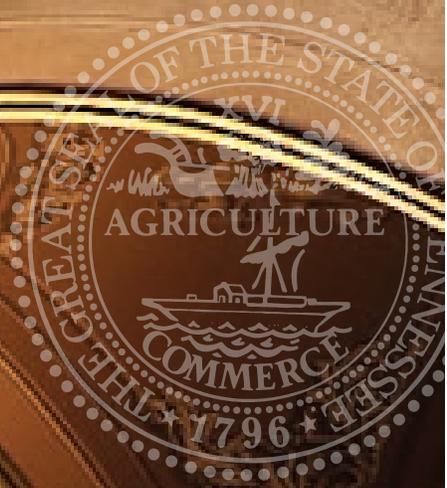


TENNESSEE DEPARTMENT OF TREASURY



2018 ANNUAL REPORT



INTRODUCTION

The Tennessee Department of Treasury works to carry out its mission and vision every day to benefit citizens across Tennessee. We strive to provide exceptional leadership to enhance Tennessee's financial resources through investments and financial management. From saving for college and retirement to finding unclaimed property, Treasury provides resources, services, and education to help grow the per capita income of families in Tennessee.

MISSION

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

VISION

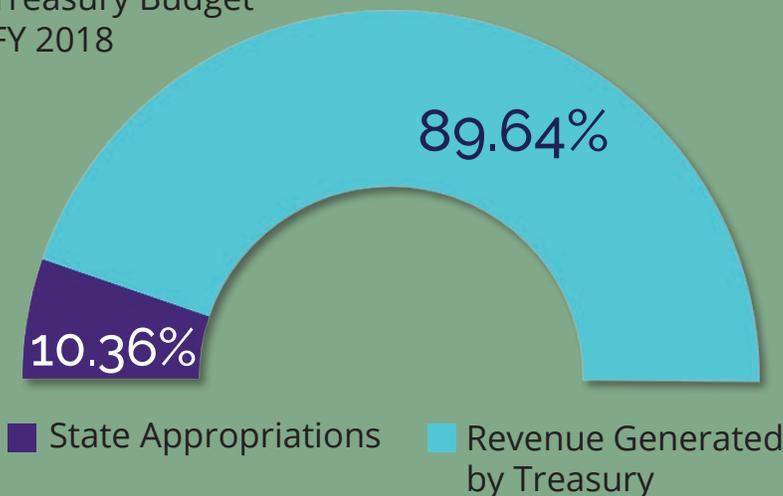
To enrich the lives of Tennesseans as a national leader in public financial stewardship

The Tennessee Department of Treasury is responsible for many of the financial operations of state government, including managing and overseeing more than \$71.1 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 2018, the total budget for the Tennessee Department of Treasury was \$50,804,700 and the actual amount of expenditure was \$47,100,000. Treasury received total state appropriations of \$5,262,600 with the remaining \$45,542,100 of the budget funded from revenues generated by the Department.

Treasury Budget
FY 2018



Total Budget

\$50.8 million

Actual Expenditures

\$47.1 million



FINANCIAL LEADERSHIP

INVESTMENTS

The Tennessee Department of Treasury's Investment Division is comprised of 34 professionals with extensive education, professional training, and 32 professional 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.

Selected Funds Managed Internally by the Treasury Investment Division:

Tennessee Consolidated Retirement System Trust (TCRS)

The largest fund managed by Treasury is the Tennessee Consolidated Retirement System Trust. Investment objectives for TCRS are to obtain the highest available return on investments consistent with preservation of the principal, while maintaining sufficient liquidity to react to the changing environment and pay beneficiaries in a timely manner. As of June 30, 2018, the market value of the TCRS fund was approximately \$49.6 billion.

State Pooled Investment Fund (SPIF) and the Local Government Investment Pool (LGIP)

The Treasury Department manages state and local governments' short-term investments through a program known as the State Pooled Investment Fund (SPIF) and the Local Government Investment Pool (LGIP). The SPIF, with a June 30, 2018 balance of approximately \$12.6 billion, includes the state's cash, dedicated reserves and trust funds, and the balance of the LGIP of approximately \$3.2 billion. The LGIP provides short-term cash management to local governments.

Tennessee Promise Endowment Trust

As of June 30, 2018, the Tennessee Promise Endowment Trust has a market value of \$512 million.

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

Tennessee Promise **\$512 m**

Baccalaureate Education System Trust **\$25 m**

Intermediate Term Investment Fund **\$283 m**

Chairs of Excellence **\$342 m**

Qualified School Construction Bonds **\$176 m**

Optional Retirement Plan **\$3.7 b**

401(k)/457 plans **\$3.5 b**

SERVICE AND EDUCATION

RETIREREADYTN

Treasury protects the retirement of 217,434 current state and higher education employees, K-12 teachers and participating local governments, as well as 138,594 retirees. RetireReadyTN is the state's retirement program, combining the strengths of a defined benefit plan provided by the Tennessee Consolidated Retirement System (TCRS), deferred compensation 401(k) and 457(b) plans, and retirement readiness education. We strive to empower public employees to take actionable steps toward preparing for the future.

RETIRE READY



RetireReadyTN takes pride in offering comprehensive financial education and retirement counseling to all members. Members can meet with any of the 15 local retirement plan advisors for assistance with retirement planning or to discuss any other financial planning needs. These services are provided to members at no additional fee. RetireReadyTN Plan Advisors conduct group meetings for employers, individual retirement counseling sessions for those within three years of retirement, and individual retirement readiness reviews for all members at any point in their career.

In fiscal year 2018, RetireReadyTN Plan Advisors conducted:

- 1,186 Group Meetings
- 2,834 Individual Retirement Counseling Sessions for near-retirees
- 10,958 One-on-One Retirement Readiness Reviews

The RetireReadyTN Call Center answered a total of 132,497 calls in fiscal year 2018, with 87.3% answered within 90 seconds. The average call score was 4.7 out of 5.

Field Activity FY 2018



1,186

Group Meetings

2,834

Individual Retirement
Counseling Sessions
for near-retirees



10,958

One-on-One Retirement
Readiness Reviews



Call Center Performance FY 2018

total calls answered **132,497**

answered within 90 seconds **87.3%**

average call score (out of 5) **4.7**



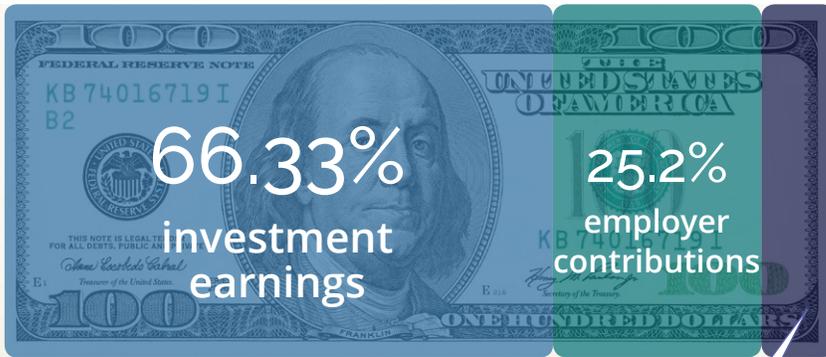
SERVICE AND EDUCATION

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

One of the top four best-funded pension plans in the country, the Tennessee Consolidated Retirement System (TCRS) portfolio was valued at \$49.6 billion at the end of fiscal year 2018. The final investment return for fiscal year 2018 was 8.19% as estimated by staff, compared to an actuarial assumption of 7.25%. Net investment income for fiscal year 2018 totaled \$5.29 billion (unaudited). Member and employer contributions made during fiscal year 2018 to fund the benefits promised to members totaled \$1.44 billion (unaudited).



In fiscal year 2018, TCRS paid a total of \$2.5 billion to 138,594 retirees, 92% of whom remain in Tennessee. During this fiscal year, TCRS received a total of 7,976 retirement applications and 2,629 service purchase applications.



For every \$100 paid out to retirees, \$66.33 comes from investment earnings.

8.47%
employee
contributions

GASB Funded Status FY 2018

| | Assets | Liabilities | Funded % |
|-------------------------|-------------------|-------------------|----------|
| State Legacy | \$ 14,300,960,549 | \$ 16,090,560,025 | 88.88% |
| State Hybrid | 86,564,090 | 65,825,616 | 131.51% |
| Teacher Legacy | 22,873,664,271 | 22,840,945,910 | 100.14% |
| Teacher Hybrid | 124,799,964 | 98,416,506 | 126.81% |
| Political Subdivisions* | 9,618,706,394 | 9,656,487,697 | 99.61% |

*In the aggregate. Each Political Subdivision is a separate liability pool.

Active Members in the Legacy Plan
(closed to new members on June 30, 2014)

176,260

Active Members in the Hybrid Plan

41,174

Retired Members

138,594

TCRS paid
\$2.5 billion



in benefits to **138,594**
retirees

92% of TCRS retirees
remain in Tennessee

SERVICE AND EDUCATION

DEFERRED COMPENSATION

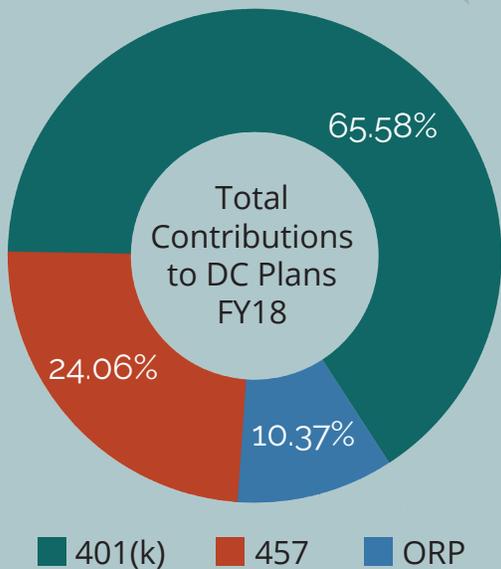
The State Deferred Compensation Plan consists of a 401(k) and a 457 plan. In fiscal year 2018, there were \$333,431,303 in contributions made to the 401(k) plan and \$52,762,573 in contributions to the 457 plan. Contributions to these two plans totaled \$386,193,876 in FY18.

Faculty and exempt employees of the University of Tennessee or the Tennessee Board of Regents may choose to participate in the Optional Retirement Plan (ORP), a defined contribution plan which had total contributions of \$122,254,525 in FY18.

Total contributions made to all deferred compensation plans in fiscal year 2018 totaled \$508,448,402.

- 134,179 participants in the 401(k) plan
- 11,393 participants in the 457 plan
- 12,606 participants in the ORP
- As of June 30, 2018, 33,316 teachers are participating in the 401(k) plan, a 32% increase over the prior year
- 220 local governments are currently participating in the DC plan as of June 30, 2018

Overall assets in the 401k, 457, and ORP totaled \$7,956,941,290 as of June 30, 2018.



Deferred Compensation Total Assets as of June 30, 2018

| | |
|--------------------------------|------------------------|
| 401(k)/457 | \$3,562,423,624 |
| Optional Retirement Plan (ORP) | \$4,394,517,666 |
| Total | \$7,956,941,290 |

OUTREACH

Treasury Outreach has representatives in every region of the state working to increase and improve communications with local governments, employers, and retirement participants. The Outreach division educates employers participating in our retirement plans on the best retirement options for their employees and also works with counties and local governments not yet participating in our retirement plan to provide them with information about joining.

For fiscal year 2018 Outreach made a concentrated effort to begin visiting State and Higher Education employers, making a total of 81 employer visits with State agencies and 34 employer visits with Higher Education institutions.

Outreach was also integral in the number of local government agencies adopting the State's 401(k)/457 plans. In FY18, 63 local governments adopted the deferred compensation plan.

Total Outreach Visits with Employers in FY18 **795**



Total Outreach Visits with School Districts in FY18 **66**



SERVICE AND EDUCATION

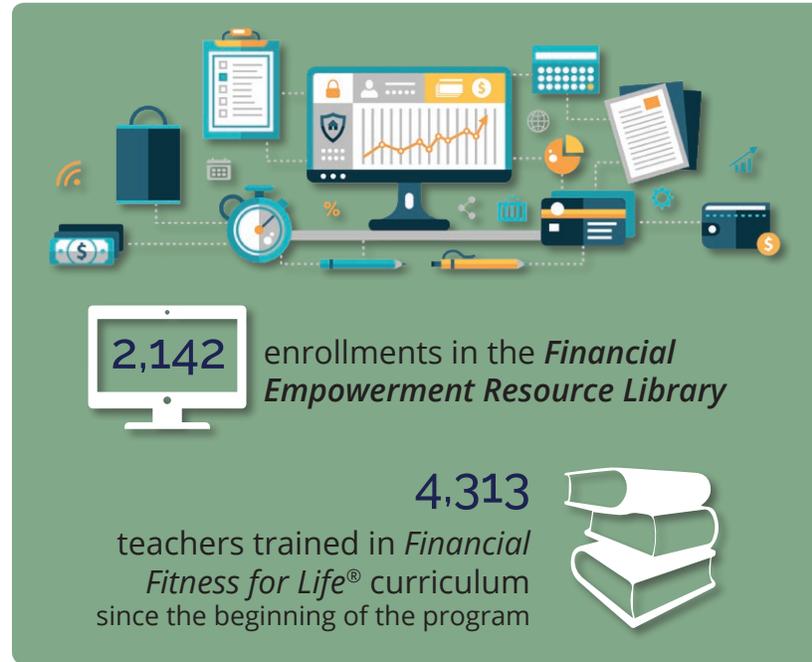
TENNESSEE FINANCIAL LITERACY COMMISSION (TNFLC)

The Tennessee Financial Literacy Commission (TNFLC) strives to equip Tennesseans with the resources they need to make sound financial decisions when planning, saving, and investing. The Commission wants Tennessee to lead the country in the area of financial literacy.



In fiscal year 2018 the Tennessee Financial Literacy Commission launched a new initiative to provide Tennesseans of all ages with a free resource for financial education in the form of online interactive learning modules. The *Financial Empowerment Resource Library* includes 18 online modules to help adults navigate life's important financial milestones like saving for retirement, buying a home, and sending a child to college.

The Tennessee Financial Literacy Commission continued to provide training to teachers across the state in the *Financial Fitness for Life*® curriculum. In fiscal year 2018, TNFLC trained 160 teachers, bringing the total number of teachers trained in the curriculum to 4,313 since the beginning of the program.



The Commission also continues to help schools across the state implement the *Vault - Understanding Money* program, an education-based online tool for elementary and middle school-aged students. Vault is being utilized in 172 schools, engaging over 8,000 students during this fiscal year alone. Since the beginning of the program, 22,767 students have been trained in *Vault*. This program has yielded a 40% improvement in test scores statewide.

In the next fiscal year, the Tennessee Financial Literacy Commission is excited to launch yet another free financial education resource for teachers called *My Classroom Economy*, an innovative behavioral management program designed to teach children financial responsibility through a fun, experience-based learning approach.

ABLE TN

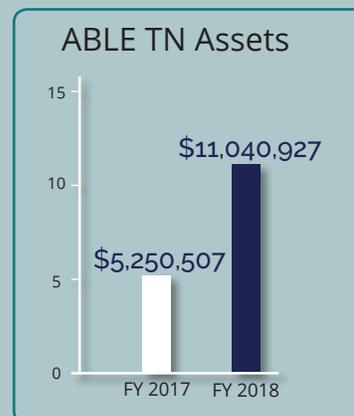
ABLE TN, one of the nation's first Achieving a Better Life Experience programs to launch, celebrated its second anniversary in June 2018. *ABLE TN* provides a valuable resource to help individuals with disabilities save for future expenses.

At the end of fiscal year 2018, *ABLE TN* accountholders had saved more than \$11 million in 1,785 accounts.

In February 2018 *ABLE TN* transitioned to a new recordkeeping platform and user portal to make saving and investing even easier for accountholders. This new platform includes simplified online enrollment and account management, online withdrawals, extended trade days, and new ways to save with Ugift® and Upromise®.

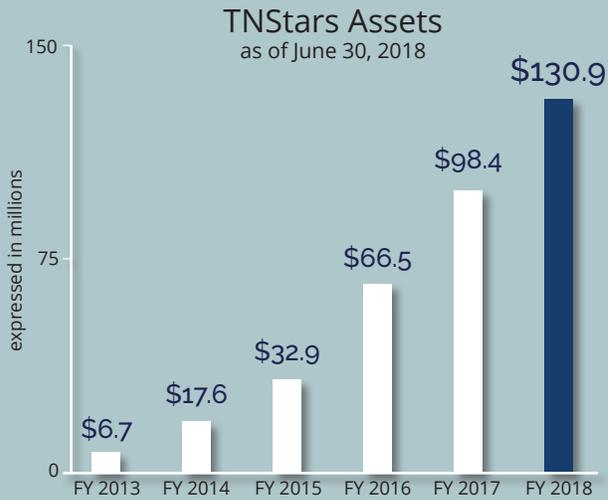


ABLE TN accountholders have saved over **\$11 million** in 1,785 accounts



SERVICE AND EDUCATION

TNSTARS COLLEGE SAVINGS 529 PROGRAM



The TNStars College Savings 529 Program helps families save money for college expenses by offering high quality investment options at a low cost. TNStars ended fiscal year 2018 with \$130.9 million in assets across 14,531 funded accounts, a milestone reached in part by running successful incentive campaigns throughout the year.

The 2017 holiday incentive campaign resulted in \$8.28 million in contributions and nearly 500 new accounts for the period. TNStars also celebrated National 529 Day by offering a \$25 incentive for new accounts opened during the month of May and by giving away tickets to some of Tennessee's top attractions. TNStars had a total of 1,748 new accounts opened in fiscal year 2018.



Tennessee accountholders, elected officials, college presidents, mascots, and local celebrities celebrate TNStars' 5th birthday.

"To meet the evolving demands for a qualified workforce, we are challenged with ensuring financial options are available to educate our young adults. The State of Tennessee has established such an avenue through the TNStars College Savings 529 Program. **Education is the key to our young people's future.**"

-Mayor Bernie Ash, Lebanon

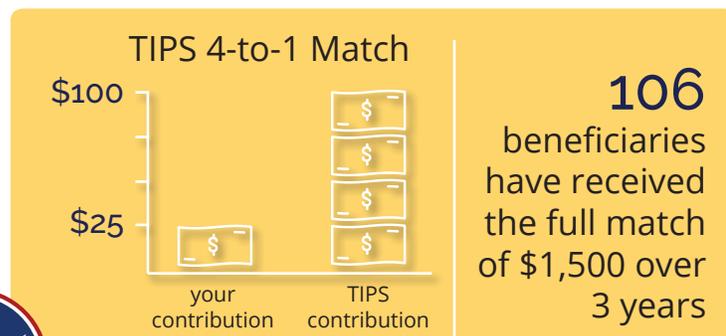
TNStars celebrated its 5th birthday in September 2017 with accountholders and elected officials joining together to share their photos and messages about the importance of saving for college. The program continued the success of their milestone year by launching a new website in December 2017, introducing more tools and resources to make planning, saving, and investing even easier for Tennessee families.

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 fourth qualifying year ending June 30, 2018, the TIPS program helped Tennessee families open new TNStars accounts for 110 beneficiaries.

- During fiscal year 2018, TIPS families contributed a total of \$140,215 to their TNStars accounts.
- There were a total of 231 beneficiaries, including 121 repeat participants and 108 new beneficiaries for fiscal year 2018.
- 218 accounts have 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 owners. This includes intangible assets such as bank accounts, stock certificates, checks, unclaimed wages, refunds, and gift certificates. The Tennessee Treasury's Unclaimed Property Division serves as a consumer protection program working to reunite this money with its rightful owner. At the end of fiscal year 2018, there was \$994.3 million available to claim.



48,425

claims returned resulting in

\$32.9 million paid to claimants

Amount Waiting to Be Claimed
as of June 30, 2018



\$994.3 million



Director of Unclaimed Property John Gabriel helps a Knoxville resident search for unclaimed property at the Rossini Festival in April 2018.

In fiscal year 2018, the Unclaimed Property Division returned a record 48,425 claims, resulting in \$32.9 million paid to claimants. Representatives from the Division traveled across the state to reach Tennesseans at their hometown fairs and festivals to help them search for their missing money and file claims on the spot. In fiscal year 2018, Unclaimed Property attended nine outreach events in East, Middle, and West Tennessee.

The Unclaimed Property Division also hosted six seminars for holders across the state in fiscal year 2018, educating businesses on how to report unclaimed property and updating them on new law changes pertaining to the reporting process. One of these law changes, Public Chapter 822, will move the reporting date for holders to November 1 starting in 2019. This adjustment is one of the many ways the Tennessee Unclaimed Property Division has made the reporting process easier for holders. Because a majority of states use the November 1 reporting date, moving Tennessee's date helps alleviate a burden to businesses who operate in multiple states.

CRIMINAL INJURIES COMPENSATION FUND (CIC)

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 2018 CIC provided training to 421 victim advocates from 189 agencies. CIC also provided training to 323 law enforcement officials from 83 agencies.



Members of Treasury staff participated in Domestic Violence Awareness Month by wearing purple.

CIC and SAFE

Claims Filed
5,370

Claims Paid
4,336

Amount Paid
\$12.3 million



FINANCIAL MANAGEMENT FOR THE STATE

CLAIMS AND RISK MANAGEMENT

The responsibilities of the Division of Claims and Risk Management 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 the DUI Monitoring Fund. The division also provides support to the Board of Claims.

As of January 2018, the insured property value for the State was \$24,958,976,887.

Cyber Incident Response Plan (CIRP)

Distributed statewide in 2016, the Cyber Incident Response Plan (CIRP) is designed to assist all State agencies, Tennessee Board of Regents, the six locally-governed institutions, and the University of Tennessee in the event of a cyber incident involving a data breach of personal identifiable information, health information, business account information, and educational information. CIRP will help these state entities with assessing, reviewing, responding to, and recovering from the adverse effects of cyber incidents and ensure that the State complies with the terms and conditions of its cyber liability insurance policy necessary for reimbursement.

DUI Monitoring Fund

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. Legislation passed by the 110th General Assembly renames the fund beginning July 1, 2018 to the Electronic Monitoring Indigency Fund.

Workers' Compensation

In the past year, the Division has worked with CorVel to continue decreases in expenditures on claims for workers' compensation. The estimated decrease in expenditures for fiscal year 2018 is \$2.6 million.

Tort Liability and Employee Property Damage

In fiscal year 2018, the Treasury Department successfully secured a contract to assist the Division of Claims and Risk Management with responding to auto accident events and filing of related claims with the tort program. The Auto-Accident Liability Reporting Pilot Program included initial training and implementation with the Department of Transportation and the Department of Environment and Conservation. The program will be fully functional with all state agencies during fiscal year 2019.

Workers' Compensation

Expenditures in FY18 decreased by

\$2.6 million



Claims Filed
3,175

Claims Paid
2,716

Amount Paid
\$19.8 million

Tort Liability and Employee Property Damage

Claims Filed
2,873

Claims Paid
520

Amount Paid
\$5.07 million





AT-A-GLANCE

FISCAL YEAR 2018

OVERALL ASSETS MANAGED BY TREASURY **\$71.1 billion**

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)



Total Value of Tennessee Consolidated Retirement System

\$49.6 billion

\$2.5 billion

in benefits paid to **138,594** retirees



DEFERRED COMPENSATION

Total Assets in DC Plans (401(k), 457, and ORP)

\$7.9 billion



32%

more teachers participating in the 401(k)

TOTAL VALUE OF STATE POOLED INVESTMENT FUND (SPIF)

SPIF includes the Local Government Investment Pool (LGIP)

\$12.6 billion

TENNESSEE FINANCIAL LITERACY COMMISSION



4,313

teachers trained in *Financial Fitness for Life*® curriculum since the beginning of the program



2,142 enrollments in the *Financial Empowerment Resource Library*

students trained in *Vault - Understanding Money* since the beginning of the program **22,767**

ABLE TN



ABLE TN accountholders have saved over **\$11 million** in 1,785 accounts



TNSTARS COLLEGE SAVINGS 529 PROGRAM



TNSTars accountholders have saved over

\$130.9 million in 14,531 accounts



TENNESSEE INVESTMENTS PREPARING SCHOLARS (TIPS)



During FY18, TIPS families contributed a total of
\$140,215
 to their TNStars accounts

UNCLAIMED PROPERTY



48,425
 claims returned
 resulting in

\$32.9 million paid to
 claimants

Amount Waiting
 to Be Claimed
 as of June 30, 2018

**\$994.3
 million**



CRIMINAL INJURIES COMPENSATION FUND (CIC)

Claims Filed

5,370

Claims Paid

4,336



Amount Paid

**\$12.3
 million**

CLAIMS AND RISK MANAGEMENT

Insured Property Value for the State
 as of January 2018

\$24,958,976,887

Workers' Compensation

Claims Filed

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Expenditures in
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Tort Liability and Employee Property Damage

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Amount Paid **\$5.07 million**