



**STATE OF TENNESSEE**  
**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
15<sup>th</sup> FLOOR ANDREW JACKSON BUILDING  
502 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0201

**DAVID H. LILLARD, JR.**  
STATE TREASURER

**JILL BACHUS**  
DIRECTOR

June 23, 2014

Dear Higher Education Official,

During the 2013 Tennessee General Assembly session, legislation was enacted to provide a new hybrid pension plan to all state employees (including higher education employees) and teachers hired on or after July 1, 2014. Current employees and retirees are not affected by this change. The terms and plan provisions of the new hybrid plan can be found in Public Chapter 259, Acts of 2013 or viewed on the TCRS website at <http://treasury.tn.gov/tcrs/>. All references to "state" as it relates to employees, retirees, cost, or contributions include higher education.

Treasury Department projections show that a state retiree in the hybrid retirement plan can expect to receive a higher percentage of average final compensation in retirement than a state retiree in the current legacy defined benefit plan, assuming a 35 year career, retirement at age 65 and a 6% return on investments in the defined contribution component of the plan. The new hybrid retirement plan will also mean more portability for state employees. If an employee terminates service prior to vesting in the current defined benefit legacy plan, that employee will not receive any retirement benefits or return of contributions (non-contributory) for his service to the state of Tennessee. But, in the hybrid retirement plan, the employee will receive a refund of up to an aggregate 12% of payroll, consisting of employee and employer contributions.

The new hybrid pension plan has two components, a defined benefit plan (TCRS) and a defined contribution plan (401(k)). The total state annual cost for the hybrid plan is capped at 9% of salary. The defined contribution component requires the state to contribute 5% of salary for the benefit of each employee to a 401(k) account in the state's defined contribution plan. Employees are immediately vested in state contributions to the 401(k) account. New employees will automatically be enrolled in a 401(k) account in the defined contribution plan and contribute at 2% of salary. Employees may opt out of this automatic 2% of salary contribution. However, employees also have the right to contribute a higher amount of salary to the defined contribution plan provided they do not exceed the annual IRS limits.

The defined benefit component is a 1% annual service accrual percentage (1% times years of service times the highest consecutive five year average salary) with eligibility to retire at age 65 and vested with 5 years of service or the rule of 90 (when age plus years of service equals 90). Employees will contribute 5% of salary to defined benefit component of the hybrid plan with the state contributing 4% of salary. The state's actuarial contribution to the defined benefit component is expected to be less than the required 4% employer contribution rate. The difference between the actuarially

determined employer contribution rate and the required 4% of payroll rate will be set aside in a stabilization reserve within the pension trust fund.

The defined benefit component of the hybrid plan has features that control the employer cost and limits the level of unfunded liability. For the state employee group, should the actuarially required state contribution exceed 4% of payroll or should the total unfunded liability of the state employee plan exceed 12.5% of the five-year average of the state's outstanding general obligation debt, then cost controls will automatically apply to bring the plan within the 4% of payroll cost limit and/or the maximum unfunded liability levels. These cost controls will be applied in the following sequence: (1) utilize funds from the stabilization reserve, (2) reduce or suspend cost of living adjustment (COLA) increases for retirees, (3) shift employer contributions from the defined contribution component to the defined benefit component, (4) increase employee contributions by 1% of salary, (5) reduce future annual service accruals below the 1% formula, and (6) freeze the plan with no future accruals.

In years following any implementation of the cost control features, should cost and unfunded liabilities fall below the prescribed limits, then the application of the cost controls will cease and plan provisions will be restored prospectively in reverse order.

In addition, changes were also made to the benefits available to faculty and exempt employees electing to participate in the Optional Retirement Plan (ORP). These changes only affect new hires and not existing employees. New employees will be required to contribute 5% of salary to the plan and the employer will contribute 9% of salary. All other provisions of the ORP remain the same.

Key elements affecting future hires to your agency:

- Service date, not hire date determines the plan an employee will participate in for pension purposes. For example, an employee hired June 15, 2014 but does not begin work until July 7, will participate in the Hybrid plan.
- If the new employee previously participated in TCRS as a state employee or K-12 teacher and did not lose membership, the employee should be enrolled in the TCRS Legacy plan and not the Hybrid plan. An employee could lose membership in TCRS by taking a refund of contributions or by not being vested in TCRS and separated from employment for seven or more years.
- The new employee participating in the Hybrid plan will contribute 5% of salary to TCRS (defined benefit plan) and 2% of salary to the 401(k) (defined contribution plan). The employee may opt out of the 401(k) contribution, but we highly recommend continued participation.
- Hybrid plan participants will receive a separate letter from state's third party administrator (currently Great West Retirement Services) related to the defined contribution plan investment options.
- Hybrid plan provisions are subject to change in the future.

- An employee opting to participate in the Optional Retirement Plan will contribute 5% of salary to the ORP vendor and the employer will contribute 9% of salary.

All employees, regardless of Legacy or Hybrid plan participation, will have access to education opportunities concerning investment selection and their financial readiness for retirement. Please encourage your employees to take advantage of these opportunities.

Agency benefit coordinators from your agency have been involved in regional meetings concerning the new Hybrid plan as well as meetings related to a new TCRS pension administration system called Concord.

Information concerning the Hybrid plan can be found on the TCRS website at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs) and click on "Hybrid Plan – Cost Controls". If you have any questions, please contact the TCRS Field Services division at (615) 741-1971.

Sincerely,



Jill Bachus  
Director  
Tennessee Consolidated Retirement System