

**Presentation to Council on
Pensions and Insurance
New Hybrid Pension Proposal
for Employees Hired After
June 30, 2014**

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Tennessee State Treasurer
March 4, 2013**



Retirement System



Tennessee Consolidated Retirement System (TCRS)

Consolidated System

- State employees, higher education employees and K-12 teachers
- Benefits portable between governmental employers
- Local government participation is optional
- Local government liabilities valued individually

Membership	Active	Retired	Annualized Benefits
State & Higher Education	57,432	44,897	\$ 536,167,818
K-12 Teachers	78,814	41,828	964,413,737
Local Government	80,786	35,744	263,476,102
Total	217,032	122,469	\$ 1,764,057,657

TCRS Actuarial Process



Actuarial Valuation as of July 1, 2011

		State Employees	Teachers	Total
Unfunded Liability	Actuarial Value	\$1.6B	\$1.0B	\$2.6B
	Fair Market Value	\$2.5B	\$2.5B	\$5.0B

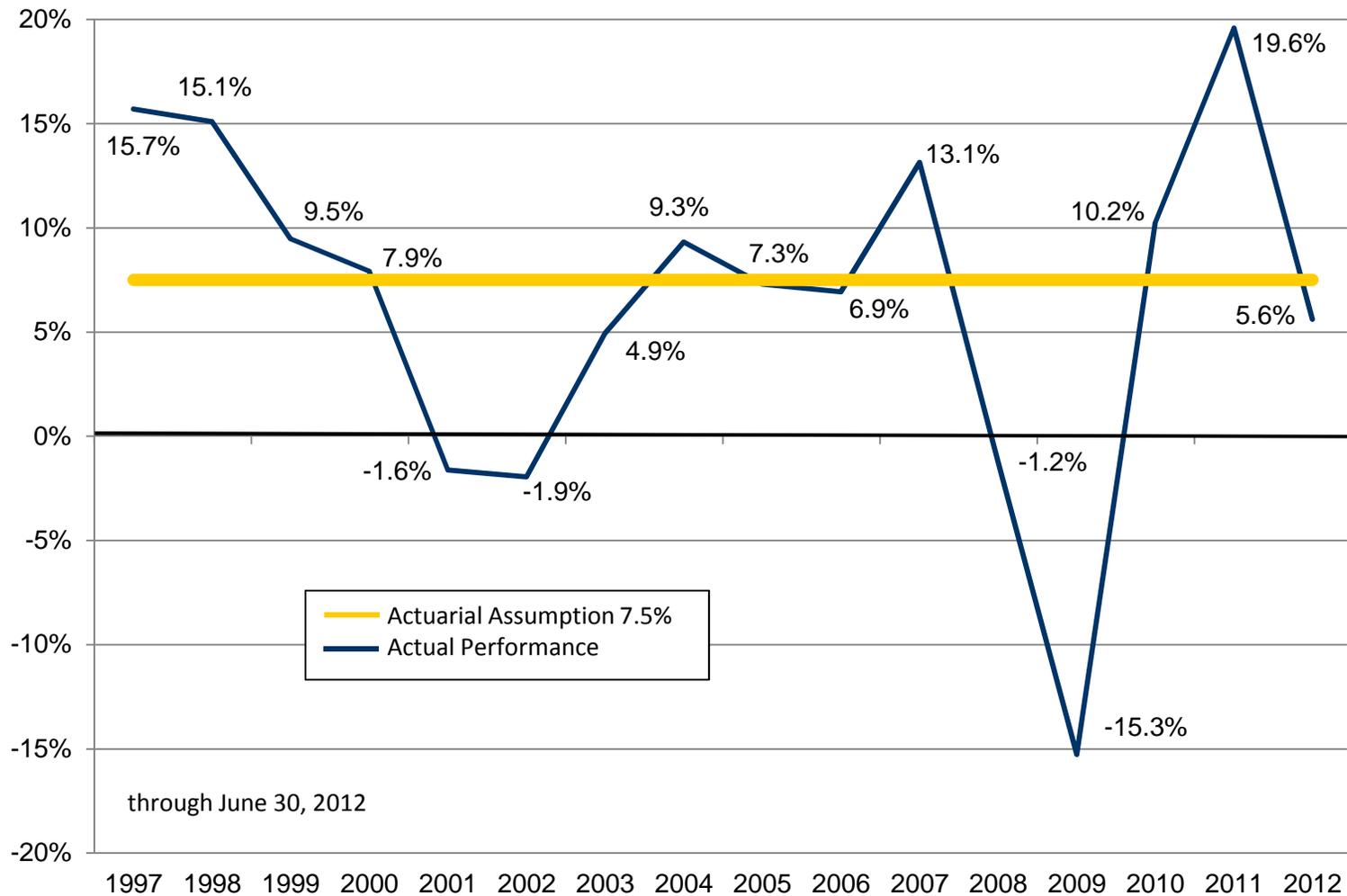
Funded Ratio	Actuarial Value	88.3%	94.7%
	Fair Market Value	81.0%	86.9%

- Governmental Accounting Standards Board (GASB) will require states and municipalities to include unfunded pension liabilities on the balance sheet
- Other post employment benefits liabilities (OPEB) will probably also soon be included in state and municipal balance sheets

Retirement System



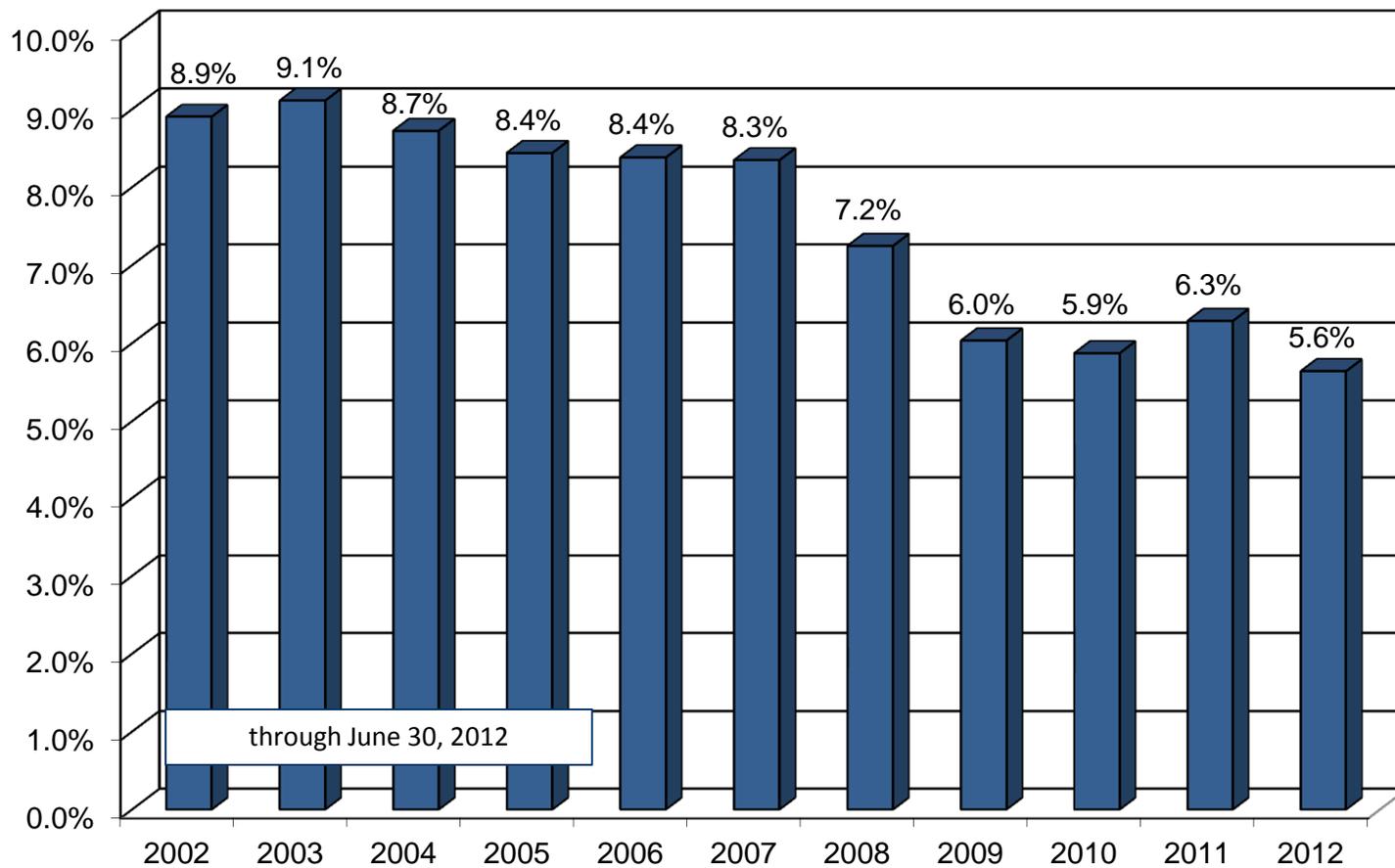
TCRS Investment Performance



Retirement System



TCRS Rolling 15-Year Annual Returns



Retirement System



Example of Impact of Increasing Life Expectancy

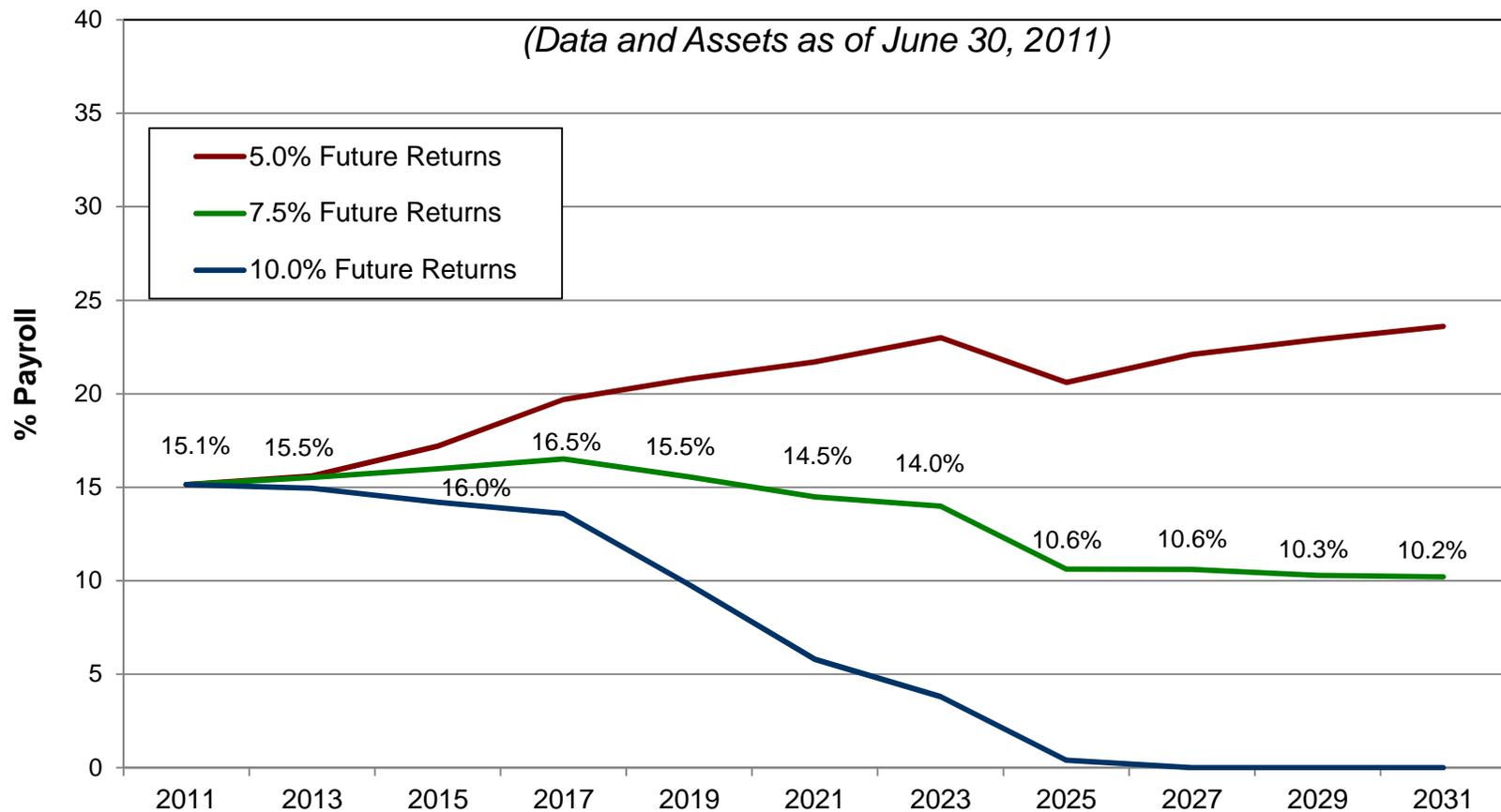
- Currently, 122,000 retirees receive benefits totaling \$1.7 billion annually
- If life expectancy increases by just one month, total unfunded liability increases by more than \$140 million
- There is also an increased cost for active members as they will live longer after retirement

Retirement System



TCRS – Contribution Rate Projections STATE

Current Plan Design – Level (\$) USL Amortization with Periodic Reset

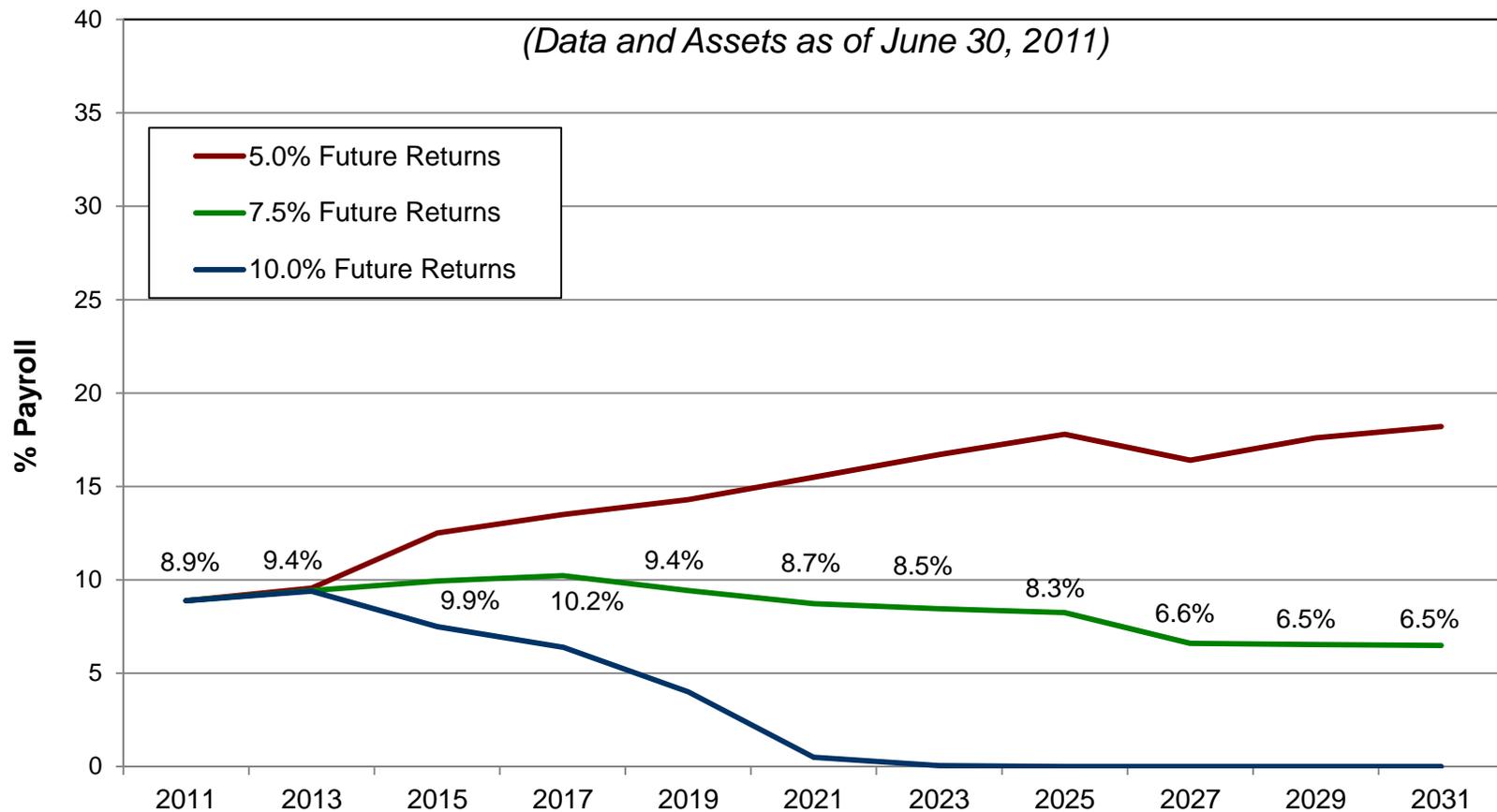


Retirement System



TCRS – Contribution Rate Projections TEACHER

Current Plan Design – Level (\$) USL Amortization with Periodic Reset

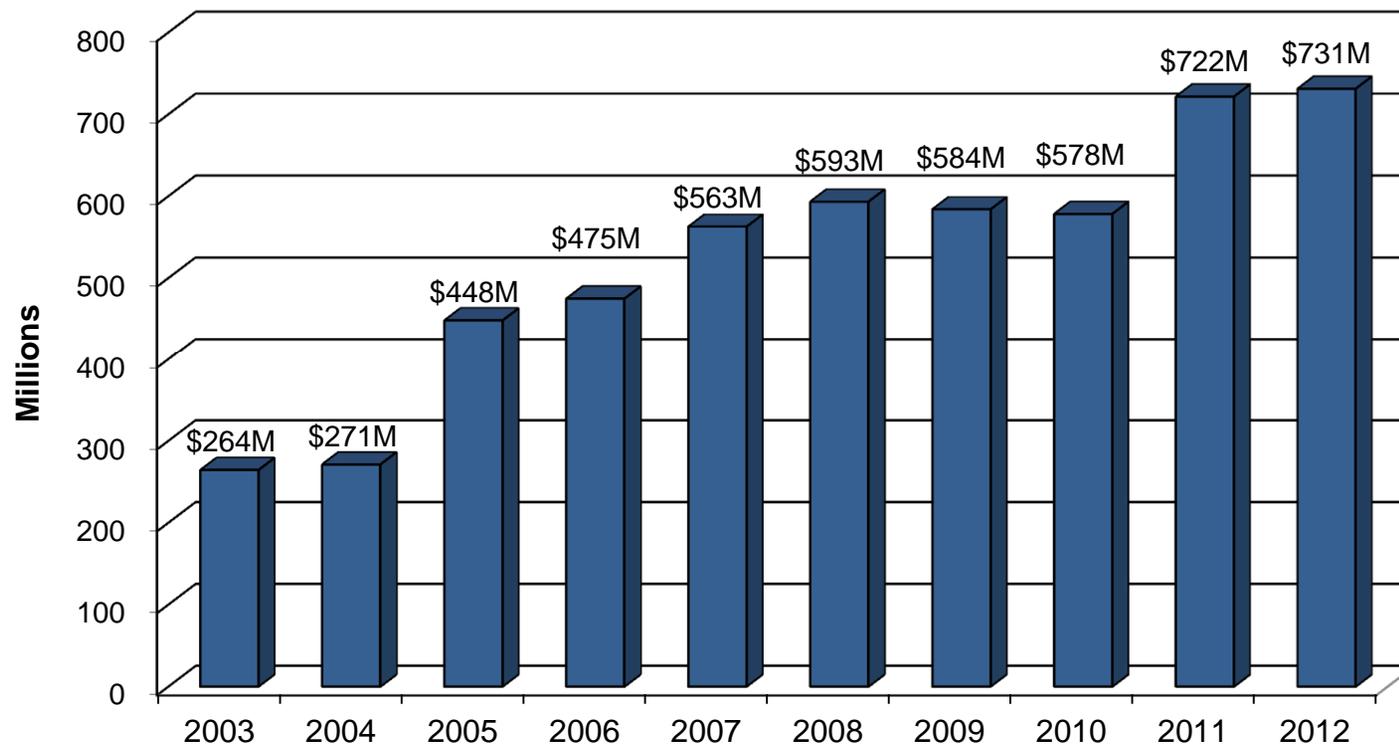


Employer Contributions to TCRS



Overall, for the ten year period from FY2003 through FY2012, employer contributions to the TCRS nearly tripled, increasing from \$264.3 million to \$731.4 million for state employees, teachers, and higher education employees.

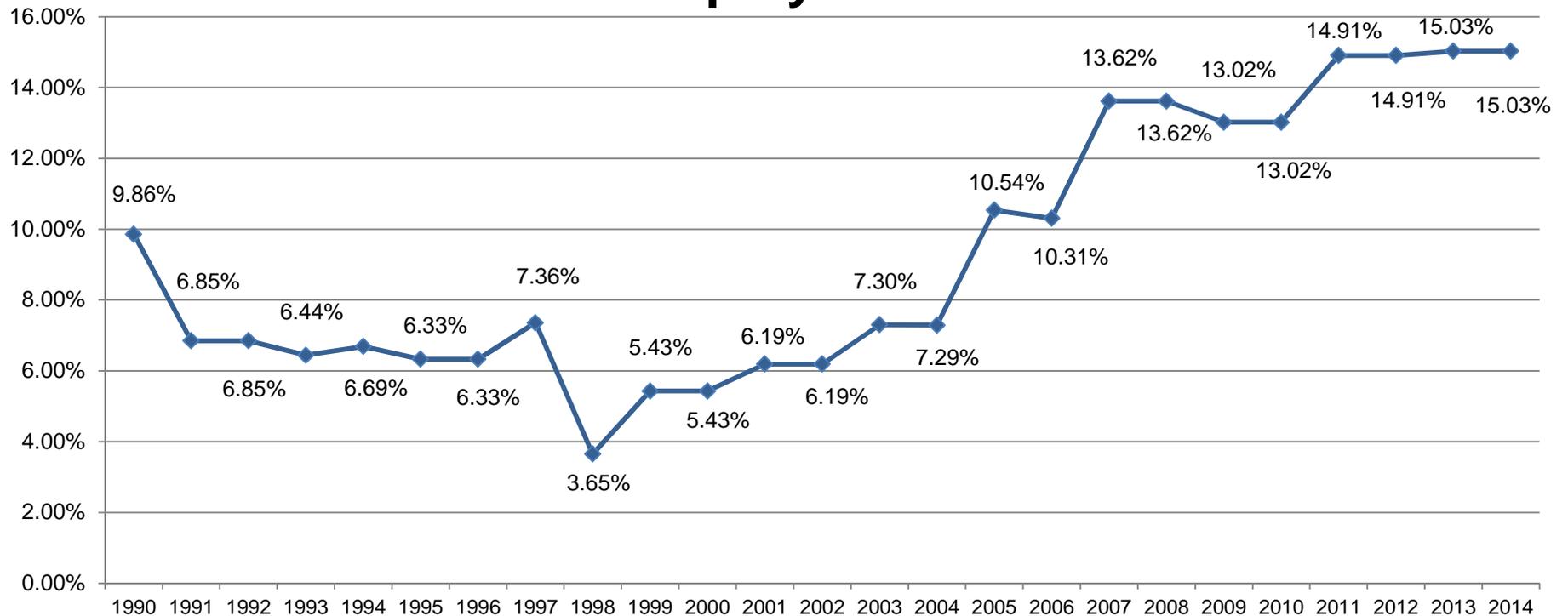
Employer Contributions for State Employees, Teachers, Higher Education



Employer Contribution Rates



TCRS Historical Employer Contribution Rates for State Employee Plan



New Pension Design



Hybrid Plan - New Hires Only

- Defined Benefit
 - 1% formula
 - Eligibility to retire: Rule of 90 or age 65 and vested
 - 5% employee contribution
 - Estimated employer contribution rate: 4.0%
 - Right to freeze, suspend, or modify benefits, employee contributions, plan terms, and design prospectively
- Defined Contribution
 - 5% employer contribution made to an employee's account and not subject to any matching employee contribution
 - Auto-enrollment, for 2% with opt-out feature

New Pension Design



Cost Controls - New Hires Only

- Maximum Employer Contribution Rate toward both plans: 9% of payroll, i.e. 4% to DB plan and 5% to DC plan
- Actuarial valuation establishes employer contribution rate for the DB plan
 - If the employer rate exceeds 4% or if target unfunded liabilities are exceeded, automatically adjust benefit in the following sequence:
 - Utilize Stabilization Reserve Account (if available)
 - Reduce or suspend the maximum 3% COLA
 - Shift DC employer contributions to DB plan
 - Increase employee contributions to DB plan by 1%
 - Reduce future service accrual (below 1%)
 - Freeze plan
 - If cost to state is below target percentage of payroll and unfunded liabilities, then benefits and accrual will be restored to target levels prospectively

Selected Summary Replacement Ratios



	\$30,000 AFC		\$50,000 AFC		\$70,000 AFC	
	Benefit	% of Final Salary	Benefit	% of Final Salary	Benefit	% of Final Salary
Based on 30 years of Service and Retirement at Age 60 (excludes Social Security because not age eligible yet)						
Current TCRS Plan	14,175	43.8%	23,625	43.8%	33,075	43.8%
1% DB plan, 2% EE to DC, 5% ER to DC	15,038	46.4%	25,064	46.4%	35,090	46.4%
Based on 35 years of Service and Retirement at Age 60 (excludes Social Security because not age eligible yet)						
Current TCRS Plan	16,538	51.0%	27,563	51.0%	38,588	51.0%
1% DB plan, 2% EE to DC, 5% ER to DC	18,380	56.7%	30,634	56.7%	42,888	56.7%
Based on 35 years of Service and Retirement at Age 65 (includes Social Security)						
Current TCRS Plan	26,798	82.7%	42,125	78.0%	56,174	74.3%
1% DB plan, 2% EE to DC, 5% ER to DC	29,639	91.5%	46,860	86.8%	62,784	83.0%
Based on 35 years of Service and Retirement at Age 57 (excludes Social Security because not age eligible yet)						
Current TCRS Plan	16,538	51.0%	27,563	51.0%	38,588	51.0%
1% DB plan, 2% EE to DC, 5% ER to DC	17,924	55.3%	29,875	55.3%	41,825	55.3%