

***Competitive Compensation & Adequate Funding of the
MUS Optional Retirement Program (ORP) ---
HB87 (2009) – Representative Sue Dickenson***

Before the House State Administration Committee – January 19, 2009
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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 expected to cost less than \$1.8m in FY2010 and \$2m in FY11, thereafter increasing 1% of the rate of growth in ORP enrolled faculty payroll.

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HB87 -- 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 ~~1~~ 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.

HB87 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.

HB87 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.

Please vote "yes" on HB87 (as amended by the sponsor at hearing).

TIAA-CREF ORP CONTRIBUTION RATES AMONG WESTERN STATES – 2008

State	Name of Plan	Employer %	Employee %	Total %
Alaska	University of Alaska Optional Retirement Plan I and II	16.33	8.65	24.98
Arizona	Arizona Board of Regents Optional Retirement Plan	7.00	7.00	14.00
California	N/A	N/A	N/A	N/A
Colorado	University of Colorado 401(a) DCP	10.00	5.00	15.00
Idaho	Idaho Optional Retirement Plan	7.72	6.97	16.79
Montana	Montana University System ORP - 401(a) Faculty	5.96	7.04	13.00
	Montana University System Staff ORP	4.49	6.90	11.39
Nevada		10.50	10.50	21.00
New Mexico	New Mexico Alternate Retirement Plan	8.65	7.60	16.25
North Dakota	North Dakota University System 401(a) Defined Contribution Retirement Plan	<= 10 years 9.50%; >10 years 10.00%	<= 10 years 1.50%; >10 years 2.00%	<= 10 Years 11%; > 10 years 12%
Oklahoma	Oklahoma State Alternate Retirement Program	11.50	0.00	11.50
Oregon	Oregon Optional Retirement Plan	8.52	6.00	II: 8.52 ⁶
South Dakota	N/A	N/A	N/A	N/A
Utah	Utah Retirement System	14.20	0.00	14.20
Washington	Central Washington University Defined Contribution Plan (for example)	< 35 years old: 5% >= 35 but <= 50: 7.5% > 50: 10%	< 35 years old: 5% >= 35 but <= 50: 7.5% > 50: 10%	< 35 years old: 10% >= 35 but <= 50: 15%
Wyoming	Various	11.25	0.00	11.25

MONTANA UNIVERSITY SYSTEM
RECRUITMENT & RETENTION TASK FORCE

ADVISORY REPORT TO THE BOARD OF REGENTS

IMPROVING THE ABILITY TO HIRE AND KEEP CAPABLE EMPLOYEES

FACULTY, PROFESSIONALS, ADMINISTRATORS

Optional Retirement Program:

The Task Force recommends ongoing commitment to increasing the employer contribution in the Montana University System Optional Retirement Program (ORP).

Most faculty, administrators, and professionals hired under individual employment contracts are members of the Optional Retirement Program (ORP). This is a "defined-contribution" retirement plan in which the employee directs the investments and assumes all the risks. Faculty, administrators, and contract professionals, unlike most public employees, don't get to choose between a defined-contribution plan and a traditional "defined-benefit" pension (*defined-benefit pays a guaranteed amount with no employee assumption of risk*). Until 2007, the employer's contribution was an amount equal to 4.96% of the employee's salary, but the Legislature passed and Governor signed a measure to increase the contribution to 5.96% of salary. Although still a relatively low amount, the Task Force appreciates this increase.

Prospective faculty, administrators, and professionals “shop and compare” when they are considering jobs. Retirement benefits are a significant part of an employment compensation package. Montana’s employer contribution of 5.96% of salary lags behind the average of about 9% in the Western states. The Task Force acknowledges the significance of the recent increase in the employer contribution, but recommends continued commitment toward increasing the benefit toward the 9% Western states average.

SUBMITTED to the Commissioner of Higher Education and the Montana Board of Regents this 22nd day of August, 2007, by the following members of the Recruitment and Retention Task Force:

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