

Tennessee Consolidated Retirement System

Teacher Retirement Plan, a Cost-Sharing Defined Benefit Plan

GASB Statement No. 67

Actuarial Report

Reporting Date: June 30, 2024



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Accounting Governance Background

Statement No. 25 of the Governmental Accounting Standards Board was amended by Statement No. 67 of the Governmental Accounting Standards Board. Statement No. 67 became effective for the plan's financial statements for the fiscal year beginning after June 15, 2013. Statement No. 67 establishes financial reporting standards for state and local government pension plans that are administered through trusts or equivalent arrangements. The objective of this statement is to improve the usefulness of the information included in pension plan reports.

Purpose and Use

This report has been prepared exclusively for the Tennessee Consolidated Retirement System. Actuarial computations under Statement No. 67 are for purposes of fulfilling employer governmental accounting requirements, and may not be appropriate for other purposes. The calculations reported herein have been made on a basis consistent with our understanding of the statement. USI Consulting Group is not responsible for consequences resulting from the use of any part of this report without prior authorization or approval. This report provides actuarial advice and does not constitute legal, accounting, tax or investment advice. Determinations for other purposes, such as funding, bond ratings, or judging benefit security, may be significantly different from the results shown in this report.

Actuarial findings in this report are based on actuarial assumptions which reflect expected plan experience. Although the deviation of the actual future plan experience and the expected experience inherently creates some uncertainty with the results, in our opinion the actuarial assumptions reasonably reflect the expected future experience of the plan. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. All of these factors can cause volatility in the Net Pension Liability (Asset) over time.

The actuarial liabilities shown in this report are determined using software purchased from an outside vendor which was developed for this purpose. Certain information is entered into this model in order to generate the liabilities. These inputs include economic and non-economic assumptions, plan provisions, and census information. We rely on the coding within the software to value the liabilities using the actuarial methods and assumptions selected. Both the input to and the output from the model is checked for accuracy and reviewed for reasonableness.

Data

The calculations shown in this report have been prepared using employee data and plan documentation furnished by the Tennessee Consolidated Retirement System as of June 30, 2023. Plan asset information and covered-employee payroll were furnished by the Tennessee Consolidated Retirement System for the twelve month period ending June 30, 2024. While we have not audited the data, we have reviewed it for reasonableness and internal consistency. We have made reasonable assumptions with regard to any incomplete records, and to the best of our knowledge, there are no material limitations to the data provided. A complete summary of the census data utilized in this report is available upon request.

Assumptions, Methods, and Procedures

The results presented in this report comply with the assumptions, methods, and procedures under Statement No. 67. The results are based on a June 30, 2023 actuarial valuation date rolled-forward to a measurement date and reporting date of June 30, 2024. All assumptions are selected by the TCRS Board of Trustees. Statement No. 67 mandates the use of the Entry Age Normal actuarial funding method.

Subsequent Events

We are unaware of any subsequent events after June 30, 2024 which would have a material effect on the results presented in this report.

Changes in Plan Provisions, Actuarial Assumptions, and Actuarial Methods

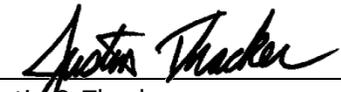
The mortality improvement assumption adopted with the 2020 experience study utilizes the most current projection scale published by the Society of Actuaries as of the actuarial valuation date. As of June 30, 2023, the projection scale did not require a change from the previous year, continuing to use Scale MP-2021 as the most current projection scale available.

No other changes were made to the plan provisions, actuarial assumptions or methods in the June 30, 2023 actuarial valuation.

Summaries of the plan provisions, actuarial assumptions and methods can be found in the Basis for Valuation section of this report.

Professional Qualifications

This report has been prepared under the supervision of Justin C. Thacker, a member of the American Academy of Actuaries, a Fellow of the Society of Actuaries, and a consulting actuary with USI Consulting Group, who has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein. To the best of our knowledge this report has been prepared in accordance with generally accepted actuarial standards and our understanding of Government Accounting Standards Board Statement No. 67, including the overall appropriateness of the analysis, assumptions, and results and conforms to appropriate Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis for the actuarial report. We are not aware of any direct or material indirect financial interest or relationship that could create, or appear to create, a conflict of interest that would impair the objectivity of our work. The undersigned are available to provide supplemental information or explanation.


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October 23, 2024
Date


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Summary of Plan Provisions

The actuarial valuation includes all benefits provided by the Tennessee Consolidated Retirement System to the current active and inactive plan members. Benefit provisions include retirement, death and disability benefits. If applicable, post-retirement cost of living adjustments are included. Tennessee state law provides full documentation of the plan provisions. The Tennessee Consolidated Retirement System actuarial valuation funding report as of June 30, 2023 includes a summary of plan provisions.

Summary of Actuarial Assumptions and Methods

Investment Rate of Return

6.75 percent per annum, compounded annually

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	1%
		100%

Discount Rate

6.75 percent per annum, compounded annually

Paragraph 43 of Statement No. 67 provides for an alternative method to be used other than the projection of the pension plan's fiduciary net position based on projected contributions, benefit payments and investment earnings. The current contribution policy requires contributions of the normal cost plus a closed amortization of the unfunded liabilities (not to exceed 30 years from when the unfunded liability was created). In addition, the employer has a documented history of contributing 100 percent of the actuarially determined contribution requirement. The discount rate utilized assumes that employee contributions will be made at the current applicable rate and that contributions from the employer will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the pension funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on these assumptions and the actuarial methodology adopted, the employer's fiduciary net position is expected to remain positive and to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Actuarial Valuation Method

All liabilities and normal costs shown in this report are calculated based on the Entry Age Normal method.

Asset Valuation Method

Fair Market Value

Additional Assumptions

The Tennessee Consolidated Retirement System actuarial valuation funding report as of June 30, 2023 includes a summary of actuarial assumptions.

Selection of Assumptions

The TCRS Board of Trustees selected the assumptions described above based on the review of plan experience in conjunction with an experience study conducted as of June 30, 2020 for the Teacher Legacy Pension Plan. A complete plan experience study is conducted every four years.

Summary of Participant Data

A complete summary of the census data utilized in this report is available upon request.

This section presents specific information required under Statement No. 67. The information in this report is to satisfy the reporting for the pension plan. This section contains the following:

- Statement of Change in Fiduciary Net Position
- Net Pension Liability (Asset) including discount rate sensitivity and reconciliation between years

Fiduciary Net Position is the amount of assets available for benefits in the Pension Plan.

Total Pension Liability is the plan liability determined using assumptions listed in the Summary of Actuarial Assumptions.

Net Pension Liability (Asset) is the difference in the Total Pension Liability and the Fiduciary Net Position.

Statement of Changes in Fiduciary Net Position

	<u>June 30, 2024</u>
Additions	
Contributions:	
Employer	\$ 69,299,949
Employee	<u>117,780,155</u>
Total Contributions	<u>187,080,104</u>
Investment Income:	
Net Investment Income	96,088,372
Other	<u>0</u>
Total Additions	<u>283,168,476</u>
 Deductions	
Benefit Payments / Refunds	7,875,132
Administrative Expenses	2,968,257
Other	<u>0</u>
Total Deductions	<u>10,843,389</u>
Net Increase/(Decrease) in Net Position	<u>272,325,087</u>
 Net Position Restricted for Pensions	
Beginning of Year	<u>896,156,157</u>
End of Year	<u><u>\$ 1,168,481,244</u></u>

Net Pension Liability (Asset) (NPL)

Determination of Net Pension Liability (Asset)

The components of the net pension liability (asset) at June 30, 2024 were as follows:

Total Pension Liability	1,088,173,177
Plan Fiduciary Net Position	<u>(1,168,481,244)</u>
Net Pension Liability (Asset)	<u><u>\$(80,308,067)</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	107.38%

Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate

The following represents the net pension liability (asset) calculated using the stated discount rate, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Net Pension Liability (Asset)	\$220,272,570	\$(80,308,067)	\$(298,632,553)

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios

	fiscal year ending June 30				
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total Pension Liability					
Service cost	\$178,895,286	\$150,358,613	\$128,738,485	\$98,704,242	\$85,848,628
Interest	63,400,243	49,813,956	38,097,642	28,379,472	20,721,440
Changes of benefit terms	--	--	--	--	--
Differences between expected and actual experience	(5,903,467)	2,232,194	(4,960,240)	(3,478,690)	(10,298,460)
Changes of assumptions	--	--	40,871,729	--	--
Benefit Payments / Refunds	(7,875,132)	(6,643,092)	(5,963,637)	(4,123,969)	(3,658,348)
Net Change in Total Pension Liability	228,516,930	195,761,671	196,783,979	119,481,055	92,613,260
Total Pension Liability - beginning	859,656,247	663,894,576	467,110,597	347,629,542	255,016,282
Total Pension Liability - ending (a)	\$1,088,173,177	\$859,656,247	\$663,894,576	\$467,110,597	\$347,629,542
Plan Fiduciary Net Position					
Contributions - employer	\$69,299,949	\$57,085,587	\$34,324,801	\$29,153,070	\$25,617,003
Contributions - employee	117,780,155	99,747,655	85,515,025	72,198,691	63,193,473
Net investment income	96,088,372	51,784,954	(25,502,828)	115,660,116	16,992,981
Benefit Payments / Refunds	(7,875,132)	(6,643,092)	(5,963,637)	(4,123,969)	(3,658,348)
Administrative expenses	(2,968,257)	(2,239,262)	(3,197,350)	(2,559,679)	(2,296,662)
Other	0	1,031	(100,001)	23	126
Net Change in Plan Fiduciary Net Position	\$272,325,087	\$199,736,873	\$85,076,010	\$210,328,252	\$99,848,573
Plan Fiduciary Net Position - beginning	896,156,157	696,419,284	611,343,274	401,015,022	301,166,449
Plan Fiduciary Net Position - ending (b)	\$1,168,481,244	\$896,156,157	\$696,419,284	\$611,343,274	\$401,015,022
Net Pension Liability (Asset) - ending (a) - (b)	\$(80,308,067)	\$(36,499,910)	\$(32,524,708)	\$(144,232,677)	\$(53,385,480)
Plan Fiduciary Net Position as a % of the Total Pension Liability					
Covered-employee payroll	\$2,349,129,130	\$1,987,897,627	\$1,709,064,462	\$1,442,090,457	\$1,261,909,185
Net Pension Liability (Asset) as a % of covered-employee payroll	-3.42%	-1.84%	-1.90%	-10.00%	-4.23%

Notes to Schedule

See Summary of Plan Provisions for notes regarding benefit changes. See Summary of Actuarial Assumptions and Methods for notes regarding changes in assumptions.

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios - Continued

	fiscal year ending June 30				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability					
Service cost	\$74,297,210	\$60,633,198	\$43,440,149	\$28,980,449	\$15,581,497
Interest	14,804,562	9,275,807	5,159,135	2,175,079	583,011
Changes of benefit terms	--	--	--	--	--
Differences between expected and actual experience	1,446,372	763,491	2,054,643	(1,477,409)	--
Changes of assumptions	--	2,496,211	--	--	--
Benefit Payments / Refunds	(2,275,481)	(1,581,892)	(1,021,752)	(283,467)	(34,531)
Net Change in Total Pension Liability	88,272,663	71,586,815	49,632,175	29,394,652	16,129,977
Total Pension Liability - beginning	166,743,619	95,156,804	45,524,629	16,129,977	--
Total Pension Liability - ending (a)	\$255,016,282	\$166,743,619	\$95,156,804	\$45,524,629	\$16,129,977
Plan Fiduciary Net Position					
Contributions - employer	\$20,529,151	\$34,955,185	\$26,262,053	\$17,538,589	\$8,310,132
Contributions - employee	52,912,29	43,733,252	32,848,220	21,855,921	10,390,077
Net investment income	18,474,724	13,482,650	10,058,396	1,011,283	294,742
Benefit Payments / Refunds	(2,275,481)	(1,581,892)	(1,021,752)	(283,467)	(34,531)
Administrative expenses	(2,017,263)	(1,846,334)	(1,417,125)	(819,972)	(280,047)
Other	--	87,409	--	--	--
Net Change in Plan Fiduciary Net Position	\$87,623,660	\$88,830,270	\$66,729,792	\$39,302,354	\$18,680,373
Plan Fiduciary Net Position - beginning	213,542,789	124,712,519	57,982,727	18,680,373	--
Plan Fiduciary Net Position - ending (b)	\$301,166,449	\$213,542,789	\$124,712,519	\$57,982,727	\$18,680,373
Net Pension Liability (Asset) - ending (a) - (b)	\$(46,150,167)	\$(46,799,170)	\$(29,555,715)	\$(12,458,098)	\$(2,550,396)
Plan Fiduciary Net Position as a % of the Total Pension Liability					
Covered-employee payroll	\$1,056,859,310	\$873,677,206	\$655,205,868	\$441,775,131	\$207,753,299
Net Pension Liability (Asset) as a % of covered-employee payroll	-4.37%	-5.36%	-4.51%	-2.82%	-1.23%

Notes to Schedule

See Summary of Plan Provisions for notes regarding benefit changes. See Summary of Actuarial Assumptions and Methods for notes regarding changes in assumptions.

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios - Continued

	fiscal year ending June 30				
	<u>2014</u>				
Total Pension Liability					
Service cost	\$--	--	--	--	--
Interest	--	--	--	--	--
Changes of benefit terms	--	--	--	--	--
Differences between expected and actual experience	--	--	--	--	--
Changes of assumptions	--	--	--	--	--
Benefit Payments / Refunds	--	--	--	--	--
Net Change in Total Pension Liability	--	--	--	--	--
Total Pension Liability - beginning	--	--	--	--	--
Total Pension Liability - ending (a)	\$--	--	--	--	--
Plan Fiduciary Net Position					
Contributions - employer	\$--	--	--	--	--
Contributions - employee	--	--	--	--	--
Net investment income	--	--	--	--	--
Benefit Payments / Refunds	--	--	--	--	--
Administrative expenses	--	--	--	--	--
Other	--	--	--	--	--
Net Change in Plan Fiduciary Net Position	\$--	--	--	--	--
Plan Fiduciary Net Position - beginning	--	--	--	--	--
Plan Fiduciary Net Position - ending (b)	\$--	--	--	--	--
Net Pension Liability (Asset) - ending (a) - (b)	\$--	--	--	--	--
Plan Fiduciary Net Position as a % of the Total Pension Liability	--	--	--	--	--
Covered-employee payroll	\$--	--	--	--	--
Net Pension Liability (Asset) as a % of covered-employee payroll	--%	--	--	--	--

Notes to Schedule

See Summary of Plan Provisions for notes regarding benefit changes. See Summary of Actuarial Assumptions and Methods for notes regarding changes in assumptions.