Oregon University System

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September 23, 2013

Professor Marc Feldesman
[ADDRESS – see e-mail]

Re: September 18, 2013 information about the ORP

Dear Marc:

It's been a while since you and I have worked together at PSU and I hope this letter finds you well. I'm writing to give you more information about the changes to the OUS Optional Retirement Plan (ORP). These are separate from the various measures that will be considered in the special session of the legislature that is scheduled to take place on September 30, 2013.

In 2011 after the passage of SB 242, an OUS joint labor-management committee was established and worked at the direction of the legislature to prepare recommendations on the ORP. These changes manifested into SB 269 that was passed by the 2013 Legislature. The intent of these changes was threefold:

1. **To provide uninterrupted participation for part-time employees, including adjunct faculty, in the plan.** Beginning upon Board adoption of the plan changes effective November 1, 2013 (currently scheduled to be adopted October 4, 2013), an academic or administrative employee who meets the initial eligibility requirements that are equivalent to PERS' initial eligibility will no longer be at risk of losing her or his contributions at the end of the year due to schedule and workload variations. This is especially important for ORP participants who self-pay their member contribution and who previously lost the use of that money due to inadequate hours worked during the year whentheir contributions were refunded to them at the end of each plan year. This change is expected to be effective this year for all ORP participants, regardless of tier and date of hire. Now, once an employee meets the initial eligibility threshold, they will be eligible for contributions regardless of the hours worked each year.

2. **To ensure future ORP participants of stability in their contribution rate.** Beginning with employees hired on or after July 1, 2014, the ORP will offer a new Tier 4 contribution structure. ORP contribution rates remain as they have been for Tier 1, Tier 2, and Tier 3. The Tier 4 rate structure was designed to provide a "floor" rate for employer contributions at 8% of compensation and to create an alternative for the employee contribution. Currently the employee contribution could change with changes to the PERS Individual Account Program (IAP), if any are proposed. Instead, Tier 4 ORP participants will receive up to a 4% "match" of their voluntary deferrals to the OUS 403(b) plan. Altogether, a Tier 4 participant who takes full advantage of the plans would have a combined contribution and savings rate of 16% (12% employer paid and 4% employee contributed) toward retirement. This change is intended to encourage employees to save adequately for retirement in the new era of lower expected investment returns, and to make it easier for participants to increase their 403(b) pre-tax deferrals as their incomes increase during their careers at the public universities.

The committee's rationale for this contribution structure is explained in detail in their report that is available at the http://www.ous.edu/about/SB242, and is briefly described in the attached 2013 Legislative Issue Brief for SB 269.

3. **To permit investment menu construction that reflects current market/vendor capabilities and provides low-cost, high-quality investment choices.**
   The Committee recognized that ORP participants value their current vendor relationships while at the same time acknowledging there could be efficiencies and cost-savings for participants and administration by using alternatives to multiple-vendor plans that were the norm when the ORP began in 1995. The old statute required that we offer two mutual fund and two annuity providers to ORP participants. SB 269 changed this and current law no longer requires specific numbers or type of vendors. This change provides flexibility for the universities to take advantage of the advances in recordkeeping systems and plan designs more efficiently in the future and allows aggregation of assets to drive down plan costs for both the employee and employer.

We are hopeful that these changes will resolve some problems that resulted from applying rules intended for a defined benefit plan to the defined contribution Optional Retirement Plan, thereby allowing the ORP to function in a more thoughtful and equitable manner for our employees while minimizing the costs (to both the employee and employer) associated with these plans. Please feel free to upload this letter and attachment to your website if you are so inclined. Thanks again for all the great work you do in disseminating information about these important public employee benefit plans.

Sincerely,

Submitted electronically

Jay D. Kenton
Vice Chancellor for Finance and Administration
Oregon University System

Attachment