

HYBRID PENSION PLAN

**FOR
GENERAL
ASSEMBLY
MEMBERS**



Tennessee Consolidated
Retirement System
502 Deaderick Street
Nashville, TN 37243-0201

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INTRODUCTION

One of the more valuable benefits of public service is the retirement benefits you are accruing under the Tennessee Consolidated Retirement System (TCRS). Your benefit grows in value each year you serve. TCRS is designed to provide three types of benefits: retirement benefits, disability benefits or survivor benefits. This pamphlet provides a general overview of those benefits as they apply to an individual who:

- (1) is elected after June 30, 2014 as a member of the General Assembly; and
- (2) who has not maintained membership in the TCRS legacy pension plan based on previous service as a state employee, higher education employee or teacher prior to July 1, 2014.

For purposes of this section, a state employee is defined as any person who is a state official, including members of the general assembly, the attorney general and reporter, district attorneys general, state judges and district public defenders or any person who is employed in the service of and whose compensation is payable by the state or any person who is employed by the state whose compensation is paid in whole or in part from federal or other funds. "State employee" also means any person who is employed in the service of and whose compensation is payable by a public institution of higher education or any person who is employed by a public institution of higher education whose compensation is paid in whole or in part from federal or other funds. "State employee" does not include the governor or any person employed on a contractual or percentage basis. Any retirement allowances payable in respect of a former governor are set forth in Tennessee Code Annotated, Title 8, Chapter 39, Part 2.

Note: There are separate pamphlets that cover the benefits for:

- (1) other state employees, higher education employees and teachers who are hired after June 30, 2014 and for the attorney general and reporter, a district attorney general, district public defender and a state judge who are elected or appointed as such after June 30, 2014; and

- (2) an individual who has not maintained membership in the TCRS legacy pension plan based on previous service as a state employee, higher education employee or teacher prior to July 1, 2014.

The pamphlets can be located on the TCRS website, which, as of July 1, 2014, is <http://treasury.tn.gov/tcrs/Pub.html>.

MEMBERSHIP

All General Assembly members elected after June 30, 2014 are covered by the Hybrid Pension Plan for State Employees and Teachers ("Hybrid Plan") if they have not maintained membership in the TCRS legacy pension plan based on previous service as a state employee, higher education employee or teacher prior to July 1, 2014. However, membership is not mandatory. A General Assembly member who does not join the Hybrid Plan when first eligible may join at a later time and claim credit for his/her prior General Assembly service. Any election made by a General Assembly member to participate will be irrevocable and such General Assembly member will thereafter be subject to the terms and conditions of the Hybrid Plan which are in effect at the time of the election.

A member of the General Assembly who is already enrolled in the Hybrid Plan based upon service in another capacity may contribute on his/her service in both capacities or may participate based on just his/her non-General Assembly service; however, no more than one year of retirement credit will be given for all service rendered during a calendar year. If a member participates based on two positions, the member may include his/her earnings from both positions in determining the member's average final compensation for benefit calculation purposes.

The Hybrid Plan provides a combination of a defined benefit plan and a defined contribution plan. The defined benefit portion of the Hybrid Plan will be managed by TCRS. The defined contribution assets will be deposited into the state's 401(k) plan where you will manage the investments in the 401(k) plan. As a member of the Hybrid Plan, you are required to contribute 5% of your salary to the defined benefit portion of the Hybrid Plan. Contributions are made on a tax-deferred basis.

Each year that you are actively employed, TCRS will prepare an annual statement for you. The statement will show the salaries reported to TCRS, the amount of service credit you have with TCRS, the amount of your contributions, your vesting status, your TCRS beneficiary designation and estimates of the TCRS benefits you could receive under various circumstances. TCRS will send a notice to your employer when your statement is available online at www.mytcrs.com.

General Assembly members covered by the Hybrid Plan attain vesting after four years of membership service. A vested member is one who has accrued enough years of service to receive a retirement benefit once all eligibility requirements are met. If you leave covered employment before you become vested, you will lose membership in TCRS if you take a refund of your accumulated contributions or if you are absent from covered employment for more than seven consecutive years, whichever occurs first. If you leave covered employment after you become vested, you may retain your TCRS membership until retirement by leaving your contributions in the system.

DEFINED BENEFIT PORTION OF THE HYBRID

The defined benefit portion of the Hybrid Plan provides members of the General Assembly with a guaranteed minimum retirement benefit of \$55 per month for each year of creditable service rendered as a member of the General Assembly and for each year of any military service credit and Constitutional Convention delegate service credit established by the member. The minimum allowance is adjusted each July 1 pursuant to the cost-of-living provisions. However, in no event can the minimum retirement allowance exceed 90% of the member's average final compensation (AFC) as may be adjusted by the cost-of-living provisions of the Plan. For purposes of determining the 90% limitation, the AFC for service granted as a member of the General Assembly is independent of the AFC calculation on any other creditable service in the Plan. Any selection of an optional retirement benefit (as discussed below) will reduce this amount.

A General Assembly member may waive the minimum benefit and elect to receive an amount less than the amount the member is eligible to receive. This election must be in writing and is irrevocable.

In lieu of the minimum benefit, a benefit formula as defined in state statute can be applied to service credit as a General Assembly member and to any military service credit and Constitutional Convention delegate service credit established by the member. The formula consists of the member's average final compensation, years of creditable service, age and the benefit accrual factor. Each eligible member of the Hybrid Plan will receive a monthly benefit which will be the higher of the guaranteed minimum or the benefit calculated under the formula.

Average Final Compensation (AFC) is the average of your five highest consecutive years of salary. The federal government limits the maximum amount of salary that may be recognized which, for 2014, is \$260,000, but is indexed for future years.

Creditable Service means membership service under the Hybrid Plan as a member of the General Assembly and for which you made contributions. Other types of service that may be established include the following:

- previously withdrawn service as a member of the General Assembly;
- military service which interrupted your public employment;
- military service rendered during a period of armed conflict as defined in Tennessee Code Annotated, Section 8-34-605 provided you are vested;
- peacetime military service rendered at any time from October 15, 1940 through February 27, 1961 provided you are vested; and
- service as a delegate to a State Constitutional Convention.

Some types of service may be established without charge, while others require payment of contributions and interest. If you would like additional information on establishing prior service, contact the TCRS Member Services Division at TCRS.Member-Services@tn.gov or 615-741-4868.

Benefit Accrual Factor means the percentage of your AFC earned from each year of creditable service. The benefit accrual factor is 1.0%.

RETIREMENT BENEFITS

Retirement income generally comes from three sources: your employer-provided retirement plan (TCRS), Social Security and your personal savings. TCRS offers you the greater of the guaranteed minimum retirement benefit or the benefit under the service retirement formula as follows:

- *Retirement Eligibility* – You become eligible for retirement benefits upon attainment of age 60 and completion of four years of creditable service.
- *Service Retirement Formula* – Your annual service retirement allowance (or annual base benefit) is equal to 1.0% of your AFC, multiplied by your number of years of creditable service. The annual service accrual (1.0% formula) may be decreased as part of the cost controls for the Plan.

The following example shows the formula used for computing the TCRS retirement allowance for a member with 10 or more years of service. The example uses a 60-year-old member retiring under the maximum plan with an AFC of \$50,000 and 30 years of service. In this example, TCRS service retirement benefits replace 30% of the member’s AFC after 30 years of service.

<u>Accrual</u> Factor	x	<u>AFC</u>	x	<u>Years of</u> Creditable Service	=	\$15,000
.01		\$50,000		30		
					÷	<u>12</u>
				Monthly Benefit		\$ 1,250

- *Maximum Benefit Accrual* – The maximum annual base benefit payable at retirement is limited to the lower of 90% of the member’s AFC or the base benefit in effect at the time of the member’s retirement (which, as of July 1, 2014, equals \$82,850), but subject to adjustment based on the cost-of-living provisions of the Plan.

- *Minimum Benefit* – The minimum retirement benefit allowance for a General Assembly member is \$55 per month for each year of creditable service rendered as a member of the General Assembly and for each year of any military service credit and Constitutional Convention delegate service credit established by the member. The minimum allowance is adjusted each July 1 pursuant to the cost-of-living provisions. However, in no event can the minimum retirement allowance exceed 90% of the member's AFC as maybe adjusted by the cost-of-living provisions of the Plan. For purposes of determining the 90% limitation, the AFC for service granted as a member of the General Assembly is independent of the AFC calculation on any other creditable service in the Plan. Any selection of an optional retirement benefit (as discussed below) will reduce this amount.

DISABILITY BENEFITS

An active member who is not eligible for service retirement, but who can no longer engage in any type of substantial gainful employment due to a total and permanent medically-determinable disability may be entitled to disability benefits. The member must submit an Application for Disability Benefits and furnish objective medical records that conclusively document the claim. A disability retiree is subject to annual medical re-evaluation and to an annual review of earnings until age 60. TCRS provides coverage for two kinds of disability: ordinary disability and job-related accidental disability.

Disability benefits for members of the General Assembly is the greater of the guaranteed minimum benefit or 90% of the service retirement benefit that would have been payable. To be eligible for ordinary disability retirement benefits, you must have a minimum of five years of creditable service. There is no minimum service requirement for accidental disability benefits; however, the accident must have occurred in the performance of duty.

SURVIVOR BENEFITS AND BENEFICIARY DESIGNATION

The beneficiary of an active member who dies prior to retirement may be entitled to one of four survivor benefits described in this section. The type of benefit payable to your beneficiary would be determined by who is named as beneficiary and by your age and length of service. Any annuity benefits payable may be reduced by the appropriate option factor.

One of the most important decisions you are asked to make as a new member of the retirement system is to name a beneficiary. When selecting a beneficiary, you should consider the system's survivor benefit provisions in light of your circumstances. It is very important that you keep your TCRS beneficiary designation current throughout your career. Situations such as marriage, divorce, remarriage or death do not automatically change your beneficiary. As an active employee, you may change your TCRS beneficiary at any time prior to retirement by using member self-service at www.mytcrs.com or by submitting a notarized Change of Beneficiary form to TCRS.

- *Lump Sum Refund* – Any beneficiary you have named would be entitled to a refund of the amount you have contributed to TCRS at the time of your death, plus interest. If you were in-service at the time of death, the beneficiary would also receive a matching employer provided amount. If multiple beneficiaries are selected, the payment will be equally divided.
- *Line-of-Duty Benefit* – If your spouse or minor children are named as your beneficiary, your spouse or children would receive a benefit equal to 50% of your AFC if you should die as the result of an accident or physical violence occurring in the performance of your duties. If your spouse is named, this benefit would be paid to the spouse until his or her death. If the named spouse dies, the benefit would then continue on to any minor children until they reach age 22. If your minor children are named as your only beneficiary, this benefit would be paid to them until they reach age 22. If you do not have a spouse or minor child, your named beneficiary will receive a minimum \$50,000 lump sum payment.

- *100% Joint and Survivor Annuity for Spouse after 10 Years' Service* – If your spouse is named as your beneficiary, he or she would be entitled to receive a 100% joint and survivor annuity if you should die in-service after accruing 10 years or more of service credit.
- *100% Joint and Survivor Annuity for Any Beneficiary after Reaching Early Retirement Eligibility* – After you have reached the conditions for retirement, any person you have named as your TCRS beneficiary would be entitled to receive a 100% joint and survivor annuity. If more than one beneficiary is named, each beneficiary would be eligible for an equal share of the 100% joint and survivor annuity. However, if any of the designated beneficiaries include a non-human being, such as an organization, estate or trust, then the only benefit payable would be the lump sum refund described above, unless your surviving spouse is one of the beneficiaries. If your surviving spouse is named, your spouse will be entitled to the 100% joint and survivor annuity, but no benefits will be paid to the remaining beneficiaries. If your spouse elects to receive the lump sum payment, then the payment will be divided equally among your spouse and the other beneficiaries.

APPLYING FOR BENEFITS

Before retirement, disability or death benefits can begin, you or your surviving beneficiary must complete an application and submit it to TCRS. Applications are available from TCRS or online and www.mytcrs.com.

At retirement, you may select the maximum benefit or a reduced benefit pursuant to one of the optional payment plans. The optional payment plans allow your beneficiary to receive a monthly benefit after your death.

Contact the state's 401 (k) third party administrator concerning options available in the defined contribution portion of the Hybrid Plan.

REFUNDS FOLLOWING TERMINATION

Upon separation from service, you may apply for a refund of your accumulated contributions and interest. Employer contributions to the defined benefit portion of the Hybrid Plan are not refundable. **By obtaining a refund, you give up your TCRS membership and all rights and benefits in the retirement system.** Before a refund can be processed, you must file a completed Application for Refund with TCRS.

Federal law requires TCRS to withhold federal income tax from all refunds issued to former members. The withholding rate is currently 20% of the taxable portion. If you arrange to have your refund transferred directly to an Individual Retirement Account, you may avoid having taxes withheld.

Contact the state's 401 (k) third party administrator concerning options available in the defined contribution portion of the Hybrid Plan.

POTENTIAL LOSS OF BENEFITS

Any member who is convicted in state or federal court of a felony arising out of the member's employment or official capacity which constitutes malfeasance in office will be prohibited from receiving benefits. This prohibition applies to anyone joining TCRS after July 1, 1982 who is convicted of such a felony in a Tennessee state court as well as anyone joining on or after May 31, 1993 who is convicted of such a felony in a federal court. Persons elected to a public office in the State of Tennessee consent and agree to the forfeiture of their retirement benefits from TCRS upon conviction in a state or federal court of a felony arising out of their official capacity regardless of the date the elected official became a member of TCRS. If the conviction is later overturned and the member is acquitted or is granted a full pardon, the member will be restored to all rights, privileges and benefits as if the conviction never occurred.

Any person convicted of a felony as provided above may elect, within six months of the person's conviction, to have a monthly retirement allowance paid to whomever that person had designated as beneficiary at the time of that person's conviction.

However, the beneficiary must have been that person's spouse or child at the time of that person's conviction. The benefits will be payable to the beneficiary upon the person's death provided all other eligibility requirements applicable to a beneficiary have been met. The amount of the benefits will equal the retirement allowance which would have been payable had the person retired under the survivorship option elected.

DEFINED CONTRIBUTION PORTION OF THE HYBRID PLAN

Your Contribution: Upon first becoming a member of the Hybrid Plan, 2% of your compensation will be deferred automatically into the defined contribution component of the Hybrid Plan unless you make an affirmative election not to contribute. The election to not contribute to the defined contribution plan must be filed in the prescribed method and must be received by the employer/third party administrator no later than 30 calendar days from the date first employed.

You may cancel or adjust (increase or decrease) future employee deferrals at any time by providing the appropriate notice of the cancellation or changes under the terms of the deferred compensation program.

Your Employer Contribution: The employer will make a contribution to the defined contribution component of the plan on behalf of each member of the Hybrid Plan, regardless of whether the member makes any employee contribution. The amount of the contribution is 5% of the member's compensation. By federal law, the maximum salary on which employer contributions can be made is \$260,000 for 2014, but indexed in future years.

The employer contribution may be decreased as part of the cost controls for the defined benefit plan noted above.

A member immediately vests in the employee and employer contributions made by or on behalf of the member to the defined contribution portion of the Hybrid Plan.

MAXIMUM CONTRIBUTION LEVELS

The federal government establishes maximum contribution levels that an employee may contribute. For 2014, the elective deferral by an employee is \$17,500 and the catch-up contribution limit is \$5,500. The annual defined contribution limit from all sources is \$52,000 for 2014, but indexed in future years.

ALLOCATION OF CONTRIBUTIONS TO INVESTMENT PRODUCTS

Each participant selects the investment option or options in which the employee contributions (if any) and employer contributions are to be directed.

All contributions made by or on behalf of a member who does not select an investment option or options within the prescribed period will be directed to the default investment option established by the trustees of the deferred compensation plan.

TERMINATION OF EMPLOYMENT OR RETIREMENT

Upon terminating employment or retiring, an employee may:

- (1) leave his/her account in the plan to withdraw or annuitize at some future date;
- (2) withdraw or annuitize immediately; or
- (3) rollover to another qualified investment program.

If you withdraw your account balance prior to age 59½, you are subject to a 10% early distribution tax under the Internal Revenue Code unless certain conditions exist such as your rolling over the funds to another eligible plan. Pursuant to federal law, minimum withdrawals must begin in the year following attainment of age 70½. For further information on the state's 401(k) defined contribution plan, please visit the State's 401(k) website, which, as of July 1, 2014, is <http://treasury.tn.gov/dc/index.html>.

HYBRID PLAN STRUCTURE AND DESIGN

The Hybrid Plan structure is a combination of a defined benefit plan and a defined contribution plan. Moreover, state employees, higher education employees and teachers also have social security coverage.

The Hybrid Plan was designed as an effective and efficient retirement program for public employees with four objectives:

- (1) provide a sufficient level of benefit accrual for both career employees and for mobile employees;
- (2) provide a sustainable plan structure going forward;
- (3) control employer cost; and
- (4) control unfunded liabilities of the defined benefit plan.

For further information regarding the cost and unfunded liability controls of the defined benefit portion of the plan, please refer to Public Chapter 259, Acts of 2013 which can be found at <http://www.tn.gov/sos/acts/108/pub/pc0259.pdf>.

This pamphlet is intended to provide a general introduction to some of the basic provisions of the Hybrid Plan for members of the General Assembly. It is based on the law governing the Hybrid Plan in effect as of July 1, 2014. It does not include all plan provisions and is for informational purposes only and in no way constitutes a contract or binding agreement between you and the Retirement System. It is not a legal document and is not intended to serve as a basis for legal interpretation. For complete details on the plan provisions, please refer to Tennessee Code Annotated, Title 8, Chapters 34-37. The information in this pamphlet is subject to legislative change and judicial interpretation. It does not supersede nor restrict applicable procedures or authority established under state or federal law. Additional pamphlets on various topics mentioned in this pamphlet are available from TCRS' website, which, as of July 1, 2014, is <http://treasury.tn.gov/tcrs/Public.html>.

TCRS OFFICES

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Member Services 615-741-4868

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Counseling Services 615-741-1971

E-mail: TCRS.Counseling@tn.gov

Retired Payroll 615-741-4913

E-mail: TCRS.Financial@tn.gov

Retiree Insurance 1-877-681-0155

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Please include your Member ID and your current address on any correspondence.