

Important Considerations Regarding Financing Retirement Obligations Tennessee Consolidated Retirement System

This past year has presented extraordinary challenges for Tennesseans as the COVID-19 pandemic threatened public health and produced widespread economic uncertainty. While the long-term implications of the pandemic remain unknown, the Tennessee Consolidated Retirement System finished the 2020 fiscal year relatively strong with a 4.94 percent investment return, exceeding peer returns and earning nearly 10 percent in the last quarter. TCRS continues to be recognized as one of the strongest funded pensions plans in the nation; however, this achievement remains dependent on prudent financial management by all stakeholders.

Although its timing was delayed due to the pandemic, an experience study for the four-year period ending June 30, 2020 is currently underway. It is our intent that the results of this experience study and recommended changes to the plan's investment and demographic assumptions will be considered by the TCRS Board of Trustees at its June meeting. If approved, these new assumptions will be implemented beginning with the June 30, 2021 actuarial valuation, resulting in upward pressure on future employer contribution rates.

As we have previously communicated in the past, the accuracy of the investment return assumption has a major impact on a plan's finances and actuarial funding level. Our goal is to set a rate that is reasonable and results in effectively funding the cost of pension benefits being accrued. While the investment return assumption is the most consequential, the experience study will also analyze demographic assumptions including life expectancy, payroll growth, salary, retirement, and termination behavior.

We understand that even small changes to an employer's budget can shift fiscal priorities. We strongly encourage a proactive approach to funding pension obligations by considering adopting an employer rate above the minimum amount. Options to consider include:

- If your employer rate will be lower, consider continuing to contribute at the same level you are at currently.
- If you have a relatively low employer rate, i.e., less than 5 percent, consider paying more than the minimum required rate.
- If your rate is increasing, consider future budget years and weigh your options for paying more now or explore alternative plan structures.

These prudent actions can help mitigate the risk of increasing employer contributions in future years due to changes in actuarial assumptions and interest rate volatility. Moreover, you can reduce any net pension liability that will be reflected as debt in your financial statements.

Should you need further assistance in evaluating your employer contribution rate or wish to discuss alternative plan provisions, please reach out to your regional Treasury Outreach Representative.

Treasury Outreach

Drew Freeman, Director
Cell: (615) 806-4467
Drew.Freeman@tn.gov

Middle TN Representative: James Armistead
Cell: (615) 289-4447
James.Armistead@tn.gov

East TN Representative: Justin Ball
Cell: (423) 356-1518
Justin.Ball@tn.gov

West TN Representative: Tim Joyce
Cell: (901) 233-4517
Tim.Joyce@tn.gov