

TCRS REPORT

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Produced for active members of the Tennessee Consolidated Retirement System



*David H. Lillard, Jr.
Treasurer*

A MESSAGE TO TCRS PARTICIPANTS

I hope you will enjoy this issue of TCRS Report, the newsletter for active employees who are enrolled in the Tennessee Consolidated Retirement System!

First and foremost, I want you to know we have a good story to tell about the financial health and stability of TCRS. Unlike some other pension funds you may have read or heard about over the last couple of years, TCRS is in good shape financially. I attribute this to a number of factors, including the General Assembly's commitment to adequately funding pension benefits and our Treasury staff's conservative but effective investment strategy.

In this issue, you will find tips for selecting a beneficiary and planning for your retirement, as well as information about how pension benefits are calculated and financed. If there are questions you would like to have addressed in future issues of this newsletter, please call (615) 741-1971 or e-mail TCRS.Counseling@tn.gov.

Thank you for your continued participation in TCRS. We welcome your input.

Sincerely,

A handwritten signature in black ink that reads "David Lillard".

Treasurer David H. Lillard, Jr.

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WHO TO SELECT AS YOUR BENEFICIARY

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

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

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

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

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



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

HOW PENSION BENEFITS ARE FINANCED

TCRS is funded by employee and employer contributions plus investment earnings on those contributions. Teachers and most local government employees contribute 5 percent of their pay to help fund the pension plan. Employers also contribute varying amounts, depending on a set of actuarial assumptions.

Each participating employer is totally responsible for the pension costs of its employees. To help calculate those costs, a standard actuarial “advanced funding” method is used to determine monthly retirement annuities needed for the present and the future. Every two years, the TCRS Board of Trustees sets employer contribution rates, based on an independently performed actuarial valuation, that will cover administrative costs and the expense of providing current and future benefits.

TCRS ANNUAL STATEMENTS

TCRS annual statements were recently distributed to all active TCRS members through your employer. Please carefully review your annual statement for accuracy. Contact us at (615) 741-4913 or TCRS.Financial@tn.gov if you have any questions.

Is your beneficiary designation up-to-date? You may update your beneficiary designation by completing and submitting the Change of Beneficiary form that can be downloaded on the forms tab at www.treasury.tn.gov/tcrs/members.html.

HOW ARE TCRS BENEFITS CALCULATED?

When you are eligible for retirement, your TCRS benefit is calculated using a formula based on up to four factors:

1. Average Final Compensation (AFC)
2. A Multiplier
3. Years of Service Credit in TCRS
4. Potentially, the Social Security Integration Level (SSIL) and its Multiplier



The first factor, average final compensation, takes into account your entire pay history. Your AFC is the average of your highest five consecutive years of salaries creditable in TCRS. Only your gross salary, without any deductions, is used.

The second factor, the multiplier, is set by the state law. The multiplier for TCRS Group 1 benefits is 1.5%.

The third factor in the formula is the amount of creditable service you have accumulated with a TCRS-covered employer. You earn one day of service credit for each day worked. In addition, additional service may be established in TCRS through factors such as military service, refunded service, probationary service and educational leave. In general, the more service you have, the higher your benefit amount. Sick leave may also increase your total service credit. Each 20 days of accumulated sick leave will add one additional month of retirement credit (local government employers must pass a resolution authorizing their employees to establish sick leave credit). For the purpose of benefit calculation, your length of service is expressed in years, not months or days.

The final factor, the SSIL, is a salary level above which Social Security benefits diminish. (In other words, the relative value of Social Security benefits are higher for low wage earners than for high wage earners.) For the current year, that salary level is set at \$59,400. To compensate for the

decrease in Social Security benefits for high wage earners, federal law allows TCRS to provide a slightly higher benefit rate on the portion of the AFC that exceeds the SSIL. The SSIL multiplier is 0.25% of the excess amount.

The formula is expressed this way:

$$\begin{array}{l} \text{Step 1} \quad \text{AFC} \quad \quad \times \quad \text{Multiplier} \quad \quad \times \quad \text{Years of Service} \\ \text{Step 2} \quad \text{AFC-SSIL} \quad \times \quad \text{SSIL Multiplier} \quad \times \quad \text{Years of Service} \end{array}$$

As an example, let's assume the member has an average final compensation of \$45,000 and 30 years of service. Since this year's SSIL number is greater than \$45,000 (\$59,400), the benefit calculation would only involve Step 1 – multiplying average final compensation x years of service x .0150:

$$\text{Step 1} \quad \$45,000 \quad \times \quad .0150 \quad \times \quad 30 \quad = \quad \$20,250$$

However, if the employee's average final compensation is higher than the SSIL – for example, \$60,000 – there would be an additional step in the process. Step 1 would remain the same – multiplying average final compensation x years of service x the multiplier:

$$\text{Step 1} \quad \$60,000 \quad \times \quad .0150 \quad \times \quad 30 \quad = \quad \$27,000$$

Step 2 involves subtracting the difference between the average final salary and the SSIL salary, then multiplying that to years of service and the SSIL multiplier:

$$\text{Step 2} \quad \$60,000 - \$59,400 (\$600) \quad \times \quad .0025 \quad \times \quad 30 \quad = \quad \$45$$

By adding the totals from Steps 1 and 2 together, the total annual retirement benefit would be \$27,045.

If you are thinking of retiring soon, call 615-741-1971 to set up an appointment with a TCRS retirement counselor. Our counselors can help calculate your benefit and assist you with your pre-retirement planning.

FINANCIAL PLANNING FOR YOUR RETIREMENT



There is a saying that people should “plan their work” and then “work their plan.” That saying applies very well to retirement planning.

Unfortunately, most people spend more time planning a two-week vacation than they spend planning for their retirement.

If you expect to maintain the same standard of living after retirement that you have before retirement, you need to plan for that goal and then work toward that goal. Think of a “three-legged stool” as a model for retirement planning. In this model, the three legs of the stool are: (1) a Social Security benefit; (2) a TCRS pension; and (3) personal savings in the form of IRAs, CDs and other investment vehicles such as 401(k), 457 or 403(b) plans.

The general rule of thumb is that 75 to 80 percent of pre-retirement income needs to be replaced by Social Security, an employer pension and personal savings. Why the lower amount? After retirement, you no longer pay Social Security taxes and you are usually in a lower income tax bracket because Social Security benefits are generally not taxable. Moreover, you no longer have those work-related expenses such as transportation costs. In many cases, retirees no longer owe money on mortgages or other items purchased on credit.

Planning for your eventual retirement should occur early in your life rather than when you are approaching retirement. By planning early, you can increase the value of your money over time. Consider this example:

Two individuals, David and Danny, worked for 35 years and then retired at the same time. David invested \$2,000 a year at a 5 percent return on investment for the first 10 years of his career and then stopped adding any new money to his investment. At the time he retired, his investment was worth \$87,316 (the \$20,000 he invested plus his earnings of \$67,316).

Danny, on the other hand, got a late start and began investing \$2,000 a year at a 5 percent rate of return for the last 10 years of his career. Even though Danny invested \$20,000 during the 10-year period, his investment was only worth \$25,784 – with earned income of only \$5,784. By waiting 25 years to begin his investment, Danny earned \$61,531 less than David. This phenomenon is known as the time value of money.

Consider what others have said about the time value of money, also called compound interest. Benjamin Franklin called compound interest “the eighth wonder of the world.” When asked to name the greatest invention in human history, Albert Einstein simply replied, “compound interest.” He also referred to compound interest as “the most powerful force in the universe.”

TCRS ACTIVE MEMBERSHIP

TCRS is a defined benefit plan that covers state employees, public higher education employees, K-12 public school teachers and employees of political subdivisions who have elected to participate in the plan. At June 30, 2011, TCRS membership was as follows:

State Employees	42,142
Higher Education Employees	16,409
Teachers	79,583
Local Government Employees	<u>81,780</u>
Total	219,914

SOCIAL SECURITY

Did you know you could receive an estimate of your Social Security benefits online? Go to <http://www.socialsecurity.gov/estimator/> to receive an estimate of your Social Security benefits. The estimate will be based on your actual data reported to the Social Security Administration. You will need to enter your last year’s wages which may be found on your W-2. This estimate cannot be used as an official Social Security estimate by members selecting Social Security Leveling as their payment option from TCRS.

CONTACTING TCRS

Members may address correspondence to the appropriate section of the retirement system at the address below. Please include your Social Security number on all correspondence.

Tennessee Consolidated Retirement System
502 Deaderick Street
Nashville, Tennessee 37243
Internet Site: tcrs.tn.gov

Counseling Services Division 615-741-1971
Benefit Estimates E-mail: TCRS.Counseling@tn.gov
Pre-Retirement Planning
Change of Beneficiary
Disability Retirement 615-253-8693

Member Services 615-741-4868
Retirement Application Status E-mail: TCRS.Member-Services@tn.gov
Prior Service (military, refunded, out-of-state, educational leave)

Financial Services Division 615-253-6781
Annual Statements E-mail: TCRS.Financial@tn.gov
Refunds (account balances, refund information)

TCRS Toll-Free 1-800-770-8277

The **TCRS Report** is a publication of the Tennessee Consolidated Retirement System.

David H. Lillard, Jr., State Treasurer
Jill Bachus, Director
Shirley Chatman, Publications Officer

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