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DATE: January 12, 2017

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Kristine Tallent, Assistant City Administrator

SUBJECT:
Update on Transition of Pension Investments and Administration to Tennessee Consolidated Retirement System (TCRS).

Purpose

The purpose of this memo is to provide information to the Franklin Board of Mayor and Aldermen (BOMA) concerning the status of the outsourcing of investment and administrative responsibilities to the TCRS program.

Background

Upon adoption by BOMA of the TCRS investment resolution, City staff began the process of liquidating existing assets supervised by selected money managers. During the month of November, orders were placed with managers to sell the assets beginning December 13. As stocks and bonds were liquidated, wire transfers from the custodial bank to the State Treasury Department were placed. Between December 20 and December 30, sixty million dollars were moved into the Tennessee Treasury Managed Fund (the name of the investment fund managed by the State Treasurer for TCRS.) On Friday, January 6th, an additional twelve million was transferred to the State.

The urgency of the transfers was to limit incurring any additional money manager fees after the formal agreement with TCRS was in place. The extra advantage of moving so quickly was to close off any reporting on

funds and managers at yearend, so those terminated accounts would not complicate the financial reporting for calendar year 2017. [Yearend cutoffs are particular favorable for clarity in the reporting, especially on the complicated reporting required for pension assets.]

Additional liquidations will occur at the end of the March quarter. There will also be additional assets (private equity positions and timber investments) that will require more time before full liquidation can take place. Overall, staff believes that the biggest impacts from moving to TCRS will be felt immediately. Those impacts are the reduction of investment fees, better investment returns, and placement of new employees in the TCRS program.

The transition to TCRS is driven by several motives. Because of their size and expertise, the State can better diversify the investment assets than the City can by investing independently. The State can invest in asset categories, such as real estate, commodities, hedge funds, and other alternative assets that the City is too small to pursue. The State can invest in large blocks, reducing transaction fees and financial advisory fees that are based on the total amount invested. The State can also bargain with market participants for lower fees, including transaction fees, and spread the cost of transactions across a much larger asset base. [TCRS invests approximately \$40 billion where the City invests approximately \$90 million.] The estimated fees for the City of Franklin pension plan's liquid assets (stocks, bonds) in 2017 and 2018 are \$552,000 and \$608,000 respectively. For the same amount (roughly \$70 million) invested with TCRS, the cost estimate for the City's plan is only \$77,000.

The second motive for movement to TCRS is for administration of the City's plan. Currently the Human Resource staff spends an inordinate amount of time working with employees to keep them informed of their potential benefits at the end of their career. Staff also assists employees during their transition to retirement, which involves numerous contacts with the employee and the actuary. Over the next two years, those responsibilities will be absorbed by TCRS and automated to a large extent for the employee. Several self-service features will be available making the process easier for all involved. Additionally, the State will take over the payment process for retiree monthly benefits and manage the various maintenance items involved in address changes, death notices, spousal residuals, and many other administrative requirements.

The third, and perhaps most important, benefit is that new employees will be enrolled in the traditional TCRS pension program, effectively closing the City's plan to any new additions. For employees matriculating from other Tennessee jurisdictions, this means that they do not lose their years of prior service when joining the Franklin team. For the City, it means a lower payout formula upon retirement. Although the City may choose to supplement the TCRS plan at a later date, the initial two years of participation in TCRS will limit the City's contributions to the TCRS plan to 6.5% of salaries.

Financial Impact

Report only