2-25-13

Frequently Asked Questions from Current Employees and Current Retirees

Regarding Proposed Pension Reform

Tennessee Consolidated Retirement System (TCRS)

Question No. 1

Q. I am currently working as a state employee, higher education employee, k-12 public school teacher or employee of a participating local government and I am a member of TCRS. Will the pension I am accruing in TCRS be changed by the proposed pension reform? Who will or will not be affected?

A. No, you will not be affected in any way by the proposals. The proposed pension reforms will only apply to employees hired on or after July 1, 2014. The reforms will not affect anyone that is currently a state employee, a teacher, a higher education employee, or an employee of a local government participating in TCRS.

The reforms will only apply to state employees, teachers and higher education employees hired on or after July 1, 2014. The reforms will only apply to local government employees hired on or after July 1, 2014 should the local government adopt these provisions.

Question No. 2

Q. Will the proposals apply to retirees or change retiree benefits in any way?

A. The reforms will not apply to anyone that is currently retired and receiving a benefit from TCRS.

Question No. 3

Q. I am currently retired and receive cost-of -living adjustments periodically from TCRS. Will my cost-of-living adjustments be affected by the pension reform?

A. No. You will continue to receive cost-of-living adjustments in the same manner as has been previously provided.

Also, you should note that eligible retirees will receive a 1.7% cost-of-living adjustment in their retirement benefit beginning on July 31, 2013.

Question No. 4

Q. As a member of TCRS, should I be concerned about the financial status of TCRS?

A. **TCRS is a well-funded pension plan. On an actuarial basis, the funded percentage for the state employee and higher education group is 88% while the teacher group is 94%. These percentages rank TCRS in the top tier of better funded state pension plans in the nation. This strong funded position is a credit to every Governor and every General Assembly that has financed the cost of the TCRS pensions at the actuarially required contribution rate as determined by an independent actuary since the inception of TCRS in 1972. TCRS has more than $37.5 billion in assets and the current retired payroll for the over 122,000 retirees is about $1.7 billion annually. From a cash in-flow perspective, employer and employee contributions, interest income, and dividend income exceeded more than $2.3 billion for the fiscal year ended June 30, 2012.**

The proposed pension reform will further ensure the continued sustainability of the pensions provided by TCRS.

<u>Question No. 5</u>

Q. If TCRS is such a well-funded pension plan, why is the Treasury Department proposing these reforms?

A. **While TCRS is a strongly funded pension plan compared to other state pension plans, the employer contribution rate has increased from 7.3% in 2003 to currently 15.03% of salary for state employees. The net employer contribution rate for teachers has increased from 3.4% in 2003 to today's rate of 8.88%.**

Three major factors have contributed immediately to these cost increases and the need for the proposal:

First, during this 21st century there have been two significant declines in the stock market and interest rates have also been at historic lows for several years. As a result of this low earnings environment, investment earnings have been less than the assumed rate of return of 7.5% for five years on a 15 year rolling average.

Second, retirees are living longer. Thus, pension payments are being made for a longer period of time. It is anticipated that a low earnings environment may continue for a number of years and that retirees will continue to live longer. This will push employer pension cost even higher.

Third, during 2012, the Governmental Accounting Standards Board (GASB) issued Statement 67 (applicable to pension plans and becomes effective in 2014 for TCRS) and Statement 68 (applicable to governmental employers and becomes effective in 2015 for the State of Tennessee) that is intended to further increase the accountability and transparency of pension obligations. This requires that Tennessee must include in the annual financial statement, as a liability entry of the net pension expense of TCRS. Using data as of July 1, 2011 as a guide, this would require that over $1.7 billion in additional liabilities be included in the State's financial

statement. These requirements will nearly double the liabilities of the State for accounting purposes. Also, similar requirements apply for local governments who must also include in their financial statements, their liability plus that of any local school board.

Question No. 6

Q. Are other states making reforms to their pension programs?

A. Yes. A consultant's report prepared for TCRS indicates that 45 states have made pension reforms during the last five years. These reforms include increasing employee contributions to the pension plan, reducing the benefit formula, reducing or eliminating the cost-of-living adjustments after retirement, changing the eligibility requirements to retire, and eliminating the traditional defined benefit plan structure.

Question No. 7

Q. Why do these changes have to be made now? Since the TCRS is well funded, can't we wait?

A. Proper management of a defined benefit pension plan requires closely monitoring trends that are adversely affecting the plan. Taking action early to insure the security of benefits for current participants and retirees is essential. Many states have not been proactive in making necessary changes and they are among the worst funded pension plans today. Making these changes that apply only to new hires will insure that for new hires, they are in a pension plan that will not add to liabilities of the current defined benefit plan.

Question No. 8

Q. I have heard that the new plan for new hires will require the state to pay less money into the new plan - won't this weaken the current defined benefit plan in which I am a participant or a retiree?

A. No, it will not weaken your plan. The current defined benefit plan in which you are a participant and the new hybrid plan will be accounted for separately and also each plan will be separately evaluated by the actuary. The independent actuary will continue to calculate the annual amount of money the state must pay to the current defined benefit plan in order to properly fund it. Nothing will change about this. And, every Governor and every General Assembly since 1972 has each year fully funded in the budget the amount calculated by the actuary as necessary to fund the plan.

Question No. 9

Q. What information is available for me to learn more about the proposed benefit reform?

A. Go to the TCRS website at http://treasury.tn.gov/tcrs and select the tab titled "Proposed State & Teacher Plans.