

Tennessee Consolidated Retirement System



Employer Manual

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Tennessee Consolidated Retirement System Employer Manual

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100 INTRODUCTION

This employer manual has been developed for the purpose of efficiently administering the Tennessee Consolidated Retirement System (TCRS) at the local level. Every effort has been made to include all the information necessary to provide a complete and self-contained reference manual. Because of the complexities of the law establishing the retirement system, all facets have not been covered in detail. However, the objective in compiling this manual is to furnish as much information as possible. The information contained in the manual should not be used in lieu of the applicable provisions of the *Tennessee Code Annotated*. In the event there is a conflict between this manual and the law, the law shall prevail.

200 MEMBERSHIP

- 201 Classification for Membership.** Since July 1, 1976, any employee enrolled in the TCRS shall be classified as a Group I member. State judges enrolled after September 1, 1990 are classified as Group IV members.
- 202 Prior Class, Group II or Group III Members Who Return to Service.** Any prior class, Group II or Group III member who left employment and returned to service in a position covered by his/her previous classification shall be eligible to continue membership in that classification provided he/she has not lost membership. To lose membership, he/she must have withdrawn his/her contributions or, if not vested, be out of service long enough to lose membership because of absence from service (seven years).
- 203 Mandatory Membership.** Every employee of the state or of a participating political subdivision, where membership is mandatory or K-12 teacher must become a member of the retirement system regardless of age, with the exception of Sections 204 and 205. It is the responsibility of the personnel/payroll officer to insure that their employees are enrolled properly and make the appropriate retirement contributions. The following is a list of officials and employees whose membership in the retirement system is mandatory:
- A. General employees of the state of Tennessee classified as full-time, except full-time employees under age 25 with seasonal, temporary, interim or emergency appointments [see Exhibit I(a)].
 - B. Commissioned members of the highway patrol.
 - C. Wildlife officers.
 - D. Teachers (see Section 206).
 - E. Superintendents or the chief administrative officers of a public school system.
 - F. Any full-time employee of a participating political subdivision regardless of position who is employed after the effective date of participation.
 - G. State criminal investigator hired after July 1, 1994, Attorney General and Assistant Attorney General hired after July 1, 1993.
- 204 Optional Membership.** The following is a list of employees and officials who have an option to become members of the TCRS. These employees shall not become members unless they elect to join the retirement system. These members may exercise their option to join at any time; however, they may not receive service credit for any prior period for which they elected to not participate unless otherwise noted. **Once the employee joins the TCRS, he/she does not have an option to cease membership unless employment is terminated:**
- A. District Attorney General, Assistant District Attorney General.
 - B. Any elected official or full-time employee of the General Assembly who is licensed to practice law and renders assistance to the members of the General Assembly or committee.
 - C. Employees of political subdivisions who are employed on the date that the political subdivision begins participation in the TCRS.

D. Part-Time Employees

1. Teachers. Interim teachers employed on a temporary basis to replace regular teachers on unpaid leave are considered part-time employees and have optional membership. Also, substitute teachers are not eligible for membership unless they are under contract and are scheduled to work on a regular basis replacing teachers throughout a school year.
 2. State Employees [see eligibility chart, Exhibit I(a)]. Membership is optional for part-time employees with the exception of students, seasonal, temporary or interim employees under age 25 who are not eligible for membership.
 3. A Regular Part-Time Employee of an Institution of Higher Education [see eligibility chart, Exhibit I(b)].
 4. Political Subdivision Employees. The chief governing body of a political subdivision that began participating prior to July 1, 1984 must pass a resolution authorizing such coverage for part-time employees. Part-time employees of political subdivisions that began covering their employees on or after July 1, 1984 are automatically eligible for membership, unless the chief governing body has passed the appropriate resolution excluding such coverage [see eligibility chart, Exhibit I(c)]. Once a political subdivision has authorized coverage for their part-time employees, it cannot be revoked.
- E. County Judges. The retirement law specifically defines county judges as a judge of a general sessions court, trial court, county chairman, county judge, probate judge or judge of a juvenile and/or domestic relations court and whose compensation is paid by the county or a county attorney receiving regular compensation from the county. Attorneys paid on a contractual basis or a retainer fee through a law firm are not eligible for membership.
- F. Elected County Officials. The retirement law specifically defines county officials as a county executive, county clerk, clerk of a circuit court, independent clerks of a general sessions court, register of deeds, county trustee, sheriff, county road superintendent and assessor of property.
- G. Members and Officials of the General Assembly. This group includes senators and representatives serving in the General Assembly.
- H. Public Service Commissioners.
- I. State Paid Judges.
- J. Members of city, county or special school district boards, commissions, committees, councils and the like, by whatever name known, who are elected by popular vote and are employed by a political subdivision whose chief governing body has passed a resolution authorizing these members to participate.
- K. Any retiree who returns to service after receiving monthly retirement benefits from the TCRS (see Sections 622-625 for complete explanation of reemployment after retirement provisions).
- L. City judges and attorneys whose compensation is paid through the city payroll system whereby federal withholding and Social Security are deducted are eligible.

205 Ineligibles. The following is a list of positions, employees or officials who are not eligible for membership in the retirement system:

- A. Substitute teachers, unless they are under contract and scheduled to work on a regular basis, replacing teachers throughout the school year.
- B. Members of city, county or special school district boards, commissions, committees, councils and the like, by whatever name known, who are elected by popular vote and the chief governing body **has not passed the appropriate resolutions authorizing membership in the TCRS.**
- C. Anyone employed as an independent contractor or on a percentage basis. This includes county attorneys, city attorneys and city judges who are paid on a contractual basis or a retainer fee through a law firm. An individual who performs services subject to the will and control of an employer is *not* an independent contractor.
- D. General employees of any political subdivision not covered by the TCRS.
- E. Employees covered by another publicly-supported retirement system for the same period of time. Another retirement system does not include the Social Security program.
- F. Jurors.
- G. Volunteer Firefighters.
- H. Any full-time temporary or part-time temporary employee of an institution of higher education.
- I. State employees and political subdivision employees under age 25 who are emergency, interim, temporary or seasonal.
- J. Part-time employees of a political subdivision where the governing body has not authorized the part-time optional provision.

206 Membership Eligibility of Teachers.

Retirement law defines a “teacher” as follows: Effective July 1, 1986, “teacher” shall mean any person employed in a public school as a teacher, librarian, principal, superintendent or chief administrative officer of a public school system, a supervisor of teachers or any other position whereby the state requires the employee to be certificated as a teacher or licensed as a nurse or physical therapist in the public schools or of any educational institution supported in whole or in part by and under the control of the state. Teacher also includes any person employed in a **Tennessee** public school as a reserve officer training corps (ROTC) instructor. It is further provided that any teacher who has taught in the public schools for a period of at least one year who transfers to a position within the public school system that does not require a teacher’s certificate shall be allowed to continue participation in the retirement plan as a teacher.

207 Probationary Period.

- A. There is currently no retirement enrollment delay due to probationary period for employees of the state, higher education and teachers.
- B. Effective July 1, 1995, any political subdivision participating in the TCRS who has not established a probationary period shall be prohibited from establishing a probationary period.

- C. For those political subdivisions who have already authorized a probationary period, a new employee may not be enrolled in the TCRS until completion of such period not to exceed six months.
- D. The political subdivision should waive the probationary period for retired employees who are current members of the TCRS or who transfer from another participating employer.

208 Employer-Employee Relationship. There are cases where the question might arise as to who is the employer of certain employees. The basic guideline to use in making such a determination is who has the final authority to hire and fire the individual and who has the right to direct the person as to the manner in which the work is done. The source of the payment of salary for employment is not the controlling factor in determining the identity of the employer. **The TCRS should be contacted if there is any question regarding the eligibility of an employee.**

209 Membership Statement.

Every October, the TCRS will forward to each reporting department a Membership Statement for each member. The statement represents the information on file for each TCRS member as of June 30 and should be distributed to each member.

- A. Delivery of Membership Statement. It is important that the employer make every effort to deliver the statement to the member as soon as possible upon receipt.
- B. Distribution of the Membership Statements. To facilitate the distribution process, the TCRS statements can be printed either alphabetically or in Social Security number order. In addition, the statements can be sorted by an 18 digit position number with alpha or Social Security number sort within the position number. If a reporting group elects to have the statement sorted by position number, the information must be transmitted by one of the following methods: e-mail (must be a text file), 3½" diskette, 35-90 cartridge or 34-80 cartridge, respectively. This must be furnished to the TCRS by August 20 following the year end for which the statements are being printed. If no election is made, the statements will be printed alphabetically. For information regarding the format, please contact TCRS Financial Services at 615-253-6781.
- C. Membership Statement Information. The statement serves many purposes. It acts as a medium to verify the information the retirement system maintains on file for each member. It informs the contributory member of the amount of accumulated contributions credited to his/her account through the last June 30. In the case of a noncontributory member, the statement verifies the salaries reported. A prior service payment appears in the year in which the payment is made and is a portion of the accumulated balance in subsequent years. It serves to notify the member of his/her beneficiary designation. If the employee has designated a multiple beneficiary, the words "Multiple Beneficiaries" may appear in this space. In this case, the member should contact TCRS to update this information for statement purposes. Projections for service retirement, disability and death benefits are also calculated to assist the member with long-range planning.

The information on the membership statement is very important to both the TCRS and the member. Each employee should review the statement for accuracy. Any errors with regard to service or salary will require a certification from the employer. The beneficiary designation is very important and should be closely verified. If you are unable to locate a former employee, please retain the statement for your records.

Membership Form. Itemized below are the major areas of mistakes (found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0353.pdf>):

Social Security Number. This is the employee's account number. Be positive it is correct by copying the number directly from the employee's Social Security card. The number on the payroll should agree with the number on the Social Security card.

Date of Birth. Upon retirement, the date of birth on the application for retirement is compared with the date of birth on the membership form and if there is a difference, a copy of the birth certificate is required. (A common error is to include the correct month and date of birth but the current year.)

Membership Date. Enter the beginning date of the first pay period in which employee's deductions for retirement are to be made.

Department Code Number. This five digit number identifies the department and appears on the monthly report. This number begins with an eight for political subdivisions, a nine for teachers and a three or four for state agencies.

Retirement Type. This three digit number identifies the employee classification and membership category on the monthly retirement report.

Title of Position. This space must be completed in detail because there are employees who cannot be covered by the retirement system due to their position.

Employment Date. Enter the beginning date of first employment. This will be the same as the membership date for all employees enrolled as a condition of employment unless the employer has elected to observe a probationary period of employment. For example, if an employing department has a three-month probationary period, even though a member started working on May 1, the membership date would be August 1.

Designation of a Beneficiary. A person may designate one or more persons, their estate or an institution as beneficiary. If additional spaces are needed, use a separate page and attach to the membership form. Include the new member's name and Social Security number on the attachment. **A beneficiary is not limited to members of the family. A member may designate anyone as a beneficiary although the membership booklet should be consulted since death benefits to someone other than a spouse may be limited and may be further limited if more than one person is named.**

The member should always read the beneficiary information on the form before a designation is made. If an employee fails to make a beneficiary election, the spouse (if applicable) is presumed to be named as beneficiary.

Date of First Deduction. This space must be completed by the member's payroll office. It reflects the first day that a member earns compensation after becoming eligible for membership following any probationary period.

The membership form must be signed by the employee, signed by the employer and notarized.

Change of Beneficiary Form (found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0352.pdf>): Any time an active member wishes to change his/her beneficiary, a *Change of Beneficiary* form must be used. All blanks must be completed and the form executed before a notary public. A letter of confirmation will be sent to the member acknowledging the change in beneficiary information.

Member Information Change Form (found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0208.pdf>): In order to correct a member's account information, a *Member's Information Change* form should be completed. This form can be used to correct a member's name, date of birth, Social Security number, address or gender. When correcting the year of birth, please attach a copy of the member's birth certificate.

EXHIBIT I

- (a) Eligibility Chart for State Employees
- (b) Eligibility Chart for Higher Education Employees
- (c) Eligibility Chart for Part-Time Political Subdivision Employees

**State of Tennessee Employees and K-12 Teachers
Retirement and Social Security Coverage**

Exhibit I(a)

| | <u>Full-Time</u> | <u>Part-Time</u> |
|----------------|---|---|
| (1) Regular | I. All employees 1. Use a TCRS membership retirement type. | I. All employees 1. Use a TCRS membership retirement type for those employees electing to join TCRS. 2. For employees electing not to join TCRS, code retirement type 008 . |
| (2) Seasonal* | I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type. | I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type for those electing to join TCRS. 2. For employees electing not to join TCRS, code retirement type 008 . |
| (3) Temporary* | I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type. | I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type for those electing to join TCRS. 2. For employees electing not to join TCRS, code retirement type 008 . |
| (4) Interim* | <p><u>State Employees</u></p> I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type. | I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type for those electing to join TCRS. 2. For employees electing not to join TCRS, code retirement type 008 . |
| | <p><u>K-12 Teachers</u></p> I. All employees 1. Use a TCRS membership retirement type. | |

| | <u>Full-Time</u> | <u>Part-Time</u> |
|--|---|---|
| (5) Emergency* | I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type. | I. Employees less than age 25 1. These employees must be coded retirement type 008 . II. Employees over age 25 1. Use a TCRS membership retirement type for those electing to join TCRS. 2. For employees electing not to join TCRS, code retirement type 008 . |
| (6) Limited Term | I. State Judges, Attorney General and members of the General Assembly. 1. Use a TCRS membership retirement type for employees electing to join TCRS. 2. Use retirement type 008 for employees electing not to join TCRS. II. Governor 1. Use retirement type 008 . III. All Other Employees 1. Use a TCRS membership retirement type. | I. All employees 1. These employees must be coded retirement type 008 . |
| (7) Retiree Returning for Temp. Employment | All retirees returning to employment not to exceed 120 days in a given 12-month period should be coded 009 and should complete the <i>Temporary Employment</i> form (TR-0228). | |

***When a full-time employee less than age 25 attains age 25, the retirement type should be changed from 008 to a TCRS membership retirement type. When a part-time employee less than age 25 attains age 25, the retirement type should be changed from 008 to either a TCRS membership retirement type or continue retirement type 008, depending on the employee's election to join or not join TCRS.**

Retirement type 008: Not covered by TCRS, but covered by full Social Security tax.

Retirement type 009: Not covered by TCRS and only covered by the medicare portion of the Social Security tax.

Do not complete a membership form for any individual coded retirement types 008 and 009.

**HIGHER EDUCATION
Personnel Classification**

| Appointment | Full-Time | Part-Time |
|----------------------|--|--|
| Regular | Must be covered by Social Security and retirement. | Must be covered by Social Security and has option to join TCRS. |
| Temporary or Interim | Cannot be covered by retirement, but must be covered by Social Security. | Cannot be covered by retirement, but must be covered by Social Security. |

**Political Subdivisions Who Have
Authorized Optional Membership for Part-Time Employees**

| | <u>Full-Time</u> | <u>Part-Time</u> |
|----------------|---|---|
| (1) Regular | I. All employees - Mandatory membership Complete a TCRS membership form and return the form to our office. | I. All employees - Optional membership Complete a TCRS membership form for those employees electing to join TCRS and return the form to our office. |
| (2) Seasonal* | I. Employees less than age 25 Not eligible for membership. Do not enroll these employees. II. Employees over age 25 - Optional membership Complete a TCRS membership form for those employees electing to join TCRS. | I. Employees less than age 25 Not eligible for membership. Do not enroll these employees. II. Employees over age 25 - Optional membership Complete a TCRS membership form for those employees electing to join TCRS. |
| (3) Temporary* | I. Employees less than age 25 Not eligible for membership. Do not enroll these employees. II. Employees over age 25 - Optional membership Complete a TCRS membership form for those employees electing to join TCRS. | I. Employees less than age 25 Not eligible for membership. Do not enroll these employees. II. Employees over age 25 - Optional membership Complete a TCRS membership form for those employees electing to join TCRS. |

**Do not complete a membership form for any individual who is not eligible for membership in the TCRS or elects not to enroll in the TCRS.*

300 REPORTING SALARY, CONTRIBUTIONS AND SERVICE CREDIT

301 Employee Contributions. Employee contributions received by TCRS are credited to each member's account. While the contributions are on deposit, interest is calculated on the previous June 30 balance at the rate of 5 percent compounded annually. Employee contributions are calculated by multiplying the employee's monthly earnable compensation by the applicable contribution rate.

Employee contributions are labeled in two ways depending upon how they are funded:

- A. Contributory. Employee contributions are deducted from compensation at a rate dependent upon the member's retirement type. For those local governments who have passed the provisions of the 414(h) plan, the employee's retirement contributions will be tax-deferred.
- B. Noncontributory. Members who were employed prior to authorization of noncontributory retirement (July 1, 1981 for state and higher education employees or the date of election by a political subdivision) are credited with the employer-assumed 5 percent contribution in the same manner as contributory members. Those employed after the authorization date will only be given salary and service credit. No contributions will be credited to the employee account.

302 Employer Contributions. Employer contributions are computed by multiplying the employee's monthly earnable compensation by the employer contribution rate. Employer contribution rates are determined on a biennial basis by the actuary. Shortly after each valuation, the TCRS will notify each department of its new employer contribution rate and its effective date. The employer will then be responsible for reporting and funding employer contributions based on the new rate.

Funding for employer contributions to the retirement system comes from various sources. In most cases, the reporting department is responsible for forwarding the funds to the retirement system along with its monthly contribution report. In other cases, the funds are channeled directly to the system from another agency. The following schedule describes in detail the funding and reporting of contributions to the retirement system:

A. K-12 Teachers

1. Employer contributions for K-12 teachers (department codes beginning with 99) and teachers paid with federal funds or grants (department codes beginning with 91) are funded by the appropriate grant or program. For example: The Basic Education Plan and Title I. Both employer and employee contributions should be submitted with the contribution report.
 2. If a teacher is paid by both sources of funds, the teacher should appear on both contribution reports for the appropriate amount of salary and service.
- B. The employer contributions for all higher education employees including employees of vocational and technical schools are to be submitted with the contribution report.
 - C. Political subdivision employees are funded by the employer regardless of the funding source.
 - D. The employer contributions for state employees paid by the Department of Finance and Administration are funded by state appropriation.

303 Reporting Service Credit. Employers are required to report service credit with the monthly report of salary and contributions.

A full-time employee who is not without pay during a period should have service credit reported based on the following schedule:

| <u>Type of Employee</u> | <u>Service Credit to be Reported</u> |
|--|---|
| (1) Employee whose salary is reported to TCRS 12 months per year. | 1.00 per month for 12 months |
| (2) Board of Education employee whose salary is reported to TCRS 11 months per year. | 1.10 per month for 11 months 0.00 per month for 1 months |
| (3) Board of Education employee whose salary is reported to TCRS 10 months per year. | 1.20 per month for 10 months 0.00 per month for 2 months |
| (4) Board of Education employee whose salary is reported to TCRS 9 months per year. | 1.34 per month for 9 months 0.00 per month for 3 months |

Service credit for a full-time employee who is without pay during a period or a part-time employee should be reported on a pro rata basis in direct proportion to a regular full-time schedule. Actual service credit should be reported to the retirement system each month. Any rounding of service will be made by the retirement system. **In no case shall any member receive more than 12 months creditable service in a given year.**

304 Instructions for Making Monthly Contribution Reports. Employee and employer contributions are to be made to the retirement system on a monthly basis. The contributions must be accompanied by a “Contribution Report” detailing the employee and employer contributions. The contributions as well as the contribution report for a particular month are due on the first day of the following month and are delinquent after the 10th of the month.

The complete “Contribution Report Package” should consist of the following three documents:

- A. Monetary Transmittal Device. There are several means of transmitting monies to the retirement system.
 1. Bank Drafts: The most common method for making contribution payments to the retirement system is “bank drafts” (check). One check for the combined total of employee and employer contributions should be submitted. Personal checks for employee contributions should not be submitted.
 2. Wire Transfers: A reporting department may make contribution payments through wire transfers through the Federal Wire System. TCRS requests a faxed copy of the contribution worksheet the day *before* the transfer.
 3. ACH Payments: A reporting department may make contribution payments through the ACH Payment System (Automated Clearing House).

4. LGIP Transfers: Another method for a department to make a contribution is through an LGIP (Local Government Investment Pool) transfer. To find out more about LGIP, contact the LGIP office at 615-532-1163.
- B. Contribution Worksheet (Exhibit I). A monthly worksheet is to be submitted to the TCRS summarizing the "Detail Contribution Report". This worksheet consists of the following information:
1. Department Code: Assigned by TCRS and preprinted on the form.
 2. Department Name: Preprinted on form.
 3. Signatures: The appropriate signatures must appear for the report to be accepted.
 4. Payroll Personnel Information: Preprinted on form based upon information supplied by the department. It is important to keep this information up to date.
 5. Service: This total represents the total service of the employees who worked for the department for the month. This figure must equal the total of the detail report.
 6. Gross Salary: The total salary (full salary even if covered by 414(h) plan) of all people appearing on that report, as well as noncontributory local teachers and prior class B teachers. This figure must equal the detail report.
 7. Employer Rate: Assigned by TCRS based upon a biennial actuarial valuation.
 8. Employer Contributions: Calculated by multiplying the gross salary by the employer rate.
 9. Employee Contributions: The total amount of employee contributions appearing on that report. This figure must equal the detail report.
 10. Total Contributions: Summarization of employer and employee contributions.
 11. Adjustments: If a department has overpaid or underpaid on a prior contribution report, the correct amount will be added or subtracted **by TCRS personnel only**. If adjustments are to be made by the department, the adjustments should be made only to the individual's salary and contributions on the detail contribution report or on the hard copy printout.
 12. Total Amount Remitted: This should be the total paid on the department's monetary transmittal device.
- C. Detail Contribution Report (Exhibit I). A monthly detail contribution report must accompany each Contribution Worksheet. This report is used as physical documentation of the amounts on the worksheet, as well as documentation for future reference.

The Detail Contribution Report should include the employee's name, Social Security number, salary, retirement type, contribution and monthly service. These reports can be in one of several acceptable forms. These are outlined and explained below:

1. Preprinted Contribution Report - Commonly called a "Turnaround Document". It consists of a computer printout of the necessary information and is generated by TCRS based upon the contribution information reported the previous month. It is the responsibility of the

department to update this data monthly to correctly reflect each employee's payroll record. This can be accomplished by:

- a. Additions: When an employee first becomes a member of TCRS, all pertinent information should be entered under the correct heading on the last page of the preprinted report. This data will be used to update the new member's account and to generate next month's preprinted report. **Please include Social Security numbers on any new employees added to the monthly contribution reports.**
 - b. Deletes: When an **employee ceases to make monthly contributions** to the retirement system, due to **retirement or termination of employment, a line should be drawn through his/her record on the contribution report.** This will remove his/her record from the Preprinted Contribution Reports generated by the TCRS office in future months. Do not remove a school employee during the summer months even if he/she is not making a regular monthly contribution assuming the employee is returning with the fall school session.
 - c. Changes: When **changes are required** to an individual salary, contribution, name or Social Security number, **the incorrect information should be circled and the correct information entered to the right of the incorrect information.** Blanks are provided for this purpose. The new data will be used to generate the following month's detail report. Do not circle or enter salaries or contributions for employees whose salaries or contributions do not change.
 - d. **Before making any adjustments which may be unfamiliar, contact the Accounting Section at 615-741-1337.**
2. Contribution Reports Using Diskettes:

Our data processing facilities are capable of handling 3½" diskettes and CDs. If your department has computer facilities with these capabilities, we request that you make your monthly contribution reports using a diskette or CD. This method will not only facilitate our operations, but will also eliminate most of the manual operations on your part. If your department decides to make monthly contribution reports using this system, you will be responsible for submitting, on a monthly basis, a diskette or CD detailing employee contributions, a "hard copy" printout of the contribution report, a worksheet summarizing the contributions by employee and employer and the correct monetary transmittal device.

- a. All diskettes and CDs should meet the guidelines in Exhibit II. **Unreadable or incorrect diskettes or CDs will also be returned for correction.**
- b. The "hard copy" of your contribution report is to consist of a computer printed report of the diskette submitted to the retirement system. Both the printed report and the diskette should be submitted in alphabetical order. It should list all pertinent information for each individual on the diskette that month. Grand totals should also appear for salary and employee contributions and service.

If your department sends in more than one department code on diskette, a separate printed report must be provided for each department.

- c. A worksheet is to be prepared from the printed report. The worksheet and printed report are due in our office on or before the 10th of the following month along with the

diskette and monetary transmittal device of the total employee and employer contributions.

- d. Corrections to the Contribution Report after the diskette has been submitted to the retirement system are permissible. The corrections should be made on the printed report to be submitted or if the printed report has already been submitted, by written notification to the Contributions Section. Include all data normally provided on the diskette.
3. The retirement system strongly encourages all reporting departments to utilize an automated system; however, the following conditions must be met:
 - a. Any and all programming changes must be made and financed by the reporting department. The retirement system will provide assistance in setting up such a process; however, the responsibility for changing programming to meet specifications will be with the reporting department. Also, a test diskette should be provided to the TCRS the month prior to the beginning of reporting by or diskette.
 - b. The reporting department's computer must be capable of storing one or more months of retirement information on tape or internally. This information will be used in the following month to prepare the contribution report; therefore, the system must be able to process stored information at the same time it is using current information to produce the contribution report.

305 Underpayment or Overpayment of Employer Contributions. If a department fails to remit the sufficient amount of employer contributions for any reporting period, the retirement system will bill the department for the deficiency. Payment will be due 15 days after the date of billing. If a department overpays the employer contribution, a credit will be established for future use by the department. We ask that the department take the credit on its next contribution report.

306 Underpayment or Overpayment of Employee Contributions. The retirement system audits each department's monthly contribution report. In the event an error is found, the department will be notified by letter. Instructions and examples of how to correct the error will be included.

307 Penalty for Delinquent Contributions. Any time the contribution report is received after the due date (the 10th of the preceding month), a specific penalty will be assessed. The assessment is 5½ percent of the amount of contribution due if not more than 30 days delinquent and an additional 5 percent for each additional 30 days of delinquency, up to a 25 percent total penalty. Upon receipt, the penalty payment will be credited to the TCRS investment income account to compensate for the interest lost on the delinquent payment.

308 Administrative Cost. The cost of administering the retirement system is shared by all participating agencies, departments and political subdivisions based on a pro-rata computation. The cost per active member is found by dividing the average quarterly expenses incurred by the retirement system by the total number of active contributing members. The cost per member is then multiplied by the number of active members in each group to arrive at that department's administrative cost and expressed as a percentage of payroll that is built into the employer contribution rate paid by each employer.

309 Non-Members. Each month, the retirement system will furnish every reporting group with a list of employees appearing on the previous monthly contribution report who are nonmembers. Please review this list for the correctness of each employee's name and Social Security number since there is no record of these employees being enrolled in the retirement system. If either the name or the

Social Security number is incorrect, the correction should be made on the printout and on the monthly report or disk to ensure future contributions are recorded properly. If a Membership Form has not been completed for any of these employees, please do so immediately. The corrected printout and any Membership Forms should be returned to the retirement system as soon as possible. This will insure the member's contributions being properly credited to his/her account.

310 Compensation Not to be Reported

- A. Payment for Sick and Annual Leave in a Lump Sum. Contributions shall not be deducted from any payment made in a lump sum for accumulated sick or annual leave while an active member or at retirement.
- B. Retirement Incentives. Contributions shall not be deducted from any payment made in the form of a bonus for the sole purpose of increasing a member's retirement benefit or inducing a member to retire.
- C. Fire and Police Pay Bonuses. Contributions shall not be deducted from any bonus paid to a fireman or policeman for completion of an in-service state training and fire-fighting program. (Only applies to the State Law Enforcement Program for local governments.)
- D. Taxable Payments that are not Salary. Payments for transportation, parking, cars, travel, meals, fringe benefits, office allowances or other similar payments that may be subject to FICA and withholding but are not included in salary, should not be reported.
- E. Payments to Those Other Than Employees. Payments to independent contractors, law firms and others who are not employees should not be reported.

Note: In addition to income-tax sheltered 414(h) contributions, several employers operate deferred compensation plans 401(k), 457 and 403(b). Others also offer flexible benefit plans authorized under Section 125 of the Internal Revenue Code that allows employees to totally avoid both federal income tax and Social Security taxes on medical insurance, out-of-pocket medical expenses, day care expenses, attorneys fees or even post-retirement life insurance for school system employees. **While these are excellent programs, employers must report to TCRS the gross salary payable before application of the salary reductions for income tax and Social Security purposes.**

EXHIBIT I - Contribution Report

EXHIBIT II - Diskette Guidelines

Tennessee Consolidated Retirement System
Contributions Section
P.O. Box 198766
Nashville, TN 37219-8766
Contributions Report Worksheet for _____

Department Code: _____
Dept. Name: _____
Payroll Officer Name: _____
Chief Fiscal Officer Name: _____

Note: **Please include Social Security numbers for all employees. For new employees added to your last retirement report; please check their Social Security numbers on this report to ensure that we have recorded them properly.**

If you have any questions about your adjustments, please call (615) 532-8049.

Prepared By: _____
Approved By: _____
Title: _____

Complete one worksheet for each department code reported. Indicate the total salary for the department.

Calculation: _____ X _____ (Employer Rate)
(Gross Salary)
Total Service: _____ (This must be completed)
Penalty: (5.5 percent first month, 5 percent each additional 30 days in the aggregate of 25 percent.) A penalty will be assessed if this report is not in our office by the 10th of each month.
Employer Contributions: _____
Employee Contributions: _____
Total Contributions: _____
Adjustment (for TCRS use only) _____
Total amount remitted: _____

State of Tennessee Payroll Listing for _____

Dept Last Name First Name Old Ser New Ser Old Salary New Salary Type Old Ded New Ded SSN Num

GUIDELINES FOR REPORTING PAYROLLS BY DISKETTE

1. Must be IBM compatible, DOS formatted diskette.
2. Current diskette requirements are 3½" high density (1.44 MB).
3. Data must be in an unpacked ASCII format.
4. Record must be 80 characters in length. Record must agree with the attached format.
5. Diskette must have an external label containing the following:
 - a. Name of reporting agency
 - b. Reporting period
 - c. File name to be accessed on diskette (CONTRIB with no extension)
 - d. Department codes contained on the diskette
6. The diskette is to contain one file named CONTRIB with no extension. The file will contain the contributions file following the required record layout. Each record should end with a carriage return, line feed. Contributions reporting files can not span multiple disks.
7. No beginning or ending blank lines should be included.
8. No departmental summary total records should be included.
9. File must be in the root directory on the diskette, no internally labeled diskettes.

400 CURRENT AND PRIOR SERVICE

401 Service Credit. Service credit plays an important role in determining a member’s eligibility for TCRS benefits and the dollar amounts payable. Service credit includes current (or membership) service plus any prior service established by the member. A member’s total creditable service is rounded to the nearest month when benefits are calculated. Employees of school boards or agencies supported by and under control of the state receive one year of creditable service for each school year whether it is on a 9-, 10-, 11- or 12-month basis. In no case shall any member receive more than 12 months of creditable service in a given year.

402 Vested Member. All members must attain vested status to qualify for retirement benefits. Any member who is out of service for a period of seven years before attaining a vested status shall lose membership.

A. Any Group I member with a membership date before July 1, 1979 who has four or more years of creditable service is a vested member. Any person becoming a member on or after July 1, 1979, with five years of creditable service, is vested. Political subdivisions that have a vesting period of ten years must pass a resolution to allow five year vesting.

In the case where an employee has worked for two employers with different vesting schedules, the process for determining vesting would be as follows:

1. Determine if total service vests the employee under both employers.

EXAMPLE OF EMPLOYEES WITH MULTI-EMPLOYERS

| | Service Credit With: | | Vesting Status |
|------------|--------------------------|-------------------------|--------------------------|
| | 10-Year Vesting Employer | 5-Year Vesting Employer | |
| Employee 1 | 5 years | 5 years | Fully Vested |
| Employee 2 | 1 year | 9 years | Fully Vested |
| Employee 3 | 6 years | 4 years | Fully Vested |
| Employee 4 | 2 years | 5 years | Vested with 5 years only |
| Employee 5 | 3 years | 6 years | Vested with 6 years only |
| Employee 6 | 3 years | 3 years | Vested with 3 years |
| Employee 7 | 4 years | 4 years | Vested with 4 years |
| Employee 8 | 5 years | 4 years | Vested with 4 years |

2. If total service does not vest the employee, then service with each employer must be reviewed to determine whether the employee is vested with the employer. It would be possible for an employee to be vested with one employer, but not another.

B. A vested member’s membership shall continue until he/she terminates employment and withdraws his/her contributions, retires or dies.

- C. A non-vested member who loses membership must request a refund of any contributions credited to his/her account in the retirement system.

403 Current Service. Current service (or membership service) refers to service credit accrued by a member since the date of membership for which the required employee and employer contributions have been made and not withdrawn. State employees, higher education employees and employees of local governments with noncontributory retirement are not required to make employee contributions; however, their salaries, service credit and the applicable employer contributions are reported to the TCRS.

Simultaneous membership in more than one publicly-supported retirement system is prohibited. No member of the TCRS shall be eligible to be a member of any other state, county or municipal retirement system and receive retirement credit for the same service established in the TCRS. If any employee is eligible for membership in more than one retirement system for the same service, the employee is subject to the mandatory membership provisions and must become a TCRS member and withdraw his/her membership from the other plan.

404 Prior Service Credit. Retirement credit for prior service may be established by filing a claim for such service with the retirement system, by satisfying all the requirements of the law and by making any required payment. If the TCRS has no prior record of the service being claimed, the employer must certify the employee's salary and service on an *Application for Additional Retirement Credit*. In the absence of payroll records, affidavits may be used. Affidavits should be used when no current records are available with respect to this service and the former employer must certify this on each affidavit. These affidavits must also be signed by different persons who have personal knowledge of the member's service and who are not family members.

Employer payments on behalf of employees are not permitted. Under certain limited circumstances, payments of prior service can be made by a rollover from a qualified pension plan or conduit IRA.

405 Types of Prior Service Credit

- A. *Military Service Credit*. There are three ways where a TCRS member may receive retirement credit in TCRS for military service rendered in the United States Armed Forces.

- 1. Interrupted Military Service.

- a. In General. The first situation is called interrupted military service and is governed by the federal Uniformed Services Employment and Reemployment Rights Act (USERRA). In general, if a TCRS member takes a leave of absence from the member's TCRS covered employment to serve in the uniformed services of the United States (during, for example, Invasion of Panama, Multinational Force in Lebanon, Operation Urgent Fury (Grenada), Desert Storm, Operation Enduring Freedom, Operation Iraqi Freedom, etc.), the member is interrupting the member's employment for that military service. If the member is reemployed by the member's pre-service TCRS covered employer, TCRS essentially treats the member as though the member never had a break in service.

- b. Requirements. To establish the interrupted military service, the member must:
- Leave TCRS covered employment to serve in the uniformed services of the United States;
 - Be released from military service for other than dishonorable or other punitive conditions;
 - Serve no more than a cumulative total of five years away from the same pre-service employer. There are a few limited exceptions to the five years such as scheduled drills (inactive duty training);
 - Return to employment with the same pre-service employer within six months of discharge;
 - Redeposit any contributions the member may have withdrawn from TCRS upon leaving employment to serve in the military;
 - Submit to TCRS an application for the military service credit along with a copy of the member's DD214; and
- c. Cost. The member must make a back payment to TCRS equal to:
- The amount of employee contributions the member would have paid to TCRS had the member remained continuously employed with the employer during the period of military service claimed. The contributions are based upon the compensation the member was earning at the time the member left employment to enter the military.
 - However, if the military service was during the Persian Gulf War, the service is credited without any charge to the member, unless the member is an employee of a political subdivision. If the member is an employee of a political subdivision, the service is credited without charge to the member provided the political subdivision passes a resolution accepting the liability. "Persian Gulf War" means the period from and including August 2, 1990 to the date thereafter prescribed by presidential proclamation or by federal law.
- d. TCRS Credit Limits. As stated under the requirements above, the cumulative total of interrupted military service credit that can be established in TCRS with a single employer cannot exceed five years with a few exceptions.
2. Non-Interrupted Military Service During Certain Periods of Armed Conflict.
- a. In General. The second situation is where a TCRS member served in the uniformed services of the United States prior to employment with a TCRS covered employer and the service was rendered during one of the following periods of armed conflict:
- WWI 04/07/17 - 11/11/18
 - WWII 12/07/41 - 12/31/46
 - Korean Conflict 06/27/50 - 01/31/55
 - Vietnam Era 02/28/61 - 05/07/75
- ❖ If a member served during a different period of armed conflict (for example, Invasion of Panama, Multinational Force in Lebanon, Operation Urgent Fury (Grenada), Desert Storm, Operation Enduring Freedom, Operation Iraqi Freedom, etc.), the member

may still obtain the service credit if the military service interrupted the member's TCRS covered employment. See Item 1 above.

- b. Requirements. To establish the above non-interrupted military service, the member must:
- Be a state employee or teacher, or an employee of a political subdivision whose chief legislative body has specifically authorized the credit;
 - Receive an honorable military discharge;
 - Not be able to establish the military service in any other retirement system, unless the member is receiving a disability retirement benefit from the United States Veterans' Administration as a result of a 100% permanent, total disability caused by a service-connected, combat related injury that existed on the date of discharge and the member did not retire from the military with 20 or more years of service;
 - Be vested in TCRS before the military service credit can be used in determining any rights under TCRS; and
 - Submit to TCRS an application for the military service credit along with a copy of the member's DD214.
- c. Cost. There is no cost to the member.
- d. TCRS Credit Limits. A member may not establish more than a cumulative total of four years of non-interrupted military service credit in TCRS (this includes both non-interrupted military service during the above periods of armed conflict and the non-interrupted military service during the peacetime periods described in Item 3 below).

3. Non-Interrupted Military Service During Certain Periods of Peacetime.

- a. In General. The final situation is where a TCRS member served in the uniformed services of the United States prior to employment with a TCRS covered employer and the service was rendered at any time from:
- 10/15/40 - 05/07/75
- b. Requirements. To establish the above non-interrupted military service, the member must:
- Be a state employee or teacher, or an employee of a political subdivision whose chief legislative body has specifically authorized the credit;
 - Receive an honorable military discharge;
 - Not be able to establish the military service in any other retirement system, unless the member is receiving a disability retirement benefit from the United States Veterans' Administration as a result of a 100% permanent, total disability caused by a service-connected, combat related injury that existed on the date of discharge and the member did not retire from the military with 20 or more years of service;
 - Be vested in TCRS before the military service credit can be used in determining any rights under TCRS; and
 - Submit to TCRS an application for the military service credit along with a copy of the member's DD214.

- c. Cost. The member must pay to TCRS an amount equal to:
- First year of such military service - 10½% (i) multiplied by the member's salary at the time of the claim, or if not in service at the time of the claim, the member's salary at termination of employment (ii) multiplied by the number of months being established. This cost applies to the member's first year of such military service.
 - After first year of such military service - 9% (i) multiplied by the member's salary at the time of the claim, or if not in service at the time of the claim, the member's salary at termination of employment (ii) multiplied by the number of months being established. This cost applies to payments for service credit after the member's first year of such military service.
- d. TCRS Credit Limits.
- First year of such military service - One day of creditable service in TCRS for each day of such military service rendered during the first year of the military service.
 - After first year of such military service - One day of creditable service in TCRS for each two days of such military service rendered after the member's first year of the military service.
 - Aggregate total of non-interrupted military service - A member may not establish more than a cumulative total of four years of non-interrupted military service credit in TCRS (this includes both non-interrupted military service during the above periods and the non-interrupted military service during the periods of armed conflict as described in Item 2 above).
- B. Authorized Educational Leave of Absence. Any member who is a full-time employee may receive credit for retirement purposes for an educational leave of absence provided such authorization is approved by the Board of Trustees under the following conditions:
1. The leave of absence must be for the purpose of attending school or engaging in academic research related to the member's employment which will increase the employee's efficiency to the employer.
 2. Employment was interrupted by leave period. The member must return to service with the same employer within one year following the leave and work for one full year after the leave has been taken.
 3. If the member is on leave from an educational institution supported by the state, he/she will be deemed as returning to the same employer if the member returns to service, with an educational institution supported by the state, within one year following the leave period and remains employed for at least one year thereafter.
 4. A claim form certifying the approval of the leave by the granting agency is furnished to and approved by the TCRS.
 5. Any member shall be entitled to receive retirement credit for educational leaves of absence not to exceed an aggregate of two years credit during a working career.

6. **Contributory Member.** Contributions should be made during the leave of absence based on the annual salary in effect for the year prior to going on the leave of absence; or after completion of the leave, contributions may be made by a back payment equal to the contributions which would have been made based on the previous year's salary, plus interest at the rate of 7½ percent interest per annum from the date contributions should have been made.
 7. **Noncontributory Member*.** The member will be credited with salary and service after he/she has returned to work for one full year; however, any employee contributions made by the employer on behalf of a member will not be credited to the member's account for the time he/she is on a leave of absence.
- * Since some members who are employed by noncontributory departments make contributions above the 5 percent paid by the employer, the member may be required to make a back payment of contributions above 5 percent plus interest.

EXAMPLE: A class B employee of a noncontributory department who is required to pay 7 percent contributions based on his/her earnings (5 percent employer, 2 percent employee) prior to leave would be required to make a back payment of 2 percent of his/her salary which he/she would have made had he/she been employed during the time he/she was on leave. Interest on this amount will be included in payment.

C. Service Lost Due to Advanced Age.

1. **State Employees, Teachers, Higher Education Employees.** Any current employee who has lost service credit or has been denied membership because of advanced age shall be eligible to establish credit for these periods of service by making a lump-sum payment in an amount equal to the contributions that would have been made had the employee been a member, plus 7½ percent interest per annum.
2. **Political Subdivision Employees.** The provisions applicable to state employees above may be authorized by the chief governing body of a political subdivision for its employees. (see Section 1000).

D. Delegate to Constitutional Convention. Any member of this system or any superseded system who served as a delegate to a State of Tennessee Constitutional Convention may claim such service as prior service. Contributions must be made in a lump-sum payment equal to the amount he/she would have contributed had he/she been a member during that period of time, plus 7½ percent interest per annum. Each year of service as a delegate is equal to one year of service credit.

E. General Assembly Member. Any member of this system or a superseded retirement system who has served in the General Assembly may claim such service as prior service. Contributions must be made in a lump-sum payment equal to the amount which would have been contributed to the retirement system during the period of time claimed, plus 7½ percent interest per annum. Each year of service in the General Assembly is equal to one year of service credit.

F. Prior Service for Teachers. Any teacher may claim retirement credit for any state or public teaching service rendered. Contributions must be made in a lump-sum payment equal to the contributions which would have been made if the teacher had been a member of the retirement system during

the period for which credit is claimed, plus 7½ percent interest per annum. Service prior to 1945 is free.

G. Prior Service for Political Subdivision Employment.

1. Any person who was employed for 30 days prior to the date the political subdivision begins participating in the retirement system and who elects to join the system within 30 days of the participation date may claim prior service credit as authorized by the political subdivision. The cost for this service must be borne by either the employee or the employer as provided in the resolution to participate. If the service is to be purchased by the employee, he/she must make a lump-sum payment of the contributions he/she would have made had he/she been a member of the retirement system, plus 7½ percent interest per annum.

The employer's share of the liability will be taken into consideration when establishing the employer contribution rate. However, in the event the employee or teacher was not continuously employed by the employer from the period of previous service claimed through and including the date the approval is given, the employee or teacher must have been employed by the employer on the date the approval is given and continuously for the six months immediately preceding or after that date.

2. Any member who has one year or more of current membership service in the Tennessee Consolidated Retirement System shall be entitled to establish retirement credit for time during which such member was employed by a political subdivision (see Section 1000) if the following conditions are met:
 - a. The political subdivision is a participating employer in the Tennessee Consolidated Retirement System.
 - b. The political subdivision legislative body passes a resolution authorizing an actuarial study to determine the liability associated with such membership and prior service and accepting responsibility for the costs of such study.
 - c. The member files with the political subdivision, within 60 days of the passage of the resolution authorizing the study, a notice of his/her intention to establish such prior service with the employer. Any member failing to file the notice of election within the 60-day period shall not later be eligible to establish such prior service.
 - d. Following receipt of the actuarial study, the political subdivision legislative body, by a 2/3 vote, adopts a resolution authorizing membership and prior service for such members and accepting the liability thereof, provided that the political subdivision may only authorize credit for such periods of previous service as authorized for other members of the political subdivision.
 - e. Any person establishing such prior service must make a lump-sum payment equal to the member contributions he/she would have made had he/she been a member of the retirement system during the period claimed, plus interest (if payment is required).

H. Prior Service for County Officials and County Judges. County officials who participate pursuant to T.C.A. § 8-35-116 (without authorization by the county) may only receive credit

for prior service if the county authorizes and assumes the liability for such prior service. Upon passage of a resolution to provide this credit, the county official or county judge shall be entitled to credit upon making a payment of the contributions he/she would have made had he/she been a member of the retirement system, plus 7½ percent interest per annum.

- I. Prior Service for Members of City or County Boards, Commissions, Committees, Councils, Etc. Elected by Popular Vote. Any person who was employed for 30 days prior to the date that the political subdivision authorizes these employees to participate and becomes a member within 30 days of the authorization date may claim retirement credit for past service rendered in these positions. Credit will only be granted for service that does not overlap with periods of service credited to the member in any other capacity. The member must make a payment of the contribution he/she would have made had he/she been a member of the retirement system, plus 7½ percent interest per annum. The employer share of the liability will be funded by monthly employer contributions based on the results of an actuarial study.
- J. Retirement Credit for Six Months Waiting Period. Retirement credit may be established by any state employee who was employed in a full-time position during the period July 1, 1972 through June 30, 1973 and who was required by executive order or policy to wait six months to participate in the retirement system. The member shall be granted such credit for the period upon the making of a payment equal to the contributions he/she would have made had he/she been a member of the retirement system. Interest will not be charged.
- K. Purchase of Probationary Period for Political Subdivision Employees. Certain political subdivision employees who were required to work a probationary period prior to enrolling in the TCRS are eligible to purchase retirement credit for this period if the political subdivision authorizes this process. The member must make a payment equal to the amount he/she would have contributed had he/she been a member of the retirement system during the probationary period.
- L. Part-Time Service.
 - 1. State Employees and Teachers. State employees and teachers are eligible to establish prior service as a part-time employee by making a lump-sum payment of the contributions that would have been made had the employee been a member. Interest of 7½ percent per annum will be added unless payment is made within one year of the date the employee becomes a member of the TCRS. The interest-free provision does not apply to previously refunded part-time service which may only be established as a redeposit with interest.
 - 2. Political Subdivision Employees. Employees of political subdivisions may purchase retirement credit for prior service as a part-time employee only if the political subdivision has authorized their part-time employees to participate. If a political subdivision began participation in the TCRS prior to July 1, 1984, a resolution of the chief governing body for the political subdivision is required for this authorization. For political subdivisions that begin participation in the TCRS after July 1, 1984, the initial participation agreement includes a statement concerning retirement coverage for part-time employees. Political subdivisions that do not authorize retirement coverage for part-time employees upon initial participation may authorize this coverage at a later date.

Eligible political subdivision employees may establish prior service as a part-time employee by making a lump-sum payment of the contributions that would have been made had the employee been a member. Interest of 7½ percent per annum will be added unless payment is made within one year of the date part-time participation is authorized by the political subdivision or within one year of the date the employee becomes a member of the TCRS, whichever is later.

All eligible part-time service rendered after the date the political subdivision begins participation in the TCRS may be established. However, the amount of part-time service rendered prior to the date of participation which can be established will be determined in accordance with the amount of prior service credit allowed by the employer when TCRS participation was authorized.

M. Temporary Disability.

1. State Employees, Higher Education Employees and Teachers. Periods of time when an employee is receiving a temporary disability benefit from the division of claims administration or worker's compensation may be established for retirement credit. No member may receive more than one year of service credit for each occurrence of temporary disability. To establish this credit, the member must make a lump-sum payment of the contributions that would have been made on the basis of the salary in effect immediately prior to the period of disability, plus 7½ percent interest per annum.
2. Political Subdivision Employees. The above provisions may be adopted by a political subdivision upon passage of a resolution by the chief governing body (see Section 1000).

N. Reestablishing Withdrawn Service. Upon accruing one year of membership service, any member who has terminated employment and has withdrawn his/her accumulated contributions from this system or any of the superseded systems may redeposit the contributions and receive credit for the years in which the contributions were made. The member's current membership classification will determine the group in which the service will be credited. The cost to redeposit is equal to the amount withdrawn, plus 7½ percent interest per annum, computed from the date of the withdrawal of the funds to the date of redeposit.

O. Credit for Out-of-State Service. Any teacher or state employee may establish retirement credit for previous service rendered as a full-time public school teacher or full-time state employee in a state other than Tennessee under the following conditions:

1. Member must be vested.
2. Member is not receiving or entitled to receive any retirement benefit from another state based on this service.
3. Out-of-state service being established may not exceed creditable service in Tennessee.
4. The out-of-state service must be properly documented on a form provided by the TCRS.

5. Out-of-state service is credited for establishing eligibility only. Benefits shall not be paid on the service and the service credit can only be used to eliminate the reduction eligibility of years of service.
6. The employee shall be required to pay in one lump-sum payment both the employee and employer contributions which would have been made had he/she been a member of the retirement system, plus 7½ percent interest per annum.

Please refer to the TCRS website for information regarding purchasing out-of-state service.

406 Acceptable Payment Methods. Members who must make a payment to establish their prior service may choose between two payment methods, a lump sum payment or an installment payment plan:

- A. Lump Sum Method. A lump sum payment for the entire balance due may be made. A member may also rollover or transfer from a qualified 401(k) plan, 403(b) plan, 457 plan or IRA. To begin the rollover process, the member must complete an *Application for Acceptance of Rollover Funds*.
- B. Installment Method. A member may choose to pay for their prior service on an installment plan. This plan operates by automatic electronic transfer of funds from the member's bank account each month until the account is paid in full. The member may select from a defined set of payment terms ranging from six to 60 months depending on the number of years of service to be purchased; however, the installment period cannot exceed the number of months service that is being established. Probationary service, out-of-state service and interrupted military service can not be purchased on the installment payment plan.

407 Service Credited at the Time of Retirement.

- A. Accumulated Sick Leave. Upon retirement, any state employee or teacher who accumulated sick leave under the applicable provision of the law shall be eligible to use the accumulated sick leave as creditable service. Each 20 days of sick leave shall equal one month of retirement credit and can be used to meet the minimum service requirements for retirement. The employer shall certify the number of accumulated unused sick leave days in the appropriate space on the *Application for Retirement*.

Sick leave formulas are as follows:

- 12 month employees: number of sick days / 20
- 11 month employees: number of sick days / 20 * 1.10
- 10 month employees: number of sick days / 20 * 1.20
- 9 month employees: number of sick days / 20 * 1.34

Employees cannot be paid for sick leave days and also receive retirement credit. All members leaving service before reaching retirement requirements should have their unused sick leave certified at that time.

B. Accumulated Sick Leave for Employees of Political Subdivisions

1. If a political subdivision's date of participation is prior to July 1, 1983, retirement credit will be granted under the conditions outlined above provided a resolution to provide this credit was passed by the governing body.
 2. If a political subdivision's date of participation is after July 1, 1983, the granting of retirement credit for unused accumulated sick leave days will be automatic provided the political subdivision has a sick leave plan. A resolution to provide this benefit is not required.
 3. The political subdivision must have a sick leave policy in place for its employees. The sick leave policy is developed at the discretion of the political subdivision within any laws applicable to the political subdivision. However, the political subdivision's employees may not receive more than one month of retirement credit in TCRS for each 20 days of unused accumulated sick leave.
 4. Generally, with the exception of school superintendents, elected or appointed officials do not accumulate any type of leave for retirement purpose.
- C. Annual Leave. Payment for annual leave or terminal leave can be used as a continuation of salary. The member is continued on the payroll until the annual leave is used. Contributions must be deducted from these wages and the salary and service are recognized for retirement purposes. The effective date of retirement will be the day following the day the member left the payroll. Members compensated by lump-sum payments for annual or sick leave may not include this leave or salary for retirement purposes.

Application for Acceptance of Rollover Funds

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0290.pdf>)

Application for Additional Retirement Credit

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0129.pdf>)

Application for Retirement

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0020.pdf>)

Application for Retirement Credit for a Period of Temporary Disability

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0301.pdf>)

Application for Retirement Credit for Educational Leave of Absence

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0002.pdf>)

Application for Retirement Credit Rendered Out-of-State Service

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0267.pdf>)

Military Service Credit Claim Form

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0042.pdf>)

500 REFUND

501 Employee Classifications.

- A. Contributory Member. A member whose total retirement contributions are deducted from his/her salary.
- B. Contributory Member Covered By 414(h) of the Internal Revenue Code. The contributions are deducted from a member's salary on a tax deferred basis.
- C. Noncontributory Member. A member whose employer assumes retirement contributions of up to 5 percent of his/her earnable compensation.
 1. Noncontributory Member With Refundability. A member whose individual retirement account is credited with employer-assumed employee contributions because he/she was employed in a covered position immediately prior to and on the date the noncontributory retirement provisions went into effect.
 2. Noncontributory Member Without Refundability. A member whose individual retirement account is not credited with employer-assumed employee contributions because he/she was not employed in a covered position on the date the noncontributory provisions went into effect.

502 Refund of Accumulated Contributions. Any member whose retirement account has been credited with contributions (either employee or employer-assumed employee contributions) who terminated service is eligible to withdraw the funds in his/her retirement account by completing an *Application of Member for Refund of Accumulated Contributions*.

The refund includes all of the contributions made by the member, the employer-assumed employee contributions (**only** in the case of a noncontributory member with refundability) plus interest. A member whose service began after the noncontributory provisions went into effect is not eligible for a refund because he/she does not have any contributions in his/her account.

By obtaining a refund, a member loses all rights, benefits, contributions and service credit in the retirement system. This includes the right to continue insurance coverage in the state insurance plan. A new membership date will be assigned in the event a refunded member subsequently returns to service and becomes a TCRS member.

503 Eligibility for a Refund. A member who has contributions in his/her individual retirement account is eligible for a refund and may file a refund application upon termination of employment only if (1) employment has not been transferred from one agency covered by TCRS to another agency covered by the system; (2) membership has not been transferred to an optional retirement plan (ORP), which is sponsored by the State and (3) retirement deductions are no longer being withheld by employers.

504 Teacher Waiting Period. There is a mandatory waiting period of four months beginning with the last day of teaching service before a teacher's refund can be made, unless one of the following conditions is met: (1) the teacher was dismissed due to budgetary problems of the employing board of education; (2) the teacher was employed and actually worked and was paid on a continuous 12-month basis or (3) the teacher has moved to a permanent residence outside the state of Tennessee.

If one or more of the above conditions apply, a TCRS *Waiver of Refund Waiting Period for Teachers* form, obtained from the teacher's personnel officer or the Refund Section, should accompany the application and must be certified by the employer. The teacher should complete the refund application and waiver and mail both to the Refund Section at his/her earliest convenience

505 Ineligible for a Refund. There must be an actual termination of employment before a member is eligible for a refund of accumulated contributions. Members who go on maternity leave, authorized leaves of absence or transfer employment from one agency to another are not eligible to file for a refund. Employment positions that do not require 12 months of service due to various reasons such as school closings, inclement weather, etc. are not eligible for refunds during the break in service. Employees who change from full-time to part-time are not eligible for a refund.

506 Application for Refund of Accumulated Contributions. The following are major mistakes that cause delay and return of the application to the member or employer for correction or completion:

- A. The Social Security number is omitted or incorrect.
- B. Form has not been signed. (NOTE: Member's signature is required on the notarization section.)
- C. Employer certification is omitted. Certification is not needed if the member has been out of service at least two months or more or four months for teachers.
- D. Form has not been notarized.

The refund is mailed to the address furnished in the top section of the application. Should there be a change of address after the form has been sent to the retirement system, notify the Refund Section in writing as soon as possible to avoid additional delay. If it is necessary to contact the retirement system concerning the refund, furnish the full name, Social Security number, address, name of department and date of final contribution.

507 Refund Process. When the application for a refund is received by the retirement system, it is reviewed for completeness and correctness. The name, date of birth, Social Security number and other items are matched against the original information on the membership form. The application must be signed, notarized and the certification by the employer completed. The application will be returned to either the employer or member if there is a problem concerning any item that cannot be resolved by the system.

If the member has accrued annual leave to carry him over into one or more pay periods, the application is held until the last contribution is received from the employer. Once the final contribution is received by the retirement system and the application is correct, the refund check will be processed within 90 days. If the four-month waiting period applies, the refund will be paid not less than four months following the cessation of service.

508 Interest Computation. On June 30 of each fiscal year, 5 percent of the previous June 30 balance is credited to each individual's retirement account. When a member terminates and withdraws his/her contributions, interest will be computed through the month of the refund.

509 Warrant and Refund Statement. The check for a refund of the member's accumulated contributions is mailed by the Department of Finance and Administration. TCRS will send a statement that indicates the taxable and nontaxable portions of the refund.

510 Income Tax.

- A. In accordance with IRS rules, TCRS is required to withhold 20 percent of the taxable portion of the refund for federal income tax unless the taxable portion is “rolled over” to an Individual Retirement Account (IRA) or other qualified retirement plan.
- B. Withholding tax is forwarded by the TCRS to the Internal Revenue Service. The total taxable amount of the refund is reported to the service as taxable income of the member. When the refund check is mailed to the member, a statement is also mailed which shows taxable and nontaxable amount and any withholding. This statement should be retained by the refunded member and filed with his/her annual tax return.
- C. The Tennessee Consolidated Retirement System is a qualified plan under Internal Revenue Code Section 401(a). Because it is a qualified plan, any time there is a distribution of a member’s account in the system, the taxable portion may be “rolled over” tax-free to an IRA or another qualified pension plan which accepts such “rollovers”.

If a member wants to “roll over” his/her refund, he/she should select that option on the refund application. All of the taxable portion will be “rolled over” unless another amount is specified. The member must provide the name, address and account number for the plan accepting the “rollover”. When the refund is processed, the amount of the “rollover” will be made payable to the IRA or other pension plan. Any nontaxable contributions will be made payable to the member.

- 511 Death of an Active Member.** If a member dies in service or within 150 days after leaving service, the designated beneficiary or the estate will receive an amount equal to twice the accumulated account balance if no monthly benefit is payable. If death occurs more than 150 days after leaving service, only the accumulated account balance will be refunded to the designated beneficiary. If the beneficiary is deceased, the refund will be made payable to the deceased member’s estate.

In the event the beneficiary is eligible for either a monthly benefit or a refund, the beneficiary may elect the death benefit (see Section 616). Upon notification of the death of a member, TCRS will mail a letter to the designated beneficiary requesting a copy of the death certificate and appropriate information from both the beneficiary and employer.

If the beneficiary is deceased or if the estate was designated as beneficiary, there must be a copy of the deceased beneficiary’s death certificate and a copy of an appointment of an administrator or executor of the estate furnished to the retirement system so the refund can be made payable to the estate of the deceased member. If the amount made payable does not exceed \$10,000 and there are no other assets in the estate, the estate may be administered by affidavit in accordance with Tennessee’s Small Estate Act (*T.C.A., 30-4-101 et seq.*).

Any death benefit due to someone under age 18 shall be made payable to the minor and sent in care of his/her guardian. In most cases, a father or mother is the natural guardian of the minor for amounts less than \$2,500. In all other cases, a guardian will need to be appointed by the court or the minor must wait until he/she attains his/her eighteenth birthday to receive the funds.

- 512 Death of an Active Member with Multiple Beneficiaries.** A member may designate his/her estate, an institution or more than one person as his/her beneficiary. Careful consideration should be given to the election as it limits payment to a lump sum benefit only. If more than one beneficiary is named, the amount payable would be divided equally among the designated beneficiaries. If the spouse is among the multiple beneficiaries named, he/she will have the option for a monthly benefit if eligible.

- 513 Loss of Membership.** Any member who has acquired vested rights in the retirement system has the option of leaving contributions in the system and drawing monthly benefits at retirement age. Any member who has not acquired vested rights and chooses to leave his/her contributions in TCRS will gain 5 percent interest on his/her account balance for a maximum of seven years.
- 514 Refund of Incorrect Contributions.** Any time a member is refunded more or less than the amount of contributions he/she should have received, an adjustment must be made. If additional contributions are due, another refund check will be issued. If the former member has been overpaid, he/she must remit the amount overpaid to the retirement system upon notification. The overpayment should be made in a lump sum.
- 515 Borrowing, Attachment, Garnishment or Assignment of Contributions.** Accumulated contributions of a member are not subject to voluntary or involuntary execution, attachment, garnishment or assignment except under the following conditions:
- A. The State may claim from a member's accumulated contributions any amounts owed to the State upon the member's termination from service and application for a refund. Any contributions remaining after satisfaction of the State's claim shall be paid to the member.
 - B. Under certain conditions, once a member has applied for a refund, claims made by the Internal Revenue Service, a bankruptcy trustee or for child support may be satisfied out of a member's refund.
- In the event a claim is made to a member's contributions, an explanation of the claim will be included on the statement which accompanies the refund check.
- 516 Lost or Destroyed Refund Checks.** When a refund check is lost or destroyed, notify the Refund Section so that a stop payment order can be placed on the check. TCRS will take proper steps to reissue the payment.
- 517 Forged Refund Checks.** If at any time a former member has reason to believe his/her check for the refund of accumulated contributions has been forged, he/she should notify the Refund Section immediately. When the alleged forged check is returned by the bank, a copy (showing the endorsement) with two affidavits that are to be executed before a notary will be furnished to the former member. The former member will examine the endorsement and complete the affidavits, with both forms to be returned to the retirement system. These two forms will be furnished to the paying bank. If the bank agrees a forgery has occurred, the bank will reimburse the retirement system and another refund will be issued to the former member. If the bank does not agree that the signature on the check was forged, another refund will not be made.

Application of Member for Refund of Accumulated Contributions
(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0026.pdf>)

Waiver of Refund Waiting Period for Teachers
(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0229.pdf>)

600 RETIREMENT BENEFITS

- 601 Eligibility for Service Retirement.** Any vested member in Group I shall be eligible for full service retirement upon reaching age 60 or completing 30 years of service. Employees who became members before July 1, 1979 acquire vested rights after four years of creditable service. State employees who become members after July 1, 1979 may acquire vesting after five years. Political subdivisions who currently have ten-year vesting must pass a resolution to authorize five-year vesting.

For TCRS members who remain in service past age 65 and were vested at age 65, your retirement benefit will be the greater of the Group I benefit calculation or the actuarial equivalent benefit assuming you had retired at age 65. This alternate calculation only takes into consideration service established (membership and prior service) in TCRS at age 65. Any service (membership and prior service) rendered or purchased in TCRS after your 65th birthday will not be included in the alternate age 65 calculation.

Employees of political subdivisions are only eligible for this benefit if adopted by a political subdivision upon passage of a resolution by the chief governing body.

The alternate age 65 calculation does not apply to anyone becoming a member of TCRS after June 30, 2011.

Vested members who terminate employment prior to attaining the service retirement age should apply for retirement once the member attains the service retirement age. Service retirement is defined as age 60 for the Legacy Plan or age 65 for the Hybrid Plan. TCRS retirement benefits **DO NOT** increase by delaying retirement past the member's service retirement age.

Members terminating employment prior to attaining service retirement age should also review the early (reduced) retirement benefits available as it may be beneficial to begin receiving early retirement benefits instead of waiting until the member reaches service retirement age.

- 602 Computing Benefits for Service Retirement for Group I Members.** The formula for computing monthly benefits consists of the average of the member's five highest consecutive years of salary, years of creditable service and the Social Security integration level. For example, a member 60 years of age, retiring in 2010 with 30 years of service and with an average of the five highest consecutive years of salary of \$45,000 will be eligible for a maximum monthly retirement benefit of \$1,772.

Sample Calculation

| | | | | | | | | |
|---|---------|-------|---|----------------------------------|---|-------------------------------|---|-----------|
| Assumptions | | | | | | | | |
| Member - Age 60 | Step 1 | .0150 | x | <u>AFC</u> \$45,000 | x | <u>Years of Service</u> 30 | = | \$ 20,250 |
| Beneficiary - Age 60 | | | | | | | | |
| Service - 30 years | Step 2* | .0025 | x | <u>AFC - SSIL</u> \$0 | x | <u>Years of Service</u> 30 | = | + 0 |
| AFC - \$45,000 | | | | Annual TCRS Benefit | | | | \$ 20,250 |
| SSIL (2010) - \$56,400 | | | | Monthly TCRS Benefit | | | | ÷ 12 |
| | | | | Benefit Improvement Percentage** | | | | x 1.05 |
| | | | | Maximum Monthly Benefit | | | | \$ 1,772 |
| <p>* If the member's AFC does not exceed the SSIL in the year the member retires, step 2 is omitted from the benefit calculation.</p> <p>** Benefit Improvement Percentage is optional to local government employers.</p> | | | | | | | | |

603 Social Security Integration Level (SSIL). SSIL means, for the calendar year in which the member retires, the average annual amount of salary for which Social Security would be provided (rounded to the nearest multiple of \$600) based on an employee age 65 who is earning an amount equal to the Social Security wage base.

The Social Security Integration level applicable to the calendar year in which retirement occurs shall be as follows:

| Calendar Year | Social Security Integration Level |
|---------------|-----------------------------------|
| 2009 | \$54,600 |
| 2010 | \$56,400 |

604 Early Service Retirement for Group I Members. Any member who has attained age 55 and vested is eligible for an early service retirement allowance. Benefits are computed in the same manner as a service retirement allowance except there is a permanent reduction of .4 percent for each month the member's date of early retirement precedes his/her service retirement date. For the purpose of determining an early service retirement allowance, the reduction factor most favorable to the member is used.

The requirement for a normal service retirement allowance is that a member be age 60 or have 30 years of service. If a member retires on an early service retirement at age 59 with 20 years of service, benefits would be computed as if the member were retiring one year early based on his/her age, rather than on his/her years of service since this would provide the member with a larger benefit. The same would hold true if the member were 58 with 29 years of service. Retirement benefits would be reduced by one year of service rather than by two years on age.

605 Early Service Retirement Reduction Factors. The early service retirement benefits are reduced to the following percentages of service retirement allowance:

| | |
|---------------|-------|
| 1 year early | 95.2% |
| 2 years early | 90.4% |
| 3 years early | 85.6% |
| 4 years early | 80.8% |
| 5 years early | 76.0% |

Sample Calculation

| | | | | | | | | |
|------------------------|----------------|-------|---|-----------------------------------|---|-------------------------------|---|-----------|
| Assumptions | | | | | | | | |
| Member - Age 55 | <i>Step 1</i> | .0150 | x | <u>AFC</u> \$45,000 | x | <u>Years of Service</u> 25 | = | \$ 16,875 |
| Service - 25 years | | | | | | | | |
| AFC - \$45,000 | <i>Step 2*</i> | .0025 | x | <u>AFC - SSIL</u> \$0 | x | <u>Years of Service</u> 25 | = | + 0 |
| SSIL (2010) - \$56,400 | | | | | | | | |
| | | | | Subtotal | | | | \$ 16,875 |
| | | | | | | | | ÷ 12 |
| | | | | Subtotal | | | | \$ 1,406 |
| | | | | Reduction Factor** | | | | x .7600 |
| | | | | Monthly TCRS Benefit | | | | \$ 1,068 |
| | | | | Benefit Improvement Percentage*** | | | | x 1.05 |
| | | | | Maximum Monthly Benefit | | | | \$ 1,122 |

* If the member's AFC does not exceed the SSIL in the year the member retires, step 2 is omitted from the benefit calculation.

** The benefit is reduced 4/10 percent for each month the member retires early. The reduction factor is calculated from service or age requirements (whichever the member is closest to meeting) in order to give the member the best benefit.

*** Benefit Improvement Percentage is optional to local government employers.

606 Retirement

A. Vested Retirement. Upon reaching age 55, a vested member with less than ten years of service is eligible for a vested retirement allowance. The member’s benefit is reduced for early retirement as set out in Section 604. In addition, his/her vested benefits shall be limited to the following percentages of an early service retirement allowance:

| | |
|----------|------|
| 5 years | 25% |
| 6 years | 40% |
| 7 years | 55% |
| 8 years | 70% |
| 9 years | 85% |
| 10 years | 100% |

Example: A member age 56 with eight years of service and an average final compensation of \$30,000 would draw a monthly retirement benefit of \$178.16.

$$.015 \times \$30,000 = \$450 \times 8 \text{ yrs. of service} = \$3,600 \div 12 = \$300$$

| | |
|-----------------|--|
| \$300.00 | |
| <u>x 80.80%</u> | Early retirement reduction (age reduction) |
| \$242.40 | |
| <u>x 70.00%</u> | Vested retirement reduction |
| \$169.68 | |
| <u>x 1.05</u> | Benefit Improvement Percentage |
| \$178.16 | |

Prior to becoming vested, members are not eligible for any retirement benefits.

B. 25-Year Retirement. A member may retire prior to age 55 upon attaining 25 years of creditable service. In this situation, the member’s benefit will be the actuarial equivalent of the benefit computation for early service retirement that the member could have received at age 55.

The following example shows the formula used for computing the TCRS retirement allowance for a member with 25 years of service. The example uses a 50-year-old member retiring in 2010, five years before his/her service retirement date.

Sample Calculation

| | | | | | | | | | |
|---|-----------------------------------|-------|---|--------------------------|---|-------------------------------|---|-----------|-----------|
| Assumptions Member - Age 50 Service - 25 years AFC - \$45,000 SSIL (2010) - \$56,400 | <i>Step 1</i> | .0150 | x | <u>AFC</u> \$45,000 | x | <u>Years of Service</u> 25 | = | \$ 16,875 | |
| | <i>Step 2*</i> | .0025 | x | <u>AFC - SSIL</u> \$0 | x | <u>Years of Service</u> 25 | = | + 0 | |
| | Subtotal (AFC - SSIL) | | | | | | | | \$ 16,875 |
| | | | | | | | | ÷ | 12 |
| | Subtotal | | | | | | | | \$ 1,406 |
| | Reduction Factor** | | | | | | | x | .7600 |
| | Subtotal | | | | | | | | \$ 1,068 |
| | Actuarial Age Factor | | | | | | | x | .6267 |
| | Monthly TCRS Benefit | | | | | | | | \$ 670 |
| | Benefit Improvement Percentage*** | | | | | | | x | 1.05 |
| | Monthly TCRS Benefit | | | | | | | | \$ 703 |

Note: State employees and teachers are eligible at any age upon the completion of 25 to 29 years, 11 months of service. Twenty-five year early retirement is optional to local government employers.

*** Benefit Improvement Percentage is optional to local government employers.

* If the member's AFC does not exceed the SSIL in the year in which the member retires, this step is omitted from the benefit calculation.

** There are two reductions on this benefit:

1. One based on service credit and
2. One based on the actuarial factor for the member's age on the date of retirement.

Examples of the actuarial factors are:

| | |
|----------------|----------------|
| Age 54 - 90.88 | Age 50 - 62.67 |
| Age 53 - 82.69 | Age 49 - 57.25 |
| Age 52 - 75.31 | Age 48 - 52.35 |
| Age 51 - 68.67 | Age 47 - 47.90 |

*** Benefit Improvement Percentage is optional to local government employers.

Political subdivisions must pass a resolution authorizing this provision unless the political subdivision's date of participation is July 1, 1985 or after, in which case this provision is automatically a part of the plan.

607 Ordinary Disability Retirement Qualifications. Any member in Group I who has five years of service is eligible to apply for an ordinary disability benefit. He/she must be disabled prior to termination of service and the TCRS must agree the member is totally and permanently disabled. In addition, he/she must be unable to engage in any substantial gainful activity as the result of a mental or physical impairment which can be expected to last for a continuous period of not less than 12 months.

A. Ordinary Disability Retirement Allowance. An ordinary disability retirement allowance is computed as set out for service retirement for Group I members (see Sections 601). Disability retirement benefits computed under Section 601 will be limited to 90 percent of the retirement allowance. If the member has reached the conditions of service retirement (age 60 or 30 years of service), benefits are computed under the normal service retirement provisions.

B. Projected Years Under the Ordinary Disability Retirement Allowance. If a member of Group I qualifies for a disability benefit under the ordinary disability provision with less than 20 years of service, his/her benefits are computed as though he/she had 20 years of service. However, the projected years cannot exceed what the member would have earned in his/her own right had he/she remained in service to age 60. For example, if the member is age 50 with five years of service, his/her benefits would be computed on 15 years of service because he/she would have earned only ten additional years had he/she remained in service from age 50 to age 60.

This example shows the formula method used for computing an ordinary disability allowance. The example uses a disabled member who retires under the maximum plan in 2010 with ten years of actual service and ten years of projected service.

Sample Calculation

| | | | | | | | |
|---------------|-------|---|--------------------------------|---|-------------------------------|---|-------------|
| <i>Step 1</i> | .0150 | x | <u>AFC</u> \$45,000 | x | <u>Years of Service</u> 20 | = | \$ 13,500 |
| <i>Step 2</i> | .0025 | x | <u>AFC - SSIL</u> \$0 | x | <u>Years of Service</u> 20 | = | <u>+ 0</u> |
| | | | | | | | \$ 13,500 |
| | | | Disability Factor | | | x | <u>.9</u> |
| | | | Annual Disability Benefit | | | | \$ 12,150 |
| | | | | | | ÷ | <u>12</u> |
| | | | Monthly TCRS Benefit | | | | \$ 1,012 |
| | | | Benefit Improvement Percentage | | | x | <u>1.05</u> |
| | | | Maximum Monthly Benefit | | | | \$ 1,063 |

- 608 **Filing for an Ordinary Disability Retirement Allowance.** Upon request by the member, the retirement system will furnish the member an *Application for Retirement*, a *Statement of Disability* to be completed by the member, an *Attending Physician's Report of Disability* and a *Vocational History* form. The *Application for Retirement*, the *Statement of Disability* and the *Vocational History* forms should be mailed together directly to the retirement system. The *Attending Physician's Report* should be mailed by the physician to the retirement system. TCRS may accept an approval by the Social Security Administration for disability benefits ONLY if disability benefits were awarded on the initial request or reconsideration. If you are waiting for a decision by Social Security, apply for TCRS benefits immediately, as a delay in applying may result in a loss of TCRS benefits. If TCRS benefits are awarded based on a Social Security decision, you must submit a copy of your entire Social Security file used to make their decision within 12 months of your approval for TCRS benefits.

If a member waits for several months after termination of service before filing for a disability retirement allowance, evidence must be submitted to document that the disability existed prior to termination of service. If contributions have been withdrawn prior to filing for a disability retirement allowance, the retirement system will not pay any benefits.

- 609 **Processing Application for Disability.** Upon receipt of the *Application for Retirement*, the *Statement of Disability*, the *Vocational History* and the *Attending Physician's Report*, the latter three are then furnished to the Medical Panel. If the Medical Panel finds the member disabled, a recommendation to the fact will be made to the retirement system and the member will be placed on disability retirement. An employer should not advise an employee to terminate his/her employment prior to the TCRS Medical Advisor ruling that the applicant is, in fact, disabled and eligible to receive disability benefits.
- 610 **Disability Appeal.** An applicant who is denied disability benefits may request that his/her case be reconsidered if he/she has new medical evidence to support his/her request. No case will be reconsidered without medical evidence which was not included in the original application. The member must submit medical information for reconsideration within 90 days from the date his/her disability request was denied.

If the applicant cannot produce new evidence and he/she still wishes to appeal the original decision or if the decision is reconsidered and subsequently denied, he/she may appeal the decision to the Director of the Division of Retirement. If the member is not satisfied with the decision after meeting with the Director, he/she may be entitled to further administrative review through a contested case proceeding. The proceeding would be held with an administrative law judge.

- 611 **Accidental Disability.** A member who becomes totally and permanently disabled as the result of an accident or physical violence against this person, occurring while in the performance of duty without negligence on his/her part, may be retired on an accidental disability retirement allowance. The member must apply for this benefit and must be recommended by the Medical Advisor and the Board of Trustees for a disability allowance. In addition to completing the forms required for ordinary disability retirement, an accidental disability retirement applicant must also file a *Report of Accidental Disability*.

For those members joining the TCRS prior to 7/1/97, the benefit shall equal one-half of the member's average final compensation divided by 12 to determine the monthly retirement allowance. If the member receives a Social Security disability benefit or attains age 62, his/her retirement allowance from this system is reduced to one-third of his/her average final compensation. For those members

joining the TCRS after 7/1/97, the benefit shall be calculated the same as ordinary disability (see Section 607).

- 612 Worker's Compensation - Board of Claims.** A member receiving disability retirement benefits and Worker's Compensation or any payment from the State Board of Claims will have his/her benefits limited so that the total benefits payable do not exceed 75 percent of his/her average final compensation. Compensation includes any payments except those made for hospital or medical expenses. Any lump-sum payment shall be prorated over the appropriate period of time.
- 613 Income After Disability Retirement.** Annually, every member who retired on a disability benefit and who has not reached the conditions of a normal service retirement shall be required to submit a report of annual earnings other than those from retirement or Social Security. The law provides that if a disability retiree is engaged in substantial gainful employment, his/her monthly benefit will be suspended. This amount changes every year. Contact the TCRS Disability Counseling area each January to inquire what the allowable earnings are for that year.
- 614 Medical Examination after Retirement.** A disability retiree is subject to a medical reevaluation on an annual basis until he/she reaches age 60. The retired member will be responsible for submitting current medical evidence to substantiate a continuous disabling condition.
- 615 Retirement Options.** When a member retires, a benefit plan must be selected. The member may select the regular plan or select a reduced plan to provide the beneficiary with a lifetime monthly benefit at the member's death. Only one person may be named as beneficiary under the options. If an optional payment plan is selected, the regular plan will be reduced to an actuarially-determined percentage based on the ages, at retirement, of the retiree and the beneficiary. The member has 60 days from the date of his/her notice of retirement letter to change benefit plans. After 60 days, the benefit election is irrevocable.
- A. Regular or Maximum Plan. Maximum monthly benefits are paid to the member for life, with all monthly benefits ceasing at death. The designated beneficiary is entitled to a lump-sum payment of any remaining contributions which had been made by the member and were not returned to the member in the form of retirement benefits.
 - B. Option I - 100% Joint and Survivor. A reduced retirement allowance payable during the retired member's life with the provision that it will continue after his/her death, payable to the designated beneficiary for his/her life.
 - C. Option II - 50% Joint and Survivor. A reduced retirement allowance payable during the retired member's life with the provision that it will continue after his/her death at one-half the rate paid to him and be paid to the designated beneficiary for his/her life.
 - D. Option III - Modification of Option I. A reduced retirement allowance payable during the retired member's life with the provision that it will continue after his/her death to the designated beneficiary for his/her life. If the designated beneficiary dies before the retiree, the retirement allowance will revert to the maximum amount.

- E. Option IV - Modification of Option II. A reduced retirement allowance payable during the retired member's life with the provision that it will continue after his/her death at one-half the rate paid to him and be paid to the designated beneficiary for his/her life. If the designated beneficiary dies before the retiree, the retirement allowance will revert to the maximum amount.
- F. Social Security Leveling Plan. The Social Security Leveling Plan is available to members who retire prior to age 62 and who have Social Security coverage through TCRS. This plan provides an increased benefit so that the member's benefit before and after age 62 is approximately the same amount. Under the leveling plan, the member receives an increased benefit from TCRS until age 62. This increase is based on an estimate of benefits from the Social Security Administration. After age 62, the member's benefit from TCRS is reduced by the estimated Social Security benefit. The reduced TCRS benefit plus the member's Social Security benefit should equal the benefit the member was receiving prior to age 62. **If a member chooses the Social Security Leveling Plan, he/she should also apply for his/her Social Security at the appropriate time as selection of this plan does not affect Social Security.**

Sample Calculation

| | |
|--|--|
| <p>Assumptions</p> <p>Member - Age 55</p> <p>Service - 30 years</p> <p>Social Security Estimated Benefit at Age 62 - \$ 900</p> <p>TCRS Monthly Benefit Under Regular Plan - \$ 1,687</p> <p>AFC - \$45,000</p> | <p>TCRS Benefit Amount</p> <p>Estimated Social Security Benefit \$ 900</p> <p>Actuarial Age Factor Based on Age at Retirement x .512972</p> <p>Subtotal \$ 461</p> <p>TCRS Regular Monthly Benefit \$ 1,687</p> <p>Benefit Payable up to Age 62 \$ 2,148</p> <p>Estimated Social Security Benefit at Age 62 - 900</p> <p>Benefit Payable After Age 62 \$ 1,248</p> <p>Monthly Benefit Amount Before Age 62</p> <p>Paid from TCRS \$ 2,148</p> <p>Paid from Social Security \$ 0</p> <p>Total \$ 2,148</p> <p>Monthly Benefit Amount After Age 62</p> <p>Paid from TCRS \$ 1,248</p> <p>Paid from Social Security \$ 900</p> <p>Total \$ 2,148</p> |
| <p>Examples of SSL Actuarial Factors</p> <p>Age 54 - .468838</p> <p>Age 55 - .512972</p> <p>Age 56 - .561916</p> <p>Age 57 - .616304</p> <p>Age 58 - .676866</p> <p>Age 59 - .744447</p> <p>Age 60 - .820030</p> <p>Age 61 - .904765</p> | |
| <ol style="list-style-type: none"> 1. This optional plan is available to any member with Social Security coverage through TCRS who retires prior to age 62. 2. In order for TCRS to figure this benefit, you must provide TCRS with an estimate from the Social Security Administration based on retirement at age 62. The Social Security Leveling Plan does not affect your Social Security benefits. 3. In order to start your Social Security benefit, you must file an application with the Social Security Administration. For information on Social Security, call 1-800-772-1213. | |

616 Lump Sum Death Benefits. Upon the death of a member prior to retirement, the designated beneficiary will receive a lump sum refund of the member’s accumulated contributions and interest. If the member was in active membership service or within 150 days of his/her last paid day of service at the time of his/her death (provided he/she had not retired or been refunded), the designated

beneficiary may receive a double refund of this accumulated balance. If the member had designated multiple beneficiaries, the amount payable would be divided equally among the beneficiaries.

617 Monthly Annuity Death Benefits. In lieu of the benefit described in Section 616, the designated beneficiary may be entitled to one of several special in-service death benefits. In-service is defined as death occurring within 150 days of the last paid date and the member had not retired or been refunded. Multiple beneficiaries are not eligible for benefits under this section. They are only eligible for the benefit described in Section 616.

A. State Employees and Teachers

1. Automatic Option I. An Automatic Option I monthly benefit is available upon the death of a member in Group I who dies in service provided that, at the time of his/her death, he/she has 10 years of creditable service and the spouse is the designated beneficiary.
2. Accidental Death Benefit. If the death of a teacher or state employee in Group I or Group III is determined to be the natural and proximate result of an accident or was occasioned as the direct result of physical violence against his/her person while in the actual performance of duty, an annuity equal to one-half his/her average final compensation may be payable in lieu of the above. This benefit is payable to the surviving spouse. If there is no surviving spouse, the benefit is divided among the minor children until majority status is attained. Medical evidence must conclusively document that the accident occurred in the actual performance of duty.
3. Monthly Annuity Death Benefit. This benefit provides that upon the death of a member in service who has completed ten years of creditable service, a retirement allowance shall be paid to the named beneficiary. This benefit may be elected in lieu of any other benefit to which the beneficiary may be entitled to receive. This monthly benefit is determined by converting the amount of the lump sum refund into a monthly annuity payable over a period of 120 months (ten years). In the event the beneficiary dies prior to receiving all the benefits, a lump-sum payment shall be made to the estate equal to the actuarial equivalent of the monthly benefit due over the remaining months in the ten-year period.
4. In Service Option I. This benefit provides that upon the death of a member who has reached eligibility for early or service retirement and has named one person as beneficiary, a retirement allowance under Option I shall be paid to the designated beneficiary. The In-Service Option I provides for the designation of any beneficiary to receive the largest monthly benefit of the options payable upon the death of a member.

B. Political Subdivision Employees

1. Automatic Option I. An Automatic Option I monthly benefit is available upon the death of a member in Group I who dies in service provided that, at the time of his/her death, he/she has ten years of creditable service and the spouse is the designated beneficiary. This spousal benefit is optional for participating political subdivisions. Political subdivisions whose date of TCRS participation is prior to July 1, 1983 must pass a resolution authorizing this benefit. Political subdivisions whose date of participation is July 1, 1983 or after automatically provide this optional death benefit to their employees.

2. Monthly Annuity Death Benefit. This benefit provides that upon the death of a member in service who has completed ten years of creditable service, a retirement allowance shall be paid to the named beneficiary. This benefit may be elected in lieu of any other benefit to which the beneficiary may be entitled to receive. This monthly benefit is determined by converting the amount of the lump sum refund into a monthly annuity payable over a period of 120 months (ten years). In the event the beneficiary dies prior to receiving all the benefits, a lump-sum payment shall be made to the estate equal to the actuarial equivalent of the monthly benefit due over the remaining months in the ten-year period.
3. In Service Option I. This benefit provides that upon the death of a member who has reached eligibility for early or service retirement and has named one person as beneficiary, a retirement allowance under Option I shall be paid to the designated beneficiary. The In-Service Option I provides for the designation of any beneficiary to receive the largest monthly benefit of the options payable upon the death of a member.

C. The monthly retirement allowance payable under the provisions outlined above will be effective on the day the death occurs or the date the deceased member's annual leave is exhausted; whichever is later. The Automatic Option I benefit is reduced .4 percent for each month a member's death precedes his/her service retirement date.

618 Estimate of Benefits. Upon request from any employee, an estimate of future benefits will be provided if the following information is furnished:

- A. Full name and current address.
- B. Social Security number.
- C. Estimated date of retirement.
- D. Present annual salary.
- E. Date of birth.
- F. Name and date of birth of the person selected as a beneficiary to calculate the optional benefit plans.

619 Completion of the *Application for Retirement*. The member must complete all applicable spaces on the front page of the retirement application and execute it before a notary public. The *Application for Retirement* must be completed on the back by the last employer.

If the member has accrued compensatory time or annual leave at the time of his/her termination, he/she may elect to have such leave extended on the payroll or paid in a lump sum. The date of retirement becomes effective the day all leave is terminated. If the lump sum is selected, no contributions are deducted or reported to TCRS.

The *Application for Retirement* should not be submitted to the retirement system more than 150 days prior to the effective date of retirement. An application can be backdated 150 days from the date received by the retirement office as long as the effective date of retirement follows the date of his/her separation from service. Example: If a member terminates June 30 and waits until November 28 to file an application, benefits will be retroactive to July 1.

If a member terminates June 30 and files an application June 30, benefits will begin July 1.

TCRS will acknowledge all retirement applications upon receipt. Any member who does not receive an acknowledgment within two weeks of filing with the TCRS should notify our office. The member will also receive a notice of retirement letter when the benefit is added to the retired payroll.

620 Garnishment, Attachment or Assignment of Contributions or Benefits. Retirement allowance and accumulated contributions of a member are not subject to voluntary or involuntary execution, attachment, garnishment or assignment except under the following conditions:

- A. The State may claim from the member's accumulated contributions any amounts owed to the State upon the member's termination from service. Any remaining contributions, upon satisfaction of the State's claim, shall be paid to the member.
- B. Any member who is found to owe money to the State upon retirement and who elects a monthly benefit shall have his/her debt satisfied from his/her monthly benefit.
- C. Under certain conditions, claims for child support may be satisfied.

621 Overpayment and Underpayment. The law governing the retirement system requires that any error which results in a member or beneficiary receiving more or less than he/she is entitled to receive must be corrected and adjusted accordingly. If an overpayment is made, this amount must be reimbursed to the system. The amount should be paid in a lump sum. Individual circumstances, however, will be taken into consideration.

622 Reemployment of a Retiree. Should any retiree be reemployed in a position covered by the TCRS, his/her retirement allowance shall be discontinued. Upon the return to service, a noncontributory member is automatically covered; however, a contributory member has the choice of becoming a member again and accruing additional creditable service or he/she may elect not to participate. If he/she does not elect to participate, he/she must complete a *Notice of Non-Election Waiver of Right to Participate*, which waives all rights to claim any retirement credit for such periods of reemployment. This form must be executed before a notary public and returned to the TCRS.

If he/she elects to participate, he/she must complete a *Membership Form*. This form must also be executed before a notary public and returned to the Membership Section. Return under a contractual relationship is generally a return to employment that does not circumvent the return to service provisions.

Upon subsequent retirement, if he/she remains in service for three years or more, these years of service are added to the years earned prior to retirement and benefits are recomputed. He/she again is eligible to select an option. If he/she does not remain in service for as much as three years, his/her benefits are computed on the years of service earned after returning to service and added to the original benefit. The original option stays in effect. It is recommended that the employer contact the Benefits Section prior to reemployment of a TCRS retiree.

623 Employment of a Retired General State Employee by a Political Subdivision. A retired general state employee with a retirement date on or before December 31, 2005 may accept employment with a political subdivision without loss or suspension of retirement benefits under the following conditions:

- A. The retirement benefits received by the retired state employee shall not include compensation for any disability.

B. The retired state employee shall not be eligible to accrue additional retirement benefits as a result of employment with the political subdivision.

624 Temporary Employment. Any retired member of the TCRS, except those receiving a disability retirement allowance, may return to service in a position covered by this system and continue to draw his/her retirement allowance under the following conditions:

A. Employment may not exceed 120 days or the equivalent thereof in a 12 month period.

B. Retirees employed as teachers by an institution of higher education are limited to 24 quarter hours or 18 semester credit hours.

C. The entire compensation payable to the retiree for such work should not be more than 60 percent of the annual full-time salary received by the member in the year immediately prior to retirement. This limit on salary increases by five percent for each year since the member's retirement.

When the retiree begins temporary employment, he/she and the employer must complete the *Temporary Employment* form and send it to the TCRS. The TCRS must be notified by letter when the retiree's temporary employment reaches the 120 day limit and/or when employment is terminated to avoid possible overpayment or suspension of the monthly benefit. A new form must be completed for each 12-month period.

625 Limited Re-Employment for Teachers. Anyone retired from TCRS for one year may accept employment as a K-12 teacher without loss of benefits. The superintendent of schools must certify to TCRS that no other qualified persons are available to fill the position. The Commissioner of Education must certify that the school system serves an area that lacks qualified teachers. The retiree will not receive additional retirement credit for this service. The salary paid to the retiree must not exceed 85 percent of the salary paid by the school system to teachers with comparable training and experience. The retiree must be appointed for this work on a year-by-year basis. Retirees who return to work under this condition must complete the *Limited Re-Employment of Retired Teachers* form.

626 Return to Service Without Suspension of Benefits. Anyone retired from TCRS for at least one year may accept covered employment with a different employer* without suspension of monthly retirement benefits. The following conditions must be met:

A. The head of the employing entity must file the *Return to Service Without Suspension of Retirement Benefit* form certifying that the retired member has the requisite experience, training and expertise for the position to be filled. The form shall be filed annually, if applicable and signed by the member acknowledging the form.

B. During the retired member's employment, the retirement benefits payable to the retired member shall be reduced to 70 percent of the entire amount the member would have otherwise been entitled to receive during this period.

C. The retired member shall not be eligible to accrue additional retirement benefits as a result of such employment.

*Different employer means an employer other than the employer for which the person last worked prior to separation from covered employment. All departments, agencies and instrumentalities in the executive, legislative and judicial branches of the state government, including public institutions of higher education, shall be deemed one and the same employer. All departments, agencies and instrumentalities of an employer participating in the TCRS pursuant to chapter 35, part 2 of the T.C.A. shall be deemed one and the same employer. Furthermore, with the exception of special school districts, a city school system shall be considered an instrumentality of the city wherein the school system is located and a county school system shall be considered an instrumentality of the county wherein the school system is located.

Application for Retirement

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0020.pdf>)

Attending Physician's Report of Disability

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0056.pdf>)

Limited Re-Employment of Retired Teachers

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0389.pdf>)

Membership Form

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0353.pdf>)

Notice of Non-Election Waiver of Right to Participate

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0185.pdf>)

Report of Accidental Disability

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0169.pdf>)

Return to Service Without Suspension of Retirement Benefit

(found at <http://www.tn.gov/treasury/tcrs/PDFs/TR-0426.pdf>)

Statement of Disability

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0027.pdf>)

Temporary Employment Form

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0228.pdf>)

Vocational History

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0175.pdf>)

700 RETIRED PAYROLL

701 Lost, Destroyed or Forged Retirement Checks. All retirement checks are mailed on the last working day of each month. Any time there is reason to believe a check has been forged, the Retired Payroll Section should be notified immediately. When the forged check is returned by the bank, a copy (showing the endorsement) with two affidavits that are to be executed before a notary will be furnished to the retiree. The retiree will examine the endorsement and complete the affidavits as to the ownership of the signature on the copy of the check and return both forms to the TCRS. The two affidavits will be furnished to the bank. If the bank agrees a forgery has occurred, the bank will reimburse the retirement system and another check will be issued to the retiree. If the bank does not agree that the signature on the check was forged, another check will not be made.

If the retirement check is late, the retiree should wait until the 10th of the month before contacting the Retired Payroll Section. If the check has not been cashed, a stop payment will be placed on the first check and a duplicate check will be issued. If the retiree has been notified that a stop payment has been placed on the original check and that check subsequently arrives, the original check should be returned to the Retired Payroll Section.

If the retirement check is inadvertently lost or destroyed, notify the Retired Payroll Section at once so that a stop payment may be placed on the check and a duplicate check issued.

Any time a retired member contacts the Retired Payroll Section concerning a missing check, his/her telephone number, address and Social Security number should be furnished.

702 Change of Address. Any notification of change of address must be in writing, furnishing the retiree's full name, Social Security number and both the old and new address. This notification must be received prior to the 15th of each month in order to be changed on that month's payroll.

703 Direct Deposit. Upon the completion of a direct deposit application authorizing such action, the retirement system will deposit the retirement checks directly to the retired member's financial institution. A direct deposit application will be furnished to the retired member upon request. Retirees are required by law to use the direct deposit plan for monthly retirement benefits. This plan guarantees that the money will be deposited in the member's financial institution on the last business day of each month even if the member is away on vacation or ill. This service also frees the member from concern over lost or stolen checks. It is very important that a direct deposit participant notify TCRS if his/her home address changes. Year-end statements are mailed to the home address and if there is a change in the amount of benefits to be received, the retiree will be notified in writing.

704 Death of the Retiree or Beneficiary. Notification of the death of a retiree or beneficiary may be furnished either orally or by correspondence. The following information is required: (1) full name of the deceased retiree or beneficiary; (2) date of death; (3) Social Security number; and (4) if the information is furnished by telephone, the caller's name, address and telephone number.

705 Procedure to Follow upon the Death of a Retired Member or Beneficiary. Upon notification of the death of the retiree or beneficiary, the member's file will be reviewed. If the deceased retiree elected the regular plan, the member's estate or designated beneficiary shall receive the check for the month in which death occurred plus any contributions not received in benefits.

with the month after the death of the retiree. Payment for the month of death of the member shall be for the full month's benefit regardless of the date of death of the retiree.

706 Death Certificate. Upon receipt of the notification of the death of a retired member or beneficiary, the Deceased Benefits Section will furnish the designated beneficiary with a *Claim Form* that must be completed, executed before a notary public and returned to the retirement system with a copy of the death certificate. If the beneficiary is deceased or the retired member designated his/her estate, the executor or administrator should submit a certified copy of the appointment with the *Claim Form* and death certificate. These documents must be furnished before the claim can be processed.

707 Tax Liability. TCRS members receiving monthly retirement benefits are liable for federal income taxes on their pensions.

A simplified general rule has been authorized by the IRS. This method distributes the return of member contributions on the basis of the estimated number of benefit checks a retiree will receive. Additional information on the simplified general rule is available in the instructions to IRS Form 1040 and in IRS Publication 575.

Each year, the TCRS will provide a 1099R form showing the taxable and nontaxable amounts to every individual receiving monthly retirement benefits.

708 Withholding.

A. Depending upon the amount of the monthly benefit, TCRS may have to withhold taxes on benefits unless an election is filed specifying no withholding. Federal law requires TCRS to automatically withhold income tax as if the member was married with three dependents unless one of the following elections is made:

1. Elect no withholding.
2. Specify a definite amount to be deducted for withholding.
3. Specify that withholding be deducted based on a specified number of allowances and marital status.

To avoid automatic withholding, number 11 under part 1 of the retirement application should be completed.

B. Retired employees have the option to change the tax withholding at any time. The *Substitute Withholding Certificate* enables retirees to choose the option best suited for them.

C. Federal law requires TCRS to inform retirees each year that they are liable for federal income taxes on the taxable portion of their pensions and may be subject to tax penalties if estimated tax payments and withholding do not pay 90 percent of their tax liability.

709 Year End Statement. At the end of January, the TCRS will enclose with the January checks of all retirees a statement of the annual amount of benefits paid to the retiree during the previous year. Even if the retiree's check is directly deposited to the bank, the statement will be mailed to the retiree's home address.

- 710 Health Insurance Coverage.** Any questions concerning health insurance should be directed to Benefits Administration at 1-800-253-9981.
- 711 Life Insurance.** Any questions concerning life insurance should be directed to Benefits Administration at 1-800-253-9981.
- 712 Divorce After Retirement.** In the event of divorce of a retiree who retires under an optional retirement plan where the spouse is the designated beneficiary, the beneficiary may be canceled upon the written request of the retiree. A copy of the divorce decree and property settlement must accompany the request and such request must not be contrary to the decree or settlement. The retirement allowance payable to the retiree after the cancellation of the designated beneficiary shall not be affected by such cancellation.
- 713 Cost-of-Living.** Any retired member who has been retired for at least 12 months on July 1 of each year is eligible to receive an increase in retirement benefits based on an increase in the Consumer Price Index. If the change in the Consumer Price Index is between .5 percent and 1 percent in any calendar year, the cost-of-living adjustment will be 1 percent. If the change in the Consumer Price Index is between 1 percent and 3 percent, the cost-of-living adjustment will be the actual percent. If the change in the Consumer Price Index is above 3 percent, the cost-of-living adjustment will be 3 percent. However, if the change in the Consumer Price Index is less than .5 percent for the year, there will be no cost-of-living adjustment. Any increase is effective on July 1 after the calendar year.

Example 1: Sue Jones retired June 30, 2007 with a monthly benefit of \$400. On July 1, 2008, if the change in the Consumer Price Index is 3 percent or more for calendar year 2007, she will receive a 3 percent increase of her base benefit. $\$400 \times .03 = \$1,200$. This will increase her monthly benefit to \$412. Every year thereafter, the applicable cost-of-living percentage will be applied to the member's most recent benefit.

Example 2: John Jones retired July 2, 2007 with a monthly benefit of \$400. On July 1, 2008, he/she will not be eligible for a cost-of-living increase since he/she has not been retired 12 full months by July 1. However, on July 1, 2009, he/she will receive a 3 percent increase of his/her base benefit, if the change in the Consumer Price Index is 3 percent or more for calendar year 2008. $\$400.00 \times .03 = \$1,200$. Every year thereafter, the applicable cost-of-living percentage will be applied to the member's most recent benefit.

The governing body of Political Subdivisions participating in the TCRS must approve this cost-of-living provision.

- 714 Ad Hoc Increase.** From time to time, the General Assembly may authorize special increases for retirees of which will be optional for political subdivisions.

800 FUNDING OF THE RETIREMENT SYSTEM

801 Introduction. Funding of the Tennessee Consolidated Retirement System is provided through employee and employer contributions plus earnings received from the invested assets. A standard actuarial “advanced funding” method is used to provide for the accumulation of assets to fund the cost of monthly retirement annuities. Each participating employer is totally responsible for the pension costs of its employees; therefore, individual asset balances are maintained for each participating governmental unit.

802 Accounting for Assets. The accounting system in the retirement system is set up so that each political subdivision has two funds: (1) an employee asset fund; and (2) an employer asset fund. The employee asset fund represents the assets of the employees while the employer asset fund represents the assets of the governmental organization. Exhibit I provides a pictorial view of the flow of money in and out of the two funds.

803 Employer Asset Fund. The employer asset fund is increased by (1) employer contributions; (2) the transfer of an employee’s account at retirement from the employee asset fund; and (3) earnings on investments. Investment earnings are distributed to each employer based on the average asset balance. The average asset balance is the average of the employee and employer assets at the beginning and end of the fiscal year.

The employer asset fund is decreased by (1) the payment of a matching lump sum death benefits to the beneficiary of a deceased member; (2) the payment of monthly retirement annuities; and (3) the transfer of money to the employee asset fund to credit interest to the accounts of employees.

804 Employee Asset Fund. The employee asset fund is increased by (1) employee contributions; and (2) the transfer of money from the employer asset fund to credit interest to employee accounts. The employee asset fund is decreased by (1) the refund of employee contributions and interest upon the termination of an employee; and (2) the transfer of an employee’s account at retirement to the employer asset fund.

805 Investment of TCRS Assets. Funds of the TCRS are invested by the Investment Division of the Treasury Department primarily in low risk, high yield stocks and bonds. Investment policy is established by the Board of Trustees upon receiving and considering the advice of the Investment Advisory Council.

806 Actuarial Valuation. In addition to funding annual benefit payments, a sound retirement system must also work toward funding a reserve to meet future benefit payments. In order to provide for sufficient annual funding to meet the reserve requirements, the retirement law provides that an actuarial valuation be performed every two years. This study considers the present employee and employer assets, projects employee contributions and investment earnings and projects payouts in refunds and benefits for both present and future retirees. As a result of the actuarial valuation, each employer’s contribution rate which is required to keep the system on a sound actuarial basis is determined.

Using the prospective contributions of the employees and the employer, a recommended employer contribution rate is calculated based on the annual salary of the employees under the retirement program. This recommended employer contribution rate will be effective for two years.

Additional factors taken into consideration by the actuary during the actuarial valuation include:

- A. Turnover Rate
- B. Disability Rate
- C. Retirement Rate
- D. Salary Increase Assumption
- E. Number of Male and Female Participants in the Plan
- F. Earnings on Investments - Interest Assumption
- G. Death Rate Before and After Retirement

The retirement system contracts with an independent actuarial firm which performs the system's biennial valuations.

807 Actuarial Balance Sheet. The actuarial valuation process produces an actuarial balance sheet which sets out the assets and liabilities from an actuarial viewpoint. On this balance sheet, the present assets, the present value of prospective contributions of the employees and the governmental employer equal the present value of projected benefits for the employees.

The assets are separated into two categories: (1) present assets; and (2) present value of prospective contributions. The present assets represent the value of the assets of the employees and the employer at June 30. The second category pertains to the prospective contributions, on a present value basis, that will be contributed by employees and by the department during the career of those employees who were active members at June 30.

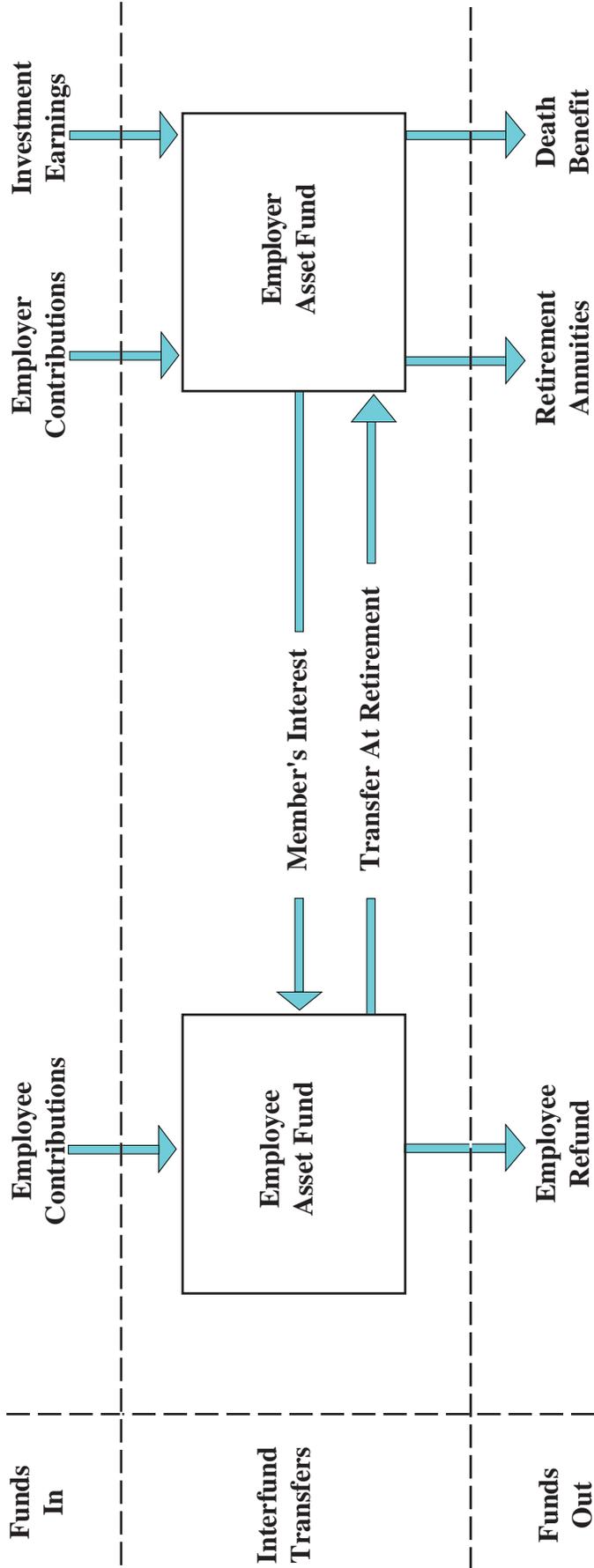
The liability side of the actuarial balance sheet consists of two categories: (1) the present value of basic benefits to be paid to the current and prospective retirees; and (2) the present value of cost-of-living benefits to be paid to those retirees after their retirement. Basic benefits include refunds to employees, death benefits and monthly retirement benefits. The liabilities have been allocated between three groups of employees: (1) those retired at June 30; (2) those employed by the employer at June 30; and (3) those who have terminated their employment with the employer but have not requested a refund.

808 Actuarial Liability. The employer's liability to a retirement plan is expressed in terms of the normal and supplemental liability. Normal liabilities are generally funded by a level percentage of payroll over an employee's working lifetime. The supplemental liabilities represent costs to the employer for benefits which will not be covered by future normal costs or by assets already on hand. These liabilities are being funded or amortized over a 40-year period which began July 1, 1975 or on the date of participation in TCRS, if later. For political subdivisions joining after June 30, 1983, the liability is being amortized over a 30-year period and 20-year period for these political subdivisions joining after March 31, 1994.

809 Financial Statement Information. At the bottom of the actuarial balance sheet is information that may be needed by your auditors for inclusion with the agency's financial statements. This information has been prepared in accordance with the Accounting Principles Board's Opinion No. 8. Calculations of the present value of vested benefits and all accrued benefits are provided. The accumulated assets are shown on the actuarial balance sheet.

Fiscal year footnote information is processed and made available at the end of September. This information is available for K-12 Public School Systems and participating political subdivisions. These statements are created following Governmental Account Standards Board Statement 27 standards. Footnote information is available on the internet at www.tn.gov/treasury/tcrs/Schools/ or www.tn.gov/treasury/tcrs/PS/.

DIAGRAM OF THE FLOW OF EMPLOYEE AND EMPLOYER FUNDS



The employer asset fund is increased by (1) employer contributions; (2) the transfer of an employee's account at retirement from the employee asset fund; and (3) earnings on investments. Investment earnings are distributed to each employer based on the average asset balance which is the average of the employee and employer assets at the beginning and end of the fiscal year.

The employer asset fund is decreased by (1) the payment of a matching lump sum death benefit to the beneficiary of a deceased member; (2) the payment of monthly retirement annuities; and (3) the transfer of money to the employee asset fund to credit interest to the accounts of your employees.

The employee asset fund is increased by (1) employee contributions; and (2) the transfer of money from the employer asset fund to credit interest to employee accounts. The employee asset fund is decreased by (1) the refund of employee contributions and interest upon the termination of an employee; and (2) the transfer of an employee's account at retirement to the employer asset fund.

There are no employee contributions for employers that have adopted non-contributory provisions.

903 Council on Pensions and Insurance Duties. This legislative oversight committee 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.

A. Non-Voting Members:

David H. Lillard, Jr. - State Treasurer

Jill Bachus - Director of TCRS

Justin P. Wilson - Comptroller of the Treasury

Mark Emkes - Commissioner of Finance and Administration

Rebecca Hunter - Commissioner of Human Resources

B. Senators:

Ron Ramsey - Speaker of the Senate

Randy McNally - Chairman, Council on Pensions and Insurance and
Chairman, Finance, Ways, and Means Committee

Douglas Henry - Vice Chairman, Finance, Ways and Means Committee

Dolores Gresham - Finance, Ways and Means Committee

James Kyle - Finance, Ways and Means Committee

Mark Norris - Finance, Ways and Means Committee

Bo Watson - Secretary, Finance, Ways and Means Committee

Jim Tracy - Speaker's Designee

C. Representatives:

Beth Harwell - Speaker of the House

Charles Sargent - Vice Chairman, Council on Pensions and Insurance and
Chairman, Finance, Ways and Means Committee

Mike Harrison - Vice Chairman, Finance, Ways and Means Committee

Curtis Johnson - Secretary, Finance, Ways and Means Committee

Johnny Shaw - Finance, Ways and Means Committee

Steve McDaniel - Finance, Ways and Means Committee

Craig Fitzhugh - Finance, Ways and Means Committee

Ryan Haynes - Speaker's Designee

904 Board of Trustees Duties. The general administration and responsibility for the proper operation of the retirement system and for making effective the provisions of the law is vested in the Board of Trustees.

A. Ex-Officio Members:

David H. Lillard, Jr. – State Treasurer
 Jill Bachus – Director of TCRS
 Justin P. Wilson – Comptroller of the Treasury
 Tre Hargett – Secretary of State
 Rebecca Hunter – Commissioner of Human Resources
 Mark Emkes – Commissioner of Finance and Administration
 Libby Sykes – Administrative Director of the Courts
 Randy McNally – Senator, Chairman, Council on Pensions and Insurance
 Charles Sargent – Representative, Vice Chairman, Council on Pensions and Insurance

B. Employee Representatives:

Michael Barker – Tennessee Retired Teachers’ Association
 Dennis Carroll – Public Safety
 Greg Elliott – Tennessee Bureau of Investigation
 Erick Huth – Middle Tennessee Teacher
 Traci Jefferson – East Tennessee Teacher
 Patsy Moore – West Tennessee Teacher
 Bill Kemp – Tennessee County Officials Association
 Alfred Laney – Retired State Employee
 David Seivers – Tennessee County Services Association
 Tommie Pendergrass – Department of Financial Institutions
 Ken Wilber – Tennessee Municipal League

905 Effect of Felony Convictions on Retirement Benefits. Employers are required to report to TCRS felony convictions of employees or former employees resulting from malfeasance in office. Certain members or retirees of TCRS could be denied retirement benefits if convicted of a state or federal crime arising from their employment or official capacity. *Tennessee Code Annotated*, 8-35-124 provides the guidance. Application of the law depends on the jurisdiction of the crime. For persons convicted of a state crime (but not federal), the law is applicable to those who join TCRS after July 1, 1982. A state or federal conviction is applicable to those who join TCRS after May 1, 1993. Effective 2006, each time a person is elected to public office in Tennessee, the person consents to forfeit their retirement benefit if convicted in any state or federal court of a felony arising out of the official’s employment or official capacity. If you are aware of anyone meeting these conditions or would like more information on the law, please contact Counseling Services at (615) 741-1971.

1000 OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

Whenever a benefit provision is added to the retirement plan due to the enactment of legislation, the provision is optional to a political subdivision if it will increase retirement costs. The following list is a description of all optional provisions currently available. These provisions do not apply to employees of a political subdivision unless the chief governing body passes a resolution authorizing the provision and accepting the additional liability. The resolution to provide the optional provision must apply to all employees in all departments that are covered by the TCRS.

LIMIT CONTRIBUTIONS

Currently, Contributory Group I and Group II members respectively contribute 5 percent and 5½ percent of their salary up to the Social Security wage base and 5½ percent and 7 percent of their salary above the Social Security wage base. Political subdivisions now have the option of authorizing the removal of the additional contributions on salary above the wage base so that Group I and Group II members respectively would contribute 5 percent and 5½ percent on their gross salary.

The cost of exercising this option would depend on the number of employees whose salaries exceed the Social Security wage base. The employer cost would equal the extra contributions made by an employee for salaries over the Social Security wage base.

MEMBERS AFTER AGE 70

The 1987 amendments to federal law prohibit the use of a mandatory retirement age for general employees and mandate retirement credit for service rendered after age 70.

Any member who remains in service after age 70 shall continue to participate in the retirement system and accrue creditable service. Employees may not be prohibited from membership due to advanced age at the time of employment.

Any current member who reaches age 70 after July 1, 1987 must continue to participate in TCRS. Any TCRS member who has already ceased to make contributions or to accrue creditable service because of age will be given the option of beginning participation again as of July 1, 1987.

Any employee who was denied membership in TCRS due to advanced age at the time of hiring will be given the option of joining TCRS as of July 1, 1987. Any new employee hired after July 1, 1987 must be enrolled in the TCRS.

The granting of prior service credit for service after age 70 which was rendered before July 1, 1987 is still optional to political subdivisions. Service rendered after July 1, 1987 may be established by the member regardless if the resolution is passed. A political subdivision may pass a resolution accepting the liability for allowing its employees to establish previously denied credit for service after age 70.

If the political subdivision authorizes this credit, any employee who has previously been denied service credit because of age shall be entitled to establish retirement credit for this service by making a backpayment of the contributions he/she would have made had he/she been a member, plus interest.

In most situations, the cost of this optional provision to the employer should be minimal; however, the additional cost will be reflected in future biennial valuations.

OPTION I DEATH BENEFIT

If a member dies in service after completing ten years of creditable service, a retirement allowance will be paid to the surviving spouse if the spouse is designated as a beneficiary. The retirement allowance payable will equal the allowance which would have been payable under an effective election of Option I and will be computed as if the member had retired on the date of his/her death. The allowance payable shall be reduced by four-tenths of one percent for each month that the member's death precedes his/her service retirement date.

The estimated increase in the employer liability for this optional provision is minimal depending on actual usage. The employer contribution rate will not immediately increase, but the additional liability will be reflected in future biennial valuations.

MILITARY CREDIT

Retirement law allows a member to establish up to four years of credit for military service rendered under any one of three conditions, provided the member received a discharge other than dishonorable and the military service is not credited in any other retirement system including the Uniformed Services Retirement System. See Section 405(a) for complete explanation of this provision.

The actuary has estimated the cost of the political subdivision to be minimal depending on how many years of service are established. Passage of this resolution will not increase the employer contribution rate immediately, but the additional liability will be reflected in future biennial valuations.

SICK LEAVE DAYS

A political subdivision may allow its employees to include unused accumulated sick leave as creditable service in computing their retirement benefits. Each 20 days of accumulated sick leave shall equal one month of creditable service. The authorizing resolution must provide that the employer will assume liability for the cost.

The cost of granting sick leave credit to an individual depends on two things: (1) the amount of sick leave credit granted; and (2) the final average earnings. The employer rate will not immediately increase due to passage of this resolution. As retiring employees receive credit for this service, the cost will be incorporated into the employer contribution rate at future biennial valuations.

BUY PROBATIONARY SERVICE

Employees who are required to work for a period not exceeding six months prior to becoming eligible for membership in the system may be allowed to purchase retirement credit for this period of service. If the governing body authorizes this credit, the member must make a lump-sum payment of the contributions he/she would have made had he/she been a member of the system during the required probationary period.

Passage of this resolution will not immediately increase your employer contribution rate, but will be incorporated in future biennial valuations.

NONCONTRIBUTORY

The employer may assume the employee contributions to the retirement system of up to 5 percent of the employee's earnable compensation. The employer-assumed employee contributions will be credited to the individual account balances of the employees provided the employee was a TCRS

member and employed by the political subdivision on the date which the employer elects to assume employee contributions to the retirement system.

The cost to provide a noncontributory retirement plan is an additional 5 percent added to the current employer contribution rate. The effective date of the noncontributory provisions will be the first day of any quarter provided the TCRS is notified at least three months in advance. More detailed information regarding this option should be requested from the TCRS prior to authorization.

TWENTY-FIVE-YEAR EARLY RETIREMENT

A political subdivision may allow its Group I members to retire at any age upon completion of 25 years of service. The benefit to be received by such a member prior to age 55 shall be the actuarial equivalent of the benefit which would be payable to the member at age 55. This is a permanent benefit reduction.

Authorization of this option will not increase retirement costs as the 25-year retirement benefit is the actuarial equivalent of the benefit currently provided at age 55.

VOLUNTARY WITHDRAWAL

Upon giving at least one year’s advance notice, a political subdivision may terminate, effective June 30 of the calendar year following the end of the notice period, its participation in the retirement system. Detailed information can be obtained from the TCRS regarding the rights of current members and retirees and the obligations which remain with the political subdivision after the withdrawal becomes effective. For more information regarding this optional provision, please contact Field Services at 615-741-1971.

AGE 65 ACTUARIAL EQUIVALENT

This optional provision provides an alternative method for calculating benefits for active members who work past age 65. These members will be entitled to the greater of either their benefit at the time they actually retire or the actuarial equivalent of the benefit which would have been payable if they had retired at age 65.

| | |
|--|--|
| <p>EXAMPLE: <u>Actual Benefit Under the Formula</u></p> <p>Assume: Age 70</p> <p>AFC \$36,000</p> <p>Service 35 years</p> <p>DOR 7/1/2010</p> <p>Monthly Benefit: \$1,676.71</p> | <p><u>Actuarial Equivalent Benefit</u></p> <p>Benefit that would have been payable at age 65: \$1,262.62 (Assumes AFC \$31,000 Service 30 years.)</p> <p>Actuarial Factor for Age 70: 1.76672</p> <p>Actuarial Equivalent Benefit: \$2,230.69</p> |
|--|--|

In this particular situation, the retiree will be paid \$698.97 since the actuarial equivalent of the benefit payable at 65 with 30 years of service is greater than the actual benefit calculated under the formula based on 35 years of service.

Generally, the actuarial equivalent benefit provision will be beneficial to members retiring between age 65 and 70 with 30 or more years of service.

Based on the actuary's review of political subdivision employees currently over age 65, the cost of providing an actuarial equivalent benefit after age 65 will not be significant. This optional provision could increase your retirement liability in the event you have employees working beyond age 65 with more than 30 years of service.

PART-TIME EMPLOYEES

The provisions regarding the participation of part-time employees are as follows:

- A. Any person employed in a part-time position (except substitute teachers who are not under contract and not scheduled to work the same time as a regular teacher) may elect to join the TCRS by filing a TCRS membership form. TCRS membership is optional for part-time employees and mandatory for full-time employees.
- B. Upon passage of this resolution, all part-time employees must be covered by Social Security regardless of whether they elect to participate in the TCRS. The current employee and employer contribution rate for Social Security is 7.65 percent. If you have any questions, please contact Vernon Bush, Director of OASI, at 615-741-7902.
- C. The part-time employee's date of TCRS membership shall be the date the application is filed with the TCRS.
- D. Service credit for part-time employment shall be determined on a monthly basis in direct proportion to the full-time schedule of a regular employee as certified by the employer. (Example: If a full-time employee works 40 hours a week and receives one month of retirement credit for such service, a part-time employee working 20 hours a week will receive one-half month of retirement credit per month.) Employees subject to receive 10-year vesting who work half time will have to work 20 years in order to accrue ten years of creditable service. The pro-rata service should be included on your contribution report.
- E. Any part-time employee joining the TCRS may establish retirement credit for previous service rendered as a part-time employee upon making application for such service with the TCRS Board of Trustees under the following conditions:
 1. If such service is claimed within one year of the member's date of membership or the date the resolution is passed, whichever is later, the member may establish retirement credit for service rendered as a part-time employee which has not been previously refunded upon a payment of contributions which would have been made had he/she been a member.
 2. If such service is not established within the time specified in (a) above or if the member has been refunded for such service, then it may be established upon a payment of contributions plus interest at the rate of 7½ percent per annum.
 3. A member establishing retirement credit under the provisions of this bill must establish credit for all service which is creditable. If the political subdivision authorized retirement credit for service rendered prior to its date of participation, the same conditions shall apply to employees employed on the participation date who have part-time service prior to the participation date. (Example: If the political subdivision purchased ten years of prior service

for each employee, then the political subdivision must purchase the equivalent of ten years of prior service for its part-time employees who elect to become members.)

The employer cost to authorize TCRS participation for part-time employees will be your employer contribution rate currently in effect times the total salary paid to part-time employees.

EXCLUDE RETIREMENT COVERAGE TO PART-TIME EMPLOYEES

In addition, employers who currently authorize part-time employees to participate may exclude retirement coverage to future hires by passage of the appropriate resolution.

MINIMUM BENEFIT

This optional provision provides an increase in the minimum benefit for retired and active employees with 10 or more years of service. The increase in the benefit is as follows:

| | <u>“Old” Minimum</u> | <u>“New” Minimum</u> |
|---------------------|----------------------|----------------------|
| Class A and Group I | \$7.00 | \$8.00 |
| Class B | \$7.66 | \$8.66 |

The dollar figure in the above chart is the payment to be received per month for each year of creditable service rendered; however, in no case shall the minimum benefit exceed 100 percent of the member’s Average Final Compensation (AFC).

The increase in the minimum benefit will provide a significant increase in benefits received by members who retired with a five year average salary of \$6,400 or less. The majority of the financial impact will be for retirees who have been retired for several years and for retired and active bus drivers and cafeteria workers. The following is an example of the effect of the increased minimum benefit:

Assume: Group I Member Service: 30 Years

| | <u>Old Monthly Benefit</u> | <u>New Monthly Benefit</u> |
|--------------|----------------------------|----------------------------|
| Base Benefit | (30 x \$7.00) \$210 | (30 x \$8.00) \$240.00 |

For political subdivisions which have elected to provide cost-of-living adjustments, the new monthly minimum benefit will become the new base upon which all future cost-of-living adjustments will be calculated.

The resolution to authorize this increase must be passed prior to May 15 in order to be effective July 1.

414(H) PLAN

The 414(h) provisions exempt the employee’s retirement contributions from federal withholding by reducing the taxable wages. This effectively defers payment of income taxes on contributions until later received in the form of a refund or retirement benefits.

For example, assume a married employee with three exemptions earns \$2,000 per month and that retirement, Social Security and withholding are the only regular deductions from gross pay.

| | <u>Gross Salary</u> | <u>Retirement (5%)</u> | <u>Social Security (7.65%)</u> | <u>Federal Tax Withholding</u> | <u>Net Pay</u> |
|---------------------|---------------------|------------------------|--------------------------------|--------------------------------|----------------|
| Without 414(h) Plan | \$2,000.00 | \$100.00 | \$153.00 | \$195.50 | \$1,551.50 |
| With 414(h) Plan | \$2,000.00 | \$100.00 | \$153.00 | \$180.50 | \$1,566.50 |

In this example, the employee’s net pay increases by \$15.00 as a result of this change. Your reporting to TCRS and OASI will not change.

| | <u>Reportable Salary</u> | <u>Contribution/Deduction</u> |
|------|--------------------------|-------------------------------|
| TCRS | \$2,000.00 | \$100.00 |
| OASI | 2,000.00 | 150.20 |
| IRS | 1,900.00 | 180.50 |

Implementation of the 414(h) plan will have no adverse effect on retirement or Social Security benefits payable to employees. The only difference will be that taxable wages reported to the IRS will be reduced by the amount of the retirement contributions resulting in increased “take home” pay for employees.

This plan will be effective the first full month after passage of the resolution and is an excellent way to increase the net pay of your employees at little or no cost to the employer.

PROVIDE COST-OF-LIVING BENEFITS

This optional provision amends the retirement law giving political subdivisions, who in the past have excluded cost-of-living benefits, an option to now provide cost-of-living benefits.

Any retired member who has retired for at least twelve months on July 1 of each year is eligible to receive an increase in retirement benefits based on the Consumer Price Index. If the Consumer Price Index reflects a change in the cost of living by as much as 1 percent in any calendar year, all retired members will receive an adjustment equal to the Consumer Price Index, not to exceed 3 percent, the following July 1. The adjustment is computed on the member’s most recent benefit.

Prior to approval of this optional provision, the chief governing body of the political subdivision must pass a resolution authorizing and agreeing to pay for an actuarial study to determine the estimated increase in the political subdivision’s liability to their retirement plan. A second resolution must be passed by a two-thirds majority of the chief governing body to elect to provide the cost-of-living increase. The increase in benefits will become effective the following July 1 after adoption of this resolution. No retroactive cost-of-living benefits will be paid.

EXCLUDE COST-OF-LIVING

A political subdivision may elect to discontinue cost-of-living adjustments only for all employees employed after the effective date of the resolution. This optional provision must be authorized prior to April 1 in order to be effective on July 1.

1987 AD HOC BENEFIT INCREASE

This optional provision allows political subdivisions to pass a resolution to authorize an increase to be paid to certain retirees effective July 1 of any given year. The law provides that the retiree’s monthly retirement allowance will increase in accordance with the following schedule:

| <u>Date of Retirement</u> | <u>Increase Per Year of Service</u> |
|---------------------------|-------------------------------------|
| On or Before 6/30/73 | \$1.18 |
| 7/1/73 - 6/30/75 | .94 |
| 7/1/75 - 6/30/78 | .48 |
| 7/1/78 - 6/30/80 | .28 |

Example: A retiree who retired on February 1, 1976 with 15 years of service will be paid an additional \$7.20 per month (15 years x .48).

A political subdivision authorizing the 1987 Ad Hoc increase that has previously adopted that 1985 increase is, in effect, upgrading the 1985 increase to the 1987 level. In addition, the law provides that the increase in the monthly retirement benefit will be paid in addition to any other type of cost-of-living increase currently authorized. The benefit increase will be effective July 1 of any given year and shall continue to be paid thereafter. This increase will apply to all general employees in addition to Group II firemen and policemen.

The governing body of a political subdivision must pass the resolution prior to July 1 of any given year in order for this provision to be effective on July 1.

More detailed information regarding this option should be requested from the TCRS prior to authorization.

2007 AD HOC BENEFIT INCREASE

This optional provision allows political subdivisions to pass a resolution to authorize an increase to be paid to retirees whose date of retirement is on or before July 1, 1989. The law provides that the retiree's monthly retirement allowance will increase in accordance with the following schedule:

| <u>Date of Retirement</u> | <u>Percentage Increase</u> |
|---------------------------|----------------------------|
| Prior to 7/2/75 | 10.0% |
| 7/2/75 - 7/1/77 | 7.5% |
| 7/2/77 - 7/1/79 | 6.0% |
| 7/2/79 - 7/1/81 | 3.0% |
| 7/2/81 - 7/1/83 | 1.2% |
| 7/2/83 - 7/1/85 | 0.9% |
| 7/2/85 - 7/1/87 | 0.5% |
| 7/2/87 - 7/1/89 | 0.3% |

In addition, the law provides that the increase in the monthly retirement benefit will be paid in addition to any other type of cost-of-living increase currently authorized. This increase will apply to all general employees in addition to Group II firemen and policemen. The increase provided by this section shall not be paid retroactively, but shall become effective following the passage of the resolution.

More detailed information regarding this option should be requested from the TCRS prior to authorization.

SERVICE CREDIT FOR TEMPORARY DISABILITY

This optional provision allows a political subdivision to authorize their employees who are TCRS members to establish retirement credit for periods of time when the employee was receiving temporary disability benefits under a worker’s compensation program. The employee must return to active service or retire immediately following cessation of the temporary disability benefits. No member may receive more than one year of retirement credit for each occurrence of temporary disability.

In order to establish this retirement credit, the employee is required to make a lump-sum payment of the contributions that would have been made on the employee’s salary in effect immediately in prior to the disability, plus 7½ percent interest.

MEDICARE SUPPLEMENT PROGRAM

This optional provision allows retired employees the right to participate in the Medicare Supplement Program and have the employer make contributions toward the expense of such coverages. The Medigap program is open to retirees who are currently receiving a benefit from TCRS and who are covered by Medicare benefits. This program was designed to provide coverage for services which are only partially covered by Medicare.

If the political subdivision elects to provide funding toward the cost of this program, it will be required to contribute at the same level as the state contributes on behalf of its retired employees, which is currently:

| <u>Years of Service</u> | <u>Employer Monthly Supplement</u> |
|-------------------------|------------------------------------|
| 0-14 years | \$ 0.00 |
| 15 -19 years | 25.00 |
| 20 -29 years | 37.50 |
| 30 years or more | 50.00 |

If the amount of state funding increased or decreases, the political subdivision’s funding level will also change.

FIVE-YEAR VESTING

This optional provision allows a member to qualify for service or early retirement benefits after completing five years of creditable service. This reduces the Group I vesting requirements from ten years to five years.

The requirements for service retirement would be age 60 with five years of service or any age upon completion of 30 years. An individual who retires with at least five years of service at age 60 would be entitled to an unreduced benefit based on their actual years of service. Members retiring after age 55, but prior to age 60, will be reduced in accordance with early factor of .4 percent for each month the member lacks attainment of age 60 and the service reduction factor of 15 percent for each year the member lacks attainment of ten years. Implementation of five-year vesting does not affect eligibility requirements for continuation of insurance or the Option I Death Benefits.

Please contact TCRS prior to authorization to discuss the cost of allowing this optional provision.

DEATH AND DISABILITY BENEFITS FOR INACTIVE MEMBERS

This optional provision extends death and disability benefits to inactive members of the TCRS. Prior to this change, members were required to be in service at the onset of a disabling condition or upon death in order to be entitled to benefits.

The practical effect of this change is to authorize disability benefits equal to the actuarial value of what would be paid at age 55. In the case of death, this change authorizes Option II benefits (50 percent survivorship) to a surviving spouse if such spouse is named as the beneficiary.

Please contact TCRS prior to authorization to discuss the cost of allowing this optional provision.

BENEFIT IMPROVEMENT PERCENTAGE (BIP)

This optional provision permits political subdivisions to authorize a 5 percent increase in the base retirement benefit for active and retired members of the Tennessee Consolidated Retirement System (TCRS).

The effect of this legislation is to increase the retiree's base retirement benefit by 5 percent. For example, an individual whose base benefit is \$100 will realize a \$5 increase if the provision is adopted, making the new base benefit \$105. This increase will apply to those already retired and those who retire in the future.

The cost of this provision will be provided by the TCRS upon request. There is no deadline for the passage of the resolution; however, the benefit improvement will only be prospective. The effective date of this benefit improvement, if a resolution is passed after January 1, will be the first of the month following receipt of the resolution by the TCRS. For example, if the resolution is passed by the governing body on February 15 and the TCRS does not receive the resolution until March 15, the effective date of the provision will be April 1. No retroactive benefit payments are authorized.

GROUP II 30 YEARS

A participating political subdivision employing Group II Public Safety Officers (fire & police) may allow a service retirement (unreduced benefit) upon completion of 30 years creditable service by passage of the required resolution.

MANDATORY RETIREMENT AND SUPPLEMENTAL BRIDGE BENEFIT

A participating political subdivision may adopt a mandatory retirement age of 62 or above for public safety officers (fire & police) by passage of the required resolution.

In addition, a mandatory retirement age for public safety officers may be established for any age prior to 62 whereby a supplemental bridge benefit is payable from the greater of age 60 or the age at which mandatory retirement is set through the onset of old age and survivors benefits under Title II of the Federal Social Security Act, currently age 62. The supplemental bridge benefit is equal to .75 percent of the members average final compensation multiplied by the member's years of public safety service established in the TCRS. An automatic increase in the employer contribution rate will be required to establish a mandatory retirement age of no greater than 60. There is no increase in the employer contribution rate if the mandatory retirement age is set at 62 or above.

It is highly recommended that a participating political subdivision contact TCRS when considering the establishment of a mandatory retirement age for public safety officers.

LINE-OF-DUTY DEATH BENEFIT

The surviving spouse or surviving minor children of an in-service member who dies as the result of an accident or physical violence occurring in the performance of duty will be entitled to a benefit equal to 52.5 percent of the member's average final compensation, provided the spouse or the surviving minor children are named as the member's beneficiary. This provision provides guaranteed minimum benefits of \$50,000. If the member's spouse is named as beneficiary and the spouse dies, the benefit will continue to the minor children until they reach age 18 or die.

PRIOR SERVICE OPTIONS

A political subdivision may allow employees to establish prior service that was not originally authorized upon participation with the retirement system. There are two options a political subdivision may authorize to allow employees the option to establish this service: *Prior service previously excluded* and *Public Chapter 801 (or PC801)*.

- A. Prior Service Previously Excluded: This optional provision allows members to establish service that was previously not authorized when the political subdivision initially joined the retirement system.

Example: A group initially joins the retirement system and allows employees to establish five years of prior service. One year later, the group authorizes members to establish an additional five years of prior service allowing them to establish up to ten years total prior service.

- B. PC801: This optional provision allows members to establish **non-elect service** and **service prior to the date of participation**.

Example: A group initially joins the retirement system July 1, 2009. An employee worked for the employer from January 1, 2001 through March 12, 2008, but was not an employee on the group's date of participation. In order for the employee to gain service credit for his/her employment dates, the group must authorize PC801.

Both prior service previously excluded and PC801 require an actuarial study to determine the increased liability associated with passage of these options. More detailed information regarding these provisions should be requested from TCRS prior to authorization.

NON-CONTRIBUTORY TO CONTRIBUTORY

Participating political subdivisions who have previously passed the non-contributory provision may discontinue the non-contributory provisions for all new hires after the effective date of passage. Employees who were employed prior to this date will continue to be eligible for the non-contributory provision.

Any such resolution will be effective upon the first day of any quarter following a minimum of three months' notice to TCRS. More detailed information regarding these provisions should be requested from TCRS prior to authorization.

To request a copy of a resolution, please contact the Field Services Division at 615-741-1971.

1100 OPTIONAL RETIREMENT PLAN

1101 Joining the Optional Retirement Plan. Professional employees who are exempt from the Fair Labor Standards Act employed in Tennessee institutions of higher education (colleges, universities and technical schools) have the option of membership in the TCRS or the optional retirement plan (ORP) which includes the following vendors: the Teachers Insurance Annuity Association and College Retirement Equity Fund (TIAA/CREF), Aetna Life Company and Variable Annuity Life Insurance Company (VALIC). Employees of the 26 area vocational schools are not eligible to join the ORP.

Unlike TCRS, which is a defined benefit plan, the ORP is a defined contribution plan. In other words, the total amount of contributions and interest credited to each ORP member's account is used to provide benefits for the retiree's lifetime.

An eligible employee choosing to join TCRS should complete and sign the *TCRS Membership* form and the *Notice of Election to Participate in the ORP or the Tennessee Consolidated Retirement System*.

If he/she chooses ORP membership, he/she should complete and sign the *Application for Contract with the ORP* and the *Notice of Election to Participate in the ORP or the Tennessee Consolidated Retirement System*. These forms should be promptly forwarded to the TCRS. The individual must also file an application with the ORP provider(s) he/she selects or no contributions will be accepted. The individual names his/her beneficiary and records his/her date of birth on the ORP provider application.

1102 Contributions to the ORP

- A. Employee Contributions. As of June 30, 1981, employee contributions to the ORP were discontinued as provided by noncontributory legislation.
- B. Employer Contributions. In lieu of the employee contributions, the employer makes contributions at the rate of ten percent of gross salary below the Social Security wage base and 11 percent above the Social Security wage base:

| <u>Employer Contributions</u> | <u>S.S. Wage Base</u> |
|-------------------------------|-----------------------|
| 10% up to S.S. Wage Base | |
| 11% over S.S. Wage Base | 2009 = \$106,800 |

ORP members are coded retirement type "091" and are reported monthly to TCRS under a five digit reporting code which begins with a seven.

- C. Reporting of Contributions by Higher Education to ORP.
 1. Each institution will deposit with the ORP the appropriate employer contributions on the first working day of the month following the month that wages are actually paid. Also, each institution will make the appropriate report directly to the ORP providers. The report is due within ten working days of the deposit. If the report is not received by the ORP providers, SEC regulations will require that the funds be returned to the institution.
 2. Each institution will notify TCRS of the amount deposited to the ORP.
- D. Recording of Employer Contributions. Each ORP provider credits the employer contributions to enrolled individuals on the date the funds are deposited with the ORP provider.

- 1103 Retirement Allowance.** When any ORP member retires with retirement credit in the TCRS, his/her retirement allowance should be computed and paid in accordance with the procedures described in Section 600 of this manual.

Employees who initially elect to participate in the ORP are limited to the benefits of the ORP upon and after retirement.

- 1104 Transferring from TCRS to ORP.** ORP membership is irrevocable as long as employment is continuous or if a transfer is made to another state institution where the ORP is available. A member of TCRS who is eligible to participate in the ORP may elect to transfer to the ORP by completing an *Election to Transfer from TCRS to ORP*. This form must be signed and forwarded to TCRS prior to any June 1, to be effective the following July 1. Any funds accumulated in TCRS may also be transferred to the ORP by using the TCRS form *Election to Transfer Funds From TCRS to ORP*. This form must be completed and forwarded to TCRS by June 1.

The amount of funds transferred to the ORP will be the funds in the member's TCRS account balance. No other funds, including employer funds, will be transferred. Those entering TCRS after July 1, 1981 will not have funds in an account to transfer.

- 1105 Transferring from ORP to TCRS.** Employees who participate in the ORP generally may not transfer membership to TCRS; however, beginning in 2005, ORP members with five years of service will have a one-time transfer option.

An employee participating in the ORP who changes employment, but is still employed by an institution where ORP is available, must continue participating in ORP unless there is a break in service. If there is a break in service, he/she may elect to either continue participating in ORP or begin participating in the TCRS.

A University of Tennessee employee covered under the provisions of the UT JCRS-A plan (Joint Contributory Retirement Systems Plan A) may elect to join TCRS or ORP when transferring employment to an institution in the State Board of Regents system. While employed in the State Board of Regents system, the employee will not be covered under the provisions of the UT JCRS-A plan. An individual in this situation should contact the retirement system to discuss the option of joining TCRS or ORP. The UT JCRS-A plan was closed to new membership on July 1, 1977.

- 1106 Directing the Investment of the Account.** An ORP member may direct employer contributions made on his/her behalf to one or more of the companies designated to provide annuity contracts under the state's ORP. There are currently three companies under contract with the state to provide annuities for the program: ING (Aetna), TIAA-CREF and AIG (VALIC). Once funds are on deposit with a designated company, the member may move those funds among the different investment options offered under that company's annuity contract, subject to the restrictions of the contract. Internal transfers may be authorized in writing or by telephone.

A member may also transfer funds previously accumulated in the ORP among the companies designated to provide annuity contracts in Tennessee's Optional Retirement Program, subject to the restrictions of the products involved. A member may request an inter-company transfer at any time during the month. After the member submits the necessary applications, the funds will be transferred by check and reports will be provided to the employer.

- 1107 Additional Contributions.** Generally, employees may make voluntary contributions through the institutions' deferred compensation plans 403(b) and 401(k).

1108 Educational Leave of Absence. If an educational leave of absence has been approved for retirement purposes by the TCRS, then the employer will make contributions to the ORP as set out in Section 1102. The employer contributions will be made based on the employee's salary immediately prior to the leave.

The conditions which must be met for an educational leave of absence are set out in Section 405B. If an employee does not return to service with the employer after the educational leave of absence, then the institution should request a refund from the ORP providers of the employer contributions that were made during the leave. If TCRS remitted the funds, then TCRS will request the refund.

1109 Annual Statement. Each ORP provider forwards to its members a statement of their account. TCRS is not responsible for the issuance of these statements. Any questions should be addressed to the ORP provider.

1110 Additional Information. Additional information is available on the Treasury internet site at www.tn.gov/treasury/orp/. Company publications are available upon request. Following are the phone numbers for each ORP vendor:

| | | |
|--------------|--------------|--------------|
| ING | TIAA-CREF | AIG (VALIC) |
| 800-525-4225 | 800-842-2776 | 800-448-2542 |

Election to Transfer from TCRS to ORP

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0275.pdf>)

Election to Transfer Funds from TCRS to ORP

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0274.pdf>)

Notice of Election to Participate in the ORP or the Tennessee Consolidated Retirement System

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0266.pdf>)

TCRS Membership Form

(found at <http://www.tn.gov/treasury/tcrs/PDFs/tr0353.pdf>)