

SB 269: UPDATING OPTIONAL RETIREMENT PLAN (ORP)

Summary of SB 269 Changes

In 1995, the Oregon University System sought and received authority to provide an optional retirement plan (ORP) designed to support career mobility of faculty and university employees who typically move among institutions of higher education. During the ensuing 18 years, the retirement industry and plan designs have continuously evolved to offer increasingly sophisticated investment choices, participant education, and administrative systems. **This bill is beneficial for OUS employees and designed to not increase costs for the university system.**

Today, three updates are needed to its original design in order to gain cost savings and increase effectiveness for current and future participants. Those include changes that will (1) **optimize the selection of investment options**; (2) provide **uninterrupted participation in this retirement plan regardless of schedule variations** of full-time faculty as well as term-by-term adjuncts and administrative faculty; and (3) ensure that future employees benefit from **contribution rate stability** for retirement planning and sufficiency.

Consolidation for Cost Savings and Clarity

Consolidation of assets and investment choices are the areas where cost-efficiency will be found with the changes in SB 269, and where participants who direct their own OPR investments will see a plan better designed for their varied needs. The original ORP design developed in 1995 creates cost and confusion for participants that **can be corrected by removing an outdated requirement for at least two life insurance companies and two mutual fund companies to serve the plan**. Since 1995, the emerging popularity of mutual funds over annuity products has led insurance companies to enter the mutual fund market and mutual fund companies to offer insurance annuity products on custom-designed investment menus. **By aggregating investments into professionally-advised investment menus, participant and plan costs decrease.** Making these investment changes will retain the best features and the diverse number of selection options of existing providers' services while maximizing benefits for participants.

Uninterrupted Participation for Part-time Employees

Employment patterns in higher education vary widely, from full time, year around continuous employment to term-by-term teaching of a single course. Currently, the academic year shortens total hours worked that are required for retirement benefits eligibility. **Senate Bill 269 seeks to revise OAR 243.800 to permit OUS to develop eligibility standards that can be implemented and maintained for ORP participants in higher education while retaining the PERS initial eligibility requirements.** With this change, a participant's ORP retirement account will no longer be subject to annual retrospective corrections to remove contributions if the individual's varying schedule creates a shortfall in worked hours. Instead, a small retirement contribution is

ORP Statistics*

- Total Plan Assets: \$495 million
- Active Participants: 3,400
- Total Accounts: 6,300
- Eligible employees who elect the ORP: 27%

*31-Dec-2012

made on behalf of part-time employees who do not otherwise have access to a pension, and the university system is able to recruit adjunct instructors and to retain them year to year, in part due to this benefit.

Gaining Contribution Rate Stability with SB 269

When the ORP was proposed in 1995, defined contribution plans were a new concept for governmental entities in Oregon and in other states that adopted similar contribution rates linked to their existing defined benefit plans. Consequently, employees who choose the ORP must accept the risk of uncertain contribution rates over time. **SB 269 prospectively establishes an ORP contribution tier that is not subject to future PERS rate changes** for new hires after July 2014, and that **incentivizes voluntary retirement savings by participants** with a contribution match. **Contribution rates for current ORP participants will not be affected by SB 269**, but they will have the benefit of improved plan designs, costs and eligibility rules.

Benefits of SB 269 Changes:

- With these updates retirement **investment choices, costs, and stability will improve** for participants.
- Administrative simplification will **reduce the number of custom solutions and processes** required to operate the plan.
- Current employees will **benefit from eligibility and investment menu changes**, and their existing **contribution rates will remain unchanged**.
- New employees hired after July 1, 2014, will have **stable and known employer contribution rate, and a match incentive** to participate in a voluntary retirement savings plan.

SB242 Optional Retirement Plan Committee Recommendations

In 2012, the Oregon University System, under the Senate Bill 242, Section 43, convened an Optional Retirement Plan (ORP) Review committee comprised of representatives of public university management and employees, both represented and unrepresented, to evaluate options for the Optional Retirement Plan that operates under ORS 243.800. The committee submitted their recommendation report to the legislature on November 28, 2012. SB 269 represents the committee's recommendations that are published at <http://www.ous.edu/about/SB242>

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