RETIRE READY

TENNESSEE'S RETIREMENT PROGRAM

Hybrid Retirement Plan for State Employees and Teachers

Hybrid Member Guide

A program of the
Tennessee Treasury Department

David H. Lillard, Jr., State Treasurer
Jamie Wayman, Director of TCRS

04/2019

INTRODUCTION

RetireReadyTN is administered by the Tennessee Department of Treasury. It combines the strengths of a defined benefit plan provided by the Tennessee Consolidated Retirement System (TCRS), the State of Tennessee 401(k) plan through services provided by Great-West Life & Annuity Insurance Company ("Empower Retirement" or "Empower"), and retirement readiness education.

Full-time state employees, certain higher education employees, and public school teachers hired after June 30, 2014 are members of the Hybrid Retirement Plan for State Employees and Teachers ("Hybrid Plan") as a condition of employment if they have not maintained membership in the TCRS Legacy Pension Plan based on previous service as a state employee, higher education employee or teacher prior to July 1, 2014. For information on the TCRS Legacy Pension Plan, please see the Legacy Plan Guide for State Employees and the Legacy Plan Guide for Teachers. Certain part-time state employees, higher education employees, and public school teachers are eligible to participate on an optional basis. These part-time employees and teachers must, upon their initial date of hire, file an irrevocable election to become or not to become a member of the Hybrid Plan (or in the Optional Retirement Plan ("ORP") if eligible). Higher education employees who are exempt from the Fair Labor Standards Act may elect membership in the ORP in lieu of the Hybrid Retirement Plan. For information on the ORP, please see the Higher Education Employees page at **RetireReadyTN.gov**.

Note: This document provides a general overview of the Hybrid Plan as it relates to higher education employees, public school teachers and most state employees. There is a separate document that covers the benefits for political subdivision employees who are members of the Hybrid Plan. Additionally, supplements to this document exist for Hybrid Plan members who are:

- Members of the General Assembly
- Attorneys general, district attorneys general, district public defenders, or state judges; and
- Public Safety Officers

These documents, and forms referenced in this document, can be found under Forms and Guides at **RetireReadyTN.gov**.

THE HYBRID PLAN OVERVIEW

The Hybrid Plan is a combination of a defined benefit plan (TCRS) and a 401(k) deferred compensation plan. A Hybrid Plan member who has met the vesting requirements for TCRS will receive a retirement benefit that will consist of a calculated monthly payment from TCRS and the accumulated balance in the member's 401(k) plan.

Tennessee Consolidated Retirement System (TCRS)

TCRS provides lifetime retirement, survivor, and disability benefits for its members. After meeting the five-year vesting requirement, a member becomes eligible to receive a monthly retirement benefit upon reaching the age and/or service requirement to begin benefits. The benefit is based on the member's years of creditable service and earnable compensation. If a member leaves covered employment before becoming vested, the member will lose membership in TCRS if the member takes a refund of his or her accumulated contributions from TCRS or if the member is absent from covered employment for more than seven consecutive years, whichever occurs first. If a member leaves covered employment after becoming vested, the member may retain his or her TCRS membership until retirement by leaving the member's contributions in TCRS.

401(k) Plan

The 401(k) plan is a key component of the Hybrid Plan and allows the member to invest pre-tax or after-tax (Roth) dollars in investment options of his or her choice that are offered by the plan. A member is immediately vested in the 401(k) and can decide how the contributions should be invested given individual goals, risk tolerance, and timeline. The amount a member receives in retirement from his or her 401(k) account is based on the amount saved, plus any accumulated earnings from investments.

The Treasury Department administers the 401(k) plan through a contract with Empower.

Additional Savings Opportunity

As an added benefit, the State of Tennessee offers state and higher education employees the ability to save through a 457(b) plan. The 457(b) plan has the same investment options as the 401(k) plan. By participating in the 457(b) plan, a member can save and invest additional money for retirement. The 457(b) account is optional for eligible members. The 401(k)/457(b) Plan Comparison Guide found on **RetireReadyTN.gov** provides further information about the differences between the 401(k) and 457(b) plans.

Public school teachers may only participate in the 457(b) plan if their employer has elected to offer the plan.

Retirement Readiness Education

In addition to retirement plans, RetireReadyTN offers retirement readiness education and retirement counseling to all members. Members can meet with local RetireReadyTN plan advisors for assistance in understanding their TCRS and 401(k) retirement plans, for assistance with retirement planning, or other financial planning needs. These services are provided to members at no additional fee. To find your local representative and schedule a one-on-one or group meeting, please visit the Retirement Readiness Education section at **RetireReadyTN.gov**.

CONTRIBUTIONS TO THE HYBRID PLAN

The Hybrid Plan is funded by contributions from both the employer and the member. The employer contributes an amount equal to 4% of earnable compensation to TCRS and 5% of earnable compensation into the member's 401(k) account. The member is required to contribute 5% of earnable compensation to TCRS. The member is automatically enrolled in the 401(k) plan to make member contributions of 2% of earnable compensation. Members have 30 calendar days to opt out of the automatic 2% member contribution before a contribution is made to the member's account; otherwise, contributions to the 401(k) of 2% will be deducted each pay period for the member. The member may modify or opt out of the member contribution to the 401(k) plan at any time. In the event that the member opts out and wants a refund of the member contributions made, the member must make the refund request within 90 days of the payroll date in which the first default elective contribution is made on the member's behalf. Member contributions to the 401(k) plan may be made on a pre-tax or after tax (Roth) basis, meaning a member can choose whether the money will be taxed now (Roth) or in retirement (pre-tax). All contributions to TCRS are deducted pre-tax.

CONTRIBUTIONS TO THE HYBRID PLAN			
	Employer Contributions	Member Contributions	Total Contributions
TCRS	4%[1]	5%	9%
401(k)	5%	2%[2]	7%
TOTAL	**9%**	**7%**	**Amount equal to 16% of member earned compensation**

State and higher education employees are eligible to receive a monthly dollar-for-dollar match, up to $50, for member contributions to the 401(k) plan.

TCRS

TCRS is a defined benefit plan. Hybrid Plan members are required to contribute 5% of earnable compensation into TCRS. This money is deducted from the member's paycheck on a pre-tax basis. Employers are required to contribute 4% of a Hybrid Plan member's earnable compensation into TCRS.[3]

Vesting

A member becomes vested in TCRS upon completing five years of creditable service to a TCRS covered employer. If a member who has not completed five years of creditable service leaves covered service for a period of seven years or more, he or she will lose membership in TCRS. Member contributions and interest will remain available for refund. An individual who has lost membership can reestablish lost years of TCRS membership upon reentering covered employment, and the individual will enter the retirement plan available at the time of rehire.

Elements of the Benefit Calculation

TCRS provides a lifetime monthly benefit as determined by a formula specified in state law. The formula for computing a monthly retirement benefit consists of a member's Average Final Compensation (AFC), years of creditable service, and the benefit accrual factor, which are described below.

Average Final Compensation (AFC)

The AFC is the average of the member's five highest consecutive years of earnable compensation. The federal government limits the maximum amount of compensation that may be recognized by a defined benefit plan. Limits can be found at **IRS.gov**.[4]

---

[1]These employer contributions fund the future monthly retirement benefits for all employees of the State or Local Education Agency (LEA), and are not refundable to the employer or the member.

[2]Members have 30 calendar days to opt out of the automatic 2% member contribution before a contribution is made to the member's account; otherwise, contributions to the 401(k) of 2% will be deducted each pay period for the member. The member may modify, or opt out of, future contributions to the 401(k) plan at any time. In the event that the member opts out and wants to receive the member contributions made, the member must submit a 90-Day Permissible Withdrawal Form within 90 days of the payroll date in which the first default elective contribution is made on the member's behalf.

[3]Additional information about annual compensation limits and cost-of-living adjustments regarding retirement plans can be found at IRS.gov.

[4]Additional information about annual compensation limits and cost-of-living adjustments regarding retirement plans can be found at IRS.gov.

Creditable Service

Creditable Service means membership service under the Hybrid Plan for which a member made contributions, plus any other periods of public service credited by TCRS. Service credit may be accrued for service as a state employee, higher education employee, a public school teacher in Tennessee, or a full-time employee of a participating Tennessee local government. In addition, a member may be entitled to establish credit for other types of service. The types of service that may be established include the following:

- Previously withdrawn service;
- Military service which interrupted the member's public employment;
- Military service rendered during a period of armed conflict as defined in Tennessee Code Annotated, Section 8-34-605;
- Peacetime military service rendered at any time from October 15, 1940 through May 7, 1975;
- Educational leave of absence which interrupted the member's employment; and
- Unused accumulated sick leave at retirement.

To establish prior and/or missing service, the member must complete the appropriate Application for Retirement Credit. Please note that only the member may apply for prior and/or missing service, including military credit, and must submit the appropriate documentation required by TCRS. If the retirement credit requires payment to establish, a member may pay for such service through personal check in a lump sum, or through a rollover from another qualified plan, such as the State 401(k) plan. Purchasing service through a rollover requires a completed Application for Acceptance of Rollover Funds. Depending on the type of service being established, a member may be able to purchase the service through installment payments. Some types of service may be established without charge, while others require payment of contributions and interest. If you would like additional information on establishing prior service, contact TCRS at TCRS.CustomerSupport@tn.gov or (800) 922-7772. For additional information on transferring funds specifically from the State 401(k) plan, please see the section below entitled **Using 401(k) Funds to Purchase Prior Service in TCRS**.

Benefit Accrual Factor

Tennessee state law provides the benefit accrual factor for the Hybrid Plan, and it is 1.0%.[5]

Member Annual Statements

Each year of active employment, TCRS will prepare a Member Annual Statement. The statement will show the salaries and amount of service credit reported to TCRS, the amount of member contributions, the TCRS beneficiary designation, and estimates of the TCRS benefits the member could receive at retirement. TCRS will send a notice to the member's employer when statements are available online at Member Self-Service at **MyTCRS.com**.

[5] The benefit accrual factor may be modified pursuant to the Hybrid Plan cost controls discussed later in this document.

TCRS Retirement Benefits

A vested member is eligible to receive a lifetime monthly retirement benefit from TCRS upon reaching either service retirement eligibility or early service retirement eligibility. Retirement benefits may be subject to income tax at the time of distribution. Eligibility requirements for service retirement and early service retirement are described below.

- **Service Retirement Eligibility –** A member becomes eligible for unreduced service retirement benefits upon attainment of age 65 and completion of five years of creditable service or reaching the Rule of 90. The Rule of 90 means the attainment of a combination of age and years of creditable service as to equal 90. For example, a member age 55 with 35 years of service would qualify for service retirement since the member's age and service totals 90 (55 + 35 = 90).

- **Service Retirement Formula -** The annual service retirement allowance (or annual base benefit) payable to a member is equal to 1.0% of the member's AFC, multiplied by the number of years of creditable service. The annual service accrual (1.0% formula) may be decreased as part of the cost controls for the Plan. (See **HYBRID PLAN COST CONTROLS section within this guide**).

The following example shows the formula used for computing the TCRS retirement benefit for a member who is 60 years old retiring with an AFC of $30,000 and 30 years of creditable service. This example assumes the member selects the Member Only Option described in the **Descriptions of Benefit Payment Plans at Retirement** section below.

In this example, TCRS service retirement benefits replace 30% of the member's AFC after 30 years of service.

Accrual Factor	x	AFC	x	Years of Creditable Service		
.01		$30,000		30	=	$9,000
					÷	12
				Monthly Benefit		$750

- **Early Retirement Eligibility –** – A member becomes eligible for reduced early retirement benefits upon attainment of age 60 and completion of five years of creditable service or the Rule of 80. The Rule of 80 means the attainment of a combination of age and years of creditable service as to equal 80. For example, a member age 57 with 23 years of service would qualify for early retirement since the member's age and service totals 80 (57 + 23 = 80).

- **Early Retirement Formula -** The benefit is computed in the same manner as a service retirement benefit except there is a permanent actuarial reduction determined by how far the member is away from Service Retirement at the date of retirement.

The following example shows the formula for computing the TCRS early retirement benefit for a 60-year-old member retiring under the Member Only Option with an AFC of $30,000 and 25 years of creditable service.

Accrual Factor	x	AFC	x	Years of Creditable Service	x	Early Reduction Factor		
.01		$30,000		25		0.62574633	=	$4,693
							÷	12
						Monthly Benefit		$391

- **Maximum Benefit Accrual -** The maximum annual base benefit payable at retirement (under either service or early service retirement) is limited to the lower of 90% of the member's AFC or the base benefit in effect at the time of the member's retirement (which, as of July 1, 2018, equals $87,815.51), but subject to adjustment based on the cost-of-living provisions of the plan, which are addressed in the **Cost-of-Living Adjustments After Retirement** section below.

Survivor Benefits When a Member Dies Prior to Retirement

One of the most important decisions made when becoming a member of TCRS is to name a beneficiary. When selecting a beneficiary, a member should consider the TCRS survivor benefit provisions in light of his or her circumstances. It is very important that TCRS beneficiary designations are kept current throughout the member's career. Situations such as marriage, divorce, remarriage, birth of a child, or death do not automatically change a designated beneficiary. Prior to retirement, a member may change his or her TCRS beneficiary at any time by using the member self-service online portal at **MyTCRS.com**. Please note that the member must designate a beneficiary for both the TCRS benefit and the 401(k) account separately. Information on how to designate a beneficiary for the 401(k) account can be found in the **401(k) Deferred Compensation Portion of the Hybrid Plan** section below.

The beneficiary of a member who dies prior to retirement may be entitled to survivor benefits. The type of benefit payable to the beneficiary would be determined by who is named as beneficiary and by the member's age, amount of service, and the member's employment status. Any annuity benefits payable may be reduced by the early retirement reduction factor and/or the appropriate option factor.

To understand the survivor benefits that may be available to be paid, please see the guide, *Selecting a Beneficiary*, found under Forms and Guides at **RetireReadyTN.gov**.

TCRS Refunds Following Separation

Upon separation from service, a member may apply for a refund of the member's contributions and interest from TCRS. Employer contributions to TCRS are not refundable. Depending on the amount of service, a member may be eligible for a retirement benefit upon meeting the age requirements.

By obtaining a refund, the member loses membership in TCRS and forfeits all rights and benefits from TCRS.

Before a refund can be processed, a member must file a completed Application for Refund with TCRS. Refunds for public school teachers will not be processed until the member has been separated from service for at least four months unless the member:

(1) is dismissed due to employer budgetary problems,

(2) was employed and paid on a continuous 12-month basis; or

(3) has moved to a permanent residence outside the state of Tennessee.

Those qualifying for one of these exemptions will need to file a TCRS Waiver of Refund Waiting Period form with the Application for Refund.

Federal law requires TCRS to withhold federal income tax from all refunds issued to former members. As of the date of publication of this Guide, the withholding rate is currently 20% of the taxable portion. The member may avoid having taxes withheld if he or she has arranged to have the refund transferred directly to an eligible retirement plan, including the State's 401(k).

Disability Benefits

An active member who is not eligible for service retirement, but who can no longer engage in any type of substantial gainful employment due to a total and permanent medically determinable disability, may be entitled to disability benefits. The member must submit an Application for Disability Benefits and furnish objective medical records that conclusively document the claim. A disability retiree is subject to an annual medical re-evaluation and to an annual review of earnings until age 65. TCRS provides coverage for two kinds of disability: ordinary disability and job-related accidental disability.

> ***Ordinary Disability -*** To be considered eligible for ordinary disability, a member must have at least five years of creditable service and suffer from a total and permanent disability that existed at and since the date of the member's separation from employment.
>
> ***Accidental Disability -*** No minimum service is required for accidental disability benefits. However, the member must apply within one year of the member's last paid day of employment or within two years of the accident or incident causing the disability. Further, the disability must be the result of a job-related accident or injury that occurred without negligence on the part of the member while the member was in the performance of duty.

Disability benefits are equal to 90% of the service retirement benefit that would have been payable to the member. For more information about Disability Benefits from TCRS, visit Forms and Guides at **RetireReadyTN.gov**.

Applying for TCRS Benefits

Before retirement or disability benefits can begin, the member must complete an application and submit it to TCRS. To apply for retirement, a member should complete the online retirement form in Member Self-Service at **MyTCRS.com**. To avoid loss of benefits, members are encouraged to apply for retirement as soon as they are eligible to receive benefits. TCRS can only pay benefits retroactive to the member's date of retirement, but not to exceed 150 days prior to TCRS' receipt of the application. Before submitting an application, members should be certain that they have enough months of service to retire.

At retirement, the member may select the Member Only Option, also referred to as the Regular Maximum Plan, which provides the maximum benefit calculated by the benefit formula payable to the member for life, or a reduced monthly benefit pursuant to one of the Joint and Survivor Plans described below. The Joint and Survivor Plans allow the beneficiary to receive a monthly benefit for the beneficiary's lifetime after the member's death.

Members within 3 years of retirement are encouraged to meet with their local RetireReadyTN plan advisor for comprehensive retirement counseling. To find your local representative and schedule a one-on-one or group meeting, please visit the Retirement Readiness Education section at **RetireReadyTN.gov**.

DESCRIPTIONS OF BENEFIT PAYMENT PLANS AT RETIREMENT

Single Life Annuity Plans:

Options offered to the member upon retirement that will provide a monthly benefit ceasing at the member's death. With either of these options, any remaining balance of accumulated member contributions and interest will be paid to the surviving designated beneficiary or beneficiaries in a lump sum in the event of your death. If the payment issued in the member's month of death is returned to TCRS by the member's financial institution, the designated beneficiary or beneficiaries may be eligible to receive

it. Otherwise, no payment will be made to the designated beneficiary of a deceased member who has chosen a Single Life Annuity Option. The designated beneficiary may be your Estate.

TCRS offers two Single Life Annuity Options:

Member Only Option: A maximum monthly benefit payable for the member's lifetime with all benefits ceasing at the member's death.

Social Security Leveling Option: A member may convert his or her monthly retirement benefit into an increased benefit payable prior to the date the member attains age 62 and is eligible to draw Social Security Benefits. The increase in the benefit is a portion of the amount the member would be eligible to receive from Social Security at age 62. The monthly benefit would then be reduced at age 62 for the remainder of the member's life, ceasing at death. The reduction would be equal to the full amount the member is eligible to receive from Social Security at age 62.

Joint and Survivor Plans:

TCRS offers four types of Joint and Survivor Plans. The age of the member and the age of his or her beneficiary(s) determine the amount received under each option. Only a person or persons may be named beneficiary or beneficiaries to receive a monthly payment under a Joint and Survivor Plan.

Option 1: This option reduces the member's maximum retirement benefit based on the dates of birth of the member and his or her beneficiary(s). In the event the member passes away, the member's beneficiary(s) will receive 100% of the benefit amount as the member for the remainder of the beneficiary's lifetime. If a member has designated more than one beneficiary, the benefit will be divided equally between the beneficiaries. If any or all beneficiaries pass away before the member, the member's benefit amount will remain the same.

Option 2: This option reduces the member's maximum retirement benefit based on the dates of birth of the member and his or her beneficiary(s). In the event the member passes away, the beneficiary(s) will receive 50% of the member's benefit for the remainder of the beneficiary's lifetime. If a member has designated more than one beneficiary, the 50% amount benefit will be divided equally between the beneficiaries. If any or all beneficiaries pass away before the member, the member's benefit amount will remain the same.

Option 3: This option reduces the member's maximum retirement benefit based on the dates of birth of the member and his or her beneficiary(s). In the event the member passes away, the beneficiary(s) will receive 100% of the benefit amount as the member for the remainder of the beneficiary's lifetime. If a member has designated more than one beneficiary, the benefit will be divided equally between the beneficiaries. In the event the beneficiary passes away before the member, the member's benefit will increase to the member's maximum benefit under the Member Only Option. If multiple beneficiaries have been designated, the portion designated for the beneficiary that dies before the member will revert to the amount the member would have received under the Member Only Option.

Option 4: This option reduces the member's maximum retirement benefit based on the dates of birth of the member and his or her beneficiary(s). In the event the member passes away, the beneficiary(s) will receive 50% of the member's benefit for the remainder of the beneficiary's lifetime. If a member has designated more than one beneficiary, the benefit will be divided equally between the beneficiaries. In the event the beneficiary passes away before the member, the member's benefit will increase to the

member's maximum benefit under the Member Only Option. If multiple beneficiaries have been designated, the portion designated for the beneficiary that dies before the member will revert to the amount the member would have received under the Member Only Option.

Confirming Retirement Benefits

Once the retirement application has been fully processed by TCRS, the member will receive notice of the selected benefit option. At that time, if the member elected a Joint and Survivorship Plan Option and would like to make any change to a benefit option selection, the member must do so within 60 days of the date of the Retirement Notice Letter by submitting a Change of Benefit Payment Plan form. Any change in option selection may result in an overpayment or an underpayment of benefits. If the change results in an overpayment of benefits, the option change will not become effective until the member repays the overpaid amount. The member will not be permitted to change to the Member Only Option after the 60-day period even if a member's relationship with the designated beneficiary changes (i.e. divorce or death). Additionally, even though a retiree may change his or her beneficiary after the 60-day period upon death of or divorce from the beneficiary, the newly elected beneficiary will only be entitled to any remaining accumulated member contributions upon the retiree's death, regardless if the retiree selected a Joint and Survivor Plan.

TCRS can only pay retirement benefits to which the member or his or her designated beneficiary is entitled, and TCRS is required by law to recover any overpayments. Therefore, it is important that a member or his or her designated beneficiary contact the retirement program immediately if he or she notes a discrepancy or has questions regarding the monthly benefit amount.

Cost-of-Living Adjustments After Retirement

Any retired member who has received monthly retirement benefits for at least 12 full months on July 1 of each year is eligible to receive an increase in his or her retirement allowance if there is an increase in the Consumer Price Index of at least 0.5% for the preceding calendar year.

The amount of the increase will be 1% if the increase in the Consumer Price Index is 0.5% or more, but less than 1%. If the increase in the Consumer Price Index is 1% or more in any year, retired members will receive an amount equal to the increase in the Consumer Price Index, but not to exceed 3%. Cost-of-living adjustments are compounded each year. Adjustments appear in the July monthly retirement benefit payment. Cost-of-living adjustments may be suspended or reduced if cost controls are implemented. (See **HYBRID PLAN COST CONTROLS section within this guide**).

Potential Loss of Benefits due to Conviction

Any member who is convicted in state or federal court of a felony arising out of the member's employment or official capacity will be prohibited from receiving benefits. This prohibition applies to anyone joining TCRS after July 1, 1982 who is convicted of such a felony in a Tennessee state court as well as anyone joining on or after May 31, 1993 who is convicted of such a felony in any state or federal court. Persons elected to a public office in the State of Tennessee consent and agree to the forfeiture of their retirement benefits from TCRS upon conviction in a state or federal court of a felony arising out of their official capacity regardless of the date the elected official became a member of TCRS. If the conviction is later overturned and the member is acquitted or is granted a full pardon, the member will be restored to all rights, privileges and benefits as if the conviction never occurred.

Any person convicted of a felony as provided above may elect, within six months of the person's conviction, to have a monthly retirement benefit paid to whomever that person had designated as beneficiary at the time of that person's conviction. However, the beneficiary must have been that person's spouse or child at the time of that person's conviction. The benefits will be payable to the beneficiary upon the person's death provided all other eligibility requirements applicable to a beneficiary have been met. The amount of the benefits will equal the retirement benefit which would have been payable had the person retired under the Joint and Survivor Plan selected.

401(K) PLAN

The 401(k) plan is a deferred compensation plan that allows members to manage their own investments among the products offered by the plan. A 401(k) account will be established on behalf of a Hybrid Plan member regardless of whether the member elects to contribute a portion of his or her earnable compensation. The member is still responsible for naming a beneficiary and selecting investment options. However, should a member fail to select an investment option, the funds will be directed to the default investment option, which is the appropriate target date fund. Hybrid Plan members are immediately vested in the 401(k). Unlike the TCRS defined benefit plan, the amount available at retirement in a 401(k) account is the accumulated account balance that includes employer and member contributions and investment earnings. The State of Tennessee offers the 401(k) through a contract with Great-West Life & Annuity Insurance Company ("Empower Retirement" or "Empower").

The employer will contribute an amount equal to 5% of the member's earnable compensation to the 401(k) plan on behalf of each member of the Hybrid Plan, regardless of whether the member makes any member contribution. The employer contribution may be decreased as part of the cost controls for TCRS (See **HYBRID PLAN COST CONTROLS section within this guide**). By federal law, there is a maximum amount of compensation on which employer contributions can be made. This information can be found at **IRS.gov**.

Upon first becoming a member in the Hybrid Plan, the member is automatically enrolled in the 401(k) plan to make contributions of 2% of earnable compensation. Member contributions will be made on a pre-tax basis unless the member elects to make after-tax (Roth) contributions. The member may modify the member contributions to the 401(k) plan at any time. New members will receive a letter from Empower with information about this automatic enrollment process including the prescribed method required for opting out or modifying contributions.

Members have 30 calendar days from the date of the automatic enrollment letter sent from Empower to opt out of the automatic 2% member contribution before a contribution is made to the member's account; otherwise, contributions to the 401(k) will be deducted each pay period. In the event that the member opts out and wants to receive the member contributions made, the member must submit a 90-Day Permissible Withdrawal Form within 90 days of the payroll date in which the first default elective contribution is made on the member's behalf.

As an added benefit, the State of Tennessee offers a 457(b) plan for additional retirement savings. The benefit of the 457(b) savings plan is that contributions are not aggregated with the 401(k). Therefore, members may place the maximum contribution levels in both plans (Refer to **Maximum Contribution Levels** below). Public school teachers may only participate in the 457(b) plan if their Local Education Agency (LEA) has elected to offer the plan. For additional information about the State 457(b) plan, please see the 401(k)/457(b) Comparison Guide and the 457(b) Program Features and Highlights, or call (800) 922-7772.

A member may cancel or adjust (increase or decrease) change the tax treatment of elective contributions and change investment options at any time by accessing the member account at **RetireReadyTN.gov** or by calling (800) 922-7772.

401(k) Investment Options

There are a variety of investment options for the 401(k) plan, enabling the member to decide how his or her money should be invested given individual goals, risk tolerance, and timeline. Details about the investment options can be found at **RetireReadyTN.gov**.

Fund Overview – Provides the investment objective, holdings, a breakdown of the fund's assets by industry, the risk level, and the fund manager for each of the member's available investment options.

Fund Performance – Lists all of the available investment option performance for year-to-date, one year, three years, five years, 10 years or since inception.

Administrative Costs – Shows the administrative costs associated with each investment option.

Allocation of Contributions to Investment Products

Each member selects the investment option or options in which any member contributions and employer contributions are to be directed.

A member who does not select an investment option or options within 30 calendar days from the date of the automatic enrollment letter will be directed to the default investment option. Currently, the default investment option is a target date fund with the date closest to the year in which the member turns 65. Generally, the asset allocation of each target date fund will gradually become more conservative as the fund nears the target date. The principal value of the funds is not guaranteed at any time. A member may change investment options at any time by calling (800) 922-7772 or by accessing the account at **RetireReadyTN.gov**.

401(k) Program Administration

Empower Retirement provides comprehensive deferred compensation plan administration, record keeping, and financial educational services for the 401(k) plan. Empower also provides intermediary services between the program and the investment providers and does not directly hold or invest contributions. Contributions are promptly transferred to the authorized investment providers. Although the program aggregates all member account orders for investment purposes, Empower maintains separate accounting of the investments held and transactions in each 401(k) member account.

Members pay the administrative costs for the program. For most 401(k) members, the cost of administration is currently the equivalent of 0.23% of assets (23 basis points) annually or $3 per quarter, whichever is greater. Other costs and expenses may apply and administrative costs for the program are subject to change in the future. For the most current investment information, visit **RetireReadyTN.gov**.

Each member should carefully consider his or her risk tolerance, investment horizon, retirement savings goals and overall investment and retirement objectives prior to making investment decisions. Past performance is not a guarantee of future results. The value of a member's account will fluctuate and it is possible for the value to be less than what was contributed. For investment information, including important information related to investment risks, fees and expenses, visit RetireReadyTN.gov or contact us at (800) 922-7772.

Maximum Contribution Levels

The federal government establishes maximum retirement plan contribution levels that are updated annually, and such limits are applicable to 401(k) members.

The amount deferred to each plan is reported to the IRS on the member's W-2 form each year. If contributions exceed the legal maximum for any calendar year, the member will be subject to IRS tax penalties. For members contributing to a 403(b) plan and a 401(k) plan, the total contributions to both plans may not exceed the contribution limit for the year, even if the member has more than one employer. Contributions to a 403(b) plan directly reduce the amount one may defer to a 401(k) plan and vice versa. Contributions to a 457(b) plan do not reduce the amount one may defer to a 401(k) plan. A member may contribute up to the applicable IRS limit to both a 457(b) plan and a 401(k)/403(b) plan. IRS limits for member contributions do not include employer contributions. The IRS sets a separate limit for contributions from all sources, including employer contributions. All relevant IRS contribution limits can be found at **IRS.gov**.

Tax Credits

Certain members may be eligible to receive a tax credit on a portion of their contribution to the 401(k) plan. For more information visit **IRS.gov**.

Rollovers from other Retirement Plans

If the member has a deferred compensation account with a former employer and/or an individual retirement account (IRA), he or she may generally transfer those funds into the State of Tennessee 401(k) or 457(b) account. For additional information or assistance call (800) 922-7772. The member will also need to contact his or her previous plan administrator and inquire about rolling the funds out of that plan.

Managing the 401(k) Account Following Termination of Employment or Retirement

A member is always fully vested in both the member and employer contributions to the 401(k) for the Hybrid Plan. Generally, a member may begin taking qualified withdrawals from his or her 401K(k) account upon retirement, but is not required to do so. Withdrawals can be set up in any manner, including periodic payments, partial lump-sum, full lump-sum, or a combination of those options. Members are encouraged to contact a RetireReadyTN Plan Advisor to discuss which withdrawal method is right for them. Contact information for RetireReadyTN Plan Advisors can be found at **RetireReadyTN.gov** or by calling (800) 922-7772.

If the member withdraws money from his or her 401(k) account prior to age 59 ½, he or she is subject to a 10% early distribution tax under the Internal Revenue Code unless certain conditions exist, such as rolling over the funds to another eligible plan. All 401(k) account withdrawals may be subject to federal income taxes unless contributions were made on an after-tax (Roth) basis. Pursuant to federal law, minimum withdrawals must begin in the year following attainment of age 70 ½, commonly referred to as Required Minimum Distributions (RMD).

Contact RetireReadyTN at (800) 922-7772 for detailed information about all 401(k) withdrawal options.

401(k) Withdrawals During Employment

Federal law prohibits 401(k) withdrawals prior to separation from service except in three circumstances:

(1) Members in the 401(k) plan who have reached age 59½ may withdraw member contributed funds. At age 60, a member may also withdraw any employer contributions.

(2) Members in 401(k) plan who are eligible to purchase prior service in TCRS may pay for that service with a transfer from the 401(k) plan.

(3) Members who meet the plan's definition of financial hardship may be eligible for a special hardship withdrawal

401(k) Plan Hardship Definition

The 401(k) plan allows hardship withdrawals only if a member experiences an immediate and heavy financial need caused by one or more of the following circumstances: (1) un-reimbursed medical expenses incurred by the member or a dependent of the member, (2) purchase of the member's primary residence, (3) payment of college tuition for the next year for the member or a dependent of the member, (4) funeral expenses for an immediate family member of the member which exceed life insurance coverage, (5) official notification of implementation of eviction or foreclosure proceedings regarding the member's primary residence, or (6) damage repair for principal residence due to casualty. The hardship withdrawal amount may never exceed the amount needed to cover the demonstrated financial need due to one or more of the above circumstances.

401(k) hardship withdrawals may not include employer contributions or earnings accrued on the account after December 31, 1988. If a member applies for a financial hardship distribution from the 401(k) plan, federal regulations require that all member contributions be canceled for six months thereafter. If a member qualifies for a loan in the 401(k) plan, he or she will normally be required to apply for a loan before applying for a hardship withdrawal from the 401(k) plan.

Many of the tax advantages of this program are sacrificed if the member makes a hardship withdrawal. In addition to being subject to regular income tax, hardship withdrawals from the 401(k) plan may be subject to the 10% early distribution tax penalty. Withdrawals made due to hardship are not eligible for forward income averaging tax treatment or rollover.

Determinations for hardship withdrawals are processed by Empower in accordance with federal law. If a member wishes to appeal the decision made by Empower, the appeal is to be made to the State of Tennessee Deferred Compensation Director. For more information about hardship withdrawals, please call (800) 922-7772.

401(k) Loans

Any active member who has member contributions in his or her 401(k) of $4,000 or more is eligible to apply for a 401(k) plan loan. Teachers or university employees who have previously obtained a loan from a 403(b) plan are subject to additional requirements. A member may have up to two loans outstanding at any time. To qualify for a second loan, repayments on the previous loan must be in good standing and loans must be issued at least 12 months apart. If a member wishes an additional loan beyond the two permitted, he or she must repay one of the existing loans before applying for another loan. For additional information about obtaining a loan from your 401(k) account, please call (800) 922-7772 or login to the member account **RetireReadyTN.gov** and consult Loans & Withdrawals.

Rollovers to Other Retirement Plans

After meeting one of the conditions for withdrawal (typically separation from service), a member may request that eligible withdrawals from his or her 401(k) be transferred to another 401(a) plan, 401(k) plan, regular IRA, 403(b) plan, or another government employer's 457(b) plan. A distribution is normally eligible for transfer or rollover unless it is (1) part of a series of substantially equal periodic payments made for life or life expectancy or for the life expectancies of the member and his or her beneficiary, (2) part of a series of substantially equal periodic payments made for a specified period of 10 years or more, (3) a withdrawal the member is required to take because of age, or (4) a hardship distribution.

Not all plans will accept transfers or rollovers, however, so be sure to check with the new plan before requesting a transfer distribution. Also, keep in mind that account balances moved into another plan will be subject to the rules and procedures of the new plan, so be sure to research the new plan's rules before making a change.

Members can find detailed information about rollovers to other plans by logging into their account at **RetireReadyTN.gov** and selecting Request a Withdrawal, or by calling (800) 922-7772.

Using 401(k) Funds to Purchase Prior Service in TCRS

The only circumstance under which a member may make an “in-service” transfer from a 401(k) account without meeting the conditions for withdrawal is if the money is to be used immediately to complete the member’s purchase of prior service in TCRS. After the member has established prior service eligibility with TCRS and received a current TCRS prior service billing statement, the member must submit a copy of that billing statement along with the completed 401(k) Lump Sum Distribution Request form to Empower. Empower will send the check directly to the TCRS Prior Service Office. Allow two to three weeks for processing.

To purchase TCRS prior service with a transfer from a 401(k) plan, 457(b) plan, 403(b) plan, or IRA, TCRS requires that a completed TCRS **Application for Acceptance of Rollover Funds** be submitted to the TCRS Prior Service Office. For questions on purchasing TCRS prior service call RetireReadyTN at (800) 922-7772.

HYBRID PLAN COST CONTROLS

In the event the Hybrid Plan exceeds certain employer-specific measures of sustainable cost and unfunded liability established by statute, certain cost reduction measures may be undertaken in the order provided until actuarial requirements are met:

(1) Suspend or reduce the maximum cost-of-living adjustment to the TCRS payment beginning on the next July 1 following the actuarial valuation;

(2) Suspend or reduce, as necessary, the amount of employer contributions required to the 401(k) component of the plan and redirect such amount to the TCRS trust fund to fund the increased employer contribution rate;

(3) Increase the 5% member contribution to TCRS by 1% of the member’s earnable compensation;

(4) Reduce the 1% TCRS benefit accrual formula to such lesser amount as is necessary to reduce the employer contribution rate to 4%; and

(5) Suspend future service accruals in the Hybrid Plan until such time as the employer contribution rate equals 4% or lower.

These cost controls are in place to ensure that Hybrid Plan employers are able to pay benefits to all qualifying members.

Use of This Document

This document is intended to provide a general introduction to some of the basic provisions of the Hybrid Plan. It is based on the law governing the Hybrid Plan as of the publication date of this document. It does not include all plan provisions, is for informational purposes only and in no way constitutes a contract or binding agreement. It is not a legal document and is not intended to serve as a basis for legal interpretation. For complete details on the plan provisions, please refer to Tennessee Code Annotated, Title 8, Chapters 25, 34-37 and the 401(k) Plan Document, which is available upon request. The information in this document is subject to legislative change and judicial interpretation. It does not supersede nor restrict applicable procedures or authority established under state or federal law. Additional materials on various topics mentioned in this guide are available at **RetireReadyTN.gov**. The state of Tennessee and its employees are not authorized to provide legal, financial or tax advice. For legal, financial, and tax advice concerning your situation, you should consult your personal legal, tax, or other advisers.

CONTACT INFORMATION

RetireReadyTN Toll-Free | 1-800-922-7772
For questions related to insurance, please contact Benefits Administration at 800-253-9981.

Please include your Member ID and your current address on any correspondence.