

Moving Toward “Competitive Compensation” for MUS Optional Retirement Program (ORP) Members

An MEA-MFT Proposal for the 2007 Legislative Session
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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 2006, 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. MUS employer contributions of 4.956% are to members ORP accounts, and MUS also pays TRS 4.04% of salary to amortize past and future service liabilities for faculty remaining in TRS.

1. PROBLEM

Combined employee and employer contributions to individual ORP accounts are limited by 19-21-203(1) MCA 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. MUS contributions to ORP member accounts are 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.

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 12% to 13% of ORP enrollees’ salary. The proposal (a preliminary draft appears below) would increase the MUS employer’s contribution from 4.956% by +1%, to 5.956% of salary.

This +1% increase in MUS contribution to ORP accounts is estimated to cost an additional \$1.1 million in FY07 and \$1.15 in FY08. The proposal would provide a state general fund statutory appropriation to fund the MUS’s additional cost.

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3. APPLICABLE MCA PROVISIONS

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

(1) Each program participant shall contribute an amount equal to the member's contribution required under 19-20-602. The board of regents shall contribute an amount that, when added to the participant's contribution, is equal to ~~12~~ 13% of the participant's earned compensation.

Additionally, 17-7-502 MCA would need to be amended to provide for a statutory appropriation.

4. 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.

5. PROPOSAL INCREASES EMPLOYER CONTRIBUTION BY 1% -- FUNDED BY STATE STATUTORY APPROPRIATION

6. PROPOSAL IS NARROWER THAN PROPOSALS PUT FORWARD IN 2003 AND 2005

Both HB611 (Rep. Facey) in 2003 and LC1467 (Rep. Raser) in 2005 proposed that the state general fund assume MUS's current prior and future fund liability payments from the MUS (up to 4.04% of ORP covered salary and increase the MUS employer account contribution level from 4.956% to as much as 7.47% of salary. The current proposal only affects MUS contributions to TRS-ORP member account and only raises these contributions by 1% of salary.

7. HOLD-OVER LEGISLATOR – BILL DRAFT REQUEST

At this point, no holdover legislator has been contacted regarding a bill request.