State of Tennessee

David H. Lillard, Jr., State Treasurer

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Treasurer Lillard Discusses Future of State Employee and K-12 Teachers Pension Plan

State Treasurer David H. Lillard, Jr. is recommending that the General Assembly adopt a number of reforms to the state's retirement plan for public employees. The Tennessee Consolidated Retirement System (TCRS) is a well-funded pension plan. The proposed changes will only apply to state employees, higher education employees, and teachers hired on or after July 1, 2014 and will ensure the continued financial strength of the TCRS. The bill will not affect the retirement benefits for current state employees, higher education employees, or teachers.

"I want to stress that the changes I am recommending would not affect eligibility or benefits for employees or retirees who are already part of TCRS," Treasurer Lillard said. "In fact, making these changes will help ensure that TCRS remains financially secure to honor the commitments made to those employees and retirees."

Because pension plans carry costs and liabilities that stretch over many decades, Treasurer Lillard said it is important to look well into the future when evaluating a plan's financial health.

"Let me be very clear: TCRS is in good financial shape right now, just as it has been for many decades," Treasurer Lillard said. "That's attributable to a number of factors, including the General Assembly's commitment to ensuring TCRS is adequately funded, an effective investment strategy and fair but conservative benefit payouts. However, it is important to take a long view when trying to anticipate what a retirement plan's future costs will be. Based on the actuarial projections and other information my staff and I have studied, we believe changes are needed now to protect taxpayers, employees and retirees in the future."

Treasurer Lillard presented the General Assembly's Council on Pensions and Insurance with proposed legislation Monday that, if adopted, would implement his recommendations. He is scheduled to have a more detailed discussion with council members during a follow-up meeting

March 4.

The changes he is proposing would limit the state's future liability for pension costs by creating a hybrid between a defined benefit plan, which guarantees specific payouts to retirees based on a formula, and a defined contribution plan, in which the state would provide fixed amounts of money to employees' 401(k) or similar types of accounts.

The reforms would also reduce pension costs by adjusting the formula used to calculate retirement benefits, raising eligibility requirements and collecting employee payroll deductions. The new plan will also have cost controls that will apply only if the plan's total costs exceed certain thresholds.

"In 2003, state taxpayers were spending about $264 million annually to support the pension system," Treasurer Lillard said. "That number had grown to $731 million last year. Based on projections we have seen, the cost could go up by one-third or more over the next 10 years if changes aren't made, which would push the taxpayers' total annual expense above $1 billion."

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

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