

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Comprehensive Annual Financial Report
for the Fiscal Years Ended
June 30, 2013 and June 30, 2012

Pension Trust Funds of the State of Tennessee

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND JUNE 30, 2012
PENSION TRUST FUNDS OF THE STATE OF TENNESSEE

PREPARED BY:

STATE OF TENNESSEE TREASURY DEPARTMENT
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201
(615) 741-7063

TCRS.TN.GOV

DAVID H. LILLARD, JR., STATE TREASURER
JILL BACHUS, TCRS DIRECTOR

The cover and divider pages within this report feature the beautiful scenery found throughout the Great Smoky Mountains in Gatlinburg, Tennessee along with the lyrics of songs adopted as “state songs”.

This report is available in its entirety on the Internet at:
www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf



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MY TENNESSEE

Written by Frances Hannah Trantum

Adopted in 1955 as the official public school song

*Beloved state, oh state of mine,
In all the world I could not find,
Where God has strewn with lavish hand,
More natural beauty o'er the land
From ev'ry stream and valley green
His wond'rous art is ever seen
Ah, let my heart beat true to thee,
And swell with pride for Tennessee*

*Thy rocks and rills, and wooded hills,
My mem'ry keeps the childhood thrills
You gave to me, that I might know
The joys supreme, you could bestow
The song of birds, the whisp'ring trees,
The low of herds, the hum of bees,
It all comes back so dear to me,
My childhood home in Tennessee*

*Your battles fought, and vict'ries won,
Your freedom bought and duty done,
With daughters fair, and sons so brave,
To do and dare, their deeds they gave
Courageously, without a fear,
And won the name of volunteer
In sacred trust, let those who will,
By being just, preserve it still*

Chorus

*Oh, Tennessee, My Tennessee,
Thy hills and vales are fair to see,
With mountains grand, and fertile lands
There is no state more dear to me
Thro' other climes tho I may roam,
There will be times I'll long for home,
In Tennessee, Fair Tennessee,
The land of my nativity*

GFOA CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

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, 2012

A handwritten signature in black ink, reading "Jeffrey R. Egan".

Executive Director/CEO

PUBLIC PENSION COORDINATING COUNCIL AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2013***

Presented to

Tennessee Consolidated Retirement System

**In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.**

Presented by the Public Pension Coordinating Council, a confederation of

**National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)**

A handwritten signature in cursive script that reads "Alan H. Winkle".

**Alan H. Winkle
Program Administrator**

CHAIRMAN OF THE BOARD'S LETTER

STATE OF TENNESSEE

DAVID H. LILLARD, JR.
STATE TREASURER615.741.2956
David.Lillard@tn.govTREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

November 18, 2013

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 twenty-sixth 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 website (located at www.tn.gov/treasury/tcrs) includes a benefit calculation module which allows members to input a limited amount of data to obtain a retirement benefit estimate. Furthermore, TCRS forms and up-to-date information are available online to assist our members and participating employers. TCRS is currently in a multi-year project to develop a new pension administration system. The new system will use a web-based approach, providing enhanced member access and employer reporting.

Investments: The 2013 fiscal year was challenging for all investors and the TCRS portfolio experienced a modest gain of 9.9%. This return was one of the best results of any comparable pension plan. Both short and longer-term results are a function of a risk-averse investment program which preserves capital in difficult environments.

Financial Soundness of the Plan: TCRS is considered one of the best-funded pension plans in the nation. TCRS has received a 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 actuarial valuation, as of July 1, 2011, reported a combined state and teacher funding ratio of over 92 percent.

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

Sincerely,

A handwritten signature in black ink, appearing to read "David Lillard".

David H. Lillard, Jr., State Treasurer
Chairman of the Board

LETTER OF TRANSMITTAL



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
15th FLOOR ANDREW JACKSON BUILDING
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

November 15, 2013

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, 2013. 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.

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. These internal controls have been created to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely derived, and second, the valuation of the cost and benefits requires estimates and judgments by management. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management's Discussion and Analysis located in the Financial Section of this report.

PROFILE OF TCRS

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. The State of Tennessee is responsible for the pension benefits of state employees and higher education employees and funds a significant portion of the

(continued)

**LETTER OF TRANSMITTAL
(CONTINUED)**

retirement liability for teachers through the Basic Education Program. Each of the 487 participating political subdivisions is responsible for the pension benefits of its employees. 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.

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.

ECONOMIC CONDITION

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 state and political subdivisions continue to make contributions to the plan at the rates 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. On July 1, 2011, the plan had a combined state and teacher funding ratio of 92 percent. The July 1, 2011 actuarial valuation utilized the assumptions generated from the June 30, 2008 experience study and provided the employer contribution rates effective July 1, 2012 through June 30, 2014. Experience studies are performed on a quadrennial basis. The results of the June 30, 2012 experience study will be incorporated into the July 1, 2013 actuarial valuation.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment return for fiscal year 2013 was 9.9%.

Because TCRS is a well-funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. The investment market outlook continues to create significant challenges in meeting the 7.5 percent investment return assumed by TCRS. A premium will continue to be placed on security selection.

(continued)

**LETTER OF TRANSMITTAL
(CONTINUED)**

AWARDS AND ACKNOWLEDGMENTS

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 that ended June 30, 2012. This was the twenty-fifth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The GFOA Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TCRS is also the recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The TCRS investment program was named "Large Public Plan of the Year" by *Money Management Intelligence*, which is a subsidiary of *Institutional Investor* magazine, a leading investment periodical.

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.



Jill Bachus
TCRS Director



Michael Brakebill
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 are among 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 Human Resources. 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 three sources. The State of Tennessee is responsible for the operation cost associated with state employees and higher education employees. Local education agencies are responsible for the operation 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 is 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, 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. 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 Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer and the Director of TCRS.

VOTING MEMBERS - SENATORS



Douglas Henry
*Finance, Ways and Means
Chairman Emeritus*



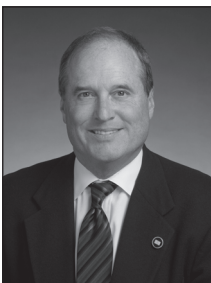
James Kyle



Randy McNally
*Council Vice Chair
Finance, Ways and Means
Chair*



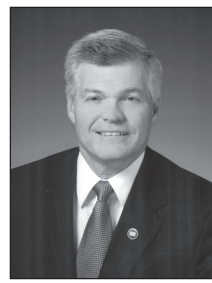
Mark Norris



Doug Overbey
*Finance, Ways and Means
Second Vice-Chair*



Ron Ramsey
Speaker of the Senate



Jim Tracy
Speaker’s Designee



Bo Watson
*Finance, Ways and Means
First Vice-Chair*

(continued)

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

VOTING MEMBERS – REPRESENTATIVES



David Alexander
*Finance, Ways and Means
Vice-Chair*



Kent Calfee
Speaker's Designee



Craig Fitzhugh



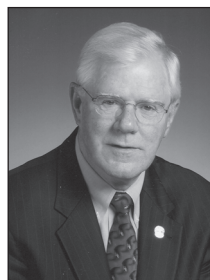
Michael Harrison



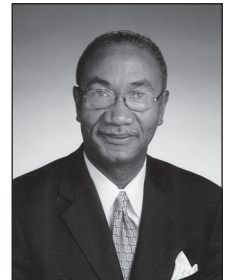
Beth Harwell
Speaker of the House



Steve McDaniel



Charles Sargent
*Council Chair
Finance, Ways & Means
Chair*



Johnny Shaw

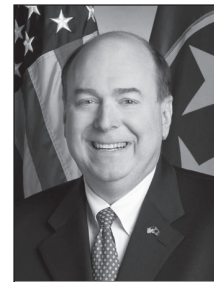
NON-VOTING MEMBERS



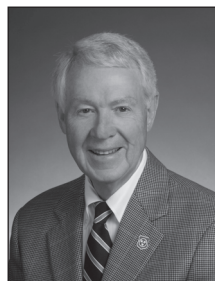
Jill Bachus
TCRS Director



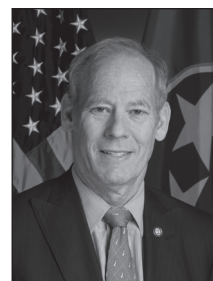
Rebecca Hunter
Commissioner of Human Resources



David H. Lillard, Jr.
State Treasurer



Larry Martin
Commissioner of Finance & Administration



Justin Wilson
Comptroller of the Treasury

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 20-member Board meets quarterly and is subject to the call of the chair 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, nine representatives of the active TCRS membership and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions and Insurance (as nonvoting members), the Commissioner of Human Resources, 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 Chair 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; one public safety officer and three representatives of local governments. Retiree representation includes a retired teacher and a retired state employee.

Three teachers and one retired teacher are selected for three-year terms by the Speaker of the Senate and the Speaker of the House of Representatives. 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. The public safety representative and the state retiree representative are appointed by the Governor. All employee representatives must be vested members of TCRS.

ELECTED OR APPOINTED MEMBERS



Michael Barker
Retired Teacher
Term Expires: June 30, 2016



Priscilla Bright
State Employee
Term Expires: June 30, 2016



Kevin Fielden
East Tennessee Teacher
Term Expires: June 30, 2016



Angie Judish
State Employee
Term Expires: June 30, 2016



Bill Kemp
Tennessee County
Officials Association
Term Expires: June 30, 2015



Gill Kendrick
Public Safety
Term Expires: June 30, 2016

(continued)

**THE BOARD OF TRUSTEES
(CONTINUED)**

ELECTED OR APPOINTED MEMBERS *(continued)*



Alfred Laney
Retired State Employee
Term Expires:
June 30, 2015



Patsy Moore
West Tennessee Teacher
Term Expires:
June 30, 2014



Harold Morrison
Middle Tennessee Teacher
Term Expires:
June 30, 2015



Ken Wilber
TN Municipal League
Term Expires:
June 30, 2015



Robert Wormsley
TN County Servs. Assoc.
Term Expires:
June 30, 2015

EX-OFFICIO MEMBERS



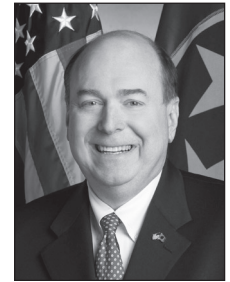
Jill Bachus
TCRS Director



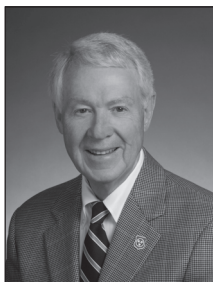
Tre Hargett
Secretary of State



Rebecca Hunter
Commissioner of Human Resources



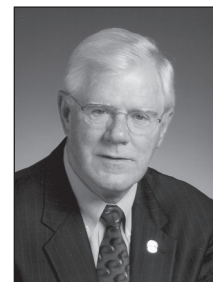
David H. Lillard, Jr.
State Treasurer



Larry Martin
Commissioner of Finance & Administration



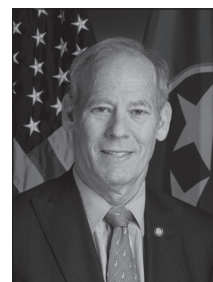
Randy McNally
Council Vice-Chair



Charles Sargent
Council Chair



Libby Sykes
Administrative Director of the Courts



Justin Wilson
Comptroller of the Treasury

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 46.

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 three-year or five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA (retired)
Nashville, Tennessee

Henry Delicata
Park Street Capital
Boston, Massachusetts

Susan Logan Huffman, CFA
Reliant Investment Management, LLC
Memphis, Tennessee

George B. Stadler, CFA
HMS Capital Management, LLC
Nashville, Tennessee

Chuck Webb, CFA
Weaver C. Barksdale & Associates
Brentwood, Tennessee

Carol B. Womack
Diversified Trust
Nashville, Tennessee

GENERAL INVESTMENT AND STRATEGIC LENDING 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.

Pete Keliuotis
Strategic Investment Solutions, Inc.
San Francisco, California

PRIVATE EQUITY CONSULTANT

Sheila Ryan
Cambridge Associates LLC
Boston, Massachusetts

REAL ESTATE INVESTMENT CONSULTANT AND ADVISORS

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.

Martin Rosenberg
The Townsend Group
Cleveland, Ohio

The real estate investment advisors identify prospective real estate transactions and provide asset management services.

Paul M. Canning
UBS Realty Investors LLC
Hartford, Connecticut

Paul Edwards
Capri Capital Partners LLC
Chicago, Illinois

Tim Ellsworth
RREEF America LLC
Chicago, Illinois

Rob Greer
Clarion Partners LLC
Washington, DC

Lawrence Ostow
J.P. Morgan Investment Management, Inc.
New York, New York

Reid Parker
TA Realty LLC
Boston, Massachusetts

Steve Wallace
Cornerstone Real Estate Advisers LLC
Chicago, Illinois

(continued)

**PROFESSIONAL CONSULTANTS
(CONTINUED)****INTERNATIONAL EQUITY INVESTMENT MANAGERS**

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

Sue Curran
Pyramis Global Advisors, LLC
Smithfield, Rhode Island

Jill Farrell
American Century Investments
Kansas City, Missouri

Jane Henderson
Walter Scott & Partners, Ltd.
Edinburgh, Scotland, UK

Dawn Henry
GE Asset Management, Inc.
Stamford, Connecticut

Robert Job
PanAgora Asset Management, Inc.
Boston, Massachusetts

Susan Marshall
Baring Asset Management, Inc.
Boston, Massachusetts

Wilson Phillips
Marathon Asset Management
London WC2H 9EA, UK

Molly Sodeinde
TT International
London, EC2Y 5ET, UK

MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

Northern Trust Company
Chicago, Illinois

THE MEDICAL BOARD

The Medical Board evaluates 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

Thomas Mullady, M.D.
Chattanooga, Tennessee

Barry R. Siegel, M.D.
Memphis, Tennessee

CONSULTING ACTUARY

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

Justin Thacker
Bryan, Pendleton, Swats & McAllister, LLC
Brentwood, Tennessee

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 officers are as follows:

Robert E. Cooper, Jr.
Attorney General/Reporter
Nashville, Tennessee

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

TREASURY DEPARTMENT EXECUTIVE STAFF

TREASURER'S OFFICE

Treasurer	David H. Lillard, Jr., JD	615-741-2956
Chief of Staff	Joy Harris	615-741-2956
Staff Assistant to the Treasurer	Joshua Stites	615-741-2956
Executive Assistant to the Treasurer	Heather Sczepczenski	615-741-2956

TCRS INVESTMENTS

Assistant Treasurer, Investments	Bill Abney, JD	615-532-1167
Chief Investment Officer	Michael Brakebill, CFA	615-532-1157
Deputy CIO and Fixed Income Director	Andrew Palmer, CFA	615-532-1183
Equity Director	Michael Keeler, CFA	615-532-1165
Real Estate Interim Director	Matthew Haitas, CPA	615-741-2704
Private Equity Interim Director	Daniel Crews, CFA	615-532-8720
Assistant CIO/Director of Cash Management	Tim McClure, CTP	615-532-1166

RETIREMENT ADMINISTRATION

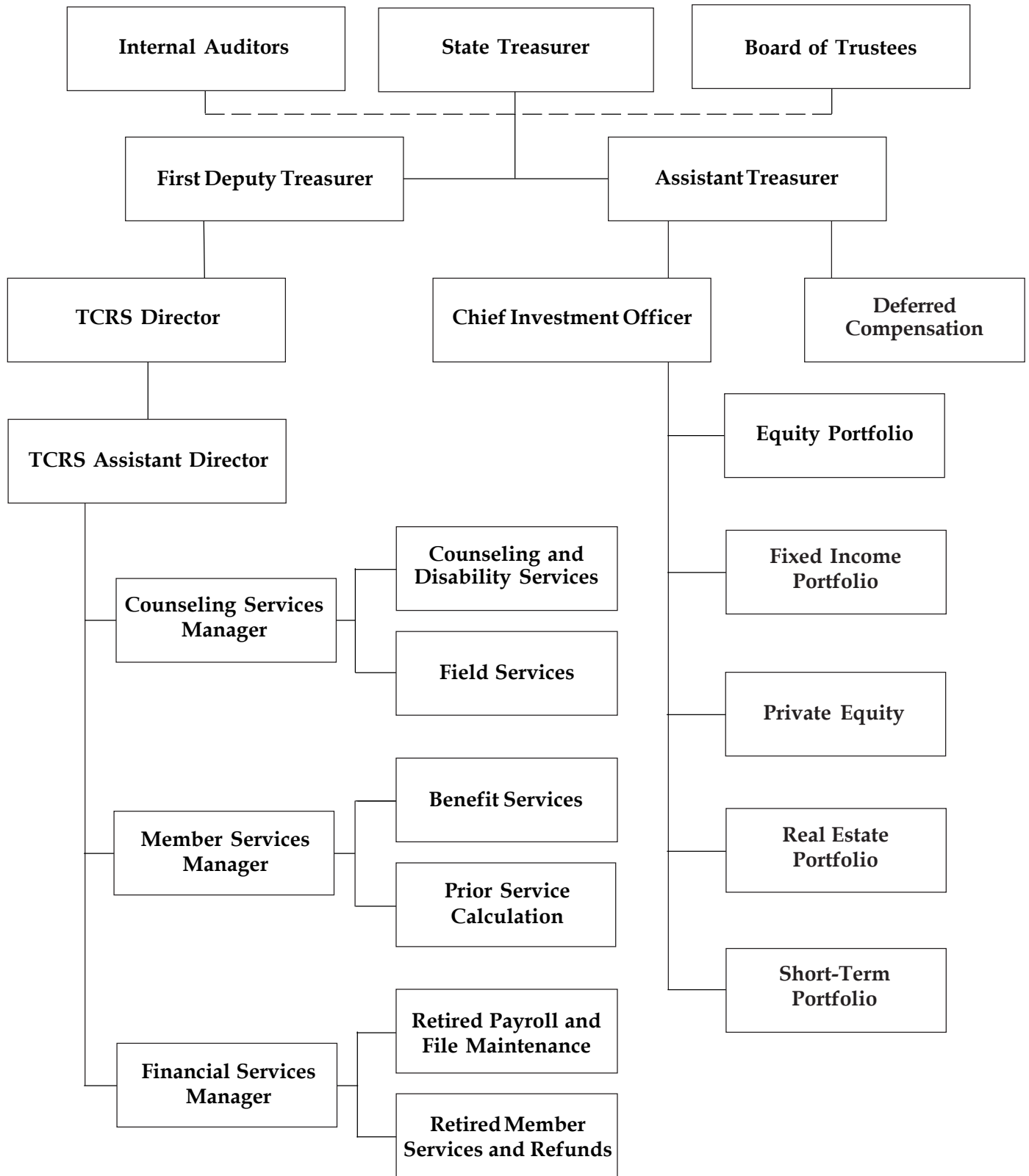
TCRS Director	Jill Bachus, CPA	615-741-7063
TCRS Assistant Director	Jamie Wayman, CPA	615-741-7063
Administrator of Old Age and Survivors Insurance	Mary Griffin, JD	615-741-7902
Manager of Counseling Services	Candy O'Leary	615-741-1971
Manager of Member Benefits	Erica Nale	615-741-4868
Manager of Financial Services	Keevia Battle, CPA	615-741-4913

TREASURY DIVISIONS

First Deputy Treasurer, Program Services	Steven Curry, CPA-inactive, CEBS, CCM	615-532-8045
Second Deputy Treasurer, Support Services	Rick DuBray, CPA	615-253-5764
Assistant Treasurer, Legal, Compliance and Audit	Christy A. Allen, JD	615-253-3853
Compliance Officer	Jennifer Selliers	615-253-6921
Senior Director of Program Services	Steve Summerall	615-253-4115
Director of Deferred Compensation	Kaci Lantz, CFP®	615-532-2347
Director of Accounting	Kim Morrow, CPA	615-532-3840
Deputy Director of Accounting	Brian Derrick, CPA	615-532-8051
Assistant Director of Accounting	Kevin Bradley, CPA	615-532-3846
Director of Information Systems	Tim Sundell	615-532-0734
Director of Management Services	Kerry Hartley, CPA	615-532-8552
Director of Internal Audit	Andy Furlong, CPA	615-253-2018

*The Treasurer is housed on the 1st floor of the State Capitol Building.
Divisions are housed on the 13th, 14th and 15th floors of the Andrew Jackson Building.*

ORGANIZATION CHART



ROCKY TOP

By Boudleaux and Felice Bryant
Adopted in 1982

*Wish that I was on ol' Rocky Top,
down in the Tennessee hills;
Ain't no smoggy smoke on Rocky Top;
Ain't no telephone bills;
Once I had a girl on Rocky Top;
Half bear, other half cat;
Wild as a mink, but sweet as soda pop,
I still dream about that;*

*Once two strangers climbed ol' Rocky Top,
lookin' for a moonshine still;
Strangers ain't come down from Rocky Top;
Reckon they never will;
Corn won't grow at all on Rocky Top;
Dirt's too rocky by far;
That's why all the folks on Rocky Top
get their corn from a jar;*

*I've had years of cramped-up city life
Trapped like a duck in a pen;
All I know is it's a pity life
Can't be simple again
Chorus*

*Rocky Top, you'll always be
home sweet home to me;
Good ol' Rocky Top;
Rocky Top, Tennessee;
Rocky Top, Tennessee*

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 37243-1402

PHONE (615) 401-7897
 FAX (615) 532-2765

Members of the General Assembly
 Members of the Board of Trustees
 The Honorable David H. Lillard, Jr., Treasurer

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, as of June 30, 2013, and June 30, 2012, the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Tennessee Consolidated Retirement System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Tennessee Consolidated Retirement System as of June 30, 2013, and June 30, 2012, and the changes in plan net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(continued)

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Emphasis of Matters

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2013, and June 30, 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note C, the financial statements of the Tennessee Consolidated Retirement System include investments valued at \$2,112,637,040 (5.62 percent of net position) whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

*Other Matters**Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements 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 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee Consolidated Retirement System's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 12, 2013

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012**

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2013 and June 30, 2012. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

FINANCIAL HIGHLIGHTS

- The plan net position (total assets minus total liabilities) of the TCRS at June 30, 2013 was \$37.6 billion, increasing \$2.7 billion (7.6 percent) from the plan net position at June 30, 2012. The net position is restricted for future benefit obligations.
- The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2011, the date of the latest actuarial valuation, the TCRS' funded ratio was 92.1 percent for the SETHEEPP group and 89.2 percent for the PSPP group.
- Contribution revenue for fiscal year 2013 totaled \$1,278,982,124 an increase of one percent compared to fiscal year 2012.
- Net investment income for fiscal year 2013 was \$3,344,589,259. During fiscal year 2013, the TCRS received an investment return on its portfolio of 9.9 percent, compared to 5.6 percent for fiscal year 2012.
- Total benefits and refunds paid for fiscal year 2013 were \$1,963,260,297 – representing an increase of 8.5 percent over fiscal year 2012 total benefits and refunds paid of \$1,809,901,340.
- Total administrative expenses for fiscal year 2013 were \$8,178,696 – representing an increase of 14.1 percent from fiscal year 2012 administrative expenses of \$7,166,606.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Position* (on pages 24 through 25), the *Statement of Changes in Plan Net Position* (on pages 26 through 27), and the *Notes to the Financial Statements* (on pages 28 through 40). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis*, as well as the schedules on pages 41 through 46.

The *Statement of Plan Net Position* and the *Statement of Changes in Plan Net Position* report information about the plan net position (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in the plan net position during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statement of Plan Net Position*, or net position restricted for pension benefits, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The *Statement of Changes in Plan Net Position* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net position of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two basic financial statements, the reader should also review the *Schedules of Funding Progress* and the *Schedules of Employer Contributions* to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment obligations. The *Notes to the Financial Statements* are also essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET POSITION

At June 30, 2013, the TCRS had plan net position (total assets in excess of total liabilities) of \$37.6 billion, an increase of \$2.7 billion (7.6 percent) from \$34.9 billion at June 30, 2012, following the fiscal year 2012 increase of nearly \$1.2 billion (3.7 percent) from the \$33.7 billion of plan net position as of June 30, 2011. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of investment return for the year since contributions stayed at the same level. Condensed financial information comparing the TCRS' plan net position for the past three fiscal years follows:

PLAN NET POSITION

	June 30, 2013	June 30, 2012	FY13 - FY12 Percentage Change	June 30, 2011	FY12 - FY11 Percentage Change
ASSETS					
Cash and cash equivalents	\$732,917,328	\$426,627,425	71.8 %	\$414,134,562	3.0 %
Member and employer receivables	105,368,164	107,108,579	(1.6) %	99,604,471	7.5 %
Investment receivables	1,851,534,173	1,044,714,969	77.2 %	1,431,331,905	(27.0) %
Short-term securities	74,880,166	19,781,452	278.5 %	0	-- %
Long-term investments	36,550,793,912	34,272,630,084	6.6 %	33,220,879,536	3.2 %
Capital assets	21,887,170	11,426,938	91.5 %	1,896,671	502.5 %
TOTAL ASSETS	<u>39,337,380,913</u>	<u>35,882,289,447</u>	9.6 %	<u>35,167,847,145</u>	2.0 %
LIABILITIES					
Death benefits, refunds and other payables	50,816,303	10,193,417	398.5 %	8,544,407	19.3 %
Investment payables	1,721,659,248	959,323,058	79.5 %	1,495,994,494	(35.9) %
TOTAL LIABILITIES	<u>1,772,475,551</u>	<u>969,516,475</u>	82.8 %	<u>1,504,538,901</u>	(35.6) %
NET POSITION RESTRICTED FOR PENSION BENEFITS					
	<u>\$37,564,905,362</u>	<u>\$34,912,772,972</u>	7.6 %	<u>\$33,663,308,244</u>	3.7 %

ANALYSIS OF REVENUES AND EXPENSES

Employer contribution rates for the TCRS changed during fiscal year 2013 resulting in a 1.0 percent increase in contributions from fiscal year 2012 to fiscal year 2013. Employer contribution rates for the TCRS did not change during fiscal year 2012; therefore, the slight change of 0.8 percent in contributions from fiscal year 2011 to fiscal year 2012 was due to changes in salary. Gross investment income for fiscal year 2013 increased \$1.5 billion (84.5 percent) over fiscal year 2012 compared to fiscal year 2012 when gross investment income decreased \$3.7 billion (67.0 percent) from investment income for fiscal year 2011.

Investment expenses for fiscal year 2013 increased \$5.1 million (15.9 percent) due to the increase in portfolio market value during the year. Investment expenses for fiscal year 2012 increased a slight \$166 thousand (0.5 percent). Although market conditions continued to show improvement in fiscal year 2012 which resulted in an overall gain to the TCRS investment portfolio of 5.61 percent and net investment income of \$1.8 billion, the return was not as high as the prior fiscal year.

Total benefits and refunds paid during the year ended June 30, 2013 were \$1,963,260,297, an increase of 8.5 percent over fiscal year 2012 total benefits and refunds paid which can be attributed to an increase in retirees and a 3.0% cost of living adjustment. Total benefits and refunds paid during the year ended June 30, 2012 were \$1,809,901,340, an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid. The increase in benefit expenses for fiscal year 2012 is

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

attributed to 1.5 percent in cost of living adjustments awarded to retirees on July 1, 2011, as well as more retirees being added to payroll than removed during this fiscal year. Total refunds paid increased \$4.5 million (12.81 percent) in fiscal year 2012 from fiscal year 2011 and could be attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested.

Administrative expenses for the year ended June 30, 2013 were \$8,178,696, an increase of 14.1 percent from fiscal year 2012 administrative expenses. The increase was primarily due to the first phase of the new pension administration system being implemented in the last quarter of fiscal year 2012. The first full year of amortization of software development costs was recognized in fiscal year 2013. Administrative expenses for the year ended June 30, 2012 were \$7,166,606, a slight increase of 0.14 percent over fiscal year 2011 administrative expenses.

Condensed financial information comparing the TCRS' revenues and expenses for the past three fiscal years follows:

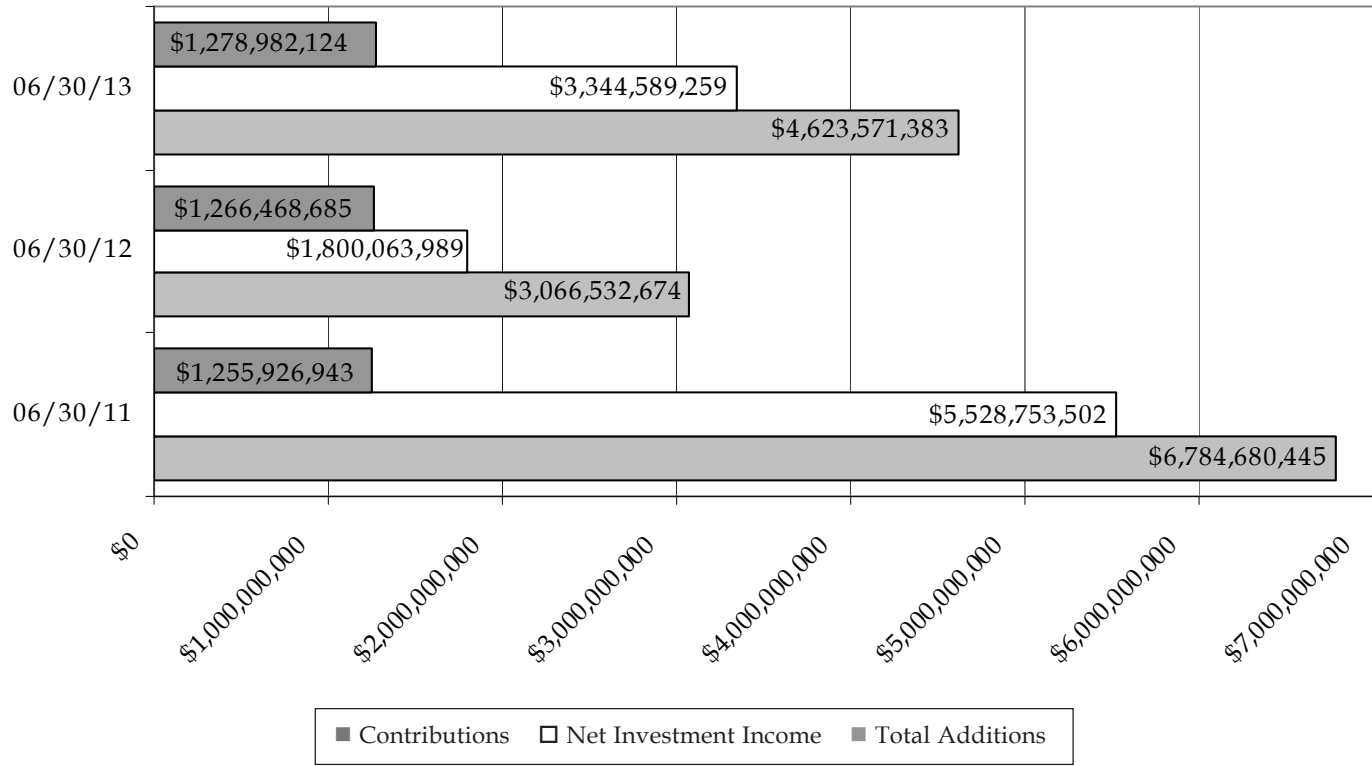
CHANGES IN PLAN NET POSITION

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012	FY13 - FY12 Percentage Change	For the Year Ended June 30, 2011	FY12 - FY11 Percentage Change
ADDITIONS					
Contributions	\$ 1,278,982,124	\$ 1,266,468,685	1.0 %	\$ 1,255,926,943	0.8 %
Investment income					
Net appreciation in fair value of investments	2,334,383,940	825,366,874	182.8 %	4,597,653,001	(82.0) %
Interest, dividends and other investment income	1,047,724,725	1,007,076,475	4.0 %	963,313,744	4.5 %
Less: Investment expense	(37,519,406)	(32,379,360)	15.9 %	(32,213,243)	0.5 %
Net investment income	3,344,589,259	1,800,063,989	85.8 %	5,528,753,502	(67.4) %
TOTAL ADDITIONS	4,623,571,383	3,066,532,674	50.8 %	6,784,680,445	(54.8) %
DEDUCTIONS					
Annuity benefits	1,918,686,339	1,763,605,581	8.8 %	1,647,372,937	7.1 %
Death benefits	5,056,081	6,204,207	(18.5) %	5,498,139	12.8 %
Refunds	39,517,877	40,091,552	(1.4) %	35,539,393	12.8 %
Administrative expenses	8,178,696	7,166,606	14.1 %	7,156,822	0.1 %
TOTAL DEDUCTIONS	1,971,438,993	1,817,067,946	8.5 %	1,695,567,291	7.2 %
NET INCREASE	2,652,132,390	1,249,464,728	112.3 %	5,089,113,154	(75.4) %
NET POSITION RESTRICTED FOR PENSION BENEFITS					
BEGINNING OF YEAR	34,912,772,972	33,663,308,244	3.7 %	28,574,195,090	17.8 %
END OF YEAR	\$ 37,564,905,362	\$ 34,912,772,972	7.6 %	\$ 33,663,308,244	3.7 %

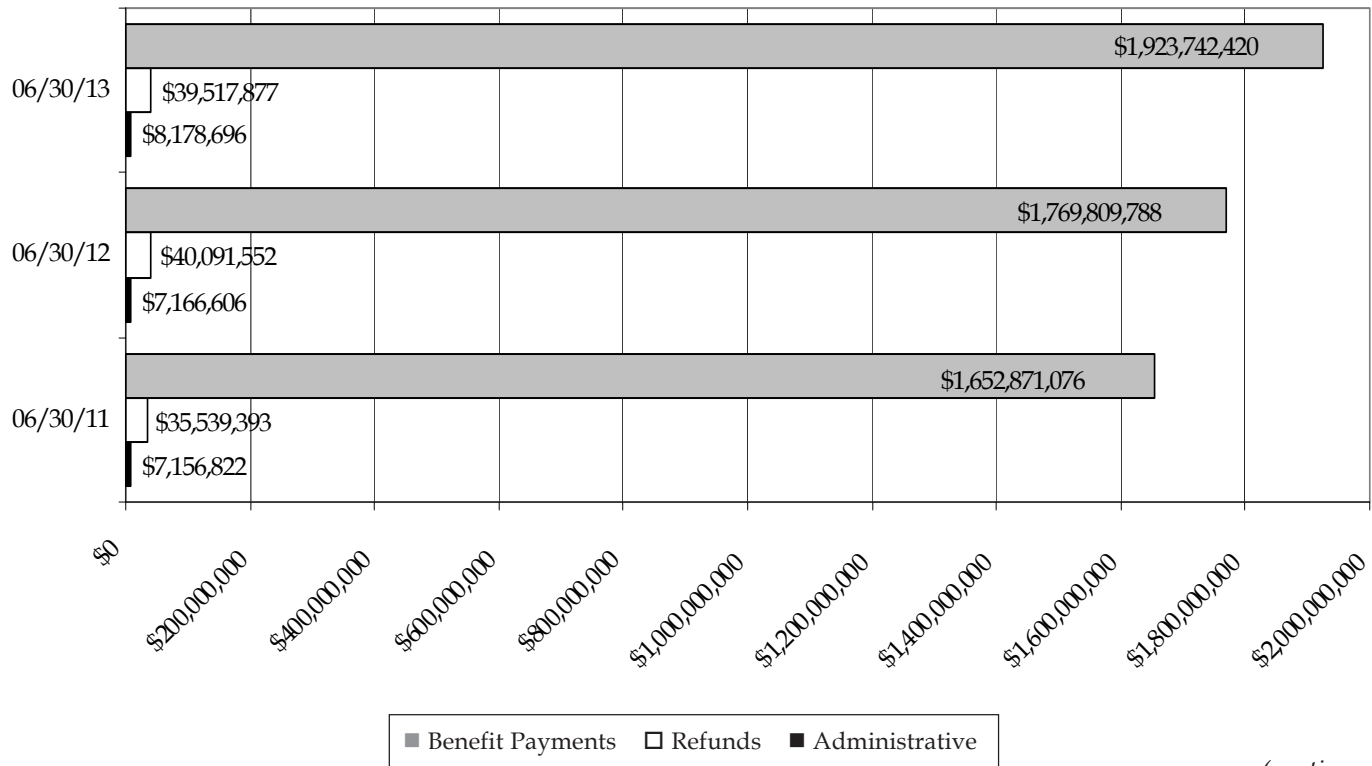
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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

REVENUES BY TYPE



EXPENSES BY TYPE



(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 & JUNE 30, 2012 (CONTINUED)**

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2013 the portfolio delivered a return of 9.92 percent which exceeded the actuarial required return by 2.42 percent. The return of the portfolio for the 2013 fiscal year was satisfying on an absolute basis, but it underperformed most peers in a reversal of its superior relative performance for the 2012 fiscal year. The primary driver of the change in relative performance was the lower risk strategic posture of the fund versus peers which led it to exceptional results in 2012 and then commensurately weaker relative results in 2013.

The strong results for risky assets in the 2013 fiscal year were exemplified by the 20.39 percent return for the U.S. Equity portfolio and the 17.90 percent return for the International Equity portfolio. In a reversal from the 2012 fiscal year, bond returns were poor and the U.S. Fixed Income portfolio lost a modest 0.81 percent versus a gain of 15.63 percent in the prior year. Treasury Inflation Protected Securities (TIPS) lost 5.28 percent which was also a reversal of the 12.22 percent gain they delivered in 2012.

The investment environment in 2013 was defined by a move into higher risk assets from lower risk assets. Investors sought to escape rising interest rates and also aimed to participate in stronger future economic growth than previously anticipated. Actual economic growth rates and corporate earnings were muted, which means that valuation expansion was the key driver of equity returns.

An actuarial valuation was performed as of July 1, 2011. The employer contribution rates determined in this valuation are effective July 1, 2012 through June 30, 2014. The required contributions to the plan increased primarily due to (1) investment returns being less than the actuarial earnings assumption and (2) members and retirees living longer. An actuarial experience study based on data as of June 30, 2012 was completed and adopted by the Board of Trustees during fiscal year 2013.

In December 2010, TCRS contracted with Deloitte Consulting, LLC, to provide a new pension administration system to replace the retirement information system. The new pension administration system, referred to as Concord, will replace five separate operating systems with one integrated web-based system that will greatly improve the level of service we provide to our members and employers. The multi-year Concord project will be implemented in three major phases: document imaging, retired payroll, and active member. The first and second phases of Concord have been implemented by the end of fiscal year 2013. Software development costs have been capitalized and are being amortized over the useful life of the system as each phase is implemented. The third and final phase will be implemented during fiscal year 2014.

During the 2013 legislative session, a new pension plan for state employees, higher education and K-12 public school teachers hired on or after June 30, 2014 was enacted into law. Members and retirees currently enrolled in TCRS will remain in the legacy plan. The new hybrid plan contains elements of a defined benefit plan and a defined contribution plan. The goals of the new plan were to provide a sufficient retirement benefit to members, a long term sustainable pension plan, and an affordable plan to employers. The new plan contains provisions to control employer cost and unfunded liability.

CONTACTING THE TCRS

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 502 Deaderick Street, Nashville, TN 37243-0201.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2013 AND JUNE 30, 2012

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ASSETS		
Cash and cash equivalents	<u>\$ 594,870</u>	<u>\$ 138,047</u>
Receivables		
Member receivable	21,879	5,490
Employer receivable	57,248	20,752
Accrued interest receivable	73,005	16,942
Accrued dividends receivable	48,110	11,164
Real estate income receivable	1,129	262
Derivative instruments receivable	837,403	194,326
Investments sold	<u>543,151</u>	<u>126,042</u>
Total receivables	<u>1,581,925</u>	<u>374,978</u>
Investments, at fair value		
Short-term securities	60,776	14,104
Government securities	6,801,041	1,578,237
Corporate securities	4,075,011	945,639
Corporate stocks	17,075,653	3,962,545
Derivative instruments	25	6
Private equities	221,369	51,370
Real estate	<u>1,493,353</u>	<u>346,545</u>
Total investments	<u>29,727,228</u>	<u>6,898,446</u>
Capital assets (net)	<u>17,765</u>	<u>4,122</u>
TOTAL ASSETS	<u>31,921,788</u>	<u>7,415,593</u>
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	1,338	1,369
Retiree insurance premium payable	6,285	1,459
Other	54	0
Investments purchased	544,371	126,326
Derivative instruments payable	846,267	196,383
Due to other funds	32,719	7,592
Other investment payables	<u>6,747</u>	<u>1,566</u>
TOTAL LIABILITIES	<u>1,437,781</u>	<u>334,695</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$ 30,484,007</u>	<u>\$ 7,080,898</u>

See accompanying Notes to the Financial Statements.

(continued)

(CONTINUED)

June 30, 2013 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2012 Total
<u>\$ 732,917</u>	<u>\$ 348,330</u>	<u>\$ 78,297</u>	<u>\$ 426,627</u>
27,369	21,313	6,001	27,314
78,000	56,430	23,364	79,794
89,947	79,795	17,936	97,731
59,274	42,658	9,588	52,246
1,391	680	153	833
1,031,729	319,335	71,779	391,114
<u>669,193</u>	<u>410,516</u>	<u>92,275</u>	<u>502,791</u>
<u>1,956,903</u>	<u>930,727</u>	<u>221,096</u>	<u>1,151,823</u>
74,880	16,152	3,630	19,782
8,379,278	6,736,847	1,514,288	8,251,135
5,020,650	4,627,801	1,040,222	5,668,023
21,038,198	15,374,082	3,455,739	18,829,821
31	531	119	650
272,739	142,025	31,924	173,949
<u>1,839,898</u>	<u>1,101,467</u>	<u>247,585</u>	<u>1,349,052</u>
<u>36,625,674</u>	<u>27,998,905</u>	<u>6,293,507</u>	<u>34,292,412</u>
<u>21,887</u>	<u>9,330</u>	<u>2,097</u>	<u>11,427</u>
<u>39,337,381</u>	<u>29,287,292</u>	<u>6,594,997</u>	<u>35,882,289</u>
2,707	1,475	1,537	3,012
7,744	5,678	1,276	6,954
54	227	0	227
670,697	467,947	105,184	573,131
1,042,650	308,316	69,303	377,619
40,311	0	0	0
<u>8,313</u>	<u>7,000</u>	<u>1,573</u>	<u>8,573</u>
<u>1,772,476</u>	<u>790,643</u>	<u>178,873</u>	<u>969,516</u>
<u>\$ 37,564,905</u>	<u>\$ 28,496,649</u>	<u>\$ 6,416,124</u>	<u>\$ 34,912,773</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ADDITIONS		
Contributions		
Member contributions	\$ 196,792	\$ 71,765
Employer contributions	735,886	274,539
Total contributions	<u>932,678</u>	<u>346,304</u>
Investment income		
Net appreciation in fair value of investments	1,899,653	434,731
Interest	380,175	87,002
Dividends	402,619	92,138
Real estate income, net of operating expenses	69,813	15,977
Total investment income	<u>2,752,260</u>	<u>629,848</u>
Less: Investment expense	<u>(30,532)</u>	<u>(6,987)</u>
Net investment income	<u>2,721,728</u>	<u>622,861</u>
TOTAL ADDITIONS	<u>3,654,406</u>	<u>969,165</u>
DEDUCTIONS		
Annuity benefits	1,639,031	279,655
Death benefits	3,051	2,006
Refunds	19,520	19,998
Administrative expense	5,446	2,732
TOTAL DEDUCTIONS	<u>1,667,048</u>	<u>304,391</u>
NET INCREASE	1,987,358	664,774
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>28,496,649</u>	<u>6,416,124</u>
END OF YEAR	<u>\$ 30,484,007</u>	<u>\$ 7,080,898</u>

See accompanying Notes to the Financial Statements.

(continued)

(CONTINUED)

For the Year Ended June 30, 2013 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2012 Total
\$ 268,557	\$ 194,180	\$ 69,576	\$ 263,756
<u>1,010,425</u>	<u>731,352</u>	<u>271,361</u>	<u>1,002,713</u>
<u>1,278,982</u>	<u>925,532</u>	<u>340,937</u>	<u>1,266,469</u>
2,334,384	675,639	149,728	825,367
467,177	414,344	91,816	506,160
494,757	353,064	78,237	431,301
85,790	56,987	12,628	69,615
<u>3,382,108</u>	<u>1,500,034</u>	<u>332,409</u>	<u>1,832,443</u>
(37,519)	(26,384)	(5,995)	(32,379)
<u>3,344,589</u>	<u>1,473,650</u>	<u>326,414</u>	<u>1,800,064</u>
<u>4,623,571</u>	<u>2,399,182</u>	<u>667,351</u>	<u>3,066,533</u>
1,918,686	1,509,512	254,093	1,763,605
5,057	4,515	1,689	6,204
39,518	22,575	17,517	40,092
8,178	4,751	2,416	7,167
<u>1,971,439</u>	<u>1,541,353</u>	<u>275,715</u>	<u>1,817,068</u>
2,652,132	857,829	391,636	1,249,465
<u>34,912,773</u>	<u>27,638,820</u>	<u>6,024,488</u>	<u>33,663,308</u>
<u>\$ 37,564,905</u>	<u>\$ 28,496,649</u>	<u>\$ 6,416,124</u>	<u>\$ 34,912,773</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012

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 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 of time for which the contributions are assessed. 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 include cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
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. 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. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes 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. Real estate transactions are recorded in the financial statements at the time of closing.
5. **Capital Assets** - Capital assets consist of internally generated computer software in development and the first two phases of internally generated computer software, which are reported at historical cost, less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Software in development at June 30, 2012 and June 30, 2013 was valued at \$9,749,457 and \$10,319,868, respectively. Software in development will be amortized using the straight line method over the ten year estimated life of the system once a phase is implemented. The first and second phases of the computer software had been implemented at June 30, 2013 and amortization has been initiated. The computer software was valued at \$1,677,480 and \$11,567,302 at June 30, 2012 and June 30, 2013, respectively. Amortization expense was \$43,012 in fiscal year 2012 and \$430,046 in fiscal year 2013.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

6. **Adoption of New Accounting Pronouncement** - The TCRS implemented the Governmental Accounting Standards Board's Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the TCRS was the renaming of the residual of all other elements in the statement of financial position as net position, rather than net assets.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2011, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	<u>135,588</u>	<u>79,488</u>
Total	241,496	122,790
Number of participating employers	140	503

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 percent will be granted if the CPI increases between one-half percent and one percent; and (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.

The net position of the plan is 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

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2013, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.76 billion and \$26.73 billion, respectively. At June 30, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.75 billion and \$24.75 billion, 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 position of the plan is 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, 2013, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.2 billion and \$5.88 billion, respectively. At June 30, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.15 billion and \$5.27 billion, respectively.

C. DEPOSITS AND INVESTMENTS

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. 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 and various U.S. Treasury and Agency obligations. 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.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

State statute also 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, but further subject to the following statutory restrictions and provisions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) 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 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 percent) 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, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed ten percent (10 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed ten percent (10 percent) of the market value of total assets. Gross exposure to approved fixed income financial instruments will be limited to 10% of the market value of the System's total assets for risk mitigating positions and 10% for risk positions. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2013 and June 30, 2012, the TCRS had the following investments:

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

Investments
(Expressed in Thousands)

2013													
Investment Type	Fair Value as of June 30, 2013	U.S. Treasury/ Agency (1)	Credit Quality Ratings								Not Rated		
			AAA	AA	A	BBB	BB	B	CCC	CC		D	A1(3)
<u>Debt Investments</u>													
U.S. Govt. Agencies	\$ 201,383		\$ 18,065	\$178,317									\$ 5,001
U.S. Govt. Inflation Indexed	2,796,073	\$2,796,073											
U.S. Govt. Treasuries, Notes and Bonds	1,672,391	1,672,391											
U.S. Govt. Asset Backed Municipal Bonds	56,918	56,918											
Govt. Mortgage Backed	149,678		2,197	95,804	\$ 51,677								
Comm. Mortgage Backed	3,485,764	412,972		12,739									
Corporate CMO's	398,696		328,998	67,111		\$ 2,587							3,060,053 (2)
Corporate Bonds	160,649												
Corporate Asset Backed	3,807,694		64,851	78,132	1,013,124	544							
Non-U.S. Govt./Sovereign	590,035		378,969	97,032	43,287								
Short-Term Comm. Paper	17,068												
Short-Term Bills and Notes	644,339												
Total Debt Investments	\$14,097,022	\$4,938,354	\$793,080	\$529,135	\$1,108,632	\$2,328,206	\$351,678	\$18,983	\$104,360	\$24,389	\$37,858	\$644,339	\$3,218,008
<u>Other Investments</u>													
U.S. Equity	\$13,386,439												
Non-U.S. Equity	7,711,681												
Derivatives	31												
Real Estate	1,839,898												
Private Equities	272,739												
Money Market Funds (not rated)	3,007												
Escrow Claim	3,656												
Total Other Investments	\$23,217,451												
Total Investments	\$37,314,473												
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Position	(688,800)												
Total Investments as Shown on Statements of Plan Net Position	\$36,625,673												

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
 (2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
 (3) A1 is the highest rating category for commercial paper.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)**

Investments
(Expressed in Thousands)

2012																		
Investment Type	Fair Value as of June 30, 2012	U.S. Treasury/ Agency (1)	Credit Quality Ratings															
			AAA	AA	A	BBB	BB	B	CCC	CC	D	A1(3)	Not Rated					
<u>Debt Investments</u>																		
U.S. Govt. Agencies	\$ 188,455		\$ 19,332	\$169,123														
U.S. Govt. Inflation Indexed	2,654,938	\$2,654,938																
U.S. Govt. Treasuries, Notes and Bonds	1,558,334	1,558,334																
U.S. Govt. Asset Backed Municipal Bonds	76,372	76,372																
Govt. Mortgage Backed	155,316		2,336	99,328	\$ 53,652													
Comm. Mortgage Backed	3,291,737	271,967		13,277														\$3,006,493 (2)
Corporate CMO's	268,585		176,255	92,330														
Corporate Bonds	232,639		33,643															
Corporate Asset Backed	4,349,054		109,541	95,364	1,182,495	\$2,675,562												
Corporate Asset Backed	782,669		573,571	98,607	35,353	24,745												
Non-U.S. Govt./Sovereign	325,983		113,408	212,575														
Short-Term Comm. Paper	113,853																	
Short-Term Bills and Notes	304,269																	
Total Debt Investments	\$14,302,204	\$4,561,611	\$1,028,086	\$780,604	\$1,271,500	\$2,700,307	\$212,689	\$69,839	\$129,445	\$24,935	\$10,151	\$113,853	\$3,399,184					
<u>Other Investments</u>																		
U.S. Equity	\$12,887,225																	
Non-U.S. Equity	5,974,207																	
Derivatives	650																	
Real Estate	1,349,052																	
Private Equities	173,949																	
Money Market Funds (not rated)	4,375																	
Escrow Claim	3,468																	
Total Other Investments	\$20,392,926																	
Total Investments	\$34,695,130																	
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Position	(402,718)																	
Total Investments as Shown on Statements of Plan Net Position	\$34,292,412																	

- (1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
- (2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
- (3) A1 is the highest rating category for commercial paper.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2013 and June 30, 2012 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury/>.

Concentration of Credit Risk - A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net position, in organizations representing five percent or more of plan net position, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization	June 30, 2013		June 30, 2012	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$2,131,504,198	5.67%	\$1,932,517,086	5.54%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

Interest Rate Risk - Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2013 and June 30, 2012.

Debt Investments

(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2013	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$201,383	8.64
Government Bonds	1,689,459	13.10
Government Inflation Indexed	2,796,073	8.64
Government Mortgage Backed	3,485,765	4.62
Government Asset Backed	56,918	5.48
Municipal Bonds	149,678	10.02
Collateralized Mortgage Obligations (CMO)	160,649	1.73
Commercial Mortgage Backed	398,696	2.00
Corporate Asset Backed Securities	590,035	1.60
Corporate Bonds	3,807,694	8.16
Short Term Commercial Paper	644,339	0.03
Short Term Bills & Notes	116,334	0.63
Total Debt Investments	\$14,097,023	7.03

Investment Type	Fair Value as of June 30, 2012	Effective Duration (years)
Debt Investments		
Government Agencies	\$215,919	8.63
Government Bonds	1,856,853	12.08
Government Inflation Indexed	2,654,938	8.82
Government Mortgage Backed	3,291,737	1.38
Government Asset Backed	76,372	5.06
Municipal Bonds	155,316	10.97
Collateralized Mortgage Obligations (CMO)	232,639	3.40
Commercial Mortgage Backed	268,585	2.22
Corporate Asset Backed Securities	782,669	1.52
Corporate Bonds	4,349,054	6.91
Short Term Commercial Paper	113,853	0.19
Short Term Bills & Notes	304,269	0.13
Total Debt Investments	\$14,302,204	6.09

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

Asset-Backed Securities - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2013 was \$559,344,004 of which \$326,396,099 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2012 was \$501,224,120 of which \$341,027,671 were CMOs that are generally more sensitive to interest rate changes.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2013 and June 30, 2012 was as follows:

Foreign Currency-Denominated Investments
(Expressed in Thousands)

Currency	Total Fair Value June 30, 2013	Fixed Income	Equity	Cash
Australian Dollar	\$ 281,116	\$ 0	\$ 280,971	\$ 145
British Pound Sterling	917,788	0	916,850	938
Canadian Dollar	1,553,299	1,467	1,548,611	3,221
Danish Krone	78,322	0	78,304	18
Euro Currency	1,179,772	0	1,154,129	25,643
Hong Kong Dollar	127,953	0	127,700	253
Japanese Yen	1,152,368	0	1,144,096	8,272
New Israeli Shekel	14,616	0	14,571	45
New Zealand Dollar	7,434	0	7,373	61
Norwegian Krone	45,473	0	45,351	122
Singapore Dollar	85,610	0	85,360	250
Swedish Krona	111,727	0	111,672	55
Swiss Franc	412,766	0	412,751	15
Total	\$ 5,968,244	\$ 1,467	\$ 5,927,739	\$ 39,038

Currency	Total Fair Value June 30, 2012	Fixed Income	Equity	Cash
Australian Dollar	\$ 285,935	\$ 0	\$ 285,556	\$ 379
British Pound Sterling	945,058	36,073	908,427	558
Canadian Dollar	1,543,638	8,430	1,535,028	180
Danish Krone	76,389	0	76,373	16
Euro Currency	1,066,157	63,906	968,412	33,839
Hong Kong Dollar	106,932	0	106,775	157
Japanese Yen	1,145,912	212,575	927,031	6,306
New Israeli Shekel	14,916	0	14,819	97
New Zealand Dollar	6,410	0	6,337	73
Norwegian Krone	46,034	13,429	32,603	2
Singapore Dollar	67,835	0	67,753	82
Swedish Krona	93,496	0	93,286	210
Swiss Franc	318,426	0	317,464	962
Total	\$ 5,717,138	\$ 334,413	\$ 5,339,864	\$ 42,861

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

Custodial Credit Risk - Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2013 and June 30, 2012, the TCRS had uninsured and uncollateralized cash deposits of \$39,038,045 and \$42,861,324, respectively in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

Derivatives - The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on futures hedge losses (gains) produced by any deviation from the TCRS' target allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. At year end, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Foreign currency forward contracts expose the TCRS to foreign currency risk as they are denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included in investment income in the financial statements. At year end, the TCRS was under contract for options and the resulting payable is reflected in the financial statements at fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013 and June 30, 2012, classified by type, and the changes in fair value of derivative instrument types for the year ended as reported in the financial statements are as follows:

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

Derivative Summary

(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2013			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (29)		\$ (29)	35,685	CHF
		23		23	21,212	DKK
		183		183	25,750	EUR
		286		286	8,212	GBP
		(12)		(12)	0	HKD
		(906)		(906)	14,899,846	JPY
		10		10	0	SGD
	Investment		Derivative Instruments			
	Income	<u>\$ (445)</u>	Payable	<u>\$ (445)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ (51,331)	Receivable	\$ 6,153	\$ 1,248,457	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (221)	Payable	\$ 31	\$ 31	
TBA Mortgage Backed Securities		\$ (10,476)	Derivative Instruments Payable	\$ (10,476)	\$ 473,078	

	Changes in Fair Value		Fair Value at June 30, 2012			
	Financial Statement	Amount	Financial Statement	Amount	Notional Amount	Currency
	Classification		Classification			
Foreign Currency						
Forward Contracts		\$ (360)		\$ (360)	11,210	AUD
		(248)		(248)	18,710	EUR
		120		120	1,489,342	JPY
	Investment		Derivative Instruments			
	Income	<u>\$ (488)</u>	Payable	<u>\$ (488)</u>		
Futures Contracts	Investment		Derivative Instruments			
	Income	\$ (5,479)	Payable	\$ (2,393)	\$ 1,520,747	
Options Contracts	Investment		Derivative Instruments			
	Income	\$ (9)	Payable	\$ 2	\$ 2	
TBA Mortgage Backed Securities		\$ 648	Derivative Instruments	\$ 648	\$ 324,377	

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures, Options and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TCRS policy to conduct derivative transactions through the custodian bank and high quality money center banks or brokerage firms. The credit risk of foreign currency forward contracts is managed by limiting the term of the forward contracts and restricting the trading to high quality banks. The credit risk of futures contracts is managed by maintaining a daily variation margin.

Alternative Investments - The TCRS has investments in private equity funds and real estate with an estimated fair value of \$2,112,637,040 and \$1,523,000,878 at June 30, 2013 and June 30, 2012, respectively. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material.

D. 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 25 basis points on the \$350 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, 40 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 75 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA 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.

Pending Real Estate Items - At June 30, 2013 the TCRS had unfunded commitments of \$70,077,563 for pending real estate purchases. At June 30, 2012 the TCRS had unfunded commitments of \$113,088,500 for pending real estate purchases.

Alternative Investments - The TCRS had unfunded commitments of \$773.9 million and \$581.3 million in limited partnerships as of June 30, 2013 and June 30, 2012, respectively.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of July 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

SCHEDULES OF FUNDING PROGRESS						
<i>(Expressed in Thousands)</i>						
	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)
SETHEPP	\$ 30,118,178	\$ 32,707,625	\$ 2,589,447	92.08%	\$ 6,058,348	42.74%
PSPP	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND JUNE 30, 2012 (CONTINUED)

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2011, the TCRS reestablished unfunded accrued liabilities for all groups.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation follows:

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2011	July 1, 2011
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	Teachers - 6 years; State - 9 years; closed period	9 years weighted average; (1) closed period
Asset valuation method	5-year moving market average for FYE on or before June 30, 2007	5-year moving market average for FYE on or before June 30, 2007
	10-year moving market average for FYE after June 30, 2007	10-year moving market average for FYE after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%
(1) An actuarial valuation is performed on each political subdivision participating in the Political Subdivision Pension Plan. Each political subdivision selects the period over which their unfunded accrued liability is amortized, not to exceed 30 years. The weighted average amortization period for all plans is presented above.		
(2) Uniform rate that approximates the effect of a graded salary scale.		

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

SCHEDULES OF FUNDING PROGRESS*Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial 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	7/1/2011	\$ 30,118,178	\$ 32,707,625	\$ 2,589,447	92.08%	\$ 6,058,348	42.74%
	7/1/2009	\$ 26,335,199	\$ 29,054,966	\$ 2,719,767	90.64%	\$ 6,054,528	44.92%
	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
PSPP	7/1/2011	\$ 6,562,604	\$ 7,361,707	\$ 799,103	89.15%	\$ 2,354,939	33.93%
	7/1/2009	\$ 5,304,455	\$ 6,143,775	\$ 839,320	86.34%	\$ 2,282,082	36.78%
	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%

The schedule of funding progress is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SCHEDULES OF EMPLOYER CONTRIBUTIONS*Expressed in Thousands*

Year Ended June 30	SETHEEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2013	\$ 735,886	100.00%	\$ 274,539	100.00%
2012	731,352	100.00%	271,361	100.00%
2011	721,759	100.00%	273,781	100.00%
2010	578,403	100.00%	258,324	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2013.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$1,248,950	\$ 626,543	\$1,875,493
Employee benefits	552,032	276,930	828,962
TOTAL PERSONNEL SERVICES	<u>1,800,982</u>	<u>903,473</u>	<u>2,704,455</u>
PROFESSIONAL SERVICES			
Accounting	150,486	75,492	225,978
Actuarial services	182,018	91,310	273,328
Data processing	498,625	250,138	748,763
Information systems	682,832	342,547	1,025,379
Management services	176,058	88,321	264,379
Medical review	25,488	12,786	38,274
Administrative, Internal Audit, Legal, Personnel	1,002,600	502,961	1,505,561
TOTAL PROFESSIONAL SERVICES	<u>2,718,107</u>	<u>1,363,555</u>	<u>4,081,662</u>
COMMUNICATION			
Travel	15,848	7,950	23,798
Telephone	194,204	97,423	291,627
Printing	41,336	20,736	62,072
Postage	181,620	91,110	272,730
TOTAL COMMUNICATION	<u>433,008</u>	<u>217,219</u>	<u>650,227</u>
MISCELLANEOUS			
Office space	111,185	55,776	166,961
Supplies and maintenance	6,821	3,422	10,243
Amortization of intangible assets	286,381	143,665	430,046
Other services and charges	89,969	45,133	135,102
TOTAL MISCELLANEOUS	<u>494,356</u>	<u>247,996</u>	<u>742,352</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$5,446,453</u></u>	<u><u>\$2,732,243</u></u>	<u><u>\$8,178,696</u></u>

With 209,567 active members and 127,918 retired members, the operating cost per member was \$24.23 for the year ended June 30, 2013.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$1,268,733	\$ 645,579	\$1,914,312
Employee benefits	569,476	289,771	859,247
TOTAL PERSONNEL SERVICES	<u>1,838,209</u>	<u>935,350</u>	<u>2,773,559</u>
PROFESSIONAL SERVICES			
Accounting	132,533	67,438	199,971
Actuarial services	245,182	124,757	369,939
Data processing	398,573	202,809	601,382
Information systems	754,408	383,871	1,138,279
Management services	142,742	72,632	215,374
Medical review	21,527	10,953	32,480
Administrative, Internal Audit, Legal, Personnel	542,493	276,041	818,534
TOTAL PROFESSIONAL SERVICES	<u>2,237,458</u>	<u>1,138,501</u>	<u>3,375,959</u>
COMMUNICATION			
Travel	19,275	9,808	29,083
Telephone	169,361	86,177	255,538
Printing	44,567	22,677	67,244
Postage	199,253	101,387	300,640
TOTAL COMMUNICATION	<u>432,456</u>	<u>220,049</u>	<u>652,505</u>
MISCELLANEOUS			
Office space	112,219	57,101	169,320
Supplies and maintenance	79,838	40,625	120,463
Amortization of intangible assets	28,507	14,505	43,012
Other services and charges	21,068	10,720	31,788
TOTAL MISCELLANEOUS	<u>241,632</u>	<u>122,951</u>	<u>364,583</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$4,749,755</u></u>	<u><u>\$2,416,851</u></u>	<u><u>\$7,166,606</u></u>

With 210,493 active members and 122,499 retired members, the operating cost per member was \$21.52 for the year ended June 30, 2012.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 2,715,608	\$ 621,461	\$ 3,337,069
Employee benefits	813,987	186,279	1,000,266
TOTAL PERSONNEL SERVICES	<u>3,529,595</u>	<u>807,740</u>	<u>4,337,335</u>
PROFESSIONAL SERVICES			
Accounting	259,930	59,485	319,415
Legal services	728,725	166,767	895,492
Data processing	275,297	63,001	338,298
Information systems	384,002	87,878	471,880
Management services	44,928	10,282	55,210
External investment manager fees	15,370,737	3,517,559	18,888,296
Investment consulting fees	1,648,382	377,228	2,025,610
Investment custodian fees	315,571	72,218	387,789
Real estate manager fees	7,095,435	1,623,775	8,719,210
Administrative, Internal Audit, Personnel	482,461	110,410	592,871
TOTAL PROFESSIONAL SERVICES	<u>26,605,468</u>	<u>6,088,603</u>	<u>32,694,071</u>
COMMUNICATION			
Travel	96,796	22,152	118,948
Telephone	29,319	6,709	36,028
Printing	2,843	650	3,493
Postage	1,161	266	1,427
TOTAL COMMUNICATION	<u>130,119</u>	<u>29,777</u>	<u>159,896</u>
MISCELLANEOUS			
Office space	61,778	14,138	75,916
Supplies and maintenance	5,169	1,183	6,352
Other services and charges	200,054	45,782	245,836
TOTAL MISCELLANEOUS	<u>267,001</u>	<u>61,103</u>	<u>328,104</u>
TOTAL INVESTMENT EXPENSES	<u>\$30,532,183</u>	<u>\$6,987,223</u>	<u>\$37,519,406</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012**

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 2,595,471	\$ 589,698	\$ 3,185,169
Employee benefits	807,895	183,557	991,452
TOTAL PERSONNEL SERVICES	<u>3,403,366</u>	<u>773,255</u>	<u>4,176,621</u>
PROFESSIONAL SERVICES			
Accounting	277,649	63,083	340,732
Legal services	240,065	54,543	294,608
Data processing	264,630	60,125	324,755
Information systems	326,329	74,143	400,472
Management services	45,778	10,401	56,179
External investment manager fees	14,012,502	3,183,689	17,196,191
Investment consulting fees	1,539,330	349,741	1,889,071
Investment custodian fees	315,678	71,723	387,401
Real estate manager fees	5,131,060	1,165,795	6,296,855
Administrative, Internal Audit, Personnel	480,611	109,197	589,808
TOTAL PROFESSIONAL SERVICES	<u>22,633,632</u>	<u>5,142,440</u>	<u>27,776,072</u>
COMMUNICATION			
Travel	89,396	20,311	109,707
Telephone	27,285	6,199	33,484
Printing	2,736	622	3,358
Postage	1,003	228	1,231
TOTAL COMMUNICATION	<u>120,420</u>	<u>27,360</u>	<u>147,780</u>
MISCELLANEOUS			
Office space	65,048	14,779	79,827
Supplies and maintenance	7,285	1,655	8,940
Other services and charges	154,921	35,199	190,120
TOTAL MISCELLANEOUS	<u>227,254</u>	<u>51,633</u>	<u>278,887</u>
TOTAL INVESTMENT EXPENSES	<u>\$26,384,672</u>	<u>\$5,994,688</u>	<u>\$32,379,360</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF EXPENSES FOR CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012**

FOR THE YEAR ENDED JUNE 30, 2013

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	\$ 182,018	\$ 91,310	\$ 273,328
TOTAL ACTUARIAL SERVICES	<u>182,018</u>	<u>91,310</u>	<u>273,328</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	9,350	4,690	14,040
Thomas Mullady, M.D.	10,096	5,064	15,160
Barry Siegel, M.D.	6,042	3,032	9,074
TOTAL MEDICAL REVIEW SERVICES	<u>25,488</u>	<u>12,786</u>	<u>38,274</u>
BENEFIT CONSULTING SERVICES			
Public Financial Management, Inc.	114,976	57,679	172,655
TOTAL BENEFIT CONSULTING SERVICES	<u>114,976</u>	<u>57,679</u>	<u>172,655</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 322,482</u>	<u>\$ 161,775</u>	<u>\$ 484,257</u>

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

FOR THE YEAR ENDED JUNE 30, 2012

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	\$ 245,182	\$ 124,757	\$ 369,939
TOTAL ACTUARIAL SERVICES	<u>245,182</u>	<u>124,757</u>	<u>369,939</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	8,855	4,505	13,360
Thomas Mullady, M.D.	1,802	918	2,720
Barry Siegel, M.D.	9,120	4,640	13,760
Lee Carl Whitaker, M.D.	1,750	890	2,640
TOTAL MEDICAL REVIEW SERVICES	<u>21,527</u>	<u>10,953</u>	<u>32,480</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 266,709</u>	<u>\$ 135,710</u>	<u>\$ 402,419</u>

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

MY HOMELAND, TENNESSEE

Lyrics by Nell Grayson Taylor

Music by Roy Lamont Smith

Adopted in 1925

*O Tennessee, that gave us birth,
To thee our hearts bow down
For thee our love and loyalty
Shall weave a fadeless crown
Thy purple hills our cradle was;
Thy fields our mother breast
Beneath thy sunny bended skies,
Our childhood days were blessed*

*'Twas long ago our fathers came,
A free and noble band,
Across the mountain's frowning heights
To seek a promised land
And here before their raptured eyes;
In beauteous majesty:
Outspread the smiling valleys
Of the winding Tennessee*

*Could we forget our heritage
Of heroes strong and brave?
Could we do aught but cherish it,
Unsullied to the grave?
Ah no! the State where Jackson sleeps,
Shall ever peerless be
We glory in thy majesty;
Our homeland, Tennessee*

Chorus

*O Tennessee: Fair Tennessee:
Our love for thee can never die:
Dear homeland, Tennessee*

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REPORT BY INVESTMENT CONSULTANT

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

November 27, 2013

Ms. Jill Bachus, Director
Tennessee Consolidated Retirement System
Andrew Jackson Building
Nashville, TN 37243-0230

Dear Jill:

For the year ended June 30, 2013, TCRS earned a return of 9.92%, outperforming its policy index by two basis points and its as-allocated index by 90 basis points. Strong returns in Domestic Equities (+20.39%) and International Developed Markets (+21.57%) were partially offset by weak results in Domestic Fixed Income (-0.81%) and Inflation Indexed Fixed Income (-5.28%).

As of June 30, 2013, the System's asset allocation and one-year respective returns were:

Asset Class	Percentage of Assets	One Year Return
Domestic Equity	35.2%	20.39%
Canada Index Fund	4.1%	4.64%
International Developed Market	13.4%	21.57%
International Emerging Market	3.9%	N/A
Domestic Fixed Income	28.5%	(0.81)%
Inflation-Indexed Fixed Income	7.2%	(5.28)%
Real Estate	4.9%	10.11%
Private Equity	0.7%	10.23%
Cash and Cash Equivalents	2.1%	1.00%
Total	100.0%	9.92%

TCRS ranked below the median large public plan (InvestorForce's Public DB > \$1 billion) over the past year, but was ahead for the three- and five- year periods. This is the result of an asset allocation which is designed to meet the System's liabilities while minimizing the risk of loss.

During the fourth quarter of 2012, fears of the Federal "fiscal cliff" caused individuals and businesses to restrain or postpone spending, leading to weak growth and deflation during that period. While the fiscal cliff issues were resolved at the end of 2012, this was replaced by the "budget sequestration." With Federal spending suddenly reduced, the economy grew modestly in the first half of 2013. However, the removal of uncertainty combined with aggressive Fed policy helped to propel the equity markets in early 2013.

SIS expects modest equity and fixed income returns due to continued financial de-leveraging and slow global economic growth. Bond yields are likely to remain low by historical standards. The Fed's QE program will continue to be closely watched by market participants. Any changes to the QE policy will be carefully scrutinized in light of concurrent economic conditions and could result in increased market volatility.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large institutional investors.

Best regards,



Pete Keliuotis, CFA
pkeliuotis@sis-sf.com

LETTER FROM TCRS CHIEF INVESTMENT OFFICER

DAVID H. LILLARD, JR.
STATE TREASURER

STATE OF TENNESSEE



JOY HARRIS
CHIEF OF STAFF

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

JILL BACHUS
DIRECTOR OF TCRS

December 27, 2013

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013.

With over \$37.4 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general investment consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment performance for TCRS was computed using a market, time-weighted rate of return.

The 2013 fiscal year was constructive and the TCRS portfolio experienced a gain of 9.92% for the fiscal year and an annualized gain of 11.55% for the trailing three-year period. These returns both exceeded the actuarial-required returns by a significant margin and the portfolio was still managed in a manner to protect capital in an adverse environment.

The experienced investment staff of TCRS is committed to providing superior investment returns in a financially-sound manner with the highest ethical and professional standards. With the leadership of our Board, our Treasurer and our dedicated staff, this goal will be met.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Brakebill".

Michael Brakebill
Chief Investment Officer

STATUTORY INVESTMENT AUTHORITY

STATUTORY INVESTMENT AUTHORITY

The investment authority for TCRS is set out in Tennessee Code Annotated, Section 8-37-104, which provides that, with certain specific exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies. It further provides that the investment policy for TCRS funds is subject to the approval of the Board of Trustees.

TCRS' investment objectives, set by the Board for the Treasury Investment Division staff, are 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.

TCRS' policies and the strategies implemented by the Investment Division staff serve to benefit plan members in several ways. The emphasis on a conservative asset allocation and high quality securities helps to ensure the soundness of the system and the ability to provide the needed funds upon a member's retirement.

Funds in the retirement system are actively managed with a diversified portfolio of high-quality domestic and international bonds, domestic and international stocks, real estate, private equity and short-term instruments. From time to time, pursuant to Tennessee Code Annotated, Section 8-37-114, the Treasury Investment Division engages outside investment managers to manage a limited number of asset classes or subclasses. In those instances, the Investment Division endeavors to use emerging investment managers to the greatest extent feasible within the bounds of financial and fiduciary prudence, as prescribed under Tennessee Code Annotated, Section 8-37-113. During the fiscal year 2012-2013, no assets were under the control of emerging investment managers.

To assist in the fiduciary responsibility for managing the TCRS portfolio, Strategic Investment Solutions, Inc. serves as the general investment consultant for TCRS. The Townsend Group serves as the real estate investment consultant and Cambridge Associates serves as the private equity consultant to TCRS.

Northern Trust Company is the Master Trust Bank for TCRS which provides safekeeping and accounting services for the investment portfolio.

COST OF INVESTMENT OPERATION

The administrative cost to operate the investment program for TCRS is less than four basis points (.04%) of assets. The cost of four basis points includes the cost of personnel, operational cost, master bank custodian cost and record keeping. Commission cost for trades are capitalized. Recent peer comparisons of investment management fees and expenses indicate the investment program is managed very cost effectively.

PERFORMANCE MEASUREMENT

TCRS' independent external investment consultant, Strategic Investment Solutions, Inc., provides performance measurement for TCRS. During the 2013 fiscal year, TCRS had a total return of 9.92%. Domestic stocks gained 20.39%, while the S&P 1500 Index gained 21.13%. Domestic bonds lost 0.81% versus the bond benchmark of -2.79%. International stocks gained 17.90% versus a gain of 14.45% for the index. Real estate gained 10.11% versus 10.52% for the NCREIF index.

INVESTMENT PERFORMANCE REVIEW

INVESTMENT PERFORMANCE REVIEW

Periods Ending June 30, 2013

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	9.92 %	11.56 %	5.33 %
Policy Index	9.90 %	11.40 %	5.82 %
Asset Allocated Index	9.02 %	10.95 %	
Domestic Equity			
TCRS Performance	20.39 %	19.13 %	6.99 %
Benchmark	21.13 %	18.60 %	7.27 %
Canadian Equity			
TCRS Performance	4.64 %	5.26 %	
Benchmark	4.58 %	4.84 %	
Domestic Fixed Income			
TCRS Performance	(0.81)%	6.73 %	7.16 %
Benchmark	(2.79)%	5.33 %	6.40 %
Inflation Hedged Bonds			
Benchmark	(5.28)%	4.36 %	4.28 %
	(5.22)%	4.71 %	4.47 %
International Equity			
TCRS Performance	17.90 %	11.85 %	1.75 %
Benchmark	14.45 %	8.87 %	(0.95)%
International Fixed Income			
TCRS Performance	(12.09)%	1.05 %	3.15 %
Benchmark	(11.43)%	0.93 %	3.03 %
Real Estate			
TCRS Performance	10.11 %	11.85 %	0.88 %
Benchmark	10.52 %	13.30 %	2.32 %
Short-Term Securities			
TCRS Performance	1.00 %	1.47 %	1.74 %
Private Equity			
TCRS Performance	10.23 %	9.35 %	
Benchmark	16.96 %	15.67 %	
		Strategic Investment Solutions	
		Percentile Rankings	Risk Adjusted Basis
Ranking of TCRS Portfolio			
Last three years		46	13
Last five years		36	19

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.

ASSET ALLOCATION

ASSET ALLOCATION

*as of June 30, 2013**Expressed in Thousands*

Asset Class	Fair Value	Percentage
Domestic Equity	\$ 12,580,721,082	33%
Domestic Fixed Income	13,840,768,344	37%
International Equity	8,457,435,600	22%
International Fixed Income	32,268,505	0%
Short-Term Securities	763,680,280	2%
Real Estate	1,839,897,653	5%
Private Equities	272,739,387	1%
Totals	\$ 37,787,510,851	100%

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.

LARGEST HOLDINGS

JUNE 30, 2013

LARGEST STOCK HOLDINGS

as of June 30, 2013

by Fair Value

Shares	Security Name	Fair Value
3,932,794	Exxon Mobil Corp Com	\$ 355,327,938
771,860	Apple Inc Com Stk	305,718,309
6,004,068	Microsoft Corp Com	207,320,468
1,708,077	Chevron Corp Com	202,133,832
4,529,636	Wells Fargo & Co New Com Stk	186,938,078
8,029,786	General Electric Co	186,210,737
210,997	Google Inc Cl A	185,755,429
3,399,697	JP Morgan Chase & Co Com	179,470,005
2,030,480	Johnson & Johnson Com USD1	174,337,013

LARGEST BOND HOLDINGS

as of June 30, 2013

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 137,100,000	United States Treasury Index Linked Bond	2.34%	01/15/26	Aaa	\$ 185,501,691
139,900,000	United States Treasury Index Linked Note	2.34%	01/15/16	Aaa	176,048,348
158,800,000	United States Treasury Note	0.64%	07/15/21	Aaa	169,101,391
135,000,000	United States Treasury Note	1.33%	07/15/20	Aaa	156,373,562
166,770,000	United States Treasury Note	1.75%	05/15/23	Aaa	156,190,445
137,000,000	United States Treasury Note	1.20%	01/15/21	Aaa	155,760,161
100,000,000	United States Treasury Infl Index Bond	2.93%	01/15/25	Aaa	146,969,277
139,500,000	United States Treasury Note	2.63%	11/15/20	Aaa	145,352,444
107,000,000	United States Treasury Note	1.48%	01/15/20	Aaa	125,372,266
127,785,000	United States Treasury Bond	3.13%	02/15/43	Aaa	119,279,375

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
- NR: Not Rated

INVESTMENT SUMMARY

INVESTMENT SUMMARY
as of June 30, 2013

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 4,485,532,612	12.02%	\$ 0	0.00%	\$ 4,485,532,612	12.02%
Corporate Bonds	3,807,693,944	10.20%	0	0.00%	3,807,693,944	10.20%
Municipal/ Provincial Bonds	149,676,753	0.40%	0	0.00%	149,676,753	0.40%
Total Bonds	8,442,903,309	22.63%	0	0.00%	8,442,903,309	22.63%
Lehman Brothers Escrow Adjustment	3,656,250	0.01%	0	0.00%	3,656,250	0.01%
Asset Backed	638,468,285	1.71%	0	0.00%	638,468,285	1.71%
Commercial Mortgage Backed	398,696,159	1.07%	0	0.00%	398,696,159	1.07%
Government Agencies	201,384,222	0.54%	0	0.00%	201,384,222	0.54%
Government Mortgage Backed Securites	3,494,250,573	9.36%	0	0.00%	3,494,250,573	9.36%
Non-Government CMOs	160,647,845	0.43%	0	0.00%	160,647,845	0.43%
Preferred Stock	27,652,900	0.07%	32,268,505	0.09%	59,921,405	0.16%
Total Fixed Income	13,367,659,543	35.82%	32,268,505	0.09%	13,399,928,048	35.91%
Common Stock						
Consumer Discretionary	1,539,647,038	4.13%	870,515,482	2.33%	2,410,162,520	6.46%
Consumer Staples	1,234,349,189	3.31%	540,050,166	1.45%	1,774,399,355	4.76%
Energy	1,217,208,639	3.26%	602,383,076	1.61%	1,819,591,715	4.88%
Financials	1,966,011,005	5.27%	1,610,112,199	4.31%	3,576,123,204	9.58%
Healthcare	1,578,633,379	4.23%	670,154,061	1.80%	2,248,787,440	6.03%
Industrials	1,331,009,179	3.57%	923,422,055	2.47%	2,254,431,234	6.04%
Information Technology	2,138,791,483	5.73%	368,947,449	0.99%	2,507,738,932	6.72%
Materials	423,762,063	1.14%	583,294,327	1.56%	1,007,056,390	2.70%
Rights/Warrants	0	0.00%	99,086	0.00%	99,086	0.00%
Telecommunication Services	0	0.00%	215,695,332	0.58%	215,695,332	0.58%
Utilities	427,997,812	1.15%	115,702,050	0.31%	543,699,862	1.46%
Miscellaneous/ Unclassified	443,952,103	1.19%	480,838,121	1.29%	924,790,224	2.48%
Equity Exchange Traded Fund	279,359,192	0.75%	1,448,905,402	3.88%	1,728,264,594	4.63%
Stapled Securities	0	0.00%	27,357,686	0.07%	27,357,686	0.07%
Total Common Stock	12,580,721,082	33.72%	8,457,476,492	22.67%	21,038,197,574	56.38%
Short-Term Investments						
Commercial Paper	644,339,197	1.73%	0	0.00%	644,339,197	1.73%
Pooled Funds and Mutual Funds	3,007,331	0.01%	0	0.00%	3,007,331	0.01%
Short-Term Bills and Notes	116,333,752	0.31%	0	0.00%	116,333,752	0.31%
Total Short-Term Investments	763,680,280	2.05%	0	0.00%	763,680,280	2.05%
Real Estate	1,839,897,653	4.93%	0	0.00%	1,839,897,653	4.93%
Private Equities	272,739,387	0.73%	0	0.00%	272,739,387	0.73%
Total Investments	28,824,697,945	77.25%	8,489,744,997	22.75%	37,314,442,942	100.00%
Derivatives and Options	31,250		0		31,250	
Short-Term Investments Classified as Cash Equivalents	(688,800,114)		0		(688,800,114)	
Total Investments as Shown on the Statement of Plan Net Position	\$ 28,135,929,081		\$ 8,489,744,997		\$ 36,625,674,078	

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, 2013**

SCHEDULE OF FEES

	Average Assets Under Management	Fees
Asset Management		
International Investment Manager Fees	4.7 Billion	\$18,889,237
Real Estate Asset Management	1.8 Billion	8,719,209
Private Equities Asset Management	272.7 Million	0
Total Asset Management		<u><u>\$27,608,446</u></u>
Other Investment Services Fees		
Custodian Bank	37.5 Billion	\$ 396,000
General Investment Consultant	37.5 Billion	437,500
Real Estate Investment Consultant	1.8 Billion	125,000
Private Equities Investment Consultant	272.7 Million	1,506,000
Total Investment Services Fees		<u><u>\$ 2,464,500</u></u>

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	40,819,401	\$ 1,632,776	0.0400
Barclays Capital	47,781,140	955,623	0.0200
Cowen & Company, LLC	27,771,080	555,422	0.0200
JP Morgan Chase & Company	27,156,947	476,718	0.0176
Sanford C. Bernstein & Company, Inc.	21,295,754	425,915	0.0200
Citigroup Global Markets, Inc.	20,045,977	400,919	0.0200
RBC Capital Markets Corporation	17,763,307	355,266	0.0200
Deutsche Bank Securities, Inc.	17,318,326	346,366	0.0200
UBS Securities LLC	17,179,389	343,588	0.0200
Morgan Stanley & Company, Inc.	15,278,784	305,576	0.0200
Bank of America Merrill Lynch	13,300,386	266,008	0.0200
Instinet, LLC	12,058,525	235,547	0.0195
B.O.E. Securities, Inc.	4,072,554	122,177	0.0300
Avondale Partners	6,368,007	119,860	0.0188
M.R. Beal & Company	3,420,200	102,606	0.0300
Other Brokers*	68,007,093	892,713	0.0131
Totals	<u><u>359,636,870</u></u>	<u><u>\$ 7,537,080</u></u>	

(continued)

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2013 (CONTINUED)**

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

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	107,897,214	\$ 1,100,266	0.0102
Credit Suisse	71,243,407	576,507	0.0081
Barclays Capital	59,257,013	462,168	0.0078
Sandford C. Bernstein & Company, Inc.	42,030,591	293,809	0.0070
Cowen & Company, LLC	38,454,355	289,167	0.0075
Morgan Stanley & Company, Inc.	35,394,168	254,824	0.0072
DMG Securities, Inc.	35,622,876	251,910	0.0071
UBS Securities LLC	26,927,000	183,985	0.0068
Citigroup Global Markets, Inc.	25,633,464	178,859	0.0070
JP Morgan Chase & Company	28,252,304	141,262	0.0050
RBC Capital Markets Corporation	16,217,200	116,127	0.0072
Other Brokers*	24,544,900	174,854	0.0071
Totals	511,474,492	\$ 4,023,738	

International Exchange Traded Shares

Broker Name	INTERNATIONAL		
	Number of Shares Traded	Total Commissions	Commission Per Share
Citigroup Global Markets, Inc.	89,085,903	\$ 514,333	0.0058
UBS Securities LLC	57,893,561	477,790	0.0083
JP Morgan Chase & Company	47,229,479	445,216	0.0094
Credit Suisse	43,724,945	360,025	0.0082
Morgan Stanley & Company, Inc.	33,726,129	331,742	0.0098
Bank of America Merrill Lynch	35,267,224	306,590	0.0087
Deutsche Bank Securities, Inc.	28,537,126	251,641	0.0088
Goldman Sachs Group, Inc.	19,979,374	247,496	0.0124
Barclays Capital	26,013,349	215,981	0.0083
Macquarie Group LTD	16,794,372	137,028	0.0082
Nomura Holdings Inc.	9,404,547	131,569	0.0140
HSBC Bank PLC	12,603,216	116,665	0.0093
Credit Lyonnais Securities Asia	14,746,504	103,454	0.0070
Other Brokers*	139,354,197	1,343,173	0.0096
Totals	574,359,926	\$ 4,982,703	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

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

TENNESSEE

By John R. Bean
Adopted in 2012

*Oh Tennessee, I long to come back home.
I guess your dew has settled on my soul.
Everyday I stayed away,
You called my heart back, home to stay.
Oh Tennessee, I long to come back home.*

*Oh Tennessee, I'm missing you too soon.
Silver skies and lazy afternoons...
Silver clouds and golden moon,
You're Mother Nature's Tender Womb...
Oh Tennessee, I'm missing you too soon.*

*Your days, have such gentle ways
Aimless thoughts and windblown rhymes
Your nights sing such peaceful songs.
To a tired and weary mind.*

*Oh Tennessee, I've spent more than I've earned,
But I'm much richer now for what I've learned...
Money won't buy peace of mind,
And peace of mind is what I'll find...
Oh Tennessee, you treated me so kind.*

*Welcome home
Welcome home*

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 valuation performed as of July 1, 2011 set employer rates effective July 1, 2012 through June 30, 2014. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. A valuation was performed as of July 1, 2013 to establish new employer rates effective July 1, 2014.

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 the benefits as promised by the pension plan.

ACCRUED LIABILITY

The unfunded accrued liability within the plan was most recently reestablished with the 2009 actuarial valuation for most groups. 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. With the exception of some local government employers, the unfunded accrued liability was not reestablished with the 2011 actuarial valuation.

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, 2008. A number of small changes were made to the economic and decrement assumptions. The system noted significant improvements in mortality. In addition, the COLA assumption was lowered from 3.0 percent to 2.5 percent to reflect actual experience. Assumptions developed from the June 30, 2008 experience study were used in the July 1, 2009 and July 1, 2011 actuarial valuations. The results of the experience study dated June 30, 2012 will be included in the July 1, 2013 actuarial valuation.

ACTUARY'S CERTIFICATION LETTER



Justin C. Thacker, F.S.A.
Direct Line: (615) 665-5387
Email: Justin.Thacker@bpsm.com

December 20, 2013

Mr. David H. Lillard, Jr.
Chairman, Board of Trustees
Tennessee Consolidated Retirement System
502 Deaderick Street
Nashville, Tennessee 37243-0201

Re: Actuary's Certification Letter

Dear Mr. Lillard:

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 completed as of the year ending June 30, 2013 for the Tennessee Consolidated Retirement System was performed as of July 1, 2011. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Assumptions and Methods") which was adopted by the Board of Trustees on the recommendation of the actuary after a study of actual experience under the TCRS during the four-year period ending June 30, 2008.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation.

In performing the 2011 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 for reasonableness and internal consistency, although the validity of the information was not traced to source documents. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

Certain tables presented in the Comprehensive Annual Financial Report are derived from the July 1, 2011 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 -

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

Mr. David H. Lillard, Jr.
Chairman, Board of Trustees
December 20, 2013
Page Two

Financial Section

- Schedules of Funding Progress
- Schedules of Employer Contributions

Actuarial Section


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

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from prior actuarial valuations through 2011.

The 2011 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,



Justin C. Thacker, F.S.A.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions were adopted by the Board of Trustees for use with the July 1, 2011 valuation based on the consulting actuary’s recommendations resulting from the June 30, 2008 actuarial experience study.

GENERAL ACTUARIAL METHODS

- ❖ **Actuarial Cost Method** (Frozen Entry Age) – The state and teacher unfunded accrued liabilities are being funded over a nine-year and six-year period, respectively. The amortization period related to local government unfunded accrued liabilities varies by entity.
- ❖ **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 ten-year moving average of the fair market value. The actuarial value of assets must be within 80-120 percent of the market value of assets.
- ❖ **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 geometric rate of 2.5 percent annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

ECONOMIC ASSUMPTIONS

- ❖ **Investment Return Rate** – Seven and one-half percent (7½%) per annum, compounded annually.
- ❖ **Employee Salary Increases** – Graded scale that reflects the plan experience pattern of declining escalation rates as participant ages increase. 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** – Three and one-half percent (3½%) annual increase.

DECREMENT ASSUMPTIONS

- ❖ **Post-Retirement Mortality** – Specifically adopted tables have been created to accurately reflect patterns that occur among TCRS retirees. Sample rates are below.

<i>Male</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.3%	0.4%
Age 60	0.6%	1.0%
Age 70	1.8%	2.2%

<i>Female</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.2%	0.2%
Age 60	0.5%	0.7%
Age 70	1.1%	1.3%

- ❖ **Preretirement Mortality** – Eighty percent (80%) of the RP-2000 Mortality Table is used for state employees and political subdivision employees. For teachers, the RP-2000 Mortality Table is used with an adjustment of 60 percent (60%).

- ❖ **Withdrawal Due to Disability** – Sample rates of disability based on experience:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.07%	0.03%
Age 40	0.08%	0.16%	0.08%
Age 50	0.17%	0.27%	0.38%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.04%	0.03%
Age 40	0.08%	0.14%	0.08%
Age 50	0.17%	0.33%	0.38%

(continued)

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(CONTINUED)

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

<i>Teachers</i>			
	1st Year Employment	2nd Year Employment	Ultimate
Male			
Age 30	18.0%	13.5%	6.0%
Age 40	18.0%	13.5%	2.0%
Age 50	19.7%	14.2%	2.0%
Female			
Age 30	18.0%	13.5%	7.6%
Age 40	18.0%	13.5%	2.3%
Age 50	19.7%	14.2%	1.6%
<i>State</i>			
	1st Year Employment	2nd Year Employment	Ultimate
Male			
Age 30	23.0%	18.6%	9.6%
Age 40	18.6%	13.8%	2.6%
Age 50	14.8%	11.1%	2.2%
Female			
Age 30	23.0%	18.6%	10.3%
Age 40	18.6%	13.8%	3.4%
Age 50	14.8%	11.1%	2.3%
<i>Political Subdivisions</i>			
	1st Year Employment	2nd Year Employment	Ultimate
Male			
Age 30	21.8%	17.9%	7.4%
Age 40	19.2%	15.9%	3.5%
Age 50	17.0%	13.0%	2.8%
Female			
Age 30	21.8%	17.9%	11.1%
Age 40	19.2%	15.9%	5.4%
Age 50	17.0%	13.0%	3.8%

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

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 60	15.0%	8.5%	10.5%
Age 61	16.0%	11.0%	15.0%
Age 62	22.0%	16.0%	20.0%
Age 63	16.0%	12.0%	17.5%
Age 64	18.0%	14.0%	17.5%
Age 65	35.0%	22.0%	24.0%
Age 70	16.0%	15.5%	18.0%
Age 75	100.0%	100.0%	100.0%
<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 60	17.0%	9.0%	11.0%
Age 61	20.0%	12.0%	13.0%
Age 62	26.0%	18.0%	18.0%
Age 63	19.5%	12.0%	16.0%
Age 64	24.0%	14.0%	16.0%
Age 65	37.5%	22.0%	22.0%
Age 70	34.0%	17.0%	19.0%
Age 75	100.0%	100.0%	100.0%

In addition, for members younger than age 60, a loading factor of 12.5 percent for teachers and 7.5 percent for state and political subdivision employees is added during the year the member is first eligible for unreduced retirement. After age 60, for those members with 15 or more years of service, an 8.0 percent load is added for teachers and 2.0 percent for state employees and political subdivision employees.

ACTUARIAL DATA**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Actuarial Valuation	Number	Annual Payroll In Thousands	Average Annual Pay	Average Annual Percentage Increase In Average Pay
July 2001 SETHEEPP	126,863	\$4,451,453	\$35,089	2.85%
PSPP	69,083	1,545,594	22,373	4.13%
July 2003 SETHEEPP	128,656	4,773,299	37,101	2.83%
PSPP	71,941	1,731,135	24,063	3.71%
July 2005 SETHEEPP	132,026	5,245,988	39,735	3.49%
PSPP	74,124	1,890,968	25,511	2.96%
July 2007 SETHEEPP	136,337	5,742,858	42,123	2.96%
PSPP	76,388	2,081,965	27,255	3.36%
July 2009 SETHEEPP	136,158	6,054,528	44,467	2.74%
PSPP	78,792	2,282,081	28,963	3.09%
July 2011 SETHEEPP	135,588	6,058,348	44,682	0.24%
PSPP	79,488	2,354,939	29,626	1.14%

SCHEDULE OF RETIRED MEMBER VALUATION DATA

Actuarial Valuation	Number	Annual Allowances In Thousands	Average Annual Allowances	Average Annual Percentage Increase In Annual Allowances
July 2001 SETHEEPP	57,081	\$ 693,788	\$12,154	5.41%
PSPP	20,750	101,888	4,910	5.18%
July 2003 SETHEEPP	60,606	799,029	13,184	4.15%
PSPP	22,673	120,553	5,317	4.06%
July 2005 SETHEEPP	65,094	939,549	14,434	4.63%
PSPP	24,799	143,275	5,777	4.24%
July 2007 SETHEEPP	70,703	1,117,789	15,810	4.66%
PSPP	27,527	174,211	6,329	4.67%
July 2009 SETHEEPP	77,310	1,281,514	16,576	2.39%
PSPP	30,565	205,326	6,718	3.03%
July 2011 SETHEEPP	83,041	1,457,974	17,557	2.92%
PSPP	33,544	241,910	7,212	3.61%

**ACTUARIAL DATA
(CONTINUED)**

SCHEDULE OF RETIRED MEMBER ACTIVITY

Actuarial Valuation July 1	Added to Rolls		Removed from Rolls		Rolls End of Year		Percentage Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
2001 SETHEEPP	n/a	n/a	n/a	n/a	57,081	\$ 693,788	n/a	n/a
PSPP	n/a	n/a	n/a	n/a	20,750	101,888	n/a	n/a
2003 SETHEEPP	7,597	\$141,252	4,072	\$36,011	60,606	799,029	15.17%	\$ 13,184
PSPP	3,320	24,133	1,397	5,468	22,673	120,553	18.32%	5,317
2005 SETHEEPP	8,453	179,572	3,965	39,052	65,094	939,549	17.59%	14,434
PSPP	3,705	29,169	1,579	6,447	24,799	143,275	18.85%	5,777
2007 SETHEEPP	9,427	219,034	3,818	40,794	70,703	1,117,789	18.97%	15,810
PSPP	4,396	38,751	1,668	7,815	27,527	174,211	21.59%	6,329
2009 SETHEEPP	10,677	212,772	4,070	49,047	77,310	1,281,514	14.65%	16,576
PSPP	4,752	39,522	1,714	8,407	30,565	205,326	17.86%	6,718
2011 SETHEEPP	10,090	233,149	4,359	56,689	83,041	1,457,974	13.77%	17,557
PSPP	4,955	47,632	1,976	11,048	33,544	241,910	17.82%	7,212

Note: Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes.

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, 2011

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEPP)	Political Subdivision Pension Plan (PSPP)	Total
ASSETS			
Present assets creditable to			
Employer accumulation fund	\$ 26,411,200,293	\$ 5,461,751,471	\$ 31,872,951,764
Members' accumulation fund	3,706,978,263	1,100,852,325	4,807,830,588
Total present assets	<u>30,118,178,556</u>	<u>6,562,603,796</u>	<u>36,680,782,352</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	2,179,663,929	886,440,557	3,066,104,486
Accrued liability	2,589,446,292	799,102,966	3,388,549,258
Total employer accumulation	<u>4,769,110,221</u>	<u>1,685,543,523</u>	<u>6,454,653,744</u>
Member's accumulation fund	<u>1,836,350,124</u>	<u>582,617,580</u>	<u>2,418,967,704</u>
Total prospective contributions	<u>6,605,460,345</u>	<u>2,268,161,103</u>	<u>8,873,621,448</u>
TOTAL ASSETS	<u><u>\$ 36,723,638,901</u></u>	<u><u>\$ 8,830,764,899</u></u>	<u><u>\$ 45,554,403,800</u></u>
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	15,941,291,810	2,560,587,467	18,501,879,277
Present active members	20,028,868,907	6,013,575,239	26,042,444,146
Former members	<u>753,478,184</u>	<u>256,602,193</u>	<u>1,010,080,377</u>
TOTAL LIABILITIES	<u><u>\$ 36,723,638,901</u></u>	<u><u>\$ 8,830,764,899</u></u>	<u><u>\$ 45,554,403,800</u></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.

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	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)
1997 SETHEEP	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP	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 SETHEEP	\$ 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%
2001 SETHEEP	\$ 2,638.6	\$ 7,837.6	\$ 10,366.0	\$ 20,761.0	100%	100%	99%
PSPP	592.0	1,104.2	1,831.9	3,188.0	100%	100%	81%
Total	\$ 3,230.6	\$ 8,941.8	\$ 12,197.9	\$ 23,949.0	100%	100%	97%
2003 SETHEEP	\$ 2,908.2	\$ 9,071.1	\$ 10,172.5	\$ 22,099.3	100%	100%	99%
PSPP	691.1	1,304.9	1,927.4	3,605.5	100%	100%	84%
Total	\$ 3,599.3	\$ 10,376.0	\$ 12,099.9	\$ 25,704.8	100%	100%	97%
2005 SETHEEP	\$ 3,167.4	\$ 10,599.5	\$ 9,900.1	\$ 23,627.2	100%	100%	100%
PSPP	797.0	1,563.9	2,089.2	4,124.0	100%	100%	84%
Total	\$ 3,964.4	\$ 12,163.4	\$ 11,989.3	\$ 27,751.2	100%	100%	97%
2007 SETHEEP	\$ 3,386.8	\$ 12,544.7	\$ 11,308.6	\$ 26,215.0	100%	100%	91%
PSPP	896.8	1,902.9	2,676.0	4,898.0	100%	100%	78%
Total	\$ 4,283.6	\$ 14,447.6	\$ 13,984.6	\$ 31,113.0	100%	100%	89%
2009 SETHEEP	\$ 3,559.8	\$ 14,122.8	\$ 11,372.4	\$ 26,335.2	100%	100%	76%
PSPP	1,011.3	2,190.0	2,942.4	5,304.5	100%	100%	71%
Total	\$ 4,571.1	\$ 16,312.8	\$ 14,314.8	\$ 31,639.7	100%	100%	75%
2011 SETHEEP	\$ 3,707.0	\$ 15,941.3	\$ 13,059.3	\$ 30,118.2	100%	100%	80%
PSPP	1,100.8	2,560.6	3,700.3	6,562.6	100%	100%	78%
Total	\$ 4,807.8	\$ 18,501.9	\$ 16,759.6	\$ 36,680.8	100%	100%	80%

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

<p>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.</p> <p>Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2027. 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.</p> <p>For the July 1, 2009 actuarial valuation, the Board reestablished the unfunded accrued liability. In an</p>	<p>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.</p> <p>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.</p>
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SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	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
1997 (3)	\$ 18,070.8	\$ 17,898.6	99.00%	\$ 172.2 (1)(2)	\$ 4,940.8	3.00%
1999	21,311.1	21,017.9	99.00%	293.2	5,473.8	5.00%
2001	24,370.4	23,949.0	98.00%	421.4 (2)	5,997.0	7.00%
2003	26,075.2	25,704.8	99.00%	370.4	6,504.4	6.00%
2005	28,117.1	27,751.2	99.00%	365.9 (2)	7,137.0	5.00%
2007	32,715.8	31,113.0	95.10%	1,602.8 (1)	7,824.8	20.48%
2009	35,198.7	31,639.7	89.89%	3,559.0 (1)(2)	8,336.6	42.69%
2011	40,069.3	36,680.8	91.54%	3,388.5	8,413.3	40.28%

Notes:

- (1) Unfunded accrued liability was reestablished.
- (2) Includes adjustments for changes in actuarial assumptions.
- (3) Includes effect of compound COLA and 3.6 percent indexing improvement.

SELECTED ACTUARIAL FUNDING INFORMATION

SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEEPP	PSPP	
1997 (2)	7.50%	5.50%	\$ 111,172,072	\$ 61,012,975	18
1999	7.50%	5.50%	93,022,745	200,161,388	16
2001	7.50%	4.75% (3)	81,226,933	340,147,400	14
2003	7.50%	4.75% (3)	52,493,209	317,945,618	12
2005	7.50%	4.75% (3)	39,806,610	326,114,462	10
2007 (4)	7.50%	4.75% (3)	1,025,156,148	577,645,568	20
2009 (4)	7.50%	4.75% (3)	2,719,767,478	839,320,076	20
2011	7.50%	4.75% (3)	2,589,446,292	799,102,966	9 (5)

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
- (2) Includes effect of compound COLA and 3.6 percent indexing improvement.
- (3) Graded Scale.
- (4) Unfunded liability was reestablished for all groups.
- (5) Effective July 1, 2011, the amortization period was reset to six years for teachers and nine years for the state.

ANALYSIS OF FINANCIAL EXPERIENCE

GAIN AND LOSS ANALYSIS, JULY 1, 2011 VALUATION

	State and Higher Education	Teacher
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2011 Valuation	15.01%	9.05%
Investment Results	(1.86%)	(1.61%)
Salary Increases: The annual weighted-average rate of salary increase during the 2009-2011 period was below the assumed age-based rate used in preparing the 2009 valuation report. This resulted in a reduction in the contribution rate.	(1.52%)	(1.23%)
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	(0.30%)	(0.07%)
Cost of Living Escalation: COLA in 2010 and 2011 were 2.7% and 1.5%, respectively, for combined effect of 2.1%, which is less than the assumed 2.5% per year.	(0.25%)	(0.23%)
Prior Service Purchases: Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions.	0.10%	0.10%
Contribution rate change delay	0.26%	0.31%
Other	0.46%	(0.47%)
Re-amortization of unfunded liability(6-year amortization for teachers, 9-year amortization for State)	3.24%	3.03%
Effective Employer Normal Cost Rate Pursuant to 2011 Valuation	<u>23.00%</u>	<u>16.10%</u>

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

Unfunded Actuarial Liabilities at June 30, 2012	\$2,323,872,017
Interest Accrual Fiscal Year 2012-2013	142,212,535
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2012-2013)	(427,704,881)
Unfunded Actuarial Liabilities at June 30, 2013	<u>\$2,038,379,671</u>

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 20-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, nine representatives of the active TCRS membership and two representatives for retirees. 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; three representatives of local governments; one public safety officer; one retired state employee representative; and one retired teacher representative. 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; pension costs for teachers are the responsibility of the local education agencies in Tennessee; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balances. 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.

State employees, higher education employees and K-12 public school teachers hired after June 30, 2014 will participate in the Hybrid Pension Plan for State Employees and Teachers.

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 members' accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts. State employees, teachers in state supported institutions of higher education and teachers employed by the Department of Education hired after June 30, 2014 contribute at a rate of five percent of gross salary.

Participating political subdivisions may either adopt noncontributory 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.

(continued)

PLAN SUMMARY (CONTINUED)

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.

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.

For ORP participants hired after June 30, 2014, the state will contribute nine percent of salary to the ORP. The employee will contribute five percent of gross salary to the ORP.

BENEFITS

General

TCRS provides three valuable benefits to its members: disability, death and service retirement benefits. 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.

**PLAN SUMMARY
(CONTINUED)**

Legacy Plan for Members Before July 1, 2014

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 hired prior to July 1, 2014, 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 if 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.

Hybrid Plan for Members After June 30, 2014

State employees, higher education employees and K-12 teachers, with the exception of state judges, the State Attorney General, elected District Attorneys General, and elected Public Defenders, becoming members after June 30, 2014 enter the same membership group. The benefit formula for this group provides 1.0 percent of AFC computed over five years for each year of service credit. The benefit formula for State judges, the State Attorney General, elected District Attorneys General, and elected Public Defenders provides 1.6 percent of AFC computed over five years for each year of service credit. Local governments have the option to join this plan

Members become eligible for regular service retirement at age 65 if vested or the Rule of 90. The Rule of 90 refers to a combination of age and service that total 90. Vested members are eligible for reduced early retirement benefits at age 60 if vested or the Rule of 80. Members attain vesting rights after five 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 biennially to educate payroll officers on legislation affecting TCRS and inform them of the employer contribution rates effective for the next two fiscal years.

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 available to members upon request.

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.
- ❖ Prior Service may be purchased with a rollover from a tax-deferred 401(a) plan, 401(k) plan, 403(b) plan, 457 plan or a traditional or Roth IRA.

Benefits

- ❖ Interactive benefit calculator via Internet.
- ❖ Computer-generated benefit estimates are available for those members approaching retirement age.
- ❖ Employee benefit counseling workshops are available to educate potential retirees.
- ❖ TCRS counseling staff provides personal counseling to members by telephone and in their Nashville office.

- ❖ TCRS seminars, which explain all facets of pre-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
- ❖ Continuation of dental 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
- ❖ Retiree self-service at www.mytcrs.com

SAMPLE BENEFIT CALCULATIONS

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
for Calendar Year 2013

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	9,840		9,840		9,840		9,840		9,840	
	Total	<u>\$13,384</u>	89.2%	<u>\$14,565</u>	97.1%	<u>\$15,746</u>	105.0%	<u>\$16,928</u>	112.9%	<u>\$18,109</u>	120.7%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$11,025	
	Social Security	11,388		11,388		11,388		11,388		11,388	
	Total	<u>\$16,113</u>	80.6%	<u>\$17,688</u>	88.4%	<u>\$19,263</u>	96.3%	<u>\$20,838</u>	104.2%	<u>\$22,413</u>	112.1%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$11,813		\$13,781	
	Social Security	12,936		12,936		12,936		12,936		12,936	
	Total	<u>\$18,842</u>	75.4%	<u>\$20,811</u>	83.2%	<u>\$22,780</u>	91.1%	<u>\$24,749</u>	99.0%	<u>\$26,717</u>	106.9%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$11,813		\$14,175		\$16,538	
	Social Security	14,472		14,472		14,472		14,472		14,472	
	Total	<u>\$21,560</u>	71.9%	<u>\$23,922</u>	79.7%	<u>\$26,285</u>	87.6%	<u>\$28,647</u>	95.5%	<u>\$31,010</u>	103.4%
\$35,000	TCRS	\$ 8,269		\$11,025		\$13,781		\$16,538		\$19,294	
	Social Security	16,020		16,020		16,020		16,020		16,020	
	Total	<u>\$24,289</u>	69.4%	<u>\$27,045</u>	77.3%	<u>\$29,801</u>	85.1%	<u>\$32,558</u>	93.0%	<u>\$35,314</u>	100.9%
\$40,000	TCRS	\$ 9,450		\$12,600		\$15,750		\$18,900		\$22,050	
	Social Security	17,568		17,568		17,568		17,568		17,568	
	Total	<u>\$27,018</u>	67.5%	<u>\$30,168</u>	75.4%	<u>\$33,318</u>	83.3%	<u>\$36,468</u>	91.2%	<u>\$39,618</u>	99.0%
\$45,000	TCRS	\$10,631		\$14,175		\$17,719		\$21,263		\$24,806	
	Social Security	19,116		19,116		19,116		19,116		19,116	
	Total	<u>\$29,747</u>	66.1%	<u>\$33,291</u>	74.0%	<u>\$36,835</u>	81.9%	<u>\$40,379</u>	89.7%	<u>\$43,922</u>	97.6%
\$50,000	TCRS	\$11,813		\$15,750		\$19,688		\$23,625		\$27,563	
	Social Security	20,664		20,664		20,664		20,664		20,664	
	Total	<u>\$32,477</u>	65.0%	<u>\$36,414</u>	72.8%	<u>\$40,352</u>	80.7%	<u>\$44,289</u>	88.6%	<u>\$48,227</u>	96.5%
\$55,000	TCRS	\$12,994		\$17,325		\$21,656		\$25,988		\$30,319	
	Social Security	22,212		22,212		22,212		22,212		22,212	
	Total	<u>\$35,206</u>	64.0%	<u>\$39,537</u>	71.9%	<u>\$43,868</u>	79.8%	<u>\$48,200</u>	87.6%	<u>\$52,531</u>	95.5%
\$60,000	TCRS	\$14,175		\$18,900		\$23,625		\$28,350		\$33,075	
	Social Security	23,100		23,100		23,100		23,100		23,100	
	Total	<u>\$37,275</u>	62.1%	<u>\$42,000</u>	70.0%	<u>\$46,725</u>	77.9%	<u>\$51,450</u>	85.8%	<u>\$56,175</u>	93.6%
\$65,000	TCRS	\$15,364		\$20,486		\$25,607		\$30,728		\$35,850	
	Social Security	23,820		23,820		23,820		23,820		23,820	
	Total	<u>\$39,184</u>	60.3%	<u>\$44,306</u>	68.2%	<u>\$49,427</u>	76.0%	<u>\$54,548</u>	83.9%	<u>\$59,670</u>	91.8%
\$70,000	TCRS	\$16,742		\$22,323		\$27,904		\$33,485		\$39,065	
	Social Security	24,552		24,552		24,552		24,552		24,552	
	Total	<u>\$41,294</u>	59.0%	<u>\$46,875</u>	67.0%	<u>\$52,456</u>	74.9%	<u>\$58,037</u>	82.9%	<u>\$63,617</u>	90.9%

* 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 2013. 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 2013;
- (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: tcrs.tn.gov

MAJOR LEGISLATIVE IMPROVEMENTS

<p>1972 Benefit formula improved from 1.12 percent of salary up to the SSIL to 1.5 percent of salary up to the SSIL.</p> <p>1973 Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.</p> <p>1974 Disability retirement eligibility requirement reduced from 10 years to 5 years of service.</p> <p>Maximum annual cost-of-living increase raised to 3 percent.</p> <p>Provision to increase retirees’ benefits whenever the benefit formula is improved.</p> <p>Service credit authorized for unused accumulated sick leave.</p> <p>1976 Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.</p> <p>Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.</p> <p>1978 A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.</p> <p>An optional retirement plan established for teachers in the Board of Regents system.</p> <p>1980 Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member’s accrued benefit for the spouse.</p> <p>1981 Noncontributory retirement for state employees and higher education employees adopted. Employees’ contributions, up to 5 percent, were assumed by the state.</p> <p>1983 An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p>1984 Credit for out-of-state service for the purpose of determining retirement eligibility authorized.</p> <p>Retirement credit for armed conflict approved.</p> <p>Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.</p> <p>1985 \$22 million ad-hoc increase granted to retirees.</p>	<p>1987 Service credit for half of peacetime military service made available.</p> <p>\$17 million ad-hoc increase granted to retirees.</p> <p>Retirement incentive for state employees.</p> <p>Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.</p> <p>1990 Retirement incentive for state employees.</p> <p>1991 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.</p> <p>1992 Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p>1993 Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5 percent authorized.</p> <p>1997 Compounded COLA for retirees approved.</p> <p>1998 Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80 percent.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p>1999 Group 1 benefit maximum increased to 90 percent.</p> <p>2000 Group 2 benefit maximum increased to 80 percent.</p> <p>2001 Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p>2005 Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p>2006 Ad-hoc increase granted to members retired prior to 1989.</p> <p>2007 Public Safety Officer benefits were enhanced.</p> <p>2012 New plan options offered to local governments.</p> <p>2013 Hybrid plan enacted for state employees and teachers hired after July 1, 2014.</p>
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THE PRIDE OF TENNESSEE

By Fred Congdon, Thomas Vaughn and Carol Elliot

Adopted in 1996

*From the Smokie Mountain Mornings to the Mississippi shores
Let's take time to remember those who went before
Whose lives made a difference in the world for you and me
Their courage faith and vision are the Pride of Tennessee
Sequoyah was a Cherokee the chief of all his tribe
His people learned to read and write with the alphabet he scribed
When Tennessee became a State its Governor was clear
There was no better leader than the gallant John Sevier
From the backwoods to the Congress to his stand at the Alamo
Davy Crockett gave his life for the country he loved so*

*Three Presidents from Tennessee made impressions on this land
Jackson, Polk and Johnson were men who took a stand
Ida Wells Barnett fought bravely for the rights of men
When they were killed by prejudice for the color of their skin
He was drafted in the first world war though he did not want to go
His shooting skills made Alvin York a national hero*

*When women of Tennessee believed they had the right to vote
Ann Dallas Dudley led the fight and gave them hope
Cordell Hull had a vision for peace around the world
The United Nations where all countries' flags unfurl
From Beale Street down in Memphis to New York front page news
WC Handy's music made him father of the blues*

Yes Courage, Faith and Vision are the Pride of Tennessee

STATISTICAL INTRODUCTION**STATISTICAL SECTION OVERVIEW**

The statistical section presents additional information to provide financial statement users with added historical perspective, context, and detail to assist in using the information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the system's financial condition.

FINANCIAL TRENDS

The schedules presented on pages 76-79 show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- ❖ Historical Fair Value
- ❖ Analysis of Member and Employer Reserves
- ❖ Schedules of Changes in Net Assets
- ❖ Schedules of Benefit Expenses

OPERATING INFORMATION

The remaining schedules presented on pages 80-100 contain benefits, service, and employer data to help the reader understand how the System's financial report relates to the services of the system and the activities it performs. In addition, a description of political subdivision participation and a listing of participating entities have been included in this section.

HISTORICAL FAIR VALUE

HISTORICAL FAIR VALUE

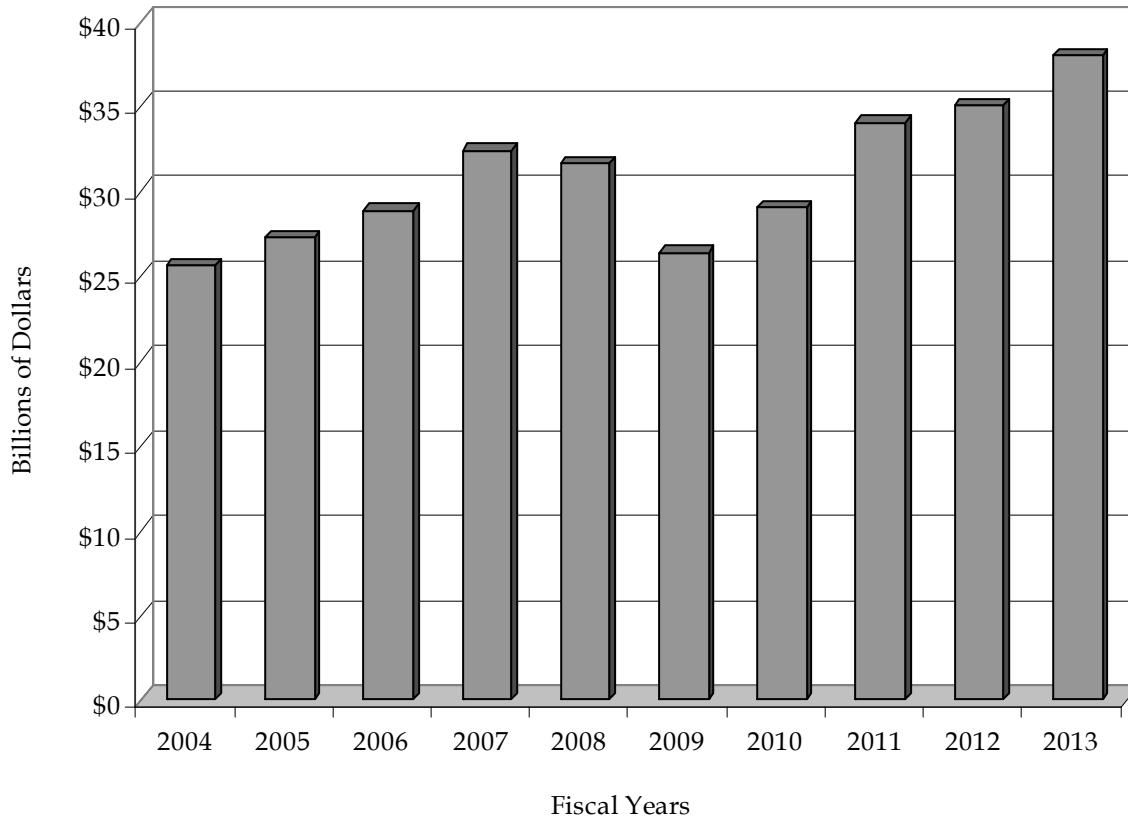
Fiscal Years 2004-2013

Expressed in Thousands

As of June 30	Fair Value	As of June 30	Fair Value
2004	\$ 25,586,516	2009	\$ 26,369,226
2005	27,216,262	2010	28,574,195
2006	28,820,635	2011	33,663,308
2007	32,365,969	2012	34,912,773
2008	31,634,129	2013	37,564,905

HISTORICAL FAIR VALUE

Fiscal Years 2004-2013



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES
FOR THE YEAR ENDED JUNE 30, 2013**

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
<i>June 30, 2012 Member Reserve Fund</i>	\$ 3,749,165,126	\$ 1,151,024,102	\$ 4,900,189,228
Member Contributions	196,792,442	71,764,647	268,557,089
Employer Provided Contributions	10,887,272	7,915,831	18,803,103
Interest	169,915,327	53,918,621	223,833,948
Refunded Account Balances	(19,520,046)	(19,997,831)	(39,517,877)
Transfers to Employer Fund of Retiring Members'	(348,914,509)	(68,551,700)	(417,466,209)
 <i>June 30, 2013 Member Reserve Fund</i>	 <u>\$ 3,758,325,612</u>	 <u>\$ 1,196,073,670</u>	 <u>\$ 4,954,399,282</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
<i>June 30, 2012 Employer Reserve Fund</i>	\$ 24,747,483,717	\$ 5,265,100,027	\$ 30,012,583,744
Employer Contributions	735,886,066	274,538,969	1,010,425,035
Investment Income	2,721,727,771	622,861,488	3,344,589,259
Transfers from Retiring Members' Account	348,914,509	68,551,700	417,466,209
Employer Provided Contributions	(10,887,272)	(7,915,831)	(18,803,103)
Interest Credited to Members' Account	(169,915,327)	(53,918,621)	(223,833,948)
Lump-Sum Death Benefits	(3,050,544)	(2,005,537)	(5,056,081)
Retirement and Survivors Annuities	(1,639,030,908)	(279,655,431)	(1,918,686,339)
Administrative Expenses	(5,446,453)	(2,732,243)	(8,178,696)
 <i>June 30, 2013 Employer Reserve Fund</i>	 <u>\$ 26,725,681,559</u>	 <u>\$ 5,884,824,521</u>	 <u>\$ 32,610,506,080</u>

SCHEDULES OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULES OF CHANGES IN NET POSITION

Expressed in Thousands

Year Ending	Additions			Deductions			Total Change in Net Position
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
SETHEEPP							
6/30/2004	\$ 154,334	\$ 271,298	\$ 1,870,972	\$ 826,938	\$ 2,935	\$ 15,305	\$ 1,451,426
6/30/2005	160,686	448,154	1,579,232	891,259	3,008	15,329	1,278,476
6/30/2006	166,984	474,879	1,594,214	972,680	3,336	17,751	1,242,310
6/30/2007	175,743	562,729	3,202,706	1,062,764	3,385	19,231	2,855,798
6/30/2008	181,236	593,412	(361,408)	1,148,496	3,711	19,113	(758,080)
6/30/2009	185,729	583,985	(4,059,222)	1,254,824	3,616	16,503	(4,564,451)
6/30/2010	190,635	578,403	2,232,405	1,317,203	3,924	19,371	1,660,945
6/30/2011	192,467	721,759	4,552,737	1,415,339	3,525	18,957	4,029,142
6/30/2012	194,180	731,352	1,473,650	1,514,027	4,751	22,575	857,829
6/30/2013	196,792	735,886	2,721,728	1,642,081	5,446	19,521	1,987,358
PSPP							
6/30/2004	\$ 50,650	\$ 139,808	\$ 310,881	\$ 127,513	\$ 2,599	\$ 14,621	\$ 356,606
6/30/2005	54,921	181,096	271,135	137,657	2,738	15,487	351,270
6/30/2006	59,327	191,000	283,084	151,511	2,877	16,960	362,063
6/30/2007	57,003	231,699	588,698	167,667	3,084	17,113	689,536
6/30/2008	64,617	244,847	(68,651)	184,219	3,491	26,863	26,240
6/30/2009	67,830	252,926	(799,264)	202,839	3,586	15,519	(700,452)
6/30/2010	64,414	258,324	459,941	217,984	3,619	17,052	544,024
6/30/2011	67,920	273,781	976,016	237,531	3,632	16,583	1,059,971
6/30/2012	69,576	271,361	326,414	255,782	2,416	17,517	391,636
6/30/2013	71,765	274,539	622,861	281,661	2,732	19,998	664,774

SCHEDULES OF BENEFIT EXPENSES

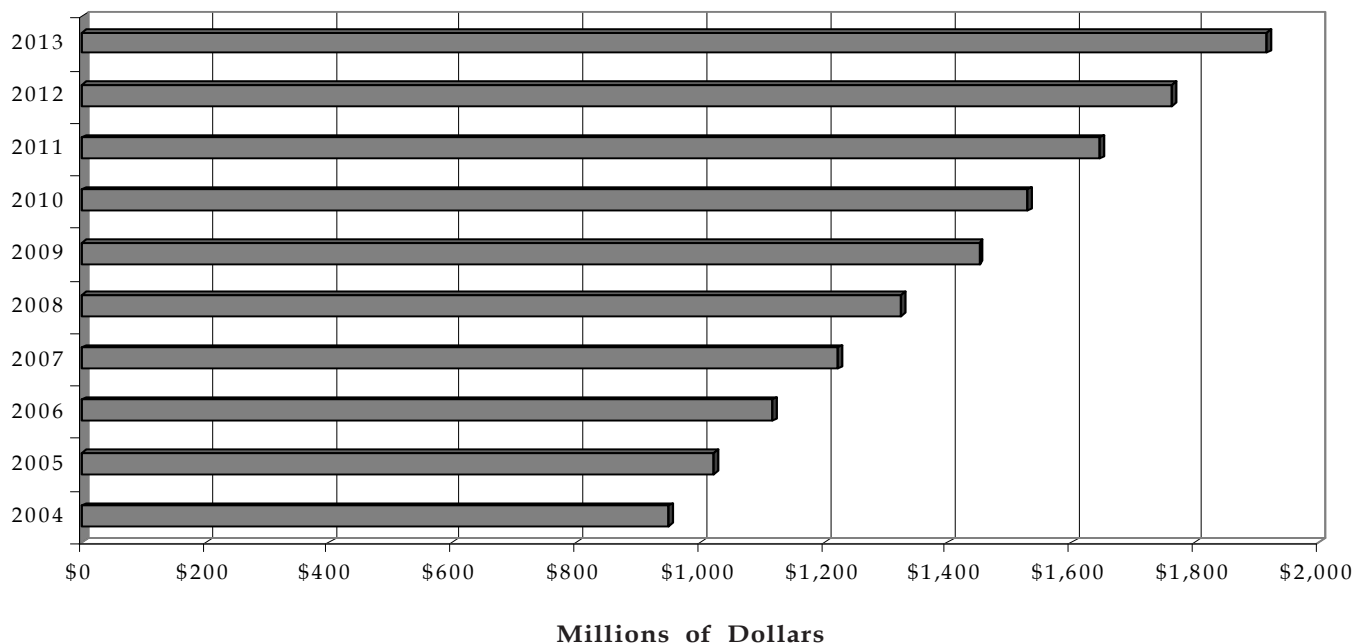
SCHEDULES OF BENEFIT EXPENSES

Expressed in Thousands

Year Ending	Service Retirement	Disability Retirement	Survivor Benefits	Death Benefits	Total Benefits	Refunds	Total
SETHEEPP							
6/30/2004	\$ 750,307	\$ 24,714	\$ 48,768	\$ 3,149	\$ 826,938	\$ 15,305	\$ 842,243
6/30/2005	808,955	25,865	52,708	3,731	891,259	15,329	906,588
6/30/2006	884,107	27,434	56,912	4,227	972,680	17,751	990,431
6/30/2007	968,363	28,864	61,818	3,719	1,062,764	19,231	1,081,995
6/30/2008	1,047,813	30,585	66,789	3,309	1,148,496	19,113	1,167,609
6/30/2009	1,149,047	30,156	71,559	4,062	1,254,824	16,503	1,271,327
6/30/2010	1,207,036	30,663	74,810	4,694	1,317,203	19,371	1,336,574
6/30/2011	1,298,484	32,483	80,318	4,054	1,415,339	18,957	1,434,296
6/30/2012	1,390,633	34,174	84,705	4,515	1,514,027	22,575	1,536,602
6/30/2013	1,507,179	39,879	91,973	3,051	1,642,082	19,520	1,661,602
PSPP							
6/30/2004	\$ 114,950	\$ 3,786	\$ 7,448	\$ 1,329	\$ 127,513	\$ 14,621	\$ 142,134
6/30/2005	124,436	3,953	8,088	1,180	137,657	15,487	153,144
6/30/2006	137,094	4,197	8,779	1,441	151,511	16,960	168,471
6/30/2007	151,844	4,417	9,622	1,784	167,667	17,113	184,780
6/30/2008	167,303	4,737	10,580	1,599	184,219	26,863	211,082
6/30/2009	184,753	5,048	11,376	1,662	202,839	15,519	218,358
6/30/2010	198,225	5,191	12,148	2,420	217,984	17,052	235,036
6/30/2011	217,222	5,591	13,274	1,444	237,531	16,583	254,114
6/30/2012	234,150	5,897	14,046	1,689	255,782	17,517	273,299
6/30/2013	257,383	6,813	15,459	2,006	281,661	19,998	301,659

ANNUAL BENEFIT PAYMENTS

Fiscal Years 2004-2013



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Service Credit

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
0-4	10,126	18,037	5,024	25,125	58,312
5-9	10,135	17,104	3,444	19,353	50,036
10-14	6,886	13,663	2,410	14,048	37,007
15-19	4,365	9,708	1,685	8,589	24,347
20-24	3,280	5,655	1,442	5,289	15,666
25-29	3,716	4,661	1,172	3,156	12,705
30-34	1,831	2,542	751	1,485	6,609
35-39	1,109	1,541	468	598	3,716
40-44	327	343	160	143	973
Over 44	81	52	34	29	196
Total	41,856	73,306	16,590	77,815	209,567

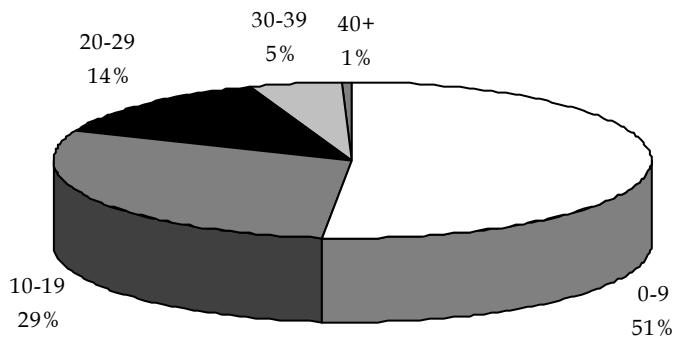
SCHEDULE OF ACTIVE MEMBERS

by Enrollment Date

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
1940s	4	13	2	21	40
1950s	25	4	2	4	35
1960s	176	182	71	25	454
1970s	2,238	3,475	1,009	1,218	7,940
1980s	7,537	9,079	2,690	6,821	26,127
1990s	9,684	20,246	3,606	19,362	52,898
2000s	16,951	31,738	6,722	37,961	93,372
2010s	5,241	8,569	2,488	12,403	28,701
Total	41,856	73,306	16,590	77,815	209,567

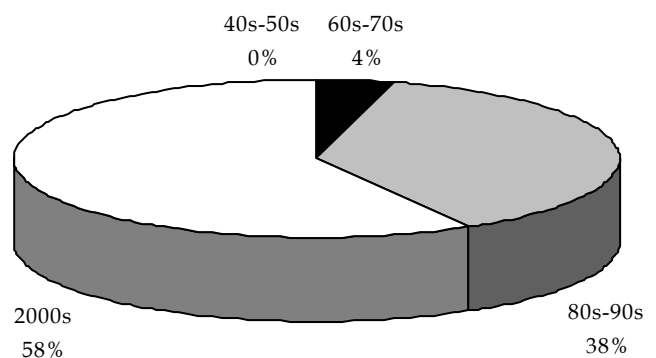
PERCENTAGE OF ACTIVE MEMBERS

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 Subdivisions Employees	
Less than 20	25	16	4	57	102
20-29	3,198	9,663	1,113	6,239	20,213
30-39	8,011	20,916	2,708	14,125	45,760
40-49	10,380	19,674	4,089	22,221	56,364
50-54	6,630	8,382	2,758	12,042	29,812
55-59	6,541	8,305	2,816	11,133	28,795
60-64	4,657	5,058	1,945	7,249	18,909
65-69	1,748	1,102	803	3,053	6,706
Over 69	666	190	354	1,696	2,906
Total	<u>41,856</u>	<u>73,306</u>	<u>16,590</u>	<u>77,815</u>	<u>209,567</u>

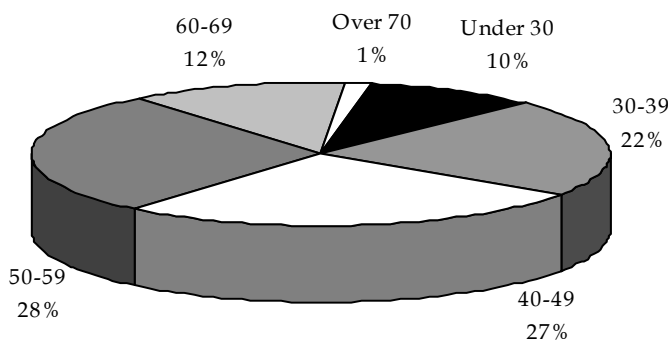
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than 20	1,131	149	252	1,191	2,723
20-24	8,175	24,331	2,544	10,281	45,331
25-29	9,099	19,606	3,180	11,789	43,674
30-34	6,279	10,070	2,634	12,059	31,042
35-39	5,241	7,848	2,320	12,721	28,130
40-44	4,242	5,480	1,941	10,942	22,605
45-49	3,282	3,157	1,616	7,885	15,940
50-54	2,366	1,681	1,173	5,333	10,553
55-59	1,433	747	670	3,369	6,219
60-64	448	203	195	1,540	2,386
65-69	124	29	46	519	718
Over 70	36	5	19	186	246
Total	<u>41,856</u>	<u>73,306</u>	<u>16,590</u>	<u>77,815</u>	<u>209,567</u>

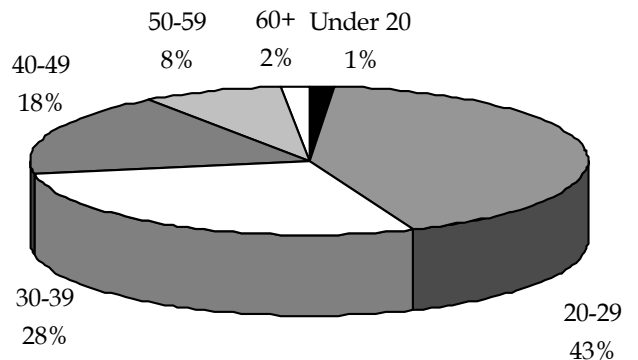
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



SCHEDULES OF ACTIVE MEMBERS

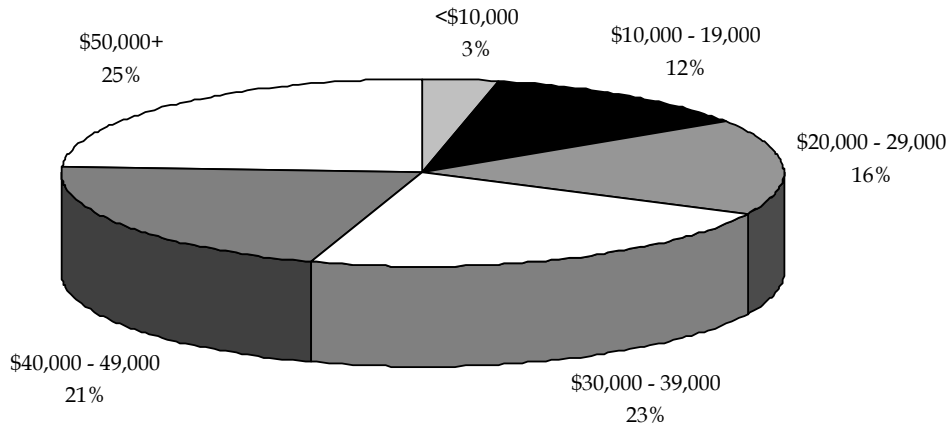
SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than \$10,000	1,532	199	534	4,816	7,081
\$10,000 - 19,999	2,417	788	1,246	21,527	25,978
\$20,000 - 29,999	10,429	1,486	4,161	18,472	34,548
\$30,000 - 39,999	11,317	15,865	4,013	16,206	47,401
\$40,000 - 49,999	6,938	26,271	2,485	8,674	44,368
\$50,000 +	9,223	28,697	4,151	8,120	50,191
Total	41,856	73,306	16,590	77,815	209,567

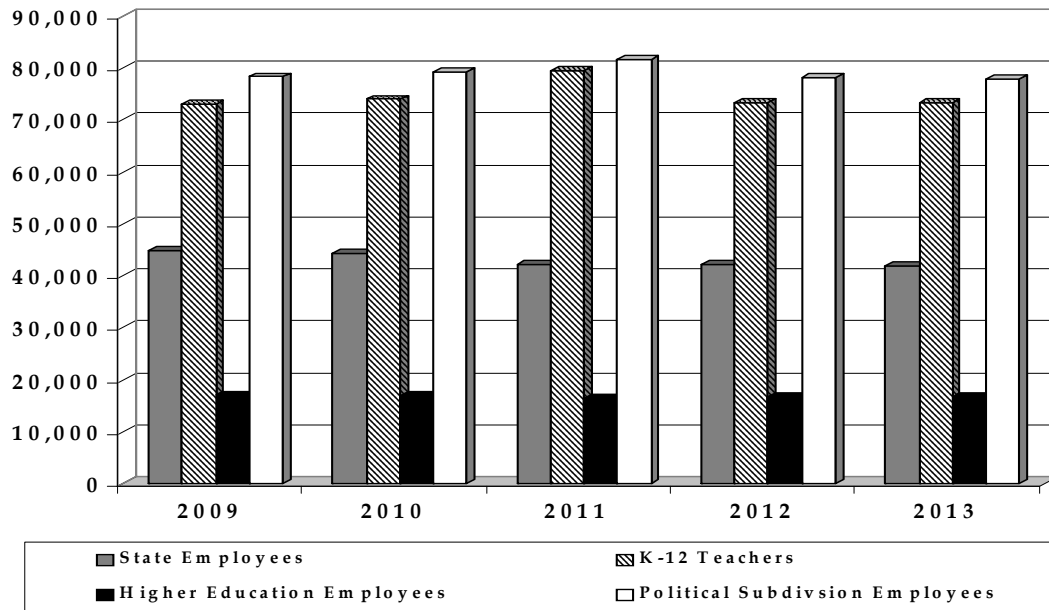
PERCENTAGE OF ACTIVE MEMBERS

by Salary



ACTIVE MEMBERS

Fiscal Years 2009-2013



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 Subdivisions Employees	
Regular	14,622	26,064	9,277	23,184	73,147
Option I	4,541	3,467	2,927	4,997	15,932
Option II	1,318	1,283	920	1,254	4,775
Option III	3,812	3,965	1,892	3,757	13,426
Option IV	2,448	3,541	1,413	1,787	9,189
S.S. Leveling	2,335	4,461	730	1,854	9,380
Other	629	693	324	423	2,069
Total	29,705	43,474	17,483	37,256	127,918

- *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

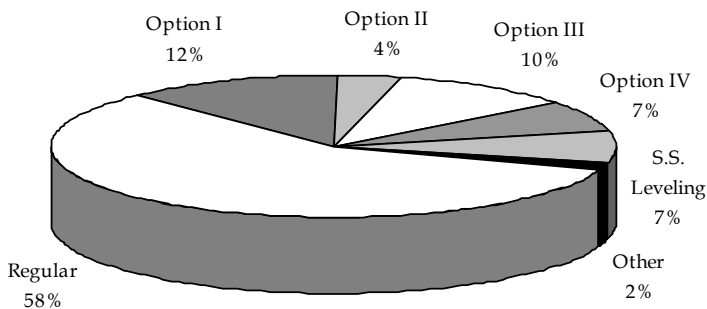
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Retirees:					
Early	3,962	5,430	2,567	5,312	17,271
Service	23,151	36,549	13,858	29,027	102,585
Disability	1,938	1,216	821	2,467	6,442
Total Retirees	29,051	43,195	17,246	36,806	126,298
Survivors	654	279	237	450	1,620
Total	29,705	43,474	17,483	37,256	127,918

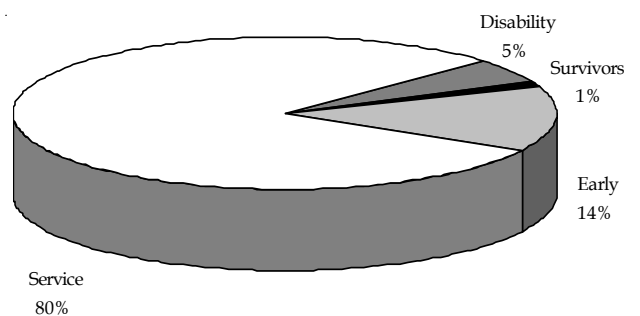
PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Average Monthly Benefit

STATE EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	8,228	5,750	1,628	637	213	4,428	1,408	330	1,059	526	431	46
501-1,000	6,954	4,495	1,301	989	169	3,722	1,093	272	875	500	392	100
1,001-1,500	4,897	3,931	620	247	99	2,399	663	222	618	370	521	104
1,501-2,000	3,726	3,339	260	52	75	1,704	481	134	528	349	443	87
2,001-2,500	2,389	2,266	87	7	29	1,040	295	115	304	277	290	68
2,501-3,000	1,427	1,365	35	4	23	587	211	73	175	172	148	61
3,001-3,500	812	777	18	0	17	302	135	67	120	102	58	28
3,501-4,000	484	464	9	0	11	174	91	42	70	58	29	20
over 4,000	788	764	4	2	18	266	164	63	63	94	23	115
Totals	29,705	23,151	3,962	1,938	654	14,622	4,541	1,318	3,812	2,448	2,335	629

TEACHERS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	4,253	3,192	918	124	19	2,609	479	167	452	274	220	52
501-1,000	5,501	3,330	1,679	443	49	3,244	648	189	560	457	342	61
1,001-1,500	6,884	4,899	1,501	432	52	3,919	620	184	699	527	835	100
1,501-2,000	8,567	7,536	795	174	62	4,770	620	209	959	805	1,031	173
2,001-2,500	8,365	7,916	367	36	46	5,179	480	206	682	761	917	140
2,501-3,000	4,942	4,780	127	6	29	3,149	291	139	326	345	608	84
3,001-3,500	2,437	2,401	24	1	11	1,527	150	75	159	193	301	32
3,501-4,000	1,272	1,250	15	0	7	812	95	46	80	95	122	22
over 4,000	1,253	1,245	4	0	4	855	84	68	48	84	85	29
Totals	43,474	36,549	5,430	1,216	279	26,064	3,467	1,283	3,965	3,541	4,461	693

HIGHER EDUCATION EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	6,334	4,643	1,279	340	72	3,724	983	276	652	381	229	89
501-1,000	3,931	2,790	741	352	48	2,263	616	173	385	293	128	73
1,001-1,500	2,479	2,035	307	103	34	1,239	399	151	283	228	127	52
1,501-2,000	1,574	1,387	139	22	26	703	273	98	207	171	89	33
2,001-2,500	949	870	56	3	20	399	186	47	116	111	66	24
2,501-3,000	683	657	20	1	5	282	132	49	88	60	50	22
3,001-3,500	440	414	15	0	11	203	78	25	50	56	19	9
3,501-4,000	347	336	5	0	6	127	82	27	54	39	13	5
over 4,000	746	726	5	0	15	337	178	74	57	74	9	17
Totals	17,483	13,858	2,567	821	237	9,277	2,927	920	1,892	1,413	730	324

POLITICAL SUBDIVISIONS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	Leveling	Other
0-500	21,451	16,126	3,650	1,465	210	14,163	2,859	608	2,043	892	727	159
501-1,000	8,734	6,689	1,105	818	122	5,645	1,098	274	853	378	366	120
1,001-1,500	3,496	2,929	350	153	64	1,882	487	167	412	202	277	69
1,501-2,000	1,720	1,541	125	23	31	756	258	89	239	129	209	40
2,001-2,500	876	803	58	4	11	329	153	41	115	80	142	16
2,501-3,000	457	434	14	4	5	179	65	28	50	48	78	9
3,001-3,500	246	234	6	0	6	85	37	28	28	30	30	8
3,501-4,000	112	111	1	0	0	58	18	8	7	8	12	1
over 4,000	164	160	3	0	1	87	22	11	10	20	13	1
Totals	37,256	29,027	5,312	2,467	450	23,184	4,997	1,254	3,757	1,787	1,854	423

SCHEDULES OF RETIRED MEMBERS

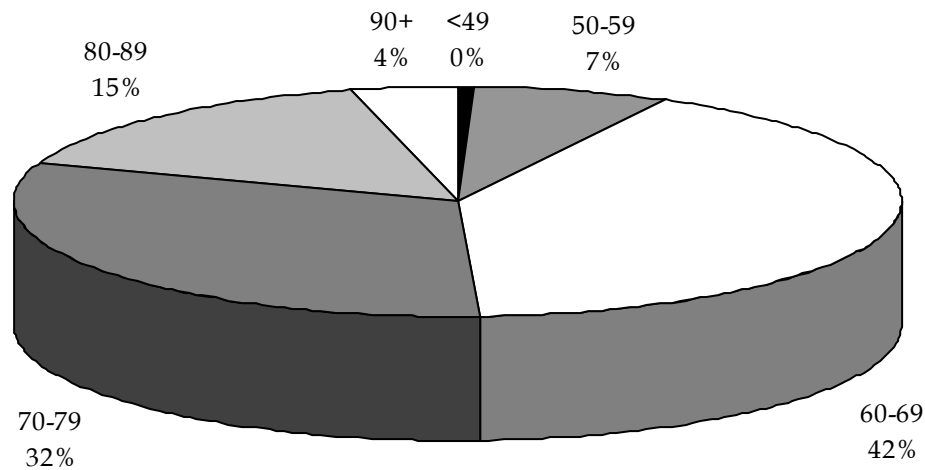
SCHEDULE OF RETIRED MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Under 40	26	10	3	21	60
40-44	43	30	14	64	151
45-49	107	57	41	122	327
50-54	510	319	237	470	1,536
55-59	2,153	2,625	951	2,123	7,852
60-64	5,081	8,730	2,582	5,839	22,232
65-69	6,682	11,239	3,977	8,671	30,569
70-74	4,895	7,380	3,514	7,376	23,165
75-79	3,892	5,005	2,698	5,597	17,192
80-84	2,866	3,819	1,825	3,695	12,205
85-89	2,006	2,383	1,083	2,043	7,515
90-94	1,018	1,163	420	922	3,523
95-99	353	527	107	253	1,240
Over 99	73	187	31	60	351
Total	<u>29,705</u>	<u>43,474</u>	<u>17,483</u>	<u>37,256</u>	<u>127,918</u>

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 Subdivisions Employees	
1950s	1	4	0	0	5
1960s	9	27	0	0	36
1970s	385	675	86	258	1,404
1980s	2,497	3,853	1,024	2,206	9,580
1990s	7,322	10,044	4,484	7,911	29,761
2000s	12,966	19,466	8,364	17,668	58,464
2010's	6,525	9,405	3,525	9,213	28,668
Total	29,705	43,474	17,483	37,256	127,918

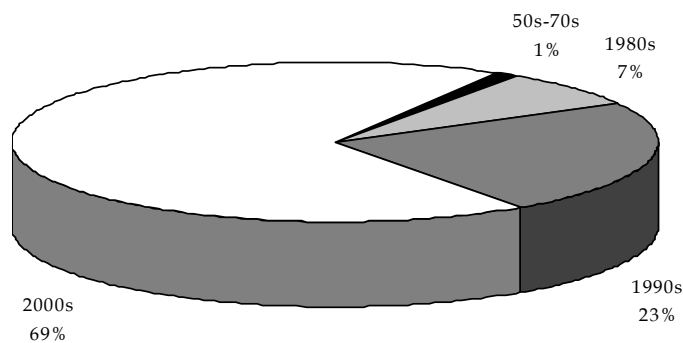
SCHEDULE OF RETIRED MEMBERS

Based on Service Credit at Retirement

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Under 10	3,577	1,760	1,755	5,594	12,686
10-14	4,315	2,893	2,460	7,378	17,046
15-19	3,736	3,354	2,221	6,520	15,831
20-24	3,897	4,698	2,249	5,834	16,678
25-29	3,605	5,937	2,174	4,504	16,220
30-34	6,227	14,485	3,731	5,021	29,464
35-39	2,748	6,955	1,749	1,713	13,165
40-44	1,224	2,792	820	543	5,379
Over 44	376	600	324	149	1,449
Total	29,705	43,474	17,483	37,256	127,918

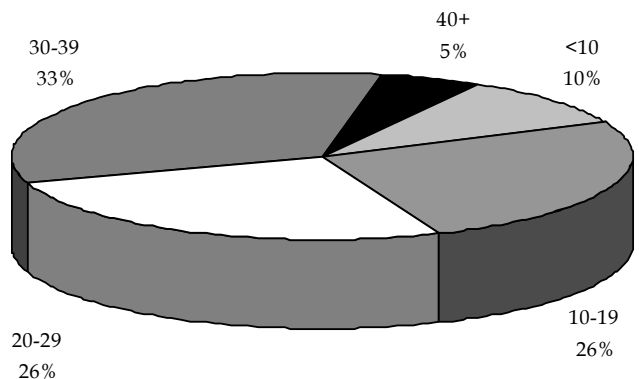
PERCENTAGE OF RETIRED MEMBERS

by Date of Retirement



PERCENTAGE OF RETIRED MEMBERS

by Service Credit at Retirement



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

UNITED STATES

Alabama	723	Maryland	77	Rhode Island	6	Canada-New Brunswick	2
Alaska	17	Massachusetts	35	South Carolina	314	Canada-Newfoundland	1
Arizona	150	Michigan	116	South Dakota	15	Canada-Nova Scotia	1
Arkansas	419	Minnesota	27	Tennessee	118,271	Canada-Ontario	2
California	184	Mississippi	1,189	Texas	472	Canada-Prince Edward Island	1
Colorado	99	Missouri	180	Utah	24	Chile	3
Connecticut	15	Montana	17	Vermont	10	France	1
Delaware	11	Nebraska	15	Virginia	530	Germany	1
District of Columbia	11	Nevada	48	Washington	64	Ghana	1
Florida	1,358	New Hampshire	17	West Virginia	42	Greece	1
Georgia	1,149	New Jersey	32	Wisconsin	27	Kenya	1
Hawaii	12	New Mexico	48	Wyoming	12	Poland	1
Idaho	26	New York	65	Total U.S.	<u>127,891</u>	Spain	1
Illinois	145	North Carolina	605			Thailand	3
Indiana	123	North Dakota	1			United Arab Emirates	<u>1</u>
Iowa	22	Ohio	149			Total Foreign Countries	24
Kansas	40	Oklahoma	85	INT'L COUNTRIES		Virgin Islands, U.S.	1
Kentucky	641	Oregon	54	Australia	1	Overseas Military Basis	2
Louisiana	78	Pennsylvania	93	Brazil	1	Total U.S.	<u>127,891</u>
Maine	23	Puerto Rico	5	Canada-Manitoba	1	Total U.S. & Foreign	<u><u>127,918</u></u>

TENNESSEE

Anderson	1,832	Fentress	407	Lauderdale	819	Roane	1,396
Bedford	662	Franklin	829	Lawrence	926	Robertson	1,171
Benton	434	Gibson	1,328	Lewis	271	Rutherford	3,573
Bledsoe	435	Giles	493	Lincoln	681	Scott	486
Blount	2,781	Grainger	375	Loudon	913	Sequatchie	296
Bradley	1,603	Greene	2,145	Macon	270	Sevier	1,345
Campbell	880	Grundy	312	Madison	2,620	Shelby	12,660
Cannon	363	Hamblen	1,174	Marion	474	Smith	363
Carroll	683	Hamilton	5,706	Marshall	552	Stewart	309
Carter	3,525	Hancock	124	Mauy	1,258	Sullivan	1,634
Cheatham	606	Hardeman	955	McMinn	921	Sumner	2,672
Chester	373	Hardin	611	McNairy	599	Tipton	931
Claiborne	693	Hawkins	2,903	Meigs	192	Trousdale	159
Clay	133	Haywood	554	Monroe	731	Unicoi	435
Cocke	699	Henderson	418	Montgomery	2,660	Union	269
Coffee	1,016	Henry	848	Moore	83	Van Buren	178
Crockett	338	Hickman	610	Morgan	527	Warren	912
Cumberland	991	Houston	114	Obion	807	Washington	1,434
Davidson	11,006	Humphreys	458	Overton	481	Wayne	368
Decatur	276	Jackson	200	Perry	255	Weakley	1,038
DeKalb	360	Jefferson	1,221	Pickett	116	White	623
Dickson	909	Johnson	503	Polk	269	Williamson	2,639
Dyer	621	Knox	7,419	Putnam	2,376	Wilson	1,968
Fayette	790	Lake	256	Rhea	639	Total	<u><u>118,271</u></u>

AVERAGE BENEFIT PAYMENTS SCHEDULE**AVERAGE BENEFIT PAYMENT SCHEDULE***Fiscal Year of Retirement*

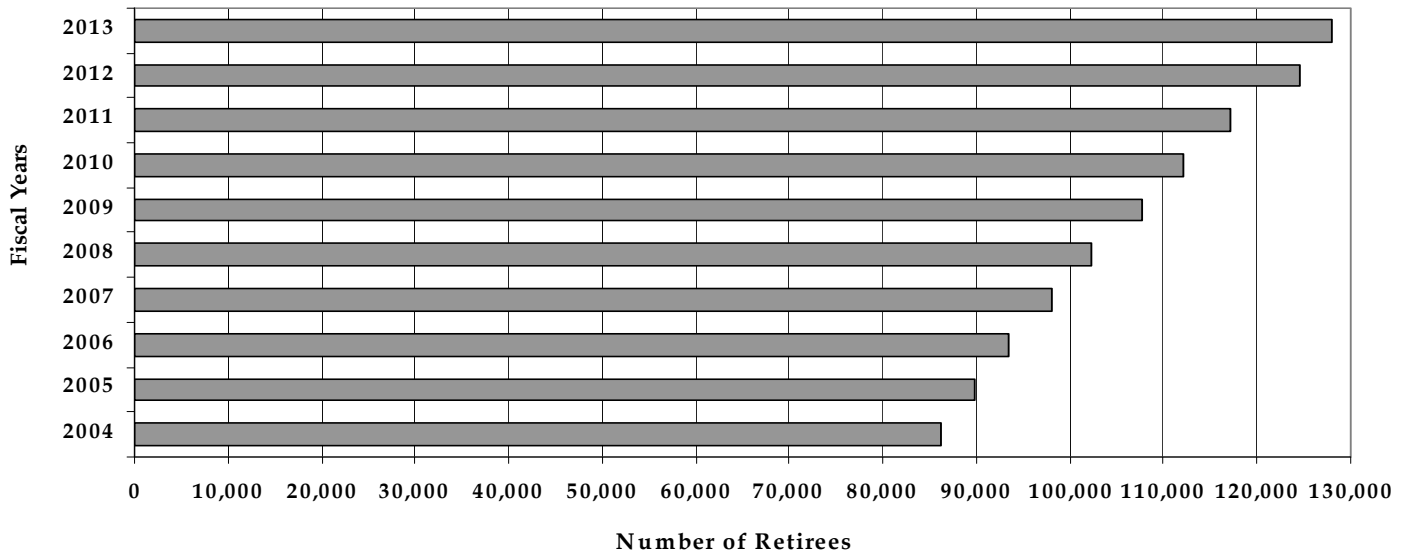
	Years of Service Credit				
	10-14	15-20	21-24	25-29	30 or more
2004 Average Monthly Benefit	\$ 419	\$ 647	\$ 894	\$ 1,275	\$ 2,163
Number of Retirees	686	619	623	645	2,288
Average Final Salary	\$ 28,268	\$ 29,772	\$ 33,224	\$ 38,868	\$ 48,637
2005 Average Monthly Benefit	\$ 418	\$ 629	\$ 929	\$ 1,347	\$ 2,162
Number of Retirees	763	710	738	687	2,532
Average Final Salary	\$ 28,268	\$ 31,543	\$ 35,121	\$ 41,049	\$ 49,234
2006 Average Monthly Benefit	\$ 436	\$ 650	\$ 969	\$ 1,353	\$ 2,178
Number of Retirees	795	699	820	708	2,612
Average Final Salary	\$ 29,696	\$ 32,337	\$ 38,133	\$ 43,273	\$ 51,053
2007 Average Monthly Benefit	\$ 426	\$ 636	\$ 961	\$ 1,299	\$ 2,136
Number of Retirees	892	760	800	700	2,611
Average Final Salary	\$ 30,320	\$ 33,222	\$ 38,296	\$ 41,290	\$ 51,992
2008 Average Monthly Benefit	\$ 435	\$ 658	\$ 998	\$ 1,309	\$ 2,136
Number of Retirees	1,011	887	1,003	782	3,282
Average Final Salary	\$ 31,293	\$ 35,112	\$ 39,723	\$ 42,320	\$ 51,494
2009 Average Monthly Benefit	\$ 433	\$ 699	\$ 1,003	\$ 1,373	\$ 2,210
Number of Retirees	978	796	887	778	2,729
Average Final Salary	\$ 31,251	\$ 35,922	\$ 40,422	\$ 44,473	\$ 53,290
2010 Average Monthly Benefit	\$ 466	\$ 703	\$ 1,007	\$ 1,346	\$ 2,236
Number of Retirees	1,051	897	940	903	2,886
Average Final Salary	\$ 33,644	\$ 37,509	\$ 40,348	\$ 45,516	\$ 55,151
2011 Average Monthly Benefit	\$ 474	\$ 714	\$ 993	\$ 1,427	\$ 2,303
Number of Retirees	1,190	1,040	1,106	1,026	3,109
Average Final Salary	\$ 34,385	\$ 38,776	\$ 42,288	\$ 47,798	\$ 57,232
2012 Average Monthly Benefit	\$ 476	\$ 704	\$ 986	\$ 1,408	\$ 2,272
Number of Retirees	1,379	1,194	1,176	1,169	3,278
Average Final Salary	\$ 34,827	\$ 38,432	\$ 42,452	\$ 48,667	\$ 56,768
2013 Average Monthly Benefit	\$ 489	\$ 742	\$ 1,065	\$ 1,495	\$ 2,308
Number of Retirees	397	393	394	451	1,296
Average Final Salary	\$ 35,842	\$ 41,097	\$ 43,923	\$ 49,323	\$ 55,601

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.

**RETIRED MEMBERS ON PAYROLL
AND PRIOR SERVICE ESTABLISHED**

NUMBER OF RETIREES ON PAYROLL

Fiscal Years 2004-2013



PRIOR SERVICE ESTABLISHED

for the Year Ended June 30, 2013

	Type of Service	Members	Years of Service	Payments
State:	Backpayment	128	108	\$ 705,625
	Military	94	201	0
	Redeposit	36	142	292,857
	Totals	258	451	\$ 998,482
Teachers:	Backpayment	42	19	\$ 421,941
	Military	21	49	2,070
	Redeposit	66	285	1,034,756
	Totals	129	353	\$ 1,458,767
Higher Education:	Backpayment	246	196	\$ 127,838
	Military	34	85	0
	Redeposit	9	35	60,242
	Totals	289	316	\$ 188,080
Political Subdivisions:	Backpayment	607	689	\$ 1,037,986
	Military	101	190	26,789
	Redeposit	31	152	140,276
	Totals	739	1,031	\$ 1,205,051
Grand Totals:	Backpayment	1,023	1,012	\$ 2,293,390
	Military	250	525	28,859
	Redeposit	142	614	1,528,131
	Totals	1,415	2,151	\$ 3,850,380

TREASURY RETIREMENT INSTALLMENT PLAN

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative payment method 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. Service is credited to the member's account once the balance has been paid off.

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 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. 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, 2013

	Type of Service	Number of Members	Total Years of Service	Payments (Net of Refunds)
State:	Backpayment	0	0	\$ 0
	Military	0	0	0
	Redeposit	12	76	66,404
	Totals	12	76	\$ 66,404
Teachers:	Backpayment	10	12	\$ 18,669
	Military	0	0	0
	Redeposit	42	153	138,479
	Totals	52	165	\$ 157,148
Higher Education:	Backpayment	2	8	\$ 6,442
	Military	0	0	0
	Redeposit	4	12	15,307
	Totals	6	20	\$ 21,749
Political Subdivisions:	Backpayment	14	53	\$ 24,527
	Military	0	0	0
	Redeposit	32	169	83,737
	Totals	46	222	\$ 108,264
Grand Totals:	Backpayment	26	73	\$ 49,638
	Military	0	0	0
	Redeposit	90	410	303,927
	Totals	116	483	\$ 353,565

**REFUND ACTIVITY AND
POLITICAL SUBDIVISION PARTICIPATION**

REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
2004	4,688	\$ 29,925,762
2005	4,724	30,815,700
2006	5,916	34,710,966
2007	4,830	36,343,972
2008	6,569	45,975,984
2009	3,896	32,029,927
2010	5,154	36,422,653
2011	4,500	35,539,393
2012	4,349	40,091,553
2013	4,122	39,517,877

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
2004	163	88	179	430
2005	169	88	187	444
2006	173	88	196	457
2007	177	88	202	467
2008	177	89	207	473
2009	177	89	216	482
2010	177	89	220	486
2011	176	89	218	483
2012	178	89	221	488
2013	177	88	222	487

**HISTORICAL EMPLOYER CONTRIBUTION RATES
AND RETIREMENT CONTRIBUTIONS**

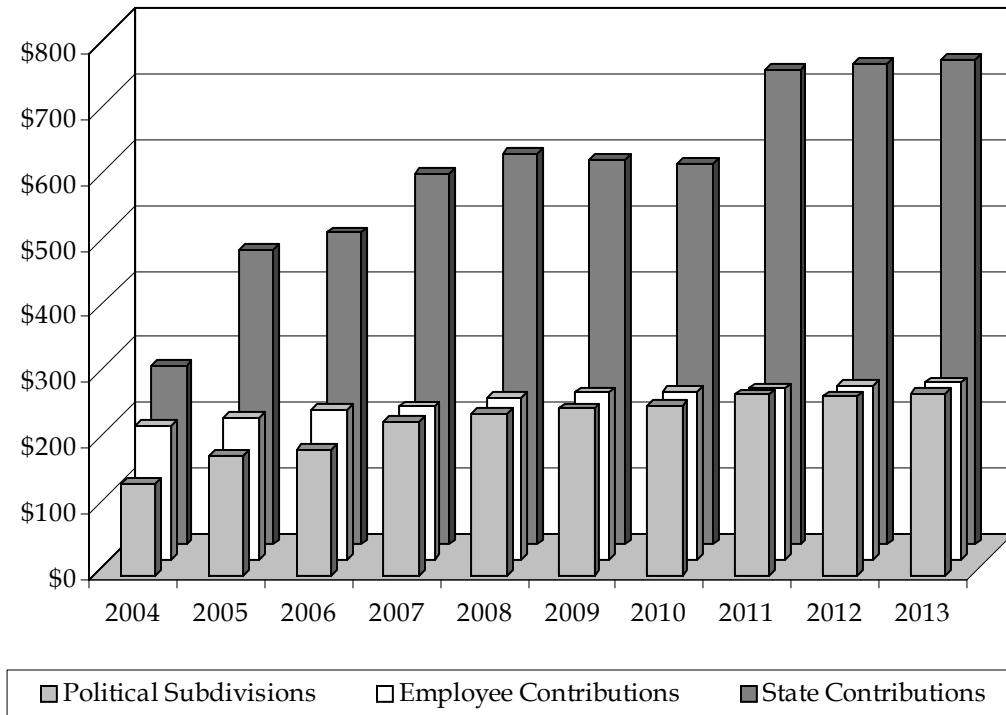
HISTORICAL EMPLOYER CONTRIBUTION RATES
Expressed as a Percentage of Salary

Year Ended June 30	State Employees	Teachers	Higher Education Employees
2004 (1)	7.29	3.39	7.29
2005	10.54	5.50	10.54
2006 (2)	10.31	5.50	10.31
2007	13.62	6.13	13.62
2008	13.62	6.24	13.62
2009	13.02	6.42	13.02
2010	13.02	6.42	13.02
2011	14.91	9.05	14.91
2012	14.91	9.05	14.91
2013	15.03	8.88	15.03

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

- (1) As part of a statewide request for budget reductions, TCRS reduced the administrative component of the employer contribution rate by 0.01 %.
- (2) A reduction in the contribution was made due to return to work reform.

RETIREMENT CONTRIBUTIONS
Fiscal Years 2004-2013
Expressed in Millions



SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEEPP

Participating Government	2013			2004			
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	
Teachers	142,543	1	51.43%	Teachers	114,093	1	49.61%
State Employees	90,430	2	32.62%	State Employees	79,053	2	34.38%
Higher Education Employees	44,218	3	15.95%	Higher Education Employees	36,823	3	16.01%
Total	<u>277,191</u>		<u>100.00%</u>	Total	<u>229,969</u>		<u>100.00%</u>

PSPP

Participating Government	2013			2004			
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	
Memphis City Schools	9,148	1	5.96%	Memphis City Schools	6,963	1	5.98%
Hamilton County	6,942	2	4.52%	Hamilton County	5,961	2	5.12%
Rutherford County	4,550	3	2.96%	Shelby County	3,178	3	2.73%
Williamson County	4,444	4	2.89%	Montgomery County	2,503	4	2.15%
Montgomery County	4,054	5	2.64%	Rutherford County	2,468	5	2.12%
Shelby County	3,961	6	2.58%	Williamson County	2,340	6	2.01%
Sumner County	3,906	7	2.54%	Sullivan County	2,306	7	1.98%
Sullivan County	2,781	8	1.81%	Sumner County	2,236	8	1.92%
Kingsport	2,446	9	1.59%	Kingsport	1,863	9	1.60%
Johnson City	2,361	10	1.54%	Johnson City	1,851	10	1.59%
Others	108,995		70.97%	Others	84,764		72.80%
Total	<u>153,588</u>		<u>100.00%</u>	Total	<u>116,433</u>		<u>100.00%</u>

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. At June 30, 2013, there were 487 political subdivisions participating in TCRS.

Participation as of June 30, 2013:

Cities	177
Counties	88
Utility Districts	68
Special School Districts	19
Joint Ventures	21
Housing Authorities	11
911 Emergency Communication Districts	47
Miscellaneous Authorities	<u>56</u>
Total	487

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 487
LOCAL GOVERNMENTS.**

OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

MEMBERSHIP

- ❖ Optional membership for part-time employees
- ❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years
- ❖ Increase vesting requirement to qualify for retirement benefits from five years to 10 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
- ❖ Discontinue noncontributory retirement plan and implement contributory retirement plan for new employees
- ❖ Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation

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
- ❖ 50 percent of five year average salary benefits for surviving spouse for members killed in the line of duty

RETIREMENT BENEFITS

- ❖ Provide current retirees and members a five percent increase in base retirement benefit
- ❖ Discontinue five percent increase in base retirement benefit for new employees
- ❖ 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, \$14, \$20 per year of service
- ❖ Mandatory retirement with supplemental bridge benefit for public safety officers
- ❖ Service retirement at age 55 with 25 years of service for public safety officers
- ❖ Discontinue enhanced public safety officer benefits for new public safety officers

RETIRED MEMBERS

- ❖ Exclusion of cost-of-living adjustments at the date of participation for all employees or at a later date for new employees
- ❖ Compounded cost-of-living adjustment (COLA) to current and future retirees

LOCAL GOVERNMENT PLAN OPTIONS

Tennessee Consolidated Retirement System Local Government Plan Options Effective July 1, 2012

Original Defined Benefit Plan

- Calculation includes a 1.50% multiplier
- Benefit Formula: $\text{Years of Service} \times \text{AFC} \times 1.50\% + 5\% \text{ Benefit Improvement}$
- Retirement Requirements:
 - Service Retirement: A penalty free benefit if the member is age 60 and vested or has thirty (30) years of service regardless of age
 - Early Retirement: A reduced benefit if the member is age 55 and vested
 - 25-Year Early: A reduced benefit if the member is under the age of 55 and has at least 25 years of service

Alternate Defined Benefit Plan

- Calculation includes a 1.40% multiplier
- Benefit Formula: $\text{Years of Service} \times \text{AFC} \times 1.40\%$
- Retirement Requirements:
 - Service Retirement: A penalty free benefit if the member is age 65 and vested or meets the "Rule of 90" (years of service plus age at retirement equals 90 or above)
 - Early Retirement: A reduced benefit if the member is age 60 and vested or meets the "Rule of 80" (years of service plus age at retirement equals 80 or above but equals less than 90)

Hybrid Plan

- Calculation includes a 1.00% multiplier
- Benefit Formula: $\text{Years of Service} \times \text{AFC} \times 1.00\%$
- Retirement Requirements:
 - Service Retirement: A penalty free benefit if the member is age 65 and vested or meets the "Rule of 90" (years of service plus age at retirement equals 90 or above)
 - Early Retirement: A reduced benefit if the member is age 60 and vested or meets the "Rule of 80" (years of service plus age at retirement equals 80 or above but equals less than 90)

Employee Contribution Funding Options

(Applicable to all plans listed above.)

- Employer may elect to pay 0.0%, 2.5% or 5.0% of employee contributions

POLITICAL SUBDIVISION PARTICIPANTS

911 EMERGENCY COMMUNICATION DISTRICTS

Campbell County	Gibson County	Johnson County	Overton County	Union County
Carroll County	Grainger County	Lauderdale County	Roane County	Van Buren County
Carter County	Greene County	Lawrence County	Robertson County	Warren County
Cheatham County	Hamblen County	Loudon County	Rutherford County	Washington County
Chester County	Hamilton County	Macon County	Scott County	Weakley County
Claiborne County	Hardeman County	Madison County	Sequatchie County	White County
Cocke County	Hardin County	Maury County	Sevier County	Wilson County
DeKalb County	Hawkins County	McNairy County	Shelby County	
Fayette County	Humphreys County	Monroe County	Sullivan County	
Fentress County	Jefferson County	Montgomery County	Tipton County	

CITIES

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

*All departments not covered by TCRS.

**Plan closed to new hires.

(continued)

**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

COUNTIES

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

HOUSING AUTHORITY

Bristol	Hartsville	Maryville	Rockwood
Clinton	Hohenwald	Memphis	Rogersville**
Cookeville	Lawrenceburg	Morristown	Sweetwater

JOINT VENTURES

Argie Cooper Public Library	Lawrence County Library
Bradley-Cleveland Civil Defense	Linebaugh Public Library
Bradley-Cleveland Community Service Agency	Morristown/Hamblen County Landfill
Clarksville/Montgomery County Public Library	Sevier Solid Waste
Clarksville/Montgomery County Regional Planning Commission	Smyrna/Rutherford County Airport Authority
Cleveland/Bradley County E-911	Tellico Area Service System
Edward Gauche Fisher Public Library	TriCities Airport Authority**
Fayetteville/Lincoln County Public Library	Tri-County Vocational School
Gorham/MacBane Public Library	W. G. Rhea Public Library
Jackson/Madison County Library**	Washington County/Johnson City Animal Control Center
Johnson City/Washington County EMS	Wilson Emergency Management Agency
Kinser Park	

*All departments not covered by TCRS.

**Plan closed to new hires.

(continued)

**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

MISCELLANEOUS AGENCIES

Anderson County Economic Development Association	South Central Tennessee Workforce Board
Anderson County Water Authority	Southeast Tennessee Community Service Agency
Beech River Watershed	Southeast Tennessee Development District
Blount County Fire Protection District	Southeast Tennessee Human Resource Agency
Blount County Library	Southwest Tennessee Community Service Agency
Books from Birth	Southwest Tennessee Development District
Carter County Tomorrow	Southwest Tennessee Human Resource Agency
Cocke County Partnership, Inc.	Tennessee Association of Assessing Officers
County Officials Association of Tennessee	Tennessee Association of County Mayors
Delta Human Resource Agency	Tennessee Athletics Association**
Douglas Cherokee Economic Authority	Tennessee County Commissioners Association
East Tennessee Community Service Agency	Tennessee County Highway Officials Association
Fayetteville-Lincoln County Industrial Development Board	Tennessee County Services Association
First Tennessee Development District	Tennessee Duck River Development Agency
First Tennessee Human Resource Agency	Tennessee Education Association
Four Lake Regional Industrial Development Authority	Tennessee Elk River Development Agency**
Greater Nashville Regional Council	Tennessee Historical Society
Hamilton County Community Service Agency	Tennessee Municipal Bond Fund
Knox County Community Services Agency	Tennessee Municipal League
Loudon County Economic Development Agency	Tennessee Municipal League Risk Management Pool
Mid-Cumberland Community Service Agency	Tennessee Organization of School Superintendents**
Networks Sullivan Partnership	Tennessee School Board Association
Northeast Community Service Agency	Tennessee Secondary School Athletic Association
Northwest Tennessee Community Service Agency	Tennessee Sheriffs Association
Sequatchie Valley Planning and Development District	Tennessee State Employees Association
Sevier County Economic Development Council	Tennessee Veterans Home Board
Shelby County Community Service Agency	Upper Cumberland Community Services Agency
South Central Human Resource Agency**	Upper Cumberland Human Resource Agency
South Central Tennessee Community Services Agency	Upper East Tennessee Human Development Agency
South Central Tennessee Development District	Workforce Solutions

SPECIAL SCHOOL DISTRICTS

Bradford	Memphis
Clinch Powell Education Coop.	Milan
Elizabethton Board of Education	Oak Ridge Board of Education
Franklin	Oneida
Gibson County Schools District	Paris
Hollow Rock-Bruceton	South Carroll Special School District
Huntingdon	Trenton
Lebanon	Union City Board of Education
Little Tennessee Valley Education Coop.	West Carroll County
McKenzie	

**All departments not covered by TCRS.*

***Plan closed to new hires.*

(continued)

**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

UTILITY DISTRICTS

Alpha-Talbot	Johnson City Power Board
Arthur Shawnee	Lake County
Big Creek	Lakeview
Bloomington	Lincoln County Board of Public Utilities
Bondcroft	Loudon
Bristol Electric System	Madison Suburban Utility District
Cagle Fredonia Utility District	Middle Tennessee
Castalian Springs/Bethpage	New Market
Chuckey Utility District	North Utility District of Decatur and Benton Counties
Citizen's Gas	Northeast Henry County
Consolidated Utility District/Rutherford County	O'Connor Utility District
County Wide	Oak Ridge
Crab Orchard	Old Gainesboro Road
Cross Anchor Utility District	Old Hickory
Cumberland Utility District of Roane and Morgan Counties	Paris-Henry Utility District
DeWhite	Persia
Double Springs	Plateau
Dyersburg Suburban	Poplar Grove
East Fork	Quebec-Walling
East Montgomery	Reelfoot Lake Regional
East Side	Riceville
Fall Creek Falls	River Road
First Carter County	Savannah Valley
First Hawkins County	Second South Cheatham Utility District
First Tipton County	Sevier County
Gladeville	Siam
Glen Hills	Smith
Greater Dickson Gas Authority	Sneedville
Greeneville Light and Power	Soddy Daisy-Falling Water
Hampton	South Elizabethton
Hardeman-Fayette County	Sylvia-Tennessee City Pond Water
Harriman**	Weakley County Municipal Electric
Hendersonville	Webb Creek
Hixson	West Knox**
Jackson County	West Overton

**All departments not covered by TCRS.*

***Plan closed to new hires.*