



# TCRS & ORP HYBRID RETIREMENT PLANS

TBR  
HR Officers Meeting  
March 19, 2014


# Background

- ▶ Legislation was enacted to create a new Hybrid pension plan for state employees and K-12 teachers hired on or after July 1, 2014.
- ▶ Current employees or retirees are not affected by the changes.
- ▶ Current plan will be referenced as the 'Legacy Plan' going forward.
- ▶ <http://www.treasury.state.tn.us/tcrs/index.html>

# Legislation

9/6/2013

**Tennessee Department of Treasury**



**Tennessee Consolidated Retirement System  
New State, Higher Education and Teacher Hybrid Plan  
applicable to new hires on or after July 1, 2014  
Public Chapter 259, Acts of 2013**

For local governments, these provisions are optional and are effective for new hires only and only upon adoption by the local government entity

No local government entity is required to make any changes

Nothing in this Act applies to currently employed State Employees, currently employed K-12 Teachers or currently employed Higher Education Employees  
Nothing in this Act applies to any employee hired prior to the effective date July 1, 2014 or to any retiree

|   |   |
|---|---|
| <p><b>New Hybrid Plan 2013 pension plan reforms.</b></p> <ul style="list-style-type: none"> <li>• Defined Benefits (DB) Plan plus Defined Contribution (DC) Plan</li> <li>• Optional for local government entities</li> <li>• Controls to limit employer cost and unfunded liability</li> <li>• Applies to all new hire state, K-12 teacher, and higher education employees subject to FLSA hired on or after July 1, 2014</li> <li>• Higher Ed employees not subject to FLSA may elect to participate in Hybrid Plan or Optional Retirement Plan</li> <li>• DB component plan provides 1.0% annual service accrual multiplier</li> <li>• Employer contributes 4% of payroll to DB Component; 5% of payroll to DC Component for aggregate employer contribution of 9%</li> <li>• Employee contributes 5% of payroll to DB Component; auto enrolled for 2% of payroll contribution to DC Component, but may opt out of DC employee contribution</li> </ul> | <p><b>2.1 Defined Benefit Component:</b></p> <p>2.1.1 1.0% annual service accrual multiplier for state employees, higher education employees and teachers</p> <p>2.1.2 Eligibility for retirement at age 65 or Rule of 90 (i.e. age plus years of service equals 90). Earlier retirement permitted at age 60 or Rule of 80, at a reduced benefit using the full, unamortized actuarial discount factors. Benefits for Public Safety Officers will be calculated under 1% formula, but eligible for retirement at age 55 with 25 years of service and receive a bridge benefit until age 62 (for local governments bridge benefits are optional)</p> <p>2.1.3 Maximum annual pension benefit of \$80,000 adjusted for Consumer Price Index (CPI)</p> <p>2.1.4 5% of salary employee contribution for all participants</p> <p>2.1.5 Target employer contribution of 4% of payroll to DB component. State is responsible for state and higher education employees; LEA's are responsible for teachers.</p> <p>2.1.6 Employer may freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively (i.e., for future service). Accrued benefits will not be affected.</p> <p>2.1.7 5 years of service required for vesting</p> <p>2.1.8 Annual Cost of Living Adjustment (COLA) based on Consumer Price Index (CPI) 3% annual maximum.</p> <p>2.1.9 Higher education employees exempt from FLSA have option to enroll in either: (a) Hybrid Plan; or (b) Optional Retirement Plan (ORP) with employer contribution of 9% of salary annually.</p> <p>2.1.10 Target maximum unfunded liabilities for the plan may not exceed 25% of the 5 year rolling average of State of Tennessee's outstanding general obligation bond debt, including general obligation commercial paper. Limit is split between state and teacher plans. Local governments adopting hybrid plan may adopt unfunded limits of their choice.</p> <p>2.1.11 An actuarial stabilization reserve account will be established. Excess contributions above the actuarially required contribution rate will be contributed to the reserve.</p> <p>2.1.12 Elected state judges will have a 1.0% annual service accrual multiplier. In addition, the State Attorney General, elected District Attorneys General, elected Public Defenders; and if adopted by the county, General Sessions, Probate and Juvenile Court Judges, will be in this group.</p> <p><b>2.2 Defined Contribution Component</b></p> <p>2.2.1 5% of salary employer contribution. State is responsible for state and higher education employees; LEA's are responsible for teachers.</p> <p>2.2.2 Auto enrollment required for all employees and teachers in the state's defined contribution plan.</p> <p>2.2.3 2% of salary employee contribution, with opt-out feature.</p> <p>2.2.4 Immediate vesting for employees.</p> <p>2.2.5 State will offer to 401(k) plan and other DC options to local governments but local governments may procure DC plan from any source. Teachers must use the state's DC plan. Tennessee Treasury Department plans to offer additional DC investment option of Tennessee Treasury Department Managed Fund. Tennessee Treasury Department plans to offer participant financial education.</p> <p><b>3.1 Employer Cost and Unfunded Liability Controls</b></p> <p>3.1.1 An annual actuarial valuation establishes the employer contribution rate and unfunded liabilities (if any) of DB component. If DB component employer cost exceeds 4% of payroll or if the target unfunded liabilities are exceeded for the DB component plan, the following adjustments will automatically occur in the following sequence:</p> <p>3.1.1.1 Utilize funds in the actuarial stabilization account</p> <p>3.1.1.2 Reduce or suspend the maximum 3% annual COLA</p> <p>3.1.1.3 Shift some or all the DC employer contribution to the DB plan</p> <p>3.1.1.4 Increase employee contribution to DB plan by 2% of payroll</p> <p>3.1.1.5 Reduce future service accrual below 1%</p> <p>3.1.1.6 Freeze plan; no future accrual</p> <p>3.1.2 When employer cost is restored to 4% of payroll and unfunded liabilities do not exceed Target Maximum Unfunded Liabilities, then adjustments previously made are restored on a prospective basis.</p> |
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For further information, please go to [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs) and select the tab titled "State & Teacher Plans".

For required Local Education Agency (LEA) enrollment in State of Tennessee Defined Contribution Plans, contact Kaci Lantz, Director of Defined Contribution Plans by email at [Kaci.Lantz@tn.gov](mailto:Kaci.Lantz@tn.gov) or phone (615) 532-2347.

For all other inquiries, please contact: Jill Bachus, Director of the Tennessee Consolidated Retirement System at [Jill.Bachus@tn.gov](mailto:Jill.Bachus@tn.gov) or (615) 253-3845.

# Summary of Plan - Contributions

## Summary of Contribution Levels:

|                                     | TCRS Hybrid Plan Participant |                      |            |
|-------------------------------------|------------------------------|----------------------|------------|
|                                     | Defined Benefit              | Defined Contribution | Total      |
| Employer Contributions              | 4%                           | 5%                   | 9%         |
| Employee Contributions: Required    | 5%                           | 0%                   | 5%         |
| Employee Contributions: Auto Enroll | n/a                          | 2%                   | 2%         |
| <b>Total</b>                        | <b>9%</b>                    | <b>7%</b>            | <b>16%</b> |

|                                     | Optional Retirement Plan (ORP) Hybrid Plan Participant |                      |            |
|-------------------------------------|--|----------------------|------------|
|                                     | ORP  | Defined Contribution | Total      |
| Employer Contributions              | 9%   | 0%                   | 9%         |
| Employee Contributions: Required    | 5%   | 0%                   | 5%         |
| Employee Contributions: Auto Enroll | n/a  | 2%                   | 2%         |
| <b>Total</b>                        | <b>14%</b>   | <b>2%</b>            | <b>16%</b> |

# Summary of Plan - Vesting

## Summary of Vesting Rights:

|                                       | Contribution Rate | Vesting Rights                                  |
|---------------------------------------|-------------------|---|
| <b>TCRS Defined Benefit Plan</b>      |                   |   |
| Benefit Accrual                       | n/a               | 5 years of service for a monthly annuity only   |
| Employee Contributions: Required      | 5%                | Immediate - including credited interest by TCRS |
| <b>Defined Contribution Plan</b>      |                   |   |
| Employer Contributions                | 5%                | Immediate - including earnings (loans excluded) |
| Employee Contributions: Required      | 0%                | Immediate - including earnings                  |
| Employee Contributions: Auto-enrolled | 2%                | Immediate - including earnings                  |
| <b>ORP Plan</b>                       |                   |   |
| Employer Contributions                | 9%                | Immediate - including earnings                  |
| Employee Contributions: Required      | 5%                | Immediate - including earnings                  |

# 401k Match

## Summary of Contribution Levels:

| <b>Hybrid Plan Participant</b>   |     |            |            |
|--|-----|------------|------------|
|  | DB  | DC         | Total      |
| Employer Contributions   | 4%  | 5%         | 9%         |
| Employee Contributions: Required   | 5%  | 0%         | 5%         |
| Employee Contributions: Auto-enrolled (1)  | na  | 2%         | 2%         |
| Employee Contributions: Voluntary (2)  | na  | Fed Limit  | Fed Limit  |
| Employer Contributions: 401k (3)   | na  | \$50 match | \$50 match |
| Total (excluding \$50 match)   | 9%  | 7%         | 16%        |
|  |     |            |            |
| <b>Optional Retirement Plan (ORP) Participant</b>  |     |            |            |
|  | ORP | DC         | Total      |
| Employer Contributions   | 9%  | 0%         | 9%         |
| Employee Contributions: Required   | 5%  | 0%         | 5%         |
| Employee Contributions: Auto-enrolled (1)  | na  | 2%         | 2%         |
| Employee Contributions: Voluntary (2)  | na  | Fed Limit  | Fed Limit  |
| Employer Contributions: 401k (3)   | na  | \$50 match | \$50 match |
| Total (excluding \$50 match)   | 14% | 2%         | 16%        |
| <b>Notes:</b>  |     |            |            |
| (1) Employees may opt out of the auto-enrolled contributions.  |     |            |            |
| (2) Employees may make additional voluntary contributions to the 401k, 457, and 403b plan up to limits set by Federal law. |     |            |            |
| (3) Employer match up to \$50 for employees contributing to 401k.  |     |            |            |

# Implementation

First,

- ▶ Remember the effective date:
  - ▶ The effective date of the new Hybrid pension plan is July 1, 2014. Employees hired on or after July 1, 2014 will be enrolled into the new plan.

Second,

- ▶ Remember who is not affected:
  - ▶ Current employees (hired before July 1, 2014) and retirees

Third,

- ▶ Remember eligibility:
  - ▶ Exempt and Non-TCAT employees will continue to have an option to select TCRS or ORP.
  - ▶ Non-Exempt and TCAT employees may only select TCRS.

# Auto-Enroll

- ▶ Applies to TCRS and ORP
- ▶ 30 day window to opt-out
- ▶ 90-day permissible withdrawal from date of first payroll received at Empower Retirement.



# Enrollment - TCRS Hybrid Plan

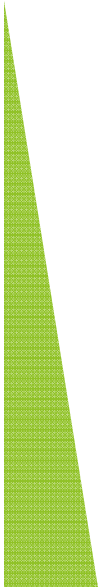
## TCRS Hybrid - Part I

### TCRS Concord (Defined Benefit)

- ▶ Exempt and Non-TCAT employees will complete the following form:
  - ▶ Notice of Election to Participate in the Optional Retirement Program or the Tennessee Consolidated Retirement System (Notarization Required)
- ▶ Non-Exempt and TCAT employees will not complete a form.
- ▶ Set-up the employer TCRS Hybrid deduction in the employee's payroll record.

# Enrollment - TCRS Hybrid

- ▶ What? No paper?
- ▶ Active member welcome packet
- ▶ Member Self-Service (MSS)



# Enrollment - TCRS Hybrid Plan

## TCRS Hybrid - Part II

### Empower Retirement(Defined Contribution)

#### Employer Contribution (5% Required):

- ▶ Mandatory - the employer will immediately upon hire set-up the eligible employee with a 5% employer contribution and remit funds with the next scheduled payroll remittance.

#### Auto-Enroll (2% With Opt-Out Feature):

- ▶ Eligibility File - the Banner Job Record for each newly hired employee will be captured on a bi-weekly file and transmitted to Empower Retirement. Upon receipt, Empower Retirement creates an account for the participant.
- ▶ Participant Notification - Empower Retirement will send a letter to the employee with a PIN and instructions for Opting Out, Changing the Contribution Amount, or Changing the Investment Selection.  
~ 30 Day Window ~
- ▶ Action - participant is auto-enrolled at 2% of the salary if no action was taken during the 30 day window. If action was taken during the 30 day window, Empower Retirement administers the requested changes.
- ▶ Confirmation - the employee will receive a letter from Empower Retirement regarding the completed auto-enrollment or if applicable, any changes made to the deferral amount or opt-out verification.
- ▶ Payroll File - Empower Retirement will send a deferral feed file to the employer, which will indicate any action the employer is required to take.

# Enrollment - ORP Hybrid Plan

## ORP Hybrid - Part I

### ORP

- ▶ Continue current process
- ▶ Exempt and Non-TCAT employees will complete the following forms:
  - ▶ Notice of Election to Participate in the Optional Retirement Program or the Tennessee Consolidated Retirement System (Notarization Required)
- ▶ May still split among 3 vendors
  - ▶ Provide each selected vendor enrollment application
- ▶ Set-up the employer ORP Hybrid deduction in the employee's payroll record.

# Enrollment - ORP Hybrid Plan

## ORP Hybrid - Part II

### Empower Retirement (Defined Contribution)



#### Auto-Enroll (2% With Opt-Out Feature):

- ▶ Eligibility File - the Banner Job Record for each newly hired employee will be captured on a bi-weekly file and transmitted to Empower Retirement. Upon receipt, Empower Retirement creates an account for the participant.
- ▶ Participant Notification - Empower Retirement will send a letter to the employee with a PIN and instructions for Opting Out, Changing the Contribution Amount, or Changing the Investment Selection.
  - ~ 30 Day Window ~
- ▶ Action - participant is auto-enrolled at 2% of the salary if no action was taken during the 30 day window. If action was taken during the 30 day window, Empower Retirement administers the requested changes.
- ▶ Confirmation - the employee will receive a letter from Empower Retirement regarding the completed auto-enrollment or if applicable, any changes made to the deferral amount or opt-out verification.
- ▶ Payroll File - Empower Retirement will send a deferral feed file to the employer, which will indicate any action the employer is required to take.

# File Format

## File Specifications:

- ▶ Record-keeper (Payroll Data Interchange)
- ▶ Specifications will be achieved using a derivative of the Concord file
- ▶ Testing locations and dates to be announced

# Payroll Deductions - TCRS Hybrid

## TCRS Hybrid

| <u>Benefit Definition</u>      | <u># of Codes</u> | <u>Type of Code</u>            |
|--------------------------------|-------------------|--------------------------------|
| Defined Benefit - ER & EE      | 1                 | R                              |
| Deferred Comp - ER             | 1                 | D                              |
| Deferred Comp - EE Auto-enroll | 1                 | D (will use same code for ORP) |

# Payroll Deductions - ORP Hybrid

## ORP Hybrid

| <u>Benefit Definition</u>      | <u># of Codes</u> | <u>Type of Code</u>             |
|--------------------------------|-------------------|---------------------------------|
| ORP : TIAA CREF - ER & EE      | 3                 | R                               |
| ORP : VALIC - ER & EE          | 3                 | R                               |
| ORP : VOYA - ER & EE           | 3                 | R                               |
| ORP : TIAA CREF - ER & EE      | 3                 | X                               |
| ORP : VALIC - ER & EE          | 3                 | X                               |
| ORP : VOYA - ER & EE           | 3                 | X                               |
| Deferred Comp - EE Auto-enroll | 1                 | D (will use same code for TCRS) |



# Remittance

- ▶ Same website, access, and process in place currently
- ▶ Timing requirements will be enforced - Must be submitted on the payroll date

# Empower Retirement Sponsored Training

- ▶ Empower Retirement conducted employer meetings during the month of February 2014.
- ▶ Webinars were held for those who were unable to attend the in person meetings. The 2014 dates of the webinars were March 4, 6, 11, & 13.

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Questions?

