

PENSION REFORM IN TENNESSEE

TREASURER DAVID H. LILLARD, JR.
JULY 11, 2021



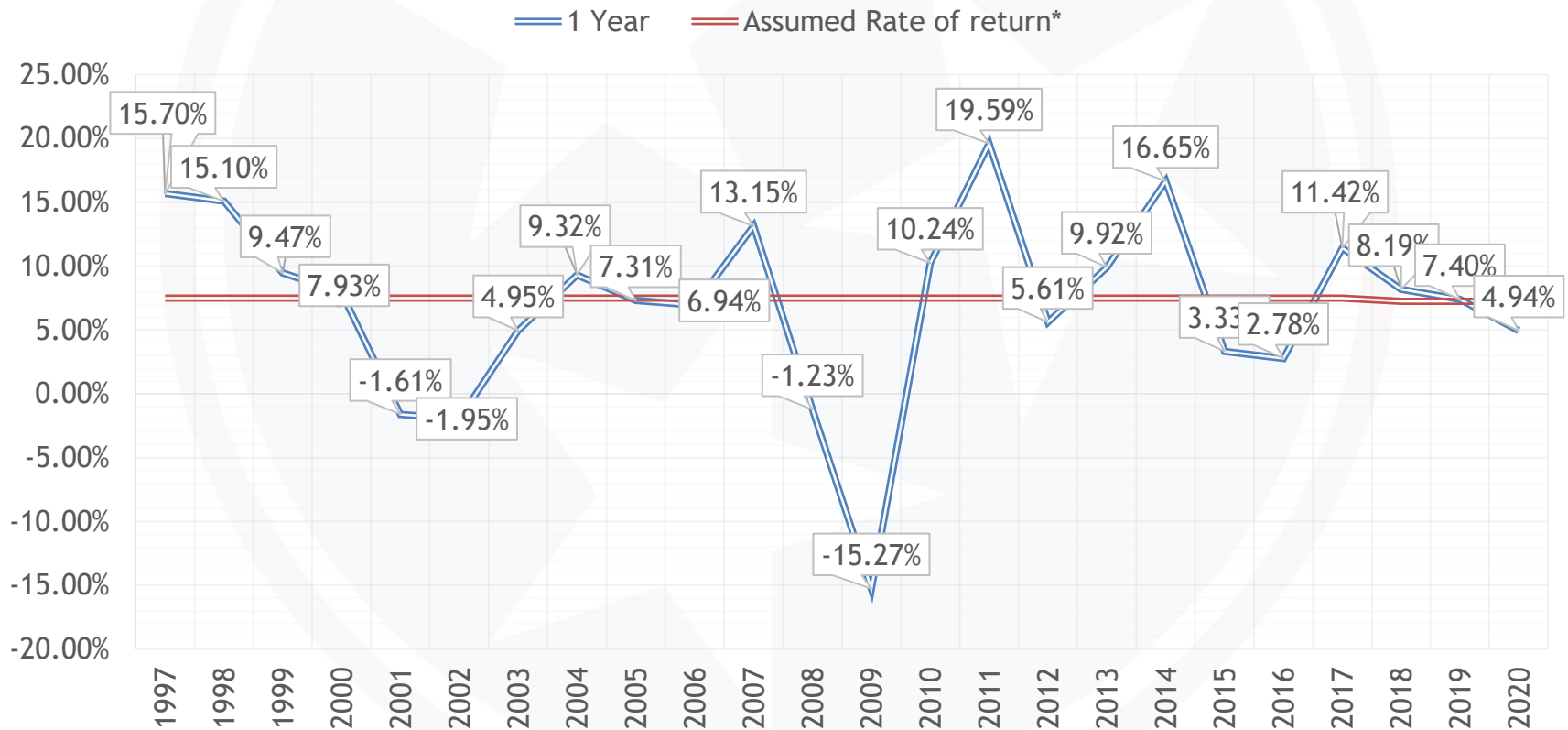
Tennessee
Department of **T**reasury

David H. Lillard, Jr., State Treasurer

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





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

	Employer	Employee
State and Teachers		
DB Rate	4%	5%
DC Rate	5%	2%*
Totals	9%	7%

*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.

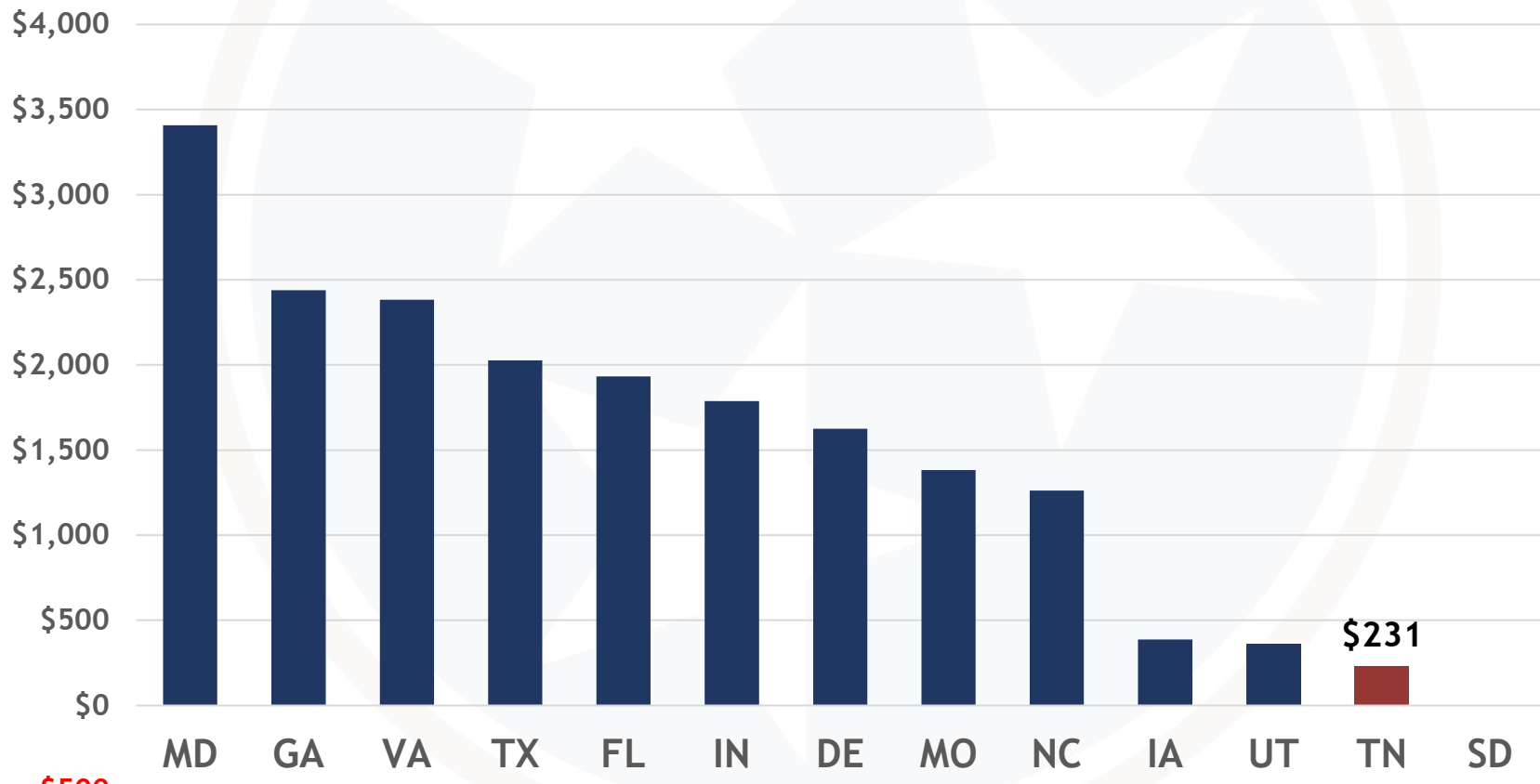
Tennessee Hybrid Plan Cost Controls

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

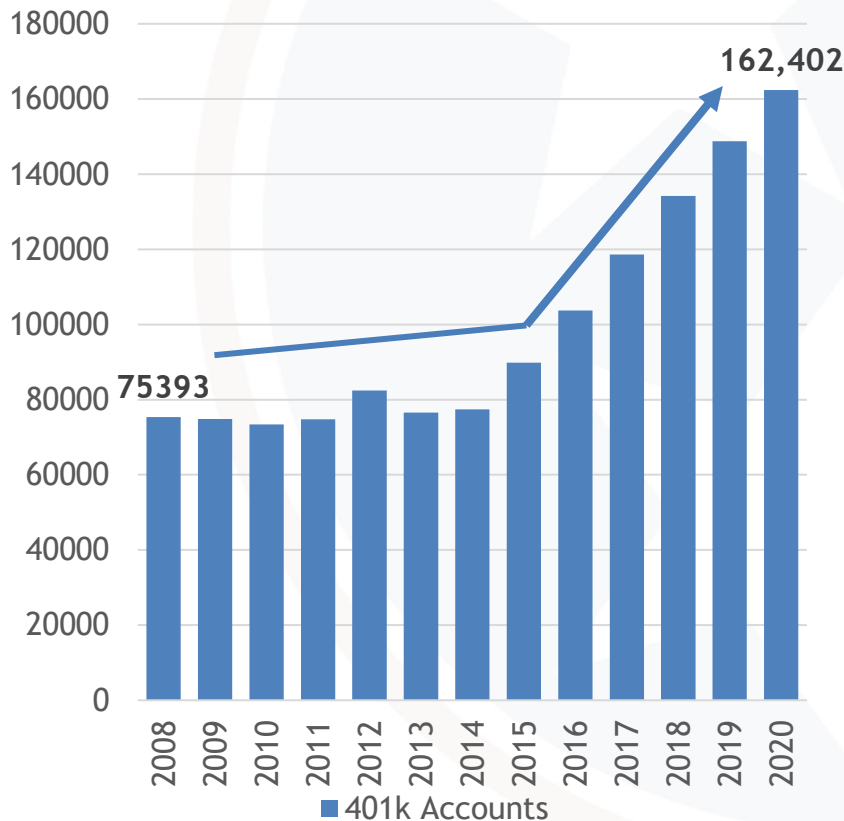


Source: Audited 2019 Financial Statements and U.S. Census Bureau 2019 Data. Research compiled by the Tennessee Department of Treasury.

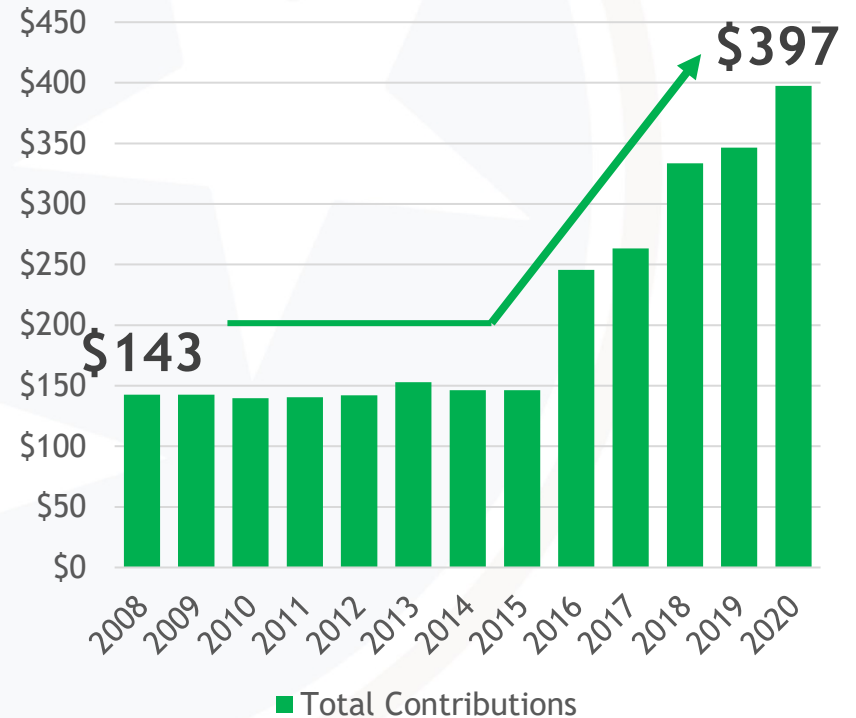
Note: 2019 Audited Financial Statements reflect 2018 Actuarial Valuation as prescribed by GASB. The 2019 Audited Financial Statements were the most current available for comparison.

Growth in DC Savings

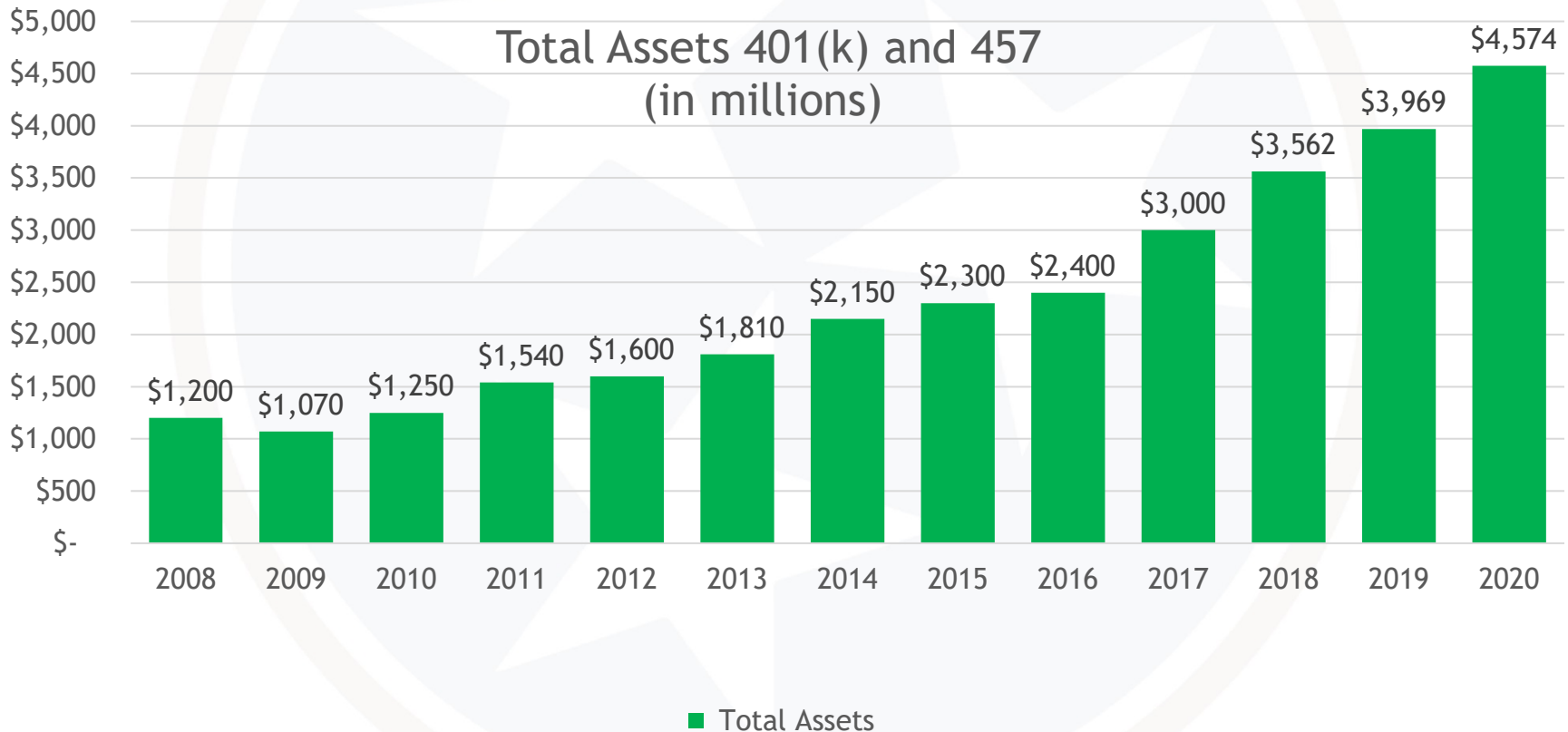
401k Accounts



Total Annual Contributions (in millions)

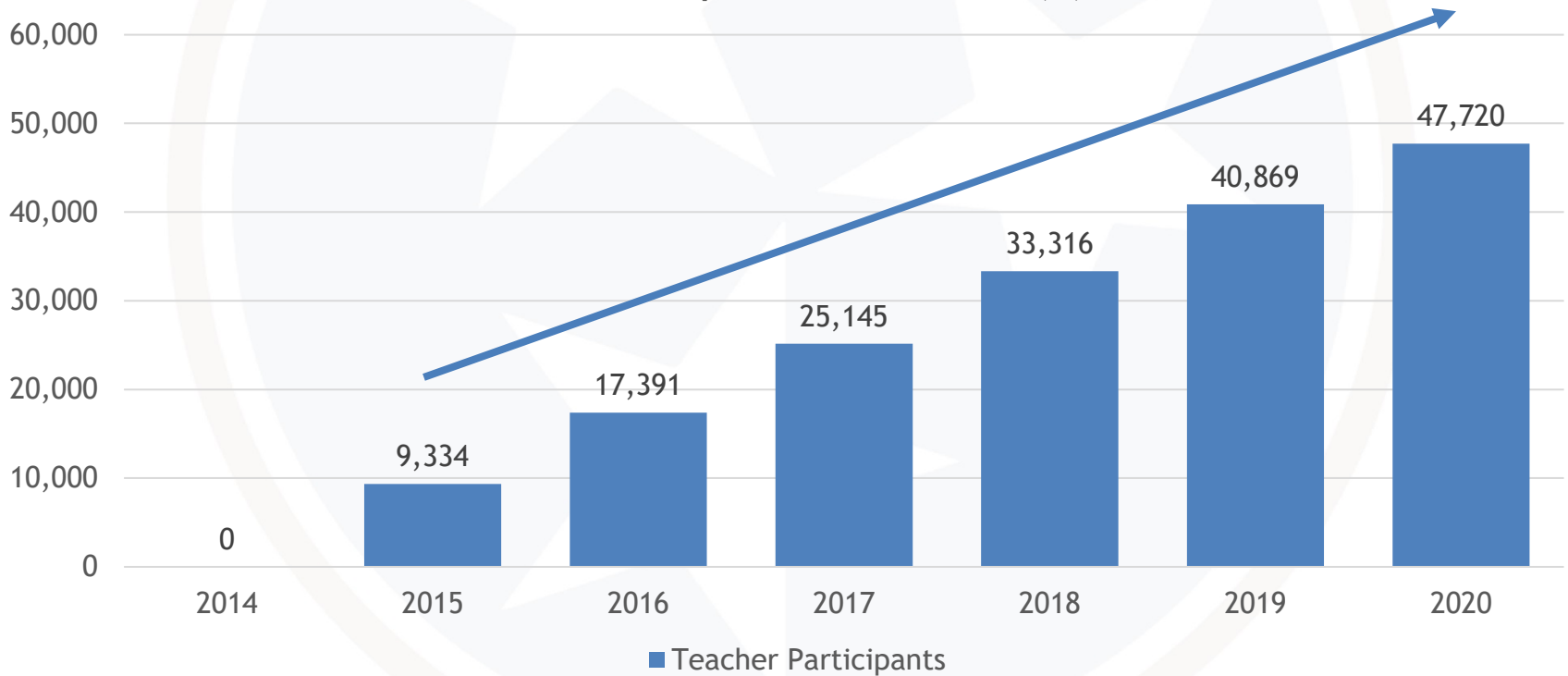


Assets saved in TN Deferred Compensation plan

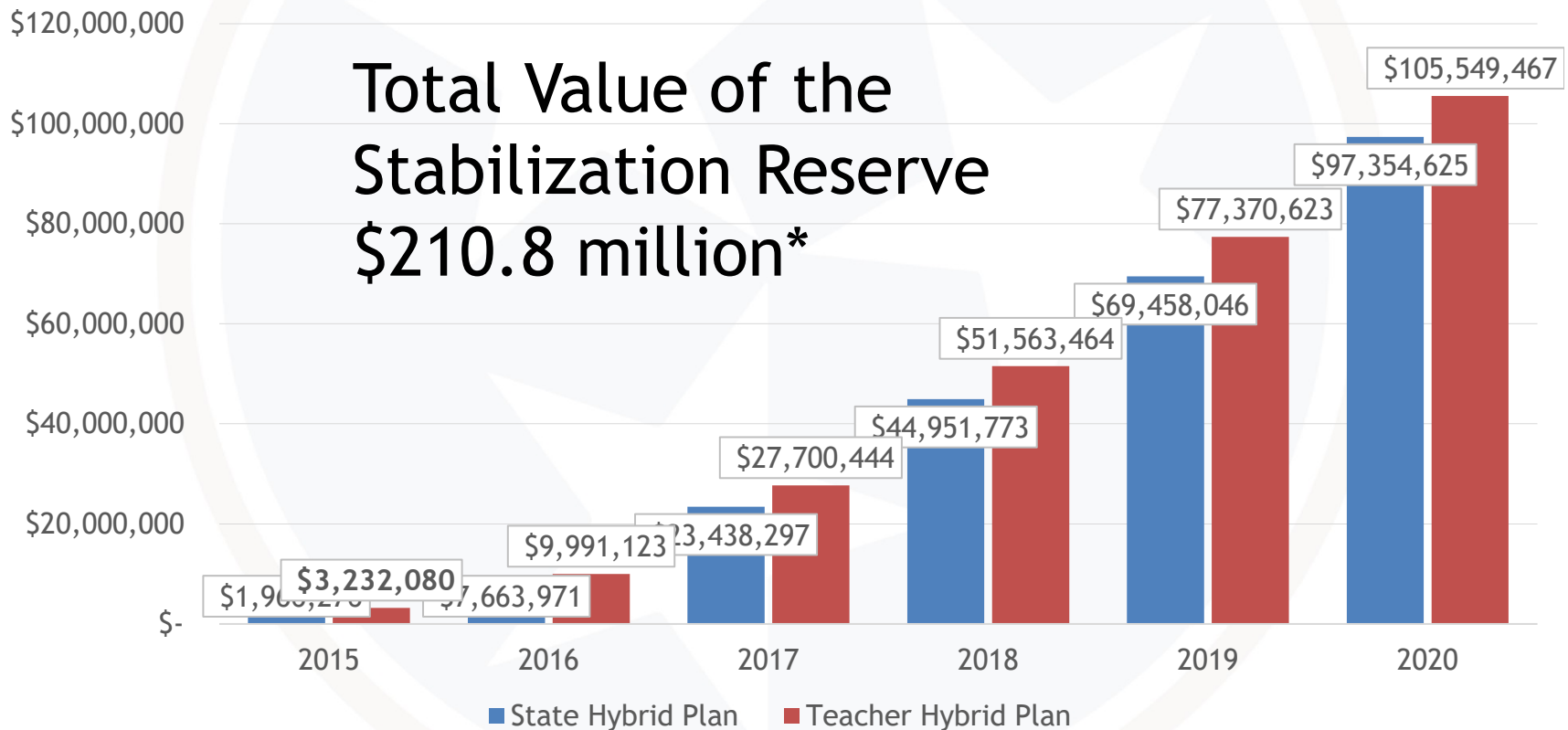


Tennessee Teachers are saving more for retirement

Teacher Participants in the 401(k) Plan

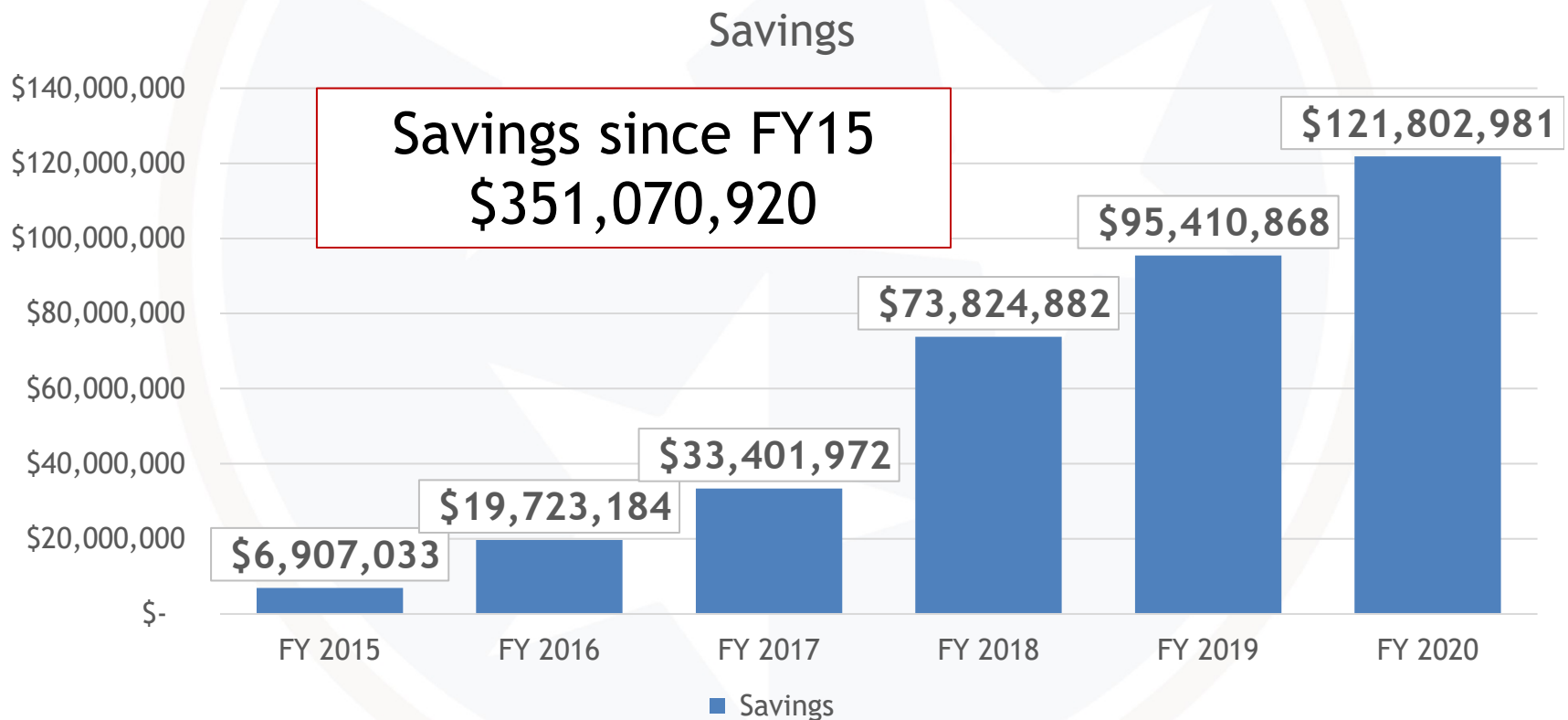


Stabilization Reserve



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

Savings Hybrid vs. Legacy





Questions?

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