TCMA Meeting 4/12/23
State Retirement Overview
What is RetireReadyTN?

RetireReadyTN is the state's retirement program, combining the strengths of a defined benefit plan provided by the Tennessee Consolidated Retirement System (TCRS), deferred compensation plans offered by Empower Retirement, and retirement readiness education. We strive to empower public employees to take actionable steps toward preparing for the future.
Tennessee Consolidated Retirement System

- TCRS is a defined benefit plan that provides a lifetime benefit at retirement once eligibility has been met.
- Benefits are calculated with a set formula.
- Contributions are not available for withdrawal until termination of employment.
- Employer bears the investment risk.
Political Subdivision Retirement Participation

• 585 political subdivisions currently participate in TCRS
  – 523 Legacy
  – 24 Hybrid with Cost Controls
  – 31 Hybrid without Cost Controls
  – 7 Alternative Defined Benefit
Legacy Plan Design

TCRS Legacy Benefit Formula

<table>
<thead>
<tr>
<th>Accrual Factor</th>
<th>Average Final Compensation</th>
<th>Years of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.575%</td>
<td>Average of Member’s Highest 60 Consecutive Months of Salary</td>
<td>Service established while in a position covered by the Legacy Plan</td>
</tr>
</tbody>
</table>

= Annual Benefit

- Eligibility for an unreduced retirement benefit begins at age 60 or with 30 years of creditable service
- Members may participate in the State 401(k)
Hybrid Plan Design

TCRS Hybrid Benefit Formula

<table>
<thead>
<tr>
<th>Accrual Factor</th>
<th>Average Final Compensation</th>
<th>Years of Service</th>
<th>Annual Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0%</td>
<td>x Average of Member’s Highest 60 Consecutive Months of Salary</td>
<td>x Service established while in a position covered by the Hybrid Plan</td>
<td>=</td>
</tr>
</tbody>
</table>

• Eligibility for an unreduced retirement benefit begins at age 65 or based on the “rule of 90”

<table>
<thead>
<tr>
<th></th>
<th>Employer Contributions</th>
<th>Member Contributions</th>
<th>Total Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCRS</td>
<td>4%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>401(k)</td>
<td>5%</td>
<td>2%¹</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td>9%</td>
<td>7%</td>
<td>16%</td>
</tr>
</tbody>
</table>
Separation from Service - TCRS

What happens to a member’s retirement benefits upon separation from service with a TCRS-covered employer?

• If the member is vested, he/she will qualify for a retirement benefit once the service retirement age is reached.

• If the member is not vested, he/she may withdraw employee contributions, if any. Members are encouraged to keep employee contributions in the plan, if there is a possibility of returning to work for a TCRS-covered employer at a later date.

• If the separation from service is due to disability, the member may apply for disability benefits.
Online Retirement
Online Retirement

• TCRS has begun requiring all members to apply for retirement electronically via the Member Self Service portal at RetireReadyTN.gov

• Members unable to apply for retirement online for any reason should contact RetireReadyTN at 800-922-7772 to request a waiver and paper application

• TCRS Resources are available specific to Online Retirement on the RetireReadyTN.gov Website.
Online Retirement

• Separation of Service procedures should be communicated to employees so that they are aware they should meet with your agency first before applying for retirement. This communication prior to completion of the online ret. application will alleviate confusion and reconcile any conflicts before the application is certified and sent to TCRS.

• Employers may certify an application up to 150 days before the member’s Last Date of Paid Employment.

• Employers are encouraged to certify online retirement requests within 10 days of receiving the member’s portion of the Online Retirement Application.
TCRS Data and Statistics
History of Retirement for Public Employees in Tennessee

• State retirement program for teachers and state employees created by General Assembly effective July 1, 1945 and July 1, 1947, respectively

• Subsequently, separate pension plans were established for:
  – State Judges
  – District Attorneys General and their assistants
  – County Judges
  – County Officials
  – Public Service Commissioners
History of Retirement for Public Employees in Tennessee

• In 1972, the Consolidated Retirement Act was passed to establish and maintain consistent public pension plan principles among public employees. Governor Winfield Dunn signed the Consolidated Retirement Act, combining these seven separate pension systems into the Tennessee Consolidated Retirement System, putting our public retirement plans on the path to the financial stability we enjoy today.
TCRS Funding and Strength

• TCRS is recognized as one of the three (3) best funded public pension plans in the nation

• Strong funded status is a result of
  – Strong leadership which has led to every Governor budgeting and every General Assembly appropriating sufficient money to fund the amounts required by the actuary since at least 1975
  – Active management and review of the pension plan which let to the Hybrid Retirement Plan for State Employees and Teachers becoming effective July 1, 2014
  – Conservative and diversified portfolio
TCRS Funding and Strength

- Treasury has supported the retirement system with strong investment management and pension administration
  - More than $73.5 billion in investment earnings since 1972
  - TCRS is funded through investment earnings, employer contributions, and employee contributions
  - Investment earnings account for over 68% of TCRS funding
  - Without those earnings, the cost to employers participating in TCRS would be greater
## Retirement System
### TCRS – June 2022

<table>
<thead>
<tr>
<th>Membership</th>
<th>Active</th>
<th>Retired</th>
<th>Benefit Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legacy Plan - Closed June 30, 2014</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State &amp; Higher Education</td>
<td>29,108</td>
<td>51,262</td>
<td>$ 1,060,967,316</td>
</tr>
<tr>
<td>K-12 Teachers</td>
<td>47,431</td>
<td>55,385</td>
<td>1,372,741,368</td>
</tr>
<tr>
<td>Local Government</td>
<td>76,746</td>
<td>46,021</td>
<td>526,467,191</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>153,285</td>
<td>152,668</td>
<td>$ 2,960,175,875</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Membership</th>
<th>Active</th>
<th>Retired</th>
<th>Benefit Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hybrid Plan - Opened July 1, 2014</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State &amp; Higher Education</td>
<td>28,291</td>
<td>194</td>
<td>$ 447,952</td>
</tr>
<tr>
<td>K-12 Teachers</td>
<td>32,629</td>
<td>117</td>
<td>255,787</td>
</tr>
<tr>
<td>Local Government</td>
<td>7,508</td>
<td>41</td>
<td>120,550</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68,428</td>
<td>352</td>
<td>$ 824,289</td>
</tr>
</tbody>
</table>

- State employees and higher education employees are combined for liability purposes
- K-12 teachers are a separate liability pool and are cost sharing among the 142 LEAs
- Local government participation is optional with each being a separate agent plan
- Local government liabilities valued individually
- Benefits portable between governmental employers
Retirement System
Investment Allocation by Asset Class
June 30, 2022

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>Market Value</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>North American Equity</td>
<td>$17,810,991,034</td>
<td>28.6%</td>
</tr>
<tr>
<td>International Equity</td>
<td>8,465,862,739</td>
<td>13.6%</td>
</tr>
<tr>
<td>US Fixed Income</td>
<td>12,306,640,433</td>
<td>19.8%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>8,092,134,609</td>
<td>13.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>8,631,350,588</td>
<td>13.9%</td>
</tr>
<tr>
<td>Strategic Lending</td>
<td>6,082,072,618</td>
<td>9.8%</td>
</tr>
<tr>
<td>Cash</td>
<td>849,078,724</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$62,238,130,745</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
# Retirement System

<table>
<thead>
<tr>
<th>Legacy Plan</th>
<th>State Employees</th>
<th>Teachers</th>
<th>Aggregate of Local Government Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Pension Liability</td>
<td>$18,513,680,650</td>
<td>$26,736,458,112</td>
<td>$12,564,863,775</td>
</tr>
<tr>
<td>Fiduciary Net Position</td>
<td>19,125,528,767</td>
<td>31,049,698,479</td>
<td>14,162,511,552</td>
</tr>
<tr>
<td>Net Pension Liability (Asset)</td>
<td>$(611,848,117)</td>
<td>$(4,313,240,367)</td>
<td>$(1,597,647,777)</td>
</tr>
<tr>
<td>Funded Ratio</td>
<td>103.30%</td>
<td>116.13%</td>
<td>112.72%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hybrid Plan</th>
<th>State Employees</th>
<th>Teachers</th>
<th>Aggregate of Local Government Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Pension Liability</td>
<td>$390,279,076</td>
<td>$503,022,086</td>
<td>$51,840,804</td>
</tr>
<tr>
<td>Fiduciary Net Position</td>
<td>475,025,582</td>
<td>611,343,274</td>
<td>59,123,019</td>
</tr>
<tr>
<td>Net Pension Liability (Asset)</td>
<td>$(84,746,506)</td>
<td>$(108,321,188)</td>
<td>$(7,282,215)</td>
</tr>
<tr>
<td>Funded Ratio</td>
<td>121.71%</td>
<td>121.53%</td>
<td>114.05%</td>
</tr>
</tbody>
</table>
Retirement System

2021 Net Pension Liability Per Capita Comparison to Triple-A Rates States

- MD
- VA
- FL
- TX
- IN
- DE
- MO
- GA
- NC
- IA
- TN
- UT
- SD

$0

$500

$1,000

$1,500

$2,000

$2,500

$3,000

$3,500

$4,000

$230
TCRS Economic Impact

The $2.65 billion in TCRS benefits paid to retirees living in Tennessee in 2021

- Created $4.93 billion of gross output which translates to .08% of GDP

- Benefits paid to retirees is equivalent to 35,500 jobs
  - Roughly the same number of people employed in Anderson County, Tennessee
  - More jobs than in 78 of the 95 counties

- Resulted in $269 million is State and Local taxes
  - More than the $264 million estimated cost of Nissan Stadium

- Provided $384 on average for each of the 6.9 million Tennesseans

Source: “ECONOMIC IMPACTS OF THE TCRS DEFINED BENEFIT PLAN ON TENNESSEE” prepared by Edward Taylor and William Fox of the UT Boyd Center for Business and Economic Research
Summary

• 100% of Actuarially Determined Contribution (ADC), formerly Annual Required Contribution (ARC), has been contributed since 1972

• TCRS is a strongly-funded pension plan
  ✓ The legacy plan has a funded ratio of 103.30% for state, 116.13% for teachers, and 112.72% for aggregate local governments
  ✓ The hybrid plan has a funded ratio of 121.71% for state, 121.53% for teachers, and 114.05% for aggregate local governments

• Conservative, professionally managed investment portfolio
• Economical cost of management
• Lowered investment return assumption to 6.75%
• Local governments are required to contribute 100% of ADC
FY23-24 TCRS Contribution Rates
Accessing your Contribution Rate Sheet

- Rates will not be mailed
- Rates will be disseminated through the GASB Public Reports site available at [https://publicreports.treasury.tn.gov/](https://publicreports.treasury.tn.gov/)
  - Click “Political Subdivisions”
  - Click “Employer”
  - Begin typing Employer Code/Employer Name
  - Select your agency
  - Click on 2024 ADC Employer Rate
Relative Effect of Individual Actuarial Assumptions

Impact on Determination of Contribution Requirements

- Investment Return
- Life Expectancy
- Payroll Growth
- Individual Salary...
- Retirement Behavior
- Termination Behavior
- Active Disability and...

Source: 2020 Annual National Association of State Retirement Administrators (NASRA) Conference Update
Retirement System
TCRS Investment Performance – As of June 30, 2022

- The Assumed Rate of Return was lowered from 7.5% to 7.25% beginning July 1, 2017
- The Assumed Rate of Return was lowered from 7.25% to 6.75% beginning July 1, 2021
State of Tennessee
Deferred Compensation
401(k) & 457(b)
Deferred Compensation 401K Plan

• Members select their investment options based on their individual goals, risk tolerance and timeline.
• Immediate vesting
• The amount received in retirement is based on contributions, plus any accumulated earnings.
• Account balance can be paid in a lump sum, through monthly installments, or through periodic withdrawals.
Political Subdivision Retirement Participation

• 368 political subdivisions currently participate in the 401(k) and/or 457(b)
  – 71 Counties
  – 147 Municipalities
  – 138 Special Districts
  – 12 LEAs have adopted the 457(b)
401(k) Plan Options and Contribution Limits

Contribution Types:

- Traditional 401(k) – pre-tax contributions to reduce your current taxes
- Roth 401(k) – post-tax contributions to reduce your taxes in retirement

- Any employer contributions will always be made to the 401(k) on a pre-tax basis
- Members under age 50 may contribute up to $22,500 in 2023 or 100% of salary, whichever is less
- Members age 50+ may take advantage of the Age 50+ Catch-up option
Additional Savings Opportunity – 457(b)

• The 457(b) plan has the same investment options as the 401(k) plan

• All contributions are made pre-tax

• The 457(b) and 401(k) do not share a contribution limit

• Members under age 50 may contribute up to $22,500 in 2023 or 100% of salary, whichever is less. Those over 50 can contribute an additional $7,500 annually

• The 401(k)/457(b) Plan Comparison Guide found on RetireReadyTN.gov provides further information about the differences between the 401(k) and 457(b) plans
State of TN 401(k) and 457(b) Plans by the Numbers

<table>
<thead>
<tr>
<th></th>
<th>401(k) Plan Participants</th>
<th>Assets</th>
<th>457 Plan Participants</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>61,920</td>
<td>$2,507,010,378</td>
<td>6,413</td>
<td>$258,158,005</td>
</tr>
<tr>
<td>University of Tennessee</td>
<td>20,458</td>
<td>$935,238,394</td>
<td>2,069</td>
<td>$230,868,050</td>
</tr>
<tr>
<td>Tennessee Board of Regents /Higher Education</td>
<td>23,630</td>
<td>$905,970,926</td>
<td>909</td>
<td>$89,325,341</td>
</tr>
<tr>
<td>K-12 Teachers</td>
<td>53,630</td>
<td>$716,418,332</td>
<td>343</td>
<td>$2,895,453</td>
</tr>
<tr>
<td>Local Governments</td>
<td>12,240</td>
<td>$223,989,150</td>
<td>4,732</td>
<td>$179,210,946</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>171,878</strong></td>
<td><strong>$5,288,627,180</strong></td>
<td><strong>14,466</strong></td>
<td><strong>$760,457,795</strong></td>
</tr>
</tbody>
</table>
Separation from Service – 401(k)

• Funds may remain in the 401(k) or be rolled over to another qualified retirement plan
  – Required minimum distributions must be taken annually once the member reaches age 73

• **401(k)** – You may begin taking qualified distributions without early withdrawal penalty upon reaching age 59 ½

• Distributions can be set up in a variety of ways, including:
  – periodic payments
  – partial lump-sum
  – full lump-sum, or a combination of those options.
Retirement Readiness Resources

- [RetireReadyTN.gov](#)

- Customer Service Call Center: 1-800-922-7772, open Monday - Friday from 8:00 a.m. - 7:00 p.m. CST

- Group Presentations

- Comprehensive Individual Retirement Planning – Retirement Readiness Reviews (early-mid career)

- Benefit Estimates – 3 years from retirement eligibility

- Pre-Retirement Counseling

- 16 RetireReadyTN Plan Advisors across the State
Members can:

• View plan features by employment type
• Login to TCRS Member Self-Service and 401(k)/457 accounts
• Access forms, guides and publications
Lifetime Income Score

• Log in to your 401(k) and 457 accounts to see your Lifetime Income Score.

• A projection of your TCRS benefit is now included for all vested TCRS members.

• Your Lifetime Income Score (the percentage in the circle) shows you how close you are to meeting your income replacement goal.

In retirement starting 2030

<table>
<thead>
<tr>
<th>Retirement income</th>
<th>Healthcare costs</th>
<th>How do I compare</th>
<th>How long will my money last?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sean Lewis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated monthly income: $4,140</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

My savings $273  +  TCRS/Employer contributions $921  =  Social Security $1,996  +  Other assets $865  -  Income gap $1,070

Retirement income: $273  +  $921  =  $1,194

PRETAX CONTRIBUTION RATE: 5%

RETIREMENT AGE: 67

INVESTMENT STYLE: Moderate (40/60)

Conservative  Aggressive

Next step: Increase your contribution to 6%
FY2022 participant education activity

- 150,556 calls handled by RetireReadyTN call center agents
- 10,500 attendees at Group Retirement meetings

### Action taken

- Plan enrollments: 2,048
- Deferral increases: 555
- My Total Retirement enrollments: 1,883
- Account Consolidations: 2,026
Schedule a meeting with a RetireReadyTN Plan Advisor

• Retirement readiness reviews may be scheduled at RetireReadyTN.gov or by calling RetireReadyTN at 800-922-7772

• Retirement counseling meetings may be requested by phone and are typically scheduled approximately 60 days after your benefit estimate is ordered
RetireReadyTN Plan Advisor Meeting Impact

- RetireReadyTN Plan Advisors perform the most meetings and have the highest participant satisfaction ratings of all Empower’s government plans.

- 13,471 one-on-one and 594 group meetings held in 2022.

- Over 60% of those who meet with a Plan Advisor take a retirement readiness action.

97% of survey respondents rated their RetireReadyTN Plan Advisor “Excellent” or “Highly Effective.”

Ability of your RPA to answer questions and share knowledge?

- Excellent: 86%
- Highly Effective: 11%
- Effective: 2%
- Somewhat Effective: 1.0%
- Not Effective: 0.0%

97% of survey respondents rated their RetireReadyTN Plan Advisor “Excellent” or “Highly Effective.”
TCRS Plan Eligibility & Reporting Tips
Probationary Periods

• Political Subdivisions: Probationary period as adopted by resolution

• Provision 6: Probationary Period – optional for political subdivisions prior to July 1, 1995

• Provision 8: Buy Probationary Period

• Does your plan have these provisions?

• Are you still enforcing a probationary period?
Part-time Employees

– Do you have the part time-provision?

– Part-time employees may have optional TCRS membership if a part-time provision was adopted by resolution

– If the employer has adopted the part-time provision, membership is optional unless the employee has previously participated in TCRS with any employer on a full- or part-time basis

– If the employer has adopted the part-time provision and the part-time employee has previously participated in TCRS, membership is mandatory
Board Member Participation

• Board members have optional membership if adopted by resolution

• If the employer has authorized Board Member participation, these members have a separate benefit structure

• Participating Board Members receive 1.0 service credit per month and must be reported as part of a separate subgroup under the employer’s plan

• Board members cannot double dip service if simultaneously a full-time TCRS member through other employment

• Does your employer allow Board Members to participate?

• Contact TCRS.EmployerReporting@tn.gov for further information
TCRS Census Reviews
Ensuring data integrity

• Information reported to TCRS is verified through periodic census reviews to identify:
  – Demographic inconsistencies (SSN, Date of Birth, Gender)
  – Compensation inconsistencies
  – Unreported employees required to be reported to TCRS
  – Reporting of employees ineligible for TCRS

• Education and Review Team Specialists assist employers with corrections to member records and provide training and information to employers regarding reporting requirements
Census Review Outcomes

• More accurate actuarial experience studies and valuations
• Automation of TCRS systems
• Faster processing times
• Accurate benefit estimates and retirement benefit calculations
• Compliance with federal and state laws and program rules
TCRS Education and Review Team

Treasury Outreach
Drew Freeman, Director
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Return to Work
The 120-Day Contract

- Any retired member may return to service after 60 days have elapsed since the retirement date, without loss of retirement benefits, for the equivalent of 120 days within a 12-month period

- Employers may waive the 60-day waiting period provided
  - No other qualified personnel to work
  - Retiree works only half the hours the retiree was working prior to retirement

- A 120-Contract Form must be submitted to TCRS each year before the 120-day period begins. Forms can be sent in via mail or emailed to TCRS.Member-Services@tn.gov

- Employer must report the employee on the monthly TCRS contribution report in non-participating status
The 120-Day Contract

• Compensation limited to 60% of the annual full-time salary received by the retiree in the year immediately prior to retirement
  – Limit increases by 5% for each year since retirement

• The beginning date of employment for the 12-month period is the date of hire.

• Generally, one day is equivalent to the number of hours the retiree worked on average each day pre-retirement
Return to Work
Limited Re-Employment of Law Enforcement Officers

• Retired law enforcement to return to work with a TCRS covered employer, in a law enforcement capacity, without loss or suspension of benefits, if certain conditions are met

• Requirements:
  – Must be retired at least nine months
  – Must have completed the annual training required by title 38, chapter 8, part 1
  – Salary limited to 85% rate of compensation set for positions requiring comparable training and experience
  – A form is required each year
  – The employer must report monthly service and salary as nonparticipating
  – Appointment cannot exceed one year
    • May be reappointed to additional one-year periods as long as the retiree still meets all of the requirements above
Returning full-time with a TCRS-covered Employer

- If a retired member returns to service with a TCRS-covered employer under any circumstance other than 120-day Temporary Employment or Limited Reemployment of Retired Teachers, the TCRS retirement allowance is suspended during reemployment.

- How should a retiree or an employer notify TCRS if the retiree returns to work full-time?
  - Notification must be received in writing from the employer and/or the retiree. The notifier should include the date the retiree returned to service and the member’s MID.

- Members returning to work, full-time, should be reported by their employer and they accrue service credit.
Treasury Outreach Team

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