

EXHIBIT 2
DATE 2-2-05
HB 430

A "Competitive & Equitable" Fix for MUS Optional Retirement Program (ORP) Members – HB 430

Sponsored by Representative Holly Raser of Missoula

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 2002, slightly more than ½ of all faculty statewide are enrolled in the ORP rather than in TRS. By 2010 or so, it is likely that 95% 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 pension contributions of 7.044% are placed directly into individual TIAA-CREF accounts rather than be contributed to TRS. The MUS employer contributions to members ORP accounts is 4.956%, and MUS also pays TRS 4.04% of salary to amortize past and future service liabilities for faculty remaining in TRS. Combined employee and employer contributions to individual ORP accounts amounts to 12% of ORP enrollees' salary. This total contribution to ORP accounts is roughly 2.6% less than combined employee (7.15%) and employer (7.47%) – or 14.62% contributions to TRS for TRS enrolled faculty.

PROPOSED CHANGE

The proposed "ORP Fix" addresses 2 major issues. First, it makes the State liable for paying the University system's current TRS-ORP current future liability contributions to TRS, over a four year phase-in window. These "current and future liability" expenses may be considered the "transitional costs" of establishing the ORP as a mandated alternative to the defined benefit Teacher Retirement System (TRS) pension program. In MEA-MFT's view, all transitional costs to a mandated program should be state funded by a standing statutory appropriation.

The University's FY04 ORP TRS future liability rate paid to TRS is 4.04% of all university faculty payroll. The proposed "fix" would have the state general fund, by statutory appropriation, assume the full 4.04% cost within four years, and then until the entire liability is paid-off in 2033. Future state assumption costs will remain at 4.04% of salary (or fluctuate per investment earnings and/or by adjustment of the amortization period to a maximum of 30 years) but the annual dollar cost will increase in step with payroll increases.

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Second, the proposed “fix” would increase the University employer’s contribution paid into faculty TIAA-CREF ORP accounts from 4.956% of salary to the “normal” TRS contribution rate of 7.47%, within a four year phase-in window. With about ½ of the university’s faculty payroll committed to ORP/TIAA-CREF enrollment, the adjustment in MUS TIAA-CREF contributions will increase MUS payroll costs by approximately \$1 million to \$2 million per year during the coming biennium. The additional contribution cost payable by the university system would allow ORP enrollees to receive the same employer rate of contribution as MUS contributes to TRS on behalf of TRS enrolled faculty.

This change can be seen as a pay equity adjustment for all MUS faculty. The additional ORP compensation contribution will help make the MUS more competitive when attempting to hire and retain new faculty, although basic wage levels and overall TIAA-CREF contributions remain “low” compared to peer institutions. See attached “TIAA-CREF Contributions” document for contribution amounts in other states.

The ORP “fix” promotes a number of policy goals:

Equity – This proposal would allow ORP enrollees to receive the same 7.47% employer contribution into their TIAA-CREF accounts as TRS enrollees receive as an employer contribution to TRS.

Staff Morale and Administrative Payroll Processing – In terms of employee compensation, this proposal would treat all MUS faculty “the same” regardless of their enrollment in TRS or ORP. Similar treatment should improve morale of staff and modestly simplify local campus payroll systems.

Staff Recruitment & Retention – This proposal will improve the competitiveness of University faculty compensation offers made to new staff and encourage recently employed University faculty staff to remain employed with the MUS.

Certainty of ORP Future Liability Costs – Direct statutory appropriation providing state payment of ORP liability costs to TRS (the 4.04% rate) will simplify budget projections for the university and facilitates sound management of remaining ORP unfunded liability costs.
