

# Tennessee Consolidated Retirement System

New Hybrid Pension Plan  
with Cost Controls





# Publications via <http://tcrs.tn.gov>

## Tennessee Department of Treasury *Tennessee Consolidated Retirement System*



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Legislation has been enacted to create a new hybrid pension plan for state employees and K-12 teachers hired on or after July 1, 2014. Current employees or retirees are not affected by the changes. Local governments also have the option to adopt the new Hybrid pension plan with cost controls. You can find more information concerning the new plan can below.

- [Summary of New Plan](#)
- [Public Chapter 259](#)
- [Presentation to Council on Pensions and Insurance](#)
- [Consultant's Report](#)
- [Frequently Asked Questions](#)
- [Press Release](#)
- [Actuarial Reports](#)
- [2012 TCRS Annual Report](#)
- [Hybrid Plan Presentation for Employers](#) **New!**
- [Frequently Asked Questions for Employers](#) **New!**
- [New Employee Brochure - Hybrid Pension Plan](#) **New!**



# Current Plan (Legacy)

- Defined Benefit plan
- Benefits are calculated with a set formula
  - Average Final Compensation
  - Years of Service
  - Accrual Factor
- Benefits are paid to member for lifetime
- Employer bears risk of any investment losses



# New Hybrid Plan

- Contains both a Defined Benefit and a Defined Contribution component
  - Defined Benefit component is administered by TCRS
    - Both Legacy and Hybrid employees will be included in the same TCRS contribution report
  - Defined Contribution component is administered by Great West Financial
- Shared risk by Employer and Employee
- Employees are required to contribute to the plan



# Reasons for Change

- Provide a sustainable pension plan going forward
- Control employer pension cost
- Control unfunded liabilities related to pensions
- Provide a sufficient level of benefits for career employees to maintain a reasonable standard of living at retirement



# Enrollment in Hybrid Plan

- General rules for new hires and transferred employees
  - New hires with State, Higher Education, or a Local Education Agency classified as a K-12 teacher on or after July 1, 2014 will be enrolled in the hybrid plan; the first date of work (rather than the hire date) controls
    - Someone is considered a new hire if he/she has ever lost membership in TCRS (i.e., the employee terminated and refunded contributions in the legacy plan or the employee terminated, was not vested, and was not employed for a period of seven years or more)
  - Employees transferring from the State, Higher Education, or a Local Education Agency as a K-12 teacher will be grandfathered into the legacy plan
    - Employees transferring from a local government will be treated as a new hire\*\*\*
- Concord will provide an inquiry screen for newly-hired employees and edits to catch any erroneously-enrolled employees

\*\*\*Local government employees who remain local government employees are unaffected by the hybrid plan



# Hybrid Pension Plan Defined Benefit

## Legacy Plan

- Defined Benefit
  - 1.575% benefit formula
  - Eligibility to retire:
    - Service Retirement
      - Age 60 and vested or 30 years of service
    - Early Retirement
      - Age 55 and vested

## Hybrid Plan

- Defined Benefit
  - 1.0% benefit formula
  - Eligibility to retire:
    - Service retirement
      - Rule of 90 or age 65 and vested
    - Early retirement
      - Rule of 80 or age 60 and vested



# Hybrid Pension Plan Defined Benefit

## Legacy Plan

- Defined Benefit
  - Employee contributions of 5% for teachers and 0% for State employees
  - Employer contribution determined by actuary  
Changes cannot be made to benefit structure

## Hybrid Plan

- Defined Benefit
  - 5% employee contribution
  - 4% employer contribution
  - Right to freeze, suspend, or modify benefits, employee contributions, plan terms, and design prospectively



# Hybrid Pension Plan Defined Contribution

## Legacy Plan

- Defined Contribution
  - Optional contributions to Defined Contribution plan

## Hybrid Plan

- Defined Contribution
  - 5% employer contribution made to an employee's account and not subject to any matching employee contribution
  - 2% auto-enrollment for employees with opt-out feature



**?**

**Questions**



# The Journey to Retirement

State of Tennessee 401(k) Deferred Compensation Program

Presented by: Great-West Financial



## Who is Great-West Financial?

- Represents 4.9 million participant accounts as of December 31, 2013<sup>1</sup>
- Chosen by the Tennessee Treasury Department to provide administrative, education and communication services
- Helps participants understand and evaluate their financial situation through educational materials
- Provides additional tools to participants, such as Reality Investing<sup>®</sup> Advisory Services (Advisory Services), offered by Advised Assets Group, LLC, a registered investment adviser



<sup>1</sup> Based on total participant accounts as of December 31, 2013. Information and rankings refer to the retirement business of Great-West Life & Annuity Insurance Company, Great-West Life & Annuity Insurance Company of New York, and FASCore, LLC and reflect all recordkeeping customers.

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## Hybrid DC Component Contribution Rate?

Hybrid Plan means a plan that provides a combination of a defined benefit plan and a defined contribution plan

- **Defined Contribution Component – Great-West Financial**
  - **Employee** will be auto-enrolled to contribute 2% of salary (with the ability to opt out)
  - **Employer** contributes 5% of employee salary upon hire

>> Total **Employee** contribution to Hybrid Plan: 7%  
*(5% if employee opts out of defined contribution portion)*

>> Total **Employer** contribution to Hybrid Plan: 9%



## Employee Auto-Enrollment Opt-Out Process

- 30-day window for new hires to opt out of the employee contribution portion
- 90-day permissible withdrawal from date of first payroll received at Great-West Financial
  - During this window, employee contacts Great-West Financial to request the permissible withdrawal. Employee contributions will be refunded, deferrals set to zero, and a 1099 tax form will be sent to the employee for everyone's convenience



## Who is eligible for the 401(k)?

- New hires (State, higher education, and K-12 teachers) hired on or after July 1, 2014
- Does not impact retirees
- All Legacy Teachers and Support Staff
- 401(k) plan available as a voluntary option for existing employees hired prior to July 1, 2014

More information about the new Hybrid Plan is available at <http://treasury.tn.gov/tcrs/>



# Auto-Enrollment Process

## Sample Timeline

- **Day 1:** Hire date
- **Day 15:** Eligibility file sent to Great-West Financial
- **Day 20:** Great-West Financial mails auto-enroll letter with PIN to all new hires
- **30-day window for new hires to opt out**
  - **Day 50:** Participant is auto-enrolled in the Plan if no action was taken during the 30-day window
  - **Day 55:** Auto-enrollment confirmation letter is sent to new participants and deferral feed file is sent to employer
  - **Day 60:** First payroll contribution

## **Employer contributions to the deferred compensation portion begin immediately upon hire**

Employees hired prior to July 1, 2014, can elect to enroll in the Plan by completing an enrollment form, calling KeyTalk<sup>®</sup>, or via the website (if a PIN letter was sent to that employee upon date of eligibility).



## What is a 401(k)?

- Section 401(k) of the Internal Revenue Code
- It can help you save and invest extra retirement money.
- You can voluntarily set aside some of your income before you pay current taxes.
- In 2014, you can contribute 100% of your compensation or \$17,500 (whichever is less).
- Contributions to the Plan through voluntary salary deferral and any earnings can grow tax deferred until withdrawn, usually during retirement.

### **Age 50+ Catch-Up**

- If you are age 50 or older during the calendar year, you may make additional contributions to your Plan account. You may contribute an additional \$5,500 in 2014.

### **Contributing to multiple plans**

- If an employee contributes to another plan, such as a 403(b) plan, the combined total of all contributions cannot exceed the maximum limit of \$17,500 in 2014, or \$23,000 if age 50 or older. For more information about contributing to multiple plans, please visit [www.irs.gov](http://www.irs.gov).

## Reasons for Enrollment

- TCRS and Social Security not designed to replace 100% of your income...  
Where is the rest going to come from?
  - Easy enrollment and savings
  - Tax-deferred savings
  - Investment options
  - Convenient account management
  - Personal and professional service
  - Savings and investment education



## 401(k) Roth Option

- What is a Roth?
- Flexibility
  - Designate all or a portion of your elective contributions
- After-tax Roth account
  - “Locks in” today’s tax rates on all contributions
  - Suitable for higher tax bracket at retirement
- Before-tax traditional account
  - Contributions and any earnings on contributions are tax-deferred until you take a distribution
- Suitable for lower tax bracket at retirement
- Employer-matching contributions are treated as before-tax contributions
  - They may be subject to income taxes upon distribution



# Rollovers

- You can roll over into this Plan approved balances from a former employer's 401(a), 401(k), 403(b) or governmental 457(b) plan or from an IRA.<sup>1</sup>
- If you leave your employer, you can roll over your account to your new employer's 401(a), 401(k), 403(b) or governmental 457(b) plan (if allowed) or to an IRA.<sup>1</sup>
- Discuss any rollover with your personal financial or tax advisor before making this decision.



<sup>1</sup> If you roll over any 457 dollars you may have from a previous employer's plan to a 401(a), 401(k), 403(b) or IRA, you will no longer be able to take a withdrawal before age 59½ without possibly incurring the 10% federal tax penalty if you leave employment.



## Fees

- Great-West Financial Fees:
  - Annual Plan Administration Fee is 0.25% of the assets in your account.
    - \$12 minimum annual fee accessed
- Individual investment option operating expenses<sup>1</sup>

<sup>1</sup> Each investment option has its own operating expenses. Funds may impose redemption fees and/or transfer restrictions if assets are held for less than the published holding period. For more information, see the fund's prospectus and/or disclosure documents.



## Investment Options

The following chart is intended to illustrate investment options available to you under the State of Tennessee 401(k) and 457 Deferred Compensation Program. Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain prospectuses for mutual funds, any applicable annuity contract and the annuity's underlying funds and/or disclosure documents from your registered representative or Programs website. For prospectuses related to investments in your Self-Directed Brokerage Account (SDBA), contact your SDBA provider. Read prospectuses carefully before investing.

					Relative risk increase	
Short-Term/Fixed	Bonds <sup>3</sup>	Balanced <sup>4</sup>	Large Cap Equity	Mid Cap <sup>6</sup>	Small Cap <sup>7</sup>	International <sup>8</sup>
ING Fixed Fund <sup>1</sup>	Calvert Income I Fund (CINCX)	Fidelity Puritan Fund (FPURX)	Allianz NFJ Large Cap Value Instl <sup>5</sup>	Columbia Acorn Z <sup>5</sup>	Brown Capital Management Small Company Fund Investor Class (BCSIX)	DFA International Value Fund I (DFIVX)
Nationwide Bank Account <sup>2</sup>	Vanguard Total Bond Market Index Inst (VBTIX)		Fidelity Contrafund (FCNTX) Fidelity OTC Portfolio (FOCPX) Vanguard Institutional Index Fund (VINIX)	Columbia Mid Cap Value Z <sup>5</sup>	Invesco Van Kampen Small Cap Value Fund Y <sup>5</sup>	Fidelity International Discovery (FIGRX)

### Lifecycle Funds<sup>9</sup>

Risk managed according to retirement date

Vanguard Target Date Funds:	Retirement Income (VTINX)	2010 (VTENX) 2015 (VTXVX)	2020 (VTWNX) 2025 (VTIVX)	2030 (VTHRX) 2035 (VTTHX)	2040 (VFORX) 2045 (VTIVX)	2050 (VTIFX) 2055 (VFFVX)
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1 The ING Fixed Fund is backed by the general assets of ING.

2 The Nationwide Bank Account Fund is backed by the general assets of Nationwide Bank and has FDIC protection of up to \$250,000 per participant.

3 A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.

4 Asset allocation and balanced investment options and models are subject to the risks of the underlying funds, which can be a mix of stocks/stock funds and bonds/bond funds.

5 Offered through a group fixed and variable deferred annuity issued by ING. A ticker symbol is not available for this investment option.

6 Equity securities of medium-sized companies may be more volatile than securities of larger, more established companies.

7 Equity securities of small-sized companies may be more volatile than securities of larger, more established companies.

8 Foreign investments involve special risks, including currency fluctuations and political developments.

9 The date in a target date fund's name represents an approximate date when an investor is expected to retire. The principal value of the funds is not guaranteed at any time, including the target date.

# Your Plan's Default Investment Options<sup>1,2,3</sup>

<u>Default Investment Option</u>	<u>Date of Birth From</u>	<u>Date of Birth To</u>
Vanguard Target Retirement Income (VTINX)	For participants within one year of retirement	
Vanguard Target Retirement 2010 (VTENX)	1900	1947
Vanguard Target Retirement 2015 (VTXVX)	1948	1952
Vanguard Target Retirement 2020 (VTWNX)	1953	1957
Vanguard Target Retirement 2025 (VTTVX)	1958	1962
Vanguard Target Retirement 2030 (VTHR X)	1963	1967
Vanguard Target Retirement 2035 (VTTHX)	1968	1972
Vanguard Target Retirement 2040 (VFORX)	1973	1977
Vanguard Target Retirement 2045 (VTIVX)	1978	1982
Vanguard Target Retirement 2050 (VFIFX)	1983	1987
Vanguard Target Retirement 2055 (VFFVX)	1988 or later	

1 The date in a Target Date Fund represents an approximate date when an investor expects to retire. The principal value of the funds is not guaranteed at any time, including the target date.

2 Asset allocation and balanced investment options and models are subject to the risks of the underlying funds, which can be a mix of stocks/stock funds and bonds/bond funds. For more information, see the prospectus and/or disclosure documents.

3 The risk and potential return vary by target date. The closer the target date, the more conservative the fund, thus the lower the risk and potential return of the fund. The farther the target date, the more aggressive the fund, thus the higher the risk and potential return of the fund.



# Reality Investing<sup>®</sup> Advisory Services (Advisory Services)

## What is Advisory Services?

- Benefits participants throughout their lives by providing assistance with:
  - Accumulation of savings
  - Retirement (spend down)
- Tools and advisory services help you:
  - Understand how much money you'll need during retirement
  - Design a retirement plan strategy to meet that goal
  - Provide investment advice strategies during retirement
- Different levels of help are available to you based on your investment goals, time horizon, investor profile and tolerance for risk
- Advisory Services lets you choose the level of help that you want in making retirement planning choices



# Investment Options

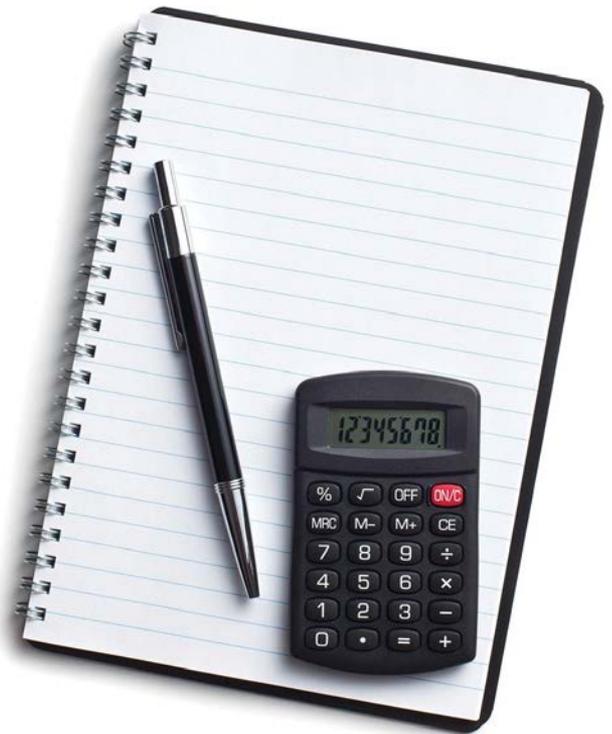
## Self-Directed Brokerage (SDB)

- For sophisticated investors who understand the potential risks
- SDB account through TD Ameritrade
- Provides maximum investing flexibility with the ability to invest in a number of mutual funds
- Must have a balance of \$20,000 in the core investments in order to start a SDB account with a minimum initial deposit of \$5,000
  - The core investments must have \$15,000 remaining
- Additional SDB deposits are a minimum of \$1,000
- Additional fees apply
  - Annual administrative fee of \$60 (applied quarterly)
  - 0.25% recordkeeping fee (applied quarterly)
  - Other fees will apply depending on your account activity

*Please consider the investment objectives, risks, fees and expenses carefully before investing. For prospectuses related to investments in your Self-Directed Brokerage (SDB) account, contact TD Ameritrade at (866) 766-4015. Read them carefully before investing.*

# Loans

- Your 401(k) Plan allows you to borrow up to 50% of your contributions.
- The minimum loan amount is \$2,000.
- The maximum loan amount is \$50,000.
- The origination fee is \$50 per loan, deducted from the loan proceeds.
- There is an annual maintenance fee of \$35, deducted at \$8.75 quarterly or annually from your account.
- You have five years to repay the loan, or you may qualify for an extended repayment period, up to 15 years if the loan is used for the purchase of your primary residence.





# Withdrawals

- You can withdraw when you:
  - Retire
  - Terminate employment<sup>2</sup>
  - Suffer a financial hardship OR unforeseeable emergency<sup>2</sup>
  - Reach age 59½ (for the 401(k) plan only)
  - Die (your beneficiary(ies) will receive your account)
  - Purchase of Service Credit
- Distribution options:
  - Lump sum
  - Periodic payments
  - Partial lump sum with remainder as periodic payment
  - Roll over to another plan (if allowed by the employer) or to an IRA

<sup>1</sup> Withdrawals may be subject to ordinary income tax. Withdrawals prior to age 59½ may be subject to a 10% federal tax penalty. The 10% early withdrawal penalty does not apply to 457 plan withdrawals.

<sup>2</sup> As defined by the Internal Revenue Code and/or your Plan's provisions.

- Once you click on “Account Access” from the Tennessee site, you will be taken to this page.

The screenshot displays the Great-West Financial Retirement Services website. The header includes the company logo and the text "Retirement Services". Navigation tabs are provided for "Individuals", "Plan Sponsors", "Partners", and "About Us". The main content area features a large banner with the text "BRIGHT TOMORROWS BEGIN TODAY" and a sub-headline "Our look has changed. Our legacy hasn't. Find out more." Below this, there are three service tiles: "Financial Planning Calculator", "Rolling in Assets?", and "Age 50 or Older?". On the right side, the "ACCESS YOUR ACCOUNT" section is highlighted, showing a login form with "Participant" and "Plan Sponsor" tabs, "USERNAME" and "PIN" input fields, a "SIGN IN" button, and a "Forgot Username or PIN?" link. A "First Time Visiting?" section with a "Let's Get Started!" link is also present. At the bottom right, a small stock market chart shows the "1 Month Price - ^DJI" for DJIA, NASDAQ, and S&P 500.

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Access to KeyTalk and/or any website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons. The account owner is responsible for keeping the assigned PIN confidential. Please contact Great-West Financial immediately if you suspect any unauthorized use.

# Home Page - View Account



Retirement Services

Mobile Site | Home | Account Settings | A A A | Logout

Welcome

98986-01-State of Tennessee 457 Plan

Statements & Message Center

## AT-A-GLANCE

\$36,600.63

Daily Balance

▲ 2.9%

Rate of Return

N/A

Last Contribution Amount

## RETIREMENT INCOME

Your current account converted to income at retirement may be:

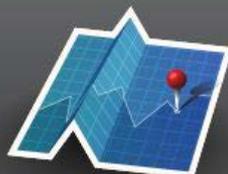
\$167 / month (after-tax)

ARE YOU RETIREMENT READY?  
Find out by opening your personal Retirement Income Control Panel



Click here to sign up now

My Account



Investments



Transactions



Account History



# Great-West Financial Retirement Education Services

- Great-West Financial has retirement education services available to help you at each phase of your retirement planning journey—enrollment, accumulation and distribution. These services include:
  - Asset roll-in service: Helps you consolidate any eligible savings from previous employer-sponsored plans into your current Program, giving you easy account management.<sup>1</sup>
  - Catch-up contribution and employer match awareness: Helps improve your chances of success in reaching your desired retirement income level.
  - Account distribution education: Helps you decide whether to keep your retirement plan savings in the Program or to initiate a rollover upon a distributable event.



<sup>1</sup> You are encouraged to discuss rolling money from one account to another with your financial advisor/planner, considering any potential fees and/or limitation of investment options.

Representatives of GWFS Equities, Inc. are not registered investment advisers and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

# Great-West Financial Retirement Plan Counselor Territory Coverage



- |   |   |
|---|---|
|  Alesse Pewitt, CFP |  TBH                                 |
|  TBH               |  Clarence "Buddy" McKinney          |
|  Joey Florio       |  Todd Wilson                        |
|  Glenda Stone      |  TBH                                |
|  Brian Huffman     |  * Nashville Office Counselor (TBH) |



# Questions?

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