TCRS REPORT

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Produced for active members of the Tennessee Consolidated Retirement System

New State Employee, Higher Education and Teacher Hybrid Pension Plan

During the 2013 General Assembly session, legislation was enacted to provide a new pension plan for state employees and teachers hired on or after July 1, 2014. The pension reform language can be found in Public Chapter 259, Acts of 2013 or on the TCRS website at http://treasury.tn.gov/tcrs/.

This new plan does not affect current members or current retirees. The new pension plan only applies to new state employees, higher education employees and K-12 public school teachers hired on or after July 1, 2014. A new hire is someone who has never been a state employee, higher education employee or K-12 public school teacher or someone who has lost membership in TCRS. People can lose membership in TCRS if they have (1) terminated employment and refunded all of their account balances or (2) they were not vested, terminated employment and did not return to TCRS-covered employment within seven years of termination.

The new pension plan has two components, a defined benefit plan and a defined contribution plan, and therefore, is referred to as a hybrid plan. The total employer cost for the two components of the new plan is capped at nine percent of employee salary.

The defined contribution component provides that the employer will contribute five percent of salary on behalf of employees to a 401(k) plan. Employees are immediately vested in such employer contributions. New employees will be automatically enrolled in the 401(k) plan and contribute two percent of their salaries. But, employees may opt out of this automatic two percent of salary contribution. Employees have the

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right to contribute to the 401(k) plan at a higher or lower level than two percent provided they do not exceed the IRS limits.

As part of the reforms, the new defined benefit plan uses a lower benefit calculation formula, higher eligibility criteria for retirement and a mandatory employee contribution. The defined benefit calculation is a one percent formula (one percent times a five-year average salary times years of service) with the eligibility to retire being age 65 or the rule of 90 (where age plus years of service equal 90). Employees will contribute five percent of salaries to the plan with employers contributing four percent of salaries. Should the actual employer cost of the defined benefit component be less than the minimum required four percent employer contribution rate, then the difference between the actuarially-determined employer contribution rate and the minimum four percent rate will be set aside in a stabilization reserve within the pension trust fund that will provide some stability during volatile market conditions.

The defined benefit component of the hybrid plan has features that control the employer cost and limits the level of unfunded liability. For the state and higher education employee group, should the actuarially-required employer contribution exceed four percent or should the unfunded liability exceed 12.5 percent of the five-year average of the state's outstanding debt, then triggers will automatically apply to bring the plan within the defined levels. The triggers will be applied in the following sequence:

(1) stabilization reserve funds will be used;

(2) COLA increases for retirees will be suspended or reduced;

(3) employer contributions will be shifted from the defined contribution component to the defined benefit component;

(4) employee contributions will be increased by one percent of salary;

(5) future service accruals will be reduced below the one percent formula; and

(6) the plan will be frozen with no future accruals

Teachers, as a separate group, will have the identical cost controls and unfunded liability controls. In years following the application of the control features, should cost and unfunded liabilities fall below the prescribed limits, then the triggers described in the preceding paragraph will be restored in reverse order.

Understanding the Value of Pensions Such as TCRS

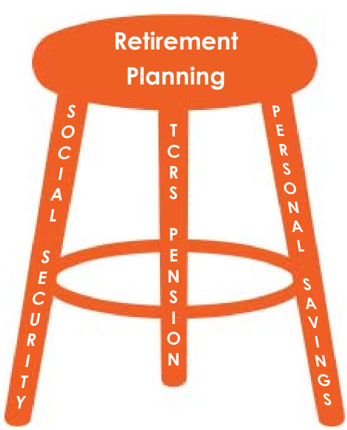
TCRS members should view retirement planning as a "three-legged stool." The three legs of the stool are: (1) a Social Security benefit, (2) a TCRS pension and (3) personal savings in the form of IRAs, CDs and other investment vehicles such as 401(k), 457 or 403(b) plans.

In the last couple of decades, the framework for retirement security has deteriorated. Pensions for private sector workers continue to disappear, Social Security benefits have been reduced and Americans just aren't saving enough in their individual accounts. Eighty-five percent of Americans experience anxiety about their ability to achieve financial security in retirement.

Those fortunate enough to participate in TCRS can breathe a little easier than many. TCRS remains financially strong and well funded. With nearly $38 billion in assets held by TCRS as of June 30, 2013, TCRS is the 35th largest defined benefit plan in the United States. And while investment markets remain challenging, the system's investment strategy has proven successful in these trying economic times.

As of the last actuarial valuation, the TCRS funded ratio was 91.5 percent.

In fiscal year 2013, TCRS paid more than $1.96 billion in retirement benefits to more than 120,000 retirees and beneficiaries. More than 90 percent of those benefits were paid to Tennessee residents. Not only do these benefits provide reliable sources of income to the retirees and beneficiaries, but also serve as fuel for the local economies in which the retirees live.



Selecting a Beneficiary

Prior to retirement, one of the most important decisions you will make as a TCRS member is who to name as your beneficiary. TCRS provides death benefits under certain conditions to the beneficiaries of members who die prior to retirement. You should be careful in selecting a beneficiary because certain death benefits are payable only to a spouse. Making an informed decision in selecting your beneficiary will maximize the payout available from the pension plan.

There are two types of members who participate in the TCRS: contributory members (for example, K-12 teachers and some local government employees) and non-contributory members (for example, state employees hired after July 1, 1981).

Contributory members are required to contribute a percentage of their salaries to TCRS and, as a result, they have account balances. Non-contributory members work for employers that pay the required employee contributions on behalf of the members and, therefore, the employees typically do not have account balances.

Because a contributory member has an account balance, the money taken from that balance can be divided among more than one beneficiary (including estates or institutions) upon the employee's death. A contributory employee can also designate a single beneficiary who is eligible to receive a monthly lifetime benefit in the event of the employee's death.

However, non-contributory members should always name one person - and one person only - as a beneficiary. The reason a non-contributory member should only name one person is that the only death benefit that might be payable to that beneficiary is the monthly lifetime benefit. A monthly lifetime benefit cannot be paid to multiple beneficiaries, estates or institutions.

Please visit our website at http://treasury.tn.gov/tcrs/Members.html to review our "Selecting a Beneficiary" pamphlet. If you need to make a change in your designated beneficiary, please complete and submit the Change of Beneficiary form that can be downloaded on the forms tab at www.treasury.tn.gov/tcrs/members.html. Please contact TCRS Counseling Services toll-free at 1-800-770-8277 or 615-741-1971 if you have questions regarding your selection of a beneficiary and we will do our best to guide you through the process.

TCRS Financial Highlights

The Tennessee Consolidated Retirement System (TCRS) prepares an annual financial report. The Comprehensive Annual Financial Report (CAFR) can be viewed at www.treasury.tn.gov/tcrs under the Reports heading on the left side of the page. Highlights from the CAFR for the fiscal year ended June 30, 2013 are:

- The plan's net assets (total assets minus total liabilities) of the TCRS at June 30, 2013 were $37.6 billion, increasing $2.7 billion (7.6 percent) from the net assets at June 30, 2012. The net assets are held in trust to meet future benefit obligations.

- The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially-determined accrued liability. As of July 1, 2011, the date of the latest actuarial valuation, the TCRS' funded ratio was 92.1 percent for state employees and teachers in the aggregate and 89.2 percent for the local government in the aggregate.

- Contribution revenue for fiscal year 2013 totaled $1,278,982,124 - an increase of one percent compared to fiscal year 2012.

- Net investment income for fiscal year 2013 was $3,344,589,259. During fiscal year 2013, the TCRS received an investment return on its portfolio of 9.9 percent, compared to 5.6 percent for fiscal year 2012.

- Total benefits and refunds paid for fiscal year 2013 were $1,963,260,297 - representing an increase of 8.5 percent over fiscal year 2012's total benefits and refunds of $1,809,901,340.

- Active and retired membership at June 30, 2013 totaled 209,567 and 122,499, respectively. The breakdown by employer is as follows:

Employee Group	Active Members	Retired Members
State Employees	41,856	29,735
Higher Education Employees	16,590	41,828
K-12 Teachers	73,306	15,162
Local Government Employees	77,815	35,774
Total	209,567	122,499

Are You Considering Retirement?

If you are beginning to plan for your retirement, please contact our TCRS Counseling Services staff to establish a retirement counseling session. Our TCRS counseling staff offers individual counseling sessions in our office or by telephone, as well as group seminars. During individual counseling sessions, our staff will provide an estimate of your monthly retirement benefits, explain the various benefit payment options available and discuss the steps to begin the retirement process. Our group seminars are held upon the request of employers and require a minimum of 20 participants. The seminars include information regarding TCRS benefits, estate planning, Social Security benefits and health insurance. Please contact us at (615) 741-1971 or 1-800-770-8277 option 1 to ask questions or schedule one of these valuable planning sessions.

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 or TCRS.Counseling@tn.gov

Member Services .... 615-741-4868 or TCRS.Member-Services@tn.gov

Financial Services Division .... 615-253-6781 or TCRS.Financial@tn.gov

TCRS Toll-Free 1-800-770-8277

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

Treasury Department; November 2013;
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