TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

PENSION REFORM

Tennessee Debt of
Department of
Treasury
David H. Lillard, Jr., State Treasurer
Funding Pension Plans

• Sources
  – Employees
  – Investments
  – Employers

• Actuary
  – Determines Employer Contribution Rates
  – Experience Study
Reasons for Pension Reform

• Improving mortality

• Volatility in investment earnings
  – Volatility in employer contributions
  – Budgeting challenges
    • Employer contribution rates ranged from 3.39% to 19.66%
Objectives of Pension Reform

- Sustainable pension plan
- Provide sufficient benefits to both career and short term employees
- Control employer cost
- Control unfunded liability
Shared Risk Plan Design

- Hybrid Plan
  - Defined Contribution Component
  - Defined Benefit Component
  - Employee Education

<table>
<thead>
<tr>
<th>Plan</th>
<th>Employer Contributions</th>
<th>Employee Contributions</th>
<th>Total Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit Plan</td>
<td>4%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Defined Contribution Plan</td>
<td>5%</td>
<td>2%*</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td>9%</td>
<td>7%</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Default rate, can be adjusted up or down
# Defined Benefit Component

<table>
<thead>
<tr>
<th></th>
<th>Legacy Plan</th>
<th>Hybrid Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Retirement</td>
<td>Age 60/30 YOS</td>
<td>Age 65/Rule of 90</td>
</tr>
<tr>
<td>Early Retirement</td>
<td>Age 55/25 YOS</td>
<td>Age 60/Rule of 80</td>
</tr>
<tr>
<td>Employee Contributions</td>
<td>0% - 5%</td>
<td>5%</td>
</tr>
<tr>
<td>Benefit Multiplier</td>
<td>1.575%</td>
<td>1%</td>
</tr>
<tr>
<td>Cost of Living Adjust.</td>
<td>CPI (Max 3%)</td>
<td>CPI (Max 3%)</td>
</tr>
<tr>
<td>Defined Contribution</td>
<td>None</td>
<td>5% From Employer</td>
</tr>
<tr>
<td>Cost Controls</td>
<td>None</td>
<td>9% Employer Target</td>
</tr>
</tbody>
</table>
Defined Benefit Cost Controls

- Cost Controls are Pre-defined and Automatic
- If Employer Contribution Exceeds 4%
  - Utilize stabilization reserve funds
  - Reduce future COLAs
  - Shift portion of employer contributions from the DC to DB plan
  - Increase employee contributions to the DB plan by 1%
  - Reduce future service accruals below 1%
  - Freeze plan benefits
Retirement System Participants

ACTIVE MEMBERS
AS OF JUNE 30, 2019

- Legacy Plan closed to new members June 30, 2014
- Projected to pay Legacy plan payments until 2095

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<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LEGACY</td>
<td>169,053</td>
</tr>
<tr>
<td>HYBRID</td>
<td>46,479</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>215,532</td>
</tr>
</tbody>
</table>

Legacy 78%
Hybrid 22%
Summary

• Control employer contributions and unfunded liability
• Limits Employer contributions to 9%
• Provides stable pension base (DB and social security) and additional pension flexibility (DC) for all employees