,227	56,795
2010's	<u>13,043</u>	<u>9,741</u>	<u>3,409</u>	<u>12,640</u>	<u>38,833</u>
Total	<u>45,869</u>	<u>34,526</u>	<u>13,317</u>	<u>39,578</u>	<u>133,290</u>



SCHEDULE OF RETIRED MEMBERS
Based on Service Credit at Retirement

Years of Service	Teacher Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Under 10	2,322	4,598	1,817	6,737	15,474
10-14	3,332	4,989	2,067	7,892	18,280
15-19	3,805	4,165	1,771	6,803	16,544
20-24	5,152	4,478	1,702	6,050	17,382
25-29	6,218	4,076	1,549	4,664	16,507
30-34	15,186	7,415	2,580	5,085	30,266
35-39	6,805	3,050	1,170	1,674	12,699
40-44	2,645	1,367	500	552	5,064
Over 44	404	388	161	121	1,074
Total	<u><u>45,869</u></u>	<u><u>34,526</u></u>	<u><u>13,317</u></u>	<u><u>39,578</u></u>	<u><u>133,290</u></u>



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

UNITED STATES

Alabama	767
Alaska	18
Arizona	166
Arkansas	426
California	197
Colorado	124
Connecticut	17
Delaware	10
District of Columbia	12
Florida	1,446
Georgia	1,237
Hawaii	13
Idaho	25
Illinois	149
Indiana	137
Iowa	29
Kansas	45
Kentucky	692
Louisiana	73
Maine	30
Maryland	82
Massachusetts	31
Michigan	119
Minnesota	27
Mississippi	1,284
Missouri	195
Montana	18
Nebraska	14
Nevada	56
New Hampshire	18
New Jersey	33
New Mexico	47
New York	69
North Carolina	662
North Dakota	2
Ohio	155
Oklahoma	86
Oregon	57
Pennsylvania	97
Puerto Rico	4
Rhode Island	4
South Carolina	347
South Dakota	15
Tennessee	122,934
Texas	531
Utah	25
Vermont	7
Virginia	574
Washington	69
West Virginia	41
Wisconsin	31
Wyoming	9
Total U.S.	<u>133,256</u>

INTERNATIONAL COUNTRIES

Australia	1
Brazil	1
Canada-Manitoba	1
Canada-New Brunswick	3
Canada-Newfoundland	1
Canada-Nova Scotia	1
Canada-Ontario	1
Canada-Prince Edward Island	1
Chile	3
France	2
Germany	2
Ghana	1
Greece	4
Kenya	1
Poland	1
Spain	1
Thailand	3
United Arab Emirates	<u>1</u>
Total Foreign Countries	<u>29</u>
Virgin Islands, U.S.	1
Overseas Military Basis	4
Total U.S.	<u>133,256</u>
Total U.S. and Foreign	<u>133,290</u>

RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

TENNESSEE COUNTIES

Anderson	1,896	Hamilton	5,951	Morgan	577
Bedford	695	Hancock	128	Obion	842
Benton	465	Hardeman	1,001	Overton	500
Bledsoe	461	Hardin	647	Perry	268
Blount	2,892	Hawkins	2,967	Pickett	122
Bradley	1,670	Haywood	548	Polk	290
Campbell	909	Henderson	446	Putnam	2,560
Cannon	373	Henry	893	Rhea	678
Carroll	716	Hickman	635	Roane	1,463
Carter	3,582	Houston	125	Robertson	1,267
Cheatham	666	Humphreys	477	Rutherford	3,834
Chester	375	Jackson	209	Scott	501
Claiborne	853	Jefferson	1,283	Sequatchie	314
Clay	140	Johnson	524	Sevier	1,424
Cocke	741	Knox	7,593	Shelby	13,801
Coffee	1,026	Lake	266	Smith	389
Crockett	361	Lauderdale	867	Stewart	320
Cumberland	1,024	Lawrence	972	Sullivan	1,740
Davidson	9,523	Lewis	280	Sumner	2,902
Decatur	283	Lincoln	725	Tipton	1,025
DeKalb	384	Loudon	959	Trousdale	171
Dickson	990	Macon	283	Unicoi	441
Dyer	650	Madison	2,726	Union	273
Fayette	851	Marion	521	Van Buren	196
Fentress	427	Marshall	599	Warren	947
Franklin	855	Maury	1,358	Washington	1,592
Gibson	1,332	McMinn	954	Wayne	391
Giles	519	McNairy	635	Weakley	1,076
Grainger	401	Meigs	202	White	679
Greene	2,248	Monroe	768	Williamson	2,880
Grundy	322	Montgomery	2,829	Wilson	<u>2,127</u>
Hamblen	1,256	Moore	87	Total	<u><u>122,934</u></u>

AVERAGE BENEFIT PAYMENTS SCHEDULE

AVERAGE BENEFIT PAYMENT SCHEDULE FISCAL YEAR OF RETIREMENT

		Teacher Legacy Pension Plan				
		Years of Service Credit				
		Less than 15	15-19	20-24	25-29	30 or more
2014	Average Monthly Benefit	\$ 356	\$ 636	\$ 889	\$ 1,179	\$ 2,021
	Number of Retirees	1,661	752	697	646	1,527
	Average Final Salary	\$ 32,201	\$ 36,470	\$ 40,360	\$ 42,899	\$ 54,376
2013	Average Monthly Benefit	\$ 343	\$ 603	\$ 856	\$ 1,280	\$ 2,120
	Number of Retirees	2,222	924	801	780	1,760
	Average Final Salary	\$ 30,589	\$ 33,957	\$ 37,115	\$ 42,990	\$ 54,549
2012	Average Monthly Benefit	\$ 331	\$ 649	\$ 833	\$ 1,253	\$ 2,096
	Number of Retirees	2,234	848	801	706	1,674
	Average Final Salary	\$ 29,337	\$ 35,215	\$ 37,191	\$ 44,006	\$ 55,361
2011	Average Monthly Benefit	\$ 365	\$ 618	\$ 882	\$ 1,208	\$ 2,079
	Number of Retirees	1,662	732	725	584	1,467
	Average Final Salary	\$ 30,646	\$ 33,875	\$ 36,718	\$ 41,820	\$ 53,721
2010	Average Monthly Benefit	\$ 353	\$ 653	\$ 915	\$ 1,204	\$ 2,035
	Number of Retirees	1,512	591	624	556	1,432
	Average Final Salary	\$ 29,208	\$ 33,781	\$ 35,549	\$ 39,749	\$ 52,155
2009	Average Monthly Benefit	\$ 328	\$ 663	\$ 916	\$ 1,277	\$ 2,042
	Number of Retirees	1,672	669	795	564	1,853
	Average Final Salary	\$ 27,666	\$ 32,634	\$ 36,246	\$ 40,453	\$ 48,904
2008	Average Monthly Benefit	\$ 334	\$ 570	\$ 868	\$ 1,180	\$ 1,936
	Number of Retirees	1,443	582	514	415	1,231
	Average Final Salary	\$ 28,124	\$ 30,815	\$ 35,337	\$ 37,964	\$ 50,363
2007	Average Monthly Benefit	\$ 303	\$ 600	\$ 839	\$ 1,243	\$ 2,004
	Number of Retirees	1,657	563	585	467	1,289
	Average Final Salary	\$ 25,027	\$ 29,427	\$ 34,783	\$ 39,024	\$ 51,312
2006	Average Monthly Benefit	\$ 312	\$ 600	\$ 841	\$ 1,127	\$ 1,880
	Number of Retirees	1,181	530	476	378	1,169
	Average Final Salary	\$ 25,194	\$ 29,164	\$ 32,784	\$ 36,773	\$ 47,330
2005	Average Monthly Benefit	\$ 323	\$ 589	\$ 772	\$ 1,151	\$ 1,869
	Number of Retirees	1,067	524	506	422	996
	Average Final Salary	\$ 24,809	\$ 27,618	\$ 29,394	\$ 36,290	\$ 46,050

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.

AVERAGE BENEFIT PAYMENTS SCHEDULE

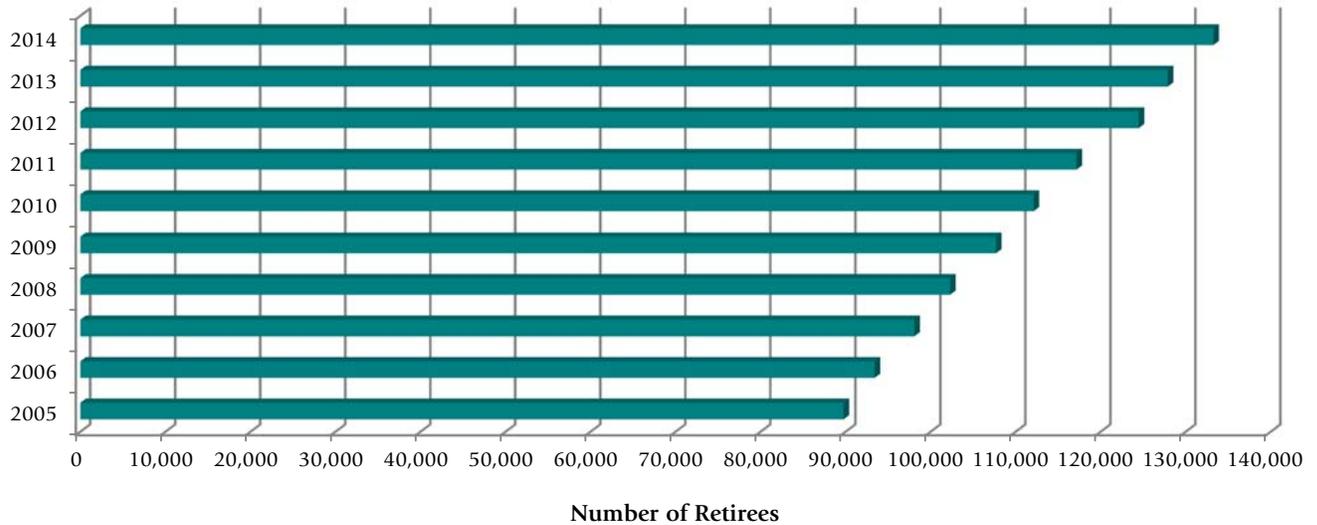
AVERAGE BENEFIT PAYMENT SCHEDULE FISCAL YEAR OF RETIREMENT

Public Employee Retirement Plan					
	Years of Service Credit				
	Less than 15	15-19	20-24	25-29	30 or more
2014 Average Monthly Benefit	\$ 604	\$ 1,088	\$ 1,510	\$ 1,884	\$ 2,591
Number of Retirees	389	279	307	304	1,131
Average Final Salary	\$ 49,473	\$ 54,243	\$ 56,431	\$ 57,674	\$ 59,632
2013 Average Monthly Benefit	\$ 582	\$ 1,097	\$ 1,468	\$ 1,917	\$ 2,740
Number of Retirees	502	349	374	387	1,383
Average Final Salary	\$ 46,616	\$ 52,578	\$ 55,844	\$ 58,347	\$ 60,961
2012 Average Monthly Benefit	\$ 604	\$ 1,100	\$ 1,479	\$ 1,925	\$ 2,801
Number of Retirees	497	296	376	401	1,546
Average Final Salary	\$ 47,098	\$ 51,236	\$ 53,935	\$ 57,446	\$ 60,090
2011 Average Monthly Benefit	\$ 614	\$ 1,092	\$ 1,481	\$ 1,881	\$ 2,738
Number of Retirees	407	280	334	353	1,378
Average Final Salary	\$ 46,769	\$ 49,354	\$ 53,058	\$ 55,092	\$ 57,753
2010 Average Monthly Benefit	\$ 582	\$ 1,103	\$ 1,501	\$ 1,897	\$ 2,681
Number of Retirees	331	183	236	270	1,236
Average Final Salary	\$ 44,398	\$ 50,377	\$ 52,612	\$ 54,326	\$ 56,256
2009 Average Monthly Benefit	\$ 565	\$ 1,082	\$ 1,493	\$ 1,915	\$ 2,676
Number of Retirees	309	164	232	202	1,176
Average Final Salary	\$ 42,450	\$ 49,216	\$ 51,838	\$ 53,713	\$ 55,888
2008 Average Monthly Benefit	\$ 539	\$ 1,015	\$ 1,409	\$ 1,751	\$ 2,517
Number of Retirees	266	184	254	209	1,200
Average Final Salary	\$ 43,211	\$ 45,696	\$ 49,578	\$ 50,258	\$ 53,324
2007 Average Monthly Benefit	\$ 527	\$ 919	\$ 1,399	\$ 1,845	\$ 2,576
Number of Retirees	304	180	232	244	1,326
Average Final Salary	\$ 40,580	\$ 43,283	\$ 47,942	\$ 50,179	\$ 53,562
2006 Average Monthly Benefit	\$ 590	\$ 1,061	\$ 1,431	\$ 1,898	\$ 2,540
Number of Retirees	261	128	259	248	1,267
Average Final Salary	\$ 42,054	\$ 45,276	\$ 47,284	\$ 50,986	\$ 51,780
2005 Average Monthly Benefit	\$ 541	\$ 1,028	\$ 1,381	\$ 1,799	\$ 2,522
Number of Retirees	227	138	189	240	1,254
Average Final Salary	\$ 38,959	\$ 43,478	\$ 45,749	\$ 47,470	\$ 50,498

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 2005-2014



PRIOR SERVICE ESTABLISHED
FOR THE YEAR ENDED JUNE 30, 2014

	Type of Service	Members	Years of Service	Payments
State:	Backpayment	134	117	\$ 391,725
	Military	86	176	0
	Redeposit	29	120	319,068
	Totals	<u>249</u>	<u>413</u>	<u>\$ 710,793</u>
Teachers:	Backpayment	54	15	\$ 877,381
	Military	24	54	2,070
	Redeposit	73	391	1,129,691
	Totals	<u>151</u>	<u>460</u>	<u>\$ 2,009,142</u>
Higher Education:	Backpayment	272	264	\$ 62,523
	Military	23	50	0
	Redeposit	11	39	166,758
	Totals	<u>306</u>	<u>353</u>	<u>\$ 229,281</u>
Political Subdivisions:	Backpayment	691	981	\$ 606,734
	Military	73	141	6,062
	Redeposit	30	134	209,952
	Totals	<u>794</u>	<u>1,256</u>	<u>\$ 822,748</u>
Grand Totals:	Backpayment	1,151	1,377	\$ 1,938,363
	Military	206	421	8,132
	Redeposit	143	684	1,825,469
	Totals	<u>1,500</u>	<u>2,482</u>	<u>\$ 3,771,964</u>

TREASURY RETIREMENT INSTALLMENT PLAN

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

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for 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, 2014

	Type of Service	Number of Members	Total Years of Service	Payments (Net of Refunds)
State:	Backpayment	2	17	\$ 6,659
	Military	1	2	1,389
	Redeposit	10	45	17,697
	Totals	13	64	\$ 25,745
Teachers:	Backpayment	10	13	\$ 29,090
	Military	0	0	0
	Redeposit	33	175	258,387
	Totals	43	188	\$ 287,477
Higher Education:	Backpayment	3	10	\$ 16,007
	Military	0	0	0
	Redeposit	2	8	21,212
	Totals	5	18	\$ 37,219
Political Subdivisions:	Backpayment	16	56	\$ 12,793
	Military	0	0	0
	Redeposit	25	130	119,756
	Totals	41	186	\$ 132,549
Grand Totals:	Backpayment	31	96	\$ 64,549
	Military	1	2	1,389
	Redeposit	70	358	417,052
	Totals	102	456	\$ 482,990

**REFUND ACTIVITY AND
POLITICAL SUBDIVISION PARTICIPATION**

REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
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
2013	4,122	39,517,877
2014	5,683	54,045,937

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees and certain political subdivision employees, 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
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
2013	177	88	222	487
2014	177	88	224	489

HISTORICAL EMPLOYER CONTRIBUTION RATES AND RETIREMENT CONTRIBUTIONS

HISTORICAL EMPLOYER CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF SALARY

Year Ended June 30	State Employees	Teachers	Higher Education Employees
2005	10.54	5.50	10.54
2006 (1)	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
2013	15.03	8.88	15.03
2014	15.03	8.88	15.03

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

(1) A reduction in the contribution was made due to return to work reform.

SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS CURRENT YEAR AND NINE YEARS AGO

Teacher Legacy Pension Plan

Participating Government	2014			2005			
	Covered Employees	Rank	% of Total System	Participating Government	Covered Employees	Rank	% of Total System
Shelby County	11,721	1	14.93%	Memphis City	8,047	1	11.87%
Davidson County	7,363	2	9.38%	Davidson County	5,446	2	8.03%
Knox County	5,297	3	6.75%	Knox County	3,934	3	5.80%
Hamilton County	3,221	4	4.10%	Shelby County	2,916	4	4.30%
Rutherford County	3,128	5	3.98%	Hamilton County	2,840	5	4.19%
Williamson County	2,635	6	3.36%	Rutherford County	2,128	6	3.14%
Montgomery County	2,563	7	3.26%	Sumner County	1,774	7	2.62%
Sumner County	2,200	8	2.80%	Montgomery County	1,753	8	2.59%
Wilson County	1,099	9	1.40%	Williamson County	1,674	9	2.47%
Jackson-Madison County	1,086	10	1.38%	Jackson-Madison County	1,124	10	1.66%
Others	38,193		48.65%	Others	36,155		53.33%
	<u>78,506</u>		<u>100.00%</u>		<u>67,791</u>		<u>100.00%</u>

Public Employee Retirement Plan

Participating Government	2014			2005			
	Covered Employees	Rank	% of Total System	Participating Government	Covered Employees	Rank	% of Total System
State	57,410	1	42.35%	State	63,207	1	46.16%
Shelby County Unified School District	4,334	2	3.20%	Memphis City	2,642	2	1.93%
Hamilton County	2,791	3	2.06%	Hamilton County	2,573	3	1.88%
Rutherford County	2,508	4	1.85%	Shelby County	1,866	4	1.36%
Montgomery County	2,446	5	1.80%	Williamson County	1,700	5	1.24%
Others	66,065		48.74%	Others	64,956		47.43%
Total	<u>135,554</u>		<u>100.00%</u>	Total	<u>136,944</u>		<u>100.00%</u>

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, 2014, there were 489 political subdivisions participating in TCRS.

Participation as of June 30, 2014:

Cities	177
Counties	88
Utility Districts	69
Special School Districts	19
Joint Ventures	22
Housing Authorities	11
911 Emergency Communication Districts	47
Miscellaneous Authorities	56
Total	<u>489</u>

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 489
LOCAL GOVERNMENTS.***

OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

MEMBERSHIP

- * Optional membership for part-time employees
- * Reduce vesting requirement to qualify for retirement benefits from 10 years to five years
- * Increase vesting requirement to qualify for retirement benefits from five years to 10 years

CONTRIBUTIONS

- * Employee contributions at a level five percent both below and above the Social Security wage base
- * Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code
- * Noncontributory retirement plan
- * Discontinue noncontributory retirement plan and implement contributory retirement plan for new employees
- * Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation

CREDITABLE SERVICE

- * Credit for service credit lost as a result of advanced age
- * Service credit for unused sick leave
- * Service credit for military service during periods of armed conflict at no cost to the employee
- * Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment
- * Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975
- * Purchase of service credit for probation period

SURVIVOR BENEFITS

- * 100 percent joint and survivor spouse death benefit for members with 10 years of service
- * Provide inactive members with certain death and disability benefits
- * 50 percent of five year average salary benefits for surviving spouse for members killed in the line of duty

RETIREMENT BENEFITS

- * Provide current retirees and members a five percent increase in base retirement benefit
- * Discontinue five percent increase in base retirement benefit for new employees
- * The actuarial equivalent of an age 65 benefit for employees retiring after age 65
- * 25-year retirement with actuarially reduced benefits
- * Minimum benefit level increase to \$8, \$14, \$20 per year of service
- * Mandatory retirement with supplemental bridge benefit for public safety officers
- * Service retirement at age 55 with 25 years of service for public safety officers
- * Discontinue enhanced public safety officer benefits for new public safety officers

RETIRED MEMBERS

- * Exclusion of cost-of-living adjustments at the date of participation for all employees or at a later date for new employees
- * Compounded cost-of-living adjustment (COLA) to current and future retirees

**Tennessee Consolidated Retirement System
Local Government Plan Options
Effective July 1, 2012**

Original Defined Benefit Plan

- Calculation includes a 1.50% multiplier
- Benefit Formula: $\text{Years of Service} \times \text{AFC} \times 1.50\% + 5\% \text{ Benefit Improvement}$
- Retirement Requirements:
 - Service Retirement: A penalty free benefit if the member is age 60 and vested or has thirty (30) years of service regardless of age
 - Early Retirement: A reduced benefit if the member is age 55 and vested
 - 25-Year Early: A reduced benefit if the member is under the age of 55 and has at least 25 years of service

Alternate Defined Benefit Plan

- Calculation includes a 1.40% multiplier
- Benefit Formula: $\text{Years of Service} \times \text{AFC} \times 1.40\%$
- Retirement Requirements:
 - Service Retirement: A penalty free benefit if the member is age 65 and vested or meets the "Rule of 90" (years of service plus age at retirement equals 90 or above)
 - Early Retirement: A reduced benefit if the member is age 60 and vested or meets the "Rule of 80" (years of service plus age at retirement equals 80 or above but equals less than 90)

Hybrid Plan with Cost Controls

- Calculation includes a 1.00% multiplier
- Benefit Formula: $\text{Years of Service} \times \text{AFC} \times 1.00\%$
- Retirement Requirements:
 - Service Retirement: A penalty free benefit if the member is age 65 and vested or meets the "Rule of 90" (years of service plus age at retirement equals 90 or above)
 - Early Retirement: A reduced benefit if the member is age 60 and vested or meets the "Rule of 80" (years of service plus age at retirement equals 80 or above but equals less than 90)

Employee Contribution Funding Options

(Applicable to all plans listed above.)

- Employer may elect to pay 0.0%, 2.5% or 5.0% of employee contributions

POLITICAL SUBDIVISION PARTICIPANTS

911 EMERGENCY COMMUNICATION DISTRICTS

Campbell County	Gibson County	Johnson County	Overton County	Union County
Carroll County	Grainger County	Lauderdale County	Roane County	Van Buren County
Carter County	Greene County	Lawrence County	Robertson County	Warren County
Cheatham County	Hamblen County	Loudon County	Rutherford County	Washington County
Chester County	Hamilton County	Macon County	Scott County	Weakley County
Claiborne County	Hardeman County	Madison County	Sequatchie County	White County
Cocke County	Hardin County	Maury County	Sevier County	Wilson County
DeKalb County	Hawkins County	McNairy County	Shelby County	
Fayette County	Humphreys County	Monroe County	Sullivan County	
Fentress County	Jefferson County	Montgomery County	Tipton County	

CITIES

Adams	Cowan	Humboldt	Middleton	Savannah**
Alamo	Crossville**	Huntington	Milan	Selmer
Alcoa	Cumberland	Huntland	Millersville	Sevierville
Ashland City	Dandridge	Jacksboro	Millington	Signal Mountain
Athens*	Dayton	Jackson	Monterey	Soddy Daisy
Atoka	Decatur	Jamestown	Morrison	Somerville
Atwood	Decaturville	Jefferson City	Morristown	South Carthage
Baileyton	Decherd	Johnson City**	Moscow	South Fulton**
Baxter	Dickson	Jonesborough	Mosheim	South Pittsburg
Belle Meade	Dover	Kenton	Mountain City	Sparta
Bells	Ducktown	Kimball	Mt. Carmel	Spencer
Benton	Dunlap	Kingsport**	Mt. Juliet	Spring City
Big Sandy	Dyer	Kingston	Munford	Spring Hill
Bluff City	East Ridge	Kingston Springs	Murfreesboro*	Springfield
Bolivar	Elizabethton	Lafayette	New Johnsonville	Surgoinville
Bradford	Elkton**	Lafollette	New Tazewell	Sweetwater
Brentwood	Erin	Lake City	Newport	Tazewell
Brighton	Erwin	Lakeland	Nolensville	Tellico Plains
Bristol	Estill Springs	Lawrenceburg	Norris	Townsend
Brownsville	Etowah	Lebanon	Oak Hill	Tracy City**
Byrdstown	Fairview	Lenoir City*	Oak Ridge	Trenton
Camden	Fayetteville	Linden	Oakland	Tusculum
Carthage	Forest Hills**	Livingston	Obion	Unicoi
Caryville	Friendship	Lobelville	Oliver Springs	Union City
Centerville	Friendsville	Lookout Mountain	Paris	Vonore
Charleston	Gainesboro	Loretto	Parsons	Watauga
Charlotte	Gatlinburg	Loudon	Pegram	Waverly
Church Hill	Gleason	Luttrell	Pikeville	Waynesboro
Clarksville	Goodlettsville	Madisonville	Pittman Center	Westmoreland
Cleveland	Gordonsville	Manchester	Pleasant View	White Bluff
Clifton	Greenbrier	Martin	Portland	White House
Clinton	Greeneville	Maryville	Puryear	White Pine
Collegedale	Greenfield	Maury City	Red Bank	Whiteville
Collierville**	Harriman	Maynardville	Ripley	Whitwell
Collinwood	Hartsville	McEwen	Rockwood	Woodbury
Cookeville	Henderson	McKenzie	Rogersville*	
Coopertown**	Hendersonville	McMinnville	Rutherford	
Cornersville	Hohenwald	Medina	Rutledge	

*All departments not covered by TCRS.

**Plan closed to new hires.

(continued)

**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

COUNTIES

Anderson	Decatur	Henry	McNairy	Sevier
Bedford	DeKalb	Hickman	Meigs**	Shelby*
Benton	Dickson	Humphreys	Monroe	Smith
Bledsoe	Fayette	Jackson	Montgomery	Stewart
Blount	Fentress	Jefferson	Moore*	Sullivan
Bradley	Franklin	Johnson	Morgan	Sumner
Campbell	Gibson	Lake	Obion	Tipton
Cannon	Giles	Lauderdale	Overton	Trousdale
Carroll	Grainger	Lawrence	Perry	Unicoi
Carter	Greene	Lewis	Pickett	Union
Cheatham	Grundy	Lincoln	Polk	Van Buren
Chester	Hamblen	Loudon	Putnam	Warren
Claiborne	Hamilton	Macon	Rhea*	Washington
Clay	Hardeman	Madison**	Roane	Wayne
Cocke	Hardin	Marion	Robertson	Weakley
Coffee	Hawkins	Marshall	Rutherford	White
Crockett	Haywood	Maury	Scott	Williamson
Cumberland	Henderson	McMinn	Sequatchie	Wilson

HOUSING AUTHORITY

Bristol	Hartsville	Maryville	Rockwood
Clinton	Hohenwald	Memphis	Rogersville**
Cookeville	Lawrenceburg	Morristown	Sweetwater

JOINT VENTURES

Argie Cooper Public Library	Lawrence County Library
Bradley-Cleveland Civil Defense	Linebaugh Public Library
Bradley-Cleveland Community Service Agency	Morristown/Hamblen County Landfill
Clarksville/Montgomery County Public Library	Sevier Solid Waste
Clarksville/Montgomery County Regional Planning Commission	Smyrna/Rutherford County Airport Authority
Cleveland/Bradley County E-911	Tellico Area Service System
Edward Gauche Fisher Public Library	TriCities Airport Authority
Fayetteville/Lincoln County Public Library	Tri-County Vocational School
Gorham/MacBane Public Library	W. G. Rhea Public Library
Jackson/Madison County Library**	Washington County/Johnson City Animal Control Center
Johnson City/Washington County EMS	Wilson Emergency Management Agency
Kinser Park	

**All departments not covered by TCRS.
**Plan closed to new hires.*

(continued)

**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

MISCELLANEOUS AGENCIES

Anderson County Economic Development Association	South Central Tennessee Workforce Board
Anderson County Water Authority	Southeast Tennessee Community Service Agency
Beech River Watershed	Southeast Tennessee Development District
Blount County Fire Protection District	Southeast Tennessee Human Resource Agency
Blount County Library	Southwest Tennessee Community Service Agency
Books from Birth	Southwest Tennessee Development District
Carter County Tomorrow	Southwest Tennessee Human Resource Agency
Cocke County Partnership, Inc.	Tennessee Association of Assessing Officers
County Officials Association of Tennessee	Tennessee Association of County Mayors
Delta Human Resource Agency	Tennessee Athletics Association**
Douglas Cherokee Economic Authority	Tennessee County Commissioners Association
East Tennessee Community Service Agency	Tennessee County Highway Officials Association
Fayetteville-Lincoln County Industrial Development Board	Tennessee County Services Association
First Tennessee Development District	Tennessee Duck River Development Agency
First Tennessee Human Resource Agency	Tennessee Education Association
Four Lake Regional Industrial Development Authority	Tennessee Elk River Development Agency**
Greater Nashville Regional Council	Tennessee Historical Society
Hamilton County Community Service Agency	Tennessee Municipal Bond Fund
Knox County Community Services Agency	Tennessee Municipal League
Loudon County Economic Development Agency	Tennessee Municipal League Risk Management Pool
Mid-Cumberland Community Service Agency	Tennessee Organization of School Superintendents**
Networks Sullivan Partnership	Tennessee School Board Association
Northeast Community Service Agency	Tennessee Secondary School Athletic Association
Northwest Tennessee Community Service Agency	Tennessee Sheriffs Association
Sequatchie Valley Planning and Development District	Tennessee State Employees Association
Sevier County Economic Development Council	Tennessee Veterans Home Board
Shelby County Community Service Agency	Upper Cumberland Community Services Agency
South Central Human Resource Agency**	Upper Cumberland Human Resource Agency
South Central Tennessee Community Services Agency	Upper East Tennessee Human Development Agency
South Central Tennessee Development District	Workforce Solutions

SPECIAL SCHOOL DISTRICTS

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

**All departments not covered by TCRS.*

***Plan closed to new hires.*

(continued)

UTILITY DISTRICTS

Alpha-Talbott	Lake County
Arthur Shawnee	Lakeview
Big Creek	Lincoln County Board of Public Utilities
Bloomington	Loudon
Bondcroft	Madison Suburban Utility District
Bristol Electric System	Middle Tennessee
Cagle Fredonia Utility District	New Market
Castalian Springs/Bethpage	North Utility District of Decatur and Benton Counties
Chuckey Utility District	Northeast Henry County
Citizen's Gas	O'Connor Utility District
Consolidated Utility District/Rutherford County	Oak Ridge
County Wide	Old Gainesboro Road
Crab Orchard	Old Hickory
Cross Anchor Utility District	Paris-Henry Utility District
Cumberland Utility District of Roane and Morgan Counties	Persia
DeWhite	Plateau
Double Springs	Poplar Grove
Dyersburg Suburban	Quebec-Walling
East Fork	Reelfoot Lake Regional
East Montgomery	Riceville
East Side	River Road
Fall Creek Falls	Roane Mountain Utility District
First Carter County	Savannah Valley
First Hawkins County	Second South Cheatham Utility District
First Tipton County	Sevier County
Gladeville	Siam
Glen Hills	Smith
Greater Dickson Gas Authority	Sneedville
Greeneville Light and Power	Soddy Daisy-Falling Water
Hampton	South Elizabethton
Hardeman-Fayette County	Sylvia-Tennessee City Pond Water
Harriman**	Weakley County Municipal Electric
Hendersonville	Webb Creek
Hixson	West Knox**
Jackson County	West Overton
Johnson City Power Board	

*All departments not covered by TCRS.

**Plan closed to new hires.



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