

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2008
Pension Trust Funds of the State of Tennessee

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



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for the Fiscal Year Ended June 30, 2008
Pension Trust Funds of the State of Tennessee

Prepared by:

State of Tennessee Treasury Department
502 Deaderick Street
Nashville, Tennessee 37243-0201
(615) 741-7063
www.tn.gov/treasury/tcrs
Dale Sims, State Treasurer
Jill Bachus, TCRS Director

The cover features the Great Seal of the State of Tennessee.

*The Roman numerals XVI signify that Tennessee
was the 16th state to enter the Union.*

*The plow, the sheaf of wheat and a cotton stalk
symbolize the importance of agriculture,
while the riverboat attests to the importance
of river traffic to commerce.*

*It was officially adopted as the state seal
by the 95th General Assembly in 1987.*

**This report is available in its entirety on the Internet at:
www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf**



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TABLE OF CONTENTS

INTRODUCTORY SECTION

GFOA Certificate of Achievement	1
Public Pension Standards Award	2
Chairman of the Board’s Letter	3
Letter of Transmittal	4
Administration and Mission	6
The Council on Pensions and Insurance	7
The Board of Trustees	9
Professional Consultants	11
Treasury Department Executive Staff	13
Organization Chart	14

FINANCIAL SECTION

Independent Auditor’s Report	15
Management’s Discussion and Analysis	17
Financial Statements:	
Comparative Statements of Plan Net Assets	22
Comparative Statements of Changes in Plan Net Assets	24
Notes to the Financial Statements	26
Required Supplementary Information:	
Schedules of Funding Progress	36
Schedules of Employer Contributions	37
Supporting Schedules:	
Schedules of Administrative Expenses	38
Schedules of Investment Expenses	40
Schedules of Expenses for Consultants	42

INVESTMENT SECTION

Report by Investment Consultant	43
Letter from TCRS Chief Investment Officer	44
Statutory Investment Authority	45
Investment Performance Review	46
Asset Allocation	47
Largest Holdings	48
Investment Summary	49
Schedules of Investment Fees and Commissions	50

(continued)

TABLE OF CONTENTS (CONTINUED)

ACTUARIAL SECTION

Actuarial Introduction	51
Actuary's Certification Letter	52
Summary of Actuarial Assumptions and Methods	54
Actuarial Data	56
Actuarial Balance Sheet	57
Short-Term Solvency Test	58
Summary of Accrued and Unfunded Accrued Liabilities	59
Selected Actuarial Funding Information	60
Analysis of Financial Experience	61
Plan Summary	62
Services for Active and Retired Members	64
Sample Benefit Calculations	65
Major Legislative Improvements	66

STATISTICAL SECTION

Statistical Introduction	67
Historical Fair Value	68
Analysis of Member and Employer Reserves	69
Schedules of Changes in Net Assets	70
Schedules of Benefit Expenses	71
Schedules of Active Members	72
Schedules of Retired Members	75
Retired Members by Geographical Distribution	79
Average Benefit Payments Schedule	80
Retired Members on Payroll and Prior Service Established	81
Treasury Retirement Installment Plan	82
Refund Activity and Political Subdivision Participation	83
Historical Employer Contribution Rates	84
Schedules of Principal Participating Employers	85
Introduction to Political Subdivision Participation	86
Optional Provisions for Political Subdivisions	87
Political Subdivision Participants	88

TENNESSEE
CONSOLIDATED
RETIREMENT
SYSTEM

Introductory Section

GFOA CERTIFICATE OF ACHIEVEMENT

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Tennessee Consolidated
Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Enos

Executive Director

PUBLIC PENSION COORDINATING COUNCIL AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2008***

Presented to

Tennessee Consolidated Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

CHAIRMAN OF THE BOARD'S LETTER

STATE OF TENNESSEE



TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243

December 14, 2008

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the twenty-first consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

Administration: To better serve our members, the TCRS web site (located at www.tn.gov/treasury/tcrs) includes a benefit calculation module, which allows members to input a limited amount of data to obtain a retirement benefit estimate. Further, TCRS forms and up-to-date information are available on-line to assist our members and participating employers. Information systems are continuing to be enhanced to allow for additional user-friendly access for members.

Investments: The financial marketplace had a difficult year at June 30, 2008 with the S&P 1500 down 12.72%. While negative returns are not pleasant, the results place TCRS in the top 10% of peer funds for the period. TCRS had a relatively good year with a loss of only 1.21%, while our peer funds lost 4.7%. A highly diversified portfolio minimized the risks. Fiscal year 2009 is expected to be a challenging year in the financial markets.

Financial Soundness of the Plan: Members of the retirement system should be assured that the benefits promised will be paid. TCRS is considered one of the strongest funded pension plans in the nation. TCRS has received an AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's (S&P), the highest possible ratings issued by this nationally recognized rating agency. The actuarial valuation, as of July 1, 2007, reported a combined state and teacher funding ratio of over 96%.

The Legislature, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, to invest the system assets in a prudent manner without undue risk, to fund the system on an actuarially strong basis, and to provide the best possible services to the members in the system.

Sincerely,

A handwritten signature in cursive script that reads "Dale Sims".

Dale Sims, State Treasurer
Chairman of the Board

LETTER OF TRANSMITTAL

STATE OF TENNESSEE

**TREASURY DEPARTMENT
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
10TH FLOOR ANDREW JACKSON STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243**

December 14, 2008

Board of Trustees
Tennessee Consolidated Retirement System
Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) comprehensive annual financial report for the fiscal year ended June 30, 2008. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management's Discussion and Analysis located in the Financial Section of this report.

PROFILE OF TCRS

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers, and employees of political subdivisions electing to participate in TCRS. The state of Tennessee is responsible for the pension benefits of state employees and higher education employees, and funds a significant portion of the retirement liability for teachers through the Basic Education Program. Each of the 473 participating political subdivisions are responsible for the pension benefits of its employees. The TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

The TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets, and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability, and retirement benefits; and processing refund and prior service requests.

(continued)

**LETTER OF TRANSMITTAL
(CONTINUED)****ECONOMIC CONDITION**

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial “advanced funding” method is used to provide for the accumulation of assets to fund the cost of retirement, disability, and death benefits provided by the system. The funding objective of TCRS is being met as the state and political subdivisions continue to make contributions to the plan at the rate established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm every two years to determine the funding requirements for the employers participating in TCRS. At July 1, 2007, the latest valuation date, the plan had a combined state and teacher funding ratio of over 96%. The July 1, 2007 actuarial valuation utilized the assumptions generated from the June 30, 2004 experience study and provided the employer contribution rates effective July 1, 2008.

Because TCRS is a strongly funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. As part of this strategy, TCRS is in the final phase of absorbing investment losses accumulated several years ago.

The investment market outlook continues to create significant challenges in meeting the 7.5% investment return assumed by TCRS. A premium will continue to be placed on security selection.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the twentieth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The TCRS is also the recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers, and other interested parties.



Jill Bachus, TCRS Director



Michael Brakebill, Chief Investment Officer

ADMINISTRATION AND MISSION

ADMINISTRATION

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of TCRS is one of the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members, and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit; and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department which support the operations of TCRS include Information Systems, Accounting, Management Services, Internal Audit and Human Resources. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the state of Tennessee. Funding for the operation of TCRS is provided by two sources. The state of Tennessee is responsible for the operation cost associated with state employees and higher education employees; the state and local education agencies share the cost related to K-12 teachers; and political subdivisions are responsible for the operation cost associated with their employees.

MISSION

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission will be accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and Insurance, and the TCRS membership through the following objectives:

- ❖ *Exemplary Service* – To provide accurate, courteous and prompt service to members of TCRS.
- ❖ *Benefit Standards* – To provide retirement coverage through TCRS, social security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ *Funding Standards* – To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ *Staffing* – To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ *Research* – To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ *Management* – To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently, while providing the highest level of service.
- ❖ *Ethical Standards* – To maintain the highest ethical standards.
- ❖ *Investment Return* – To obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay benefits when due.

THE COUNCIL ON PENSIONS AND INSURANCE

THE COUNCIL ON PENSIONS AND INSURANCE

Created as a legislative oversight committee, the Council on Pensions and Insurance develops, recommends, and establishes pension and retirement standards and maintains a progressive state policy on retirement. Additionally, the Council reviews legislation affecting state provided insurance programs for both active and retired members of the Tennessee Consolidated Retirement System.

The Council periodically reviews Tennessee’s retirement and state provided insurance provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems including those of other states and private industry and the federal government’s social security program. All proposed legislation affecting Tennessee’s retirement laws must be reviewed by the Council before the legislature may take action. The Council is authorized to prepare and

propose amendments which are then forwarded to the standing committees to which the bills are referred. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of the TCRS director also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer, and the Director of TCRS.

VOTING MEMBERS - SENATORS



Tim Burchett
*Finance, Ways
& Means Secretary*



Douglas Henry
*Finance, Ways
& Means Vice-Chair*



James Kyle



Randy McNally
*Council Vice-Chair
Finance, Ways
& Means Chair*



Mark Norris



Ron Ramsey
Speaker of the Senate



Bo Watson

(continued)

**THE COUNCIL ON PENSIONS AND INSURANCE
(CONTINUED)**

VOTING MEMBERS – REPRESENTATIVES



Stratton Bone



Tommie Brown



Craig Fitzhugh
*Council Chair
Finance, Ways
& Means Chair*



Steve McDaniel



Jimmy Naifeh
Speaker of the House



Charles Sargent



Johnny Shaw
*Finance, Ways
& Means Secretary*



Harry Tindell
*Finance, Ways
& Means Vice-Chair*

NON-VOTING MEMBERS



Jill Bachus
TCRS Director



Dave Goetz
*Commissioner of Finance
& Administration*



John Morgan
Comptroller of the Treasury



Dale Sims
State Treasurer



Deborah E. Story
Commissioner of Human Resources

THE BOARD OF TRUSTEES

THE BOARD OF TRUSTEES

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (*T.C.A.*, Title 8, Chapters 34-37). The 20-member Board meets quarterly and is subject to the call of the chair for special meetings. Nine voting members constitute a quorum, and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, nine representatives of the active TCRS membership, and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions and Insurance as nonvoting members, the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State, and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chair of the Board, and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state, two state employees from departments other than those represented by ex-officio members, one public safety officer and three representatives of local governments. Retiree representation includes a retired teacher and a retired state employee.

The three teachers are elected for three-year terms by the Representative Assembly of the Tennessee Education Association; state employees elect two representatives who also serve three-year terms. A retired teacher is selected by the Tennessee Retired Teachers Association.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. The public safety representative and the state retiree representative are appointed by the Governor. All employee representatives must be vested members of TCRS.

ELECTED MEMBERS



Michael Barker
Tennessee Retired Teacher Association
Term Expires: June 30, 2010



Greg Elliott
Tennessee Bureau of Investigation
Term Expires: June 30, 2010



Erick Huth
Middle Tennessee Teacher
Term Expires: June 30, 2009



Traci Jefferson
East Tennessee Teacher
Term Expires: June 30, 2010



Sammy Jobe
West Tennessee Teacher
Term Expires: June 30, 2011



Paula Shaw
Department of Transportation
Term Expires: June 30, 2010

(continued)

THE BOARD OF TRUSTEES
(CONTINUED)

APPOINTED MEMBERS



J. Steven Burns
Public Safety
Term Expires:
June 30, 2010



James Crumley
TN Municipal League
Term Expires:
June 30, 2009



Bill Kemp
TN County
Officials Assoc.
Term Expires:
June 30, 2009



Patsy Matthews
Retired Member
Term Expires:
June 30, 2008



David Seivers
TN County
Services Assoc.
Term Expires:
June 30, 2009

EX-OFFICIO MEMBERS



Jill Bachus
TCRS Director



Riley Darnell
Secretary of State



Craig Fitzhugh
Council Chair



Dave Goetz
Commissioner of Finance
& Administration



Randy McNally
Council Vice-Chair



John Morgan
Comptroller of the Treasury



Dale Sims
State Treasurer



Deborah E. Story
Commissioner of Human Resources



Libby Sykes
Administrative Director of the Courts

PROFESSIONAL CONSULTANTS**PROFESSIONAL CONSULTANTS**

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on page 50.

INVESTMENT ADVISORY COUNCIL

The Investment Advisory Council (IAC) was established to assist both the Board of Trustees and the TCRS investment staff. The investment professionals on the IAC serve five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA
Regions Bank
Nashville, Tennessee

Henry Delicata
Vendis Investment Management
West Conshohocken, Pennsylvania

Susan Logan Huffman, CFA
Reliant Investment Management, LLC
Memphis, Tennessee

George B. Stadler, CFA
SunTrust Bank, Nashville
Nashville, Tennessee

Chuck Webb, CFA
Weaver C. Barksdale & Associates
Brentwood, Tennessee

INTERNATIONAL EQUITY INVESTMENT MANAGERS

The international investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Marilyn Harrison
Walter Scott & Partners Ltd.
One Charlotte Square
Edinburgh EH2 4DZ
Scotland

Robert Job
Panagora
470 Atlantic Avenue
Boston, Massachusetts 02109

Wilson Phillips
Marathon Asset Management
Orion House
5 Upper St. Martin's Lane
London WC2H 9EA
England

Jeff Nelson
SG Asset Management (Singapore)
c/o Trust Co. of the West
1251 Avenue of the Americas
New York, New York 10020

GENERAL INVESTMENT CONSULTANT

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Pete Keliuotis
Strategic Investment Solutions, Inc.
333 Bush Street
Suite 2000
San Francisco, CA 94104

REAL ESTATE INVESTMENT CONSULTANT

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Anthony Frammartino
The Townsend Group
Skylight Office Tower
1660 West Second Street
Suite 450
Cleveland, Ohio 44113

(continued)

**PROFESSIONAL CONSULTANTS
(CONTINUED)**

REAL ESTATE INVESTMENT ADVISORS

The real estate investment advisors identify potential co-investors as well as prospective real estate transactions.

Kevin Faxon
J.P. Morgan Fleming Asset Management, Inc.
522 Fifth Avenue, 9th Floor
New York, New York 10036

Stephen J. Furnary
Clarion Partners
335 Madison Avenue
New York, New York 10017

Randall C. Mundt, President & CIO
Principal Global Investors
801 Grand Avenue
Des Moines, Iowa 50392

Michael A. Ruane
TA Associates Realty
28 State Street, 10th Floor
Boston, Massachusetts 02109

Steve Wallace
Cornerstone Real Estate Advisers LLC
One Financial Plaza, Suite 1700
Hartford, Connecticut 06103

MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

THE MEDICAL BOARD

The physicians serving on the Medical Board evaluate applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, the panel reviews medical data submitted by disabled retirees who are subject to periodic evaluation. The Medical Board consists of the following:

Suzanne Fletcher, M.D.
Brentwood, Tennessee

Barry R. Siegel, M.D.
Memphis, Tennessee

Lee Carl Whitaker, M.D.
Chattanooga, Tennessee

CONSULTING ACTUARY

An independent consulting actuarial firm performs an actuarial valuation every two years to determine the funding status of the system and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Justin Thacker
Bryan, Pendleton, Swats & McAllister, LLC
5301 Virginia Way
Suite 400
Brentwood, Tennessee 37027

OTHER PROFESSIONAL SERVICES

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These government officers are as follows:

Robert E. Cooper, Jr.
Attorney General/Reporter
Nashville, Tennessee

John G. Morgan
Comptroller of the Treasury
Nashville, Tennessee

TREASURY DEPARTMENT EXECUTIVE STAFF**TREASURER'S OFFICE**

Treasurer	Dale Sims	(615) 741-2956
Executive Assistant	Janice H. Cunningham	(615) 741-2956
Human Resources Director	Ann Taylor-Tharpe	(615) 741-2956

TCRS INVESTMENTS

Assistant to the Treasurer	Ed Hennessee, CFP	(615) 532-1167
Chief Investment Officer	Michael Brakebill, CFA	(615) 532-1157
Deputy CIO and Fixed Income Director	Andrew Palmer, CFA	(615) 532-1183
Equity Director	Michael Keeler, CFA	(615) 532-1165
Real Estate Director	Peter Katseff	(615) 532-1160
Cash Management and Short-Term Portfolio Manager	Tim McClure, CCM	(615) 532-1166

RETIREMENT ADMINISTRATION

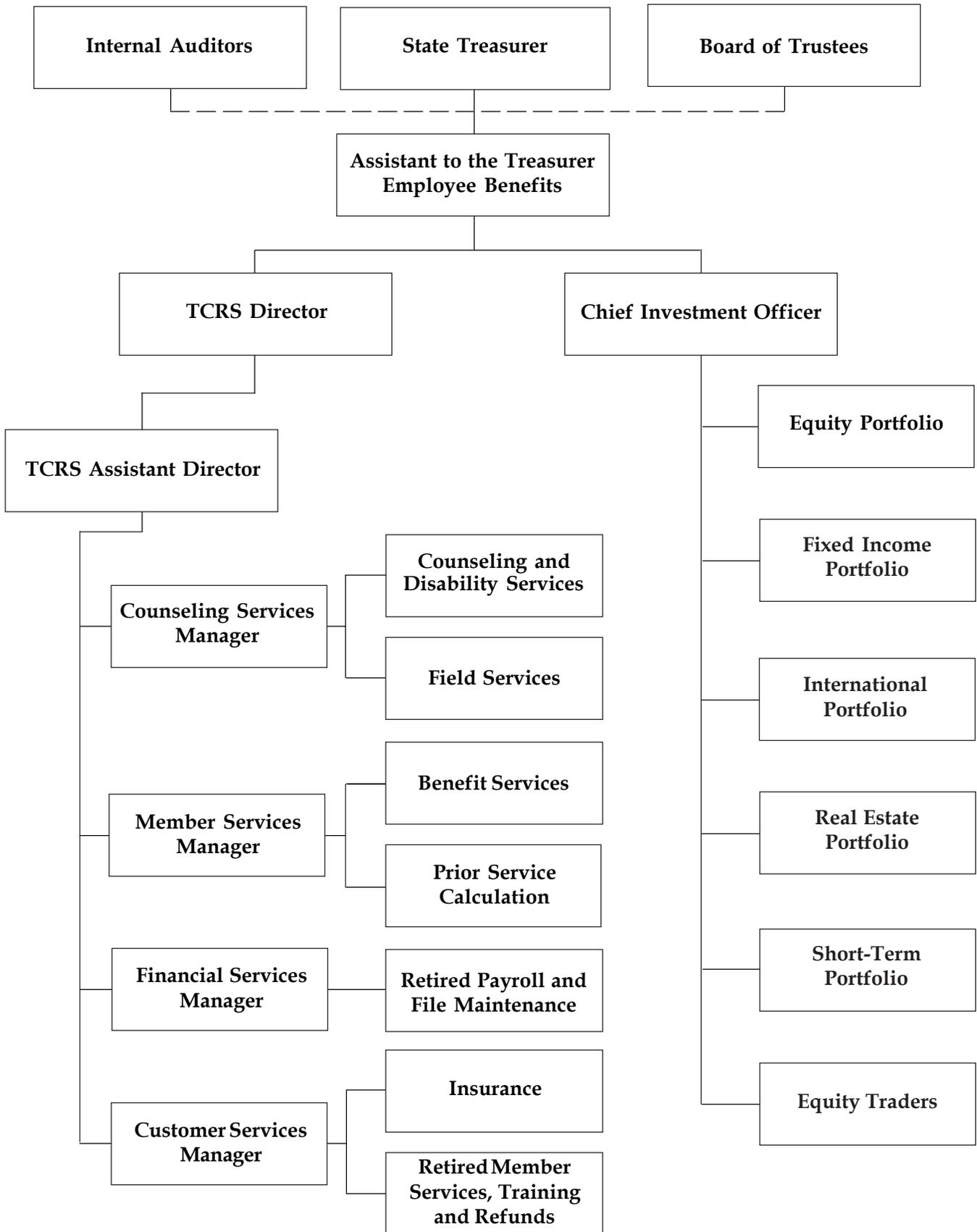
TCRS Director	Jill Bachus, CPA	(615) 741-7063
TCRS Assistant Director	Jamie Wayman, CPA	(615) 741-7063
Director of Deferred Compensation	Beth Chapman, CPA	(615) 741-7063
General Counsel	Mary Roberts-Krause, JD	(615) 741-7063
Counsel	Doug Connell, JD	(615) 741-7063
Director of Old Age and Survivors Insurance	Vernon G. Bush, JD	(615) 741-7902
Counseling Services Manager	Sandra Sewell	(615) 741-1971
Member Benefits Manager	Erica Nale	(615) 741-4868
Financial Services Manager	Keevia Battle, CPA	(615) 741-4913
Customer Services Manager	Jennifer Wooten	(615) 741-1971

OTHER DIVISIONS

Assistant to the Treasurer	Steven Curry, CPA-inactive, CEBS, CCM	(615) 532-8045
Assistant to the Treasurer	Rick DuBray, CPA	(615) 253-5764
Director of Accounting	Kim Morrow, CPA	(615) 532-3840
Assistant Director of Accounting	Connie Gibson, CPA	(615) 532-8051
Director of Claims Administration	Anne Adams	(615) 741-9957
Director of Information Systems	Gary Ridner, CPA-inactive, CISSP	(615) 532-8035
Assistant Director of Information Systems	Nathan Burton	(615) 253-4164
Director of Computer Operations	Sam Baker, CCP, CDP	(615) 532-8026
Director of Management Services	Kerry Hartley, CPA	(615) 532-8552
Director of Internal Audit	Britt Wood, CPA	(615) 253-2018
Director of Risk Management	Steve Gregory	(615) 741-1009
Director of Unclaimed Property	John Gabriel	(615) 253-5354
East Tennessee Claims Commissioner	Bill Shults, JD	(423) 623-9270
Middle Tennessee Claims Commissioner	Stephanie Reeves, JD	(615) 253-1626
West Tennessee Claims Commissioner	Nancy Miller-Herron, JD	(731) 364-2440
Administrative Clerk, Claims Commission	Marsha Richeson	(615) 532-5385

*The Treasurer is housed on the 1st floor of the State Capitol Building.
Divisions are housed on the 9th, 10th, and 11th floors of the Andrew Jackson Building.*

ORGANIZATION CHART



TENNESSEE
CONSOLIDATED
RETIREMENT
SYSTEM

Financial Section

INDEPENDENT AUDITOR'S REPORT



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

December 3, 2008

Members of the General Assembly
and
Members of the Board of Trustees
Tennessee Consolidated Retirement System
and
The Honorable Dale Sims, Treasurer
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2008, and June 30, 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Tennessee Consolidated Retirement System's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System.

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2008, and June 30, 2007, and the changes in

(continued)

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

December 3, 2008

Page 2

its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2008, and June 30, 2007, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

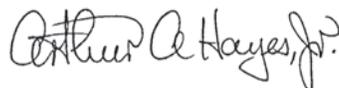
The management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 3, 2008, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA
Director

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2008 & JUNE 30, 2007**

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2008 and June 30, 2007. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

FINANCIAL HIGHLIGHTS

- ◆ The plan net assets (total assets minus total liabilities) of the TCRS at June 30, 2008 were \$31.6 billion, decreasing over \$731.8 million (2.3 percent) from the plan net assets at June 30, 2007. The net assets are held in trust to meet future benefit obligations.
- ◆ The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2007, the date of the latest actuarial valuation, the TCRS' funded ratio was 96.2 percent for the SETHEEPP group and 89.4 percent for the PSPP group.
- ◆ Contribution revenue for fiscal year 2008 totaled \$1,084,112,872 an increase of 5.5 percent compared to fiscal year 2007.
- ◆ Net investment income for fiscal year 2008 was \$(430,058,924). During fiscal year 2008, the TCRS received an investment return on its portfolio of (1.21) percent, compared to 13.1 percent for fiscal year 2007.
- ◆ Total benefits and refunds paid for fiscal year 2008 were \$1,378,691,525 – an increase of 8.8 percent over fiscal year 2007 total benefits and refunds paid of \$1,266,775,568.
- ◆ Total administrative expenses for fiscal year 2008 were \$7,201,911 – an increase of 11.3 percent over fiscal year 2007 administrative expenses of \$6,468,558.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Assets* (on pages 22 through 23), the *Statement of Changes in Plan Net Assets* (on pages 24 through 25), and the *Notes to the Financial Statements* (on pages 26 through 35). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis*, as well as the schedules on pages 36 through 42.

The *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets* report information about the plan net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those plan net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statement of Plan Net Assets*, or net assets held in trust for pension benefits, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The *Statement of Changes in Plan Net Assets* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net assets of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two basic financial statements, the reader should also review the *Schedules of Funding Progress* and the *Schedules of Employer Contributions* to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment obligations. The *Notes to the Financial Statements* are also important to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2008 & JUNE 30, 2007 (CONTINUED)**

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS

At June 30, 2008, the TCRS had plan net assets (total assets in excess of total liabilities) of \$31.6 billion, a decrease of over \$731.8 million (2.3 percent) from \$32.4 billion at June 30, 2007. The assets of the TCRS consist primarily of investments. The decrease in plan net assets is primarily the result of negative investment income caused by unfavorable equity market conditions. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows.

PLAN NET ASSETS

	June 30, 2008	June 30, 2007	FY08 - FY07 Percentage Change	June 30, 2006	FY07 - FY06 Percentage Change
ASSETS					
Cash and cash equivalents	\$ 358,321,692	\$ 569,035,627	(37.0) %	\$ 826,611,111	(31.2) %
Member and employer receivables	86,041,851	86,352,774	(0.4) %	71,671,617	20.5 %
Investment income receivables	159,667,086	169,973,211	(6.1) %	172,541,678	(1.5) %
Investments sold	62,828,189	16,256,391	286.5 %	33,287,736	(51.2) %
Foreign currency receivable	153,933,265	5,796,800	2,555.5 %	19,732,929	(70.6) %
Short-term securities	49,997,750	527,594,750	(90.5) %	503,846,988	4.7 %
Long-term investments	31,015,208,805	31,014,634,498	0.0 %	27,255,904,731	13.8 %
TOTAL ASSETS	<u>31,885,998,638</u>	<u>32,389,644,051</u>	(1.6) %	<u>28,883,596,790</u>	12.1 %
LIABILITIES					
Death benefits, refunds and other payables	1,591,252	2,750,418	(42.1) %	2,319,549	18.6 %
Investments purchased	85,807,691	10,520,944	715.6 %	38,344,946	(72.6) %
Other investment payables	9,367,826	4,606,919	103.3 %	2,563,959	79.7 %
Foreign currency payable	155,102,387	5,796,800	2,575.7 %	19,732,929	(70.6) %
TOTAL LIABILITIES	<u>251,869,156</u>	<u>23,675,081</u>	963.9 %	<u>62,961,383</u>	(62.4) %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
	<u>\$ 31,634,129,482</u>	<u>\$ 32,365,968,970</u>	(2.3) %	<u>\$ 28,820,635,407</u>	12.3 %

ANALYSIS OF REVENUES AND EXPENSES

While contributions to TCRS for fiscal year 2008 increased by \$57 million (5.5 percent) over contributions for fiscal year 2007, a significant decrease in investment income resulted in an overall decline in revenues for 2008 of 86.4 percent compared to revenues for fiscal year 2007. Although employer contribution rates did not change during fiscal year 2008, the increase in contributions can be attributed to new employers joining TCRS and increased salaries. Market conditions resulted in an overall loss to the TCRS investment portfolio of 1.2 percent and negative investment income of \$430.1 million.

Total benefits and refunds paid during the year ended June 30, 2008 were \$1,378,691,525 an increase of 8.8 percent over fiscal year 2007 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2007 were \$1,266,775,568 an increase of 9.3 percent over fiscal year 2006 total benefits and refunds paid. The increase in benefit expenses can be attributed to 3.0 percent in cost of living adjustments awarded to retirees on both July 1, 2007 and July 1, 2006 respectively. In addition, more retirees were added to payroll than removed during these fiscal years.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2008 & JUNE 30, 2007 (CONTINUED)**

In addition, administrative expenses for the year ended June 30, 2008 were \$7,201,911, an increase of 11.3 percent over fiscal year 2007 administrative expenses. This increase was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2008. Administrative expenses for the year ended June 30, 2007 were \$6,468,558, an increase of 4.1 percent over fiscal year 2006 administrative expenses.

Condensed financial information comparing the TCRS' revenues and expenses for the past three fiscal years follows.

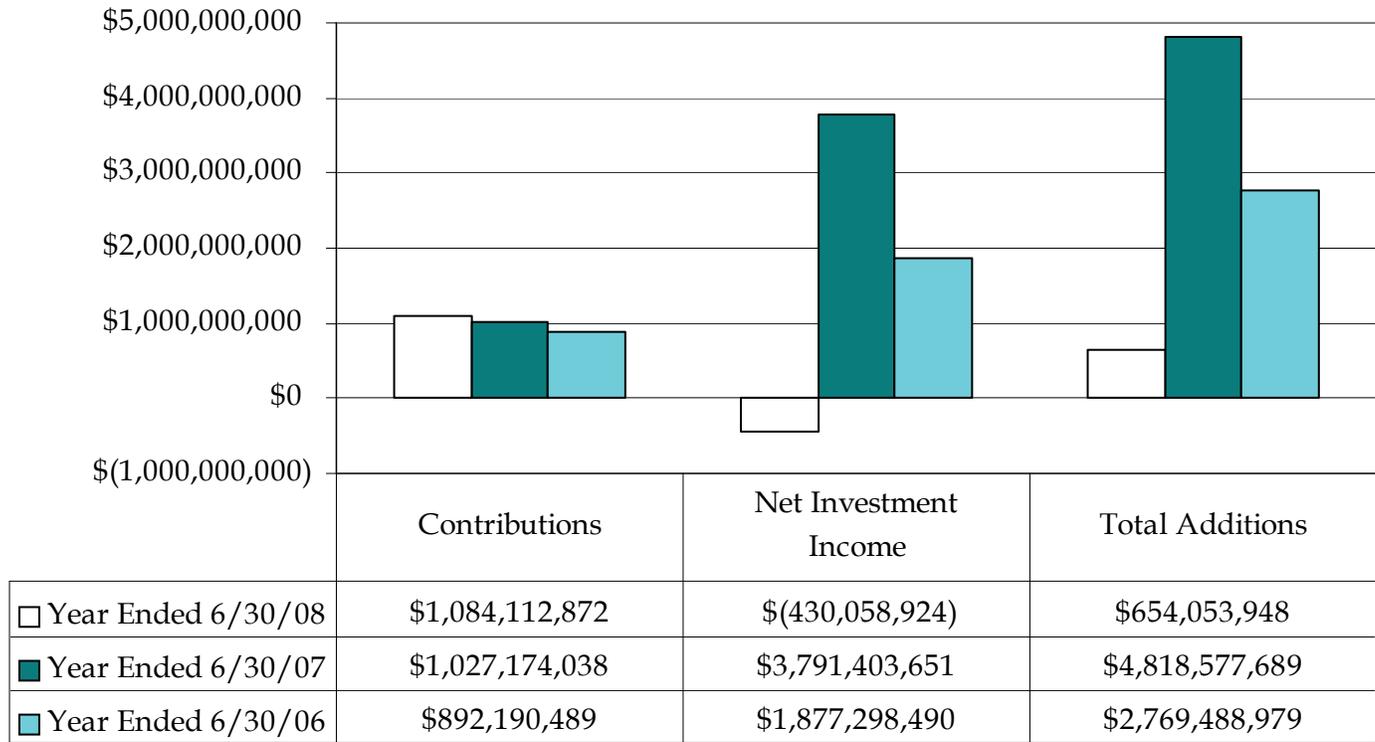
CHANGES IN PLAN NET ASSETS

	For the Year Ended June 30, 2008	For the Year Ended June 30, 2007	FY08 - FY07 Percentage Change	For the Year Ended June 30, 2006	FY07 - FY06 Percentage Change
ADDITIONS					
Contributions	\$ 1,084,112,872	\$ 1,027,174,038	5.5 %	\$ 892,190,489	15.1 %
Investment income					
Net appreciation (depreciation) in fair value of investments	(1,574,090,230)	2,717,644,583	(157.9) %	893,530,576	204.1 %
Interest, dividends and other investment income	1,168,574,283	1,097,511,473	6.5 %	1,002,725,069	9.5 %
Less: Investment expense	(24,542,977)	(23,752,405)	3.3 %	(18,957,155)	25.3 %
Net investment income	(430,058,924)	3,791,403,651	(111.3) %	1,877,298,490	102.0 %
TOTAL ADDITIONS	654,053,948	4,818,577,689	(86.4) %	2,769,488,979	74.0 %
DEDUCTIONS					
Annuity benefits					
Retirement benefits	993,293,429	918,540,446	8.1 %	843,183,130	8.9 %
Survivor benefits	62,811,272	58,202,209	7.9 %	53,991,908	7.8 %
Disability benefits	28,128,249	26,722,134	5.3 %	25,808,859	3.5 %
Cost of living	243,575,211	221,463,825	10.0 %	195,538,793	13.3 %
Death benefits	4,907,479	5,502,982	(10.8) %	5,668,204	(2.9) %
Refunds	45,975,885	36,343,972	26.5 %	34,710,966	4.7 %
Administrative expenses	7,201,911	6,468,558	11.3 %	6,213,597	4.1 %
TOTAL DEDUCTIONS	1,385,893,436	1,273,244,126	8.8 %	1,165,115,457	9.3 %
NET INCREASE (DECREASE)	(731,839,488)	3,545,333,563	(120.6) %	1,604,373,522	121.0 %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
BEGINNING OF YEAR	32,365,968,970	28,820,635,407	12.3 %	27,216,261,885	5.9 %
END OF YEAR	\$ 31,634,129,482	\$ 32,365,968,970	(2.3) %	\$ 28,820,635,407	12.3 %

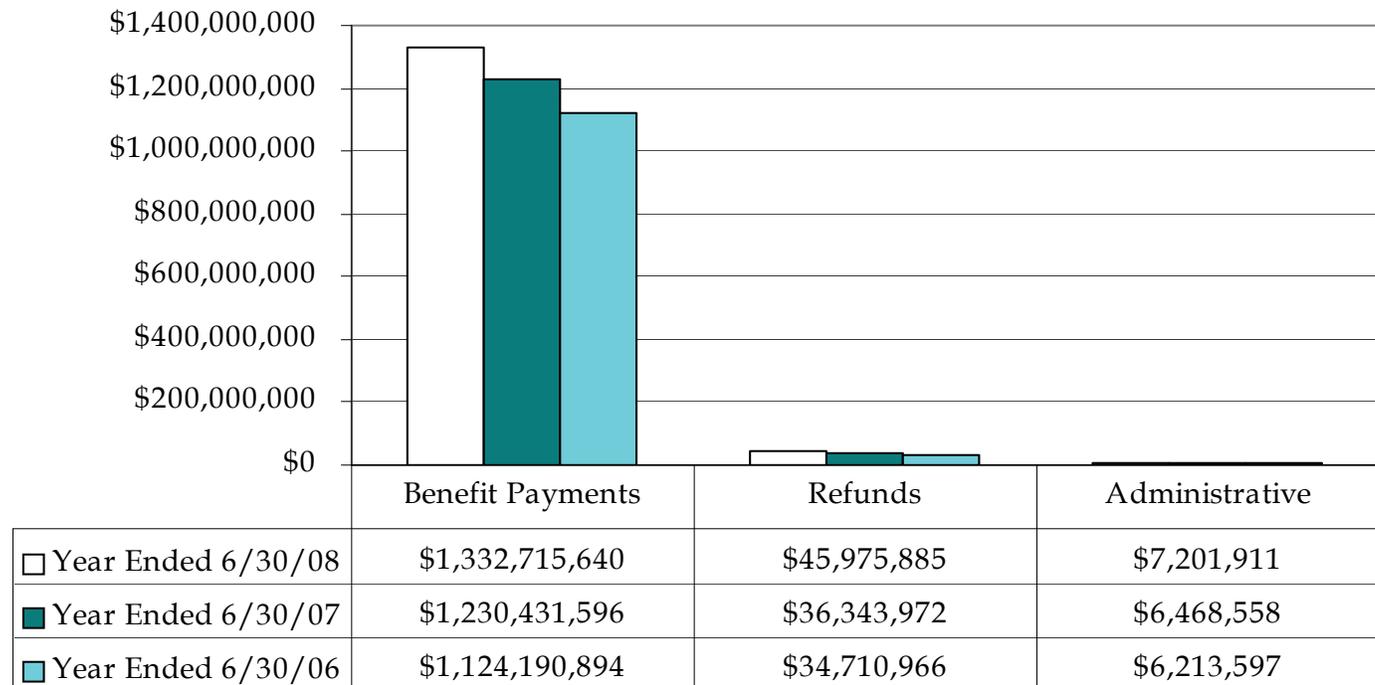
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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2008 & JUNE 30, 2007 (CONTINUED)**

REVENUES BY TYPE



EXPENSES BY TYPE



(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2008 & JUNE 30, 2007 (CONTINUED)**

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2008, the domestic portfolios weakened considerably with a loss of 11.93% following a strong 20.58% return the prior fiscal year. The S&P 1500 index, TCRS' domestic equity benchmark, reported a loss of 12.72% for the fiscal year ended June 30, 2008. Likewise, the international stock portfolios followed a 27.19% return for the year ended June 30, 2007 with a negative return of 6.38% for 2008. The international equity market, as represented by the EAFE index, reported growth of 27% in fiscal year 2007 contrasting with a 10.61% loss in the fiscal year ended June 30, 2008. The domestic bond market, as measured by the Citigroup Broad Investment Grade index, had a positive return of 6.06% for the year ended June 30, 2007, followed by 7.78% return for the 2008 fiscal year. The domestic fixed income portfolio earned 6.17% and 5.98% respectively. Fixed income relative performance began to suffer in the 2008 fiscal year due to the poor performance of asset backed securities. The real estate portfolio earned 12.53% for the year ended June 30, 2008 as compared to the NCREIF index benchmark of 13.58%.

The initial stages of broad equity and fixed income market weakness began during the 2008 fiscal year. The outlook for domestic and international markets is unsettled at best.

The employer contribution rates changed on July 1, 2008 for most of the employers participating in TCRS. The contribution levels did not change significantly because of the overall positive experience of the plan.

CONTACTING THE TCRS

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
COMPARATIVE STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2008 AND JUNE 30, 2007

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ASSETS		
Cash and cash equivalents	\$ 300,422	\$ 57,899
Receivables		
Member receivable	20,835	4,794
Employer receivable	41,864	18,549
Accrued interest receivable	104,184	20,079
Accrued dividends receivable	28,482	5,489
Real estate income receivable	1,202	232
Foreign currency receivable	129,060	24,873
Investments sold	52,676	10,152
Total receivables	<u>378,303</u>	<u>84,168</u>
Investments, at fair value		
Short-term securities	41,919	8,079
Government securities	6,225,179	1,199,756
Corporate securities	5,512,517	1,062,408
Corporate stocks	13,150,692	2,534,486
Real estate	1,115,236	214,935
Total investments	<u>26,045,543</u>	<u>5,019,664</u>
TOTAL ASSETS	<u>26,724,268</u>	<u>5,161,731</u>
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	1,195	212
Other	52	133
Investments purchased	71,943	13,865
Foreign currency payable	130,040	25,062
Other investment payables	7,854	1,514
TOTAL LIABILITIES	<u>211,084</u>	<u>40,786</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 26,513,184</u>	<u>\$ 5,120,945</u>

See accompanying Notes to the Financial Statements

(continued)

(CONTINUED)

June 30, 2008 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2007 Total
<u>\$ 358,321</u>	<u>\$ 479,656</u>	<u>\$ 89,379</u>	<u>\$ 569,035</u>
25,629	20,405	5,023	25,428
60,413	40,814	20,111	60,925
124,263	122,665	22,857	145,522
33,971	19,480	3,630	23,110
1,434	1,131	211	1,342
153,933	4,886	910	5,796
62,828	13,703	2,553	16,256
<u>462,471</u>	<u>223,084</u>	<u>55,295</u>	<u>278,379</u>
49,998	444,725	82,870	527,595
7,424,935	7,643,081	1,424,212	9,067,293
6,574,925	4,476,732	834,194	5,310,926
15,685,178	13,110,008	2,442,920	15,552,928
1,330,171	913,303	170,185	1,083,488
<u>31,065,207</u>	<u>26,587,849</u>	<u>4,954,381</u>	<u>31,542,230</u>
<u>31,885,999</u>	<u>27,290,589</u>	<u>5,099,055</u>	<u>32,389,644</u>
1,407	1,396	1,063	2,459
185	291	0	291
85,808	8,869	1,653	10,522
155,102	4,886	910	5,796
9,368	3,883	724	4,607
<u>251,870</u>	<u>19,325</u>	<u>4,350</u>	<u>23,675</u>
<u>\$ 31,634,129</u>	<u>\$ 27,271,264</u>	<u>\$ 5,094,705</u>	<u>\$ 32,365,969</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ADDITIONS		
Contributions		
Member contributions	\$ 181,236	\$ 64,617
Employer contributions	593,412	244,847
Total contributions	<u>774,648</u>	<u>309,464</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	(1,322,815)	(251,275)
Interest	631,028	119,867
Dividends	297,009	56,418
Real estate income, net of operating expenses	53,995	10,257
Total investment income	<u>(340,783)</u>	<u>(64,733)</u>
Less: Investment expense	<u>(20,625)</u>	<u>(3,918)</u>
Net investment income	<u>(361,408)</u>	<u>(68,651)</u>
TOTAL ADDITIONS	<u>413,240</u>	<u>240,813</u>
DEDUCTIONS		
Annuity benefits		
Retirement benefits	851,426	141,867
Survivor benefits	53,840	8,971
Disability benefits	24,111	4,017
Cost of living	215,810	27,765
Death benefits	3,309	1,599
Refunds	19,113	26,863
Administrative expense	3,711	3,491
TOTAL DEDUCTIONS	<u>1,171,320</u>	<u>214,573</u>
NET INCREASE	(758,080)	26,240
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>27,271,264</u>	<u>5,094,705</u>
END OF YEAR	<u>\$ 26,513,184</u>	<u>\$ 5,120,945</u>

See accompanying Notes to the Financial Statements

(continued)

(CONTINUED)

For the Year Ended June 30, 2008 TOTAL	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2007 TOTAL
\$ 245,853	\$ 175,743	57,003	\$ 232,746
838,259	562,729	231,699	794,428
<u>1,084,112</u>	<u>738,472</u>	<u>288,702</u>	<u>1,027,174</u>
(1,574,090)	2,295,671	421,974	2,717,645
750,895	618,197	113,632	731,829
353,427	258,925	47,594	306,519
64,252	49,977	9,186	59,163
<u>(405,516)</u>	<u>3,222,770</u>	<u>592,386</u>	<u>3,815,156</u>
(24,543)	(20,064)	(3,688)	(23,752)
<u>(430,059)</u>	<u>3,202,706</u>	<u>588,698</u>	<u>3,791,404</u>
<u>654,053</u>	<u>3,941,178</u>	<u>877,400</u>	<u>4,818,578</u>
993,293	789,603	128,937	918,540
62,811	50,032	8,170	58,202
28,128	22,971	3,751	26,722
243,575	196,439	25,025	221,464
4,908	3,719	1,784	5,503
45,976	19,231	17,113	36,344
7,202	3,385	3,084	6,469
<u>1,385,893</u>	<u>1,085,380</u>	<u>187,864</u>	<u>1,273,244</u>
(731,840)	2,855,798	689,536	3,545,334
<u>32,365,969</u>	<u>24,415,466</u>	<u>4,405,169</u>	<u>28,820,635</u>
<u>\$ 31,634,129</u>	<u>\$ 27,271,264</u>	<u>\$ 5,094,705</u>	<u>\$ 32,365,969</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007

The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.
5. **Reclassification** - The fair value of collateralized mortgage obligations at June 30, 2007 which was originally reported in Note C as \$141,501,440 has been reclassified to \$1,665,827,439 due to securities previously classified as mortgage-backed securities being more accurately classified as CMOs.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2007, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	70,598	27,632
Terminated members entitled to but not receiving benefits	21,032	9,732
Current active members	<u>136,329</u>	<u>76,396</u>
Total	227,959	113,760
Number of participating employers	140	488

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

State Employees, Teachers and Higher Education Employees Pension Plan

Plan Description - SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

Superseded Systems and Certain Employment Classifications - Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

Contributions and Reserves - Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2008, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3,495.6 million and \$23,017.6 million, respectively. At June 30, 2007, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3,386.5 million and \$23,884.7 million, respectively.

Political Subdivisions Pension Plan

Plan Description - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

Contributions and Reserves - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2008, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$951.5 million and \$4,169.5 million, respectively. At June 30, 2007, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$896.1 million and \$4,198.6 million, respectively.

C. DEPOSITS AND INVESTMENTS

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

State statute also authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)**

- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed five percent (5 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed five percent (5 percent) of the market value of total assets.

Changes were made to the statute relative to the investment guidelines for the TCRS during the 2008 legislative session. These changes include increasing the allowable real estate allocation from five percent (5 percent) to ten percent (10 percent) and allowing investment in private equities not to exceed five percent (5 percent) of the market value of total assets. The Board of Trustees approved these revisions to the investment policy after June 30, 2008 and therefore, the changes were not in effect at year end.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2008 and June 30, 2007, the TCRS had the following investments:

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

Investments
(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2008	U.S. Treasury/ Agency (1)	Credit Quality Ratings							(2)	(3)
			AAA	AA	A	BBB	BB	B	A1		
Debt Investments											
U.S. Govt. Treasuries, Notes, Bonds	\$ 859,779	\$ 859,779									
U.S. Govt. Inflation Indexed	1,617,494	1,617,494									
U.S. Govt. Agencies	489,958		\$ 489,958								
Mortg.-Backed Govt.	3,481,814	463,141									\$ 3,018,673
Corporate CMO's	2,186,147		2,133,824	\$ 33,463							18,860
Corporate Bonds	3,045,230		12,142	220,368	\$ 981,941	\$ 1,767,224	\$ 45,258	\$ 18,297			
Corporate Asset-Backed	1,230,858		1,112,036	62,183	19,641	36,998					
Non-U.S. Govt./Sovereign	975,890	767,765	208,125								
Non-U.S. Corporate	19,614		19,614								
Short-Term Commercial Paper	287,352										287,352
Short-Term Agencies	121,969	121,969									
Total Debt Investments	\$ 14,316,105	\$ 3,830,148	\$ 3,975,699	\$ 316,014	\$ 1,001,582	\$ 1,804,222	\$ 45,258	\$ 18,297	\$ -		\$ 3,324,885
Other Investments											
U.S. Equity	\$ 10,937,097		(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.								
Non-U.S. Equity	4,841,156										
Real Estate	1,330,171										
Total Other Investments	\$ 17,108,424		(2) A1 is the highest rating category for commercial paper								
Total Investments	\$ 31,424,529										
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(359,322)										(3) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
Total Investments as Shown on Statements of Plan Net Assets	\$ 31,065,207										

Investment Type	Fair Value as of June 30, 2007	U.S. Treasury/ Agency (1)	Credit Quality Ratings							(2)	(3)
			AAA	AA	A	BBB	BB	B	A1		
Debt Investments											
U.S. Govt. Treasuries, Notes, Bonds	\$ 825,413	\$ 825,413									
U.S. Govt. STRIPS	264,838	264,838									
U.S. Govt. TIPS	1,959,797	1,959,797									
U.S. Govt. Agencies	1,252,600		\$ 1,252,600								
Mortg.-Backed Govt. Pass-Through	3,923,008	217,693									\$ 3,705,315
Govt. CMO's	117,568		117,568								
Corporate CMO's	1,548,259		1,528,268	\$ 19,991							
Corporate Bonds	2,294,723		49,523	300,677	\$ 818,312	\$ 1,097,950	\$ 9,782	\$ 18,479			
Corporate Asset-Backed	772,069		652,730	20,035	9,019	90,285					
Private Placements	399,024		77,963	108,899	69,798	142,364					
Yankee Bonds	18,369				9,122	9,247					
Supranationals	41,217		41,217								
Non-U.S. Govt./Sovereign	724,069		359,185	100,506	264,378						
Non-U.S. Corporate	237,265		237,265								
Short-Term Commercial Paper	566,543								\$ 566,543		
Short-Term Certificate of Deposit	9,982			9,982							
Short-Term Agencies	517,613										517,613
Total Debt Investments	\$ 15,472,357	\$ 3,267,741	\$ 4,316,319	\$ 560,090	\$ 1,170,629	\$ 1,339,846	\$ 9,782	\$ 18,479	\$ 566,543		\$ 4,222,928
Other Investments											
U.S. Equity	\$ 10,765,940		(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.								
Non-U.S. Equity	4,786,988										
Real Estate	1,083,488										
Commingled Money Market Funds	9		(2) A1 is the highest rating category for commercial paper								
Total Other Investments	\$ 16,636,425										
Total Investments	\$ 32,108,782										(3) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(566,552)										
Total Investments as Shown on Statements of Plan Net Assets	\$ 31,542,230										

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2008 and June 30, 2007 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa Parks Avenue, Nashville, Tennessee 37243-0298.

Concentration of Credit Risk - A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net assets, in organizations representing five percent or more of plan net assets, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization	June 30, 2008		June 30, 2007	
	Fair Value	Percentage	Fair Value	Percentage
Federal Home Loan Mortgage Corp.	\$1,373,411,585	4.34%	\$2,043,123,831	6.31%
Federal National Mortgage Assoc.	2,214,699,793	7.00%	2,865,385,846	8.85%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

Interest Rate Risk - Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2008 and June 30, 2007.

Debt Investments
(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2008	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 698,083	4.54
Government Bonds	1,627,544	7.30
Government Inflation Indexed	1,617,494	7.29
Government Mortgage-Backed	3,481,814	4.39
Corporate Collateralized Mortgage Obligations (CMO)	2,186,148	3.94
Corporate Asset Backed Securities	1,230,857	2.94
Corporate Bonds	3,064,844	6.42
Short-Term Commercial Paper	287,352	0.00
Short-Term Agencies	121,969	0.13
Total Debt Investments	\$14,316,105	5.17

Investment Type	Fair Value as of June 30, 2007	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 1,256,788	2.87
Government Bonds	1,500,391	8.04
Government STRIPS	264,838	12.77
Government Notes	40,648	0.27
Government Inflation Indexed	1,959,797	3.57
Government State and Local Obligations	4,255	0.19
Government National Mortgage Association (GNMA)	217,693	3.47
Federal Home Loan Mortgage Corporation (FHLMC)	1,390,664	4.69
Federal National Mortgage Association (FNMA)	2,314,651	4.60
Government Collateralized Mortgage Obligations (CMO)	117,568	7.49
Corporate Collateralized Mortgage Obligations (CMO)	1,548,259	5.90
Asset Backed Securities	772,069	3.85
Corporate Bonds	2,586,646	6.13
Private Placements	399,024	7.38
Miscellaneous Other Fixed Income	4,928	6.93
Short-Term Commercial Paper	566,543	0.03
Short-Term Certificate of Deposit	9,982	0.00
Short-Term Agencies	517,613	0.43
Total Debt Investments	\$15,472,357	4.99

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

Asset-Backed Securities - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2008 was \$2,186,147,672 of which \$1,223,407,319 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2007 was \$1,665,827,439 of which \$899,811,328 were CMOs that are generally more sensitive to changes in interest rates.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2008 and June 30, 2007 was as follows:

Foreign Currency-Denominated Investments

(Expressed in Thousands)

Currency	Total Fair Value June 30, 2008	Fixed Income	Equity	Cash
Australian Dollar	\$ 262,220		\$ 262,220	
British Pound Sterling	1,256,316	\$ 128,214	1,128,102	
Canadian Dollar	47,193		47,193	
Danish Krone	93,241		93,220	\$ 21
Euro Currency	1,779,678	332,656	1,445,990	1,032
Hong Kong Dollar	141,112		141,020	92
Japanese Yen	1,554,682	534,634	1,016,364	3,684
New Zealand Dollar	4,900		4,819	81
Norwegian Krone	63,305		63,305	
Singapore Dollar	79,452		79,106	346
Swedish Krona	117,084		116,720	364
Swiss Franc	326,064		325,978	86
Total	\$ 5,725,247	\$ 995,504	\$ 4,724,037	\$ 5,706

Currency	Total Fair Value June 30, 2007	Fixed Income	Equity	Cash
Australian Dollar	\$ 259,144	\$ 8,443	\$ 250,425	\$ 276
British Pound Sterling	1,263,570	77,543	1,183,999	2,028
Canadian Dollar	49,779	67	49,571	141
Danish Krone	62,477		62,475	2
Euro Currency	1,806,669	312,885	1,493,692	92
Hong Kong Dollar	134,801		134,750	51
Japanese Yen	1,569,152	569,953	995,983	3,216
New Zealand Dollar	10,640		10,606	34
Norwegian Krone	82,993	33,727	49,171	95
Singapore Dollar	84,307		84,119	188
Swedish Krona	164,588		164,150	438
Swiss Franc	302,380		302,334	46
Total	\$ 5,790,500	\$ 1,002,618	\$ 4,781,275	\$ 6,607

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

Derivatives - The TCRS may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. The futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The TCRS can increase (decrease) equity market exposure by buying (selling) the equity index future to obtain its target domestic equity allocation. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2008, the TCRS was under contract for equity index futures and the resulting payable is reflected in the financial statements at fair value. The TCRS was not under any futures contracts at June 30, 2007.

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2008 and June 30, 2007 has been reflected in the financial statements.

D. COMMITMENTS

Standby Commercial Paper Purchase Agreement - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 7.5 basis points on the \$250 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, and 12 basis points during times when either Moody's or Standard and Poor's has assigned ratings other than Aaa and AAA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

Pending Real Estate Items - At June 30, 2008 the TCRS had unfunded commitments of \$18,476,000 for pending real estate purchases. At June 30, 2007 the TCRS had unfunded commitments of \$32,777,459 for pending real estate purchases.

E. SUBSEQUENT EVENT

Market Decline - Continued disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair market value of the TCRS' investments subsequent to June 30, 2008. As of October 31, 2008, the TCRS estimates that the value of investments excluding the real estate portfolio has declined approximately \$5.5 billion compared to the value as of June 30, 2008.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND JUNE 30, 2007 (CONTINUED)

F. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of July 1, 2007, the most recent actuarial valuation date, is as follows:

SCHEDULES OF FUNDING PROGRESS							
<i>(Expressed in Thousands)</i>							
	Actuarial	Actuarial	Actuarial Accrued	Unfunded		Annual	UAAL as a
	Valuation	Value of	Liability (AAL)	AAL	Funded	Covered	Percentage of
	Date	Plan Assets	Frozen Entry Age	(UAAL)	Ratio	Payroll	Covered Payroll
		(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
SETHEEPP	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
PSPP	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2007, the TCRS reestablished unfunded accrued liabilities for all groups. For the year ended June 30, 2008, information regarding the funded status and funding progress is required to be presented using the entry age actuarial cost method. In the actuarial valuation in which unfunded accrued liabilities are reestablished, the Frozen Entry Age actuarial cost method and the entry age normal actuarial cost method produce the same results.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since the requirement to present the Schedule of Funding Progress using the entry age actuarial cost method is effective beginning for the year ended June 30, 2008, only the funded status information relating to the most recent actuarial valuation date is provided in the required supplemental information. Additional required historical information will be provided in subsequent years once available.

Additional information as of the latest actuarial valuation follows:

	SETHEEPP	PSPP
Valuation Date	July 1, 2007	July 1, 2007
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years closed period	(1) closed period
Asset valuation method	5-year Moving Market Average	5-year Moving Market Average
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	3.00%	3.00%
Increase in Social Security wage base	3.50%	3.50%
(1) The length of the amortization period varies by political subdivision, not to exceed 30 years.		
(2) Uniform rate that approximates the effect of a graded salary scale.		

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

SCHEDULES OF FUNDING PROGRESS

Expressed in Thousands

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
PSPP	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%

The schedule of funding progress is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since the TCRS has previously calculated the annual required contribution (ARC) using the aggregate actuarial cost method and the requirement to present the Schedule of Funding Progress using the entry age actuarial cost method is effective beginning for the year ended June 30, 2008, only the funded status information relating to the most recent actuarial valuation date is provided. Additional required historical information will be provided in subsequent years once available.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS**

SCHEDULES OF EMPLOYER CONTRIBUTIONS*Expressed in Thousands*

Year Ended June 30	SETHEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2008	\$ 593,412	100.00%	\$ 244,847	100.00%
2007	562,729	100.00%	231,699	100.00%
2006	474,879	100.00%	191,000	100.00%
2005	448,154	100.00%	181,096	100.00%
2004	271,298	100.00%	139,808	100.00%
2003	264,320	100.00%	134,014	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2009.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$1,224,209	\$1,151,402	\$2,375,611
Employee benefits	455,129	428,061	883,190
TOTAL PERSONNEL SERVICES	<u>1,679,338</u>	<u>1,579,463</u>	<u>3,258,801</u>
PROFESSIONAL SERVICES			
Accounting	135,979	127,892	263,871
Actuarial services	149,919	141,003	290,922
Address verification services	747	703	1,450
Data processing	207,716	195,363	403,079
Information systems	507,462	477,281	984,743
Management services	160,261	150,729	310,990
Medical review	20,717	19,485	40,202
Technology consulting services	70,368	66,184	136,552
Administrative, Internal Audit, Legal, Personnel	398,784	375,067	773,851
TOTAL PROFESSIONAL SERVICES	<u>1,651,953</u>	<u>1,553,707</u>	<u>3,205,660</u>
COMMUNICATION			
Travel	17,546	16,503	34,049
Telephone	37,213	35,000	72,213
Printing	41,074	38,632	79,706
Postage	143,166	134,651	277,817
TOTAL COMMUNICATION	<u>238,999</u>	<u>224,786</u>	<u>463,785</u>
MISCELLANEOUS			
Office space	95,447	89,770	185,217
Supplies and maintenance	26,822	25,226	52,048
Other services and charges	18,758	17,642	36,400
TOTAL MISCELLANEOUS	<u>141,027</u>	<u>132,638</u>	<u>273,665</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$3,711,317</u>	<u>\$3,490,594</u>	<u>\$7,201,911</u>

With 215,645 active members and 102,306 retired members, the operating cost per member was \$22.65 for the year ended June 30, 2008.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007**

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,173,320	\$ 1,069,200	\$ 2,242,520
Employee benefits	427,207	389,297	816,504
TOTAL PERSONNEL SERVICES	<u>1,600,527</u>	<u>1,458,497</u>	<u>3,059,024</u>
PROFESSIONAL SERVICES			
Accounting	135,433	123,414	258,847
Actuarial services	45,671	41,618	87,289
Address verification services	0	0	0
Data processing	181,868	165,729	347,597
Information systems	539,979	492,061	1,032,040
Management services	134,663	122,714	257,377
Medical review	20,762	18,919	39,681
Technology consulting services	0	0	0
Administrative, Internal Audit, Legal, Personnel	358,838	326,994	685,832
TOTAL PROFESSIONAL SERVICES	<u>1,417,214</u>	<u>1,291,449</u>	<u>2,708,663</u>
COMMUNICATION			
Travel	18,331	16,703	35,034
Telephone	45,185	41,176	86,361
Printing	35,134	32,017	67,151
Postage	141,451	128,898	270,349
TOTAL COMMUNICATION	<u>240,101</u>	<u>218,794</u>	<u>458,895</u>
MISCELLANEOUS			
Office space	80,371	73,239	153,610
Supplies and maintenance	33,132	30,193	63,325
Other services and charges	13,102	11,939	25,041
TOTAL MISCELLANEOUS	<u>126,605</u>	<u>115,371</u>	<u>241,976</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$3,384,447</u>	<u>\$3,084,111</u>	<u>\$6,468,558</u>

With 211,287 active members and 98,100 retired members, the operating cost per member was \$20.91 for the year ended June 30, 2007.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,724,831	\$ 327,640	\$ 2,052,471
Employee benefits	484,103	91,958	576,061
TOTAL PERSONNEL SERVICES	<u>2,208,934</u>	<u>419,598</u>	<u>2,628,532</u>
PROFESSIONAL SERVICES			
Accounting	180,395	34,267	214,662
Legal services	115,254	21,893	137,147
Data processing	121,975	23,170	145,145
Information systems	172,812	32,826	205,638
Management services	9,584	1,821	11,405
External investment manager fees	12,045,971	2,288,190	14,334,161
Investment consulting fees	289,947	55,077	345,024
Investment custodian fees	239,207	45,438	284,645
Real estate manager fees	4,613,222	876,304	5,489,526
Administrative, Internal Audit, Personnel	405,562	77,038	482,600
TOTAL PROFESSIONAL SERVICES	<u>18,193,929</u>	<u>3,456,024</u>	<u>21,649,953</u>
COMMUNICATION			
Travel	42,769	8,124	50,893
Telephone	29,994	5,697	35,691
Printing	1,656	315	1,971
Postage	2,179	414	2,593
TOTAL COMMUNICATION	<u>76,598</u>	<u>14,550</u>	<u>91,148</u>
MISCELLANEOUS			
Office space	70,072	13,310	83,382
Supplies and maintenance	6,748	1,282	8,030
Other services and charges	68,853	13,079	81,932
TOTAL MISCELLANEOUS	<u>145,673</u>	<u>27,671</u>	<u>173,344</u>
TOTAL INVESTMENT EXPENSES	<u>\$20,625,134</u>	<u>\$3,917,843</u>	<u>\$24,542,977</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007**

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,631,982	\$ 299,979	\$ 1,931,961
Employee benefits	473,476	87,031	560,507
TOTAL PERSONNEL SERVICES	<u>2,105,458</u>	<u>387,010</u>	<u>2,492,468</u>
PROFESSIONAL SERVICES			
Accounting	172,646	31,735	204,381
Legal services	107,365	19,735	127,100
Data processing	114,430	21,034	135,464
Information systems	140,308	25,790	166,098
Management services	8,279	1,522	9,801
External investment manager fees	9,036,660	1,661,053	10,697,713
Investment consulting fees	280,526	51,564	332,090
Investment custodian fees	745,260	136,988	882,248
Real estate manager fees	6,780,893	1,246,414	8,027,307
Administrative, Internal Audit, Personnel	389,938	71,676	461,614
TOTAL PROFESSIONAL SERVICES	<u>17,776,305</u>	<u>3,267,511</u>	<u>21,043,816</u>
COMMUNICATION			
Travel	38,853	7,142	45,995
Telephone	16,905	3,107	20,012
Printing	1,069	197	1,266
Postage	3,235	595	3,830
TOTAL COMMUNICATION	<u>60,062</u>	<u>11,041</u>	<u>71,103</u>
MISCELLANEOUS			
Office space	58,670	10,784	69,454
Supplies and maintenance	10,672	1,962	12,634
Other services and charges	53,159	9,771	62,930
TOTAL MISCELLANEOUS	<u>122,501</u>	<u>22,517</u>	<u>145,018</u>
TOTAL INVESTMENT EXPENSES	<u><u>\$20,064,326</u></u>	<u><u>\$3,688,079</u></u>	<u><u>\$23,752,405</u></u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF EXPENSES FOR CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007

FOR THE YEAR ENDED JUNE 30, 2008

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	<u>\$ 149,919</u>	<u>\$ 141,003</u>	<u>\$ 290,922</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	6,909	6,499	13,408
Barry Siegel, M.D.	6,898	6,488	13,386
Medical Specialists of Knoxville	<u>6,909</u>	<u>6,499</u>	<u>13,408</u>
TOTAL MEDICAL REVIEW SERVICES	<u>20,716</u>	<u>19,486</u>	<u>40,202</u>
TECHNOLOGY CONSULTING SERVICES			
L R Wechsler, Ltd	<u>70,369</u>	<u>66,183</u>	<u>136,552</u>
TOTAL EXPENSES FOR CONSULTANTS	<u><u>\$ 241,004</u></u>	<u><u>\$ 226,672</u></u>	<u><u>\$ 467,676</u></u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

FOR THE YEAR ENDED JUNE 30, 2007

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	<u>\$ 45,671</u>	<u>\$ 41,618</u>	<u>\$ 87,289</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	7,058	6,434	13,492
Barry Siegel, M.D.	6,853	6,244	13,097
Medical Specialists of Knoxville	<u>6,851</u>	<u>6,241</u>	<u>13,092</u>
TOTAL MEDICAL REVIEW SERVICES	<u>20,762</u>	<u>18,919</u>	<u>39,681</u>
TOTAL EXPENSES FOR CONSULTANTS	<u><u>\$ 66,433</u></u>	<u><u>\$ 60,537</u></u>	<u><u>\$ 126,970</u></u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

TENNESSEE
CONSOLIDATED
RETIREMENT
SYSTEM

Investment Section

REPORT BY INVESTMENT CONSULTANT

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

November 4, 2008

Jill Bachus
Director
Tennessee Consolidated Retirement System
Andrew Jackson Building
Nashville, TN 37243 0230

Dear Jill:

Strategic Investment Solutions prepares the quarterly performance reports in accordance with the CFAI methodology. For the year ended June 30, 2008, global equity markets dropped precipitously while real estate investments posted strong positive results. The TCRS composite fell -1.2%. Domestic equities were led by medium capitalization and growth oriented stocks. International equities were hit even harder than the US, particularly emerging markets. A falling dollar, however, boosted returns for US-based investors. Bonds posted mixed results: intermediate Treasuries and inflation-indexed bonds did well, while asset-backed and high yield bonds lagged considerably.

As of June 30, 2008, the System's asset allocation and one year respective returns were:

Asset Class	% of Assets	One Year Return
Domestic Equities	35.7%	-11.93%
Domestic Fixed Income	35.8%	5.98 %
International Equities	15.7%	-6.38%
International Fixed Income	3.0%	17.45%
Cash and Equivalents	0.6%	5.05%
Real Estate	4.2%	12.53%
Inflation Indexed Fixed Income	5.0%	16.53%
Total	100.0%	-1.21%

TCRS outperformed the median fund in the ICC Universe of Public Plan Sponsors (> \$100 million) over the past one and three years. This was primarily the result of the System's high fixed income allocation relative to other large public funds in an environment of weak public equity returns. Real estate holdings also aided returns, as did the strong relative performance of the System's international equity managers. Note that the overall asset allocation is geared not to maximize absolute returns but to meet the System's liabilities while minimizing the risk of loss.

Over the next five years SIS expects equity asset class returns to be modest due to weak global economic growth. Lower interest rates, improved liquidity, and reduced credit risk should aid fixed income returns. Volatility across global markets has been very high recently due to the financial crisis but is likely to fall as capital markets stabilize.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large institutional investors, including ten state-sponsored pension systems.

Best regards,



Peter A. Keliuotis, CFA

LETTER FROM TCRS CHIEF INVESTMENT OFFICER

STATE OF TENNESSEE

DALE SIMS
STATE TREASURER**JANICE CUNNINGHAM**
EXECUTIVE ASSISTANT**TREASURY DEPARTMENT**
STATE CAPITOL
NASHVILLE, TENNESSEE 37243

November 18, 2008

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

With over \$31 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels, and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, and short-term securities. A diversified portfolio is used to manage risk and minimize significant exposure to unpredictable events. The TCRS consultant periodically prepares an asset allocation study to determine the optimal long-term mix of assets to best meet the plans investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risk.

I am proud to report that while TCRS lost 1.21% in investment returns for the year ended June 30, 2008, the fund's return exceeded the median Public Fund by almost 3.5%. The fund also returned 6.13% annually for the trailing three-year period and 6.99% for the trailing five-year period.

The experienced TCRS investment staff is committed to providing superior investment returns in a financially sound manner with the highest ethical and professional standards. With the leadership of our Board and the work of our dedicated staff, this goal will be met.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Brakebill".

Michael Brakebill
Chief Investment Officer

STATUTORY INVESTMENT AUTHORITY

STATUTORY INVESTMENT AUTHORITY

The investment authority of TCRS is prescribed in the *Tennessee Code Annotated*, Title 8, Chapter 37. This chapter provides that, with certain enumerated exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies as set forth in *T.C.A.*, Section 56, Chapter 3. The Board of Trustees of TCRS adopts investment policy relative to the investment of TCRS assets. The investment objective is to obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay beneficiaries in a timely manner. A summary of statutory and policy provisions follow.

DOMESTIC STOCKS

- ❖ No more than 50% of the TCRS portfolio may be invested in domestic common stock, preferred stock and convertible bonds.
- ❖ No more than 4.99% of the outstanding shares of any one company may be purchased.

DOMESTIC FIXED INCOME

- ❖ No more than 75% of the TCRS portfolio may be invested in fixed income securities exceeding one year.
- ❖ Only issues that are investment grade securities (four highest ratings) may be purchased.
- ❖ Private placements are limited to 15% of the domestic fixed income portfolio. Private placements may be purchased if staff evaluation determines that the credit quality is equivalent to double A.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.

INTERNATIONAL

- ❖ Combined International equity and fixed income investments are limited to 25% of the TCRS portfolio.

INTERNATIONAL EQUITY

- ❖ No more than 25% of the TCRS portfolio may be invested in international equity securities.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.
- ❖ The countries in the Morgan Stanley Capital International EAFE index have been approved by the Board for international investing.

INTERNATIONAL FIXED INCOME

- ❖ No more than 10% of TCRS portfolio may be invested in international fixed income securities.
- ❖ Investments are limited to major developed countries.

SHORT-TERM SECURITIES

- ❖ Commercial paper should be rated A1 or P1.

STOCK OPTIONS AND BOND FUTURES

- ❖ Limited to 10% of the portfolio.
- ❖ Only covered call options may be written.

DOMESTIC STOCK INDEX FUTURES

- ❖ Contracts shall not exceed 5% of the TCRS portfolio.
- ❖ Shall only be used for asset allocation purposes and not for speculative leveraging. The system's cash and short-term securities must exceed the amount of the contract obligation.

SECURITIES LENDING

- ❖ May not lend more than 30% of the portfolio.
- ❖ Collateral, other than cash, must have a market value of 102% of the security loaned.

STANDBY NOTE PURCHASE AGREEMENT

- ❖ TCRS may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority.

FOREIGN CURRENCY HEDGING

- ❖ May not exceed 80% of the international securities.

REAL ESTATE

- ❖ No more than 10% of the TCRS portfolio may be invested in real estate.

PRIVATE EQUITY

- ❖ No more than 5% of the TCRS portfolio may be invested in private equity.

PROXY VOTING

- ❖ Shall vote proxies in a manner which will provide the best ultimate value to shareholders.

INVESTMENT PERFORMANCE REVIEW**INVESTMENT PERFORMANCE REVIEW***Periods Ending June 30, 2008*

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	(1.21)%	6.13 %	6.99%
Policy Index	(4.65)%	6.92 %	9.18%
Domestic Equity			
TCRS Performance	(11.93)%	5.10 %	8.21%
Benchmark - S & P 1500	(12.72)%	4.65 %	7.92%
Domestic Fixed Income			
TCRS Performance	5.98 %	3.84 %	3.59%
Benchmark - Citigroup BIG	7.78 %	4.28 %	3.90%
Inflation Hedged Bonds	16.53 %	6.60 %	-
Citigroup TIPS Index	14.76 %	5.46 %	-
International Equity			
TCRS Performance	(6.38)%	15.34 %	18.45%
Benchmark - MSCI EAFE Index	(10.61)%	12.84 %	16.76%
International Fixed Income			
TCRS Performance	17.45 %	4.70 %	5.83%
Citigroup G5 - ex US Index	18.44 %	5.04 %	5.72%
Real Estate			
TCRS Performance	12.53 %	15.69%	14.34%
Benchmark - NCREIF Index	13.58 %	16.75 %	15.07%
Short-Term Securities			
TCRS Performance	5.05 %	4.58 %	3.35%
Benchmark - Three month Treasury Bill	3.64 %	4.27 %	3.18%

Ranking of TCRS Portfolio	Strategic Investment Solutions	
	Percentile Rankings / Risk Adjusted Basis	
Last three years	50	
Last five years	44	
Last ten years	38	

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with 1 being the best and 100 being the worst. The investment performance for TCRS was computed using a market, time weighted rate of return by an independent investment consultant.

ASSET ALLOCATION

ASSET ALLOCATION
as of June 30, 2008
Expressed in Thousands

Asset Class	Fair Value	Percentage
Domestic Equity	\$10,883,376	35%
Domestic Fixed Income	13,004,327	41%
International Equity	4,801,802	16%
International Fixed Income	995,533	3%
Short-Term Securities	409,320	1%
Real Estate	<u>1,330,171</u>	<u>4%</u>
Total	<u>\$31,424,529</u>	<u>100%</u>

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes, convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

LARGEST HOLDINGS

JUNE 30, 2008

LARGEST STOCK HOLDINGS

as of June 30, 2008

by Fair Value

Shares	Security Name	Fair Value
4,974,794	Exxon Mobil Corporation	\$ 438,428,595
7,921,000	Microsoft Corporation	217,906,710
1,990,530	Chevron Corporation	197,321,239
3,221,900	Procter & Gamble Company	195,923,739
7,279,000	General Electric Company	194,276,510
1,362,800	International Business Machines Corporation	161,532,684
2,506,900	Johnson & Johnson	161,293,946
4,700,745	AT&T Incorporated	158,368,099
6,169,700	CISCO Systems	143,507,222
6,357,500	Intel Corporation	136,559,100

LARGEST BOND HOLDINGS

as of June 30, 2008

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Quality Rating	Fair Value
\$ 200,000,000	FNMA	4.82%	03/05/14	NR	\$ 204,562,000
178,200,000	United States Treasury Infl Index Bond	5.69	01/15/26	Aaa	190,984,373
180,000,000	United States Treasury Note	4.71	04/15/13	Aaa	182,335,415
155,000,000	United States Treasury Infl Index Note	4.37	01/15/16	Aaa	176,747,278
130,000,000	United States Treasury Infl Index Note	3.11	01/15/11	Aaa	174,676,865
157,500,000	United States Treasury Note	3.25	05/31/13	Aaa	158,668,965
125,000,000	United States Treasury Infl Index Note	3.11	01/15/14	Aaa	154,323,110
117,000,000	United States Treasury Infl Index Note	3.11	07/15/12	Aaa	153,509,234
100,000,000	United States Treasury Infl Index Bond	5.11	04/15/32	Aaa	151,924,953
142,626,275	GNMA Pool #782222	5.68	11/15/37	Aaa	142,057,196

A complete portfolio listing is available upon request.

Key to Ratings: All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se', but are considered the best quality securities.

Moody's rates securities as follows:

- Aaa: Best Quality
- Aa: High Quality
- A: Upper Medium Quality
- Baa: Medium Quality
- NR: Not Rated

INVESTMENT SUMMARY

INVESTMENT SUMMARY

as of June 30, 2008

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 6,449,045,051	20.52%	\$ 975,890,473	3.11%	\$ 7,424,935,524	23.63%
Corporate Bonds	6,462,234,763	20.57%	19,614,062	0.06%	6,481,848,825	20.63%
Total Bonds	<u>12,911,279,814</u>	<u>41.09%</u>	<u>995,504,535</u>	<u>3.17%</u>	<u>13,906,784,349</u>	<u>44.26%</u>
Preferred Stock	93,047,000	0.30%	28,754	0.00%	93,075,754	0.30%
Total Fixed Income	<u>13,004,326,814</u>	<u>41.39%</u>	<u>995,533,289</u>	<u>3.17%</u>	<u>13,999,860,103</u>	<u>44.56%</u>
Common Stock						
Consumer Discretionary	921,131,217	2.93%	657,514,060	2.09%	1,578,645,277	5.02%
Consumer Staples	1,098,438,746	3.50%	564,692,306	1.78%	1,663,131,052	5.28%
Energy	1,663,217,207	5.29%	436,681,646	1.39%	2,099,898,853	6.68%
Financials	1,519,212,775	4.83%	729,787,494	2.33%	2,249,000,269	7.16%
Healthcare	1,293,915,800	4.12%	447,747,082	1.42%	1,741,662,882	5.54%
Industrials	1,308,817,646	4.16%	839,630,804	2.68%	2,148,448,450	6.84%
Information Technology	1,845,403,991	5.87%	318,671,214	1.02%	2,164,075,205	6.89%
Materials	465,231,152	1.48%	429,396,138	1.37%	894,627,290	2.85%
Rights/Warrants	0	0.00%	104,124	0.00%	104,124	0.00%
Telecommunication Services	309,961,980	0.99%	213,568,217	0.68%	523,530,197	1.67%
Unit	0	0.00%	13,458,330	0.04%	13,458,330	0.04%
Utilities	458,045,425	1.46%	150,550,161	0.48%	608,595,586	1.94%
Total Common Stock	<u>10,883,375,939</u>	<u>34.63%</u>	<u>4,801,801,576</u>	<u>15.28%</u>	<u>15,685,177,515</u>	<u>49.91%</u>
Short-Term Investments						
Commercial Paper	287,351,391	0.91%	0	0.00%	287,351,391	0.91%
U.S. Government Securities	121,968,950	0.39%	0	0.00%	121,968,950	0.39%
Total Short-Term Investments	<u>409,320,341</u>	<u>1.30%</u>	<u>0</u>	<u>0.00%</u>	<u>409,320,341</u>	<u>1.30%</u>
Real Estate	1,330,171,187	4.23%	0	0.00%	1,330,171,187	4.23%
Total Investments	<u>25,627,194,281</u>	<u>81.55%</u>	<u>5,797,334,865</u>	<u>18.45%</u>	<u>31,424,529,146</u>	<u>100.00%</u>
Short Term Investments Classified as Cash Equivalents	<u>(359,322,591)</u>		<u>0</u>		<u>(359,322,591)</u>	
Total Investments as Shown on the Statement of Plan Net Assets	<u>\$ 25,267,871,690</u>		<u>\$ 5,797,334,865</u>		<u>\$ 31,065,206,555</u>	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities, and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2008**

SCHEDULES OF FEES

	Average Assets Under Management	Fees
Asset Management		
International Investment Manager Fees	4.9 Billion	\$ 14,334,161
Real Estate Asset Management	1.2 Billion	5,489,526
Total Asset Management		<u>\$ 19,823,687</u>
Other Investment Services Fees		
Custodian Bank	32.5 Billion	\$ 297,000
General Investment Consultant	32.5 Billion	260,000
Real Estate Investment Consultant	1.2 Billion	100,000
Total Investment Services Fees		<u>\$ 657,000</u>

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	DOMESTIC		
	Shares Traded	Commissions	Commission Per Share
Avondale Partners	9,213,300	\$ 246,962	0.0268
BancAmerica Securities, Inc.	7,637,350	211,699	0.0277
Bear Stearns & Company, Inc.	14,722,110	365,372	0.0248
BNY Convergenx Group	11,227,234	168,409	0.0150
Capis	19,721,300	986,065	0.0500
Instinet, LLC	17,035,379	270,230	0.0159
Jefferies and Company Inc.	9,115,050	255,475	0.0280
Lehman Brothers, Inc.	16,469,750	426,383	0.0259
Merrill Lynch & Company, Inc.	9,047,100	235,792	0.0261
JP Morgan Chase & Co.	18,493,980	532,641	0.0288
Morgan Keegan & Company, Inc.	9,246,590	250,238	0.0271
Morgan Stanley & Company, Inc.	5,967,151	151,206	0.0253
Suntrust / Robinson Humphreys	4,241,584	114,770	0.0271
Citigroup Global Markets, Inc.	16,195,560	413,112	0.0255
Wachovia Corporation	4,599,400	134,177	0.0292
Other Brokers*	38,023,616	1,077,893	0.0283
Totals	<u>210,956,454</u>	<u>\$ 5,840,424</u>	

Program Trades where total commission cost includes trading commission, liquidity fees, and market impact fees.

Broker Name	DOMESTIC		
	Shares Traded	Commissions	Commission Per Share
Bear Stearns & Company, Inc.	16,149,500	\$ 201,444	0.0125
BNY Convergenx Group	11,456,700	116,702	0.0102
B.O.E. Securities, Inc.	14,447,531	178,908	0.0124
Credit Suisse	16,423,586	246,354	0.0150
Capis	18,184,048	299,033	0.0164
Lehman Brothers, Inc.	12,035,246	180,529	0.0150
Merrill Lynch & Company, Inc.	8,939,006	111,738	0.0125
Morgan Stanley & Company, Inc.	8,632,042	111,248	0.0129
Other Brokers*	13,063,397	164,351	0.0126
Totals	<u>119,331,056</u>	<u>\$ 1,610,307</u>	

International Exchange Traded Shares

Broker Name	INTERNATIONAL		
	Shares Traded	Commissions	Commission Per Share
Investment Technology Group Inc. (Dublin)	59,917,927	\$ 579,088	0.0097
Investment Technology Group Inc. (Hong Kong)	49,872,626	205,555	0.0041
UBS Securities LLC	18,543,831	191,515	0.0103
Bear Stearns & Company, Inc.	15,754,505	136,635	0.0087
HSBC Bank PLC	8,718,245	113,142	0.0130
Other Brokers*	162,601,296	2,266,635	0.0139
TOTALS	<u>315,408,430</u>	<u>\$ 3,492,569</u>	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

*Less than \$100,000 total commission per brokerage firm

TENNESSEE
CONSOLIDATED
RETIREMENT
SYSTEM

Actuarial Section

ACTUARIAL INTRODUCTION**BIENNIAL ACTUARIAL VALUATIONS**

Biennial actuarial valuations of the TCRS are performed by an independent actuarial consulting firm to assess the funding status of the system and to determine employer contribution rates for its various components. The valuation performed as of July 1, 2005, set employer rates effective July 1, 2006. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. A valuation was performed as of July 1, 2007 to establish new employer rates effective July 1, 2008.

FUNDING OF PENSIONS

It is the policy of the state to fund pensions by actuarially determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost. This policy seeks to ensure that sufficient assets will be available to pay benefits as they are due.

ACCRUED LIABILITY

With the 2007 actuarial valuation, the accrued liability, which was frozen in 1981, was reestablished for all groups within the plan. This was accomplished by setting the unfunded accrued liability equal to the excess of the Entry Age Normal Past Service Liability over the valuation assets for each group.

SPECIFICS

Valuations are based on demographic data (employee ages, salaries and service credits), economic projections (salary increases, interest rates and investment earnings), and decrement estimates (mortality and disability rates). The economic projections and decrement estimates used for valuation purposes utilized the assumptions recommended by the actuary and adopted by the Board of Trustees based on an actuarial experience study conducted every four years. The earnings rate

assumption adopted by the Board is subject to the approval of the Council on Pensions and Insurance.

QUADRENNIAL EXPERIENCE STUDY

A quadrennial experience study was conducted as of June 30, 2004. A number of small changes were made to the economic and decrement assumptions. Preretirement and post-retirement mortality assumptions were also modified to more closely reflect past experience. Retirement rates were modified based on experience between 1996 and 2004. The next experience study is scheduled to begin June 30, 2008.

ACTUARY'S CERTIFICATION LETTER



October 27, 2008

Mr. Dale Sims
Chairman, Board of Trustees
Tennessee Consolidated Retirement System
Tenth Floor
Andrew Jackson State Office Building
Nashville, Tennessee 37243-0230

Re: Actuary's Certification Letter

Dear Mr. Sims:

The purpose of this letter is to certify the actuarial adequacy of contributions being made by the State of Tennessee and participating Political Subdivisions to the Tennessee Consolidated Retirement System and to discuss the approach currently being taken toward meeting the financing objectives of the Plan.

The most recent biennial actuarial valuation of the Tennessee Consolidated Retirement System was performed as of July 1, 2007. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Assumptions and Methods") which was adopted by the Board of Trustees on the recommendation of the actuary after a study of actual experience under the TCRS during the four-year period ending June 30, 2004. The next review of actuarial assumptions will analyze experience during the four-year period ending June 30, 2008, with changes to be reflected in the July 1, 2009 actuarial valuation.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation.

The Board of Trustees in 1975 established as its financing objective the amortization of unfunded accrued liabilities over the ensuing 40-year period. In the years since then, the implementation of that general goal has involved a gradual strengthening of the methods utilized in computing required annual contributions. This has been accomplished by such steps as (1) taking advance funding of expected cost-of-living increases into account and (2) placing all amortization payments on a "level dollar" basis, a stronger basis than the "percentage of payroll" method previously utilized. As of July 1, 2007, the unfunded accrued liabilities for the major contribution classes were reestablished and amortized over a 20-year period.

In performing the 2007 valuation, we relied on employee data and asset information provided by the administrative staff of the Tennessee Consolidated Retirement System. In the case of employee data, each individual record was audited thoroughly for reasonableness and internal consistency, although the validity of the information was not traced to source documents. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

5301 Virginia Way • Suite 400 • Brentwood, Tennessee 37027

(continued)

**ACTUARY'S CERTIFICATION LETTER
(CONTINUED)**

Mr. Dale Sims
October 27, 2008
Page Two

Certain tables presented in the Comprehensive Annual Financial Report are derived from the July 1, 2007 actuarial valuation report prepared by Bryan, Pendleton, Swats and McAllister, LLC. The tables were prepared by the staff of the Tennessee Consolidated Retirement System and examined by our firm. These tables include the following –

Financial Section

- Schedules of Funding Progress
- Schedules of Employer Contributions

Actuarial Section

- Summary of Actuarial Assumptions and Methods
- Actuarial Data
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Selected Actuarial Funding Information
- Analysis of Financial Experience

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from prior actuarial valuations through 2007.

The 2007 valuation was prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statement 25. I am a Member of the American Academy of Actuaries with experience in performing valuations for public retirement systems; all calculations were performed either by me or by other qualified actuaries under my direct supervision.

Based upon the valuation results and the contribution rates adopted by the Board of Trustees, it is our opinion that the Tennessee Consolidated Retirement System continues to fund its liabilities in accordance with standard actuarial principles of advance funding, continuing a program first adopted in 1975.

Sincerely,



Justin C. Thacker, F.S.A.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions were adopted by the Board of Trustees for use with the July 1, 2007 valuation based on the consulting actuary’s recommendations resulting from the June 30, 2004 actuarial experience study.

GENERAL ACTUARIAL METHODS

- ❖ *Actuarial Cost Method* (Frozen Entry Age) – The state and teacher unfunded accrued liabilities are being funded over a 20-year period. The amortization period related to local government unfunded accrued liabilities varies by entity.
- ❖ *Treatment of Actuarial Gains and Losses* – Under the Frozen Entry Age Method, any actuarial gains or losses are absorbed into the normal cost.
- ❖ *Asset Valuation Method* – Assets are valued on a basis which reflects a five-year moving average of the fair market value. Investment losses are applied to offset accumulated investment gains prior to determining the amount of earnings to be phased in.
- ❖ *Valuation Data* – The administrative staff of TCRS furnishes the actuary with demographic data relating to the active life members and the retired life members. The fair value of system assets are also provided by retirement system staff. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.
- ❖ *Post-Retirement Adjustments* – Retirement benefits are assumed to increase at the maximum geometric rate of 3% annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

ECONOMIC ASSUMPTIONS

- ❖ *Investment Return Rate* – Seven and one-half percent (7½%) per annum, compounded annually.
- ❖ *Employee Salary Increases* – Graded scale that reflects the plan experience pattern of declining escalation rates as participant ages increase. No explicit assumption is made regarding the portion attributable to the effects of inflation on salaries. Active membership is assumed to remain constant.
- ❖ *Increase in Social Security Wage Base* – Three and one-half percent (3½%) annual increase.

DECREMENT ASSUMPTIONS

- ❖ *Post-Retirement Mortality* – Annuity mortality tables previously used are no longer compatible with TCRS results. Specifically adopted tables have been created to more accurately reflect patterns that occur among TCRS retirees. Sample rates are below.

	Male	Female
<i>Teachers</i>		
Age 50	0.3 %	0.2 %
Age 60	0.6 %	0.5 %
Age 70	1.9 %	1.3 %
<i>State & Political Subdivisions</i>		
Age 50	0.4 %	0.2 %
Age 60	1.1 %	0.7 %
Age 70	2.6 %	1.5 %

- ❖ *Preretirement Mortality* – Sixty-five percent (65%) of the 1994 Group Annuity Mortality Table is used for state employees and political subdivision employees. For teachers, the 1994 Group Annuity Mortality Table is used with an adjustment of 60%.
- ❖ *Withdrawal Due to Disability* – Sample rates of disability based on experience:

	Male	Female
<i>Teachers</i>		
Age 30	0.01 %	0.01 %
Age 40	0.08 %	0.08 %
Age 50	0.20 %	0.20 %
<i>State</i>		
Age 30	0.09 %	0.05 %
Age 40	0.19 %	0.17 %
Age 50	0.27 %	0.37 %
<i>Political Subdivisions</i>		
Age 30	0.04 %	0.04 %
Age 40	0.10 %	0.10 %
Age 50	0.45 %	0.45 %

(continued)

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(CONTINUED)

❖ *Turnover Assumption* – Tables for probabilities of separation due to termination of employment are developed utilizing a “two-year select and ultimate” approach.

<i>Teachers</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male</i>			
Age 30	18.0%	13.5%	6.2%
Age 40	18.0%	13.5%	2.2%
Age 50	18.0%	13.5%	1.8%
<i>Female</i>			
Age 30	18.0%	13.5%	7.7%
Age 40	18.0%	13.5%	2.7%
Age 50	18.0%	13.5%	1.5%
<i>State Employees</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male</i>			
Age 30	24.3%	20.0%	9.1%
Age 40	20.4%	15.1%	2.5%
Age 50	16.5%	12.7%	1.9%
<i>Female</i>			
Age 30	24.3%	20.0%	11.1%
Age 40	20.4%	15.1%	3.5%
Age 50	16.5%	12.7%	2.4%
<i>Political Subdivision Employees</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male</i>			
Age 30	21.4%	17.3%	7.0%
Age 40	19.2%	14.8%	3.2%
Age 50	17.0%	12.3%	2.8%
<i>Female</i>			
Age 30	21.4%	17.3%	10.9%
Age 40	19.2%	14.8%	4.9%
Age 50	17.0%	12.3%	3.6%

Retirement – The probabilities of retirement for members eligible to retire:

Age	Teachers	State	P.S.
Age 60	15.0%	9.0%	9.5%
Age 61	20.0%	11.5%	15.0%
Age 62	26.0%	21.5%	24.5%
Age 63	19.5%	14.5%	16.5%
Age 64	24.0%	16.0%	17.5%
Age 65	37.5%	29.0%	26.0%
Age 70	100.0%	17.5%	18.0%
Age 75	100.0%	100.0%	100.0%

In addition, for members younger than age 60, a loading factor of 12.5% for teachers and 10% for state and political subdivision employees is added during the year the member is first eligible for unreduced retirement. After age 60, for those members with 15 or more years of service, an 8% load is added for teachers and 4% for state employees and political subdivision employees.

ACTUARIAL DATA

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Actuarial Valuation	Number	Annual Payroll In Thousands	Average Annual Pay	Average Annual Percentage Increase In Average Pay
July 1				
1989	153,664	\$3,215,050	\$20,922	5.08%
1991	158,820	3,636,495	22,897	4.61%
1993	166,443	3,943,079	23,690	1.72%
1995	175,584	4,580,041	26,085	4.93%
1997	180,637	4,940,816	27,352	2.40%
1999	189,592	5,473,774	28,871	2.74%
2001	195,946	5,997,047	30,606	2.96%
2003	200,597	6,504,434	32,425	2.93%
2005	206,150	7,136,956	34,620	3.33%
2007	212,725	7,824,823	36,784	3.08%

SCHEDULE OF RETIRED MEMBER VALUATION DATA

Actuarial Valuation	Number	Annual Allowances In Thousands	Average Annual Allowances	Average Annual Percentage Increase In Average Allowances
July 1				
1989	51,836	\$ 264,479	\$ 5,102	3.74%
1991	55,146	315,248	5,717	5.86%
1993	58,268	367,844	6,313	5.08%
1995	61,992	449,310	7,248	7.15%
1997	66,908	535,485	8,003	5.08%
1999	71,812	663,140	9,234	7.42%
2001	77,831	795,676	10,223	5.22%
2003	83,279	919,582	11,042	3.93%
2005	89,893	1,082,823	12,046	4.45%
2007	98,230	1,291,999	13,153	4.49%

SCHEDULE OF RETIRED MEMBER ACTIVITY

Expressed in Thousands

Actuarial Valuation	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
July 1								
1999	10,001	\$ 162,709	5,097	\$ 35,054	71,812	\$ 663,140	23.84%	\$ 9,234
2001	10,526	163,723	4,507	31,187	77,831	795,676	19.99%	10,223
2003	11,128	168,529	5,680	44,623	83,279	919,582	15.57%	11,042
2005	12,161	208,722	5,547	45,481	89,893	1,082,823	17.75%	12,046
2007	13,833	257,958	5,496	48,782	98,230	1,291,999	19.32%	13,153

Note: Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes.

ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

The Board adopted the contribution rates as recommended by the actuary.

ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET
as of July 1, 2007

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Political Subdivision Pension Plan (PSPP)	Total
ASSETS			
Present assets creditable to			
Employer accumulation fund	\$ 22,828,158,274	\$ 4,001,181,918	\$ 26,829,340,192
Members' accumulation fund	3,386,836,344	896,792,065	4,283,628,409
Total present assets	<u>26,214,994,618</u>	<u>4,897,973,983</u>	<u>31,112,968,601</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	3,822,067,457	1,321,097,983	5,143,165,440
Accrued liability	1,025,156,148	577,645,568	1,602,801,716
Total employer accumulation	<u>4,847,223,605</u>	<u>1,898,743,551</u>	<u>6,745,967,156</u>
Member's accumulation fund	<u>1,559,379,148</u>	<u>515,995,791</u>	<u>2,075,374,939</u>
Total prospective contributions	<u>6,406,602,753</u>	<u>2,414,739,342</u>	<u>8,821,342,095</u>
TOTAL ASSETS	<u><u>\$ 32,621,597,371</u></u>	<u><u>\$ 7,312,713,325</u></u>	<u><u>\$ 39,934,310,696</u></u>
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	\$ 12,544,677,397	\$ 1,902,875,092	\$ 14,447,552,489
Present active members	19,503,069,132	5,234,527,606	24,737,596,738
Former members	573,850,842	175,310,627	749,161,469
TOTAL LIABILITIES	<u><u>\$ 32,621,597,371</u></u>	<u><u>\$ 7,312,713,325</u></u>	<u><u>\$ 39,934,310,696</u></u>

UNAUDITED

SHORT-TERM SOLVENCY TEST

<p>SHORT-TERMSOLVENCYTEST</p> <p>The financing objective of the Tennessee Consolidated Retirement System is to pay for the benefits provided by the plan through contributions that remain approximately level from year to year as a percentage of payroll, except that the strategy to fund the unfunded accrued liability is to make level-dollar payments over an established amortization period. A short-term solvency test is one means of checking a system’s progress under its funding program. In a short-term solvency test, the plan’s present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present</p>	<p>retired lives; and (3) the liabilities for service already rendered by active members. In a system that has been following the approach of level percent of payroll financing for some time, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) should be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time.</p>
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Dollar Amounts Expressed in Millions

	<u>Actuarial Accrued Liabilities for:</u>			<u>Valuation Assets</u>	<u>Portion of Actuarial Accrued Liabilities Covered by Assets</u>		
	(1)	(2)	(3)		(1)	(2)	(3)
Actuarial Valuation July 1	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed)				
1997 SETHEEPP (1)	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP (1)	426.4	743.5	1,117.9	2,226.9	100%	100%	95%
Total	<u>\$ 2,568.1</u>	<u>\$ 6,199.6</u>	<u>\$ 9,303.0</u>	<u>\$ 17,898.6</u>	100%	100%	98%
1999 SETHEEPP	\$ 2,396.6	\$ 6,401.8	\$ 9,621.8	\$ 18,327.1	100%	100%	99%
PSPP	501.4	877.1	1,512.4	2,690.8	100%	100%	87%
Total	<u>\$ 2,898.0</u>	<u>\$ 7,278.9</u>	<u>\$ 11,134.2</u>	<u>\$ 21,017.9</u>	100%	100%	97%
2001 SETHEEPP	\$ 2,638.6	\$ 7,837.6	\$ 10,366.0	\$ 20,761.0	100%	100%	99%
PSPP	592.0	1,104.2	1,831.9	3,188.0	100%	100%	81%
Total	<u>\$ 3,230.6</u>	<u>\$ 8,941.8</u>	<u>\$ 12,197.9</u>	<u>\$ 23,949.0</u>	100%	100%	97%
2003 SETHEEPP	\$ 2,908.2	\$ 9,071.1	\$ 10,172.5	\$ 22,099.3	100%	100%	99%
PSPP	691.1	1,304.9	1,927.4	3,605.5	100%	100%	84%
Total	<u>\$ 3,599.3</u>	<u>\$ 10,376.0</u>	<u>\$ 12,099.9</u>	<u>\$ 25,704.8</u>	100%	100%	97%
2005 SETHEEPP	\$ 3,167.4	\$ 10,599.5	\$ 9,900.1	\$ 23,627.2	100%	100%	100%
PSPP	797.0	1,563.9	2,089.2	4,124.0	100%	100%	84%
Total	<u>\$ 3,964.4</u>	<u>\$ 12,163.4</u>	<u>\$ 11,989.3</u>	<u>\$ 27,751.2</u>	100%	100%	97%
2007 SETHEEPP	\$ 3,386.8	\$ 12,544.7	\$ 11,308.6	\$ 26,215.0	100%	100%	91%
PSPP	896.8	1,902.9	2,676.0	4,898.0	100%	100%	78%
Total	<u>\$ 4,283.6</u>	<u>\$ 14,447.6</u>	<u>\$ 13,984.6</u>	<u>\$ 31,113.0</u>	100%	100%	89%

(1) Includes effect of compound COLA and 3.6% indexing improvements.

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

<p>The unfunded accrued liability represents the excess of the accrued actuarial liability over the actuarial value of assets. For funding purposes, the Board of Trustees of TCRS has adopted the frozen initial liability method.</p> <p>Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2027. Also, actuarial gains and losses are absorbed in normal cost rather than as part of the unfunded liability. The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses.</p> <p>For the July 1, 2007 actuarial valuation, the Board reestablished the unfunded accrued liability. In an</p>	<p>inflationary economy where the covered payroll continues to grow, the level-dollar amounts which are being contributed to fund the unfunded accrued liability will, if expressed as a percentage of payroll, continue to decrease.</p> <p>While concern is generally expressed regarding the dollar amount of the unfunded accrued liability, an analysis should also include the method being used to fund this liability as well as a review of this liability expressed as a percentage of active member payroll. The smaller the ratio of unfunded liabilities to the active member payroll, the stronger the system. A review of this ratio over a period of years will give an indication of whether the system is becoming financially stronger or weaker with respect to its unfunded liabilities.</p>
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SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Ratio Assets to AAL	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1997 (3)	\$ 18,070.8	\$ 17,898.6	99.00%	\$ 172.2 (1)(2)	\$ 4,940.8	3.00%
1999	21,311.1	21,017.9	99.00%	293.2	5,473.8	5.00%
2001	24,370.4	23,949.0	98.00%	421.4 (2)	5,997.0	7.00%
2003	26,075.2	25,704.8	99.00%	370.4	6,504.4	6.00%
2005	28,117.1	27,751.2	99.00%	365.9 (2)	7,137.0	5.00%
2007	32,715.8	31,113.0	95.10%	1,602.8 (1)	7,824.8	20.48%

Notes:

- (1) Unfunded accrued liability was reestablished.
- (2) Includes adjustments for changes in actuarial assumptions.
- (3) Includes effect of compound COLA and 3.6% indexing improvement.

SELECTED ACTUARIAL FUNDING INFORMATION

SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEEPP	PSPP	
1997 (2)	7.50%	5.50%	\$ 111,172,072	\$ 61,012,975	18
1999	7.50%	5.50%	93,022,745	200,161,388	16
2001	7.50%	4.75% (3)	81,226,933	340,147,400	14
2003	7.50%	4.75% (3)	52,493,209	317,945,618	12
2005	7.50%	4.75% (3)	39,806,610	326,114,462	10
2007 (4)	7.50%	4.75% (3)	1,025,156,148	577,645,568	20

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years
- (2) Includes effect of compound COLA and 3.6% indexing improvement.
- (3) Graded Scale
- (4) Unfunded liability was reestablished for all groups.

ANALYSIS OF FINANCIAL EXPERIENCE

GAIN AND LOSS ANALYSIS, JULY 1, 2007 VALUATION

	State and Higher Education	Teacher
Normal Cost		
Effective Employer Contribution Rate Pursuant to 2005 Valuation	13.58%	6.13%
Investment Results	0.50%	0.61%
Salary Increases: If there are smaller pay increases than assumed, the normal cost is reduced; if there are greater increases than assumed, the normal cost is increased.	(0.16%)	(0.57%)
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	(0.21%)	0.22%
Cost of Living Escalation: COLA in 2006 was 3.0% and 2007 was 2.5%	(0.14%)	(0.14%)
Prior Service Purchases: Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions	0.09%	0.14%
Contribution rate change delay	0.43%	0.08%
Benefit improvements	0.13%	0.06%
Group combinations	(0.17%)	0.00%
Other	0.05%	(0.11%)
Reestablishment of unfunded liability (20-year amortization)	(0.99%)	0.00%
Effective Employer Contribution Rate Pursuant to 2007 Valuation	13.11%	6.42%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES STATE EMPLOYEES, TEACHERS, AND HIGHER EDUCATION EMPLOYEES

Unfunded Actuarial Liabilities at June 30, 2007	\$ 1,025,156,148
Interest Accrual Fiscal Year 2007-2008	69,870,910
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2007-2008)	(93,544,013)
Unfunded Actuarial Liabilities at June 30, 2008	\$ 1,001,483,045

PLAN SUMMARY

HISTORY AND ADMINISTRATION

The TCRS was established in 1972 by an Act of the Tennessee General Assembly. Seven existing retirement systems were consolidated to provide retirement, disability and death benefits to state employees, public school teachers, higher education employees and the employees of participating local governments. State laws governing the plan may be found in Chapters 34-37, 39 of Title 8, *Tennessee Code Annotated*. Amendments to the plan can only be made by legislation enacted by the General Assembly of the State of Tennessee.

A 20-member Board of Trustees has the responsibility to manage and oversee the operation of the consolidated system. The Board consists of nine ex-officio members from the executive, legislative, and judicial branches of state government, nine representatives of the active TCRS membership, and two representatives for retirees. Employee representation consists of three teachers, one from each grand division of the state, two state employees from departments other than those represented by ex-officio members, three representatives of local governments, one public safety officer, one retired state employee representative, and one retired teacher representative. Local government representatives are appointed for two-year terms by each of the following organizations: the Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. All employee representatives must be vested members of TCRS.

TCRS is administered by the Treasury Department under the legislative branch of state government. By state law, the State Treasurer serves as chairman of the Board of Trustees and as custodian of the funds of the system. The Director of the retirement system is appointed by the Treasurer and serves as the chief administrative officer of the plan.

The state is responsible for the pension cost of state employees and teachers; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balances. The operating budget is funded by local governments on a per member fee basis and by state government as part of the employer contribution rate.

MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, K-12 teachers, higher education general employees and the employees of participating local governments. Membership is optional for part-time state employees and the part-time employees of political subdivisions which have authorized such coverage.

Interim teachers and part-time teachers have optional membership. The faculty employees of institutions of higher education may elect participation in either TCRS or an optional retirement program (ORP), a defined contribution plan for higher education faculty.

CONTRIBUTIONS

TCRS membership became noncontributory on July 1, 1981 for most state employees, teachers in state supported institutions of higher education and teachers employed in the Department of Education. At that time, the contributions, up to five percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual member's accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts.

Participating political subdivisions may either adopt noncontributory retirement provisions or require employee contributions. The contribution rate for local government employees is five percent up to the social security wage base and 5.5 percent above that base, unless the employing government has authorized a level five percent rate. Public school teachers contribute at a rate of five percent of gross salary.

Individual accounts are maintained for all contributory members with interest credited annually at a rate of five percent. Since the TCRS is a defined benefit plan, benefits are based upon the member's average final compensation and years of creditable service. The member's account balance including interest accrued has no bearing on the monthly benefit amount payable at retirement. Account balances plus interest are fully refundable upon termination of service or death.

(continued)

**PLAN SUMMARY
(CONTINUED)**

Contributory members are now covered by Section 414(h) of the Internal Revenue Code. Under this provision, retirement contributions are made on a tax-deferred basis, with income tax due only when contributions are returned to members as benefits or refunds. Political subdivisions may adopt the 414(h) provision for their employees.

The state also makes contributions on behalf of higher education faculty members who select membership in the ORP. These contributions are equal to 10 percent of salary up to social security wage base and 11 percent of any excess salary.

BENEFITS

TCRS provides three valuable benefits to its members: disability, death, and service retirement. Disability benefits are available to qualified TCRS members who become totally disabled before meeting the requirements for service retirement. Two types of disability retirement are available: ordinary and accidental.

To qualify for ordinary disability, a member must have a minimum of five years of TCRS service credit. The ordinary disability benefit is equal to 90 percent of what the member would receive under service retirement. If a disabled retiree has less than 20 years of service credit, the service is projected to age 60 or 20 years, whichever comes first. When service is projected, the actual and projected service combined cannot exceed 20 years. If the member's actual service credit exceeds 20 years, the benefit is based on actual service only.

There is no minimum service requirement to qualify for an accidental disability benefit. However, the disability must be the result of a job-related accident that occurs without negligence on the part of the member, during the performance of duty. Prior to the onset of social security benefits, an accidental disability benefit is equal to 50 percent of the member's average final compensation (AFC). Once social security benefits begin, the accidental benefit is 33.3 percent of AFC. For members joining TCRS on or after July 1, 1997, accidental disability benefits are determined in the same manner as ordinary disability using the projection of service method. Disability benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. The accidental benefit is

adjusted if the member's combined benefits from social security and/or workers' compensation exceed 75 percent of his AFC.

One of several death benefits may be payable to the designated beneficiary of an active member who dies prior to retirement. The type of death benefit payable will be determined by whether or not death occurred while in service, who is named as beneficiary, and the member's length of service.

A member may designate one or more persons, his estate, an institution, or any combination of such as his beneficiary. However, estates, institutions, and/or multiple beneficiaries are only eligible for a lump-sum refund of the member's accumulated contributions and interest unless one of the beneficiaries named is the surviving spouse. Other death benefits offered by TCRS include a 100 percent Joint and Surviving Spouse Annuity after 10 Years Service, a 100 percent Joint and Survivor Annuity for any beneficiary and a Line of Duty Benefit. Any beneficiary of a member who had 10 years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over 10 years.

All members, with the exception of state judges, joining TCRS after 1976 enter the same membership group. The benefit formula for this group provides 1.5 percent of AFC computed over five years for each year of service credit. If a member's AFC exceeds the social security integration level (SSIL) applicable at retirement, the formula provides an additional 0.25 percent of the amount of the excess for each service year. These benefits are increased by five percent for state employees, teachers, and employees of participating political subdivisions which have authorized the five percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members.

Members become eligible for regular service retirement at age 60 and vested or at any age with 30 years. Vested members are eligible for reduced early retirement benefits when they have reached age 55 or have completed 25 years of service. Members joining TCRS after June 30, 1979 attain vesting rights after five years of service; the vesting period for members who joined prior to July 1, 1979 is four years. Five-year vesting and 25-year retirement are benefits that are optional to local governments. Otherwise, vesting for local governments is 10 years of service.

SERVICES FOR ACTIVE AND RETIRED MEMBERS

SERVICES FOR ACTIVE MEMBERS

TCRS provides a number of services for active members through its various sections.

Field Services

- ❖ TCRS staff is available to conduct employee presentations on all aspects of the retirement system.
- ❖ Employer seminars are conducted annually to educate retirement officers on legislation affecting TCRS.

Membership

- ❖ Comprehensive membership statements are provided to all members annually.
- ❖ Computer generated membership letters and membership pamphlets are mailed to all new members.
- ❖ Membership booklets are available to members upon request.

Prior Service

- ❖ An automated calculation and eligibility system generates billings for members who wish to establish prior service.
- ❖ An installment program is available to purchase certain types of prior service.
- ❖ Prior Service may be purchased with a rollover from a tax-deferred 401(k) plan, 403(b) plan, 457 plan or an IRA.

Benefits

- ❖ Interactive benefit calculator via Internet.
- ❖ Computer generated benefit estimates are available for those members approaching retirement age.
- ❖ Employee benefit counseling workshops are available to educate potential retirees.
- ❖ TCRS staff is available for personal counseling on an individual basis at their Nashville office.
- ❖ TCRS seminars, which explain all facets of pre-retirement planning, are provided for members.

SERVICES FOR RETIRED MEMBERS

A number of services are made available to TCRS retirees.

- ❖ A toll-free telephone line.
- ❖ Retiree identification cards.
- ❖ Semiannual retiree newsletter: *The Retiree Advisor*.
- ❖ Direct deposit service.
- ❖ Continuation of medical insurance.
- ❖ Medicare supplement coverage.
- ❖ Income tax information.
- ❖ Certification of monthly benefits.
- ❖ Certification of student discounts.
- ❖ Credit Union deductions.
- ❖ Tennessee State Employee Association deductions.
- ❖ Tennessee Retired Teachers Association deductions.

SAMPLE BENEFIT CALCULATIONS

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
for Calendar Year 2008

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	9,048		9,048		9,048		9,048		9,048	
	Total	\$ 12,592	83.9%	\$ 13,773	91.8%	\$ 14,954	99.7%	\$ 16,136	107.6%	\$ 17,317	115.4%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	10,572		10,572		10,572		10,572		10,572	
	Total	\$ 15,297	76.5%	\$ 16,872	84.4%	\$ 18,447	92.2%	\$ 20,022	100.1%	\$ 21,597	108.0%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	12,096		12,096		12,096		12,096		12,096	
	Total	\$ 18,002	72.0%	\$ 19,971	79.9%	\$ 21,940	87.8%	\$ 23,909	95.6%	\$ 25,877	103.5%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	13,632		13,632		13,632		13,632		13,632	
	Total	\$ 20,720	69.1%	\$ 23,082	76.9%	\$ 25,445	84.8%	\$ 27,807	92.7%	\$ 30,170	100.6%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	15,156		15,156		15,156		15,156		15,156	
	Total	\$ 23,425	66.9%	\$ 26,181	74.8%	\$ 28,937	82.7%	\$ 31,694	90.6%	\$ 34,450	98.4%
\$40,000	TCRS	\$ 9,450		\$ 12,600		\$ 15,750		\$ 18,900		\$ 22,050	
	Social Security	16,680		16,680		16,680		16,680		16,680	
	Total	\$ 26,130	65.3%	\$ 29,280	73.2%	\$ 32,430	81.1%	\$ 35,580	89.0%	\$ 38,730	96.8%
\$45,000	TCRS	\$ 10,631		\$ 14,175		\$ 17,719		\$ 21,263		\$ 24,806	
	Social Security	18,204		18,204		18,204		18,204		18,204	
	Total	\$ 28,835	64.1%	\$ 32,379	72.0%	\$ 35,923	79.8%	\$ 39,467	87.7%	\$ 43,010	95.6%
\$50,000	TCRS	\$ 11,813		\$ 15,750		\$ 19,688		\$ 23,625		\$ 27,563	
	Social Security	19,536		19,536		19,536		19,536		19,536	
	Total	\$ 31,349	62.7%	\$ 35,286	70.6%	\$ 39,224	78.4%	\$ 43,161	86.3%	\$ 47,099	94.2%
\$55,000	TCRS	\$ 13,128		\$ 17,504		\$ 21,879		\$ 26,255		\$ 30,631	
	Social Security	20,244		20,244		20,244		20,244		20,244	
	Total	\$ 33,372	60.7%	\$ 37,748	68.6%	\$ 42,123	76.6%	\$ 46,499	84.5%	\$ 50,875	92.5%
\$60,000	TCRS	\$ 14,506		\$ 19,341		\$ 24,176		\$ 29,012		\$ 33,847	
	Social Security	20,940		20,940		20,940		20,940		20,940	
	Total	\$ 35,446	59.1%	\$ 40,281	67.1%	\$ 45,116	75.2%	\$ 49,952	83.3%	\$ 54,787	91.3%
\$65,000	TCRS	\$ 15,884		\$ 21,179		\$ 26,473		\$ 31,768		\$ 37,062	
	Social Security	21,564		21,564		21,564		21,564		21,564	
	Total	\$ 37,448	57.6%	\$ 42,743	65.8%	\$ 48,037	73.9%	\$ 53,332	82.0%	\$ 58,626	90.2%
\$70,000	TCRS	\$ 17,262		\$ 23,016		\$ 28,770		\$ 34,524		\$ 40,278	
	Social Security	22,164		22,164		22,164		22,164		22,164	
	Total	\$ 39,426	56.3%	\$ 45,180	64.5%	\$ 50,934	72.8%	\$ 56,688	81.0%	\$ 62,442	89.2%

* Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

This chart is based on a date of retirement in 2007. Social security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions:

- (1) Retirement is taking place at age 65 in 2007;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: www.tn.gov/treasury/tcrs/

MAJOR LEGISLATIVE IMPROVEMENTS

<p>1972 Benefit formula improved from 1.12% of salary up to the SSIL to 1.5% of salary up to the SSIL.</p> <p>1973 Annual cost-of-living increase based on the CPI with a cap of 1.5% adopted for retirees.</p> <p>1974 Disability retirement eligibility requirement reduced from 10 years to 5 years of service.</p> <p>Maximum annual cost-of-living increase raised to 3%.</p> <p>Provision to increase retirees’ benefits whenever the benefit formula is improved.</p> <p>Service credit authorized for unused accumulated sick leave.</p> <p>1976 Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.</p> <p>Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.</p> <p>1978 A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.</p> <p>An optional retirement plan established for teachers in the Board of Regents system.</p> <p>1980 Death benefits for members dying in-service with 10 years of service improved by offering a 100% joint and survivor annuity of the member’s accrued benefit for the spouse.</p> <p>1981 Noncontributory retirement for state employees and higher education employees adopted. Employees’ contributions, up to 5%, were assumed by the state.</p> <p>1983 An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p>1984 Credit for out-of-state service for the purpose of determining retirement eligibility authorized.</p> <p>Retirement credit for armed conflict approved.</p> <p>Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.</p> <p>1985 \$22 million ad-hoc increase granted to retirees.</p>	<p>1987 Service credit for half of peacetime military service made available.</p> <p>\$17 million ad-hoc increase granted to retirees.</p> <p>Retirement incentive for state employees.</p> <p>Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.</p> <p>1990 Retirement incentive for state employees.</p> <p>1991 3.6% indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6% indexing was extended. In 1997, it was extended indefinitely.</p> <p>1992 Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p>1993 Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5% authorized.</p> <p>1997 Compounded COLA for retirees approved.</p> <p>1998 Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80%.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p>1999 Group 1 benefit maximum increased to 90%.</p> <p>2000 Group 2 benefit maximum increased to 80%.</p> <p>2001 Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p>2005 Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p>2006 Ad-hoc increase granted to members retired prior to 1989.</p> <p>2007 Public Safety Officer benefits were enhanced.</p>
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TENNESSEE
CONSOLIDATED
RETIREMENT
SYSTEM

Statistical Section

STATISTICAL INTRODUCTION

STATISTICAL SECTION OVERVIEW

The statistical section presents additional information to provide financial statement users with added historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess the system's financial condition.

FINANCIAL TRENDS

The schedules presented on pages 68-71 show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- ❖ Historical Fair Value
- ❖ Analysis of Member and Employer Reserves
- ❖ Schedules of Changes in Net Assets
- ❖ Schedules of Benefit Expenses

OPERATING INFORMATION

The remaining schedules presented on pages 72-89 contain benefits, service, and employer data to help the reader understand how the System's financial report relates to the services of the System and the activities it performs. In addition, a description of political subdivision participation and a listing of participating entities have been included in this section.

HISTORICAL FAIR VALUE

HISTORICAL FAIR VALUE

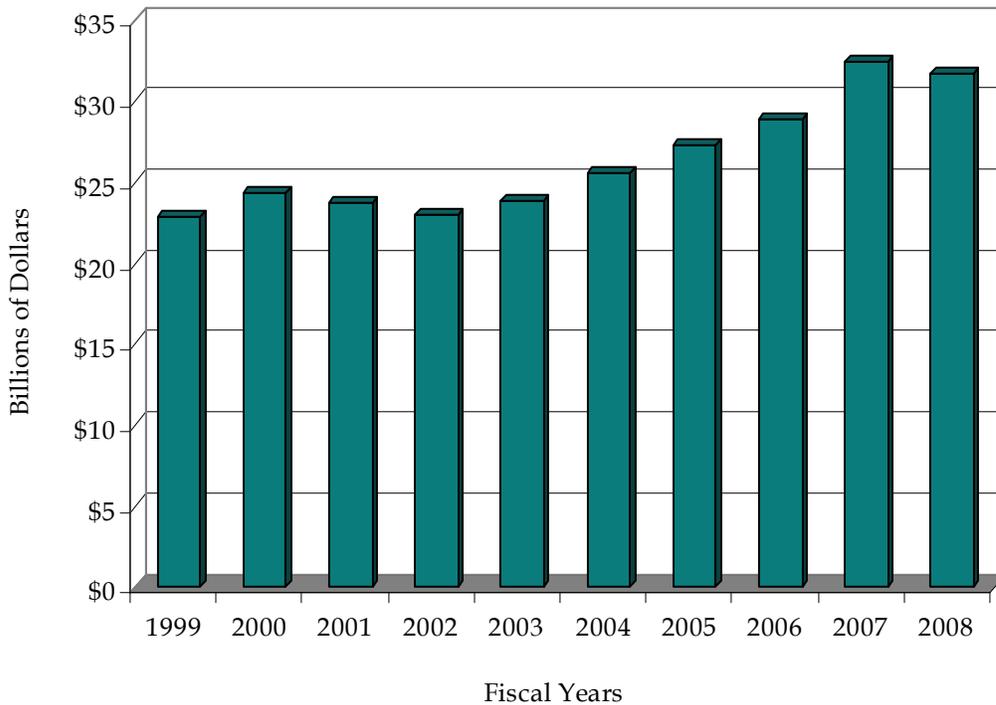
Fiscal Years 1999-2008

Expressed in Thousands

As of June 30	Fair Value	As of June 30	Fair Value
1999	\$ 22,797,512	2004	\$ 25,586,516
2000	24,337,679	2005	27,216,262
2001	23,737,926	2006	28,820,635
2002	22,982,880	2007	32,365,969
2003	23,778,484	2008	31,634,129

HISTORICAL FAIR VALUE

Fiscal Years 1999-2008



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES
FOR THE YEAR ENDED JUNE 30, 2008**

MEMBER RESERVE FUND

The legislation which created the TCRS established two funds, the Member Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plans. The Member Reserve Fund represents the accumulation of employee contributions plus interest.

	SETHEEPP	PSPP	Total
<i>June 30, 2007 Member Reserve Fund</i>	\$ 3,386,610,874	\$ 896,129,454	\$ 4,282,740,328
Member Contributions	181,235,891	64,617,151	245,853,042
Employer Provided Contributions	20,992,182	10,628,911	31,621,093
Interest	157,655,810	42,312,597	199,968,407
Refunded Account Balances	(19,113,004)	(17,293,777)	(36,406,781)
Transfers to Employer Fund of Retiring Members'	(231,783,270)	(44,935,957)	(276,719,227)
	<u>\$ 3,495,598,483</u>	<u>\$ 951,458,379</u>	<u>\$ 4,447,056,862</u>
<i>June 30, 2008 Member Reserve Fund</i>	<u>\$ 3,495,598,483</u>	<u>\$ 951,458,379</u>	<u>\$ 4,447,056,862</u>

EMPLOYER RESERVE FUND

The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

	SETHEEPP	PSPP	Total
<i>June 30, 2007 Employer Reserve Fund</i>	\$ 23,884,652,652	\$ 4,198,575,990	\$ 28,083,228,642
Employer Contributions	593,412,548	244,847,282	838,259,830
Investment Income	(361,407,788)	(68,651,136)	(430,058,924)
Transfers from Retiring Members' Account	231,783,270	44,935,957	276,719,227
Employer Provided Contributions	(20,992,182)	(10,628,911)	(31,621,093)
Interest Credited to Members' Account	(157,655,810)	(42,312,597)	(199,968,407)
Lump-Sum Death Benefits	(3,308,615)	(1,598,864)	(4,907,479)
Retirement and Survivors Annuities	(1,145,186,847)	(182,621,314)	(1,327,808,161)
Refunds for Employer Plan Terminations	0	(9,569,104)	(9,569,104)
Administrative Expenses	(3,711,317)	(3,490,594)	(7,201,911)
	<u>\$ 23,017,585,911</u>	<u>\$ 4,169,486,709</u>	<u>\$ 27,187,072,620</u>
<i>June 30, 2008 Employer Reserve Fund</i>	<u>\$ 23,017,585,911</u>	<u>\$ 4,169,486,709</u>	<u>\$ 27,187,072,620</u>

SCHEDULES OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2008

SCHEDULES OF CHANGES IN NET ASSETS

Expressed in Thousands

Year Ending	Additions			Deductions			Total Change in Net Assets
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
SETHEEPP							
6/30/1999	\$122,565	\$244,453	\$1,685,780	\$556,470	\$2,350	\$13,491	\$1,480,487
6/30/2000	129,925	252,162	1,533,113	604,047	2,363	15,474	1,293,316
6/30/2001	135,154	232,149	(284,167)	659,134	1,795	16,484	(594,277)
6/30/2002	142,126	243,498	(383,371)	711,537	2,714	12,689	(724,687)
6/30/2003	148,493	264,320	959,110	764,837	2,631	14,250	590,205
6/30/2004	154,334	271,298	1,870,972	826,938	2,935	15,305	1,451,426
6/30/2005	160,686	448,154	1,579,232	891,259	3,008	15,329	1,278,476
6/30/2006	166,984	474,879	1,594,214	972,680	3,336	17,751	1,242,310
6/30/2007	175,743	562,729	3,202,706	1,062,764	3,385	19,231	2,855,798
6/30/2008	181,236	593,412	(361,408)	1,148,496	3,711	19,113	(758,080)
PSPP							
6/30/1999	\$38,618	\$69,230	\$246,936	\$81,262	\$1,840	\$12,143	\$259,539
6/30/2000	39,906	82,749	227,961	88,687	1,990	13,088	246,851
6/30/2001	45,433	103,681	(43,623)	97,250	1,683	12,034	(5,476)
6/30/2002	47,139	103,374	(60,412)	106,554	2,290	11,616	(30,359)
6/30/2003	49,218	134,014	153,368	116,395	2,425	12,381	205,399
6/30/2004	50,650	139,808	310,881	127,513	2,599	14,621	356,606
6/30/2005	54,921	181,096	271,135	137,657	2,738	15,487	351,270
6/30/2006	59,327	191,000	283,084	151,511	2,877	16,960	362,063
6/30/2007	57,003	231,699	588,698	167,667	3,084	17,113	689,536
6/30/2008	64,617	244,847	(68,651)	184,219	3,491	26,863	26,240

SCHEDULES OF BENEFIT EXPENSES

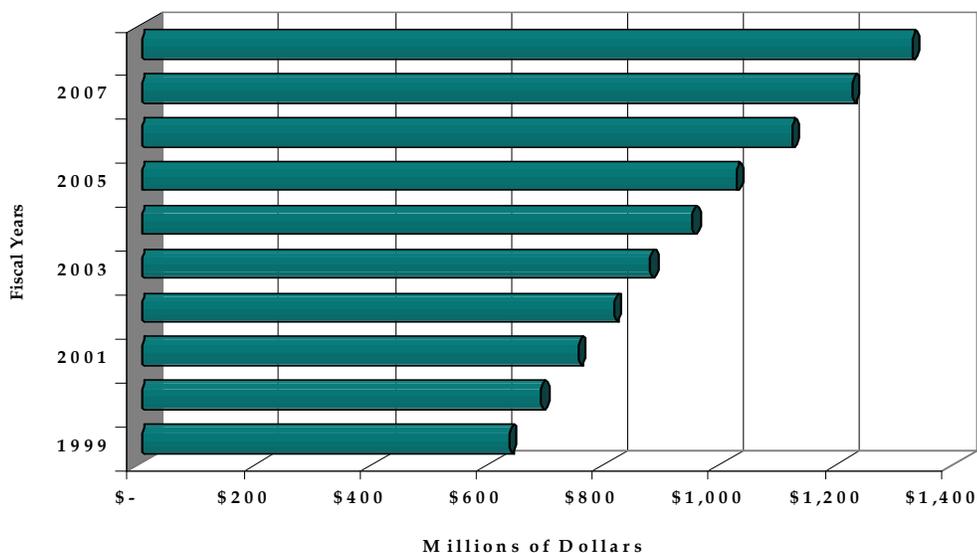
SCHEDULES OF BENEFIT EXPENSES

Expressed in Thousands

Year Ending	Base Annuity	Disability Annuity	Survivor Annuity	Cost of Living	Lump-Sum Death Benefits	Total Benefits	Refunds	Total
SETHEEPP								
6/30/1999	\$414,149	\$13,948	\$25,934	\$99,823	\$2,616	\$556,470	\$13,491	\$569,961
6/30/2000	450,919	15,089	28,839	106,542	2,658	604,047	15,474	619,521
6/30/2001	491,204	16,094	31,224	116,892	3,720	659,134	16,484	675,618
6/30/2002	528,471	17,405	33,518	129,918	2,225	711,537	12,689	724,226
6/30/2003	571,703	18,809	36,818	134,455	3,052	764,837	14,250	779,087
6/30/2004	617,659	20,341	40,022	145,767	3,149	826,938	15,305	842,243
6/30/2005	668,340	21,229	43,437	154,522	3,731	891,259	15,329	906,588
6/30/2006	726,109	22,225	46,495	173,624	4,227	972,680	17,751	990,431
6/30/2007	789,603	22,971	50,032	196,439	3,719	1,062,764	19,231	1,081,995
6/30/2008	851,426	24,111	53,840	215,810	3,309	1,148,496	19,113	1,167,609
PSPP								
6/30/1999	\$60,182	\$2,027	\$3,769	\$14,506	\$778	\$81,262	\$12,143	\$93,405
6/30/2000	69,164	2,315	4,423	11,933	852	88,687	13,088	101,775
6/30/2001	75,517	2,474	4,800	13,477	982	97,250	12,034	109,284
6/30/2002	82,084	2,704	5,206	15,417	1,143	106,554	11,616	118,170
6/30/2003	90,372	2,973	5,820	16,236	994	116,395	12,381	128,776
6/30/2004	98,680	3,250	6,394	17,860	1,329	127,513	14,621	142,134
6/30/2005	106,943	3,397	6,951	19,186	1,180	137,657	15,487	153,144
6/30/2006	117,074	3,584	7,497	21,915	1,441	151,511	16,960	168,471
6/30/2007	128,937	3,751	8,170	25,025	1,784	167,667	17,113	184,780
6/30/2008	141,867	4,017	8,971	27,765	1,599	184,219	26,863	211,082

ANNUAL BENEFIT PAYMENTS

Fiscal Years 1999-2008



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Service Credit

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
0-4	15,929	20,058	5,440	30,146	71,573
5-9	9,843	15,814	3,255	18,664	47,576
10-14	6,010	11,563	2,152	12,188	31,913
15-19	4,371	7,718	1,927	7,342	21,358
20-24	5,139	6,346	1,706	4,922	18,113
25-29	3,200	4,825	1,410	2,752	12,187
30-34	2,364	3,816	943	1,295	8,418
35-39	1,010	1,714	439	435	3,598
40-44	259	231	116	104	710
Over 44	89	55	25	30	199
Total	48,214	72,140	17,413	77,878	215,645

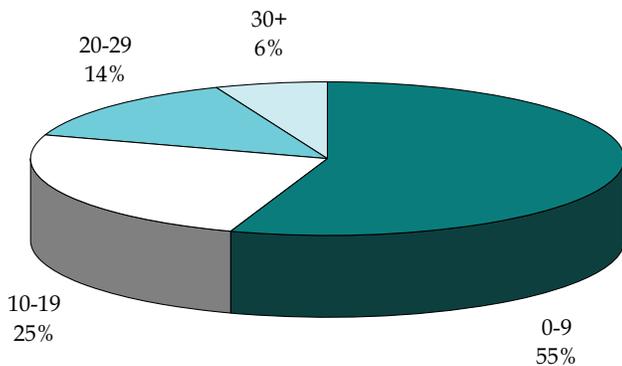
SCHEDULE OF ACTIVE MEMBERS

by Enrollment Date

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1940s	4	17	3	18	42
1950s	41	21	6	5	73
1960s	482	701	154	57	1,394
1970s	4,120	7,319	1,833	2,213	15,485
1980s	10,168	11,824	3,685	9,140	34,817
1990s	12,075	22,381	4,321	24,027	62,804
2000s	21,324	29,877	7,411	42,418	101,030
Total	48,214	72,140	17,413	77,878	215,645

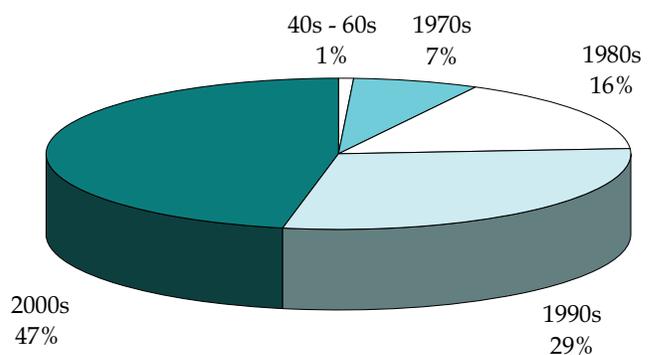
PERCENTAGE OF ACTIVE MEMBERS

by Service Credit



PERCENTAGE OF ACTIVE MEMBERS

by Enrollment Date



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than 20	74	18	12	119	223
20-29	4,629	9,599	1,305	6,742	22,275
30-39	9,458	20,187	2,711	15,797	48,153
40-49	12,106	16,628	4,507	22,571	55,812
50-54	7,813	9,967	2,993	11,731	32,504
55-59	7,284	9,788	2,796	10,010	29,878
60-64	4,754	4,966	1,990	6,745	18,455
65-69	1,407	803	748	2,751	5,709
Over 69	689	184	351	1,412	2,636
Total	48,214	72,140	17,413	77,878	215,645

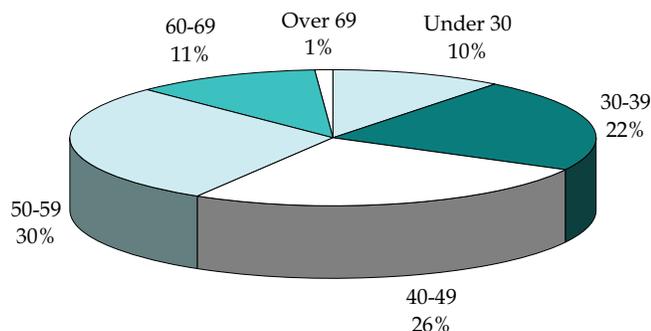
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than 20	1,484	133	302	1,256	3,175
20-29	19,701	42,325	6,093	21,234	89,353
30-39	13,339	17,652	5,381	25,159	61,531
40-49	8,669	9,044	3,617	19,058	40,388
50-54	2,674	1,923	1,118	5,520	11,235
55-59	1,682	849	615	3,390	6,536
60-64	500	177	217	1,517	2,411
65-69	124	31	50	557	762
Over 69	41	6	20	187	254
Total	48,214	72,140	17,413	77,878	215,645

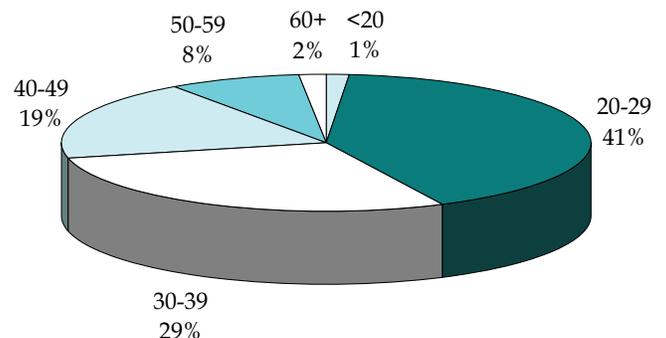
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



SCHEDULES OF ACTIVE MEMBERS

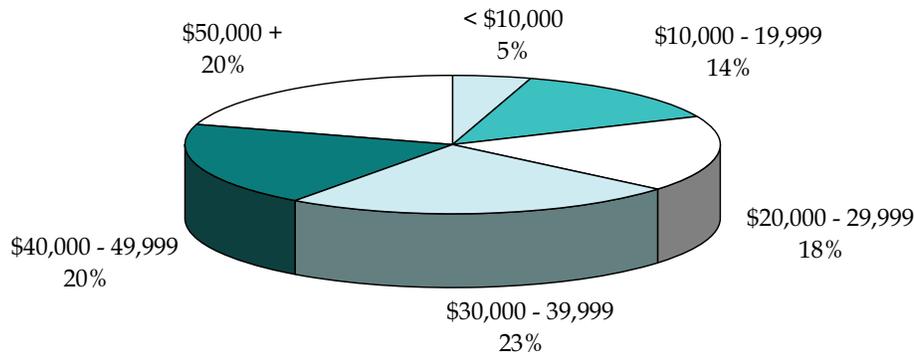
SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEEPP			PSP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than \$10,000	1,993	269	751	7,150	10,163
\$10,000 - 19,999	3,592	997	1,805	22,741	29,135
\$20,000 - 29,999	11,871	2,036	4,900	19,527	38,334
\$30,000 - 39,999	13,019	19,881	3,909	14,925	51,734
\$40,000 - 49,999	7,793	25,487	2,233	7,330	42,843
\$50,000 +	9,946	23,470	3,815	6,205	43,436
Total	48,214	72,140	17,413	77,878	215,645

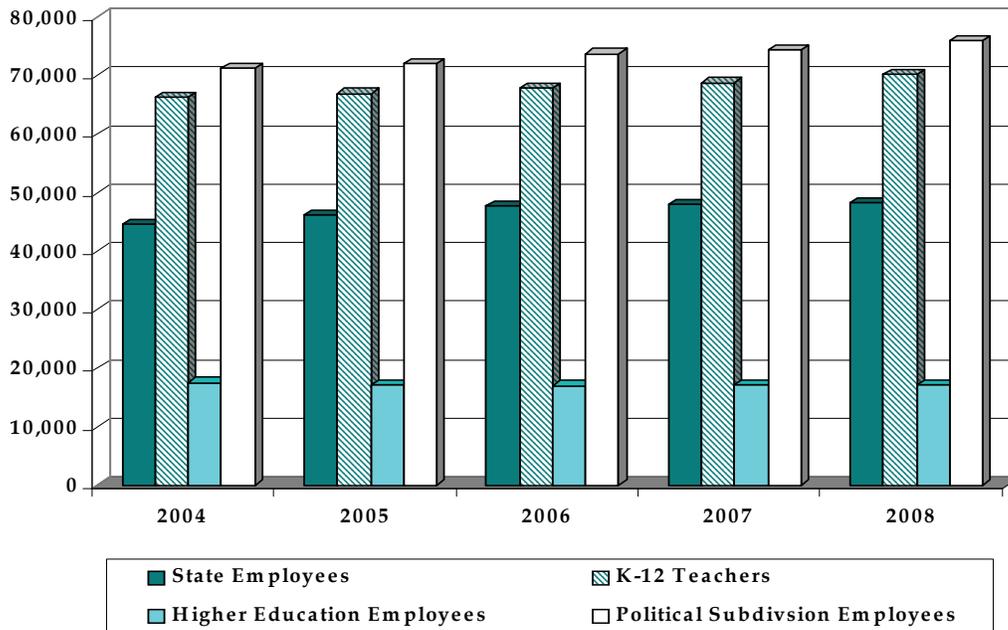
PERCENTAGE OF ACTIVE MEMBERS

by Salary



ACTIVE MEMBERS

Fiscal Years 2004-2008



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

Benefit Plan*	SETHEEPP			PSPP	Total
	State	Teachers	Higher Education	Political Subdivision	
	Employees		Employees	Employees	
Regular	12,546	21,598	6,672	18,683	59,499
Option I	1,945	1,798	1,478	2,262	7,483
Option II	762	832	579	726	2,899
Option III	2,500	2,814	1,296	2,381	8,991
Option IV	1,794	2,627	939	1,241	6,601
S.S. Leveling	1,793	3,858	502	1,424	7,577
Subtotal	<u>21,340</u>	<u>33,527</u>	<u>11,466</u>	<u>26,717</u>	<u>93,050</u>
Survivors	<u>3,186</u>	<u>1,986</u>	<u>1,450</u>	<u>2,634</u>	<u>9,256</u>
Total	<u>24,526</u>	<u>35,513</u>	<u>12,916</u>	<u>29,351</u>	<u>102,306</u>

- *Regular Maximum Plan - No Survivor Benefits
- *Option I 100% Joint and Survivor Annuity
- *Option II 50% Joint and Survivor Annuity
- *Option III 100% Joint and Survivor Annuity with Pop-up Feature
- *Option IV 50% Joint and Survivor Annuity with Pop-up Feature
- *S.S. Leveling Benefit Level Coordinated with Social Security

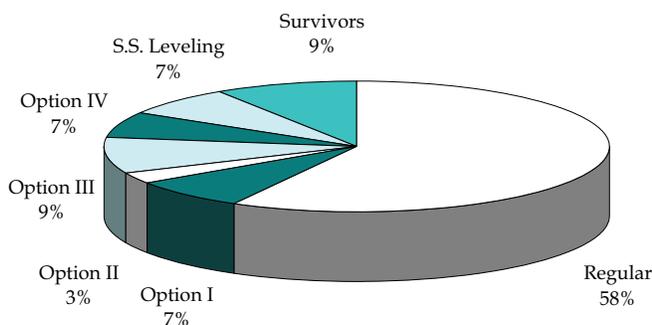
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Benefit Plan*	SETHEEPP			PSPP	Total
	State	Teachers	Higher Education	Political Subdivision	
	Employees		Employees	Employees	
Retirees:					
Service	16,957	28,150	9,086	20,783	74,976
Early	2,895	4,501	1,821	4,120	13,337
Disability	1,488	876	559	1,814	4,737
Total Retirees	<u>21,340</u>	<u>33,527</u>	<u>11,466</u>	<u>26,717</u>	<u>93,050</u>
Survivors	<u>3,186</u>	<u>1,986</u>	<u>1,450</u>	<u>2,634</u>	<u>9,256</u>
Total	<u>24,526</u>	<u>35,513</u>	<u>12,916</u>	<u>29,351</u>	<u>102,306</u>

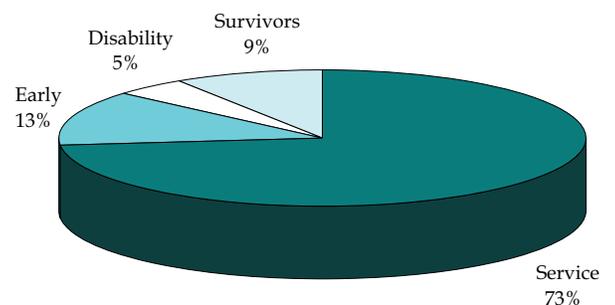
PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Average Monthly Benefit

State Employees

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	8,322	5,160	1,423	656	1,083	4,575	780	221	825	467	375	1,083
501-1,000	6,295	3,891	887	689	828	3,597	473	168	575	395	350	828
1,001-1,500	4,031	3,019	383	119	510	2,026	258	99	425	305	415	510
1,501-2,000	2,628	2,118	139	16	355	1,194	166	69	300	251	301	355
2,001-2,500	1,508	1,271	40	6	191	566	104	53	150	179	218	191
2,501-3,000	730	618	16	0	96	265	72	38	85	72	75	96
3,001-3,500	407	338	5	0	64	138	26	23	50	54	29	64
3,501-4,000	255	221	2	0	32	80	23	23	35	36	15	32
over 4,000	350	321	0	2	27	105	43	68	55	35	15	27
Totals	24,526	16,957	2,895	1,488	3,186	12,546	1,945	762	2,500	1,794	1,793	3,186

Teachers

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	4,840	3,378	1,035	149	278	3,240	324	150	394	263	193	278
501-1,000	5,945	3,660	1,553	394	338	3,802	414	141	507	394	386	338
1,001-1,500	6,814	5,067	1,125	245	377	3,988	342	150	704	525	772	377
1,501-2,000	7,502	6,475	540	70	417	4,420	324	141	647	657	849	417
2,001-2,500	5,562	5,067	180	17	298	3,340	180	117	366	420	849	298
2,501-3,000	2,739	2,534	45	1	159	1,512	108	67	169	210	463	159
3,001-3,500	1,223	1,126	17	0	80	648	54	33	15	79	231	80
3,501-4,000	607	563	5	0	39	432	18	17	7	53	77	39
over 4,000	281	280	1	0	0	216	34	16	5	26	39	0
Totals	35,513	28,150	4,501	876	1,986	21,598	1,798	832	2,814	2,627	3,859	1,986

Higher Education Employees

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	4,806	3,180	923	268	435	2,869	517	185	441	254	146	435
501-1,000	3,181	2,090	528	229	334	1,801	355	116	298	244	95	334
1,001-1,500	1,782	1,272	219	45	247	801	207	93	181	141	85	247
1,501-2,000	974	727	91	11	145	400	118	46	117	103	75	145
2,001-2,500	762	636	36	3	87	267	103	41	91	66	50	87
2,501-3,000	548	454	18	3	73	200	74	35	65	47	25	73
3,001-3,500	336	273	5	0	58	133	44	23	52	38	15	58
3,501-4,000	225	182	0	0	44	67	15	17	28	9	6	44
over 4,000	302	273	0	0	29	133	44	23	24	38	4	29
Totals	12,916	9,087	1,820	559	1,452	6,671	1,477	579	1,297	940	501	1,452

Political Subdivisions

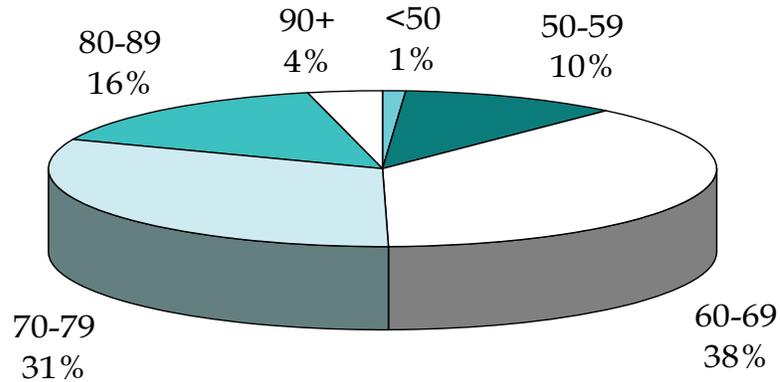
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	18,812	12,885	3,008	1,234	1,686	12,704	1,425	378	1,405	658	570	1,686
501-1,000	6,167	4,364	742	508	553	4,110	430	160	500	261	299	553
1,001-1,500	2,107	1,663	206	54	184	1,121	204	73	238	124	214	184
1,501-2,000	1,011	831	82	18	79	374	90	51	143	87	157	79
2,001-2,500	510	416	41	0	53	187	45	23	54	62	85	53
2,501-3,000	322	248	40	0	34	187	27	22	27	37	57	34
3,001-3,500	237	209	1	0	27	0	11	7	13	12	28	27
3,501-4,000	88	76	0	0	12	0	7	6	2	0	14	10
over 4,000	97	91	0	0	6	0	23	7	0	0	0	8
Totals	29,351	20,783	4,120	1,814	2,634	18,683	2,262	727	2,382	1,241	1,424	2,634

SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS
by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 40	120	77	33	72	302
40-44	102	52	35	87	276
45-49	219	92	89	164	564
50-54	645	603	217	606	2,071
55-59	2,129	3,752	803	1,975	8,659
60-64	4,292	7,506	1,932	4,633	18,363
65-69	4,796	6,956	2,644	6,285	20,681
70-74	4,266	5,303	2,490	5,859	17,918
75-79	3,330	4,342	2,005	4,359	14,036
80-84	2,508	3,178	1,482	2,828	9,996
85-89	1,443	1,933	826	1,674	5,876
90-94	543	1,188	289	626	2,646
95-99	124	457	65	164	810
Over 99	9	74	6	19	108
Total	24,526	35,513	12,916	29,351	102,306

PERCENTAGE OF TOTAL RETIRED MEMBERS
by Current Age



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Date of Retirement

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1950s	0	8	0	2	10
1960s	20	75	5	2	102
1970s	714	1,658	279	719	3,370
1980s	3,445	5,615	1,826	3,737	14,623
1990s	8,841	11,106	4,929	9,699	34,575
2000s	<u>11,506</u>	<u>17,051</u>	<u>5,877</u>	<u>15,192</u>	<u>49,626</u>
Total	<u>24,526</u>	<u>35,513</u>	<u>12,916</u>	<u>29,351</u>	<u>102,306</u>

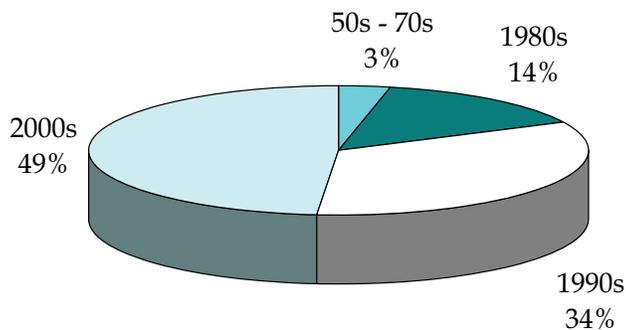
SCHEDULE OF RETIRED MEMBERS

Based on Service Credit at Retirement

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 10	5,281	2,687	2,536	6,634	17,138
10-14	3,216	2,106	1,829	5,657	12,808
15-19	2,890	2,549	1,682	4,930	12,051
20-24	3,056	3,768	1,588	4,315	12,727
25-29	2,620	4,977	1,477	3,218	12,292
30-34	4,925	12,619	2,336	3,309	23,189
35-39	1,677	4,826	964	949	8,416
40-44	688	1,713	386	284	3,071
Over 44	<u>173</u>	<u>268</u>	<u>118</u>	<u>55</u>	<u>614</u>
Total	<u>24,526</u>	<u>35,513</u>	<u>12,916</u>	<u>29,351</u>	<u>102,306</u>

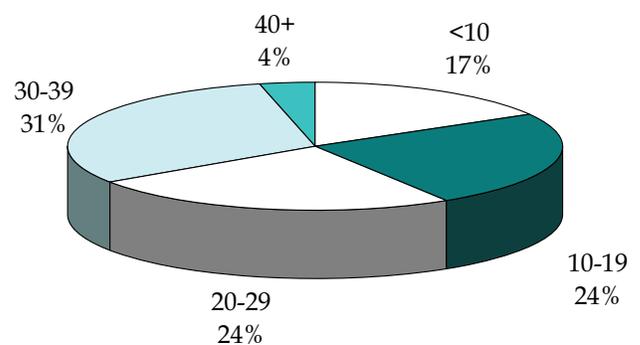
PERCENTAGE OF RETIRED MEMBERS

by Date of Retirement



PERCENTAGE OF RETIRED MEMBERS

by Service Credit at Retirement



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

UNITED STATES				INTERNATIONAL COUNTRIES			
Alabama	549	Massachusetts	12	Tennessee	94,929	Africa	1
Alaska	14	Michigan	87	Texas	324	Australia	1
Arizona	122	Minnesota	21	Utah	13	Canada	8
Arkansas	348	Mississippi	988	Vermont	9	England	1
California	160	Missouri	131	Virginia	420	France	1
Colorado	75	Montana	8	Washington	26	Germany	2
Connecticut	11	Nebraska	7	West Virginia	26	Greece	2
Delaware	10	Nevada	36	Wisconsin	34	Indonesia	1
District of Columbia	9	New Hampshire	15	Wyoming	5	Ireland	1
Florida	1,015	New Jersey	16			Israel	1
Georgia	930	New Mexico	34			Italy	1
Hawaii	10	New York	41			Japan	1
Idaho	22	North Carolina	450			Poland	1
Illinois	120	North Dakota	2			Romania	1
Indiana	81	Ohio	110			Kenya	1
Iowa	8	Oklahoma	51			Spain	1
Kansas	27	Oregon	30			Mexico	2
Kentucky	496	Pennsylvania	68			Total Foreign Countries	27
Louisiana	65	Rhode Island	2			US Virgin Islands	1
Maine	15	South Carolina	203			Saipan	2
Maryland	69	South Dakota	12			Overseas Military Bases	10
				Total U.S.	<u>102,266</u>	Total U.S.	<u>102,266</u>
						Total U.S. & Foreign	<u>102,306</u>
TENNESSEE							
Anderson	1,354	Fentress	301	Lauderdale	645	Roane	1,264
Bedford	611	Franklin	694	Lawrence	704	Robertson	890
Benton	302	Gibson	1,001	Lewis	238	Rutherford	2,785
Bledsoe	330	Giles	453	Lincoln	573	Scott	430
Blount	2,385	Grainger	276	Loudon	703	Sequatchie	264
Bradley	1,314	Greene	1,705	McMinn	765	Sevier	947
Campbell	698	Grundy	250	McNairy	444	Shelby	10,436
Cannon	271	Hamblen	1,118	Macon	217	Smith	331
Carroll	534	Hamilton	4,744	Madison	2,167	Stewart	179
Carter	1,437	Hancock	88	Marion	427	Sullivan	2,960
Cheatem	614	Hardeman	779	Marshall	452	Sumner	2,146
Chester	341	Hardin	530	Maury	865	Tipton	664
Claiborne	625	Hawkins	847	Meigs	157	Trousdale	144
Clay	129	Haywood	484	Monroe	609	Unicoi	359
Cocke	572	Henderson	345	Montgomery	2,089	Union	247
Coffee	811	Henry	715	Moore	104	VanBuren	199
Crockett	267	Hickman	469	Morgan	565	Warren	685
Cumberland	822	Houston	93	Obion	717	Washington	2,638
Davidson	7,489	Humphreys	356	Overton	413	Wayne	299
Decatur	224	Jackson	212	Perry	221	Weakley	955
Dekalb	281	Jefferson	790	Pickett	109	White	523
Dickson	705	Johnson	342	Polk	208	Williamson	1,903
Dyer	484	Knox	6,203	Putnam	1,795	Wilson	<u>1,642</u>
Fayette	794	Lake	222	Rhea	441	Total	<u>94,929</u>

AVERAGE BENEFIT PAYMENTS SCHEDULE

AVERAGE BENEFIT PAYMENT SCHEDULE

Fiscal Year of Retirement

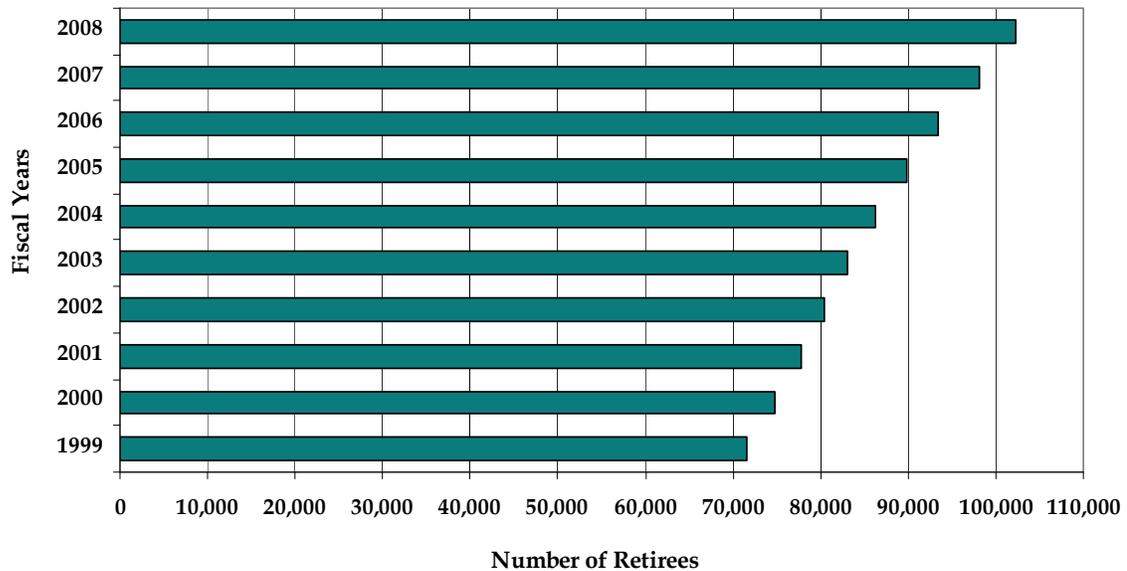
	Years of Service Credit				
	10 - 14	15 - 19	20 - 24	25 - 29	30 or more
1999 Average Monthly Benefit	\$ 452	\$ 735	\$ 1,024	\$ 1,399	\$ 2,092
Number of Retirees	422	326	399	384	1,197
Average Final Salary	\$ 26,001	\$ 30,189	\$ 31,930	\$ 35,899	\$ 43,034
2000 Average Monthly Benefit	\$ 397	\$ 703	\$ 970	\$ 1,369	\$ 2,041
Number of Retirees	443	321	367	425	1,312
Average Final Salary	\$ 24,289	\$ 28,880	\$ 31,562	\$ 36,242	\$ 42,795
2001 Average Monthly Benefit	\$ 421	\$ 722	\$ 1,035	\$ 1,420	\$ 2,064
Number of Retirees	375	323	376	391	1,440
Average Final Salary	\$ 25,291	\$ 31,157	\$ 33,609	\$ 37,869	\$ 44,220
2002 Average Monthly Benefit	\$ 442	\$ 693	\$ 976	\$ 1,417	\$ 2,092
Number of Retirees	347	331	346	370	1,537
Average Final Salary	\$ 25,923	\$ 29,913	\$ 31,628	\$ 38,091	\$ 45,015
2003 Average Monthly Benefit	\$ 491	\$ 713	\$ 962	\$ 1,383	\$ 2,096
Number of Retirees	363	352	332	371	1,463
Average Final Salary	\$ 29,112	\$ 29,942	\$ 32,140	\$ 37,253	\$ 45,026
2004 Average Monthly Benefit	\$ 406	\$ 721	\$ 1,080	\$ 1,458	\$ 2,167
Number of Retirees	387	344	358	390	1,754
Average Final Salary	\$ 30,591	\$ 31,239	\$ 35,619	\$ 39,432	\$ 46,718
2005 Average Monthly Benefit	\$ 501	\$ 724	\$ 1,053	\$ 1,527	\$ 2,254
Number of Retirees	350	419	390	406	1,775
Average Final Salary	\$ 30,448	\$ 30,929	\$ 35,028	\$ 41,288	\$ 47,980
2006 Average Monthly Benefit	\$ 533	\$ 802	\$ 1,135	\$ 1,565	\$ 2,324
Number of Retirees	388	364	445	376	1,859
Average Final Salary	\$ 32,442	\$ 33,917	\$ 38,127	\$ 42,260	\$ 49,423
2007 Average Monthly Benefit	\$ 570	\$ 800	\$ 1,190	\$ 1,688	\$ 2,473
Number of Retirees	590	426	503	476	1,975
Average Final Salary	\$ 33,818	\$ 33,699	\$ 39,285	\$ 45,064	\$ 51,802
2008 Average Monthly Benefit	\$ 548	\$ 873	\$ 1,240	\$ 1,561	\$ 2,391
Number of Retirees	503	425	484	404	1,939
Average Final Salary	\$ 33,644	\$ 37,665	\$ 41,437	\$ 43,798	\$ 51,189

Note: This schedule represents the average monthly benefits under the maximum plan of members retiring with an unreduced service retirement benefit. It excludes members retiring with a reduced early retirement benefit or under disability.

**RETIRED MEMBERS ON PAYROLL
AND PRIOR SERVICE ESTABLISHED**

NUMBER OF RETIREES ON PAYROLL

Fiscal Years 1999-2008



PRIOR SERVICE ESTABLISHED

for the Year Ended June 30, 2008

Type of Service	Members	Years of Service	Payments
State:			
Backpayment	137	166	\$ 704,426
Military	118	273	128
Redeposit	86	336	731,028
Total	341	775	\$1,435,582
Teachers:			
Backpayment	101	121	\$1,064,163
Military	40	85	5,601
Redeposit	143	781	1,929,098
Total	284	987	\$2,998,862
Higher Education:			
Backpayment	168	156	\$ 225,620
Military	50	102	11,609
Redeposit	21	109	256,270
Total	239	367	\$ 493,499
Political Subdivisions:			
Backpayment	911	1,466	\$2,091,504
Military	117	240	8,211
Redeposit	79	375	736,683
Total	1,107	2,081	\$2,836,398
Totals by Category:			
Backpayment	1,317	1,909	\$4,085,713
Military	325	700	25,549
Redeposit	329	1,601	3,653,079
Total	1,971	4,210	\$7,764,341

TREASURY RETIREMENT INSTALLMENT PLAN

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative payment method for members who have prior service to be established. Previously, prior service payments were required to be made in a lump sum payment. TRIP has allowed these members to establish their prior service by making monthly installment payments in the form of Automated Clearing House (ACH) withdrawals from a designated bank account. Service is credited to the member's account once the balance has been paid off.

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for their prior service, a statement is generated showing a lump sum payment. In addition, TRIP information is given with regard to financing over 6 to 60 months. The member may elect to finance the entire amount or elect to make a down payment and finance the balance.

Annual statements are also generated as of the fiscal year ending June 30. Statements reflect the principle and interest payments made and remaining balance. The member may choose at any time to pay off the remaining balance.

TREASURY RETIREMENT INSTALLMENT PLAN
Payments Received for the Year Ended June 30, 2008

Type of Service	Members	Total Years of Service	Payments (Net of Refunds)
State:			
Backpayment	11	27	\$ 27,665
Military	0	0	0
Redeposit	77	334	300,898
Total	88	361	\$ 328,563
Teachers:			
Backpayment	19	47	\$ 47,212
Military	0	0	0
Redeposit	127	561	461,866
Total	146	608	\$ 509,078
Higher Education:			
Backpayment	5	28	\$ 23,791
Military	1	1	1,128
Redeposit	15	71	42,409
Total	21	100	\$ 67,328
Political Subdivisions:			
Backpayment	28	126	\$ 49,283
Military	0	0	0
Redeposit	57	302	125,885
Total	85	428	\$ 175,168
Totals by Category:			
Backpayment	63	228	\$ 147,951
Military	1	1	1,128
Redeposit	276	1,268	931,058
Total	340	1,497	\$1,080,137

REFUND ACTIVITY AND POLITICAL SUBDIVISION PARTICIPATION

REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
1999	4,874	\$ 25,634,380
2000	5,029	28,562,230
2001	4,771	28,517,803
2002	4,259	24,304,536
2003	4,540	26,631,386
2004	4,688	29,925,762
2005	4,724	30,815,700
2006	5,916	34,710,966
2007	4,830	36,343,972
2008	6,569	45,975,984

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees, and certain political subdivisions, resulting in fewer refunds for members withdrawing from the system.

POLITICAL SUBDIVISION PARTICIPATION

Schedule by Category

Year Ended June 30	Number of Cities	Number of Counties	Miscellaneous Political Subdivisions	Total
1999	147	87	170	404
2000	151	87	158	396
2001	156	87	161	404
2002	158	87	166	411
2003	160	88	170	418
2004	163	88	179	430
2005	169	88	187	444
2006	173	88	196	457
2007	177	88	202	467
2008	177	89	207	473

HISTORICAL EMPLOYER CONTRIBUTION RATES

HISTORICAL EMPLOYER CONTRIBUTION RATES

Expressed as a Percentage of Salary

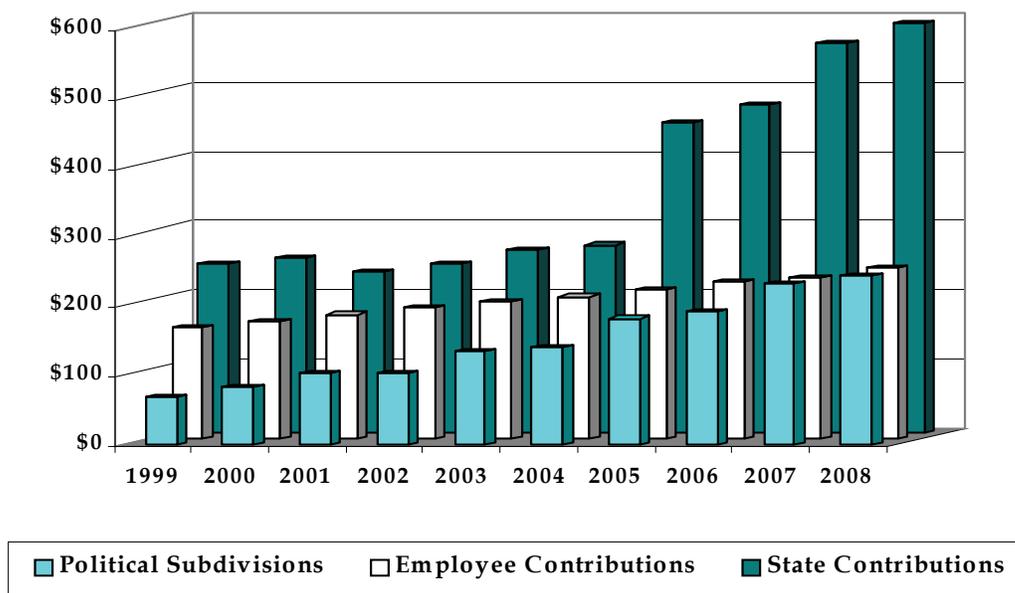
Year Ended June 30	State Employees	Teachers	Higher Education Employees
1999	5.43%	5.47%	5.43%
2000	5.43	5.47	5.43
2001	6.19	3.72	6.19
2002	6.19	3.72	6.19
2003	7.30	3.40	7.30
2004 (1)	7.29	3.39	7.29
2005	10.54	5.50	10.54
2006 (2)	10.31	5.50	10.31
2007	13.62	6.13	13.62
2008	13.62	6.24	13.62

The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

- (1) As part of a statewide request for budget reductions, TCRS reduced the administrative component of the employer contribution rate by 0.01%.
- (2) A reduction in the contribution rate was made due to return to work reform.

RETIREMENT CONTRIBUTIONS

Fiscal Years 1999-2008



SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEEPP

2008				1999			
Participating Govt.	Covered Employees	Rank	% of	Participating Govt.	Covered Employees	Rank	% of
			Total System				Total System
Teachers	121,784	1	51.30%	Teachers	95,991	1	49.32%
State Employees	85,271	2	35.92%	State Employees	66,432	2	34.13%
Higher Ed. Employees	30,329	3	12.78%	Higher Ed. Employees	32,211	3	16.55%
Total	<u>237,384</u>		<u>100.00%</u>	Total	<u>194,634</u>		<u>100.00%</u>

PSPP

2008				1999			
Participating Govt.	Covered Employees	Rank	% of	Participating Govt.	Covered Employees	Rank	% of
			Total System				Total System
Memphis City Schools	7,395	1	5.95%	Memphis City Schools	5,583	1	6.09%
Hamilton County	5,510	2	4.43%	Hamilton County	5,029	2	5.49%
Rutherford County	3,070	3	2.47%	Shelby County	2,575	3	2.81%
Montgomery County	2,949	4	2.37%	Montgomery County	2,079	4	2.27%
Shelby County	2,936	5	2.36%	Sullivan County	1,965	5	2.14%
Williamson County	2,869	6	2.31%	Rutherford County	1,931	6	2.11%
Sumner County	2,786	7	2.24%	Sumner County	1,916	7	2.09%
Sullivan County	2,336	8	1.88%	Williamson County	1,670	8	1.82%
Johnson City	1,866	9	1.50%	Kingsport	1,497	9	1.63%
Madison County	1,857	10	1.49%	Cookeville	1,480	10	1.62%
Others	90,815		73.01%	Others	65,901		71.92%
Total	<u>124,389</u>		<u>100.00%</u>	Total	<u>91,626</u>		<u>100.00%</u>

INTRODUCTION TO POLITICAL SUBDIVISION PARTICIPATION

PARTICIPANTS

TCRS has established pension plans for four groups of public employees: state employees, higher education employees, teachers and the employees of governmental entities (political subdivisions). Employees of political subdivisions may participate in TCRS if the entity’s governing body authorizes participation and accepts all liability associated with coverage for their employees.

Participation is subject to the approval of the Board of Trustees. At June 30, 2008, there were 473 political subdivisions participating in TCRS.

Participation as of June 30, 2008:

Cities	177
Counties	89
Utility Districts	59
Special School Districts	19
Joint Ventures	23
Housing Authorities	11
911 Emergency Communication Districts	41
Miscellaneous Authorities	54
Total	473

ADMINISTRATION

TCRS administers the pension plan for political subdivisions in accordance with state statute. Each employer is responsible for the pension cost for its employees. The cost is not shared with other political subdivisions nor with the state. A separate fund balance is maintained by the retirement system for each participating political subdivision and employer contribution rates are determined individually.

APPLICATION

To apply for TCRS participation, the chief governing body of the political subdivision must first pass a resolution authorizing an actuarial study to estimate the potential cost of participation. Once the governing body has had an opportunity to review the estimated pension cost and liability, a second resolution must then be passed in order to authorize TCRS participation. Political subdivisions electing TCRS coverage accept the liability for pension benefits to be accrued by their employees.

COVERAGE

A political subdivision is required to offer coverage under the same terms and conditions to all the employees of each of its departments and agencies.

Political subdivisions have the option of purchasing, or allowing their employees to purchase, retirement credit for service rendered prior to the employer’s date of participation. The amount of prior service allowed may be limited.

Political subdivisions opting to join TCRS do so under the plan provisions that exist at the time of their participation. Subsequent legislative changes, however, are optional if they result in increased cost to the political subdivision. These optional improvements may be adopted by resolutions approved by the chief governing body.

**THE TCRS PROVIDES
THE ADMINISTRATION
OF A RETIREMENT
PROGRAM FOR 473
LOCAL GOVERNMENTS.**

OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

MEMBERSHIP

- ❖ Optional membership for part-time employees
- ❖ Probationary period of up to six months
- ❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years.

CONTRIBUTIONS

- ❖ Employee contributions at a level five percent both below and above the social security wage base.
- ❖ Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code.
- ❖ Noncontributory retirement plan
- ❖ Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation

CREDITABLE SERVICE

- ❖ Credit for service credit lost as a result of advanced age
- ❖ Service credit for unused sick leave
- ❖ Service credit for military service during periods of armed conflict at no cost to the employee
- ❖ Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment
- ❖ Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975
- ❖ Purchase of service credit for probation period

SURVIVOR BENEFITS

- ❖ 100 percent joint and survivor spouse death benefit for members with 10 years of service
- ❖ Provide inactive members with certain death and disability benefits
- ❖ 50 percent of five year average salary benefits for surviving spouse for members killed in the line of duty

RETIREMENT BENEFITS

- ❖ Provide current retirees and members a five percent increase in base retirement benefit
- ❖ The actuarial equivalent of an age 65 benefit for employees retiring after age 65
- ❖ 25-year retirement with actuarially reduced benefits
- ❖ Minimum benefit level increase to \$8 per year of service
- ❖ Mandatory retirement with supplemental bridge benefit for public safety officers
- ❖ Service retirement at age 55 with 25 years of service for public safety officers

RETIRED MEMBERS

- ❖ Exclusion of cost-of-living benefit increases at the date of participation for all employees or at a later date for new employees
- ❖ Compounded cost-of-living adjustment (COLA) to current and future retirees

MISCELLANEOUS

- ❖ A participating entity may voluntarily withdraw from TCRS by submitting written notice one year in advance. At the time of withdrawal, TCRS membership ceases to be open to new employees. The political subdivision's retirement responsibility to current TCRS members remains. Contribution obligations and benefit and service credit accruals continue.

POLITICAL SUBDIVISION PARTICIPANTS

<p>911 EMERGENCY COMMUNICATION DISTRICTS</p> <p>Campbell County Carroll County Carter County Cheatham County Claiborne County DeKalb County Fayette County Fentress County Gibson County Grainger County Greene County Hamblen County Hamilton County Hardeman County Hawkins County Humphreys County Jefferson County Johnson County Lauderdale County Lawrence County Madison County Maury County Monroe County McNairy County Montgomery County Overton County Roane County Robertson County Rutherford County Sequatchie County Sevier County Shelby County Sullivan County Tipton County Union County Van Buren County Warren County Washington County Weakley County White County Wilson County</p>	<p>Benton Big Sandy Bluff City Bolivar Bradford Brentwood Brighton Bristol Brownsville Byrdstown Camden Carthage Caryville Centerville Charleston Charlotte Church Hill Clarksville Cleveland Clifton Clinton Collegedale Collinwood Cookeville Cornersville Cowan Crossville Cumberland Dandridge Dayton Decatur Decaturville Dickson Dover Ducktown Dunlap Dyer East Ridge Elizabethton Erin Erwin Estill Springs Etowah Fairview Fayetteville Forest Hills Friendship Friendsville Gainesboro Gatlinburg Gleason Goodlettsville Gordonsville Greenbrier Greeneville Greenfield Harriman Hartsville</p>	<p>Henderson Hendersonville Hohenwald Humboldt Huntland Jacksboro Jackson Jamestown Jefferson City Johnson City Jonesborough Kenton Kimball Kingsport Kingston Kingston Springs Lafayette Lafollette Lake City Lakeland Lakewood Lawrenceburg Lebanon Lenoir City* Linden Livingston Lobelville Lookout Mountain Loretto Loudon Luttrell Madisonville Martin Maryville Maury City Maynardville McEwen McKenzie McMinnville Medina Middleton Milan Millersville Millington Monterey Morrison Morristown Moscow Mosheim Mountain City Mt. Carmel Mt. Juliet Munford Murfreesboro* New Johnsonville New Tazewell Newport</p>	<p>Nolensville Norris Oak Ridge Oakland Obion Oliver Springs Paris Parsons Pegram Pikeville Pittman Center Pleasant View Portland Purveyar Red Bank Ripley Rockwood Rogersville* Rutherford Rutledge Savannah Selmer Sevierville Signal Mountain Soddy Daisy Somerville South Carthage South Pittsburg Sparta Spencer Spring Hill Spring City Springfield Surgoinsville Sweetwater Tazewell Tellico Plains Townsend Trenton Tusculum Unicoi Union City Vonore Waynesboro Waverly Westmoreland White House White Pine Whiteville Whitwell Woodbury</p> <p>COUNTIES</p> <p>Anderson Bedford Benton Bledsoe</p>	<p>Blount Bradley Campbell Cannon Carroll Carter Cheatham Chester Claiborne Clay Cocke Coffee Crockett Cumberland Decatur DeKalb Dickson Fayette Fentress Franklin Gibson Giles Grainger Greene Grundy Hamblen Hamilton Hardeman Hardin Hawkins Haywood Henderson Henry Hickman Humphreys Jackson Jefferson Johnson Lake Lauderdale Lawrence Lewis Lincoln Loudon Macon Madison Marion Marshall Maury McMinn McNairy Monroe Montgomery Moore* Morgan Obion Overton Perry</p>	<p>Pickett Polk Putnam Rhea Roane Robertson Rutherford Scott Sequatchie Sevier Shelby* Smith Stewart Sullivan Sumner Tipton Trousdale Unicoi Union Van Buren Warren Washington Wayne Weakley White Williamson Wilson</p> <p>HOUSING AUTHORITIES</p> <p>Bristol Clinton Cookeville Hartsville Hohenwald Lawrenceburg Maryville Memphis Morristown Rockwood Sweetwater</p> <p><i>*All departments not covered by TCRS.</i></p> <p><i>(continued)</i></p>
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**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

JOINT VENTURES

Argie Cooper Public Library
 Bradley-Cleveland Civil Defense
 Bradley-Cleveland Comm. Svc. Agency
 Clarksville/Montgomery Co. Public Lib.
 Clarksville/Montgomery Co. Reg.
 Plan. Comm.
 Cleveland/Bradley Community Center
 Comm.
 Edward Gauche Fisher Public Library
 Fayetteville/Lincoln Co. Public Library
 Gorham/MacBane Public Library
 Jackson/Madison Co. Library
 Johnson City/Washington Co. EMS
 Kinser Park
 Lawrence Co. Library
 Linebaugh Public Library
 Morristown/Hamblen Co. Landfill
 Sevier Solid Waste
 Smyrna/Rutherford Co. Airport Auth.
 Tellico Area Svc. System
 Tri-City Airport Comm.
 Tri-County Vocational School
 W. G. Rhea Public Library
 Washington Co./Johnson City Animal
 Control Center
 Wilson Emergency Mgt. Agency

MISCELLANEOUS AGENCIES

Beech River Watershed
 Blount County Fire Protection Dist.
 Blount County Library
 Books from Birth
 Bristol/Kingsport/Sullivan Co.
 Industrial Commission Dist.
 County Officials Assoc. of Tenn.
 Delta Human Resource Agency
 Douglas Cherokee Economic Auth.
 East Tenn. Community Svc. Agency
 Fayetteville-Lincoln Co. Ind. Dev. Bd.
 First Tenn. Dev. District
 First Tenn. Human Resource Agency
 Four Lake Reg. Industrial Dev. Auth.
 Greater Nashville Regional Council
 Hamilton Co. Comm. Svc. Agency
 Knox Co. Community Services Agency
 Mid-Cumberland Comm. Svc. Agency
 Melton Hill Regional Indust. Dev.
 Assoc.
 Newport/Locke Co. Economic Dev.
 Dist.
 Northeast Community Svc. Agency
 Northwest Tenn. Comm. Svc. Agency
 Sequatchie Valley Plan. & Dev. Dist.
 Shelby Co. Community Svc. Agency
 South Central Tenn. Community
 Services Agency
 South Central Tenn. Dev. Dist.

South Central Tenn. Workforce Board
 Southeast Tenn. Comm. Svc. Agency
 Southeast Tenn. Dev. District
 Southeast Tenn. Human Res. Agency
 Southwest Tenn. Comm. Svc. Agency
 Southwest Tenn. Dev. District
 Southwest Tenn. Human Res. Agency
 Tenn. Assoc. of Assessing Officers
 Tenn. Assoc. of County Mayors
 Tenn. Athletic Coaches Assoc.
 Tenn. Co. Commissioners Assoc.
 Tenn. Co. Highway Officials Assoc.
 Tenn. County Services Assoc.
 Tenn. Duck River Dev. Agency
 Tenn. Education Assoc.
 Tenn. Historical Society
 Tenn. Municipal Bond Fund
 Tenn. Municipal League
 Tenn. Mun. League Risk Mgt. Pool
 Tenn. School Board Assoc.
 Tenn. Secondary Sch. Athletic Assoc.
 Tenn. Sheriffs Assoc.
 Tenn. State Employees Assoc.
 Tenn. Veterans Home Board
 Upper Cumberland Community
 Services Agency
 Upper Cumberland Human Res.
 Agency
 Upper East Tenn. Human Dev. Agency
 Workforce Solutions

SPECIAL SCHOOL DISTRICTS

Bradford
 Clinch Powell Education Coop.
 Elizabethton Board of Education
 Franklin
 Gibson County Schools District
 Hollow Rock-Bruceton
 Huntingdon
 Lebanon
 Little Tenn. Valley Education Coop.
 McKenzie
 Memphis
 Milan
 Oak Ridge Board of Education
 Oneida
 Paris
 South Carroll Special School District
 Trenton
 Union City Board of Education
 West Carroll County

UTILITY DISTRICTS

Alpha-Talbott
 Arthur Shawnee
 Big Creek
 Bloomingdale
 Bondecroft

Bristol Electric System
 Castalian Springs/Bethpage
 Citizen's Gas
 Consolidated Utility District of
 Rutherford County
 County Wide
 Crab Orchard
 Cumberland Utility District of Roane
 and Morgan Counties
 DeWhite
 Double Springs
 Dyersburg Suburban
 East Fork
 East Montgomery
 East Side
 Fall Creek Falls
 First Carter County
 First Tipton County
 First Hawkins County
 Gladeville
 Glen Hills
 Greeneville Light & Power
 Hampton
 Hardeman-Fayette County
 Hendersonville
 Hixson
 Jackson County
 Johnson City Power Bd.
 Lake County
 Lakeview
 Lincoln County Board of Public Utilities
 Loudon
 Middle Tennessee
 New Market
 North Utility District of Decatur and
 Benton Counties
 Northeast Henry County
 Oak Ridge
 Old Hickory
 Persia
 Plateau
 Poplar Grove
 Quebec-Walling
 Reelfoot Lake Regional
 Riceville
 River Road
 Savannah Valley
 Sevier County
 Siam
 Sylvia-Tennessee City Pond Water
 Sneedville
 Soddy Daisy-Falling Water
 Smith
 South Elizabethton
 Weakley County Municipal Electric
 Webb Creek
 West Overton