

# ***Competitive Compensation & Adequate Funding of the MUS Optional Retirement Program (ORP) ---***

## **BACKGROUND**

In the late 1980s and early 1990s, the Legislature and Montana University System (MUS) adopted an “optional retirement program” (ORP) for university faculty. In 1993, all new and future-hired faculty were mandated into the ORP. As of 2007, more than ½ of all faculty statewide are enrolled in the ORP rather than in TRS. By 2015 or so, it is likely that 90%+ of Montana faculty will be enrolled in the ORP.

The ORP investment program is and has since inception been administered by TIAA-CREF. Under the ORP, employee contributions of 7.15% are placed directly into individual TIAA-CREF accounts rather than be contributed to TRS. Until FY08, MUS employer contributions of 4.956% were paid to members ORP accounts. Beginning in FY08, this employer contribution was increased by 1% to 5.956%. Until FY08, MUS also paid TRS 4.07% of salary to amortize past and future service liabilities for faculty remaining in TRS. This MUS ORP past and future liability payment was increased to 4.72% in FY08.

## **PROBLEM**

Combined employee and employer contributions to individual ORP accounts were limited by 19-21-203(1) MCA to 12% of ORP enrollees’ salary until FY08. Following enactment of HB95 (2007 legislature, Rep. Alan Olson) combined employee and employer contributions increased to 13%. MUS contributions to ORP member accounts remain far less than commonly contributed by other public university systems to member TIAA-CREF accounts in other western states. (See page 3 below.) The shortfall in MUS contributions to accounts undermines compensation levels for a growing share of Montana’s university faculty and reduces MUS competitiveness when seeking to recruit and retain faculty within the MUS system.

## **2. PROPOSED CHANGE – WHAT THE PROPOSED LEGISLATION WOULD DO**

The proposed legislation would amend 19-21-203(1) MCA, raising the combined employer and employee contribution to individual accounts from 13% of ORP enrollees’ salary to 14%. The proposal would increase the MUS employer’s contribution from 5.956% (or 6%) to approximately 7% of salary. The change is estimated to cost less than \$3m in FY2012 and \$3.5m (in FY13, and probably by \$4m per year in FY14 and in FY15. Thereafter, with virtually all faculty enrolled in the ORP, paying for increasing ORP by 1% would increase in relation to overall MUS faculty and administrative increases.

## APPLICABLE MCA PROVISIONS

19-21-203. Contributions. The following provisions apply to program participants not otherwise covered under 19-21-214:

- (1)(a) Each program participant shall contribute an amount equal to the member's contribution required under 19-20-602.
- (b) Each month the board of regents shall contribute an amount that, when added to the participant's contribution, is equal to ~~4~~ 2% of each participant's earned compensation....
- (2)(a) The board of regents may:
  - (ii) increase the employer's contribution to an amount not greater than ~~6~~ 7% of the participants earned compensation....
  - (b).... And the employer's contributions made under subsection (1)(c) must remain at ~~13~~ 14 % of the participant's earned compensation.

## PROPOSAL ONLY AFFECTS TRS-ORP MEMBERS

This proposal only affects TRS-ORP members as they are the only group of government employees who are involuntarily enrolled into the ORP upon hire.

This proposal for the 2011 Legislative session carries forward the good work done by HB95 in 2007 by Representative Olson. Increasing the MUS contribution to faculty ORP accounts moves Montana faculty 1% closer to competitiveness with other western states public employer paid contributions to their ORP retirement accounts.

**Sponsor: TBD.**

For more information, contact:

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**“OPTIONAL RETIREMENT PROGRAM” (ORP) PROPOSAL  
FOR RETIREMENT SYSTEM LEGISLATION (for the 2011 Legislative Session)**

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PROPOSER'S NAME/TITLE: Senator or Representative TBD

ORGANIZATION: Tom Bilodeau, MEA-MFT (also see 1 page attachment)

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1. Which retirement systems would be covered by the legislation? If the proposal is limited to certain systems, please indicate the reason(s).

TRS-ORP (higher education faculty and administration only). This proposal only affects TRS-ORP members as they are the only group of government employees who are involuntarily enrolled into the ORP or any DC program upon hire.

2. What is the problem or issue?

a) Combined employee and employer contributions to individual ORP accounts were limited by 19-21-203(1) MCA to 12% of ORP enrollees' salary until FY08. Following enactment of HB95 (2007 legislature, Rep. Alan Olson) combined employee and employer contributions increased to 13%. MUS contributions to ORP member accounts remain far less than commonly contributed by other public university systems to member TIAA-CREF accounts in other western states. The shortfall in MUS contributions to accounts undermines compensation levels for a growing share of Montana's university faculty and reduces MUS competitiveness when seeking to recruit and retain faculty within the MUS system.

b) Inadequate income replacement upon retirement of ORP faculty.

c) Adequacy of TRS-ORP funding.

3. What do you want the legislation to do?

The proposed legislation would amend 19-21-203(1) MCA, raising the combined employer and employee contribution to individual accounts from 13% of ORP enrollees' salary to 14%. The proposal would increase the MUS employer's contribution from 5.956% (or 6%) to approximately 7% of salary.

4. If possible, please list the Montana Code Annotated (MCA) sections that would need to be amended.

17-7-502 MCA (if statutory appropriations are chosen for funding)

19-21-203. Contributions. The following provisions apply to program participants not otherwise covered under 19-21-214:

(1)(a) Each program participant shall contribute an amount equal to the member's contribution required under 19-20-602.

(b) Each month the board of regents shall contribute an amount that, when added to the participant's contribution, is equal to ~~4~~ 2% of each participant's earned compensation....

(2)(a) The board of regents may:

(ii) increase the employer's contribution to an amount not greater than ~~6~~ 7% of the participants earned compensation....

(b).... And the employer's contributions made under subsection (1)(c) must remain at ~~13~~ 14 % of the participant's earned compensation.

5. If the proposed change requires additional funding, what funding sources do you propose (i.e., an increase in employer contributions, employee contributions, both, other?)

The change is estimated to cost less than \$3m in FY2012 and \$3.5m (in FY13, and probably \$4m per year in FY14 and in FY15. Thereafter -- with virtually all faculty enrolled in the ORP -- paying for increasing ORP by 1% would increase in relation to overall MUS faculty and administrative increases. It is anticipated that the state general fund commitment to the MUS would be increased by statutory or other on-going appropriation to fully 'reimburse' the MUS system's costs for implementing this proposal.

6. Has similar legislation been requested in the past, been considered in another state, or provided as a model act? If so, please provide a citation, reference, or point of contact.

Identical legislation (HB87) was sponsored by Representative Sue Dickinson in the 2009 Legislative session. Similar legislation was presented by Representative Alan Olson in 2007 and by others in prior legislative sessions.

7. If you are a holdover senator or legislative candidate running unopposed, do you want the Legislative Services Division to consider this a bill draft request?

TBD.

PLEASE RETURN THIS FORM BY MARCH 31, 2010

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