Treasurer's Report

10-1-2022

2022 Annual Report

Tennessee. Department of Treasury.

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INTRODUCTION

MISSION
To invest in the well-being of Tennesseans through exceptional financial leadership, management, service, and education

VISION
To enrich the lives of Tennesseans as a national leader in public financial stewardship

The Tennessee Department of Treasury is responsible for many of the financial operations of state government, including managing and overseeing more than $103.9 billion in assets through its various investment programs. We administer the State's Retirement Program, RetireReadyTN, which combines the state pension plan, Tennessee Consolidated Retirement System, and the State's Deferred Compensation plan.

Treasury serves all Tennesseans by helping to educate and empower them to make smart financial choices and by providing public-serving programs in the areas of college savings, financial literacy, unclaimed property, criminal injuries compensation, risk management, and more.

For the fiscal year that ended June 30, 2022, the total budget for the Tennessee Department of Treasury was $64,191,459. Treasury received total state appropriations of $5,703,100 with the remaining $57,291,226 of the budget funded from revenues generated by the Department.

Treasury Budget FY 2022

Total Budget
$64 million

% State Appropriations
8.9%
% Revenues Generated by Treasury
91.1%
The Tennessee Department of Treasury works every day to benefit citizens across Tennessee by enhancing the State's financial resources through investments and financial management. From saving for college and retirement to finding unclaimed property, Treasury provides resources, services, and education to help grow the per capita income of families in Tennessee. The Economic Impact map below displays the financial significance of Treasury services and programs in each of Tennessee's 95 counties for the fiscal year ended June 30, 2022.

The amount calculated above includes money saved and interest earned by Tennesseans, as well as payments made to individuals by Treasury programs in each county. These programs include:

- Total assets in TNStars College Savings 529 Program accounts as of June 30, 2022
- Total assets in ABLE TN accounts as of June 30, 2022
- Total assets in RetireReadyTN 401(k), 457(l), and ORP accounts as of June 30, 2022
- CPA Program payments made during FY22
- Criminal Injuries Compensation and SAFE claims paid during FY22
- Tort Liability/Employee Property Damage claims paid during FY22
- EMIF (Electronic Monitoring Indigency Fund) claims paid during FY22
- Tennessee Consolidated Retirement System (TCRS) benefits paid during FY22
- Unclaimed Property returned during FY22
The Tennessee Department of Treasury's Investments Division is comprised of 37 professionals with extensive education, professional training, and 38 professional designations to manage its investments. The department achieves investment returns consistent with its peers while maintaining an investment expense among the lowest in the Southeast.

In fiscal year 2022, the Investments Division restructured the Cash Management and Operations section to improve management of the portfolio and increase transparency while reducing risks. This transition involved changing personnel, duties, and processes. Additionally, the Investments Division worked to strengthen processes by investing in information technology.

Selected Funds Managed Internally by the Treasury Investment Division:

- **Tennessee Consolidated Retirement System Trust (TCRS)**
  The largest fund managed by Treasury is the Tennessee Consolidated Retirement System, which is co-invested with the Tennessee Retiree Group Trust. Investment objectives for TCRS are to obtain the highest available return on investments consistent with preservation of the principal, while maintaining sufficient liquidity to react to the changing environment and pay beneficiaries in a timely manner. As of June 30, 2022, the market value of the TCRS fund was $61.7 billion.

- **State Pooled Investment Fund (SPIF) and the Local Government Investment Pool (LGIP)**
  The Treasury Department manages short-term investments for state and local governments through the State Pooled Investment Fund (SPIF) and the Local Government Investment Pool (LGIP). The SPIF, with a June 30, 2022 balance of $29 billion, includes the state’s cash, dedicated reserves and trust funds, and the balance of the LGIP of $5.8 billion. The LGIP provides short-term cash management to participating local governments.

- **Tennessee Promise Endowment Trust**
  As of June 30, 2022, the Tennessee Promise Endowment Trust had a market value of $759.1 million.
Treasury protects the retirement of state and higher education employees, K-12 teachers, and employees of participating local governments, as well as more than 150,000 retirees. There are 233,000 active members in the plan. RetireReadyTN is the state's retirement program, combining the strengths of a defined benefit plan provided by the Tennessee Consolidated Retirement System (TCRS), deferred compensation 401(k) and 457(b) plans, and retirement readiness education. We strive to empower public employees to take actionable steps toward preparing for the future.

RetireReadyTN takes pride in offering comprehensive financial education and retirement counseling to all members. Members can meet with any of the 16 local RetireReadyTN Plan Advisors (RPAs) for assistance with retirement planning or to discuss any other financial planning needs. These services are provided to members at no additional fee. RPAs conduct group meetings for employers, individual retirement counseling sessions for those within three years of retirement, and individual retirement readiness reviews for all members at any point in their career.

In fiscal year 2022, RetireReadyTN Plan Advisors conducted:

- 545 Group Meetings with a total of 12,436 Group Meeting Attendees
- 19,875 One-on-One Meetings

The RetireReadyTN Call Center answered a total of 169,886 calls in fiscal year 2022, with an average call score of 4.53 out of 5.
One of the top three best-funded pension plans in the country, the Tennessee Consolidated Retirement System (TCRS) portfolio was valued at $61.6 billion at the end of fiscal year 2022. The final investment return for fiscal year 2022 was -3.6%, as estimated by investment staff, compared to an actuarial assumption of 6.75%. While the portfolio had negative returns, TCRS still performed in the top 25% of all large pension peers. Member, employer, and other contributions made during fiscal year 2022 to fund the benefits promised to members totaled $1.8 billion (unaudited).

This year the 112th General Assembly appropriated a one-time contribution of $350 million to the TCRS State and Higher Education Plan, in addition to the actuarially determined contributions included in the fiscal year 2023 budget. To date, this is the largest lump-sum contribution, and it will continue to strengthen the pension system. In fiscal year 2022, TCRS paid a total of $2.96 billion to 150,753 retirees, over 92% of whom remain in Tennessee.

For every $100 paid out to retirees, $68.17 comes from investment earnings.

**GASB Funded Status**
**FY 2022**

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
<th>Funded %</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Legacy</td>
<td>$19,125,528,767</td>
<td>$18,513,680,650</td>
<td>103.30%</td>
</tr>
<tr>
<td>State Hybrid</td>
<td>475,025,582</td>
<td>390,279,076</td>
<td>121.71%</td>
</tr>
<tr>
<td>Teacher Legacy</td>
<td>31,049,698,479</td>
<td>26,736,458,112</td>
<td>116.13%</td>
</tr>
<tr>
<td>Teacher Hybrid</td>
<td>611,343,274</td>
<td>503,022,086</td>
<td>121.53%</td>
</tr>
<tr>
<td>Political Subdivisions*</td>
<td>14,221,634,571</td>
<td>12,616,704,579</td>
<td>112.72%</td>
</tr>
</tbody>
</table>

*In the aggregate. Each Political Subdivision is a separate liability pool.
The State Deferred Compensation Plan consists of a 401(k) and a 457(b) plan. In fiscal year 2022, there were $475.6 million in contributions made to the 401(k) plan and $45.6 million in contributions to the 457(b) plan.

Faculty and exempt employees of the University of Tennessee or the Tennessee Board of Regents may choose to participate in the Optional Retirement Plan (ORP), a defined contribution plan which had total contributions of $119 million in FY21. Treasury is also the plan administrator for higher education 403(b) plans which had total contributions of $33 million in fiscal year 2022.

Total contributions made to all deferred compensation plans in fiscal year 2022 totaled $673.3 million.

- 184,676 participants in the 401(k) plan
- 15,223 participants in the 457(b) plan
- 35,854 participants in the ORP
- 5,671 participants in the 403(b)
- As of June 30, 2022, 61,473 teachers are participating in the 401(k) plan
- 360 local governments are currently participating in the DC plan

Overall assets in the 401(k), 457(b), ORP, and 403(b) totaled $10.1 billion as of June 30, 2022.

### OUTREACH

Treasury Outreach has representatives in every region of the state working to increase and improve communications with local governments, employers, and retirement participants. The Outreach division educates employers participating in our retirement plans on the best retirement options for their employees and also works with counties and local governments not yet participating in our retirement plan to provide them with information about joining. Outreach also includes our Education and Review team, which trains employers how to report correctly and reviews past data for accuracy and compliance with TCRS policy.

Coming out of the COVID-19 pandemic, the Outreach operated in a hybrid fashion between in-person meetings and virtual meetings, while the Education and Review Teams conducted all employer meetings throughout the State in a virtual environment. There were 2,243 total employer meetings conducted in fiscal year 2022. Of those, 987 meetings were conducted by the Outreach team with 1,256 conducted by the Education and Review team. There were a combined 13,159 attendees in total for the teams’ efforts.

As of June 30, 2022, through the effort of the Outreach team, 354 local government employers now participate in the State of TN's 401(k)/457(b) programs. The Outreach and Education and Review Teams also onboarded 10 new local government employers to TCRS in fiscal year 2022. Lastly, the Outreach team has been actively promoting the newly created LOSAP (Length of Service Award Program) for volunteer fire departments. As of June 30, 2022, Outreach had conducted 86 meetings with prospective adopters of the program.
The Tennessee Financial Literacy Commission (TNFLC) strives to improve the lives of Tennesseans through financial literacy by providing innovative educational resources to Tennessee schools and families.

The Tennessee Financial Literacy Commission implemented a new strategic plan in fiscal year 2022. The plan included the launch of two new financial literacy education programs offered at no charge to Tennessee’s elementary and middle schools. The Commission partnered with the Tennessee State Museum on From Barter to Budget, a traveling trunk offering hands-on financial literacy learning activities combined with Tennessee history. These lessons align with Tennessee Academic Standards for Social Studies. The Commission also launched $martPath with great success in fiscal year 2022. Tennessee was ranked third in the nation for classroom usage of $martPath, reaching 78,359 students and engaging 1,475 teachers.

TNFLC continued to offer a virtual professional development series to Tennessee teachers. The webinar series engaged 348 teachers who earned a total of 1,265 professional development hours, bringing the total number of teachers trained in all TNFLC programs to 5,248 completing more than 25,000 hours of professional development.

TNFLC provides training and classroom materials for My Classroom Economy, a uniquely innovative classroom behavioral management program designed to instill basic financial responsibility and teach the value of delayed gratification. In fiscal year 2022, the Commission trained 195 teachers in My Classroom Economy, with 45 participating in a Master Class program.

In fiscal year 2022, the TNFLC partnered with UT Extension to offer Money Week, a weeklong celebration for first and second-grade classrooms. The partnership provided all needed teaching supplies, books, and other program materials in 12 Tennessee schools this year. It also allowed every student completing Money Week to receive a free take-home book about money.
The TNStars College Savings 529 Program helps families save money for college expenses by offering high-quality investment options at a low cost. TNStars ended fiscal year 2022 with $251.6 million in assets across 23,447 funded accounts. Account owners contributed $44.8 million into their savings accounts in FY22, a 15.6% increase over FY21.

During September 2021, as part of College Savings Month, TNStars awarded three winners (one in each Grand Division) a $529 scholarship. During our 2022 holiday promotion, one child was awarded a $5,000 scholarship into a TNStars account.

ABLE TN, one of the nation’s first Achieving a Better Life Experience programs, provides a valuable resource to help Tennesseans with disabilities save for future expenses.

At the end of fiscal year 2022, ABLE TN account holders had saved more than $35.4 million in 3084 accounts, with 461 new accounts established during FY22. Since the program was launched in 2016, ABLE TN account owners have earned $2.6 million through investment earnings.

Beginning January 1, 2022, the annual contribution limit increased from $15,000 to $16,000, enabling eligible individuals to save more for future disability expenses.
VOLUNTEER PUBLIC EDUCATION TRUST

The Volunteer Public Education Trust was established in 1985 to allow contributions to a perpetual trust fund with the income from the fund supporting Tennessee K-12 public education. The Tennessee General Assembly enacted legislation updating the fund and granted broader investment authority to allow more robust earnings in the future. The legislation authorizes the State Treasurer to accept contributions from any individual, association, trust, corporation, partnership, firm, venture, organization, governmental entity and political subdivision towards K-12 public education. Donors will have the option of directing a donation for a specific Local Education Agency (School District).

CHAIRS OF EXCELLENCE

The Chairs of Excellence Trust is a permanent trust fund authorized in 1984 to further the cause of higher education in Tennessee. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus creating a chair. Income from the chair is used to offset the cost of retaining a nationally or regionally recognized scholar at a state college or university who teaches in a specified academic area. The program is open to all state four-year colleges and universities, and the UT Space Institute.

A chair is authorized to spend 4% of the 3-year average market value of the chair; however, the corpus cannot be spent. Accordingly, only dividends, interests, and accumulated gains may be spent. Since 1984, a total of 100 chairs have been created. In fiscal year 2022, $9 million in payments were made to seven institutions.

The Treasury Investments Division is responsible for managing the assets of the Chairs of Excellence Trust. As of June 30, 2022, the balance of the Trust was $385 million.

CERTIFIED PUBLIC ADMINISTRATORS PROGRAM

The University of Tennessee Institute for Public Service administers the “County Official's Certificate Training Program Act.” Certain full-time county officials are eligible for an educational incentive payment if the officials have completed the continuing education requirements of the program. Educational incentive payments are issued annually by the Department of Treasury based on a list of eligible recipients provided by The UT Institute for Public Service.

The following table outlines county officials receiving payment in FY22 based on job type. The program made a total of $407,299 in payments.

<table>
<thead>
<tr>
<th>POSITION</th>
<th>TOTAL ELIGIBLE</th>
<th>POSITION</th>
<th>TOTAL ELIGIBLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessor of Property</td>
<td>36</td>
<td>Chief Administrative Officer of Highways</td>
<td>18</td>
</tr>
<tr>
<td>Circuit Court Clerk</td>
<td>40</td>
<td>Juvenile Court Clerk</td>
<td>2</td>
</tr>
<tr>
<td>Clerk and Master</td>
<td>47</td>
<td>Probate Court Clerk</td>
<td>0</td>
</tr>
<tr>
<td>County Clerk</td>
<td>54</td>
<td>Register of Deeds</td>
<td>61</td>
</tr>
<tr>
<td>County Mayor/County Executive</td>
<td>29</td>
<td>Sheriff</td>
<td>11</td>
</tr>
<tr>
<td>Criminal Court Clerk</td>
<td>1</td>
<td>Trustee</td>
<td>60</td>
</tr>
<tr>
<td>General Sessions Court Clerk</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>360</strong></td>
<td><strong>Total</strong></td>
<td><strong>360</strong></td>
</tr>
</tbody>
</table>

In addition to the incentive payments issued by the State, 11 county governments reported providing $61,847 in incentives for training and professional development completed by 58 County Officials.
Unclaimed property is money that has been turned over to the state by businesses and organizations that cannot locate the owners. This includes intangible assets such as bank accounts, stock certificates, checks, unclaimed wages, refunds, and gift certificates. The Tennessee Treasury’s Unclaimed Property Division serves as a consumer protection program working to reunite this money with its rightful owner. At the end of fiscal year 2022, there was $1.28 billion available to claim.

In fiscal year 2022, the Unclaimed Property Division returned 50,337 claims, resulting in $57.6 million paid to claimants. The Division continued a digital outreach effort during FY22. The Division focused on reaching Tennesseans in every corner of the state by providing unclaimed property information for each geographic region through targeted digital, radio, and printed ads.

Unclaimed Property hosted virtual training to share information about the reporting process to holders. Recorded training sessions are available for holders to access at any time under “Education and Resources” in the Unclaimed Property section of Treasury.tn.gov. In fiscal year 2022, businesses turned over $128.8 million to the Unclaimed Property Division.

*Updated as of 10/27/22.

### CRIMINAL INJURIES COMPENSATION FUND (CIC) & SEXUAL ASSAULT FORENSIC EXAMS (SAFE)

**CIC FY 2022**

- **4,118** Number of Claims Filed
- **1,252** Number of Claims Approved
- **$7.8 m** Amount of money paid out

**SAFE FY 2022**

- **2,428** Number of reimbursements
- **67** Number of facilities supported
- **$2.1 m** Amount of money paid out

The Criminal Injuries Compensation (CIC) Program provides financial assistance that defrays the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either an innocent victim of a crime or to the dependents of a deceased victim. Established also under the Fund is a process that provides reimbursement to facilities that perform sexual assault forensic exams (SAFE) for evidence collection concerning victims of certain sexually oriented crimes. Facilities must bill the SAFE Program (not the victim) and cannot seek any additional payment from the victim after payment.

As part of the strategic plan, Criminal Injuries focused on increasing training opportunities for advocates and law enforcement agencies. In fiscal year 2022, CIC provided training to 808 victim advocates from 490 agencies, more than double the previous year.
The responsibilities of the Division of Claims and Risk Management include protecting the financial integrity of all State-owned assets, maintaining a safe working environment for state employees and the general public, making determinations on claims made against the State Workers’ Compensation program by state employees, employee property damage and tort liability, as well as claims filed for Criminal Injuries Compensation, Sexual Assault Forensic Examination Reimbursement and the Electronic Monitoring Indigency Fund. The division also provides administrative support to the Tennessee Board of Claims.

CAPTIVE LEGISLATION
The 112th General Assembly passed legislation to allow the Tennessee Department of Treasury to form a Captive Insurance Company, which supports the State’s Cyber Liability and Property insurance programs. Implementing a Captive allows the State to self-insure losses up to deductible limits, access the wholesale reinsurance markets to reduce premiums, minimize volatility in pricing, underwrite the state’s own unique risks and reduce overall costs. The State’s total insured property values, which include all state and higher education institutions total $31.4 billion.

The captive is administered by the State Treasurer and is governed by the Tennessee Captive Insurance Board, composed of the State Treasurer, the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, and the Secretary of State. The Board has oversight of approving the budgets, captive management services, reinsurance brokers, investments, auditing, and financial reports.

ELECTRONIC MONITORING INDIGENCY FUND
The Electronic Monitoring Indigency Fund (EMIF) provides financial reimbursement to certified interlock installers and other alcohol and drug monitoring device companies for qualifying indigent participants required to have alcohol and drug monitoring/interlock or location monitoring devices as the result of a court order.

Only Ignition Interlock claims are 100% funded by the State. All other devices for eligible participants, such as transdermal, mobile breathalyzer, and GPS monitoring, are funded through a 50/50 cost sharing program between the State and each local government. There are 37 counties participating in this cost sharing program as of June 30, 2022.

The EMIF paid out a total of $1.2 million to reimburse vendors for both interlock and non-interlock monitoring devices used by indigent participants across the state, supporting 1,884 individuals.
FINANCIAL MANAGEMENT FOR THE STATE

CLAIMS AND RISK MANAGEMENT (CONT.)

WORKERS’ COMPENSATION
The Division of Claims and Risk Management administers the Workers’ Compensation Program providing coverage for about 90,000 employees who work for 41 State government agencies, 49 institutions of higher learning, and more. The Division works with CorVel, the State’s third-party administrator, to decrease expenditures for workers’ compensation by developing controls, financial strategies, and implementing technology to reduce losses from the actual expenses inclusive within all claims. The program continued to have extraordinary success in minimizing overall costs through these efforts. The total spend in FY2022 was $17.3 million for all open claims. Since 2014, the State has experienced consistent reduction in costs due to the adoption of a return-to-work program, more timely reporting of claims, improved technology to assist state agencies in managing employee claims via CareMC administration system, and a 24/7 nurse triage center to assist employees with less serious injuries.

TORT LIABILITY AND EMPLOYEE PROPERTY DAMAGE
Tennessee is one of the few states with a law that provides a method for persons who have been allegedly damaged by the State to file a claim for documented damage and, if appropriate, the claimant may be compensated for their loss or damage. Claims are paid through the Risk Management Fund.

Examples of claims filed against the State include:
- Negligent operation of motor vehicles or machinery
- Negligent care, custody and control of persons or property
- Professional malpractice
- Dangerous conditions on State-maintained highways and bridges
- Nuisances created or maintained by the State

The burden of proof is on the claimant, meaning the person filing the claim must provide proof of damage. Likewise, the State entity in question must have been aware of the risk and not acted in a sufficient amount of time.

In fiscal year 2022, the Division paid out $6.1 million to cover 307 claims.
**TREASURY AT-A-GLANCE**

**FISCAL YEAR 2022**

TENNESSEE MANAGES OR HAS PROGRAM OVERSIGHT OF **$103.9 billion**

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)**

- **Total Value**: $61.7 b
- **Benefits Paid**: $2.96 b

**DEFERRED COMPENSATION**

- **Total Assets in DC Plans**: $10.1 b
- **Local Governments Participating**: 360
- **Teachers Participating in 401(k)**: 61,473

**TOTAL VALUE OF THE STATE POOLED INVESTMENT FUND (SPIF)**

SPIF includes $5.8 billion for LGIP Local Government Investment Pool (LGIP)

- **Value**: $29 b

**TENNESSEE FINANCIAL LITERACY COMMISSION (TNFLC)**

- **Teachers Trained**: 5,248
- **Professional Development Completed**: 25,055 hours

**ABLE TN**

- **Account Holders Saved**: $35.4 m
- **Accounts**: 3,084

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*Image and text content from Tennessee Department of Treasury*
TNSTARS COLLEGE SAVINGS 529 PROGRAM

- Over $251.6 m saved by account holders
- 23,447 accounts

TENNESSEE INVESTMENTS PREPARING SCHOLARS (TIPS)

- $105,565 families saved in their TNStars accounts

UNCLAIMED PROPERTY

- 50,337 claims returned resulting in
- $57.6 m paid to claimants
- $1.28 b Amount waiting to be claimed

CRIMINAL INJURIES COMPENSATION (CIC) & SEXUAL ASSAULT FORENSIC EXAMS (SAFE)

- CIC
  - 4,118 Number of Claims Filed
  - 1,252 Number of Claims Approved
  - $7.8 m Amount of money paid out

- SAFE
  - 2,428 Number of reimbursements
  - 67 Number of facilities supported
  - $2.1 m Amount of money paid out

CLAIMS AND RISK MANAGEMENT

- Insured Property Value for the State as of June 2022: $31.4 b

WORKERS COMPENSATION

- 2,230 Claims Filed
- 1,760 Claims Approved
- $17.3 m Amount paid FY22

TORT LIABILITY and EMPLOYEE PROPERTY DAMAGE

- 5,203 Claims Filed
- 307 Claims Approved
- $6.1 m Amount paid FY22
The Tennessee Department of Treasury's operating divisions are housed in the Andrew Jackson State Office Building. For more information, visit treasury.tn.gov.