

An Overview of ERS and ORP
for Employees who are Eligible to Elect ORP

Retirement Plan Options

You have a choice to make between two different retirement plans.

- ERS: All Coordinating Board employees are automatically enrolled in the Employees Retirement System (ERS) on their first day of employment.
- ORP: Coordinating Board employees who are employed in an ORP-eligible position may elect to participate in the Optional Retirement Program (ORP) as an alternative to ERS.

Limited ORP Election Period

You have a one-time opportunity during your employment with the Coordinating Board to choose between ERS and ORP.

- You're eligible to elect ORP on your first day of employment in an ORP-eligible position, which is your Initial ORP Eligibility Date.
- You have 90 additional calendar days to make your election, which is your ORP Election Period.

Default Plan is ERS

You will be an active member of ERS unless and until an election of ORP is made.

- If you submit your completed Retirement Program Election form to HR:
 - On or before your Initial ORP Eligibility Date: You will become an active ORP participant on your Initial ORP Eligibility Date and your active ERS membership is waived as of that date. *(If you transferred to the ORP-eligible position from another THECB position, you will stay in ERS until the first of the following month unless your Initial ORP Eligibility Date is the first of the month.)*
 - After your Initial ORP Eligibility Date: You will remain in ERS until your ORP Participation Start Date (PSD), which is dependent on when your completed election form is submitted to HR.

If your election form is submitted *before* the regular payroll processing date for that month (approx. the 20th calendar day), the PSD will be the first of that month (or your Initial ORP Eligibility Date if the form is submitted in the same month as your Initial ORP Eligibility Date).

If your election form is submitted *after* the regular payroll processing date, the PSD will be the first of the following month.

- If you don't elect ORP by the end of your ORP Election Period: You will automatically stay in ERS for the remainder of your employment with the Coordinating Board. You will never be eligible for ORP again at the Coordinating Board.

Irrevocable Decision

Your retirement program choice cannot be changed.

- These two types of retirement plans are suitable to different individual needs, so the decision should be made very carefully after considering both plans in light of personal circumstances.

This document is intended to provide a brief and general overview and is subject to change. In case of conflict between this summary and applicable laws and rules, the laws and rules control.

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What is ERS?

ERS is a traditional defined benefit pension plan that provides formula-based retirement annuities.

Contributions

- The ERS member and the state make mandatory monthly contributions using percentages of salary that are established by the state legislature and subject to change. The current employee contribution rate is 9.5% and the current state contribution rate is 9.5%.
- Member contributions are deposited into an individual member account. State contributions made on behalf of the member are deposited into a single, separate ERS account from which all retirement and death benefits are paid. ERS manages the investments as a large institutional investor.
- Contributions and interest earnings are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity.
- ERS members who don't retire upon termination of employment can withdraw their accumulated member contributions (plus 2% interest earnings) but doing so forfeits their right to a retirement benefit. The refund of a member's accumulated member contributions (plus interest earnings) is subject to federal income tax and early withdrawal penalties may apply. The eligible portion of the refund can be rolled over to eligible retirement plans such as an IRA.
- Active members are not permitted to withdraw (or take a loan from) their member contributions. State contributions made on behalf of the member are not available for withdrawal at any time.

Retirement Eligibility and Benefits

- Eligibility to retire and the annuity formulas are based on age, years of service, salary, date of retirement and the applicable "grandfather" status, which is primarily determined by your hire date (before 09/01/09; 09/01/09 through 08/31/13; on or after 09/01/13).
- Generally, the standard retirement annuity is calculated by multiplying the number of years of service credit by the average of your highest 60 months of salary by a multiplier (currently 2.3%).
- Refer to the ERS website (www.ers.state.tx.us) to identify the retirement eligibility requirements and annuity formulas that correspond to your "grandfather" status.
- Alternatives to the standard annuity include survivor payment continuation options and if eligible, reduced early-age annuities and Partial Lump Sum Option (PLSO).
- Additional benefits include occupational disability (after one month of service), non-occupational disability (after 10 years of service) and death benefit plan (after 10 years of service).
- State law allows *ad hoc* cost-of-living adjustments (COLAs) to retirement annuities when the trust fund meets certain minimum criteria.

Service Credit Provisions

- Eligible ERS members may purchase limited amounts of eligible service credit (*e.g.*, military time) and "buy back" previously withdrawn ERS service credit.

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What is ERS? *(cont.)*

Service Credit Provisions *(cont.)*

- ERS members who retire directly from the state may use accumulated sick leave and annual (vacation) leave balances to establish additional service credit at retirement to increase the amount of the annuity (160 hours = one month). Leave balances cannot be used to establish eligibility to retire.
- ERS members with at least three years of ERS service credit who also have service credit with the Teacher Retirement System (TRS) for employees of public schools (K-12 and higher education) can transfer their TRS credit to ERS at retirement (and vice versa).
- ERS members with service credit in other Texas public retirement plans that participate in the Proportionate Retirement Program (certain cities, counties or other governmental entities) may combine their credit from all participating plans to qualify for retirement and receive a proportionate annuity from each plan.

More Information about ERS

- ERS website: www.ers.state.tx.us
- Coordinating Board Human Resources Office

What is ORP?

ORP is a defined contribution plan that is similar to a 401(k) plan with employer “matching” contributions.

Contributions

- The ORP participant and the state make mandatory monthly contributions based on a percentage of salary. The Coordinating Board currently provides a supplement to the state base rate.
- The employee and state percentages are established by the state legislature and subject to change. The supplement provided by the Coordinating Board is also subject to change.
- Current contribution rates are 6.65% for employees, 6.6% for the state and 1.9% for the Coordinating Board supplement, for a total of 15.15%.
- Contributions are invested in a 403(b) account with an ORP company that is authorized by the Coordinating Board. ORP participants choose a company from the list of authorized companies, set up an ORP account with the company and make decisions on how to manage their funds.
- Contributions and any net earnings are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity.
- Active (contributing) participants are not permitted to withdraw any ORP contributions or net earnings (unless they are at least age 70-1/2), including contributions from prior periods of employment with the Coordinating Board or any Texas public institution of higher education.

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What is ORP? *(cont.)*

ORP Companies and Accounts

- ORP participants are responsible for monitoring their selected companies and investments. The employer has no fiduciary responsibility for the market value of a participant's ORP investments or the financial stability of the ORP companies chosen by the participant.
- ORP participants have at least two occasions each year to change their selected ORP company.
- All of a company's products may not be available under the institution's ORP plan.
- Types of ORP Accounts:
 - 403(b)(1) fixed or variable (mutual fund) annuity account
 - 403(b)(7) custodial account (mutual fund investments with no annuity shell)

Retirement Eligibility and Benefits

- ORP retirement benefits are based on the accumulated amount of funds in the participant's ORP account (no age or service minimums).
- Terminated participants choose how and when to take distributions, including complete or periodic withdrawals and for some accounts, lifetime annuities. Early withdrawal penalties may apply.
- ORP funds are available for withdrawal only upon termination of all employment with the Coordinating Board and all Texas public institutions of higher education (unless the participant is at least age 70-1/2).
- Eligible distributions can be rolled over to eligible retirement plans such as an IRA.
- Post-retirement cost-of-living adjustments (COLAs) are not available in an ORP-type plan.
- There are no provisions in ORP to purchase service credit, transfer or roll over non-ORP funds into the plan (including any pre-election ERS contributions) or take out a loan or financial hardship withdrawal.

Vesting

- Vesting refers to a participant's ownership of employer "matching" contributions. Vesting occurs on the first day of the second year of participation, which is defined as the first day of the 13th month of active participation (*i.e.*, making contributions by payroll deduction). The vesting period is sometimes referred to as "a year and a day."
- Participants who terminate ORP-covered employment with the Coordinating Board prior to meeting the vesting requirement must forfeit employer contributions made during that period of employment.
- The vesting requirement cannot be satisfied by prior participation or vested status in any non-Coordinating Board ORP plan (including any pre-election ERS service credit, ORP at any Texas public institution of higher education or ORP-type plan at any other employer).

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What is ORP? *(cont.)*

Vesting *(cont.)*

- Vesting credit is retained for prior ORP participation with the Coordinating Board in two situations:
 - when an unvested participant directly transfers from one ORP-eligible position to another at the Coordinating Board (with no break in service)
 - when an unvested participant terminates employment with the Coordinating Board and then later returns to work in an ORP-eligible position at the Coordinating Board (with no intervening active ERS membership)
- Vesting credit is retained whether or not any employee contributions were withdrawn during the break in service following termination and prior to re-employment.
- A participant who completes the vesting period during a period of employment after a break in service will have a vested right only to employer contributions made during the period of employment in which vesting occurs and any future employment periods. Forfeited employer contributions from earlier periods of employment cannot be restored to the participant's ORP account.
- Once vested, always vested: Once a participant has established vested status at the Coordinating Board, no future ORP vesting period can be required by the Coordinating Board.

More Information about ORP

- For specific information about the ORP plan at the Coordinating Board, including a list of authorized companies, and policies and procedures for electing ORP, contact the Human Resources Office. The list of authorized companies is also available on the agency's intranet ([CBNet](#)).
- General information about Texas ORP at Texas public institutions of higher education is available at the Coordinating Board's ORP webpage (www.theccb.state.tx.us/orp).
- Other information resources include: personal financial/tax advisors, the Coordinating Board's authorized ORP company representatives and websites, articles on retirement planning, financial market news and insurance company rating services.

Additional Applicable Provisions

ERS Membership after ORP Election

- An election of ORP in lieu of ERS is a waiver of ERS retirement benefits, even if you have prior service credit in ERS. Upon electing ORP, your ERS membership is terminated and you are only entitled to withdraw your accumulated member contributions (plus interest earnings).
- There are only two circumstances in which an ORP participant can resume active ERS membership:
 - when an ORP participant terminates employment with the Coordinating Board and becomes employed with another state agency
 - when an unvested ORP participant terminates employment in the ORP-eligible position and becomes employed in a non-ORP-eligible position

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Additional Applicable Provisions *(cont.)*

ERS Membership after ORP Election *(cont.)*

- Employees who fall under one of the above two circumstances will resume active ERS membership and will again be eligible to qualify for ERS retirement.
- Active ERS members may “buy back” any withdrawn ERS service credit earned prior to their election of ORP.
- Years of participation in ORP may be counted to establish eligibility for ERS retirement but cannot be used to calculate the amount of the annuity.
- A former Coordinating Board ORP participant who becomes an active ERS member is no longer eligible to participate in ORP at the Coordinating Board, even if previously vested in ORP at the Coordinating Board or subsequently employed in an ORP-eligible position with the Coordinating Board.

Returning to Work After Retirement

ERS

- Once retired, always retired: An ERS retiree is no longer eligible to be an active member.
- A state agency cannot hire an ERS retiree until at least 90 days after the retirement date. Earning a salary does not reduce the amount of the ERS annuity.
- ERS retirees who become employed with the Coordinating Board 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.

ORP

- An ORP retiree is defined as a participant who established retiree status by enrolling in retiree group insurance as an ORP retiree, regardless of whether currently enrolled.
- There are no restrictions on re-employment date or amount of time worked by return-to-work ORP retirees.
- Once retired, always retired: ORP participants who retire from the Coordinating Board and then later return to work with the Coordinating Board are not eligible to make ORP contributions.

Tax-Deferred Account (TDA) Program

- Both ORP participants and ERS members are eligible to participate in the Tax-Deferred Account (TDA) Program sponsored by the Coordinating Board. This program may also be referred to as the Tax-Sheltered Annuity (TSA) Program.
- This voluntary program offers employees an opportunity to save pre-tax dollars through 403(b) accounts but provides no employer matching contributions. The list of authorized TDA companies at the Coordinating Board is the same as the list of authorized ORP companies (available in the [HR Info Center](#) on the agency’s intranet ([CBNet](#))).

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Tax-Deferred Account (TDA) Program *(cont.)*

- The TDA program is separate and in addition to the [TexaSaver](#) program administered by ERS that provides 401(k) and 457 accounts. However, 401(k) and 403(b) TDA contributions are counted together under the federal contribution limit for elective deferrals. Contributions to the 457 plan are counted separately under the elective deferral limit.
- More information about the Coordinating Board’s TDA Program, including the current federal contribution limit for elective deferrals and significant differences between the TexaSaver 401(k) and the 403(b) TDA, is available in the Human Resources Office and on the agency’s intranet.

General Comparison

Your individual circumstances will drive your retirement plan choice, but there are some general factors to consider when making your decision.

Length of Service

- A defined benefit plan such as ERS generally favors the long-term employee over the short-term employee (viewed from the perspective of benefits in relation to employee contributions), so ERS might be a better choice if you intend to stay with a Texas state agency or other public plan in the Proportionate Retirement Program (including TRS) for a number of years.
- A defined contribution plan such as ORP is considered more “portable” and generally a better choice for employees who may anticipate a shorter period of employment with a Texas state agency or other public plan in the Proportionate Retirement Program (including TRS).

Age

- ERS may benefit individuals who begin eligible employment at an older age with a high salary and who intend to complete their careers with a Texas state agency (or a TRS-covered employer).
- Because individual investments depend in large part on the passage of time to accrue meaningful returns, a defined contribution plan such as ORP generally favors the younger employee (and employees with prior participation in an ORP-type plan).

Personal Preference

- Investment Management: ERS members don’t make any investment decisions while ORP participants do.
- Stability/Flexibility of Benefits: The formula-based defined benefit provided by ERS (lifetime annuity) is more stable and predictable than the retirement benefit provided under ORP, which has more direct exposure to market volatility for the individual participant, but ORP participants have more flexibility in management of retirement fund distributions.

Deadline Reminder

If you want to elect ORP, you must submit your completed Retirement Program Election form to the Human Resources Office by the end of your ORP Election Period (90 calendar days after your Initial ORP Eligibility Date).