

T C R S R E P O R T

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Produced for active members of the Tennessee Consolidated Retirement System



*David H. Lillard, Jr.
Treasurer*

A MESSAGE TO TCRS PARTICIPANTS

I hope you enjoy this 2012 Fall issue of the *TCRS Report*! This newsletter is prepared for the 210,493 active employees currently enrolled in the Tennessee Consolidated Retirement System.

I am often asked about TCRS' financial health. I am very proud to report that TCRS is one of the best-funded public pension plans in the nation! During these challenging economic times, we are extremely grateful that the General Assembly continues to provide full funding for the actuarially-required contribution for our pension plan. Also, Treasury's investment division uses a strategy which effectively balances returns versus risk. However, TCRS does have challenges ahead due to the market losses of 2008 and 2009 and the continuing low earnings environment in the financial markets.

Did you know that college tuition and fees go up about 7% each year? For a child born today, the average cost of one year at a public university in Tennessee will be \$25,000. Please read the article about our new TNStars 529 College Savings Program. We are excited to launch this low cost program and its excellent investment options. Exceptional financial incentives are available to Tennessee residents who enroll in the program. Help your loved one avoid crushing student loan debt by opening an account today with as little as \$25.

Thank you for your continued participation in TCRS. We welcome your suggestions on information you would like for us to include in future issues of this newsletter.

Sincerely,

A handwritten signature in dark ink, appearing to read "David Lillard". The signature is fluid and cursive.

Treasurer David H. Lillard, Jr.

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TCRS IS CONSIDERED ONE OF THE STRONGER FUNDED PUBLIC PENSION PLANS IN THE NATION



By law, an actuarial valuation of TCRS is performed every other year, with the last valuation performed as of July 1, 2011.

The purpose of an actuarial valuation is to determine the appropriate employer contribution rate so that TCRS is funded on an actuarially sound basis. TCRS remains one of the top funded state retirement plans in the nation, with a 91.5% funded ratio.

Most experts agree that a strongly-funded retirement plan is at least 80% funded. Unlike Social Security, which is basically on a pay-as-you-go basis, Tennessee's objective is to prefund promised pension benefits so that sufficient assets will be accumulated prior to a member's retirement to pay for the accrued value of benefits.

Since 1972, every Governor has budgeted and every General Assembly has appropriated sufficient money to fund the actuarially-required contributions (ARC) as determined by an independent actuary. Unlike some states that do not adequately fund those pension benefits, Tennessee has historically financed its pension cost during both strong and difficult economic times. Unfortunately, there are states that do not include in their budget the actuarially-required contribution amount. Obviously, these states are not exercising sound financial management, thus causing an even greater pension burden on their taxpayers in the future. Ultimately, the underfunding of contributions, plus the missed investment earnings, will have to be paid by increased taxpayer dollars by the citizens in those states. Tennessee is paying for the current accrued pension cost for all employees on a current basis rather than pushing the cost to future generations of taxpayers.

While TCRS does have challenges due to a low earnings environment and investment losses during the 2008-2009 market downturn, TCRS has more than \$35 billion of assets and has positive cash flow. Positive cash flow is created when contributions, dividends and interest exceed the current value of retirement benefits paid to members and the administrative expenses of the plan. In other words, investments are not being liquidated for the sole purpose of meeting a monthly TCRS payroll.

(Continue on page 3.)

Since TCRS is a strongly-funded plan, has a significant asset base, and has positive cash flow, current and future retirees should rest assured that assets will be available to pay benefits that have been promised.

In order to keep TCRS a strongly funded plan, a review is currently underway to determine the appropriate pension plan to offer to future state employees and teachers. A similar review was performed last year resulting in new pension plans being offered to local governments. The cost of a pension plan is just one segment of compensation that an employer must consider when developing the total compensation package, including benefits, that is offered to its employees. Any changes made to the plan will only affect future new hires. There will be no changes to employees and retirees currently participating in TCRS.

TCRS NUMBERS AT A GLANCE

TCRS is a defined benefit plan that covers state employees, public higher education employees, K-12 public school teachers and employees of political subdivisions who have elected to participate in the plan. At June 30, 2012, TCRS membership was as follows:

	<u>State Employees</u>	<u>Higher Education Employees</u>	<u>Teachers</u>	<u>Local Government Employees</u>	<u>Total</u>
Active	42,171	16,693	73,449	78,180	210,493
Retired	25,757	13,134	36,232	32,720	107,843

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
TCRS Investment Returns	(1.20%)	(15.27%)	10.24%	19.59%	5.61%

Fiscal Year Ended 6/30/2012 (Expressed in Thousands)

<u>Value of Assets</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Receipt of Dividends and Interest</u>	<u>Annual Pension Payments</u>
\$ 34,912,780	\$ 263,756	\$ 1,002,720	\$ 1,007,076	\$ 1,763,606

TYPES OF PENSION PLANS

There are two basic types of pension plans provided to employees by their employers: defined benefit and defined contribution plans. A defined benefit plan provides a fixed amount of pension benefit. The amount of the pension benefit is determined utilizing a set formula typically based on the compensation of a member and length of service in the plan. The cost of providing the fixed level of benefit is funded by employer contributions, employee contributions and investment income. The Tennessee Consolidated Retirement System (TCRS) is a defined benefit plan. Defined contribution plans focus on contributions levels. The employer typically funds a percentage of pay or flat dollar amount into an employee's account. The employee may also contribute funds to the account and is responsible for directing the investment of the funds. The amount of pension an employee receives depends on the contributions made to the plan, the length of participation in the plan and investment gains and losses. Examples of defined contribution plans include 401(k) and 403(b) plans. Investment gains and losses play an important role in both defined benefit and defined contribution plans; however, who bears the risk of investment gains and losses is different. In defined benefit plans, any investment shortfalls are borne by the employer and are made up by increased employer contributions, whereas the individual bears these risks in a defined contribution plan.

The annual benefit you receive as a member of TCRS is calculated using your years of service credit, your accrual factor (for general employees, the factor is 1.5% per year of service) and your average final compensation. For a member that has 30 years of service, TCRS provides a benefit of approximately 45% (30 years * 1.5%) of your average final compensation. A member is guaranteed a retirement benefit upon meeting the vesting requirements and the retirement eligibility criteria. Most employees become vested upon attaining five years of service with a TCRS-covered employer (some local governments have elected 10-year vesting). Unreduced service retirement benefits are available to vested members upon attaining age 60 or upon completing 30 years of service. Reduced early retirement benefits are available to vested members upon reaching age 55.

HOW MUCH INCOME DO I NEED IN RETIREMENT?

How do you know if you will have adequate income after you retire? Most financial experts agree that the average individual needs to replace 70% to 90% of his or her pre-retirement income to maintain the same standard of living during retirement. Why do I not need to replace 100% of my pre-retirement income? Typically, retirees do not have a mortgage payment, retirement income is not subject to FICA taxes, there are no work-related expenses, Social Security benefits are not generally taxed, retirees are typically in a lower tax bracket and you no longer need to save for retirement. There are three main sources to replace your pre-retirement income: (1) a TCRS benefit, (2) a Social Security benefit and (3) personal savings in the form of IRAs, CDs and other investment vehicles such as 401(k), 457 or 403(b) plans.

If you are a state employee or higher education employee, take advantage of the deferred compensation plans offered by the State of Tennessee. When you retire, you can leave your assets in the plan. By keeping your assets with the state deferred compensation plan, you have access to:

- ◆ The same investment options
- ◆ The same account management tools
- ◆ The same planning tools
- ◆ Flexible withdrawal options
- ◆ Competitive fees



In addition, it allows you to consolidate other accounts into a single account, which provides easier account management and the potential for low investment fees. For more information, visit our website at <http://treasury.tn.gov/dc/> or call Great West at (800) 922-7772.

Teachers and local government employees should contact your employer to discuss any deferred compensation programs available through your employment to help you save for your retirement.

2012 TCRS ANNUAL MEMBER STATEMENTS

You can stay informed about your retirement at TCRS by reviewing your annual member statement. TCRS Annual Member Statements were recently distributed to all active TCRS members through your employer. The member statement details your salary, contributions and service credit as reported by your employer(s) for fiscal year July 1, 2011 through June 30, 2012. The statement also includes accumulated funds, total service credit and current beneficiary designation(s).

Your statement will also provide the following information based on the information as of the end of the current fiscal year:

- ◆ Projected date of retirement
- ◆ Projected years of service
- ◆ Projected retirement benefits (when first eligible, age 62 and age 65)

Please carefully review your annual statement for accuracy. An uncorrected error could affect your future retirement benefits. If you have questions about your salary, contributions or service credit, please contact your employer. Your employer will review the information and contact TCRS if the statement information does not agree with their records.

Is your beneficiary designation up-to-date? You may update your beneficiary designation by completing and submitting the Change of Beneficiary form that can be downloaded on the forms tab at www.treasury.tn.gov/tcrs/members.html. Need help deciding who to designate as beneficiary? Please review the pamphlet entitled "*Selecting a Beneficiary*", which can be found at <http://treasury.tn.gov/tcrs/PDFs/SelectBeneficiary.pdf>.

TNStars COLLEGE SAVINGS 529 PROGRAM

On September 18, 2012, the Treasury Department launched the Tennessee Stars College Savings 529 Program. The TNStars College Savings 529 Program is a tax-advantaged college savings plan that is designed to help Tennessee parents, grandparents and friends support the educational needs of loved ones. The plan takes its name from Section 529 of the Internal Revenue Service Code, which authorized the creation of tax-advantaged plans in 1996.

Participants have control over how they manage their investments with the TNStars College Savings 529 Program. The plan offers an age-based option in which investments are more aggressive when children are young and then become more conservative as the children approach college age. The plan also offers 14 individual investment options, including domestic and international equities, balanced fund options, fixed income options and an FDIC-insured option. The underlying investments for the plan are from more than one fund company.

To encourage enrollment in the program, the Tennessee Department of Treasury is offering financial incentives to Tennessee residents interested in opening accounts. Tennesseans who open accounts with at least \$50 will each receive a one-time \$50 match from the state until December 31, 2012. Tennesseans who roll over their entire account balances from other 529 college savings plans, including the state's prepaid plan, will each receive \$100.

There are many benefits to investing with TNStars College Savings 529 Program. The investment returns on savings are tax-free as long as they are used for approved education-related expenses. Parents, grandparents, aunts, uncles and friends can open accounts on behalf of children. The money saved may be applied to higher education, including public or private colleges and universities inside or outside the state of Tennessee, as well as any other educational entities eligible to receive federal student loan funds, such as Tennessee Technology Centers.

Open an account today for your child or grandchild. Learn more by visiting www.TNStars.com or by calling toll-free 1-855-386-7827.

QUESTIONS ABOUT RETIREMENT?

When am I eligible to retire? What payment plan should I select? How do I apply for retirement? These and any other questions you may have regarding retirement can be answered by the TCRS staff. We are the best source for information regarding your pension. The TCRS Counseling staff offers individual pre-retirement counseling sessions in our offices in Nashville and pre-retirement counseling sessions by telephone, group meetings and seminars. Please contact TCRS Counseling Services at (615) 741-1971 or toll-free (800)770-8277, option 1 to inquire or set up one of these valuable planning tools.

CONTACTING TCRS

Members may address correspondence to the appropriate section of the retirement system at the address below. Please include your Social Security number on all correspondence.

Tennessee Consolidated Retirement System
502 Deaderick Street
Nashville, TN 37243
Internet Site: tcrs.tn.gov

Counseling Services Division	615-741-1971
	E-mail: TCRS.Counseling@tn.gov
Member Services	615-741-4868
	E-mail: TCRS.Member-Services@tn.gov
Financial Services Division	615-253-6781
	E-mail: TCRS.Financial@tn.gov
TCRS Toll-Free	1-800-770-8277

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



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