Tennessee Department of Treasury

Tennessee Consolidated Retirement System
New State, Higher Education and Teacher Hybrid Plan
applicable to new hires on or after July 1, 2014
Public Chapter 259, Acts of 2013

For local governments, these provisions are optional and are effective for new hires only and only upon adoption by the local government entity

No local government entity is required to make any changes

Nothing in this Act applies to currently employed State Employees, currently employed K-12 Teachers or currently employed Higher Education Employees
Nothing in this Act applies to any employee hired prior to the effective date July 1, 2014 or to any retiree

New Hybrid Plan
2013 pension plan reforms.

- Defined Benefit (DB) Plan plus Defined Contribution (DC) Plan
- Optional for local government entities
- Controls to limit employer cost and unfunded liability
- Applies to all new hire state, K-12 teacher, and higher education employees subject to FLSA hired on or after July 1, 2014
- Higher Ed employees not subject to FLSA may elect to participate in Hybrid Plan or Optional Retirement Plan
- DB component plan provides 1.0% annual service accrual multiplier
- Employer contributes 4% of payroll to DB Component; 5% of payroll to DC Component for aggregate employer contribution of 9%
- Employee contributes 5% of payroll to DB Component; auto enrolled for 2% of payroll contribution to DC Component, but may opt out of DC employee contribution

2.1 Defined Benefit Component:

2.1.1 1.0% annual service accrual multiplier for state employees, higher education employees and teachers

2.1.2 Eligibility for retirement at age 65 or Rule of 90 (i.e. age plus years of service equals 90). Earlier retirement permitted at age 60 or Rule of 80, at a reduced benefit using the full, unsubsidized actuarial discount factors. Benefits for Public Safety Officers will be calculated under 1% formula, but eligible for retirement at age 55 with 25 years of service and receive a bridge benefit until age 62 (for local governments bridge benefits are optional)

2.1.3 Maximum annual pension benefit of $80,000 adjusted for Consumer Price Index (CPI).

2.1.4 5% of salary employee contribution for all participants.

2.1.5 Target employer contribution of 4% of payroll to DB component. State is responsible for state and higher education employees; LEA's are responsible for teachers.

2.1.6 Employer may freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively (i.e., for future service). Accrued benefits will not be affected.

2.1.7 5 years of service required for vesting.

2.1.8 Annual Cost of Living Adjustment (COLA) based on Consumer Price Index (CPI) 3% annual maximum.

2.1.9 Higher education employees exempt from FLSA have option to enroll in either: (a) Hybrid Plan; or (b) Optional Retirement Plan (ORP) with employer contribution of 9% of salary annually.

2.1.10 Target maximum unfunded liabilities for the plan may not exceed 25% of the 5 year rolling average of State of Tennessee's outstanding general obligation bond debt, including general obligation commercial paper. Limit is split between state and teacher plans. Local governments adopting hybrid plan may adopt unfunded limits of their choice.

2.1.11 An actuarial stabilization reserve account will be established. Excess contributions above the actuarially required contribution rate will be contributed to the reserve.

2.1.12 Elected state Judges will have a 1.6% annual service accrual multiplier. In addition, the State Attorney General, elected District Attorneys General, elected Public Defenders; and if adopted by the county, General Sessions, Probate and Juvenile Court Judges, will be in this group.

2.2 Defined Contribution Component

2.2.1 5% of salary employer contribution. State is responsible for state and higher education employees; LEA's are responsible for teachers.

2.2.2 Auto enrollment required for all employees and teachers in the state's defined contribution plan.

2.2.3 2% of salary employee contribution, with opt-out feature.

2.2.4 Immediate vesting for employee.

2.2.5 State will offer its 401(k) plan and other DC options to local governments but local governments may procure DC plan from any source. Teachers must use the state's DC plan. Tennessee Treasury Department plans to offer additional DC investment option of Tennessee Treasury Department Managed Fund. Tennessee Treasury Department plans to offer participant financial education.

3.1 Employer Cost and Unfunded Liability Controls

3.1.1 An annual actuarial valuation establishes the employer contribution rate and unfunded liabilities (if any) of DB component. If DB component employer cost exceeds 4% of payroll or if the target unfunded liabilities are exceeded for the DB component plan, the following adjustments will automatically occur in the following sequence:

3.1.1.1 Utilize funds in the actuarial stabilization account
3.1.1.2 Reduce or suspend the maximum 3% annual COLA
3.1.1.3 Shift some or all the DC employer contribution to the DB plan
3.1.1.4 Increase employee contribution to DB plan by 1% of payroll
3.1.1.5 Reduce future service accrual below 1%
3.1.1.6 Freeze plan; no future accruals

3.1.2 When employer cost is restored to 4% of payroll and unfunded liabilities do not exceed Target Maximum Unfunded Liabilities, then adjustments previously made are restored on a prospective basis.

For further information, please go to www.treasury.tn.gov/tcrs and select the tab titled "State & Teacher Plans".

For required Local Education Agency (LEA) enrollment in State of Tennessee Defined Contribution Plans, contact Kaci Lantz, Director of Defined Contribution Plans by email at Kaci.Lantz@tn.gov or phone (615) 532-2347.

For all other inquiries, please contact: Jill Bachus, Director of the Tennessee Consolidated Retirement System at Jill.Bachus@tn.gov or (615) 253-3845.