PENSION REFORM IN TENNESSEE

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Pension environment in 2009

• Pension contribution rates were unpredictable and out of control
• Improving mortality rates were increasing rates
• The market was suffering from the Global Economic Crisis
• Achieving the actuarial earnings assumption in future years would be challenging in the predicted low interest rate environment
TCRS Investment Performance

* The Assumed Rate of Return was lowered from 7.5% to 7.25% beginning July 1, 2017
Retirement System

The State has a **proven track record** of fully funding the actuarially determined contribution (ADC)

Since system consolidation in 1972, every Governor has recommended – and every General Assembly has appropriated – monies required to fully fund employer contributions to the pension system in the amount recommended by the system’s actuary.
Legacy Plan Actuarially Determined Contribution Rates


ADC
What were the options?
Key Considerations

Modify Key Provisions of Legacy Defined Benefit (DB) Plan

• Changes would only impact new hires
• Blackwell vs. Shelby County Quarterly Court
• State employees were non-contributory
• Burden borne by employer if earnings do not meet expectations
• Employer cost volatility
Plan Design Objectives

• Develop a sustainable pension program
• Provide a sufficient level of benefits
• Control employer pension cost
• Control unfunded liability
• Employees would share the risk
Tennessee Hybrid Plan

- The hybrid plan combines the strengths of TCRS and the 401(k)
- 5-year vesting period for TCRS
- Immediate vesting in the 401(k)
- Applied to employees hired after June 30, 2014
- Maximum employer cost capped at 9% of payroll
- 1.0% annual benefit accrual factor
- The hybrid plan includes unfunded liability and cost controls.

### Hybrid Contribution Rates

<table>
<thead>
<tr>
<th></th>
<th>Employer</th>
<th>Employee</th>
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</thead>
<tbody>
<tr>
<td><strong>State and Teachers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DB Rate</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>DC Rate</td>
<td>5%</td>
<td>2%*</td>
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<tr>
<td><strong>Totals</strong></td>
<td>9%</td>
<td>7%</td>
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*Employee may change contribution amount at any time and may opt out within 90 days of employment*
Hybrid Plan Stabilization Reserve

- Requires minimum 4% employer contributions
- Amount above actuarially determined contribution (ADC) is deposited to stabilization reserve
  - For FY20, the ADC for the general state employee group is 1.80%, thus 2.20% is deposited to stabilization reserve. For the teacher group, the ADC is 2.02% with 1.98% deposited into the stabilization reserve.
- Stabilization reserve is excluded from calculating the ADC
- Stabilization reserve to be utilized if ADC exceeds 4%
- Federally funded salaries do not participate in reserve
- A trust was created effective July 1, 2018. Stabilization reserve funds will be paid directly to the trust instead of the pension plan.
Tennessee Hybrid Plan Cost Controls

1. If the statutory limits for employer cost or unfunded liabilities are exceeded when the actuarial valuation is issued, automatic adjustments occur in the following sequence:
   a) Utilize Stabilization Reserve Account
   b) Reduce or suspend the maximum 3% COLA
   c) Shift DC employer contributions to DB plan
   d) Increase employee contributions to DB plan by 1%
   e) Reduce future service accrual (below 1%)
   f) Freeze plan

2. If the cost to state is below the target percentage of payroll and unfunded liabilities, then benefits and accruals will be restored to target levels prospectively.
What success looks like today
2019 Net Pension Liability Per Capita
Comparison to Triple Triple-A Rated States


Note: 2019 Audited Financial Statements reflect 2018 Actuarial Valuation as prescribed by GASB. The 2019 Audited Financial Statements were the most current available for comparison.
Growth in DC Savings

401k Accounts

2008: 75,393
2020: 162,402

Total Annual Contributions (in millions)

2008: $143
2020: $397
Assets saved in TN Deferred Compensation plan

Total Assets 401(k) and 457 (in millions)

- 2008: $1,200
- 2009: $1,070
- 2010: $1,250
- 2011: $1,540
- 2012: $1,600
- 2013: $1,810
- 2014: $2,150
- 2015: $2,300
- 2016: $2,400
- 2017: $3,000
- 2018: $3,562
- 2019: $3,969
- 2020: $4,574
Tennessee Teachers are saving more for retirement

Teacher Participants in the 401(k) Plan

- 2014: 0
- 2015: 9,334
- 2016: 17,391
- 2017: 25,145
- 2018: 33,316
- 2019: 40,869
- 2020: 47,720

Teacher Participants
Stabilization Reserve

Total Value of the Stabilization Reserve

$210.8 million*

*Total value includes $7.9 million from participating Local Governments who have elected to participate in the Hybrid Plan.
Savings Hybrid vs. Legacy

Savings since FY15
$351,070,920

FY 2015: $6,907,033
FY 2016: $19,723,184
FY 2017: $33,401,972
FY 2018: $73,824,882
FY 2019: $95,410,868
FY 2020: $121,802,981

Savings
Questions?
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