

Sunset Public Hearing Questions for  
**Tennessee Consolidated Retirement System Board of Trustees**  
Created by Section 8-34-301, *Tennessee Code Annotated*  
(Sunset termination June 2015)

- 1. Provide a brief description of the board, including information about its purpose, statutory duties and staff.**

The Tennessee Consolidated Retirement System Board of Trustees (TCRS) is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (T.C.A, Title 8, Chapters 34-37). Many of the day-to-day operational and investment duties have been delegated to the Treasurer. Specifically, the Board must approve all new employer participation in TCRS, approve the TCRS investment policy, approve real estate transactions and private equity commitments, adopt rules and regulations, establish the rate of interest credited to member accounts, adjudicate appeals filed by members, approval of assumptions used in the actuarial valuation, and approval of employer contribution rates developed by the actuary.

The State Treasurer serves as Chairman of the Board of Trustees and the Director of TCRS serves as Secretary to the Board. Staff of TCRS serves as administrative support.

- 2. Provide a list of current members of the board. For each member, please indicate who appointed the member, how the member's presence on the board complies with Section 8-34-302, *Tennessee Code Annotated*, and the member's principal county of residence. Please indicate each member's race and gender and which members, if any, are 60 years of age or older. Are there any vacancies on the board? Is so, what is being done to fill these vacancies?**

Please see Attachment A for a detailed listing.

There are currently no vacancies on the Board of Trustees.

- 3. What were the board's revenues (by source) and expenditures (by object) for year 2013 and to date for fiscal year 2014?**

The Board does not have a revenue source and Board travel expenditures are paid through the budget of TCRS.

- 4. In accordance with Section 8-34-304, *Tennessee Code Annotated*, trustees shall be reimbursed for all necessary travel expenses that they may incur through service to the board. How much was reimbursed to trustees during fiscal year 2013 and to date for fiscal year 2014?**

Fiscal Year 2014 (to date) – \$2,742.96

Fiscal Year 2013 – \$4,420.94

- 5. How many times did the board meet in fiscal year 2013 and to date in fiscal year 2014? How many members were present at each meeting? According to Section 8-34-309, *Tennessee Code Annotated*, special meetings of the board may be called by**

**the secretary of the board. Please provide details of any special meetings called in fiscal year 2013 and to date in fiscal year 2014.**

The Board meets quarterly. The meeting dates and number of members present are as follows:

FY 2014:

September 27, 2013 – 14

December 16, 2013 – 15

March 28, 2014 – 13

FY 2013

September 28, 2012 – 16

December 7, 2012 – 11 (no investment committee meeting)

February 4, 2013 – 14 (no committee meeting)

March 22, 2013 – 10 (no investment committee meeting)

June 28, 2013 – 12

The Investment, Administrative, and Audit committees of the Board normally meet on days of the full Board meeting. In addition to meetings on the above dates, the Investment committee met on the following days:

July 19, 2012; October 18, 2012; November 15, 2012; January 16, 2013; March 7, 2013; April 10, 2013; May 31, 2013; August 20, 2013; September 16, 2013; October 31, 2013; November 22, 2013; February 11, 2014; and April 23, 2014

- 6. Is the board subject to Sunshine law requirements (Section 8-44-101 et seq., *Tennessee Code Annotated*) for public notice of meetings, prompt and full recording of minutes and public access to minutes? If so, what procedures does the board have for informing the public of its meetings and making its minutes available to the public?**

Yes. Notices are posted on various boards within the Legislative Plaza. In addition, meeting notices are posted to the Treasury Department and TCRS websites and the State's Public Participation website.

- 7. Has the committee promulgated rules and regulations as authorized at Section 8-34-313, *Tennessee Code Annotated*? If so, please cite the reference.**

Yes. Chapter 1700-03.

- 8. Has the board engaged actuarial services to transact the business of the retirement system as allowed in Section 8-34-314, *Tennessee Code Annotated* during fiscal year 2013 and to date in fiscal year 2014? Please provide details.**

Yes. An actuarial firm was selected by a competitive process (RFP) in 2010 (to provide services from July 1, 2010 through June 30, 2014) and again in 2014 (to provide services from July 1, 2014 through June 30, 2019). An actuarial valuation was performed as of July 1, 2013 with the actuarial work being performed during fiscal year 2014. The

purpose of the actuarial valuation is to determine the funded status of the pension plan and to establish the actuarially determined employer contribution rate. It is the intent of the Board that employer contributions, along with member contributions and projected investment earnings, will finance in an actuarially sound manner the cost of promised benefits.

In addition, an actuarial experience study was performed as of June 30, 2012 with the actuarial work taking place in fiscal year 2013. An actuarial experience study is performed every four years. The purpose of the experience study is to develop demographic and economic assumptions to be used in the actuarial valuation.

- 9. The board is required to publish an annual report showing the fiscal transactions of the retirement system. Please provide copies of the two most recent annual reports. If, during fiscal year 2013 or to date in 2014, additional reports have been prepared related to the board's operations, activities and accomplishments, please provide those as well. Also indicate who receives these reports.**

Please see Attachments B and C for the 2012 and 2013 TCRS annual report. The reports are available on the TCRS website.

- 10. According to Section 8-34-317, *Tennessee Code Annotated*, the board of trustees may provide for a quadrennial audit by a reliable independent auditor. If completed, please provide a copy of the latest report.**

The Comptroller of the Treasury performs annual audits of TCRS. The Board has not engaged the services of an external independent auditor.

- 11. The retirement system is authorized to charge to and pay from the earnings of the funds of the retirement system the cost for implementing the Concord Project, the intention of which is to replace existing retirement operating systems and to implement other technology improvements. Please provide copies of reports regarding the Concord Project prepared in accordance with Section 8-34-321, *Tennessee Code Annotated*.**

Please see Attachments D.

- 12. The Sunset Performance Audit of the Tennessee Consolidated Retirement System Board of Trustees published in December 2007 had a finding that members of the board of trustees do not sign conflict of interest statements. In addition to the disclosure requirements placed on individual members of the board by Section 8-50-501, *Tennessee Code Annotated*, how does the board ensure that its members and staff are operating in an impartial manner and that there are no conflicts of interest? If the board operates under a formal conflict of interest policy, please attach a copy of that policy.**

A formal conflict of interest policy was adopted for Board members after the 2007 audit. A copy of the conflict of interest policy can be found under Attachment E.

**13. What were the major accomplishments of the board for fiscal year 2013 and to date for fiscal year 2014?**

The funded status of TCRS continues to improve since the low point during the great recession of 2008 and 2009. The improved funded status is the direct result of the funding policy of the Board and investment performance. A review of the funded status is shown in the following tables.

Funded Ratio Based on Actuarial Value of Assets

<u>Group</u>	<u>2009</u>	<u>2011</u>	<u>2013</u>
State	86.32%	88.30%	89.40%
Teachers	93.65%	94.67%	96.03%
Local Govt.	86.34%	89.15%	94.97%
Total	89.89%	91.54%	93.64%

Funded Ratio Based on Market Value of Assets

<u>Group</u>	<u>2009</u>	<u>2011</u>	<u>2013</u>
State	71.93%	81.03%	85.56%
Teachers	78.04%	86.88%	91.91%
Local Govt.	71.95%	81.81%	90.90%
Total	74.91%	84.01%	89.63%

Unfunded Liability Based on Actuarial Value of Assets (in billions)

<u>Group</u>	<u>2009</u>	<u>2011</u>	<u>2013</u>
State	\$1.632	\$1.555	\$1.466
Teachers	1.086	1.034	.807
Local Govt.	.839	.799	.392
Total	\$3.559	\$3.388	\$2.664

Unfunded Liability Based on Market Value of Assets (in billions)

<u>Group</u>	<u>2009</u>	<u>2011</u>	<u>2013</u>
State	\$3.350	\$2.520	\$1.995
Teachers	3.759	2.548	1.642
Local Govt.	1.723	1.339	.709
Total	\$8.832	\$6.407	\$4.346

Investment performance has exceeded the earnings assumption of 7.5% during 3 of the last 4 time periods as reflected in the table below:

<u>Fiscal Year</u>	<u>Investment Return</u>
2011	19.59%
2012	5.61%
2013	9.92%
2014 (8 months)	10.81%

**14. Has the board set goals and measured its performance compared to the goals? What performance indicators or goals does management use to measure the effectiveness and efficiency of the committee? How well has the board performed based on those performance indicators?**

There are two vitally important goals established by the Board.

First, the Board establishes a funding policy so that TCRS continues to be an actuarially sound pension plan. TCRS is considered one of the stronger funded public plans in the nation. The plan is more than 90% funded. Fitch rating agency ranks TCRS as the 5<sup>th</sup> best funded plan in the nation. S&P has given TCRS a AAA rating. Moody's list TCRS as one of the well-funded plans in the nation ranking it 4<sup>th</sup> best when comparing pension liability to governmental revenue, 4<sup>th</sup> best when comparing pension liability as a percentage of gross state domestic product, 4<sup>th</sup> best when comparing pension liability to percentage of personal income, and 3<sup>rd</sup> best when comparing pension liability on a per capita basis. MorningStar rated TCRS in their highest category for funding level and liability per capita. The Pew Center ranks TCRS in its highest category as a solid performer.

Second, the Board establishes investment performance objectives based on a diversified portfolio of securities. The annualized rates of return for the total portfolio and by asset classes are shown in the tables below:

	At February 2014	At June 30, 2013	At June 30, 2012	At June 30, 2011
Total Portfolio	10.81%	9.92%	5.61%	19.59%
US equity	17.38	18.61	2.55	33.29
Int'l equity	15.18	21.64	(10.79)	33.01
Fixed income	3.80	(0.81)	15.63	6.00
Inflation bonds	1.02	(5.28)	12.22	5.08
Real estate	3.29	9.97	10.61	1.39
Private equity	7.11	10.28	7.22	12.66
Short-term	0.50	1.00	1.94	2.57

**15. Describe any items related to the board that require legislative attention and your proposed legislative changes.**

There are not any specific legislative proposals at this time. Generally, an omnibus pension bill is presented each year to clarify current plan provisions. Additionally, significant legislation was introduced and passed by the General Assembly in 2012, 2013, and 2014. In 2012, legislation expanding the benefit structures that local governments have available was enacted. This legislation gave more choices to local governments to provide a sustainable and affordable pension plan program to their employees. In 2013, legislation was enacted creating the Hybrid Pension Plan for state employees and teachers. The hybrid plan is a sustainable and affordable plan that controls cost and unfunded liability while providing a sufficient level of benefits. In 2014, legislation was enacted requiring government pension plans to establish a pension funding policy and to finance the cost of promised benefits by paying the actuarially determined contribution.

**16. Should the board be continued? To what extent and in what ways would the absence of the board endanger the public health, safety or welfare?**

Yes. The Board provides significantly important oversight of the operation and administration of TCRS where membership exceeds 215,000 active members, 110,000 retirees, and an annual retired payroll of over \$2 billion. Moreover, with a portfolio of more than \$40 billion, the Board plays a critically important role by establishing investment policy, risk tolerances, performance standards and allocation of funds among the various authorized asset classes. The Board's responsibility for the funded status of the plan and establishing an actuarially sound funding policy is of utmost importance to members of the plan and taxpayers.

**17. Please list all board programs or activities that receive federal financial assistance and, therefore are required to comply with Title VI of the Civil Rights Act of 1964. Include the amount of federal funding received by program/activity.**

None.

*If the board does receive federal assistance, please answer questions 18 through 25. If the board does not receive federal assistance, proceed directly to question 24.*

**18. Does your board prepare a Title VI plan? If yes, please provide a copy of the most recent plan.**

**19. Does your board have a Title VI coordinator? If yes, please provide the Title VI coordinator's name and phone number and a brief description of his/her duties. If not, provide the name and phone number of the person responsible for dealing with Title VI issues.**

**20. To which state or federal agency (if any) does your board report concerning Title VI? Please describe the information your board submits to the state or federal government and/or provide a copy of the most recent report submitted.**

**21. Describe your board's actions to ensure that board staff and clients/program participants understand the requirements of Title VI.**

**22. Describe your board's actions to ensure it is meeting Title VI requirements. Specifically, describe any board monitoring or tracking activities related to Title VI, and how frequently these activities occur.**

**23. Please describe the board's procedures for handling Title VI complaints. Has your board received any Title VI-related complaints during the past two years? If yes, please describe each complaint, how each complaint was investigated, and how each complaint was resolved (or, if not yet resolved, the complaint's current status).**

**24. Please provide a breakdown of current board staff by title, ethnicity, and gender.**

The Board does not employ any staff. Rather, the TCRS staff assists and supports the Board in carrying out its official duties and responsibilities.

**25. Please list all board contracts, detailing each contractor, the services provided, the amount of the contract, and the ethnicity of the contractor/business owner.**

All TCRS contracts are held by the Treasury Department, the administrative agency responsible for TCRS. There are no contracts held by the Board of Trustees.

**TCRS Board Members  
As of March 31, 2014**

<u>Name</u>	<u>Capacity</u>	<u>Appointment</u>	<u>County of Residence</u>	<u>Race</u>	<u>Gender</u>	<u>Age 60 or older</u>
David H. Lillard, Jr.	State Treasurer	Ex-officio	Shelby	White	Male	Yes
Tre' Hargett	Secretary of State	Ex-officio	Sumner	White	Male	No
Justin Wilson	Comptroller	Ex-officio	Davidson	White	Male	Yes
Rebecca Hunter	Commissioner, Dept of Human Resources	Ex-officio	Hamilton	White	Female	No
Larry Martin	Commissioner, Finance and Administration	Ex-officio	Knox	White	Male	Yes
Bill Young	Administrative. Director of Courts	Ex-officio	Davidson	White	Male	No
Jill Bachus	Director, TCRS	Ex-officio	Davidson	White	Female	No
Charles Sargent	Council on Pensions and Ins. Chair (non-voting)	Ex-officio	Williamson	White	Male	Yes
Randy McNally	Council on Pensions and Ins. Vice-Chair (non-voting)	Ex-officio	Anderson	White	Male	Yes
Angie Judish	State Employee Representative	Elected by State Employees	Montgomery	White	Female	No
Priscilla Bright	State Employee Representative	Elected by State Employees	Knox	White	Female	Yes
Patsy Moore	West TN Teacher Representative	Appointed by Speaker of Senate	McNairy	White	Female	No
Harold Morrison	Middle TN Teacher Representative	Appointed by Speaker of House	Davidson	White	Male	No
Kevin Fielden	East TN Teacher Representative	Appointed by Speaker of Senate	Sullivan	White	Male	No
Michael Barker	Retired Teacher Representative	Appointed by Speaker of House	Gibson	White	Male	Yes
Bob Wormsley	TN County Services Assoc. Representative	Appointed by TCSA	Campbell	White	Male	Yes
Bill Kemp	County Officials Assoc. of TN Representative	Appointed by COAT	Sumner	White	Male	No
Ken Wilber	TN Municipal League	Appointed by TML	Sumner	White	Male	No
Alfred Laney	Retired State Employee Representative	Appointed by Governor	Davidson	African American	Male	Yes
Gill Kendrick	Public Safety Officer Representative	Appointed by Governor	Madison	White	Male	Yes

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PENSION TRUST FUNDS OF THE STATE OF TENNESSEE

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



*TIGER SWALLOWTAIL BUTTERFLY  
BY BRENDA MERCIER, INFORMATION SYSTEMS*

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012 PENSION TRUST FUNDS OF THE STATE OF TENNESSEE

PREPARED BY:

STATE OF TENNESSEE TREASURY DEPARTMENT  
502 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0201  
(615) 741-7063

[TCRS.TN.GOV](http://TCRS.TN.GOV)

DAVID H. LILLARD, JR., STATE TREASURER  
JILL BACHUS, TCRS DIRECTOR

*The cover and divider pages within this report  
feature the beautiful photography  
by Treasury employees taken throughout Tennessee.*

*The cover photo was taken in Brentwood, TN  
by Heather Szczepczenski, State Treasurer's Office.*

**This report is available in its entirety on the Internet at:  
[www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf](http://www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf)**



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# INTRODUCTORY SECTION



*PERCY PRIEST LAKE*  
*BY AMANDA STAGGS*  
*CONCORD*

GFOA CERTIFICATE OF ACHIEVEMENT

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Tennessee Consolidated  
Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Christopher P. Morinell*

President

*Jeffrey R. Emer*

Executive Director

**PUBLIC PENSION COORDINATING COUNCIL AWARD**



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2012***

Presented to

***Tennessee Consolidated Retirement System***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

## CHAIRMAN OF THE BOARD'S LETTER

STATE OF TENNESSEE

DAVID H. LILLARD, JR.  
STATE TREASURER615.741.2956  
David.Lillard@tn.govTREASURY DEPARTMENT  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

December 7, 2012

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the twenty-fifth consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

**Administration:** To better serve our members, the TCRS website (located at [www.tn.gov/treasury/tcrs](http://www.tn.gov/treasury/tcrs)) includes a benefit calculation module which allows members to input a limited amount of data to obtain a retirement benefit estimate. Furthermore, TCRS forms and up-to-date information are available online to assist our members and participating employers. TCRS is currently in a multi-year project to develop a new pension administration system. The new system will use a web-based approach, providing enhanced member access and employer reporting.

**Investments:** The 2012 fiscal year was challenging for all investors and the TCRS portfolio experienced a modest gain of 5.6%. This return was one of the best results of any comparable pension plan. Both short and longer-term results are a function of a risk-averse investment program which preserves capital in difficult environments.

**Financial Soundness of the Plan:** TCRS is considered one of the best-funded pension plans in the nation. TCRS has received a AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's (S&P), the highest possible ratings issued by this nationally-recognized rating agency. The actuarial valuation, as of July 1, 2011, reported a combined state and teacher funding ratio of over 92 percent.

The General Assembly, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, invest the system assets in a prudent manner without undue risk, fund the system on an actuarially-strong basis and provide the best possible services to the members in the system.

Sincerely,

A handwritten signature in cursive script that reads "David H. Lillard, Jr.".

David H. Lillard, Jr., State Treasurer  
Chairman of the Board

LETTER OF TRANSMITTAL



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

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

**JILL BACHUS**  
 DIRECTOR

December 6, 2012

Board of Trustees  
 Tennessee Consolidated Retirement System  
 Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) comprehensive annual financial report for the fiscal year ended June 30, 2012. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records. These internal controls have been created to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely derived, and second, the valuation of the cost and benefits requires estimates and judgments by management. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management’s Discussion and Analysis located in the Financial Section of this report.

**PROFILE OF TCRS**

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers and employees of political subdivisions electing to participate in TCRS. The State of Tennessee is responsible for the pension benefits of state employees and higher education employees and funds a significant portion of the retirement liability for teachers through the Basic Education Program. Each of the 488 participating political subdivisions is responsible for the pension benefits of its employees. The TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

The TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability and retirement benefits; and processing refund and prior service requests.

*(continued)*

LETTER OF TRANSMITTAL  
(CONTINUED)

## ECONOMIC CONDITION

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial "advanced funding" method is used to provide for the accumulation of assets to fund the cost of retirement, disability and death benefits provided by the system. The funding objective of TCRS is being met as the state and political subdivisions continue to make contributions to the plan at the rates established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm every two years to determine the funding requirements for the employers participating in TCRS. On July 1, 2011, the plan had a combined state and teacher funding ratio of 92 percent. The July 1, 2011 actuarial valuation utilized the assumptions generated from the June 30, 2008 experience study and provided the employer contribution rates effective July 1, 2012. Experience studies are performed on a quadrennial basis. The 2012 experience study is currently in progress.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment return for fiscal year 2012 was 5.6%.

Because TCRS is a well-funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. The investment market outlook continues to create significant challenges in meeting the 7.5 percent investment return assumed by TCRS. A premium will continue to be placed on security selection.

## AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its comprehensive annual financial report for the fiscal year that ended June 30, 2011. This was the twenty-fourth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The TCRS is also the recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers and other interested parties.



Jill Bachus, TCRS Director



Michael Brakebill, Chief Investment Officer

**ADMINISTRATION AND MISSION**

**ADMINISTRATION**

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of TCRS are among the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department, which support the operations of TCRS, include Information Systems, Accounting, Management Services, Internal Audit and Human Resources. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the State of Tennessee. Funding for the operation of TCRS is provided by three sources. The State of Tennessee is responsible for the operation cost associated with state employees and higher education employees. Local education agencies are responsible for the operation cost related to K-12 teachers. Political subdivisions are responsible for the operation cost associated with their employees.

**MISSION**

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission is accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and Insurance and the TCRS membership through the following objectives:

- ❖ *Exemplary Service* – To provide accurate, courteous and prompt service to members of TCRS.
- ❖ *Benefit Standards* – To provide retirement coverage through TCRS, Social Security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ *Funding Standards* – To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ *Staffing* – To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ *Research* – To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ *Management* – To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently while providing the highest level of service.
- ❖ *Ethical Standards* – To maintain the highest ethical standards.
- ❖ *Investment Return* – To obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay benefits when due.

**THE COUNCIL ON PENSIONS AND INSURANCE**

**THE COUNCIL ON PENSIONS AND INSURANCE**

Created as a legislative oversight committee, the Council on Pensions and Insurance develops, recommends and establishes pension and retirement standards and maintains a progressive state policy on retirement. Additionally, the Council reviews legislation affecting state-provided insurance programs for both active and retired members of the Tennessee Consolidated Retirement System.

The Council periodically reviews Tennessee’s retirement and state-provided insurance provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems, including those of other states, private industry and the federal government’s Social Security program. All proposed legislation affecting Tennessee’s retirement laws must be reviewed by the Council before the legislature may take action. The Council is authorized to prepare and propose amendments which are

then forwarded to the standing committees. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of the TCRS director also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer and the Director of TCRS.

**VOTING MEMBERS - SENATORS**



**Douglas Henry**  
*Finance, Ways  
& Means Vice-Chair*



**James Kyle**



**Randy McNally**  
*Council Chair  
Finance, Ways  
& Means Chair*



**Mark Norris**



**Ron Ramsey**  
*Speaker of the Senate*



**Jim Tracy**  
*Speaker’s Designee*



**Bo Watson**  
*Finance, Ways  
& Means Secretary*



**Dolores Gresham**

*(continued)*

**THE COUNCIL ON PENSIONS AND INSURANCE  
(CONTINUED)**

**VOTING MEMBERS – REPRESENTATIVES**



**Craig Fitzhugh**



**Michael Harrison**  
*Finance, Ways  
& Means Vice-Chair*



**Ryan Haynes**  
*Speaker's Designee*



**Curtis Johnson**  
*Finance, Ways  
& Means Secretary*



**Steve McDaniel**



**Charles Sargent**  
*Council Vice-Chair  
Finance, Ways & Means Chair*



**Johnny Shaw**



**Beth Harwell**  
*Speaker of the House*

**NON-VOTING MEMBERS**



**Jill Bachus**  
*TCRS Director*



**Mark Emkes**  
*Commissioner of Finance  
& Administration*



**Rebecca Hunter**  
*Commissioner of  
Human Resources*



**David H. Lillard, Jr.**  
*State Treasurer*



**Justin Wilson**  
*Comptroller of the Treasury*

**THE BOARD OF TRUSTEES**

**THE BOARD OF TRUSTEES**

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (*T.C.A.*, Title 8, Chapters 34-37). The 20-member Board meets quarterly and is subject to the call of the chair for special meetings. Nine voting members constitute a quorum and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, nine representatives of the active TCRS membership and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions and Insurance (as nonvoting members), the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chair of the Board and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; one public safety officer and three representatives of local governments. Retiree representation includes a retired teacher and a retired state employee.

Three teachers and one retired teacher are selected for three-year terms by the Speaker of the Senate and the Speaker of the House of Representatives. State employees elect two representatives who also serve three-year terms.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. The public safety representative and the state retiree representative are appointed by the Governor. All employee representatives must be vested members of TCRS.

**ELECTED OR APPOINTED MEMBERS**



**Michael Barker**  
*Retired Teacher*  
Term Expires: June 30, 2013



**Dennis Carroll**  
*Public Safety*  
Term Expires: June 30, 2013



**Greg Elliott**  
*Tennessee Bureau of Investigation*  
Term Expires: June 30, 2013



**Traci Jefferson**  
*East Tennessee Teacher*  
Term Expires: June 30, 2013



**Bill Kemp**  
*Tennessee County Officials Association*  
Term Expires: June 30, 2013



**Alfred Laney**  
*Retired State Employee*  
Term Expires: June 30, 2014

(continued)

**THE BOARD OF TRUSTEES  
(CONTINUED)**

**ELECTED OR APPOINTED MEMBERS** *(continued)*



**Patsy Moore**  
*West Tennessee  
Teacher  
Term Expires:  
June 30, 2014*



**Harold Morrison**  
*Middle Tennessee  
Teacher  
Term Expires:  
June 30, 2015*



**Tommie Pendergrass**  
*Department of  
Financial Institutions  
Term Expires:  
June 30, 2013*



**David Seivers**  
*Tennessee County  
Services Association  
Term Expires:  
June 30, 2013*



**Ken Wilber**  
*Tennessee  
Municipal League  
Term Expires:  
June 30, 2013*

**EX-OFFICIO MEMBERS**



**Jill Bachus**  
*TCRS Director*



**Mark Emkes**  
*Commissioner of Finance  
& Administration*



**Tre Hargett**  
*Secretary of State*



**Rebecca Hunter**  
*Commissioner of  
Human Resources*



**David H. Lillard, Jr.**  
*State Treasurer*



**Randy McNally**  
*Council Chair*



**Charles Sargent**  
*Council Vice-Chair*



**Libby Sykes**  
*Administrative Director of the Courts*



**Justin Wilson**  
*Comptroller of the Treasury*

**PROFESSIONAL CONSULTANTS**

**PROFESSIONAL CONSULTANTS**

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on page 44.

**INVESTMENT ADVISORY COUNCIL**

The Investment Advisory Council (IAC) was established to assist both the Board of Trustees and the TCRS investment staff. The investment professionals on the IAC serve five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA (retired)  
Regions Bank  
Nashville, Tennessee

Henry Delicata  
Park Street Capital  
Boston, Massachusetts

Susan Logan Huffman, CFA  
Reliant Investment Management, LLC  
Memphis, Tennessee

George B. Stadler, CFA  
HMS Capital Management, LLC  
Nashville, Tennessee

Chuck Webb, CFA  
Weaver C. Barksdale & Associates  
Brentwood, Tennessee

Carol B. Womack  
Diversified Trust  
Nashville, Tennessee

**GENERAL INVESTMENT AND STRATEGIC LENDING CONSULTANT**

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Pete Keliuotis  
Strategic Investment Solutions, Inc.  
San Francisco, California

**PRIVATE EQUITY CONSULTANT**

Sheila Ryan  
Cambridge Associates LLC  
Boston, Massachusetts

**REAL ESTATE INVESTMENT CONSULTANT AND ADVISORS**

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Martin Rosenberg  
The Townsend Group  
Cleveland, Ohio

The real estate investment advisors identify potential co-investors as well as prospective real estate transactions.

Paul M. Canning  
UBS Realty Investors LLC  
Hartford, Connecticut

Paul Edwards  
Capri Capital Partners LLC  
Chicago, Illinois

Tim Ellsworth  
RREEF America LLC  
Chicago, Illinois

Rob Greer  
Clarion Partners LLC  
Washington, DC

Lawrence Ostow  
J.P. Morgan Investment Management, Inc.  
New York, New York

Reid Parker  
TA Realty LLC  
Boston, Massachusetts

Steve Wallace  
Cornerstone Real Estate Advisers LLC  
Chicago, Illinois

*(continued)*

**PROFESSIONAL CONSULTANTS  
(CONTINUED)**

**INTERNATIONAL EQUITY INVESTMENT MANAGERS**

The international equity investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Sue Curran  
Pyramis Global Advisors, LLC  
Smithfield, Rhode Island

Jill Farrell  
American Century Investments  
Kansas City, Missouri

Jane Henderson  
Walter Scott & Partners, Ltd.  
Scotland, UK

Robert Job  
PanAgora Asset Management, Inc.  
Boston, Massachusetts

Wilson Phillips  
Marathon - London  
London WC2H 9EA, UK

Robb Rohr  
GE Asset Management, Inc.  
Stamford, Connecticut

Molly Sodeinde  
TT International  
London, EC2Y 5ET, UK

William Tsotsos  
Baring Asset Management, Inc.  
Toronto, Ontario M5J 2S1 Canada

**MASTER CUSTODIAN BANK**

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

Northern Trust Company  
Chicago, Illinois

**THE MEDICAL BOARD**

The Medical Board evaluates applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, the panel reviews medical data submitted by disabled retirees who are subject to periodic evaluation. The Medical Board consists of the following:

Suzanne Fletcher, M.D.  
Brentwood, Tennessee

Thomas Mullady, M.D.  
Chattanooga, Tennessee

Barry R. Siegel, M.D.  
Memphis, Tennessee

**CONSULTING ACTUARY**

An independent consulting firm performs an actuarial valuation every two years to determine the funding status of the TCRS and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Justin Thacker  
Bryan, Pendleton, Swats & McAllister, LLC  
Brentwood, Tennessee

**OTHER PROFESSIONAL SERVICES**

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These officers are as follows:

Robert E. Cooper, Jr.  
Attorney General/Reporter  
Nashville, Tennessee

Justin P. Wilson  
Comptroller of the Treasury  
Nashville, Tennessee

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**TREASURY DEPARTMENT EXECUTIVE STAFF**


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**TREASURER'S OFFICE**

Treasurer .....	David H. Lillard, Jr., JD .....	615-741-2956
Chief of Staff .....	Janice H. Cunningham .....	615-741-2956
Deputy Chief of Staff .....	Joy Harris .....	615-741-2956
Staff Assistant to the Treasurer .....	Joshua Stites .....	615-741-2956
Director of Human Resources and Employee Development .....	Ann Taylor-Tharpe .....	615-532-3347

**TCRS INVESTMENTS**

Assistant Treasurer, Investments .....	Bill Abney, JD .....	615-532-1167
Chief Investment Officer .....	Michael Brakebill, CFA .....	615-532-1157
Deputy CIO and Fixed Income Director .....	Andrew Palmer, CFA .....	615-532-1183
Equity Director .....	Michael Keeler, CFA .....	615-532-1165
Real Estate Director .....	Peter Katseff .....	615-532-1160
Private Equity Director .....	Lamar Villere, CFA .....	615-532-1154
Director of Cash and Administration .....	Tim McClure, CTP .....	615-532-1166

**RETIREMENT ADMINISTRATION**

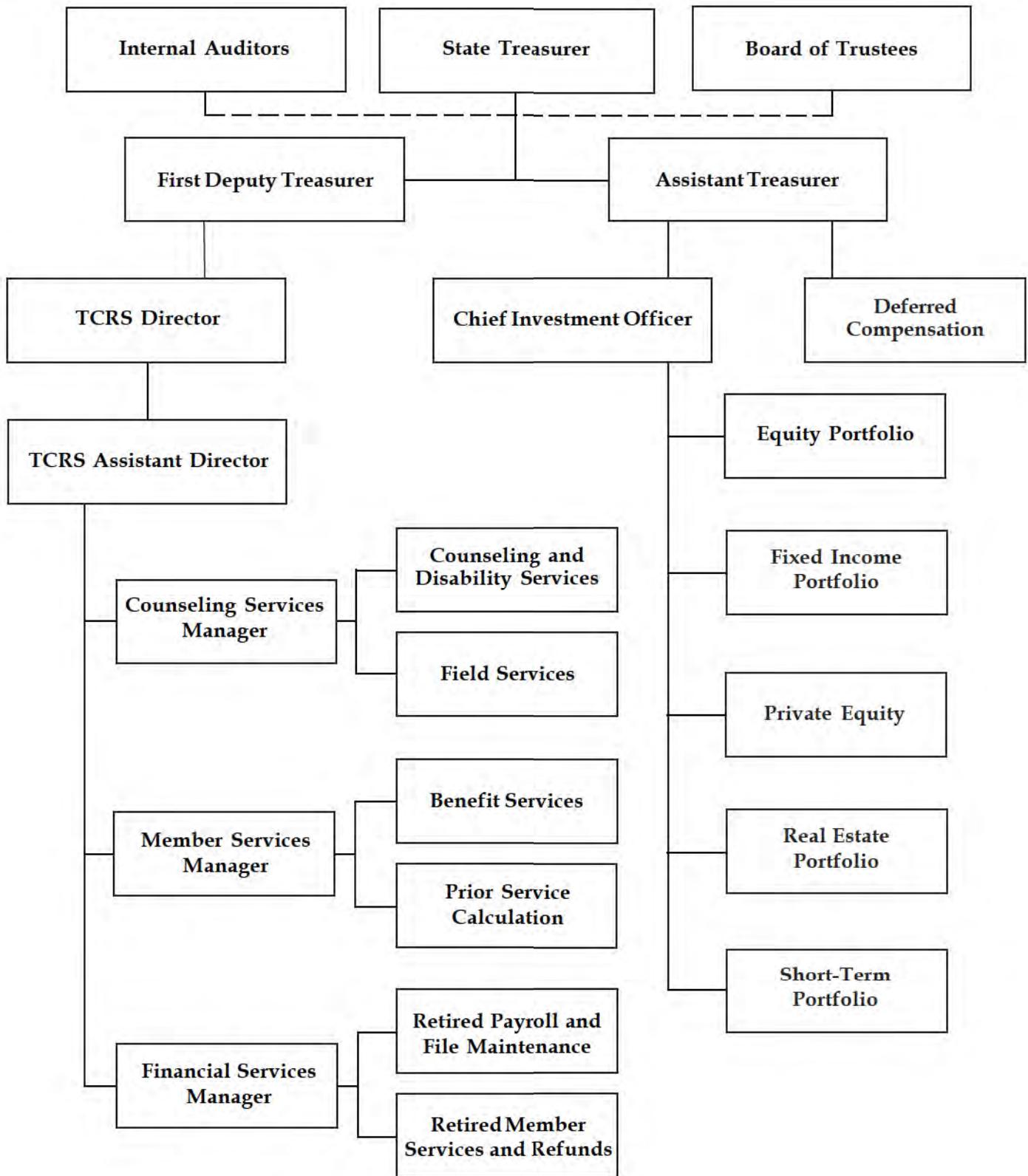
TCRS Director .....	Jill Bachus, CPA .....	615-741-7063
TCRS Assistant Director .....	Jamie Wayman, CPA .....	615-741-7063
Administrator of Old Age and Survivors Insurance .....	Mary Griffin, JD .....	615-741-7902
Manager of Counseling Services .....	Candy O'Leary .....	615-741-1971
Manager of Member Benefits .....	Erica Nale .....	615-741-4868
Manager of Financial Services .....	Keevia Battle, CPA .....	615-741-4913

**TREASURY DIVISIONS**

First Deputy Treasurer, Program Services .....	Steven Curry, CPA-inactive, CEBS, CCM .....	615-532-8045
Second Deputy Treasurer, Support Services .....	Rick DuBray, CPA .....	615-253-5764
Assistant Treasurer, Legal, Compliance and Audit .....	Christy A. Allen, JD .....	615-253-3853
General Counsel .....	Mary Roberts-Krause, JD .....	615-741-7063
Assistant General Counsel .....	Alison Cleaves, JD .....	615-253-6150
Manager of Deferred Compensation .....	Kaci Lantz, CFP® .....	615-532-2347
Director of Accounting .....	Kim Morrow, CPA .....	615-532-3840
Assistant Director of Accounting .....	Brian Derrick, CPA .....	615-532-8051
Director of Information Systems .....	Tim Sundell .....	615-532-0734
Director of Management Services .....	Kerry Hartley, CPA .....	615-532-8552
Director of Internal Audit .....	Andy Furlong, CPA .....	615-253-2018

*The Treasurer is housed on the 1<sup>st</sup> floor of the State Capitol Building.  
Divisions are housed on the 9<sup>th</sup>, 10<sup>th</sup> and 11<sup>th</sup> floors of the Andrew Jackson Building.*

ORGANIZATION CHART



# FINANCIAL SECTION



*STATE CAPITOL (SPRING)  
BY HEATHER SCZEPCHENSKI  
STATE TREASURER'S OFFICE*



*STATE CAPITOL (FALL)  
BY DAVID OYSTER  
INFORMATION SYSTEMS*

## INDEPENDENT AUDITOR'S REPORT



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897  
FAX (615) 532-2765

November 30, 2012

Members of the General Assembly  
and  
Members of the Board of Trustees  
Tennessee Consolidated Retirement System  
and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Tennessee Consolidated Retirement System's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*(continued)*

**INDEPENDENT AUDITOR'S REPORT  
(CONTINUED)**

November 30, 2012

Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2012, and June 30, 2011, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying financial information, listed as supporting schedules in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 30, 2012, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA  
Director

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011**

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2012 and June 30, 2011. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

### FINANCIAL HIGHLIGHTS

- The plan net assets (total assets minus total liabilities) of the TCRS at June 30, 2012 were \$34.9 billion, increasing over \$1.2 billion (3.7 percent) from the plan net assets at June 30, 2011. The net assets are held in trust to meet future benefit obligations.
- The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2011, the date of the latest actuarial valuation, the TCRS' funded ratio was 92.1 percent for the SETHEPP group and 89.2 percent for the PSPP group.
- Contribution revenue for fiscal year 2012 totaled \$1,266,468,685 an increase of 0.8 percent compared to fiscal year 2011.
- Net investment income for fiscal year 2012 was \$1,800,063,989. During fiscal year 2012, the TCRS received an investment return on its portfolio of 5.6 percent, compared to 19.6 percent for fiscal year 2011.
- Total benefits and refunds paid for fiscal year 2012 were \$1,809,901,340 – an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid of \$1,688,410,469.
- Total administrative expenses for fiscal year 2012 were \$7,166,606 – a slight increase from fiscal year 2011 administrative expenses of \$7,156,822.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Assets* (on pages 22 through 23), the *Statement of Changes in Plan Net Assets* (on pages 24 through 25), and the *Notes to the Financial Statements* (on pages 26 through 38). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis*, and the schedules on page 39.

The *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets* report information about the plan net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those plan net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statement of Plan Net Assets*, or net assets held in trust for pension benefits, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The *Statement of Changes in Plan Net Assets* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net assets of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two basic financial statements, the reader should also review the *Schedules of Funding Progress* and the *Schedules of Employer Contributions* to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment obligations. The *Notes to the Financial Statements* are also essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011 (CONTINUED)**

**ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS**

At June 30, 2012, the TCRS had plan net assets (total assets in excess of total liabilities) of \$34.9 billion, an increase of over \$1.2 billion (3.7 percent) from \$33.7 billion at June 30, 2011, following the fiscal year 2011 increase of over \$5.1 billion (17.8 percent) from the \$28.6 billion of plan net assets as of June 30, 2010. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of investment return for the year since contributions stayed at the same level. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows:

**PLAN NET ASSETS**

	June 30, 2012	June 30, 2011	FY12 - FY11 Percentage Change	June 30, 2010	FY11 - FY10 Percentage Change
<b>ASSETS</b>					
Cash and cash equivalents	\$ 426,627,425	\$ 414,134,562	3.0 %	\$ 438,269,286	(5.5) %
Member and employer receivables	107,108,579	99,604,471	7.5 %	89,310,527	11.5 %
Investment receivables	1,044,714,969	1,431,331,905	(27.0) %	2,000,061,173	(28.4) %
Short-term securities	19,781,452	0	- %	0	0 %
Long-term investments	34,272,630,084	33,220,879,536	3.2 %	27,911,282,071	19.0 %
Capital assets	11,426,938	1,896,671	502.5 %	0	- %
<b>TOTAL ASSETS</b>	<u>35,882,289,447</u>	<u>35,167,847,145</u>	2.0 %	<u>30,438,923,057</u>	15.5 %
<b>LIABILITIES</b>					
Death benefits, refunds and other payables	10,193,417	8,544,407	19.3 %	8,205,512	4.1 %
Investment payables	959,323,058	1,495,994,494	(35.9) %	1,856,522,455	(19.4) %
<b>TOTAL LIABILITIES</b>	<u>969,516,475</u>	<u>1,504,538,901</u>	(35.6) %	<u>1,864,727,967</u>	(19.3) %
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>					
	<u>\$ 34,912,772,972</u>	<u>\$ 33,663,308,244</u>	3.7 %	<u>\$ 28,574,195,090</u>	17.8 %

**ANALYSIS OF REVENUES AND EXPENSES**

Employer contribution rates for the TCRS did not change during fiscal year 2012; therefore, the slight change of 0.8 percent in contributions from fiscal year 2011 to fiscal year 2012 was due to changes in salary. Contributions to TCRS had a larger than normal increase of \$164.1 million (15 percent) over contributions for fiscal year 2010 due to the change in employer contribution rates effective July 1, 2010. With the decrease of investment income of \$3.8 billion (67.4 percent) for fiscal year 2012 compared to investment income for fiscal year 2011, the overall decrease in revenues for 2012 was 54.8 percent compared to revenues for fiscal year 2011.

Investment expenses for fiscal year 2012 increased a slight \$166 thousand (0.5 percent). Although market conditions continued to show improvement in fiscal year 2012 which resulted in an overall gain to the TCRS investment portfolio of 5.61 percent and net investment income of \$1.8 billion, the return was not as high as the prior fiscal year. The return for fiscal year 2012 decreased (67.4 percent) from fiscal year 2011. Net investment income for fiscal year 2011 was \$5.5 billion due to the start of the improved market conditions in fiscal year 2010.

Total benefits and refunds paid during the year ended June 30, 2012 were \$1,809,901,340, an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2011 were \$1,688,410,470, an increase of 7.4 percent over fiscal year 2010 total benefits and refunds paid. The increase in benefit

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011 (CONTINUED)**

expenses for fiscal year 2012 is attributed to 1.5 percent in cost of living adjustments awarded to retirees on July 1, 2011, as well as more retirees being added to payroll than removed during this fiscal year. The increase in benefit expenses in fiscal year 2011 is attributed to 2.7 percent in cost of living adjustments awarded to retirees on July 1, 2010, as well as more retirees being added to payroll than removed during this fiscal year. Total refunds paid increased \$4.5 million (12.81 percent) in fiscal year 2012 from fiscal year 2011 and could be attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested. Total refunds paid had decreased \$883,258 (2.4 percent) in fiscal year 2011 over fiscal year 2010.

Administrative expenses for the year ended June 30, 2012 were \$7,166,606, a slight increase of 0.14 percent over fiscal year 2011 administrative expenses. Administrative expenses for the year ended June 30, 2011 were \$7,156,822, a decrease of 5.1 percent from fiscal year 2010 administrative expenses. The decrease was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2010 and not being performed in fiscal year 2011.

Condensed financial information comparing the TCRS' revenues and expenses for the past three fiscal years follows:

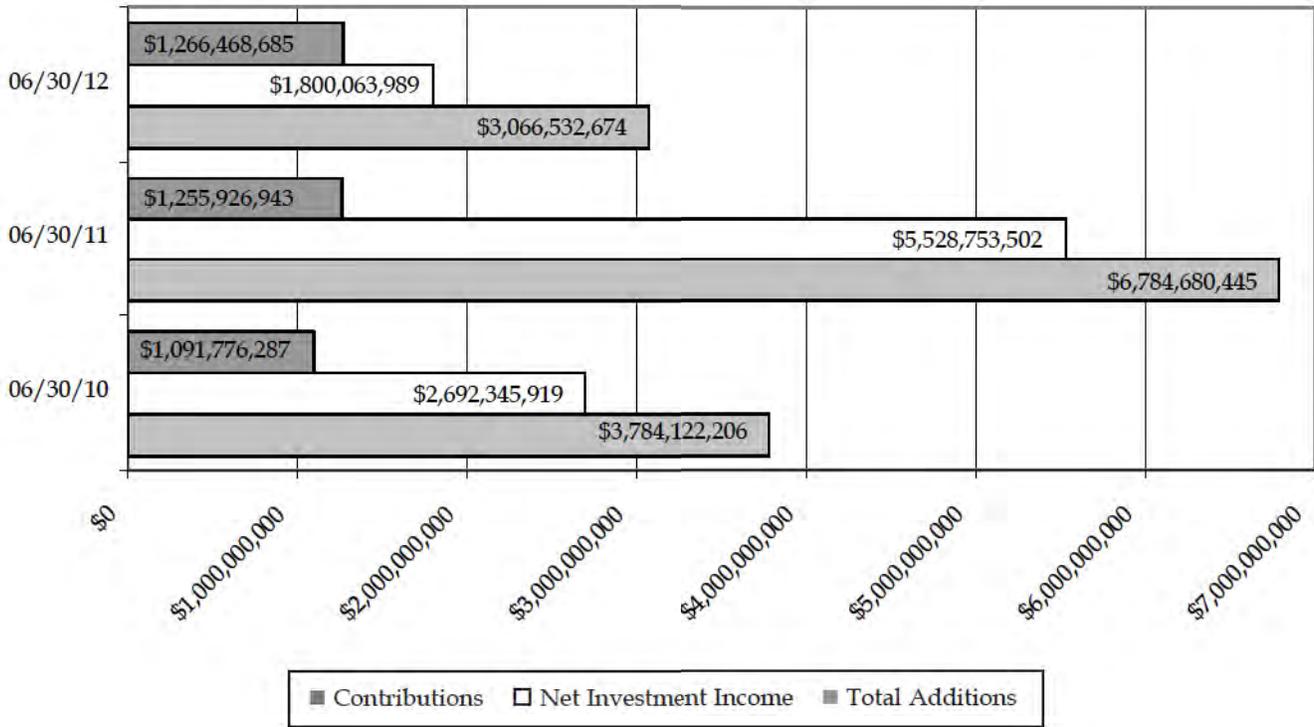
**CHANGES IN PLAN NET ASSETS**

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011	FY12 - FY11 Percentage Change	For the Year Ended June 30, 2010	FY11 - FY10 Percentage Change
<b>ADDITIONS</b>					
Contributions	\$ 1,266,468,685	\$ 1,255,926,943	0.8 %	\$ 1,091,776,287	15.0 %
Investment income					
Net appreciation in fair value of investments	825,366,874	4,597,653,001	(82.0) %	1,802,314,559	155.1 %
Interest, dividends and other investment income	1,007,076,475	963,313,744	4.5 %	918,842,338	4.8 %
Less: Investment expense	(32,379,360)	(32,213,243)	0.5 %	(28,810,978)	11.8 %
Net investment income	1,800,063,989	5,528,753,502	(67.4) %	2,692,345,919	105.4 %
<b>TOTAL ADDITIONS</b>	<b>3,066,532,674</b>	<b>6,784,680,445</b>	<b>(54.8) %</b>	<b>3,784,122,206</b>	<b>79.3 %</b>
<b>DEDUCTIONS</b>					
Annuity benefits					
Retirement benefits	1,346,462,471	1,248,538,286	7.8 %	1,164,713,725	7.2 %
Survivor benefits	80,772,647	76,298,394	5.9 %	71,380,041	6.9 %
Disability benefits	33,906,448	32,140,006	5.5 %	30,500,247	5.4 %
Cost of living	302,464,015	290,396,251	4.2 %	261,479,337	11.1 %
Death benefits	6,204,207	5,498,139	12.8 %	7,114,008	(22.7) %
Refunds	40,091,552	35,539,393	12.8 %	36,422,651	(2.4) %
Administrative expenses	7,166,606	7,156,822	0.1 %	7,542,822	(5.1) %
<b>TOTAL DEDUCTIONS</b>	<b>1,817,067,946</b>	<b>1,695,567,291</b>	<b>7.2 %</b>	<b>1,579,152,831</b>	<b>7.4 %</b>
<b>NET INCREASE</b>	<b>1,249,464,728</b>	<b>5,089,113,154</b>	<b>(75.4) %</b>	<b>2,204,969,375</b>	<b>130.8 %</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>					
<b>BEGINNING OF YEAR</b>	<b>33,663,308,244</b>	<b>28,574,195,090</b>	<b>17.8 %</b>	<b>26,369,225,715</b>	<b>8.4 %</b>
<b>END OF YEAR</b>	<b>\$ 34,912,772,972</b>	<b>\$ 33,663,308,244</b>	<b>3.7 %</b>	<b>\$ 28,574,195,090</b>	<b>17.8 %</b>

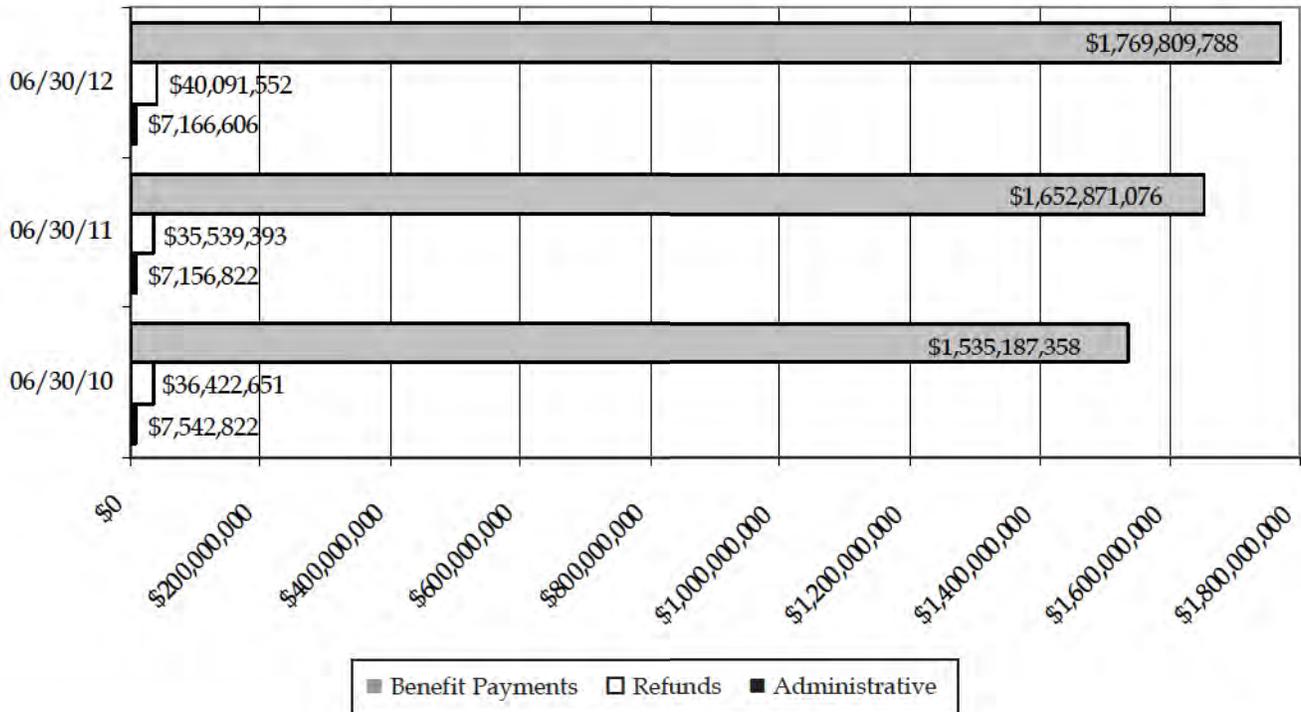
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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011 (CONTINUED)**

**REVENUES BY TYPE**



**EXPENSES BY TYPE**



(continued)

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2012 & JUNE 30, 2011 (CONTINUED)**

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### **ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK**

For the year ended June 30, 2012, the portfolio delivered a return of 5.61 percent; an exceptional result which beat 98 percent of comparable funds. The long duration fixed income portfolio was primarily responsible for the result.

The domestic equity portfolio generated 5.03 percent building on a 33.71 percent increase from the prior year. The S&P 1500 index reported a gain of 4.63 percent for the fiscal year ended June 30, 2012. The international stock portfolio lost 10.79 percent for the year following the gain of 33.01 percent for the year ended June 30, 2011. The international equity market, as represented by the EAFE IMI index, lost 13.97 percent for the fiscal year ended June 30, 2012. Domestic fixed income returned 15.63 percent which followed a return of 6 percent for the prior year. The real estate portfolio gained 10.01 percent for the 2012 fiscal year which followed a gain of 15.5 percent in fiscal year 2011.

The investment environment in the 2012 fiscal year was characterized by continued world-wide economic weakness which was countered somewhat by aggressive monetary stimulus provided by global central banks. Dramatic declines in interest rates led to sizeable returns from long duration fixed income portfolios. These strong returns were countered by weak global equity returns.

An actuarial valuation was performed as of July 1, 2011. The employer contribution rates determined in this valuation will be effective July 1, 2012. The required contributions to the plan increased primarily due to investment returns and mortality improvements.

In December 2010, TCRS contracted with Deloitte Consulting, LLC, to provide a new pension administration system to replace the retirement information system. The new pension administration system, referred to as Concord, will replace five separate operating systems with one integrated web-based system that will greatly improve the level of service we provide to our members and employers. The multi-year Concord project will be implemented in three major phases: document imaging, retired payroll, and active member. The first phase of Concord was implemented during fiscal year 2012. Software development costs have been capitalized and are being amortized over the useful life of the system as each phase is implemented.

### **CONTACTING THE TCRS**

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 502 Deaderick Street, Nashville, TN 37243-0201.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 2012 AND JUNE 30, 2011**

<i>Expressed in Thousands</i>	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSP)
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 348,330</u>	<u>\$ 78,297</u>
Receivables		
Member receivable	21,313	6,001
Employer receivable	56,430	23,364
Accrued interest receivable	79,795	17,936
Accrued dividends receivable	42,658	9,588
Real estate income receivable	680	153
Derivative instruments receivable	319,335	71,779
Investments sold	<u>410,516</u>	<u>92,275</u>
Total receivables	<u>930,727</u>	<u>221,096</u>
Investments, at fair value		
Short-term securities	16,152	3,630
Government securities	6,736,847	1,514,288
Corporate securities	4,627,801	1,040,222
Corporate stocks	15,374,082	3,455,739
Derivative instruments	531	119
Private equities	142,025	31,924
Real estate	<u>1,101,467</u>	<u>247,585</u>
Total investments	<u>27,998,905</u>	<u>6,293,507</u>
Capital assets (net)	<u>9,330</u>	<u>2,097</u>
<b>TOTAL ASSETS</b>	<u><b>29,287,292</b></u>	<u><b>6,594,997</b></u>
<b>LIABILITIES</b>		
Accounts payable		
Death benefits and refunds payable	1,475	1,537
Retiree insurance premium payable	5,678	1,276
Other	227	0
Investments purchased	467,947	105,184
Derivative instruments payable	308,316	69,303
Other investment payables	<u>7,000</u>	<u>1,573</u>
<b>TOTAL LIABILITIES</b>	<u><b>790,643</b></u>	<u><b>178,873</b></u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u><b>\$28,496,649</b></u>	<u><b>\$6,416,124</b></u>

See accompanying Notes to the Financial Statements.

(continued)

(CONTINUED)

June 30, 2012 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2011 Total
<u>\$ 426,627</u>	<u>\$ 340,115</u>	<u>\$ 74,019</u>	<u>\$ 414,134</u>
27,314	19,570	5,266	24,836
79,794	53,975	20,793	74,768
97,731	84,099	18,302	102,401
52,246	39,371	8,569	47,940
833	50	11	61
391,114	319,386	69,508	388,894
<u>502,791</u>	<u>732,599</u>	<u>159,437</u>	<u>892,036</u>
<u>1,151,823</u>	<u>1,249,050</u>	<u>281,886</u>	<u>1,530,936</u>
19,782	0	0	0
8,251,135	7,135,403	1,552,887	8,688,290
5,668,023	4,554,482	991,198	5,545,680
18,829,821	14,640,474	3,186,225	17,826,699
650	9	2	11
173,949	61,296	13,340	74,636
<u>1,349,052</u>	<u>891,538</u>	<u>194,026</u>	<u>1,085,564</u>
<u>34,292,412</u>	<u>27,283,202</u>	<u>5,937,678</u>	<u>33,220,880</u>
<u>11,427</u>	<u>1,558</u>	<u>339</u>	<u>1,897</u>
<u>35,882,289</u>	<u>28,873,925</u>	<u>6,293,922</u>	<u>35,167,847</u>
3,012	1,108	899	2,007
6,954	5,290	1,151	6,441
227	97	0	97
573,131	904,384	196,823	1,101,207
377,619	318,780	69,376	388,156
<u>8,573</u>	<u>5,446</u>	<u>1,185</u>	<u>6,631</u>
<u>969,516</u>	<u>1,235,105</u>	<u>269,434</u>	<u>1,504,539</u>
<u>\$34,912,773</u>	<u>\$27,638,820</u>	<u>\$6,024,488</u>	<u>\$33,663,308</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
STATEMENTS OF CHANGES IN PLAN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

*Expressed in Thousands*

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
<b>ADDITIONS</b>		
Contributions		
Member contributions	\$ 194,180	\$ 69,576
Employer contributions	<u>731,352</u>	<u>271,361</u>
Total contributions	<u>925,532</u>	<u>340,937</u>
Investment income		
Net appreciation in fair value of investments	675,639	149,728
Interest	414,344	91,816
Dividends	353,064	78,237
Real estate income, net of operating expenses	<u>56,987</u>	<u>12,628</u>
Total investment income	1,500,034	332,409
Less: Investment expense	<u>(26,384)</u>	<u>(5,995)</u>
Net investment income	<u>1,473,650</u>	<u>326,414</u>
<b>TOTAL ADDITIONS</b>	<u>2,399,182</u>	<u>667,351</u>
<b>DEDUCTIONS</b>		
Annuity benefits		
Retirement benefits	1,145,293	201,169
Survivor benefits	68,705	12,068
Disability benefits	28,840	5,066
Cost of living	266,674	35,790
Death benefits	4,515	1,689
Refunds	22,575	17,517
Administrative expense	<u>4,751</u>	<u>2,416</u>
<b>TOTAL DEDUCTIONS</b>	<u>1,541,353</u>	<u>275,715</u>
<b>NET INCREASE</b>	857,829	391,636
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
BEGINNING OF YEAR	<u>27,638,820</u>	<u>6,024,488</u>
END OF YEAR	<u>\$28,496,649</u>	<u>\$6,416,124</u>

*See accompanying Notes to the Financial Statements.*

*(continued)*

(CONTINUED)

For the Year Ended June 30, 2012 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2011 Total
\$ 263,756	\$ 192,467	\$ 67,920	\$ 260,387
<u>1,002,713</u>	<u>721,759</u>	<u>273,781</u>	<u>995,540</u>
<u>1,266,469</u>	<u>914,226</u>	<u>341,701</u>	<u>1,255,927</u>
825,367	3,785,947	811,706	4,597,653
506,160	462,425	99,143	561,568
431,301	277,650	59,528	337,178
69,615	53,168	11,399	64,567
<u>1,832,443</u>	<u>4,579,190</u>	<u>981,776</u>	<u>5,560,966</u>
(32,379)	(26,453)	(5,760)	(32,213)
<u>1,800,064</u>	<u>4,552,737</u>	<u>976,016</u>	<u>5,528,753</u>
<u>3,066,533</u>	<u>5,466,963</u>	<u>1,317,717</u>	<u>6,784,680</u>
1,346,462	1,062,838	185,700	1,248,538
80,773	64,950	11,348	76,298
33,906	27,360	4,780	32,140
302,464	256,137	34,259	290,396
6,204	4,054	1,444	5,498
40,092	18,957	16,583	35,540
7,167	3,525	3,632	7,157
<u>1,817,068</u>	<u>1,437,821</u>	<u>257,746</u>	<u>1,695,567</u>
1,249,465	4,029,142	1,059,971	5,089,113
<u>33,663,308</u>	<u>23,609,678</u>	<u>4,964,517</u>	<u>28,574,195</u>
<u>\$34,912,773</u>	<u>\$27,638,820</u>	<u>\$6,024,488</u>	<u>\$33,663,308</u>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011**

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The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents include cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.
5. **Capital Assets** - Capital assets consist of internally generated computer software in development and the first phase of internally generated computer software, which are reported at historical cost, less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Software in development at June 30, 2011 was valued at \$1,896,671 and at June 30, 2012 \$9,749,457. Software in development will be amortized using the straight line method over the ten year estimated life of the system once a phase is implemented. The first phase of the computer software was implemented during the fiscal year ended June 30, 2012 and amortization was initiated. The computer software was valued at zero at June 30, 2011 and \$1,677,480 at June 30, 2012. Amortization expense was zero in fiscal year 2011 and \$43,012 in fiscal year 2012.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

At July 1, 2011, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	<u>135,588</u>	<u>79,488</u>
Total	241,496	122,790
Number of participating employers	140	503

**State Employees, Teachers and Higher Education Employees Pension Plan**

*Plan Description* – SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; and (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

*Superseded Systems and Certain Employment Classifications* - Members of superseded systems who became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

*Contributions and Reserves* - Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.75 billion and \$24.75 billion, respectively. At June 30, 2011, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.7 billion and \$23.93 billion, respectively.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

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**Political Subdivisions Pension Plan**

*Plan Description* - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

*Contributions and Reserves* - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.15 billion and \$5.27 billion, respectively. At June 30, 2011, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.1 billion and \$4.92 billion, respectively.

**C. DEPOSITS AND INVESTMENTS**

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

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State statute also authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed ten percent (10 percent) of the market value of total assets. Gross exposure to approved fixed income financial instruments will be limited to 10% of the market value of the System's total assets for risk mitigating positions and 10% for risk positions. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2012 and June 30, 2011, the TCRS had the following investments:

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Investments**  
*(Expressed in Thousands)*

		2012														
Investment Type	Fair Value as of June 30, 2012	U.S. Treasury/Agency (1)	Credit Quality Ratings													
			AAA	AA	A	BBB	BB	B	CCC	CC	D	A1(3)	Not Rated			
<b>Debt Investments</b>																
U.S. Govt. Agencies	\$ 188,455		\$ 19,332	\$169,123												
U.S. Govt. Inflation Indexed	2,654,938	\$2,654,938														
U.S. Govt. Treasuries, Notes and Bonds	1,558,334	1,558,334														
U.S. Govt. Asset Backed Municipal Bonds	76,372	76,372			\$ 53,652											
Govt. Mortgage Backed	155,316		2,336	99,328												
Comm. Mortgage Backed	3,291,737	271,967	176,255	13,277												
Comm. Mortgage Backed Corporate CMO's	268,585		33,643	92,330												
Corporate Bonds	232,639		109,541	95,364	1,182,495	\$2,675,562	\$211,398	\$43,223	\$121,425	\$24,197	\$10,151					
Corporate Asset Backed	4,349,054		573,571	98,607	35,353	24,745	1,291	26,616	8,020	738						
Non-U.S. Govt./Sovereign	782,669		113,408	212,575												
Short-Term Comm. Paper	325,983															
Short-Term Bills and Notes	113,853															
Short-Term Bills and Notes	304,269															
<b>Total Debt Investments</b>	<b>\$14,302,204</b>	<b>\$4,561,611</b>	<b>\$1,028,086</b>	<b>\$780,604</b>	<b>\$1,271,500</b>	<b>\$2,700,307</b>	<b>\$212,689</b>	<b>\$69,839</b>	<b>\$129,445</b>	<b>\$24,935</b>	<b>\$10,151</b>	<b>\$113,853</b>	<b>\$3,006,493 (2)</b>			
<b>Other Investments</b>																
U.S. Equity	\$12,887,225															
Non-U.S. Equity	5,974,207															
Derivatives	650															
Real Estate	1,349,052															
Private Equities	173,949															
Money Market Funds (not rated)	4,375															
Escrow Claim	3,468															
<b>Total Other Investments</b>	<b>\$20,392,926</b>															
<b>Total Investments</b>	<b>\$34,695,130</b>															
<b>Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets</b>	<b>(402,718)</b>															
<b>Total Investments as Shown on Statements of Plan Net Assets</b>	<b>\$34,292,412</b>															

- (1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
- (2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
- (3) A1 is the highest rating category for commercial paper.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

**Investments**  
 (Expressed in Thousands)

<b>2011</b>															
Investment Type	Fair Value as of June 30, 2011	U.S. Treasury/ Agency (1)	Credit Quality Ratings												
			AAA	AA	A	BBB	BB	B	CCC	CC	D	A1(3)	Not Rated		
<b>Debt Investments</b>															
U.S. Govt. Agencies	\$ 311,472	\$ 102,034	\$ 16,960												\$ 28,047 (2)
U.S. Govt. Inflation Indexed	2,475,914	2,475,914													
U.S. Govt. Treasuries, Notes and Bonds	1,355,666	1,345,642													
U.S. Govt. Asset Backed Municipal Bonds	117,625	117,625													
Govt. Mortgage Backed	149,480		\$ 61,745												
Comm. Mortgage Backed	3,667,503	437,001	55,086												3,203,926 (2)
Corporate CMO's	381,608		64,905												
Corporate Bonds	313,391		10,043												3,875
Corporate Asset Backed	3,764,808		290,304												53,069
Non-U.S. Govt./Sovereign	1,015,712		123,431												1,637
Short-Term Comm. Paper	610,630		320,374												
<b>Total Debt Investments</b>	<b>\$14,551,873</b>	<b>\$4,478,216</b>	<b>\$871,060</b>	<b>\$1,259,629</b>	<b>\$2,008,936</b>	<b>\$170,936</b>	<b>\$97,247</b>	<b>\$165,745</b>	<b>\$16,730</b>	<b>\$10,077</b>	<b>\$388,064</b>	<b>\$3,290,554</b>			
<b>Other Investments</b>															
U.S. Equity	\$11,399,485														
Non-U.S. Equity	6,497,376														
Derivatives	11														
Real Estate	1,085,564														
Private Equities	74,636														
Money Market Funds (not-rated)	113,893														
<b>Total Other Investments</b>	<b>\$19,170,965</b>														
<b>Total Investments</b>	<b>\$33,722,838</b>														
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(501,958)														
<b>Total Investments as Shown on Statements of Plan Net Assets</b>	<b>\$33,220,880</b>														

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.  
 (2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.  
 (3) A1 is the highest rating category for commercial paper.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2012 and June 30, 2011 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury/>.

**Concentration of Credit Risk** - A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net assets, in organizations representing five percent or more of plan net assets, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization	June 30, 2012		June 30, 2011	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$1,932,517,086	5.54%	\$2,029,898,227	6.03%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Interest Rate Risk** – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2012 and June 30, 2011.

**Debt Investments**

*(Expressed in Thousands)*

Investment Type	Fair Value as of June 30, 2012	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 215,919	8.63
Government Bonds	1,856,853	12.08
Government Inflation Indexed	2,654,938	8.82
Government Mortgage Backed	3,291,737	1.38
Government Asset Backed	76,372	5.06
Municipal Bonds	155,316	10.97
Collateralized Mortgage Obligations (CMO)	232,639	3.40
Commercial Mortgage Backed	268,585	2.22
Corporate Asset Backed Securities	782,669	1.52
Corporate Bonds	4,349,054	6.91
Short-Term Commercial Paper	113,853	0.19
Short-Term Bills & Notes	304,269	0.13
<b>Total Debt Investments</b>	<b>\$ 14,302,204</b>	<b>6.09</b>

Investment Type	Fair Value as of June 30, 2011	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 397,214	5.50
Government Bonds	1,870,530	9.25
Government Inflation Indexed	2,475,914	3.80
Government Mortgage Backed	3,667,503	2.89
Government Asset Backed	117,625	6.31
Municipal Bonds	149,480	10.56
Collateralized Mortgage Obligations (CMO)	313,391	3.82
Commercial Mortgage Backed	381,608	2.21
Corporate Asset Backed Securities	1,015,712	0.71
Corporate Bonds	3,764,808	6.83
Guaranteed Fixed Income	10,024	0.25
Short-Term Commercial Paper	388,064	0.01
<b>Total Debt Investments</b>	<b>\$ 14,551,873</b>	<b>4.83</b>

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Asset-Backed Securities** - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2012 was \$501,224,120 of which \$341,027,671 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2011 was \$694,999,254 of which \$427,338,919 were CMOs that are generally more sensitive to interest rate changes.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2012 and June 30, 2011 was as follows:

**Foreign Currency-Denominated Investments**  
*(Expressed in Thousands)*

Currency	Total Fair Value June 30, 2012	Fixed Income	Equity	Cash
Australian Dollar	\$ 285,935	\$ 0	\$ 285,556	\$ 379
British Pound Sterling	945,058	36,073	908,427	558
Canadian Dollar	1,543,638	8,430	1,535,028	180
Danish Krone	76,389	0	76,373	16
Euro Currency	1,066,157	63,906	968,412	33,839
Hong Kong Dollar	106,932	0	106,775	157
Japanese Yen	1,145,912	212,575	927,031	6,306
New Israeli Shekel	14,916	0	14,819	97
New Zealand Dollar	6,410	0	6,337	73
Norwegian Krone	46,034	13,429	32,603	2
Singapore Dollar	67,835	0	67,753	82
Swedish Krona	93,496	0	93,286	210
Swiss Franc	318,426	0	317,464	962
<b>Total</b>	<b>\$ 5,717,138</b>	<b>\$ 334,413</b>	<b>\$ 5,339,864</b>	<b>\$ 42,861</b>

Currency	Total Fair Value June 30, 2011	Fixed Income	Equity	Cash
Australian Dollar	\$ 284,181	\$ 0	\$ 284,011	\$ 170
British Pound Sterling	1,042,358	67,057	975,026	275
Canadian Dollar	1,831,495	112,936	1,717,840	719
Danish Krone	69,323	0	69,163	160
Euro Currency	1,397,786	99,868	1,287,817	10,101
Hong Kong Dollar	134,900	0	134,886	14
Japanese Yen	1,308,285	320,374	984,129	3,782
New Israeli Shekel	11,348	0	11,348	0
New Zealand Dollar	4,964	0	4,945	19
Norwegian Krone	89,807	23,985	65,639	183
Singapore Dollar	76,919	0	76,899	20
Swedish Krona	111,190	0	110,983	207
Swiss Franc	321,680	0	321,112	568
<b>Total</b>	<b>\$ 6,684,236</b>	<b>\$ 624,220</b>	<b>\$ 6,043,798</b>	<b>\$ 16,218</b>

*(continued)*

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

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**Custodial Credit Risk** – Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2012 and June 30, 2011, the TCRS had uninsured and uncollateralized cash deposits of \$42,861,324 and \$16,218,307, respectively in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

**Derivatives** – The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on futures hedge losses (gains) produced by any deviation from the TCRS' target allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. At year end, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Foreign currency forward contracts expose the TCRS to foreign currency risk as they are denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included in investment income in the financial statements. At year end, the TCRS was under contract for options and the resulting payable is reflected in the financial statements at fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012 and June 30, 2011, classified by type, and the changes in fair value of derivative instrument types for the year ended as reported in the financial statements are as follows:

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*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**Derivative Summary**  
*(Expressed in Thousands)*

	Changes in Fair Value		Fair Value at June 30, 2012			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (360)		\$ (360)	11,210	AUD
		(248)		(248)	18,710	EUR
		120		120	1,489,342	JPY
	Investment		Derivative Instruments			
	Income	<u>\$ (488)</u>	Payable	<u>\$ (488)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ (5,479)	Payable	\$ (2,393)	\$1,520,747	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (9)	Derivative Instruments	\$ 2	\$ 2	
TBA Mortgage	Investment		Derivative Instruments			
Backed Securities	Income	\$ 648	Derivative Instruments	\$ 648	\$ 324,377	

	Changes in Fair Value		Fair Value at June 30, 2011			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (121)		\$ (121)	4,450	AUD
		(1,304)		(1,304)	65,000	CAD
		(953)		(953)	37,260	EUR
	Investment		Derivative Instruments			
	Income	<u>\$ (2,378)</u>	Payable	<u>\$ (2,378)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ 123,632	Receivable	\$ 3,883	\$1,585,441	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (17)	Derivative Instruments	\$ 11	\$ 11	
TBA Mortgage	Investment		Derivative Instruments			
Backed Securities	Income	\$ (767)	Payable	\$ (767)	\$ 260,632	

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures, Options and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TCRS policy to conduct derivative transactions through the custodian bank and high quality money center banks or brokerage firms. The credit risk of foreign currency forward contracts is managed by limiting the term of the forward contracts and restricting the trading to high quality banks. The credit risk of futures contracts is managed by maintaining a daily variation margin.

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

**D. COMMITMENTS**

**Standby Commercial Paper Purchase Agreement** - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 37 basis points on the \$350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 75 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 100 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

**Pending Real Estate Items** - At June 30, 2012 the TCRS had unfunded commitments of \$113,088,500 for pending real estate purchases. Subsequent to that time, the TCRS decided to not close on \$74,588,500 of the June 30, 2012 commitment amount. At June 30, 2011 the TCRS did not have any commitments for pending real estate purchases.

**Alternative Investments** - The TCRS had unfunded commitments of \$581.3 million and \$324.1 million in limited partnerships as of June 30, 2012 and June 30, 2011, respectively.

**E. FUNDED STATUS AND FUNDING PROGRESS**

The funded status of each plan as of July 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

<b>SCHEDULES OF FUNDING PROGRESS</b>						
<i>(Expressed in Thousands)</i>						
	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>SETHEEPP</b>	\$ 30,118,179	\$ 32,707,625	\$ 2,589,446	92.08%	\$ 6,058,348	42.74%
<b>PSPP</b>	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2011, the TCRS reestablished unfunded accrued liabilities for all groups.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)**

Additional information as of the latest actuarial valuation follows:

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2011	July 1, 2011
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	Teachers - 6 years; State - 9 years; closed period	9 years weighted average; (1) closed period
Asset valuation method	5-year moving market average for FYE on or before June 30, 2007	5-year moving market average for FYE on or before June 30, 2007
	10-year moving market average for FYE after June 30, 2007	10-year moving market average for FYE after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%
<p>(1) An actuarial valuation is performed on each political subdivision participating in the Political Subdivision Pension Plan. Each political subdivision selects the period over which their unfunded accrued liability is amortized, not to exceed 30 years. The weighted average amortization period for all plans is presented above.</p> <p>(2) Uniform rate that approximates the effect of a graded salary scale.</p>		

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

**SCHEDULES OF FUNDING PROGRESS***Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>SETHEEPP</b>	7/1/2011	\$ 30,118,178	\$ 32,707,625	\$ 2,589,447	92.08%	\$ 6,058,348	42.74%
	7/1/2009	\$ 26,335,199	\$ 29,054,966	\$ 2,719,767	90.64%	\$ 6,054,528	44.92%
	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
<b>PSPP</b>	7/1/2011	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%
	7/1/2009	\$ 5,304,455	\$ 6,143,775	\$ 839,320	86.34%	\$ 2,282,082	36.78%
	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%

The schedule of funding progress is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**SCHEDULES OF EMPLOYER CONTRIBUTIONS***Expressed in Thousands*

Year Ended June 30	SETHEEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2012	\$ 731,352	100.00%	\$ 271,361	100.00%
2011	721,759	100.00%	273,781	100.00%
2010	578,403	100.00%	258,324	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%
2007	562,729	100.00%	231,699	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2013.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$1,268,733	\$ 645,579	\$1,914,312
Employee benefits	569,476	289,771	859,247
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,838,209</u>	<u>935,350</u>	<u>2,773,559</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	132,533	67,438	199,971
Actuarial services	245,182	124,757	369,939
Data processing	398,573	202,809	601,382
Information systems	754,408	383,871	1,138,279
Management services	142,742	72,632	215,374
Medical review	21,527	10,953	32,480
Administrative, Internal Audit, Legal, Personnel	542,493	276,041	818,534
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>2,237,458</u>	<u>1,138,501</u>	<u>3,375,959</u>
<b>COMMUNICATION</b>			
Travel	19,275	9,808	29,083
Telephone	169,361	86,177	255,538
Printing	44,567	22,677	67,244
Postage	199,253	101,387	300,640
<b>TOTAL COMMUNICATION</b>	<u>432,456</u>	<u>220,049</u>	<u>652,505</u>
<b>MISCELLANEOUS</b>			
Office space	112,219	57,101	169,320
Supplies and maintenance	79,838	40,625	120,463
Amortization of intangible assets	28,507	14,505	43,012
Other services and charges	21,068	10,720	31,788
<b>TOTAL MISCELLANEOUS</b>	<u>241,632</u>	<u>122,951</u>	<u>364,583</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$4,749,755</u>	<u>\$2,416,851</u>	<u>\$7,166,606</u>

With 210,493 active members and 122,499 retired members, the operating cost per member was \$21.52 for the year ended June 30, 2012.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
SCHEDULES OF ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2011**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 972,927	\$1,002,548	\$1,975,475
Employee benefits	424,007	436,916	860,923
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,396,934</u>	<u>1,439,464</u>	<u>2,836,398</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	95,288	98,189	193,477
Actuarial services	72,866	75,084	147,950
Data processing	217,290	223,906	441,196
Information systems	608,262	626,780	1,235,042
Management services	152,370	157,009	309,379
Medical review	20,232	20,848	41,080
Administrative, Internal Audit, Legal, Personnel	475,358	489,830	965,188
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>1,641,666</u>	<u>1,691,646</u>	<u>3,333,312</u>
<b>COMMUNICATION</b>			
Travel	14,205	14,638	28,843
Telephone	182,666	188,227	370,893
Printing	34,870	35,932	70,802
Postage	132,736	136,778	269,514
<b>TOTAL COMMUNICATION</b>	<u>364,477</u>	<u>375,575</u>	<u>740,052</u>
<b>MISCELLANEOUS</b>			
Office space	80,065	82,502	162,567
Supplies and maintenance	8,671	8,934	17,605
Amortization of intangible assets	0	0	0
Other services and charges	32,943	33,945	66,888
<b>TOTAL MISCELLANEOUS</b>	<u>121,679</u>	<u>125,381</u>	<u>247,060</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$3,524,756</u>	<u>\$3,632,066</u>	<u>\$7,156,822</u>

With 219,914 active members and 117,185 retired members, the operating cost per member was \$21.23 for the year ended June 30, 2011.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF INVESTMENT EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 2,595,471	\$ 589,698	\$ 3,185,169
Employee benefits	807,895	183,557	991,452
<b>TOTAL PERSONNEL SERVICES</b>	<u>3,403,366</u>	<u>773,255</u>	<u>4,176,621</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	277,649	63,083	340,732
Legal services	240,065	54,543	294,608
Data processing	264,630	60,125	324,755
Information systems	326,329	74,143	400,472
Management services	45,778	10,401	56,179
External investment manager fees	14,012,502	3,183,689	17,196,191
Investment consulting fees	1,539,330	349,741	1,889,071
Investment custodian fees	315,678	71,723	387,401
Real estate manager fees	5,131,060	1,165,795	6,296,855
Administrative, Internal Audit, Personnel	480,611	109,197	589,808
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>22,633,632</u>	<u>5,142,440</u>	<u>27,776,072</u>
<b>COMMUNICATION</b>			
Travel	89,396	20,311	109,707
Telephone	27,285	6,199	33,484
Printing	2,736	622	3,358
Postage	1,003	228	1,231
<b>TOTAL COMMUNICATION</b>	<u>120,420</u>	<u>27,360</u>	<u>147,780</u>
<b>MISCELLANEOUS</b>			
Office space	65,048	14,779	79,827
Supplies and maintenance	7,285	1,655	8,940
Other services and charges	154,921	35,199	190,120
<b>TOTAL MISCELLANEOUS</b>	<u>227,254</u>	<u>51,633</u>	<u>278,887</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$ 26,384,672</u>	<u>\$ 5,994,688</u>	<u>\$ 32,379,360</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF INVESTMENT EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 2,087,080	\$ 454,451	\$ 2,541,531
Employee benefits	650,368	141,614	791,982
<b>TOTAL PERSONNEL SERVICES</b>	<u>2,737,448</u>	<u>596,065</u>	<u>3,333,513</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	269,359	58,652	328,011
Legal services	190,830	41,552	232,382
Data processing	246,506	53,676	300,182
Information systems	314,934	68,575	383,509
Management services	46,801	10,191	56,992
External investment manager fees	14,809,193	3,224,630	18,033,823
Investment consulting fees	1,439,351	313,412	1,752,763
Investment custodian fees	237,868	51,794	289,662
Real estate manager fees	5,462,457	1,189,423	6,651,880
Administrative, Internal Audit, Personnel	458,282	99,789	558,071
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>23,475,581</u>	<u>5,111,694</u>	<u>28,587,275</u>
<b>COMMUNICATION</b>			
Travel	40,742	8,871	49,613
Telephone	30,012	6,535	36,547
Printing	2,970	647	3,617
Postage	871	190	1,061
<b>TOTAL COMMUNICATION</b>	<u>74,595</u>	<u>16,243</u>	<u>90,838</u>
<b>MISCELLANEOUS</b>			
Office space	55,025	11,981	67,006
Supplies and maintenance	7,211	1,570	8,781
Other services and charges	103,330	22,500	125,830
<b>TOTAL MISCELLANEOUS</b>	<u>165,566</u>	<u>36,051</u>	<u>201,617</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$ 26,453,190</u>	<u>\$ 5,760,053</u>	<u>\$ 32,213,243</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
SCHEDULES OF EXPENSES FOR CONSULTANTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

**FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 245,182	\$ 124,757	\$ 369,939
<b>TOTAL ACTUARIAL SERVICES</b>	<u>245,182</u>	<u>124,757</u>	<u>369,939</u>
<b>MEDICAL REVIEW SERVICES</b>			
Suzanne Fletcher, M.D.	8,855	4,505	13,360
Thomas Mullady, M.D.	1,802	918	2,720
Barry Siegel, M.D.	9,120	4,640	13,760
Lee Carl Whitaker, M.D.	1,750	890	2,640
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>21,527</u>	<u>10,953</u>	<u>32,480</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<u>\$ 266,709</u>	<u>\$ 135,710</u>	<u>\$ 402,419</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

**FOR THE YEAR ENDED JUNE 30, 2011**

	SETHEEPP	PSPP	TOTAL
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 72,866	\$ 75,084	\$ 147,950
<b>TOTAL ACTUARIAL SERVICES</b>	<u>72,866</u>	<u>75,084</u>	<u>147,950</u>
<b>MEDICAL REVIEW SERVICES</b>			
Suzanne Fletcher, M.D.	8,176	8,424	16,600
Barry Siegel, M.D.	6,540	6,740	13,280
Lee Carl Whitaker, M.D.	5,516	5,684	11,200
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>20,232</u>	<u>20,848</u>	<u>41,080</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<u>\$ 93,098</u>	<u>\$ 95,932</u>	<u>\$ 189,030</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.



# INVESTMENT SECTION

*NATCHEZ TRACE PARK*  
*BY MARY GRIFFIN*  
*OASI*

## REPORT BY INVESTMENT CONSULTANT

## STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000  
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

November 26, 2012

Ms. Jill Bachus  
Director  
Tennessee Consolidated Retirement System  
Andrew Jackson Building  
Nashville, TN 37243 0230

Dear Jill:

For the year ended June 30, 2012, global equity markets were weak, but were offset by strong fixed income returns. The 5.61% one-year gain by TCRS outperformed its policy index by 32 basis points. Within the U.S., growth strategies led value significantly and large-cap stocks outperformed small- and mid-cap stocks as investors favored higher-growth technology companies and stable dividend-paying stocks. Contrary to fiscal year 2011, international equities were down sharply due to concerns about slower economic growth in Europe and in certain emerging markets; a stronger U.S. dollar added to this weakness. Bond results were positive across the board due to lower interest rates, with Treasuries, inflation-indexed bonds and long-duration strategies leading. Real estate markets fared well as they continue to bounce back from the depths of 2009-10.

As of June 30, 2012, the System's asset allocation and one-year respective returns were:

Asset Class	Percentage of Assets	One Year Return
Domestic Equity	42.4 %	5.03 %
International Equity	13.6 %	(10.79) %
Domestic Fixed Income	29.2 %	15.63 %
International Fixed Income	1.0 %	4.18 %
Inflation-Indexed Fixed Income	7.8 %	12.22 %
Real Estate	3.9 %	10.01 %
Private Equity	0.5 %	7.22 %
Cash and Cash Equivalents	1.7 %	0.86 %
<b>Total</b>	<b>100.0 %</b>	<b>5.61 %</b>

At fiscal year-end, TCRS ranked above the median large public plan (State Street's Public Plan Sponsors > \$100 million) over the trailing one, three, five and ten years. This performance was attributable to the plan's exposure to core and inflation-linked bonds and strong relative performance within international equities and U.S. fixed income. Note that the overall asset allocation is geared not to maximize absolute returns, but to meet the System's liabilities while minimizing the risk of loss.

Over the next five years, SIS foresees continued modest equity and fixed income returns due to financial de-leveraging and slow economic growth in Europe and some developing economies. Bond yields are likely to remain low by historical standards, with credit spreads narrowing. Commercial and residential real estate will likely experience a slow recovery.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large institutional investors.

Best regards,



Pete Keliuotis, CFA

**LETTER FROM TCRS CHIEF INVESTMENT OFFICER**

STATE OF TENNESSEE

DAVID H. LILLARD, JR.  
STATE TREASURERJANICE CUNNINGHAM  
CHIEF OF STAFFMICHAEL BRAKEBILL  
CHIEF INVESTMENT OFFICER**TREASURY DEPARTMENT**  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225JILL BACHUS  
DIRECTOR OF TCRS

October 26, 2012

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

With over \$34.8 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment performance for TCRS was computed using a market, time-weighted rate of return.

The 2012 fiscal year was challenging for all investors and the TCRS portfolio experienced a modest gain of 5.6%. This return was one of the best results of any comparable pension plan. Both short and longer-term results are a function of a risk-averse investment program which preserves capital in difficult environments.

The experienced investment staff of TCRS is committed to providing superior investment returns in a financially-sound manner with the highest ethical and professional standards. With the leadership of our Board, our Treasurer and the work of our dedicated staff, this goal will be met.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael Brakebill".

Michael Brakebill  
Chief Investment Officer

## STATUTORY INVESTMENT AUTHORITY

## STATUTORY INVESTMENT AUTHORITY

The investment authority of TCRS is prescribed in the *Tennessee Code Annotated*, Title 8, Chapter 37. This chapter provides that, with certain enumerated exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies as set forth in *T.C.A.*, Section 56, Chapter 3. The Board of Trustees of TCRS adopts investment policy relative to the investment of TCRS assets. The investment objective is to obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay beneficiaries in a timely manner. A summary of statutory and policy provisions follow.

## DOMESTIC STOCKS

- ❖ No more than 50% of the TCRS portfolio may be invested in domestic common stock, preferred stock and convertible bonds.
- ❖ No more than 4.99% of the outstanding shares of any one company may be purchased.

## DOMESTIC FIXED INCOME

- ❖ No more than 75% of the TCRS portfolio may be invested in fixed income securities exceeding one year.
- ❖ Only issues that are investment grade securities (four highest ratings) may be purchased.
- ❖ Private placements are limited to 15% of the domestic fixed income portfolio. Private placements may be purchased if staff evaluation determines that the credit quality is equivalent to double A.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.

## INTERNATIONAL

- ❖ Combined International equity and fixed income investments are limited to 25% of the TCRS portfolio.

## INTERNATIONAL EQUITY

- ❖ No more than 25% of the TCRS portfolio may be invested in international equity securities.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.
- ❖ The countries in the Morgan Stanley Capital International EAFE IMI index have been approved by the Board for international investing.

## INTERNATIONAL FIXED INCOME

- ❖ No more than 10% of TCRS portfolio may be invested in international fixed income securities.
- ❖ Investments are limited to countries in the Morgan Stanley Capital International EAFE IMI index.

## SHORT-TERM SECURITIES

- ❖ Commercial paper should be rated A1 or P1.

## STOCK OPTIONS AND BOND FUTURES

- ❖ Limited to 10% of the portfolio.
- ❖ Only covered call options may be written.

## DOMESTIC STOCK INDEX FUTURES

- ❖ Contracts shall not exceed 5% of the TCRS portfolio.
- ❖ Shall only be used for asset allocation purposes and not for speculative leveraging. The system's cash and short-term securities must exceed the amount of the contract obligation.

## SECURITIES LENDING

- ❖ May not lend more than 30% of the portfolio.
- ❖ Collateral, other than cash, must have a market value of 102% of the security loaned.

## STANDBY NOTE PURCHASE AGREEMENT

- ❖ TCRS may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority.

## FOREIGN CURRENCY HEDGING

- ❖ May not exceed 80% of the international securities.

## REAL ESTATE

- ❖ No more than 10% of the TCRS portfolio may be invested in real estate.

## PRIVATE EQUITY

- ❖ No more than 5% of the TCRS portfolio may be invested in private equity.

## PROXY VOTING

- ❖ Shall vote proxies in a manner which will provide the best ultimate value to shareholders.

**INVESTMENT PERFORMANCE REVIEW**

**INVESTMENT PERFORMANCE REVIEW**

*Periods Ending June 30, 2012*

	<b>Annualized Returns</b>		
	<b>Current Year</b>	<b>3-Year</b>	<b>5-Year</b>
<b>Pension Plan Portfolio</b>			
TCRS Performance	5.61 %	11.66 %	3.11 %
Policy Index	5.29 %	11.75 %	3.51 %
Asset Allocated Index	4.93 %	11.40 %	
<b>Domestic Equity</b>			
TCRS Performance	5.03 %	16.89 %	0.50 %
Benchmark	4.63 %	16.76 %	0.46 %
<b>Canadian Equity</b>			
TCRS Performance	(15.09)%		
Benchmark	(15.34)%		
<b>Domestic Fixed Income</b>			
TCRS Performance	15.63 %	11.76 %	8.59 %
Benchmark	15.59 %	9.44 %	8.62 %
<b>Inflation Hedged Bonds</b>			
Benchmark	12.22 %	9.39 %	8.69 %
	12.36 %	9.98 %	8.61 %
<b>International Equity</b>			
TCRS Performance	(10.79)%	9.06 %	(3.37)%
Benchmark	(13.97)%	6.33 %	(5.73)%
<b>International Fixed Income</b>			
TCRS Performance	4.18 %	7.36 %	9.30 %
Benchmark	3.26 %	7.07 %	9.19 %
<b>Real Estate</b>			
TCRS Performance	10.01 %	2.06 %	1.32 %
Benchmark	13.41 %	5.96 %	2.88 %
<b>Short-Term Securities</b>			
TCRS Performance	0.86 %	1.77 %	2.22 %
<b>Private Equity</b>			
TCRS Performance	7.22 %		
Benchmark	11.54 %		

	<b>Strategic Investment Solutions</b>	
	<b>Percentile Rankings</b>	<b>Risk Adjusted Basis</b>
<b>Ranking of TCRS Portfolio</b>		
Last three years	51	7
Last five years	7	4

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with 1 being the best and 100 being the worst. The investment performance for TCRS was computed using a market, time weighted rate of return by an independent investment consultant.

## ASSET ALLOCATION

## ASSET ALLOCATION

*as of June 30, 2012**Expressed in Thousands*

Asset Class	Fair Value	Percentage
Domestic Equity	\$12,767,239	36%
Domestic Fixed Income	13,888,092	40%
International Equity	6,063,236	17%
International Fixed Income	354,794	1%
Short-Term Securities	422,499	1%
Real Estate	1,349,052	4%
Private Equities	173,949	1%
Totals	<u>\$35,018,861</u>	<u>100%</u>

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes, convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

**LARGEST HOLDINGS**  
**JUNE 30, 2012**

**LARGEST STOCK HOLDINGS**

*as of June 30, 2012*

*by Fair Value*

Shares	Security Name	Fair Value
945,500	Apple Inc Com Stk	\$ 552,172,000
4,575,723	Exxon Mobil Corp Com	391,544,617
9,173,500	Microsoft Corp Com	280,617,365
2,468,230	Chevron Corp Com	260,398,265
1,283,800	International Business Machs Corp Com	251,085,604
10,298,900	General Electric Co	214,629,076
5,767,273	Wells Fargo & Co New Com Stk	192,857,609
2,188,500	Philip Morris Intl Com Stk Npv	190,968,510
311,900	Google Inc Cl A	180,923,833
4,947,945	AT&T Inc Com	176,443,719

**LARGEST BOND HOLDINGS**

*as of June 30, 2012*

*by Fair Value*

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 181,900,000	United States Treasury Index Linked Note	2.00%	01/15/16	Aaa	\$ 233,258,861
139,470,000	United States Treasury Index Linked Bond	2.00%	01/15/26	Aaa	206,291,314
165,000,000	GNMA Pool #000000	4.00%	07/15/39	NR	180,185,115
101,800,000	United States Treasury Infl Index Bond	2.38%	01/15/25	Aaa	163,612,580
139,500,000	United States Treasury Note	2.63%	11/15/20	Aaa	153,330,170
72,550,000	United States Treasury Infl Index Bond	3.38%	04/15/32	Aaa	151,466,954
139,432,000	United States Treasury Note	2.00%	02/15/22	Aaa	144,126,954
110,250,000	United States Treasury Index Linked Note	2.36%	01/15/14	Aaa	142,512,313
126,300,000	United States Treasury Note	3.40%	04/15/16	Aaa	137,004,180
101,100,000	United States Treasury Index Linked Note	2.38%	01/15/17	Aaa	133,091,934

*A complete portfolio listing is available upon request.*

**Key to Ratings:** All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se, but are considered the best quality securities.

Moody's rates securities as follows:

- Aaa: Best Quality
- Aa: High Quality
- A: Upper Medium Quality
- Baa: Medium Quality
- NR: Not Rated

## INVESTMENT SUMMARY

## INVESTMENT SUMMARY

as of June 30, 2012

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
<b>Fixed Income</b>						
Government Bonds	\$ 4,208,225,849	12.13%	\$ 303,564,126	0.87%	\$ 4,511,789,975	13.00%
Corporate Bonds	4,349,054,547	12.54%	0	0.00%	4,349,054,547	12.54%
Municipal/ Provincial Bonds	155,316,416	0.45%	0	0.00%	155,316,416	0.45%
<b>Total Bonds</b>	<b>8,712,596,812</b>	<b>25.11%</b>	<b>303,564,126</b>	<b>0.87%</b>	<b>9,016,160,938</b>	<b>25.99%</b>
Lehman Brothers Escrow Adjustment	3,468,750	0.01%	0	0.00%	3,468,750	0.01%
Asset Backed	844,633,112	2.43%	0	0.00%	844,633,112	2.43%
Commercial Mortgage Backed	268,585,214	0.77%	0	0.00%	268,585,214	0.77%
Government Agencies	193,484,038	0.56%	27,463,671	0.08%	220,947,709	0.64%
Government Mortgage Backed Securites	3,287,839,874	9.48%	0	0.00%	3,287,839,874	9.48%
Non-Government CMOs	232,638,906	0.67%	0	0.00%	232,638,906	0.67%
Govt Issued Commercial Mortgaged Backed	13,277,315	0.04%	0	0.00%	13,277,315	0.04%
Preferred Stock	7,190,642	0.02%	23,766,572	0.07%	30,957,214	0.09%
<b>Total Fixed Income</b>	<b>13,563,714,663</b>	<b>39.09%</b>	<b>354,794,369</b>	<b>1.02%</b>	<b>13,918,509,032</b>	<b>40.12%</b>
<b>Common Stock</b>						
Consumer Discretionary	1,453,348,832	4.19%	582,429,727	1.68%	2,035,778,559	5.87%
Consumer Staples	1,363,735,236	3.93%	491,425,766	1.42%	1,855,161,002	5.35%
Energy	1,326,800,764	3.82%	624,083,758	1.80%	1,950,884,522	5.62%
Financials	1,887,542,369	5.44%	1,211,273,300	3.49%	3,098,815,669	8.93%
Healthcare	1,534,264,694	4.42%	468,268,261	1.35%	2,002,532,955	5.77%
Industrials	1,367,007,010	3.94%	709,973,852	2.05%	2,076,980,862	5.99%
Information Technology	2,492,190,507	7.18%	276,444,309	0.80%	2,768,634,816	7.98%
Materials	449,822,162	1.30%	650,919,795	1.88%	1,100,741,957	3.17%
Telecommunication Services	384,446,131	1.11%	219,762,250	0.63%	604,208,381	1.74%
Utilities	472,311,769	1.36%	111,043,077	0.32%	583,354,846	1.68%
Misc/ Unclassified	0	0.00%	700,857,635	2.02%	700,857,635	2.02%
Equity Exchange Traded Fund	35,769,400	0.10%	0	0.00%	35,769,400	0.10%
Stapled Securities	0	0.00%	16,750,877	0.05%	16,750,877	0.05%
<b>Total Common Stock</b>	<b>12,767,238,874</b>	<b>36.80%</b>	<b>6,063,232,607</b>	<b>17.48%</b>	<b>18,830,471,481</b>	<b>54.28%</b>
<b>Short-Term Investments</b>						
Commercial Paper	113,853,437	0.33%	0	0.00%	113,853,437	0.33%
Pooled Funds and Mutual Funds	4,375,370	0.01%	0	0.00%	4,375,370	0.01%
Short-Term Bills and Notes	304,268,715	0.88%	0	0.00%	304,268,715	0.88%
<b>Total Short-Term Investments</b>	<b>422,497,522</b>	<b>1.22%</b>	<b>0</b>	<b>0.00%</b>	<b>422,497,522</b>	<b>1.22%</b>
Real Estate	1,349,052,197	3.89%	0	0.00%	1,349,052,197	3.89%
Private Equities	173,948,681	0.50%	0	0.00%	173,948,681	0.50%
<b>Total Investments</b>	<b>28,276,451,937</b>	<b>81.50%</b>	<b>6,418,026,976</b>	<b>18.50%</b>	<b>34,694,478,913</b>	<b>100.00%</b>
Derivatives and Options	650,255		0		650,255	
Short Term Investments Classified as Cash Equivalents	(402,717,632)		0		(402,717,632)	
<b>Total Investments as Shown on the Statement of Plan Net Assets</b>	<b>\$ 27,874,384,560</b>		<b>\$ 6,418,026,976</b>		<b>\$ 34,292,411,536</b>	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS  
FOR THE YEAR ENDED JUNE 30, 2012**

**SCHEDULES OF FEES**

	Average Assets Under Management	Fees
<b>Asset Management</b>		
International Investment Manager Fees	4.1 Billion	\$17,196,191
Real Estate Asset Management	1.3 Billion	6,296,855
Private Equities Asset Management	173.9 Million	0
Total Asset Management		<u>\$23,493,046</u>
<b>Other Investment Services Fees</b>		
Custodian Bank	34.8 Billion	\$ 396,000
General Investment Consultant	34.8 Billion	300,000
Real Estate Investment Consultant	1.3 Billion	125,000
Private Equities Investment Consultant	173.9 Million	1,506,000
Total Investment Services Fees		<u>\$ 2,327,000</u>

**SCHEDULES OF COMMISSIONS**

*Domestic Exchange Traded Shares*

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	26,514,408	\$ 1,059,807	0.0400
JP Morgan Chase & Company	30,932,626	618,002	0.0200
Cowen & Company, LLC	29,085,827	581,717	0.0200
Bank of America Merrill Lynch	27,974,206	560,284	0.0200
Barclays Capital	27,579,029	551,581	0.0200
Deutsche Bank Securities, Inc.	23,763,490	475,270	0.0200
Citigroup Global Markets, Inc.	22,117,865	442,357	0.0200
RBC Capital Markets Corporation	17,099,387	341,988	0.0200
Morgan Stanley & Company, Inc.	16,994,250	339,885	0.0200
Sanford C. Bernstein & Company, Inc.	16,657,805	333,156	0.0200
UBS Securities LLC	11,631,908	232,638	0.0200
B.O.E. Securities, Inc.	7,160,188	214,806	0.0300
M.R. Beal & Company	6,821,307	204,639	0.0300
Instinet, LLC	12,023,012	192,832	0.0160
Morgan Keegan & Company, Inc.	9,481,983	189,640	0.0200
Avondale Partners	7,148,032	142,961	0.0200
SunTrust Robinson Humphrey	6,128,407	122,568	0.0200
Sturdivant & Company, Inc.	3,554,800	106,188	0.0299
Other Brokers*	87,568,387	1,119,761	0.0128
<b>Totals</b>	<u>390,236,917</u>	<u>\$ 7,830,079</u>	

(continued)

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS  
FOR THE YEAR ENDED JUNE 30, 2012 (CONTINUED)**

*Program Trades where total commission cost includes trading commission, liquidity fees and market impact fees.*

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	107,132,979	\$ 1,140,393	0.0106
Barclays Capital	78,089,303	630,805	0.0081
Credit Suisse	59,191,341	581,171	0.0098
BNY ESI & Company	48,483,235	486,715	0.0100
Cowen & Company, LLC	58,560,089	468,867	0.0080
Sandford C. Bernstein & Company, Inc.	59,398,051	468,755	0.0079
DMG Securities, Inc.	45,568,000	365,256	0.0080
RBC Capital Markets Corporation	34,684,655	308,905	0.0089
Morgan Stanley & Company, Inc.	36,928,488	307,212	0.0083
JP Morgan Chase & Company	35,274,242	301,468	0.0085
UBS Securities LLC	41,581,720	276,272	0.0066
Lazard Ltd.	34,046,710	261,248	0.0077
Citigroup Global Markets, Inc.	16,760,734	171,727	0.0102
OTHER BROKERS*	7,105,586	59,106	0.0083
<b>Totals</b>	<b>662,805,133</b>	<b>\$ 5,827,901</b>	

*International Exchange Traded Shares*

Broker Name	INTERNATIONAL		
	Number of Shares Traded	Total Commissions	Commission Per Share
Credit Suisse	43,124,424	\$ 425,223	0.0099
UBS Securities LLC	59,063,903	400,805	0.0068
Barclays Capital	63,527,325	391,363	0.0062
JP Morgan Chase & Company	47,447,302	378,460	0.0080
Morgan Stanley & Company, Inc.	45,683,154	356,626	0.0078
Citigroup Global Markets, Inc.	33,290,993	337,506	0.0101
Bank of America Merrill Lynch	42,681,573	333,095	0.0078
Goldman Sachs Group, Inc.	21,956,165	276,881	0.0126
Nomura Holdings Inc.	20,971,572	251,959	0.0120
Deutsche Bank Securities, Inc.	16,613,154	202,501	0.0122
Macquarie Group LTD	14,952,071	135,349	0.0091
OTHER BROKERS*	130,431,640	1,315,759	0.0101
<b>TOTALS</b>	<b>539,743,576</b>	<b>\$ 4,805,528</b>	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

\*Less than \$100,000 total commission per brokerage firm

# ACTUARIAL SECTION



*MUSIC AND MOLASSES FESTIVAL  
BY MALINDA WAGNER  
BENEFITS & PRIOR SERVICE*



*STONEHENGE GOLF COURSE  
BY HANNAH YOUNG  
ACCOUNTING*

**ACTUARIAL INTRODUCTION****BIENNIAL ACTUARIAL VALUATIONS**

Biennial actuarial valuations of the TCRS are performed by an independent actuarial consulting firm to assess the funding status of the system and to determine employer contribution rates for its various components. The valuation performed as of July 1, 2009 set employer rates effective July 1, 2010 through June 30, 2012. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. A valuation was performed as of July 1, 2011 to establish new employer rates effective July 1, 2012.

**FUNDING OF PENSIONS**

It is the policy of the state to fund pensions by actuarially-determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost. This policy seeks to ensure that sufficient assets will be available to pay the benefits as promised by the pension plan.

**ACCRUED LIABILITY**

The unfunded accrued liability within the plan was most recently reestablished with the 2009 actuarial valuation for most groups. This was accomplished by setting the unfunded accrued liability equal to the excess of the Entry Age Normal Past Service Liability over the valuation assets for each group. With the exception of some local government employers, the unfunded accrued liability was not reestablished with the 2011 actuarial valuation.

**SPECIFICS**

Valuations are based on demographic data (employee ages, salaries and service credits), economic projections (salary increases, interest rates and investment earnings) and decrement estimates (mortality and disability rates).

The economic projections and decrement estimates used for valuation purposes utilized the assumptions recommended by the actuary and adopted by the Board

of Trustees based on an actuarial experience study conducted every four years. The earnings rate assumption adopted by the Board is subject to the approval of the Council on Pensions and Insurance.

**QUADRENNIAL EXPERIENCE STUDY**

A quadrennial experience study was conducted as of June 30, 2008. A number of small changes were made to the economic and decrement assumptions. The system noted significant improvements in mortality. In addition, the COLA assumption was lowered from 3.0 percent to 2.5 percent to reflect actual experience. Assumptions developed from the June 30, 2008 experience study were used in the July 1, 2009 and July 1, 2011 actuarial valuations. The 2012 experience study is currently being prepared.

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**ACTUARY'S CERTIFICATION LETTER**

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Justin C. Thacker, F.S.A.  
Direct Line: (615) 665-5387  
Email: [Justin.Thacker@bpsm.com](mailto:Justin.Thacker@bpsm.com)

December 5, 2012

Mr. David H. Lillard, Jr.  
Chairman, Board of Trustees  
Tennessee Consolidated Retirement System  
502 Deaderick Street  
Nashville, Tennessee 37243-0201

**Re: Actuary's Certification Letter**

Dear Mr. Lillard:

The purpose of this letter is to certify the actuarial adequacy of contributions being made by the State of Tennessee and participating Political Subdivisions to the Tennessee Consolidated Retirement System and to discuss the approach currently being taken toward meeting the financing objectives of the Plan.

The most recent biennial actuarial valuation completed as of the year ending June 30, 2012 for the Tennessee Consolidated Retirement System was performed as of July 1, 2011. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Assumptions and Methods") which was adopted by the Board of Trustees on the recommendation of the actuary after a study of actual experience under the TCRS during the four-year period ending June 30, 2008.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation.

In performing the 2011 valuation, we relied on employee data and asset information provided by the administrative staff of the Tennessee Consolidated Retirement System. In the case of employee data, each individual record was audited for reasonableness and internal consistency, although the validity of the information was not traced to source documents. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

Certain tables presented in the Comprehensive Annual Financial Report are derived from the July 1, 2011 actuarial valuation report prepared by Bryan, Pendleton, Swats and McAllister, LLC. The tables were prepared by the staff of the Tennessee Consolidated Retirement System and examined by our firm. These tables include the following –

ACTUARY'S CERTIFICATION LETTER  
(CONTINUED)

Mr. David H. Lillard, Jr.  
Chairman, Board of Trustees  
December 5, 2012  
Page Two

*Financial Section*

- Schedules of Funding Progress
- Schedules of Employer Contributions

*Actuarial Section*

- Summary of Actuarial Assumptions and Methods
- Actuarial Data
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Selected Actuarial Funding Information
- Analysis of Financial Experience

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from prior actuarial valuations through 2011.

The 2011 valuation was prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statement 25. I am a Member of the American Academy of Actuaries with experience in performing valuations for public retirement systems; all calculations were performed either by me or by other qualified actuaries under my direct supervision.

Based upon the valuation results and the contribution rates adopted by the Board of Trustees, it is our opinion that the Tennessee Consolidated Retirement System continues to fund its liabilities in accordance with standard actuarial principles of advance funding, continuing a program first adopted in 1975.

Sincerely,



Justin C. Thacker, F.S.A.

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**

The following assumptions were adopted by the Board of Trustees for use with the July 1, 2011 valuation based on the consulting actuary's recommendations resulting from the June 30, 2008 actuarial experience study.

**GENERAL ACTUARIAL METHODS**

- ❖ *Actuarial Cost Method (Frozen Entry Age)* – The state and teacher unfunded accrued liabilities are being funded over a nine-year and six-year period, respectively. The amortization period related to local government unfunded accrued liabilities varies by entity.
- ❖ *Treatment of Actuarial Gains and Losses* – Under the Frozen Entry Age Method, any actuarial gains or losses are absorbed into the normal cost.
- ❖ *Asset Valuation Method* – Assets are valued on a basis which reflects a ten-year moving average of the fair market value. The actuarial value of assets must be within 80-120 percent of the market value of assets.
- ❖ *Valuation Data* – The administrative staff of TCRS furnishes the actuary with demographic data relating to the active life members and the retired life members. The fair value of system assets are also provided by retirement system staff. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.
- ❖ *Post-Retirement Adjustments* – Retirement benefits are assumed to increase at the geometric rate of 2.5 percent annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

**ECONOMIC ASSUMPTIONS**

- ❖ *Investment Return Rate* – Seven and one-half percent (7½%) per annum, compounded annually.
- ❖ *Employee Salary Increases* – Graded scale that reflects the plan experience pattern of declining escalation rates as participant ages increase. No explicit assumption is made regarding the portion attributable to the effects of inflation on salaries. Active membership is assumed to remain constant.
- ❖ *Increase in Social Security Wage Base* – Three and one-half percent (3½%) annual increase.

**DECREMENT ASSUMPTIONS**

- ❖ *Post-Retirement Mortality* – Specifically adopted tables have been created to accurately reflect patterns that occur among TCRS retirees. Sample rates are below.

<i>Male</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.3%	0.4%
Age 60	0.6%	1.0%
Age 70	1.8%	2.2%

<i>Female</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.2%	0.2%
Age 60	0.5%	0.7%
Age 70	1.1%	1.3%

- ❖ *Preretirement Mortality* – Eighty percent (80%) of the RP-2000 Mortality Table is used for state employees and political subdivision employees. For teachers, the RP-2000 Mortality Table is used with an adjustment of 60 percent (60%).

- ❖ *Withdrawal Due to Disability* – Sample rates of disability based on experience:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.07%	0.03%
Age 40	0.08%	0.16%	0.08%
Age 50	0.17%	0.27%	0.38%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.04%	0.03%
Age 40	0.08%	0.14%	0.08%
Age 50	0.17%	0.33%	0.38%

*(continued)*

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS  
(CONTINUED)

❖ *Turnover Assumption* – Tables for probabilities of separation due to termination of employment are developed utilizing a “two-year select and ultimate” approach.

<i>Teachers</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
<b>Male</b>			
Age 30	18.0%	13.5%	6.0%
Age 40	18.0%	13.5%	2.0%
Age 50	19.7%	14.2%	2.0%
<b>Female</b>			
Age 30	18.0%	13.5%	7.6%
Age 40	18.0%	13.5%	2.3%
Age 50	19.7%	14.2%	1.6%

<i>State</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
<b>Male</b>			
Age 30	23.0%	18.6%	9.6%
Age 40	18.6%	13.8%	2.6%
Age 50	14.8%	11.1%	2.2%
<b>Female</b>			
Age 30	23.0%	18.6%	10.3%
Age 40	18.6%	13.8%	3.4%
Age 50	14.8%	11.1%	2.3%

<i>Political Subdivisions</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
<b>Male</b>			
Age 30	21.8%	17.9%	7.4%
Age 40	19.2%	15.9%	3.5%
Age 50	17.0%	13.0%	2.8%
<b>Female</b>			
Age 30	21.8%	17.9%	11.1%
Age 40	19.2%	15.9%	5.4%
Age 50	17.0%	13.0%	3.8%

*Retirement* – The probabilities of retirement for members eligible to retire:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 60	15.0%	8.5%	10.5%
Age 61	16.0%	11.0%	15.0%
Age 62	22.0%	16.0%	20.0%
Age 63	16.0%	12.0%	17.5%
Age 64	18.0%	14.0%	17.5%
Age 65	35.0%	22.0%	24.0%
Age 70	16.0%	15.5%	18.0%
Age 75	100.0%	100.0%	100.0%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 60	17.0%	9.0%	11.0%
Age 61	20.0%	12.0%	13.0%
Age 62	26.0%	18.0%	18.0%
Age 63	19.5%	12.0%	16.0%
Age 64	24.0%	14.0%	16.0%
Age 65	37.5%	22.0%	22.0%
Age 70	34.0%	17.0%	19.0%
Age 75	100.0%	100.0%	100.0%

In addition, for members younger than age 60, a loading factor of 12.5 percent for teachers and 7.5 percent for state and political subdivision employees is added during the year the member is first eligible for unreduced retirement. After age 60, for those members with 15 or more years of service, an 8.0 percent load is added for teachers and 2.0 percent for state employees and political subdivision employees.

**ACTUARIAL DATA**

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<b>Actuarial Valuation</b>	<b>Number</b>	<b>Annual Payroll In Thousands</b>	<b>Average Annual Pay</b>	<b>Average Annual Percentage Increase In Average Pay</b>
July 2001 SETHEEPP	126,863	\$4,451,453	\$35,089	2.85%
PSPP	69,083	1,545,594	22,373	4.13%
July 2003 SETHEEPP	128,656	4,773,299	37,101	2.83%
PSPP	71,941	1,731,135	24,063	3.71%
July 2005 SETHEEPP	132,026	5,245,988	39,735	3.49%
PSPP	74,124	1,890,968	25,511	2.96%
July 2007 SETHEEPP	136,337	5,742,858	42,123	2.96%
PSPP	76,388	2,081,965	27,255	3.36%
July 2009 SETHEEPP	136,158	6,054,528	44,467	2.74%
PSPP	78,792	2,282,081	28,963	3.09%
July 2011 SETHEEPP	135,588	6,058,348	44,682	0.24%
PSPP	79,488	2,354,939	29,626	1.14%

**SCHEDULE OF RETIRED MEMBER VALUATION DATA**

<b>Actuarial Valuation</b>	<b>Number</b>	<b>Annual Allowances In Thousands</b>	<b>Average Annual Allowances</b>	<b>Average Annual Percentage Increase In Annual Allowances</b>
July 2001 SETHEEPP	57,081	\$ 693,788	\$12,154	5.41%
PSPP	20,750	101,888	4,910	5.18%
July 2003 SETHEEPP	60,606	799,029	13,184	4.15%
PSPP	22,673	120,553	5,317	4.06%
July 2005 SETHEEPP	65,094	939,549	14,434	4.63%
PSPP	24,799	143,275	5,777	4.24%
July 2007 SETHEEPP	70,703	1,117,789	15,810	4.66%
PSPP	27,527	174,211	6,329	4.67%
July 2009 SETHEEPP	77,310	1,281,514	16,576	2.39%
PSPP	30,565	205,326	6,718	3.03%
July 2011 SETHEEPP	83,041	1,457,974	17,557	2.92%
PSPP	33,544	241,910	7,212	3.61%

ACTUARIAL DATA  
(CONTINUED)

SCHEDULE OF RETIRED MEMBER ACTIVITY

Actuarial Valuation	Added to Rolls		Removed from Rolls		Rolls End of Year		Percentage Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
2001 SETHEEPP	n/a	n/a	n/a	n/a	57,081	\$ 693,788	n/a	n/a
PSPP	n/a	n/a	n/a	n/a	20,750	101,888	n/a	n/a
2003 SETHEEPP	7,597	\$141,252	4,072	\$36,011	60,606	799,029	15.17%	\$ 13,184
PSPP	3,320	24,133	1,397	5,468	22,673	120,553	18.32%	5,317
2005 SETHEEPP	8,453	179,572	3,965	39,052	65,094	939,549	17.59%	14,434
PSPP	3,705	29,169	1,579	6,447	24,799	143,275	18.85%	5,777
2007 SETHEEPP	9,427	219,034	3,818	40,794	70,703	1,117,789	18.97%	15,810
PSPP	4,396	38,751	1,668	7,815	27,527	174,211	21.59%	6,329
2009 SETHEEPP	10,677	212,772	4,070	49,047	77,310	1,281,514	14.65%	16,576
PSPP	4,752	39,522	1,714	8,407	30,565	205,326	17.86%	6,718
2011 SETHEEPP	10,090	233,149	4,359	56,689	83,041	1,457,974	13.77%	17,557
PSPP	4,955	47,632	1,976	11,048	33,544	241,910	17.82%	7,212

Note: Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes.

ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

The Board adopted the contribution rates as recommended by the actuary.

**ACTUARIAL BALANCE SHEET**

**ACTUARIAL BALANCE SHEET**  
*as of July 1, 2011*

	<b>State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEPP)</b>	<b>Political Subdivision Pension Plan (PSPP)</b>	<b>Total</b>
<b>ASSETS</b>			
Present assets creditable to			
Employer accumulation fund	\$ 26,411,200,293	\$ 5,461,751,471	\$ 31,872,951,764
Members' accumulation fund	3,706,978,263	1,100,852,325	4,807,830,588
Total present assets	<u>30,118,178,556</u>	<u>6,562,603,796</u>	<u>36,680,782,352</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	2,179,663,929	886,440,557	3,066,104,486
Accrued liability	<u>2,589,446,292</u>	<u>799,102,966</u>	<u>3,388,549,258</u>
Total employer accumulation	4,769,110,221	1,685,543,523	6,454,653,744
Member's accumulation fund	<u>1,836,350,124</u>	<u>582,617,580</u>	<u>2,418,967,704</u>
Total prospective contributions	<u>6,605,460,345</u>	<u>2,268,161,103</u>	<u>8,873,621,448</u>
<b>TOTAL ASSETS</b>	<u>\$ 36,723,638,901</u>	<u>\$ 8,830,764,899</u>	<u>\$ 45,554,403,800</u>
<b>LIABILITIES</b>			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	15,941,291,810	2,560,587,467	18,501,879,277
Present active members	20,028,868,907	6,013,575,239	26,042,444,146
Former members	<u>753,478,184</u>	<u>256,602,193</u>	<u>1,010,080,377</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 36,723,638,901</u>	<u>\$ 8,830,764,899</u>	<u>\$ 45,554,403,800</u>

UNAUDITED

**SHORT-TERM SOLVENCY TEST**

**SHORT-TERMSOLVENCYTEST**

The financing objective of the Tennessee Consolidated Retirement System is to pay for the benefits provided by the plan through contributions that remain approximately level from year to year as a percentage of payroll, except that the strategy to fund the unfunded accrued liability is to make level-dollar payments over an established amortization period. A short-term solvency test is one means of checking a system’s progress under its funding program. In a short-term solvency test, the plan’s present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present

retired lives; and (3) the liabilities for service already rendered by active members. In a system that has been following the approach of level percent of payroll financing for some time, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) should be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time.

*Dollar Amounts Expressed in Millions*

Actuarial Valuation July 1	Actuarial Accrued Liabilities for:			Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1997 SETHEEP	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP	426.4	743.5	1,117.9	2,226.9	100%	100%	95%
Total	\$ 2,568.1	\$ 6,199.6	\$ 9,303.0	\$ 17,898.6	100%	100%	98%
1999 SETHEEP	\$ 2,396.6	\$ 6,401.8	\$ 9,621.8	\$ 18,327.1	100%	100%	99%
PSPP	501.4	877.1	1,512.4	2,690.8	100%	100%	87%
Total	\$ 2,898.0	\$ 7,278.9	\$ 11,134.2	\$ 21,017.9	100%	100%	97%
2001 SETHEEP	\$ 2,638.6	\$ 7,837.6	\$ 10,366.0	\$ 20,761.0	100%	100%	99%
PSPP	592.0	1,104.2	1,831.9	3,188.0	100%	100%	81%
Total	\$ 3,230.6	\$ 8,941.8	\$ 12,197.9	\$ 23,949.0	100%	100%	97%
2003 SETHEEP	\$ 2,908.2	\$ 9,071.1	\$ 10,172.5	\$ 22,099.3	100%	100%	99%
PSPP	691.1	1,304.9	1,927.4	3,605.5	100%	100%	84%
Total	\$ 3,599.3	\$ 10,376.0	\$ 12,099.9	\$ 25,704.8	100%	100%	97%
2005 SETHEEP	\$ 3,167.4	\$ 10,599.5	\$ 9,900.1	\$ 23,627.2	100%	100%	100%
PSPP	797.0	1,563.9	2,089.2	4,124.0	100%	100%	84%
Total	\$ 3,964.4	\$ 12,163.4	\$ 11,989.3	\$ 27,751.2	100%	100%	97%
2007 SETHEEP	\$ 3,386.8	\$ 12,544.7	\$ 11,308.6	\$ 26,215.0	100%	100%	91%
PSPP	896.8	1,902.9	2,676.0	4,898.0	100%	100%	78%
Total	\$ 4,283.6	\$ 14,447.6	\$ 13,984.6	\$ 31,113.0	100%	100%	89%
2009 SETHEEP	\$ 3,559.8	\$ 14,122.8	\$ 11,372.4	\$ 26,335.2	100%	100%	76%
PSPP	1,011.3	2,190.0	2,942.4	5,304.5	100%	100%	71%
Total	\$ 4,571.1	\$ 16,312.8	\$ 14,314.8	\$ 31,639.7	100%	100%	75%
2011 SETHEEP	\$ 3,707.0	\$ 15,941.3	\$ 13,059.3	\$ 30,118.2	100%	100%	80%
PSPP	1,100.8	2,560.6	3,700.3	6,562.6	100%	100%	78%
Total	\$ 4,807.8	\$ 18,501.9	\$ 16,759.6	\$ 36,680.8	100%	100%	80%

**SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES**

<p>The unfunded accrued liability represents the excess of the accrued actuarial liability over the actuarial value of assets. For funding purposes, the Board of Trustees of TCRS has adopted the frozen initial liability method.</p> <p>Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2027. Also, actuarial gains and losses are absorbed in normal cost rather than as part of the unfunded liability. The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses.</p> <p>For the July 1, 2009 actuarial valuation, the Board reestablished the unfunded accrued liability. In an</p>	<p>inflationary economy where the covered payroll continues to grow, the level-dollar amounts which are being contributed to fund the unfunded accrued liability will, if expressed as a percentage of payroll, continue to decrease.</p> <p>While concern is generally expressed regarding the dollar amount of the unfunded accrued liability, an analysis should also include the method being used to fund this liability as well as a review of this liability expressed as a percentage of active member payroll. The smaller the ratio of unfunded liabilities to the active member payroll, the stronger the system. A review of this ratio over a period of years will give an indication of whether the system is becoming financially stronger or weaker with respect to its unfunded liabilities.</p>
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**SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES**

*Dollar Amounts Expressed in Millions*

Actuarial Valuation July 1	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Ratio Assets to AAL	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1997 (3)	\$ 18,070.8	\$ 17,898.6	99.00%	\$ 172.2 (1)(2)	\$ 4,940.8	3.00%
1999	21,311.1	21,017.9	99.00%	293.2	5,473.8	5.00%
2001	24,370.4	23,949.0	98.00%	421.4 (2)	5,997.0	7.00%
2003	26,075.2	25,704.8	99.00%	370.4	6,504.4	6.00%
2005	28,117.1	27,751.2	99.00%	365.9 (2)	7,137.0	5.00%
2007	32,715.8	31,113.0	95.10%	1,602.8 (1)	7,824.8	20.48%
2009	35,198.7	31,639.7	89.89%	3,559.0 (1)(2)	8,336.6	42.69%
2011	40,069.3	36,680.8	91.54%	3,388.5	8,413.3	40.28%

Notes:

- (1) Unfunded accrued liability was reestablished.
- (2) Includes adjustments for changes in actuarial assumptions.
- (3) Includes effect of compound COLA and 3.6 percent indexing improvement.

**SELECTED ACTUARIAL FUNDING INFORMATION**

**SELECTED ACTUARIAL FUNDING INFORMATION**

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEEPP	PSPP	
1997 (2)	7.50%	5.50%	\$ 111,172,072	\$ 61,012,975	18
1999	7.50%	5.50%	93,022,745	200,161,388	16
2001	7.50%	4.75% (3)	81,226,933	340,147,400	14
2003	7.50%	4.75% (3)	52,493,209	317,945,618	12
2005	7.50%	4.75% (3)	39,806,610	326,114,462	10
2007 (4)	7.50%	4.75% (3)	1,025,156,148	577,645,568	20
2009 (4)	7.50%	4.75% (3)	2,719,767,478	839,320,076	20
2011	7.50%	4.75% (3)	2,589,446,292	799,102,966	9 (5)

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
- (2) Includes effect of compound COLA and 3.6 percent indexing improvement.
- (3) Graded Scale.
- (4) Unfunded liability was reestablished for all groups.
- (5) Effective July 1, 2011, the amortization period was reset to six years for teachers and nine years for the state.

**ANALYSIS OF FINANCIAL EXPERIENCE**

**GAIN AND LOSS ANALYSIS, JULY 1, 2011 VALUATION**

	<b>State and Higher Education</b>	<b>Teacher</b>
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2009 Valuation	15.01%	9.05%
Investment Results	(1.86%)	(1.61%)
Salary Increases: The annual weighted-average rate of salary increase during the 2009-2011 period was below the assumed age-based rate used in preparing the 2009 valuation report. This resulted in a reduction in the contribution rate.	(1.52%)	(1.23%)
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	(0.30%)	(0.07%)
Cost-of-Living Escalation: COLA in 2010 and 2011 were 2.7% and 1.5%, respectively, for combined effect of 2.1%, which is less than the assumed 2.5% per year.	(0.25%)	(0.23%)
Prior Service Purchases: Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions	0.10%	0.10%
Contribution rate change delay	0.26%	0.31%
Other	0.46%	(0.47%)
Re-amortization of unfunded liability (6-year amortization for teachers, 9-year amortization for State)	3.24%	3.03%
Effective Employer Normal Cost Rate Pursuant to 2011 Valuation	<u>15.14%</u>	<u>8.88%</u>

**RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES  
STATE EMPLOYEES, TEACHERS AND HIGHER EDUCATION EMPLOYEES**

Unfunded Actuarial Liabilities at June 30, 2011	\$ 2,589,446,292
Interest Accrual Fiscal Year 2011-2012	162,130,606
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2011-2012)	(427,704,881)
Unfunded Actuarial Liabilities at June 30, 2012	<u>\$ 2,323,872,017</u>

## PLAN SUMMARY

### HISTORY AND ADMINISTRATION

The TCRS was established in 1972 by an Act of the Tennessee General Assembly. Seven existing retirement systems were consolidated to provide retirement, disability and death benefits to state employees, public school teachers, higher education employees and the employees of participating local governments. State laws governing the plan may be found in Chapters 34-37, 39 of Title 8, *Tennessee Code Annotated*. Amendments to the plan can only be made by legislation enacted by the General Assembly of the State of Tennessee.

A 20-member Board of Trustees has the responsibility to manage and oversee the operation of the consolidated system. The Board consists of nine ex-officio members from the executive, legislative and judicial branches of state government, nine representatives of the active TCRS membership and two representatives for retirees. Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; three representatives of local governments; one public safety officer; one retired state employee representative; and one retired teacher representative. Local government representatives are appointed for two-year terms by each of the following organizations: the Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. All employee representatives must be vested members of TCRS.

TCRS is administered by the Treasury Department under the legislative branch of state government. By state law, the State Treasurer serves as chairman of the Board of Trustees and as custodian of the funds of the system. The Director of the retirement system is appointed by the Treasurer and serves as the chief administrative officer of the plan.

The state is responsible for the pension cost of state employees; pension costs for teachers are the responsibility of the local education agencies in Tennessee; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balances. The operating budget is funded by local governments on a per-member fee basis and by state government as part of the employer contribution rate.

### MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, K-12 teachers, higher education general employees and the employees of participating local governments. Membership is optional for part-time state employees and the part-time employees of political subdivisions which have authorized such coverage.

Interim teachers and part-time teachers have optional membership. The faculty employees of institutions of higher education may elect participation in either TCRS or an optional retirement program (ORP), a defined contribution plan for higher education faculty.

### CONTRIBUTIONS

TCRS membership became noncontributory on July 1, 1981 for most state employees, teachers in state supported institutions of higher education and teachers employed in the Department of Education. At that time, the contributions, up to five percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual members' accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts.

Participating political subdivisions may either adopt noncontributory retirement provisions or require employee contributions. The contribution rate for local government employees is five percent up to the Social Security wage base and 5.5 percent above that base, unless the employing government has authorized a level five percent rate. Public school teachers contribute at a rate of five percent of gross salary.

Individual accounts are maintained for all contributory members with interest credited annually at a rate of five percent. Since the TCRS is a defined benefit plan, benefits are based upon the member's average final compensation and years of creditable service. The member's account balance including interest accrued has no bearing on the monthly benefit amount payable at retirement. Account balances plus interest are fully refundable upon termination of service or death.

(continued)

**PLAN SUMMARY  
(CONTINUED)**

Contributory members are now covered by Section 414(h) of the Internal Revenue Code. Under this provision, retirement contributions are made on a tax-deferred basis, with income tax due only when contributions are returned to members as benefits or refunds. Political subdivisions may adopt the 414(h) provision for their employees.

The state also makes contributions on behalf of higher education faculty members who select membership in the ORP. These contributions are equal to 10 percent of salary up to Social Security wage base and 11 percent of any excess salary.

### **BENEFITS**

TCRS provides three valuable benefits to its members: disability, death and service retirement benefits. Disability benefits are available to qualified TCRS members who become totally disabled before meeting the requirements for service retirement. Two types of disability retirement are available: ordinary and accidental.

To qualify for ordinary disability, a member must have a minimum of five years of TCRS service credit. The ordinary disability benefit is equal to 90 percent of what the member would receive under service retirement. If a disabled retiree has less than 20 years of service credit, the service is projected to age 60 or 20 years, whichever comes first. When service is projected, the actual and projected service combined cannot exceed 20 years. If the member's actual service credit exceeds 20 years, the benefit is based on actual service only.

There is no minimum service requirement to qualify for an accidental disability benefit. However, the disability must be the result of a job-related accident that occurs without negligence on the part of the member during the performance of duty. Prior to the onset of Social Security benefits, an accidental disability benefit is equal to 50 percent of the member's average final compensation (AFC). Once Social Security benefits begin, the accidental benefit is 33.3 percent of AFC. For members joining TCRS on or after July 1, 1997, accidental disability benefits are determined in the same manner as ordinary disability using the projection of service method. Disability benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. The

accidental benefit is adjusted if the member's combined benefits from Social Security and/or workers' compensation exceed 75 percent of his AFC.

One of several death benefits may be payable to the designated beneficiary of an active member who dies prior to retirement. The type of death benefit payable will be determined by whether or not death occurred while in service, who is named as beneficiary and the member's length of service.

A member may designate one or more persons, his estate, an institution or any combination of such as his beneficiary. However, estates, institutions and/or multiple beneficiaries are only eligible for a lump-sum refund of the member's accumulated contributions and interest unless one of the beneficiaries named is the surviving spouse. Other death benefits offered by TCRS include a 100 percent Joint and Surviving Spouse Annuity after 10 Years Service, a 100 percent Joint and Survivor Annuity for any beneficiary and a Line of Duty Benefit. Any beneficiary of a member who had 10 years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over 10 years.

All members, with the exception of state judges, joining TCRS after 1976 enter the same membership group. The benefit formula for this group provides 1.5 percent of AFC computed over five years for each year of service credit. If a member's AFC exceeds the Social Security integration level (SSIL) applicable at retirement, the formula provides an additional 0.25 percent of the amount of the excess for each service year. These benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members.

Members become eligible for regular service retirement at age 60 if vested or at any age with 30 years. Vested members are eligible for reduced early retirement benefits when they have reached age 55 or have completed 25 years of service. Members joining TCRS after June 30, 1979 attain vesting rights after five years of service; the vesting period for members who joined prior to July 1, 1979 is four years. Five-year vesting and 25-year retirement are benefits that are optional to local governments. Otherwise, vesting for local governments is 10 years of service.

## SERVICES FOR ACTIVE AND RETIRED MEMBERS

### SERVICES FOR ACTIVE MEMBERS

TCRS provides a number of services for active members through its various sections.

#### *Field Services*

- ❖ TCRS staff is available to conduct employee presentations on all aspects of the retirement system.
- ❖ Employer seminars are conducted biennially to educate payroll officers on legislation affecting TCRS and inform them of the employer contribution rates effective for the next two fiscal years.

#### *Membership*

- ❖ Comprehensive membership statements are provided to all members annually.
- ❖ Computer-generated membership letters and membership pamphlets are mailed to all new members.
- ❖ Membership booklets are available to members upon request.

#### *Prior Service*

- ❖ An automated calculation and eligibility system generates billings for members who wish to establish prior service.
- ❖ An installment program is available to purchase certain types of prior service.
- ❖ Prior Service may be purchased with a rollover from a tax-deferred 401(a) plan, 401(k) plan, 403(b) plan, 457 plan or a traditional or Roth IRA.

#### *Benefits*

- ❖ Interactive benefit calculator via Internet.
- ❖ Computer-generated benefit estimates are available for those members approaching retirement age.
- ❖ Employee benefit counseling workshops are available to educate potential retirees.
- ❖ TCRS counseling staff provides personal counseling to members by telephone and in their Nashville office.

- ❖ TCRS seminars, which explain all facets of pre-retirement planning, are provided for members.

### SERVICES FOR RETIRED MEMBERS

A number of services are made available to TCRS retirees.

- ❖ A toll-free telephone line.
- ❖ Retiree identification cards.
- ❖ Semiannual retiree newsletter: *The Retiree Advisor*.
- ❖ Direct deposit service.
- ❖ Continuation of medical insurance.
- ❖ Continuation of dental insurance.
- ❖ Medicare supplement coverage.
- ❖ Income tax information.
- ❖ Certification of monthly benefits.
- ❖ Certification of student discounts.
- ❖ Credit Union deductions.
- ❖ Tennessee State Employee Association deductions.
- ❖ Tennessee Retired Teachers Association deductions.

**SAMPLE BENEFIT CALCULATIONS**

**TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS**  
for Calendar Year 2012

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	9,540		9,540		9,540		9,540		9,540	
	Total	<u>\$13,084</u>	87.2%	<u>\$14,265</u>	95.1%	<u>\$15,446</u>	103.0%	<u>\$16,628</u>	110.9%	<u>\$17,809</u>	118.7%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$11,025	
	Social Security	11,052		11,052		11,052		11,052		11,052	
	Total	<u>\$15,777</u>	78.9%	<u>\$17,352</u>	86.8%	<u>\$18,927</u>	94.6%	<u>\$20,502</u>	102.5%	<u>\$22,077</u>	110.4%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$11,813		\$13,781	
	Social Security	12,576		12,576		12,576		12,576		12,576	
	Total	<u>\$18,482</u>	73.9%	<u>\$20,451</u>	81.8%	<u>\$22,420</u>	89.7%	<u>\$24,389</u>	97.6%	<u>\$26,357</u>	105.4%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$11,813		\$14,175		\$16,538	
	Social Security	14,088		14,088		14,088		14,088		14,088	
	Total	<u>\$21,176</u>	70.6%	<u>\$23,538</u>	78.5%	<u>\$25,901</u>	86.3%	<u>\$28,263</u>	94.2%	<u>\$30,626</u>	102.1%
\$35,000	TCRS	\$ 8,269		\$11,025		\$13,781		\$16,538		\$19,294	
	Social Security	15,600		15,600		15,600		15,600		15,600	
	Total	<u>\$23,869</u>	68.2%	<u>\$26,625</u>	76.1%	<u>\$29,381</u>	83.9%	<u>\$32,138</u>	91.8%	<u>\$34,894</u>	99.7%
\$40,000	TCRS	\$ 9,450		\$12,600		\$15,750		\$18,900		\$22,050	
	Social Security	17,112		17,112		17,112		17,112		17,112	
	Total	<u>\$26,562</u>	66.4%	<u>\$29,712</u>	74.3%	<u>\$32,862</u>	82.2%	<u>\$36,012</u>	90.0%	<u>\$39,162</u>	97.9%
\$45,000	TCRS	\$10,631		\$14,175		\$17,719		\$21,263		\$24,806	
	Social Security	18,636		18,636		18,636		18,636		18,636	
	Total	<u>\$29,267</u>	65.0%	<u>\$32,811</u>	72.9%	<u>\$36,355</u>	80.8%	<u>\$39,899</u>	88.7%	<u>\$43,442</u>	96.5%
\$50,000	TCRS	\$11,813		\$15,750		\$19,688		\$23,625		\$27,563	
	Social Security	20,148		20,148		20,148		20,148		20,148	
	Total	<u>\$31,961</u>	63.9%	<u>\$35,898</u>	71.8%	<u>\$39,836</u>	79.7%	<u>\$43,773</u>	87.5%	<u>\$47,711</u>	95.4%
\$55,000	TCRS	\$12,994		\$17,325		\$21,656		\$25,988		\$30,319	
	Social Security	21,648		21,648		21,648		21,648		21,648	
	Total	<u>\$34,642</u>	63.0%	<u>\$38,973</u>	70.9%	<u>\$43,304</u>	78.7%	<u>\$47,636</u>	86.6%	<u>\$51,967</u>	94.5%
\$60,000	TCRS	\$14,175		\$18,900		\$23,625		\$28,350		\$33,075	
	Social Security	22,356		22,356		22,356		22,356		22,356	
	Total	<u>\$36,531</u>	60.9%	<u>\$41,256</u>	68.8%	<u>\$45,981</u>	76.6%	<u>\$50,706</u>	84.5%	<u>\$55,431</u>	92.4%
\$65,000	TCRS	\$15,482		\$20,643		\$25,804		\$30,965		\$36,125	
	Social Security	23,076		23,076		23,076		23,076		23,076	
	Total	<u>\$38,558</u>	59.3%	<u>\$43,719</u>	67.3%	<u>\$48,880</u>	75.2%	<u>\$54,041</u>	83.1%	<u>\$59,201</u>	91.1%
\$70,000	TCRS	\$16,860		\$22,481		\$28,101		\$33,721		\$39,341	
	Social Security	23,784		23,784		23,784		23,784		23,784	
	Total	<u>\$40,644</u>	58.1%	<u>\$46,265</u>	66.1%	<u>\$51,885</u>	74.1%	<u>\$57,505</u>	82.1%	<u>\$63,125</u>	90.2%

\* Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

This chart is based on a date of retirement in 2012. Social Security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions:

- (1) Retirement is taking place at age 65 in 2012;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: [tcrs.tn.gov](http://tcrs.tn.gov)

**MAJOR LEGISLATIVE IMPROVEMENTS**

<p><b>1972</b> Benefit formula improved from 1.12 percent of salary up to the SSIL to 1.5 percent of salary up to the SSIL.</p> <p><b>1973</b> Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.</p> <p><b>1974</b> Disability retirement eligibility requirement reduced from 10 years to 5 years of service.</p> <p>Maximum annual cost-of-living increase raised to 3 percent.</p> <p>Provision to increase retirees' benefits whenever the benefit formula is improved.</p> <p>Service credit authorized for unused accumulated sick leave.</p> <p><b>1976</b> Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.</p> <p>Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.</p> <p><b>1978</b> A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.</p> <p>An optional retirement plan established for teachers in the Board of Regents system.</p> <p><b>1980</b> Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member's accrued benefit for the spouse.</p> <p><b>1981</b> Noncontributory retirement for state employees and higher education employees adopted. Employees' contributions, up to 5 percent, were assumed by the state.</p> <p><b>1983</b> An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p><b>1984</b> Credit for out-of-state service for the purpose of determining retirement eligibility authorized.</p> <p>Retirement credit for armed conflict approved.</p> <p>Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.</p> <p><b>1985</b> \$22 million ad-hoc increase granted to retirees.</p>	<p><b>1987</b> Service credit for half of peacetime military service made available.</p> <p>\$17 million ad-hoc increase granted to retirees.</p> <p>Retirement incentive for state employees.</p> <p>Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.</p> <p><b>1990</b> Retirement incentive for state employees.</p> <p><b>1991</b> 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.</p> <p><b>1992</b> Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p><b>1993</b> Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5 percent authorized.</p> <p><b>1997</b> Compounded COLA for retirees approved.</p> <p><b>1998</b> Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80 percent.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p><b>1999</b> Group 1 benefit maximum increased to 90 percent.</p> <p><b>2000</b> Group 2 benefit maximum increased to 80 percent.</p> <p><b>2001</b> Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p><b>2005</b> Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p><b>2006</b> Ad-hoc increase granted to members retired prior to 1989.</p> <p><b>2007</b> Public Safety Officer benefits were enhanced.</p> <p><b>2012</b> New plan options offered to local governments.</p>
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STATISTICAL SECTION

*BURGESS FALLS*  
*BY GARY WHEELER*  
*CLAIMS ADMINISTRATION*

**STATISTICAL INTRODUCTION****STATISTICAL SECTION OVERVIEW**

The statistical section presents additional information to provide financial statement users with added historical perspective, context, and detail to assist in using the information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the system's financial condition.

**FINANCIAL TRENDS**

The schedules presented on pages 74-77 show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- ❖ Historical Fair Value
- ❖ Analysis of Member and Employer Reserves
- ❖ Schedules of Changes in Net Assets
- ❖ Schedules of Benefit Expenses

**OPERATING INFORMATION**

The remaining schedules presented on pages 78-95 contain benefits, service, and employer data to help the reader understand how the System's financial report relates to the services of the system and the activities it performs. In addition, a description of political subdivision participation and a listing of participating entities have been included in this section.

**HISTORICAL FAIR VALUE**

**HISTORICAL FAIR VALUE**

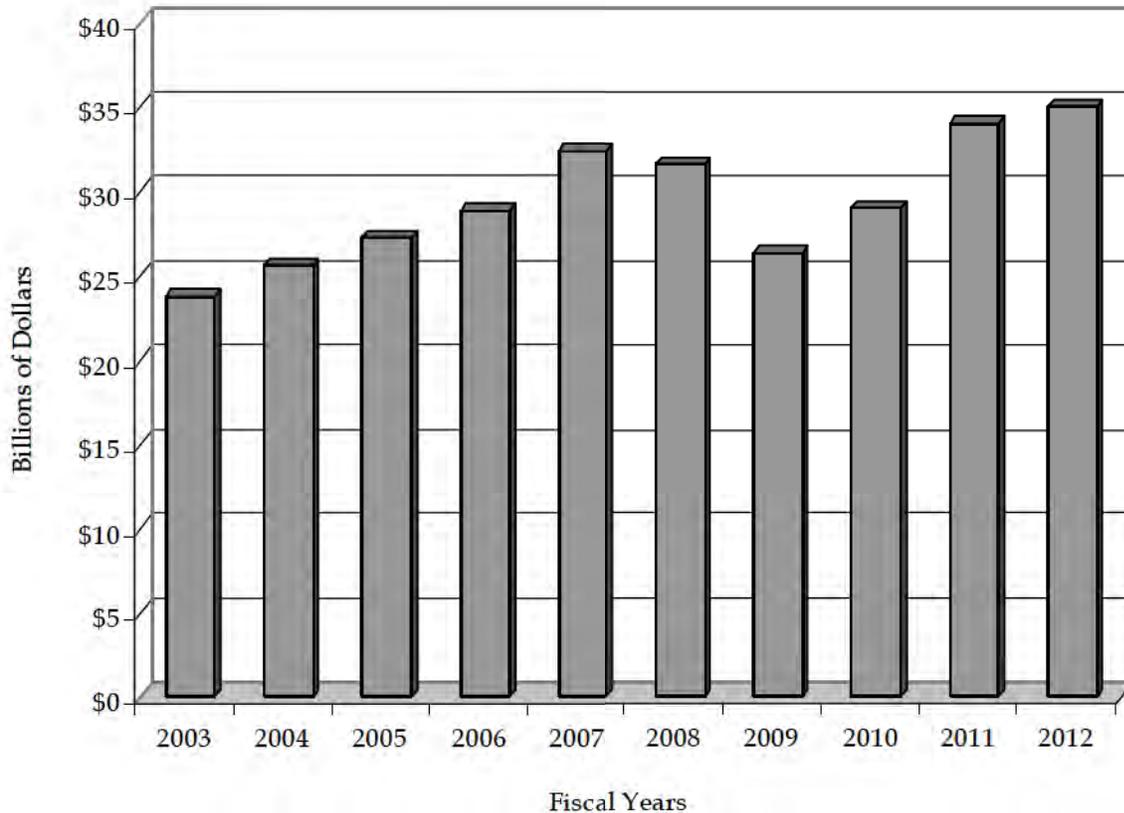
*Fiscal Years 2003-2012*

*Expressed in Thousands*

As of June 30	Fair Value	As of June 30	Fair Value
2003	\$ 23,778,484	2008	\$ 31,634,129
2004	25,586,516	2009	26,369,226
2005	27,216,262	2010	28,574,195
2006	28,820,635	2011	33,663,308
2007	32,365,969	2012	34,912,773

**HISTORICAL FAIR VALUE**

*Fiscal Years 2003-2012*



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES  
FOR THE YEAR ENDED JUNE 30, 2012**

**MEMBER RESERVE FUND**

The legislation which created the TCRS established two funds, the Member Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plans. The Member Reserve Fund represents the accumulation of employee contributions plus interest.

	SETHEEPP	PSPP	Total
<i>June 30, 2011 Member Reserve Fund</i>	\$3,704,665,259	\$1,102,479,687	\$4,807,144,946
Member Contributions	194,179,660	69,575,901	263,755,561
Employer Provided Contributions	12,384,597	8,521,338	20,905,935
Interest	169,562,875	51,840,355	221,403,230
Refunded Account Balances	(22,574,919)	(17,280,180)	(39,855,099)
Transfers to Employer Fund of Retiring Members	(309,052,346)	(64,112,999)	(373,165,345)
	<u>\$3,749,165,126</u>	<u>\$1,151,024,102</u>	<u>\$4,900,189,228</u>
<i>June 30, 2012 Member Reserve Fund</i>	<u>\$3,749,165,126</u>	<u>\$1,151,024,102</u>	<u>\$4,900,189,228</u>

**EMPLOYER RESERVE FUND**

The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

	SETHEEPP	PSPP	Total
<i>June 30, 2011 Employer Reserve Fund</i>	\$23,934,154,691	\$4,922,008,607	\$28,856,163,298
Employer Contributions	731,352,072	271,361,052	1,002,713,124
Employer Refunds	0	(236,453)	(236,453)
Investment Income	1,473,649,864	326,414,125	1,800,063,989
Transfers from Retiring Members' Account	309,052,346	64,112,999	373,165,345
Employer Provided Contributions	(12,384,597)	(8,521,338)	(20,905,935)
Interest Credited to Members' Account	(169,562,875)	(51,840,355)	(221,403,230)
Lump-Sum Death Benefits	(4,514,543)	(1,689,664)	(6,204,207)
Retirement and Survivors Annuities	(1,509,513,484)	(254,092,096)	(1,763,605,580)
Administrative Expenses	(4,749,757)	(2,416,850)	(7,166,607)
	<u>\$24,747,483,717</u>	<u>\$5,265,100,027</u>	<u>\$30,012,583,744</u>
<i>June 30, 2012 Employer Reserve Fund</i>	<u>\$24,747,483,717</u>	<u>\$5,265,100,027</u>	<u>\$30,012,583,744</u>

**SCHEDULES OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

**SCHEDULES OF CHANGES IN NET ASSETS**  
*Expressed in Thousands*

Year Ending	Additions			Deductions			Total Change in Net Assets
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
<b>SETHEEPP</b>							
6/30/2003	\$ 148,493	\$ 264,320	\$ 959,110	\$ 764,837	\$ 2,631	\$ 14,250	\$ 590,205
6/30/2004	154,334	271,298	1,870,972	826,938	2,935	15,305	1,451,426
6/30/2005	160,686	448,154	1,579,232	891,259	3,008	15,329	1,278,476
6/30/2006	166,984	474,879	1,594,214	972,680	3,336	17,751	1,242,310
6/30/2007	175,743	562,729	3,202,706	1,062,764	3,385	19,231	2,855,798
6/30/2008	181,236	593,412	(361,408)	1,148,496	3,711	19,113	(758,080)
6/30/2009	185,729	583,985	(4,059,222)	1,254,824	3,616	16,503	(4,564,451)
6/30/2010	190,635	578,403	2,232,405	1,317,203	3,924	19,371	1,660,945
6/30/2011	192,467	721,759	4,552,737	1,415,339	3,525	18,957	4,029,142
6/30/2012	194,180	731,352	1,473,650	1,514,027	4,751	22,575	857,829
<b>PSPP</b>							
6/30/2003	\$ 49,218	\$ 134,014	\$ 153,368	\$ 116,395	\$ 2,425	\$ 12,381	\$ 205,399
6/30/2004	50,650	139,808	310,881	127,513	2,599	14,621	356,606
6/30/2005	54,921	181,096	271,135	137,657	2,738	15,487	351,270
6/30/2006	59,327	191,000	283,084	151,511	2,877	16,960	362,063
6/30/2007	57,003	231,699	588,698	167,667	3,084	17,113	689,536
6/30/2008	64,617	244,847	(68,651)	184,219	3,491	26,863	26,240
6/30/2009	67,830	252,926	(799,264)	202,839	3,586	15,519	(700,452)
6/30/2010	64,414	258,324	459,941	217,984	3,619	17,052	544,024
6/30/2011	67,920	273,781	976,016	237,531	3,632	16,583	1,059,971
6/30/2012	69,576	271,361	326,414	255,782	2,416	17,517	391,636

SCHEDULES OF BENEFIT EXPENSES

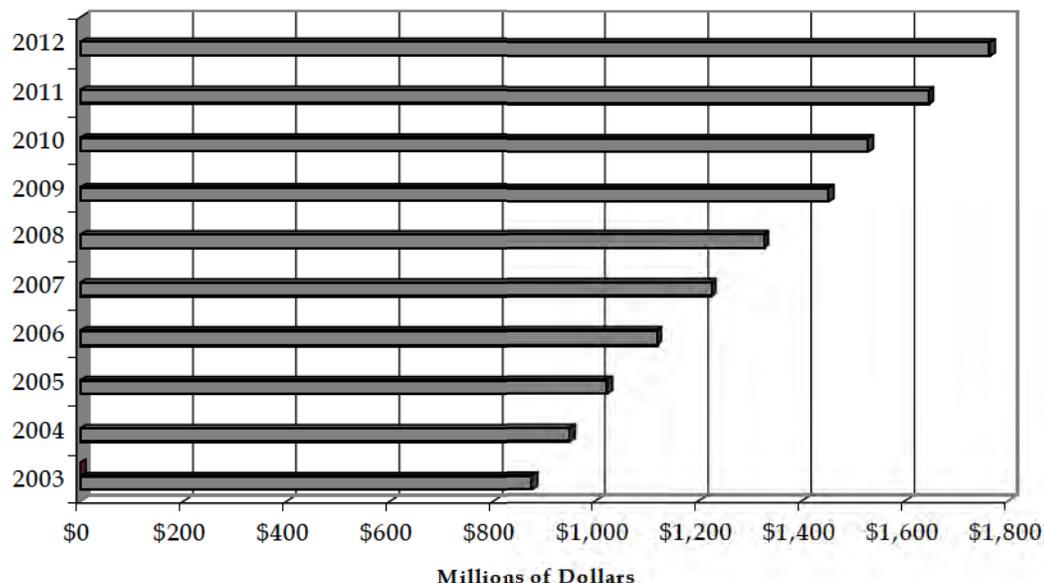
SCHEDULES OF BENEFIT EXPENSES

*Expressed in Thousands*

Year Ending	Base Annuity	Disability Annuity	Survivor Annuity	Cost of Living	Lump-Sum Death Benefits	Total Benefits	Refunds	Total
<b>SETHEEPP</b>								
6/30/2003	\$ 571,703	\$ 18,809	\$ 36,818	\$ 134,455	\$ 3,052	\$ 764,837	\$ 14,250	\$ 779,087
6/30/2004	617,659	20,341	40,022	145,767	3,149	826,938	15,305	842,243
6/30/2005	668,340	21,229	43,437	154,522	3,731	891,259	15,329	906,588
6/30/2006	726,109	22,225	46,495	173,624	4,227	972,680	17,751	990,431
6/30/2007	789,603	22,971	50,032	196,439	3,719	1,062,764	19,231	1,081,995
6/30/2008	851,426	24,111	53,840	215,810	3,309	1,148,496	19,113	1,167,609
6/30/2009	927,977	25,351	57,141	240,293	4,062	1,254,824	16,503	1,271,327
6/30/2010	994,439	26,041	60,945	231,084	4,694	1,317,203	19,371	1,336,574
6/30/2011	1,062,838	27,360	64,950	256,137	4,054	1,415,339	18,957	1,434,296
6/30/2012	1,145,293	28,840	68,705	266,674	4,515	1,514,027	22,575	1,536,602
<b>PSPP</b>								
6/30/2003	\$ 90,372	\$ 2,973	\$ 5,820	\$ 16,236	\$ 994	\$ 116,395	\$ 12,381	\$ 128,776
6/30/2004	98,680	3,250	6,394	17,860	1,329	127,513	14,621	142,134
6/30/2005	106,943	3,397	6,951	19,186	1,180	137,657	15,487	153,144
6/30/2006	117,074	3,584	7,497	21,915	1,441	151,511	16,960	168,471
6/30/2007	128,937	3,751	8,170	25,025	1,784	167,667	17,113	184,780
6/30/2008	141,867	4,017	8,971	27,765	1,599	184,219	26,863	211,082
6/30/2009	155,776	4,256	9,592	31,553	1,662	202,839	15,519	218,358
6/30/2010	170,275	4,459	10,435	30,395	2,420	217,984	17,052	235,036
6/30/2011	185,700	4,780	11,348	34,259	1,444	237,531	16,583	254,114
6/30/2012	201,169	5,066	12,068	35,790	1,689	255,782	17,517	273,299

ANNUAL BENEFIT PAYMENTS

*Fiscal Years 2003-2012*



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Service Credit

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
0-4	10,329	18,123	5,098	25,373	58,923
5-9	10,195	17,139	3,462	19,412	50,208
10-14	6,919	13,676	2,418	14,083	37,096
15-19	4,374	9,713	1,687	8,605	24,379
20-24	3,286	5,659	1,442	5,291	15,678
25-29	3,718	4,661	1,172	3,159	12,710
30-34	1,833	2,542	752	1,486	6,613
35-39	1,109	1,541	468	599	3,717
40-44	327	343	160	143	973
Over 44	81	52	34	29	196
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>

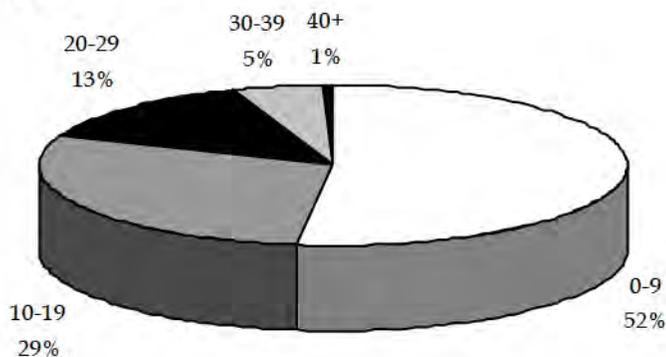
SCHEDULE OF ACTIVE MEMBERS

by Enrollment Date

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
1940s	4	13	2	21	40
1950s	25	4	2	4	35
1960s	176	182	71	25	454
1970s	2,240	3,476	1,009	1,220	7,945
1980s	7,555	9,083	2,695	6,831	26,164
1990s	9,729	20,261	3,620	19,409	53,019
2000s	17,097	31,805	6,773	38,119	93,794
2010s	5,345	8,625	2,521	12,551	29,042
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>

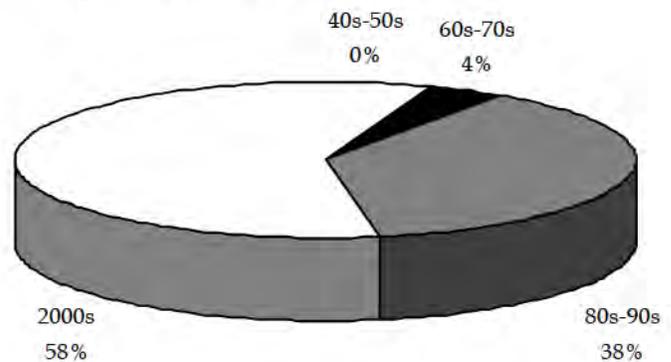
PERCENTAGE OF ACTIVE MEMBERS

by Service Credit



PERCENTAGE OF ACTIVE MEMBERS

by Enrollment Date



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP		Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees		
Less than 20	23	17	4	49	93	
20-29	3,148	9,391	1,102	6,137	19,778	
30-39	8,053	20,893	2,714	14,072	45,732	
40-49	10,393	19,783	4,076	22,292	56,544	
50-54	6,618	8,402	2,750	12,112	29,882	
55-59	6,629	8,344	2,845	11,157	28,975	
60-64	4,777	5,226	2,001	7,406	19,410	
65-69	1,823	1,187	835	3,193	7,038	
Over 69	707	206	366	1,762	3,041	
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>	

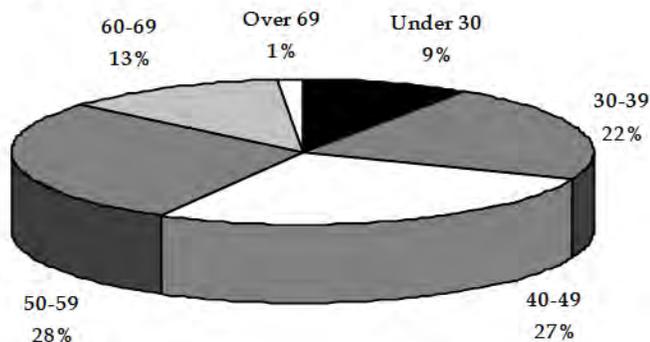
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP		Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees		
Less than 20	1,143	150	253	1,198	2,744	
20-24	8,233	24,388	2,559	10,341	45,521	
25-29	9,167	19,646	3,198	11,852	43,863	
30-34	6,318	10,090	2,652	12,111	31,171	
35-39	5,282	7,858	2,329	12,773	28,242	
40-44	4,274	5,486	1,955	10,988	22,703	
45-49	3,307	3,161	1,625	7,917	16,010	
50-54	2,380	1,685	1,184	5,361	10,610	
55-59	1,449	748	674	3,381	6,252	
60-64	454	203	197	1,546	2,400	
65-69	127	29	47	524	727	
Over 70	37	5	20	188	250	
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>	

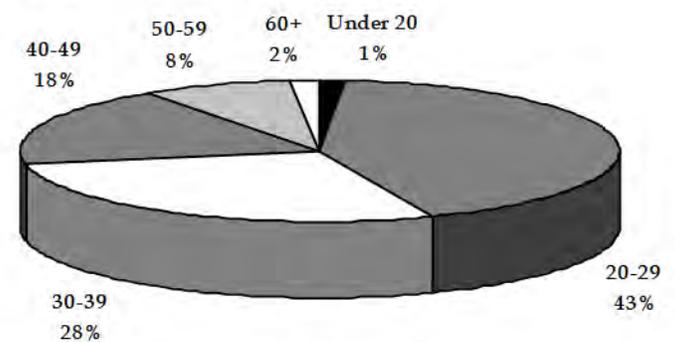
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



SCHEDULES OF ACTIVE MEMBERS

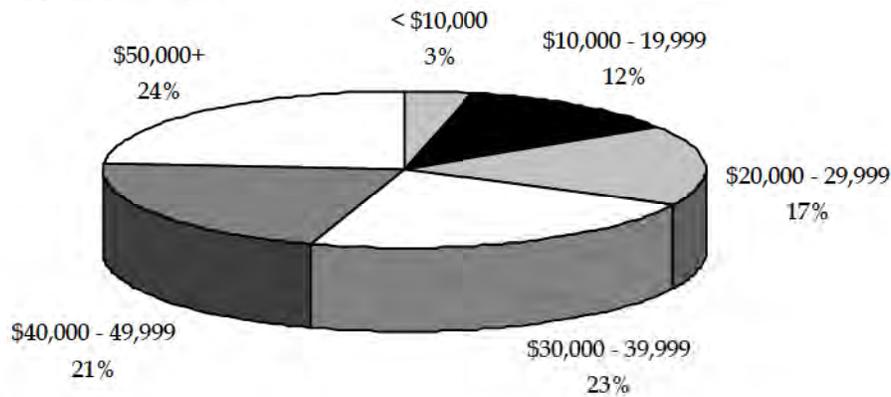
SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than \$10,000	1,609	221	567	4,950	7,347
\$10,000-19,999	2,498	804	1,281	21,629	26,212
\$20,000-29,999	10,523	1,521	4,181	18,552	34,777
\$30,000-39,999	11,350	15,910	4,025	16,234	47,519
\$40,000-49,999	6,957	26,294	2,488	8,688	44,427
\$50,000+	9,234	28,699	4,151	8,127	50,211
<b>Total</b>	<b>42,171</b>	<b>73,449</b>	<b>16,693</b>	<b>78,180</b>	<b>210,493</b>

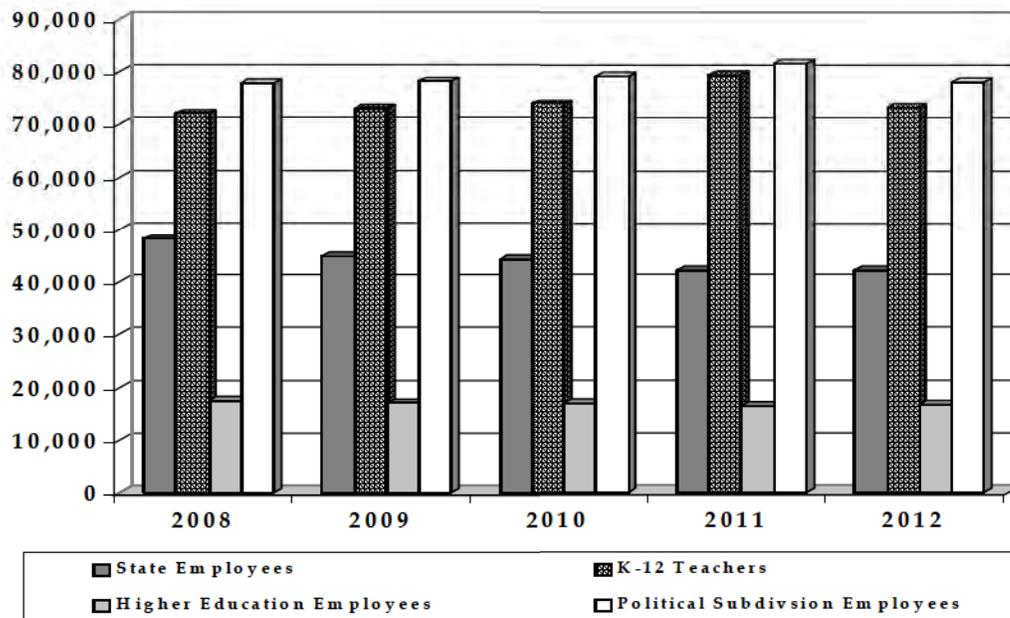
PERCENTAGE OF ACTIVE MEMBERS

by Salary



ACTIVE MEMBERS

Fiscal Years 2008-2012



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

Benefit Plan	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Regular	15,071	25,153	7,812	22,313	70,349
Option I	4,376	3,290	2,699	4,777	15,142
Option II	1,381	1,253	857	1,232	4,723
Option III	3,905	4,049	1,783	3,733	13,470
Option IV	2,650	3,661	1,371	1,878	9,560
S.S. Leveling	2,307	4,399	635	1,777	9,118
Others	45	23	5	64	137
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

- \*Regular Maximum Plan - No Survivor Benefits
- \*Option I 100% Joint and Survivor Annuity
- \*Option II 50% Joint and Survivor Annuity
- \*Option III 100% Joint and Survivor Annuity with Pop-up Feature
- \*Option IV 50% Joint and Survivor Annuity with Pop-up Feature
- \*S.S. Leveling Benefit Level Coordinated with Social Security

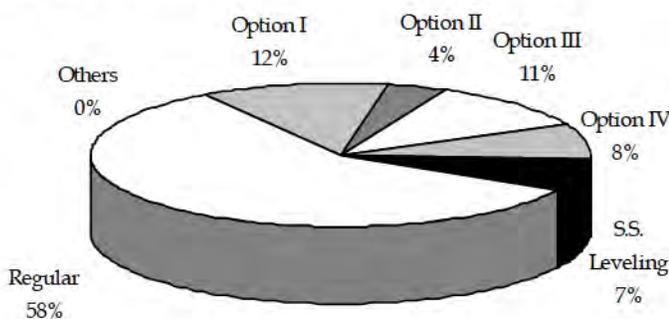
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Retirees:					
Service	23,169	35,122	11,854	27,743	97,888
Early	3,948	5,242	2,330	5,159	16,679
Disability	1,982	1,191	747	2,434	6,354
<b>Total Retirees</b>	<b>29,099</b>	<b>41,555</b>	<b>14,931</b>	<b>35,336</b>	<b>120,921</b>
Survivors	636	273	231	438	1,578
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

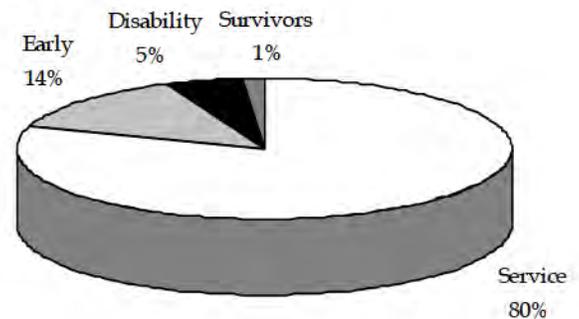
PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Average Monthly Benefit

STATE EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	9,097	6,339	1,796	735	227	4,949	1,517	369	1,164	634	456	8
501-1,000	7,084	4,712	1,228	972	172	3,872	1,069	280	904	542	405	12
1,001-1,500	4,904	3,998	592	219	95	2,509	616	199	640	401	523	16
1,501-2,000	3,548	3,226	211	45	66	1,666	442	130	524	377	402	7
2,001-2,500	2,185	2,082	69	6	28	936	261	104	293	303	286	2
2,501-3,000	1,250	1,203	29	3	15	527	171	65	173	169	145	0
3,001-3,500	668	641	14	0	13	264	110	59	103	88	44	0
3,501-4,000	379	368	5	0	6	134	66	38	55	59	27	0
over 4,000	620	600	4	2	14	214	124	137	49	77	19	0
<b>Totals</b>	<b>29,735</b>	<b>23,169</b>	<b>3,948</b>	<b>1,982</b>	<b>636</b>	<b>15,071</b>	<b>4,376</b>	<b>1,381</b>	<b>3,905</b>	<b>2,650</b>	<b>2,307</b>	<b>45</b>

TEACHERS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	4,609	3,467	973	150	19	2,919	485	180	503	304	217	1
501-1,000	6,027	3,856	1,661	459	51	3,728	672	190	603	484	348	2
1,001-1,500	6,877	5,004	1,419	398	56	3,892	590	185	755	587	863	5
1,501-2,000	8,305	7,347	744	150	64	4,618	598	218	982	862	1,018	9
2,001-2,500	7,552	7,169	318	29	36	4,689	419	193	644	722	882	3
2,501-3,000	4,313	4,194	87	4	28	2,666	271	130	303	354	586	3
3,001-3,500	2,112	2,075	26	1	10	1,301	122	69	149	177	294	0
3,501-4,000	1,017	1,000	11	0	6	637	66	42	66	88	118	0
over 4,000	1,016	1,010	3	0	3	703	67	46	44	83	73	0
<b>Totals</b>	<b>41,828</b>	<b>35,122</b>	<b>5,242</b>	<b>1,191</b>	<b>273</b>	<b>25,153</b>	<b>3,290</b>	<b>1,253</b>	<b>4,049</b>	<b>3,661</b>	<b>4,399</b>	<b>23</b>

HIGHER EDUCATION EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	5,209	3,748	1,089	306	66	3,039	842	243	569	331	184	1
501-1,000	3,570	2,476	707	340	47	1,998	596	157	394	310	115	0
1,001-1,500	2,156	1,739	302	81	34	1,056	363	143	252	224	117	1
1,501-2,000	1,344	1,170	132	15	27	568	257	87	186	158	87	1
2,001-2,500	859	783	57	3	16	333	185	54	126	104	56	1
2,501-3,000	631	596	21	2	12	248	128	47	90	81	37	0
3,001-3,500	444	424	12	0	8	189	97	33	57	48	20	0
3,501-4,000	308	294	6	0	8	100	77	25	52	43	10	1
over 4,000	641	624	4	0	13	281	154	68	57	72	9	0
<b>Totals</b>	<b>15,162</b>	<b>11,854</b>	<b>2,330</b>	<b>747</b>	<b>231</b>	<b>7,812</b>	<b>2,699</b>	<b>857</b>	<b>1,783</b>	<b>1,371</b>	<b>635</b>	<b>5</b>

POLITICAL SUBDIVISIONS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	20,982	15,672	3,605	1,496	209	13,918	2,766	598	2,030	937	718	15
501-1,000	8,223	6,292	1,040	775	116	5,330	1,035	256	832	403	348	19
1,001-1,500	3,210	2,708	305	134	63	1,705	455	156	414	202	257	21
1,501-2,000	1,598	1,423	128	19	28	693	235	85	242	137	200	6
2,001-2,500	815	753	48	6	8	295	133	49	115	92	129	2
2,501-3,000	438	410	20	4	4	159	62	39	50	50	78	0
3,001-3,500	224	210	8	0	6	74	37	27	31	30	25	0
3,501-4,000	124	120	3	0	1	65	22	7	8	10	11	1
over 4,000	160	155	2	0	3	74	32	15	11	17	11	0
<b>Totals</b>	<b>35,774</b>	<b>27,743</b>	<b>5,159</b>	<b>2,434</b>	<b>438</b>	<b>22,313</b>	<b>4,777</b>	<b>1,232</b>	<b>3,733</b>	<b>1,878</b>	<b>1,777</b>	<b>64</b>

SCHEDULES OF RETIRED MEMBERS

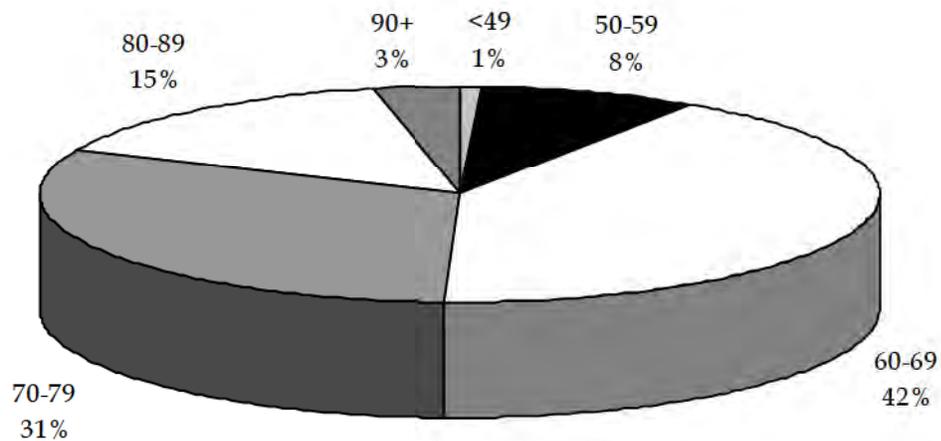
SCHEDULE OF RETIRED MEMBERS

by Current Age

Current Age	SETHEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 40	136	67	24	100	327
40-44	110	58	35	96	299
45-49	178	93	68	184	523
50-54	603	382	252	569	1,806
55-59	2,417	2,944	880	2,158	8,399
60-64	5,329	8,984	2,117	5,714	22,144
65-69	6,676	10,292	3,212	8,143	28,323
70-74	5,185	6,812	2,945	7,034	21,976
75-79	3,850	4,763	2,330	5,338	16,281
80-84	2,715	3,698	1,740	3,547	11,700
85-89	1,684	2,183	1,028	1,884	6,779
90-94	694	1,037	420	805	2,956
95-99	146	430	98	179	853
Over 99	12	85	13	23	133
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

PERCENTAGE OF TOTAL RETIRED MEMBERS

by Current Age



**SCHEDULES OF RETIRED MEMBERS**

**SCHEDULE OF RETIRED MEMBERS**

*by Date of Retirement*

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1950s	0	5	0	2	7
1960s	10	34	2	2	48
1970s	371	800	156	336	1,663
1980s	2,451	4,181	1,357	2,598	10,587
1990s	7,777	10,280	4,408	8,473	30,938
2000s	14,406	19,634	7,264	18,050	59,354
2011s	4,720	6,894	1,975	6,313	19,902
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

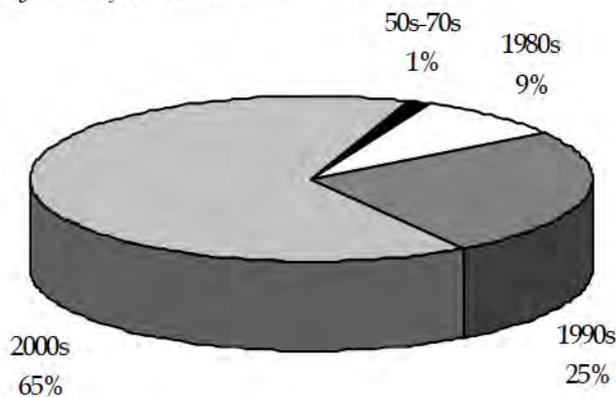
**SCHEDULE OF RETIRED MEMBERS**

*by Service Credit at Retirement*

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 10	6,181	3,218	2,984	8,076	20,459
10-14	3,791	2,706	2,083	6,552	15,132
15-19	3,236	3,106	1,814	5,689	13,845
20-24	3,486	4,449	1,841	5,157	14,933
25-29	3,157	5,580	1,678	3,942	14,357
30-34	6,195	14,249	2,867	4,443	27,754
35-39	2,420	6,019	1,213	1,380	11,032
40-44	1,003	2,163	525	439	4,130
Over 44	266	338	157	96	857
<b>Total</b>	<b>29,735</b>	<b>41,828</b>	<b>15,162</b>	<b>35,774</b>	<b>122,499</b>

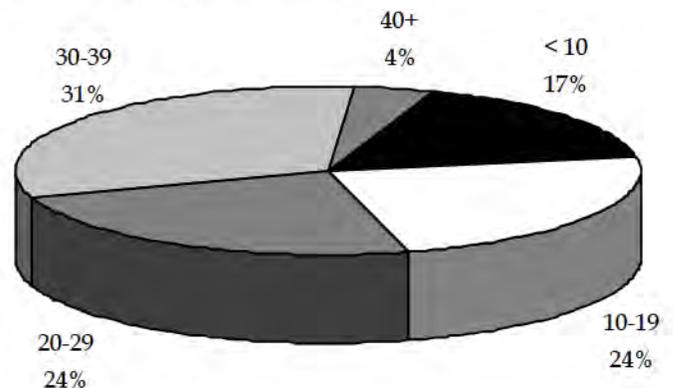
**PERCENTAGE OF RETIRED MEMBERS**

*by Date of Retirement*



**PERCENTAGE OF RETIRED MEMBERS**

*by Service Credit at Retirement*



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

UNITED STATES

Alabama	672	Maryland	77	South Carolina	290	Indonesia	1
Alaska	19	Massachusetts	25	South Dakota	20	Ireland	1
Arizona	138	Michigan	108	Tennessee	113,236	Italy	1
Arkansas	405	Minnesota	26	Texas	452	Japan	1
California	191	Mississippi	1,174	Utah	24	Kenya	1
Colorado	98	Missouri	159	Vermont	9	Mexico	1
Connecticut	13	Montana	15	Virginia	526	Panama	1
Delaware	7	Nebraska	15	Washington	53	Poland	1
District of Columbia	12	Nevada	45	West Virginia	36	Romania	1
Florida	1,255	New Hampshire	17	Wisconsin	28	South Africa	1
Georgia	1,124	New Jersey	32	Wyoming	12	South Australia	1
Hawaii	9	New Mexico	41	Total U.S.	<u>122,460</u>	Spain	1
Idaho	30	New York	66			Switzerland	1
Illinois	147	North Carolina	585	INT'L. COUNTRIES		Thailand	1
Indiana	117	North Dakota	3	Canada	9	UK	1
Iowa	21	Ohio	135	Chile	1	Total Foreign Countries	31
Kansas	39	Oklahoma	77	France	2	US Virgin Islands	1
Kentucky	627	Oregon	52	Germany	1	Overseas Military Bases	7
Louisiana	73	Pennsylvania	90	Ghana	1	Total U.S.	<u>122,460</u>
Maine	28	Rhode Island	7	Greece	2	Total U.S. & Foreign	<u>122,499</u>

TENNESSEE

Anderson	1,563	Fentress	387	Lauderdale	761	Roane	1,475
Bedford	679	Franklin	872	Lawerence	862	Robertson	1,062
Benton	358	Gibson	1,145	Lewis	294	Rutherford	3,461
Bledsoe	390	Giles	489	Lincoln	668	Scott	490
Blount	2,847	Grainger	350	Loudon	825	Sequatchie	328
Bradley	1,599	Greene	2,111	McMinn	921	Sevier	1,192
Campbell	847	Grundy	306	McNairy	495	Shelby	12,129
Cannon	324	Hamblen	1,286	Macon	263	Smith	369
Carroll	599	Hamilton	5,513	Madison	2,667	Stewart	220
Carter	1,730	Hancock	101	Marion	487	Sullivan	3,434
Cheatem	771	Hardeman	926	Marshall	533	Sumner	2,708
Chester	418	Hardin	652	Maury	1,119	Tipton	835
Claiborne	753	Hawkins	1,038	Meigs	181	Trousdale	181
Clay	162	Haywood	591	Monroe	731	Unicoi	415
Cocke	690	Henderson	386	Montgomery	2,683	Union	320
Coffee	944	Henry	854	Moore	131	VanBuren	242
Crockett	298	Hickman	544	Morgan	653	Warren	839
Cumberland	1,056	Houston	111	Obion	822	Washington	3,077
Davidson	8,503	Humphreys	452	Overton	524	Wayne	384
Decatur	259	Jackson	254	Perry	245	Weakley	1,052
Dekalb	327	Jefferson	978	Pickett	137	White	588
Dickson	920	Johnson	465	Polk	245	Williamson	2,418
Dyer	632	Knox	7,232	Putnam	2,155	Wilson	2,108
Fayette	989	Lake	237	Rhea	569	Total	<u>113,236</u>

**AVERAGE BENEFIT PAYMENTS SCHEDULE**

**AVERAGE BENEFIT PAYMENT SCHEDULE**

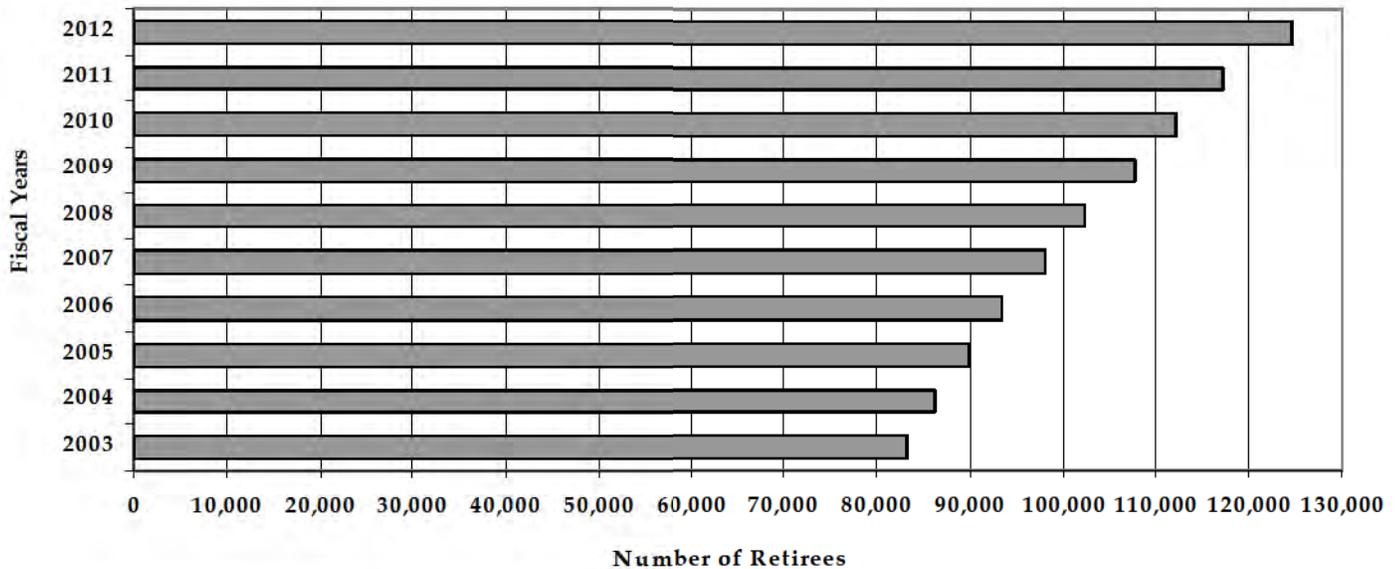
*Fiscal Year of Retirement*

		<b>Years of Service Credit</b>				
		<b>10 - 14</b>	<b>15 - 19</b>	<b>20 - 24</b>	<b>25 - 29</b>	<b>30 or more</b>
2003	Average Monthly Benefit	\$ 578	\$ 842	\$ 1,128	\$ 1,644	\$ 2,503
	Number of Retirees	353	340	329	374	1,527
	Average Final Salary	\$ 29,055	\$ 30,035	\$ 31,584	\$ 37,371	\$ 45,312
2004	Average Monthly Benefit	\$ 576	\$ 823	\$ 1,252	\$ 1,721	\$ 2,541
	Number of Retirees	409	353	381	403	1,901
	Average Final Salary	\$ 29,742	\$ 30,352	\$ 35,121	\$ 39,772	\$ 47,021
2005	Average Monthly Benefit	\$ 548	\$ 841	\$ 1,191	\$ 1,755	\$ 2,558
	Number of Retirees	385	405	407	408	1,900
	Average Final Salary	\$ 29,260	\$ 31,600	\$ 34,614	\$ 40,605	\$ 48,067
2006	Average Monthly Benefit	\$ 575	\$ 882	\$ 1,250	\$ 1,738	\$ 2,556
	Number of Retirees	428	376	467	408	2,069
	Average Final Salary	\$ 31,529	\$ 33,859	\$ 38,164	\$ 42,227	\$ 49,252
2007	Average Monthly Benefit	\$ 593	\$ 855	\$ 1,267	\$ 1,793	\$ 2,651
	Number of Retirees	643	440	536	513	2,191
	Average Final Salary	\$ 32,935	\$ 33,473	\$ 38,904	\$ 44,501	\$ 51,577
2008	Average Monthly Benefit	\$ 572	\$ 890	\$ 1,298	\$ 1,647	\$ 2,502
	Number of Retirees	581	478	522	410	2,062
	Average Final Salary	\$ 33,545	\$ 36,722	\$ 41,246	\$ 43,330	\$ 51,085
2009	Average Monthly Benefit	\$ 557	\$ 920	\$ 1,246	\$ 1,704	\$ 2,548
	Number of Retirees	675	566	672	572	2,616
	Average Final Salary	\$ 32,440	\$ 37,976	\$ 39,783	\$ 44,912	\$ 51,353
2010	Average Monthly Benefit	\$ 587	\$ 957	\$ 1,254	\$ 1,679	\$ 2,619
	Number of Retirees	666	508	608	595	2,259
	Average Final Salary	\$ 35,205	\$ 40,326	\$ 41,173	\$ 45,782	\$ 53,628
2011	Average Monthly Benefit	\$ 624	\$ 910	\$ 1,291	\$ 1,736	\$ 2,648
	Number of Retirees	792	685	736	652	2,405
	Average Final Salary	\$ 37,912	\$ 39,196	\$ 42,973	\$ 48,077	\$ 54,662
2012	Average Monthly Benefit	\$ 640	\$ 984	\$ 1,326	\$ 1,828	\$ 2,759
	Number of Retirees	718	616	633	630	2,284
	Average Final Salary	\$ 38,870	\$ 42,092	\$ 44,264	\$ 50,455	\$ 56,606

Note: This schedule represents the average monthly benefits under the maximum plan of members retiring with an unreduced service retirement benefit. It excludes members retiring with a reduced early retirement benefit or under disability.

**RETIRED MEMBERS ON PAYROLL  
AND PRIOR SERVICE ESTABLISHED**

**NUMBER OF RETIREES ON PAYROLL**  
*Fiscal Years 2003-2012*



**PRIOR SERVICE ESTABLISHED**  
*for the Year Ended June 30, 2012*

	Type of Service	Members	Years of Service	Payments
State:	Backpayment	102	108	\$ 381,004
	Military	89	170	9,038
	Redeposit	37	176	566,628
	<b>Totals</b>	<b>228</b>	<b>454</b>	<b>\$ 956,670</b>
Teachers:	Backpayment	53	16	\$ 599,127
	Military	35	73	1,815
	Redeposit	105	467	1,541,119
	<b>Totals</b>	<b>193</b>	<b>556</b>	<b>\$ 2,142,061</b>
Higher Education:	Backpayment	170	145	\$ 68,177
	Military	23	45	0
	Redeposit	11	34	86,936
	<b>Totals</b>	<b>204</b>	<b>224</b>	<b>\$ 155,113</b>
Political Subdivisions:	Backpayment	555	682	\$ 500,494
	Military	79	170	0
	Redeposit	37	157	323,173
	<b>Totals</b>	<b>671</b>	<b>1,009</b>	<b>\$ 823,667</b>
Grand Totals:	Backpayment	880	951	\$ 1,548,802
	Military	226	458	10,853
	Redeposit	190	834	2,517,856
	<b>Totals</b>	<b>1,296</b>	<b>2,243</b>	<b>\$ 4,077,511</b>

**TREASURY RETIREMENT INSTALLMENT PLAN**

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative payment method for members who have prior service to be established. Previously, prior service payments were required to be made in a lump sum payment. TRIP has allowed these members to establish their prior service by making monthly installment payments in the form of Automated Clearing House (ACH) withdrawals from a designated bank account. Service is credited to the member's account once the balance has been paid off.

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for prior service, a statement is generated showing a lump sum payment. In addition, TRIP information is given with regard to financing over 6 to 60 months. The member may elect to finance the entire amount or elect to make a down payment and finance the balance. The member may choose, at any time, to pay off the remaining balance.

**TREASURY RETIREMENT INSTALLMENT PLAN**

*Payments Received for the Year Ended June 30, 2012*

	Type of Service	Number of Members	Total Years of Service	Payments (Net of Refunds)
State:	Backpayment	1	4	\$ 3,121
	Military	0	0	0
	Redeposit	16	90	53,382
	<b>Totals</b>	<u>17</u>	<u>94</u>	<u>\$ 56,503</u>
Teachers:	Backpayment	8	8	\$ 15,077
	Military	0	0	0
	Redeposit	34	146	183,915
	<b>Totals</b>	<u>42</u>	<u>154</u>	<u>\$ 198,992</u>
Higher Education:	Backpayment	3	6	\$ 3,877
	Military	0	0	0
	Redeposit	4	12	11,501
	<b>Totals</b>	<u>7</u>	<u>18</u>	<u>\$ 15,378</u>
Political Subdivisions:	Backpayment	13	62	\$ 35,437
	Military	0	0	0
	Redeposit	36	204	92,055
	<b>Totals</b>	<u>49</u>	<u>266</u>	<u>\$ 127,492</u>
Grand Totals:	Backpayment	25	80	\$ 57,512
	Military	0	0	0
	Redeposit	90	452	340,853
	<b>Totals</b>	<u>115</u>	<u>532</u>	<u>\$ 398,365</u>

**REFUND ACTIVITY AND POLITICAL SUBDIVISION PARTICIPATION**

**REFUND ACTIVITY**

<b>For the Year Ended June 30</b>	<b>Number of Refunds Processed</b>	<b>Amount Refunded</b>
2003	4,540	\$ 26,631,386
2004	4,688	29,925,762
2005	4,724	30,815,700
2006	5,916	34,710,966
2007	4,830	36,343,972
2008	6,569	45,975,984
2009	3,896	32,029,927
2010	5,154	36,422,653
2011	4,500	35,539,393
2012	4,349	40,091,553

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees and certain political subdivisions, resulting in fewer refunds for members withdrawing from the system.

**POLITICAL SUBDIVISION PARTICIPATION**

*Schedule by Category*

<b>Year Ended June 30</b>	<b>Number of Cities</b>	<b>Number of Counties</b>	<b>Miscellaneous Political Subdivisions</b>	<b>Total</b>
2003	160	88	170	418
2004	163	88	179	430
2005	169	88	187	444
2006	173	88	196	457
2007	177	88	202	467
2008	177	89	207	473
2009	177	89	216	482
2010	177	89	220	486
2011	176	89	218	483
2012	178	89	221	488

## HISTORICAL EMPLOYER CONTRIBUTION RATES

### HISTORICAL EMPLOYER CONTRIBUTION RATES

*Expressed as a Percentage of Salary*

Year Ended	State	Teachers	Higher Education
June 30	Employees		Employees
2003	7.30	3.40	7.30
2004 (1)	7.29	3.39	7.29
2005	10.54	5.50	10.54
2006 (2)	10.31	5.50	10.31
2007	13.62	6.13	13.62
2008	13.62	6.24	13.62
2009	13.02	6.42	13.02
2010	13.02	6.42	13.02
2011	14.91	9.05	14.91
2012	14.91	9.05	14.91

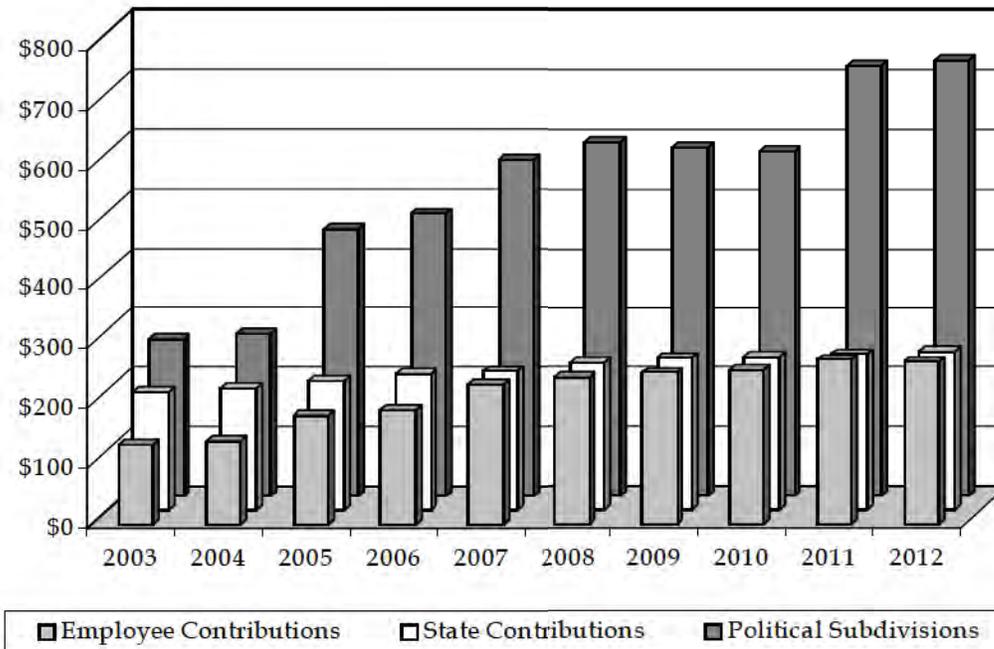
The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

- (1) As part of a statewide request for budget reductions, TCRS reduced the administrative component of the employer contribution rate by 0.01%.
- (2) A reduction in the contribution was made due to return to work reform.

### RETIREMENT CONTRIBUTIONS

*Fiscal Years 2003-2012*

*Expressed in Millions*



SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEEPP

2012				2003			
Participating Government	Covered Employees	Rank	% of Total System	Participating Government	Covered Employees	Rank	% of Total System
Teachers	138,542	1	50.81%	Teachers	110,672	1	49.38%
State Employees	91,704	2	33.64%	State Employees	76,888	2	34.30%
Higher Education Employees	42,406	3	15.55%	Higher Education Employees	36,582	3	16.32%
Total	<u>272,652</u>		<u>100.00%</u>	Total	<u>224,142</u>		<u>100.00%</u>

PSPP

2012				2003			
Participating Government	Covered Employees	Rank	% of Total System	Participating Government	Covered Employees	Rank	% of Total System
Memphis City Schools	8,736	1	5.70%	Memphis City Schools	6,963	1	5.98%
Hamilton County	6,211	2	4.05%	Hamilton County	5,961	2	5.12%
Rutherford County	3,723	3	2.43%	Shelby County	3,178	3	2.73%
Williamson County	3,704	4	2.42%	Montgomery County	2,503	4	2.15%
Shelby County	3,658	5	2.39%	Rutherford County	2,468	5	2.12%
Montgomery County	3,495	6	2.28%	Williamson County	2,340	6	2.01%
Sumner County	3,236	7	2.11%	Sullivan County	2,306	7	1.98%
Sullivan County	2,463	8	1.61%	Sumner County	2,236	8	1.92%
Johnson City	2,064	9	1.35%	Kingsport	1,863	9	1.60%
Kingsport	2,045	10	1.33%	Johnson City	1,851	10	1.59%
Others	<u>113,891</u>		<u>74.33%</u>	Others	<u>84,764</u>		<u>72.80%</u>
Total	<u>153,226</u>		<u>100.00%</u>	Total	<u>116,433</u>		<u>100.00%</u>

**INTRODUCTION TO POLITICAL SUBDIVISION PARTICIPATION**

**PARTICIPANTS**

TCRS has established pension plans for four groups of public employees: state employees, higher education employees, teachers and the employees of governmental entities (political subdivisions). Employees of political subdivisions may participate in TCRS if the entity's governing body authorizes participation and accepts all liability associated with coverage for their employees.

Participation is subject to the approval of the Board of Trustees. At June 30, 2012, there were 488 political subdivisions participating in TCRS.

Participation as of June 30, 2012:

Cities	178
Counties	89
Utility Districts	66
Special School Districts	19
Joint Ventures	22
Housing Authorities	11
911 Emergency Communication Districts	47
Miscellaneous Authorities	<u>56</u>
Total	488

**ADMINISTRATION**

TCRS administers the pension plan for political subdivisions in accordance with state statute. Each employer is responsible for the pension cost for its employees. The cost is not shared with other political subdivisions nor with the state. A separate fund balance is maintained by the retirement system for each participating political subdivision and employer contribution rates are determined individually.

**APPLICATION**

To apply for TCRS participation, the chief governing body of the political subdivision must first pass a resolution authorizing an actuarial study to estimate the potential cost of participation. Once the governing body has had an opportunity to review the estimated pension cost and liability, a second resolution must then be passed in order to authorize TCRS participation. Political subdivisions electing TCRS coverage accept the liability for pension benefits to be accrued by their employees.

**COVERAGE**

A political subdivision is required to offer coverage under the same terms and conditions to all the employees of each of its departments and agencies.

Political subdivisions have the option of purchasing or allowing their employees to purchase retirement credit for service rendered prior to the employer's date of participation. The amount of prior service allowed may be limited.

Political subdivisions opting to join TCRS do so under the plan provisions that exist at the time of their participation. Subsequent legislative changes, however, are optional if they result in increased cost to the political subdivision. These optional improvements may be adopted by resolutions approved by the chief governing body.

**THE TCRS PROVIDES  
THE ADMINISTRATION  
OF A RETIREMENT  
PROGRAM FOR 488  
LOCAL GOVERNMENTS.**

OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

<p><b>MEMBERSHIP</b></p> <ul style="list-style-type: none"> <li>❖ Optional membership for part-time employees</li> <li>❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years.</li> </ul> <p><b>CONTRIBUTIONS</b></p> <ul style="list-style-type: none"> <li>❖ Employee contributions at a level five percent both below and above the Social Security wage base.</li> <li>❖ Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code.</li> <li>❖ Noncontributory retirement plan</li> <li>❖ Discontinue noncontributory retirement plan and implement contributory retirement plan for new employees</li> <li>❖ Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation</li> </ul> <p><b>CREDITABLE SERVICE</b></p> <ul style="list-style-type: none"> <li>❖ Credit for service credit lost as a result of advanced age</li> <li>❖ Service credit for unused sick leave</li> <li>❖ Service credit for military service during periods of armed conflict at no cost to the employee</li> <li>❖ Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment</li> <li>❖ Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975</li> <li>❖ Purchase of service credit for probation period</li> </ul>	<p><b>SURVIVOR BENEFITS</b></p> <ul style="list-style-type: none"> <li>❖ 100 percent joint and survivor spouse death benefit for members with 10 years of service</li> <li>❖ Provide inactive members with certain death and disability benefits</li> <li>❖ 50 percent of five year average salary benefits for surviving spouse for members killed in the line of duty</li> </ul> <p><b>RETIREMENT BENEFITS</b></p> <ul style="list-style-type: none"> <li>❖ Provide current retirees and members a five percent increase in base retirement benefit</li> <li>❖ Discontinue five percent increase in base retirement benefit for new employees</li> <li>❖ The actuarial equivalent of an age 65 benefit for employees retiring after age 65</li> <li>❖ 25-year retirement with actuarially reduced benefits</li> <li>❖ Minimum benefit level increase to \$8, \$14, \$20 per year of service</li> <li>❖ Mandatory retirement with supplemental bridge benefit for public safety officers</li> <li>❖ Service retirement at age 55 with 25 years of service for public safety officers</li> <li>❖ Discontinue enhanced public safety officer benefits for new public safety officers</li> </ul> <p><b>RETIRED MEMBERS</b></p> <ul style="list-style-type: none"> <li>❖ Exclusion of cost-of-living adjustments at the date of participation for all employees or at a later date for new employees</li> <li>❖ Compounded cost-of-living adjustment (COLA) to current and future retirees</li> </ul>
---	--

**POLITICAL SUBDIVISION PARTICIPANTS**

<p><b>911 EMERGENCY COMMUNICATION DISTRICTS</b></p> <p>Campbell County Carroll County Carter County Cheatham County Chester County Claiborne County Cocke County DeKalb County Fayette County Fentress County Gibson County Grainger County Greene County Hamblen County Hamilton County Hardeman County Hardin County Hawkins County Humphreys County Jefferson County Johnson County Lauderdale County Lawrence County Loudon County Macon County Madison County Maury County McNairy County Monroe County Montgomery County Overton County Roane County Robertson County Rutherford County Scott County Sequatchie County Sevier County Shelby County Sullivan County Tipton County Union County Van Buren County Warren County Washington County Weakley County White County Wilson County</p> <p><b>CITIES</b></p> <p>Adams Alamo Alcoa Ashland City Athens* Atoka</p>	<p>Atwood Baileyton Baxter Belle Meade Bells Benton Big Sandy Bluff City Bolivar Bradford Brentwood Brighton Bristol Brownsville Byrdstown Camden Carthage Caryville Centerville Charleston Charlotte Church Hill Clarksville Cleveland Clifton Clinton Collegedale Collinwood Cookeville Cornersville Cowan Crossville Cumberland Dandridge Dayton Decatur Decaturville Decherd Dickson Dover Ducktown Dunlap Dyer East Ridge Elizabethton Erin Erwin Estill Springs Etowah Fairview Fayetteville Friendship Friendsville Gainesboro Gatlinburg Gleason Goodlettsville Gordonsville</p>	<p>Greenbrier Greeneville Greenfield Harriman Hartsville Henderson Hendersonville Hohenwald Humboldt Huntland Jacksboro Jackson Jamestown Jefferson City Jonesborough Kenton Kimball Kingsport Kingston Kingston Springs Lafayette Lafollette Lake City Lakeland Lawrenceburg Lebanon Lenoir City* Linden Livingston Lobelville Lookout Mountain Loretto Loudon Luttrell Madisonville Manchester Martin Maryville Maury City Maynardville McEwen McKenzie McMinnville Medina Middleton Milan Millersville Millington Monterey Morrison Morristown Moscow Mosheim Mountain City Mt. Carmel Mt. Juliet Munford Murfreesboro*</p>	<p>New Johnsonville New Tazewell Newport Nolensville Norris Oak Ridge Oakland Obion Oliver Springs Paris Parsons Pegram Pikeville Pittman Center Pleasant View Portland Puryear Red Bank Ripley Rockwood Rogersville* Rutherford Rutledge Savannah Selmer Sevierville Signal Mountain Soddy Daisy Somerville South Carthage South Pittsburg Sparta Spencer Spring Hill Spring City Springfield Surgoinville Sweetwater Tazewell Tellico Plains Townsend Trenton Tusculum Unicoi Union City Vonore Watauga Waverly Waynesboro Westmoreland White Bluff White House White Pine Whiteville Whitwell Woodbury</p>	<p><b>COUNTIES</b></p> <p>Anderson Bedford Benton Bledsoe Blount Bradley Campbell Cannon Carroll Carter Cheatham Chester Claiborne Clay Cocke Coffee Crockett Cumberland Decatur DeKalb Dickson Fayette Fentress Franklin Gibson Giles Grainger Greene Grundy Hamblen Hamilton Hardeman Hardin Hawkins Haywood Henderson Henry Hickman Humphreys Jackson Jefferson Johnson Lake Lauderdale Lawrence Lewis Lincoln Loudon Macon Madison Marion Marshall Maury McMinn McNairy Monroe Montgomery</p>	<p>Moore* Morgan Obion Overton Perry Pickett Polk Putnam Rhea Roane Robertson Rutherford Scott Sequatchie Sevier Shelby* Smith Stewart Sullivan Sumner Tipton Trousdale Unicoi Union Van Buren Warren Washington Wayne Weakley White Williamson Wilson</p> <p><b>HOUSING AUTHORITIES</b></p> <p>Bristol Clinton Cookeville Hartsville Hohenwald Lawrenceburg Maryville Memphis Morristown Rockwood Sweetwater</p> <p><i>*All departments not covered by TCRS.</i></p> <p><i>(continued)</i></p>
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POLITICAL SUBDIVISION PARTICIPANTS  
(CONTINUED)

**JOINT VENTURES**

Argie Cooper Public Library  
 Bradley-Cleveland Civil Defense  
 Bradley-Cleveland Comm. Svc. Agency  
 Clarksville/Montgomery Co. Public Lib.  
 Clarksville/Montgomery Co. Reg.  
 Plan. Comm.  
 Cleveland/Bradley Co. E-911  
 Edward Gauche Fisher Public Library  
 Fayetteville/Lincoln Co. Public Library  
 Gorham/MacBane Public Library  
 Johnson City/Washington Co. EMS  
 Kinser Park  
 Lawrence Co. Library  
 Linebaugh Public Library  
 Morristown/Hamblen Co. Landfill  
 Sevier Solid Waste  
 Smyrna/Rutherford Co. Airport Auth.  
 Tellico Area Svc. System  
 Tri-City Airport Comm.  
 Tri-County Vocational School  
 W. G. Rhea Public Library  
 Washington Co./Johnson City Animal  
 Control Center  
 Wilson Emergency Mgt. Agency

**MISCELLANEOUS AGENCIES**

Anderson Co. Economic Dev. Assoc.  
 Anderson Co. Water Authority  
 Beech River Watershed  
 Blount County Fire Protection Dist.  
 Blount County Library  
 Books from Birth  
 Carter County Tomorrow  
 Cocke Co. Partnership, Inc.  
 County Officials Assoc. of Tenn.  
 Delta Human Resource Agency  
 Douglas Cherokee Economic Auth.  
 East Tenn. Community Svc. Agency  
 Fayetteville-Lincoln Co. Ind. Dev. Bd.  
 First Tenn. Dev. District  
 First Tenn. Human Resource Agency  
 Four Lake Reg. Industrial Dev. Auth.  
 Greater Nashville Regional Council  
 Hamilton Co. Comm. Svc. Agency  
 Knox Co. Community Services Agency  
 Loudon Co. Economic Dev. Agency  
 Mid-Cumberland Comm. Svc. Agency  
 Networks Sullivan Partnership  
 Northeast Community Svc. Agency  
 Northwest Tenn. Comm. Svc. Agency  
 Sequatchie Valley Plan. & Dev. Dist.  
 Sevier Co. Economic Dev. Council  
 Shelby Co. Community Svc. Agency  
 South Central Tenn. Comm. Serv. Ag.  
 South Central Tenn. Dev. Dist.  
 South Central Tenn. Workforce Board  
 Southeast Tenn. Comm. Svc. Agency

Southeast Tenn. Dev. District  
 Southeast Tenn. Human Res. Agency  
 Southwest Tenn. Comm. Svc. Agency  
 Southwest Tenn. Dev. District  
 Southwest Tenn. Human Res. Agency  
 Tenn. Assoc. of Assessing Officers  
 Tenn. Assoc. of County Mayors  
 Tenn. Co. Commissioners Assoc.  
 Tenn. Co. Highway Officials Assoc.  
 Tenn. County Services Assoc.  
 Tenn. Duck River Dev. Agency  
 Tenn. Education Assoc.  
 Tenn. Historical Society  
 Tenn. Municipal Bond Fund  
 Tenn. Municipal League  
 Tenn. Municipal League Risk Mgt. Pool  
 Tenn. School Board Assoc.  
 Tenn. Secondary Sch. Athletic Assoc.  
 Tenn. Sheriffs Assoc.  
 Tenn. State Employees Assoc.  
 Tenn. Veterans Home Board  
 Upper Cumberland Community  
 Services Agency  
 Upper Cumberland Human Res. Agency  
 Upper East Tenn. Human Dev. Agency  
 Workforce Solutions

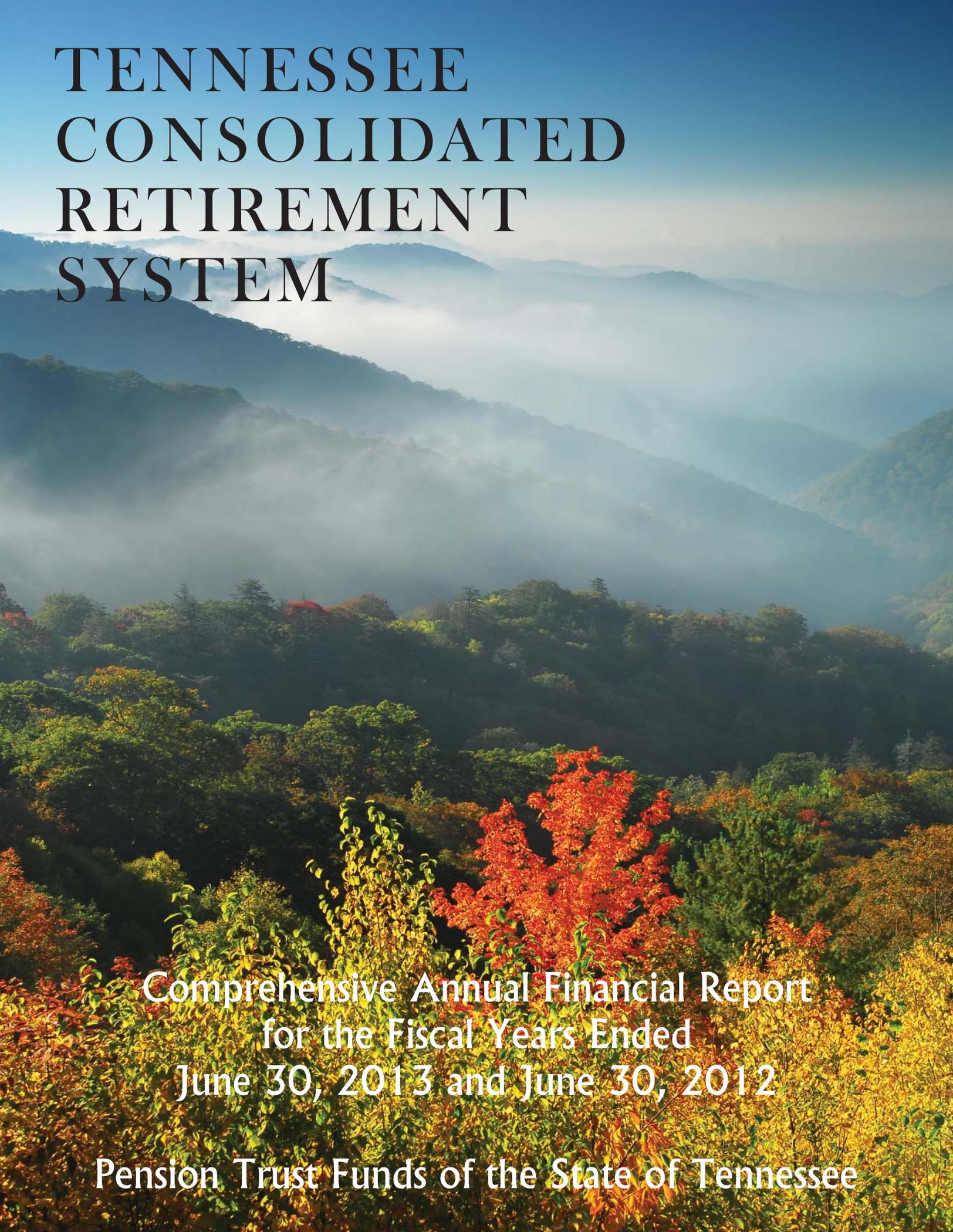
**SPECIAL SCHOOL DISTRICTS**

Bradford  
 Clinch Powell Education Coop.  
 Elizabethton Board of Education  
 Franklin  
 Gibson County Schools District  
 Hollow Rock-Bruceston  
 Huntingdon  
 Lebanon  
 Little Tenn. Valley Education Coop.  
 McKenzie  
 Memphis  
 Milan  
 Oak Ridge Board of Education  
 Oneida  
 Paris  
 South Carroll Special School District  
 Trenton  
 Union City Board of Education  
 West Carroll County

**UTILITY DISTRICTS**

Alpha-Talbott  
 Arthur Shawnee  
 Big Creek  
 Bloomingdale  
 Bondecroft  
 Bristol Electric System  
 Cagle Fredonia Utility District  
 Castalian Springs/Bethpage  
 Chuckey Utility District  
 Citizen's Gas

Consolidated Utility District of  
 Rutherford County  
 County Wide  
 Crab Orchard  
 Cross Anchor Utility District  
 Cumberland Utility District of Roane  
 and Morgan Counties  
 DeWhite  
 Double Springs  
 Dyersburg Suburban  
 East Fork  
 East Montgomery  
 East Side  
 Fall Creek Falls  
 First Carter County  
 First Tipton County  
 First Hawkins County  
 Gladeville  
 Glen Hills  
 Greater Dickson Gas Authority  
 Greeneville Light & Power  
 Hampton  
 Hardeman-Fayette County  
 Hendersonville  
 Hixson  
 Jackson County  
 Johnson City Power Bd.  
 Lake County  
 Lakeview  
 Lincoln County Board of Public Utilities  
 Loudon  
 Middle Tennessee  
 New Market  
 North Utility District of Decatur and  
 Benton Counties  
 Northeast Henry County  
 Oak Ridge  
 O'Connor Utility District  
 Old Gainesboro Road  
 Old Hickory  
 Paris-Henry Utility District  
 Persia  
 Plateau  
 Poplar Grove  
 Quebec-Walling  
 Reelfoot Lake Regional  
 Riceville  
 River Road  
 Savannah Valley  
 Sevier County  
 Siam  
 Sylvia-Tennessee City Pond Water  
 Sneedville  
 Soddy Daisy-Falling Water  
 Smith  
 South Elizabethton  
 Weakley County Municipal Electric  
 Webb Creek  
 West Overton



# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Comprehensive Annual Financial Report  
for the Fiscal Years Ended  
June 30, 2013 and June 30, 2012

Pension Trust Funds of the State of Tennessee

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2013 AND JUNE 30, 2012  
PENSION TRUST FUNDS OF THE STATE OF TENNESSEE

PREPARED BY:

STATE OF TENNESSEE TREASURY DEPARTMENT  
502 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0201  
(615) 741-7063

[TCRS.TN.GOV](http://TCRS.TN.GOV)

DAVID H. LILLARD, JR., STATE TREASURER  
JILL BACHUS, TCRS DIRECTOR

*The cover and divider pages within this report feature the beautiful scenery found throughout the Great Smoky Mountains in Gatlinburg, Tennessee along with the lyrics of songs adopted as “state songs”.*

This report is available in its entirety on the Internet at:  
[www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf](http://www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf)



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Treasury Department, January 2014, Authorization #309209, 250 copies.  
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# MY TENNESSEE

Written by Frances Hannah Trantum

Adopted in 1955 as the official public school song

*Beloved state, oh state of mine,  
In all the world I could not find,  
Where God has strewn with lavish hand,  
More natural beauty o'er the land  
From ev'ry stream and valley green  
His wond'rous art is ever seen  
Ah, let my heart beat true to thee,  
And swell with pride for Tennessee*

*Thy rocks and rills, and wooded hills,  
My mem'ry keeps the childhood thrills  
You gave to me, that I might know  
The joys supreme, you could bestow  
The song of birds, the whisp'ring trees,  
The low of herds, the hum of bees,  
It all comes back so dear to me,  
My childhood home in Tennesseee*

*Your battles fought, and vict'ries won,  
Your freedom bought and duty done,  
With daughters fair, and sons so brave,  
To do and dare, their deeds they gave  
Courageously, without a fear,  
And won the name of volunteer  
In sacred trust, let those who will,  
By being just, preserve it still*

## *Chorus*

*Oh, Tennessee, My Tennessee,  
Thy hills and vales are fair to see,  
With mountains grand, and fertile lands  
There is no state more dear to me  
Thro' other climes tho I may roam,  
There will be times I'll long for home,  
In Tennessee, Fair Tennessee,  
The land of my nativity*

GFOA CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Tennessee Consolidated  
Retirement System**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

A handwritten signature in black ink, reading "Jeffrey R. Egan".

Executive Director/CEO

**PUBLIC PENSION COORDINATING COUNCIL AWARD**

---



**Public Pension Coordinating Council**

***Public Pension Standards Award  
For Funding and Administration  
2013***

Presented to

***Tennessee Consolidated Retirement System***

**In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.**

*Presented by the Public Pension Coordinating Council, a confederation of*

**National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)**

A handwritten signature in cursive script that reads "Alan H. Winkle".

**Alan H. Winkle  
Program Administrator**

## CHAIRMAN OF THE BOARD'S LETTER

STATE OF TENNESSEE

DAVID H. LILLARD, JR.  
STATE TREASURER615.741.2956  
David.Lillard@tn.govTREASURY DEPARTMENT  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

November 18, 2013

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the twenty-sixth consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

**Administration:** To better serve our members, the TCRS website (located at [www.tn.gov/treasury/tcrs](http://www.tn.gov/treasury/tcrs)) includes a benefit calculation module which allows members to input a limited amount of data to obtain a retirement benefit estimate. Furthermore, TCRS forms and up-to-date information are available online to assist our members and participating employers. TCRS is currently in a multi-year project to develop a new pension administration system. The new system will use a web-based approach, providing enhanced member access and employer reporting.

**Investments:** The 2013 fiscal year was challenging for all investors and the TCRS portfolio experienced a modest gain of 9.9%. This return was one of the best results of any comparable pension plan. Both short and longer-term results are a function of a risk-averse investment program which preserves capital in difficult environments.

**Financial Soundness of the Plan:** TCRS is considered one of the best-funded pension plans in the nation. TCRS has received a AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's (S&P), the highest possible ratings issued by this nationally-recognized rating agency. The actuarial valuation, as of July 1, 2011, reported a combined state and teacher funding ratio of over 92 percent.

The General Assembly, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, invest the system assets in a prudent manner without undue risk, fund the system on an actuarially-strong basis and provide the best possible services to the members in the system.

Sincerely,

A handwritten signature in cursive script that reads "David Lillard".

David H. Lillard, Jr., State Treasurer  
Chairman of the Board

---

**LETTER OF TRANSMITTAL**

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**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

November 15, 2013

Board of Trustees  
Tennessee Consolidated Retirement System  
Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) comprehensive annual financial report for the fiscal year ended June 30, 2013. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records. These internal controls have been created to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely derived, and second, the valuation of the cost and benefits requires estimates and judgments by management. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management's Discussion and Analysis located in the Financial Section of this report.

## **PROFILE OF TCRS**

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers and employees of political subdivisions electing to participate in TCRS. The State of Tennessee is responsible for the pension benefits of state employees and higher education employees and funds a significant portion of the

*(continued)*

**LETTER OF TRANSMITTAL  
(CONTINUED)**

retirement liability for teachers through the Basic Education Program. Each of the 487 participating political subdivisions is responsible for the pension benefits of its employees. TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability and retirement benefits; and processing refund and prior service requests.

**ECONOMIC CONDITION**

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial "advanced funding" method is used to provide for the accumulation of assets to fund the cost of retirement, disability and death benefits provided by the system. The funding objective of TCRS is being met as the state and political subdivisions continue to make contributions to the plan at the rates established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm every two years to determine the funding requirements for the employers participating in TCRS. On July 1, 2011, the plan had a combined state and teacher funding ratio of 92 percent. The July 1, 2011 actuarial valuation utilized the assumptions generated from the June 30, 2008 experience study and provided the employer contribution rates effective July 1, 2012 through June 30, 2014. Experience studies are performed on a quadrennial basis. The results of the June 30, 2012 experience study will be incorporated into the July 1, 2013 actuarial valuation.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment return for fiscal year 2013 was 9.9%.

Because TCRS is a well-funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. The investment market outlook continues to create significant challenges in meeting the 7.5 percent investment return assumed by TCRS. A premium will continue to be placed on security selection.

*(continued)*

**LETTER OF TRANSMITTAL  
(CONTINUED)**

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**AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its comprehensive annual financial report for the fiscal year that ended June 30, 2012. This was the twenty-fifth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The GFOA Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TCRS is also the recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The TCRS investment program was named "Large Public Plan of the Year" by *Money Management Intelligence*, which is a subsidiary of *Institutional Investor* magazine, a leading investment periodical.

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers and other interested parties.



Jill Bachus  
TCRS Director



Michael Brakebill  
Chief Investment Officer

## ADMINISTRATION AND MISSION

### ADMINISTRATION

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of TCRS are among the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department, which support the operations of TCRS, include Information Systems, Accounting, Management Services, Internal Audit and Human Resources. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the State of Tennessee. Funding for the operation of TCRS is provided by three sources. The State of Tennessee is responsible for the operation cost associated with state employees and higher education employees. Local education agencies are responsible for the operation cost related to K-12 teachers. Political subdivisions are responsible for the operation cost associated with their employees.

### MISSION

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission is accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and Insurance and the TCRS membership through the following objectives:

- ❖ *Exemplary Service* – To provide accurate, courteous and prompt service to members of TCRS.
- ❖ *Benefit Standards* – To provide retirement coverage through TCRS, Social Security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ *Funding Standards* – To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ *Staffing* – To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ *Research* – To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ *Management* – To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently while providing the highest level of service.
- ❖ *Ethical Standards* – To maintain the highest ethical standards.
- ❖ *Investment Return* – To obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay benefits when due.

**THE COUNCIL ON PENSIONS AND INSURANCE**

**THE COUNCIL ON PENSIONS AND INSURANCE**

Created as a legislative oversight committee, the Council on Pensions and Insurance develops, recommends and establishes pension and retirement standards and maintains a progressive state policy on retirement. Additionally, the Council reviews legislation affecting state-provided insurance programs for both active and retired members of the Tennessee Consolidated Retirement System.

The Council periodically reviews Tennessee’s retirement and state-provided insurance provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems, including those of other states, private industry and the federal government’s Social Security program. All proposed legislation affecting Tennessee’s retirement laws must be reviewed by the Council before the legislature may take action. The Council is

authorized to prepare and propose amendments which are then forwarded to the standing committees. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of the TCRS director also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer and the Director of TCRS.

**VOTING MEMBERS - SENATORS**



**Douglas Henry**  
*Finance, Ways and Means  
Chairman Emeritus*



**James Kyle**



**Randy McNally**  
*Council Vice Chair  
Finance, Ways and Means  
Chair*



**Mark Norris**



**Doug Overbey**  
*Finance, Ways and Means  
Second Vice-Chair*



**Ron Ramsey**  
*Speaker of the Senate*



**Jim Tracy**  
*Speaker’s Designee*



**Bo Watson**  
*Finance, Ways and Means  
First Vice-Chair*

*(continued)*

**THE COUNCIL ON PENSIONS AND INSURANCE  
(CONTINUED)**

**VOTING MEMBERS – REPRESENTATIVES**



**David Alexander**  
*Finance, Ways and Means  
Vice-Chair*



**Kent Calfee**  
*Speaker's Designee*



**Craig Fitzhugh**



**Michael Harrison**



**Beth Harwell**  
*Speaker of the House*



**Steve McDaniel**



**Charles Sargent**  
*Council Chair  
Finance, Ways & Means  
Chair*



**Johnny Shaw**

**NON-VOTING MEMBERS**



**Jill Bachus**  
*TCRS Director*



**Rebecca Hunter**  
*Commissioner of Human Resources*



**David H. Lillard, Jr.**  
*State Treasurer*



**Larry Martin**  
*Commissioner of Finance & Administration*



**Justin Wilson**  
*Comptroller of the Treasury*

**THE BOARD OF TRUSTEES**

**THE BOARD OF TRUSTEES**

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (*T.C.A.*, Title 8, Chapters 34-37). The 20-member Board meets quarterly and is subject to the call of the chair for special meetings. Nine voting members constitute a quorum and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, nine representatives of the active TCRS membership and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions and Insurance (as nonvoting members), the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chair of the Board and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; one public safety officer and three representatives of local governments. Retiree representation includes a retired teacher and a retired state employee.

Three teachers and one retired teacher are selected for three-year terms by the Speaker of the Senate and the Speaker of the House of Representatives. State employees elect two representatives who also serve three-year terms.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. The public safety representative and the state retiree representative are appointed by the Governor. All employee representatives must be vested members of TCRS.

**ELECTED OR APPOINTED MEMBERS**



**Michael Barker**  
*Retired Teacher*  
Term Expires: June 30, 2016



**Priscilla Bright**  
*State Employee*  
Term Expires: June 30, 2016



**Kevin Fielden**  
*East Tennessee Teacher*  
Term Expires: June 30, 2016



**Angie Judish**  
*State Employee*  
Term Expires: June 30, 2016



**Bill Kemp**  
*Tennessee County Officials Association*  
Term Expires: June 30, 2015



**Gill Kendrick**  
*Public Safety*  
Term Expires: June 30, 2016

*(continued)*

**THE BOARD OF TRUSTEES  
(CONTINUED)**

**ELECTED OR APPOINTED MEMBERS** *(continued)*



**Alfred Laney**  
*Retired State Employee*  
Term Expires:  
June 30, 2015



**Patsy Moore**  
*West Tennessee Teacher*  
Term Expires:  
June 30, 2014



**Harold Morrison**  
*Middle Tennessee Teacher*  
Term Expires:  
June 30, 2015



**Ken Wilber**  
*TN Municipal League*  
Term Expires:  
June 30, 2015



**Robert Wormsley**  
*TN County Servs. Assoc.*  
Term Expires:  
June 30, 2015

**EX-OFFICIO MEMBERS**



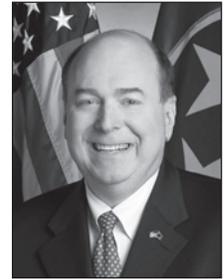
**Jill Bachus**  
*TCRS Director*



**Tre Hargett**  
*Secretary of State*



**Rebecca Hunter**  
*Commissioner of Human Resources*



**David H. Lillard, Jr.**  
*State Treasurer*



**Larry Martin**  
*Commissioner of Finance & Administration*



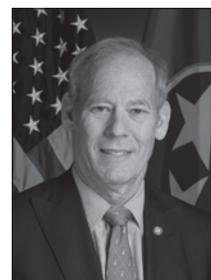
**Randy McNally**  
*Council Vice-Chair*



**Charles Sargent**  
*Council Chair*



**Libby Sykes**  
*Administrative Director of the Courts*



**Justin Wilson**  
*Comptroller of the Treasury*

**PROFESSIONAL CONSULTANTS**

**PROFESSIONAL CONSULTANTS**

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on page 46.

**INVESTMENT ADVISORY COUNCIL**

The Investment Advisory Council (IAC) was established to assist both the Board of Trustees and the TCRS investment staff. The investment professionals on the IAC serve three-year or five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA (retired)  
Nashville, Tennessee

Henry Delicata  
Park Street Capital  
Boston, Massachusetts

Susan Logan Huffman, CFA  
Reliant Investment Management, LLC  
Memphis, Tennessee

George B. Stadler, CFA  
HMS Capital Management, LLC  
Nashville, Tennessee

Chuck Webb, CFA  
Weaver C. Barksdale & Associates  
Brentwood, Tennessee

Carol B. Womack  
Diversified Trust  
Nashville, Tennessee

**GENERAL INVESTMENT AND STRATEGIC LENDING CONSULTANT**

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Pete Keliuotis  
Strategic Investment Solutions, Inc.  
San Francisco, California

**PRIVATE EQUITY CONSULTANT**

Sheila Ryan  
Cambridge Associates LLC  
Boston, Massachusetts

**REAL ESTATE INVESTMENT CONSULTANT AND ADVISORS**

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Martin Rosenberg  
The Townsend Group  
Cleveland, Ohio

The real estate investment advisors identify prospective real estate transactions and provide asset management services.

Paul M. Canning  
UBS Realty Investors LLC  
Hartford, Connecticut

Paul Edwards  
Capri Capital Partners LLC  
Chicago, Illinois

Tim Ellsworth  
RREEF America LLC  
Chicago, Illinois

Rob Greer  
Clarion Partners LLC  
Washington, DC

Lawrence Ostow  
J.P. Morgan Investment Management, Inc.  
New York, New York

Reid Parker  
TA Realty LLC  
Boston, Massachusetts

Steve Wallace  
Cornerstone Real Estate Advisers LLC  
Chicago, Illinois

*(continued)*

## PROFESSIONAL CONSULTANTS (CONTINUED)

### INTERNATIONAL EQUITY INVESTMENT MANAGERS

The international equity investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Sue Curran  
Pyramis Global Advisors, LLC  
Smithfield, Rhode Island

Jill Farrell  
American Century Investments  
Kansas City, Missouri

Jane Henderson  
Walter Scott & Partners, Ltd.  
Edinburgh, Scotland, UK

Dawn Henry  
GE Asset Management, Inc.  
Stamford, Connecticut

Robert Job  
PanAgora Asset Management, Inc.  
Boston, Massachusetts

Susan Marshall  
Baring Asset Management, Inc.  
Boston, Massachusetts

Wilson Phillips  
Marathon Asset Management  
London WC2H 9EA, UK

Molly Sodeinde  
TT International  
London, EC2Y 5ET, UK

### MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

Northern Trust Company  
Chicago, Illinois

### THE MEDICAL BOARD

The Medical Board evaluates applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, the panel reviews medical data submitted by disabled retirees who are subject to periodic evaluation. The Medical Board consists of the following:

Suzanne Fletcher, M.D.  
Brentwood, Tennessee

Thomas Mullady, M.D.  
Chattanooga, Tennessee

Barry R. Siegel, M.D.  
Memphis, Tennessee

### CONSULTING ACTUARY

An independent consulting firm performs an actuarial valuation every two years to determine the funding status of the TCRS and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Justin Thacker  
Bryan, Pendleton, Swats & McAllister, LLC  
Brentwood, Tennessee

### OTHER PROFESSIONAL SERVICES

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These officers are as follows:

Robert E. Cooper, Jr.  
Attorney General/Reporter  
Nashville, Tennessee

Justin P. Wilson  
Comptroller of the Treasury  
Nashville, Tennessee

**TREASURY DEPARTMENT EXECUTIVE STAFF**

**TREASURER'S OFFICE**

Treasurer .....	David H. Lillard, Jr., JD .....	615-741-2956
Chief of Staff .....	Joy Harris .....	615-741-2956
Staff Assistant to the Treasurer .....	Joshua Stites .....	615-741-2956
Executive Assistant to the Treasurer .....	Heather Sczepczenski .....	615-741-2956

**TCRS INVESTMENTS**

Assistant Treasurer, Investments .....	Bill Abney, JD .....	615-532-1167
Chief Investment Officer .....	Michael Brakebill, CFA .....	615-532-1157
Deputy CIO and Fixed Income Director .....	Andrew Palmer, CFA .....	615-532-1183
Equity Director .....	Michael Keeler, CFA .....	615-532-1165
Real Estate Interim Director .....	Matthew Haitas, CPA .....	615-741-2704
Private Equity Interim Director .....	Daniel Crews, CFA .....	615-532-8720
Assistant CIO/Director of Cash Management .....	Tim McClure, CTP .....	615-532-1166

**RETIREMENT ADMINISTRATION**

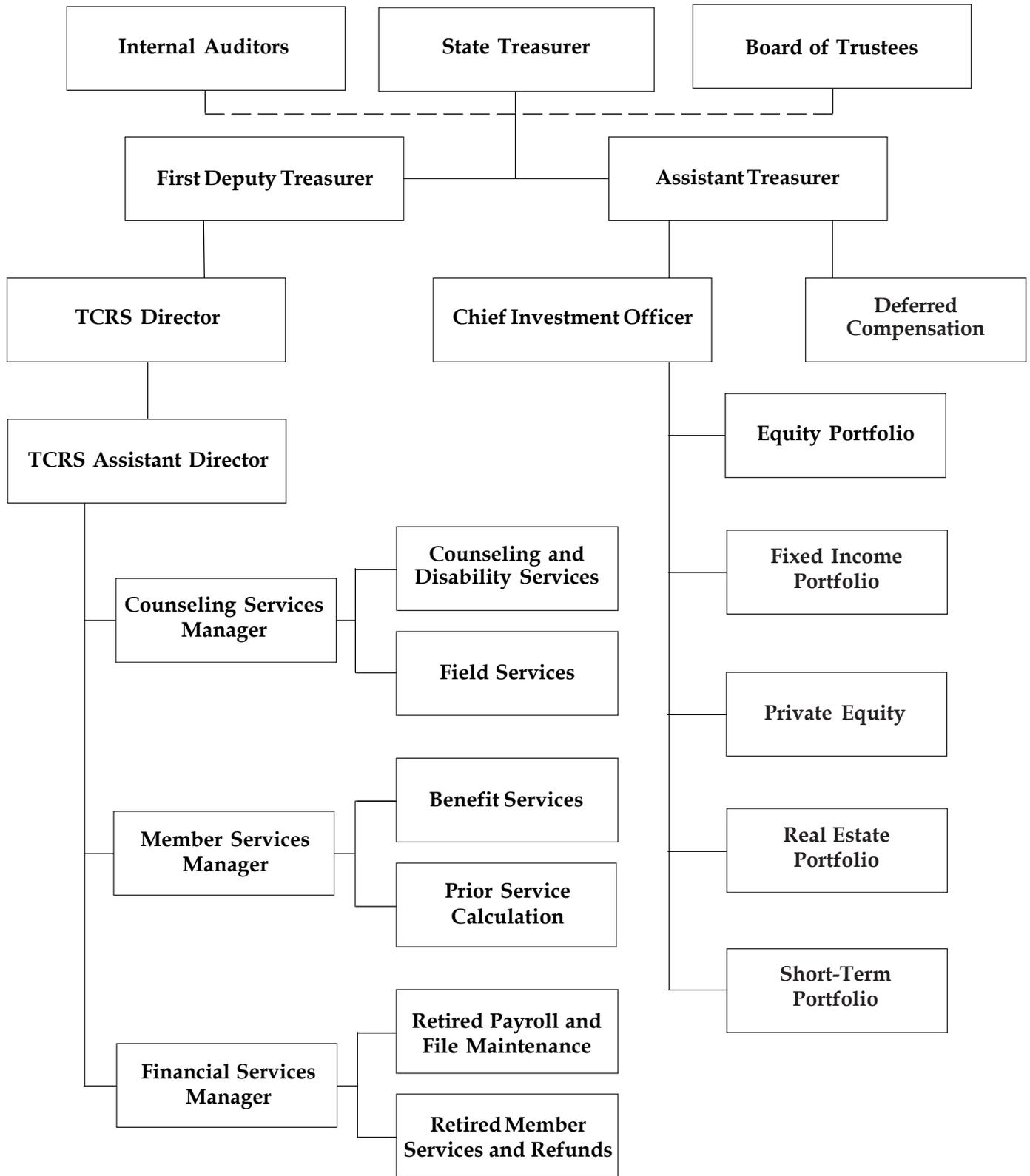
TCRS Director .....	Jill Bachus, CPA .....	615-741-7063
TCRS Assistant Director .....	Jamie Wayman, CPA .....	615-741-7063
Administrator of Old Age and Survivors Insurance .....	Mary Griffin, JD .....	615-741-7902
Manager of Counseling Services .....	Candy O'Leary .....	615-741-1971
Manager of Member Benefits .....	Erica Nale .....	615-741-4868
Manager of Financial Services .....	Keevia Battle, CPA .....	615-741-4913

**TREASURY DIVISIONS**

First Deputy Treasurer, Program Services .....	Steven Curry, CPA-inactive, CEBS, CCM .....	615-532-8045
Second Deputy Treasurer, Support Services .....	Rick DuBray, CPA .....	615-253-5764
Assistant Treasurer, Legal, Compliance and Audit .....	Christy A. Allen, JD .....	615-253-3853
Compliance Officer .....	Jennifer Selliers .....	615-253-6921
Senior Director of Program Services .....	Steve Summerall .....	615-253-4115
Director of Deferred Compensation .....	Kaci Lantz, CFP® .....	615-532-2347
Director of Accounting .....	Kim Morrow, CPA .....	615-532-3840
Deputy Director of Accounting .....	Brian Derrick, CPA .....	615-532-8051
Assistant Director of Accounting .....	Kevin Bradley, CPA .....	615-532-3846
Director of Information Systems .....	Tim Sundell .....	615-532-0734
Director of Management Services .....	Kerry Hartley, CPA .....	615-532-8552
Director of Internal Audit .....	Andy Furlong, CPA .....	615-253-2018

*The Treasurer is housed on the 1<sup>st</sup> floor of the State Capitol Building.  
Divisions are housed on the 13<sup>th</sup>, 14<sup>th</sup> and 15<sup>th</sup> floors of the Andrew Jackson Building.*

**ORGANIZATION CHART**



# ROCKY TOP

By Boudleaux and Felice Bryant  
Adopted in 1982

*Wish that I was on ol' Rocky Top,  
down in the Tennessee hills;  
Ain't no smoggy smoke on Rocky Top;  
Ain't no telephone bills;  
Once I had a girl on Rocky Top;  
Half bear, other half cat;  
Wild as a mink, but sweet as soda pop,  
I still dream about that;*

*Once two strangers climbed ol' Rocky Top,  
lookin' for a moonshine still;  
Strangers ain't come down from Rocky Top;  
Reckon they never will;  
Corn won't grow at all on Rocky Top;  
Dirt's too rocky by far;  
That's why all the folks on Rocky Top  
get their corn from a jar;*

*I've had years of cramped-up city life  
Trapped like a duck in a pen;  
All I know is it's a pity life  
Can't be simple again*

*Chorus*

*Rocky Top, you'll always be  
home sweet home to me;  
Good ol' Rocky Top;  
Rocky Top, Tennessee;  
Rocky Top, Tennessee*

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## INDEPENDENT AUDITOR'S REPORT



STATE OF TENNESSEE  
 COMPTROLLER OF THE TREASURY  
 DEPARTMENT OF AUDIT  
 DIVISION OF STATE AUDIT  
 SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING  
 NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897  
 FAX (615) 532-2765

Members of the General Assembly  
 Members of the Board of Trustees  
 The Honorable David H. Lillard, Jr., Treasurer

### Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, as of June 30, 2013, and June 30, 2012, the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Tennessee Consolidated Retirement System's basic financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Tennessee Consolidated Retirement System as of June 30, 2013, and June 30, 2012, and the changes in plan net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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**INDEPENDENT AUDITOR'S REPORT**  
**(CONTINUED)**

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***Emphasis of Matters***

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2013, and June 30, 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note C, the financial statements of the Tennessee Consolidated Retirement System include investments valued at \$2,112,637,040 (5.62 percent of net position) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying financial information, listed as supporting schedules in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee Consolidated Retirement System's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA  
Director  
December 12, 2013

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2013 and June 30, 2012. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

### FINANCIAL HIGHLIGHTS

- The plan net position (total assets minus total liabilities) of the TCRS at June 30, 2013 was \$37.6 billion, increasing \$2.7 billion (7.6 percent) from the plan net position at June 30, 2012. The net position is restricted for future benefit obligations.
- The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2011, the date of the latest actuarial valuation, the TCRS' funded ratio was 92.1 percent for the SETHEEPP group and 89.2 percent for the PSPP group.
- Contribution revenue for fiscal year 2013 totaled \$1,278,982,124 an increase of one percent compared to fiscal year 2012.
- Net investment income for fiscal year 2013 was \$3,344,589,259. During fiscal year 2013, the TCRS received an investment return on its portfolio of 9.9 percent, compared to 5.6 percent for fiscal year 2012.
- Total benefits and refunds paid for fiscal year 2013 were \$1,963,260,297 – representing an increase of 8.5 percent over fiscal year 2012 total benefits and refunds paid of \$1,809,901,340.
- Total administrative expenses for fiscal year 2013 were \$8,178,696 – representing an increase of 14.1 percent from fiscal year 2012 administrative expenses of \$7,166,606.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Position* (on pages 24 through 25), the *Statement of Changes in Plan Net Position* (on pages 26 through 27), and the *Notes to the Financial Statements* (on pages 28 through 40). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis*, as well as the schedules on pages 41 through 46.

The *Statement of Plan Net Position* and the *Statement of Changes in Plan Net Position* report information about the plan net position (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in the plan net position during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statement of Plan Net Position*, or net position restricted for pension benefits, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The *Statement of Changes in Plan Net Position* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net position of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two basic financial statements, the reader should also review the *Schedules of Funding Progress* and the *Schedules of Employer Contributions* to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment obligations. The *Notes to the Financial Statements* are also essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

**ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET POSITION**

At June 30, 2013, the TCRS had plan net position (total assets in excess of total liabilities) of \$37.6 billion, an increase of \$2.7 billion (7.6 percent) from \$34.9 billion at June 30, 2012, following the fiscal year 2012 increase of nearly \$1.2 billion (3.7 percent) from the \$33.7 billion of plan net position as of June 30, 2011. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of investment return for the year since contributions stayed at the same level. Condensed financial information comparing the TCRS' plan net position for the past three fiscal years follows:

**PLAN NET POSITION**

	June 30, 2013	June 30, 2012	FY13 - FY12 Percentage Change	June 30, 2011	FY12 - FY11 Percentage Change
<b>ASSETS</b>					
Cash and cash equivalents	\$732,917,328	\$426,627,425	71.8 %	\$414,134,562	3.0 %
Member and employer receivables	105,368,164	107,108,579	(1.6) %	99,604,471	7.5 %
Investment receivables	1,851,534,173	1,044,714,969	77.2 %	1,431,331,905	(27.0) %
Short-term securities	74,880,166	19,781,452	278.5 %	0	-- %
Long-term investments	36,550,793,912	34,272,630,084	6.6 %	33,220,879,536	3.2 %
Capital assets	21,887,170	11,426,938	91.5 %	1,896,671	502.5 %
<b>TOTAL ASSETS</b>	<u>39,337,380,913</u>	<u>35,882,289,447</u>	9.6 %	<u>35,167,847,145</u>	2.0 %
<b>LIABILITIES</b>					
Death benefits, refunds and other payables	50,816,303	10,193,417	398.5 %	8,544,407	19.3 %
Investment payables	1,721,659,248	959,323,058	79.5 %	1,495,994,494	(35.9) %
<b>TOTAL LIABILITIES</b>	<u>1,772,475,551</u>	<u>969,516,475</u>	82.8 %	<u>1,504,538,901</u>	(35.6) %
<b>NET POSITION RESTRICTED FOR PENSION BENEFITS</b>					
	<u>\$37,564,905,362</u>	<u>\$34,912,772,972</u>	7.6 %	<u>\$33,663,308,244</u>	3.7 %

**ANALYSIS OF REVENUES AND EXPENSES**

Employer contribution rates for the TCRS changed during fiscal year 2013 resulting in a 1.0 percent increase in contributions from fiscal year 2012 to fiscal year 2013. Employer contribution rates for the TCRS did not change during fiscal year 2012; therefore, the slight change of 0.8 percent in contributions from fiscal year 2011 to fiscal year 2012 was due to changes in salary. Gross investment income for fiscal year 2013 increased \$1.5 billion (84.5 percent) over fiscal year 2012 compared to fiscal year 2012 when gross investment income decreased \$3.7 billion (67.0 percent) from investment income for fiscal year 2011.

Investment expenses for fiscal year 2013 increased \$5.1 million (15.9 percent) due to the increase in portfolio market value during the year. Investment expenses for fiscal year 2012 increased a slight \$166 thousand (0.5 percent). Although market conditions continued to show improvement in fiscal year 2012 which resulted in an overall gain to the TCRS investment portfolio of 5.61 percent and net investment income of \$1.8 billion, the return was not as high as the prior fiscal year.

Total benefits and refunds paid during the year ended June 30, 2013 were \$1,963,260,297, an increase of 8.5 percent over fiscal year 2012 total benefits and refunds paid which can be attributed to an increase in retirees and a 3.0% cost of living adjustment. Total benefits and refunds paid during the year ended June 30, 2012 were \$1,809,901,340, an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid. The increase in benefit expenses for fiscal year 2012 is

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

attributed to 1.5 percent in cost of living adjustments awarded to retirees on July 1, 2011, as well as more retirees being added to payroll than removed during this fiscal year. Total refunds paid increased \$4.5 million (12.81 percent) in fiscal year 2012 from fiscal year 2011 and could be attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested.

Administrative expenses for the year ended June 30, 2013 were \$8,178,696, an increase of 14.1 percent from fiscal year 2012 administrative expenses. The increase was primarily due to the first phase of the new pension administration system being implemented in the last quarter of fiscal year 2012. The first full year of amortization of software development costs was recognized in fiscal year 2013. Administrative expenses for the year ended June 30, 2012 were \$7,166,606, a slight increase of 0.14 percent over fiscal year 2011 administrative expenses.

Condensed financial information comparing the TCRS' revenues and expenses for the past three fiscal years follows:

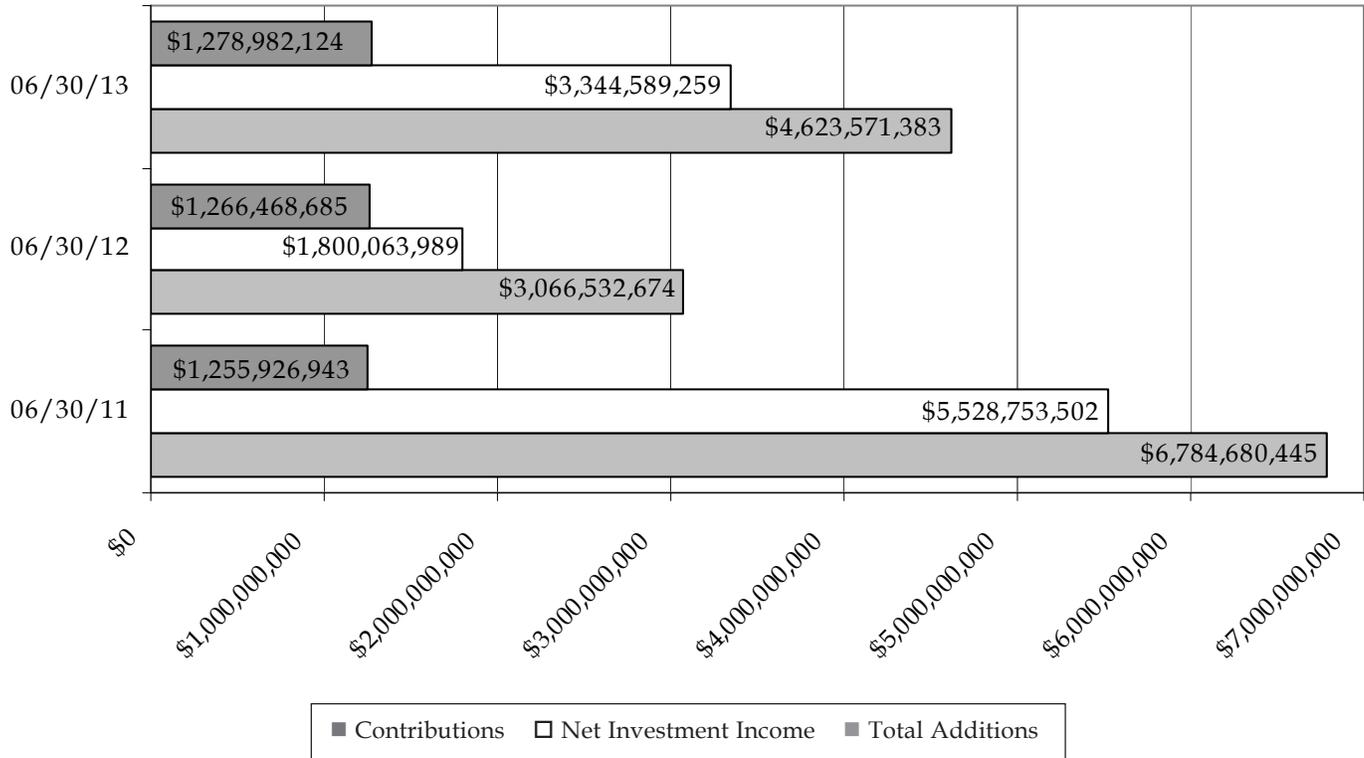
**CHANGES IN PLAN NET POSITION**

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012	FY13 - FY12 Percentage Change	For the Year Ended June 30, 2011	FY12 - FY11 Percentage Change
<b>ADDITIONS</b>					
Contributions	\$ 1,278,982,124	\$ 1,266,468,685	1.0 %	\$ 1,255,926,943	0.8 %
Investment income					
Net appreciation in fair value of investments	2,334,383,940	825,366,874	182.8 %	4,597,653,001	(82.0) %
Interest, dividends and other investment income	1,047,724,725	1,007,076,475	4.0 %	963,313,744	4.5 %
Less: Investment expense	(37,519,406)	(32,379,360)	15.9 %	(32,213,243)	0.5 %
Net investment income	3,344,589,259	1,800,063,989	85.8 %	5,528,753,502	(67.4) %
<b>TOTAL ADDITIONS</b>	<b>4,623,571,383</b>	<b>3,066,532,674</b>	<b>50.8 %</b>	<b>6,784,680,445</b>	<b>(54.8) %</b>
<b>DEDUCTIONS</b>					
Annuity benefits	1,918,686,339	1,763,605,581	8.8 %	1,647,372,937	7.1 %
Death benefits	5,056,081	6,204,207	(18.5) %	5,498,139	12.8 %
Refunds	39,517,877	40,091,552	(1.4) %	35,539,393	12.8 %
Administrative expenses	8,178,696	7,166,606	14.1 %	7,156,822	0.1 %
<b>TOTAL DEDUCTIONS</b>	<b>1,971,438,993</b>	<b>1,817,067,946</b>	<b>8.5 %</b>	<b>1,695,567,291</b>	<b>7.2 %</b>
<b>NET INCREASE</b>	<b>2,652,132,390</b>	<b>1,249,464,728</b>	<b>112.3 %</b>	<b>5,089,113,154</b>	<b>(75.4) %</b>
<b>NET POSITION RESTRICTED FOR PENSION BENEFITS</b>					
BEGINNING OF YEAR	34,912,772,972	33,663,308,244	3.7 %	28,574,195,090	17.8 %
END OF YEAR	\$ 37,564,905,362	\$ 34,912,772,972	7.6 %	\$ 33,663,308,244	3.7 %

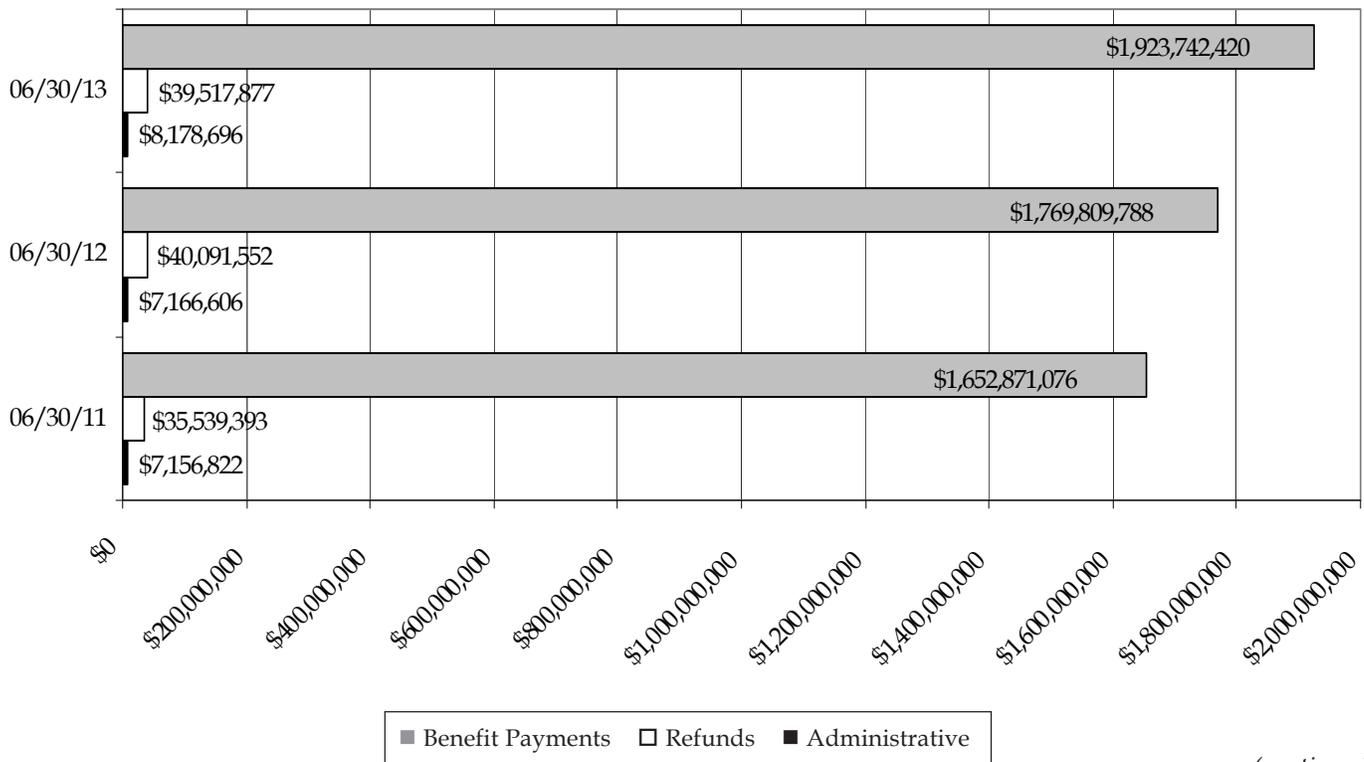
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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

**REVENUES BY TYPE**



**EXPENSES BY TYPE**



(continued)

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

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**ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK**

For the year ended June 30, 2013 the portfolio delivered a return of 9.92 percent which exceeded the actuarial required return by 2.42 percent. The return of the portfolio for the 2013 fiscal year was satisfying on an absolute basis, but it underperformed most peers in a reversal of its superior relative performance for the 2012 fiscal year. The primary driver of the change in relative performance was the lower risk strategic posture of the fund versus peers which led it to exceptional results in 2012 and then commensurately weaker relative results in 2013.

The strong results for risky assets in the 2013 fiscal year were exemplified by the 20.39 percent return for the U.S. Equity portfolio and the 17.90 percent return for the International Equity portfolio. In a reversal from the 2012 fiscal year, bond returns were poor and the U.S. Fixed Income portfolio lost a modest 0.81 percent versus a gain of 15.63 percent in the prior year. Treasury Inflation Protected Securities (TIPS) lost 5.28 percent which was also a reversal of the 12.22 percent gain they delivered in 2012.

The investment environment in 2013 was defined by a move into higher risk assets from lower risk assets. Investors sought to escape rising interest rates and also aimed to participate in stronger future economic growth than previously anticipated. Actual economic growth rates and corporate earnings were muted, which means that valuation expansion was the key driver of equity returns.

An actuarial valuation was performed as of July 1, 2011. The employer contribution rates determined in this valuation are effective July 1, 2012 through June 30, 2014. The required contributions to the plan increased primarily due to (1) investment returns being less than the actuarial earnings assumption and (2) members and retirees living longer. An actuarial experience study based on data as of June 30, 2012 was completed and adopted by the Board of Trustees during fiscal year 2013.

In December 2010, TCRS contracted with Deloitte Consulting, LLC, to provide a new pension administration system to replace the retirement information system. The new pension administration system, referred to as Concord, will replace five separate operating systems with one integrated web-based system that will greatly improve the level of service we provide to our members and employers. The multi-year Concord project will be implemented in three major phases: document imaging, retired payroll, and active member. The first and second phases of Concord have been implemented by the end of fiscal year 2013. Software development costs have been capitalized and are being amortized over the useful life of the system as each phase is implemented. The third and final phase will be implemented during fiscal year 2014.

During the 2013 legislative session, a new pension plan for state employees, higher education and K-12 public school teachers hired on or after June 30, 2014 was enacted into law. Members and retirees currently enrolled in TCRS will remain in the legacy plan. The new hybrid plan contains elements of a defined benefit plan and a defined contribution plan. The goals of the new plan were to provide a sufficient retirement benefit to members, a long term sustainable pension plan, and an affordable plan to employers. The new plan contains provisions to control employer cost and unfunded liability.

**CONTACTING THE TCRS**

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 502 Deaderick Street, Nashville, TN 37243-0201.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET POSITION**  
**JUNE 30, 2013 AND JUNE 30, 2012**

*Expressed in Thousands*

	<b>State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)</b>	<b>Political Subdivisions Pension Plan (PSPP)</b>
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 594,870</u>	<u>\$ 138,047</u>
Receivables		
Member receivable	21,879	5,490
Employer receivable	57,248	20,752
Accrued interest receivable	73,005	16,942
Accrued dividends receivable	48,110	11,164
Real estate income receivable	1,129	262
Derivative instruments receivable	837,403	194,326
Investments sold	<u>543,151</u>	<u>126,042</u>
Total receivables	<u>1,581,925</u>	<u>374,978</u>
Investments, at fair value		
Short-term securities	60,776	14,104
Government securities	6,801,041	1,578,237
Corporate securities	4,075,011	945,639
Corporate stocks	17,075,653	3,962,545
Derivative instruments	25	6
Private equities	221,369	51,370
Real estate	<u>1,493,353</u>	<u>346,545</u>
Total investments	<u>29,727,228</u>	<u>6,898,446</u>
Capital assets (net)	<u>17,765</u>	<u>4,122</u>
<b>TOTAL ASSETS</b>	<u><b>31,921,788</b></u>	<u><b>7,415,593</b></u>
<b>LIABILITIES</b>		
Accounts payable		
Death benefits and refunds payable	1,338	1,369
Retiree insurance premium payable	6,285	1,459
Other	54	0
Investments purchased	544,371	126,326
Derivative instruments payable	846,267	196,383
Due to other funds	32,719	7,592
Other investment payables	<u>6,747</u>	<u>1,566</u>
<b>TOTAL LIABILITIES</b>	<u><b>1,437,781</b></u>	<u><b>334,695</b></u>
<b>NET POSITION RESTRICTED FOR PENSION BENEFITS</b>	<u><b>\$ 30,484,007</b></u>	<u><b>\$ 7,080,898</b></u>

*See accompanying Notes to the Financial Statements.*

*(continued)*

(CONTINUED)

June 30, 2013 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2012 Total
<u>\$ 732,917</u>	<u>\$ 348,330</u>	<u>\$ 78,297</u>	<u>\$ 426,627</u>
27,369	21,313	6,001	27,314
78,000	56,430	23,364	79,794
89,947	79,795	17,936	97,731
59,274	42,658	9,588	52,246
1,391	680	153	833
1,031,729	319,335	71,779	391,114
<u>669,193</u>	<u>410,516</u>	<u>92,275</u>	<u>502,791</u>
<u>1,956,903</u>	<u>930,727</u>	<u>221,096</u>	<u>1,151,823</u>
74,880	16,152	3,630	19,782
8,379,278	6,736,847	1,514,288	8,251,135
5,020,650	4,627,801	1,040,222	5,668,023
21,038,198	15,374,082	3,455,739	18,829,821
31	531	119	650
272,739	142,025	31,924	173,949
<u>1,839,898</u>	<u>1,101,467</u>	<u>247,585</u>	<u>1,349,052</u>
<u>36,625,674</u>	<u>27,998,905</u>	<u>6,293,507</u>	<u>34,292,412</u>
<u>21,887</u>	<u>9,330</u>	<u>2,097</u>	<u>11,427</u>
<u>39,337,381</u>	<u>29,287,292</u>	<u>6,594,997</u>	<u>35,882,289</u>
2,707	1,475	1,537	3,012
7,744	5,678	1,276	6,954
54	227	0	227
670,697	467,947	105,184	573,131
1,042,650	308,316	69,303	377,619
40,311	0	0	0
<u>8,313</u>	<u>7,000</u>	<u>1,573</u>	<u>8,573</u>
<u>1,772,476</u>	<u>790,643</u>	<u>178,873</u>	<u>969,516</u>
<u>\$ 37,564,905</u>	<u>\$ 28,496,649</u>	<u>\$ 6,416,124</u>	<u>\$ 34,912,773</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**

*Expressed in Thousands*

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ADDITIONS		
Contributions		
Member contributions	\$ 196,792	\$ 71,765
Employer contributions	735,886	274,539
Total contributions	<u>932,678</u>	<u>346,304</u>
Investment income		
Net appreciation in fair value of investments	1,899,653	434,731
Interest	380,175	87,002
Dividends	402,619	92,138
Real estate income, net of operating expenses	69,813	15,977
Total investment income	<u>2,752,260</u>	<u>629,848</u>
Less: Investment expense	<u>(30,532)</u>	<u>(6,987)</u>
Net investment income	<u>2,721,728</u>	<u>622,861</u>
TOTAL ADDITIONS	<u>3,654,406</u>	<u>969,165</u>
DEDUCTIONS		
Annuity benefits	1,639,031	279,655
Death benefits	3,051	2,006
Refunds	19,520	19,998
Administrative expense	5,446	2,732
TOTAL DEDUCTIONS	<u>1,667,048</u>	<u>304,391</u>
NET INCREASE	1,987,358	664,774
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>28,496,649</u>	<u>6,416,124</u>
END OF YEAR	<u>\$ 30,484,007</u>	<u>\$ 7,080,898</u>

*See accompanying Notes to the Financial Statements.*

*(continued)*

(CONTINUED)

For the Year Ended June 30, 2013 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2012 Total
\$ 268,557	\$ 194,180	\$ 69,576	\$ 263,756
<u>1,010,425</u>	<u>731,352</u>	<u>271,361</u>	<u>1,002,713</u>
<u>1,278,982</u>	<u>925,532</u>	<u>340,937</u>	<u>1,266,469</u>
2,334,384	675,639	149,728	825,367
467,177	414,344	91,816	506,160
494,757	353,064	78,237	431,301
85,790	56,987	12,628	69,615
<u>3,382,108</u>	<u>1,500,034</u>	<u>332,409</u>	<u>1,832,443</u>
(37,519)	(26,384)	(5,995)	(32,379)
<u>3,344,589</u>	<u>1,473,650</u>	<u>326,414</u>	<u>1,800,064</u>
<u>4,623,571</u>	<u>2,399,182</u>	<u>667,351</u>	<u>3,066,533</u>
1,918,686	1,509,512	254,093	1,763,605
5,057	4,515	1,689	6,204
39,518	22,575	17,517	40,092
8,178	4,751	2,416	7,167
<u>1,971,439</u>	<u>1,541,353</u>	<u>275,715</u>	<u>1,817,068</u>
2,652,132	857,829	391,636	1,249,465
34,912,773	27,638,820	6,024,488	33,663,308
<u>\$ 37,564,905</u>	<u>\$ 28,496,649</u>	<u>\$ 6,416,124</u>	<u>\$ 34,912,773</u>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012**

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The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents include cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.
5. **Capital Assets** - Capital assets consist of internally generated computer software in development and the first two phases of internally generated computer software, which are reported at historical cost, less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Software in development at June 30, 2012 and June 30, 2013 was valued at \$9,749,457 and \$10,319,868, respectively. Software in development will be amortized using the straight line method over the ten year estimated life of the system once a phase is implemented. The first and second phases of the computer software had been implemented at June 30, 2013 and amortization has been initiated. The computer software was valued at \$1,677,480 and \$11,567,302 at June 30, 2012 and June 30, 2013, respectively. Amortization expense was \$43,012 in fiscal year 2012 and \$430,046 in fiscal year 2013.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

6. **Adoption of New Accounting Pronouncement** - The TCRS implemented the Governmental Accounting Standards Board's Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the TCRS was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets.

**B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

At July 1, 2011, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	<u>135,588</u>	<u>79,488</u>
Total	241,496	122,790
Number of participating employers	140	503

**State Employees, Teachers and Higher Education Employees Pension Plan**

*Plan Description* - SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; and (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

*Superseded Systems and Certain Employment Classifications* - Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

*Contributions and Reserves* - Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net position of the plan is legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

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Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2013, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.76 billion and \$26.73 billion, respectively. At June 30, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.75 billion and \$24.75 billion, respectively.

**Political Subdivisions Pension Plan**

*Plan Description* - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

*Contributions and Reserves* - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net position of the plan is legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2013, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.2 billion and \$5.88 billion, respectively. At June 30, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.15 billion and \$5.27 billion, respectively.

**C. DEPOSITS AND INVESTMENTS**

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

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State statute also authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed ten percent (10 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed ten percent (10 percent) of the market value of total assets. Gross exposure to approved fixed income financial instruments will be limited to 10% of the market value of the System's total assets for risk mitigating positions and 10% for risk positions. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2013 and June 30, 2012, the TCRS had the following investments:

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

**Investments**  
*(Expressed in Thousands)*

<b>2013</b>													
Investment Type	Fair Value as of June 30, 2013	U.S. Treasury/ Agency (1)	Credit Quality Ratings								Not Rated		
			AAA	AA	A	BBB	BB	B	CCC	CC		D	A1(3)
<u>Debt Investments</u>													
U.S. Govt. Agencies	\$ 201,383		\$ 18,065	\$178,317									\$ 5,001
U.S. Govt. Inflation Indexed	2,796,073	\$2,796,073											
U.S. Govt. Treasuries, Notes and Bonds	1,672,391	1,672,391											
U.S. Govt. Asset Backed Municipal Bonds	56,918	56,918											
Govt. Mortgage Backed	149,678		2,197	95,804	\$ 51,677								
Comm. Mortgage Backed	3,485,764	412,972		12,739									
Corporate CMO's	398,696		328,998	67,111		\$ 2,587							3,060,053 (2)
Corporate Bonds	160,649												
Corporate Asset Backed	3,807,694		64,851	78,132	1,013,124	544							
Non-U.S. Govt./Sovereign	590,035		378,969	97,032	43,287								
Short-Term Comm. Paper	17,068												
Short-Term Bills and Notes	644,339												
<b>Total Debt Investments</b>	<b>\$14,097,022</b>	<b>\$4,938,354</b>	<b>\$793,080</b>	<b>\$529,135</b>	<b>\$1,108,632</b>	<b>\$2,328,206</b>	<b>\$351,678</b>	<b>\$18,983</b>	<b>\$104,360</b>	<b>\$24,389</b>	<b>\$37,858</b>	<b>\$644,339</b>	<b>\$3,218,008</b>
<u>Other Investments</u>													
U.S. Equity	\$13,386,439												
Non-U.S. Equity	7,711,681												
Derivatives	31												
Real Estate	1,839,898												
Private Equities	272,739												
Money Market Funds (not rated)	3,007												
Escrow Claim	3,656												
<b>Total Other Investments</b>	<b>\$23,217,451</b>												
<b>Total Investments</b>	<b>\$37,314,473</b>												
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Position	(688,800)												
<b>Total Investments as Shown on Statements of Plan Net Position</b>	<b>\$36,625,673</b>												

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.  
 (2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.  
 (3) A1 is the highest rating category for commercial paper.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

**Investments**  
*(Expressed in Thousands)*

<b>2012</b>																
Investment Type	Fair Value as of June 30, 2012	U.S. Treasury/ Agency (1)	Credit Quality Ratings													
			AAA	AA	A	BBB	BB	B	CCC	CC	D	AI(3)	Not Rated			
<u>Debt Investments</u>																
U.S. Govt. Agencies	\$ 188,455		\$ 19,332	\$169,123												
U.S. Govt. Inflation Indexed	2,654,938	\$2,654,938														
U.S. Govt. Treasuries, Notes and Bonds	1,558,334	1,558,334														
U.S. Govt. Asset Backed Municipal Bonds	76,372	76,372														
Govt. Mortgage Backed	155,316		2,336	99,328	\$ 53,652											
Comm. Mortgage Backed	3,291,737	271,967		13,277												\$3,006,493 (2)
Corporate CMO's	268,585		176,255	92,330												
Corporate Bonds	232,639		33,643													
Corporate Asset Backed	4,349,054		109,541	95,364	1,182,495	\$2,675,562										
Non-U.S. Govt./Sovereign	782,669		573,571	98,607	35,353	24,745										
Short-Term Comm. Paper	325,983		113,408	212,575												
Short-Term Bills and Notes	113,853															
	304,269															
<b>Total Debt Investments</b>	<b>\$14,302,204</b>	<b>\$4,561,611</b>	<b>\$1,028,086</b>	<b>\$780,604</b>	<b>\$1,271,500</b>	<b>\$2,700,307</b>	<b>\$212,689</b>	<b>\$69,839</b>	<b>\$129,445</b>	<b>\$24,935</b>	<b>\$10,151</b>	<b>\$113,853</b>	<b>\$3,399,184</b>			
<u>Other Investments</u>																
U.S. Equity	\$12,887,225															
Non-U.S. Equity	5,974,207															
Derivatives	650															
Real Estate	1,349,052															
Private Equities	173,949															
Money Market Funds (not rated)	4,375															
Escrow Claim	3,468															
<b>Total Other Investments</b>	<b>\$20,392,926</b>															
<b>Total Investments</b>	<b>\$34,695,130</b>															
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Position	(402,718)															
<b>Total Investments as Shown on Statements of Plan Net Position</b>	<b>\$34,292,412</b>															

- (1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
- (2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
- (3) A1 is the highest rating category for commercial paper.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2013 and June 30, 2012 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury/>.

**Concentration of Credit Risk** - A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net position, in organizations representing five percent or more of plan net position, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization	June 30, 2013		June 30, 2012	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$2,131,504,198	5.67%	\$1,932,517,086	5.54%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

**Interest Rate Risk** - Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2013 and June 30, 2012.

**Debt Investments**

*(Expressed in Thousands)*

Investment Type	Fair Value as of June 30, 2013	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$201,383	8.64
Government Bonds	1,689,459	13.10
Government Inflation Indexed	2,796,073	8.64
Government Mortgage Backed	3,485,765	4.62
Government Asset Backed	56,918	5.48
Municipal Bonds	149,678	10.02
Collateralized Mortgage Obligations (CMO)	160,649	1.73
Commercial Mortgage Backed	398,696	2.00
Corporate Asset Backed Securities	590,035	1.60
Corporate Bonds	3,807,694	8.16
Short Term Commercial Paper	644,339	0.03
Short Term Bills & Notes	116,334	0.63
Total Debt Investments	\$14,097,023	7.03

Investment Type	Fair Value as of June 30, 2012	Effective Duration (years)
Debt Investments		
Government Agencies	\$215,919	8.63
Government Bonds	1,856,853	12.08
Government Inflation Indexed	2,654,938	8.82
Government Mortgage Backed	3,291,737	1.38
Government Asset Backed	76,372	5.06
Municipal Bonds	155,316	10.97
Collateralized Mortgage Obligations (CMO)	232,639	3.40
Commercial Mortgage Backed	268,585	2.22
Corporate Asset Backed Securities	782,669	1.52
Corporate Bonds	4,349,054	6.91
Short Term Commercial Paper	113,853	0.19
Short Term Bills & Notes	304,269	0.13
Total Debt Investments	\$14,302,204	6.09

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

**Asset-Backed Securities** - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2013 was \$559,344,004 of which \$326,396,099 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2012 was \$501,224,120 of which \$341,027,671 were CMOs that are generally more sensitive to interest rate changes.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2013 and June 30, 2012 was as follows:

**Foreign Currency-Denominated Investments**

*(Expressed in Thousands)*

Currency	Total Fair Value June 30, 2013	Fixed Income	Equity	Cash
Australian Dollar	\$ 281,116	\$ 0	\$ 280,971	\$ 145
British Pound Sterling	917,788	0	916,850	938
Canadian Dollar	1,553,299	1,467	1,548,611	3,221
Danish Krone	78,322	0	78,304	18
Euro Currency	1,179,772	0	1,154,129	25,643
Hong Kong Dollar	127,953	0	127,700	253
Japanese Yen	1,152,368	0	1,144,096	8,272
New Israeli Shekel	14,616	0	14,571	45
New Zealand Dollar	7,434	0	7,373	61
Norwegian Krone	45,473	0	45,351	122
Singapore Dollar	85,610	0	85,360	250
Swedish Krona	111,727	0	111,672	55
Swiss Franc	412,766	0	412,751	15
<b>Total</b>	<b>\$ 5,968,244</b>	<b>\$ 1,467</b>	<b>\$ 5,927,739</b>	<b>\$ 39,038</b>

Currency	Total Fair Value June 30, 2012	Fixed Income	Equity	Cash
Australian Dollar	\$ 285,935	\$ 0	\$ 285,556	\$ 379
British Pound Sterling	945,058	36,073	908,427	558
Canadian Dollar	1,543,638	8,430	1,535,028	180
Danish Krone	76,389	0	76,373	16
Euro Currency	1,066,157	63,906	968,412	33,839
Hong Kong Dollar	106,932	0	106,775	157
Japanese Yen	1,145,912	212,575	927,031	6,306
New Israeli Shekel	14,916	0	14,819	97
New Zealand Dollar	6,410	0	6,337	73
Norwegian Krone	46,034	13,429	32,603	2
Singapore Dollar	67,835	0	67,753	82
Swedish Krona	93,496	0	93,286	210
Swiss Franc	318,426	0	317,464	962
<b>Total</b>	<b>\$ 5,717,138</b>	<b>\$ 334,413</b>	<b>\$ 5,339,864</b>	<b>\$ 42,861</b>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

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**Custodial Credit Risk** - Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2013 and June 30, 2012, the TCRS had uninsured and uncollateralized cash deposits of \$39,038,045 and \$42,861,324, respectively in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

**Derivatives** - The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on futures hedge losses (gains) produced by any deviation from the TCRS' target allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. At year end, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Foreign currency forward contracts expose the TCRS to foreign currency risk as they are denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included in investment income in the financial statements. At year end, the TCRS was under contract for options and the resulting payable is reflected in the financial statements at fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013 and June 30, 2012, classified by type, and the changes in fair value of derivative instrument types for the year ended as reported in the financial statements are as follows:

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

**Derivative Summary**

(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2013			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (29)		\$ (29)	35,685	CHF
		23		23	21,212	DKK
		183		183	25,750	EUR
		286		286	8,212	GBP
		(12)		(12)	0	HKD
		(906)		(906)	14,899,846	JPY
		10		10	0	SGD
	Investment		Derivative Instruments			
	Income	<u>\$ (445)</u>	Payable	<u>\$ (445)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ (51,331)	Receivable	\$ 6,153	\$ 1,248,457	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (221)	Payable	\$ 31	\$ 31	
TBA Mortgage Backed Securities		\$ (10,476)	Derivative Instruments Payable	\$ (10,476)	\$ 473,078	

	Changes in Fair Value		Fair Value at June 30, 2012			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (360)		\$ (360)	11,210	AUD
		(248)		(248)	18,710	EUR
		120		120	1,489,342	JPY
	Investment		Derivative Instruments			
	Income	<u>\$ (488)</u>	Payable	<u>\$ (488)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ (5,479)	Payable	\$ (2,393)	\$ 1,520,747	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (9)	Payable	\$ 2	\$ 2	
TBA Mortgage Backed Securities		\$ 648	Derivative Instruments	\$ 648	\$ 324,377	

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures, Options and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TCRS policy to conduct derivative transactions through the custodian bank and high quality money center banks or brokerage firms. The credit risk of foreign currency forward contracts is managed by limiting the term of the forward contracts and restricting the trading to high quality banks. The credit risk of futures contracts is managed by maintaining a daily variation margin.

**Alternative Investments** - The TCRS has investments in private equity funds and real estate with an estimated fair value of \$2,112,637,040 and \$1,523,000,878 at June 30, 2013 and June 30, 2012, respectively. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material.

**D. COMMITMENTS**

**Standby Commercial Paper Purchase Agreement** - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 25 basis points on the \$350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 40 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 75 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

**Pending Real Estate Items** - At June 30, 2013 the TCRS had unfunded commitments of \$70,077,563 for pending real estate purchases. At June 30, 2012 the TCRS had unfunded commitments of \$113,088,500 for pending real estate purchases.

**Alternative Investments** - The TCRS had unfunded commitments of \$773.9 million and \$581.3 million in limited partnerships as of June 30, 2013 and June 30, 2012, respectively.

**E. FUNDED STATUS AND FUNDING PROGRESS**

The funded status of each plan as of July 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

<b>SCHEDULES OF FUNDING PROGRESS</b>						
<i>(Expressed in Thousands)</i>						
	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>SETHEEPP</b>	\$ 30,118,178	\$ 32,707,625	\$ 2,589,447	92.08%	\$ 6,058,348	42.74%
<b>PSPP</b>	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2011, the TCRS reestablished unfunded accrued liabilities for all groups.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation follows:

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2011	July 1, 2011
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	Teachers - 6 years; State - 9 years; closed period	9 years weighted average; (1) closed period
Asset valuation method	5-year moving market average for FYE on or before June 30, 2007	5-year moving market average for FYE on or before June 30, 2007
	10-year moving market average for FYE after June 30, 2007	10-year moving market average for FYE after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%
<p>(1) An actuarial valuation is performed on each political subdivision participating in the Political Subdivision Pension Plan. Each political subdivision selects the period over which their unfunded accrued liability is amortized, not to exceed 30 years. The weighted average amortization period for all plans is presented above.</p>		
<p>(2) Uniform rate that approximates the effect of a graded salary scale.</p>		

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

**SCHEDULES OF FUNDING PROGRESS***Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>SETHEEPP</b>	7/1/2011	\$ 30,118,178	\$ 32,707,625	\$ 2,589,447	92.08%	\$ 6,058,348	42.74%
	7/1/2009	\$ 26,335,199	\$ 29,054,966	\$ 2,719,767	90.64%	\$ 6,054,528	44.92%
	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
<b>PSPP</b>	7/1/2011	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%
	7/1/2009	\$ 5,304,455	\$ 6,143,775	\$ 839,320	86.34%	\$ 2,282,082	36.78%
	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%

The schedule of funding progress is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**SCHEDULES OF EMPLOYER CONTRIBUTIONS***Expressed in Thousands*

Year Ended June 30	SETHEEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2013	\$ 735,886	100.00%	\$ 274,539	100.00%
2012	731,352	100.00%	271,361	100.00%
2011	721,759	100.00%	273,781	100.00%
2010	578,403	100.00%	258,324	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2013.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$1,248,950	\$ 626,543	\$1,875,493
Employee benefits	552,032	276,930	828,962
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,800,982</u>	<u>903,473</u>	<u>2,704,455</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	150,486	75,492	225,978
Actuarial services	182,018	91,310	273,328
Data processing	498,625	250,138	748,763
Information systems	682,832	342,547	1,025,379
Management services	176,058	88,321	264,379
Medical review	25,488	12,786	38,274
Administrative, Internal Audit, Legal, Personnel	1,002,600	502,961	1,505,561
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>2,718,107</u>	<u>1,363,555</u>	<u>4,081,662</u>
<b>COMMUNICATION</b>			
Travel	15,848	7,950	23,798
Telephone	194,204	97,423	291,627
Printing	41,336	20,736	62,072
Postage	181,620	91,110	272,730
<b>TOTAL COMMUNICATION</b>	<u>433,008</u>	<u>217,219</u>	<u>650,227</u>
<b>MISCELLANEOUS</b>			
Office space	111,185	55,776	166,961
Supplies and maintenance	6,821	3,422	10,243
Amortization of intangible assets	286,381	143,665	430,046
Other services and charges	89,969	45,133	135,102
<b>TOTAL MISCELLANEOUS</b>	<u>494,356</u>	<u>247,996</u>	<u>742,352</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u><u>\$5,446,453</u></u>	<u><u>\$2,732,243</u></u>	<u><u>\$8,178,696</u></u>

With 209,567 active members and 127,918 retired members, the operating cost per member was \$24.23 for the year ended June 30, 2013.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
SCHEDULES OF ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$1,268,733	\$ 645,579	\$1,914,312
Employee benefits	569,476	289,771	859,247
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,838,209</u>	<u>935,350</u>	<u>2,773,559</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	132,533	67,438	199,971
Actuarial services	245,182	124,757	369,939
Data processing	398,573	202,809	601,382
Information systems	754,408	383,871	1,138,279
Management services	142,742	72,632	215,374
Medical review	21,527	10,953	32,480
Administrative, Internal Audit, Legal, Personnel	542,493	276,041	818,534
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>2,237,458</u>	<u>1,138,501</u>	<u>3,375,959</u>
<b>COMMUNICATION</b>			
Travel	19,275	9,808	29,083
Telephone	169,361	86,177	255,538
Printing	44,567	22,677	67,244
Postage	199,253	101,387	300,640
<b>TOTAL COMMUNICATION</b>	<u>432,456</u>	<u>220,049</u>	<u>652,505</u>
<b>MISCELLANEOUS</b>			
Office space	112,219	57,101	169,320
Supplies and maintenance	79,838	40,625	120,463
Amortization of intangible assets	28,507	14,505	43,012
Other services and charges	21,068	10,720	31,788
<b>TOTAL MISCELLANEOUS</b>	<u>241,632</u>	<u>122,951</u>	<u>364,583</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u><u>\$4,749,755</u></u>	<u><u>\$2,416,851</u></u>	<u><u>\$7,166,606</u></u>

With 210,493 active members and 122,499 retired members, the operating cost per member was \$21.52 for the year ended June 30, 2012.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF INVESTMENT EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	SETHEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 2,715,608	\$ 621,461	\$ 3,337,069
Employee benefits	813,987	186,279	1,000,266
<b>TOTAL PERSONNEL SERVICES</b>	<u>3,529,595</u>	<u>807,740</u>	<u>4,337,335</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	259,930	59,485	319,415
Legal services	728,725	166,767	895,492
Data processing	275,297	63,001	338,298
Information systems	384,002	87,878	471,880
Management services	44,928	10,282	55,210
External investment manager fees	15,370,737	3,517,559	18,888,296
Investment consulting fees	1,648,382	377,228	2,025,610
Investment custodian fees	315,571	72,218	387,789
Real estate manager fees	7,095,435	1,623,775	8,719,210
Administrative, Internal Audit, Personnel	482,461	110,410	592,871
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>26,605,468</u>	<u>6,088,603</u>	<u>32,694,071</u>
<b>COMMUNICATION</b>			
Travel	96,796	22,152	118,948
Telephone	29,319	6,709	36,028
Printing	2,843	650	3,493
Postage	1,161	266	1,427
<b>TOTAL COMMUNICATION</b>	<u>130,119</u>	<u>29,777</u>	<u>159,896</u>
<b>MISCELLANEOUS</b>			
Office space	61,778	14,138	75,916
Supplies and maintenance	5,169	1,183	6,352
Other services and charges	200,054	45,782	245,836
<b>TOTAL MISCELLANEOUS</b>	<u>267,001</u>	<u>61,103</u>	<u>328,104</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$30,532,183</u>	<u>\$6,987,223</u>	<u>\$37,519,406</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
SCHEDULES OF INVESTMENT EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 2,595,471	\$ 589,698	\$ 3,185,169
Employee benefits	807,895	183,557	991,452
<b>TOTAL PERSONNEL SERVICES</b>	<u>3,403,366</u>	<u>773,255</u>	<u>4,176,621</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	277,649	63,083	340,732
Legal services	240,065	54,543	294,608
Data processing	264,630	60,125	324,755
Information systems	326,329	74,143	400,472
Management services	45,778	10,401	56,179
External investment manager fees	14,012,502	3,183,689	17,196,191
Investment consulting fees	1,539,330	349,741	1,889,071
Investment custodian fees	315,678	71,723	387,401
Real estate manager fees	5,131,060	1,165,795	6,296,855
Administrative, Internal Audit, Personnel	480,611	109,197	589,808
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>22,633,632</u>	<u>5,142,440</u>	<u>27,776,072</u>
<b>COMMUNICATION</b>			
Travel	89,396	20,311	109,707
Telephone	27,285	6,199	33,484
Printing	2,736	622	3,358
Postage	1,003	228	1,231
<b>TOTAL COMMUNICATION</b>	<u>120,420</u>	<u>27,360</u>	<u>147,780</u>
<b>MISCELLANEOUS</b>			
Office space	65,048	14,779	79,827
Supplies and maintenance	7,285	1,655	8,940
Other services and charges	154,921	35,199	190,120
<b>TOTAL MISCELLANEOUS</b>	<u>227,254</u>	<u>51,633</u>	<u>278,887</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$26,384,672</u>	<u>\$5,994,688</u>	<u>\$32,379,360</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
SCHEDULES OF EXPENSES FOR CONSULTANTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**

**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>SETHEEPP</b>	<b>PSPP</b>	<b>TOTAL</b>
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 182,018	\$ 91,310	\$ 273,328
<b>TOTAL ACTUARIAL SERVICES</b>	<u>182,018</u>	<u>91,310</u>	<u>273,328</u>
<b>MEDICAL REVIEW SERVICES</b>			
Suzanne Fletcher, M.D.	9,350	4,690	14,040
Thomas Mullady, M.D.	10,096	5,064	15,160
Barry Siegel, M.D.	6,042	3,032	9,074
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>25,488</u>	<u>12,786</u>	<u>38,274</u>
<b>BENEFIT CONSULTING SERVICES</b>			
Public Financial Management, Inc.	114,976	57,679	172,655
<b>TOTAL BENEFIT CONSULTING SERVICES</b>	<u>114,976</u>	<u>57,679</u>	<u>172,655</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<u>\$ 322,482</u>	<u>\$ 161,775</u>	<u>\$ 484,257</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>SETHEEPP</b>	<b>PSPP</b>	<b>TOTAL</b>
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 245,182	\$ 124,757	\$ 369,939
<b>TOTAL ACTUARIAL SERVICES</b>	<u>245,182</u>	<u>124,757</u>	<u>369,939</u>
<b>MEDICAL REVIEW SERVICES</b>			
Suzanne Fletcher, M.D.	8,855	4,505	13,360
Thomas Mullady, M.D.	1,802	918	2,720
Barry Siegel, M.D.	9,120	4,640	13,760
Lee Carl Whitaker, M.D.	1,750	890	2,640
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>21,527</u>	<u>10,953</u>	<u>32,480</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<u>\$ 266,709</u>	<u>\$ 135,710</u>	<u>\$ 402,419</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

# MY HOMELAND, TENNESSEE

Lyrics by Nell Grayson Taylor

Music by Roy Lamont Smith

Adopted in 1925

*O Tennessee, that gave us birth,  
To thee our hearts bow down  
For thee our love and loyalty  
Shall weave a fadeless crown  
Thy purple hills our cradle was;  
Thy fields our mother breast  
Beneath thy sunny bended skies,  
Our childhood days were blessed*

*'Twas long ago our fathers came,  
A free and noble band,  
Across the mountain's frowning heights  
To seek a promised land  
And here before their raptured eyes;  
In beauteous majesty:  
Outspread the smiling valleys  
Of the winding Tennessee*

*Could we forget our heritage  
Of heroes strong and brave?  
Could we do aught but cherish it,  
Unsullied to the grave?  
Ah no! the State where Jackson sleeps,  
Shall ever peerless be  
We glory in thy majesty;  
Our homeland, Tennessee*

## Chorus

*O Tennessee: Fair Tennessee:  
Our love for thee can never die:  
Dear homeland, Tennessee*

I  
N  
V  
E  
S  
T  
M  
E  
N  
T  
  
S  
E  
C  
T  
I  
O  
N

## REPORT BY INVESTMENT CONSULTANT

## STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000  
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

November 27, 2013

Ms. Jill Bachus, Director  
Tennessee Consolidated Retirement System  
Andrew Jackson Building  
Nashville, TN 37243-0230

Dear Jill:

For the year ended June 30, 2013, TCRS earned a return of 9.92%, outperforming its policy index by two basis points and its as-allocated index by 90 basis points. Strong returns in Domestic Equities (+20.39%) and International Developed Markets (+21.57%) were partially offset by weak results in Domestic Fixed Income (-0.81%) and Inflation Indexed Fixed Income (-5.28%).

As of June 30, 2013, the System's asset allocation and one-year respective returns were:

Asset Class	Percentage of Assets	One Year Return
Domestic Equity	35.2%	20.39%
Canada Index Fund	4.1%	4.64%
International Developed Market	13.4%	21.57%
International Emerging Market	3.9%	N/A
Domestic Fixed Income	28.5%	(0.81)%
Inflation-Indexed Fixed Income	7.2%	(5.28)%
Real Estate	4.9%	10.11%
Private Equity	0.7%	10.23%
Cash and Cash Equivalents	2.1%	1.00%
<b>Total</b>	<b>100.0%</b>	<b>9.92%</b>

TCRS ranked below the median large public plan (InvestorForce's Public DB > \$1 billion) over the past year, but was ahead for the three- and five- year periods. This is the result of an asset allocation which is designed to meet the System's liabilities while minimizing the risk of loss.

During the fourth quarter of 2012, fears of the Federal "fiscal cliff" caused individuals and businesses to restrain or postpone spending, leading to weak growth and deflation during that period. While the fiscal cliff issues were resolved at the end of 2012, this was replaced by the "budget sequestration." With Federal spending suddenly reduced, the economy grew modestly in the first half of 2013. However, the removal of uncertainty combined with aggressive Fed policy helped to propel the equity markets in early 2013.

SIS expects modest equity and fixed income returns due to continued financial de-leveraging and slow global economic growth. Bond yields are likely to remain low by historical standards. The Fed's QE program will continue to be closely watched by market participants. Any changes to the QE policy will be carefully scrutinized in light of concurrent economic conditions and could result in increased market volatility.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large institutional investors.

Best regards,



Pete Keliuotis, CFA  
pkeliuotis@sis-sf.com

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**LETTER FROM TCRS CHIEF INVESTMENT OFFICER**

---

DAVID H. LILLARD, JR.  
STATE TREASURER

STATE OF TENNESSEE



JOY HARRIS  
CHIEF OF STAFF

MICHAEL BRAKEBILL  
CHIEF INVESTMENT OFFICER

**TREASURY DEPARTMENT**  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

JILL BACHUS  
DIRECTOR OF TCRS

December 27, 2013

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013.

With over \$37.4 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general investment consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment performance for TCRS was computed using a market, time-weighted rate of return.

The 2013 fiscal year was constructive and the TCRS portfolio experienced a gain of 9.92% for the fiscal year and an annualized gain of 11.55% for the trailing three-year period. These returns both exceeded the actuarial-required returns by a significant margin and the portfolio was still managed in a manner to protect capital in an adverse environment.

The experienced investment staff of TCRS is committed to providing superior investment returns in a financially-sound manner with the highest ethical and professional standards. With the leadership of our Board, our Treasurer and our dedicated staff, this goal will be met.

Sincerely,

Handwritten signature of Michael Brakebill in black ink.

Michael Brakebill  
Chief Investment Officer

## STATUTORY INVESTMENT AUTHORITY

### STATUTORY INVESTMENT AUTHORITY

The investment authority for TCRS is set out in Tennessee Code Annotated, Section 8-37-104, which provides that, with certain specific exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies. It further provides that the investment policy for TCRS funds is subject to the approval of the Board of Trustees.

TCRS' investment objectives, set by the Board for the Treasury Investment Division staff, are to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity to react to the changing environment and to pay beneficiaries in a timely manner.

TCRS' policies and the strategies implemented by the Investment Division staff serve to benefit plan members in several ways. The emphasis on a conservative asset allocation and high quality securities helps to ensure the soundness of the system and the ability to provide the needed funds upon a member's retirement.

Funds in the retirement system are actively managed with a diversified portfolio of high-quality domestic and international bonds, domestic and international stocks, real estate, private equity and short-term instruments. From time to time, pursuant to Tennessee Code Annotated, Section 8-37-114, the Treasury Investment Division engages outside investment managers to manage a limited number of asset classes or subclasses. In those instances, the Investment Division endeavors to use emerging investment managers to the greatest extent feasible within the bounds of financial and fiduciary prudence, as prescribed under Tennessee Code Annotated, Section 8-37-113. During the fiscal year 2012-2013, no assets were under the control of emerging investment managers.

To assist in the fiduciary responsibility for managing the TCRS portfolio, Strategic Investment Solutions, Inc. serves as the general investment consultant for TCRS. The Townsend Group serves as the real estate investment consultant and Cambridge Associates serves as the private equity consultant to TCRS.

Northern Trust Company is the Master Trust Bank for TCRS which provides safekeeping and accounting services for the investment portfolio.

### COST OF INVESTMENT OPERATION

The administrative cost to operate the investment program for TCRS is less than four basis points (.04%) of assets. The cost of four basis points includes the cost of personnel, operational cost, master bank custodian cost and record keeping. Commission cost for trades are capitalized. Recent peer comparisons of investment management fees and expenses indicate the investment program is managed very cost effectively.

### PERFORMANCE MEASUREMENT

TCRS' independent external investment consultant, Strategic Investment Solutions, Inc., provides performance measurement for TCRS. During the 2013 fiscal year, TCRS had a total return of 9.92%. Domestic stocks gained 20.39%, while the S&P 1500 Index gained 21.13%. Domestic bonds lost 0.81% versus the bond benchmark of -2.79%. International stocks gained 17.90% versus a gain of 14.45% for the index. Real estate gained 10.11% versus 10.52% for the NCREIF index.



**ASSET ALLOCATION****ASSET ALLOCATION***as of June 30, 2013**Expressed in Thousands*

<b>Asset Class</b>	<b>Fair Value</b>	<b>Percentage</b>
Domestic Equity	\$ 12,580,721,082	33%
Domestic Fixed Income	13,840,768,344	37%
International Equity	8,457,435,600	22%
International Fixed Income	32,268,505	0%
Short-Term Securities	763,680,280	2%
Real Estate	1,839,897,653	5%
Private Equities	272,739,387	1%
<b>Totals</b>	<b>\$ 37,787,510,851</b>	<b>100%</b>

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes, convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

## LARGEST HOLDINGS

### JUNE 30, 2013

#### LARGEST STOCK HOLDINGS

as of June 30, 2013

by Fair Value

Shares	Security Name	Fair Value
3,932,794	Exxon Mobil Corp Com	\$ 355,327,938
771,860	Apple Inc Com Stk	305,718,309
6,004,068	Microsoft Corp Com	207,320,468
1,708,077	Chevron Corp Com	202,133,832
4,529,636	Wells Fargo & Co New Com Stk	186,938,078
8,029,786	General Electric Co	186,210,737
210,997	Google Inc Cl A	185,755,429
3,399,697	JP Morgan Chase & Co Com	179,470,005
2,030,480	Johnson & Johnson Com USD1	174,337,013

#### LARGEST BOND HOLDINGS

as of June 30, 2013

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 137,100,000	United States Treasury Index Linked Bond	2.34%	01/15/26	Aaa	\$ 185,501,691
139,900,000	United States Treasury Index Linked Note	2.34%	01/15/16	Aaa	176,048,348
158,800,000	United States Treasury Note	0.64%	07/15/21	Aaa	169,101,391
135,000,000	United States Treasury Note	1.33%	07/15/20	Aaa	156,373,562
166,770,000	United States Treasury Note	1.75%	05/15/23	Aaa	156,190,445
137,000,000	United States Treasury Note	1.20%	01/15/21	Aaa	155,760,161
100,000,000	United States Treasury Infl Index Bond	2.93%	01/15/25	Aaa	146,969,277
139,500,000	United States Treasury Note	2.63%	11/15/20	Aaa	145,352,444
107,000,000	United States Treasury Note	1.48%	01/15/20	Aaa	125,372,266
127,785,000	United States Treasury Bond	3.13%	02/15/43	Aaa	119,279,375

A complete portfolio listing is available upon request.

**Key to Ratings:** All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se, but are considered the best quality securities.

Moody's rates securities as follows:

- Aaa: Best Quality
- Aa: High Quality
- A: Upper Medium Quality
- Baa: Medium Quality
- NR: Not Rated

## INVESTMENT SUMMARY

**INVESTMENT SUMMARY**  
*as of June 30, 2013*

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
<b>Fixed Income</b>						
Government Bonds	\$ 4,485,532,612	12.02%	\$ 0	0.00%	\$ 4,485,532,612	12.02%
Corporate Bonds	3,807,693,944	10.20%	0	0.00%	3,807,693,944	10.20%
Municipal/ Provincial Bonds	149,676,753	0.40%	0	0.00%	149,676,753	0.40%
Total Bonds	8,442,903,309	22.63%	0	0.00%	8,442,903,309	22.63%
Lehman Brothers Escrow Adjustment	3,656,250	0.01%	0	0.00%	3,656,250	0.01%
Asset Backed	638,468,285	1.71%	0	0.00%	638,468,285	1.71%
Commercial Mortgage Backed	398,696,159	1.07%	0	0.00%	398,696,159	1.07%
Government Agencies	201,384,222	0.54%	0	0.00%	201,384,222	0.54%
Government Mortgage Backed Securites	3,494,250,573	9.36%	0	0.00%	3,494,250,573	9.36%
Non-Government CMOs	160,647,845	0.43%	0	0.00%	160,647,845	0.43%
Preferred Stock	27,652,900	0.07%	32,268,505	0.09%	59,921,405	0.16%
Total Fixed Income	13,367,659,543	35.82%	32,268,505	0.09%	13,399,928,048	35.91%
<b>Common Stock</b>						
Consumer Discretionary	1,539,647,038	4.13%	870,515,482	2.33%	2,410,162,520	6.46%
Consumer Staples	1,234,349,189	3.31%	540,050,166	1.45%	1,774,399,355	4.76%
Energy	1,217,208,639	3.26%	602,383,076	1.61%	1,819,591,715	4.88%
Financials	1,966,011,005	5.27%	1,610,112,199	4.31%	3,576,123,204	9.58%
Healthcare	1,578,633,379	4.23%	670,154,061	1.80%	2,248,787,440	6.03%
Industrials	1,331,009,179	3.57%	923,422,055	2.47%	2,254,431,234	6.04%
Information Technology	2,138,791,483	5.73%	368,947,449	0.99%	2,507,738,932	6.72%
Materials	423,762,063	1.14%	583,294,327	1.56%	1,007,056,390	2.70%
Rights/Warrants	0	0.00%	99,086	0.00%	99,086	0.00%
Telecommunication Services	0	0.00%	215,695,332	0.58%	215,695,332	0.58%
Utilities	427,997,812	1.15%	115,702,050	0.31%	543,699,862	1.46%
Miscellaneous/Unclassified	443,952,103	1.19%	480,838,121	1.29%	924,790,224	2.48%
Equity Exchange Traded Fund	279,359,192	0.75%	1,448,905,402	3.88%	1,728,264,594	4.63%
Stapled Securities	0	0.00%	27,357,686	0.07%	27,357,686	0.07%
Total Common Stock	12,580,721,082	33.72%	8,457,476,492	22.67%	21,038,197,574	56.38%
<b>Short-Term Investments</b>						
Commercial Paper	644,339,197	1.73%	0	0.00%	644,339,197	1.73%
Pooled Funds and Mutual Funds	3,007,331	0.01%	0	0.00%	3,007,331	0.01%
Short-Term Bills and Notes	116,333,752	0.31%	0	0.00%	116,333,752	0.31%
Total Short-Term Investments	763,680,280	2.05%	0	0.00%	763,680,280	2.05%
Real Estate	1,839,897,653	4.93%	0	0.00%	1,839,897,653	4.93%
Private Equities	272,739,387	0.73%	0	0.00%	272,739,387	0.73%
Total Investments	28,824,697,945	77.25%	8,489,744,997	22.75%	37,314,442,942	100.00%
Derivatives and Options	31,250		0		31,250	
Short-Term Investments Classified as Cash Equivalents	(688,800,114)		0		(688,800,114)	
Total Investments as Shown on the Statement of Plan Net Position	\$ 28,135,929,081		\$ 8,489,744,997		\$ 36,625,674,078	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SCHEDULE OF FEES**

	<b>Average Assets Under Management</b>	<b>Fees</b>
<b>Asset Management</b>		
International Investment Manager Fees	4.7 Billion	\$18,889,237
Real Estate Asset Management	1.8 Billion	8,719,209
Private Equities Asset Management	272.7 Million	0
Total Asset Management		<u><u>\$27,608,446</u></u>
<b>Other Investment Services Fees</b>		
Custodian Bank	37.5 Billion	\$ 396,000
General Investment Consultant	37.5 Billion	437,500
Real Estate Investment Consultant	1.8 Billion	125,000
Private Equities Investment Consultant	272.7 Million	1,506,000
Total Investment Services Fees		<u><u>\$ 2,464,500</u></u>

**SCHEDULES OF COMMISSIONS**

*Domestic Exchange Traded Shares*

<b>Broker Name</b>	<b>DOMESTIC</b>		
	<b>Number of Shares Traded</b>	<b>Total Commissions</b>	<b>Commission Per Share</b>
Capis	40,819,401	\$ 1,632,776	0.0400
Barclays Capital	47,781,140	955,623	0.0200
Cowen & Company, LLC	27,771,080	555,422	0.0200
JP Morgan Chase & Company	27,156,947	476,718	0.0176
Sanford C. Bernstein & Company, Inc.	21,295,754	425,915	0.0200
Citigroup Global Markets, Inc.	20,045,977	400,919	0.0200
RBC Capital Markets Corporation	17,763,307	355,266	0.0200
Deutsche Bank Securities, Inc.	17,318,326	346,366	0.0200
UBS Securities LLC	17,179,389	343,588	0.0200
Morgan Stanley & Company, Inc.	15,278,784	305,576	0.0200
Bank of America Merrill Lynch	13,300,386	266,008	0.0200
Instinet, LLC	12,058,525	235,547	0.0195
B.O.E. Securities, Inc.	4,072,554	122,177	0.0300
Avondale Partners	6,368,007	119,860	0.0188
M.R. Beal & Company	3,420,200	102,606	0.0300
Other Brokers*	68,007,093	892,713	0.0131
<b>Totals</b>	<u><u>359,636,870</u></u>	<u><u>\$ 7,537,080</u></u>	

(continued)

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS  
FOR THE YEAR ENDED JUNE 30, 2013 (CONTINUED)**

*Program Trades where total commission cost includes trading commission, liquidity fees and market impact fees*

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	107,897,214	\$ 1,100,266	0.0102
Credit Suisse	71,243,407	576,507	0.0081
Barclays Capital	59,257,013	462,168	0.0078
Sandford C. Bernstein & Company, Inc.	42,030,591	293,809	0.0070
Cowen & Company, LLC	38,454,355	289,167	0.0075
Morgan Stanley & Company, Inc.	35,394,168	254,824	0.0072
DMG Securities, Inc.	35,622,876	251,910	0.0071
UBS Securities LLC	26,927,000	183,985	0.0068
Citigroup Global Markets, Inc.	25,633,464	178,859	0.0070
JP Morgan Chase & Company	28,252,304	141,262	0.0050
RBC Capital Markets Corporation	16,217,200	116,127	0.0072
Other Brokers*	24,544,900	174,854	0.0071
<b>Totals</b>	<b>511,474,492</b>	<b>\$ 4,023,738</b>	

*International Exchange Traded Shares*

Broker Name	INTERNATIONAL		
	Number of Shares Traded	Total Commissions	Commission Per Share
Citigroup Global Markets, Inc.	89,085,903	\$ 514,333	0.0058
UBS Securities LLC	57,893,561	477,790	0.0083
JP Morgan Chase & Company	47,229,479	445,216	0.0094
Credit Suisse	43,724,945	360,025	0.0082
Morgan Stanley & Company, Inc.	33,726,129	331,742	0.0098
Bank of America Merrill Lynch	35,267,224	306,590	0.0087
Deutsche Bank Securities, Inc.	28,537,126	251,641	0.0088
Goldman Sachs Group, Inc.	19,979,374	247,496	0.0124
Barclays Capital	26,013,349	215,981	0.0083
Macquarie Group LTD	16,794,372	137,028	0.0082
Nomura Holdings Inc.	9,404,547	131,569	0.0140
HSBC Bank PLC	12,603,216	116,665	0.0093
Credit Lyonnais Securities Asia	14,746,504	103,454	0.0070
Other Brokers*	139,354,197	1,343,173	0.0096
<b>Totals</b>	<b>574,359,926</b>	<b>\$ 4,982,703</b>	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

\*Less than \$100,000 total commission per brokerage firm

# TENNESSEE

By John R. Bean  
Adopted in 2012

*Oh Tennessee, I long to come back home.  
I guess your dew has settled on my soul.  
Everyday I stayed away,  
You called my heart back, home to stay.  
Oh Tennessee, I long to come back home.*

*Oh Tennessee, I'm missing you too soon.  
Silver skies and lazy afternoons...  
Silver clouds and golden moon,  
You're Mother Nature's Tender Womb...  
Oh Tennessee, I'm missing you too soon.*

*Your days, have such gentle ways  
Aimless thoughts and windblown rhymes  
Your nights sing such peaceful songs.  
To a tired and weary mind.*

*Oh Tennessee, I've spent more than I've earned,  
But I'm much richer now for what I've learned...  
Money won't buy peace of mind,  
And peace of mind is what I'll find...  
Oh Tennessee, you treated me so kind.*

*Welcome home  
Welcome home*

A  
C  
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**ACTUARIAL INTRODUCTION****BIENNIAL ACTUARIAL VALUATIONS**

Biennial actuarial valuations of the TCRS are performed by an independent actuarial consulting firm to assess the funding status of the system and to determine employer contribution rates for its various components. The valuation performed as of July 1, 2011 set employer rates effective July 1, 2012 through June 30, 2014. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. A valuation was performed as of July 1, 2013 to establish new employer rates effective July 1, 2014.

**FUNDING OF PENSIONS**

It is the policy of the state to fund pensions by actuarially-determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost. This policy seeks to ensure that sufficient assets will be available to pay the benefits as promised by the pension plan.

**ACCRUED LIABILITY**

The unfunded accrued liability within the plan was most recently reestablished with the 2009 actuarial valuation for most groups. This was accomplished by setting the unfunded accrued liability equal to the excess of the Entry Age Normal Past Service Liability over the valuation assets for each group. With the exception of some local government employers, the unfunded accrued liability was not reestablished with the 2011 actuarial valuation.

**SPECIFICS**

Valuations are based on demographic data (employee ages, salaries and service credits), economic projections (salary increases, interest rates and investment earnings) and decrement estimates (mortality and disability rates). The economic projections and decrement estimates used for valuation purposes utilized the assumptions recommended by the actuary and adopted by the Board of Trustees based

on an actuarial experience study conducted every four years. The earnings rate assumption adopted by the Board is subject to the approval of the Council on Pensions and Insurance.

**QUADRENNIAL EXPERIENCE STUDY**

A quadrennial experience study was conducted as of June 30, 2008. A number of small changes were made to the economic and decrement assumptions. The system noted significant improvements in mortality. In addition, the COLA assumption was lowered from 3.0 percent to 2.5 percent to reflect actual experience. Assumptions developed from the June 30, 2008 experience study were used in the July 1, 2009 and July 1, 2011 actuarial valuations. The results of the experience study dated June 30, 2012 will be included in the July 1, 2013 actuarial valuation.

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**ACTUARY'S CERTIFICATION LETTER**

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Justin C. Thacker, F.S.A.  
Direct Line: (615) 665-5387  
Email: [Justin.Thacker@bpsm.com](mailto:Justin.Thacker@bpsm.com)

December 20, 2013

Mr. David H. Lillard, Jr.  
Chairman, Board of Trustees  
Tennessee Consolidated Retirement System  
502 Deaderick Street  
Nashville, Tennessee 37243-0201

**Re: Actuary's Certification Letter**

Dear Mr. Lillard:

The purpose of this letter is to certify the actuarial adequacy of contributions being made by the State of Tennessee and participating Political Subdivisions to the Tennessee Consolidated Retirement System and to discuss the approach currently being taken toward meeting the financing objectives of the Plan.

The most recent biennial actuarial valuation completed as of the year ending June 30, 2013 for the Tennessee Consolidated Retirement System was performed as of July 1, 2011. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Assumptions and Methods") which was adopted by the Board of Trustees on the recommendation of the actuary after a study of actual experience under the TCRS during the four-year period ending June 30, 2008.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation.

In performing the 2011 valuation, we relied on employee data and asset information provided by the administrative staff of the Tennessee Consolidated Retirement System. In the case of employee data, each individual record was audited for reasonableness and internal consistency, although the validity of the information was not traced to source documents. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

Certain tables presented in the Comprehensive Annual Financial Report are derived from the July 1, 2011 actuarial valuation report prepared by Bryan, Pendleton, Swats and McAllister, LLC. The tables were prepared by the staff of the Tennessee Consolidated Retirement System and examined by our firm. These tables include the following -

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**ACTUARY'S CERTIFICATION LETTER  
(CONTINUED)**

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Mr. David H. Lillard, Jr.  
Chairman, Board of Trustees  
December 20, 2013  
Page Two

***Financial Section***

- Schedules of Funding Progress
- Schedules of Employer Contributions

***Actuarial Section***

- Summary of Actuarial Assumptions and Methods
- Actuarial Data
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Selected Actuarial Funding Information
- Analysis of Financial Experience

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from prior actuarial valuations through 2011.

The 2011 valuation was prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statement 25. I am a Member of the American Academy of Actuaries with experience in performing valuations for public retirement systems; all calculations were performed either by me or by other qualified actuaries under my direct supervision.

Based upon the valuation results and the contribution rates adopted by the Board of Trustees, it is our opinion that the Tennessee Consolidated Retirement System continues to fund its liabilities in accordance with standard actuarial principles of advance funding, continuing a program first adopted in 1975.

Sincerely,



Justin C. Thacker, F.S.A.

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**

The following assumptions were adopted by the Board of Trustees for use with the July 1, 2011 valuation based on the consulting actuary’s recommendations resulting from the June 30, 2008 actuarial experience study.

**GENERAL ACTUARIAL METHODS**

- ❖ **Actuarial Cost Method** (Frozen Entry Age) – The state and teacher unfunded accrued liabilities are being funded over a nine-year and six-year period, respectively. The amortization period related to local government unfunded accrued liabilities varies by entity.
- ❖ **Treatment of Actuarial Gains and Losses** – Under the Frozen Entry Age Method, any actuarial gains or losses are absorbed into the normal cost.
- ❖ **Asset Valuation Method** – Assets are valued on a basis which reflects a ten-year moving average of the fair market value. The actuarial value of assets must be within 80-120 percent of the market value of assets.
- ❖ **Valuation Data** – The administrative staff of TCRS furnishes the actuary with demographic data relating to the active life members and the retired life members. The fair value of system assets are also provided by retirement system staff. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.
- ❖ **Post-Retirement Adjustments** – Retirement benefits are assumed to increase at the geometric rate of 2.5 percent annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

**ECONOMIC ASSUMPTIONS**

- ❖ **Investment Return Rate** – Seven and one-half percent (7½%) per annum, compounded annually.
- ❖ **Employee Salary Increases** – Graded scale that reflects the plan experience pattern of declining escalation rates as participant ages increase. No explicit assumption is made regarding the portion attributable to the effects of inflation on salaries. Active membership is assumed to remain constant.
- ❖ **Increase in Social Security Wage Base** – Three and one-half percent (3½%) annual increase.

**DECREMENT ASSUMPTIONS**

- ❖ **Post-Retirement Mortality** – Specifically adopted tables have been created to accurately reflect patterns that occur among TCRS retirees. Sample rates are below.

<i>Male</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.3%	0.4%
Age 60	0.6%	1.0%
Age 70	1.8%	2.2%

<i>Female</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.2%	0.2%
Age 60	0.5%	0.7%
Age 70	1.1%	1.3%

- ❖ **Preretirement Mortality** – Eighty percent (80%) of the RP-2000 Mortality Table is used for state employees and political subdivision employees. For teachers, the RP-2000 Mortality Table is used with an adjustment of 60 percent (60%).

- ❖ **Withdrawal Due to Disability** – Sample rates of disability based on experience:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.07%	0.03%
Age 40	0.08%	0.16%	0.08%
Age 50	0.17%	0.27%	0.38%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.04%	0.03%
Age 40	0.08%	0.14%	0.08%
Age 50	0.17%	0.33%	0.38%

(continued)

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS  
(CONTINUED)

❖ *Turnover Assumption* – Tables for probabilities of separation due to termination of employment are developed utilizing a “two-year select and ultimate” approach.

<i>Teachers</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
<b>Male</b>			
Age 30	18.0%	13.5%	6.0%
Age 40	18.0%	13.5%	2.0%
Age 50	19.7%	14.2%	2.0%
<b>Female</b>			
Age 30	18.0%	13.5%	7.6%
Age 40	18.0%	13.5%	2.3%
Age 50	19.7%	14.2%	1.6%
<i>State</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
<b>Male</b>			
Age 30	23.0%	18.6%	9.6%
Age 40	18.6%	13.8%	2.6%
Age 50	14.8%	11.1%	2.2%
<b>Female</b>			
Age 30	23.0%	18.6%	10.3%
Age 40	18.6%	13.8%	3.4%
Age 50	14.8%	11.1%	2.3%
<i>Political Subdivisions</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
<b>Male</b>			
Age 30	21.8%	17.9%	7.4%
Age 40	19.2%	15.9%	3.5%
Age 50	17.0%	13.0%	2.8%
<b>Female</b>			
Age 30	21.8%	17.9%	11.1%
Age 40	19.2%	15.9%	5.4%
Age 50	17.0%	13.0%	3.8%

*Retirement* – The probabilities of retirement for members eligible to retire:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 60	15.0%	8.5%	10.5%
Age 61	16.0%	11.0%	15.0%
Age 62	22.0%	16.0%	20.0%
Age 63	16.0%	12.0%	17.5%
Age 64	18.0%	14.0%	17.5%
Age 65	35.0%	22.0%	24.0%
Age 70	16.0%	15.5%	18.0%
Age 75	100.0%	100.0%	100.0%
<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 60	17.0%	9.0%	11.0%
Age 61	20.0%	12.0%	13.0%
Age 62	26.0%	18.0%	18.0%
Age 63	19.5%	12.0%	16.0%
Age 64	24.0%	14.0%	16.0%
Age 65	37.5%	22.0%	22.0%
Age 70	34.0%	17.0%	19.0%
Age 75	100.0%	100.0%	100.0%

In addition, for members younger than age 60, a loading factor of 12.5 percent for teachers and 7.5 percent for state and political subdivision employees is added during the year the member is first eligible for unreduced retirement. After age 60, for those members with 15 or more years of service, an 8.0 percent load is added for teachers and 2.0 percent for state employees and political subdivision employees.

**ACTUARIAL DATA****SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<b>Actuarial Valuation</b>	<b>Number</b>	<b>Annual Payroll In Thousands</b>	<b>Average Annual Pay</b>	<b>Average Annual Percentage Increase In Average Pay</b>
July 2001 SETHEEPP	126,863	\$4,451,453	\$35,089	2.85%
PSPP	69,083	1,545,594	22,373	4.13%
July 2003 SETHEEPP	128,656	4,773,299	37,101	2.83%
PSPP	71,941	1,731,135	24,063	3.71%
July 2005 SETHEEPP	132,026	5,245,988	39,735	3.49%
PSPP	74,124	1,890,968	25,511	2.96%
July 2007 SETHEEPP	136,337	5,742,858	42,123	2.96%
PSPP	76,388	2,081,965	27,255	3.36%
July 2009 SETHEEPP	136,158	6,054,528	44,467	2.74%
PSPP	78,792	2,282,081	28,963	3.09%
July 2011 SETHEEPP	135,588	6,058,348	44,682	0.24%
PSPP	79,488	2,354,939	29,626	1.14%

**SCHEDULE OF RETIRED MEMBER VALUATION DATA**

<b>Actuarial Valuation</b>	<b>Number</b>	<b>Annual Allowances In Thousands</b>	<b>Average Annual Allowances</b>	<b>Average Annual Percentage Increase In Annual Allowances</b>
July 2001 SETHEEPP	57,081	\$ 693,788	\$12,154	5.41%
PSPP	20,750	101,888	4,910	5.18%
July 2003 SETHEEPP	60,606	799,029	13,184	4.15%
PSPP	22,673	120,553	5,317	4.06%
July 2005 SETHEEPP	65,094	939,549	14,434	4.63%
PSPP	24,799	143,275	5,777	4.24%
July 2007 SETHEEPP	70,703	1,117,789	15,810	4.66%
PSPP	27,527	174,211	6,329	4.67%
July 2009 SETHEEPP	77,310	1,281,514	16,576	2.39%
PSPP	30,565	205,326	6,718	3.03%
July 2011 SETHEEPP	83,041	1,457,974	17,557	2.92%
PSPP	33,544	241,910	7,212	3.61%

**ACTUARIAL DATA  
(CONTINUED)**

**SCHEDULE OF RETIRED MEMBER ACTIVITY**

Actuarial Valuation July 1	Added to Rolls		Removed from Rolls		Rolls End of Year		Percentage Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
2001 SETHEEPP	n/a	n/a	n/a	n/a	57,081	\$ 693,788	n/a	n/a
PSPP	n/a	n/a	n/a	n/a	20,750	101,888	n/a	n/a
2003 SETHEEPP	7,597	\$141,252	4,072	\$36,011	60,606	799,029	15.17%	\$ 13,184
PSPP	3,320	24,133	1,397	5,468	22,673	120,553	18.32%	5,317
2005 SETHEEPP	8,453	179,572	3,965	39,052	65,094	939,549	17.59%	14,434
PSPP	3,705	29,169	1,579	6,447	24,799	143,275	18.85%	5,777
2007 SETHEEPP	9,427	219,034	3,818	40,794	70,703	1,117,789	18.97%	15,810
PSPP	4,396	38,751	1,668	7,815	27,527	174,211	21.59%	6,329
2009 SETHEEPP	10,677	212,772	4,070	49,047	77,310	1,281,514	14.65%	16,576
PSPP	4,752	39,522	1,714	8,407	30,565	205,326	17.86%	6,718
2011 SETHEEPP	10,090	233,149	4,359	56,689	83,041	1,457,974	13.77%	17,557
PSPP	4,955	47,632	1,976	11,048	33,544	241,910	17.82%	7,212

*Note:* Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes.

**ACTUAL VS. RECOMMENDED CONTRIBUTION RATES**

The Board adopted the contribution rates as recommended by the actuary.

**ACTUARIAL BALANCE SHEET****ACTUARIAL BALANCE SHEET**  
*as of July 1, 2011*

	<b>State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEPP)</b>	<b>Political Subdivision Pension Plan (PSPP)</b>	<b>Total</b>
<b>ASSETS</b>			
Present assets creditable to			
Employer accumulation fund	\$ 26,411,200,293	\$ 5,461,751,471	\$ 31,872,951,764
Members' accumulation fund	3,706,978,263	1,100,852,325	4,807,830,588
Total present assets	<u>30,118,178,556</u>	<u>6,562,603,796</u>	<u>36,680,782,352</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	2,179,663,929	886,440,557	3,066,104,486
Accrued liability	2,589,446,292	799,102,966	3,388,549,258
Total employer accumulation	<u>4,769,110,221</u>	<u>1,685,543,523</u>	<u>6,454,653,744</u>
Member's accumulation fund	<u>1,836,350,124</u>	<u>582,617,580</u>	<u>2,418,967,704</u>
Total prospective contributions	<u>6,605,460,345</u>	<u>2,268,161,103</u>	<u>8,873,621,448</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 36,723,638,901</u></u>	<u><u>\$ 8,830,764,899</u></u>	<u><u>\$ 45,554,403,800</u></u>
<b>LIABILITIES</b>			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	15,941,291,810	2,560,587,467	18,501,879,277
Present active members	20,028,868,907	6,013,575,239	26,042,444,146
Former members	<u>753,478,184</u>	<u>256,602,193</u>	<u>1,010,080,377</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 36,723,638,901</u></u>	<u><u>\$ 8,830,764,899</u></u>	<u><u>\$ 45,554,403,800</u></u>

UNAUDITED

## SHORT-TERM SOLVENCY TEST

### SHORT-TERM SOLVENCY TEST

The financing objective of the Tennessee Consolidated Retirement System is to pay for the benefits provided by the plan through contributions that remain approximately level from year to year as a percentage of payroll, except that the strategy to fund the unfunded accrued liability is to make level-dollar payments over an established amortization period. A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3)

the liabilities for service already rendered by active members. In a system that has been following the approach of level percent of payroll financing for some time, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) should be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time.

### *Dollar Amounts Expressed in Millions*

Actuarial Valuation July 1	Actuarial Accrued Liabilities for:			Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1997 SETHEEP	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP	426.4	743.5	1,117.9	2,226.9	100%	100%	95%
Total	\$ 2,568.1	\$ 6,199.6	\$ 9,303.0	\$ 17,898.6	100%	100%	98%
1999 SETHEEP	\$ 2,396.6	\$ 6,401.8	\$ 9,621.8	\$ 18,327.1	100%	100%	99%
PSPP	501.4	877.1	1,512.4	2,690.8	100%	100%	87%
Total	\$ 2,898.0	\$ 7,278.9	\$ 11,134.2	\$ 21,017.9	100%	100%	97%
2001 SETHEEP	\$ 2,638.6	\$ 7,837.6	\$ 10,366.0	\$ 20,761.0	100%	100%	99%
PSPP	592.0	1,104.2	1,831.9	3,188.0	100%	100%	81%
Total	\$ 3,230.6	\$ 8,941.8	\$ 12,197.9	\$ 23,949.0	100%	100%	97%
2003 SETHEEP	\$ 2,908.2	\$ 9,071.1	\$ 10,172.5	\$ 22,099.3	100%	100%	99%
PSPP	691.1	1,304.9	1,927.4	3,605.5	100%	100%	84%
Total	\$ 3,599.3	\$ 10,376.0	\$ 12,099.9	\$ 25,704.8	100%	100%	97%
2005 SETHEEP	\$ 3,167.4	\$ 10,599.5	\$ 9,900.1	\$ 23,627.2	100%	100%	100%
PSPP	797.0	1,563.9	2,089.2	4,124.0	100%	100%	84%
Total	\$ 3,964.4	\$ 12,163.4	\$ 11,989.3	\$ 27,751.2	100%	100%	97%
2007 SETHEEP	\$ 3,386.8	\$ 12,544.7	\$ 11,308.6	\$ 26,215.0	100%	100%	91%
PSPP	896.8	1,902.9	2,676.0	4,898.0	100%	100%	78%
Total	\$ 4,283.6	\$ 14,447.6	\$ 13,984.6	\$ 31,113.0	100%	100%	89%
2009 SETHEEP	\$ 3,559.8	\$ 14,122.8	\$ 11,372.4	\$ 26,335.2	100%	100%	76%
PSPP	1,011.3	2,190.0	2,942.4	5,304.5	100%	100%	71%
Total	\$ 4,571.1	\$ 16,312.8	\$ 14,314.8	\$ 31,639.7	100%	100%	75%
2011 SETHEEP	\$ 3,707.0	\$ 15,941.3	\$ 13,059.3	\$ 30,118.2	100%	100%	80%
PSPP	1,100.8	2,560.6	3,700.3	6,562.6	100%	100%	78%
Total	\$ 4,807.8	\$ 18,501.9	\$ 16,759.6	\$ 36,680.8	100%	100%	80%

**SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES**

<p>The unfunded accrued liability represents the excess of the accrued actuarial liability over the actuarial value of assets. For funding purposes, the Board of Trustees of TCRS has adopted the frozen initial liability method.</p> <p>Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2027. Also, actuarial gains and losses are absorbed in normal cost rather than as part of the unfunded liability. The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses.</p> <p>For the July 1, 2009 actuarial valuation, the Board reestablished the unfunded accrued liability. In an</p>	<p>inflationary economy where the covered payroll continues to grow, the level-dollar amounts which are being contributed to fund the unfunded accrued liability will, if expressed as a percentage of payroll, continue to decrease.</p> <p>While concern is generally expressed regarding the dollar amount of the unfunded accrued liability, an analysis should also include the method being used to fund this liability as well as a review of this liability expressed as a percentage of active member payroll. The smaller the ratio of unfunded liabilities to the active member payroll, the stronger the system. A review of this ratio over a period of years will give an indication of whether the system is becoming financially stronger or weaker with respect to its unfunded liabilities.</p>
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**SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES**

*Dollar Amounts Expressed in Millions*

Actuarial Valuation July 1	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Ratio Assets to AAL	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1997 (3)	\$ 18,070.8	\$ 17,898.6	99.00%	\$ 172.2 (1)(2)	\$ 4,940.8	3.00%
1999	21,311.1	21,017.9	99.00%	293.2	5,473.8	5.00%
2001	24,370.4	23,949.0	98.00%	421.4 (2)	5,997.0	7.00%
2003	26,075.2	25,704.8	99.00%	370.4	6,504.4	6.00%
2005	28,117.1	27,751.2	99.00%	365.9 (2)	7,137.0	5.00%
2007	32,715.8	31,113.0	95.10%	1,602.8 (1)	7,824.8	20.48%
2009	35,198.7	31,639.7	89.89%	3,559.0 (1)(2)	8,336.6	42.69%
2011	40,069.3	36,680.8	91.54%	3,388.5	8,413.3	40.28%

Notes:

- (1) Unfunded accrued liability was reestablished.
- (2) Includes adjustments for changes in actuarial assumptions.
- (3) Includes effect of compound COLA and 3.6 percent indexing improvement.

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**SELECTED ACTUARIAL FUNDING INFORMATION**


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**SELECTED ACTUARIAL FUNDING INFORMATION**

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEEPP	PSP	
1997 (2)	7.50%	5.50%	\$ 111,172,072	\$ 61,012,975	18
1999	7.50%	5.50%	93,022,745	200,161,388	16
2001	7.50%	4.75% (3)	81,226,933	340,147,400	14
2003	7.50%	4.75% (3)	52,493,209	317,945,618	12
2005	7.50%	4.75% (3)	39,806,610	326,114,462	10
2007 (4)	7.50%	4.75% (3)	1,025,156,148	577,645,568	20
2009 (4)	7.50%	4.75% (3)	2,719,767,478	839,320,076	20
2011	7.50%	4.75% (3)	2,589,446,292	799,102,966	9 (5)

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
- (2) Includes effect of compound COLA and 3.6 percent indexing improvement.
- (3) Graded Scale.
- (4) Unfunded liability was reestablished for all groups.
- (5) Effective July 1, 2011, the amortization period was reset to six years for teachers and nine years for the state.

**ANALYSIS OF FINANCIAL EXPERIENCE**

**GAIN AND LOSS ANALYSIS, JULY 1, 2011 VALUATION**

	<b>State and Higher Education</b>	<b>Teacher</b>
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2011 Valuation	15.01%	9.05%
Investment Results	(1.86%)	(1.61%)
Salary Increases: The annual weighted-average rate of salary increase during the 2009-2011 period was below the assumed age-based rate used in preparing the 2009 valuation report. This resulted in a reduction in the contribution rate.	(1.52%)	(1.23%)
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	(0.30%)	(0.07%)
Cost of Living Escalation: COLA in 2010 and 2011 were 2.7% and 1.5%, respectively, for combined effect of 2.1%, which is less than the assumed 2.5% per year.	(0.25%)	(0.23%)
Prior Service Purchases: Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions.	0.10%	0.10%
Contribution rate change delay	0.26%	0.31%
Other	0.46%	(0.47%)
Re-amortization of unfunded liability( 6-year amortization for teachers, 9-year amortization for State)	3.24%	3.03%
Effective Employer Normal Cost Rate Pursuant to 2011 Valuation	<u>23.00%</u>	<u>16.10%</u>

**RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES  
STATE EMPLOYEES, TEACHERS, AND HIGHER EDUCATION EMPLOYEES**

Unfunded Actuarial Liabilities at June 30, 2012	\$2,323,872,017
Interest Accrual Fiscal Year 2012-2013	142,212,535
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2012-2013)	(427,704,881)
Unfunded Actuarial Liabilities at June 30, 2013	<u>\$2,038,379,671</u>

## PLAN SUMMARY

### HISTORY AND ADMINISTRATION

The TCRS was established in 1972 by an Act of the Tennessee General Assembly. Seven existing retirement systems were consolidated to provide retirement, disability and death benefits to state employees, public school teachers, higher education employees and the employees of participating local governments. State laws governing the plan may be found in Chapters 34-37, 39 of Title 8, *Tennessee Code Annotated*. Amendments to the plan can only be made by legislation enacted by the General Assembly of the State of Tennessee.

A 20-member Board of Trustees has the responsibility to manage and oversee the operation of the consolidated system. The Board consists of nine ex-officio members from the executive, legislative and judicial branches of state government, nine representatives of the active TCRS membership and two representatives for retirees. Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; three representatives of local governments; one public safety officer; one retired state employee representative; and one retired teacher representative. Local government representatives are appointed for two-year terms by each of the following organizations: the Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. All employee representatives must be vested members of TCRS.

TCRS is administered by the Treasury Department under the legislative branch of state government. By state law, the State Treasurer serves as chairman of the Board of Trustees and as custodian of the funds of the system. The Director of the retirement system is appointed by the Treasurer and serves as the chief administrative officer of the plan.

The state is responsible for the pension cost of state employees; pension costs for teachers are the responsibility of the local education agencies in Tennessee; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balances. The operating budget is funded by local governments on a per-member fee basis and by state government as part of the employer contribution rate.

### MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, K-12 teachers, higher education general employees and the employees of participating local governments. Membership is optional for part-time state employees and the part-time employees of political subdivisions which have authorized such coverage.

Interim teachers and part-time teachers have optional membership. The faculty employees of institutions of higher education may elect participation in either TCRS or an optional retirement program (ORP), a defined contribution plan for higher education faculty.

State employees, higher education employees and K-12 public school teachers hired after June 30, 2014 will participate in the Hybrid Pension Plan for State Employees and Teachers.

### CONTRIBUTIONS

TCRS membership became noncontributory on July 1, 1981 for most state employees, teachers in state supported institutions of higher education and teachers employed in the Department of Education. At that time, the contributions, up to five percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual members' accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts. State employees, teachers in state supported institutions of higher education and teachers employed by the Department of Education hired after June 30, 2014 contribute at a rate of five percent of gross salary.

Participating political subdivisions may either adopt noncontributory retirement provisions or require employee contributions. The contribution rate for local government employees is five percent up to the Social Security wage base and 5.5 percent above that base, unless the employing government has authorized a level five percent rate. Public school teachers contribute at a rate of five percent of gross salary.

(continued)

**PLAN SUMMARY  
(CONTINUED)**

Individual accounts are maintained for all contributory members with interest credited annually at a rate of five percent. Since the TCRS is a defined benefit plan, benefits are based upon the member's average final compensation and years of creditable service. The member's account balance including interest accrued has no bearing on the monthly benefit amount payable at retirement. Account balances plus interest are fully refundable upon termination of service or death.

Contributory members are now covered by Section 414(h) of the Internal Revenue Code. Under this provision, retirement contributions are made on a tax-deferred basis, with income tax due only when contributions are returned to members as benefits or refunds. Political subdivisions may adopt the 414(h) provision for their employees.

The state also makes contributions on behalf of higher education faculty members who select membership in the ORP. These contributions are equal to 10 percent of salary up to Social Security wage base and 11 percent of any excess salary.

For ORP participants hired after June 30, 2014, the state will contribute nine percent of salary to the ORP. The employee will contribute five percent of gross salary to the ORP.

**BENEFITS**General

TCRS provides three valuable benefits to its members: disability, death and service retirement benefits. Disability benefits are available to qualified TCRS members who become totally disabled before meeting the requirements for service retirement. Two types of disability retirement are available: ordinary and accidental.

To qualify for ordinary disability, a member must have a minimum of five years of TCRS service credit. The ordinary disability benefit is equal to 90 percent of what the member would receive under service retirement. If a disabled retiree has less than 20 years of service credit, the service is projected to age 60 or 20 years, whichever comes first. When service is projected, the actual and projected service combined cannot exceed 20 years. If the member's actual

service credit exceeds 20 years, the benefit is based on actual service only.

There is no minimum service requirement to qualify for an accidental disability benefit. However, the disability must be the result of a job-related accident that occurs without negligence on the part of the member during the performance of duty. Prior to the onset of Social Security benefits, an accidental disability benefit is equal to 50 percent of the member's average final compensation (AFC). Once Social Security benefits begin, the accidental benefit is 33.3 percent of AFC. For members joining TCRS on or after July 1, 1997, accidental disability benefits are determined in the same manner as ordinary disability using the projection of service method. Disability benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. The accidental benefit is adjusted if the member's combined benefits from Social Security and/or workers' compensation exceed 75 percent of his AFC.

One of several death benefits may be payable to the designated beneficiary of an active member who dies prior to retirement. The type of death benefit payable will be determined by whether or not death occurred while in service, who is named as beneficiary and the member's length of service.

## PLAN SUMMARY (CONTINUED)

### Legacy Plan for Members Before July 1, 2014

A member may designate one or more persons, his estate, an institution or any combination of such as his beneficiary. However, estates, institutions and/or multiple beneficiaries are only eligible for a lump-sum refund of the member's accumulated contributions and interest unless one of the beneficiaries named is the surviving spouse. Other death benefits offered by TCRS include a 100 percent Joint and Surviving Spouse Annuity after 10 Years Service, a 100 percent Joint and Survivor Annuity for any beneficiary and a Line of Duty Benefit. Any beneficiary of a member who had 10 years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over 10 years.

All members hired prior to July 1, 2014, with the exception of state judges, joining TCRS after 1976 enter the same membership group. The benefit formula for this group provides 1.5 percent of AFC computed over five years for each year of service credit. If a member's AFC exceeds the Social Security integration level (SSIL) applicable at retirement, the formula provides an additional 0.25 percent of the amount of the excess for each service year. These benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members.

Members become eligible for regular service retirement at age 60 if vested or at any age with 30 years. Vested members are eligible for reduced early retirement benefits when they have reached age 55 or have completed 25 years of service. Members joining TCRS after June 30, 1979 attain vesting rights after five years of service; the vesting period for members who joined prior to July 1, 1979 is four years. Five-year vesting and 25-year retirement are benefits that are optional to local governments. Otherwise, vesting for local governments is 10 years of service.

### Hybrid Plan for Members After June 30, 2014

State employees, higher education employees and K-12 teachers, with the exception of state judges, the State Attorney General, elected District Attorneys General, and elected Public Defenders, becoming members after June 30, 2014 enter the same membership group. The benefit formula for this group provides 1.0 percent of AFC computed over five years for each year of service credit. The benefit formula for State judges, the State Attorney General, elected District Attorneys General, and elected Public Defenders provides 1.6 percent of AFC computed over five years for each year of service credit. Local governments have the option to join this plan

Members become eligible for regular service retirement at age 65 if vested or the Rule of 90. The Rule of 90 refers to a combination of age and service that total 90. Vested members are eligible for reduced early retirement benefits at age 60 if vested or the Rule of 80. Members attain vesting rights after five years of service.

## SERVICES FOR ACTIVE AND RETIRED MEMBERS

### SERVICES FOR ACTIVE MEMBERS

TCRS provides a number of services for active members through its various sections.

#### *Field Services*

- ❖ TCRS staff is available to conduct employee presentations on all aspects of the retirement system.
- ❖ Employer seminars are conducted biennially to educate payroll officers on legislation affecting TCRS and inform them of the employer contribution rates effective for the next two fiscal years.

#### *Membership*

- ❖ Comprehensive membership statements are provided to all members annually.
- ❖ Computer-generated membership letters and membership pamphlets are mailed to all new members.
- ❖ Membership booklets are available to members upon request.

#### *Prior Service*

- ❖ An automated calculation and eligibility system generates billings for members who wish to establish prior service.
- ❖ An installment program is available to purchase certain types of prior service.
- ❖ Prior Service may be purchased with a rollover from a tax-deferred 401(a) plan, 401(k) plan, 403(b) plan, 457 plan or a traditional or Roth IRA.

#### *Benefits*

- ❖ Interactive benefit calculator via Internet.
- ❖ Computer-generated benefit estimates are available for those members approaching retirement age.
- ❖ Employee benefit counseling workshops are available to educate potential retirees.
- ❖ TCRS counseling staff provides personal counseling to members by telephone and in their Nashville office.

- ❖ TCRS seminars, which explain all facets of pre-retirement planning, are provided for members.

### SERVICES FOR RETIRED MEMBERS

A number of services are made available to TCRS retirees.

- ❖ A toll-free telephone line
- ❖ Retiree identification cards
- ❖ Semiannual retiree newsletter: *The Retiree Advisor*
- ❖ Direct deposit service
- ❖ Continuation of medical insurance
- ❖ Continuation of dental insurance
- ❖ Medicare supplement coverage
- ❖ Income tax information
- ❖ Certification of monthly benefits
- ❖ Certification of student discounts
- ❖ Credit Union deductions
- ❖ Tennessee State Employee Association deductions
- ❖ Tennessee Retired Teachers Association deductions
- ❖ Retiree self-service at [www.mytcrs.com](http://www.mytcrs.com)

## SAMPLE BENEFIT CALCULATIONS

**TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS**  
*for Calendar Year 2013*

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	9,840		9,840		9,840		9,840		9,840	
	Total	<u>\$13,384</u>	89.2%	<u>\$14,565</u>	97.1%	<u>\$15,746</u>	105.0%	<u>\$16,928</u>	112.9%	<u>\$18,109</u>	120.7%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$11,025	
	Social Security	11,388		11,388		11,388		11,388		11,388	
	Total	<u>\$16,113</u>	80.6%	<u>\$17,688</u>	88.4%	<u>\$19,263</u>	96.3%	<u>\$20,838</u>	104.2%	<u>\$22,413</u>	112.1%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$11,813		\$13,781	
	Social Security	12,936		12,936		12,936		12,936		12,936	
	Total	<u>\$18,842</u>	75.4%	<u>\$20,811</u>	83.2%	<u>\$22,780</u>	91.1%	<u>\$24,749</u>	99.0%	<u>\$26,717</u>	106.9%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$11,813		\$14,175		\$16,538	
	Social Security	14,472		14,472		14,472		14,472		14,472	
	Total	<u>\$21,560</u>	71.9%	<u>\$23,922</u>	79.7%	<u>\$26,285</u>	87.6%	<u>\$28,647</u>	95.5%	<u>\$31,010</u>	103.4%
\$35,000	TCRS	\$ 8,269		\$11,025		\$13,781		\$16,538		\$19,294	
	Social Security	16,020		16,020		16,020		16,020		16,020	
	Total	<u>\$24,289</u>	69.4%	<u>\$27,045</u>	77.3%	<u>\$29,801</u>	85.1%	<u>\$32,558</u>	93.0%	<u>\$35,314</u>	100.9%
\$40,000	TCRS	\$ 9,450		\$12,600		\$15,750		\$18,900		\$22,050	
	Social Security	17,568		17,568		17,568		17,568		17,568	
	Total	<u>\$27,018</u>	67.5%	<u>\$30,168</u>	75.4%	<u>\$33,318</u>	83.3%	<u>\$36,468</u>	91.2%	<u>\$39,618</u>	99.0%
\$45,000	TCRS	\$10,631		\$14,175		\$17,719		\$21,263		\$24,806	
	Social Security	19,116		19,116		19,116		19,116		19,116	
	Total	<u>\$29,747</u>	66.1%	<u>\$33,291</u>	74.0%	<u>\$36,835</u>	81.9%	<u>\$40,379</u>	89.7%	<u>\$43,922</u>	97.6%
\$50,000	TCRS	\$11,813		\$15,750		\$19,688		\$23,625		\$27,563	
	Social Security	20,664		20,664		20,664		20,664		20,664	
	Total	<u>\$32,477</u>	65.0%	<u>\$36,414</u>	72.8%	<u>\$40,352</u>	80.7%	<u>\$44,289</u>	88.6%	<u>\$48,227</u>	96.5%
\$55,000	TCRS	\$12,994		\$17,325		\$21,656		\$25,988		\$30,319	
	Social Security	22,212		22,212		22,212		22,212		22,212	
	Total	<u>\$35,206</u>	64.0%	<u>\$39,537</u>	71.9%	<u>\$43,868</u>	79.8%	<u>\$48,200</u>	87.6%	<u>\$52,531</u>	95.5%
\$60,000	TCRS	\$14,175		\$18,900		\$23,625		\$28,350		\$33,075	
	Social Security	23,100		23,100		23,100		23,100		23,100	
	Total	<u>\$37,275</u>	62.1%	<u>\$42,000</u>	70.0%	<u>\$46,725</u>	77.9%	<u>\$51,450</u>	85.8%	<u>\$56,175</u>	93.6%
\$65,000	TCRS	\$15,364		\$20,486		\$25,607		\$30,728		\$35,850	
	Social Security	23,820		23,820		23,820		23,820		23,820	
	Total	<u>\$39,184</u>	60.3%	<u>\$44,306</u>	68.2%	<u>\$49,427</u>	76.0%	<u>\$54,548</u>	83.9%	<u>\$59,670</u>	91.8%
\$70,000	TCRS	\$16,742		\$22,323		\$27,904		\$33,485		\$39,065	
	Social Security	24,552		24,552		24,552		24,552		24,552	
	Total	<u>\$41,294</u>	59.0%	<u>\$46,875</u>	67.0%	<u>\$52,456</u>	74.9%	<u>\$58,037</u>	82.9%	<u>\$63,617</u>	90.9%

\* Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

This chart is based on a date of retirement in 2013. Social Security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions:

- (1) Retirement is taking place at age 65 in 2013;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: [tcrs.tn.gov](http://tcrs.tn.gov)

**MAJOR LEGISLATIVE IMPROVEMENTS**

<p><b>1972</b> Benefit formula improved from 1.12 percent of salary up to the SSIL to 1.5 percent of salary up to the SSIL.</p> <p><b>1973</b> Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.</p> <p><b>1974</b> Disability retirement eligibility requirement reduced from 10 years to 5 years of service.</p> <p>Maximum annual cost-of-living increase raised to 3 percent.</p> <p>Provision to increase retirees’ benefits whenever the benefit formula is improved.</p> <p>Service credit authorized for unused accumulated sick leave.</p> <p><b>1976</b> Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.</p> <p>Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.</p> <p><b>1978</b> A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.</p> <p>An optional retirement plan established for teachers in the Board of Regents system.</p> <p><b>1980</b> Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member’s accrued benefit for the spouse.</p> <p><b>1981</b> Noncontributory retirement for state employees and higher education employees adopted. Employees’ contributions, up to 5 percent, were assumed by the state.</p> <p><b>1983</b> An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p><b>1984</b> Credit for out-of-state service for the purpose of determining retirement eligibility authorized.</p> <p>Retirement credit for armed conflict approved.</p> <p>Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.</p> <p><b>1985</b> \$22 million ad-hoc increase granted to retirees.</p>	<p><b>1987</b> Service credit for half of peacetime military service made available.</p> <p>\$17 million ad-hoc increase granted to retirees.</p> <p>Retirement incentive for state employees.</p> <p>Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.</p> <p><b>1990</b> Retirement incentive for state employees.</p> <p><b>1991</b> 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.</p> <p><b>1992</b> Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p><b>1993</b> Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5 percent authorized.</p> <p><b>1997</b> Compounded COLA for retirees approved.</p> <p><b>1998</b> Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80 percent.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p><b>1999</b> Group 1 benefit maximum increased to 90 percent.</p> <p><b>2000</b> Group 2 benefit maximum increased to 80 percent.</p> <p><b>2001</b> Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p><b>2005</b> Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p><b>2006</b> Ad-hoc increase granted to members retired prior to 1989.</p> <p><b>2007</b> Public Safety Officer benefits were enhanced.</p> <p><b>2012</b> New plan options offered to local governments.</p> <p><b>2013</b> Hybrid plan enacted for state employees and teachers hired after July 1, 2014.</p>
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# THE PRIDE OF TENNESSEE

By Fred Congdon, Thomas Vaughn and Carol Elliot

Adopted in 1996

*From the Smokie Mountain Mornings to the Mississippi shores  
Let's take time to remember those who went before  
Whose lives made a difference in the world for you and me  
Their courage faith and vision are the Pride of Tennessee  
Sequoyah was a Cherokee the chief of all his tribe  
His people learned to read and write with the alphabet he scribed  
When Tennessee became a State its Governor was clear  
There was no better leader than the gallant John Sevier  
From the backwoods to the Congress to his stand at the Alamo  
Davy Crockett gave his life for the country he loved so*

*Three Presidents from Tennessee made impressions on this land  
Jackson, Polk and Johnson were men who took a stand  
Ida Wells Barnett fought bravely for the rights of men  
When they were killed by prejudice for the color of their skin  
He was drafted in the first world war though he did not want to go  
His shooting skills made Alvin York a national hero*

*When women of Tennessee believed they had the right to vote  
Ann Dallas Dudley led the fight and gave them hope  
Cordell Hull had a vision for peace around the world  
The United Nations where all countries' flags unfurl  
From Beale Street down in Memphis to New York front page news  
WC Handy's music made him father of the blues*

*Yes Courage, Faith and Vision are the Pride of Tennessee*

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**STATISTICAL INTRODUCTION****STATISTICAL SECTION OVERVIEW**

The statistical section presents additional information to provide financial statement users with added historical perspective, context, and detail to assist in using the information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the system's financial condition.

**FINANCIAL TRENDS**

The schedules presented on pages 76-79 show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- ❖ Historical Fair Value
- ❖ Analysis of Member and Employer Reserves
- ❖ Schedules of Changes in Net Assets
- ❖ Schedules of Benefit Expenses

**OPERATING INFORMATION**

The remaining schedules presented on pages 80-100 contain benefits, service, and employer data to help the reader understand how the System's financial report relates to the services of the system and the activities it performs. In addition, a description of political subdivision participation and a listing of participating entities have been included in this section.

**HISTORICAL FAIR VALUE**

**HISTORICAL FAIR VALUE**

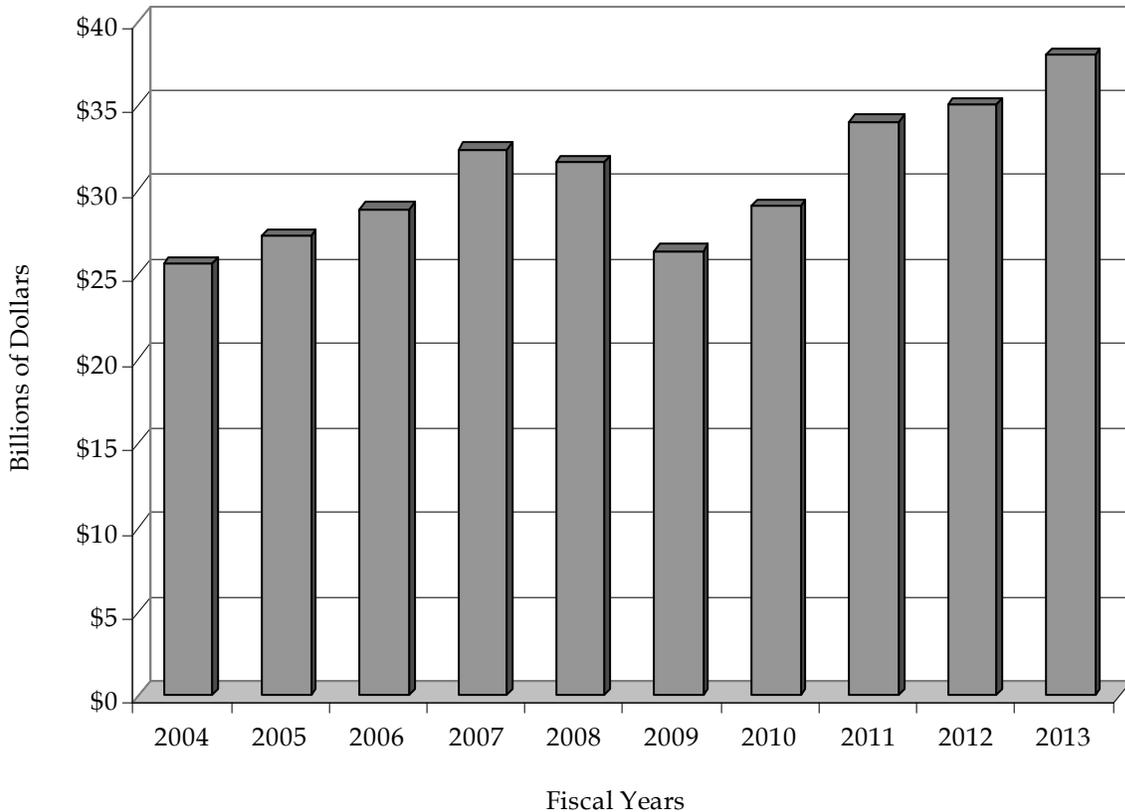
*Fiscal Years 2004-2013*

*Expressed in Thousands*

As of June 30	Fair Value	As of June 30	Fair Value
2004	\$ 25,586,516	2009	\$ 26,369,226
2005	27,216,262	2010	28,574,195
2006	28,820,635	2011	33,663,308
2007	32,365,969	2012	34,912,773
2008	31,634,129	2013	37,564,905

**HISTORICAL FAIR VALUE**

*Fiscal Years 2004-2013*



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES  
FOR THE YEAR ENDED JUNE 30, 2013**

**MEMBER RESERVE FUND**

The legislation which created the TCRS established two funds, the Member Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plans. The Member Reserve Fund represents the accumulation of employee contributions plus interest.

	<b>SETHEEPP</b>	<b>PSPP</b>	<b>Total</b>
<i>June 30, 2012 Member Reserve Fund</i>	\$ 3,749,165,126	\$ 1,151,024,102	\$ 4,900,189,228
Member Contributions	196,792,442	71,764,647	268,557,089
Employer Provided Contributions	10,887,272	7,915,831	18,803,103
Interest	169,915,327	53,918,621	223,833,948
Refunded Account Balances	(19,520,046)	(19,997,831)	(39,517,877)
Transfers to Employer Fund of Retiring Members'	(348,914,509)	(68,551,700)	(417,466,209)
 <i>June 30, 2013 Member Reserve Fund</i>	 <u>\$ 3,758,325,612</u>	 <u>\$ 1,196,073,670</u>	 <u>\$ 4,954,399,282</u>

**EMPLOYER RESERVE FUND**

The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

	<b>SETHEEPP</b>	<b>PSPP</b>	<b>Total</b>
<i>June 30, 2012 Employer Reserve Fund</i>	\$ 24,747,483,717	\$ 5,265,100,027	\$ 30,012,583,744
Employer Contributions	735,886,066	274,538,969	1,010,425,035
Investment Income	2,721,727,771	622,861,488	3,344,589,259
Transfers from Retiring Members' Account	348,914,509	68,551,700	417,466,209
Employer Provided Contributions	(10,887,272)	(7,915,831)	(18,803,103)
Interest Credited to Members' Account	(169,915,327)	(53,918,621)	(223,833,948)
Lump-Sum Death Benefits	(3,050,544)	(2,005,537)	(5,056,081)
Retirement and Survivors Annuities	(1,639,030,908)	(279,655,431)	(1,918,686,339)
Administrative Expenses	(5,446,453)	(2,732,243)	(8,178,696)
 <i>June 30, 2013 Employer Reserve Fund</i>	 <u>\$ 26,725,681,559</u>	 <u>\$ 5,884,824,521</u>	 <u>\$ 32,610,506,080</u>

**SCHEDULES OF CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

**SCHEDULES OF CHANGES IN NET POSITION**

*Expressed in Thousands*

Year Ending	Additions			Deductions			Total Change in Net Position
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
<b>SETHEPP</b>							
6/30/2004	\$ 154,334	\$ 271,298	\$ 1,870,972	\$ 826,938	\$ 2,935	\$ 15,305	\$ 1,451,426
6/30/2005	160,686	448,154	1,579,232	891,259	3,008	15,329	1,278,476
6/30/2006	166,984	474,879	1,594,214	972,680	3,336	17,751	1,242,310
6/30/2007	175,743	562,729	3,202,706	1,062,764	3,385	19,231	2,855,798
6/30/2008	181,236	593,412	(361,408)	1,148,496	3,711	19,113	(758,080)
6/30/2009	185,729	583,985	(4,059,222)	1,254,824	3,616	16,503	(4,564,451)
6/30/2010	190,635	578,403	2,232,405	1,317,203	3,924	19,371	1,660,945
6/30/2011	192,467	721,759	4,552,737	1,415,339	3,525	18,957	4,029,142
6/30/2012	194,180	731,352	1,473,650	1,514,027	4,751	22,575	857,829
6/30/2013	196,792	735,886	2,721,728	1,642,081	5,446	19,521	1,987,358
<b>PSPP</b>							
6/30/2004	\$ 50,650	\$ 139,808	\$ 310,881	\$ 127,513	\$ 2,599	\$ 14,621	\$ 356,606
6/30/2005	54,921	181,096	271,135	137,657	2,738	15,487	351,270
6/30/2006	59,327	191,000	283,084	151,511	2,877	16,960	362,063
6/30/2007	57,003	231,699	588,698	167,667	3,084	17,113	689,536
6/30/2008	64,617	244,847	(68,651)	184,219	3,491	26,863	26,240
6/30/2009	67,830	252,926	(799,264)	202,839	3,586	15,519	(700,452)
6/30/2010	64,414	258,324	459,941	217,984	3,619	17,052	544,024
6/30/2011	67,920	273,781	976,016	237,531	3,632	16,583	1,059,971
6/30/2012	69,576	271,361	326,414	255,782	2,416	17,517	391,636
6/30/2013	71,765	274,539	622,861	281,661	2,732	19,998	664,774

SCHEDULES OF BENEFIT EXPENSES

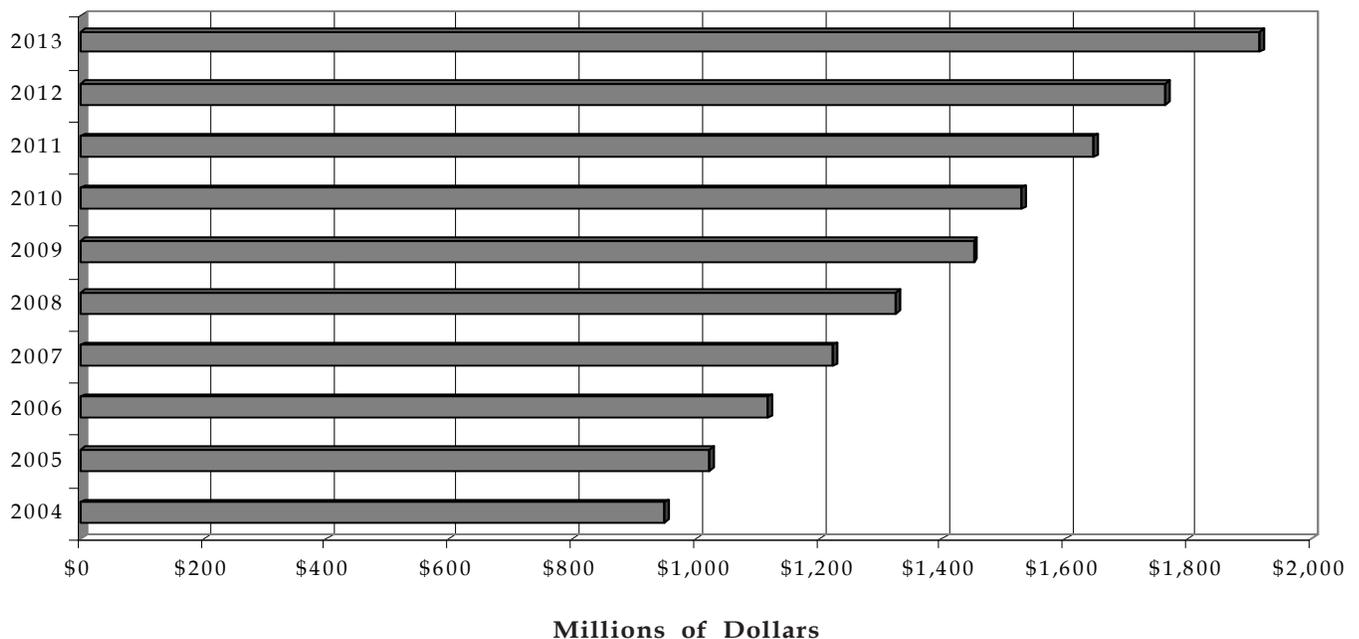
SCHEDULES OF BENEFIT EXPENSES

*Expressed in Thousands*

Year Ending	Service Retirement	Disability Retirement	Survivor Benefits	Death Benefits	Total Benefits	Refunds	Total
<b>SETHEEPP</b>							
6/30/2004	\$ 750,307	\$ 24,714	\$ 48,768	\$ 3,149	\$ 826,938	\$ 15,305	\$ 842,243
6/30/2005	808,955	25,865	52,708	3,731	891,259	15,329	906,588
6/30/2006	884,107	27,434	56,912	4,227	972,680	17,751	990,431
6/30/2007	968,363	28,864	61,818	3,719	1,062,764	19,231	1,081,995
6/30/2008	1,047,813	30,585	66,789	3,309	1,148,496	19,113	1,167,609
6/30/2009	1,149,047	30,156	71,559	4,062	1,254,824	16,503	1,271,327
6/30/2010	1,207,036	30,663	74,810	4,694	1,317,203	19,371	1,336,574
6/30/2011	1,298,484	32,483	80,318	4,054	1,415,339	18,957	1,434,296
6/30/2012	1,390,633	34,174	84,705	4,515	1,514,027	22,575	1,536,602
6/30/2013	1,507,179	39,879	91,973	3,051	1,642,082	19,520	1,661,602
<b>PSPP</b>							
6/30/2004	\$ 114,950	\$ 3,786	\$ 7,448	\$ 1,329	\$ 127,513	\$ 14,621	\$ 142,134
6/30/2005	124,436	3,953	8,088	1,180	137,657	15,487	153,144
6/30/2006	137,094	4,197	8,779	1,441	151,511	16,960	168,471
6/30/2007	151,844	4,417	9,622	1,784	167,667	17,113	184,780
6/30/2008	167,303	4,737	10,580	1,599	184,219	26,863	211,082
6/30/2009	184,753	5,048	11,376	1,662	202,839	15,519	218,358
6/30/2010	198,225	5,191	12,148	2,420	217,984	17,052	235,036
6/30/2011	217,222	5,591	13,274	1,444	237,531	16,583	254,114
6/30/2012	234,150	5,897	14,046	1,689	255,782	17,517	273,299
6/30/2013	257,383	6,813	15,459	2,006	281,661	19,998	301,659

ANNUAL BENEFIT PAYMENTS

*Fiscal Years 2004-2013*



## SCHEDULES OF ACTIVE MEMBERS

### SCHEDULE OF ACTIVE MEMBERS

*by Service Credit*

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
0-4	10,126	18,037	5,024	25,125	58,312
5-9	10,135	17,104	3,444	19,353	50,036
10-14	6,886	13,663	2,410	14,048	37,007
15-19	4,365	9,708	1,685	8,589	24,347
20-24	3,280	5,655	1,442	5,289	15,666
25-29	3,716	4,661	1,172	3,156	12,705
30-34	1,831	2,542	751	1,485	6,609
35-39	1,109	1,541	468	598	3,716
40-44	327	343	160	143	973
Over 44	81	52	34	29	196
<b>Total</b>	<b>41,856</b>	<b>73,306</b>	<b>16,590</b>	<b>77,815</b>	<b>209,567</b>

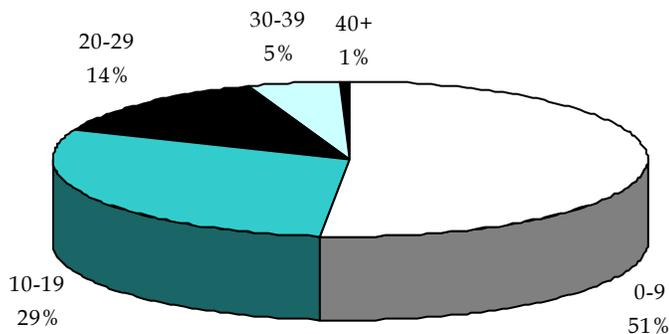
### SCHEDULE OF ACTIVE MEMBERS

*by Enrollment Date*

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
1940s	4	13	2	21	40
1950s	25	4	2	4	35
1960s	176	182	71	25	454
1970s	2,238	3,475	1,009	1,218	7,940
1980s	7,537	9,079	2,690	6,821	26,127
1990s	9,684	20,246	3,606	19,362	52,898
2000s	16,951	31,738	6,722	37,961	93,372
2010s	5,241	8,569	2,488	12,403	28,701
<b>Total</b>	<b>41,856</b>	<b>73,306</b>	<b>16,590</b>	<b>77,815</b>	<b>209,567</b>

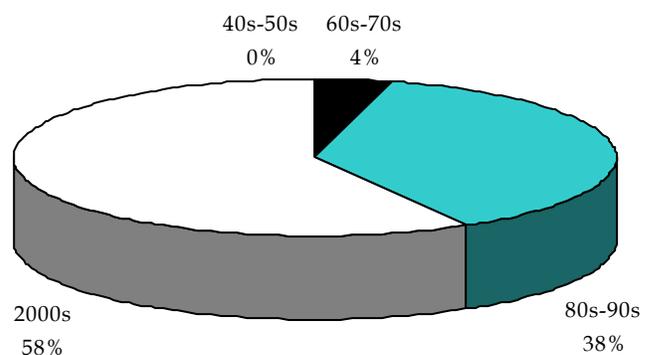
### PERCENTAGE OF ACTIVE MEMBERS

*by Service Credit*



### PERCENTAGE OF ACTIVE MEMBERS

*by Enrollment Date*



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than 20	25	16	4	57	102
20-29	3,198	9,663	1,113	6,239	20,213
30-39	8,011	20,916	2,708	14,125	45,760
40-49	10,380	19,674	4,089	22,221	56,364
50-54	6,630	8,382	2,758	12,042	29,812
55-59	6,541	8,305	2,816	11,133	28,795
60-64	4,657	5,058	1,945	7,249	18,909
65-69	1,748	1,102	803	3,053	6,706
Over 69	666	190	354	1,696	2,906
Total	<u>41,856</u>	<u>73,306</u>	<u>16,590</u>	<u>77,815</u>	<u>209,567</u>

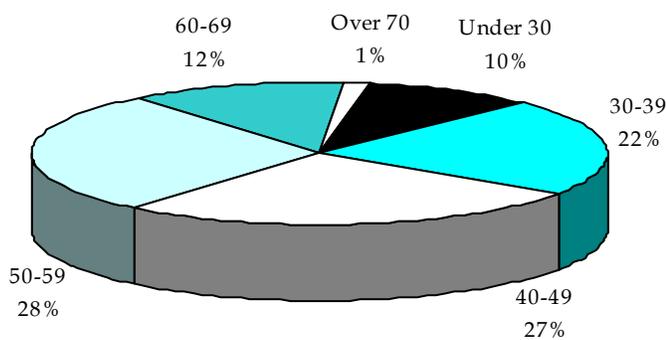
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than 20	1,131	149	252	1,191	2,723
20-24	8,175	24,331	2,544	10,281	45,331
25-29	9,099	19,606	3,180	11,789	43,674
30-34	6,279	10,070	2,634	12,059	31,042
35-39	5,241	7,848	2,320	12,721	28,130
40-44	4,242	5,480	1,941	10,942	22,605
45-49	3,282	3,157	1,616	7,885	15,940
50-54	2,366	1,681	1,173	5,333	10,553
55-59	1,433	747	670	3,369	6,219
60-64	448	203	195	1,540	2,386
65-69	124	29	46	519	718
Over 70	36	5	19	186	246
Total	<u>41,856</u>	<u>73,306</u>	<u>16,590</u>	<u>77,815</u>	<u>209,567</u>

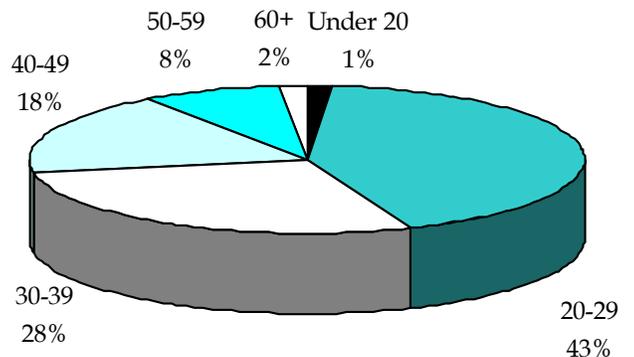
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



## SCHEDULES OF ACTIVE MEMBERS

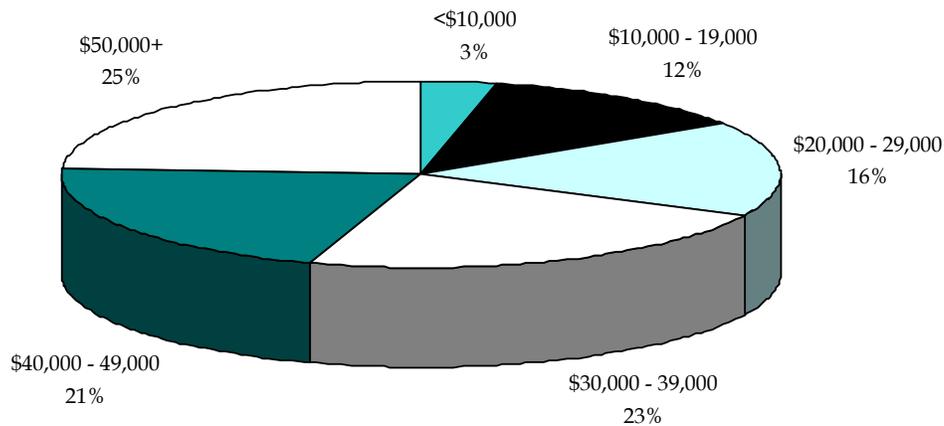
### SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEPP			PSP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than \$10,000	1,532	199	534	4,816	7,081
\$10,000 - 19,999	2,417	788	1,246	21,527	25,978
\$20,000 - 29,999	10,429	1,486	4,161	18,472	34,548
\$30,000 - 39,999	11,317	15,865	4,013	16,206	47,401
\$40,000 - 49,999	6,938	26,271	2,485	8,674	44,368
\$50,000 +	9,223	28,697	4,151	8,120	50,191
<b>Total</b>	<b>41,856</b>	<b>73,306</b>	<b>16,590</b>	<b>77,815</b>	<b>209,567</b>

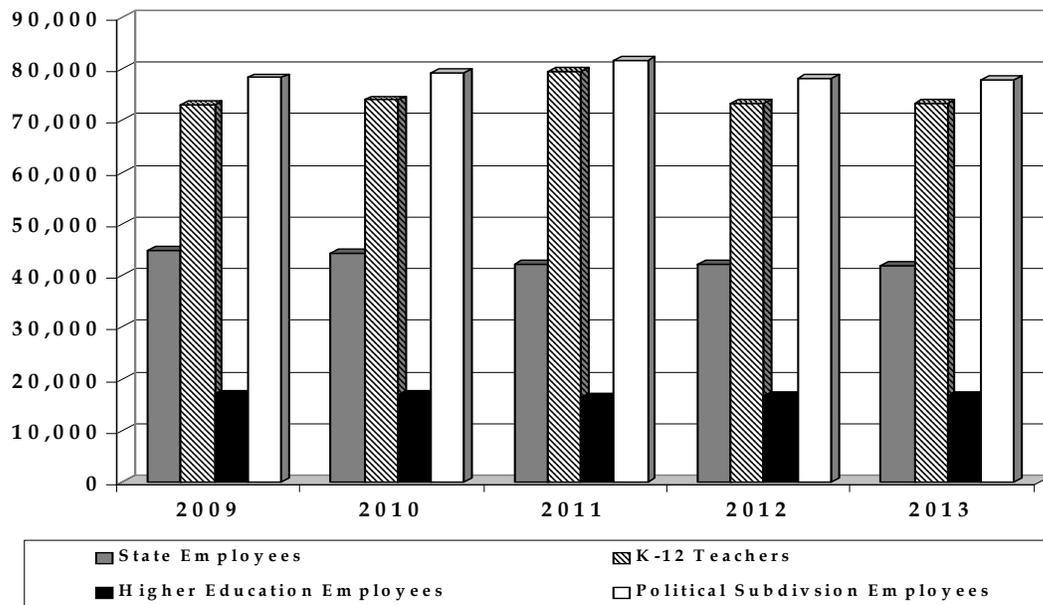
### PERCENTAGE OF ACTIVE MEMBERS

by Salary



### ACTIVE MEMBERS

Fiscal Years 2009-2013



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

Benefit Plan	SETHEEPP			PSPP	
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	Total
Regular	14,622	26,064	9,277	23,184	73,147
Option I	4,541	3,467	2,927	4,997	15,932
Option II	1,318	1,283	920	1,254	4,775
Option III	3,812	3,965	1,892	3,757	13,426
Option IV	2,448	3,541	1,413	1,787	9,189
S.S. Leveling	2,335	4,461	730	1,854	9,380
Other	629	693	324	423	2,069
<b>Total</b>	<b>29,705</b>	<b>43,474</b>	<b>17,483</b>	<b>37,256</b>	<b>127,918</b>

- \*Regular Maximum Plan - No Survivor Benefits
- \*Option I 100% Joint and Survivor Annuity
- \*Option II 50% Joint and Survivor Annuity
- \*Option III 100% Joint and Survivor Annuity with Pop-up Feature
- \*Option IV 50% Joint and Survivor Annuity with Pop-up Feature
- \*S.S. Leveling Benefit Level Coordinated with Social Security

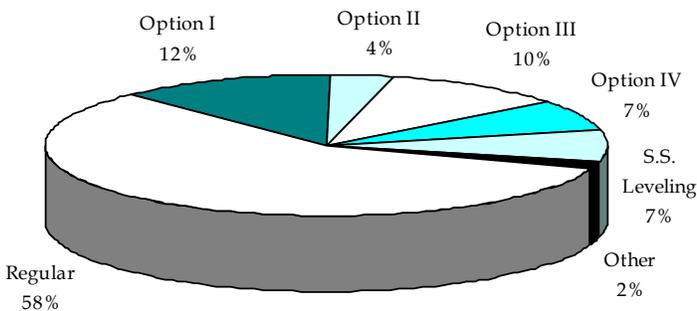
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	Total
Retirees:					
Early	3,962	5,430	2,567	5,312	17,271
Service	23,151	36,549	13,858	29,027	102,585
Disability	1,938	1,216	821	2,467	6,442
Total Retirees	29,051	43,195	17,246	36,806	126,298
Survivors	654	279	237	450	1,620
<b>Total</b>	<b>29,705</b>	<b>43,474</b>	<b>17,483</b>	<b>37,256</b>	<b>127,918</b>

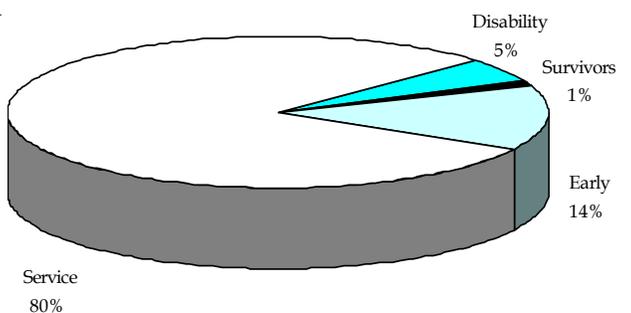
PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement



**SCHEDULES OF RETIRED MEMBERS**

**SCHEDULE OF RETIRED MEMBERS**

*by Average Monthly Benefit*

<b>STATE EMPLOYEES</b>												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	8,228	5,750	1,628	637	213	4,428	1,408	330	1,059	526	431	46
501-1,000	6,954	4,495	1,301	989	169	3,722	1,093	272	875	500	392	100
1,001-1,500	4,897	3,931	620	247	99	2,399	663	222	618	370	521	104
1,501-2,000	3,726	3,339	260	52	75	1,704	481	134	528	349	443	87
2,001-2,500	2,389	2,266	87	7	29	1,040	295	115	304	277	290	68
2,501-3,000	1,427	1,365	35	4	23	587	211	73	175	172	148	61
3,001-3,500	812	777	18	0	17	302	135	67	120	102	58	28
3,501-4,000	484	464	9	0	11	174	91	42	70	58	29	20
over 4,000	788	764	4	2	18	266	164	63	63	94	23	115
<b>Totals</b>	<b>29,705</b>	<b>23,151</b>	<b>3,962</b>	<b>1,938</b>	<b>654</b>	<b>14,622</b>	<b>4,541</b>	<b>1,318</b>	<b>3,812</b>	<b>2,448</b>	<b>2,335</b>	<b>629</b>

<b>TEACHERS</b>												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	4,253	3,192	918	124	19	2,609	479	167	452	274	220	52
501-1,000	5,501	3,330	1,679	443	49	3,244	648	189	560	457	342	61
1,001-1,500	6,884	4,899	1,501	432	52	3,919	620	184	699	527	835	100
1,501-2,000	8,567	7,536	795	174	62	4,770	620	209	959	805	1,031	173
2,001-2,500	8,365	7,916	367	36	46	5,179	480	206	682	761	917	140
2,501-3,000	4,942	4,780	127	6	29	3,149	291	139	326	345	608	84
3,001-3,500	2,437	2,401	24	1	11	1,527	150	75	159	193	301	32
3,501-4,000	1,272	1,250	15	0	7	812	95	46	80	95	122	22
over 4,000	1,253	1,245	4	0	4	855	84	68	48	84	85	29
<b>Totals</b>	<b>43,474</b>	<b>36,549</b>	<b>5,430</b>	<b>1,216</b>	<b>279</b>	<b>26,064</b>	<b>3,467</b>	<b>1,283</b>	<b>3,965</b>	<b>3,541</b>	<b>4,461</b>	<b>693</b>

<b>HIGHER EDUCATION EMPLOYEES</b>												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	6,334	4,643	1,279	340	72	3,724	983	276	652	381	229	89
501-1,000	3,931	2,790	741	352	48	2,263	616	173	385	293	128	73
1,001-1,500	2,479	2,035	307	103	34	1,239	399	151	283	228	127	52
1,501-2,000	1,574	1,387	139	22	26	703	273	98	207	171	89	33
2,001-2,500	949	870	56	3	20	399	186	47	116	111	66	24
2,501-3,000	683	657	20	1	5	282	132	49	88	60	50	22
3,001-3,500	440	414	15	0	11	203	78	25	50	56	19	9
3,501-4,000	347	336	5	0	6	127	82	27	54	39	13	5
over 4,000	746	726	5	0	15	337	178	74	57	74	9	17
<b>Totals</b>	<b>17,483</b>	<b>13,858</b>	<b>2,567</b>	<b>821</b>	<b>237</b>	<b>9,277</b>	<b>2,927</b>	<b>920</b>	<b>1,892</b>	<b>1,413</b>	<b>730</b>	<b>324</b>

<b>POLITICAL SUBDIVISIONS</b>												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	21,451	16,126	3,650	1,465	210	14,163	2,859	608	2,043	892	727	159
501-1,000	8,734	6,689	1,105	818	122	5,645	1,098	274	853	378	366	120
1,001-1,500	3,496	2,929	350	153	64	1,882	487	167	412	202	277	69
1,501-2,000	1,720	1,541	125	23	31	756	258	89	239	129	209	40
2,001-2,500	876	803	58	4	11	329	153	41	115	80	142	16
2,501-3,000	457	434	14	4	5	179	65	28	50	48	78	9
3,001-3,500	246	234	6	0	6	85	37	28	28	30	30	8
3,501-4,000	112	111	1	0	0	58	18	8	7	8	12	1
over 4,000	164	160	3	0	1	87	22	11	10	20	13	1
<b>Totals</b>	<b>37,256</b>	<b>29,027</b>	<b>5,312</b>	<b>2,467</b>	<b>450</b>	<b>23,184</b>	<b>4,997</b>	<b>1,254</b>	<b>3,757</b>	<b>1,787</b>	<b>1,854</b>	<b>423</b>

SCHEDULES OF RETIRED MEMBERS

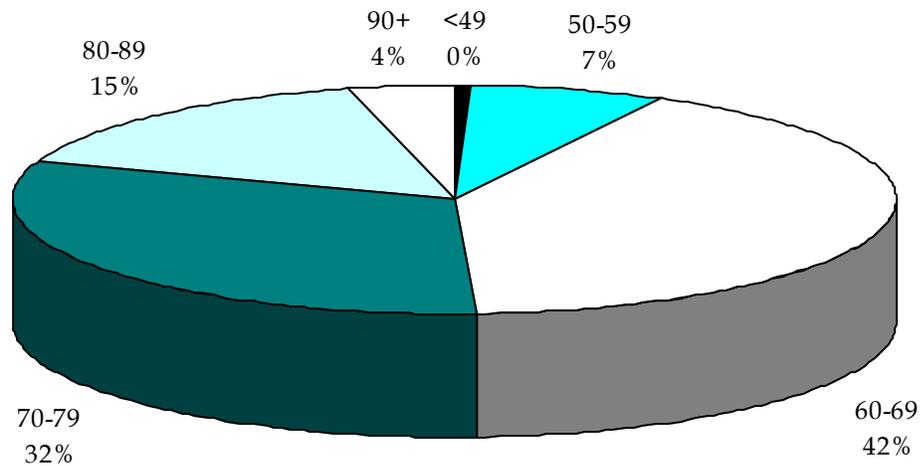
SCHEDULE OF RETIRED MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Under 40	26	10	3	21	60
40-44	43	30	14	64	151
45-49	107	57	41	122	327
50-54	510	319	237	470	1,536
55-59	2,153	2,625	951	2,123	7,852
60-64	5,081	8,730	2,582	5,839	22,232
65-69	6,682	11,239	3,977	8,671	30,569
70-74	4,895	7,380	3,514	7,376	23,165
75-79	3,892	5,005	2,698	5,597	17,192
80-84	2,866	3,819	1,825	3,695	12,205
85-89	2,006	2,383	1,083	2,043	7,515
90-94	1,018	1,163	420	922	3,523
95-99	353	527	107	253	1,240
Over 99	73	187	31	60	351
Total	<u>29,705</u>	<u>43,474</u>	<u>17,483</u>	<u>37,256</u>	<u>127,918</u>

PERCENTAGE OF TOTAL RETIRED MEMBERS

by Current Age



**SCHEDULES OF RETIRED MEMBERS**

**SCHEDULE OF RETIRED MEMBERS**

*by Date of Retirement*

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
1950s	1	4	0	0	5
1960s	9	27	0	0	36
1970s	385	675	86	258	1,404
1980s	2,497	3,853	1,024	2,206	9,580
1990s	7,322	10,044	4,484	7,911	29,761
2000s	12,966	19,466	8,364	17,668	58,464
2010's	6,525	9,405	3,525	9,213	28,668
<b>Total</b>	<b>29,705</b>	<b>43,474</b>	<b>17,483</b>	<b>37,256</b>	<b>127,918</b>

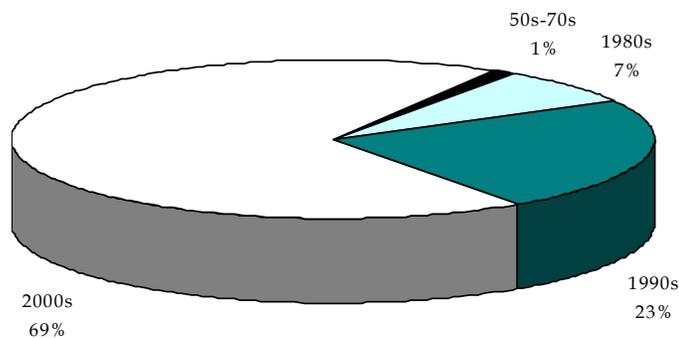
**SCHEDULE OF RETIRED MEMBERS**

*Based on Service Credit at Retirement*

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Under 10	3,577	1,760	1,755	5,594	12,686
10-14	4,315	2,893	2,460	7,378	17,046
15-19	3,736	3,354	2,221	6,520	15,831
20-24	3,897	4,698	2,249	5,834	16,678
25-29	3,605	5,937	2,174	4,504	16,220
30-34	6,227	14,485	3,731	5,021	29,464
35-39	2,748	6,955	1,749	1,713	13,165
40-44	1,224	2,792	820	543	5,379
Over 44	376	600	324	149	1,449
<b>Total</b>	<b>29,705</b>	<b>43,474</b>	<b>17,483</b>	<b>37,256</b>	<b>127,918</b>

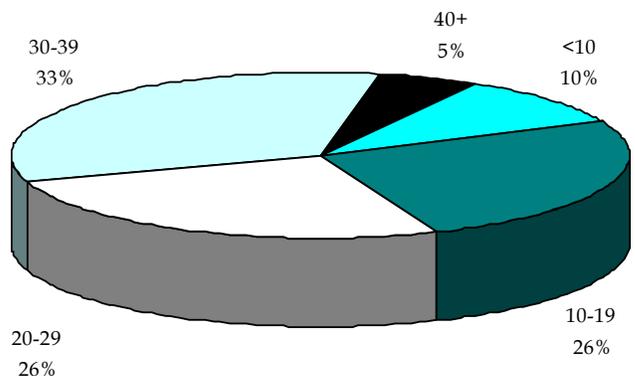
**PERCENTAGE OF RETIRED MEMBERS**

*by Date of Retirement*



**PERCENTAGE OF RETIRED MEMBERS**

*by Service Credit at Retirement*



## RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

<b>UNITED STATES</b>							
Alabama	723	Maryland	77	Rhode Island	6	Canada-New Brunswick	2
Alaska	17	Massachusetts	35	South Carolina	314	Canada-Newfoundland	1
Arizona	150	Michigan	116	South Dakota	15	Canada-Nova Scotia	1
Arkansas	419	Minnesota	27	Tennessee	118,271	Canada-Ontario	2
California	184	Mississippi	1,189	Texas	472	Canada-Prince Edward Island	1
Colorado	99	Missouri	180	Utah	24	Chile	3
Connecticut	15	Montana	17	Vermont	10	France	1
Delaware	11	Nebraska	15	Virginia	530	Germany	1
District of Columbia	11	Nevada	48	Washington	64	Ghana	1
Florida	1,358	New Hampshire	17	West Virginia	42	Greece	1
Georgia	1,149	New Jersey	32	Wisconsin	27	Kenya	1
Hawaii	12	New Mexico	48	Wyoming	12	Poland	1
Idaho	26	New York	65	Total U.S.	<u>127,891</u>	Spain	1
Illinois	145	North Carolina	605			Thailand	3
Indiana	123	North Dakota	1			United Arab Emirates	1
Iowa	22	Ohio	149			Total Foreign Countries	<u>24</u>
Kansas	40	Oklahoma	85	<b>INT'L. COUNTRIES</b>		Virgin Islands, U.S.	1
Kentucky	641	Oregon	54	Australia	1	Overseas Military Basis	2
Louisiana	78	Pennsylvania	93	Brazil	1	Total U.S.	127,891
Maine	23	Puerto Rico	5	Canada-Manitoba	1	Total U.S. & Foreign	<u><u>127,918</u></u>
<b>TENNESSEE</b>							
Anderson	1,832	Fentress	407	Lauderdale	819	Roane	1,396
Bedford	662	Franklin	829	Lawrence	926	Robertson	1,171
Benton	434	Gibson	1,328	Lewis	271	Rutherford	3,573
Bledsoe	435	Giles	493	Lincoln	681	Scott	486
Blount	2,781	Grainger	375	Loudon	913	Sequatchie	296
Bradley	1,603	Greene	2,145	Macon	270	Sevier	1,345
Campbell	880	Grundy	312	Madison	2,620	Shelby	12,660
Cannon	363	Hamblen	1,174	Marion	474	Smith	363
Carroll	683	Hamilton	5,706	Marshall	552	Stewart	309
Carter	3,525	Hancock	124	Mauy	1,258	Sullivan	1,634
Cheatham	606	Hardeman	955	McMinn	921	Sumner	2,672
Chester	373	Hardin	611	McNairy	599	Tipton	931
Claiborne	693	Hawkins	2,903	Meigs	192	Trousdale	159
Clay	133	Haywood	554	Monroe	731	Unicoi	435
Cocke	699	Henderson	418	Montgomery	2,660	Union	269
Coffee	1,016	Henry	848	Moore	83	Van Buren	178
Crockett	338	Hickman	610	Morgan	527	Warren	912
Cumberland	991	Houston	114	Obion	807	Washington	1,434
Davidson	11,006	Humphreys	458	Overton	481	Wayne	368
Decatur	276	Jackson	200	Perry	255	Weakley	1,038
DeKalb	360	Jefferson	1,221	Pickett	116	White	623
Dickson	909	Johnson	503	Polk	269	Williamson	2,639
Dyer	621	Knox	7,419	Putnam	2,376	Wilson	1,968
Fayette	790	Lake	256	Rhea	639	Total	<u><u>118,271</u></u>

**AVERAGE BENEFIT PAYMENTS SCHEDULE**

**AVERAGE BENEFIT PAYMENT SCHEDULE**

*Fiscal Year of Retirement*

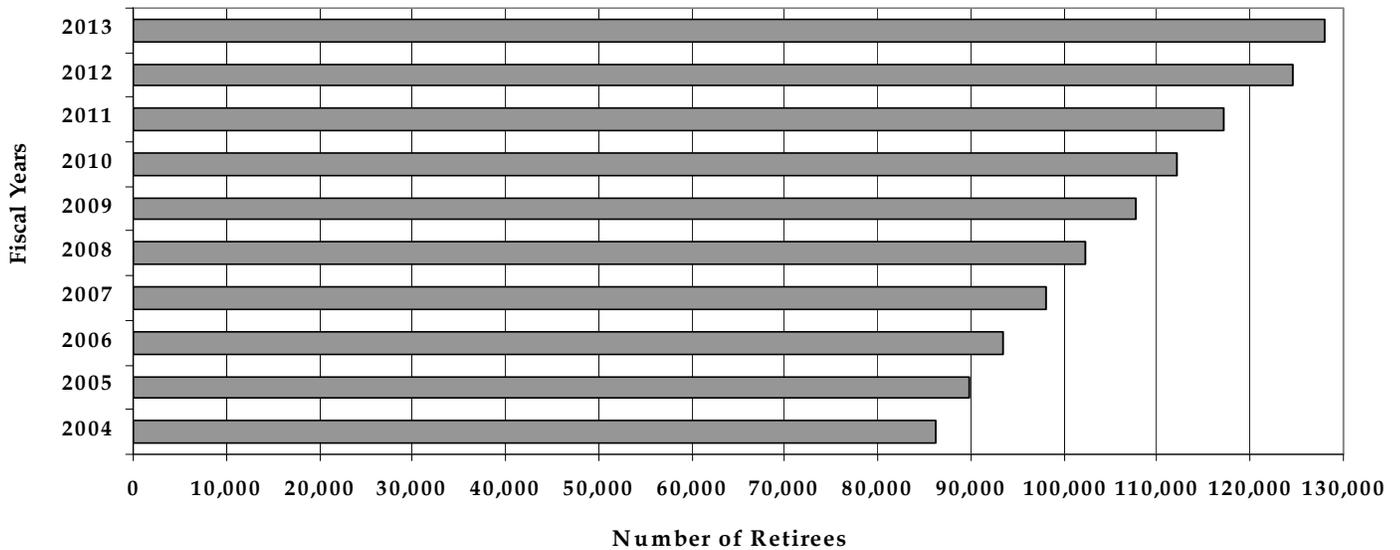
	Years of Service Credit				
	10-14	15-20	21-24	25-29	30 or more
2004 Average Monthly Benefit	\$ 419	\$ 647	\$ 894	\$ 1,275	\$ 2,163
Number of Retirees	686	619	623	645	2,288
Average Final Salary	\$ 28,268	\$ 29,772	\$ 33,224	\$ 38,868	\$ 48,637
2005 Average Monthly Benefit	\$ 418	\$ 629	\$ 929	\$ 1,347	\$ 2,162
Number of Retirees	763	710	738	687	2,532
Average Final Salary	\$ 28,268	\$ 31,543	\$ 35,121	\$ 41,049	\$ 49,234
2006 Average Monthly Benefit	\$ 436	\$ 650	\$ 969	\$ 1,353	\$ 2,178
Number of Retirees	795	699	820	708	2,612
Average Final Salary	\$ 29,696	\$ 32,337	\$ 38,133	\$ 43,273	\$ 51,053
2007 Average Monthly Benefit	\$ 426	\$ 636	\$ 961	\$ 1,299	\$ 2,136
Number of Retirees	892	760	800	700	2,611
Average Final Salary	\$ 30,320	\$ 33,222	\$ 38,296	\$ 41,290	\$ 51,992
2008 Average Monthly Benefit	\$ 435	\$ 658	\$ 998	\$ 1,309	\$ 2,136
Number of Retirees	1,011	887	1,003	782	3,282
Average Final Salary	\$ 31,293	\$ 35,112	\$ 39,723	\$ 42,320	\$ 51,494
2009 Average Monthly Benefit	\$ 433	\$ 699	\$ 1,003	\$ 1,373	\$ 2,210
Number of Retirees	978	796	887	778	2,729
Average Final Salary	\$ 31,251	\$ 35,922	\$ 40,422	\$ 44,473	\$ 53,290
2010 Average Monthly Benefit	\$ 466	\$ 703	\$ 1,007	\$ 1,346	\$ 2,236
Number of Retirees	1,051	897	940	903	2,886
Average Final Salary	\$ 33,644	\$ 37,509	\$ 40,348	\$ 45,516	\$ 55,151
2011 Average Monthly Benefit	\$ 474	\$ 714	\$ 993	\$ 1,427	\$ 2,303
Number of Retirees	1,190	1,040	1,106	1,026	3,109
Average Final Salary	\$ 34,385	\$ 38,776	\$ 42,288	\$ 47,798	\$ 57,232
2012 Average Monthly Benefit	\$ 476	\$ 704	\$ 986	\$ 1,408	\$ 2,272
Number of Retirees	1,379	1,194	1,176	1,169	3,278
Average Final Salary	\$ 34,827	\$ 38,432	\$ 42,452	\$ 48,667	\$ 56,768
2013 Average Monthly Benefit	\$ 489	\$ 742	\$ 1,065	\$ 1,495	\$ 2,308
Number of Retirees	397	393	394	451	1,296
Average Final Salary	\$ 35,842	\$ 41,097	\$ 43,923	\$ 49,323	\$ 55,601

Note: This schedule represents the average monthly benefits under the maximum plan of members retiring with an unreduced service retirement benefit. It excludes members retiring with a reduced early retirement benefit or under disability.

**RETIRED MEMBERS ON PAYROLL  
AND PRIOR SERVICE ESTABLISHED**

**NUMBER OF RETIREES ON PAYROLL**

*Fiscal Years 2004-2013*



**PRIOR SERVICE ESTABLISHED**

*for the Year Ended June 30, 2013*

	Type of Service	Members	Years of Service	Payments
State:	Backpayment	128	108	\$ 705,625
	Military	94	201	0
	Redeposit	36	142	292,857
	<b>Totals</b>	<u>258</u>	<u>451</u>	<u>\$ 998,482</u>
Teachers:	Backpayment	42	19	\$ 421,941
	Military	21	49	2,070
	Redeposit	66	285	1,034,756
	<b>Totals</b>	<u>129</u>	<u>353</u>	<u>\$ 1,458,767</u>
Higher Education:	Backpayment	246	196	\$ 127,838
	Military	34	85	0
	Redeposit	9	35	60,242
	<b>Totals</b>	<u>289</u>	<u>316</u>	<u>\$ 188,080</u>
Political Subdivisions:	Backpayment	607	689	\$ 1,037,986
	Military	101	190	26,789
	Redeposit	31	152	140,276
	<b>Totals</b>	<u>739</u>	<u>1,031</u>	<u>\$ 1,205,051</u>
Grand Totals:	Backpayment	1,023	1,012	\$ 2,293,390
	Military	250	525	28,859
	Redeposit	142	614	1,528,131
	<b>Totals</b>	<u>1,415</u>	<u>2,151</u>	<u>\$ 3,850,380</u>

**TREASURY RETIREMENT INSTALLMENT PLAN**

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative payment method for members who have prior service to be established. Previously, prior service payments were required to be made in a lump sum payment. TRIP has allowed these members to establish their prior service by making monthly installment payments in the form of Automated Clearing House (ACH) withdrawals from a designated bank account. Service is credited to the member's account once the balance has been paid off.

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for prior service, a statement is generated showing a lump sum payment. In addition, TRIP information is given with regard to financing over 6 to 60 months. The member may elect to finance the entire amount or elect to make a down payment and finance the balance. The member may choose, at any time, to pay off the remaining balance.

**TREASURY RETIREMENT INSTALLMENT PLAN**

*Payments Received for the Year Ended June 30, 2013*

	Type of Service	Number of Members	Total Years of Service	Payments (Net of Refunds)
State:	Backpayment	0	0	\$ 0
	Military	0	0	0
	Redeposit	12	76	66,404
	<b>Totals</b>	<b>12</b>	<b>76</b>	<b>\$ 66,404</b>
Teachers:	Backpayment	10	12	\$ 18,669
	Military	0	0	0
	Redeposit	42	153	138,479
	<b>Totals</b>	<b>52</b>	<b>165</b>	<b>\$ 157,148</b>
Higher Education:	Backpayment	2	8	\$ 6,442
	Military	0	0	0
	Redeposit	4	12	15,307
	<b>Totals</b>	<b>6</b>	<b>20</b>	<b>\$ 21,749</b>
Political Subdivisions:	Backpayment	14	53	\$ 24,527
	Military	0	0	0
	Redeposit	32	169	83,737
	<b>Totals</b>	<b>46</b>	<b>222</b>	<b>\$ 108,264</b>
Grand Totals:	Backpayment	26	73	\$ 49,638
	Military	0	0	0
	Redeposit	90	410	303,927
	<b>Totals</b>	<b>116</b>	<b>483</b>	<b>\$ 353,565</b>

**REFUND ACTIVITY AND  
POLITICAL SUBDIVISION PARTICIPATION**

**REFUND ACTIVITY**

<b>For the Year Ended June 30</b>	<b>Number of Refunds Processed</b>	<b>Amount Refunded</b>
2004	4,688	\$ 29,925,762
2005	4,724	30,815,700
2006	5,916	34,710,966
2007	4,830	36,343,972
2008	6,569	45,975,984
2009	3,896	32,029,927
2010	5,154	36,422,653
2011	4,500	35,539,393
2012	4,349	40,091,553
2013	4,122	39,517,877

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees and certain political subdivisions, resulting in fewer refunds for members withdrawing from the system.

**POLITICAL SUBDIVISION PARTICIPATION**

*Schedule by Category*

<b>Year Ended June 30</b>	<b>Number of Cities</b>	<b>Number of Counties</b>	<b>Miscellaneous Political Subdivisions</b>	<b>Total</b>
2004	163	88	179	430
2005	169	88	187	444
2006	173	88	196	457
2007	177	88	202	467
2008	177	89	207	473
2009	177	89	216	482
2010	177	89	220	486
2011	176	89	218	483
2012	178	89	221	488
2013	177	88	222	487

**HISTORICAL EMPLOYER CONTRIBUTION RATES  
AND RETIREMENT CONTRIBUTIONS**

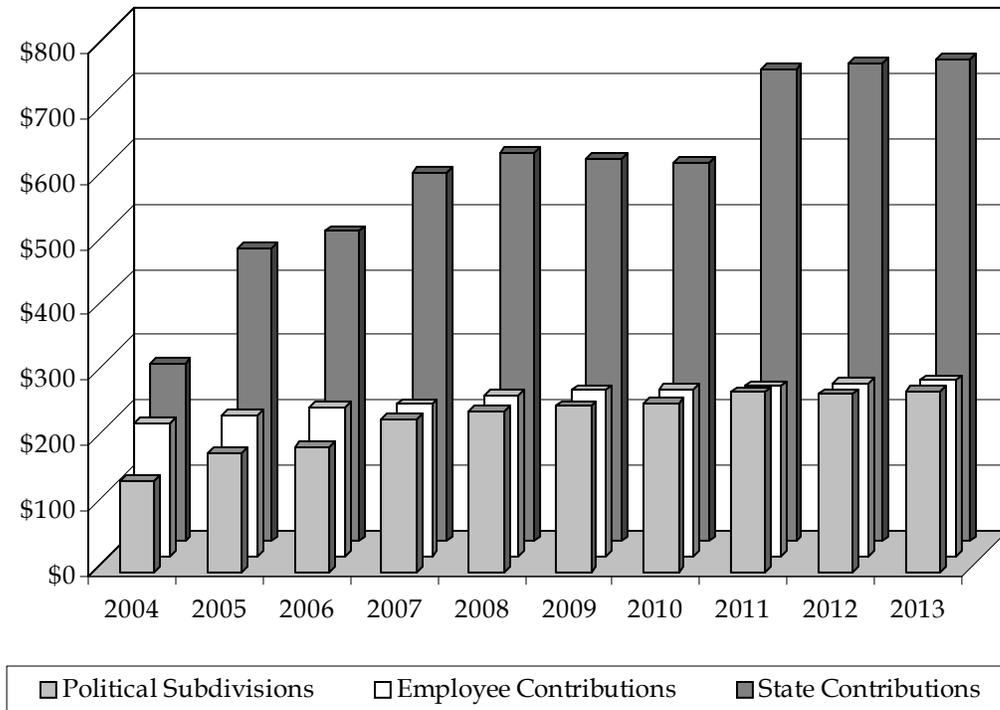
**HISTORICAL EMPLOYER CONTRIBUTION RATES**  
*Expressed as a Percentage of Salary*

<b>Year Ended</b>	<b>State</b>	<b>Teachers</b>	<b>Higher Education</b>
<b>June 30</b>	<b>Employees</b>	<b>Teachers</b>	<b>Employees</b>
2004 (1)	7.29	3.39	7.29
2005	10.54	5.50	10.54
2006 (2)	10.31	5.50	10.31
2007	13.62	6.13	13.62
2008	13.62	6.24	13.62
2009	13.02	6.42	13.02
2010	13.02	6.42	13.02
2011	14.91	9.05	14.91
2012	14.91	9.05	14.91
2013	15.03	8.88	15.03

The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

- (1) As part of a statewide request for budget reductions, TCRS reduced the administrative component of the employer contribution rate by 0.01 %.
- (2) A reduction in the contribution was made due to return to work reform.

**RETIREMENT CONTRIBUTIONS**  
*Fiscal Years 2004-2013*  
*Expressed in Millions*



SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEEPP

Participating Government	2013			2004			
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	
Teachers	142,543	1	51.43%	Teachers	114,093	1	49.61%
State Employees	90,430	2	32.62%	State Employees	79,053	2	34.38%
Higher Education Employees	44,218	3	15.95%	Higher Education Employees	36,823	3	16.01%
Total	<u>277,191</u>		<u>100.00%</u>	Total	<u>229,969</u>		<u>100.00%</u>

PSPP

Participating Government	2013			2004			
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	
Memphis City Schools	9,148	1	5.96%	Memphis City Schools	6,963	1	5.98%
Hamilton County	6,942	2	4.52%	Hamilton County	5,961	2	5.12%
Rutherford County	4,550	3	2.96%	Shelby County	3,178	3	2.73%
Williamson County	4,444	4	2.89%	Montgomery County	2,503	4	2.15%
Montgomery County	4,054	5	2.64%	Rutherford County	2,468	5	2.12%
Shelby County	3,961	6	2.58%	Williamson County	2,340	6	2.01%
Sumner County	3,906	7	2.54%	Sullivan County	2,306	7	1.98%
Sullivan County	2,781	8	1.81%	Sumner County	2,236	8	1.92%
Kingsport	2,446	9	1.59%	Kingsport	1,863	9	1.60%
Johnson City	2,361	10	1.54%	Johnson City	1,851	10	1.59%
Others	<u>108,995</u>		<u>70.97%</u>	Others	<u>84,764</u>		<u>72.80%</u>
Total	<u>153,588</u>		<u>100.00%</u>	Total	<u>116,433</u>		<u>100.00%</u>

## INTRODUCTION TO POLITICAL SUBDIVISION PARTICIPATION

### PARTICIPANTS

TCRS has established pension plans for four groups of public employees: state employees, higher education employees, teachers and the employees of governmental entities (political subdivisions). Employees of political subdivisions may participate in TCRS if the entity's governing body authorizes participation and accepts all liability associated with coverage for their employees.

Participation is subject to the approval of the Board of Trustees. At June 30, 2013, there were 487 political subdivisions participating in TCRS.

Participation as of June 30, 2013:

Cities	177
Counties	88
Utility Districts	68
Special School Districts	19
Joint Ventures	21
Housing Authorities	11
911 Emergency Communication Districts	47
Miscellaneous Authorities	<u>56</u>
Total	487

### ADMINISTRATION

TCRS administers the pension plan for political subdivisions in accordance with state statute. Each employer is responsible for the pension cost for its employees. The cost is not shared with other political subdivisions nor with the state. A separate fund balance is maintained by the retirement system for each participating political subdivision and employer contribution rates are determined individually.

### APPLICATION

To apply for TCRS participation, the chief governing body of the political subdivision must first pass a resolution authorizing an actuarial study to estimate the potential cost of participation. Once the governing body has had an opportunity to review the estimated pension cost and liability, a second resolution must then be passed in order to authorize TCRS participation. Political subdivisions electing TCRS coverage accept the liability for pension benefits to be accrued by their employees.

### COVERAGE

A political subdivision is required to offer coverage under the same terms and conditions to all the employees of each of its departments and agencies.

Political subdivisions have the option of purchasing or allowing their employees to purchase retirement credit for service rendered prior to the employer's date of participation. The amount of prior service allowed may be limited.

Political subdivisions opting to join TCRS do so under the plan provisions that exist at the time of their participation. Subsequent legislative changes, however, are optional if they result in increased cost to the political subdivision. These optional improvements may be adopted by resolutions approved by the chief governing body.

**THE TCRS PROVIDES  
THE ADMINISTRATION  
OF A RETIREMENT  
PROGRAM FOR 487  
LOCAL GOVERNMENTS.**

**OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS**

**MEMBERSHIP**

- ❖ Optional membership for part-time employees
- ❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years
- ❖ Increase vesting requirement to qualify for retirement benefits from five years to 10 years

**CONTRIBUTIONS**

- ❖ Employee contributions at a level five percent both below and above the Social Security wage base
- ❖ Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code
- ❖ Noncontributory retirement plan
- ❖ Discontinue noncontributory retirement plan and implement contributory retirement plan for new employees
- ❖ Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation

**CREDITABLE SERVICE**

- ❖ Credit for service credit lost as a result of advanced age
- ❖ Service credit for unused sick leave
- ❖ Service credit for military service during periods of armed conflict at no cost to the employee
- ❖ Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment
- ❖ Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975
- ❖ Purchase of service credit for probation period

**SURVIVOR BENEFITS**

- ❖ 100 percent joint and survivor spouse death benefit for members with 10 years of service
- ❖ Provide inactive members with certain death and disability benefits
- ❖ 50 percent of five year average salary benefits for surviving spouse for members killed in the line of duty

**RETIREMENT BENEFITS**

- ❖ Provide current retirees and members a five percent increase in base retirement benefit
- ❖ Discontinue five percent increase in base retirement benefit for new employees
- ❖ The actuarial equivalent of an age 65 benefit for employees retiring after age 65
- ❖ 25-year retirement with actuarially reduced benefits
- ❖ Minimum benefit level increase to \$8, \$14, \$20 per year of service
- ❖ Mandatory retirement with supplemental bridge benefit for public safety officers
- ❖ Service retirement at age 55 with 25 years of service for public safety officers
- ❖ Discontinue enhanced public safety officer benefits for new public safety officers

**RETIRED MEMBERS**

- ❖ Exclusion of cost-of-living adjustments at the date of participation for all employees or at a later date for new employees
- ❖ Compounded cost-of-living adjustment (COLA) to current and future retirees

## LOCAL GOVERNMENT PLAN OPTIONS

---

### Tennessee Consolidated Retirement System Local Government Plan Options Effective July 1, 2012

#### Original Defined Benefit Plan

- Calculation includes a 1.50% multiplier
- Benefit Formula:  $\text{Years of Service} \times \text{AFC} \times 1.50\% + 5\% \text{ Benefit Improvement}$
- Retirement Requirements:
  - Service Retirement: A penalty free benefit if the member is age 60 and vested or has thirty (30) years of service regardless of age
  - Early Retirement: A reduced benefit if the member is age 55 and vested
  - 25-Year Early: A reduced benefit if the member is under the age of 55 and has at least 25 years of service

#### Alternate Defined Benefit Plan

- Calculation includes a 1.40% multiplier
- Benefit Formula:  $\text{Years of Service} \times \text{AFC} \times 1.40\%$
- Retirement Requirements:
  - Service Retirement: A penalty free benefit if the member is age 65 and vested or meets the "Rule of 90" (years of service plus age at retirement equals 90 or above)
  - Early Retirement: A reduced benefit if the member is age 60 and vested or meets the "Rule of 80" (years of service plus age at retirement equals 80 or above but equals less than 90)

#### Hybrid Plan

- Calculation includes a 1.00% multiplier
- Benefit Formula:  $\text{Years of Service} \times \text{AFC} \times 1.00\%$
- Retirement Requirements:
  - Service Retirement: A penalty free benefit if the member is age 65 and vested or meets the "Rule of 90" (years of service plus age at retirement equals 90 or above)
  - Early Retirement: A reduced benefit if the member is age 60 and vested or meets the "Rule of 80" (years of service plus age at retirement equals 80 or above but equals less than 90)

#### Employee Contribution Funding Options

(Applicable to all plans listed above.)

- Employer may elect to pay 0.0%, 2.5% or 5.0% of employee contributions

POLITICAL SUBDIVISION PARTICIPANTS

911 EMERGENCY COMMUNICATION DISTRICTS

Campbell County	Gibson County	Johnson County	Overton County	Union County
Carroll County	Grainger County	Lauderdale County	Roane County	Van Buren County
Carter County	Greene County	Lawrence County	Robertson County	Warren County
Cheatham County	Hamblen County	Loudon County	Rutherford County	Washington County
Chester County	Hamilton County	Macon County	Scott County	Weakley County
Claiborne County	Hardeman County	Madison County	Sequatchie County	White County
Cocke County	Hardin County	Maury County	Sevier County	Wilson County
DeKalb County	Hawkins County	McNairy County	Shelby County	
Fayette County	Humphreys County	Monroe County	Sullivan County	
Fentress County	Jefferson County	Montgomery County	Tipton County	

CITIES

Adams	Cowan	Humboldt	Milan	Sevierville
Alamo	Crossville**	Huntland	Millersville	Signal Mountain
Alcoa	Cumberland	Jacksboro	Millington	Soddy Daisy
Ashland City	Dandridge	Jackson	Monterey	Somerville
Athens*	Dayton	Jamesstown	Morrison	South Carthage
Atoka	Decatur	Jefferson City	Morristown	South Fulton**
Atwood	Decaturville	Johnson City**	Moscow	South Pittsburg
Baileyton	Decherd	Jonesborough	Mosheim	Sparta
Baxter	Dickson	Kenton	Mountain City	Spencer
Belle Meade	Dover	Kimball	Mt. Carmel	Spring City
Bells	Ducktown	Kingsport**	Mt. Juliet	Spring Hill
Benton	Dunlap	Kingston	Munford	Springfield
Big Sandy	Dyer	Kingston Springs	Murfreesboro*	Surgoinville
Bluff City	East Ridge	Lafayette	New Johnsonville	Sweetwater
Bolivar	Elizabethton	Lafollette	New Tazewell	Tazewell
Bradford	Elkton**	Lake City	Newport	Tellico Plains
Brentwood	Erin	Lakeland	Nolensville	Townsend
Brighton	Erwin	Lawrenceburg	Norris	Tracy City**
Bristol	Estill Springs	Lebanon	Oak Ridge	Trenton
Brownsville	Etowah	Lenoir City*	Oakland	Tusculum
Byrdstown	Fairview	Linden	Obion	Unicoi
Camden	Fayetteville	Livingston	Oliver Springs	Union City
Carthage	Forest Hills**	Lobelville	Paris	Vonore
Caryville	Friendship	Lookout Mountain	Parsons	Watauga
Centerville	Friendsville	Loretto	Pegram	Waverly
Charleston	Gainesboro	Loudon	Pikeville	Waynesboro
Charlotte	Gatlinburg	Luttrell	Pittman Center	Westmoreland
Church Hill	Gleason	Madisonville	Pleasant View	White Bluff
Clarksville	Goodlettsville	Manchester	Portland	White House
Cleveland	Gordonsville	Martin	Puryear	White Pine
Clifton	Greenbrier	Maryville	Red Bank	Whiteville
Clinton	Greeneville	Maury City	Ripley	Whitwell
Collegedale	Greenfield	Maynardville	Rockwood	Woodbury
Collierville**	Harriman	McEwen	Rogersville*	
Collinwood	Hartsville	McKenzie	Rutherford	
Cookeville	Henderson	McMinnville	Rutledge	
Coopertown**	Hendersonville	Medina	Savannah**	
Cornersville	Hohenwald	Middleton	Selmer	

\*All departments not covered by TCRS.

\*\*Plan closed to new hires.

(continued)

**POLITICAL SUBDIVISION PARTICIPANTS  
(CONTINUED)**

**COUNTIES**

Anderson	Decatur	Henry	McNairy	Sevier
Bedford	DeKalb	Hickman	Meigs**	Shelby*
Benton	Dickson	Humphreys	Monroe	Smith
Bledsoe	Fayette	Jackson	Montgomery	Stewart
Blount	Fentress	Jefferson	Moore*	Sullivan
Bradley	Franklin	Johnson	Morgan	Sumner
Campbell	Gibson	Lake	Obion	Tipton
Cannon	Giles	Lauderdale	Overton	Trousdale
Carroll	Grainger	Lawrence	Perry	Unicoi
Carter	Greene	Lewis	Pickett	Union
Cheatham	Grundy	Lincoln	Polk	Van Buren
Chester	Hamblen	Loudon	Putnam	Warren
Claiborne	Hamilton	Macon	Rhea*	Washington
Clay	Hardeman	Madison**	Roane	Wayne
Cocke	Hardin	Marion	Robertson	Weakley
Coffee	Hawkins	Marshall	Rutherford	White
Crockett	Haywood	Mauzy	Scott	Williamson
Cumberland	Henderson	McMinn	Sequatchie	Wilson

**HOUSING AUTHORITY**

Bristol	Hartsville	Maryville	Rockwood
Clinton	Hohenwald	Memphis	Rogersville**
Cookeville	Lawrenceburg	Morristown	Sweetwater

**JOINT VENTURES**

Argie Cooper Public Library	Lawrence County Library
Bradley-Cleveland Civil Defense	Linebaugh Public Library
Bradley-Cleveland Community Service Agency	Morristown/Hamblen County Landfill
Clarksville/Montgomery County Public Library	Sevier Solid Waste
Clarksville/Montgomery County Regional Planning Commission	Smyrna/Rutherford County Airport Authority
Cleveland/Bradley County E-911	Tellico Area Service System
Edward Gauche Fisher Public Library	TriCities Airport Authority**
Fayetteville/Lincoln County Public Library	Tri-County Vocational School
Gorham/MacBane Public Library	W. G. Rhea Public Library
Jackson/Madison County Library**	Washington County/Johnson City Animal Control Center
Johnson City/Washington County EMS	Wilson Emergency Management Agency
Kinser Park	

*\*All departments not covered by TCRS.*

*\*\*Plan closed to new hires.*

*(continued)*

**POLITICAL SUBDIVISION PARTICIPANTS  
(CONTINUED)**

**MISCELLANEOUS AGENCIES**

Anderson County Economic Development Association	South Central Tennessee Workforce Board
Anderson County Water Authority	Southeast Tennessee Community Service Agency
Beech River Watershed	Southeast Tennessee Development District
Blount County Fire Protection District	Southeast Tennessee Human Resource Agency
Blount County Library	Southwest Tennessee Community Service Agency
Books from Birth	Southwest Tennessee Development District
Carter County Tomorrow	Southwest Tennessee Human Resource Agency
Cocke County Partnership, Inc.	Tennessee Association of Assessing Officers
County Officials Association of Tennessee	Tennessee Association of County Mayors
Delta Human Resource Agency	Tennessee Athletics Association**
Douglas Cherokee Economic Authority	Tennessee County Commissioners Association
East Tennessee Community Service Agency	Tennessee County Highway Officials Association
Fayetteville-Lincoln County Industrial Development Board	Tennessee County Services Association
First Tennessee Development District	Tennessee Duck River Development Agency
First Tennessee Human Resource Agency	Tennessee Education Association
Four Lake Regional Industrial Development Authority	Tennessee Elk River Development Agency**
Greater Nashville Regional Council	Tennessee Historical Society
Hamilton County Community Service Agency	Tennessee Municipal Bond Fund
Knox County Community Services Agency	Tennessee Municipal League
Loudon County Economic Development Agency	Tennessee Municipal League Risk Management Pool
Mid-Cumberland Community Service Agency	Tennessee Organization of School Superintendents**
Networks Sullivan Partnership	Tennessee School Board Association
Northeast Community Service Agency	Tennessee Secondary School Athletic Association
Northwest Tennessee Community Service Agency	Tennessee Sheriffs Association
Sequatchie Valley Planning and Development District	Tennessee State Employees Association
Sevier County Economic Development Council	Tennessee Veterans Home Board
Shelby County Community Service Agency	Upper Cumberland Community Services Agency
South Central Human Resource Agency**	Upper Cumberland Human Resource Agency
South Central Tennessee Community Services Agency	Upper East Tennessee Human Development Agency
South Central Tennessee Development District	Workforce Solutions

**SPECIAL SCHOOL DISTRICTS**

Bradford	Memphis
Clinch Powell Education Coop.	Milan
Elizabethton Board of Education	Oak Ridge Board of Education
Franklin	Oneida
Gibson County Schools District	Paris
Hollow Rock-Bruceton	South Carroll Special School District
Huntingdon	Trenton
Lebanon	Union City Board of Education
Little Tennessee Valley Education Coop.	West Carroll County
McKenzie	

*\*All departments not covered by TCRS.*

*\*\*Plan closed to new hires.*

*(continued)*

**POLITICAL SUBDIVISION PARTICIPANTS  
(CONTINUED)**

**UTILITY DISTRICTS**

Alpha-Talbott	Johnson City Power Board
Arthur Shawnee	Lake County
Big Creek	Lakeview
Bloomington	Lincoln County Board of Public Utilities
Bondcroft	Loudon
Bristol Electric System	Madison Suburban Utility District
Cagle Fredonia Utility District	Middle Tennessee
Castalian Springs/Bethpage	New Market
Chuckey Utility District	North Utility District of Decatur and Benton Counties
Citizen's Gas	Northeast Henry County
Consolidated Utility District/Rutherford County	O'Connor Utility District
County Wide	Oak Ridge
Crab Orchard	Old Gainesboro Road
Cross Anchor Utility District	Old Hickory
Cumberland Utility District of Roane and Morgan Counties	Paris-Henry Utility District
DeWhite	Persia
Double Springs	Plateau
Dyersburg Suburban	Poplar Grove
East Fork	Quebec-Walling
East Montgomery	Reelfoot Lake Regional
East Side	Riceville
Fall Creek Falls	River Road
First Carter County	Savannah Valley
First Hawkins County	Second South Cheatham Utility District
First Tipton County	Sevier County
Gladeville	Siam
Glen Hills	Smith
Greater Dickson Gas Authority	Sneedville
Greeneville Light and Power	Soddy Daisy-Falling Water
Hampton	South Elizabethton
Hardeman-Fayette County	Sylvia-Tennessee City Pond Water
Harriman**	Weakley County Municipal Electric
Hendersonville	Webb Creek
Hixson	West Knox**
Jackson County	West Overton

*\*All departments not covered by TCRS.*

*\*\*Plan closed to new hires.*

STATE OF TENNESSEE



DAVID H. LILLARD, JR.  
STATE TREASURER

TREASURY DEPARTMENT  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

615.741.2956  
David.Lillard@tn.gov

**Memorandum:**

**To:** Members of the TCRS Board of Trustees  
Members of Legislative Council on Pensions and Insurance  
Honorable Bill Haslam, Governor of Tennessee  
Honorable Ron Ramsey, Lieutenant Governor  
Honorable Beth Harwell, Speaker of the House of Representatives  
Honorable Mark Emkes, Commissioner of Finance and Administration

**From:** David H. Lillard, Jr., State Treasurer and Chair of TCRS

**Date:** May 3, 2013

**Subject:** Concord System Update

A handwritten signature in black ink, appearing to read "David H. Lillard, Jr.", written over the "From:" line.

As you know, TCRS has since 2009 been undertaking a major computer system enhancement with the phased implementation of a new pension administration system known as Concord. The implementation is accomplished through the efforts of TCRS staff, our contractor Deloitte, and the quality consultant, North Highland. The Concord system is replacing five separate operating systems by consolidating an active member database (1982 system), a retired member database (1990 system), contribution reporting (1982 system), prior service calculation (1990 system), and a document microfilm system (1987 system). TCRS serves over 210,000 active members and more than 150,000 inactive members consisting of state employees, higher education employees, teachers, and local government employees. In addition, TCRS pays each month more than 122,000 retirees that in the aggregate that receive in excess of \$1.8 billion annually.

On Monday, April 30, we successfully completed the retired payroll system phase with retirees being paid for the first time by the Concord system. As you know, the payment to retirees is an extremely complex and difficult process. We take great pride that this phase of the system has been implemented so that we can continue to provide even better service to our valued active and retired public servants. This phase and all prior phases have been completed timely and within budget.

Previously implemented was the phase to store the images of all incoming and outgoing correspondence and retirement related documents such as retirement applications, applications for prior service credit, etc. This is at least 250,000 documents processed annually. This phase brought TCRS into the 21<sup>st</sup> century by implementing not only imaging which replaces a microfilm system that is over 30 years old, but also implementing a 21<sup>st</sup> century paperless workflow solution.

The final phase remaining to be implemented is the active member system with a target date of April 2014. Not only will this phase provide the detailed salary and service information on each member as well as the retirement calculation module, but it will also provide updated state of the art employer reporting capabilities. In addition to numerous employer reports from state government, local education agencies, the UT System and the Tennessee Board of Regents, TCRS receives monthly employer reports and remittances from 589 local government units and instrumentalities that participate in the system. When this phase is implemented TCRS will no longer accept monthly employer reports via paper as electronic reporting will be required. We believe this phase will also be successfully installed.

It is significant to note that implementation of the Concord system is vitally important in that the technical support for these older systems would no longer be available. But just as important, the newer technology in the Concord system will allow us to be much more efficient and will allow us to provide greater service to both current members and retirees. It will also allow implementation of comprehensive electronic internal audit capabilities throughout the entire TCRS system. Once fully implemented, members and retirees will have on-line access to their accounts; they will be able to view their membership and retirement data and make certain changes on-line.

My congratulations to TCRS Director Jill Bachus, her retirement team and all the divisions of the Treasury Department for achieving this important milestone in this extraordinary implementation. I am extremely proud of the extraordinary effort by the TCRS staff and all other divisions of the Treasury Department that have made this implementation a success to date. TCRS personnel have achieved this milestone and implementation of prior phases while doing double duty, running the current paper and hand process dominated system each day to keep TCRS functioning while simultaneously performing all the business process work necessary for Concord. The able assistance of state OIR has been important to the success achieved. The skill and dedication of our contractor, Deloitte and the quality consultant North Highland have also been a key element.

If you have any questions about the Concord project, please feel free to call me at 741-2956 or Jill Bachus at 253-3845.

STATE OF TENNESSEE



DAVID H. LILLARD, JR.  
STATE TREASURER

TREASURY DEPARTMENT  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

615.741.2956  
David.Lillard@tn.gov

## Memorandum

**To:** Council on Pensions and Insurance

**From:** David H. Lillard, Jr., State Treasurer 

**Date:** June 15, 2012

**Subject:** Tennessee Consolidated Retirement System (TCRS) Information System  
Project Status Report

---

The Treasury Department is in a multi-year project to replace the multiple information systems which support the TCRS. As you are aware, the new pension administration system, referred to as Concord, will replace five separate operating systems by consolidating an active member database, a retired member database, contribution reporting, prior service calculation, and a document imaging system. The principal system to be replaced, known as TRACS, has been in service since the early 1980's. Deloitte Consulting, LLC was selected by RFP to develop the Concord system.

Work on the project continues in full mode covering several phases of the project. The first major deliverable of the project, the imaging and workflow system, was implemented on March 12, 2012. All forms and correspondence received by or sent from TCRS is digitally scanned and maintained on information servers. Although TCRS continues to access microfilm for the retrieval of old documents, no new documents are being microfilmed. In addition, the scanned document is electronically sent to staff for processing. The original documents are destroyed by the mail room once the clarity of image has been confirmed. Staff can now immediately look at a document on the computer screen rather than waiting days for the receipt of a paper document from microfilm.

Work continues on the next phase of the project, the retired payroll phase. Staff is finishing work on the design specifications. These specifications will be utilized by the vendor to configure the system to our specifications. Estimated implementation of the retired payroll phase is expected to occur in early 2013.

The final and largest phase of the project is the active member and employer phase. All employee and employer detailed records, all retirement calculations, employer report processes, and member self-service is included in this phase. Staff is currently analyzing the differences between the vendor's main system and the needs of TCRS. Over the next few months the differences will be incorporated into the design of the system.

Communication is vital to the success of Concord, both with Treasury department staff and TCRS employers. Working with Deloitte, Concord staff has begun the outreach program. A logo has been developed to help identify the project and was unveiled at a launch event for Treasury staff in fall 2011. A Concord newsletter is periodically produced to keep Treasury staff informed of the progress. An outreach campaign has begun with employers. Letters have been sent that provide a brief overview and asking for contact information. A website specifically for employers has been developed to keep employers informed.

Although completion of the project in a timely manner is of utmost importance, quality of the system build and budget take precedence. We estimate the project is approximately two months behind schedule. To date, payments totaling \$6.6 million have been made to vendors with total project expenditures of \$10 million. The total cost of the Concord project is estimated to be approximately \$54 million of which the vendor software and implementation costs total \$34.5 million. The remaining costs include personnel, equipment, consultants, and other project support costs. The costs will be shared by the employers participating in the plan, including the state and local governments.

Thank you for your continued support for this key initiative to improve the capabilities of TCRS. We will continue to keep you informed of on the implementation of the Concord project. If you have any questions or need additional information, please do not hesitate to contact me at (615) 741-2956 or Jill Bachus at (615) 741-7063.

cc: Ms. Jill Bachus, TCRS Director

## **CONFLICT OF INTEREST POLICY**

The foundation of this conflict of interest policy is *T.C.A. § 8-34-305*, which provides that each Tennessee Consolidated Retirement System (TCRS) Board of Trustees member will diligently and honestly administer the affairs of the Board, and will not knowingly violate or willingly permit to be violated any of the provisions of law applicable to TCRS. Board members are encouraged to avoid even the appearance of a conflict or violation and to seek advice of the Tennessee Ethics Commission and/or Compliance officials in the Treasury Department whenever they have a question about whether a conflict of interest or potential ethics violation exists. Since all TCRS Board of Trustee members must be active or retired members of TCRS, any interest as an ordinary or retired member of TCRS will not be considered a conflict of interest under this Policy.

Effective trustees endeavor to avoid actual and potential conflicts of interest between their work with TCRS and other personal or outside interests. The Board of Trustees shall adhere to the adopted code of conduct.

### **CODE OF CONDUCT FOR BOARD MEMBERS**

#### **TRUSTEES:**

1. Act in good faith and in the best interest of TCRS participants.
2. Act with prudence and reasonable care.
3. Act with skill, competence, and diligence commensurate with their position, experience, and responsibilities on the board.
4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could be reasonably expected to affect loyalty to the interests of the plan.
5. Abide by all applicable law, rules, and regulations, specifically but not limited to Tennessee Code sections governing TCRS.
6. Deal fairly, objectively, and impartially with all participants and beneficiaries.
7. Take actions consistent with the established mission of TCRS and policies that support that mission.
8. Regularly receive and review reports on the effectiveness of TCRS in meeting the plan's goals and long-term mission. Retain oversight and policy-setting responsibilities for investments even while daily management and staffing are delegated to the Treasury Department.
9. Maintain confidentiality of plan, participant, and beneficiary information in carrying out the business of TCRS. Trustees should ensure that the Treasury requires, maintains, and enforces a confidentiality policy in compliance with *T.C.A. § 10-7-504(f)* and subject to all other applicable state and federal laws & regulations.
10. Communicate with participants, beneficiaries, and the public in a timely, accurate, and transparent manner.

#### **Investments**

The Board's duties have been designed to limit the members' conflicts of interest at "arms length" from the investment division staff that manage the assets of TCRS. The Board establishes the investment policy for TCRS. Implementation of the investment policy established by the Board has been delegated to the State Treasurer who puts the policy into effect

and who has through the investment division staff full power to invest and reinvest such funds in compliance with the investment policy (*T.C.A. § 8-37-110*).

### **Real Estate**

The Board of Trustees also has the power and authority to establish an investment policy to authorize TCRS to acquire, hold and convey real property for investment purposes. Such acquisitions may be direct, with or without partners, or in a commingled pool as provided by law. The Board's authority has further been designed to limit the members' conflicts of interest by requiring the real estate investment policy adopted by the Board to be approved by the Legislative Council on Pensions and Insurance (*T.C.A. § 8-37-104*).

Per the Board's investment policy, transactions to acquire and dispose of real estate properties are subject to approval of the Investment Committee of the Board of Trustees. No Investment Committee member shall approve a proposed acquisition or disposition of real estate investments if the member has a direct or indirect financial conflict or potential conflict of interest, unless the Committee member has disclosed the conflict to the Board for discussion. Prior to such Board discussion, potential conflicts shall be reported in writing to the Treasury Department's Compliance Officer.

### **Private Equity**

The Board of Trustees shall invest and manage private equity assets solely in the interest of the beneficiaries of the retirement system in a manner consistent with § 35-14-107, the prudent investor rule pursuant to § 35-14-103, the standard of care pursuant to § 35-14-104, and the exercise of reasonable care in delegation of investment and management functions pursuant to § 35-14-111. The investment policy adopted by the board is subject to approval by the Legislative Council on Pensions and Insurance (*T.C.A. § 8-37-104*).

Per the Board's investments policy, transactions to acquire and/or dispose of private equity holdings are subject to approval of the Investment Committee of the Board of Trustees. Transactions involving a market value of less than \$30 million may be approved by the CIO and Treasurer after notification of the Investment Committee. No Investment Committee member shall discuss, deliberate, or approve a proposed acquisition or disposition of private equity investments if the member has a direct or indirect financial conflict or potential conflict of interest, unless the Committee member has disclosed the conflict to the Board for discussion. Prior to such Board discussion, potential conflicts shall be reported in writing to the Compliance Officer.

A process has been implemented for disclosure to the audit committee of the board of trustees the names of any persons or entities that bring specific private equity investment proposals to any retirement system employee or board member who has a role in determining whether retirement system assets should be invested in the private equity investment.

### **Disclosure Statement**

Each program year, elected and appointed Board Members shall sign this Conflict of Interest Policy attesting that he/she will disclose any conflict or potential conflict of interest to the Treasury Compliance Officer prior to official acts or discussion by the Board. Such disclosure will be filed with the Secretary of the TCRS Board of Trustees. Ex-officio members of the Board who are required to file a standard Statement of Disclosure of Interest (*T.C.A. § 8-50-501 et seq., T.C.A. § 2-10-115*) with the Tennessee Ethics Commission are deemed to have met their disclosure requirement under this Policy.

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Signature

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Date