



State of Tennessee

# Higher Education Retirement Decision Guide

For Eligible Higher Education faculty and staff hired on or after July 1, 2014



A program of the  
*Tennessee Treasury Department*  
David H. Lillard, Jr., Treasurer

## Your retirement. Your choice.

At the state of Tennessee, we are committed to giving employees great options to help you plan and prepare for retirement! RetireReadyTN for newly hired exempt faculty and staff within Higher Education includes a choice between two plans, both administered by the Tennessee Treasury Department. Eligible employees hired on or after July 1, 2014 must elect either the State of Tennessee retirement program (hybrid plan) or the Optional Retirement Program (ORP).

In this guide, we'll introduce you to the State retirement program and ORP and provide an overview of the key provisions of each plan. The State retirement program and ORP plans both provide a valuable opportunity to help you prepare for retirement.

It's generally estimated that people need between 70% and 90% of their working income to maintain their standard of living in retirement.

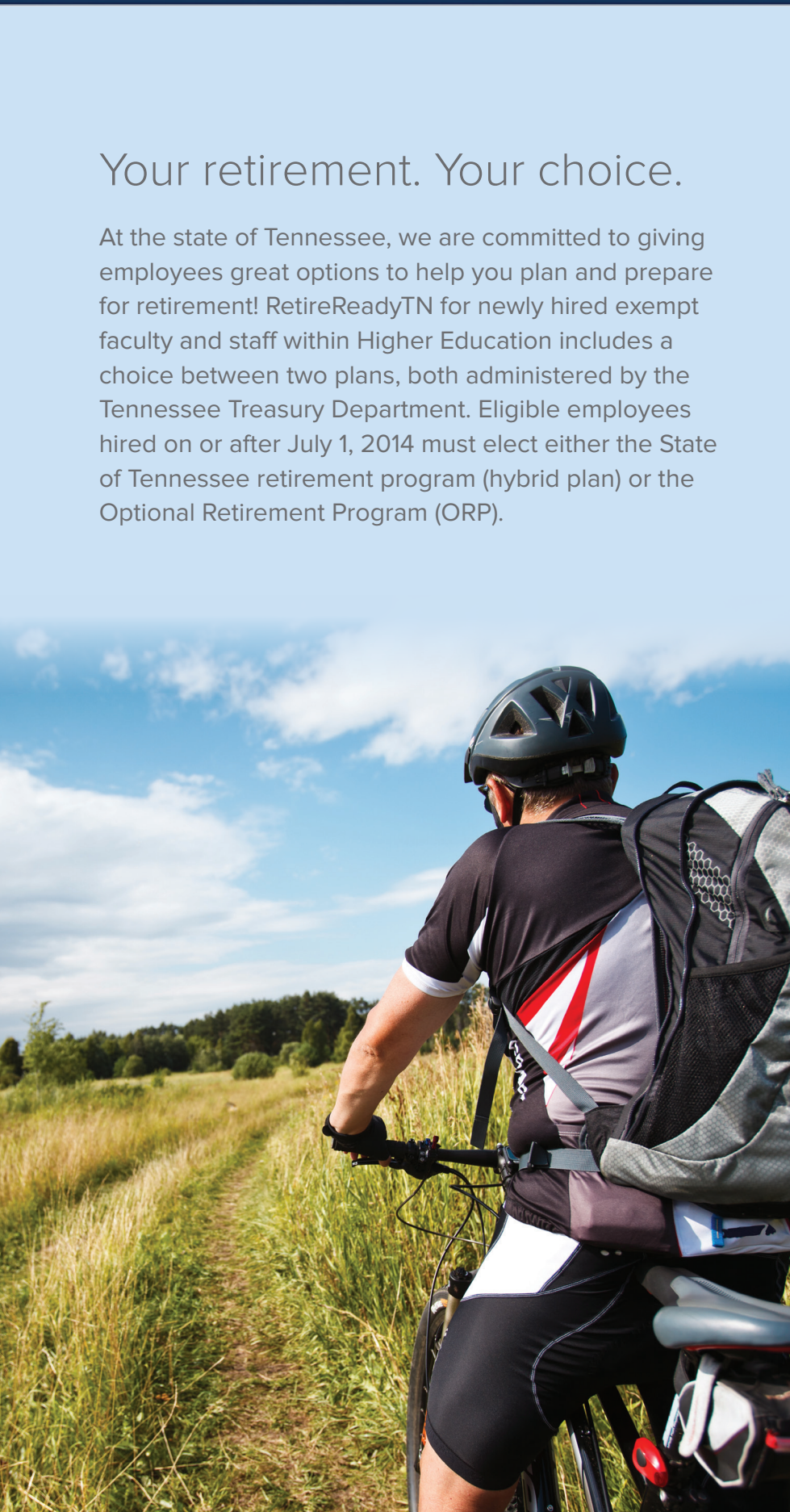
How you decide to invest your retirement savings can have a major impact on your future income. That's why it's important to fully understand both of these retirement plan options.

After you review this guide, take a look at the plan descriptions available on the website [www.retirereadytn.gov](http://www.retirereadytn.gov) to be sure you have all of the details you need to make a decision.

Keep in mind that you should carefully consider your risk tolerance, investment horizon, retirement savings goals and overall investment and retirement objectives prior to selecting a retirement plan and making any investment decisions. You may want to consult with your financial, legal or tax advisers to help you select the plan and investments that fit your individual needs.

You must choose your retirement plan upon your first date of employment. Be sure to review your options carefully so that you are comfortable with your choice.

If you do not make an election, you will be automatically enrolled into the State retirement program.



# Comparing the two plans

For either plan you choose, all of your contributions are made on a pre-tax basis. This means the state of Tennessee will deduct your contributions from your pay before calculating federal and state income tax withholdings. The result? You lower your current taxable income and may pay less in federal and state taxes. Tax-deferred contributions are subject to annual limits by the Internal Revenue Service.

## State retirement program (hybrid plan)

**The State retirement program is comprised of two valuable components: a defined benefit portion, provided through the Tennessee Consolidated Retirement System (TCRS), and a defined contribution (401(k)) portion.**

The defined benefit portion provides a lifetime monthly income based on a benefit formula. The formula for computing a monthly retirement allowance consists of your average final compensation, which is the average of your five highest consecutive years' salaries, years of creditable service, and the benefit accrual factor of 1%. Under the defined benefit portion, TCRS controls the investments that are managed by the Tennessee Treasury Department. TCRS is one of the best funded defined benefit plans in the nation with a funded ratio over 93% in 2017. TCRS currently provides benefits for more than 214,000 active members and over 133,000 retired members.

The defined contribution portion of your retirement plan includes a contribution by your employer equal to 5% of your compensation to the State of Tennessee 401(k) plan (the 401(k)). Your 401(k) account is a mandatory part of your retirement benefit if you are a member of the State retirement program.

You will also have the opportunity to make optional employee contributions to the 401(k). As a new member, you will be auto-enrolled to make employee contributions of 2% of compensation, but you may elect to change that rate of contribution or opt out of making an employee contribution. In the event that you opt out and want to receive the employee contributions you made to the 401(k), you must opt out within ninety (90) days of enrollment. The State will match the first \$50.00 of your monthly employee 401(k) contribution. The investments in the 401(k) are self-directed, meaning you can choose your own investment options from a diverse investment lineup set by the 401(k) Trustees. Both employer and employee contributions to the 401(k) plan are 100% immediately vested.

## ORP Plan

**The ORP is a defined contribution 401(a) plan.**

Contributions to your account are fixed percentages of your compensation made by you and your employer each pay period. You self-direct your contributions among a diverse investment lineup. At retirement, you choose your distribution method of the account balance; provided, that restrictions may apply.

If you choose the ORP, you will also be auto-enrolled to the State of Tennessee 401(k) plan contributing 2% of compensation, but you may elect to change that rate of contribution at any time or opt out. In the 401(k) plan, the investments are self-directed and your contributions are 100% immediately vested. The 401(k) is not a component of the ORP, and is supplemental to you if you are a participant in the ORP. In the event that you opt out and want to receive your employee contributions to the 401(k) plan, you must opt out within ninety (90) days of enrollment.

# State Retirement Program (Hybrid Plan) Overview

## Contributions

In the State retirement program, you and your employer contribute as follows: your employer contributes an amount equal to 4% of your compensation to the defined benefit plan and 5% of your compensation to the defined contribution 401(k) plan. You contribute 5% of your compensation to the defined benefit plan. You have the option to make supplemental contributions to your 401(k), and as a new member, you are also auto-enrolled to make an employee contribution of 2% of compensation. If you elect to keep making employee contributions to your 401(k), an amount equal to 16% of your compensation is going toward your retirement goals.

## Vesting

Higher education employees participating in the State retirement program are fully vested in the defined benefit plan after 5 years of service. All contributions to the defined contribution 401(k) plan are 100% immediately vested.

## Creditable Service for State Retirement Program: How Benefits are Determined

Members earn service credits (1.0% per year annual service accrual multiplier) for service with the state of Tennessee, the public school systems in Tennessee and over 500 political subdivisions in Tennessee which have elected to participate. Vested members may also establish credit in TCRS for up to 4 years of eligible military service. At retirement, unused sick leave may be converted to retirement service credit at the rate of one month of service credit for each 20 days of unused leave.

## When Retirement Benefits Begin

You are eligible for full service retirement upon attainment of age 65 and completion of 5 years of creditable service or the Rule of 90. The Rule of 90 means the attainment of a combination of age and years of creditable service equal to 90; provided, that a member has attained at least 5 years of service. For example, a member age 55 with 35 years of service would qualify for retirement since the member's age and service totals 90 (55 + 35 = 90).

## Transfers From the State Retirement Program to the ORP

Employees who are eligible to participate in the ORP but who elected to participate in the State retirement program may make a one-time election to transfer membership from the State Retirement program to the ORP. Members with employee contributions in TCRS may transfer the employee account balance to the ORP by completing an Election to Transfer Funds form found at [retirereadytn.gov](https://retirereadytn.gov). Members should obtain a TCRS benefit estimate when evaluating the decision to transfer because any employer contributions to TCRS cannot be transferred to another plan and the TCRS benefit will be forfeited.

## Transfers Outside Tennessee's Plans

Employees who joined TCRS after July 1, 1981 may not transfer their TCRS account to another employer's plan or to an Individual Retirement Account (IRA). You may rollover your employee contributions to another qualified plan, however, you will forfeit your right to a benefit from TCRS.

# ORP Overview

## Contributions

Your employer contributes an amount equal to 9% of your compensation and you contribute 5% of your compensation to your ORP account. Members are also auto-enrolled into the State of Tennessee 401(k) with a 2% employee deferral with the option to change the contribution rate or to opt out. The State will match the first \$50.00 of your monthly employee deferral. The 401(k) is a supplemental retirement savings plan and not part of your ORP plan.

## Vesting

All contributions made to the ORP and 401(k) plan are 100% immediately vested.

## Creditable Service for ORP

Benefits are based on your account balance. Contributions are credited to your account during service to a Tennessee public higher education institution that is a member of the ORP.

## Our ORP Investment Carriers

You can choose to direct contributions to one or more of the three investment carriers who work with the state of Tennessee's ORP plan: Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), Variable Annuity Life Insurance Company (VALIC), or Voya Financial. Each carrier offers a variety of investment funds and a broad array of fund categories.

## Transfers from the ORP to the State Retirement Program

If you join the ORP and decide later you would like to join the State retirement program, you have a one-time transfer option upon reaching 5 years of service. You must make, file the election, and remit funds to TCRS no later than the end of the calendar year following the year you reach 5 years of service. TCRS will notify eligible members of this opportunity.

## How Allocations Work

You elect to allocate both your contributions and the state of Tennessee's contributions to one or more of the three carriers. You may change the amounts of allocations for any future month as long as your payroll office can accommodate the change. You also decide what portions of your contribution and the state's contribution will go into each of the investment options, or into a fixed account. For your contributions with an ORP carrier, you may contact that carrier to change the allocations among investment options. Carriers offer education and assistance to help you make prudent choices for your account, or you may want to consult your own financial advisor.

## Transfers Outside Tennessee's Plans

Employees who qualify for a partial or total lump sum distribution may be eligible to transfer all or a portion of their Tennessee ORP account balance to another employer's plan or to an Individual Retirement Account (IRA).

# A Side-by-Side Comparison of the State Retirement Program and ORP Plan

	State retirement program for employees hired after July 1, 2014	ORP for employees hired after July 1, 2014
<b>Contributions to TCRS or ORP</b>	<b>Employer:</b> amount equal to 4% of your compensation <b>You:</b> 5% of your compensation	<b>Employer:</b> amount equal to 9% of your compensation <b>You:</b> 5% of your compensation
<b>Contributions to 401(k)</b>	<b>Employer:</b> amount equal to 5% of your compensation <b>You:</b> auto-enrolled at 2% of your compensation* * The State will match the first \$50.00 of your monthly employee deferral.	<b>Employer:</b> no employer contributions <b>You:</b> auto-enrolled at 2% of your compensation* * The State will match the first \$50.00 of your monthly employee deferral.
<b>Vesting</b>	Fully vested after 5 years of service in the defined benefit plan; immediately vested in all contributions to the 401(k) plan	Immediately vested from date of contributions
<b>How the benefit is determined</b>	Retirement benefit from the defined benefit plan is based on years of service, salary, and the payment option chosen, including credit for any unused sick leave (if applicable). The 401(k) benefit is your account balance upon retirement	Retirement benefit is based on your account balances upon retirement
<b>Creditable service</b>	Benefits based on years of service with Tennessee (1.0% annual service accrual multiplier), and other possible retirement credits; (e.g. up to 4 years of military service; unused sick time)	Not applicable to the ORP
<b>Benefit eligibility</b>	<b>Defined benefit plan:</b> 65 plus five years creditable service, or the Rule of 90 where age plus years of service equal 90. <b>Defined contribution plan:</b> eligible to begin receiving distributions from account balance at any age if separation from service has occurred, subject to IRS requirements.	Amount of benefit based on account balances. Members are eligible to begin receiving distributions at any age after separation from service, subject to IRS requirements.
<b>Disability</b>	Defined benefit plan members approved for disability may receive 90% of service retirement benefit that would have been payable.	Members who have separated from service and suffer from a total and permanent disability are eligible for an annual limited lump sum distribution not to exceed \$25,000 from their account if permitted by their investment provider. Upon termination of employment for any reason, Members may request an annuity settlement or lifetime distribution payout.
<b>Payout methods</b>	<b>Defined benefit plan:</b> vested members are eligible to select a single life annuity or joint and survivor annuities at retirement. <b>Defined contribution plan:</b> based on the member's account balance and can be distributed in lump sum payments, periodic payments, and required minimum distribution payments, among others.	Members are eligible to select a single life annuity, a joint and survivor annuity, periodic payments for their life expectancy or a minimum distribution payout beginning at age 70½, subject to the offerings of the product provider the member selects. Members whose ORP accounts total less than \$15,000 may file a Lifetime Distribution Exception form to qualify for a lump sum payment. In addition, any member who is beginning a lifetime payment plan may elect to receive a partial lump sum payment of up to 50% of the account balance at the time the lifetime payout or annuity payment begins.
<b>Cost of living adjustment</b>	<b>Defined benefit plan:</b> A member who has been retired for at least 12 full months on July 1 of each year is eligible to receive an increase in his or her retirement allowance if there is an increase in the Consumer Price Index of at least .5% for the preceding calendar year. <b>Defined contribution plan:</b> Not applicable.	Not applicable.
<b>Death benefits before retirement</b>	<b>Defined benefit plan:</b> Beneficiaries of members who die before they retire may be eligible for benefits. <b>Defined contribution plan:</b> The value of the total accumulation is payable to the listed beneficiary or the estate.	The value of the total accumulation is payable to the listed beneficiary or the estate. The beneficiary may be eligible to elect an annuity payout. Restrictions may apply.



## Enrollment Information

Please use the resources below to enroll in the plans or for help with your questions.

**For more information regarding RetireReadyTN**  
visit the RetireReadyTN website at:

[retirereadytn.gov](http://retirereadytn.gov)

**Get more information or enroll in the ORP plan**  
using one of the investment carriers below:

- TIAA (800) 842-2776
- VALIC (888) 569-7055
- Voya Financial® (866) 776-6704 x 2

**You should carefully consider your risk tolerance, investment horizon, retirement savings goals, and overall investment and retirement objectives prior to selecting a retirement plan and making any investment decisions. Past performance is not a guarantee of future results.**

The information in this guide is general in nature and may be subject to change without notice. In the event of a conflict between this guide and plan documents, the plan documents will take precedence. The state of Tennessee and its employees are not authorized to provide legal, financial or tax advice. Applicable laws and regulations are complex and subject to change. For legal and tax advice concerning your situation you should consult your personal legal, tax or other advisers.

It is your responsibility, as a plan participant, to select one or more of the investment options offered within the plan. Prior to making any investment decisions, you should consider the investment's objectives, risks, fees and expenses, in addition to considering the other investment options available to you in the plan. Annuities may be subject to additional restrictions, fees and expenses, to which other investment options may not be subject.

You should request and read the prospectus and additional information provided by the investment carriers associated with any investment option that you are considering. The risks associated with investing are numerous, and as with any investment, it is possible to lose money. The value of a 401(k) account or ORP account will fluctuate and it is possible for the value to be less than what was contributed.

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