

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, 2015*

Prepared by:
State of Tennessee
Treasury Department
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Nashville, TN 37243-0201
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treasury.tn.gov/tcrs

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

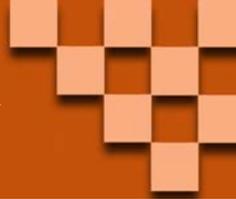
The Board of Trustees

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 23, 2015

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-eighth 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 2015 fiscal year was challenging for investors and TCRS gained 3.33% for the fiscal year with an annualized gain of 9.84% for the trailing three-year period. While the one-year figure trailed the actuarially-required return, the three-year number has exceeded the target and the portfolio was still managed in a manner to protect capital in an adverse environment.

Financial Soundness of the Plan: TCRS is considered one of the best-funded public pension plans in the nation. Standard and Poor's (S&P) ranks TCRS the fifth best-funded state pension plan in the U.S. All three national ratings agencies: S&P, Moody's, and Fitch, recognize Tennessee for fully funding its annual actuarially-determined contribution every year since 1972.

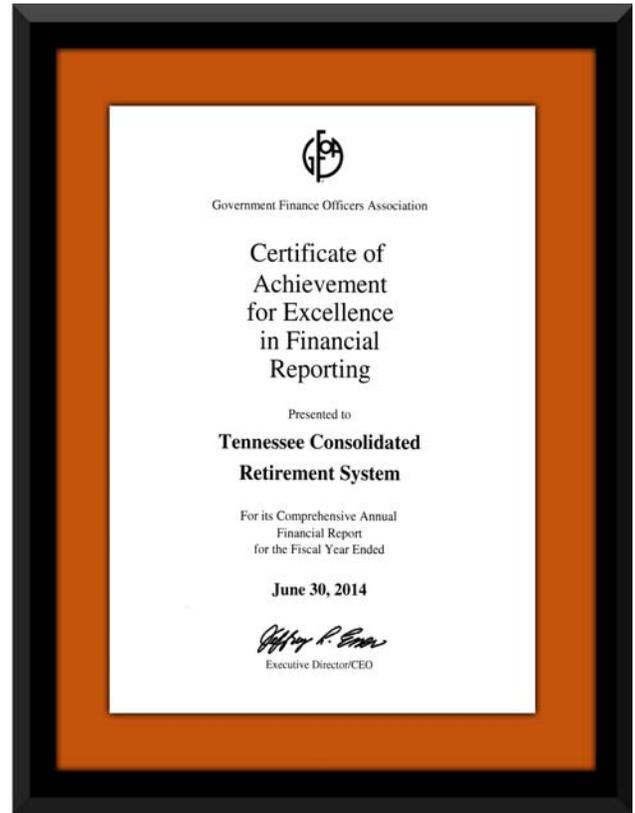
The General Assembly, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, invest the system assets in a prudent manner without undue risk, fund the system on an actuarially-strong basis and provide the best possible services to the members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

Sincerely,

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

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, 2014. This was the 27th 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, 2014. 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 23, 2015

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, 2015. 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 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 497 participating political subdivisions is responsible for the pension benefits of its employees. TCRS is a qualified pension plan under Section 401(a)

(continued)

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%. 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 that has yielded excellent returns with a low level of risks. The investment return for fiscal year 2015 was 3.3 percent.

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.

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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, 2014. This was the twenty-seventh 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, Financial Empowerment, 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



**Lieutenant Governor
 Ron Ramsey**
Speaker of the Senate



**Senator
 Ferrell Haile**



**Senator
 Thelma Harper**



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



**Senator
 Mark Norris**



**Senator
 Doug Overbey**
*Finance, Ways and Means
 Second Vice-Chair*



**Senator
 Jim Tracy**
Speaker's Designee



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

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VOTING MEMBERS - REPRESENTATIVES



**Speaker
Beth Harwell**
House of Representatives



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



**Representative
Kent Calfee**
Speaker's Designee



**Representative
Karen Camper**



**Representative
Craig Fitzhugh**



**Representative
Michael Harrison**
*Finance, Ways and Means
Sub-Committee Chair*



**Representative
Steve McDaniel**



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



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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EX-OFFICIO MEMBERS



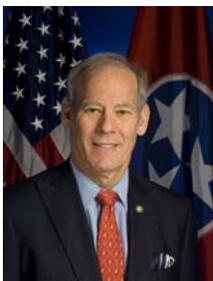
David H. Lillard, Jr.
State Treasurer



Jill Bachus
TCRS Director



Tre Hargett
Secretary of State



Justin Wilson
Comptroller of the Treasury



**Senator
Randy McNally**
Council Vice-Chair



**Representative
Charles Sargent**
Council Chair



Rebecca Hunter
*Commissioner of
Human Resources*



Larry Martin
*Commissioner of
Finance and Administration*



Deborah Taylor-Tate
*Administrative Director
of the Courts*

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ELECTED OR APPOINTED MEMBERS



Michael Barker
Retired Teacher
Term Expires:
June 30, 2016



Tony Crisp
Public Safety
Term Expires:
June 30, 2016



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



Shannon Jones
State Employee
Term Expires:
June 30, 2016



Angie Judish
State Employee
Term Expires:
June 30, 2016



Bill Kemp
*Tennessee County
Officials Association*
Term Expires:
June 30, 2017



Alfred Laney
Retired State Employee
Term Expires:
June 30, 2016



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



Harold Morrison
Middle Tennessee Teacher
Term Expires:
June 30, 2018



Ken Wilber
*Tennessee
Municipal League*
Term Expires:
June 30, 2017



Robert Wormsley
*Tennessee County
Services Association*
Term Expires:
June 30, 2017

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 50.

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

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.

Barry Dennis
Strategic Investment Solutions, Inc.
San Francisco, California

PRIVATE EQUITY CONSULTANT

Thomas Martin
TorreyCove Capital Partners
San Diego, California

(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

Chris Conklin
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

Steve Jacobs
Cornerstone Real Estate Advisers LLC
Hartford, Connecticut

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

Molly Sodeinde
TT International
London

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MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

State Street Corporation
Boston, Massachusetts

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:

Herbert Slatery, III
Attorney General/Reporter
Nashville, Tennessee

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee



TREASURER’S OFFICE

State Treasurer David H. Lillard, Jr., JD, LLM
 Chief Operating Officer MaryJo Price
 Communications Director Shelli King
 Government and Legislative Affairs Manager Whitney Goetz
 Special Assistant to the Treasurer Mary Beth Franklyn
 Executive Assistant to the Treasurer Heather Szczepczenski

TCRS INVESTMENTS

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

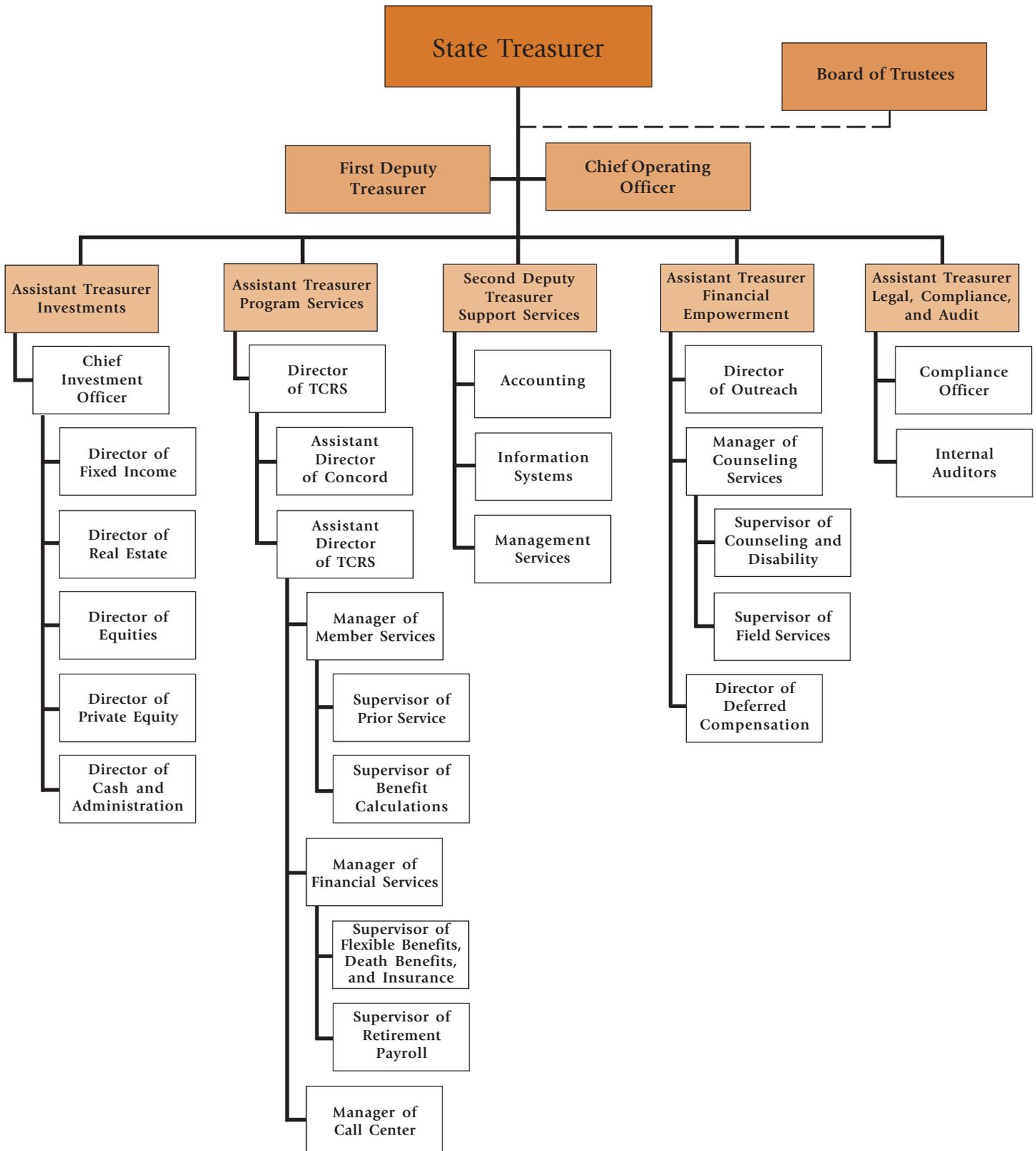
RETIREMENT ADMINISTRATION

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 Whitehead

TREASURY DIVISIONS

First Deputy Treasurer Steven Curry, CPA-inactive, CTP, CEBS, CCM
 Second Deputy Treasurer, Support Services Rick DuBray, CPA
 Assistant Treasurer, Financial Empowerment Joy Harris
 Assistant Treasurer, Legal, Compliance and Audit Christy A. Allen, JD
 Assistant Treasurer, Program Services Steve Summerall
 Compliance Officer Jennifer Selliers
 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
 Acting Director of Information Systems David Bauer
 Director of Management Services Kerry Hartley, 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.*



Financial Section

Independent Auditor's Report

Management's Discussion and Analysis

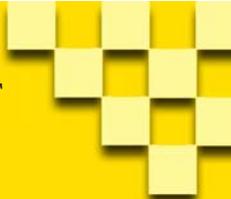
Notes to the Financial Statements

Schedules of Required Supplementary Information

Notes to 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 statement of fiduciary net position of the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, as of and for the year ended June 30, 2015, the related statement 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, 2015, 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, 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, 2015, 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 \$4,683,390,636 (11.08 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.

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. 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

(continued)



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 23, 2015, 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 23, 2015

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, 2015. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

FINANCIAL HIGHLIGHTS

- The net position for the TCRS plans (total assets minus total liabilities) at June 30, 2015 was \$43.2 billion, increasing \$0.3 billion (0.8 percent) from the plan net position at June 30, 2014. The net position is restricted for future benefit obligations. This increase in plan net position is mainly attributable to net investment income. Returns were led by strong returns of 20.5 percent for private equity and 12.8 percent for real estate.
- Net investment income for fiscal year 2015 was \$1.3 billion. During fiscal year 2015, the TCRS received a time-weighted rate of return on its portfolio of 3.3 percent, compared to 16.7 percent for fiscal year 2014.
- Based on the latest actuarial valuation as of June 30, 2014 for accounting purposes pursuant to GASB 67 & 68, the overall funded ratio for all participating employers within TCRS is 98.8 percent.
- Contribution revenue for fiscal year 2015 totaled \$1.29 billion, representing a decrease of 1.4 percent compared to fiscal year 2014. Effective July 1, 2014 a new retirement plan was established for newly hired state employees and teachers. The new retirement plan consists of a defined benefit component and a defined contribution component. The defined benefit component has a lower benefit structure than the previous defined benefit plan; as a result fewer contributions are required.
- Total benefits and refunds paid for fiscal year 2015 were \$2.24 billion, representing an increase of 6.1 percent over fiscal year 2014 total benefits and refunds paid of \$2.11 billion. The growth is primarily due to the retiring members' benefits exceeding the benefits of long-term retired members whose benefits ceased due to death. Additionally, a 1.5 percent cost of living adjustment was given in July 2014.
- Total administrative expenses for fiscal year 2015 were \$15.06 million, representing an increase of 51.3 percent from fiscal year 2014 administrative expenses of \$9.96 million. Administrative expenses represent three basis points (three one-hundredths of one percent) of the average of the beginning and ending net position.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements 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, 2015.

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 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.

(continued)



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015 (CONTINUED)

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, 2015, the TCRS had a net position (total assets in excess of total liabilities) of \$43.2 billion, an increase of \$0.3 billion (0.8 percent) from \$42.9 billion at June 30, 2014. 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 decreased 1.4 percent from June 30, 2014. Condensed financial information comparing the TCRS' fiduciary net position for the past two fiscal years follows:

FIDUCIARY NET POSITION

	June 30, 2015	June 30, 2014	Increase (Decrease) Amount	Percentage Change
ASSETS				
Cash and cash equivalents	\$ 445,811,146	\$ 279,661,206	\$ 166,149,940	59.4 %
Cash collateral on loaned securities	5,892,943,764	3,611,068,696	2,281,875,068	63.2 %
Member and employer receivables	100,955,668	107,700,566	(6,744,898)	(6.3) %
Investment receivables	1,423,035,570	1,053,100,529	369,935,041	35.1 %
Short-term securities	206,266,693	137,164,148	69,102,545	50.4 %
Long-term investments	42,501,110,787	42,292,975,604	208,135,183	0.5 %
Capital assets	31,747,896	28,341,604	3,406,292	12.0 %
TOTAL ASSETS	<u>50,601,871,524</u>	<u>47,510,012,353</u>	<u>3,091,859,171</u>	6.5 %
LIABILITIES				
Death benefits, refunds and other payables	28,418,554	14,105,043	14,313,511	101.5 %
Investment payables	1,436,568,620	979,681,119	456,887,501	46.6 %
Securities Lending collateral	5,892,943,764	3,611,068,696	2,281,875,068	63.2 %
TOTAL LIABILITIES	<u>7,357,930,938</u>	<u>4,604,854,858</u>	<u>2,753,076,080</u>	59.8 %
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 43,243,940,586</u>	<u>\$ 42,905,157,495</u>	<u>\$ 338,783,091</u>	0.8 %

(continued)



ANALYSIS OF REVENUES AND EXPENSES

Employer contribution rates for the TCRS did not change during fiscal year 2015; therefore, the 1.4 percent decrease in contributions from fiscal year 2014 to fiscal year 2015 was due to the transition of new employees to hybrid pension plans. Gross investment income for fiscal year 2015 decreased \$4.8 billion (78.0 percent) over fiscal year 2014.

Investment expenses for fiscal year 2015 totaled \$54.5 million for a 26.3 percent increase over fiscal year 2014. These expenses were split between portfolio management investment expenses of \$46.7 million and \$7.8 million in expenses attributed to the securities lending program that was initiated during the latter part of the 2014 fiscal year. The TCRS investment portfolio earned a time-weighted rate of return of 3.3 percent and net investment income of \$1.3 billion.

Total benefits paid during the year ended June 30, 2015 were \$2.2 billion, an increase of 6.1 percent over fiscal year 2014 total benefits which can be attributed to an increase in the number of retirees and a 1.5% cost of living adjustment given in July 2014. Total refunds paid decreased \$6.1 million, a decrease of 11.3%, in fiscal year 2015 from fiscal year 2014. This was attributed to the change in structure of two large employers in 2014 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, 2015 were \$15.1 million, an increase of 51.3 percent from fiscal year 2014 administrative expenses. The increase was primarily due to the new pension administration system being implemented in the July 2015 resulting in the amortization expense of the software development costs of \$3.7 million for the year, an increase of \$2.5 million over fiscal year 2014. Software development costs are capitalized and amortized over the ten year expected life of this capital asset. Additionally, Information Technology and Data Processing costs increased by \$2.0 million during the systems' first full fiscal year of operations which included a maintenance phase with the pension administration system consultants.

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

REVENUE BYTYPE

(EXPRESSED IN THOUSANDS)

	Year Ended June 30, 2014		Year Ended June 30, 2015	
	Amount	Percentage of Total	Amount	Percentage of Total
Employee Contributions	\$ 270,551	3.6%	\$ 274,532	10.6%
Employer Contributions	1,034,694	13.9%	1,011,445	38.9%
Other Contributions	0	0.0%	384	0.0%
Net Investment Income	6,159,900	82.5%	1,311,262	50.5%
Total	<u>\$ 7,465,145</u>	<u>100.0%</u>	<u>\$ 2,597,623</u>	<u>100.0%</u>

EXPENDITURES BYTYPE

(EXPRESSED IN THOUSANDS)

	Year Ended June 30, 2014		Year Ended June 30, 2015	
	Amount	Percentage of Total	Amount	Percentage of Total
Benefit Payments	\$ 2,060,890	97.0%	\$ 2,195,814	97.2%
Refunds	54,046	2.5%	47,961	2.1%
Administrative	9,957	0.5%	15,064	0.7%
	<u>\$ 2,124,893</u>	<u>100.0%</u>	<u>\$ 2,258,839</u>	<u>100.0%</u>

(continued)



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015 (CONTINUED)**

CHANGES IN FIDUCIARY NET POSITION

	For the Year Ended June 30, 2015	For the Year Ended June 30, 2014	FY15 - FY14 Increase (Decrease) Amount	FY15 - FY14 Percentage Change
ADDITIONS				
Contributions	\$ 1,286,361,016	\$ 1,305,245,165	\$ (18,884,149)	(1.4) %
Investment income				
Net appreciation in fair value of investments	79,983,802	5,123,250,163	(5,043,266,361)	(98.4) %
Interest, dividends and other investment income	1,251,528,694	1,073,491,403	178,037,291	16.6 %
Less: Investment expense	(46,712,686)	(42,190,619)	4,522,067	10.7 %
Net income from securities lending activities	26,461,821	5,348,721	21,113,100	394.7 %
Net investment income	<u>1,311,261,631</u>	<u>6,159,899,668</u>	<u>(4,848,638,037)</u>	<u>(78.7) %</u>
TOTAL ADDITIONS	<u>2,597,622,647</u>	<u>7,465,144,833</u>	<u>(4,867,522,186)</u>	<u>(65.2) %</u>
DEDUCTIONS				
Annuity benefits	2,190,289,366	2,056,977,497	133,311,869	6.5 %
Death benefits	5,524,605	3,912,205	1,612,400	41.2 %
Refunds	47,961,414	54,045,937	(6,084,523)	(11.3) %
Administrative expenses	15,064,171	9,957,061	5,107,110	51.3 %
TOTAL DEDUCTIONS	<u>2,258,839,556</u>	<u>2,124,892,700</u>	<u>133,946,856</u>	<u>6.3 %</u>
NET INCREASE	338,783,091	5,340,252,133	(5,001,469,042)	(93.7) %
NET POSITION RESTRICTED FOR PENSIONS				
BEGINNING OF YEAR	<u>42,905,157,495</u>	<u>37,564,905,362</u>	<u>5,340,252,133</u>	<u>14.2 %</u>
END OF YEAR	<u>\$ 43,243,940,586</u>	<u>\$ 42,905,157,495</u>	<u>\$ 338,783,091</u>	<u>0.8 %</u>

(continued)

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2015 the portfolio delivered a return of 3.3 percent which was below the actuarial assumed return of 7.5 percent. The fund gained 9.8 percent for the trailing three year period which exceeded the actuarially required return by over 2.3 percent annually. Additionally, the fund generated more return for unit of risk employed than 84 percent of peers for the trailing five-year period.

Private equities and real estate generated strong returns of 20.5 percent and 12.8 percent, respectively, while Canadian and emerging markets stocks lost 14.1 percent and 11.9 percent, respectively. U.S. stocks generated 7.9 percent and U.S. bonds delivered 2.8 percent.

The investment environment in 2015 was characterized by a strengthening dollar and weakening commodity prices which led to generally poor returns from international and commodity-based assets. Yields fell slightly during the year, but the volatility of rates was pronounced with a sharp fall in yields through the first part of the year followed by a similar rise near the end of the year as investors began to anticipate the Federal Reserve tightening cycle.

An actuarial valuation was performed as of July 1, 2013 that 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. Annual actuarial valuations will begin in July 2015.

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, replaced 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 final phase of Concord was implemented in July 2014. Software development costs have been capitalized and are being amortized over the useful life of the system.

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. New members were enrolled in the plan beginning July 1, 2014.

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, members of the TCRS 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, 2015

Expressed in Thousands

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	Total
ASSETS				
Cash and cash equivalents	\$ 226,338	\$ 163	\$ 219,310	\$ 445,811
Cash collateral on loaned securities	2,990,874	2,275	2,899,795	5,892,944
Receivables				
Member receivable	5,924	1,127	19,520	26,571
Employer receivable	37,563	902	35,919	74,384
Accrued interest and dividends receivable	73,422	56	71,186	144,664
Real estate income receivable	1,218	1	1,180	2,399
Derivative instruments receivable	267,616	204	259,467	527,287
Investments sold	379,984	289	368,413	748,686
Total receivables	<u>765,727</u>	<u>2,579</u>	<u>755,685</u>	<u>1,523,991</u>
Investments, at fair value				
Short-term securities	104,688	79	101,500	206,267
Government securities	4,371,589	3,325	4,238,463	8,613,377
Corporate securities	2,802,686	2,132	2,717,337	5,522,155
Corporate stocks	12,019,535	9,142	11,653,511	23,682,188
Strategic Lending	475,264	361	460,791	936,416
Private equities	539,095	410	522,679	1,062,184
Real estate	1,362,625	1,037	1,321,129	2,684,791
Total investments	<u>21,675,482</u>	<u>16,486</u>	<u>21,015,410</u>	<u>42,707,378</u>
Capital assets (net)	<u>16,114</u>	<u>12</u>	<u>15,622</u>	<u>31,748</u>
TOTAL ASSETS	<u>25,674,535</u>	<u>21,515</u>	<u>24,905,822</u>	<u>50,601,872</u>
LIABILITIES				
Accounts payable				
Death benefits and refunds payable	1,029	5	1,642	2,676
Federal withholding payable	7,920	0	7,591	15,511
Retiree insurance premium payable	4,330	0	4,150	8,480
Other	888	1	862	1,751
Investments purchased	444,206	338	430,678	875,222
Derivative instruments payable	268,264	204	260,095	528,563
Other investment payables	16,640	12	16,132	32,784
Securities lending collateral	2,990,874	2,275	2,899,795	5,892,944
TOTAL LIABILITIES	<u>3,734,151</u>	<u>2,835</u>	<u>3,620,945</u>	<u>7,357,931</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 21,940,384</u>	<u>\$ 18,680</u>	<u>\$ 21,284,877</u>	<u>\$ 43,243,941</u>

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015



Expressed in Thousands

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	Total
ADDITIONS				
Contributions				
Member contributions	\$ 77,020	\$ 10,390	\$ 187,122	\$ 274,532
Employer contributions	664,834	8,310	338,301	1,011,445
Other contributions	384	0	0	384
Total contributions	<u>742,238</u>	<u>18,700</u>	<u>525,423</u>	<u>1,286,361</u>
Investment income				
Net appreciation in fair value of investments	40,523	17	39,444	79,984
Interest & Dividends	596,689	266	580,579	1,177,534
Real estate income, net of operating expenses	37,488	16	36,491	73,995
Total investment income	674,700	299	656,514	1,331,513
Less: Investment expense	(23,667)	(10)	(23,036)	(46,713)
Net income from investing activities	651,033	289	633,478	1,284,800
Securities lending activities				
Securities lending income	17,331	8	16,869	34,208
Less: securities lending expense	(3,924)	(2)	(3,820)	(7,746)
Net income from securities lending activities	13,407	6	13,049	26,462
Net investment income	<u>664,440</u>	<u>295</u>	<u>646,527</u>	<u>1,311,262</u>
TOTAL ADDITIONS	<u>1,406,678</u>	<u>18,995</u>	<u>1,171,950</u>	<u>2,597,623</u>
DEDUCTIONS				
Annuity benefits	1,118,386	0	1,071,903	2,190,289
Death benefits	3,154	0	2,371	5,525
Refunds	25,790	35	22,136	47,961
Administrative expense	9,148	280	5,636	15,064
TOTAL DEDUCTIONS	<u>1,156,478</u>	<u>315</u>	<u>1,102,046</u>	<u>2,258,839</u>
NET INCREASE	250,200	18,680	69,904	338,784
FIDUCIARY NET POSITION				
RESTRICTED FOR PENSIONS				
BEGINNING OF YEAR	<u>21,690,184</u>	<u>0</u>	<u>21,214,973</u>	<u>42,905,157</u>
END OF YEAR	<u>\$ 21,940,384</u>	<u>\$ 18,680</u>	<u>\$ 21,284,877</u>	<u>\$ 43,243,941</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, 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, 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. The computer software was valued at \$31.7 million at year end and is being amortized using the straight line method over the ten year estimated life of the system. The amortization expense for the current year was \$3.7 million.

B. PLAN DESCRIPTIONS

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

(continued)



At June 30, 2015, there were three 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 for 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 local education agencies (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 became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost sharing, multiple employer defined benefit pension 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.

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, 2015 the membership of the pension plans consisted of the following:

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	Total
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	91,683	0	47,292	138,975
Inactive Vested Plan Members Entitled to But Not Yet Receiving Benefits	32,989	3	8,000	40,992
Inactive Non-Vested Plan Members Entitled to Refund of Member Account Balance	30,015	523	18,341	48,879
Active Plan Members	138,267	5,516	69,140	212,923
Total Membership	<u>292,954</u>	<u>6,042</u>	<u>142,773</u>	<u>441,769</u>
Number of Participating Employers	545	142	142	687

Membership above includes all plans whether open or closed.

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 can be restricted by precedent established by the Tennessee Supreme Court.

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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 ten percent (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 is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent (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 (1 percent) COLA is granted if the CPI change is between one-half percent and one percent.

Teacher Retirement Plan

Members of the Teacher Retirement Plan are eligible to retire at age 65 with five years of service credit or pursuant to the rule of 90 where age and years of service total 90. 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 ten percent (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 is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent (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 (1 percent) COLA is granted if the CPI change is between one-half percent and one percent. The Teacher Retirement Plan includes provisions to control employer contributions and unfunded liabilities. As such, plan provisions are automatically changed when employer contributions and unfunded liabilities exceed statutory limits.

Public Employee Retirement Plan

For state employees, there are two major tiers of benefits and eligibility requirements. State employees becoming members before July 1, 2014 are eligible to retire at age 60 with five years of service credit or after 30 years of service credit regardless of age. State employees becoming members after June 30, 2014 are eligible to retire at age 65 with five years of service or pursuant to the rule of 90 where age and years of service total 90. 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 ten percent (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 three percent (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 (1 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

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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 ten percent (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 three percent (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 (1 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 (5 percent) of salary. For the year ended June 30, 2015, the required ADC for LEAs was 9.04 percent of covered-employee payroll.

For the Teacher Retirement Plan, LEAs are required by statute to contribute greater of the ADC or four percent (4 percent). 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 (5 percent) of salary. For the year ended June 30, 2015, the required ADC for LEAs was two and one-half percent (2.5 percent) of covered-employee payroll while actual contributions were four percent (4 percent) of covered-employee payroll.

For the Public Employee Retirement Plan, each governmental entity is required by statute to contribute the ADC except that the contribution rate for state employees hired after June 30, 2014 is the greater of the ADC or four percent (4 percent). 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, 2015, the required ADC varied for each participating employer, with approximately fifty percent (50 percent) of all employer rates between eight percent (8 percent) and twenty percent (20 percent) and contributions from these same employers accounting for over ninety percent (90 percent) of the contributions for this plan. By statute, state employees hired before July 1, 2014 are noncontributory while employees hired after June 30, 2014 contribute five percent (5 percent) of salary. As adopted by the governmental entity, political subdivision employees may be noncontributory, contribute two and one-half percent (2.5 percent) of salary, or contribute five percent (5 percent) of salary.

Reserves - The statute governing the Teacher Retirement Plan and certain employers in the Public Employee Retirement Plan provide for a minimum employer contribution rate of four percent (4 percent). The statute further provides that the amount of the employer contributions in excess of the actuarially determined contribution rate is deposited into a stabilization reserve for each plan. The statute may be amended by the Tennessee General Assembly. Assets in the stabilization reserve are commingled for investment purposes and receive a pro rata share of investment earnings. The amount in the stabilization reserve is not considered in calculating the actuarially determined employer contribution rate for each plan. The statute provides that the assets in the stabilization reserve will be utilized should the actuarially determined contribution rate exceed four percent (4 percent). In such case, the required employer contribution in excess of four percent (4 percent) will be transferred from the stabilization reserve to the account of the Teachers Retirement Plan or certain Public Employee Retirement Plan employers. By statute, the Board of Trustees may adopt a policy to suspend the deposits into the stabilization reserve in any given year when the stabilization reserve reaches a certain level that is determined by the Board. If deposits are suspended, then the employer contribution will be the actuarially determined contribution rate for that year rather than the higher four percent (4 percent).

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The Board has not adopted a policy at this time. At June 30, 2015, there was \$3,232,080 in the stabilization reserve on behalf of the Teachers Retirement Plan and \$1,987,839 in the various stabilization reserves on behalf of the Public Employee Retirement Plan.

C. DEPOSITS AND INVESTMENTS

Statutory Authority - State statute authorizes the TCRS to maintain cash, not exceeding ten percent (10 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 ten percent (10 percent) of the market value of the System's total assets for risk mitigating positions and ten percent (10 percent) 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 return basis with a long-term objective of

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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, 2015:

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	<u>100%</u>

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 percent) 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 percent) of the market value of the loaned domestic security or one hundred five percent (105 percent) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100 percent) 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. Cash Collateral is held in the TCRS name and is not subject to custodial credit risk. During the year there were no violations of legal or contractual provisions by the TCRS.

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, 2015, 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	\$2,031,510,790	\$2,077,594,484
Equity	3,730,719,970	3,815,349,280
Total	<u>\$5,762,230,760</u>	<u>\$5,892,943,764</u>

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

(continued)



As of June 30, 2015 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	\$ 876,554	2.052%
AA	521,115	1.220%
A	1,077,924	2.524%
BBB	2,757,564	6.457%
BB	183,838	0.430%
B	39,467	0.092%
CCC	90,396	0.212%
CC	1,181	0.003%
D	35,069	0.082%
NR	3,400,589	7.963%
	<u>\$ 8,983,697</u>	
U. S. Government Agencies and Obligations Explicitly Guaranteed by the U.S. Government	5,627,671	
Total Fixed Income Securities	<u>\$ 14,611,368</u>	
Equity	\$ 23,757,978	
Real Estate	2,684,791	
Private Equities	1,062,184	
Strategic Lending	936,416	
Derivative Instruments (not rated)	0	
Escrow Claim (not rated)	0	
Short Term Investment Fund with Custodian (NR)	1,772	
Add Back Short Term Investments Classified as Cash	<u>(347,131)</u>	
Total Investments as Shown on Fiduciary Net Position	<u><u>\$ 42,707,378</u></u>	

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. 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.

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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/>.

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, 2015 (in thousands)	Effective Duration (years)
Government Agencies	\$ 288,764	8.18
Government Bonds	2,255,342	14.11
Government Inflation Indexed	2,604,278	8.45
Government Mortgage Backed	3,466,373	4.30
Government Asset Backed	45,411	7.15
Municipal Bonds	156,099	10.22
Commercial Mortgage Backed	470,623	2.40
Corporate Asset Backed Securities	236,558	2.41
Corporate Bonds	4,536,294	8.31
Short Term Bills and Notes	551,626	0.05
Total Debt Investments	<u>\$14,611,368</u>	<u>7.70</u>

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, 2015 was \$470,622,689 of which \$317,431,678 were CMOs that are generally more sensitive to interest rate changes.

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 (25 percent) of total assets. The TCRS’ exposure to foreign currency risk was as follows:

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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

Currency	Total Fair Value June 30, 2015 (in thousands)	Fixed Income	Equity (in thousands)	Cash (in thousands)
Australian Dollar	\$ 246,507	\$0	\$ 246,300	\$ 207
British Pound Sterling	1,112,564	0	1,103,194	9,370
Canadian Dollar	1,577,942	0	1,562,054	15,888
Danish Krone	122,986	0	122,986	0
Euro Currency	1,519,192	0	1,512,236	6,956
Hong Kong Dollar	203,728	0	201,594	2,134
Japanese Yen	1,373,639	0	1,356,066	17,573
New Israeli shekel	19,773	0	19,661	112
New Zealand Dollar	6,146	0	6,146	0
Norwegian Krone	48,326	0	48,121	205
Singapore Dollar	54,479	0	54,375	104
Swedish Krona	166,508	0	166,494	14
Swiss Franc	545,066	0	543,181	1,885
Total	<u><u>\$ 6,996,856</u></u>	<u><u>\$0</u></u>	<u><u>\$ 6,942,408</u></u>	<u><u>\$ 54,448</u></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 \$54,448,276 in foreign currency held by our master custodian, State Street Bank, in State Street'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 3.29 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 up to eighty percent (80 percent) 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

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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 (in thousands)		Fair Value at June 30, 2015 (in thousands)		
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount Currency
Foreign Currency Forward Contracts		\$142		\$142	16,390 EUR
		(332)		(332)	16,845,184 JPY
	Investment Income	(\$190)	Derivative Instruments Payable	(\$190)	
Futures Contracts					
	Investment Income	(\$22,559)	Derivative Instruments Receivable	\$352	\$859,140
TBA Mortgage Backed Securities					
	Investment Income	(\$734)	Derivative Instruments Receivable	(\$734)	\$369,403

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.

Alternative Investments - The TCRS has investments in strategic lending, private equity funds and real estate with an estimated fair value of \$4,683,390,636 at June 30, 2015. 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.

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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 55 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 \$1,978,496,528 in private equity, strategic lending, and real estate commitments at year end.

D. NET PENSION LIABILITY (ASSET) FOR COST-SHARING PLANS

The components of net pension liability at June 30, 2015, were as follows:

	Teacher Legacy Pension Plan	Teacher Retirement Plan
Total Pension Liability	\$ 22,073,402,943	\$ 16,129,977
Plan Fiduciary Net Position	(21,284,877,037)	(18,680,373)
Net Pension Liability (Asset)	<u>\$ 788,525,906</u>	<u>\$ (2,550,396)</u>
Plan Fiduciary Net Position	96.43%	115.81%

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2014, updated to roll forward to June 30, 2015, 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, 2014 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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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 three percent (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 seven and one-half percent (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 seven and one-half percent (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 and Teacher Retirement Plan's net pension liability for LEAs using the discount rate of seven and one-half percent (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 percent) or one percentage point higher (8.5 percent) than the current rate:

Plan	One Percent Decrease (6.5%)	Current Discount Rate (7.5%)	One Percent Increase (8.5%)
Teacher Legacy Pension Plan	\$3,633,924,606	\$788,525,906	(\$1,567,286,797)
Teacher Retirement Plan	\$589,448	(\$2,550,396)	(\$5,179,946)

(continued)



SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
TEACHER LEGACY PENSION PLAN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FISCAL YEAR ENDED JUNE 30

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 393,173,920	\$ 404,576,942
Interest	1,578,251,721	1,483,656,307
Change of benefit terms	0	0
Difference between expected and actual experience	46,576,630	0
Change of assumptions	0	0
Benefit payments, including refunds of member contributions	<u>(1,096,410,122)</u>	<u>(1,037,013,093)</u>
Net change in total pension liability	921,592,149	851,220,156
Total pension liability - beginning	<u>21,151,810,794</u>	<u>20,300,590,638</u>
Total pension liability - ending (a)	<u>22,073,402,943</u>	<u>21,151,810,794</u>
Plan fiduciary net position		
Contributions – employer	338,301,211	348,474,888
Contributions - members	187,121,567	195,520,938
Net investment income	646,526,936	3,054,117,821
Benefit payments, including refunds of member contributions	<u>(1,096,410,122)</u>	<u>(1,037,013,093)</u>
Administrative expense	<u>(5,635,689)</u>	<u>(2,663,319)</u>
Net change in plan fiduciary net position	69,903,903	2,558,437,235
Plan fiduciary net position - beginning	<u>21,214,973,134</u>	<u>18,656,535,899</u>
Plan fiduciary net position - ending (b)	<u>21,284,877,037</u>	<u>21,214,973,134</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ 788,525,906</u>	<u>\$ (63,162,340)</u>



SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FISCAL YEAR ENDED JUNE 30

	<u>2015</u>
Total pension liability	
Service cost	\$ 15,581,497
Interest	583,011
Change of benefit terms	0
Difference between expected and actual experience	0
Change of assumptions	0
Benefit payments, including refunds of member contributions	<u>(34,531)</u>
Net change in total pension liability	<u>16,129,977</u>
Total pension liability - beginning	0
Total pension liability - ending (a)	<u><u>16,129,977</u></u>
Plan fiduciary net position	
Contributions – employer	8,310,132
Contributions - members	10,390,077
Net investment income	294,742
Benefit payments, including refunds of member contributions	(34,531)
Administrative expense	<u>(280,047)</u>
Net change in plan fiduciary net position	<u>18,680,373</u>
Plan fiduciary net position - beginning	0
Plan fiduciary net position - ending (b)	<u><u>18,680,373</u></u>
Net pension liability (asset) - ending (a) - (b)	<u><u>\$ (2,550,396)</u></u>



SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
TEACHER LEGACY PENSION PLAN

SCHEDULE OF NET PENSION LIABILITY
FISCAL YEAR ENDED JUNE 30

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 22,073,402,943	\$ 21,151,810,794
Plan fiduciary net position	<u>21,284,877,037</u>	<u>21,214,973,134</u>
Net pension liability (asset)	<u>\$ 788,525,906</u>	<u>\$ (63,162,340)</u>
Plan fiduciary net position as a percentage of the total pension liability	96.43%	100.30%
Covered-employee payroll	\$ 3,742,270,034	\$ 3,925,131,835
Net pension liability (asset) as a percentage of covered-employee payroll	21.07%	(1.61%)



SCHEDULE OF NET PENSION LIABILITY
FISCAL YEAR ENDED JUNE 30

	<u>2015</u>
Total pension liability	\$ 16,129,977
Plan fiduciary net position	<u>18,680,373</u>
Net pension liability (asset)	<u>\$ (2,550,396)</u>
Plan fiduciary net position as a percentage of the total pension liability	115.81%
Covered-employee payroll	\$207,753,299
Net pension liability (asset) as a percentage of covered-employee payroll	(1.23%)



SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION TEACHER LEGACY PENSION PLAN

SCHEDULE OF 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
2015	\$ 338,301,211	\$ 338,301,211	\$0	\$3,742,270,034	9.04%
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%



SCHEDULE OF INVESTMENT RETURNS
FISCAL YEAR ENDED JUNE 30

	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	3.29%	16.49%



**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COST-SHARING PLANS
FOR THE YEAR ENDED JUNE 30, 2015**

Method and Assumptions Used in Calculations of Actuarially-Determined Contributions - The actuarially-determined contribution rates for the fiscal year ended June 30, 2015 for Local Education Agencies were calculated as the result of an actuarial valuation performed as of July 1, 2013. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule:

	Teacher Legacy Pension Plan	Teacher Retirement Plan
Actuarial Cost Method	Frozen Initial Liability Method	N/A
Amortization Method	Level Dollar Amortization	N/A
Remaining Amortization Period	Eight Years	N/A
Inflation	3.0 Percent	3.0 Percent
Salary Increases	Graded Salary Ranges from 8.97 Percent to 3.71 Percent, Including Inflation, Averaging 4.25 Percent	Graded Salary Ranges from 8.97 Percent to 3.71 Percent, Including Inflation, Averaging 4.25 Percent
Investment Rates of Return	7.50 Percent, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent, Net of Pension Plan Investment Expense, Including Inflation

**SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015**



	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	TOTAL
PERSONNEL SERVICES				
Salaries and wages	\$ 1,553,376	\$ 47,551	\$ 956,921	\$ 2,557,848
Employee benefits	<u>642,169</u>	<u>19,658</u>	<u>395,595</u>	<u>1,057,422</u>
TOTAL PERSONNEL SERVICES	<u><u>2,195,545</u></u>	<u><u>67,209</u></u>	<u><u>1,352,516</u></u>	<u><u>3,615,270</u></u>
PROFESSIONAL SERVICES				
Accounting	205,785	6,299	126,769	338,853
Actuarial services	240,879	7,374	148,388	396,641
Data processing	890,639	27,264	548,659	1,466,562
Information systems	1,265,572	38,741	779,627	2,083,940
Management services	141,654	4,336	87,262	233,252
Medical review	24,129	739	14,865	39,733
Administrative, Internal Audit, Legal, Personnel	<u>1,068,228</u>	<u>32,700</u>	<u>658,057</u>	<u>1,758,985</u>
TOTAL PROFESSIONAL SERVICES	<u><u>3,836,886</u></u>	<u><u>117,453</u></u>	<u><u>2,363,627</u></u>	<u><u>6,317,966</u></u>
COMMUNICATION				
Travel	19,737	604	12,159	32,500
Telephone	493,911	15,119	304,263	813,293
Printing	47,127	1,443	29,032	77,602
Postage	<u>129,172</u>	<u>3,954</u>	<u>79,573</u>	<u>212,699</u>
TOTAL COMMUNICATION	<u><u>689,947</u></u>	<u><u>21,120</u></u>	<u><u>425,027</u></u>	<u><u>1,136,094</u></u>
MISCELLANEOUS				
Office space	80,117	2,453	49,355	131,925
Supplies and maintenance	23,203	710	14,294	38,207
Amortization of intangible assets	2,255,436	69,042	1,389,410	3,713,888
Other services and charges	<u>67,301</u>	<u>2,060</u>	<u>41,460</u>	<u>110,821</u>
TOTAL MISCELLANEOUS	<u><u>2,426,057</u></u>	<u><u>74,265</u></u>	<u><u>1,494,519</u></u>	<u><u>3,994,841</u></u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u><u>\$ 9,148,435</u></u></u>	<u><u><u>\$ 280,047</u></u></u>	<u><u><u>\$ 5,635,689</u></u></u>	<u><u><u>\$ 15,064,171</u></u></u>

With 231,778 active members and 138,975 retired members, the operating cost per member was \$40.63 for the year ended June 30, 2015.



**SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015**

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	TOTAL
PERSONNEL SERVICES				
Salaries and wages	\$ 1,789,697	\$ 766	\$ 1,742,051	\$ 3,532,514
Employee benefits	<u>523,669</u>	<u>224</u>	<u>509,728</u>	<u>1,033,621</u>
TOTAL PERSONNEL SERVICES	<u>2,313,366</u>	<u>990</u>	<u>2,251,779</u>	<u>4,566,135</u>
PROFESSIONAL SERVICES				
Accounting	148,845	64	144,882	293,791
Legal services	348,815	149	339,528	688,492
Data processing	219,771	94	213,920	433,785
Information systems	177,727	76	172,996	350,799
Management services	49,895	21	48,567	98,483
Securities lending fees	3,924,328	1,679	3,819,854	7,745,861
External investment manager fees	10,931,029	4,677	10,640,023	21,575,729
Investment consulting fees	1,056,228	452	1,028,110	2,084,790
Investment custodian fees	173,215	74	168,603	341,892
Real estate manager fees	6,455,144	2,762	6,283,296	12,741,202
Real estate partnership fees	454,497	194	442,396	897,087
Other investment professional fees	760,240	325	740,000	1,500,565
Administrative, Internal Audit, Personnel	<u>352,233</u>	<u>151</u>	<u>342,856</u>	<u>695,240</u>
TOTAL PROFESSIONAL SERVICES	<u>25,051,967</u>	<u>10,718</u>	<u>24,385,031</u>	<u>49,447,716</u>
COMMUNICATION				
Travel	71,225	30	69,328	140,583
Telephone	18,083	8	17,602	35,693
Printing	1,770	1	1,723	3,494
Postage	<u>624</u>	<u>0</u>	<u>607</u>	<u>1,231</u>
TOTAL COMMUNICATION	<u>91,702</u>	<u>39</u>	<u>89,260</u>	<u>181,001</u>
MISCELLANEOUS				
Office space	53,651	23	52,223	105,897
Supplies and maintenance	3,452	1	3,359	6,812
Other services and charges	<u>76,495</u>	<u>33</u>	<u>74,459</u>	<u>150,987</u>
TOTAL MISCELLANEOUS	<u>133,598</u>	<u>57</u>	<u>130,041</u>	<u>263,696</u>
TOTAL INVESTMENT EXPENSES	<u><u>\$ 27,590,633</u></u>	<u><u>\$ 11,804</u></u>	<u><u>\$ 26,856,111</u></u>	<u><u>\$ 54,458,548</u></u>

**SCHEDULES OF EXPENSES FOR CONSULTANTS
FOR THE YEAR ENDED JUNE 30, 2015**



	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	TOTAL
ACTUARIAL SERVICES				
Bryan, Pendleton, Swats and McAllister	<u>\$ 240,879</u>	<u>\$ 7,374</u>	<u>\$ 148,388</u>	<u>\$ 396,641</u>
TOTAL ACTUARIAL SERVICES	<u>240,879</u>	<u>7,374</u>	<u>148,388</u>	<u>396,641</u>
MEDICAL REVIEW SERVICES				
Suzanne Fletcher, M.D.	8,007	245	4,932	13,184
Thomas Mullady, M.D.	7,948	243	4,896	13,087
Barry Siegel, M.D.	<u>8,176</u>	<u>250</u>	<u>5,036</u>	<u>13,462</u>
TOTAL MEDICAL REVIEW SERVICES	<u>24,131</u>	<u>738</u>	<u>14,864</u>	<u>39,733</u>
DEFINED CONTRIBUTION CONSULTING SERVICES				
Cammack Retirement Group	<u>18,072</u>	<u>553</u>	<u>11,133</u>	<u>29,758</u>
TOTAL BENEFIT CONSULTING SERVICES	<u>18,072</u>	<u>553</u>	<u>11,133</u>	<u>29,758</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 283,082</u>	<u>\$ 8,665</u>	<u>\$ 174,385</u>	<u>\$ 466,132</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





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

October 2, 2015

Re: **2015 CAFR Performance Letter**

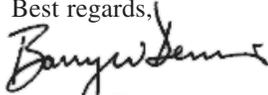
Dear Jill:

For the year ended June 30, 2015, TCRS earned a return of 3.33%, ahead of its policy index (2.95%) and ahead of its as-allocated index (2.63%). While US Equity returns were in line with expectations (7.8%), International Equities disappointed (-3.4%) due to the strong appreciation of the US Dollar. Fixed Income securities generally earned their coupon (2.8%) but Treasury Inflation Protection securities (-1.6%) were hurt by falling inflation expectations. Real Estate (12.8%) and Private Equity (20.54%) contributed significantly. The investment performance for TCRS was computed using a market value based, time-weighted rate of return. As of June 30, 2015, the System's asset allocation and one-year respective returns were:

ASSET CLASS	% OF ASSETS	ONE-YEAR RETURN
Domestic Equity	33.2%	7.85%
Canada Index Fund	3.5%	(14.14%)
International Developed Market	13.5%	(0.24%)
International Emerging Market	4.8%	(11.90%)
Domestic Fixed Income	26.5%	2.76%
Inflation-Indexed Fixed Income	6.0%	(1.57%)
Real Estate	6.5%	12.82%
Private Equity	2.5%	20.54%
Strategic Lending	2.4%	0.84%
Cash and Cash Equivalents	1.0%	.34%
TOTAL	100.0%	3.33%

For the year, TCRS ranked above the median (43rd percentile) of a universe of public funds > \$1 Billion. For five years, the performance ranked near the median. Given the fund's conservative posture, these rankings are commendable. Throughout the year, the US Economy continued its steady but slow recovery despite the ending of the Federal Reserve Bank's Quantitative Easing program. The European and Japanese economies have begun to grow again as their Central Banks have instituted similar bond-buying programs which have exacerbated their currency declines. Concerns of economic slowness in China and other emerging economies is putting additional stress on investor expectations for global growth. As the entire global stock market has experienced a strong rebound from its 2009 lows, valuations have become stretched. At the same time, the search for under-valued assets in other parts of the investable universe is turning up fewer and fewer opportunities. At a time like this, a well-diversified, cost efficient, well-funded investment program like TCRS should weather upcoming conditions successfully.

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,

Barry W. Dennis
Managing Director



STATE OF TENNESSEE

DAVID H. LILLARD, JR.
STATE TREASURER



MARYJO PRICE
CHIEF OPERATING OFFICER

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

JILL BACHUS
DIRECTOR OF TCRS

December 23, 2015

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

With over \$43.0 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 risk. The investment performance for TCRS was computed using a market value-based, time-weighted rate of return.

The 2015 fiscal year was challenging for investors and TCRS gained 3.33% for the fiscal year with an annualized gain of 9.84% for the trailing three-year period. While the one-year figure trailed the actuarially-required return, the three-year number has exceeded the target 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,

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. The Board approved TCRS' revised and restated investment policy on March 31, 2015.

TCRS' primary investment objective, as set by the Board, is to establish a stable, diversified investment portfolio that, in the long-term, will meet or exceed the assumed actuarial rate of return, as adopted by the Board, in order to provide sufficient liquidity to pay beneficiaries in a timely manner.

TCRS' policies and the strategies implemented by the Treasury 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, primarily by the Treasury Investment Division, through 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 fiscal year 2014-2015, no assets were under the control of emerging investment managers.

To assist in the fiduciary responsibility for managing the TCRS portfolio during fiscal year 2015, Strategic Investment Solutions, Inc. served as the general investment consultant for TCRS. The Townsend Group served as the real estate investment consultant and Cambridge Associates, LLC served as the private equity consultant.

State Street Bank and Trust Company was the master bank custodian for TCRS, providing safekeeping and accounting services for the investment portfolio during fiscal year 2015.

COST OF INVESTMENT OPERATION

The cost to operate the investment program for TCRS is about twelve basis points (0.12%). This cost includes the cost of personnel, operational cost, master bank custodian cost, record keeping, and external manager fees. Commission costs for publicly listed securities and management fees for private equity investments are capitalized, meaning commission costs and management fees are not included in the expenses, but are recorded in the value of the assets. 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., provided performance measurement for TCRS. During the 2015 fiscal year, TCRS had a total return of 3.33%. Domestic stocks gained 7.85%, while the S&P 1500 Index gained 7.31%. Domestic bonds gained 2.76% versus the bond benchmark of 2.98%. International stocks lost 3.39% versus a loss of 5.64% against the benchmark. Real estate gained 12.82% versus 12.71% for the NCREIF index.

INVESTMENT PERFORMANCE REVIEW
PERIODS ENDING JUNE 30, 2015

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	3.33%	9.84%	10.85%
Policy Index	2.95%	9.76%	10.71%
Asset Allocated Index	2.63%	9.25%	10.31%
Domestic Equity			
TCRS Performance	7.85%	17.58%	17.95%
Benchmark	7.31%	17.47%	17.43%
Canadian Equity			
TCRS Performance	(14.14%)	4.52%	
Benchmark	(14.09%)	4.50%	
Domestic Fixed Income			
TCRS Performance	2.76%	3.17%	6.12%
Benchmark	2.98%	2.24%	5.14%
Inflation Hedged Bonds			
TCRS Performance	(1.57%)	(0.81%)	3.21%
Benchmark	(1.67%)	(0.83%)	3.39%
International Equity			
TCRS Performance	(3.39%)	11.12%	10.24%
Benchmark	(5.64%)	9.50%	8.16%
Real Estate			
TCRS Performance	12.82%	11.21%	11.81%
Benchmark	12.71%	11.46%	12.75%
Short-Term Securities			
TCRS Performance	1.93%	1.22%	1.41%
Private Equity			
TCRS Performance	20.54%	19.26%	17.66%
Benchmark	15.20%	18.74%	19.25%

Strategic Investment Solutions

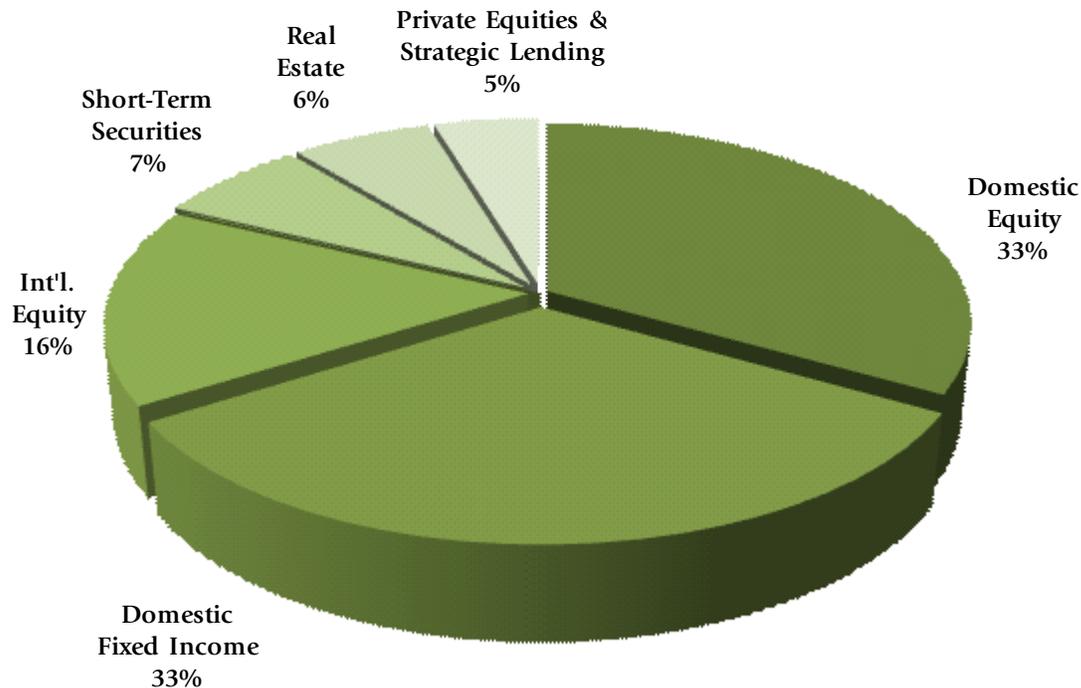
Ranking of TCRS Portfolio	Strategic Investment Solutions	
	<u>Percentile Rankings</u>	<u>Risk Adjusted Basis</u>
Last three years	68	79
Last five years	52	14

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, 2015

Asset Class	Fair Value
Domestic Equity	\$ 14,433,566,760
Domestic Fixed Income	14,110,531,885
International Equity	6,871,271,559
International Fixed Income	25,017,255
Short-Term Securities	2,930,729,438
Real Estate	2,684,790,605
Private Equities & Strategic Lending	1,998,600,030
Totals	\$ 43,054,507,532

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, 2015

by Fair Value

Shares	Security Name	Fair Value
4,905,934	APPLE INC COM STK	\$ 615,326,772
4,376,882	WELLS FARGO & CO	246,155,844
3,497,657	JP MORGAN CHASE & CO	237,001,238
2,591,133	EXXON MOBIL CORP	215,582,266
4,390,302	MICROSOFT CORP	193,831,833
1,837,567	JOHNSON & JOHNSON	179,089,280
1,976,419	FACEBOOK INC	169,507,576
3,015,599	CITIGROUP INC	166,581,689
1,436,626	WALT DISNEY CO	163,976,492
583,311	ALLERGAN PLC	163,355,856

LARGEST BOND HOLDINGS

as of June 30, 2015

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 271,240,000	U.S. Treasury Note	3.12%	01/15/16	Aaa	\$ 176,157,602
211,320,000	U.S. Treasury Note	2.33%	07/15/20	Aaa	160,802,952
169,875,295	U.S. Treasury Index Linked Note	(0.41%)	01/15/21	Aaa	149,071,490
157,298,900	U.S. Treasury Index Linked Note	(0.33%)	01/15/22	Aaa	147,387,680
152,719,040	U.S. Treasury Index Linked Note	0.16%	01/15/25	Aaa	144,733,812
146,130,144	U.S. Treasury Index Linked Note	0.06%	07/15/21	Aaa	131,613,743
124,703,172	U.S. Treasury Index Linked Note	(0.12%)	08/01/42	Aaa	130,054,199
150,000,000	U.S. Treasury STRIPS	2.35%	04/15/17	Aaa	124,145,428
126,100,000	U.S. Treasury Note	3.10%	01/15/26	Aaa	119,607,869
119,786,300	U.S. Treasury Index Linked Note	(0.82%)	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, 2015

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 4,859,619,689	11.29%	\$ 0	0.00%	\$ 4,859,619,689	11.29%
Corporate Bonds	4,536,293,637	10.54%	0	0.00%	4,536,293,637	10.54%
Municipal/Provincial Bonds	156,099,231	0.36%	0	0.00%	156,099,231	0.36%
Total Bonds	9,552,012,557	22.19%	0	0.00%	9,552,012,557	22.19%
Asset Backed	281,969,487	0.65%	0	0.00%	281,969,487	0.65%
Commercial Mortgage Backed	470,622,689	1.09%	0	0.00%	470,622,689	1.09%
Government Agencies	288,764,571	0.67%	0	0.00%	288,764,571	0.67%
Government Mortgage Backed Securites	3,466,372,594	8.05%	0	0.00%	3,466,372,594	8.05%
Preferred Stock	50,789,987	0.12%	25,017,255	0.06%	75,807,242	0.18%
Total Fixed Income	14,110,531,885	32.77%	25,017,255	0.06%	14,135,549,140	32.83%
Common Stock						
Consumer Discretionary	1,899,073,891	4.41%	964,661,851	2.24%	2,863,735,742	6.65%
Consumer Staples	1,273,371,444	2.96%	526,270,485	1.22%	1,799,641,929	4.18%
Energy	1,003,146,237	2.33%	478,984,181	1.11%	1,482,130,418	3.44%
Financials	2,278,259,315	5.29%	1,763,041,182	4.10%	4,041,300,497	9.39%
Healthcare	2,085,076,364	4.84%	738,060,016	1.72%	2,823,136,380	6.56%
Industrials	1,389,888,931	3.23%	940,688,958	2.18%	2,330,577,889	5.41%
Information Technology	2,756,415,889	6.40%	428,283,644	1.00%	3,184,699,533	7.40%
Materials	481,044,075	1.12%	483,121,838	1.12%	964,165,913	2.24%
Private Placements	8,174,000	0.02%	87,031,137	0.20%	95,205,137	0.22%
Rights/Warrants	0	0.00%	1,650	0.00%	1,650	0.00%
Telecommunication Services	295,286,955	0.69%	261,877,035	0.60%	557,163,990	1.29%
Utilities	379,719,384	0.88%	114,220,457	0.27%	493,939,841	1.15%
Misc/Unclassified	246,037,383	0.57%	0	0.00%	246,037,383	0.57%
Depository Receipts	107,908,034	0.25%	31,601,404	0.07%	139,509,438	0.32%
REITS	230,164,858	0.53%	53,427,721	0.13%	283,592,579	0.66%
Total common stock	14,433,566,760	33.52%	6,871,271,559	15.96%	21,304,838,319	49.48%
Short-Term Investments						
Pooled Funds and Mutual Funds	2,379,103,614	5.53%	0	0.00%	2,379,103,614	5.53%
Short-Term Bills and Notes	551,625,824	1.28%	0	0.00%	551,625,824	1.28%
Total Short-Term Investments	2,930,729,438	6.81%	0	0.00%	2,930,729,438	6.81%
Real Estate	2,684,790,605	6.24%	0	0.00%	2,684,790,605	6.24%
Private Equities and Strategic Lending	1,998,600,030	4.64%	0	0.00%	1,998,600,030	4.64%
Total Investments	36,158,218,718	83.98%	6,896,288,814	16.02%	43,054,507,532	100.00%
Derivatives and Options	1,185		0		1,185	
Short-Term Investments Classified as Cash Equivalents	(347,131,237)		0		(347,131,237)	
Total Investments as Shown on the Statement of Fiduciary Net Position	\$ 35,811,088,666		\$ 6,896,288,814		\$ 42,707,377,480	

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, 2015**



SCHEDULE OF FEES

	Average Assets Under Management	Fees
Asset Management		
External Investment Manager Fees	\$ 5.6 Billion	\$ 21,593,367
Real Estate Asset Management	2.7 Billion	12,741,202
Private Equities & Strategic Lending Asset Management	2.0 Billion	0
Total Asset Management		<u><u>\$ 34,334,569</u></u>
Other Investment Services Fees		
Custodian Bank	43.1 Billion	\$ 357,670
General Investment Consultant	43.1 Billion	450,000
Real Estate Investment Consultant	2.7 Billion	225,000
Private Equities & Strategic Lending Investment Consultant	2.0 Billion	1,506,000
Total Investment Services Fees		<u><u>\$ 2,538,670</u></u>

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	27,962,086	\$ 1,118,483	0.0400
Instinet, LLC	24,010,011	480,200	0.0200
Barclays Capital	17,185,613	343,712	0.0200
RBC Capital Markets Corporation	14,160,274	277,414	0.0196
Cowen & Company, LLC	11,538,757	230,775	0.0200
Sanford C. Bernstein & Company, Inc.	11,046,245	220,925	0.0200
Morgan Stanley & Company, Inc.	8,363,784	167,276	0.0200
Stifel Nicolaus & Company, Inc.	6,226,604	124,532	0.0200
Deutsche Bank Securities, Inc.	5,746,235	114,925	0.0200
B.O.E. Securities, Inc.	3,685,378	110,561	0.0300
Topeka Capital Markets	3,636,139	109,084	0.0300
OTHER BROKERS*	83,105,879	1,326,095	0.0160
Totals	<u><u>216,667,005</u></u>	<u><u>\$ 4,623,982</u></u>	

(continued)



SCHEDULES OF INVESTMENT FEES AND COMMISSIONS FOR THE YEAR ENDED JUNE 30, 2015 (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	108,798,861	\$ 1,481,043	0.0136
Credit Suisse	27,525,311	331,630	0.0120
Morgan Stanley & Company, Inc.	41,496,677	311,226	0.0075
Deutsche Bank Securities, Inc.	37,415,460	280,617	0.0075
Goldman Sachs Group, Inc.	23,986,070	179,896	0.0075
Citigroup Global Markets, Inc.	19,349,270	148,015	0.0076
Cowen & Company, LLC	18,670,242	140,027	0.0075
OTHER BROKERS*	50,775,799	376,882	0.0074
Totals	<u>328,017,690</u>	<u>\$ 3,249,336</u>	

International Exchange Traded Shares

Broker Name	INTERNATIONAL		
	Number of Shares Traded	Total Commissions	Commission Per Share
UBS Securities LLC	51,220,204	\$ 707,846	0.0138
Morgan Stanley & Company, Inc.	50,030,744	491,292	0.0098
JP Morgan Chase & Company	34,119,491	453,450	0.0133
Bank of America Merrill Lynch	29,145,259	433,703	0.0149
Barclays Capital	26,558,257	419,482	0.0158
Citigroup Global Markets, Inc.	28,231,813	337,672	0.0120
HSBC Bank PLC	63,296,805	325,520	0.0051
Credit Suisse	26,307,561	289,507	0.0110
Deutsche Bank Securities, Inc.	26,650,943	264,146	0.0099
Goldman Sachs Group, Inc.	18,560,414	261,483	0.0141
Instinet, LLC	12,845,876	151,646	0.0118
Exane	3,562,753	150,809	0.0423
Joh. Berenberg, Gossler & Co.	8,083,451	149,107	0.0184
Jefferies LLC	11,178,770	140,313	0.0126
BNP Paribas	8,564,694	131,188	0.0153
OTHER BROKERS*	181,038,516	1,325,535	0.0073
TOTALS	<u>579,395,551</u>	<u>\$ 6,032,699</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

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Selected Actuarial Funding Information

Analysis of Financial Experience

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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, 2013 set employer rates effective July 1, 2014 through June 30, 2016. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results.

Recent GASB Standards separated pension accounting from pension funding. As a result, TCRS will begin annual actuarial valuations beginning June 30, 2015 for both GASB 67/68 purposes and funding purposes.

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 (employees' 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. The next experience study will occur as of June 30, 2016.

FUNDING POLICY

The TCRS Board of Trustees adopted a funding policy for TCRS on September 26, 2014. The policy outlines the procurement of actuarial services, the assumptions to be used in the experience study, the components of the actuarial valuation, and performance of an actuarial audit. The funding policy can be found on the TCRS website at <http://treasury.tn.gov/tcrs/PDFs/FundingPolicy.pdf>.



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

December 16, 2015

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 actuarial valuation for funding purposes completed as of the year ending June 30, 2015 for the Tennessee Consolidated Retirement System was performed as of July 1, 2013. In addition, a valuation for accounting purposes pursuant to GASB 67 and 68 was performed as of June 30, 2014 and was used to satisfy June 30, 2015 reporting date requirements. These valuations were 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. Beginning June 30, 2015, actuarial valuations will be performed annually for both funding and accounting purposes.

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 and 2014 valuations, 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 2013 and 2014 actuarial valuation reports 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
December 16, 2015
Page Two

Financial Section

- Schedules of Funding Progress
- Schedules of Employer Contributions

Actuarial Section

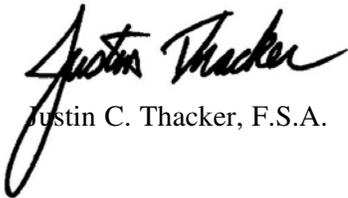
- Summary of Actuarial Assumptions and Methods
- Actuarial Data
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Selected Actuarial Funding Information
- Analysis of Financial Experience

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

The 2013 and 2014 valuations were prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statements 25, 27, 67 and 68 as applicable to each year. 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 2.5 percent annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

ECONOMIC ASSUMPTIONS

- * **Investment Return Rate** — 7.5 percent 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** — 3.5 percent annual increase.

(continued)



**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(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)

* **Retirement** — The probabilities of retirement for members eligible to retire:

In addition, for members younger than age 60, a loading factor of 12.5 percent for teachers and 7.5 percent 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 8.0 percent load is added for teachers and 2.0 percent for state employees and political subdivision employees.

<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%



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)

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	1,857,325,810	2,664,115,954
Total employer accumulation	<u>2,707,731,549</u>	<u>4,692,174,931</u>	<u>7,399,906,480</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>5,257,691,394</u>	<u>9,808,408,294</u>
TOTAL ASSETS	<u><u>\$ 24,044,517,394</u></u>	<u><u>\$ 25,013,208,826</u></u>	<u><u>\$ 49,057,726,220</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

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	<u>797.0</u>	<u>1,563.9</u>	<u>2,089.2</u>	<u>4,124.0</u>	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	<u>896.8</u>	<u>1,902.9</u>	<u>2,676.0</u>	<u>4,898.0</u>	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	<u>1,011.3</u>	<u>2,190.0</u>	<u>2,942.4</u>	<u>5,304.5</u>	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	<u>1,100.8</u>	<u>2,560.6</u>	<u>3,700.3</u>	<u>6,562.6</u>	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	<u>1,196.3</u>	<u>3,075.7</u>	<u>1,991.6</u>	<u>7,398.3</u>	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



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
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%
2014	43,407.3	42,905.2	98.84%	502.1	9,053.6	5.55%

Notes:

This schedule is the aggregate of all TCRS plans.



SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			TLPP	PERP	
2014	7.50%	4.25% (2)	\$ (16,249,535)	518,397,971	N/A

Notes:

- (1) The amortization period is for funding purposes. The values shown are based on the GASB 68 requirements.
- (2) Graded Scale
- (3) The information in this schedule is based upon the GASB 68 pronouncement and legislative changes. The legislative changes changed the plans presented beginning July 1, 2014 and, therefore, prior year data is not presented.



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%
Reamortization 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 a 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 5.0 percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual members' 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 5.0 percent of gross salary.

(continued)



Participating political subdivisions may either adopt noncontributory retirement provisions or require employee contributions. The contribution rate for local government employees is 5.0 percent up to the Social Security wage base and 5.5 percent above that base, unless the employing government has authorized a level 5.0 percent rate. Public school teachers contribute at a rate of 5.0 percent of gross salary.

Individual accounts are maintained for all contributory members with interest credited annually at a rate of 5.0 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 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 9.0 percent of salary to the ORP. The employee will contribute 5.0 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. Disability benefits are increased by 5.0 percent for state employees, teachers and employees of participating political subdivisions which have authorized the 5.0 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.

(continued)

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 ten years of service, a 100 percent Joint and Survivor Annuity for any beneficiary and a Line-of-Duty Benefit. Any beneficiary of a member who had ten years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over ten 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 .25 percent of the amount of the excess for each service year. These benefits are increased by 5.0 percent for state employees, teachers and employees of participating political subdivisions which have authorized the 5.0 percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members. The benefit formula for Group IV members is 2.5 percent of AFC computed over five years for each year of service credit.

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 ten 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. Member self-service is available at www.mytcrs.com. Detailed member information, including salary and service history, is available on the secured portal.

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 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

- * Computer-generated benefit estimates are available.
- * 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 2015

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	9,720		9,720		9,720		9,720		9,720	
	Total	\$ 13,264	88.4%	\$ 14,445	96.3%	\$ 15,626	104.2%	\$ 16,808	112.1%	\$ 17,989	119.9%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	11,220		11,220		11,220		11,220		11,220	
	Total	\$ 15,945	79.7%	\$ 17,520	87.6%	\$ 19,095	95.5%	\$ 20,670	103.4%	\$ 22,245	111.2%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	12,732		12,732		12,732		12,732		12,732	
	Total	\$ 18,638	74.6%	\$ 20,607	82.4%	\$ 22,576	90.3%	\$ 24,545	98.2%	\$ 26,513	106.1%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	14,220		14,220		14,220		14,220		14,220	
	Total	\$ 21,308	71.0%	\$ 23,670	78.9%	\$ 26,033	86.8%	\$ 28,395	94.7%	\$ 30,758	102.5%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	15,720		15,720		15,720		15,720		15,720	
	Total	\$ 23,989	68.5%	\$ 26,745	76.4%	\$ 29,501	84.3%	\$ 32,258	92.2%	\$ 35,014	100.0%
\$40,000	TCRS	\$ 9,450		\$ 12,600		\$ 15,750		\$ 18,900		\$ 22,050	
	Social Security	17,220		17,220		17,220		17,220		17,220	
	Total	\$ 26,670	66.7%	\$ 29,820	74.6%	\$ 32,970	82.4%	\$ 36,120	90.3%	\$ 39,270	98.2%
\$45,000	TCRS	\$ 10,631		\$ 14,175		\$ 17,719		\$ 21,263		\$ 24,806	
	Social Security	18,732		18,732		18,732		18,732		18,732	
	Total	\$ 29,363	65.3%	\$ 32,907	73.1%	\$ 36,451	81.0%	\$ 39,995	88.9%	\$ 43,538	96.8%
\$50,000	TCRS	\$ 11,813		\$ 15,750		\$ 19,688		\$ 23,625		\$ 27,563	
	Social Security	20,232		20,232		20,232		20,232		20,232	
	Total	\$ 32,045	64.1%	\$ 35,982	72.0%	\$ 39,920	79.8%	\$ 43,857	87.7%	\$ 47,795	95.6%
\$55,000	TCRS	\$ 12,994		\$ 17,325		\$ 21,656		\$ 25,988		\$ 30,319	
	Social Security	21,720		21,720		21,720		21,720		21,720	
	Total	\$ 34,714	63.1%	\$ 39,045	71.0%	\$ 43,376	78.9%	\$ 47,708	86.7%	\$ 52,039	94.6%
\$60,000	TCRS	\$ 14,175		\$ 18,900		\$ 23,625		\$ 28,350		\$ 33,075	
	Social Security	22,908		22,908		22,908		22,908		22,908	
	Total	\$ 37,083	61.8%	\$ 41,808	69.7%	\$ 46,533	77.6%	\$ 51,258	85.4%	\$ 55,983	93.3%
\$65,000	TCRS	\$ 15,356		\$ 20,475		\$ 25,594		\$ 30,713		\$ 35,831	
	Social Security	23,604		23,604		23,604		23,604		23,604	
	Total	\$ 38,960	59.9%	\$ 44,079	67.8%	\$ 49,198	75.7%	\$ 54,317	83.6%	\$ 59,435	91.4%
\$70,000	TCRS	\$ 16,538		\$ 22,050		\$ 27,563		\$ 33,075		\$ 38,588	
	Social Security	24,312		24,312		24,312		24,312		24,312	
	Total	\$ 40,850	58.4%	\$ 46,362	66.2%	\$ 51,875	74.1%	\$ 57,387	82.0%	\$ 62,900	89.9%

* 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 2015. 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 2015; (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.



MAJOR LEGISLATIVE IMPROVEMENTS

- 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 ten years to five years of service.
- Maximum annual cost-of-living increase raised to 3.0 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 ten 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 5.0 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 ten years to five years.

(continued)

- 1993** Salary portability for service in different classifications authorized effective January 1, 1994.

Benefit improvement up to 5.0 percent authorized.
- 1997** Compounded COLA for retirees approved.
- 1998** Group 2 and Group 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.

Group 1 and Prior Class C benefit limitations increased to 80 percent.

Mandatory retirement established with supplemental bridge benefit for all state public safety officers.
- 1999** Group 1 benefit maximum increased to 90 percent.
- 2000** Group 2 benefit maximum increased to 80 percent.
- 2001** Line-of-Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.
- 2005** Return-to-Work statutes were reformed, including a temporary employment increase to 120 days.
- 2006** Ad-hoc increase granted to members retired prior to 1989.
- 2007** Public Safety Officer benefits were enhanced.
- 2012** New plan options offered to local governments.
- 2013** Hybrid plan enacted for state employees and teachers hired after July 1, 2014.

Statistical Section

Statistical Introduction

Historical Fair Value

Analysis of Member, Employer, and Stabilization 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 82-85 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

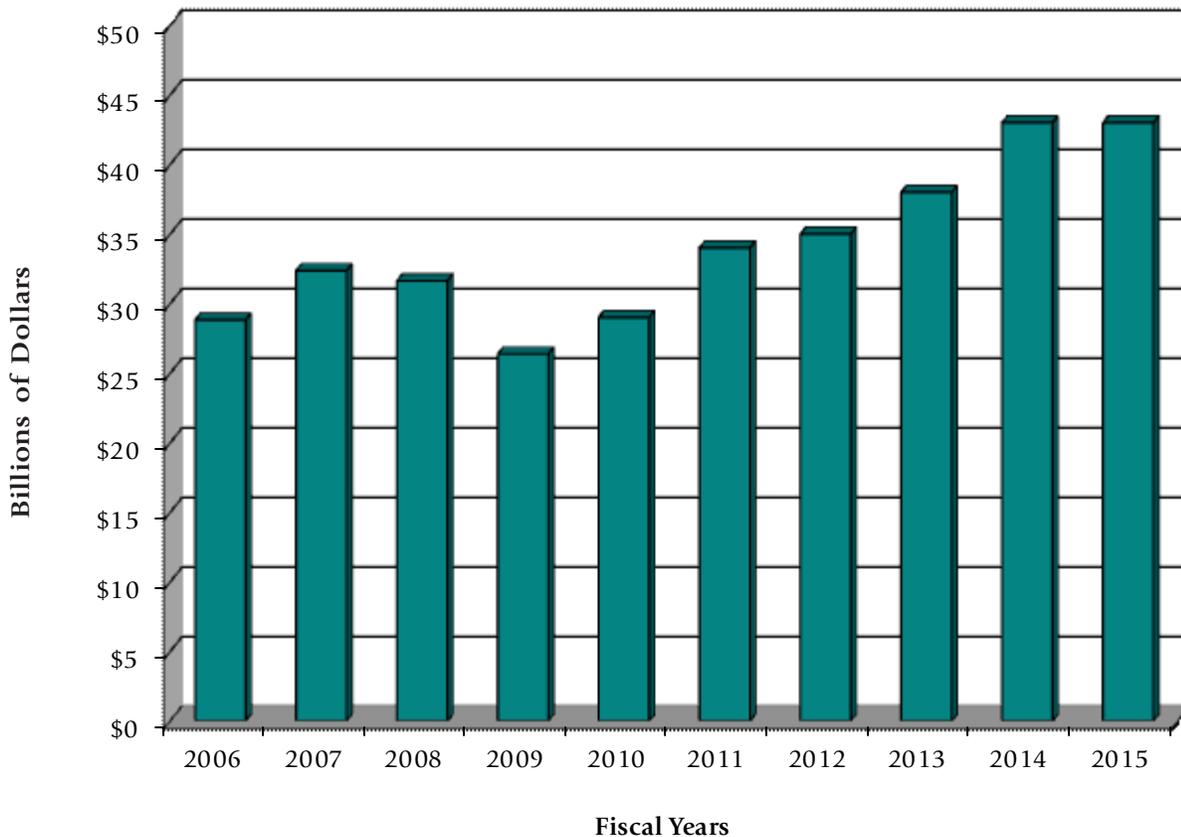
OPERATING INFORMATION

The remaining schedules presented on pages 82-106 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
FISCAL YEARS 2006-2015
EXPRESSED IN THOUSANDS

As of June 30	Fair Value	As of June 30	Fair Value
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
2010	28,574,195	2015	43,243,941

HISTORICAL FAIR VALUE
FISCAL YEARS 2006-2015





ANALYSIS OF RESERVES FOR THE YEAR ENDED JUNE 30, 2015

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. The Stabilization Reserve was created effective July 1, 2014 as part of the benefit plan adopted under the Teacher Retirement Plan and for employers under the Public Retirement Employee Plan that have adopted the new benefit structure. Under these plans, contributions in excess of the actuarially determined-contribution (ADC) rate are set aside in this reserve to help keep contribution rates stable.

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	Total
<i>June 30, 2014 Member Reserve Fund</i>	\$ 1,742,509,095	\$ 0	\$ 3,226,194,893	\$ 4,968,703,988
Member Contributions	77,020,285	10,390,077	187,121,567	274,531,929
Employer Provided Contributions	14,279,587	0	22,728	14,302,315
Interest	83,120,681	0	156,974,632	240,095,313
Refunded Account Balances	(25,571,271)	(34,531)	(22,136,332)	(47,742,134)
Transfers to Employer Fund of Retiring Members' Accounts	(138,248,214)	0	(209,434,853)	(347,683,067)
<i>June 30, 2015 Member Reserve Fund</i>	<u>\$ 1,753,110,163</u>	<u>\$ 10,355,546</u>	<u>\$ 3,338,742,635</u>	<u>\$ 5,102,208,344</u>
<i>June 30, 2014 Employer Reserve Fund</i>	\$ 19,947,675,267	\$ 0	\$ 17,988,778,240	\$ 37,936,453,507
Employer Contributions	662,876,038	5,127,070	338,301,211	1,006,304,319
Employer Refunds	(219,280)	0	0	(219,280)
Other Contributions	384,014	0	0	384,014
Investment Income	664,409,807	245,723	646,526,936	1,311,182,466
Transfers from Retiring Members' Account	138,248,214	0	209,434,853	347,683,067
Employer Provided Contributions	(14,279,587)	0	(22,728)	(14,302,315)
Interest Credited to Members' Account	(83,120,681)	0	(156,974,632)	(240,095,313)
Lump-Sum Death Benefits	(3,153,928)	0	(2,370,677)	(5,524,605)
Retirement and Survivors Annuities	(1,118,386,254)	0	(1,071,903,112)	(2,190,289,366)
Administrative Expenses	(9,148,435)	(280,047)	(5,635,689)	(15,064,171)
<i>June 30, 2015 Employer Reserve Fund</i>	<u>\$ 20,185,285,175</u>	<u>\$ 5,092,746</u>	<u>\$ 17,946,134,402</u>	<u>\$ 38,136,512,323</u>
<i>June 30, 2014 Stabilization Reserve Fund</i>	\$ 0	\$ 0	\$ 0	\$ 0
Employer Contributions	1,957,692	3,183,062	0	5,140,754
Investment Income	30,147	49,018	0	79,165
<i>June 30, 2015 Stabilization Reserve Fund</i>	<u>\$ 1,987,839</u>	<u>\$ 3,232,080</u>	<u>\$ 0</u>	<u>\$ 5,219,919</u>
<i>June 30, 2015 Assets Held in Trust for Pension Benefits</i>	<u>\$ 21,940,383,177</u>	<u>\$ 18,680,372</u>	<u>\$ 21,284,877,037</u>	<u>\$ 43,243,940,586</u>

SCHEDULES OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015



SCHEDULES OF CHANGES IN NET POSITION
EXPRESSED IN THOUSANDS

Year Ending	Additions				Deductions			Total Change in Net Position
	Member Contributions	Employer Contributions	Other Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
Public Employee Retirement Plan								
6/30/2015	\$ 77,020	\$ 664,834	\$ 384	\$ 664,440	\$ 1,121,540	\$ 9,148	\$ 25,790	\$ 250,200
6/30/2014	75,030	686,219	0	3,105,782	1,046,202	7,294	31,720	2,781,815
Teacher Retirement Plan								
6/30/2015	\$ 10,390	\$ 8,310	\$ 0	\$ 295	\$ 0	\$ 280	\$ 35	\$ 18,680
6/30/2014	0	0	0	0	0	0	0	0
Teacher Legacy Pension Plan								
6/30/2015	\$ 187,122	\$ 338,301	\$ 0	\$ 646,527	\$ 1,074,274	\$ 5,636	\$ 22,136	\$ 69,904
6/30/2014	195,521	348,475	0	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 two years. Additional years will be added in the future.

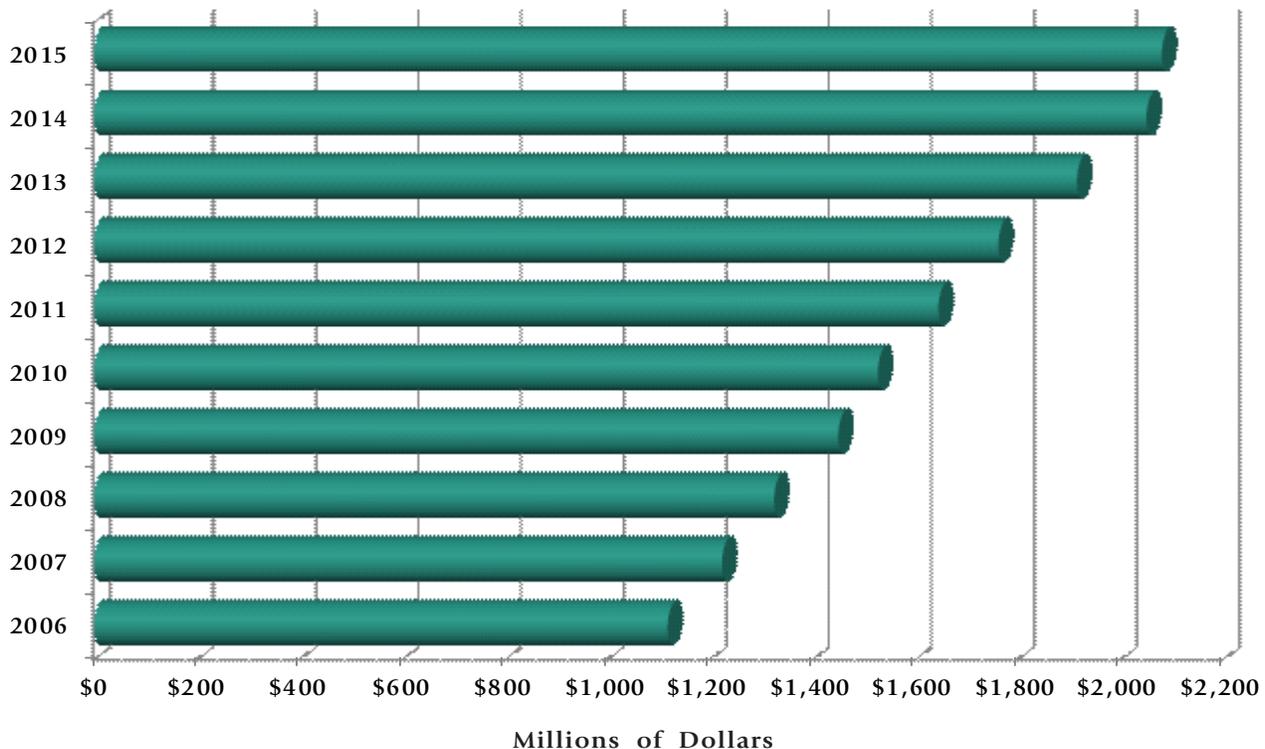


SCHEDULES OF BENEFIT EXPENSES
EXPRESSED IN THOUSANDS

Year Ending	Service Retirement	Disability Retirement	Survivor Benefits	Death Benefits	Total Benefits	Refunds	Total
Public Employee Retirement Plan							
6/30/2015	\$ 1,021,247	\$ 26,430	\$ 70,709	\$ 3,154	\$ 1,121,540	\$ 25,790	\$ 1,147,330
6/30/2014	953,255	24,670	66,002	2,275	1,046,202	31,720	1,077,922
Teacher Retirement Plan							
6/30/2015	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 35	\$ 35
6/30/2014	0	0	0	0	0	0	0
Teacher Legacy Pension Plan							
6/30/2015	\$ 978,801	\$ 25,331	\$ 67,771	\$ 2,371	\$ 1,074,274	\$ 22,136	\$ 1,096,410
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 two years. Additional years will be added in the future.

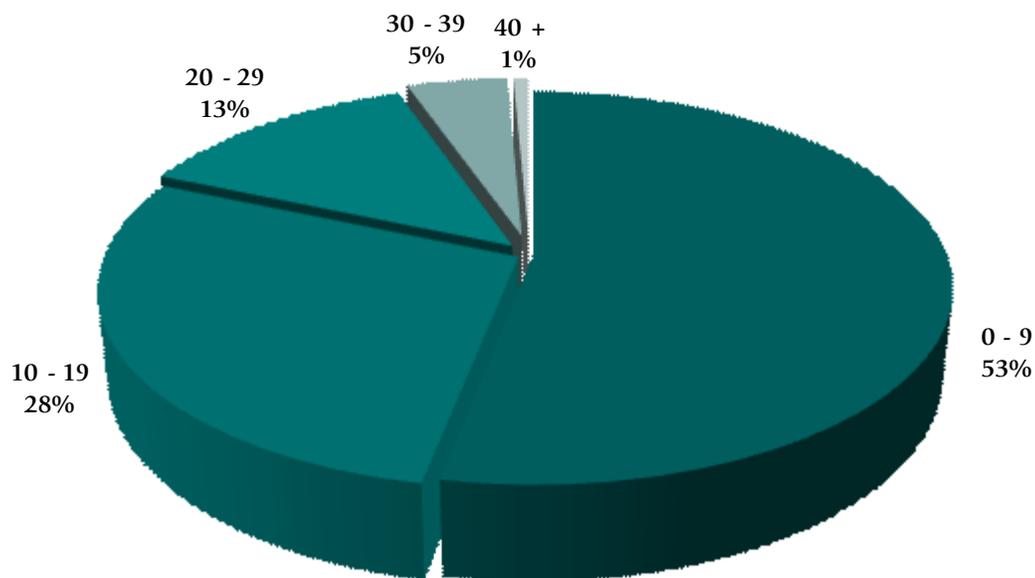
ANNUAL BENEFIT PAYMENTS
FISCAL YEARS 2006-2015



SCHEDULES OF ACTIVE MEMBERS

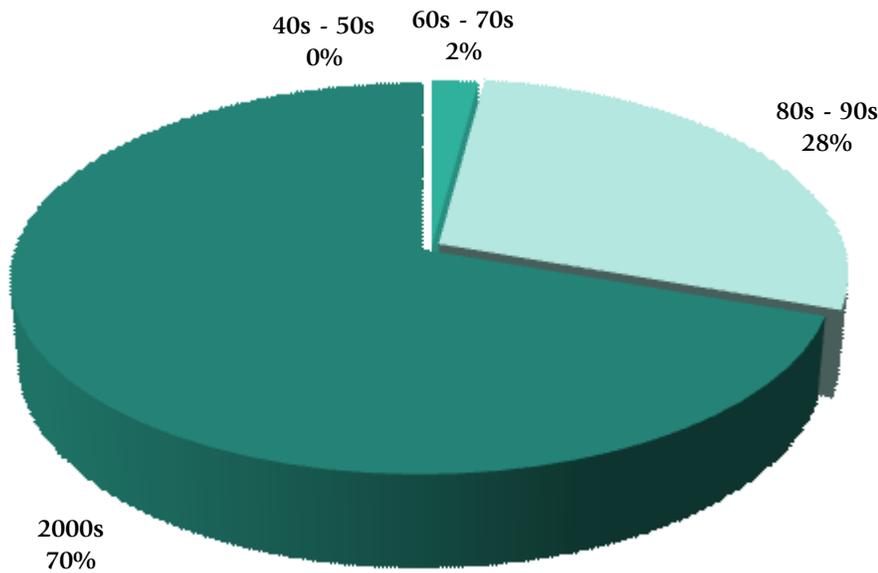
by Service Credit

Years of Service	Teachers Legacy Pension Plan	Teachers Retirement Plan	Public Employee Retirement Plan						Total
	Teachers	Teachers (Hybrid)	State Employees	State Employees (Hybrid)	Higher Education Employees	Higher Education Employees (Hybrid)	Political Subdivision Employees	Political Subdivision Employees (Hybrid)	
0-4	13,796	10,745	9,826	5,922	3,958	2,177	28,863	46	75,333
5-9	16,104	489	7,556	286	3,735	83	19,354	3	47,610
10-14	12,837	186	7,049	51	2,574	28	14,282	3	37,010
15-19	10,819	70	4,783	20	1,881	12	11,334	0	28,919
20-24	6,888	20	2,929	21	1,399	8	6,487	0	17,752
25-29	4,332	4	2,912	4	1,200	2	4,289	0	12,743
30-34	2,447	2	1,860	0	743	0	1,887	0	6,939
35-39	1,443	0	963	0	469	0	967	0	3,842
40-44	466	0	351	0	221	0	276	0	1,314
Over 44	98	0	93	0	64	0	61	0	316
	<u>69,230</u>	<u>11,516</u>	<u>38,322</u>	<u>6,304</u>	<u>16,244</u>	<u>2,310</u>	<u>87,800</u>	<u>52</u>	<u>231,778</u>



SCHEDULES OF ACTIVE MEMBERS
by Enrollment Date

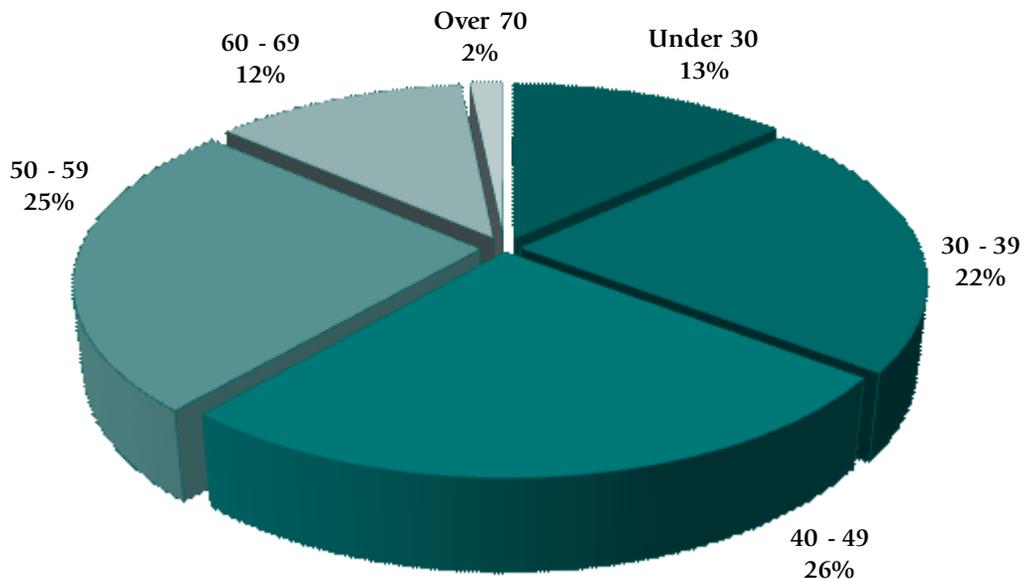
Date of Membership	Teachers Legacy Pension Plan	Teachers Retirement Plan	Public Employee Retirement Plan						Total
	Teachers	Teachers (Hybrid)	State Employees	State Employees (Hybrid)	Higher Education Employees	Higher Education Employees (Hybrid)	Political Subdivision Employees	Political Subdivision Employees (Hybrid)	
1900s	0	0	1	0	0	0	0	0	1
1940s	0	0	0	0	1	0	0	0	1
1950s	0	0	4	0	2	0	3	0	9
1960s	96	0	59	0	55	0	18	0	228
1970s	1,885	8	1,206	7	652	1	916	0	4,675
1980s	6,342	49	5,346	58	2,187	23	5,495	0	19,500
1990s	16,829	309	7,902	154	3,208	61	17,530	1	45,994
2000s	27,614	735	13,895	286	5,658	91	32,507	7	80,793
2010s	16,464	10,415	9,909	5,799	4,481	2,134	31,331	44	80,577
	<u>69,230</u>	<u>11,516</u>	<u>38,322</u>	<u>6,304</u>	<u>16,244</u>	<u>2,310</u>	<u>87,800</u>	<u>52</u>	<u>231,778</u>



SCHEDULES OF ACTIVE MEMBERS

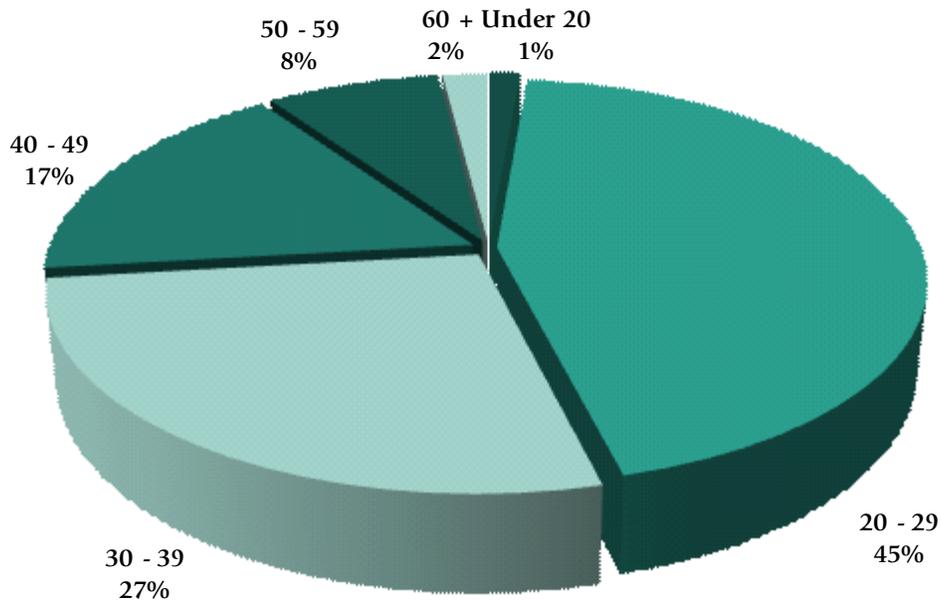
by Current Age

Current Age	Teachers Legacy Pension Plan	Teachers Retirement Plan	Public Employee Retirement Plan					Total	
	Teachers	Teachers (Hybrid)	State Employees	State Employees (Hybrid)	Higher Education Employees	Higher Education Employees (Hybrid)	Political Subdivision Employees		Political Subdivision Employees (Hybrid)
Less than 20	7	8	121	218	1	9	164	1	529
20 - 29	8,032	6,154	3,233	2,559	885	646	8,689	21	30,219
30 - 39	19,830	2,814	7,430	1,574	2,767	669	16,081	16	51,181
40 - 49	20,129	1,654	9,560	1,030	3,832	505	23,500	7	60,217
50 - 59	14,387	737	11,419	727	5,374	393	25,074	7	58,118
60 - 69	6,446	141	5,758	184	2,996	82	12,181	0	27,788
Over 69	399	8	801	12	389	6	2,111	0	3,726
Total	69,230	11,516	38,322	6,304	16,244	2,310	87,800	52	231,778



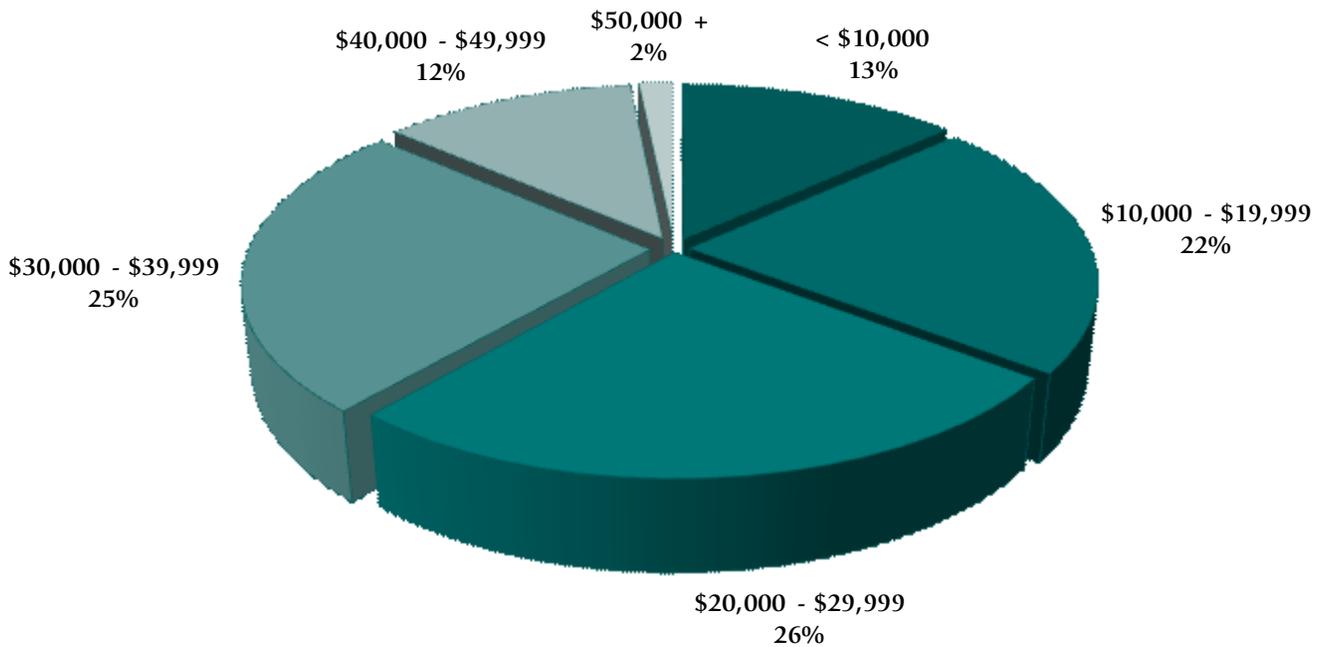
SCHEDULES OF ACTIVE MEMBERS
by Age at Enrollment

Age at Enrollment	Teachers Legacy Pension Plan	Teachers Retirement Plan	Public Employee Retirement Plan					Total	
	Teachers	Teachers (Hybrid)	State Employees	State Employees (Hybrid)	Higher Education Employees	Higher Education Employees (Hybrid)	Political Subdivision Employees		Political Subdivision Employees (Hybrid)
Less than 20	89	24	1,181	289	243	14	1,352	2	3,194
20 - 24	23,710	3,774	7,743	1,409	2,639	280	13,362	13	52,930
25 - 29	18,784	3,268	8,908	1,453	3,161	481	14,508	13	50,576
30 - 34	9,419	1,525	5,606	943	2,548	373	13,280	7	33,701
35 - 39	7,091	1,043	4,621	576	2,171	305	13,329	5	29,141
40 - 44	4,922	749	3,717	500	1,892	238	11,449	4	23,471
45 - 49	2,739	516	2,741	399	1,459	226	8,203	1	16,284
50 - 54	1,436	318	1,938	338	1,151	182	5,782	3	11,148
55 - 59	666	206	1,119	254	658	147	3,654	4	6,708
60 - 64	208	71	414	104	239	51	1,751	0	2,838
65 - 69	38	15	138	31	61	10	659	0	952
70 and above	128	7	196	8	22	3	471	0	835
	<u>69,230</u>	<u>11,516</u>	<u>38,322</u>	<u>6,304</u>	<u>16,244</u>	<u>2,310</u>	<u>87,800</u>	<u>52</u>	<u>231,778</u>



SCHEDULES OF ACTIVE MEMBERS
by Salary

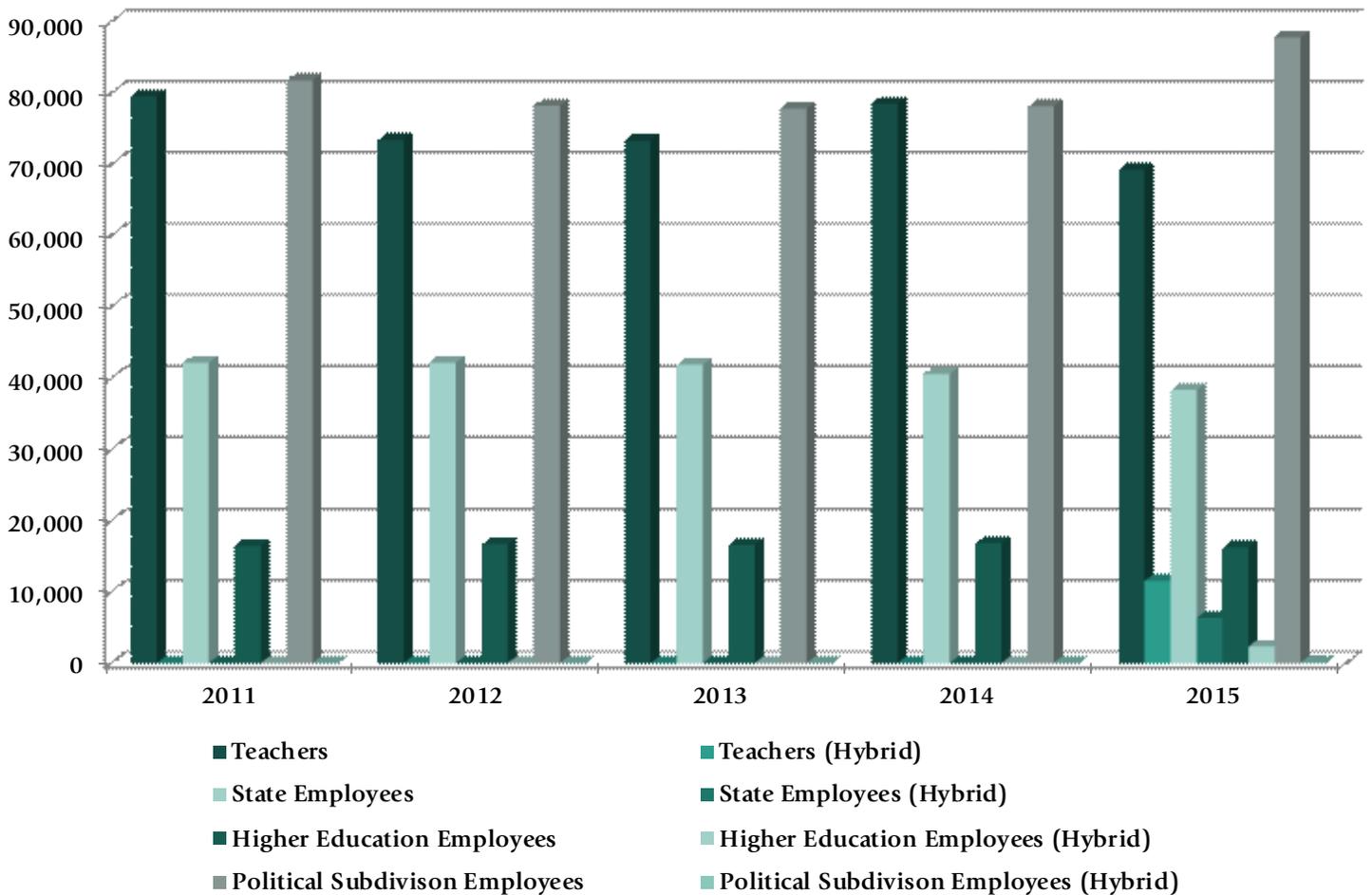
Annal Salary	Teachers Legacy Pension Plan	Teachers Retirement Plan	Public Employee Retirement Plan						Total
	Teachers	Teachers (Hybrid)	State Employees	State Employees (Hybrid)	Higher Education Employees	Higher Education Employees (Hybrid)	Political Subdivision Employees	Political Subdivision Employees (Hybrid)	
Less than \$10,000	1,172	464	1,632	2,316	295	481	6,049	11	12,420
\$10,000 - \$19,999	967	1,430	1,480	1,047	613	480	19,064	12	25,093
\$20,000 - \$29,999	1,058	1,799	6,566	997	3,226	348	17,507	19	31,520
\$30,000 - \$39,999	10,022	4,137	9,562	608	3,885	358	17,349	9	45,930
\$40,000 - \$49,999	23,895	2,594	7,490	641	2,848	324	12,275	1	50,068
\$50,000 +	32,116	1,092	11,592	695	5,377	319	15,556	0	66,747
	<u>69,230</u>	<u>11,516</u>	<u>38,322</u>	<u>6,304</u>	<u>16,244</u>	<u>2,310</u>	<u>87,800</u>	<u>52</u>	<u>231,778</u>





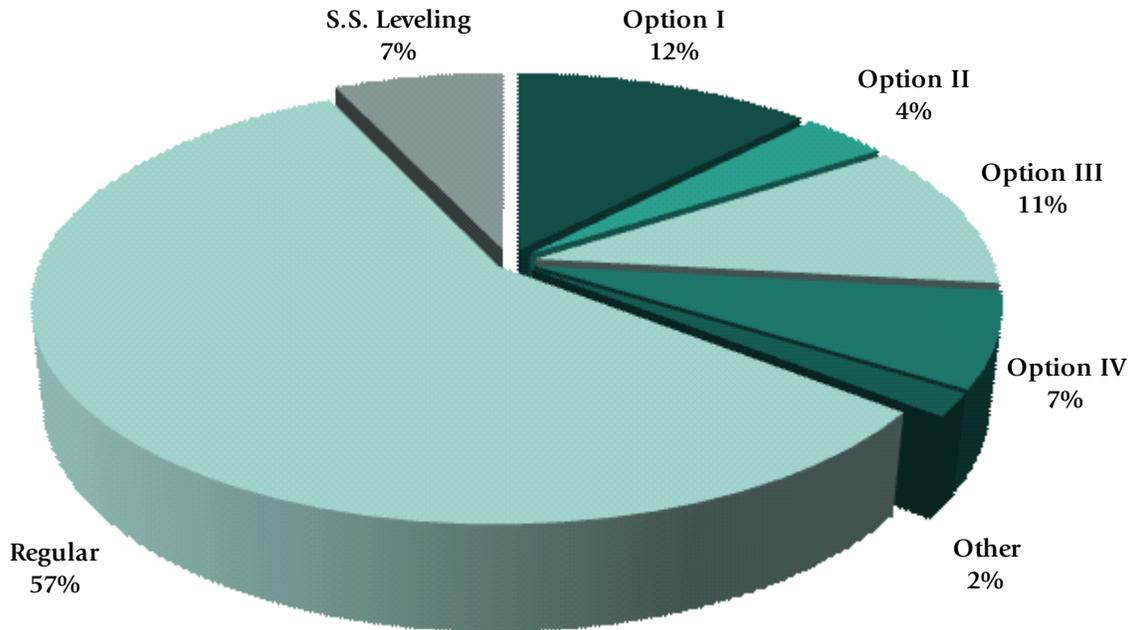
ACTIVE MEMBERS
Fiscal Years 2011 - 2015

Year	Teacher Legacy Pension Plan	Teachers Retirement Plan	Public Employee Retirement Plan						Total
	Teachers	Teachers (Hybrid)	State Employees	State Employees (Hybrid)	Higher Education Employees	Higher Education Employees (Hybrid)	Political Subdivision Employees	Political Subdivision Employees (Hybrid)	
2011	79,583	0	42,142	0	16,409	0	81,780	0	219,914
2012	73,449	0	42,171	0	16,693	0	78,180	0	210,493
2013	73,306	0	41,856	0	16,590	0	77,815	0	209,567
2014	78,506	0	40,581	0	16,829	0	78,144	0	214,060
2015	69,230	11,516	38,322	6,304	16,244	2,310	87,800	52	231,778



SCHEDULE OF RETIRED MEMBERS
By Type of Benefit Plan

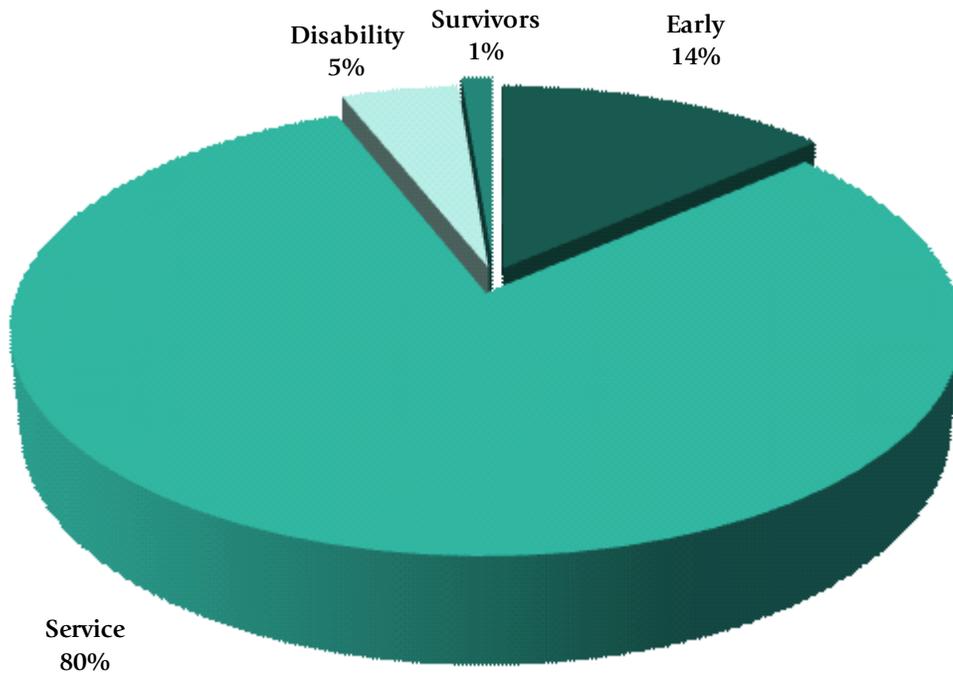
Benefit Plan	Teachers Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Option I	3,771	5,406	2,365	5,612	17,154
Option II	1,366	1,529	699	1,363	4,957
Option III	4,607	4,627	1,473	4,415	15,122
Option IV	3,855	2,840	1,028	2,056	9,779
Other	813	779	273	500	2,365
Regular	28,281	18,071	7,402	26,058	79,812
S.S. Leveling	4,599	2,630	566	1,991	9,786
Total	47,292	35,882	13,806	41,995	138,975



SCHEDULE OF RETIRED MEMBERS

By Type of Retirement

Type of Retirement	Teachers Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Retirees:					
Early	5,902	4,882	2,111	5,940	18,835
Service	39,834	28,198	10,782	33,010	111,824
Disability	1,261	2,085	698	2,544	6,588
Total Retirees	46,997	35,165	13,591	41,494	137,247
Survivors	295	717	215	501	1,728
Total	<u>47,292</u>	<u>35,882</u>	<u>13,806</u>	<u>41,995</u>	<u>138,975</u>



SCHEDULES OF RETIRED MEMBERS



SCHEDULE OF RETIRED MEMBERS

by Average Monthly Benefits

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	10,433	7,417	2,108	682	226	5,853	1,635	372	1,342	614	526	91
501-1,000	7,791	5,088	1,492	1,030	181	4,204	1,222	300	975	568	403	119
1,001-1,500	5,623	4,501	724	297	101	2,757	798	244	714	424	570	116
1,501-2,000	4,353	3,891	331	55	76	2,001	552	174	619	397	491	119
2,001-2,500	2,938	2,745	127	14	52	1,346	380	134	356	307	332	83
2,501-3,000	1,827	1,752	46	4	25	772	269	91	246	208	175	66
3,001-3,500	1,058	1,005	31	1	21	419	190	73	132	126	82	36
3,501-4,000	633	609	11	0	13	260	108	42	113	58	23	29
Over 4,000	1,226	1,190	12	2	22	459	252	99	130	138	28	120
Totals	35,882	28,198	4,882	2,085	717	18,071	5,406	1,529	4,627	2,840	2,630	779

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	4,164	3,135	898	109	22	2,499	484	148	480	282	226	45
501-1,000	5,774	3,531	1,776	413	54	3,426	666	185	632	472	328	65
1,001-1,500	7,079	4,909	1,625	487	58	4,009	665	208	769	541	782	105
1,501-2,000	8,907	7,705	951	190	61	4,789	666	216	1,050	819	1,197	170
2,001-2,500	9,278	8,744	440	51	43	5,646	541	226	900	834	941	190
2,501-3,000	5,897	5,709	148	10	30	3,859	322	160	412	436	591	117
3,001-3,500	2,957	2,902	43	1	11	1,899	197	85	191	229	313	43
3,501-4,000	1,578	1,555	15	0	8	1,030	115	54	102	115	131	31
Over 4,000	1,658	1,644	6	0	8	1,124	115	84	71	127	90	47
Totals	47,292	39,834	5,902	1,261	295	28,281	3,771	1,366	4,607	3,855	4,599	813

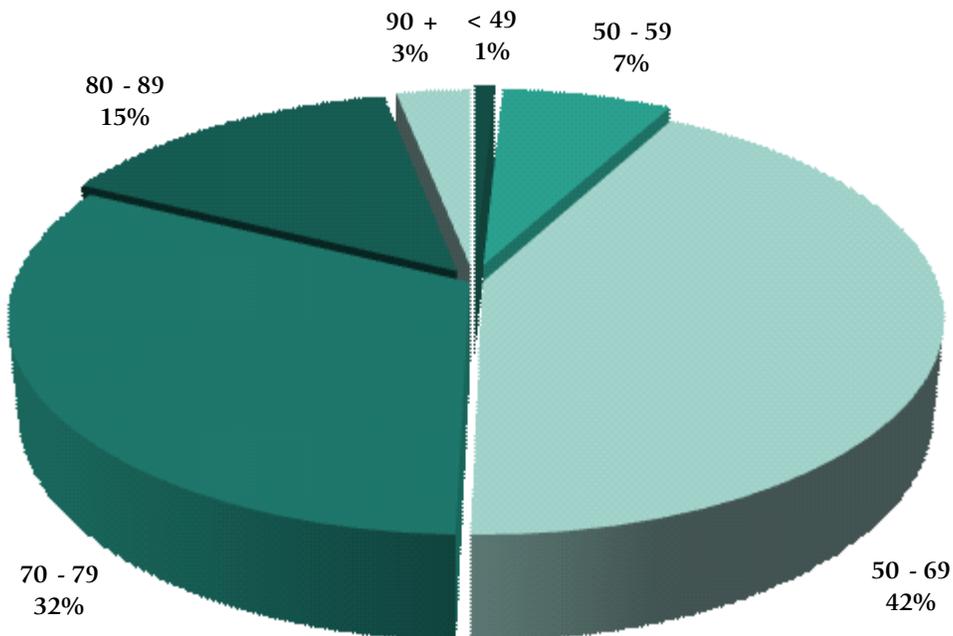
HIGHER EDUCATION EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Other
0-500	4,010	2,808	921	226	55	2,483	600	164	378	190	151	44
501-1,000	3,174	2,097	689	342	46	1,910	480	115	310	194	98	67
1,001-1,500	2,164	1,751	281	101	31	1,110	358	124	239	184	105	44
1,501-2,000	1,364	1,195	123	22	24	612	241	77	183	128	88	35
2,001-2,500	848	771	54	6	17	358	160	42	113	101	49	25
2,501-3,000	637	609	22	1	5	259	129	41	85	67	40	16
3,001-3,500	417	393	12	0	12	171	91	30	53	46	13	13
3,501-4,000	341	328	6	0	7	143	87	21	39	33	13	5
Over 4,000	851	830	3	0	18	356	219	85	73	85	9	24
Totals	13,806	10,782	2,111	698	215	7,402	2,365	699	1,473	1,028	566	273

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	23,291	17,682	3,937	1,441	231	15,383	3,012	636	2,293	973	806	188
501-1,000	10,023	7,708	1,310	866	139	6,460	1,310	297	1,002	448	372	134
1,001-1,500	4,156	3,454	444	196	62	2,257	582	175	501	251	310	80
1,501-2,000	2,067	1,850	145	30	42	961	309	90	285	153	221	48
2,001-2,500	1,120	1,034	68	7	11	462	178	57	176	94	128	25
2,501-3,000	594	558	24	4	8	216	103	43	83	58	78	13
3,001-3,500	320	306	8	0	6	111	54	31	41	37	38	8
3,501-4,000	152	149	2	0	1	76	20	10	16	12	17	1
Over 4,000	272	269	2	0	1	132	44	24	18	30	21	3
Totals	41,995	33,010	5,940	2,544	501	26,058	5,612	1,363	4,415	2,056	1,991	500

SCHEDULE OF RETIRED MEMBERS

By Current Age

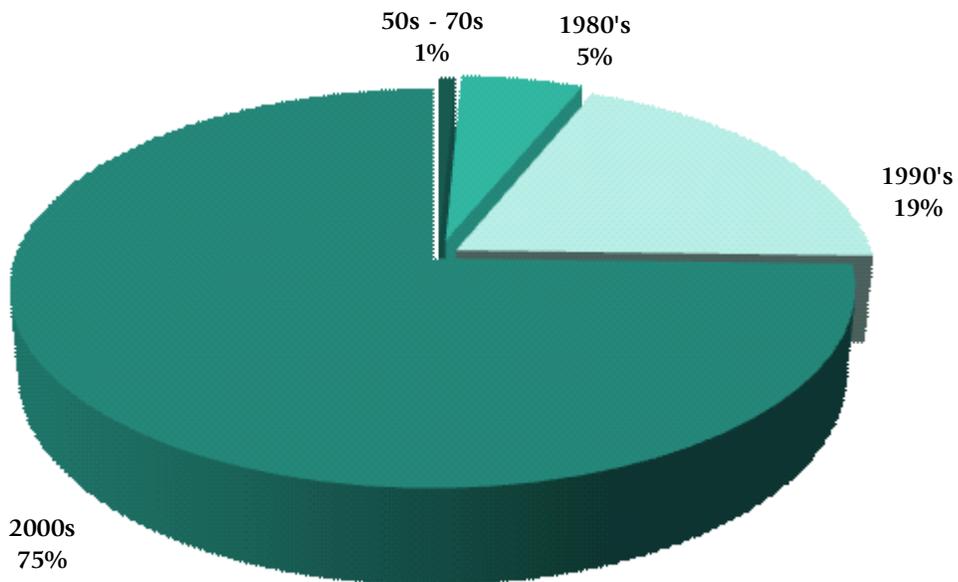
Current Age	Teachers Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Under 40	73	147	16	105	341
40-44	55	102	21	126	304
45-49	109	186	65	182	542
50-54	393	564	179	547	1,683
55-59	2,620	2,375	814	2,340	8,149
60-64	8,588	5,929	1,936	6,654	23,107
65-69	13,499	8,812	3,166	10,431	35,908
70-74	8,567	6,500	2,812	8,175	26,054
75-79	5,437	4,667	2,090	6,154	18,348
80-84	3,807	3,305	1,428	4,096	12,636
85-89	2,570	2,100	842	2,090	7,602
90-94	1,107	917	344	829	3,197
95-99	370	251	86	232	939
Over 99	97	27	7	34	165
Total:	47,292	35,882	13,806	41,995	138,975



SCHEDULE OF RETIRED MEMBERS

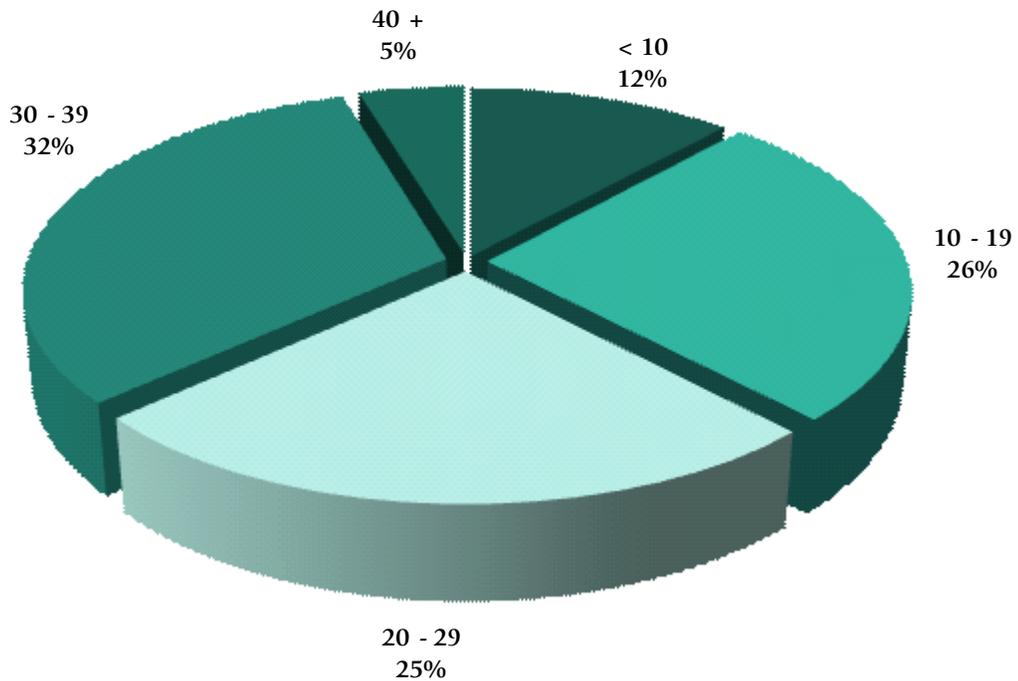
By Date of Retirement

Date of Retirement	Teachers Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
1950's	3	1	0	0	4
1960's	23	8	0	0	31
1970's	472	287	53	169	981
1980's	3,124	2,149	611	1,727	7,611
1990's	9,219	7,468	2,883	7,160	26,730
2000's	19,083	13,942	6,051	16,882	55,958
2010's	<u>15,368</u>	<u>12,027</u>	<u>4,208</u>	<u>16,057</u>	<u>47,660</u>
Total	<u><u>47,292</u></u>	<u><u>35,882</u></u>	<u><u>13,806</u></u>	<u><u>41,995</u></u>	<u><u>138,975</u></u>



SCHEDULE OF RETIRED MEMBERS
Based on Service Credit at Retirement

Years of Service	Teachers Legacy Pension Plan	Public Employee Retirement Plan			Total
	Teachers	State Employees	Higher Education Employees	Political Subdivision Employees	
Under 10	2,467	4,802	1,906	7,153	16,328
10-14	3,506	5,164	2,157	8,218	19,045
15-19	4,008	4,287	1,792	7,210	17,297
20-24	5,339	4,620	1,731	6,434	18,124
25-29	6,367	4,232	1,633	4,993	17,225
30-34	15,448	7,681	2,650	5,395	31,174
35-39	6,982	3,218	1,227	1,845	13,272
40-44	2,742	1,458	535	611	5,346
Over 44	433	420	175	136	1,164
Total	47,292	35,882	13,806	41,995	138,975



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION



UNITED STATES

Alabama	821
Alaska	20
Arizona	169
Arkansas	448
California	205
Colorado	124
Connecticut	19
Delaware	10
District of Columbia	10
Florida	1,553
Georgia	1,290
Hawaii	13
Idaho	27
Illinois	164
Indiana	158
Iowa	31
Kansas	47
Kentucky	748
Louisiana	78
Maine	33
Maryland	88
Massachusetts	34
Michigan	128
Minnesota	22
Mississippi	1,351
Missouri	200
Montana	16
Nebraska	16
Nevada	53
New Hampshire	20
New Jersey	32
New Mexico	58

New York	71
North Carolina	659
North Dakota	2
Ohio	171
Oklahoma	90
Oregon	65
Pennsylvania	102
Puerto Rico	4
Rhode Island	4
South Carolina	368
South Dakota	16
Tennessee	128,083
Texas	536
Utah	29
Vermont	8
Virginia	584
Washington	80
West Virginia	41
Wisconsin	31
Wyoming	10
Total U.S.	<u>138,940</u>

INTERNATIONAL COUNTRIES

Australia	1
Brazil	1
Canada-Manitoba	1
Canada-New Brunswick	2
Canada-Newfoundland	1
Canada-Nova Scotia	1
Canada-Ontario	3
Canada-Prince Edward Island	1
Chile	3
Ecuador	1
Germany	3
Ghana	1
Greece	3
Japan	1
Kenya	1
Poland	1
Spain	1
Thailand	3
United Arab Emirates	<u>1</u>
Total Foreign Countries	<u>30</u>
Virgin Islands, U.S.	1
U.S. American Samoa	1
Overseas Military Basis	3
Total U.S.	<u>138,940</u>
Total U.S. and Foreign	<u>138,975</u>



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

TENNESSEE COUNTIES

Anderson	1,962	Hamilton	6,154	Morgan	600
Bedford	745	Hancock	128	Obion	891
Benton	471	Hardeman	1,050	Overton	519
Bledsoe	471	Hardin	682	Perry	277
Blount	3,104	Hawkins	2,954	Pickett	137
Bradley	1,731	Haywood	584	Polk	308
Campbell	929	Henderson	455	Putnam	2,661
Cannon	383	Henry	911	Rhea	703
Carroll	750	Hickman	688	Roane	1,505
Carter	3,603	Houston	134	Robertson	1,328
Cheatham	715	Humphreys	497	Rutherford	4,025
Chester	540	Jackson	223	Scott	504
Claiborne	865	Jefferson	1,327	Sequatchie	341
Clay	149	Johnson	552	Sevier	1,489
Cocke	771	Knox	7,863	Shelby	14,435
Coffee	1,090	Lake	288	Smith	392
Crockett	367	Lauderdale	891	Stewart	333
Cumberland	1,127	Lawrence	1,008	Sullivan	1,880
Davidson	9,899	Lewis	310	Sumner	2,882
Decatur	282	Lincoln	773	Tipton	1,068
DeKalb	408	Loudon	975	Trousdale	188
Dickson	1,049	Macon	314	Unicoi	445
Dyer	670	Madison	2,903	Union	277
Fayette	914	Marion	540	Van Buren	212
Fentress	471	Marshall	601	Warren	972
Franklin	877	Maury	1,455	Washington	1,758
Gibson	1,377	McMinn	988	Wayne	400
Giles	550	McNairy	659	Weakley	1,113
Grainger	420	Meigs	200	White	711
Greene	2,311	Monroe	795	Williamson	2,950
Grundy	331	Montgomery	2,952	Wilson	<u>2,239</u>
Hamblen	1,270	Moore	84	Total	<u><u>128,083</u></u>

AVERAGE BENEFIT PAYMENT SCHEDULE
FISCAL YEAR OF RETIREMENT

Teachers Legacy Pension Plan

		Years of Service Credit				
		Less than 15	15 - 19	20 - 24	25 - 29	30 - More
2006	Average Monthly Benefit	\$ 316	\$ 610	\$ 855	\$ 1,144	\$ 1,896
	Number of Retirees	1,155	520	465	368	1,160
	Average Final Salary	\$25,218	\$29,259	\$32,880	\$36,956	\$ 47,381
2007	Average Monthly Benefit	\$ 305	\$ 602	\$ 852	\$ 1,261	\$ 2,026
	Number of Retirees	1,628	553	577	456	1,274
	Average Final Salary	\$24,954	\$29,265	\$34,853	\$39,056	\$ 51,462
2008	Average Monthly Benefit	\$ 334	\$ 577	\$ 884	\$ 1,163	\$ 1,934
	Number of Retirees	1,421	576	507	410	1,220
	Average Final Salary	\$28,096	\$30,926	\$35,470	\$37,957	\$ 50,440
2009	Average Monthly Benefit	\$ 330	\$ 664	\$ 918	\$ 1,288	\$ 2,059
	Number of Retirees	1,647	659	782	557	1,833
	Average Final Salary	\$27,714	\$32,451	\$36,300	\$40,537	\$ 49,068
2010	Average Monthly Benefit	\$ 356	\$ 654	\$ 928	\$ 1,209	\$ 2,047
	Number of Retirees	1,488	580	620	552	1,420
	Average Final Salary	\$29,290	\$33,669	\$35,580	\$39,810	\$ 52,164
2011	Average Monthly Benefit	\$ 369	\$ 624	\$ 885	\$ 1,212	\$ 2,105
	Number of Retirees	1,636	726	719	578	1,451
	Average Final Salary	\$30,682	\$33,940	\$36,749	\$41,811	\$ 53,772
2012	Average Monthly Benefit	\$ 334	\$ 648	\$ 837	\$ 1,267	\$ 2,120
	Number of Retirees	2,208	836	786	697	1,661
	Average Final Salary	\$29,294	\$35,205	\$37,070	\$44,088	\$ 55,462
2013	Average Monthly Benefit	\$ 342	\$ 601	\$ 862	\$ 1,290	\$ 2,138
	Number of Retirees	2,196	918	791	771	1,747
	Average Final Salary	\$30,487	\$33,954	\$37,136	\$43,032	\$ 54,621
2014	Average Monthly Benefit	\$ 343	\$ 633	\$ 893	\$ 1,183	\$ 2,061
	Number of Retirees	2,171	916	794	717	1,615
	Average Final Salary	\$30,962	\$35,609	\$39,743	\$42,432	\$ 53,922
2015	Average Monthly Benefit	\$ 365	\$ 678	\$ 938	\$ 1,308	\$ 2,146
	Number of Retirees	1,691	855	819	779	1,651
	Average Final Salary	\$32,171	\$38,974	\$42,116	\$47,791	\$ 57,024

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.



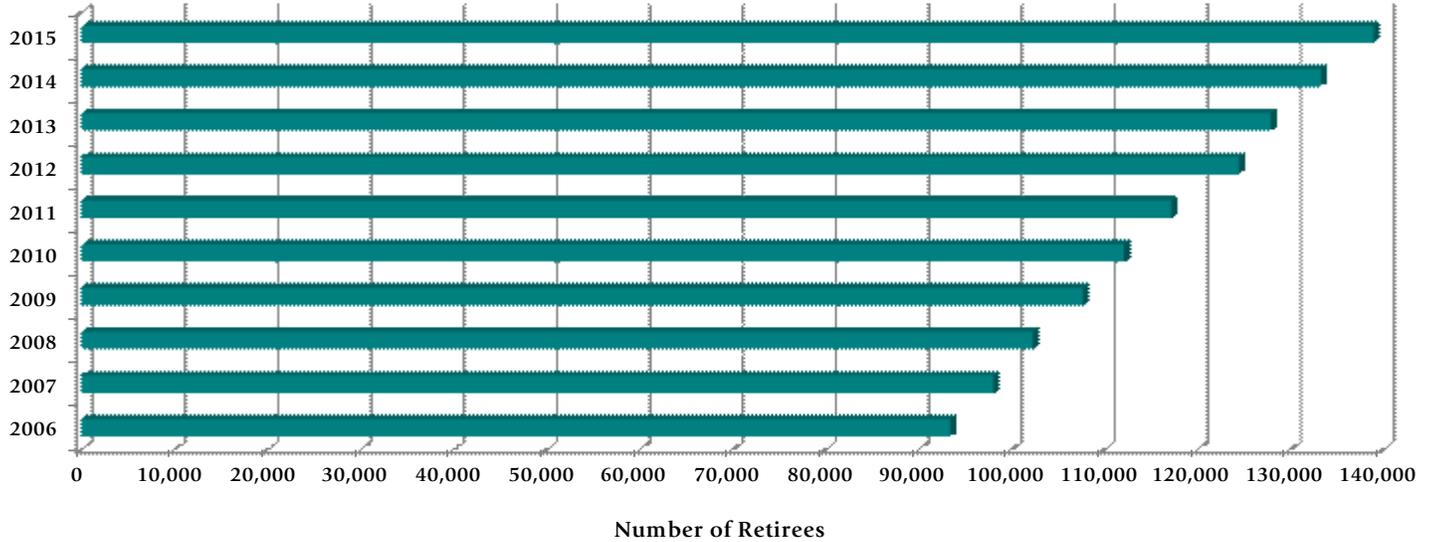
AVERAGE BENEFIT PAYMENT SCHEDULE
FISCAL YEAR OF RETIREMENT

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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.

NUMBER OF RETIREES ON PAYROLL
FISCAL YEARS 2006-2015



PRIOR SERVICE ESTABLISHED
FOR THE YEAR ENDED JUNE 30, 2015

	Type of Service	Number of Members	Years of Service	Amount
State:	Backpayment	45	59	\$ 317,489
	Military	5	6	573
	Redeposit	12	51	150,581
	Totals	<u>62</u>	<u>116</u>	<u>\$ 468,643</u>
Teachers:	Backpayment	53	238	\$ 951,796
	Military	2	5	0
	Redeposit	51	239	1,168,282
	Totals	<u>106</u>	<u>482</u>	<u>\$ 2,120,078</u>
Higher Education:	Backpayment	55	121	\$ 929,661
	Military	2	6	0
	Redeposit	1	5	36,289
	Totals	<u>58</u>	<u>132</u>	<u>\$ 965,950</u>
Political Subdivisions:	Backpayment	198	217	\$ 379,619
	Military	11	14	10,190
	Redeposit	25	115	330,496
	Totals	<u>234</u>	<u>346</u>	<u>\$ 720,305</u>
Grand Totals:	Backpayment	351	635	\$ 2,578,565
	Military	20	31	10,763
	Redeposit	89	410	1,685,648
	Totals	<u>460</u>	<u>1,076</u>	<u>\$ 4,274,976</u>



Treasury allows 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 purchased through installment payments 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, installment information is given with regard to financing over six (6) to sixty (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, 2015

	Type of Service	Number of Members	Years of Service	Payments
State:	Backpayment	0	0	\$ 0
	Military	0	0	0
	Redeposit	<u>2</u>	<u>1</u>	556
	Totals	<u>2</u>	<u>1</u>	<u>\$ 556</u>
Teachers:	Backpayment	13	89	\$ 5,975
	Military	0	0	0
	Redeposit	<u>27</u>	<u>487</u>	41,821
	Totals	<u>40</u>	<u>576</u>	<u>\$ 47,796</u>
Higher Education:	Backpayment	1	12	\$ 684
	Military	0	0	0
	Redeposit	<u>0</u>	<u>0</u>	0
	Totals	<u>1</u>	<u>12</u>	<u>\$ 684</u>
Political Subdivisions:	Backpayment	2	2	\$ 207
	Military	0	0	0
	Redeposit	<u>2</u>	<u>24</u>	217
	Totals	<u>4</u>	<u>26</u>	<u>\$ 424</u>
Grand Totals:	Backpayment	16	103	\$ 6,866
	Military	0	0	0
	Redeposit	<u>31</u>	<u>512</u>	42,594
	Totals	<u>47</u>	<u>615</u>	<u>\$ 49,460</u>

REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
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
2015	4,943	47,961,414

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
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
2015	178	87	232	497



HISTORICAL EMPLOYER CONTRIBUTION RATES AND RETIREMENT CONTRIBUTIONS

HISTORICAL EMPLOYER CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF SALARY

Year Ended June 30	State Employees		Teachers	
	Legacy	Hybrid	Legacy	Hybrid
2006 (1)	10.31	NA	5.50	NA
2007	13.62	NA	6.13	NA
2008	13.62	NA	6.24	NA
2009	13.02	NA	6.42	NA
2010	13.02	NA	6.42	NA
2011	14.91	NA	9.05	NA
2012	14.91	NA	9.05	NA
2013	15.03	NA	8.88	NA
2014	15.03	NA	8.88	NA
2015	15.03	4.00	9.04	4.00

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.

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

Teacher Legacy Pension Plan

2015				2006			
Participating Government	Covered	Rank	% of	Participating Government	Covered	Rank	% of
	Employees		Total System		Employees		Total System
Shelby County Schools	10,336	1	14.93%	Memphis City Schools	8,163	1	11.87%
Davidson County Schools	6,493	2	9.38%	Davidson County Schools	5,525	2	8.03%
Knox County Schools	4,671	3	6.75%	Knox County Schools	3,991	3	5.80%
Hamilton County Schools	2,841	4	4.10%	Shelby County Schools	2,958	4	4.30%
Rutherford County Schools	2,758	5	3.98%	Hamilton County Schools	2,881	5	4.19%
Williamson County Schools	2,324	6	3.36%	Rutherford County Schools	2,159	6	3.14%
Montgomery County Schools	2,260	7	3.26%	Sumner County Schools	1,799	7	2.62%
Sumner County Schools	1,940	8	2.80%	Montgomery County Schools	1,778	8	2.59%
Wilson County Schools	969	9	1.40%	Williamson County Schools	1,698	9	2.47%
Jackson-Madison County Schools	958	10	1.39%	Jackson-Madison County Schools	1,140	10	1.66%
Others	33,680		48.65%	Others	36,678		53.33%
	<u>69,230</u>		<u>100.00%</u>		<u>68,770</u>		<u>100.00%</u>

Public Employee Retirement Plan

2015				2006			
Participating Government	Covered	Rank	% of	Participating Government	Covered	Rank	% of
	Employees		Total System		Employees		Total System
State - Legacy	54,566	1	36.13%	State	64,766	1	46.52%
State - Hybrid	8,614	2	5.70%	Memphis City Schools	2,668	2	1.92%
Shelby Co. Unified School District	4,872	3	3.23%	Hamilton County	2,598	3	1.87%
Hamilton County	3,138	4	2.08%	Shelby County	1,884	4	1.35%
Rutherford County	2,820	5	1.87%	Williamson County	1,717	5	1.23%
Montgomery County	2,750	6	1.82%	Others	65,595		47.11%
Others	74,272		49.17%				
Total	<u>151,032</u>		<u>100.00%</u>	Total	<u>139,228</u>		<u>100.00%</u>

Teacher Retirement Plan

2015				2006			
Participating Government	Covered	Rank	% of	Participating Government	Covered	Rank	% of
	Employees		Total System		Employees		Total System
Shelby County Schools	1,719	1	14.92%	(1)			
Davidson County Schools	1,080	2	9.38%				
Knox County Schools	777	3	6.75%				
Hamilton County Schools	473	4	4.11%				
Rutherford County Schools	459	5	3.99%				
Williamson County Schools	387	6	3.36%				
Montgomery County Schools	376	7	3.27%				
Sumner County Schools	323	8	2.80%				
Wilson County Schools	161	9	1.40%				
Jackson-Madison County Schools	159	10	1.38%				
Others	5,602		48.63%				
	<u>11,516</u>		<u>100.00%</u>				

(1) The Teacher Retirement Plan became effective for teachers July 1, 2014, therefore, this information is not applicable.



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, 2015, there were 497 political subdivisions participating in TCRS.

Participation as of June 30, 2015:

Cities	178
Counties	87
Utility Districts	71
Special School Districts	19
Local Education Agencies	5
Joint Ventures	22
Housing Authorities	11
911 Emergency Communication Districts	47
Miscellaneous Authorities	<u>57</u>
Total	497

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 497
LOCAL GOVERNMENTS.***

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: Years of Service x AFC x 1.50% + 5% 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: Years of Service x AFC x 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 equal 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 equal 80 or above, but equal less than 90)

Local Government Hybrid Plan

- Calculation includes a 1.00% multiplier
- Benefit Formula: Years of Service x AFC x 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 equal 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 equal 80 or above, but equal 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

Tennessee Consolidated Retirement System
State and Teacher Hybrid Plan (*Optional for Local Governments*)
Effective July 1, 2014

- Calculation includes a 1.00% multiplier
- Benefit Formula: Years of Service x AFC x 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 equal 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 equal 80 or above, but equal less than 90)
- Contribution Rates:
 - Employee Contribution Rate: 5.00%
 - Employer Contribution Rate: 4.00%
- Unfunded Liability Controls:
 - If Defined Benefit component employer cost exceeds 4% of payroll or if the target unfunded liabilities are exceeded for the Defined Benefit component plan, the following adjustments will automatically occur in the following sequence:
 - ◆ Utilize funds in the actuarial stabilization account
 - ◆ Reduce or suspend the maximum 3% annual COLA
 - ◆ Shift some or all of the Defined Contribution employer contribution to the Defined Benefit plan
 - ◆ Increase employee contribution to Defined Benefit plan by 1% of payroll
 - ◆ Reduce future service accrual below 1%
 - ◆ Freeze plan, no future accruals
 - When employer cost is restored to 4% of payroll and unfunded liabilities do not exceed target maximum unfunded liabilities, then adjustments previously made are restored on a prospective basis.



POLITICAL SUBDIVISION PARTICIPANTS

911 EMERGENCY COMMUNICATION DISTRICTS

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

CITIES

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

*All departments not covered by TCRS.

**Plan closed to new hires.

(continued)

**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**



COUNTIES

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

HOUSING AUTHORITY

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

LOCAL EDUCATION AGENCIES

Arlington Community Schools	Germantown Board of Education
Bartlett City Board of Education	Millington City Schools Board of Education
Collierville Schools Board of Education	

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

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MISCELLANEOUS AGENCIES

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

SPECIAL SCHOOL DISTRICTS

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

*All departments not covered by TCRS.
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UTILITY DISTRICTS

Alpha-Talbott	Lakeview
Arthur Shawnee	Lincoln County Board of Public Utilities
Big Creek	Loudon
Bloomington	Madison Suburban Utility District
Bondcroft	Middle Tennessee
Bristol Electric System	New Market
Cagle Fredonia Utility District	North Utility District of Decatur and Benton Counties
Castalian Springs/Bethpage	Northeast Henry County
Chuckey Utility District	O'Connor Utility District
Citizen's Gas	Oak Ridge
Consolidated Utility District/Rutherford County	Old Gainesboro Road
County Wide	Old Hickory
Crab Orchard	Paris-Henry Utility District
Cross Anchor Utility District	Persia
Cumberland Utility District of Roane and Morgan Counties	Plateau
DeWhite	Poplar Grove
Double Springs	Quebec-Walling
Dyersburg Suburban	Reelfoot Lake Regional
East Fork	Riceville
East Montgomery	River Road
East Side	Roane Mountain Utility District
Fall Creek Falls	Russellville Whitesburg 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**	Upper Cumberland Utility District
Hendersonville	Weakley County Municipal Electric
Hixson	Webb Creek
Jackson County	West Knox**
Johnson City Power Board	West Overton
Lake County	

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Treasury Department, December 2015, Authorization #309209.
This web-based, public document was promulgated at a cost of \$172.00.