



Tennessee Consolidated Retirement System (TCRS) Proposed Additional Pension Options for Local Governments

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



What is TCRS?

TCRS Background June 2011

- Consolidated System:
- > State employees, higher education employees and K-12 teachers.
 - > Benefits portable between governmental employers.
 - > Local government participation is optional.
 - > Local government liabilities valued individually.

<u>Membership</u>	<u>Active</u>	<u>Retired</u>	<u>Annualized Benefits</u>
State & Higher Education	58,551	43,141	\$ 507,343,174
K-12 Teachers	79,583	39,961	913,825,485
Local Government	<u>81,780</u>	<u>34,083</u>	<u>248,003,145</u>
Total	219,914	117,185	\$1,669,171,804



What is TCRS?

TCRS Participation

At June 30, 2011, there were 483 political subdivisions participating in TCRS:

Cities	176
Counties	89
Utility Districts	66
Special School Districts	19
Housing Authorities	11
911 Emergency Communication Districts	43
Miscellaneous Authorities	<u>79</u>
Total	483



Economic Impact

TCRS Economic Impact in Tennessee

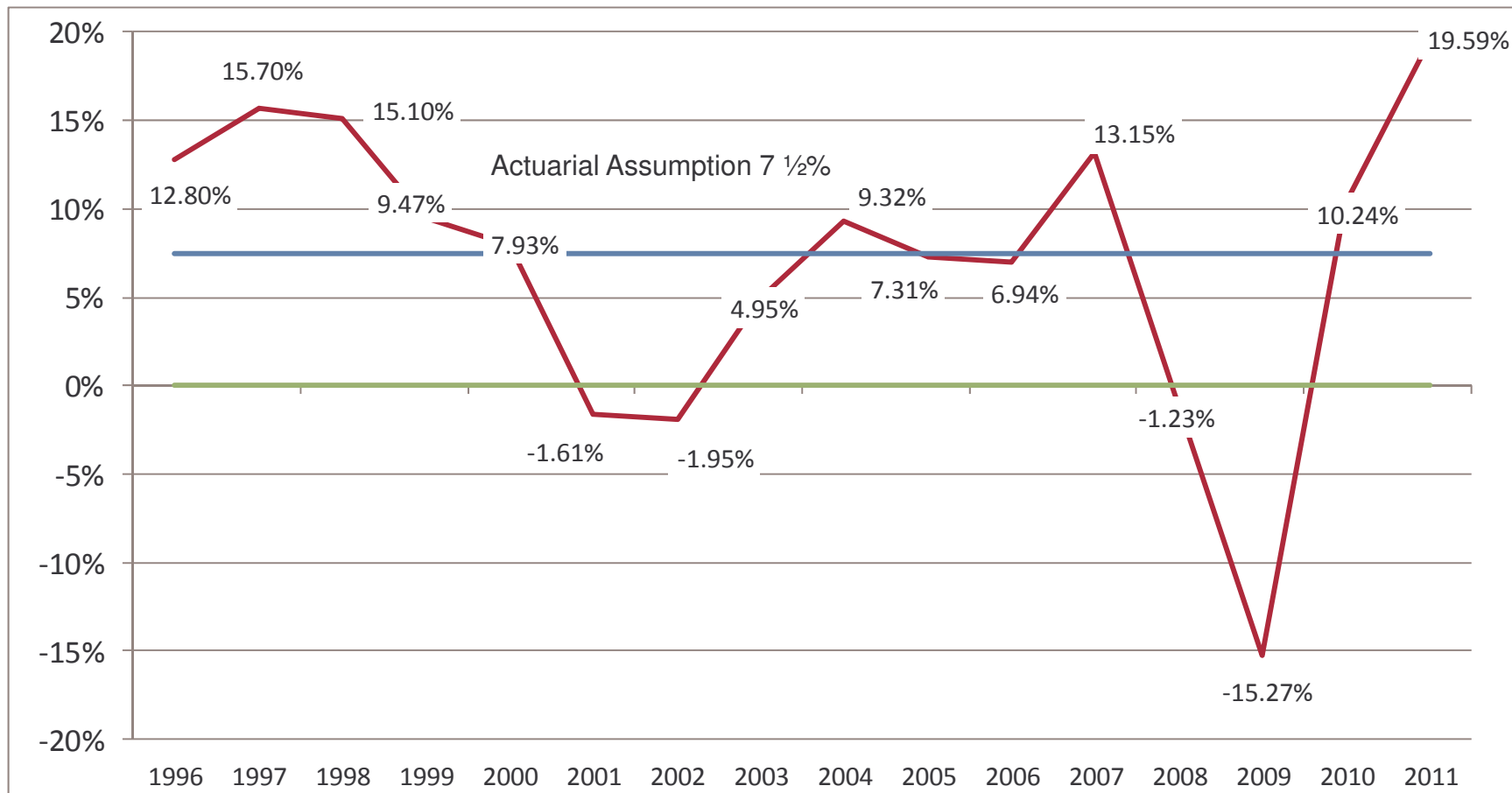
	<u>County</u>	<u>Population*</u>	<u>2011 Annual TCRS Benefits</u>
East	Knox	432,226	\$104,600,000
	Hamilton	336,463	78,600,000
	Anderson	75,129	20,600,000
	Jefferson	51,407	12,600,000
	Unicoi	18,313	4,600,000
	Hancock	6,819	1,600,000
Middle	Davidson	626,681	\$132,100,000
	Montgomery	172,331	31,600,000
	Wilson	113,993	24,000,000
	Maury	80,956	16,500,000
	DeKalb	18,723	3,800,000
	Moore	6,362	1,000,000
West	Shelby	927,644	\$206,300,000
	Madison	98,294	33,700,000
	Tipton	61,081	10,800,000
	Dyer	38,335	8,400,000
	Carroll	28,522	7,800,000
	Lake	7,832	2,600,000

**Based on 2010 Census.*



Investment Performance Issues Facing TCRS

TCRS Investment Performance



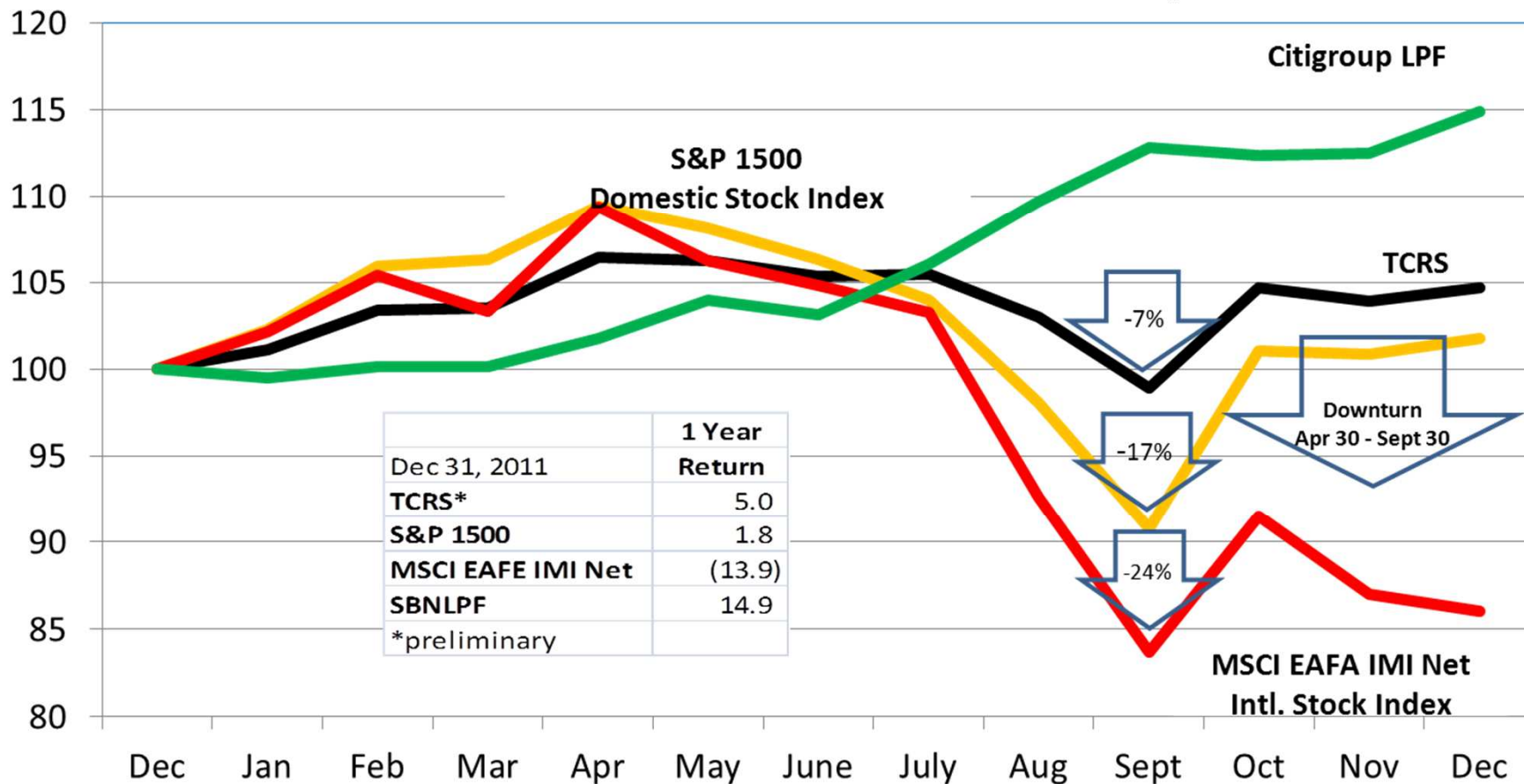
**through 06/30/2011*



Investment Performance

Calendar Year 2011

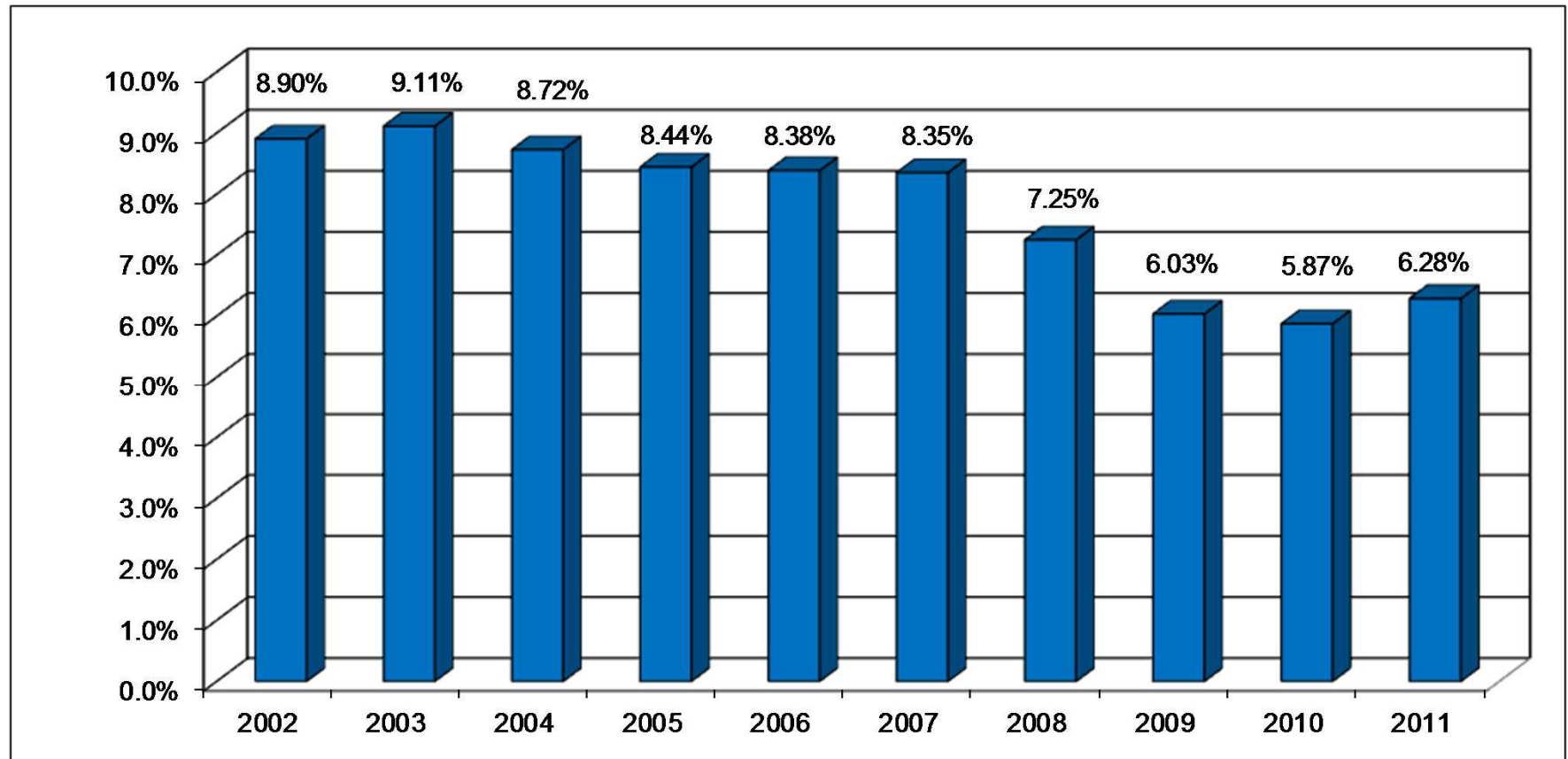
TCRS and Asset Class Performance Comparison





Investment Performance Issues Facing TCRS

TCRS Rolling 15-Year Annual Returns



**through 06/30/2011*



Reasons for the Proposals Issues Facing TCRS

Local Government Employer Contribution Rates*

<u>Employer Rate</u>	<u>Contributory</u>	<u>Non-Contributory</u>
Large and Medium Employers (over 100 employees)		
0% - 5%	0	0
5% - 10%	86	2
10% - 15%	14	32
15% +	1	17
Small Employers (less than 100 employees)		
0% - 5%	46	6
5% - 10%	133	7
10% - 15%	58	47
15% +	12	24
Total	350	135
Percentage	72%	28%

**For period June 30, 2011 to June 30, 2012*



Reasons for the Proposals Issues Facing TCRS

Employer Contribution Rate By Category (Percent of Payroll)

	<u>No. of Entities</u>	<u>% of Group</u>
• <i>less than 10%</i>	280	58%
• <i>10% to 15%</i>	151	31%
• <i>greater than 15%</i>	54	11%

**For Period June 30, 2011 to June 30, 2012*



Reasons for the Proposals

- *Cost pressure on local governments for all employee benefits, e.g. pension, health insurance, annual leave*
- *Over the last two plan years, 7 local government entities have either withdrawn or given notice to withdraw from TCRS*
- *Moody's Investors service, bond rating agency, has announced pension liabilities should be combined with state debt and also Other Post Employment benefits (OPEB) in determining rating status*
- *Governmental Accounting Standards Board (GASB) has proposed that accrued liabilities of pension plan should be included as a liability on the balance sheet of governmental entities*
- *Tennessee has a well earned reputation for excellent financial management – there is a need to proactively address the issues*



Input on Local Government Proposals

- *Written notice of open meetings was sent to all local governments seeking input and participation in meetings.*
- *Open meetings were held with 200 local government representatives throughout Tennessee in fall, 2011 to obtain their input.*
- *Thorough review, analysis and report prepared by the state's Financial Advisor, Public Financial Management, and the retirement specialists at its affiliate, PFM Asset Management, LLC.*



Local Government Proposals Addressing TCRS' Issues

Important Points about these Proposals

- *Nothing in these proposals applies to State Employees, K-12 Teachers or Higher Education Employees.*
- *Nothing in these proposals applies to any current retirees of the TCRS.*
- *Nothing in these proposals applies to any local government employee hired prior to the effective date July 1, 2012.*
- *No local government entity is required to make any changes.*
- *These proposals are optional and are effective only upon adoption by the local government entity.*
- *These proposals are subject to change at any time prior to enactment – see latest version of draft legislation.*



Current Local Government Plan

Plan 1 - Current TCRS political-subdivision pension plan selected provisions:

- *Provides pension multiplier of 1.5% for retirement at age 60 or after 30 years of service.*
- *Early retirement available with reduction at age 55 or after 25 years of service.*
- *Employers may require either 0% or 5% of pay employee contribution; and may select annual cost of living adjustment (COLA) with 3% cap or no COLA.*
- *All current local government employees remain in Plan 1 with no changes, even if local government adopts one or more new options for new hires after July 1 , 2012.*
- *Employers may also retain this option for some employees hired after July 1, 2012.*



Additional Options for Plan 1

Local government entities may adopt these only for new hires effective the later of July 1, 2012, or the date the option is adopted by local government:

- **Employers may adopt an additional contributory option for new employees at 2.5% of salary. Result is Employer may require new hire Employees to contribute 0%, 2.5% or 5% of pay to the plan.**
- **Local government employers may (for new hires only) freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively (i.e., for future service) for employees hired after the July 1, 2012. Accrued benefits will not be affected.**



Additional Options for Plan 1

Normal Cost to local government entity employer (percent of payroll):

	<u>0% Employee</u>		<u>2.5% Employee</u>		<u>5.0% Employee</u>	
	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>
<i>Plan 1</i>	<i>11.2%</i>	<i>9.1%</i>	<i>8.8%</i>	<i>6.7%</i>	<i>6.5%</i>	<i>4.4%</i>

This estimate of Normal Cost is based on current TCRS annual earnings assumption of 7.5 %. Use of a lower earnings assumption will result in a higher Normal Cost. Normal cost is the portion of compensation (expressed as a percentage of payroll) that is being deferred in the current accounting year. This calculation may also be increased by multiple factors such as market losses in investments, future salary increases in excess of assumptions, and is not a guarantee of costs for a particular entity. Normal cost of a particular local government entity can only be determined by an actuarial study.



Proposed Optional Plan 2

- ***Plan 2 is a Defined Benefit Pension Plan with Annual Service Accrual multiplier of 1.4%.***
- ***New retirement age of 65 for general employees with vesting after 5 years of service or Rule of 90. Permit earlier retirement at age 60 with 5 years or Rule of 80, at a reduced benefit using updated, full unsubsidized actuarial discount factors. If elected by a local government, public safety benefits remain unchanged.***
- ***Maximum annual pension benefit of \$80,000 adjusted for CPI.***
- ***Employers may elect annual COLA capped at 3% or no COLA provision.***
- ***Employers may require employee contributions of 0%, 2.5% or 5% of pay.***
- ***Local government employers may (for new hires only) freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively (i.e., for future service) for employees hired after the July 1, 2012. Accrued benefits will not be affected.***



Proposed Optional Plan 2

***Normal Cost* to local government entity employer
(percent of payroll):***

	<u>0% Employee</u>		<u>2.5% Employee</u>		<u>5.0% Employee</u>	
	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>
<i>Plan 2</i>	<i>8.2%</i>	<i>6.8%</i>	<i>5.8%</i>	<i>4.4%</i>	<i>3.4%</i>	<i>2.0%</i>

****See definition of Normal Cost on Slide 15***



Proposed Optional Plan 3

Plan 3 is a Hybrid plan (i.e. Defined Benefit Plan plus Defined Contribution Plan)

- ***All the same Defined Benefit Pension Plan Provisions as Plan 2 above , except Annual Service Accrual multiplier is 1%***
- ***Employer must provide some form of defined contribution (DC) plan, which can be satisfied with a supplemental deferred compensation plan or any other qualified defined contribution plan.***
- ***State will offer its 401(k) plan and other DC options to local governments but local governments may procure DC plan from any source.***
- ***Maximum employer contribution to the DC component would be limited (6% to 9% of pay, TBD).***



Proposed Optional Plan 3

Normal Cost* to local government entity employer of defined benefit plan portion only (percent of payroll):

	<u>0% Employee COLA</u>	<u>2.5% Employee COLA</u>	<u>5.0% Employee COLA</u>
<i>Plan 3</i>	5.9%	3.5%	1.1%

****See definition of Normal Cost on Slide 15***



Proposed Optional Plan 4

Plan 4 is a Defined Contribution Plan Option

- **State will offer to local government entities three options: 401(k) plan; a fixed-contributions 401(a) plan and its supplemental 457 plan as employer options.**
- **Employers are free to design any benefit and contribution level available under the third-party administrator's recordkeeping system.**
- **Maximum combined employer contributions of 15 percent of eligible compensation.**
- **State will offer its defined compensation plans to local governments, but local government may obtain defined compensation plan from any source.**



Addressing TCRS' Issues

Plan I - Current TCRS Plan (Defined Benefit Plan)

Plan Provisions

Eligibility to Retire	Age 60 and vested or 30 years of service
Benefit Formula	1.575% of AFC times years of service

Gross Replacement Income based on 35 years of Service at Age 65

	<u>\$30,000 AFC</u>		<u>\$50,000 AFC</u>		<u>\$70,000 AFC</u>	
	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>
TCRS	\$16,538	51.0%	\$27,563	51.0%	\$39,561	52.3%
Social Security	<u>13,980</u>	<u>43.1%</u>	<u>20,040</u>	<u>37.1%</u>	<u>23,448</u>	<u>31.0%</u>
Total	\$30,518	94.2%	\$47,603	88.2%	\$63,009	83.3%
@ 75% Social Security	\$27,023	90.1%	\$42,593	85.2%	\$57,147	81.6%



Addressing TCRS' Issues

Plan 2 - Defined Benefit Plan with 1.4% Annual Service Accrual

Plan Provisions

Eligibility to Retire	Age 65 and vested or Rule of 90
Benefit Formula	1.4% of AFC times years of service
	Maximum benefit capped at \$80,000

Gross Replacement Income based on 35 years of Service

	<u>\$30,000 AFC</u>		<u>\$50,000 AFC</u>		<u>\$70,000 AFC</u>	
	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>
TCRS	\$14,700	45.4%	\$24,500	45.4%	\$34,300	45.4%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$28,680	88.5%	\$44,540	82.5%	\$57,748	76.4%
@ 75% Social Security	\$25,185	83.9%	\$39,530	79.1%	\$51,886	74.1%



Addressing TCRS' Issues

Plan 4 - (Defined Contribution Plan)

Gross Replacement Income based on 35 years of Service

2 % Employee and 2 % Employer Contributions

	\$30,000 AFC		\$50,000 AFC		\$70,000 AFC	
	Benefit	%	Benefit	%	Benefit	%
DC Annuity	\$ 5,074	15.7%	\$ 8,456	15.7%	\$11,838	15.7%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$19,054	58.8%	\$28,496	52.8%	\$35,286	46.7%

5 % Employee and 5 % Employer Contributions

	\$30,000 AFC		\$50,000 AFC		\$70,000 AFC	
	Benefit	%	Benefit	%	Benefit	%
DC Annuity	\$12,685	39.2%	\$21,139	39.1%	\$29,595	39.1%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$26,665	82.3%	\$41,179	76.3%	\$53,043	70.2%



Next Steps

- ***Legislation will be filed with respect to these proposals. Details will be posted to website when available.***
- ***Proposal documents are being sent to local government entities throughout Tennessee for information and any further input or comment.***