An Overview of TRS and ORP

For Employees Eligible to Elect ORP

Prepared by: Texas Higher Education Coordinating Board Staff
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Note to ORP-eligible Employees:

This document contains basic information about the Texas Optional Retirement Program (ORP) and the Teacher Retirement System of Texas (TRS) to help you make your one-time irrevocable choice between these two distinct plans that are suited to different individual needs. Prepared by staff of the Texas Higher Education Coordinating Board, this information is provided by each institution to ORP-eligible employees on or before the employee's 90- day ORP election period begins. The information in this document reflects plan changes effective September 1, 2013. Both the ORP and TRS plans are subject to change by state law or governing board rule changes. In case of conflict between this summary and applicable laws and rules, the laws and rules control.

It is recommended that you read this entire document. However, for quick reference, read the following sections:

- *Executive Summary (page i)*
- *Key Points about ORP (page 14)*
- *Summary (page 15)*

For specific information about the Optional Retirement Program at your institution, please contact your Benefits Office, Human Resources Office, or Business Office*.*
(Location of ORP Administrator varies by institution.)

For general information about the Optional Retirement Program or this document:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711

(512) 427-6193
e-mail: texorp@thecb.state.tx.us

ORP Website: www.thecb.state.tx.us/orp

For more information on the Teacher Retirement System and its benefits:

TRS Information Center
(512) 542-6400 or (800) 223-8778

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701

TRS Website: www.trs.state.tx.us

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EXECUTIVE SUMMARY

Retirement Plan Options

All public higher education and public K-12 education employees employed in a position that is eligible for the Teacher Retirement System of Texas (TRS) are **automatically enrolled in TRS** on their first day of employment. Full-time faculty, librarians, and certain professionals and administrators employed in public higher education are eligible to elect the Optional Retirement Program (ORP) in lieu of TRS **before the 91st day** after becoming eligible. It is a **one-time irrevocable choice** between two distinct plans that are suitable to different individual needs, so the decision should be made very carefully after considering both plans in light of personal circumstances. In addition to reading this overview, ORP-eligible employees should obtain specific information from their employer's Benefits Office, TRS and its website (www.trs.state.tx.us), and their employer's authorized ORP company representatives and websites. Other information sources include colleagues, personal financial advisors, financial market news, and insurance company rating services.

Plan Design

The TRS plan is a traditional defined benefit state retirement program in which investment risks are generally absorbed by the state. Contributions go into a large trust fund that is managed by experienced investment professionals who focus on prudent portfolio management with a diversified investment strategy. This type of plan provides stability and does not require any investment decisions by individual members. Service credit is earned on the basis of required minimum service in a school year, and members also may be eligible to purchase additional service credit (*e.g.*, military service or out-of-state public school service).

Retirement benefits are based on statutory formulas. The monthly standard annuity is currently calculated as the number of years of service credit multiplied by 2.3 percent of the average of the highest five annual salaries and then divided by 12. A standard annuity is available at age 65 with at least five years credit or at age 60 with at least five years credit if age plus years of service credit is at least 80 (Rule of 80). (Persons who became TRS members before 09/01/2007 and maintain membership until retirement can receive an unreduced annuity at any age they meet Rule of 80 with a minimum of five years credit.) Early age retirement is available with other combinations of age and years of service credit; the annuity amount is actuarially reduced to reflect that benefits begin at an earlier age. A standard annuity, whether normal age or reduced for early age retirement, is payable for the life of the retiree. Annuity payment options provide income to a retiree for life and may continue to provide payments to a beneficiary for a specified number of years after the retiree's death or for the life of the surviving beneficiary. Upon termination from Texas public higher education (or public K-12 education), TRS members who do not desire a retirement benefit may withdraw employee contributions plus five percent interest, but state contributions remain in the fund. TRS also provides death and disability coverage from the first day of membership. System administrative costs are paid with a very small percentage of investment income.

ORP is an individualized defined contribution plan in which each participant selects from a variety of investments offered by several companies (authorized by the employing institution) through annuity contracts or mutual fund investments. Because participants manage their own personal investment accounts, ORP entails more individual risk and responsibility than that associated with TRS membership. The purchase of military service is not available for ORP participants, due to the structure of the defined contribution plan.

ORP benefits are a direct result of the amounts contributed and any net return on the investments selected by each participant. Upon termination from Texas public higher education, ORP participants with more than one year of participation retain control over all investments (both employee and state contributions). Participants who terminate with one year or less of initial participation forfeit state contributions made during that period of employment. ORP retirement benefit distributions are determined by plan provisions, individual contract provisions, federal income tax law, and personal preference, with varying options such as complete or periodic withdrawals, or annuity income for a specified number of years or for life. ORP has no provisions for death and disability benefits similar to those provided by TRS. Administrative costs are paid by the participant through varying fees, “loads” and/or amount of interest paid.

Contributions

Both the employee and the state make monthly contributions to TRS and ORP based on percentages of the employee’s salary. The percentages are established by the Texas Legislature and may fluctuate over time. Employee contribution rates for TRS are 6.4% from 09/01/2013 - 08/31/2014 and will increase to 6.7% effective 9/1/2014 – 8/31/2015. The state contribution rate for TRS is 6.8% from 09/01/2013 - 08/31/2014 and remains at that rate to 8/31/2015. The ORP participant (employee) rate is 6.65% and the state contribution rate for ORP is 6.6% from 09/01/2013 - 08/31/2015. Institutions are authorized to provide local supplements to the ORP state base rate (up to 1.9 percent). TRS/ORP contributions are not subject to federal income tax until withdrawn or paid as benefits.

For additional information about the Optional Retirement Program administered by the employing institution, individuals should contact that institutions Benefits Office, Human Resources Office, or Business Office.

An Overview of TRS and ORP

for Employees Eligible to Elect ORP

INTRODUCTION

History

The Teacher Retirement System (TRS) is a traditional defined benefit state retirement program covering all eligible public higher education and public K-12 education employees in Texas since 1937. The TRS plan provides valuable retirement benefits to encourage and reward long-term service. In 1967, when the Optional Retirement Program (ORP) was created, TRS required 20 years of creditable service to qualify for a service retirement. Because higher education faculty, librarians, and certain professionals and administrators have careers which normally involve interstate mobility, it was determined that a more "portable" retirement program option would substantially improve Texas public higher education's ability to compete for quality employees at the national level. Providing two different types of plans helps address the varying individual needs of prospective employees, thereby enhancing recruitment.

"Portability" refers to the opportunity for individuals to maintain their retirement savings as they become employed at different colleges and universities across the nation. Most institutions offer ORP-type plans for this purpose, and often it is the only plan available to faculty members. Defined benefit retirement plans such as TRS provide some interstate portability by permitting members to purchase limited amounts of out-of-state credit under certain conditions, but this option does not usually allow automatic or unlimited credit for previous employment covered by participation in ORP-type plans and may not allow credit at all for employment with a private higher education institution. However, changes to state retirement laws and federal tax laws have increased the portability of both types of plans. TRS changes include a reduction in the minimum service credit requirement to five years, new types of service credit available for purchase, more flexible transfer provisions with the Employees Retirement System of Texas (for state agency employees), and liberalized rollover opportunities now allowed under federal tax law.

One-time Irrevocable Decision

All full-time public higher education and public K-12 education employees are **automatically enrolled in TRS** on their first day of employment. An individual in public higher education who is employed in an ORP-eligible position at 100 percent effort is given **90 days** (ORP election period) to make a **one-time irrevocable decision** to enroll in ORP in lieu of TRS. Prior enrollment or vested status in a non-Texas ORP plan has no effect on an employee's eligibility or vested status under Texas ORP. Except for two special and unusual circumstances (explained in the *Enrollment* section), employees who elect ORP in lieu of TRS must continue to participate in ORP for the remainder of their careers in Texas public higher education.

Personal Choice

ORP-eligible employees are provided only one opportunity during their entire career in Texas public higher education to select between these two distinct types of plans, and the choice can directly affect financial resources at retirement. Therefore, new or prospective ORP-eligible employees should consider carefully the advantages and disadvantages of each plan in light of personal circumstances. Factors to consider include: age, current and anticipated salary in future years, expected length of employment in Texas, previous retirement program participation, current and anticipated financial position, and, if ORP is selected, willingness to take the risks and responsibilities of managing one's own retirement investments. In addition to reading the material in this document, new or prospective ORP-eligible employees should obtain specific information from the institution's Benefits Office, TRS and its website (www.trs.state.tx.us), and the institution's authorized ORP company representatives and websites. Other sources of information include colleagues, personal financial advisors, articles on retirement plan types (defined benefit and defined contribution) and retirement planning, financial market news, and insurance company rating services.

CONTRIBUTIONS

State law requires both the employee and the state to make contributions to TRS or ORP each month based

on a percentage of the employee's salary. State contribution rates are established biennially by the Texas Legislature and may fluctuate over time. (See chart below.) Generally speaking, the state contribution rate for TRS is calculated to assure that the trust fund maintains an actuarially-determined amount needed to provide benefit payments to existing members. The ORP state contribution rate may be different from the TRS rate and institutions are authorized to provide local ORP supplements up to a maximum ORP employer contribution rate of 8.5%. The TRS retirement annuity amount has no direct relationship to the actual amount of contributions made on behalf of a member because retirement annuities are determined by a statutory formula using number of years of service credit, average of five highest annual salaries[1], and a "multiplier" set by state law (currently 2.3 percent). However, an ORP participant's benefit amount is directly dependent on the actual amounts contributed, so it is more sensitive to a fluctuating contribution rate.

Contributions and interest earnings under both plans are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity. TRS members who do not desire a retirement benefit may withdraw their employee contributions plus five percent interest upon termination of employment, but state contributions remain with TRS. ORP participants who terminate prior to meeting the vesting requirement forfeit employer contributions made during that period of employment. There are federal tax code limits on contributions, benefits, or creditable compensation that may apply to both TRS and ORP participants. For example, employees who first participated in ORP or joined TRS on or after September 1, 1996, are subject to limits on the compensation that can be taken into account for benefit purposes ($245,000 for FY12). Additional information about these limits and who they affect is available from TRS and the institution's Benefits Office.

Texas Public Higher Education Retirement Contributions

(as a percentage of salary)

Fiscal Year	TRS		ORP	
	Employee	**State**	**Employee**	**State**
FY 14 / FY 15	6.4% / 6.7%	6.8%	6.65%	6.6%
FY12 / FY13	6.4%	6.0% / 6.4%	6.65%	6.0% [2]
FY10-FY11	6.4%	6.644%	6.65%	6.4% [2]
FY08-FY09	6.4%	6.58%	6.65%	6.58% [2]
FY96-FY07	6.4%	6.0%	6.65%	6.0% [2]
FY92-FY95	6.4%	7.31%	6.65%	7.31% [2]
FY90-FY91	6.4%	7.65%	6.65%	8.5%
FY88-FY89	6.4%	7.2%	6.65%	8.5%
FY86-FY87	6.4%	8.0%	6.65%	8.5%
FY84-FY85	6.0%	7.1%	6.65%	8.5%
FY80-FY83	6.65%	8.5%	6.65%	8.5%
FY78-FY79	6.65% (of first $25,000)	7.5% (of first $25,000)	6.65% (of first $25,000)	7.5% (of first $25,000)
FY70-FY77	6% (of first $25,000)	6% (of first $25,000)	6% (of first $25,000)	6% (of first $25,000)
FY69	6% (of first $8,400)	6% (of first $8,400)	6% (of first $8,400)	6% (of first $8,400)

[1] *Average of three highest annual salaries for members meeting 2005 grandfathering criteria—see page 6.*

[2] *Institutions may supplement the state base rate for ORP up to a maximum employer contribution rate of 8.5%.*

ENROLLMENT

Automatic TRS Enrollment

All public higher education and public K-12 education employees are automatically enrolled in TRS on their first day of employment in a TRS-eligible position. ORP is available as an alternative to active TRS membership for full-time higher education employees who are faculty, librarians, and certain professionals and administrators as defined by the Texas Higher Education Coordinating Board. “Full-time” for initial ORP eligibility purposes is employment at 100% effort in an ORP-eligible position that is expected to last at least one full semester or at least four and one-half months. “Visiting” professors who work 100 percent effort for at least one full semester are not considered “temporary” for benefits purposes, so these faculty members must also make this one-time irrevocable decision within their first 90 days, keeping in mind its effect with respect to possible future employment in Texas public K-12 or higher education. Prior or current enrollment in a non-Texas ORP plan has no effect on an employee’s eligibility or vested status under Texas ORP.

Every ORP-eligible employee is enrolled in TRS unless and until ORP is elected. Although an employee has 90 days from the first day of eligibility to enroll in ORP, contributions to TRS must be made if an election of ORP—including selection of a company and product—is not made by submitting the appropriate forms to the institution on or before the first day of eligibility. ORP participants may withdraw any employee contributions that were made to TRS prior to the election of ORP, but all state contributions remain with TRS. Therefore, individuals who elect ORP will maximize all contributions and satisfy the vesting requirement as soon as possible if they obtain sufficient information regarding the two plans and make a decision on or before their first day of eligibility. Employees who do not enroll in ORP during their 90-day ORP election period are never again eligible to elect ORP in lieu of TRS during their careers in Texas public higher education.

TRS members who elect ORP after transferring into an ORP-eligible position may either withdraw their TRS employee contributions or leave them on deposit with TRS for withdrawal at a later time. Withdrawn amounts will be subject to income taxes and possible IRS early withdrawal penalties unless “rolled over” to an IRA or an eligible retirement plan within 60 days of withdrawal. Withdrawn TRS contributions cannot be transferred or rolled over to an ORP account prior to termination of employment.

Active TRS Membership after ORP Participation

Employees who elect ORP are not eligible for active contributing TRS membership during the remainder of their careers in Texas public higher education except under two circumstances. The first exception occurs when an ORP participant who has not satisfied the ORP vesting period becomes employed by a Texas public institution of higher education in a position that is eligible under TRS but is not ORP-eligible. This individual must become an active contributing member of TRS and will never be eligible for ORP in lieu of TRS again, even if subsequently employed in an ORP-eligible position.

The second exception occurs when an ORP participant leaves public higher education to work in Texas public K-12 education (including regional education service centers) or a state agency covered by TRS that does not offer ORP. Because ORP is not available, this employee must become an active contributing member of TRS. Upon subsequent employment in Texas public higher education, this individual cannot resume ORP participation, even if he or she becomes employed in an ORP-eligible position or had previously vested under ORP.

Active TRS members may use TRS service credit earned prior to their election of ORP as if no intervening ORP participation had occurred if the service credit is reinstated after resumption of TRS membership. However, TRS credit cannot be established for any years of participation in ORP.

VESTING

Teacher Retirement System

Under TRS, "vesting" is commonly used to refer to the five-year minimum service credit requirement for service retirement eligibility. A TRS member may receive service retirement benefits upon reaching the retirement age established by law for his or her amount of service credit. This is true even if the member terminates covered employment prior to reaching retirement age, as long as the employee portion of the contributions remain in the system and the member has at least five years of TRS service credit. Withdrawal of employee contributions terminates TRS membership and cancels a member's service credit and any associated future benefits under TRS. Members who withdraw their employee contributions upon termination will only be eligible for service retirement benefits if they return to covered employment and satisfy minimum service requirements again (through actual service and/or "buying back" previously withdrawn service credit) or if they reinstate service credit under other applicable law, such as the ERS/TRS service transfer law. A person who resumes TRS membership following termination of membership is subject to the same terms of membership as a person entering service for the first time. However, a person who is "grandfathered" as described on page 6 before termination of TRS membership will retain "grandfathered" status if the person returns to TRS membership.

The TRS "vesting" period is currently five years of service credit for actual service (*i.e.*, not including purchased service credit a member may be eligible to establish). Beginning with the 2011-2012 school year and except in the final year before retirement, a year of service credit is established by working in a TRS-eligible position or receiving paid leave from a TRS-eligible position for at least 90 days during the school year. In the last school year of service before retirement, a member who worked or received paid leave for less than 90 days in the school year but worked or received paid leave for a full fall semester receives a year of service credit. Only one year of service credit may be established during each school year, which runs from September 1 through August 31. Individuals who terminate employment prior to accruing at least five years of service credit and then return to covered employment within five years do not terminate their TRS membership and lose their service credit unless they withdrew their employee contributions following termination of employment. Members may change employment from any Texas public educational institution to another without loss of service credit or retirement benefit eligibility.

Optional Retirement Program

ORP vesting refers to a participant's ownership of state contributions. Upon termination of employment in Texas public higher education, vested ORP participants take both employee and state contributions with them, but participants who terminate prior to vesting forfeit all state contributions made during that period of employment. ORP participants are vested after one year, or 12 cumulative (but not necessarily consecutive) months, of actual participation. "Participation" means making regular ORP contributions through payroll deduction. The ORP vesting period is often referred to as "a year and a day" because a participant must begin a second year of participation to meet the vesting requirement. A year for academic faculty members is generally nine months, so an academic faculty member will be credited the three summer months for vesting provided he or she: (1) is participating in ORP at the end of the spring semester immediately preceding the summer, and (2) resumes participation in an ORP-eligible position with the same or another Texas public higher education institution at the beginning of the fall semester immediately following the same summer. For participants on leave without pay (LWOP), a month counts for vesting if ORP contributions are made based on any amount of salary earned during the month, but there is no credit for participation if the LWOP status lasts the entire calendar month.

The vesting requirement under ORP cannot be satisfied by prior participation or vested status in any non-Texas ORP plan. Credit is retained for prior Texas ORP participation in two situations: (1) when an unvested participant directly transfers from one ORP-eligible position to another at the same or another Texas public institution of higher education, and (2) when an unvested participant terminates employment and then later returns to work in an ORP-eligible position at the same or another Texas public institution of higher education (with no intervening active TRS membership). Credit is retained whether or not any employee contributions were withdrawn following termination because ORP vesting depends on participation rather than the existence of intact employee contributions. An unvested participant's state contributions are forfeited upon termination, so when vesting is completed during subsequent employment, the participant will have a vested right only to state contributions made during the subsequent and any future employment periods. Once vested status has been established, no future ORP vesting period can be required of that participant by any institution—"once vested, always vested."

TEACHER RETIREMENT SYSTEM

TRS Plan Design

The Teacher Retirement System (TRS) provides benefits for service retirement, disability retirement, and death of a member or retiree. TRS pays retirement benefits determined by law. Under the statutory formula, the normal age annual standard annuity is calculated by multiplying the average of the member's highest five annual salaries[3] times the percentage produced by multiplying the years of service credit times a 2.3% multiplier. Because the TRS retirement benefit plan is a defined benefit plan, a particular investment in the TRS portfolio that does not perform as expected has no direct effect on individual member benefits. The TRS trust fund, one of the largest public pension funds in the nation, has experienced investment professionals who focus on prudent portfolio management with a diversified investment strategy. TRS benefits are constitutionally required to be financed based on sound actuarial principles. For fiscal year 2010, TRS paid pension benefit payments to 296,491 retirees and their beneficiaries totaling $6.7 billion. TRS administrative costs are paid with a very small percentage of investment income.

Employee contributions are deposited into individual member accounts each month. Interest is added on August 31 of each year at the rate of five percent of the average balance in the account during the fiscal year. Individual accounts are maintained so that employee contributions can be returned to members who desire to terminate membership upon termination of covered employment. Withdrawn employee contributions will be subject to income taxes and possible IRS early withdrawal penalties unless “rolled over” to an Individual Retirement Account (IRA) or another kind of eligible retirement plan within 60 days of withdrawal. All state contributions made on behalf of members are deposited into a single TRS account which is maintained separately from the individual member accounts and are used to pay retirement and death benefits. When an employee terminates and withdraws employee contributions, the state contributions deposited on behalf of the employee remain with TRS.

The TRS website (www.trs.state.tx.us) contains detailed information about the plan benefits. The site provides a page specifically set up for active members, a Quicklinks menu for fast and easy access to the most popular topics (including a downloadable copy of the TRS Benefits Handbook), and a Resources menu for a variety of helpful tools, including a retirement estimate calculator.

TRS Retirement Benefits

The TRS plan is known as a “defined benefit plan” because retirement benefits are based on formulas established by the Legislature that use the number of years of service credit and salary earned. Unlike a “defined contribution plan” such as ORP, the TRS benefit amount has no direct relationship to the actual amount of contributions made.

The current formula for a monthly standard annuity is the number of years of service credit multiplied by 2.3 percent of the average of the highest five annual salaries[3] and then divided by 12. The minimum monthly standard annuity is $150. Anyone may visit the TRS website and use the Retirement Estimate Calculator (accessed from the Resources menu) to estimate future TRS retirement benefits, using various age, salary, and years of service credit assumptions. A standard annuity is available at age 65 with at least five years of TRS service credit, or at age 60 with at least five years if age plus years of TRS service credit is at least 80 (Rule of 80).[4] Actuarially reduced annuities are available for early age retirement; the amount of the actuarial reduction depends on the member’s age and years of service credit. However, retiree group health insurance for higher education employees (not administered by TRS) requires a minimum age of 65 (or any age if Rule of 80 is met) with at least 10 years of eligible service credit.

[3] *Average of three highest annual salaries for members meeting 2005 grandfathering criteria—see page 6.*

[4] *Members as of 08/31/2007 with no subsequent termination can receive an unreduced annuity at any age they meet Rule of 80 with minimum five years credit.*

TRS Retirement Benefits
(continued)

The Partial Lump Sum Option (PLSO) provides retiring members who meet the Rule of 90 (*i.e.*, age plus amount of service credit equals at least 90) with an up-front cash payment in addition to the monthly retirement annuity.[5] Eligible members may select a payment of one, two, or three times their annual annuity amount; the annuity amount is then actuarially reduced by the lump sum amount.

Grandfathering provisions apply to an individual who was a TRS member as of August 31, 2005, and who, as a member on or before August 31, 2005, was at least 50 years old, or whose age and service equaled at least 70 (Rule of 70), or who had at least 25 years of TRS service credit. These members are covered by certain retirement plan provisions in effect on August 31, 2005, specifically: (1) use of highest three years of salary rather than the highest five years for the final average salary; (2) availability of certain early retirement benefits without full actuarial reduction; and (3) Rule of 80 requirement for PLSO (but must be eligible for an unreduced annuity).

State law authorizes benefit improvements and supplemental payments to TRS annuitants (including a "thirteenth check") in defined circumstances.

TRS Disability and Death Benefits

Disability retirement benefits are provided for members who have a mental or physical disability that prevents them from further performance of duty and that is probably permanent. Members with at least 10 years of service credit who become disabled may receive a standard annuity (a minimum of $150 per month) or may select from among the payment options provided for service retirements. A disability retiree with less than 10 years of service credit at the time of disability receives $150 per month for a period of time equal to the shortest period of the duration of the disability, the number of months of service credit or the duration of the person's life. All active members are covered by disability retirement provisions from the first day of membership. Members who apply for disability retirement after August 31, 2007, may be subject to an earnings limit.

TRS members are also covered from the first day of membership by death and survivor benefits. Designated beneficiaries of active members may choose one of five options under the death and survivor benefit, including a lump sum payment equal to twice the member's annual salary, not to exceed $80,000. The designated beneficiary of a TRS retiree is entitled to receive a lump sum death benefit payment of $10,000 (or, for qualifying beneficiaries, a lump sum of $2,500 and a monthly payment of either $250 or, with a minor child, $350), in addition to any continuing annuity that may be payable under the retiree's selected annuity option. If the total retirement annuity payments made to the retiree and any designated beneficiary are less than the balance in the member's contribution account on the date of retirement, the excess contributions may be paid to a beneficiary designated to receive any remaining amounts.

Purchasing TRS Service Credit

A TRS member who has at least five years of TRS service credit may purchase one year of eligible out-of-state public school service for each year of Texas service up to a maximum of 15 years. Under certain circumstances, members may purchase credit for other eligible special service, including military or USERRA service (up to five years), developmental leave (up to two years), and credit for accumulated state sick leave or personal leave as of the last day of employment before retirement (one year). Some TRS members certified under the Texas Education Code may be eligible to buy one or two years of work experience credit, and members who were subject to a membership waiting period may be eligible to purchase service credit for that school year. Members may also "buy back" previously withdrawn TRS service credit.

[5] *Grandfathered members may be eligible for PLSO at Rule of 80 with an unreduced service retirement benefit.*

Purchasing TRS Service Credit
(continued)

As an alternative to a lump sum payment, installment payments are permitted (and may be made through payroll deduction) over a period of 12 to 60 months (but not longer than the number of years being purchased), with an annual fee applied to the declining balance due. Special service credit may also be purchased with a direct rollover of an eligible distribution from another eligible retirement plan or IRA.

Additional Service Credit Provisions

Members with service credit in both TRS and the Employees Retirement System (ERS) for Texas state agency employees can transfer credit from one system to the other at retirement and, if eligible, can retire under either system in which they have at least three years of credit. A person who has at least three years of service credit in either TRS or ERS can reinstate an account that was withdrawn from the other system and use the reinstated service credit for retirement purposes in either system in which the person has at least three years of service credit.

Members with service credit in the retirement systems of certain Texas cities, counties or other govern- mental entities may qualify for the Proportionate Retirement Program and should contact TRS and the other system for details. (ORP is not included in the Proportionate Retirement Program.)

Returning to Work after TRS Retirement

Returning to work for a Texas public education employer during the month after retirement will revoke a TRS member's retirement. A pre-existing agreement to return to work may revoke a person's retirement. TRS retirees must be terminated from employment for at least a full calendar month after the TRS effective date of retirement before being re-employed. Service retirees who retire after January 1, 2011, and have a break in service of 12 full consecutive calendar months after retirement may return to work in Texas public education on a full time basis for as much as 12 months each school year without any loss of annuities. Full- time work before satisfying the required break will result in the loss of the annuity for the month in which the full-time work occurs. Work as a substitute or on a half-time basis will not trigger an annuity loss, but it will restart the counting toward the required 12-month break. TRS should be contacted for further details on annuity forfeiture during post-retirement employment. Institutions may have local policies regarding return- to-work retirees (often referred to as modified retirement programs) that restrict the type and/or amount of employment.

TRS retirees who return to work in what would otherwise be considered an ORP-eligible position are not eligible to elect ORP because the election of ORP is an alternative to active membership in the retirement system.

TRS Contact Information

More information on the Teacher Retirement System and its benefits is available at:

TRS Information Center
(512) 542-6400 or (800) 223-8778

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701

TRS Website: www.trs.state.tx.us

OPTIONAL RETIREMENT PROGRAM

ORP Plan Design

The Optional Retirement Program (ORP) is an individualized retirement plan in which each participant selects from a variety of investment products offered by insurance and investment companies that are authorized by the employing institution. Tax-deferred contributions made by both the state and the employee each month are sent by the institution to the selected ORP company to purchase annuities or mutual fund investments authorized under Section 403(b) of the Internal Revenue Code. Section 403(b) contracts do not include disability retirement benefits or death and survivor benefits such as those provided by the Teacher Retirement System (TRS) plan.

An ORP participant has the opportunity—and the responsibility—to manage a personal retirement plan suited to his or her particular needs.

ORP Retirement Benefits

ORP is called a "defined contribution plan" because the retirement benefit is based on the actual amount contributed to the individual participant's account. Benefits are a result of the contribution rate, total salary earned during a participant's career in Texas public higher education, and rate of return on investment. There are no provisions for ORP accounts to accept transfers or rollovers from other retirement plans prior to the participant's termination. Specific ORP retirement benefits vary among the different investment products available and are subject to plan provisions and individual contract provisions, which may provide for an annuity, periodic withdrawals, or withdrawal of the total balance in the account at one time (lump sum payment). Because ORP accounts are managed individually, there are no state provisions for improvement of benefits after termination such as cost-of-living adjustments.

Funds in an ORP account (including employee contributions and any net earnings) are not available to the participant until the earlier of termination of participation or attainment of age 70-1/2. An individual terminates participation by death, retirement (including disability retirement), or termination of employment in all Texas public institutions of higher education. Transferring from one institution to another is not considered termination of participation, so employees who transfer are not permitted to access the funds in their ORP accounts. Loans and hardship withdrawals are not available under ORP prior to termination or reaching age 70-1/2. Although such features may be provided by non-ORP 403(b) contracts, the ORP statute has more restrictive distribution rules than the federal 403(b) regulations because ORP is an employee's mandatory retirement plan selected in lieu of membership in TRS, not a supplementary tax-deferred savings vehicle.

Portability

Transferability of ORP among Texas public institutions of higher education is similar to that available under TRS. However, higher education faculty, librarians, and certain professionals and administrators normally require interstate mobility during their careers. To enhance national recruitment of these employees, ORP was created as a more "portable" alternative to TRS. Almost all colleges and universities across the nation offer 403(b) investment opportunities for their employees, so it is highly likely that a prospective or new ORP-eligible employee with previous higher education employment has already contributed to a 403(b) retirement plan and may wish to continue to do so. Likewise, terminated ORP participants will probably have the opportunity to contribute to a 403(b) plan if subsequently employed by a private or out-of-state institution. Such plans may provide employees with the option to transfer funds from a prior employer's plan (provided the prior employer's plan permits such transfers), allowing individuals to consolidate their retirement funds if so desired.

Portability
(continued)

The relatively short one-year vesting period for ORP is a valuable feature of its portability design. After termination of employment, ORP participants continue to independently manage their retirement funds, including determination of the amount and timing of withdrawals (within individual contractual provisions and employer plan provisions). A terminated participant's ORP funds may be left on deposit with the company, rolled over to an IRA (Individual Retirement Account) or a subsequent employer's eligible retirement plan (if permitted under both plans), or withdrawn (with any applicable federal income taxes and early withdrawal penalties). Because several companies provide ORP-type products to many institutions across the nation, participants may be able to maintain their relationship with the same company as their careers take them to different institutions.

Authorized ORP Companies

Each institution/system/district establishes a list of companies that are authorized to provide ORP investment products to its employees. Eligible companies must be registered to do business in the State of Texas with the applicable oversight agency(ies), including the Texas Department of Insurance, Texas Department of Banking, State Securities Board, and/or Securities and Exchange Commission (SEC). Authorized companies and representatives must comply with all applicable state and federal laws and regulations and local institutional plan provisions, policies, and procedures.

The list of authorized ORP companies at each institution contains at least four companies from which participants may select investment products, providing a variety of choices. However, all products and funds offered by an authorized company to the general public may not be available under ORP. Institutions provide at least two separate occasions during the year on which a participant may change ORP companies by directing the institution to stop sending funds to their current ORP account and send future contributions to another authorized company. The resulting "inactive" ORP accounts still have the same distribution restrictions as current accounts (*i.e.*, no access until the earlier of termination of participation or attainment of age 70-1/2).

If authorized under an institution's plan provisions, participants may transfer all or part of their accumulated ORP funds (including funds contributed in a prior period of employment with the institution) to another authorized company. Some companies may charge early withdrawal penalties (surrender fees) depending on the circumstances (*e.g.*, how long the funds have been held). Plan provisions may authorize participants to transfer ORP funds contributed in a prior period of employment with another institution to an authorized company with the current employer (provided both plans authorize such transfers).

Types of ORP Contracts – You should discuss the details of the various types of contracts including current maximums and other details with the ORP company's approved financial advisor(s).

Two types of contracts are utilized under ORP: individual contracts and group contracts. Under a group contract, participants receive a certificate rather than an individual contract, and each certificate holder's investments are maintained separately from other certificate holders' investments. Historically, group contracts have had lower administrative costs and sales charges than individual contracts, but that may not always be the case.

Referencing the applicable Internal Revenue Code sections, ORP contracts provide for either a 403(b)(1) fixed or variable annuity account, or a 403(b)(7) custodial account, which is used to directly invest in mutual funds without the annuity shell.

Fixed Annuity

The fixed annuity contract has a guaranteed or "fixed" minimum rate of return and is considered a conservative investment because of the types of reinvestments made by the company. Interest credited to a fixed annuity account is funded by income generated when the company reinvests a participant's contributions, along with those of other fixed annuity contract holders, in various bonds, mortgages, and other debt instruments. To remain competitive, companies may pay more than the minimum rate guaranteed in the contract, resulting in an interest rate that does fluctuate, but it will never drop below the guaranteed level, which will vary depending on the contract. The company also guarantees the investor's principal up to a maximum amount.

In addition to a fixed interest rate, the fixed annuity contract may establish the benefit payments available at retirement. Generally, retirement annuities are based on the accumulated value of the participant's account at retirement, life expectancy tables, and an actuarial factor that projects additional earnings over the retirement benefit payment period. An actuarially determined "annuity purchase factor" may be established in the contract that is applied to the account balance at maturity. For example, a contract may provide for an annuity purchase factor of 7.0 to be applied to each $1,000 in the account at a retirement age of 65. If the account is credited with $100,000 upon retirement, the benefit payment will be $700 per benefit period. The benefit period also may be established in the contract and is usually a calendar month.

There is a loss of purchasing power, called inflation risk, inherent in fixed investments. While fixed annuities are considered "safe" investments because the principal is returned and there is a guaranteed rate of return, many fixed investments lose value due to inflation and the closed-end nature of debt instrument investments. Participants often choose to vary the amount of their ORP funds in fixed investments depending on market and personal factors to take advantage of the benefits attributed to a diversified investment portfolio.

Texas Life and Health Insurance Guaranty Association

Most fixed annuity investments are guaranteed by the Texas Life and Health Insurance Guaranty Association (Association) for up to $250,000 per individual per company. A person who has a fixed annuity investment with a company that is declared "impaired" or "insolvent" by the Texas Insurance Commissioner can be reimbursed by the Association up to $250,000. Payouts are funded from the estate of the insolvent insurance company and then through assessments on member insurance companies. Reimbursements are only applicable to fixed annuity investments.

This type of reinsurance may lead ORP participants with a very conservative approach to investing to purchase only fixed annuity investments and limit the amounts in any one company to the Association's $250,000 maximum. However, this investment strategy may lead to a false sense of security. The Association serves a useful purpose, but its existence should not stop participants from thoroughly investigating prospective products and companies, actively monitoring the performance of current investments, and considering the advantages of maintaining a diversified investment portfolio.

The Association is a last resort after all other resources have been exhausted. Prior to any payment by the Association, an individual's investments with an impaired company may be frozen while various and often lengthy legal proceedings are undertaken. This may create an extremely difficult situation for retirees and participants approaching retirement. Investors should also be aware that this program may not apply under certain circumstances, depending on the state in which the account holder resides when the company becomes impaired. Interested participants may obtain specific information from the Texas Department of Insurance concerning the Association's applicability to a particular company and to their own personal situations, both current and that expected as retirees.

Variable Annuity

The other type of annuity account is the variable annuity. Under a variable annuity contract, contributions made by the participant, along with those of other contract holders, are invested by the company in various stocks, bonds, money market instruments, and other investments through mutual funds. These investments are separate from other assets or investments of the company and are not covered by the Texas Life and Health Insurance Guaranty Association (discussed in previous section).

The variable annuity contract offers the purchaser the chance to have the value of the account increase as the economy prospers, but the value can also decrease if the value of the investments in the mutual fund decline, which is called market risk. A variable annuity is one which varies with the success of the investments made by the fund. Unlike a fixed annuity contract, there is no guaranteed minimum interest rate and no guarantee to repay principal. However, by offering a variety of investment opportunities, the variable annuity contract provides the participant with greater diversification, control, and flexibility than that available under a fixed annuity contract.

Monthly ORP contributions are applied toward the purchase of accumulation units of the fund or funds that the participant has selected from among several made available by the company as authorized by the employing institution. The value of each accumulation unit increases or decreases as the value of the fund varies. Because a relatively fixed amount of contribution is paid every month under ORP, each payment will purchase varying amounts of accumulation units according to the current value of the fund. As the fund's value decreases, more units can be purchased, and as the fund's value increases, less units can be purchased. This is called dollar cost averaging because over the long term, the value of accumulation units tends to average between the low cost and the high cost.

At retirement, benefits are determined by the number of accumulation units a participant holds at that time and the worth of the fund on that date. Contract holders usually have several distribution options, including a lump sum withdrawal. Individuals who select an annuity option receive payments based on the final number of accumulation units amassed and the value of a unit during each benefit payment period. The amount of each annuity payment will fluctuate as the value of the fund varies.

Mutual Funds

There are several different types of mutual funds, each with its own investment objective, strategy, and risks. Monies invested in the fund are reinvested by a professional investor or group of professionals known as the fund manager. Each fund manager provides prospective investors with a document called a prospectus which details the fund's objective, administrative costs, and past performance. Individual investors choose funds with objectives that match their own and/or diversify among funds in percentages that suit their overall strategy. To accommodate changes in the investment environment and personal situations, participants may direct the company to move their investments from one fund to another among the family of funds offered. Transfers are usually made without charge and can often be handled by telephone or over the Internet.

Funds are generally identified by the type of investments made or by the investment objective. Money market funds invest in high quality, short-term securities such as large certificates of deposit and Treasury bills. Funds that invest in stocks and bonds with an objective to produce fairly constant income through dividends and interest payments are referred to as income funds. Growth stock funds invest in developing companies and have the greatest potential for major increases over time but also include the greatest risk factor. A balanced fund selects a mixture of investments to produce a balance of income and growth. Funds investing only in certain types of companies are known by those areas (*e.g.,* technology, international, or environmental). The term "managed" is applied to funds which have a stated objective that doesn't necessarily fall into one of the more familiar categories.

Custodial Accounts

In addition to 403(b)(1) fixed and variable annuity accounts, the 403(b)(7) custodial account, or mutual fund shares investment, is available. This type of account permits a participant to directly invest in mutual funds rather than investing through an annuity shell. It provides a great deal of flexibility in managing ORP investments and doesn't include some of the administrative costs associated with annuity accounts such as the mortality risk factor. Amounts invested in mutual funds may be withdrawn at retirement to purchase an annuity contract if the participant so desires.

As with investments in mutual funds through a 403(b)(1) variable annuity account, participants who utilize a 403(b)(7) custodial account select from among several funds offered by the company as authorized by the employing institution and may move their money easily between funds. Monthly contributions are sent to a custodian such as a bank or broker to purchase shares of the selected fund or funds. A share in a fund functions similarly to the accumulation unit discussed in the *Variable Annuity* section. Like variable annuity accounts, mutual fund investments have no guarantees regarding earnings or return of principal. Benefits payable at retirement are determined by return on investment, applicable tax law, contractual provisions, and personal preference.

Administrative Costs

Insurance and investment companies must pay expenses to continue operating, so products include provisions for payment of fees or a reduction in interest credited. Expenses vary by company and product. For example, administrative fees for annuity contracts include a mortality risk factor that provides for payment of annuities to individuals who live longer than the average projected life span. All companies have marketing costs and other overhead expenses.

Most companies assess the individual participant for expenses through what is known as a load. With a front-end load, the company deducts the specified charge from the monthly contribution and then credits the remainder to the participant's account. With a rear-end load or surrender charge, the company collects a specified charge when the contract is terminated or when the funds are transferred, surrendered for cash, or distributed as retirement benefits. Surrender charges typically apply to funds invested in fixed and variable annuities less than a certain number of years. A contract may include both types of loads.

"No load" investment products are available but other fees may apply. Contracts (including those with loads) may charge an annual policy fee, a management fee, a billing fee, or miscellaneous fees. ORP participants should be sure they understand all current and possible future charges before selecting a particular company or product.

ORP participants may use funds from their ORP account to directly pay an investment advisor if certain conditions are met. Such payments are not considered a taxable withdrawal by the IRS.

Selection and Monitoring of ORP Companies and Products

ORP participants have many choices, particularly where variable annuities and custodial accounts are concerned. Factors to consider when selecting from among authorized companies and products include: transferability and flexibility without undue expense, guarantees offered, security and reliability of the company, service offered and performed, and concurrence with the individual's personal preferences concerning risk tolerance and attention to financial matters. Maximum return depends on a number of interdependent factors, including: choice of investment vehicles, performance of that vehicle in any given segment of time and over a long time, settlement alternatives at retirement and investment rates available at that time, adaptability to changing circumstances, and charges assessed.

Selection and Monitoring of ORP Companies and Products
(continued)

Even when an initial choice of company and product has been made, a certain amount of regular "homework" is involved when one chooses ORP in lieu of TRS. The employer has no fiduciary responsibility for the market value of the participant's investments or for the financial stability of the investment companies chosen by the participants, so it is the participant's responsibility to monitor the companies and investments selected. Prospective and current participants should keep in mind that successful management of one's retirement accounts is a continuing process.

There are many sources of information available to assist participants in this endeavor, such as insurance rating services, financial market news, and various Internet sites. Participants should obtain specific historical and financial information on prospective companies and products, and continue to seek such information on a regular basis once a selection has been made. An additional resource is the annual analysis of many of the companies offering Texas ORP products that is published jointly by the Texas Association of College Teachers (TACT) and the Texas Community College Teachers Association (TCCTA), which is available on their websites (www.tact.org and www.tccta.org).

Returning to Work after ORP Retirement

An ORP retiree, as defined by Chapter 25, Rules and Regulations of the Texas Higher Education Coordinating Board, is a person who participated in ORP while employed by a Texas public institution of higher education and who established ORP retiree status by enrolling in retiree group health insurance provided by the Employees Retirement System (ERS), The University of Texas System, or The Texas A&M University System, as an ORP retiree, regardless of whether currently enrolled. ORP retirees who later return to employment with any Texas public institution of higher education are not eligible to have further ORP contributions made to their ORP account ("once retired, always retired"). This restriction applies even if they discontinue their retiree insurance, return to employment in what would otherwise be considered a benefits-eligible position, and/or re-enroll in active insurance (if permitted under the insurance plan).

SUPPLEMENTAL TAX DEFERRED ACCOUNT (TDA) PROGRAM

The Tax Deferred Account (TDA) Program (also known as the Tax Sheltered Annuity or TSA Program), is a supplemental non-ORP 403(b) plan offered by Texas public institutions of higher education to both TRS members and ORP participants (and depending on local policy, to other employees as well). This voluntary program offers employees an opportunity to save pre-tax dollars through ORP-type investment products, but provides no state matching contributions. There are federally-established limits on the amount of tax-deferred contributions that an employee can make per tax year, including a limit on contributions to a TDA. There's also a separate limit on all contributions to defined contribution accounts, which includes both ORP and TDA accounts, so certain ORP participants can't contribute as much to a TDA as they could if they were TRS members (and may not be able to contribute at all), depending on the amount of ORP contributions that must be made based on a percentage of annual salary. More information about the TDA program and applicable federal contribution limits is available in each institution's Benefits Office.

COORDINATION WITH OTHER BENEFITS

Caution: Other benefits offered by the institution are coordinated with an individual's selected retirement plan, including eligibility for retiree group health insurance. Because rules and procedures may vary at each institution, detailed information should be obtained from the institution's Benefits Office regarding interaction between all the benefit programs provided before choosing between TRS and ORP.

KEY POINTS ABOUT ORP

Election of ORP

- An ORP-eligible employee's **one-time choice** between TRS and ORP is **irrevocable**.
- ORP is elected by signing the TRS-28 form, which is also a waiver of automatic TRS membership.
- Employees who don't elect ORP in the 90-day election period are never eligible for ORP in lieu of TRS again.
- The election of ORP (even with at least five years of TRS credit) is a waiver of rights to TRS retirement benefits. If the person later must become a TRS member (*e.g.*, by post-higher education Texas public K-12 employment), the member may accrue TRS benefits thereafter.

Eligibility for ORP

- To be initially eligible for ORP, employees must be working full-time (100% effort) in an ORP-eligible position that is expected to last at least 4½ months or a full semester (including most "visiting" professors).
- New ORP-eligible employees are **automatically enrolled in TRS** unless and until ORP is elected.
- Prior enrollment or vested status in a non-Texas ORP-type plan has no effect on Texas ORP eligibility.
- An ORP participant who, prior to vesting, transfers to a position that is TRS-eligible but not ORP-eligible must become a member of TRS and is never eligible for ORP in lieu of TRS again.
- Terminated ORP participants who become active members of TRS as employees of Texas public K-12 education (including regional education service centers) or a state agency covered by TRS cannot return to ORP if later re-employed in Texas public higher education, even if previously vested under ORP.

ORP Vesting

- State contributions are vested after one year of participation (*i.e.*, making ORP contributions for 12 cumulative, but not necessarily consecutive, months), with vested status conferred on the first anniversary of the first day that ORP contributions began (if continuously participating), and if a break occurred (other than the three summer months for faculty), on the first day of the thirteenth cumulative month of participation.
- An ORP participant who terminates participation prior to vesting forfeits state contributions made during that employment period. Forfeited funds are not recoverable, even if the participant later vests in ORP.
- Only one ORP vesting period must be satisfied for any and all Texas public higher education employment.

ORP Distribution Restrictions

- No ORP funds (including employee contributions and net earnings) can be withdrawn (including loans or hardship withdrawals) until the earlier of termination of all Texas public higher education employment or reaching age 70½.

ORP Contributions

- Employee/state contribution rates are established each biennium by the Legislature and may fluctuate. Institutions are authorized to provide local supplements to the state base rate (not to exceed 8.5% total for both).
- There are no provisions for ORP accounts to accept transfers or rollovers from any other retirement plan (including any withdrawn TRS funds) prior to the participant's termination of Texas ORP participation.
- ORP retirees (as defined by the Coordinating Board) who later return to employment in Texas public higher education are not eligible for further ORP contributions ("once retired, always retired").

ORP Company Selection

- A company must be selected from the employer's authorized list at the same time that ORP is elected. Each employer authorizes at least four companies. All of a company's products may not be available under ORP.
- ORP participants are responsible for monitoring their selected companies and investments. The employer has no fiduciary responsibility for the market value of the participant's investments or for the financial stability of the investment companies chosen by the participant.
- ORP participants have at least two occasions each year to change their selected ORP company.

Miscellaneous

- TRS service credit cannot be established for any years of employment as an ORP participant.
- ORP-eligible employees should obtain specific information from their employer on interaction between all benefit programs (*e.g.*, insurance, supplemental TDA/TSA) before choosing between TRS and ORP.
- Federal tax law prohibits ORP-type plans from providing disability benefits similar to those provided by TRS.

SUMMARY

An ORP-eligible employee's retirement plan selection is a **one-time irrevocable choice** between two distinct types of plans, so the decision should not be made without due consideration of both plans in light of individual circumstances. This document is intended to provide basic information on each type of plan so that individuals who become eligible to elect ORP in lieu of TRS may make an informed decision. A direct comparison between the plans is difficult. Although contributions under both plans are invested for the benefit of the employee, the method of investing and the benefits provided are fundamentally different and optimally beneficial to different personal circumstances.

Plan Design

TRS is a traditional defined benefit state retirement program in which investment risks and responsibilities are generally assumed by the state. The TRS trust fund, one of the largest public pension funds in the nation, is managed by experienced investment professionals who focus on prudent portfolio management with a diversified investment strategy. The TRS plan does not require any attention to investments from the individual member and provides a more predictable benefit amount. ORP is a personalized defined contribution plan in which participants actively manage their own retirement investments (from among companies and products authorized by the employing institution) and have more flexibility in payout options. ORP requires continuing investment decisions and monitoring, and a certain amount of risk tolerance because the individual ORP participant bears the risk of investment performance.

Retirement Benefits

TRS: Retirement benefits under TRS are based on a statutory formula that uses the average of the highest five annual salaries[6] and number of years of service credit, as well as a multiplier set by state law, to calculate the standard annuity payable throughout the life of the retiree. Eligibility is based on a combination of age and service credit, and reduced early-age retirement annuities are also available. A retiree may choose payment options other than the standard annuity to continue payments to a beneficiary after the death of the retiree. A partial lump sum option that is available for eligible retirees provides an up-front cash payment of one, two or three times their annual standard annuity, which is then actuarially reduced by the lump sum amount. Although a member with only five years of service credit may receive retirement benefits upon reaching the retirement age established by state law, the TRS plan generally favors the long-term employee over the short-term employee, viewed from the perspective of benefits in relation to employee contributions. It also may benefit individuals who begin employment at an older age with a high salary and who intend to complete their careers with a TRS-covered employer (*i.e.*, Texas public institutions of higher education, Texas public K-12 education schools, including regional education service centers, and Texas state agencies covered by TRS). Changes in employment between TRS-covered employers do not terminate membership or interrupt benefit accrual unless accumulated contributions are withdrawn.

TRS members may increase their number of years of service credit by purchasing limited amounts of eligible out-of-state, military, and other special service credit under certain conditions. Members with service credit in both TRS and the Employees Retirement System (ERS) for Texas state agency employees (also a defined benefit plan) can transfer credit from one system to the other at retirement and, if eligible, can retire under either system in which they have at least three years of service credit. Members with service credit in the retirement systems of certain Texas cities, counties or other governmental entities may qualify for the Proportionate Retirement Program. (ORP is not included in the Proportionate Retirement Program.) State law allows the Legislature to provide *ad hoc* cost-of-living adjustments (COLAs) to retirement annuities (including a "thirteenth check") when the trust fund meets certain minimum funding levels.

[6] *Average of three highest annual salaries for members meeting 2005 grandfathering criteria—see page 6.*

Retirement Benefits
(continued)

ORP: Retirement benefits under ORP are based on actual amounts contributed and rate of return on investment. Because individual investments depend in large part on the passage of time to accrue meaningful returns, ORP generally favors the younger employee over the older employee. ORP also benefits employees who have contributed to personal retirement plans similar to ORP at previous employers and wish to continue doing so. However, there are no provisions for ORP to accept transfers or rollovers from non-Texas ORP plans prior to termination. ORP participants with more than one year of participation have a vested right to both employee and state contributions upon retirement or termination. ORP retirement benefit distributions are determined by plan provisions, individual contract provisions, federal income tax law, and personal preference, with varying options such as complete or periodic withdrawals, or annuity income for a specified number of years or for life. Thus, ORP provides more flexibility in management of retirement funds than TRS. Cost-of-living adjustments (COLAs) comparable to those that have been provided to TRS retirees in past years are not available in an ORP-type plan.

Death and Disability Benefits

Death and disability retirement benefits coverage is provided for TRS members from the first day of membership but those benefits are not available in an ORP-type plan.

Contributions

State law requires both the employee and the state to make tax-deferred contributions each month to TRS and ORP based on percentages of the employee's salary. State contribution rates are established biennially by the Texas Legislature and may fluctuate over time. Institutions are authorized to provide local supplements to the ORP state base rate up to a total employer contribution rate of 8.5%. A change in the state contribution rate does not have a direct effect on a member's TRS benefits because individual TRS benefits are determined by a statutory formula. However, ORP benefits are directly dependent on the actual amounts contributed, so they are more sensitive to a fluctuating contribution rate.

Termination of Employment

To qualify for TRS benefits, members with at least five years of service credit who terminate employment prior to retirement age must maintain TRS membership by leaving employee contributions on deposit. If a retirement benefit is not desired, employee contributions may be withdrawn (plus five percent interest), but all state contributions remain in the fund. ORP benefits are available after termination of employment with all Texas public institutions of higher education (subject to plan provisions and individual contract provisions). Termination prior to vesting under ORP results in forfeiture of state contributions made during that period of employment.

The tax-deferred status of withdrawn ORP or TRS funds may be preserved by "rolling them over" within 60 days to an IRA or another eligible retirement plan the individual may be participating in at the time (if permitted under both plans). Withdrawn amounts from either program which are not rolled over are subject to federal income taxes and any applicable early withdrawal penalties. Surrender fees may apply to withdrawn ORP funds (whether rolled over or not), depending on individual contract provisions. Under both retirement programs, contributions may be left on deposit, but no future contributions can be made to these accounts unless they result from active participation during subsequent eligible employment.

Information Resources

Information resources to help make this one-time irrevocable choice between TRS and ORP include: institution's Benefits Office, TRS and its website (www.trs.state.tx.us), institution's authorized ORP company representatives/websites, colleagues, personal financial advisors, articles on retirement planning, financial market news, and insurance company rating services. Contacts for general information about TRS and ORP are listed on the inside front cover of this document.