

Tennessee Consolidated Retirement System Local Government Plan Options

Nothing in this document applies to State Employees, K-12 Teachers or Higher Education Employees
 Nothing in this document applies to any local government employee hired prior to the effective date July 1, 2012
 No local government entity is required to make any changes
 These provisions are optional and are effective only upon adoption by the local government entity

Current Plan Features	Current Local Government Plan and Additional Options for new hires (Selected Provisions Only – See legislation for all provisions)																											
<p>Plan 1 Current TCRS political subdivision pension plan.</p> <ul style="list-style-type: none"> Provides pension multiplier of 1.575% for retirement at age 60 or after 30 years of service Early retirement available with reduction at age 55 or after 25 years of service Employers may require either 0% or 5% of pay employee contribution; and may select annual cost of living adjustment (COLA) with 3% cap or no COLA 	<p>1.1 All current local government employees remain in Plan 1 with no changes, even if local government adopts one or more options below for new hires after July 1, 2012.</p> <p>1.2 Employers may retain this option for employees hired after July 1, 2012. Local government entities may only adopt <u>additional provisions</u> for Plan 1 for new hires effective the later of July 1, 2012 or the date the option is adopted by local government.</p> <p>1.3 Employers may adopt an additional contributory option for new employees at 2.5% of salary. Result is Employer may require new hire Employees to contribute 0%, 2.5%, or 5% of pay to the plan.</p> <p>1.4 Local government employers may (for new hires only) freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively (i.e., for future service) for employees hired after the July 1, 2012. Accrued benefits will not be affected.</p> <table border="1" data-bbox="506 811 1790 1028"> <thead> <tr> <th colspan="7">Normal Cost to local government entity employer (percent of payroll):</th> </tr> <tr> <th rowspan="2"></th> <th colspan="2">0% Employee</th> <th colspan="2">2.5% Employee</th> <th colspan="2">5.0% Employee</th> </tr> <tr> <th>COLA</th> <th>NO COLA</th> <th>COLA</th> <th>NO COLA</th> <th>COLA</th> <th>NO COLA</th> </tr> </thead> <tbody> <tr> <td>Plan 1</td> <td>11.2%</td> <td>9.1%</td> <td>8.8%</td> <td>6.7%</td> <td>6.5%</td> <td>4.4%</td> </tr> </tbody> </table>	Normal Cost to local government entity employer (percent of payroll):								0% Employee		2.5% Employee		5.0% Employee		COLA	NO COLA	COLA	NO COLA	COLA	NO COLA	Plan 1	11.2%	9.1%	8.8%	6.7%	6.5%	4.4%
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Summary of New Local Government Retirement Plan Options (Selected Provisions Only – See legislation for all provisions)

<p>Plan 2 2012 pension plan reforms.</p> <ul style="list-style-type: none"> Modify current plan to adjust for longevity, reduce costs and increase employer options 	<p>2.1 Defined Benefit Pension Plan with Annual Service Accrual multiplier of 1.4%.</p> <p>2.2 New retirement age of 65 or Rule of 90. Permit earlier retirement at age 60 or Rule of 80, at a reduced benefit using the full, unsubsidized actuarial discount factors. Public Safety Officer eligibility and benefits remain the same, if adopted by the local government</p> <p>2.3 Maximum annual pension benefit of \$80,000 adjusted for CPI.</p> <p>2.4 Employers may elect annual COLA capped at 3% or no COLA provision.</p> <p>2.5 Employers may require employee contributions of 0%, 2.5%, or 5% of pay.</p> <p>2.6 Local government employers may (for new hires only) freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively (i.e., for future service) for employees hired after the July 1, 2012. Accrued benefits will not be affected.</p> <table border="1" data-bbox="506 1609 1826 1811"> <thead> <tr> <th colspan="7">Normal Cost to local government entity employer (percent of payroll):</th> </tr> <tr> <th rowspan="2"></th> <th colspan="2">0% Employee</th> <th colspan="2">2.5% Employee</th> <th colspan="2">5.0% Employee</th> </tr> <tr> <th>COLA</th> <th>NO COLA</th> <th>COLA</th> <th>NO COLA</th> <th>COLA</th> <th>NO COLA</th> </tr> </thead> <tbody> <tr> <td>Plan 2</td> <td>8.2%</td> <td>6.8%</td> <td>5.8%</td> <td>4.4%</td> <td>3.4%</td> <td>2.0%</td> </tr> </tbody> </table>	Normal Cost to local government entity employer (percent of payroll):								0% Employee		2.5% Employee		5.0% Employee		COLA	NO COLA	COLA	NO COLA	COLA	NO COLA	Plan 2	8.2%	6.8%	5.8%	4.4%	3.4%	2.0%
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<p>Plan 3 Hybrid plan option (i.e. Defined Benefit Plan plus Defined Contribution Plan)</p> <ul style="list-style-type: none"> 1% pension multiplier; plus 401(k), 401(a) or 457 Plan 	<p>3.1 All the same Defined Benefit Pension Plan Provisions as Plan 2 above, except Annual Service Accrual multiplier is 1%</p> <p>3.2 Employer must provide some form of defined contribution (DC) plan, which can be satisfied with a supplemental deferred compensation plan or any other qualified defined contribution plan.</p> <p>3.3 State will offer its 401(k) plan and other DC options to local governments but local governments may procure DC plan from any source.</p> <p>3.4 Maximum employer contribution to the DC component would be limited to 7%.</p> <p>3.5 State recommends, but does not require, that participating local government employers require combined employer and employee contributions of at least 5% of salary in the DC plan.</p> <table border="1" data-bbox="506 2169 1826 2386"> <thead> <tr> <th colspan="4">Normal Cost to local government entity employer of defined benefit plan portion only (percent of payroll):</th> </tr> <tr> <th rowspan="2"></th> <th colspan="1">0% Employee</th> <th colspan="1">2.5% Employee</th> <th colspan="1">5.0% Employee</th> </tr> <tr> <th>COLA</th> <th>COLA</th> <th>COLA</th> </tr> </thead> <tbody> <tr> <td>Plan 3</td> <td>5.9%</td> <td>3.5%</td> <td>1.1%</td> </tr> </tbody> </table>	Normal Cost to local government entity employer of defined benefit plan portion only (percent of payroll):					0% Employee	2.5% Employee	5.0% Employee	COLA	COLA	COLA	Plan 3	5.9%	3.5%	1.1%
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<p>Plan 4 Defined contribution option</p> <ul style="list-style-type: none"> 401(k), 401(a) or 457 Plan 	<p>4.1 State can provide local government entities three options: 401(k) plan, a fixed-contribution 401(a) plan and its supplemental 457 plans as employer options.</p> <p>4.2 Employers are free to design any benefit and contribution level available under the third-party administrator's recordkeeping system.</p> <p>4.3 Maximum combined employer and employee contributions are subject to IRS limits.</p> <p>4.4 State will offer its defined contribution plans to local governments, but local governments may procure a defined contribution plan from any source.</p>
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This estimate of Normal Cost is based on current TCRS annual earnings assumption of 7.5%. Use of a lower earnings assumption will result in a higher normal cost. Normal cost is the portion of compensation (expressed as a percentage of payroll) that is being deferred in the current accounting year. This is one element of total pension cost which can increase due to multiple factors such as market losses in investments, future salary increases in excess of assumptions, and is not a guarantee of costs for a particular entity. Normal cost can only be determined by an actuarial study of a particular local government entity.

For further information, please go to www.treasury.tn.gov/tcrs and select the tab titled "New Plans for Local Govt". Please contact the TCRS Field Services division at (615) 741-1971 for questions or to obtain appropriate resolutions.