

HYBRID PENSION PLAN

**FOR
STATE EMPLOYEES
AND TEACHERS**



Tennessee Consolidated
Retirement System
502 Deaderick Street
Nashville, TN 37243-0201

*David H. Lillard, Jr., State Treasurer
Jill Bachus, Director of TCRS*

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Treasury Department;
April 2014; Authorization #309257
This web-based document was
promulgated at a cost of \$172.00.

INTRODUCTION

One of the more valuable benefits of public service is the retirement benefits you are accruing under the Tennessee Consolidated Retirement System (TCRS). Your benefit grows in value each year you serve. TCRS is designed to provide three types of benefits: retirement benefits, disability benefits and survivor benefits. This pamphlet provides a general overview of those benefits as they apply to state employees, higher education employees and public school teachers hired on or after July 1, 2014 and who have not maintained membership in the TCRS legacy plan based on previous service as a state employee, higher education employee or teacher prior to July 1, 2014.

Note: There is a separate pamphlet that covers the benefits for an individual:

- (1) who is elected or appointed after June 30, 2014 as the attorney general and reporter, as a member of the General Assembly, a district attorney general, district public defender or as a state judge; and
- (2) who has not maintained membership in the TCRS legacy pension plan based on previous service as a state employee, higher education employee or teacher prior to July 1, 2014.

The pamphlet can be located on the TCRS website, which, as of July 1, 2014, is <http://treasury.tn.gov/tcrs/Pub.html>.

MEMBERSHIP

All full-time state employees, higher education employees and public school teachers hired after June 30, 2014 are covered by the Hybrid Pension Plan for State Employees and Teachers ("Hybrid Plan") as a condition of employment if they have not maintained membership in the TCRS legacy pension plan based on previous service as a state employee, higher education employee or teacher prior to July 1, 2014. Certain part-time state employees, higher education employees and public school teachers are eligible to participate on an optional basis. Higher education employees who are exempt from the Fair Labor Standards Act

may elect membership in the optional retirement plan in lieu of the Hybrid Plan. For information on the optional retirement plan, please visit the plan's website, which, as of July 1, 2014, is <http://treasury.tn.gov/orp/>.

The Hybrid Plan provides a combination of a defined benefit plan and a defined contribution plan. The defined benefit portion of the Hybrid Plan will be managed by TCRS. The defined contribution assets will be deposited into the state's 401 (k) plan where you will manage the investments within the 401 (k) plan. As a state employee, higher education employee or public school teacher, you are required to contribute 5% of your salary to the defined benefit portion of Hybrid Plan. Contributions are made on a tax-deferred basis.

Each year that you are actively employed, TCRS will prepare an annual statement for you. The statement will show the salaries reported to TCRS, the amount of service credit you have with TCRS, the amount of your contributions, your vesting status, your TCRS beneficiary designation and estimates of the TCRS benefits you could receive under various circumstances. TCRS will send a notice to your employer when your statement is available online at www.mytcrs.com.

Members of the Hybrid Plan attain vesting after five years of membership service. A vested member is one who has accrued enough years of service to receive a retirement benefit once all eligibility requirements are met. If you leave covered employment before you become vested, you will lose membership in TCRS if you take a refund of your accumulated contributions or if you are absent from covered employment for more than seven consecutive years, whichever occurs first. If you leave covered employment after you become vested, you may retain your TCRS membership until retirement by leaving your contributions in the system.

DEFINED BENEFIT PORTION OF THE HYBRID

The defined benefit portion of the Hybrid Plan provides a benefit as defined in state statute. This means that the amount of any future benefit will be determined by a benefit formula rather than by an account balance. The formula for computing a monthly

retirement allowance consists of your average final compensation, years of creditable service, age and the benefit accrual factor.

Average Final Compensation (AFC) is the average of your five highest consecutive years of salary. The federal government limits the maximum amount of salary that may be recognized, which, for 2014, is \$260,000 but is indexed for future years.

Creditable Service means membership service under the Hybrid Plan for which you made contributions, plus any other periods of service credited to you by TCRS. Service credit may be accrued for full-time service as a state employee, higher education employee, a public school teacher in Tennessee or an employee of certain local governments in Tennessee. In addition, you may be entitled to establish credit for other types of service. The types of service that may be established include the following:

- previously withdrawn service;
- military service which interrupted your public employment;
- military service rendered during a period of armed conflict as defined in Tennessee Code Annotated, Section 8-34-605;
- peacetime military service rendered at any time from October 15, 1940 through February 27, 1961;
- educational leave of absence which interrupted your employment; and
- unused accumulated sick leave at retirement.

Some types of service may be established without charge, while others require payment of contributions and interest. If you would like additional information on establishing prior service, contact the TCRS Member Services Division at TCRS.Member-Services@tn.gov or 615-741-4868.

Benefit Accrual Factor means the percentage of AFC earned from each year of creditable service. The benefit accrual factor for the Hybrid Plan is 1.0%.

RETIREMENT BENEFITS

Retirement income generally comes from three sources: your employer-provided retirement plan (TCRS), Social Security and your personal savings. TCRS offers two kinds of retirement benefits for the Hybrid Plan: service retirement benefits or reduced early retirement benefits.

- **Service Retirement Eligibility** – A member becomes eligible for service retirement upon attainment of age 65 and completion of five years of creditable service or the Rule of 90. The Rule of 90 means the attainment of a combination of age and years of creditable service as to equal 90. For example, a member age 55 with 35 years of service would qualify for service retirement since the member’s age and service totals 90 (55 + 35 = 90).
- **Service Retirement Formula** - The annual service retirement allowance (or annual base benefit) payable to a member is equal to 1.0% of the member’s AFC, multiplied by the number of years of creditable service. The annual service accrual (1.0% formula) may be decreased as part of the cost controls for the Plan.

The following example shows the formula used for computing the TCRS retirement allowance for a member with 10 or more years of service. The example uses a 60-year-old member retiring under the maximum plan with an AFC of \$50,000 and 30 years of service. In this example, TCRS service retirement benefits replace 30% of the member’s AFC after 30 years of service.

<u>Accrual</u> <u>Factor</u>	<u>AFC</u>	<u>Years of</u> <u>Creditable Service</u>	=	\$15,000
.01	x \$50,000	x 30		
			÷	<u>12</u>
		Monthly Benefit		\$ 1,250

- **Early Retirement Eligibility**– A member becomes eligible for reduced early retirement benefits upon attainment of age 60 and completion of five years of creditable service or the Rule of 80. The Rule of 80 means the attainment of a combination of age and years of creditable service as to equal 80. For example, a member age 57 with 23 years of service would

qualify for early retirement since the member's age and service totals 80 ($57 + 23 = 80$).

- Early Retirement Formula - The benefit is computed in the same manner as a service retirement benefit except there is a permanent actuarial reduction for each month the date of retirement precedes service retirement eligibility.
- Maximum Benefit Accrual - The maximum annual base benefit payable at retirement (under either service or early service retirement) is limited to the lower of 90% of the member's AFC or the base benefit in effect at the time of the member's retirement (which, as of July 1, 2014, equals \$82,850), but subject to adjustment based on the cost-of-living provisions of the plan.

RETIREMENT BENEFITS FOR PUBLIC SAFETY OFFICERS

Commissioned members of the Department of Safety, agents of the Tennessee Bureau of Investigation, wildlife officers and commissioned members of the Alcoholic Beverage Commission who are engaged in law enforcement activities on a day-to-day basis or who have been transferred from such activities to a supervisory or administrative position within the same department or agency for which they served are subject to mandatory retirement on the first day of the month following the month in which the member attains age 60. These mandatory retirement provisions also apply to commissioned instructors employed at the Tennessee Law Enforcement Training Academy and to members employed in certain other positions within the Tennessee Wildlife Resources Agency.

However, any member who is otherwise subject to the mandatory retirement provisions may continue in service until the first day of the month following the month in which the member reaches the age requirement for receipt of early Social Security benefits (which is currently age 62) if:

- (1) the Tennessee Department of Human Resources determines that the member serves in a supervisory or administrative position which requires less than 50% of the member's duties to be involved in day-to-day law enforcement activities; and

(2) the member signs a consent form acknowledging that, by continuing in service, the member forfeits any rights to retirement benefits, including the supplemental bridge benefit discussed below, during the period of the member's continued service. The form must be filed with TCRS on or before the first day of the month prior to the month in which the member attains age 60.

Members who serve as the Commissioner of Safety, the Director of the Tennessee Bureau of Investigation, the Director of the Tennessee Wildlife Resources Agency or the Director of the Tennessee Alcoholic Beverage Commission may continue in service beyond the age requirement for receipt of Social Security benefits.

Any member serving in a position covered by the mandatory retirement provisions is eligible for a service retirement allowance upon attainment of age 60 and upon completion of five years of creditable service or at any age upon completion of 30 years of creditable service. Further, any member who has creditable service in a position covered by the mandatory retirement provisions and who is entitled to the supplemental bridge benefit discussed below is eligible for a service retirement allowance upon attainment of age 55 and upon completion of 25 years of creditable service; provided, however, that the service rendered while the member was in a position covered by the mandatory retirement provisions is independent of all other creditable service for the purpose of calculating the member's retirement benefits. The service retirement formula for such members is the same as the service retirement formula described above, including the maximum benefit accrual.

Any member serving in a position covered by the mandatory retirement provisions is eligible for an early service retirement allowance upon attainment of age 55 and upon completion of five years of creditable service or at any age upon completion of 25 years of creditable service. The early retirement formula for such members is the same as the early retirement formula set forth above, including the maximum benefit accrual.

In addition to the regular service or early service retirement benefit, members serving in a position covered by the mandatory retirement provisions are also eligible for a supplemental bridge

benefit beginning at the latter of age 55 or the date of retirement. For members retiring on a service retirement allowance, the supplemental benefit is equal to 0.75% of the member's AFC, multiplied by the member's years of creditable service established while the member was in a position covered by the mandatory retirement provisions. For members retiring on an early retirement allowance, the supplemental benefit is equal to the supplemental benefit paid to members retiring on a service retirement allowance, but reduced by an actuarial reduction factor for each month by which the member's date of early service retirement precedes the member's service retirement date. The initial supplemental benefit may not exceed 22.5% of the member's AFC. Supplemental bridge benefits are eligible for cost-of-living adjustments; however, all supplemental benefits cease upon the earlier of the member's death or eligibility for early Social Security benefits (which is currently age 62).

COST-OF-LIVING ADJUSTMENTS AFTER RETIREMENT

Any retired member who has been retired for at least 12 full months on July 1 of each year is eligible to receive an increase in his or her retirement allowance if there is an increase in the Consumer Price Index of at least .05% for the preceding calendar year.

The amount of the increase will be 1% if the increase in the Consumer Price Index is 0.5% or more, but less than 1%. If the increase in the Consumer Price Index is 1% or more in any year, retired members will receive an amount equal to the increase in the Consumer Price Index, but not to exceed 3%. Cost-of-living adjustments are compounded each year. Adjustments appear in the July 31 payment.

DISABILITY BENEFITS

An active member who is not eligible for service retirement, but who can no longer engage in any type of substantial gainful employment due to a total and permanent medically-determinable disability may be entitled to disability benefits. The member must submit an Application for Disability Benefits and furnish objective medical records that conclusively document the claim. A disability retiree is subject to annual medical re-evaluation

and to an annual review of earnings until age 60. TCRS provides coverage for two kinds of disability: ordinary disability and job-related accidental disability.

Disability benefits are equal to 90% of the service retirement benefit that would have been payable. To be eligible for ordinary disability retirement benefits, you must have a minimum of five years of creditable service. There is no minimum service requirement for accidental disability benefits; however, the accident must have occurred in the performance of duty.

SURVIVOR BENEFITS AND BENEFICIARY DESIGNATION

The beneficiary of an active member who dies prior to retirement may be entitled to one of four survivor benefits described in this section. The type of benefit payable to your beneficiary would be determined by who is named as beneficiary and by your age and length of service. Any annuity benefits payable may be reduced by the early retirement reduction factor and/or the appropriate option factor.

One of the most important decisions you are asked to make as a new member of the retirement system is to name a beneficiary. When selecting a beneficiary, you should consider the system's survivor benefit provisions in light of your circumstances. It is very important that you keep your TCRS beneficiary designation current throughout your career. Situations such as marriage, divorce, remarriage or death do not automatically change your beneficiary. As an active employee, you may change your TCRS beneficiary at any time prior to retirement by using member self-service at www.mytcrs.com or by submitting a notarized Change of Beneficiary form to TCRS.

- Lump Sum Refund – Any beneficiary you have named would be entitled to a refund of the amount you have contributed to TCRS at the time of your death, plus interest. If you were in service at the time of death, the beneficiary would also receive a matching employer provided amount. If multiple beneficiaries are selected, the payment will be equally divided.

- **Line-of-Duty Benefit** – If your spouse or minor children are named as your beneficiary, your spouse or children would receive a benefit equal to 50% of your AFC if you should die as the result of an accident or physical violence occurring in the performance of your duties. If your spouse is named, this benefit would be paid to the spouse until his or her death. If the named spouse dies, the benefit would then continue on to any minor children until they reach age 22. If your minor children are named as your only beneficiary, this benefit would be paid to them until they reach age 22. If you do not have a spouse or minor child, your named beneficiary will receive a minimum \$50,000 lump sum payment.
- **100% Joint and Survivor Annuity for Spouse after 10 Years' Service** – If your spouse is named as your beneficiary, he or she would be entitled to receive a 100% joint and survivor annuity if you should die in service after accruing 10 years or more of service credit.
- **100% Joint and Survivor Annuity for Any Beneficiary after Reaching Early Retirement Eligibility** – After you have reached the conditions for early retirement, any person you have named as your TCRS beneficiary would be entitled to receive a 100% joint and survivor annuity. If more than one beneficiary is named, each beneficiary would be eligible for an equal share of the 100% joint and survivor annuity. However, if any of the designated beneficiaries include a non-human being, such as an organization, estate or trust, then the only benefit payable would be the lump sum refund described above, unless your surviving spouse is one of the beneficiaries. If your surviving spouse is named, your spouse will be entitled to 100% joint and survivor annuity, but no benefits will be paid to the remaining beneficiaries. If your spouse elects to receive the lump sum payment, then the payment will be divided equally among your spouse and the other beneficiaries.

APPLYING FOR BENEFITS

Before retirement, disability or death benefits can begin, you or your surviving beneficiary must complete an application and submit it to TCRS. Applications are available from TCRS or online at www.mytcrs.com.

At retirement, you may select the maximum benefit calculated by the benefit formula or a reduced benefit pursuant to one of the optional payment plans. The optional payment plans allow your beneficiary to receive a monthly benefit after your death.

Contact the state's 401 (k) third party administrator concerning options available in the defined contribution portion of the Hybrid Plan.

REFUNDS FOLLOWING TERMINATION

Upon separation from service, you may apply for a refund of your accumulated contributions and interest. Employer contributions to the defined benefit portion of the Hybrid Plan are not refundable.

By obtaining a refund, you give up your TCRS membership and all rights and benefits in the retirement system.

Before a refund can be processed, you must file a completed Application for Refund with TCRS. If you are a public school teacher, your refund will not be processed until you have been separated from service for at least four months unless:

- (1) you are dismissed due to budgetary problems,
- (2) you were employed and paid on a continuous 12-month basis;
or
- (3) you have moved to a permanent residence outside the state of Tennessee.

If you qualify for one of these exemptions, you will need to file a TCRS Waiver of Refund Waiting Period form with your Application for Refund.

Federal law requires TCRS to withhold federal income tax from all refunds issued to former members. The withholding rate is currently 20% of the taxable portion. If you arrange to have your refund transferred directly to an Individual Retirement Account, you may avoid having taxes withheld.

Contact the state's 401 (k) third party administrator concerning options available in the defined contribution portion of the Hybrid Plan.

POTENTIAL LOSS OF BENEFITS

Any member who is convicted in state or federal court of a felony arising out of the member's employment or official capacity which constitutes malfeasance in office will be prohibited from receiving benefits. This prohibition applies to anyone joining TCRS after July 1, 1982 who is convicted of such a felony in a Tennessee state court as well as anyone joining on or after May 31, 1993 who is convicted of such a felony in a federal court. Persons elected to a public office in the State of Tennessee consent and agree to the forfeiture of their retirement benefits from TCRS upon conviction in a state or federal court of a felony arising out of their official capacity regardless of the date the elected official became a member of TCRS. If the conviction is later overturned and the member is acquitted or is granted a full pardon, the member will be restored to all rights, privileges and benefits as if the conviction never occurred.

Any person convicted of a felony as provided above may elect, within six months of the person's conviction, to have a monthly retirement allowance paid to whomever that person had designated as beneficiary at the time of that person's conviction. However, the beneficiary must have been that person's spouse or child at the time of that person's conviction. The benefits will be payable to the beneficiary upon the person's death provided all other eligibility requirements applicable to a beneficiary have been met. The amount of the benefits will equal the retirement allowance which would have been payable had the person retired under the survivorship option elected.

DEFINED CONTRIBUTION PORTION OF THE HYBRID PLAN

Your Contribution: Upon first becoming a state employee, higher education employee or public school teacher in the Hybrid Plan, 2% of your compensation will be deferred automatically into the defined contribution component of the Hybrid Plan unless you make an affirmative election not to contribute. The election not to contribute to the defined contribution plan must be filed in the prescribed method and must be received by the employer/ third party administrator no later than 30 calendar days from first employed.

You may cancel or adjust (increase or decrease) future employee deferrals at any time by providing the appropriate notice as provided under the terms of the deferred compensation program.

Your Employer Contribution: The employer will make a contribution to the defined contribution component of the plan on behalf of each member of the Hybrid Plan, regardless of whether the member makes any employee contribution. The amount of the contribution is 5% of the member's compensation. By federal law, the maximum salary on which employer contributions can be made is \$260,000 for 2014, but indexed in future years.

The employer contribution may be decreased as part of the cost controls for the defined benefit plan noted above.

State employees, higher education employees and public school teachers immediately vest in the employee and employer contributions to the defined contribution portion of the Hybrid Plan.

MAXIMUM CONTRIBUTION LEVELS

The federal government establishes maximum contributions levels that an employee may contribute. For 2014, the elective deferral by an employee is \$17,500 and the catch-up contribution limit is \$5,500. The annual defined contribution limit from all sources is \$52,000 for 2014, but indexed in future years.

ALLOCATION OF CONTRIBUTIONS TO INVESTMENT PRODUCTS

Each participant selects the investment option or options in which the employee contributions (if any) and employer contributions are to be directed.

All contributions made by or on behalf of a state employee, higher education employee or public school teacher who does not select an investment option or options within the prescribed period will be directed to the default investment option established by the trustees of the deferred compensation plan.

TERMINATION OF EMPLOYMENT OR RETIREMENT

Upon terminating employment or retiring, an employee may:

- (1) leave his/her account in the plan to withdraw or annuitize at some future date,
- (2) withdraw or annuitize immediately; or
- (3) rollover to another qualified investment program.

If you withdraw your account balance prior to age 59 ½, you are subject to a 10% early distribution tax under the Internal Revenue Code unless certain conditions exist such as you rollover the funds to another eligible plan. Pursuant to federal law, minimum withdrawals must begin in the year following attainment of age 70 ½. For further information on the state's 401 (k) defined contribution plan, please visit the State's 401 (k) website, which, as of July 1, 2014, is <http://treasury.tn.gov/dc/index.html>.

HYBRID PLAN STRUCTURE AND DESIGN

The Hybrid Plan structure is a combination of a defined benefit plan and a defined contribution. Moreover, state employees, higher education employees and teachers also have social security coverage.

The Hybrid Plan was designed as an effective and efficient retirement program for public employees with four objectives:

- (1) provide a sufficient level of benefit accrual for both career employees and for mobile employees;
- (2) provide a sustainable plan structure going forward;
- (3) control employer cost; and
- (4) control unfunded liabilities of the defined benefit plan.

For further information regarding the cost and unfunded liability controls of the defined benefit portion of the plan, please refer to Public Chapter 259, Acts of 2013 which can be found at <http://www.tn.gov/sos/acts/108/pub/pc0259.pdf> .

This pamphlet is intended to provide a general introduction to some of the basic provisions of the Hybrid Plan. It is based on the law governing the Hybrid Plan in effect as of July 1, 2014. It does not include all plan provisions and is for informational purposes only and in no way constitutes a contract or binding agreement between you and the Retirement System. It is not a legal document and is not intended to serve as a basis for legal interpretation. For complete details on the plan provisions, please refer to Tennessee Code Annotated, Title 8, Chapters 34-37. The information in this pamphlet is subject to legislative change and judicial interpretation. It does not supersede nor restrict applicable procedures or authority established under state or federal law. Additional pamphlets on various topics mentioned in this pamphlet are available from the TCRS website, which, as of July 1, 2014, is <http://treasury.tn.gov/tcrs/Pub.html>.

TCRS OFFICES

- TCRS Toll-Free 1-800-770-8277

- Member Services 615-741-4868
E-mail: TCRS.Member-Services@tn.gov

- Counseling Services 615-741-1971
E-mail: TCRS.Counseling@tn.gov

- Retired Payroll 615-741-4913
E-mail: TCRS.Financial@tn.gov

- Retiree Insurance 1-877-681-0155

Tennessee Consolidated Retirement System
15th Floor Andrew Jackson State Office Building
502 Deaderick Street
Nashville, Tennessee 37243-0201

Please include your Social Security number and your current address on any correspondence.