

# Tennessee Consolidated Retirement System



Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2001  
Pension Trust Funds of the State of Tennessee

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for the Fiscal Year Ended June 30, 2001  
Pension Trust Funds of the State of Tennessee

Prepared by: State of Tennessee Treasury Department  
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Steve Adams, State Treasurer  
Ed Hennessee, TCRS Director

**This report is available in its entirety on the Internet at: [www.treasury.state.tn.us/tcrs/ann-report.htm](http://www.treasury.state.tn.us/tcrs/ann-report.htm).**

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## Introductory Section

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## GFOA CERTIFICATE OF ACHIEVEMENT

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Tennessee Consolidated Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Imelda Arave*  
President

*Jeffrey L. Esser*  
Executive Director

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**CHAIRMAN OF THE BOARD'S LETTER**

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STATE OF TENNESSEE

**TREASURY DEPARTMENT**  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243

December 10, 2001

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the fifteenth consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

**Administration:** To better serve our members, the TCRS web site (located at [www.treasury.state.tn.us/tcrs](http://www.treasury.state.tn.us/tcrs)) includes a benefit calculation module which allows members to input a limited amount of data to obtain a retirement benefit estimate. The benefit estimate reflects the regular plan amount and the survivorship options. Since its inception, the calculator returned more than 87,800 benefit projections. Further, TCRS forms and up-to-date information is available to assist our members.

**Investments:** The financial marketplace had a difficult year at June 30, 2001 with the S&P 500 down 14.8% and with the technology sector losing up to 50% of its value. TCRS had a relatively good year with a loss of only 1.6%, while the average public pension plan lost more than 4.0%. The well diversified, risk adverse portfolio of TCRS prevented any significant erosion of the fund. Despite the weak market this last year, TCRS has been able to earn double digit annualized returns for the last 10 years.

**Financial Soundness of the Plan:** Members of the retirement system should be assured that the benefits that have been promised will be paid. TCRS is considered one of the strongest funded pension plans in the nation. TCRS has received an AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's (S&P), the highest possible ratings issued by this nationally recognized rating agency.

The Legislature, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, to invest the system assets in a prudent manner without undue risk, to fund the system on an actuarially strong basis, and to provide the best possible services to the members in the system.

Sincerely,

A handwritten signature in cursive script that reads "Steve Adams".

Steve Adams, State Treasurer  
Chairman of the Board



## LETTER OF TRANSMITTAL

STATE OF TENNESSEE



TREASURY DEPARTMENT  
**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
 10TH FLOOR ANDREW JACKSON STATE OFFICE BUILDING  
 NASHVILLE, TENNESSEE 37243

December 10, 2001

Board of Trustees  
 Tennessee Consolidated Retirement System  
 Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) comprehensive annual financial report for the fiscal year ended June 30, 2001. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers, and employees of political subdivisions electing to participate in TCRS. As of June 30, 2001, active membership in TCRS totaled 194,725: 42,914 state employees; 18,115 higher education employees; 65,040 teachers; and 68,656 political subdivision employees. A total of 77,742 retirees and beneficiaries were receiving monthly retirement annuities. The state of Tennessee is responsible for the pension benefits of state employees and higher education employees, and funds a significant portion of the retirement liability for teachers through the Basic Education Program. Each of the 404 participating political subdivisions are responsible for the pension benefits of its employees. The TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

The TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets, and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability, and retirement benefits; and processing refund and prior service requests.

Five sections comprise the 2001 report: (1) an Introductory Section, which includes this letter of transmittal, an administrative overview of TCRS, and an operational outline of the system conveying the TCRS commitment to its long-term mission; (2) a Financial Section, containing the independent auditor's report, TCRS financial statements, and supplementary financial information; (3) an Investment Section, including a summary of investment results and various investment schedules; (4) an Actuarial Section, consisting of the report from the independent actuary, the actuarial balance sheet, a summary of actuarial assumptions, a plan summary, services offered to active and retired members, sample benefit calculations, and major legislative improvements; and (5) a Statistical Section reflecting membership, retiree, and financial statistical data.

#### ECONOMIC CONDITION AND OUTLOOK

Tight monetary policy, high energy prices, declining stock prices and excessive corporate debt yields throughout 2000 all worked to dramatically slow the economy. The economy, as measured by gross domestic product (GDP), declined roughly 1% in 2001. In response to the weakening economy, the Federal Reserve lowered the Federal Funds Rate 10 times throughout the year from 6.5% to 2% on November 6, 2001. By late summer, some economic statistics suggested the economy had entered a recession. The terrorist attack on September 11, 2001 pushed the economy over the brink. Consumer confidence and business investment plummeted, while layoffs and unemployment surged. The current situation is a deep, synchronized global recession that is likely to be drawn out over several quarters if not years.

*(continued)*

**LETTER OF TRANSMITTAL  
(CONTINUED)**

The outlook for the economy in 2002 and beyond is fraught with considerable uncertainty. Evidence was pointing to a worse business environment prior to September 11, and it is difficult to gauge the response of consumer and business activity following the attacks. The length and breadth of the U.S. war on terror and the potential for future terrorist attacks could have a dramatic effect on the domestic economy. The weakening economy has been met with significant monetary easing and substantial fiscal policy stimulus. However, there are concerns the economy may be less responsive to stimulus than it normally is. The reasons include large corporate and consumer sector debt, reduced wealth from a declining stock market, low household savings, global economic weakness, and the large U.S. dependence on foreign capital. The strong monetary and fiscal stimulus suggests a modest economic recovery in early 2002. However, the probability of resumed economic weakness thereafter is high. Corporate profits should continue to suffer, and the stock market will remain under pressure and will be susceptible to more downside risk.

**MAJOR INITIATIVE**

- ✧ TCRS initiated the conversion of the active member system to a dB2 database with completion expected in the spring of 2002. Using this new format will allow TCRS the capability to pursue its goals of having member information available 24/7 through the Internet and will extend the life of the active member system.

**FINANCIAL INFORMATION**

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records.

Funding for the benefits of TCRS is provided by three sources of revenue: member contributions, employer contributions, and investment income. The revenue sources for the years ended June 30, 2001 and June 30, 2000 follows:

	2001	2000	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member Contributions	\$ 180,586,490	\$ 169,830,647	\$ 10,755,843	6.3%
State Contributions	232,149,452	252,162,566	(20,013,114)	(7.9)%
Political Subdivision Contributions	103,680,787	82,748,899	20,931,888	25.3%
Net Investment Income Including Investment Expense	(327,511,701)	1,761,074,099	(2,088,585,800)	(118.6)%
<b>Total</b>	<b>\$ 188,905,028</b>	<b>\$ 2,265,816,211</b>	<b>\$ (2,076,911,183)</b>	<b>(91.7)%</b>

The expenses of TCRS are comprised of monthly annuity benefits, death benefits, refunds of the account balances of terminated employees and administrative expenses. The TCRS budget is a component of the Treasury Department budget which is reviewed and adopted through the state's annual appropriation process of the General Assembly. Expenses for the years ended June 30, 2001 and June 30, 2000 are:

	2001	2000	Increase (Decrease) Amount	Increase (Decrease) Percentage
Monthly Annuity Benefits	\$ 751,682,725	\$ 689,223,855	\$ 62,458,870	9.1%
Lump-Sum Death Benefits	4,701,538	3,510,183	1,191,355	33.9%
Refunds to Terminated Employees	28,517,803	28,562,230	(44,427)	(0.2)%
Admin. Cost Excluding Investment Exp.	3,477,600	4,352,808	(875,208)	(20.1)%
<b>Total</b>	<b>\$ 788,379,666</b>	<b>\$ 725,649,076</b>	<b>\$ 62,730,590</b>	<b>8.6%</b>

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial "advanced funding" method is used to provide for the accumulation of assets to fund the cost of retirement, disability, and death benefits provided by the system. The funding objective of TCRS is being met as the

*(continued)*

**LETTER OF TRANSMITTAL  
(CONTINUED)**

state and political subdivisions continue to make contributions to the plan at the rate established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm every two years to determine the funding requirements for the employers participating in TCRS. At July 1, 1999 the latest valuation date, the unfunded accrued liability for the entire system totaled \$293.2 million. Unfunded accrued liability of \$93.0 million associated with a closed group of state judges, attorneys general, and county officials is funded over a 16-year period, while the remainder is attributable to political subdivisions. There is no unfunded accrued liability attributable to state employees and teachers. The valuation performed as of July 1, 2001, will establish new employer rates effective July 1, 2002.

The funds of TCRS are invested by the Investment Division of the Treasury Department in low-risk, high-yield stocks and bonds. Investment policy is established by the Board of Trustees upon receiving and considering the advice of the Investment Advisory Council. These members are appointed by the Treasurer with the consent of the Board of Trustees.

The TCRS has a highly diversified portfolio and will continue to review new investment opportunities, seeking guidance from our investment consultant, the investment advisory committee, the Board of Trustees, and the Council on Pensions and Insurance. The portfolio rate of return for the twelve-month period ending June 30, 2001 was (1.57)% which on a relative basis was favorable considering the stock market, as measured by the S&P 500 index, was down nearly 15%. This translated into a loss of \$327 million from the unrealized change in the fair value of investments, interest, dividends, currency fluctuations, and net profits and losses on the sale of securities. The net assets held in trust for pension benefits is \$23.7 billion at June 30, 2001.

**OTHER INFORMATION**

By statute, the Comptroller of the Treasury serves as the independent auditor for the system. The Board of Trustees has appointed the actuarial and consulting firm of Bryan, Pendleton, Swats and McAllister to provide actuarial services for the system. The firm of Callan Associates, Inc. is employed as the investment consultant for TCRS.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. The Tennessee Consolidated Retirement System has received a Certificate of Achievement for the last fourteen years. We believe our current report continues to meet the Certificate of Achievement Program requirements and we are submitting it to GFOA for consideration again this year.

The TCRS is a recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, covers a two-year period recognizing the professional achievements of public employee retirement systems.

**ACKNOWLEDGMENTS**

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers, and other interested parties.



Ed W. Hennessee, TCRS Director



Thomas G. Milne, TCRS Chief Investment Officer

## ADMINISTRATION AND MISSION

### ADMINISTRATION

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of TCRS is one of the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members, and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit; and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department which support the operations of TCRS include Information Systems, Accounting, Management Services, Internal Audit and Personnel. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the state of Tennessee. Funding for the operation of TCRS is provided by two sources. The state of Tennessee is responsible for the operation cost associated with state employees and higher education employees; the state and local education agencies share the cost related to K-12 teachers; political subdivisions are responsible for the operation cost associated with their employees.

### MISSION

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission will be accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and Insurance, and the TCRS membership through the following objectives:

- ❖ *Exemplary Service* – To provide accurate, courteous and prompt service to members of TCRS.
- ❖ *Benefit Standards* – To provide retirement coverage through TCRS, social security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ *Funding Standards* – To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ *Staffing* – To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ *Research* – To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ *Management* – To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently, while providing the highest level of service.
- ❖ *Ethical Standards* – To maintain the highest ethical standards.
- ❖ *Investment Return* – To obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay benefits when due.

## THE COUNCIL ON PENSIONS AND INSURANCE

### THE COUNCIL ON PENSIONS AND INSURANCE

Created as a legislative oversight committee, the Council on Pensions and Insurance develops, recommends, and establishes pension and retirement standards and maintains a progressive state policy on retirement. Additionally, the Council reviews legislation affecting state provided insurance programs for both active and retired members of the Tennessee Consolidated Retirement System.

The Council periodically reviews Tennessee's retirement and state provided insurance provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems including those of other states and private industry and the federal government's social security program. All proposed legislation affecting Tennessee's retirement laws must be reviewed by the Council before the legislature may take action. The Council is authorized to prepare and propose

amendments which are then forwarded to the standing committees to which the bills are referred. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of the TCRS director also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Personnel, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer, and the Director of TCRS.

### VOTING MEMBERS – SENATORS



**Ben Atchley**  
*Council Chairman*



**William Clabough**



**Ward Crutchfield**



**John Ford**



**Douglas Henry**  
*Finance, Ways & Means Chairman*



**James Kyle**



**Robert Rochelle**  
*Finance, Ways & Means Secretary*



**John S. Wilder**  
*Lieutenant Governor*

*(continued)*

**THE COUNCIL ON PENSIONS AND INSURANCE  
(CONTINUED)**

**VOTING MEMBERS – REPRESENTATIVES**



**Ronnie Cole**  
*Finance, Ways & Means  
Secretary*



**Tommy Head**  
*Council Secretary  
Finance, Ways & Means  
Vice-Chairman*



**Joe Kent**



**Matt Kisber**  
*Finance, Ways &  
Means Chairman*



**Steve McDaniel**



**Jimmy Naifeh**  
*Speaker of the House*



**Shelby Rhinehart**  
*Council Vice-Chairman*

**NON-VOTING MEMBERS**



**Steve Adams**  
*State Treasurer*



**C. Warren Neel**  
*Commissioner of Finance  
& Administration*



**Ed Hennessee**  
*TCRS Director*



**John Morgan**  
*Comptroller of the Treasury*



**Dorothy Shell**  
*Commissioner of Personnel*

## THE BOARD OF TRUSTEES

### THE BOARD OF TRUSTEES

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (*T.C.A.*, Title 8, Chapters 34-37). The 18-member Board meets quarterly and is subject to the call of the chairman for special meetings. Nine voting members constitute a quorum, and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, eight representatives of the active TCRS membership, and one representative for retirees. Ex-officio members include the chairman and vice-chairman of the Legislative Council on Pensions and Insurance as nonvoting members, the Commissioner of Personnel, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State, and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chairman of the Board, and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state, two state employees from departments other than those represented by ex-officio members, and three representatives of local governments. The three teachers are elected for three-year terms by the Representative Assembly of the Tennessee Education Association; state employees elect two representatives who also serve three-year terms.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association.

All employee representatives must be vested members of TCRS. The retiree representative is appointed by the Governor.

### ELECTED MEMBERS



**Rebecca Collins**  
West Tennessee Regional  
Health Office  
Term Expires: June 30, 2004



**Rebecca Reel**  
East Tennessee Teacher  
Term Expires: June 30, 2004



**Michael Fort**  
Department of Employment  
Security  
Term Expires: June 30, 2004



**Philip Spence**  
West Tennessee Teacher  
Term Expires: June 30, 2002



**Brian Randy Wright**  
Middle Tennessee Teacher  
Term Expires: June 30, 2003

(continued)

## THE BOARD OF TRUSTEES (CONTINUED)

### APPOINTED MEMBERS



**James Crumley**  
*Tenn. Municipal League*  
*Term Expires: June 30, 2003*



**Bill Kemp**  
*Sumner County Clerk*  
*Term Expires: June 30, 2003*



**Betty Long**  
*Retired Member*  
*Term Expires: June 30, 2002*



**Bob Wormsley**  
*Tenn. County Services Assoc.*  
*Term Expires: June 30, 2003*

### EX-OFFICIO MEMBERS



**Steve Adams**  
*State Treasurer*



**Ben Atchley, Senator**  
*Council on Pensions &  
Insurance Chairman*



**Cornelia Clark**  
*Administrative Director  
of the Courts*



**Riley Darnell**  
*Secretary of State*



**C. Warren Neel**  
*Commissioner of Finance  
& Administration*



**Ed Hennessee**  
*TCRS Director*



**John Morgan**  
*Comptroller of the Treasury*



**Shelby Rhinehart**  
*Council Vice-Chairman*



**Dorothy Shell**  
*Commissioner of Personnel*



## PROFESSIONAL CONSULTANTS

### PROFESSIONAL CONSULTANTS

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on page 48.

### INVESTMENT ADVISORY COUNCIL

The Investment Advisory Council (IAC) was established to assist both the Board of Trustees and the TCRS investment staff. The investment professionals on the IAC serve five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Carl N. Weibel, CFA  
Reliant Investment Management, LLC  
Memphis, Tennessee

Frederick S. Crown, CFA  
AmSouth Bank  
Nashville, Tennessee

David Fussel, CFA  
Provident Companies, Inc.  
Chattanooga, Tennessee

C. Stephen Temple, CPA  
Investment Limited Partner  
Brentwood, Tennessee

### INTERNATIONAL EQUITY INVESTMENT MANAGERS

The international investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Brenda Walker  
J.P. Morgan Investment Management  
522 Fifth Avenue  
New York, New York 10036

Paul Mackey  
Putnam Investments  
One Post Office Square  
Boston, Massachusetts 02109

George Dole  
S.G. Pacific Asset Management  
30 Wall St. 8<sup>th</sup> Floor  
New York, New York 10005

Judith Timoll  
Newgate Management Associates  
80 Field Point Road  
Greenwich, Connecticut 06830

Troy Bremness  
Marathon Asset Management  
5 Upper St. Martin's Lane  
London, England

Marilyn Harrison  
Walter Scott Partners Ltd.  
Millburn Tower  
Gogar, Edinburgh, Scotland

Gene Waldron  
Capital International  
3000 K Street N.W.  
Suite 230  
Washington, D.C. 20007

### GENERAL INVESTMENT CONSULTANT

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Charles Mathis  
Callan Associates, Inc.  
Six Concourse Parkway  
Suite 2900  
Atlanta, Georgia 30328-6111

### REAL ESTATE INVESTMENT CONSULTANT

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Frank L. Blaschka  
The Townsend Group  
M.K. Ferguson Plaza  
1500 West Third Street  
Suite 410  
Cleveland, Ohio 44113

*(continued)*

## PROFESSIONAL CONSULTANTS (CONTINUED)

### REAL ESTATE INVESTMENT ADVISORS

The real estate investment advisors identify potential co-investors as well as prospective real estate transactions.

Stephen J. Furnary  
Clarion Partners  
335 Madison Avenue  
New York, New York 10017

Charles H. Wurtzebach  
Henderson Global Investors North America  
737 N. Michigan Avenue  
Chicago, Illinois 60611

Laler DeCosta  
Lend Lease Real Estate Investments  
3424 Peachtree Road  
Atlanta, Georgia 30326

### THE MEDICAL BOARD

The three physicians serving on the Medical Board evaluate applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, the panel reviews medical data submitted by disabled retirees who are subject to periodic evaluation. The Medical Board consists of the following:

Suzanne Fletcher, M.D.  
Brentwood, Tennessee

Marshall L. Koonce, M.D.  
Memphis, Tennessee

Sarada N. Misra, M.D.  
Knoxville, Tennessee

### CONSULTING ACTUARY

An independent consulting actuarial firm performs an actuarial valuation every two years to determine the funding status of the system and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Anthony S. Johnston  
Bryan, Pendleton, Swats & McAllister, LLC  
5301 Virginia Way  
Suite 400  
Brentwood, TN 37027

### OTHER PROFESSIONAL SERVICES

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These government officers are as follows:

Paul G. Summers  
Attorney General/Reporter  
Nashville, Tennessee

John G. Morgan  
Comptroller of the Treasury  
Nashville, Tennessee

## TREASURY DEPARTMENT EXECUTIVE STAFF

### TREASURER'S OFFICE

Treasurer .....	Steve Adams, CPA
Executive Assistant.....	Dale Sims
Executive Assistant.....	Janice H. Cunningham
Assistant to the Treasurer .....	Steven Curry, CPA, CEBS, CCM

### TCRS ADMINISTRATION

Director of TCRS .....	Ed Hennessee, CFP
Assistant Director .....	Jill Bachus, CPA
Manager of Counseling Services.....	Donna Finley
Manager of Member Services .....	Velva Booker
Manager of Financial Services .....	Connie Gibson, CPA
Supervisor of Benefit Services .....	Charlotte Fuller
Supervisor of Prior Service.....	Robert Smith
Supervisor of Counseling Services .....	Sandra Sewell
Supervisor of Membership and Field Services .....	Roger Amos
Supervisor of Retired Payroll .....	Bernard Gentry
Supervisor of Disbursements.....	Fred Marshall, CPA

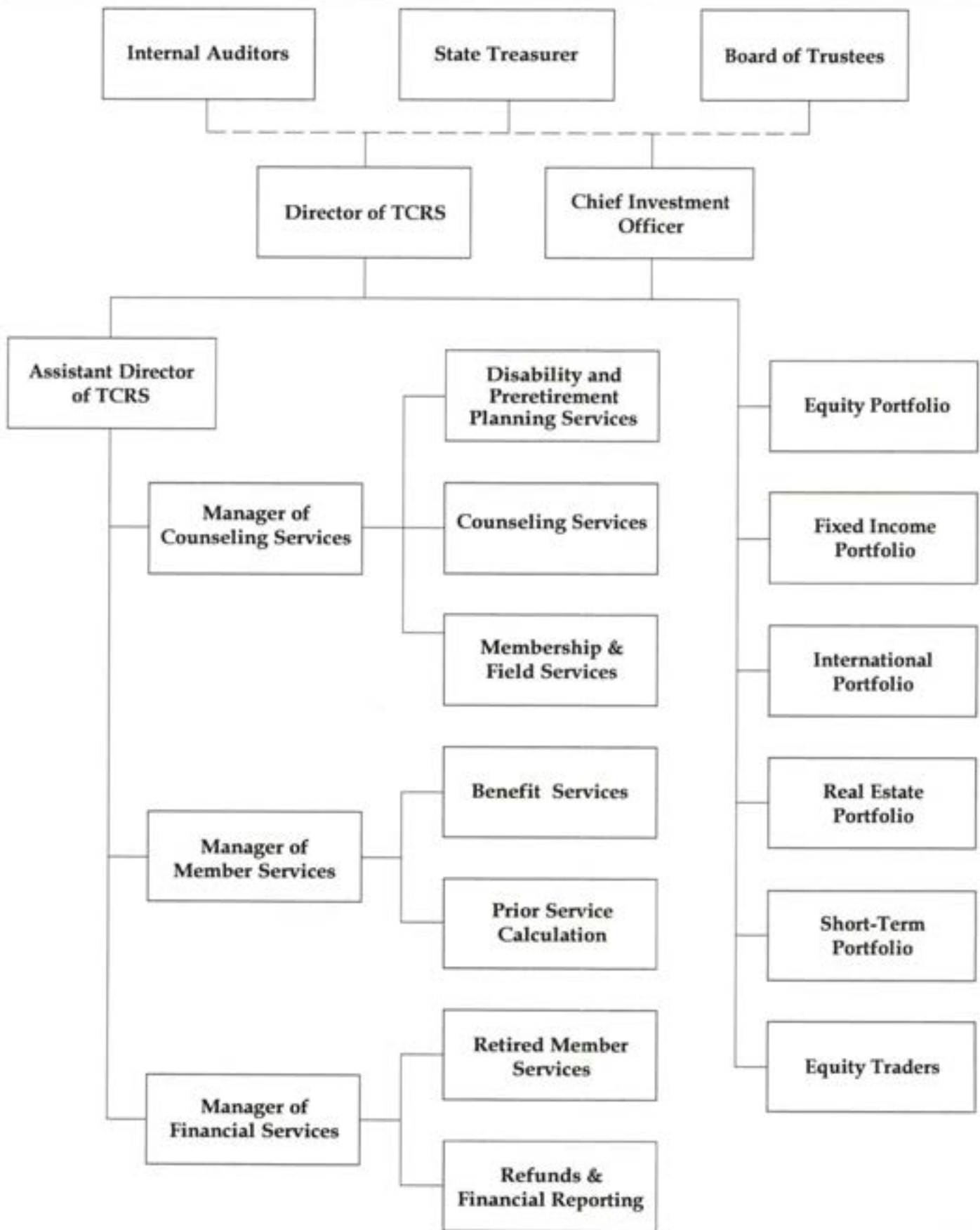
### TCRS INVESTMENT

Chief Investment Officer .....	Thomas Milne, CFA
Director of Equity .....	Mike Keeler, CFA
Senior Equity Portfolio Manager .....	Jeremy Conlin, CLU, ChFC, CFA
Senior Equity Portfolio Manager .....	Jim Robinson, CFA
Senior Equity Portfolio Manager .....	Roy Wellington, CFA
Associate Portfolio Manager.....	Rachel Roberts, CPA, CFA
Equity Analyst.....	William Redmond
Equity Analyst.....	Laverne Hill
Equity Analyst.....	Mike Moulder, CGFM
Equity Analyst.....	David Head
Director of Fixed Income .....	Jeff Bronnenberg, CPA, CFA
Senior Fixed Income Portfolio Manager .....	Leighton Shantz, CFA
Senior Fixed Income Portfolio Manager .....	Terry Davis, CFA
Credit Analyst .....	Chris Daniel
Director of Real Estate .....	Peter Katseff
Senior Short-Term Portfolio Manager .....	Randy Graves, CPA
Short-Term Portfolio Manager .....	Tim McClure, CCM
Equity Trader.....	Dianne Willocks
Equity Trader.....	Jenny King
Operations Manager.....	Sharon Harris

### SUPPORTING DIVISIONS

Director of Information Systems .....	Newton Molloy III, CDP
Director of Accounting .....	Rick DuBray, CPA
Accounting Manager.....	Kim Morrow, CPA
Retirement Accounting Supervisor .....	Tom Jordan
Investment Accounting Supervisor .....	Karen Baumgartel
Manager of Treasury Operations .....	Gaylon Bandy
Human Resource Director .....	Ann Taylor-Tharpe
Director of Internal Audit .....	Jamie Wayman, CPA
Director of Research and Publications .....	Deana Reed Hannah, CRC, CRA
Publications Editor/Web Designer .....	Janice Reilly
Publications Officer/Web Publisher .....	Teresa Gibson
General Counsel.....	Mary Roberts-Krause, JD
Counsel .....	Vernon G. Bush, JD
Manager of Administrative Services .....	Brian Derrick

ORGANIZATION CHART





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## Financial Section

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## INDEPENDENT AUDITOR'S REPORT

## STATE OF TENNESSEE



COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2001, and June 30, 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Consolidated Retirement System as of June 30, 2001, and June 30, 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A.6. to the financial statements, the State of Tennessee changed its definition of cash and cash equivalents.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The investment, actuarial, and statistical sections, listed in the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the system's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**COMPARATIVE STATEMENTS OF PLAN NET ASSETS**  
**AS OF JUNE 30, 2001 AND JUNE 30, 2000**

*Expressed in Thousands*

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEP)	Political Subdivisions Pension Plan (PSPP)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 676,173	\$ 103,613
Receivables		
Member contributions receivable	15,055	3,809
Employer contributions receivable	17,681	8,447
Accrued interest receivable	160,809	24,641
Accrued dividends receivable	3,840	588
Other investment receivable	101	15
Investments sold	233,929	35,846
Total receivables	431,415	73,346
Investments, at fair value		
Short-term securities	450,688	69,061
Government bonds	7,795,671	1,194,563
Corporate bonds	3,100,092	475,040
Corporate stocks	8,449,363	1,294,730
Real estate	251,798	38,584
Invested securities lending collateral	98,580	15,106
Total investments	20,146,192	3,087,084
<b>TOTAL ASSETS</b>	<b>21,253,780</b>	<b>3,264,043</b>
<b>LIABILITIES</b>		
Accounts payable		
Death benefits and refunds payable	644	359
Other	11	0
Investments purchased	574,728	88,068
Other investment payables	1,840	282
Securities lending collateral	98,580	15,106
<b>TOTAL LIABILITIES</b>	<b>675,803</b>	<b>103,815</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>		
BENEFITS (Schedules of funding progress for the plans are presented on page 32)	\$ 20,577,977	\$ 3,160,228

*See accompanying Notes to the Financial Statements*

*(continued)*

(CONTINUED)

June 30, 2001 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2000 Total
\$ 779,786	\$ 539,755	\$ 80,680	\$ 620,435
18,864	13,565	3,361	16,926
26,128	19,970	6,346	26,316
185,450	164,199	24,632	188,831
4,428	8,710	1,307	10,017
116	0	0	0
269,775	16,453	2,468	18,921
504,761	222,897	38,114	261,011
519,749	294,164	44,129	338,293
8,990,234	8,213,549	1,232,168	9,445,717
3,575,132	3,119,945	468,044	3,587,989
9,744,093	8,682,844	1,302,570	9,985,414
290,382	133,285	19,995	153,280
113,686	0	0	0
23,233,276	20,443,787	3,066,906	23,510,693
24,517,823	21,206,439	3,185,700	24,392,139
1,003	1,385	583	1,968
11	13	1	14
662,796	41,966	6,296	48,262
2,122	3,666	550	4,216
113,686	0	0	0
779,618	47,030	7,430	54,460
\$ 23,738,205	\$ 21,159,409	\$ 3,178,270	\$ 24,337,679



**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000**

*Expressed in Thousands*

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)
<b>ADDITIONS</b>		
Contributions		
Member contributions	\$ 135,154	\$ 45,433
Employer contributions	232,149	103,681
Total contributions	<u>367,303</u>	<u>149,114</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	(1,198,688)	(184,059)
Interest	806,941	123,906
Dividends	101,496	15,585
Real estate income, net of operating expenses	16,525	2,538
Total investment income (loss)	<u>(273,726)</u>	<u>(42,030)</u>
Less: Investment expense	10,738	1,637
Net income (loss) from investing activities	<u>(284,464)</u>	<u>(43,667)</u>
Securities lending activities		
Securities lending income	2,078	319
Less: securities lending expense	1,540	237
Net income from securities lending activities	<u>538</u>	<u>82</u>
Net investment income (loss)	<u>(283,926)</u>	<u>(43,585)</u>
Transfer of assets from PSPP	12,604	0
<b>TOTAL ADDITIONS</b>	<u>95,981</u>	<u>105,529</u>
<b>DEDUCTIONS</b>		
Annuity benefits		
Retirement benefits	491,204	75,517
Survivor benefits	31,224	4,800
Disability benefits	16,094	2,474
Cost of living	116,892	13,477
Death benefits	3,720	982
Refunds	16,484	12,034
Administrative expense	1,795	1,683
Transfer of assets to SETHEPP	0	12,604
<b>TOTAL DEDUCTIONS</b>	<u>677,413</u>	<u>123,571</u>
<b>NET INCREASE (DECREASE)</b>	<b>(581,432)</b>	<b>(18,042)</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
BEGINNING OF YEAR	21,159,409	3,178,270
END OF YEAR	<u>\$ 20,577,977</u>	<u>\$ 3,160,228</u>

*See accompanying Notes to the Financial Statements*

*(continued)*

(CONTINUED)

June 30, 2001 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2000 Total
\$ 180,587	\$ 129,925	\$ 39,906	\$ 169,831
335,830	252,162	82,749	334,911
<u>516,417</u>	<u>382,087</u>	<u>122,655</u>	<u>504,742</u>
(1,382,747)	663,408	98,645	762,053
930,847	768,033	114,203	882,236
117,081	108,596	16,148	124,744
19,063	3,567	530	4,097
<u>(315,756)</u>	<u>1,543,604</u>	<u>229,526</u>	<u>1,773,130</u>
12,375	10,491	1,565	12,056
<u>(328,131)</u>	<u>1,533,113</u>	<u>227,961</u>	<u>1,761,074</u>
2,397	0	0	0
1,777	0	0	0
620	0	0	0
<u>(327,511)</u>	<u>1,533,113</u>	<u>227,961</u>	<u>1,761,074</u>
12,604	0	0	0
<u>201,510</u>	<u>1,915,200</u>	<u>350,616</u>	<u>2,265,816</u>
566,721	450,919	69,164	520,083
36,024	28,839	4,423	33,262
18,568	15,089	2,315	17,404
130,369	106,542	11,933	118,475
4,702	2,658	852	3,510
28,518	15,474	13,088	28,562
3,478	2,363	1,990	4,353
12,604	0	0	0
<u>800,984</u>	<u>621,884</u>	<u>103,765</u>	<u>725,649</u>
(599,474)	1,293,316	246,851	1,540,167
24,337,679	19,866,093	2,931,419	22,797,512
<u>\$ 23,738,205</u>	<u>\$ 21,159,409</u>	<u>\$ 3,178,270</u>	<u>\$ 24,337,679</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM****NOTES TO THE FINANCIAL STATEMENTS****JUNE 30, 2001 AND JUNE 30, 2000**

The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****1. Reporting Entity**

The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The TCRS follows all applicable GASB pronouncements, as well as applicable private sector pronouncements issued on or before November 30, 1989. The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period in which the contributions are due. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**3. Cash and Cash Equivalents**

Cash and cash equivalents, by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities is invested in the State Pooled Investment Fund administered by the State Treasurer. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001 and June 30, 2000. The classification of cash and cash equivalents also includes cash held in a custody account under a contractual arrangement for master custody services. Cash balances with the custodial agent are not classified into the credit risk categories established by Statement Number 3 of the Governmental Accounting Standards Board as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

**4. Method Used to Value Investments**

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments that do not have an established market are reported at cost plus accrued interest which approximates fair value. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

**5. Receivables**

Receivables primarily consist of interest which is recorded when earned. The receivables for contributions as of June 30, 2001 consist of member contributions of \$15.1 million and \$3.8 million due to SETHEEPP and PSPP respectively, and employer contributions of \$17.7 million and \$8.4 million due to SETHEEPP and PSPP respectively. The receivables for contributions as of June 30, 2000 consist of member contributions of \$13.6 million and \$3.3 million due to SETHEEPP and PSPP respectively, and employer contributions of \$20.0 million and \$6.3 million due to SETHEEPP and PSPP respectively.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001 AND JUNE 30, 2000 (CONTINUED)**

**6. Accounting Change**

During Fiscal Year 2001, the state changed its definition of cash and cash equivalents for certain short-term securities which were previously classified as investments regardless of the period from acquisition to maturity. These securities are now included in cash and cash equivalents on the Statement of Plan Net Assets if the maturity date is within three months of the acquisition date. Due to this change, short-term investments of \$619.2 million as previously reported on the June 30, 2000 Statement of Plan Net Assets have been included in cash and cash equivalents for comparative purposes.

**7. Reclassifications**

Certain amounts previously presented in the June 30, 2000 financial statements have been reclassified for comparative purposes. Investment expenses of \$3.1 million have been reclassified to net appreciation in fair value of investments. In addition, \$14.1 million previously reported as retired payroll (checks) payable and \$931,000 previously reported for warrants payable have been reclassified as reductions to cash and cash equivalents. The issuance of warrants and checks, rather than their redemption through the banking system is deemed to effectively reduce cash.

**B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

At July 1, 1999, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	52,177	19,469
Terminated members entitled to but not receiving benefits	12,948	2,635
Current active members	<u>123,540</u>	<u>64,540</u>
Total	188,665	86,644
Number of participating employers	140	394

**State Employees, Teachers and Higher Education Employees Pension Plan***Plan Description*

SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1% will be granted if the CPI increases between one-half percent and one percent; (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

*Superseded Systems and Certain Employment Classifications*

Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

*Contributions and Reserves*

Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the State of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

(continued)

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001 AND JUNE 30, 2000 (CONTINUED)

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2001, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$2,640.7 million and \$17,937.3 million, respectively. At June 30, 2000, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$2,521.5 million and \$18,637.9 million, respectively.

**Political Subdivisions Pension Plan***Plan Description*

PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the State of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

*Contributions and Reserves* - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2001, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$592.3 million and \$2,567.9 million, respectively. At June 30, 2000, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$541.8 million and \$2,636.5 million, respectively.

**C. PLAN TRANSFERS**

During Fiscal Year 2001, assets in the amount of \$12.6 million relating to the Regional Library System were transferred from the PSPP to the SETHEEPP. Under *Tennessee Code Annotated*, Section 10, Chapter 5, Part 2, the employees of the Regional Library System, whose retirement assets were included in the PSPP, became employees of the Department of State, which is under the SETHEEPP plan.

**D. INVESTMENTS**

State statute authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees and further subject to the following restrictions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75%) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75%) of the total funds of the retirement system. Private Placements are limited to 15% of the total fixed income portfolio.

*(continued)*

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001 AND JUNE 30, 2000 (CONTINUED)**

- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15%) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries.
- d. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30%) of total assets.
- e. The total sum invested in real estate shall not exceed five percent (5%) of the total of the funds of the retirement system.

The TCRS investment securities are categorized on the chart that follows according to the level of custodial credit risk associated with the custodial arrangements. Category 1 includes investments that are insured or registered, or for which the securities are held by the TCRS or its agent in the name of the TCRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the TCRS. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by the counterparty's trust department or agent, but not in the name of the TCRS.

<i>Expressed in Thousands</i>	<u>Fair Value June 30, 2001</u>	<u>Fair Value June 30, 2000</u>
Investments - Category 1		
Cash equivalents and short-term securities		
Commercial paper	\$ 751,889	\$ 464,308
Corporate notes	15,320	58,102
Government bonds	533,584	435,128
Long-term investments		
Government bonds	8,872,472	9,434,325
Corporate bonds	3,575,132	3,567,843
Corporate stocks	9,102,052	9,956,951
Total investments - Category 1	<u>22,850,449</u>	<u>23,916,657</u>
Investments - Category 2	<u>0</u>	<u>0</u>
Investments - Category 3		
Short-term securities lending collateral investments held by custodian bank	113,686	0
Margin deposit on futures contracts Government bonds	0	11,392
Total investments - Category 3	<u>113,686</u>	<u>11,392</u>
Investments - Not Categorized		
Investments held by broker-dealers under securities on loan contracts for cash collateral		
Corporate stocks	97,563	0
Real estate	290,382	153,280
Unsettled investment acquisitions		
Government bonds	117,762	0
Corporate bonds	0	20,146
Corporate stocks	544,478	28,463
Total investments - Not Categorized	<u>1,050,185</u>	<u>201,889</u>
Total investments and invested securities lending collateral	<u>24,014,320</u>	<u>24,129,938</u>
Less: Short-term securities included in cash equivalents on the Statements of Plan Net Assets	<u>(781,044)</u>	<u>(619,245)</u>
Total investments as shown on the Statements of Plan Net Assets	<u>\$ 23,233,276</u>	<u>\$ 23,510,693</u>

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001 AND JUNE 30, 2000 (CONTINUED)**

As of June 30, 2001 and June 30, 2000, the TCRS had no concentrations of investments, other than those issued or guaranteed by the U.S. government, in any one organization that represents five percent or more of plan net assets.

*Securities Lending*

The TCRS is authorized by its investment policy, as adopted by the Board of Trustees, to enter into collateralized securities lending agreements whereby the TCRS loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the TCRS' assets. The TCRS' custodian bank manages the lending program and maintains the collateral on behalf of the TCRS. Under the securities lending agreement, only cash may be accepted as collateral for securities on loan. Cash received as collateral may be reinvested by the lending agent in accordance with the investment policy, as further restricted under the TCRS securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

The loaned securities are initially collateralized at 102 percent of their fair value for domestic securities and 105 percent for international. Collateral is marked-to-market daily and additional collateral is pledged by the borrower if the fair value of the collateral subsequently falls below 100 percent for domestic securities and 105 percent for international. Although there is no specific policy for matching the maturities of collateral investments and the securities loans, the total average maturity on the cash collateral investment portfolio cannot exceed fifteen days under the securities lending agreement and the securities on loan can be terminated on demand by either the TCRS or the borrower. At June 30, 2001, the weighted average maturity of invested collateral was 8.9 days. In the event of a default by a borrower, the securities lending agreement includes provisions for the securities lending agent to purchase replacement securities from the sales proceeds of collateral, as well as credit the TCRS with the value of all distributions on the loaned securities. If the collateral proceeds are insufficient to cover the amounts due to the TCRS, the lending agent is responsible for crediting the TCRS for the remaining amounts owed by the borrower. As of June 30, 2001, the fair value of securities on loan to brokers was \$97,563,290 and the fair value of collateral pledged for the securities on loan was \$113,685,867. At June 30, 2001, the TCRS had no credit risk exposure to borrowers as the amounts owed to borrowers exceeded the amounts the borrowers owed the TCRS. For the year ended June 30, 2000, the TCRS had no securities on loan.

*Financial Instruments with Off-Balance Sheet Risk*

The TCRS is a party to financial instruments with off-balance sheet risk used in the normal course of business to generate earnings and reduce its own exposure to fluctuations in market conditions. The TCRS is authorized by statute to engage in forward contracts to exchange different currencies at a specified future date and rate and in domestic stock index futures contracts. These contracts involve elements of custodial credit, market and legal risk in excess of amounts recognized in the Statements of Plan Net Assets as of June 30, 2001 and June 30, 2000. The TCRS may purchase or sell domestic stock index futures contracts for the purposes of making asset allocation changes and improving liquidity. Futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The contractual or notional amounts express the extent of the TCRS' involvement in these instruments and do not represent exposure to credit loss. The credit risk on forward and futures contracts is controlled through limits and monitoring procedures. Market risk, the risk that changing market conditions may make a financial instrument less valuable, is controlled through limitations on the use of such instruments. Legal risk is controlled through the use of only authorized instruments and brokers. The allowable currencies for hedging purposes are limited by policy of the Board of Trustees to the currencies of those countries otherwise authorized for investment.

At June 30, 2001, there were forward exchange contracts outstanding at a total net notional amount of \$17,113,000 and a fair value of \$17,392,319. At June 30, 2000, there were forward exchange contracts outstanding at a total net notional amount of \$118,673,979 and a fair value of \$89,933,176.

At June 30, 2001, the TCRS was not under any futures contracts. At June 30, 2000, the notional amount of futures contracts was \$185,518,750 at a fair value of \$183,512,500. The changes in fair value of outstanding futures contracts are settled daily.

The TCRS is also authorized by investment policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 2001 and June 30, 2000.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001 AND JUNE 30, 2000 (CONTINUED)**

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*Asset-Backed Securities*

The TCRS invests in collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The CMOs held were issued by quasi-U.S. governmental agencies. There were no CMOs held at June 30, 2001. The fair value of CMOs held at June 30, 2000 was \$50,366,466. The TCRS also invests in various asset-backed securities, representing ownership interests in trusts consisting of credit card or auto loan receivables. These securities are issued by organizations with AAA or AA credit ratings. TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets.

During Fiscal Year 2001, the TCRS purchased commercial paper issued by Pacific Gas and Electric Company (PG&E) which was due to mature at \$25,994,000. PG&E defaulted on the maturity payment and filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of the date of issuance of the TCRS financial statements, the reorganization plan was still pending. However, it is the TCRS's opinion that any loss of principal resulting from the bankruptcy court's decision is more than remote but less than likely.

**E. COMMITMENTS**

**Standby Commercial Paper Purchase Agreement**

The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 7.5 basis points on the \$250 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, and 12 basis points during times when either Moody's or Standard and Poor's has assigned ratings other than Aaa and AAA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.



**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

UNAUDITED

**SCHEDULES OF FUNDING PROGRESS***Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	7/1/99	\$ 18,327,133	\$ 18,420,156	\$ 93,023	99.49%	\$ 4,132,409	2.25%
	6/30/97	15,671,678	15,782,850	111,172	99.30%	3,810,231	2.92%
PSPP	7/1/99	2,690,781	2,890,942	200,161	93.08%	1,341,363	14.92%
	6/30/97	2,226,891	2,287,904	61,013	97.33%	1,130,585	5.40%

The SETHEEPP is comprised of a number of employee groups. However, the unfunded liability of \$93.0 million at July 1, 1999 is attributable to two employee groups: 1) County Officials employed prior to July 1, 1972 and 2) State Judges and Attorneys General employed prior to July 1, 1972. The PSPP represents 394 participating entities at July 1, 1999. The unfunded liability of \$200.1 million is attributable to 258 of the 394 entities.

*See accompanying Notes to Required Supplementary Information*

**SCHEDULES OF EMPLOYER CONTRIBUTIONS***Expressed in Thousands*

Year Ended June 30	SETHEEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2001	\$ 232,149	100%	\$ 103,681	100%
2000	252,162	100%	82,749	100%
1999	244,453	100%	69,230	100%
1998	166,756	100%		

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2001. The June 30, 1995 valuation determined the employer contribution rate for the year ended June 30, 1997 for the SETHEEPP and the PSPP, and for the year ended June 30, 1998 for the PSPP. Therefore, the Schedule of Employer Contributions, in accordance with the parameters of GASB Statement Number 25, is not available for the year ended June 30, 1997 for either plan or for the year ended June 30, 1998 for the PSPP.

*See accompanying Notes to Required Supplementary Information*

## UNAUDITED

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**AS OF JUNE 30, 2001 AND JUNE 30, 2000**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the July 1, 1999 actuarial valuation follows.

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 1999	July 1, 1999
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	16 years closed period	(1) closed period
Asset valuation method	5-year Moving Market Average	5-year Moving Market Average
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.5%	5.5%
Includes inflation at	(2)	(2)
Cost-of-living adjustments	3%	3%
Increase in Social Security wage base	4.5%	4.5%

- (1) The length of the amortization period varies by political subdivision. For political subdivisions entering the plan on or after July 1, 1994, the amortization period does not exceed 20 years.
- (2) No explicit assumption is made regarding the portion attributable to the effect of inflation on salaries.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	SETHEPP	PSPP	Total
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 851,315	\$ 798,232	\$ 1,649,547
Employee benefits	193,598	181,527	375,125
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,044,913</u>	<u>979,759</u>	<u>2,024,672</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	92,439	86,674	179,113
Actuarial services	58,942	55,267	114,209
Data processing	247,151	231,740	478,891
Information systems	272,800	255,790	528,590
Management services	145,419	136,352	281,771
Medical review	12,924	12,120	25,044
Administrative, Internal Audit, Legal, Personnel	226,730	212,593	439,323
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>1,056,405</u>	<u>990,536</u>	<u>2,046,941</u>
<b>COMMUNICATION</b>			
Travel	11,848	11,110	22,958
Telephone	15,985	14,989	30,974
Printing	42,325	39,685	82,010
Postage	108,189	101,443	209,632
<b>TOTAL COMMUNICATION</b>	<u>178,347</u>	<u>167,227</u>	<u>345,574</u>
<b>MISCELLANEOUS</b>			
Office space	73,664	69,071	142,735
Refund of prior year office space overbilling	(590,631)	(553,803)	(1,144,434)
Supplies and maintenance	20,524	19,245	39,769
Equipment	5,481	5,139	10,620
Other services and charges	6,050	5,673	11,723
<b>TOTAL MISCELLANEOUS</b>	<u>(484,912)</u>	<u>(454,675)</u>	<u>(939,587)</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$ 1,794,753</u>	<u>\$ 1,682,847</u>	<u>\$ 3,477,600</u>

With 194,725 active members and 77,742 retired members, the operating cost per member was \$12.76 for the year ended June 30, 2001.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2000**

	SETHEEPP	PSPP	Total
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 804,232	\$ 677,466	\$1,481,698
Employee benefits	183,825	154,850	338,675
<b>TOTAL PERSONNEL SERVICES</b>	<u>988,057</u>	<u>832,316</u>	<u>1,820,373</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	143,382	120,782	264,164
Actuarial services	170,402	143,542	313,944
Data processing	136,199	114,731	250,930
Information systems	224,708	189,289	413,997
Management services	151,243	127,404	278,647
Medical review	13,452	11,332	24,784
Administrative, Internal Audit, Legal, Personnel	183,627	154,683	338,310
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>1,023,013</u>	<u>861,763</u>	<u>1,884,776</u>
<b>COMMUNICATION</b>			
Travel	10,699	9,013	19,712
Telephone	13,559	11,422	24,981
Printing	46,904	39,510	86,414
Postage	121,679	102,499	224,178
<b>TOTAL COMMUNICATION</b>	<u>192,841</u>	<u>162,444</u>	<u>355,285</u>
<b>MISCELLANEOUS</b>			
Office space	121,586	102,421	224,007
Refund of prior year office space overbilling	0	0	0
Supplies and maintenance	26,845	22,613	49,458
Equipment	0	0	0
Other services and charges	10,263	8,646	18,909
<b>TOTAL MISCELLANEOUS</b>	<u>158,694</u>	<u>133,680</u>	<u>292,374</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$2,362,605</u>	<u>\$1,990,203</u>	<u>\$4,352,808</u>

With 190,344 active members and 74,790 retired members, the operating cost per member was \$16.42 for the year ended June 30, 2000.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF INVESTMENT EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	SETHEPP	PSPP	Total
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 1,068,040	\$ 162,810	\$ 1,230,850
Employee benefits	213,307	32,516	245,823
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,281,347</u>	<u>195,326</u>	<u>1,476,673</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	132,435	20,188	152,623
Legal services	94,170	14,355	108,525
Data processing	100,036	15,249	115,285
Information systems	107,768	16,428	124,196
Management services	11,537	1,759	13,296
External investment manager fees	6,302,539	960,747	7,263,286
Investment consulting fees	206,432	31,468	237,900
Investment custodian fees	851,760	129,841	981,601
Real estate manager fees	1,263,004	192,531	1,455,535
Administrative, Internal Audit, Personnel	218,938	33,374	252,312
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>9,288,619</u>	<u>1,415,940</u>	<u>10,704,559</u>
<b>COMMUNICATION</b>			
Travel	22,222	3,387	25,609
Telephone	13,614	2,075	15,689
Printing	2,599	396	2,995
Postage	6,189	943	7,132
<b>TOTAL COMMUNICATION</b>	<u>44,624</u>	<u>6,801</u>	<u>51,425</u>
<b>MISCELLANEOUS</b>			
Office space	59,564	9,080	68,644
Supplies and maintenance	2,051	313	2,364
Equipment	0	0	0
Other services and charges	61,988	9,449	71,437
<b>TOTAL MISCELLANEOUS</b>	<u>123,603</u>	<u>18,842</u>	<u>142,445</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$10,738,193</u>	<u>\$ 1,636,909</u>	<u>\$12,375,102</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF INVESTMENT EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2000**

	SETHEPP	PSPP	Total
<b>PERSONNEL SERVICES</b>			
Salaries and wages	\$ 964,559	\$ 143,927	\$ 1,108,486
Employee benefits	186,971	27,899	214,870
<b>TOTAL PERSONNEL SERVICES</b>	<u>1,151,530</u>	<u>171,826</u>	<u>1,323,356</u>
<b>PROFESSIONAL SERVICES</b>			
Accounting	68,242	10,183	78,425
Legal services	85,898	12,817	98,715
Data processing	78,645	11,735	90,380
Information systems	154,390	23,037	177,427
Management services	45,384	6,772	52,156
External investment manager fees	6,844,664	1,021,329	7,865,993
Investment consulting fees	225,371	33,629	259,000
Investment custodian fees	849,637	126,779	976,416
Real estate manager fees	309,254	46,146	355,400
Administrative, Internal Audit, Personnel	161,708	24,129	185,837
<b>TOTAL PROFESSIONAL SERVICES</b>	<u>8,823,193</u>	<u>1,316,556</u>	<u>10,139,749</u>
<b>COMMUNICATION</b>			
Travel	17,896	2,670	20,566
Telephone	26,357	3,933	30,290
Printing	1,499	224	1,723
Postage	3,762	561	4,323
<b>TOTAL COMMUNICATION</b>	<u>49,514</u>	<u>7,388</u>	<u>56,902</u>
<b>MISCELLANEOUS</b>			
Office space	100,494	14,995	115,489
Supplies and maintenance	40,000	5,969	45,969
Equipment	845	126	971
Other services and charges	324,751	48,458	373,209
<b>TOTAL MISCELLANEOUS</b>	<u>466,090</u>	<u>69,548</u>	<u>535,638</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u>\$10,490,327</u>	<u>\$ 1,565,318</u>	<u>\$12,055,645</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**SCHEDULES OF EXPENSES FOR CONSULTANTS**  
**FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000**

**FOR THE YEAR ENDED JUNE 30, 2001**

	SETHEEPP	PSPP	Total
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 58,942	\$ 55,267	\$ 114,209
<b>MEDICAL REVIEW SERVICES</b>			
Sarada Misra, M.D.	4,308	4,040	8,348
Suzanne M. Fletcher, M.D.	4,308	4,040	8,348
Marshall L. Koonce, M.D.	4,308	4,040	8,348
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>12,924</u>	<u>12,120</u>	<u>25,044</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<u>\$ 71,866</u>	<u>\$ 67,387</u>	<u>\$ 139,253</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

**FOR THE YEAR ENDED JUNE 30, 2000**

	SETHEEPP	PSPP	Total
<b>ACTUARIAL SERVICES</b>			
Bryan, Pendleton, Swats and McAllister	\$ 149,234	\$ 125,710	\$ 274,944
Buck Consultants, Inc.	21,168	17,832	39,000
<b>TOTAL ACTUARIAL SERVICES</b>	<u>170,402</u>	<u>143,542</u>	<u>313,944</u>
<b>MEDICAL REVIEW SERVICES</b>			
Sarada Misra, M.D.	4,412	3,716	8,128
Suzanne M. Fletcher, M.D.	4,412	3,716	8,128
Marshall L. Koonce, M.D.	4,412	3,716	8,128
Bramlett Associates, Inc.	216	184	400
<b>TOTAL MEDICAL REVIEW SERVICES</b>	<u>13,452</u>	<u>11,332</u>	<u>24,784</u>
<b>TOTAL EXPENSES FOR CONSULTANTS</b>	<u>\$ 183,854</u>	<u>\$ 154,874</u>	<u>\$ 338,728</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.



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## Investment Section

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## REPORT BY INVESTMENT CONSULTANT

CALLAN ASSOCIATES<sup>SM</sup>

November 26, 2001

Mr. Eddie W. Hennessee  
 Executive Director  
 Tennessee Consolidated Retirement System  
 Fifth and Deadrick, 10<sup>th</sup> Floor  
 Andrew Jackson Building  
 Nashville, TN 37243-0230

CHARLES L. MATHIS  
 SENIOR VICE PRESIDENT



SAN FRANCISCO  
 NEW YORK  
 CHICAGO  
 ATLANTA  
 DENVER

Dear Ed:

The quarterly performance reports are prepared by Callan Associates in full compliance with AIMR standards. The year ended June 30, 2001 was extremely challenging for investors as both U.S. and non-U.S. stocks performed very poorly. For the year ended June 30, 2001 the System's overall return was (1.57%). This negative overall performance was primarily caused by the (15.46%) domestic equity return and the (21.73%) non-U.S. equity result. The System's overall fixed-income performance was strong as U.S. bonds returned 11.19% and non-U.S. bonds were down (7.65%), respectively, for the twelve months ended June 30, 2001.

As of June 30, 2001, the System's asset allocation was as follows:

Domestic Equities	30.77%
Domestic Fixed-Income	49.32%
International Equities	9.88%
International Fixed-Income	3.49%
Cash and Equivalent	5.34%
Real Estate	1.21%

Relative to other state retirement systems, the TCRS has a relatively low commitment to equities. The conservative nature of the System's asset allocation is warranted, however, because of the excellent funded status in comparison to most other state retirement funds.

In retrospect, there is no doubt that a "bubble" existed in the U.S. Growth equity markets in late 1999 and early 2000. The poor performance of the last eighteen months has essentially been an unwinding or bursting of this price "bubble". The good news is that the long-term attractiveness of the U.S. financial markets is unchanged, i.e., market corrections are a normal and beneficial event as excesses are cleansed from the system paving the way for future growth.

Callan Associates is a twenty-eight year old firm and has been the System's investment consultant since 1988. Among the services provided to the System by Callan are performance evaluation, manager search, and asset allocation.

Callan is a national consulting firm with five regional offices and well over 200 clients. The System is one of almost twenty state retirement systems that Callan serves.

Please give me a call should you have any questions or comments.

Sincerely,

Charles L. Mathis

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**LETTER FROM TCRS CHIEF INVESTMENT OFFICER**

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**STEVE ADAMS**  
STATE TREASURER



**THOMAS G. MILNE**  
CHIEF INVESTMENT  
OFFICER

December 10, 2001

Dear Members:

With assets exceeding \$23 billion, TCRS is one of the 50 largest pension plans in the United States. The investment of TCRS assets is an integral function of the financing of the pension fund liabilities.

The TCRS assets are invested to preserve principal value, to achieve a superior return within acceptable risk levels, and to provide liquidity needed by the system to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, and short-term securities. A properly diversified portfolio will improve the risk/return profile of the plan. An asset allocation study is periodically prepared by the system's investment consultant to assist in the efficient allocation of assets in order to achieve a return that is commensurate with the associated risk. TCRS has adopted a conservative investment strategy that has yielded double digit returns over the past ten years.

The system's investment consultant, in conformance with AIMR standards, prepared the Investment Performance Review section of this report. The TCRS investment staff prepared the other schedules.

The economy is confronting difficult times, and the financial markets have suffered. The investment objectives of the TCRS are long term and the benefits of a diversified portfolio are being proven. The TCRS investment staff, consisting of 20 experienced professionals, will continue to manage the TCRS assets in a financially sound manner, avoid unreasonable risk, and seek superior rates of return.

It is a pleasure to present this year's investment section of the TCRS annual report.

Sincerely,

A handwritten signature in cursive script that reads "Thomas G. Milne".

Thomas G. Milne

## STATUTORY INVESTMENT AUTHORITY

### STATUTORY INVESTMENT AUTHORITY

The investment authority of TCRS is prescribed in the *Tennessee Code Annotated*, Title 8, Chapter 37. This chapter provides that, with certain enumerated exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies as set forth in *T.C.A.*, Section 56, Chapter 3. The Board of Trustees of TCRS adopts investment policy relative to the investment of TCRS assets. The investment objective is to obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay beneficiaries in a timely manner. A summary of statutory and policy provisions follow.

#### DOMESTIC STOCKS

- ✧ No more than 75% of the TCRS portfolio may be invested in common stock, preferred stock and convertible bonds.
- ✧ No more than 4.99% of the outstanding shares of any one company may be purchased.

#### DOMESTIC FIXED INCOME

- ✧ No more than 75% of the TCRS portfolio may be invested in fixed income securities exceeding one year.
- ✧ Only issues that are investment grade securities (four highest ratings) may be purchased.
- ✧ Triple B bonds are limited to 7% of the domestic fixed income portfolio.
- ✧ Private placements are limited to 15% of the domestic fixed income portfolio. Private placements may be purchased if staff evaluation determines that the credit quality is equivalent to double A.

#### INTERNATIONAL EQUITY

- ✧ No more than 15% of the TCRS portfolio may be invested in international securities, including international fixed income.
- ✧ Canadian securities shall be treated as domestic securities for policy purposes.
- ✧ Thirty-nine countries have been approved by the Board for international investing.

#### INTERNATIONAL FIXED INCOME

- ✧ No more than 15% of TCRS portfolio may be invested in international securities, including international equity.
- ✧ Investments are limited to seven major developed countries.

#### SHORT-TERM SECURITIES

- ✧ Commercial paper should be rated A1 or P1.

#### STOCK OPTIONS AND BOND FUTURES

- ✧ Limited to 10% of the portfolio.
- ✧ Only covered call options may be written.

#### DOMESTIC STOCK INDEX FUTURES

- ✧ Contracts shall not exceed 5% of the TCRS portfolio.
- ✧ Shall only be used for asset allocation purposes and not for speculative leveraging. The system's cash and short-term securities must exceed the amount of the contract obligation.

#### SECURITIES LENDING

- ✧ May not lend more than 30% of the portfolio.
- ✧ Collateral, other than cash, must have a market value of 102% of the security loaned.

#### STANDBY NOTE PURCHASE AGREEMENT

- ✧ TCRS may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority.

#### FOREIGN CURRENCY HEDGING

- ✧ May not exceed 80% of the international securities.

#### REAL ESTATE

- ✧ No more than 5% of the TCRS portfolio may be invested in real estate.

#### PROXY VOTING

- ✧ Shall vote proxies in a manner which will provide the best ultimate value to shareholders.

## INVESTMENT PERFORMANCE REVIEW

### INVESTMENT PERFORMANCE REVIEW

*Periods Ending June 30, 2001*

	Annualized Returns		
	Current Year	3-Year	5-Year
<b>Pension Plan Portfolio</b>			
TCRS Performance	(1.57)%	5.16%	9.16%
Benchmark - Public Fund Index Median Index	(4.06)	5.31	10.37
<b>Domestic Equity</b>			
TCRS Performance	(15.46)	4.44	14.78
Benchmark - Dow Jones Average	2.14	7.19	15.14
Benchmark - S & P 500	(14.83)	3.89	14.48
Benchmark - Russell 2000	(0.62)	5.31	9.63
<b>Domestic Fixed Income</b>			
TCRS Performance	11.19	5.96	7.27
Benchmark - Shearson Lehman Aggregate	11.22	6.25	7.40
<b>International Equity</b>			
TCRS Performance	(21.73)	2.75	4.06
Benchmark - MSCI EAFE Index	(23.83)	(1.34)	2.83
Benchmark - MSCI EAFE & Emerging Markets	(24.01)	(0.60)	2.22
<b>International Fixed Income</b>			
TCRS Performance	(7.65)	0.63	2.79
Benchmark - Soloman Brothers Non-US Government Bond Index	(7.43)	(0.19)	0.49
<b>Short-term Securities</b>			
TCRS Performance	5.91	5.66	5.70
Benchmark - Three month Treasury Bill	5.88	5.44	5.38

**Callan Public Plan Sponsor Database  
Percentile Rankings  
Asset Allocation Adjusted Basis**

**Ranking of TCRS Portfolio**

Last five years  
Last ten years

24  
28

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with 1 being the best and 100 being the worst. The investment performance for TCRS was computed using a market, time weighted rate of return by an independent investment consultant for TCRS in accordance with the AIMR standards.

## ASSET ALLOCATION

## ASSET ALLOCATION

*as of June 30, 2001**Expressed in Thousands*

Asset Class	Fair Value	Percentage
Domestic Equity	\$ 7,506,623	31.4%
Domestic Fixed	11,732,149	49.1%
International Equity	2,212,690	9.3%
International Fixed Income	857,997	3.6%
Short-term Securities	1,300,793	5.4%
Real Estate	290,382	1.2%
Total	<u>\$ 23,900,634</u>	<u>100.0%</u>

This schedule classifies convertible bonds as fixed income securities, and preferred stock as fixed income securities. For investment purposes, convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

## LARGEST HOLDINGS

### JUNE 30, 2001

#### LARGEST STOCK HOLDINGS

as of June 30, 2001

by Fair Value

Shares	Security Name	Fair Value
6,742,000	GENERAL ELECTRIC COMPANY	\$ 328,672,500
3,599,000	MICROSOFT CORPORATION	262,727,000
2,335,297	EXXON MOBIL CORPORATION	203,988,193
4,656,750	PFIZER INCORPORATED	186,502,838
3,319,004	CITIGROUP INCORPORATED	175,376,171
2,960,500	AOL TIME WARNER INCORPORATED	156,906,500
1,287,000	INTERNATIONAL BUSINESS MACHINES	145,431,000
2,958,000	WAL-MART STORES INCORPORATED	144,350,400
1,531,320	AMERICAN INTERNATIONAL GROUP INC.	131,693,520
4,336,000	INTEL CORPORATION	126,828,000

#### LARGEST BOND HOLDINGS

as of June 30, 2001

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Quality Rating	Fair Value
300,000,000	U.S. TREASURY BONDS	5.42%	8/15/2013	Aaa	\$ 415,311,000
220,000,000	U.S. TREASURY BONDS	5.91%	8/15/2019	Aaa	273,935,200
214,000,000	U.S. TREASURY BONDS	5.93%	5/15/2021	Aaa	269,038,660
165,000,000	U.S. TREASURY BONDS	5.77%	2/15/2015	Aaa	250,001,400
186,000,000	U.S. TREASURY BONDS	5.90%	2/15/2019	Aaa	246,565,320
212,150,000	U.S. TREASURY NOTES	4.33%	8/15/2003	Aaa	218,149,602
202,653,083	GNMA POOL 781089	6.28%	9/15/2029	Aaa	207,782,232
155,450,000	U.S. TREASURY BONDS	5.03%	5/15/2010	Aaa	182,338,187
174,271,058	GNMA II POOL 002767	6.91%	6/20/2029	Aaa	172,092,670
170,917,716	GNMA II POOL 002754	6.91%	5/20/2029	Aaa	168,781,245

*A complete portfolio listing is available upon request.*

**Key to Ratings:** All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating). Government Securities are not rated per se' but are considered the best quality securities.

Moody's rates securities as follows:

Aaa ..... Best Quality

Aa ..... High Quality

A ..... Upper Medium Quality

Baa ..... Medium Quality

## INVESTMENT SUMMARY

## INVESTMENT SUMMARY

as of June 30, 2001

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
<b>Fixed Income</b>						
Government Bonds	\$ 8,434,585,998	35.29%	\$ 555,648,102	2.32%	\$ 8,990,234,100	37.61%
Corporate Bonds	3,297,563,337	13.80%	277,456,832	1.16%	3,575,020,169	14.96%
Convertible Bonds	0	0.00%	111,580	0.00%	111,580	0.00%
Total Bonds	\$ 11,732,149,335	49.09%	\$ 833,216,514	3.48%	\$ 12,565,365,849	52.57%
Preferred Stock	0	0.00%	24,780,599	0.10%	24,780,599	0.10%
Total Fixed Income	\$ 11,732,149,335	49.09%	\$ 857,997,113	3.58%	\$ 12,590,146,448	52.67%
<b>Common Stock</b>						
Commingled Fund	\$ 0	0.00%	\$ 12,590,509	0.05%	\$ 12,590,509	0.05%
Consumer Discretionary	983,349,388	4.11%	387,112,752	1.62%	1,370,462,140	5.73%
Consumer Staples	597,272,493	2.50%	180,427,831	0.76%	777,700,324	3.26%
Energy	519,898,194	2.18%	182,497,730	0.76%	702,395,924	2.94%
Financials	1,337,550,292	5.60%	415,365,495	1.74%	1,752,915,787	7.34%
Health Care	969,069,805	4.05%	157,702,187	0.66%	1,126,771,992	4.71%
Industrials	850,408,211	3.56%	288,304,412	1.21%	1,138,712,623	4.77%
Information Technology	1,395,546,023	5.84%	194,967,509	0.82%	1,590,513,532	6.66%
Materials	164,250,754	0.69%	144,025,079	0.60%	308,275,833	1.29%
Private Placement	0	0.00%	7,031,332	0.03%	7,031,332	0.03%
Rights/Warrants	0	0.00%	75,622	0.00%	75,622	0.00%
Telecommunication Svc.	400,067,348	1.67%	185,570,197	0.78%	585,637,545	2.45%
Unclassified	0	0.00%	3,438,923	0.01%	3,438,923	0.01%
Utilities	289,210,100	1.21%	53,580,361	0.23%	342,790,461	1.44%
Total Common Stock	\$ 7,506,622,608	31.41%	\$ 2,212,689,939	9.27%	\$ 9,719,312,547	40.68%
<b>Short-term Investments</b>						
Commercial Paper	\$ 751,888,749	3.15%	\$ 0	0.00%	\$ 751,888,749	3.15%
Corporate Bonds	15,320,400	0.06%	0	0.00%	15,320,400	0.06%
U.S. Gov't Securities	533,583,822	2.23%	0	0.00%	533,583,822	2.23%
Total Short-term Investments	\$ 1,300,792,971	5.44%	\$ 0	0.00%	\$ 1,300,792,971	5.44%
Real Estate	\$ 290,382,307	1.21%	\$ 0	0.00%	\$ 290,382,307	1.21%
Total Investments	\$ 20,829,947,221	87.15%	\$ 3,070,687,052	12.85%	\$ 23,900,634,273	100.00%
<b>Invested Securities</b>						
Lending Collateral	\$ 113,685,867		\$ 0		\$ 113,685,867	
<b>Short-term Investments</b>						
Classified as Cash Equivalents	\$ (781,044,360)		\$ 0		\$ (781,044,360)	
<b>Total Investments and Invested Securities</b>						
Lending Collateral as Shown on the Statement of Plan Net Assets	\$ 20,162,588,728		\$ 3,070,687,052		\$ 23,233,275,780	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities, and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

## SCHEDULES OF INVESTMENT FEES AND COMMISSIONS FOR THE YEAR ENDED JUNE 30, 2001

### SCHEDULE OF FEES

	Assets Under Management	Fees
International Investment Managers' Fees	\$2.2 Billion	\$ 7,263,286
Other Investment Services Fees		
Custodian Bank	\$23 Billion	\$ 981,601
General Investment Consultant	\$23 Billion	137,900
Real Estate Asset Management	\$290 Million	1,455,535
Real Estate Investment Consultant	\$290 Million	100,000
Total Investment Services Fees		<u>\$ 2,675,036</u>

### SCHEDULES OF COMMISSIONS

#### Exchange Traded Shares

Broker	Domestic		
	Shares Traded	Commissions	Commission per Share
Banc of America Securities	6,293,403	\$ 314,696	\$ 0.0500
Bear Stearns Securities Corporation	11,158,539	557,812	0.0500
Bridge Trading	2,248,200	111,410	0.0496
Capital Institutional Services	12,706,018	635,108	0.0500
CS First Boston Corporation	6,451,180	310,669	0.0482
Donaldson, Lufkin and Jenrette Securities	2,559,267	125,723	0.0491
Edwards AG and Sons Incorporated	2,926,100	146,305	0.0500
Jefferies and Company	2,217,800	110,890	0.0500
JP Morgan Securities Incorporated	2,237,462	111,873	0.0500
Lehman Brothers Incorporated	5,939,500	322,400	0.0543
Morgan Stanley and Co., Incorporated	6,893,442	344,672	0.0500
Paine Webber Incorporated	3,174,757	158,738	0.0500
Prudential Securities Incorporated	5,206,300	260,315	0.0500
Salomon Smith Barney Incorporated	6,376,072	316,114	0.0496
UBS Warburg LLC	4,689,000	234,450	0.0500
Other Brokers*	17,194,972	806,822	0.0469
Totals	<u>98,272,012</u>	<u>\$ 4,867,997</u>	

Program Trades where total commission cost includes trading commission, liquidity fees, and market impact fees.

Broker	Domestic		
	Shares Traded	Commissions	Commission per Share
DB Clearing Services	3,020,000	285,756	\$ 0.0946
Goldman Sachs and Company	694,947	43,312	0.0623
Deutsche Bank Alex Brown	19,831,600	1,117,964	0.0564
Totals	<u>23,546,547</u>	<u>\$ 1,447,032</u>	

Broker	International		
	Shares Traded	Commissions	Commission per Share
CS First Boston Corporation	27,839,040	\$ 271,682	\$ 0.0098
Deutsche Bank AG New York	8,031,454	151,022	0.0188
Goldman Sachs & Company	30,210,650	470,667	0.0156
Lehman Brothers Incorporated	5,494,705	180,559	0.0329
Merrill Lynch International	32,911,664	699,463	0.0213
Merrill Lynch Pierce Fenner & Smith	21,417,209	237,785	0.0111
Morgan Stanley and Company, Incorporated	13,513,806	440,456	0.0326
Salomon Smith Barney Incorporated	19,198,430	275,382	0.0143
Teather and Greenwood	7,971,585	129,624	0.0163
UBS Ag	16,035,680	315,560	0.0197
Other Brokers*	1,686,943,525	2,648,014	0.0016
Totals	<u>1,869,567,748</u>	<u>\$ 5,820,214</u>	

\*Less than \$100,000 total commission per brokerage firm.





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## Actuarial Section

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## ACTUARIAL INTRODUCTION

### BIENNIAL ACTUARIAL VALUATIONS

Biennial actuarial valuations of the TCRS are performed by an independent actuarial consulting firm to assess the funding status of the system and to determine employer contribution rates for its various components. The latest valuation, performed as of July 1, 1999, set new employer rates effective July 1, 2000. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. The next valuation, performed as of July 1, 2001, will establish new employer rates effective July 1, 2002.

### FUNDING OF PENSIONS

It is the policy of the state to fund pensions by actuarially determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost. This policy seeks to ensure that sufficient assets will be available to pay benefits as they are due.

### ACCRUED LIABILITY

With the 1999 actuarial valuation, the accrued liability, which was frozen in 1981 was again reestablished. This was accomplished by setting the unfunded accrued liability equal to the excess of the Entry Age Normal Past Service Liability over the valuation assets for each group.

When the accrued liability was reestablished in 1997, the accrued liability associated with teachers was retired. When the accrued liability was again reestablished in 1999, an accrued liability continued for two minor groups.

### SPECIFICS

Valuations are based on demographic data (employee ages, salaries and service credits), economic projections (salary increases, interest rates and investment earnings), and decrement estimates (mortality and disability rates).

The economic projections and decrement estimates used for valuation purposes utilized the assumptions recommended by the actuary and adopted by the Board of Trustees based on an actuarial experience study conducted every four years. The earnings rate assumption adopted by the Board is subject to the approval of the Council on Pensions and Insurance.

### QUADRENNIAL EXPERIENCE STUDY

A quadrennial experience study was conducted as of June 30, 1996. A number of changes were made to the economic and decrement assumptions. The earnings assumption was changed from eight to seven and one-half percent. The salary increase assumption was reduced from seven percent to five and one-half percent, while the increase in the Social Security wage base assumption was reduced to four and one-half percent. Preretirement and post-retirement mortality assumptions were also modified to more closely reflect past experience.

Using data as of June 30, 2000, the next quadrennial experience study will determine the assumptions to be used in the July 1, 2001 actuarial valuation.

## ACTUARY'S CERTIFICATION LETTER



Bryan, Pendleton, Swatz & McAllister, LLC  
A Wells Fargo Company

November 6, 2001

Mr. Stephen D. Adams  
Chairman, Board of Trustees  
Tennessee Consolidated Retirement System  
Tenth Floor  
Andrew Jackson State Office Building  
Nashville, Tennessee 37243-0230

Dear Mr. Adams:

Re: Actuary's Certification Letter

The purpose of this letter is to certify the actuarial adequacy of contributions being made by the State of Tennessee and participating Political Subdivisions to the Tennessee Consolidated Retirement System and to discuss the approach currently being taken toward meeting the financing objectives of the Plan.

The most recent biennial actuarial valuation of the Tennessee Consolidated Retirement System was performed as of July 1, 1999. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Methods and Assumptions") which was adopted by the Board of Trustees on the recommendation of the actuary, as a result of a study of actual experience under the TCRS during the four year period ending June 30, 1996. The experience study concluded that there should be no changes in demographic assumptions for the Consolidated State and Political Subdivision groups. The experience among Contributory Teachers differed somewhat from the prior actuarial assumptions and changes were recommended and approved for this group. Also, recent declines in the level of inflation suggested that economic assumptions including the assumed investment return rate and the salary increase rate should be revised downward. Consequently the Board approved the recommendation that the investment return rate be decreased from 8% to 7.5% and that the salary increase rate be decreased from 7% to 5.5%.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation. Minor modifications affecting maximum benefit allowances, disability benefits and bridge payments to public safety officers were reflected in the most recent valuation.

The Board of Trustees in 1975 established as its financing objective the amortization of unfunded accrued liabilities over the ensuing 40-year period. In the years since then, the implementation of that general goal has involved a gradual strengthening of the methods utilized in computing required annual contributions. This has been accomplished by such steps as (1) taking advance funding of expected cost-of-living increases into account, (2) placing all amortization payments on a "level dollar" basis—a stronger basis than the "percentage of payroll" method previously utilized and (3) elimination of the unfunded accrued liability for the major contribution classes, primarily as a result of actuarial gains attributable to favorable investment performance.

In performing the 1999 valuation, we relied on employee data and asset information provided by the administrative staff of the Tennessee Consolidated Retirement System. In the case of employee data, each individual record was audited thoroughly for reasonableness and internal consistency, although the validity of the information was not traced to source documents or compared with data for the same participants utilized in prior valuations. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

**ACTUARY'S CERTIFICATION LETTER  
(CONTINUED)**

Mr. Stephen D. Adams  
November 6, 2001  
Page Two

Since the prior valuation, TCRS investment record keeping procedures were revised to discontinue the maintenance of fund book value. The 1997 actuarial valuation utilized a valuation asset method that was based upon historical comparisons between book and market values. Since this comparison was no longer possible, the current valuation asset method has been revised. Under the revised method, the asset value used in computing plan contributions is determined by recognizing "excess earnings" occurring in each preceding year over a five year period following the year of recognition. Excess earnings (or losses) are determined by comparing actual earnings for a year to earnings that would have occurred if the plan earned the actuarially assumed rate for the year. The recognition of excess earnings or losses so computed for each year is phased in ratably over five years.

During 1999, an actuarial audit of the primary calculations underlying the valuation was conducted by Buck Consultants, a national actuarial consulting firm with significant public plan experience. Conclusions and opinions resulting from the audit are set forth in a separate report prepared by Buck Consultants. Significantly, the audit concluded that, based on current assumptions and methods, the valuation results fairly present the actuarial status of the plan.

Certain tables presented in the Comprehensive Financial Annual Report are derived from the July 1, 1999 actuarial valuation report prepared by Bryan, Pendleton, Swats and McAllister, LLC. The tables were prepared by the staff of the Tennessee Consolidated Retirement System and examined by our firm. These tables include the following –

***Financial Section***

- Schedules of Funding Progress

***Actuarial Section***

- Summary of Actuarial Assumptions and Methods
- Actuarial Data (current year data)
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Unfunded Accrued Liabilities and Selected Funding Information
- Analysis of Financial Experience

The Schedule of Retired Member Activity in the Actuarial Section of the report was prepared by our firm using information gathered from the 1995, 1997, and 1999 actuarial valuations.

The 1999 valuation was prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statement 25. I am a Member of the American Academy of Actuaries with experience in performing valuations for public retirement systems; all calculations were performed either by me or by other qualified actuaries under my direct supervision.

Based upon the valuation results and the contribution rates adopted by the Board of Trustees, it is our opinion that the Tennessee Consolidated Retirement System continues to fund its liabilities in accordance with standard actuarial principles of advance funding, continuing a program first adopted in 1975.

Sincerely,



Anthony S. Johnston, F.S.A.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions were adopted by the Board of Trustees for use beginning with the June 30, 1997 valuation based on the consulting actuary's recommendations resulting from the June 30, 1996 actuarial experience study.

### GENERAL ACTUARIAL METHODS

- ❖ *Actuarial Cost Method (Frozen Entry Age)*—Unfunded accrued liabilities are being funded over a 40-year period commencing in 1975. The unfunded accrued liability was reestablished as part of the July 1, 1999 valuation. This was accomplished by setting the unfunded accrued liability equal to the excess (if any) of the Entry Age Normal Past Service Liability over the valuation assets for each group or zero.
- ❖ *Treatment of Actuarial Gains and Losses*—Under the Frozen Entry Age Method, any actuarial gains or losses are absorbed into the normal cost.
- ❖ *Asset Valuation Method*—Assets are valued on a basis which reflects a five-year moving average of the fair market value.
- ❖ *Valuation Data*—The administrative staff of TCRS furnishes the actuary with demographic data relating to the active life members and the retired life members. The fair value of system assets are also provided by retirement system staff. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.
- ❖ *Post-Retirement Adjustments*—Retirement benefits are assumed to increase at the maximum geometric rate of 3% annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

### ECONOMIC ASSUMPTIONS

- ❖ *Investment Return Rate*—Seven and one-half percent per annum, compounded annually.
- ❖ *Employee Salary Increases*—Five and one-half percent annual rate of salary increase for all age categories. No explicit assumption is made regarding the portion attributable to the effects of inflation on salaries. Active membership is assumed to remain constant.
- ❖ *Increase in Social Security Wage Base*—Four and one-half percent annual increase.

### DECREMENT ASSUMPTIONS

- ❖ *Post-Retirement Mortality*—The tables used for evaluating the probable periods of time that retirees will receive benefits are the 1975 Group Annuity Mortality Table for state employees and political subdivision employees, 80 percent of the 1983 Group Annuity Mortality Table for male teachers and the full 1983 Group Annuity Mortality Table for female teachers.
- ❖ *Preretirement Mortality*—The 1983 Group Annuity mortality table is used for state employees and political subdivision employees. Mortality rates for teachers is 60 percent of the 1983 Group Annuity Mortality Table rates.
- ❖ *Withdrawal Due to Disability*—Sample rates of disability based on experience:

<i>Teachers</i>		
	<b>Male</b>	<b>Female</b>
Age 30	.02%	.02%
Age 40	.05	.05
Age 50	.14	.14

<i>State and Political Subdivision</i>		
	<b>Male</b>	<b>Female</b>
Age 30	.02%	.02%
Age 40	.07	.06
Age 50	.35	.24

- ❖ *Turnover Assumption*—Tables for probabilities of separation due to termination of employment are developed utilizing a "two-year select and ultimate" approach.

(continued)

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS  
(CONTINUED)**

<i>Teachers</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male:</i>			
Age 30	15.0%	12.0%	5.5%
Age 40	15.0	12.0	2.2
Age 50	15.0	12.0	1.2
<i>Female:</i>			
Age 30	15.0%	12.0%	7.1%
Age 40	15.0	12.0	2.7
Age 50	15.0	12.0	1.5

*Retirement* – The probabilities of retirement for members eligible to retire:

<i>Teachers</i>		
	Male	Female
Age 60	9.0%	15.0%
Age 61	17.0	23.0
Age 62	20.0	20.0
Age 63	14.0	20.0
Age 64	25.0	35.0
Age 65	35.0	38.0
Age 70	100.0	100.0
Age 75	100.0	100.0

<i>State Employees</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male:</i>			
Age 30	24.8%	21.0%	10.8%
Age 40	21.0	15.2	5.6
Age 50	15.0	12.8	3.2
<i>Female:</i>			
Age 30	24.8%	21.0%	10.8%
Age 40	21.0	15.2	5.6
Age 50	15.0	12.8	3.2

<i>State and Political Subdivisions</i>		
	Male	Female
Age 60	5.0%	7.0%
Age 61	11.0	12.0
Age 62	21.0	20.0
Age 63	12.0	14.0
Age 64	16.0	17.0
Age 65	30.0	31.0
Age 70	25.0	30.0
Age 75	100.0	100.0

<i>Political Subdivision Employees</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male:</i>			
Age 30	24.8%	24.8%	11.9%
Age 40	21.0	21.0	8.9
Age 50	15.0	15.0	6.6
<i>Female:</i>			
Age 30	24.8%	21.0%	11.9%
Age 40	21.0	15.2	8.9
Age 50	15.0	12.8	6.6

In addition, a loading factor of 10 percent (20 percent for male teachers) is added during the year the member is first eligible to retire.

## ACTUARIAL DATA

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation		Annual Payroll	Average Annual Pay	Average Annual Percentage Increase In Average Annual Pay
Year	Number	In Thousands		
1981	141,614	\$ 1,856,498	\$ 13,110	8.62%
1983	137,054	2,040,979	14,892	6.58%
1985	140,744	2,377,928	16,895	6.51%
1987	147,779	2,800,035	18,947	5.90%
1989	153,664	3,215,050	20,922	5.08%
1991	158,820	3,636,495	22,897	4.61%
1993	166,443	3,943,079	23,690	1.72%
1995	175,584	4,580,041	26,085	4.93%
1997	180,637	4,940,816	27,352	2.40%
1999	189,592	5,473,772	28,871	2.74%

### SCHEDULE OF RETIRED MEMBER VALUATION DATA

Valuation		Annual Allowances	Average Annual Allowances	Average Annual Percentage Increase In Average Allowances
Year	Number	In Thousands		
1981	35,894	\$ 125,356	\$ 3,492	4.09%
1983	39,952	153,817	3,850	5.00%
1985	46,171	195,435	4,233	4.86%
1987	49,386	234,163	4,741	5.83%
1989	51,836	264,479	5,102	3.74%
1991	55,146	315,248	5,717	5.86%
1993	58,268	367,844	6,313	5.08%
1995	61,992	449,310	7,248	7.15%
1997	66,908	535,485	8,003	5.08%
1999	71,812	663,140	9,234	7.42%

### SCHEDULE OF RETIRED MEMBER ACTIVITY

*Expressed in Thousands*

2-year period	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
June 30								
1995	7,505	\$100,453	3,781	\$18,988	61,992	\$449,310	22.15%	\$7,248
1997	9,118	115,447	4,202	29,272	66,908	535,485	19.18%	8,003
1999	10,001	162,709	5,097	35,054	71,812	663,140	23.84%	9,234

Note: Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes. Data is not available to present the required six year history on this schedule. Additional years will be added in future reports.

### ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

The Board adopted the contribution rates as recommended by the actuary.

## ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET  
as of July 1, 1999

	Political Subdivision Pension Plan (PSPP)	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEPP)	Total
<b>ASSETS</b>			
Present assets creditable to			
Employer accumulation fund	\$ 2,189,378,316	\$ 15,930,536,763	\$ 18,119,915,079
Members' accumulation fund	501,402,539	2,396,596,344	2,897,998,883
Total present assets	<u>2,690,780,855</u>	<u>18,327,133,107</u>	<u>21,017,913,962</u>
Present value of prospective Contributions payable to			
Employer accumulation fund			
Normal	405,380,664	1,794,139,353	2,199,520,017
Accrued liability	200,161,388	93,022,745	293,184,133
Total employer accumulation	<u>605,542,052</u>	<u>1,887,162,098</u>	<u>2,492,704,150</u>
Members' accumulation fund	<u>278,399,559</u>	<u>1,211,838,630</u>	<u>1,490,238,189</u>
Total prospective contributions	883,941,611	3,099,000,728	3,982,942,339
<b>TOTAL ASSETS</b>	<u>\$ 3,574,722,466</u>	<u>\$ 21,426,133,835</u>	<u>\$ 25,000,856,301</u>
<b>LIABILITIES</b>			
Present value of prospective Benefits payable on account of			
Present retired members and beneficiaries	877,145,344	6,401,753,221	7,278,898,565
Present active members	2,637,351,974	14,739,420,115	17,376,772,089
Former members	60,225,148	284,960,499	345,185,647
<b>TOTAL LIABILITIES</b>	<u>\$ 3,574,722,466</u>	<u>\$ 21,426,133,835</u>	<u>\$ 25,000,856,301</u>

UNAUDITED



## SHORT-TERM SOLVENCY TEST

### SHORT-TERM SOLVENCY TEST

The financing objective of the Tennessee Consolidated Retirement System is to pay for the benefits provided by the plan through contributions that remain approximately level from year to year as a percentage of payroll, except that the strategy to fund the unfunded accrued liability is to make level-dollar payments over an established amortization period. A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to

present retired lives; and (3) the liabilities for service already rendered by active members. In a system that has been following the approach of level percent of payroll financing for some time, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) should be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time.

### Solvency Test

*Dollar Amounts Expressed in Millions*

Actuarial Valuation Year	Actuarial Accrued Liabilities for:			Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1989 SETHEEPP	\$ 1,242.0	\$ 2,310.2	\$ 4,882.4	\$ 6,733.1	100%	100%	65%
PSPP	212.0	274.0	416.2	890.7	100%	100%	97%
Total	\$ 1,454.0	\$ 2,584.2	\$ 5,298.6	\$ 7,623.8	100%	100%	68%
1991 SETHEEPP	\$ 1,452.0	\$ 2,784.0	\$ 5,728.8	\$ 8,307.7	100%	100%	71%
PSPP	260.2	329.8	511.6	1,101.7	100%	100%	100%
Total	\$ 1,712.2	\$ 3,113.8	\$ 6,240.4	\$ 9,409.4	100%	100%	73%
1993 SETHEEPP (1)	\$ 1,720.4	\$ 3,384.2	\$ 5,800.6	\$10,404.3	100%	100%	91%
PSPP (1)	321.6	426.1	696.1	1,400.9	100%	100%	94%
Total	\$ 2,042.0	\$ 3,810.3	\$ 6,496.7	\$11,805.2	100%	100%	92%
1995 SETHEEPP	\$ 1,995.7	\$ 3,958.4	\$ 6,731.6	\$12,319.2	100%	100%	95%
PSPP	384.8	534.2	830.1	1,707.8	100%	100%	95%
Total	\$ 2,380.5	\$ 4,492.6	\$ 7,561.7	\$14,027.0	100%	100%	95%
1997 SETHEEPP (2)	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$15,671.7	100%	100%	99%
PSPP (2)	426.4	743.5	1,117.9	2,226.9	100%	100%	95%
Total	\$ 2,568.1	\$ 6,199.6	\$ 9,303.0	\$17,898.6	100%	100%	98%
1999 SETHEEPP	\$ 2,396.6	\$ 6,401.8	\$ 9,621.8	\$18,327.1	100%	100%	99%
PSPP	501.4	877.1	1,512.4	2,690.8	100%	100%	87%
Total	\$ 2,898.0	\$ 7,278.9	\$11,134.2	\$21,017.9	100%	100%	97%

(1) Includes effect of five percent benefit improvement which became effective January 1, 1994.

(2) Includes effect of compound COLA and 3.6% indexing improvements.

## SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

### SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

The unfunded accrued liability represents the excess of the accrued actuarial liability over the actuarial value of assets. For funding purposes, the Board of Trustees of TCRS has adopted the frozen initial liability method.

Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2015. Also, actuarial gains and losses are absorbed in normal cost rather than as part of the unfunded liability. The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses.

For the July 1, 1999 actuarial valuation, the Board reestablished the unfunded accrued liability. In an inflationary economy where the covered payroll continues to grow, the level-dollar amounts which are being contributed to fund the unfunded accrued liability will, if expressed as a percentage of payroll, continue to decrease.

While concern is generally expressed regarding the dollar amount of the unfunded accrued liability, an analysis should also include the method being used to fund this liability as well as a review of this liability expressed as a percentage of active member payroll. The smaller the ratio of unfunded liabilities to the active member payroll, the stronger the system. A review of this ratio over a period of years will give an indication of whether the system is becoming financially stronger or weaker with respect to its unfunded liabilities.

### SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

*Dollar Amounts Expressed in Millions*

Actuarial Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Ratio Assets to AAL	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1989	\$ 9,336.8	\$7,623.8	82%	\$1,713.0 (2)	\$3,215.1	53%
1991	11,066.4	9,409.4	85%	1,657.0	3,636.5	46%
1993 (3)	12,349.1	11,805.2	96%	543.9	3,943.1	14%
1995	14,434.8	14,027.0	97%	407.8	4,580.0	9%
1997 (4)	18,070.8	17,898.6	99%	172.2 (1) (2)	4,940.8	3%
1999	21,311.1	21,017.9	99%	293.2	5,473.8	5%

- Notes:
- (1) Unfunded accrued liability was reestablished.
  - (2) Includes adjustments for changes in actuarial assumptions.
  - (3) Includes effect of five percent benefit improvement effective January 1, 1994.
  - (4) Includes effect of compound COLA and 3.6% indexing improvements.

SELECTED ACTUARIAL FUNDING INFORMATION

SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumption	Salary Assumption	Unfunded Liability		SETHEEPP Amortization Period (4)
			SETHEEPP	PSPP	
1989	8.0%	7.0%	\$1,701,447,529 (1)	\$ 11,590,002 (1)	26
1991	8.0%	7.0%	1,657,057,111	0	24
1993 (2)	8.0%	7.0%	500,933,773	42,897,901	10/22 (3)
1995	8.0%	7.0%	366,528,134	41,288,942	20
1997 (5)	7.5%	5.5%	111,172,072	61,012,975	18
1999	7.5%	5.5%	93,022,745	200,161,388	16

- Notes:
- (1) Includes adjustments for changes in actuarial assumptions.
  - (2) Includes effect of five percent benefit improvement which became effective January 1, 1994.
  - (3) \$436.8 million is funded over 10 years and \$107 is funded over 22 years.
  - (4) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
  - (5) Includes effect of compound COLA and 3.6% indexing improvement.

## ANALYSIS OF FINANCIAL EXPERIENCE

## GAIN AND LOSS ANALYSIS, JULY 1, 1999 VALUATION

Normal Cost	State and Higher Education	Teacher
Effective Employer Normal Cost Rate Pursuant to 1997 Valuation	5.43%	5.47%
Investment results and asset valuation method change	(2.10%)	(2.16%)
Salary Increases: If there are smaller pay increases than assumed, the normal cost is reduced; if there are greater increases than assumed, the normal cost is increased.	(0.14%)	(1.30%)
New Entrants: Includes the effect where normal cost for new entrants since the previous evaluation differs from the normal cost of the group.	0.83%	0.71%
Social Security Changes: More rapid increases in the Social Security wage base	(0.01%)	(0.02%)
Cost of Living Escalation: COLA in 1997 was 3.0%, 1998 was 1.7%, 1999 was 1.6%	(0.19%)	(0.16%)
Benefit Changes: (1) increase in the maximum benefit allowance 75% to 90% (2) bridge benefits for mandatory retirement (3) projection of no less than 10 years for disability benefits	0.10%	0.02%
Prior Service Purchases : Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions	0.15%	0.20%
Sick leave credit (estimated)	0.11%	0.08%
Employment Transfers	-	0.07%
Programming Changes: Incorporating improved computer capabilities, minor corrections, and adjustments recommended by the actuarial auditors.	1.30%	0.68%
Other	0.71%	0.13%
<b>Effective Employer Normal Cost Rate Pursuant to 1999 Valuation</b>	<b>6.19%</b>	<b>3.72%</b>

**RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES  
STATE EMPLOYEES, TEACHERS, AND HIGHER EDUCATION EMPLOYEES**

Unfunded Actuarial Liabilities at June 30, 2000	\$89,823,586
Interest Accrual Fiscal Year 2000-2001	6,026,825
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2000-2001)	(9,465,921)
<b>Unfunded Actuarial Liabilities at June 30, 2001</b>	<b>\$86,384,490</b>

The remaining unfunded actuarial liabilities relates to two small closed plans for certain elected state and county officials. The two major plans for state employees and teachers do not have an unfunded liability.

## INDEPENDENT ACTUARIAL REVIEW OPINION

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April 7, 2000

The Honorable Stephen D. Adams, Chairman  
Board of Trustees  
Tennessee Consolidated Retirement System  
10<sup>th</sup> Floor Andrew Jackson State Office Bldg.  
500 Deaderick Street  
Nashville, TN 37243

**Re: Actuarial Audit of July 1, 1999 Actuarial Valuation**

Dear Mr. Adams:

We are pleased to present the actuarial audit of the July 1, 1999 Actuarial Valuation, which was prepared by Bryan, Pendleton, Swats & McAllister, LLC, (BPSM). This report contains an overview of the audit and our principal findings.

It is our opinion that BPSM's results fairly present the actuarial status of Tennessee Consolidated Retirement System based on the current assumptions and methods. Our report offers several observations and conclusions that the Board may wish to consider.

Our work was based on the information supplied by TCRS staff and BPSM, and we would like to thank them for their cooperation.

If you have any questions about this report, please do not hesitate to call or write.

Sincerely,

Kim M. Nicholl  
Principal and Consulting Actuary

S. Lynn Hill  
Senior Actuarial Manager

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Enc.

## PLAN SUMMARY

### HISTORY AND ADMINISTRATION

The TCRS was established in 1972 by an Act of the Tennessee General Assembly. Seven existing retirement systems were consolidated to provide retirement, disability and death benefits to state employees, public school teachers, higher education employees and the employees of participating local governments. State laws governing the plan may be found in Chapters 34-37, 39 of Title 8, *Tennessee Code Annotated*. Amendments to the plan can only be made by legislation enacted by the General Assembly of the State of Tennessee.

A 17-member Board of Trustees has the responsibility to manage and oversee the operation of the consolidated system. The Board consists of nine *ex-officio* members from the executive, legislative, and judicial branches of state government and eight representatives of the active TCRS membership. Employee representation consists of three teachers, one from each grand division of the state, two state employees from departments other than those represented by *ex-officio* members, and three representatives of local governments. Local government representatives are appointed for two-year terms by each of the following organizations: the Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. All employee representatives must be vested members of TCRS.

TCRS is administered by the Treasury Department under the legislative branch of state government. By state law, the State Treasurer serves as chairman of the Board of Trustees and as custodian of the funds of the system. The Director of the retirement system is appointed by the Treasurer and serves as the chief administrative officer of the plan.

The state is responsible for the pension cost of state employees and teachers; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balance. The operating budget is funded by local governments on a per member fee basis and by state government as part of the employer contribution rate.

### MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, K-12 teachers, higher education general employees and the employees of participating local governments. Membership is optional for part-time state employees and the part-time employees of political subdivisions which have authorized such coverage.

Interim teachers and part-time teachers have optional membership. The faculty employees of institutions of higher education may elect participation in either TCRS or an optional retirement program (ORP), a defined contribution plan for higher education faculty.

### CONTRIBUTIONS

TCRS membership became noncontributory on July 1, 1981 for most state employees, teachers in state supported institutions of higher education and teachers employed in the Department of Education. At that time, the contributions, up to five percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual member's accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts.

Participating political subdivisions may either adopt non-contributory retirement provisions or require employee contributions. The contribution rate for local government employees is five percent up to the social security wage base and 5.5 percent above that base, unless the employing government has authorized a level five percent rate. Public school teachers contribute at a rate of five percent of gross salary.

Individual accounts are maintained for all contributory members with interest credited annually at a rate of five percent. Since the TCRS is a defined benefit plan, benefits are based upon the member's average final compensation and years of creditable service. The member's account balance including interest accrued has no bearing on the monthly benefit amount payable at retirement. Account balances plus interest are fully refundable upon termination of service or death.

*(continued)*

## PLAN SUMMARY (CONTINUED)

Contributory members are now covered by Section 414(h) of the Internal Revenue Code. Under this provision, retirement contributions are made on a tax-deferred basis, with income tax due only when contributions are returned to members as benefits or refunds. Political subdivisions may adopt the 414(h) provision for their employees.

The state also makes contributions on behalf of higher education faculty members who select membership in the ORP. These contributions are equal to 10 percent of salary up to social security wage base and 11 percent of any excess salary.

### BENEFITS

TCRS provides three valuable benefits to its members: disability, death and service retirement. Disability benefits are available to qualified TCRS members who become totally disabled before meeting the requirements for service retirement. Two types of disability retirement are available: ordinary and accidental.

To qualify for ordinary disability, a member must have a minimum of five years of TCRS service credit. The ordinary disability benefit is equal to 90 percent of what the member would receive under service retirement. If a disabled retiree has less than 20 years of service credit, the service is projected to age 60 or 20 years, whichever comes first. When service is projected, the actual and projected service combined cannot exceed 20 years. If the member's actual service credit exceeds 20 years, the benefit is based on actual service only.

There is no minimum service requirement to qualify for an accidental disability benefit. However, the disability must be the result of a job-related accident that occurs without negligence on the part of the member, during the performance of duty. Prior to the onset of social security benefits, an accidental disability benefit is equal to 50 percent of the member's average final compensation (AFC). Once social security benefits begin, the accidental benefit is 33.3 percent of AFC. For members joining TCRS on or after July 1, 1997, accidental disability benefits are determined in the same manner as ordinary disability using the projection of service method. Disability benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. The accidental benefit is adjusted if the

member's combined benefits from social security and/or workers' compensation exceed 75 percent of his AFC.

One of several death benefits may be payable to the designated beneficiary of an active member who dies prior to retirement. The type of death benefit payable will be determined by whether or not death occurred while in service, who is named as beneficiary, and the member's length of service.

A member may designate one or more persons, his estate, an institution, or any combination of such as his beneficiary. However, estates, institutions, and/or multiple beneficiaries are only eligible for a lump-sum refund of the member's accumulated contributions and interest unless one of the beneficiaries named is the surviving spouse. Other death benefits offered by TCRS include a 100 percent Joint and Surviving Spouse Annuity after 10 Years Service, a 100 percent Joint and Survivor Annuity for Any Beneficiary and a Line of Duty Benefit. Any beneficiary of a member who had 10 years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over 10 years.

All members, with the exception of state judges, joining TCRS after 1976 enter the same membership group. The benefit formula for this group provides 1.5 percent of AFC computed over five years for each year of service credit. If a member's AFC exceeds the social security integration level (SSIL) applicable at retirement, the formula provides an additional 0.25 percent of the amount of the excess for each service year. These benefits are increased by five percent for state employees, teachers, and employees of participating political subdivisions which have authorized the five percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members.

Members become eligible for regular service retirement at age 60 and vested or at any age with 30 years. Vested members are eligible for reduced early retirement benefits when they have reached age 55 or have completed 25 years of service. Members joining TCRS after June 30, 1979 attain vesting rights after five years of service; the vesting period for members who joined prior to July 1, 1979 is four years. Five-year vesting and 25-year retirement are benefits that are optional to local governments. Otherwise, vesting for local governments is 10 years of service.

## SERVICES FOR ACTIVE AND RETIRED MEMBERS

### SERVICES FOR ACTIVE MEMBERS

TCRS provides a number of services for active members through its various sections.

#### *Field Services*

- ◇ TCRS staff is available to conduct employee presentations on all aspects of the retirement system.
- ◇ Employer seminars are conducted annually to educate retirement officers on legislation affecting TCRS.

#### *Membership*

- ◇ Comprehensive membership statements are provided to all members annually.
- ◇ Computer generated membership letters and membership pamphlets are mailed to all new members.
- ◇ Membership booklets are provided to all members periodically.
- ◇ The members' newsletter, *TCRS Report*, is sent to members semiannually.

#### *Prior Service*

- ◇ An automated calculation and eligibility system generates billings for members who wish to establish prior service.
- ◇ An installment program is available to purchase certain types of prior service.
- ◇ TCRS staff is available for personal counseling on an individual basis at their Nashville office.

#### *Benefits*

- ◇ Interactive benefit calculator via Internet.
- ◇ Computer generated benefit estimates are available for those members approaching retirement age.
- ◇ Annual regional employee benefit counseling workshops are available to educate potential retirees.
- ◇ TCRS staff is available for personal counseling on an individual basis at their Nashville office.
- ◇ Preretirement planning seminars, which explain all facets of post-career retirement planning, are provided for members.

### SERVICES FOR RETIRED MEMBERS

A number of services are made available to TCRS retirees.

- ◇ A toll-free telephone line.
- ◇ Retiree identification cards.
- ◇ Semiannual retiree newsletter: *The Retiree Advisor*.
- ◇ Direct deposit service.
- ◇ Continuation of medical insurance.
- ◇ Medicare supplement coverage.
- ◇ Income tax information.
- ◇ Certification of monthly benefits.
- ◇ Certification of student discounts.
- ◇ Credit Union deductions.
- ◇ Tennessee State Employee Association deductions.
- ◇ Tennessee Retired Teachers Association deductions.



## SAMPLE BENEFIT CALCULATIONS

### TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS for Calendar Year 2001

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	8,280		8,280		8,280		8,280		8,280	
	Total	\$ 11,824	78.8%	\$ 13,005	86.7%	\$ 14,186	94.6%	\$ 15,368	102.5%	\$ 16,549	110.3%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	9,852		9,852		9,852		9,852		9,852	
	Total	\$ 14,577	72.9%	\$ 16,152	80.8%	\$ 17,727	88.6%	\$ 19,302	96.5%	\$ 20,877	104.4%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	11,424		11,424		11,424		11,424		11,424	
	Total	\$ 17,330	69.3%	\$ 19,299	77.2%	\$ 21,268	85.1%	\$ 23,237	92.9%	\$ 25,205	100.8%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	12,996		12,996		12,996		12,996		12,996	
	Total	\$ 20,084	66.9%	\$ 22,446	74.8%	\$ 24,809	82.7%	\$ 27,171	90.6%	\$ 29,534	98.4%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	14,580		14,580		14,580		14,580		14,580	
	Total	\$ 22,849	65.3%	\$ 25,605	73.2%	\$ 28,361	81.0%	\$ 31,118	88.9%	\$ 33,874	96.8%
\$40,000	TCRS	\$ 9,631		\$ 12,842		\$ 16,052		\$ 19,262		\$ 22,473	
	Social Security	15,672		15,672		15,672		15,672		15,672	
	Total	\$ 25,303	63.3%	\$ 28,514	71.3%	\$ 31,724	79.3%	\$ 34,934	87.3%	\$ 38,145	95.4%
\$45,000	TCRS	\$ 11,009		\$ 14,679		\$ 18,349		\$ 22,019		\$ 25,688	
	Social Security	16,260		16,260		16,260		16,260		16,260	
	Total	\$ 27,269	60.6%	\$ 30,939	68.8%	\$ 34,609	76.9%	\$ 38,279	85.1%	\$ 41,948	93.2%
\$50,000	TCRS	\$ 12,387		\$ 16,517		\$ 20,646		\$ 24,775		\$ 28,904	
	Social Security	16,776		16,776		16,776		16,776		16,776	
	Total	\$ 29,163	58.3%	\$ 33,293	66.6%	\$ 37,422	74.8%	\$ 41,551	83.1%	\$ 45,680	91.4%
\$55,000	TCRS	\$ 13,766		\$ 18,354		\$ 22,943		\$ 27,531		\$ 32,120	
	Social Security	17,244		17,244		17,244		17,244		17,244	
	Total	\$ 31,010	56.4%	\$ 35,598	64.7%	\$ 40,187	73.1%	\$ 44,775	81.4%	\$ 49,364	89.8%
\$60,000	TCRS	\$ 15,144		\$ 20,192		\$ 25,239		\$ 30,287		\$ 35,335	
	Social Security	17,700		17,700		17,700		17,700		17,700	
	Total	\$ 32,844	54.7%	\$ 37,892	63.2%	\$ 42,939	71.6%	\$ 47,987	80.0%	\$ 53,035	88.4%

\* Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

This chart is based on a date of retirement in 2001. Social security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions:

- (1) Retirement is taking place at age 65 in 2001;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: [www.treasury.state.tn.us/tcrs/](http://www.treasury.state.tn.us/tcrs/)

## MAJOR LEGISLATIVE IMPROVEMENTS

## 1972

- ◇ The benefit formula was improved from 1.12 percent of salary up to the Social Security Integration Level (SSIL) to 1.5 percent of salary up to the SSIL.

## 1973

- ◇ An annual cost-of-living increase, based on the Consumer Price Index (CPI) with a cap of 1.5 percent was adopted for retirees.

## 1974

- ◇ Disability retirement eligibility requirement was reduced from 10 years to five years of service.
- ◇ The minimum benefit was increased from \$5.34 to \$7.00 per month per year of service.
- ◇ The maximum annual cost-of-living increase was raised from 1.5 percent to three percent.
- ◇ A provision was made to increase retirees' benefits whenever the benefit formula is improved.
- ◇ Service credit was authorized for unused accumulated sick leave.

## 1976

- ◇ Service retirement eligibility requirements were reduced from age 65 or 35 years of service to age 60 or 30 years of service.
- ◇ Early retirement eligibility requirements were reduced from age 60 or 30 years of service to age 55.

## 1978

- ◇ A bonus cost-of-living increase was granted to retirees at a lump-sum cost of \$15.3 million.
- ◇ An optional retirement plan was established for teachers in the Board of Regents system.

## 1980

- ◇ Death benefits for members dying in-service with 10 years of service was improved by offering a 100 percent joint and survivor annuity of the member's accrued benefit for the spouse.

## 1981

- ◇ Noncontributory retirement for state employees and higher education employees was adopted. The employees' contributions—up to five percent—were assumed by the state.

## 1983

- ◇ An actuarially reduced retirement benefit at any age with 25 years of service was authorized.

## 1984

- ◇ Credit for out-of-state service for the purpose of determining retirement eligibility was authorized.
- ◇ Retirement credit for armed conflict military service was approved.
- ◇ The minimum benefit was increased from \$7 to \$8 per month per year of service.
- ◇ Part-time employees were permitted to participate in TCRS and members were allowed to establish credit for previous part-time employment.

## 1985

- ◇ An ad-hoc increase was granted to retirees at a lump-sum cost of \$22 million.
- ◇ Death benefits for spouse and children were provided when member's death is in the line of duty.

## 1987

- ◇ Service credit for half of peacetime military service was made available.
- ◇ Another ad-hoc increase to retirees was provided at a lump-sum cost of \$17 million.
- ◇ A retirement incentive program was offered for state employees retiring during a 90-day window.
- ◇ Section 414(h) of the IRC was adopted to provide that employee contributions are made on a tax-deferred basis.

(continued)

**MAJOR LEGISLATIVE IMPROVEMENTS  
(CONTINUED)**

**1989**

- ◇ Retirement service credit for members receiving workers' compensation due to a temporary disability was made available.

**1990**

- ◇ A retirement incentive program was offered for state employees retiring during a window of 120 days.

**1991**

- ◇ 3.6 percent indexing of salaries for noncontributory employees was extended for one year.
- ◇ The Board of Trustees was authorized to designate additional vendors for the optional retirement plan for higher education employees.

**1992**

- ◇ 3.6 percent indexing of salaries for noncontributory employees was extended for one year.
- ◇ The minimum number of years required to qualify for retirement was reduced from 10 to five years.
- ◇ Disability and death benefits were made available to inactive, vested members.

**1993**

- ◇ 3.6 percent indexing of salaries for noncontributory employees was extended for one year.
- ◇ Salary portability for service in different classifications was authorized effective January 1, 1994.
- ◇ A benefit improvement percentage up to five percent was authorized effective January 1, 1994.

**1994**

- ◇ 3.6 percent indexing of salaries was extended for one year.
- ◇ Retirees were permitted to work 100 days per year for a covered employer without loss of benefits.

**1995**

- ◇ 3.6 percent indexing of salaries was extended for one year.

**1996**

- ◇ 3.6 percent indexing of salaries was extended for one year.

**1997**

- ◇ Compounded COLA for retirees was approved, effective January 1, 1998.
- ◇ Beginning date for armed conflict military service credit during the Vietnam Era was changed from August 4, 1964 to February 28, 1961.
- ◇ 3.6 percent indexing of salaries for noncontributory employees was extended indefinitely.

**1998**

- ◇ Group 2 and Group 3 service requirements were amended to permit service retirement with 30 years of service, regardless of age.
- ◇ Group 1 and Prior Class C benefit limitations were increased to 80 percent.
- ◇ Mandatory retirement established with supplemental bridge benefit for all state public safety officers.

**1999**

- ◇ Group 1 benefit maximum was increased to 90 percent.

**2000**

- ◇ Group 2 benefit maximum was increased to 80 percent.

**2001**

- ◇ Line of Duty Death Benefits improved to guarantee a minimum \$50,000 death benefit.



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Statistical Section

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SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Service Credit

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
0 - 4	14,205	18,282	5,773	30,308	68,568
5 - 9	6,729	12,918	2,959	15,378	37,984
10 - 14	5,940	7,807	2,696	10,093	26,536
15 - 19	6,158	7,317	2,172	5,687	21,334
20 - 24	4,267	6,988	2,016	4,027	17,298
25 - 29	3,497	7,590	1,478	2,151	14,716
30 - 34	1,464	3,252	754	748	6,218
35 - 39	487	731	214	205	1,637
40 - 44	128	120	40	41	329
Over 44	39	35	13	18	105
<b>Total</b>	<b>42,914</b>	<b>65,040</b>	<b>18,115</b>	<b>68,656</b>	<b>194,725</b>

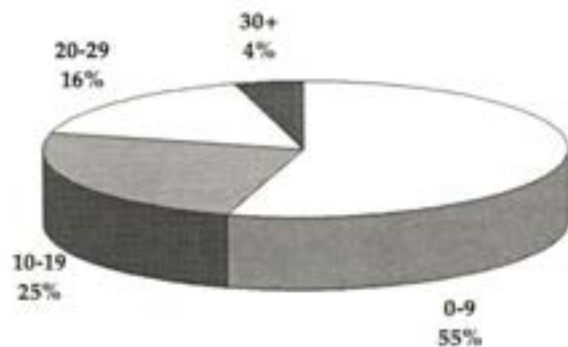
SCHEDULE OF ACTIVE MEMBERS

by Enrollment Date

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1940s	6	9	4	0	19
1950s	104	103	23	14	244
1960s	1,323	3,147	427	216	5,113
1970s	7,178	14,421	3,495	4,809	29,903
1980s	12,780	14,522	5,116	13,557	45,975
1990s	15,943	27,563	6,830	38,232	88,568
2000s	5,580	5,275	2,220	11,828	24,903
<b>Total</b>	<b>42,914</b>	<b>65,040</b>	<b>18,115</b>	<b>68,656</b>	<b>194,725</b>

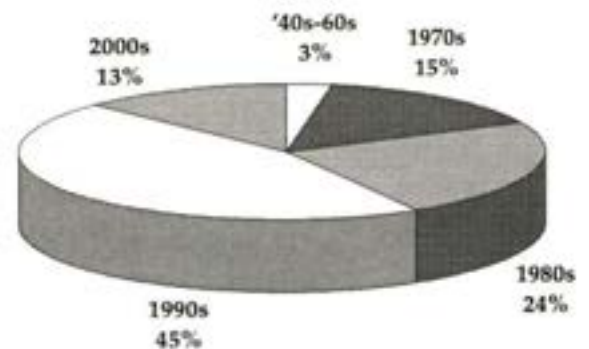
PERCENTAGE OF ACTIVE MEMBERS

by Service Credit



PERCENTAGE OF ACTIVE MEMBERS

by Enrollment Date



## SCHEDULES OF ACTIVE MEMBERS

### SCHEDULE OF ACTIVE MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than 20	89	8	17	82	196
20-29	4,734	9,034	1,466	6,938	22,172
30-39	8,249	14,396	3,285	16,187	42,117
40-49	13,533	18,881	5,608	21,163	59,185
50-54	7,422	12,999	3,087	9,679	33,187
55-59	5,022	6,933	2,474	7,376	21,805
60-64	2,643	2,301	1,515	4,512	10,971
65-69	818	381	459	1,763	3,421
Over 69	404	107	204	956	1,671
<b>Total</b>	<b>42,914</b>	<b>65,040</b>	<b>18,115</b>	<b>68,656</b>	<b>194,725</b>

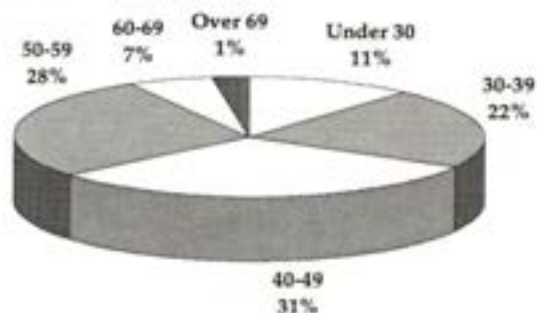
### SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than 20	1,772	126	340	1,023	3,261
20 - 24	9,356	23,991	3,037	8,469	44,853
25 - 29	9,061	15,452	3,530	10,444	38,487
30 - 34	6,545	8,531	3,204	11,291	29,571
35 - 39	5,512	7,004	2,891	11,860	27,267
40 - 44	4,305	5,083	2,233	9,844	21,465
45 - 49	3,136	3,016	1,485	6,854	14,491
50 - 54	1,910	1,325	835	4,562	8,632
55 - 59	960	425	386	2,656	4,427
60 - 64	266	71	124	1,063	1,524
65 - 69	65	11	37	423	536
Over 69	26	5	13	167	211
<b>Total</b>	<b>42,914</b>	<b>65,040</b>	<b>18,115</b>	<b>68,656</b>	<b>194,725</b>

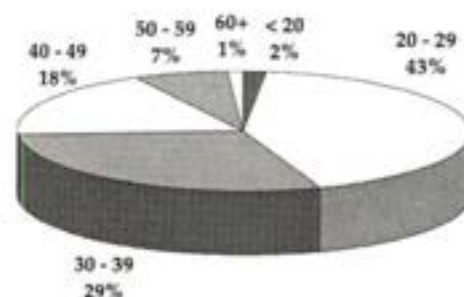
### PERCENTAGE OF ACTIVE MEMBERS

by Current Age



### PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



SCHEDULES OF ACTIVE MEMBERS

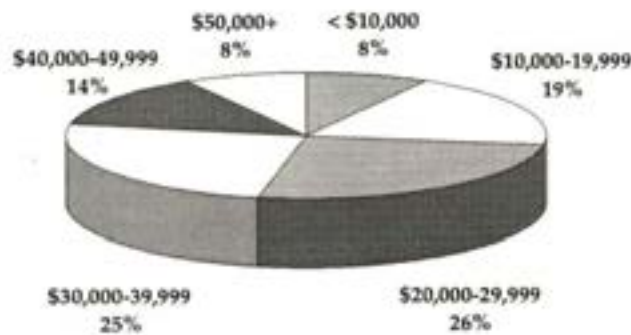
SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than \$10,000	2,843	339	1,311	11,797	16,290
\$10,000-19,999	7,898	1,172	4,575	23,397	37,042
\$20,000-29,999	14,904	10,848	5,429	19,439	50,620
\$30,000-39,999	9,557	27,260	2,640	8,719	48,176
\$40,000-49,999	4,222	17,187	1,632	3,301	26,342
\$50,000+	3,490	8,234	2,528	2,003	16,255
<b>Total</b>	<b>42,914</b>	<b>65,040</b>	<b>18,115</b>	<b>68,656</b>	<b>194,725</b>

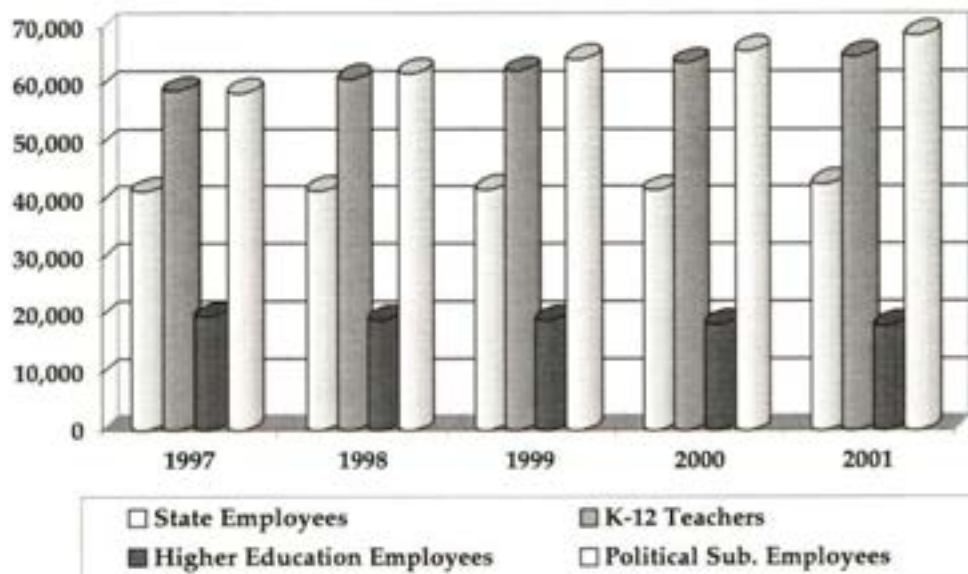
PERCENTAGE OF ACTIVE MEMBERS

by Salary



ACTIVE MEMBERS

Fiscal Years 1997-2001



## SCHEDULES OF RETIRED MEMBERS

### SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

Benefit Plan*	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Regular	10,491	18,027	5,196	14,148	47,862
Option I	1,409	1,272	1,159	1,539	5,379
Option II	795	663	502	565	2,525
Option III	1,696	1,793	870	1,493	5,852
Option IV	1,394	1,808	768	893	4,863
S.S. Leveling	1,063	2,424	265	858	4,610
Subtotal	16,848	25,987	8,760	19,496	71,091
Survivors	2,223	1,547	1,079	1,802	6,651
Total	19,071	27,534	9,839	21,298	77,742

- \* Regular Maximum Plan - No Survivor Benefits
- \* Option I 100% Joint and Survivor Annuity
- \* Option II 50% Joint and Survivor Annuity
- \* Option III 100% Joint and Survivor Annuity with Pop-up Feature
- \* Option IV 50% Joint and Survivor Annuity with Pop-up Feature
- \* S.S. Leveling Benefit Level Coordinated with Social Security

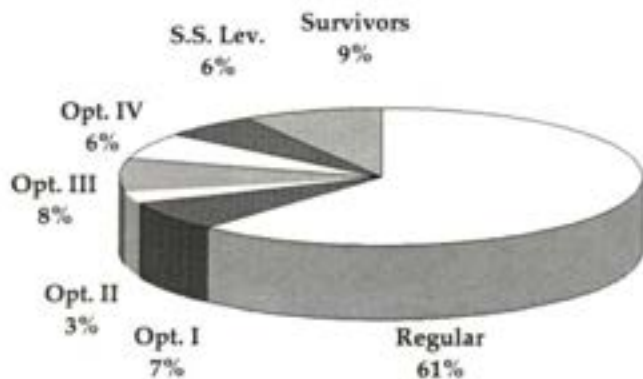
### SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Retirees:					
Service	13,475	21,670	7,040	15,204	57,389
Early	2,140	3,527	1,264	2,880	9,811
Disability	1,233	790	456	1,412	3,891
Total Retirees	16,848	25,987	8,760	19,496	71,091
Survivors	2,223	1,547	1,079	1,802	6,651
Total	19,071	27,534	9,839	21,298	77,742

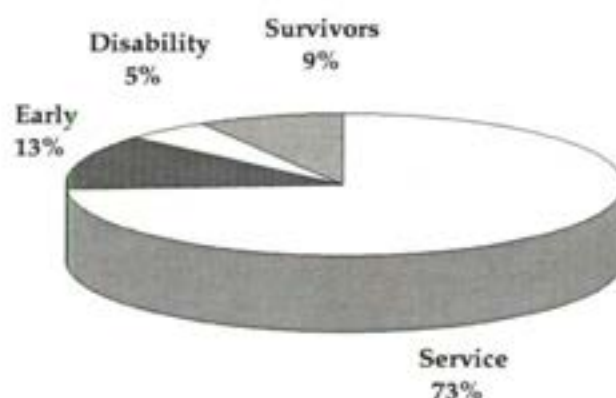
### PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



### PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement





**SCHEDULES OF RETIRED MEMBERS**

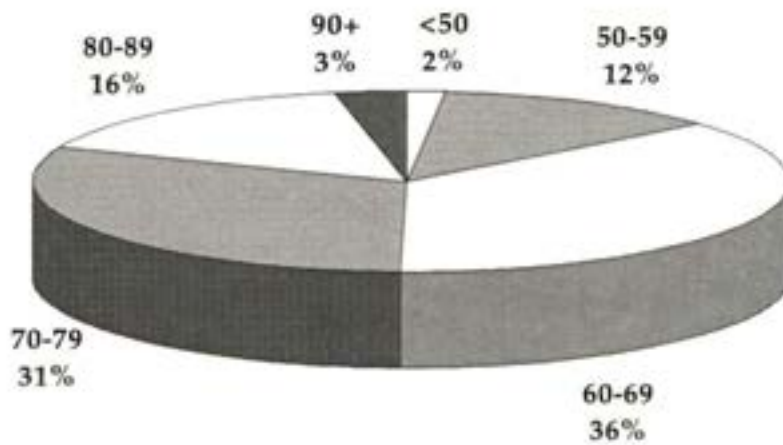
**SCHEDULE OF RETIRED MEMBERS**

*by Current Age*

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 40	107	75	39	70	291
40-44	139	63	68	77	347
45-49	259	125	98	212	694
50-54	778	1,179	265	592	2,814
55-59	1,679	2,707	829	1,477	6,692
60-64	3,069	4,457	1,578	3,641	12,745
65-69	3,742	4,801	2,104	4,780	15,427
70-74	3,428	4,349	1,931	3,874	13,582
75-79	2,749	3,135	1,532	3,091	10,507
80-84	1,825	2,800	885	2,103	7,613
85-89	941	2,240	382	1,054	4,617
90-94	312	1,280	106	281	1,979
95-99	39	292	20	41	392
Over 99	4	31	2	5	42
<b>Total</b>	<b>19,071</b>	<b>27,534</b>	<b>9,839</b>	<b>21,298</b>	<b>77,742</b>

**PERCENTAGE OF TOTAL RETIRED MEMBERS**

*by Current Age*



## SCHEDULES OF RETIRED MEMBERS

### SCHEDULE OF RETIRED MEMBERS

*by Date of Retirement*

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1940s	0	2	0	0	2
1950s	6	36	0	3	45
1960s	53	368	15	17	453
1970s	1,861	4,588	640	1,844	8,933
1980s	5,147	7,665	2,616	5,747	21,175
1990s	10,242	12,116	5,552	11,416	39,326
2000s	1,762	2,759	1,016	2,271	7,808
<b>Total</b>	<b>19,071</b>	<b>27,534</b>	<b>9,839</b>	<b>21,298</b>	<b>77,742</b>

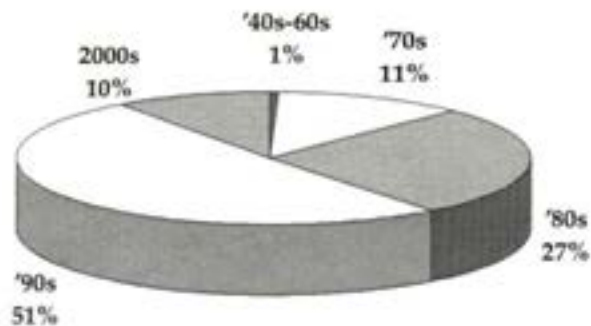
### SCHEDULE OF RETIRED MEMBERS

*by Service Credit at Retirement*

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 10	3,951	2,108	1,843	4,569	12,471
10-14	2,929	1,764	1,591	4,639	10,923
15-19	2,629	2,188	1,483	3,895	10,195
20-24	2,649	3,188	1,344	3,426	10,607
25-29	2,165	4,228	1,157	2,275	9,825
30-34	3,047	8,322	1,478	1,795	14,642
35-39	1,097	3,675	591	490	5,853
40-44	495	1,724	267	175	2,661
Over 44	109	337	85	34	565
<b>Total</b>	<b>19,071</b>	<b>27,534</b>	<b>9,839</b>	<b>21,298</b>	<b>77,742</b>

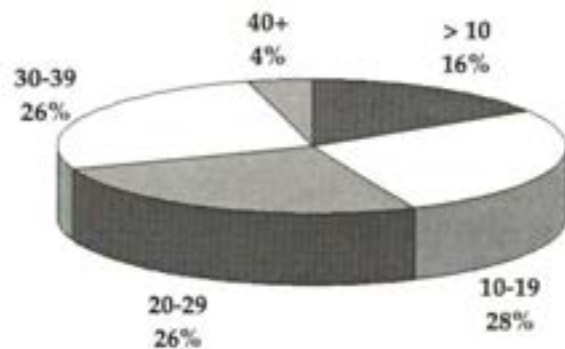
### PERCENTAGE OF RETIRED MEMBERS

*by Date of Retirement*



### PERCENTAGE OF RETIRED MEMBERS

*by Service Credit at Retirement*

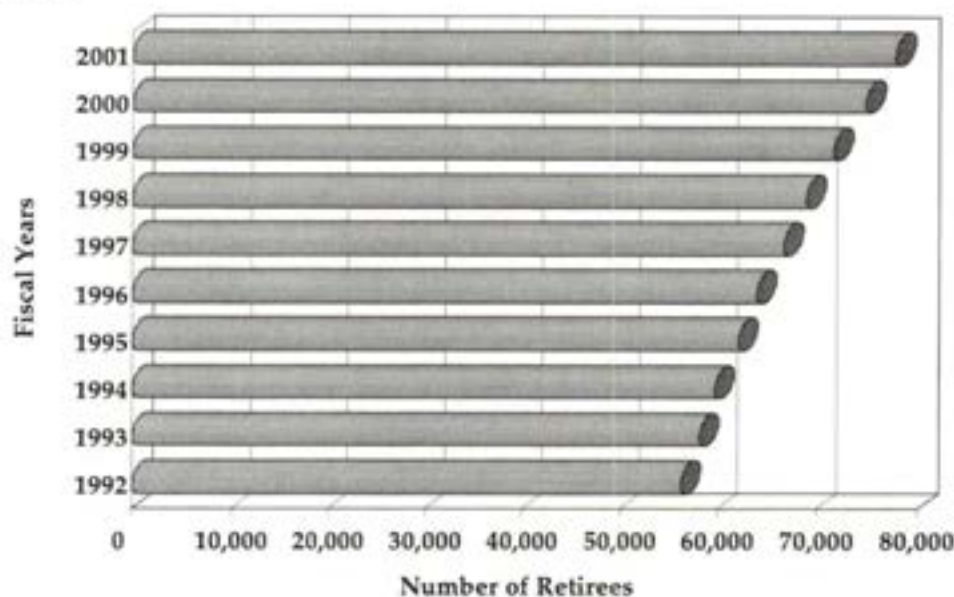


RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

UNITED STATES				INTERNATIONAL COUNTRIES			
Alabama	370	Kentucky	305	North Dakota	4	Australia	1
Alaska	10	Louisiana	52	Ohio	94	Canada	4
Arizona	91	Maine	12	Oklahoma	44	England	3
Arkansas	233	Maryland	53	Oregon	23	France	1
California	141	Massachusetts	13	Pennsylvania	46	Germany	1
Colorado	49	Michigan	70	Rhode Island	2	Greece	2
Connecticut	12	Minnesota	17	South Carolina	126	Ireland	1
Delaware	11	Mississippi	652	South Dakota	1	Israel	1
Dist. of Columbia	8	Missouri	80	Tennessee	72,553	Italy	1
Florida	810	Montana	7	Texas	243	Japan	1
Georgia	566	Nebraska	5	Utah	8	Kenya	1
Hawaii	15	Nevada	32	Vermont	6	Norway	1
Idaho	13	New Hampshire	9	Virginia	299	Pakistan	2
Illinois	85	New Jersey	12	Washington	39	Panama	1
Indiana	71	New Mexico	20	West Virginia	14	Tanzania	1
Iowa	9	New York	39	Wisconsin	17	Total Foreign Countries	22
Kansas	27	North Carolina	295	Wyoming	2	Overseas Military Bases	5
				Total U.S.	77,715	Total U.S.	77,715
						Total	77,742
<b>TENNESSEE</b>							
Anderson	1,194	Fentress	234	Lauderdale	503	Roane	921
Bedford	468	Franklin	545	Lawrence	521	Robertson	651
Benton	221	Gibson	863	Lewis	220	Rutherford	1,967
Bledsoe	257	Giles	368	Lincoln	410	Scott	322
Blount	1,752	Grainger	182	Loudon	512	Sequatchie	183
Bradley	858	Greene	1,315	McMinn	625	Sevier	641
Campbell	568	Grundy	215	McNairy	370	Shelby	8,508
Cannon	228	Hamblen	786	Macon	157	Smith	280
Carroll	439	Hamilton	3,607	Madison	1,631	Stewart	134
Carter	1,021	Hancock	64	Marion	337	Sullivan	2,323
Cheatham	421	Hardeman	698	Marshall	340	Sumner	1,327
Chester	285	Hardin	411	Mauzy	580	Tipton	452
Claiborne	448	Hawkins	633	Meigs	90	Trousdale	147
Clay	109	Haywood	424	Monroe	472	Unicoi	298
Cocke	399	Henderson	238	Montgomery	1,434	Union	217
Coffee	596	Henry	586	Moore	78	VanBuren	105
Crockett	258	Hickman	379	Morgan	458	Warren	547
Cumberland	592	Houston	75	Obion	546	Washington	1,905
Davidson	6,385	Humphreys	305	Overton	309	Wayne	217
Decatur	170	Jackson	160	Perry	178	Weakley	763
Dekalb	225	Jefferson	593	Pickett	90	White	459
Dickson	474	Johnson	216	Polk	141	Williamson	1,150
Dyer	363	Knox	4,927	Putnam	1,313	Wilson	1,078
Fayette	566	Lake	191	Rhea	331	Total Tennessee	72,553

## RETIRED MEMBERS ON PAYROLL AND PRIOR SERVICE ESTABLISHED

### NUMBER OF RETIREES ON PAYROLL *Fiscal Years 1992-2001*



### PRIOR SERVICE ESTABLISHED *for the Year Ended June 30, 2001*

Type of Service	Members	Years of Service	Payments
<b>State:</b>			
Backpayment	21	103	\$ 79,532
Military	2	2	10,313
Redeposit	212	1,275	574,341
<b>Total</b>	<b>235</b>	<b>1,380</b>	<b>\$ 664,186</b>
<b>Teachers:</b>			
Backpayment	47	148	\$ 78,623
Military	0	0	0
Redeposit	289	1,589	989,364
<b>Total</b>	<b>336</b>	<b>1,737</b>	<b>\$ 1,067,987</b>
<b>Higher Education:</b>			
Backpayment	46	268	\$ 124,168
Military	1	2	4,221
Redeposit	88	234	97,795
<b>Total</b>	<b>135</b>	<b>504</b>	<b>\$ 226,184</b>
<b>Political Subdivisions:</b>			
Backpayment	123	761	\$ 250,761
Military	2	2	4,261
Redeposit	78	426	180,011
<b>Total</b>	<b>203</b>	<b>1,189</b>	<b>\$ 435,033</b>
<b>Totals by Category:</b>			
Backpayment	237	1,280	\$ 533,084
Military	5	6	18,795
Redeposit	667	3,524	1,841,511
<b>Total</b>	<b>909</b>	<b>4,810</b>	<b>\$ 2,393,390</b>

## TREASURY RETIREMENT INSTALLMENT PLAN

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative for members who have prior service to be established. Previously, prior service payments were required to be made in a lump sum payment. TRIP has allowed these members to establish their prior service by making monthly installment payments in the form of Automated Clearing House (ACH) withdrawals from a designated bank account. Prior service may be financed over a period of months not to exceed five years.

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for their prior service, a statement is generated showing a lump sum payment. In addition, TRIP information is given with regard to financing over 6 to 60 months. The member may elect to finance the entire amount or elect to make a down payment and finance the balance.

Annual statements are also generated as of the fiscal year ending June 30. Statements reflect the principle and interest payments made and remaining balance. The member may choose at any time to pay off the remaining balance.

### TREASURY RETIREMENT INSTALLMENT PLAN

*Payments Received for the Year Ended June 30, 2001*

Type of Service	Members	Years of Service	Payments
<b>State:</b>			
Backpayment	127	273	\$ 234,888
Military	131	268	9,959
Redeposit	110	507	986,794
<b>Total</b>	<b>368</b>	<b>1,048</b>	<b>\$ 1,231,641</b>
<b>Teachers:</b>			
Backpayment	95	185	\$ 616,329
Military	67	137	0
Redeposit	172	729	1,456,282
<b>Total</b>	<b>334</b>	<b>1,051</b>	<b>\$ 2,072,611</b>
<b>Higher Education:</b>			
Backpayment	180	290	\$ 237,392
Military	53	145	11,433
Redeposit	25	118	237,363
<b>Total</b>	<b>258</b>	<b>553</b>	<b>\$ 486,188</b>
<b>Political Subdivisions:</b>			
Backpayment	1,113	5,341	\$ 497,247
Military	146	337	10,867
Redeposit	43	171	272,066
<b>Total</b>	<b>1,302</b>	<b>5,849</b>	<b>\$ 780,180</b>
<b>Totals by Category:</b>			
Backpayment	1,515	6,089	\$ 1,585,856
Military	397	887	32,259
Redeposit	350	1,525	2,952,505
<b>Total</b>	<b>2,262</b>	<b>8,501</b>	<b>\$ 4,570,620</b>

## REFUND ACTIVITY AND POLITICAL SUBDIVISION PARTICIPATION

### REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
1992	5,181	\$ 20,862,170
1993	4,627	17,141,499
1994	4,449	17,636,340
1995	4,788	20,914,496
1996	4,663	20,721,711
1997	4,632	23,833,152
1998	4,571	24,649,359
1999	4,874	25,634,380
2000	5,029	28,562,230
2001	4,771	28,517,803

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees, and certain political subdivisions, resulting in fewer refunds for members withdrawing from the system.

### POLITICAL SUBDIVISION PARTICIPATION

#### *Schedule by Category*

Year Ended June 30	Number of Cities	Number of Counties	Miscellaneous Political Subdivisions	Total
1992	111	83	123	317
1993	115	83	127	325
1994	118	83	137	338
1995	123	83	140	346
1996	128	84	144	356
1997	134	84	147	365
1998	142	86	151	379
1999	147	87	160	394
2000	151	88	151	390
2001	156	87	161	404

## HISTORICAL EMPLOYER CONTRIBUTION RATES

### HISTORICAL EMPLOYER CONTRIBUTION RATES

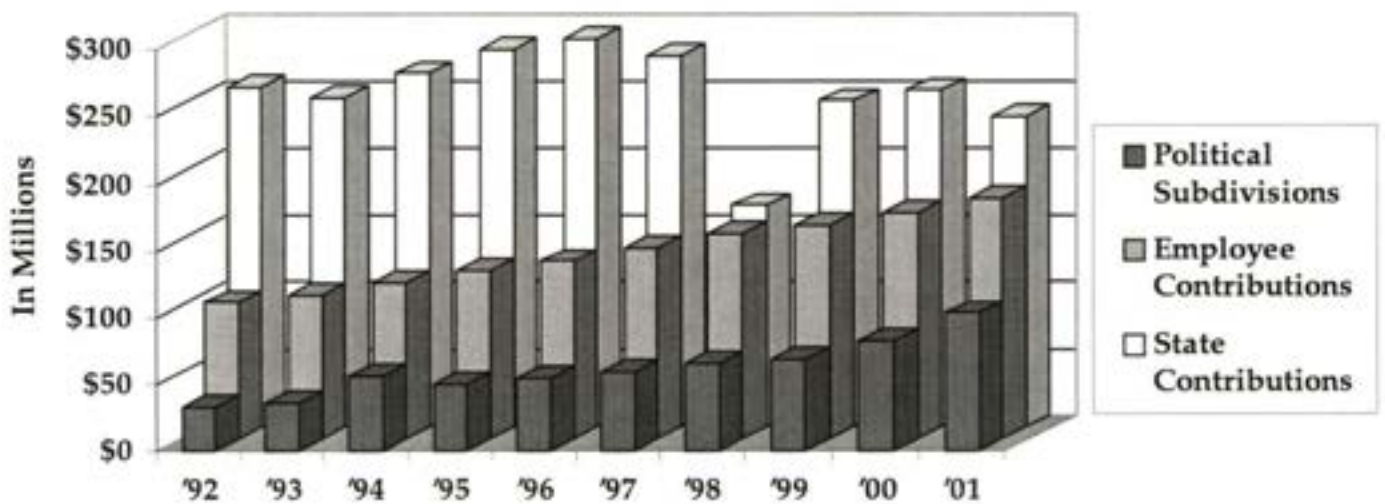
*Expressed as a Percentage of Salary*

Year Ended June 30	State Employees	Teachers	Higher Education Employees	
			Faculty	General
1992	6.85%	10.01%	6.85%	6.85%
1993	6.44	8.68	6.44	6.44
1994	6.69	8.70	6.69	6.69
1995	6.33	8.51	6.33	6.33
1996	6.33	8.51	6.33	6.33
1997	7.36	6.50	7.36	7.36
1998	3.65	3.89	3.65	3.65
1999	5.43	5.47	5.43	5.43
2000	5.43	5.47	5.43	5.43
2001	6.19	3.72	6.19	6.19

The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

### RETIREMENT CONTRIBUTIONS

*Fiscal Years 1992-2001*



## HISTORICAL FAIR VALUE

### HISTORICAL FAIR VALUE

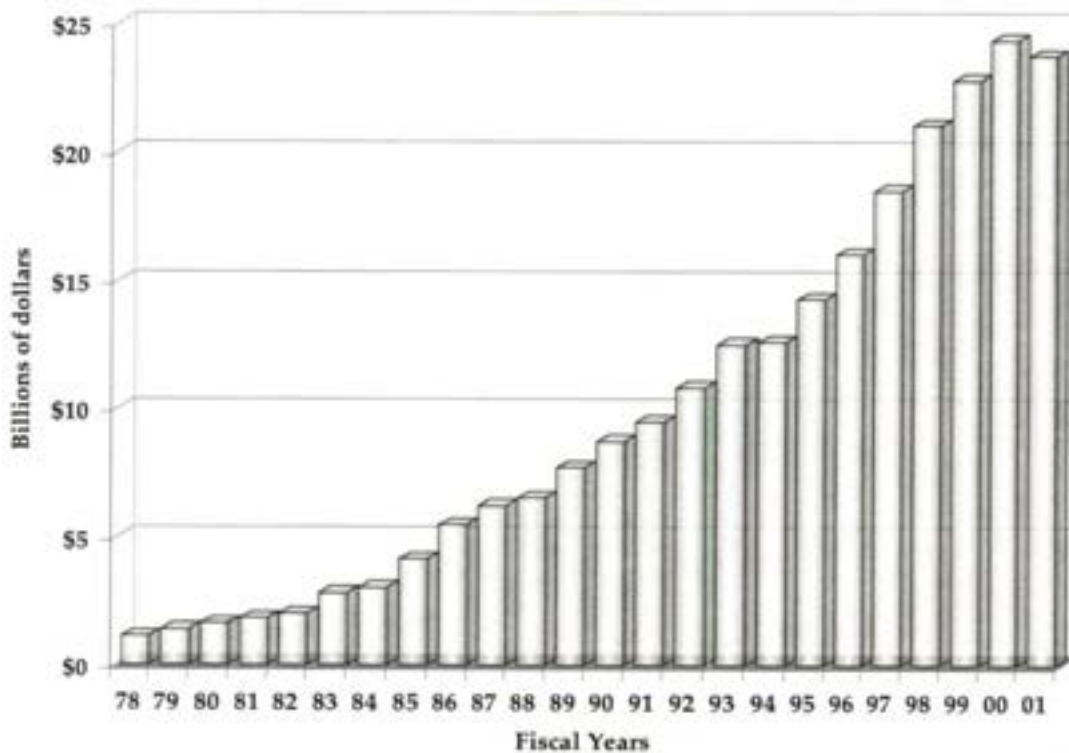
Fiscal Years 1978-2001

Expressed in Thousands

As of June 30	Fair Value	As of June 30	Fair Value
1978	\$ 1,146,321	1990	\$ 8,757,167
1979	1,415,959	1991	9,499,347
1980	1,651,664	1992	10,850,328
1981	1,854,588	1993	12,524,434
1982	2,024,415	1994	12,632,853
1983	2,837,842	1995	14,293,461
1984	3,057,519	1996	16,072,177
1985	4,167,052	1997	18,519,341
1986	5,507,372	1998	21,057,487
1987	6,242,556	1999	22,797,512
1988	6,541,570	2000	24,337,679
1989	7,710,790	2001	23,738,205

### HISTORICAL FAIR VALUE

Fiscal Years 1978-2001





**ANALYSIS OF MEMBER AND EMPLOYER RESERVES  
FOR THE YEAR ENDED JUNE 30, 2001**

**MEMBER RESERVE FUND**

The legislation which created the TCRS established two funds, the Member Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plans. The Member Reserve Fund represents the accumulation of employee contributions plus interest.

	SETHEEPP	PSPP	Total
June 30, 2000 Member Reserve Fund	\$ 2,521,492,707	\$ 541,726,033	\$ 3,063,218,740
Member contributions	135,153,787	45,432,703	180,586,490
Employer provided contributions	27,625,915	11,828,639	39,454,554
Interest	118,941,894	25,853,569	144,795,463
Refunded account balances	(16,484,059)	(12,033,744)	(28,517,803)
Transfers to employer fund of retiring members'	(146,002,361)	(20,491,184)	(166,493,545)
June 30, 2001 Member Reserve Fund	<u>\$ 2,640,727,883</u>	<u>\$ 592,316,016</u>	<u>\$ 3,233,043,899</u>

**EMPLOYER RESERVE FUND**

The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

	SETHEEPP	PSPP	Total
June 30, 2000 Employer Reserve Fund	\$ 18,637,916,720	\$ 2,636,543,876	\$ 21,274,460,596
Employer contributions	232,149,452	103,680,787	335,830,239
Investment income	(283,926,535)	(43,585,166)	(327,511,701)
Transfers from retiring members' account	146,002,361	20,491,184	166,493,545
Employer provided contributions	(27,625,915)	(11,828,639)	(39,454,554)
Interest credited to members' account	(118,941,894)	(25,853,569)	(144,795,463)
Lump-Sum death benefits	(3,719,562)	(981,976)	(4,701,538)
Retirement and survivors annuities	(655,414,576)	(96,268,149)	(751,682,725)
Administrative expenses	(1,794,755)	(1,682,845)	(3,477,600)
Transfer between plans	12,603,541	(12,603,541)	0
June 30, 2001 Employer Reserve Fund	<u>\$ 17,937,248,837</u>	<u>\$ 2,567,911,962</u>	<u>\$ 20,505,160,799</u>
June 30, 2001 Assets held in trust for pension benefits	<u>\$ 20,577,976,720</u>	<u>\$ 3,160,227,978</u>	<u>\$ 23,738,204,698</u>

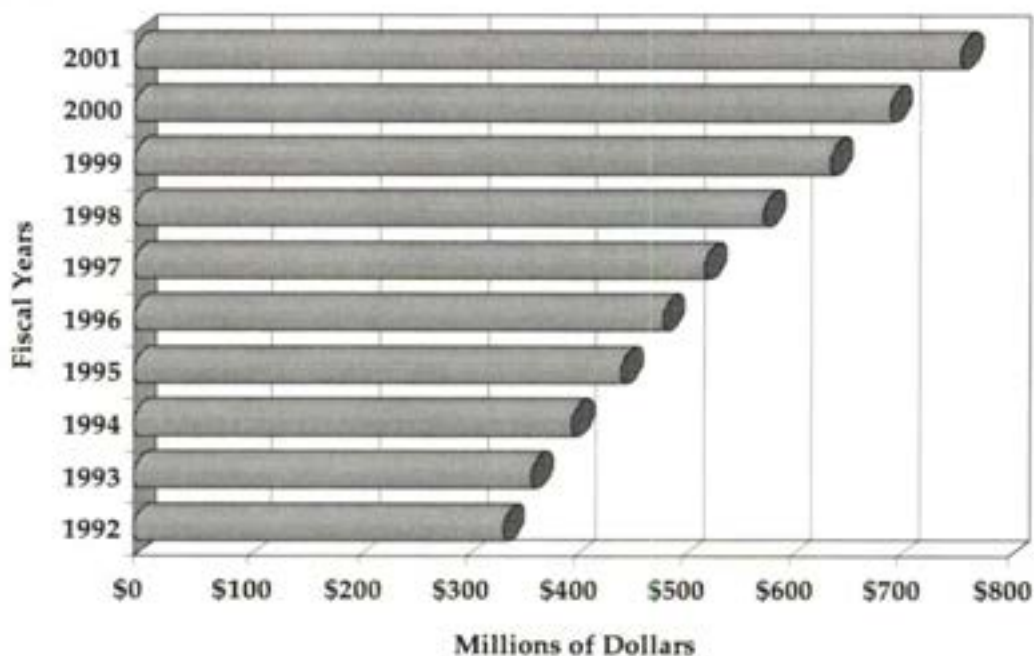
## AVERAGE BENEFIT PAYMENTS SCHEDULE

Fiscal Year of Retirement	Years of Service Credit				
	10 - 14	15 - 19	20 - 24	25 - 29	30 or more
2001 Average Monthly Benefit	\$ 421	\$ 722	\$ 1,035	\$ 1,420	\$ 2,064
Number of Retirees	375	323	376	391	1,440
Average Final Salary	\$ 25,291	\$ 31,157	\$ 33,609	\$ 37,869	\$ 44,220
2000 Average Monthly Benefit	\$ 397	\$ 703	\$ 970	\$ 1,369	\$ 2,041
Number of Retirees	443	321	367	425	1,312
Average Final Salary	\$ 24,289	\$ 28,880	\$ 31,562	\$ 36,242	\$ 42,795
1999 Average Monthly Benefit	\$ 452	\$ 735	\$ 1,024	\$ 1,399	\$ 2,092
Number of Retirees	422	326	399	384	1,197
Average Final Salary	\$ 26,001	\$ 30,189	\$ 31,930	\$ 35,899	\$ 43,034
1998 Average Monthly Benefit	\$ 386	\$ 673	\$ 918	\$ 1,358	\$ 1,932
Number of Retirees	401	344	430	379	1,153
Average Final Salary	\$ 23,347	\$ 27,627	\$ 30,058	\$ 35,104	\$ 39,957
1997 Average Monthly Benefit	\$ 387	\$ 624	\$ 904	\$ 1,299	\$ 1,845
Number of Retirees	423	374	421	366	957
Average Final Salary	\$ 22,973	\$ 25,809	\$ 28,644	\$ 33,255	\$ 38,367
1996 Average Monthly Benefit	\$ 357	\$ 580	\$ 810	\$ 1,278	\$ 1,786
Number of Retirees	352	354	362	307	740
Average Final Salary	\$ 21,309	\$ 24,501	\$ 26,718	\$ 31,841	\$ 36,745

Note: This schedule represents the average monthly benefits under the maximum plan of members retiring with an unreduced service retirement benefit. It excludes members retiring with a reduced early retirement benefit or under disability.

## ANNUAL BENEFIT PAYMENTS

Fiscal Years 1992-2001



## SCHEDULES OF BENEFIT EXPENSES

## SCHEDULES OF BENEFIT EXPENSES

*Expressed in Thousands*

Year Ending	Base Annuity	Disability Annuity	Survivor Annuity	Cost of Living	Lump-Sum Death Benefits	Total Benefits	Refunds	Total
<b>SETHEPP</b>								
6/30/1996	\$ 320,344	\$ 10,354	\$ 20,339	\$ 68,652	\$ 2,827	\$ 422,516	\$ 11,227	\$ 433,743
6/30/1997	346,192	11,578	21,829	73,751	2,395	455,745	11,444	467,189
6/30/1998	378,485	12,694	24,127	88,435	2,557	506,298	14,311	520,609
6/30/1999	414,149	13,948	25,934	99,823	2,616	556,470	13,491	569,961
6/30/2000	450,919	15,089	28,839	106,542	2,658	604,047	15,474	619,521
6/30/2001	491,204	16,094	31,224	116,892	3,720	659,134	16,484	675,618
<b>PSPP</b>								
6/30/1996	\$ 45,121	\$ 1,458	\$ 2,865	\$ 9,670	\$ 398	\$ 59,512	\$ 9,495	\$ 69,007
6/30/1997	49,478	1,655	3,120	10,540	801	65,594	12,389	77,983
6/30/1998	53,991	1,811	3,441	12,615	746	72,604	10,338	82,942
6/30/1999	60,182	2,027	3,769	14,506	778	81,262	12,143	93,405
6/30/2000	69,164	2,315	4,423	11,933	852	88,687	13,088	101,775
6/30/2001	75,517	2,474	4,800	13,477	982	97,250	12,034	109,284

**SCHEDULES OF EXPENSES BY TYPE AND REVENUE BY SOURCE  
FOR THE YEAR ENDED JUNE 30, 2001**

**SCHEDULES OF EXPENSES BY TYPE**

*Expressed in Thousands*

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Total
<b>SETHEPP</b>				
6/30/1996	\$ 422,516	\$ 2,091	\$ 11,227	\$ 435,834
6/30/1997	455,745	2,221	11,444	469,410
6/30/1998	506,298	2,191	14,311	522,800
6/30/1999	556,470	2,350	13,491	572,311
6/30/2000	604,047	2,363	15,474	621,884
6/30/2001	659,134	1,795	16,484	677,413

**PSPP**

6/30/1996	\$ 59,512	\$ 1,820	\$ 9,495	\$ 70,827
6/30/1997	65,594	1,636	12,389	79,619
6/30/1998	72,604	1,694	10,338	84,636
6/30/1999	81,262	1,840	12,143	95,245
6/30/2000	88,687	1,990	13,088	103,765
6/30/2001	97,250	1,683	12,034	110,967

**SCHEDULES OF REVENUE BY SOURCE**

*Expressed in Thousands*

Year Ending	Member Contributions	Employer Contributions		Investment Income (Loss)	Total
		Dollars	% of Annual Covered Payroll		
<b>SETHEPP</b>					
6/30/1996	\$ 102,916	\$ 290,222	7.87%	\$ 1,585,346	\$ 1,978,484
6/30/1997	110,697	278,417	7.31%	2,203,247	2,592,361
6/30/1998	116,196	166,756	4.19%	2,410,112	2,693,064
6/30/1999	122,565	244,453	5.88%	1,685,780	2,052,798
6/30/2000	129,925	252,162	5.93%	1,533,113	1,915,200
6/30/2001	135,154	232,149	5.20%	(283,926)	83,377

**PSPP**

6/30/1996	\$ 30,687	\$ 54,879	5.18%	\$ 221,327	\$ 306,893
6/30/1997	32,959	59,167	5.16%	311,706	403,832
6/30/1998	39,086	65,276	5.28%	348,156	452,518
6/30/1999	38,618	69,230	5.15%	246,936	354,784
6/30/2000	39,906	82,749	5.69%	227,961	350,616
6/30/2001	45,433	103,681	6.65%	(43,585)	105,529

## INTRODUCTION TO POLITICAL SUBDIVISION PARTICIPATION

### PARTICIPANTS

TCRS has established pension plans for four groups of public employees: state employees, higher education employees, teachers and the employees of governmental entities (political subdivisions). Employees of political subdivisions may participate in TCRS if the entity's governing body authorizes participation and accepts all liability associated with coverage for their employees.

Participation is subject to the approval of the Board of Trustees. As of June 30, 2001, 404 political subdivisions were participating in TCRS.

Participation as of June 30, 2001:

Cities	156
Counties	87
Utility Districts	39
Special School Districts	22
Joint Ventures	24
Development Agencies	13
Housing Authorities	10
911 Emergency Communication Districts	30
Miscellaneous Authorities	23
Total	404

### ADMINISTRATION

TCRS administers the pension plan for political subdivisions in accordance with state statute. Each employer is responsible for the pension cost for its employees. The cost is not shared with other political subdivisions nor with the state. A separate fund balance is maintained by the retirement system for each participating political subdivision and employer contribution rates are determined individually.

### APPLICATION

To apply for TCRS participation, the chief governing body of the political subdivision must first pass a resolution authorizing an actuarial study to estimate the potential cost of participation. Once the governing body has had an opportunity to review the estimated pension cost and liability, a second resolution must then be passed in order to authorize TCRS participation. Political subdivisions electing TCRS coverage accept the liability for pension benefits to be accrued by their employees.

### COVERAGE

A political subdivision is required to offer coverage under the same terms and conditions to all the employees of each of its departments and agencies.

Political subdivisions have the option of purchasing, or allowing their employees to purchase, retirement credit for service rendered prior to the employer's date of participation. The amount of prior service allowed may be limited.

Political subdivisions opting to join TCRS do so under the plan provisions that exist at the time of their participation. Subsequent legislative changes, however, are optional if they result in increased cost to the political subdivision. These optional improvements may be adopted by resolutions approved by the chief governing body.

**THE TCRS PROVIDES  
THE ADMINISTRATION  
OF A RETIREMENT  
PROGRAM FOR 404  
LOCAL GOVERNMENTS.**

## OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

### MEMBERSHIP

- ❖ Optional membership for part-time employees
- ❖ Probationary period of up to six months during which the employees are not eligible for membership in TCRS and no contributions to TCRS are required of either the employees or the employer
- ❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years

### CONTRIBUTIONS

- ❖ Employee contributions at a level five percent both below and above the social security wage base
- ❖ Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code
- ❖ Noncontributory retirement plan
- ❖ Extension of 3.6 percent indexing feature for non-contributory members' salaries used in calculating the average final compensation component of a benefit calculation

### CREDITABLE SERVICE

- ❖ Credit for service credit lost as a result of advanced age
- ❖ Service credit for unused sick leave
- ❖ Service credit for military service during periods of armed conflict at no cost to the employee
- ❖ Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment
- ❖ Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975
- ❖ Purchase of service credit for probation period

### SURVIVOR BENEFITS

- ❖ 100 percent joint and survivor spouse death benefit for members with 10 years of service
- ❖ Provide inactive members with certain death and disability benefits

### RETIREMENT BENEFITS

- ❖ Provide current retirees and members a five percent increase in base retirement benefit
- ❖ The actuarial equivalent of an age 65 benefit for employees retiring after age 65
- ❖ 25-year retirement with actuarially reduced benefits
- ❖ Minimum benefit level increase to \$8 per year of service
- ❖ Mandatory retirement with supplemental bridge benefit for public safety officers.

### RETIRED MEMBERS

- ❖ Exclusion of cost-of-living benefit increases at the date of participation for all employees or at a later date for new employees
- ❖ Inclusion of compounded cost-of-living adjustment (COLA) to current and future retirees of employers now providing a simple COLA or employers who previously elected not to provide a COLA.

### MISCELLANEOUS

- ❖ A participating entity may voluntarily withdraw from TCRS by submitting written notice one year in advance. At the time of withdrawal, TCRS membership ceases to be open to new employees. The political subdivision's retirement responsibility to current TCRS members remains, however, contribution obligations and benefit and service credit accruals continue.

**POLITICAL SUBDIVISION PARTICIPANTS**

**911 EMERGENCY COMMUNICATION DISTRICTS**

Campbell County	Gibson County	Hawkins County	McNairy Co.	Rutherford Co.	Warren County
Carroll County	Greene County	Lauderdale Co.	Montgomery Co.	Sevier County	Washington Co.
Carter County	Hamilton County	Lawrence County	Overton County	Shelby County	Weakley County
Cheatham Co.	Hamblen County	Madison County	Roane County	Sullivan County	White County
Claiborne County	Hardeman Co.	Monroe County	Robertson Co.	Tipton County	Wilson County

**CITIES**

Adams	Clifton	Forest Hills	Lafollette	Mt. Carmel	Selmer
Alamo	Clinton	Friendship	Lake City	Mountain City	Sevierville
Alcoa	Collegedale	Friendsville	Lakewood	Mt. Juliet	Signal Mountain
Ashland City	Collierville	Gatlinburg	Lawrenceburg	Munford	Soddy Daisy
Athens*	Collinwood	Gleason	Lebanon	Murfreesboro*	Somerville
Atoka	Cookeville	Goodlettsville	Lenoir City*	New Johnsonville	South Carthage
Atwood	Cornersville	Gordonsville	Linden	New Tazewell	Sparta
Belle Meade	Covington*	Greenbrier	Livingston	Newport	Spencer
Bells	Cowan	Greeneville	Lobelville	Nolensville	Spring Hill
Benton	Crossville	Greenfield	Lookout Mountain	Norris	Spring City
Big Sandy	Dandridge	Harriman	Loretto	Oak Ridge	Springfield
Bluff City	Dayton	Hartsville	Loudon	Obion	Sweetwater
Bolivar	Decaturville	Henderson	Luttrell	Oliver Springs	Tazewell
Brentwood	Dickson	Hendersonville	Madisonville	Paris	Tellico Plains
Bristol	Dover	Hohenwald	Martin	Parsons	Trenton
Brownsville	Dunlap	Humboldt	Maryville	Pikeville	Tusculum
Byrdstown	Dyer	Jacksboro	Maury City	Pittman Center	Unicoi
Camden	East Ridge	Jackson	Maynardville	Pleasant View	Union City
Carthage	Elizabethton	Jamestown	McEwen	Portland	Waynesboro
Caryville	Elkton	Jefferson City	McMinnville	Puryear	Waverly
Centerville	Erin	Johnson City	Middleton	Red Bank	Westmoreland
Charleston	Erwin	Jonesboro	Milan	Ripley	White House
Chattanooga*	Estill Springs	Kenton	Millersville	Rockwood	White Pine
Church Hill	Etowah	Kingsport	Millington	Rogersville*	Whiteville
Clarksville	Fairview	Kingston Springs	Morristown	Rutledge	Whitwell
Cleveland	Fayetteville	Lafayette	Moscow	Savannah	Woodbury

**COUNTIES**

Anderson	Coffee	Hamilton	Lincoln	Perry	Tipton
Bedford	Crockett	Hardeman	Loudon	Pickett	Trousdale
Benton	Cumberland	Hardin	Madison	Polk	Unicoi
Bledsoe	Decatur	Hawkins	Macon	Putnam	Union
Blount	DeKalb	Haywood	Marion	Rhea	Van Buren
Bradley	Dickson	Henry	Marshall	Roane	Warren
Campbell	Fayette	Hickman	Maury	Robertson	Washington
Cannon	Fentress	Humphreys	McMinn	Rutherford	Wayne
Carroll	Franklin	Jackson	McNairy	Scott	Weakley
Carter	Gibson	Jefferson	Monroe	Sequatchie	White
Cheatham	Giles	Johnson	Montgomery	Sevier	Williamson
Chester	Grainger	Lake	Moore*	Shelby*	Wilson
Claiborne	Greene	Lauderdale	Morgan	Smith	
Clay	Grundy	Lawrence	Obion	Sullivan	
Cocke	Hamblen	Lewis*	Overton	Sumner	

**HOUSING AUTHORITIES**

Bristol	Cookeville	Hohenwald	Memphis	Rogersville
Clinton	Hartsville	Lawrenceburg	Morristown	Sweetwater

\* All departments not covered by TCRS.

(continued)

## POLITICAL SUBDIVISION PARTICIPANTS (CONTINUED)

### DEVELOPMENT AGENCIES

Beech River Watershed  
Bristol/Kingsport/Sullivan Co.  
Industrial Commission Dist.  
Delta Human Resource Agency  
First Tenn. Dev. District

First Tenn. Human Resource Agency  
Greater Nashville Regional Council  
Hamilton Co. Community Srv. Agency  
Sequatchie Valley Plan. & Dev. Dist.  
Southeast Tenn. Dev. District

Southeast Tenn. Human Res. Agency  
Southwest Tenn. Dev. District  
Southwest Tenn. Human Res. Agency  
Upper East Tenn. Human Dev. Agency

### JOINT VENTURES

Argie Cooper Public Library  
Bradley-Cleveland Civil Defense  
Bradley-Cleveland Community  
Services Agency  
Clarksville Memorial Hospital  
Clarksville/Montgomery County  
Public Library  
Clarksville/Montgomery County  
Regional Planning Commission  
Cleveland/Bradley Communications  
Center Committee

Edward Gauche Fisher Public Library  
Fayetteville/Lincoln Co. Public  
Library  
Gorham/MacBane Public Library  
Jackson/Madison County Library  
Johnson City/Washington Co. EMS  
Kinser Park  
Lawrence Co. Library  
Lebanon/Wilson Co. Civil Defense  
Linebaugh Public Library  
Morristown/Hamblen Co. Landfill

Sevier Solid Waste  
Smyrna/Rutherford Co. Airport  
Authority  
Tellico Area Services System  
Tri-City Airport Commission  
Tri-County Vocational School  
W. G. Rhea Public Library  
Washington County/Johnson City  
Animal Control Center

### MISCELLANEOUS

Blount County Fire Protection Dist.  
Cookeville Reg. Medical Center Auth.  
County Officials Assoc. of Tenn.  
Tenn. Assoc. of Assessing Officers  
Tenn. Assoc. of County Executives  
Tenn. Assoc. of Secondary School  
Principals  
Tenn. Athletic Coaches Assoc.

Tenn. Co. Commissioners Assoc.  
Tenn. Co. Highway Officials Assoc.  
Tenn. County Services Assoc.  
Tenn. Education Assoc.  
Tenn. Historical Society  
Tenn. Municipal Bond Fund  
Tenn. Municipal League  
Tenn. Mun. League Risk Mgt. Pool

Tenn. Org. of School Superintendents  
Tenn. Reg. Comm. Health Agencies  
Tenn. School Board Assoc.  
Tenn. Secondary Sch. Athletic Assoc.  
Tenn. Sheriffs Assoc.  
Tenn. State Employees Assoc.  
Tenn. Veterans Home Board  
Volunteer General Hospital

### SPECIAL SCHOOL DISTRICTS

Bradford  
Clinch Powell Education Coop.  
Crockett Mills  
Elizabethton Board of Education  
Franklin  
Gadsden  
Gibson County Schools District  
Hollow Rock-Bruceton

Huntingdon  
Lebanon  
Little Tenn. Valley Education Coop.  
McKenzie  
Memphis  
Milan  
Oak Ridge Board of Education  
Oneida

Paris  
South Carroll Special School District  
Trenton  
Union City Board of Education  
West Carroll County  
Watauga

### UTILITY DISTRICTS

Alpha-Talbott  
Arthur Shawnee  
Bloomingdale  
Bristol Electric System  
County Wide  
Dyersburg Suburban  
East Side  
Fall Creek Falls  
First Carter County  
First Tipton County  
First Hawkins County  
Gladeville  
Glen Hills  
Greeneville Light & Power

Hampton  
Hardeman-Fayette County  
Hendersonville  
Hixson  
Jackson County  
Johnson City Power Bd.  
Lake County  
Lincoln Co. Board of Public Utilities  
Middle Tennessee  
North Utility District of Decatur and  
Benton Counties  
Northeast Henry County  
Oak Ridge  
Old Hickory

Poplar Grove  
Riceville  
Savannah Valley  
Sevier County  
Sneedville  
Soddy Daisy-Falling Water  
Smith Utility District  
South Elizabethton  
Washington County  
Weakley Co. Municipal Electric  
West Knox  
Wolf Branch

\* All departments not covered by TCRS.



Tennessee Consolidated Retirement System  
10th Floor, Andrew Jackson State Office Building  
Nashville, TN 37243