

TENNESSEE TREASURY DEPARTMENT

2017 Annual Report



INTRODUCTION

The Tennessee Department of Treasury has modernized its mission and vision statements to reflect its increasing effort to be a financial leader for Tennesseans. Each of Treasury's programs play a part in enriching the lives of Tennesseans and helping them to become better financial stewards, which is why we have updated our mission and vision to the following:

Our mission

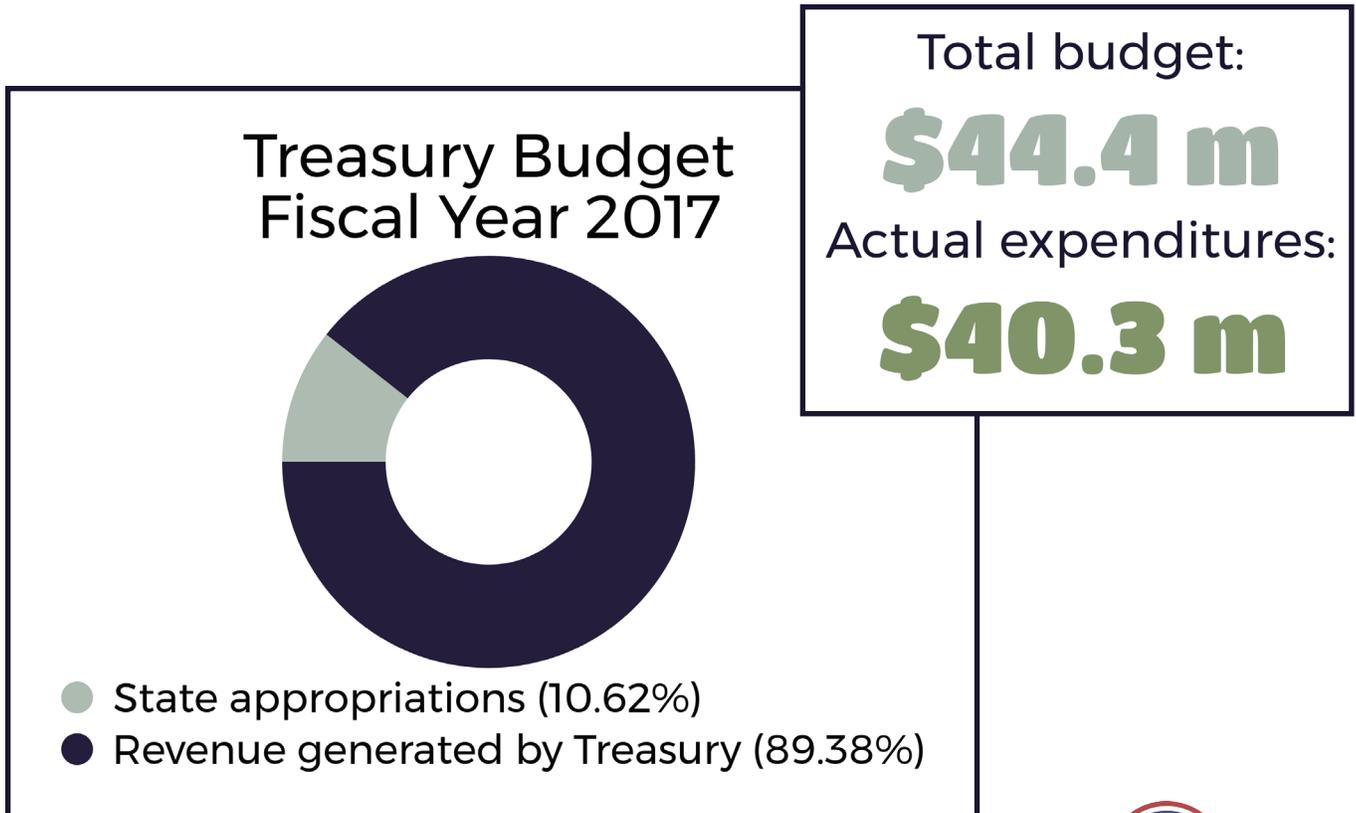
is to invest in the well-being of Tennesseans through exceptional financial leadership, management, service and education.

Our vision

is to enrich the lives of Tennesseans as a national leader in public financial stewardship.

The Tennessee Department of Treasury works to fulfill this mission and vision every day. Treasury is responsible for many of the financial operations of state government, including managing and overseeing more than \$66.11 billion in assets through its various investment programs. We administer the State's Retirement Program, *RetireReadyTN*, which combines the state pension plan, Tennessee Consolidated Retirement System, and the State's Deferred Compensation plan. Treasury serves all Tennesseans by helping to educate and empower them to make smart financial choices, and by providing public-serving programs in the areas of college savings, financial literacy, unclaimed property, criminal injuries compensation, risk management, and more.

For fiscal year 2017, the total budget for the Tennessee Department of Treasury was \$44,371,800, and the actual amount of expenditures was \$40,270,700. Treasury received total state appropriations of \$4,710,700, with the remaining \$39,661,100 of the budget funded from revenues generated by the Department.



FINANCIAL LEADERSHIP

Investments

The Tennessee Department of Treasury's Investment Division is comprised of 34 professionals with extensive education, professional training, and 29 designations to manage its investments. The department achieves investment returns consistent with its peers while maintaining an investment expense that is among the lowest in the southeast.



We produce strong investment returns at a modest risk.

We provide state and local governments with safe and liquid cash management services



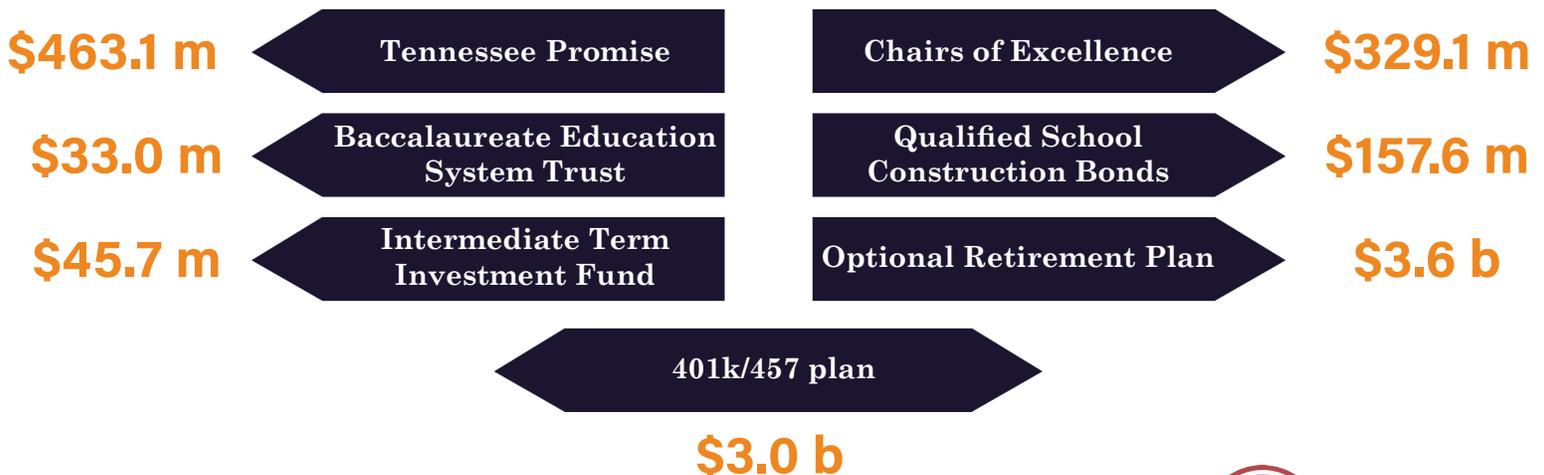
Selected Funds Managed Internally by the Treasury Investment Division:

- **Tennessee Consolidated Retirement System (TCRS)** – The largest fund managed by Treasury is the Tennessee Consolidated Retirement System. As of June 30, 2017, the market value of the TCRS fund was approximately \$47.0 billion. The investment expense for the state pension is 13 basis points or 0.13 percent.
- **State Pooled Investment Fund (SPIF) and the Local Government Investment Pool (LGIP)** – The Department of Treasury manages short-term investments for state and local governments through the State Pooled Investment Fund (SPIF) and the Local Government Investment Pool (LGIP). The SPIF, with a June 30, 2017 balance of approximately \$11.3 billion, includes the state's cash, dedicated reserves and trust funds, and the balance of the LGIP of approximately \$3.06 billion. The LGIP provides short-term cash management to local governments.
- **Tennessee Promise Endowment Trust** – As of June 30, 2017, the Tennessee Promise Endowment Trust has a market value of \$463.1 million.



\$463.1 million
Tennessee Promise Endowment Trust
Market value as of June 30, 2017

We support state initiatives with investment management and investment insight for a diverse set of programs:



SERVICE AND EDUCATION

RetireReadyTN

Treasury protects the retirement of over 217,000 current state and higher education employees, K-12 teachers and participating local governments, as well as 136,946 retirees. We diligently manage and oversee investments for the State's Retirement Plan, RetireReadyTN, as well as provide financial education and counseling for participants throughout every stage of their career. RetireReadyTN consists of the Tennessee Consolidated Retirement System, the State's Deferred Compensation 401k and 457b plans, and retirement readiness education.



Since synergizing our retirement program efforts under the brand of RetireReadyTN in 2016, efficiencies have greatly increased for our members. We have one central call center where members can access information about both the defined benefit plan and the deferred compensation plan on the same call. We also provide comprehensive retirement counseling from 14 counselors and three offices across the state, allowing members in every Grand Division to receive counseling services in the cities where they work and live.

RetireReadyTN Call Center Performance FY 2017



Total Calls **125,337**

Average Call Score **4.73** (out of 5)

Calls answered within
90 seconds **88.1%**

Retirement Counseling Sessions **2,993**



Field Activity FY 2017

Total group meetings
1,142

Total group meeting
attendees
20,992

Total One-on-One and
CFP meetings
7,498

SERVICE AND EDUCATION

Tennessee Consolidated Retirement System

One of the top six best-funded public pension plans in the nation, the TCRS portfolio was valued at \$47.0 billion at June 30, 2017. The final investment return for fiscal year 2017 was 11.42 percent as estimated by staff, compared to an actuarial assumption of 7.5 percent. It is understood that the 7.5 percent earnings assumption is based on a long-term investment horizon.

- ◆ Active Members in the Legacy Plan (closed to new members on June 30, 2014): 189,558
- ◆ Active Members in the Hybrid Plan: 23,269
- ◆ Retired Members: 136,946



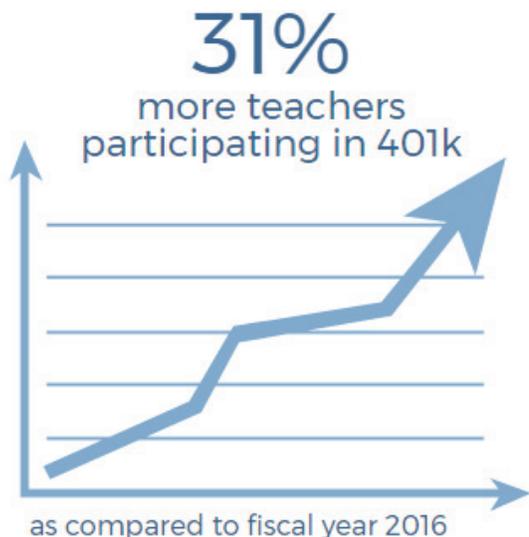
\$2.4 Billion
paid to



136,946
Retirees

Deferred Compensation

The State Deferred Compensation Plan consists of a 401(k) and a 457 plan. For the year ending June 30, 2017, contributions to the program totaled \$263.2 million.



- ◆ 118,592 participants in the 401(k) plan
- ◆ 9,677 participants in the 457 plan
- ◆ As of June 30, 2017, 25,145 K-12 teachers have elected to participate in the 401k, a 31% growth over the prior year.
- ◆ 115 new adoptions of the deferred compensation plan by local governments in fiscal year 2017.
- ◆ A total of 213 local governments participate in the deferred compensation plan as of June 30, 2017

SERVICE AND EDUCATION

Treasurer Lillard has a mission to raise the per-capita savings for Tennesseans. Treasury offers a range of programs to educate and empower Tennesseans to make smart financial choices: a Commission providing financial education resources for Tennessee students grades K-8, two low-cost savings programs with strong investment options, and a matching grant program which encourages Tennesseans of lower-to-middle income levels to prepare and save for higher education.

Tennessee Financial Literacy Commission (TNFLC)

The Tennessee Financial Literacy Commission (TNFLC) strives to equip Tennesseans to make sound financial decisions with regard to planning, saving and investing. The Commission wants Tennessee to lead the country in the area of financial literacy. Specifically, we want to lead the country in college savings per capita, retirement savings per capita, and lowest debt per citizen.

This year the Tennessee Financial Literacy Commission worked to provide training to over 433 teachers throughout the state. That brings the total number of teachers impacted by the TNFLC to over 4,000 since the program began seven years ago.



- The *Vault-Understanding Money* program, an education-based online tool for elementary-aged students, was utilized in over 661 schools across Tennessee, educating more than 7,000 children on financial literacy this year alone. This program has yielded a 36 percent improvement in test scores statewide.
- TNFLC has partnered with three counties to implement the *Financial Fitness for Life* curriculum using a new, more targeted approach. In fiscal year 2017, this program reached 750 students in Dickson County, 415 students in Wilson County and 555 students in Cannon County.

ABLE TN

One of the nation's first Achieving a Better Life Experience programs to launch, ABLE TN has provided a valuable resource to help more than 1,000 individuals with disabilities save more than \$5 million since June 2016.

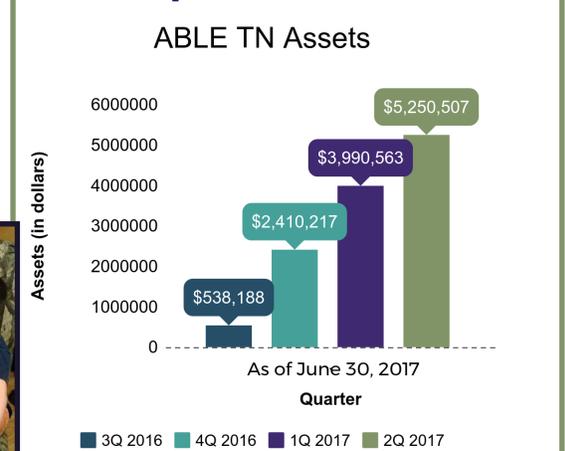
- ABLE TN holds 14 percent of the market share for all ABLE plans nationwide (as of June 30, 2017).
- In 2016, ABLE TN received Treasury's Award for Excellence and Innovation.

“I mailed in my daughter Eden's first contribution last year on June 14th and contribute \$100 automatically each month. She has almost \$1,500 saved. Thanks, ABLE TN!”

- Adam Cathey, ABLE TN account holder



Over \$5 Million Saved



SERVICE AND EDUCATION

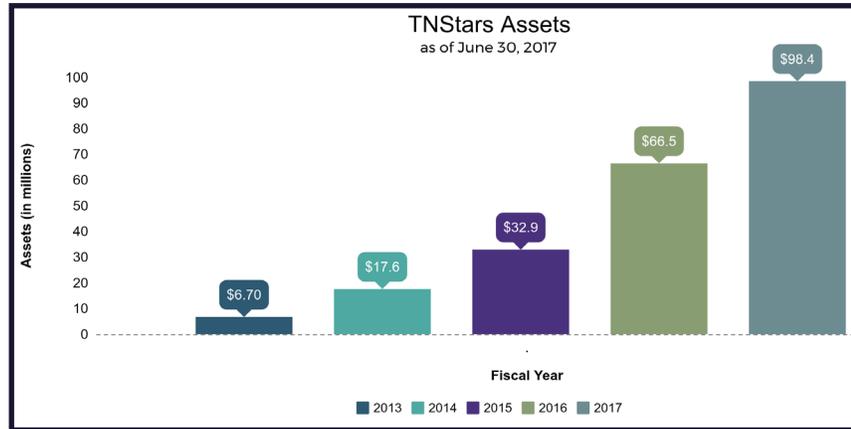
TNStars® College Savings 529 Program

TNStars is designed to give Tennessee families high quality investment options at a low cost to help them put aside money for college expenses.

TNStars ended fiscal year 2017 with \$98.4 million in assets, a success that was primarily driven by contributions to the plan during fiscal year 2017. During this time, more than \$26 million was contributed to the program, and there were 2,626 new funded accounts.

In fiscal year 2017, TNStars focused on outreach to financial advisors. Through meetings, e-mail communication, and phone calls, this initiative has yielded over 230 meetings with advisors. Some additional results include:

- ◆ 150 financial advisors interested in TNStars
- ◆ 21 financial advisor firms in the TNStars database
- ◆ 112 TNStars accounts managed by financial advisors



As part of its holiday campaign, TNStars awarded 10 \$1,000 scholarships to Tennessee kids ranging from 1 month to 17 years of age. On January 31st, winners and their families visited the State Capitol for a special celebration.

Tennessee Investments Preparing Scholars (TIPS)

The Tennessee Investments Preparing Scholars (TIPS) program encourages families to save for the growing costs associated with post-secondary education by offering a 4-to-1 matching grant incentive. In its third qualifying year ending June 30, 2017, the TIPS program helped Tennessee families open new TNStars accounts for 177 beneficiaries.

- ◆ During fiscal year 2017, TIPS families contributed a total of \$234,545 to their TNStars accounts, an increase of 10% over the previous year.
- ◆ There were a total of 344 beneficiaries, including 167 repeat participants and 177 new beneficiaries for fiscal year 2017.
- ◆ 326 accounts received the full \$500 matching contribution.



SERVICE TO THE PUBLIC

Unclaimed Property

Unclaimed property is money that has been turned over to the State by businesses and organizations who cannot locate the rightful owners. This includes intangible assets such as bank accounts, stock certificates, checks, unclaimed wages, refunds, and gift certificates. Every year, millions of missing dollars are turned over, and the Unclaimed Property Division works to return unclaimed property to the rightful owner. In fiscal year 2017, the 110th General Assembly unanimously passed the Tennessee Uniform Unclaimed Property Act, which allows for even greater efficiency in returning missing money to Tennesseans.

**\$48 million
returned in FY 2017**

The Tennessee Uniform Unclaimed Property Act modernizes current unclaimed property laws, addressing new types of property and changes in technology. The Act reduces the general abandonment period for property from five to three years, allowing the State to begin searching for rightful owners sooner than before. It will also increase efficiency by allowing the State Treasurer to directly return unclaimed property belonging to governmental entities without a claim having to be filed.

- ◆ In fiscal year 2017, the Unclaimed Property Division returned 43,482 claims, resulting in \$48 million returned to claimants. Both are the highest amounts returned by the program in a single year.
- ◆ Treasury received \$78 million in unclaimed property from businesses in fiscal year 2017.
- ◆ During fiscal year 2017, the Unclaimed Property Division transitioned to electronic reporting to help make it more efficient and cost-effective for businesses and organizations to turn over unclaimed property. The Division hosted over 280 people at a series of seminars across the state to provide training and answer questions about the new system.

\$ 8 1 9
million still waiting
to be claimed
ClaimItTN.gov

Criminal Injuries Compensation Fund

The Criminal Injuries Compensation (“CIC”) Program provides financial assistance that defrays the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either an innocent victim of a crime or to the dependents of a deceased victim.

Established also under the Fund is a process that provides reimbursement to facilities that perform sexual assault forensic exams (SAFE) for evidence collection concerning victims of certain sexually-oriented crimes. Facilities must bill the SAFE Program (not the victim) and cannot seek any additional payment from the victim after payment.

- ◆ In fiscal year 2017, CIC provided training to 317 victim advocates from 140 agencies.
- ◆ CIC and SAFE Claims Filed in Fiscal Year 2017: 4,843
- ◆ CIC and SAFE Claims Paid in Fiscal Year 2017: \$11.7 million

**\$11.7
million**
paid to victims
in claims

FINANCIAL MANAGEMENT FOR THE STATE

Division of Claims and Risk Management

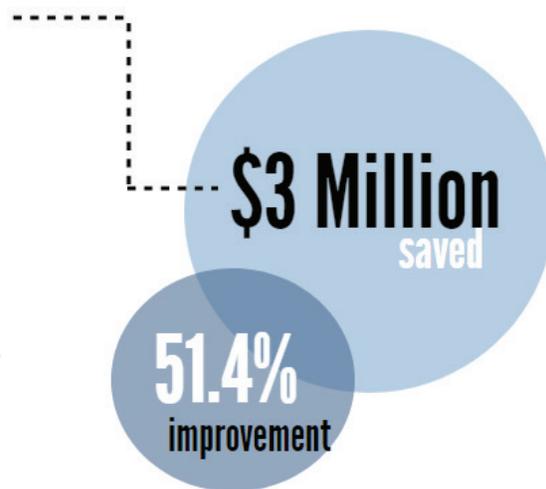
In fiscal year 2017, a law was passed to combine the Division of Risk Management and the Division of Claims Administration, thus creating the Division of Claims and Risk Management.

The responsibilities of this division include protecting the financial integrity of all State-owned assets, maintaining a safe working environment for state employees and the general public, making determinations on claims made against the State Workers' Compensation by state employees, employee property damage and tort liability, as well as claims filed for Criminal Injuries Compensation, Sexual Assault Forensic Examination Reimbursement and Interlock Reimbursement. The division also provides support to the Board of Claims.

- ♦ **Cyber Incident Response Plan (CIRP)** – The State of Tennessee was awarded the Public Risk Management Association (PRIMA)'s 2017 Outstanding Achievement Award for the Division of Risk Management and Claims Administration's Cyber Incident Response Plan., which was disseminated to all state government and higher education agencies.
- ♦ **DUI Monitoring Fund** – Formerly known as the Interlock Assistance Fund (IAF), the DUI Monitoring Fund provides financial reimbursement to certified interlock installers and other alcohol monitoring companies for qualifying indigent participants required to have alcohol monitoring/interlock or location monitoring devices as the result of a court order. These often include those that monitor alcohol usage with a device on a person or an ignition interlock installed in a vehicle requiring the driver to deliver a breath sample before the vehicle can be started in order to deter drinking and driving.
- ♦ The Insured Property Value for the State of Tennessee is \$22.7 billion.

Workers' Compensation

- ♦ In the past year, Treasury's Division of Claims and Risk Management helped reduce Tennessee Department of Correction's total payment amount for workers' compensation has been reduced by over \$3 million as a result of the Return-to-Work Program, representing a 51.4 percent improvement as compared to fiscal year 2016.
- ♦ There were 2,952 claims filed in fiscal year 2017 and \$22.5 million paid out in claims.
- ♦ Workers' Compensation has improved lag time from four days to two days from fiscal year 2015 to fiscal year 2017.
- ♦ As a result of these successes, Treasury Public Risk Manager Rodney Escobar received PRIMA's Public Risk Manager of the Year Award for 2017.



Tort Liability and Employee Property Damage

- ♦ In fiscal year 2017, there were 2,131 claims filed and \$4.2 million paid in damages.
- ♦ A contract for using a third party administrator for the handling of certain tort claims filed against the State is expected to be in place by the end of fiscal year 2018.

TREASURY EXECUTIVE STAFF

Treasurer's Office

Treasurer	David H. Lillard, Jr., JD, LL.M. in Taxation
Chief Operating Officer	Mary Jo Price
Manager of Legislative and Agency Operations	Whitney Goetz
Director of Communications	Shelli King
Director of Human Resources	Greg Cason
Director of Information Systems	Michael Drexler
Executive Assistant to the Treasurer	Heather Sczepczenski

Financial Empowerment

Assistant Treasurer	Joy Harris
Senior Director	Ashley Nabors
Director of Deferred Compensation	Kaci Lantz, CFP®
Director of Employer Reporting and Customer Service	Mary Beth Franklyn
Director of Treasury Outreach	Drew Freeman
Director of College Savings and ABLE TN	LaKeshia Page
Director of Tennessee Financial Literacy Commission	Bill Parker

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
Director of Equity	Michael Keeler, CFA
Director of Fixed Income	Thomas Kim, CFA
Director of Private Equity	Daniel Crews, CFA, CAIA
Director of Real Estate	J.P. Rachmaninoff, CPA

Legal, Compliance and Audit

Assistant Treasurer	Christy Allen
Director of Internal Audit	Earle Pierce, CPA, CIA, CRMA

Program Services

Assistant Treasurer	Steve Summerall
Director of TCRS	Jamie Wayman, CPA, CEBS
Director of Unclaimed Property	John Gabriel
Director of Claims and Risk Management	Rodney Escobar

Support Services

Deputy Treasurer	Rick DuBray, CPA
Director of Accounting	Brian Derrick, CPA
Deputy Director of Accounting	Kevin Bradley, CPA, CGFM, AAP
Director of Management Services	Kerry Hartley, CPA

Financial Strategies & Analysis

Assistant Treasurer	Jill Bachus, CPA, CGFM
Senior Director	Kim Morrow, CPA