

Overview of TRS and ORP

for Employees who are Eligible to Elect ORP

August 2015

Prepared by: Texas Higher Education Coordinating Board Staff
Distributed to ORP-eligible Employees by: Employing Texas Public Institution of Higher Education

*The information in this presentation 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.*

Retirement Plan Options

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

- **TRS:** Teacher Retirement System
- **ORP:** Optional Retirement Program

Retirement Plan Options

Teacher Retirement System

All TRS-eligible employees at:

- Texas public institutions of higher education, and
- Texas public educational institutions (*e.g.*, K-12 ISDs)

are automatically enrolled in TRS on their first day of employment.

Retirement Plan Options

Optional Retirement Program

ORP-eligible employees at:

- Texas public institutions of higher education

may elect to participate in ORP as an alternative to TRS.

Limited ORP Election Period

One-time Opportunity

- You have a one-time opportunity during your employment in Texas public higher education to choose between TRS and ORP.

Limited ORP Election Period

Initial ORP Eligibility Date

- You're eligible to elect ORP on your first day of employment in an ORP-eligible position, which is your Initial ORP Eligibility Date.

Limited ORP Election Period

ORP Election Period

- You have 90 additional calendar days after your Initial ORP Eligibility Date to make your election, which is your ORP Election Period.

Default Plan is TRS

TRS is the default plan:

- You will be automatically enrolled in TRS.
- You will continue to be an active member of TRS unless and until an election of ORP is made by submitting your completed TRS-28 election form (and any other required institutional forms) to your Human Resources Office.

Default Plan is TRS

If you submit your completed TRS-28 (and any other required institutional forms) ON OR BEFORE your Initial ORP Eligibility Date:

- You will become an active ORP participant on your Initial ORP Eligibility Date.
- Your active TRS membership is waived as of that date.

Default Plan is TRS

If you submit your completed TRS-28 (and any other required institutional forms) AFTER your Initial ORP Eligibility Date:

- You will remain in TRS until your ORP participation start date.
- The ORP participation start date is generally the first of the month following the date you submit your completed TRS-28 (and any other required institutional forms), but check with your Human Resources Office for local policies and procedures.

Default Plan is TRS

If you DON'T submit your completed TRS-28 (and any other required institutional forms) by the end of your ORP Election Period:

- You will automatically stay in TRS for the remainder of your benefits-eligible career in Texas public higher education.
- You will never be eligible for ORP again, even if you terminate employment with your current institution and become employed in an ORP-eligible position with another institution.

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.

What is TRS?

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

TRS Contributions

- The TRS member and employing institution make mandatory monthly contributions using percentages of salary that are established by the state legislature and subject to change.
- Federal contribution limits may apply to certain highly compensated employees.

TRS Contributions

- Member contributions are deposited into an individual member account.
- Employer contributions made on behalf of the member are deposited into a single, separate TRS account from which all retirement and death benefits are paid.
- TRS manages the investments as a large institutional investor.

TRS Contributions

- Contributions and interest earnings are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity.
- TRS members who don't retire upon termination of employment can withdraw the accumulated member contributions (plus interest earnings) but doing so forfeits their right to a retirement benefit.

TRS Contributions

- 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.

TRS Contributions

- Active members are not permitted to withdraw (or take a loan from) their member contributions.
- Employer contributions made on behalf of the member are not available for withdrawal at any time.

TRS Retirement Eligibility and Benefits

Eligibility to retire and the annuity formulas are based on:

- Age
- Years of service
- Salary
- Date of retirement, and
- Applicable membership tier (determined by factors including the first date of membership)

TRS Retirement Eligibility and Benefits

Refer to the [TRS Benefits Handbook](#) on the TRS website to identify:

- Membership tier that applies to you
- Corresponding retirement eligibility requirements and annuity formulas.

TRS Retirement Eligibility and Benefits

Alternatives to the standard annuity:

- Survivor payment continuation options
- Reduced early-age annuities (if eligible)
- Partial Lump Sum Option (if eligible)

TRS Retirement Eligibility and Benefits

Additional benefits (provided from first day of membership):

- Disability
- Death

TRS Retirement Eligibility and Benefits

Cost-of-Living Adjustments (COLAs)

- State law allows *ad hoc* cost-of-living adjustments (COLAs) to retirement annuities when the trust fund meets certain minimum criteria.

TRS Service Credit Provisions

Eligible TRS members may purchase:

- Limited amounts of eligible service credit (*e.g.*, military time)
- Previously withdrawn TRS service credit

TRS Service Credit Provisions

TRS members with:

- at least three years of TRS service credit, and
- service credit with the Employees Retirement System (ERS) for Texas state agency employees

can transfer their ERS credit to TRS at retirement (and vice versa).

TRS Service Credit Provisions

TRS 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 TRS

- TRS website: www.trs.texas.gov

- TRS Benefits Handbook:

www.trs.texas.gov/TRS%20Documents/benefits_handbook.pdf

(or from the [TRS Home page](#), click on About TRS; Publications; TRS Brochures.)

What is ORP?

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

ORP Contributions

- The ORP participant and employing institution make mandatory monthly contributions using percentages of salary that are established by the state legislature and subject to change.
- Federal contribution limits may apply to certain highly compensated employees.
- Contributions are invested in a 403(b) account with an ORP company that is authorized by the employing institution.

ORP Contributions

ORP participants:

- choose a company from the institution's list of authorized companies
- set up an ORP account with the company, and
- make decisions on how to manage their funds

ORP Contributions

- 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.

ORP Companies and Accounts

- ORP participants are responsible for monitoring their selected companies and investments.
- The employing institution 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 Companies and Accounts

- 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.

ORP Companies and Accounts

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)

ORP 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 Retirement Eligibility and Benefits

- ORP funds are available for withdrawal only upon termination of all employment with 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.

ORP Retirement Eligibility and Benefits

There are no provisions in ORP to:

- purchase service credit
- transfer or roll over non-ORP funds into the plan (including any pre-election TRS contributions), or
- take out a loan or financial hardship withdrawal

ORP 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.”

ORP Vesting

Faculty Members:

A year for academic faculty members is generally nine months, so academic faculty members will be credited the three summer months for vesting provided they are participating at the end of the spring semester immediately preceding the summer and resume participation with the same or another Texas public institution of higher education at the beginning of the fall semester immediately following the same summer.

ORP Vesting

Participants who terminate ORP-covered employment with all institutions prior to meeting the vesting requirement must forfeit employer contributions made during that period of employment.

Exception: Unvested participants who become employed in a non-benefits-eligible position do not contribute to ORP and are not required to forfeit unvested ORP contributions unless they are subsequently employed in a TRS-only position or have a break in service.

ORP Vesting

The vesting requirement cannot be satisfied by prior participation or vested status in any non-Texas ORP plan, including any:

- pre-election TRS service credit

ORP Vesting

Vesting 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 (with no break in service)

ORP Vesting

Vesting credit is retained for prior Texas ORP participation in two situations:

2. when an unvested participant terminates employment in the ORP-eligible position 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)

ORP Vesting

Vesting credit is retained whether or not any employee contributions were withdrawn during the break in service following termination and prior to re-employment.

ORP Vesting

- 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.

ORP Vesting

Once vested, always vested:

- Once a participant has established vested status, no future ORP vesting period can be required by any institution.

More Information about ORP

- For specific information about the ORP plan at your institution, including a list of authorized companies, local policies and procedures for electing ORP, and the current contribution rates, contact your Human Resources Office.
- General information about Texas ORP is available at the Texas Higher Education Coordinating Board's ORP webpage (www.thecb.state.tx.us/orp).

More Information about ORP

Other information resources include:

- Personal financial/tax advisors
- Your institution's authorized ORP company representatives and websites
- Articles on retirement planning
- Financial market news
- Insurance company rating services

Additional Applicable Provisions

- TRS Membership after ORP Election
- Returning to Work After Retirement

TRS Membership after ORP Election

- An election of ORP in lieu of TRS is a waiver of TRS retirement benefits, even if you have prior service credit in TRS.
- Upon electing ORP, your TRS membership is terminated and you are only entitled to withdraw your accumulated member contributions (plus interest earnings).

TRS Membership after ORP Election

There are only two circumstances in which an ORP participant can resume active TRS membership:

1. Applies to all ORP participants
2. Applies only to unvested ORP participants

TRS Membership after ORP Election

Resumption of active TRS membership occurs:

1. when an ORP participant terminates employment with all Texas public institutions of higher education and becomes employed in a TRS-eligible position with a TRS-covered employer that does not offer ORP (e.g., K-12 ISD)

TRS Membership after ORP Election

Resumption of active TRS membership occurs:

2. when an unvested ORP participant terminates employment in the ORP-eligible position and becomes employed with the same or another Texas public institution of higher education in a position that is eligible for TRS membership but is not ORP-eligible

TRS Membership after ORP Election

- Employees who fall under one of the above two circumstances will resume active TRS membership and will again be eligible to qualify for a TRS retirement.
- Active TRS members may “buy back” any withdrawn TRS service credit earned prior to their election of ORP.
- TRS credit cannot be established for any years of participation in ORP.

TRS Membership after ORP Election

A former ORP participant who becomes an active TRS member is no longer eligible to participate in ORP at any Texas public institution of higher education, even if:

- previously vested in ORP, or
- subsequently employed in an ORP-eligible position

Returning to Work After Retirement

TRS

Once retired, always retired:

- A TRS retiree is no longer eligible to be an active member.

Returning to Work After Retirement

TRS

TRS retirees may return to work with a TRS-covered employer without loss of retirement benefits if applicable provisions are followed, including:

- satisfaction of a minimum break in service, and
- working no more than the established maximum amount of time

Returning to Work After Retirement

TRS

- Return-to-work provisions vary depending on the date of retirement.
- Refer to the TRS brochure “[Employment After Retirement](#)” on the TRS website for details. (*From the [TRS Home page](#), click on About TRS; Publications; TRS Brochures.*)

Returning to Work After Retirement

TRS

TRS retirees who become employed 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.

Returning to Work After Retirement

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.

Returning to Work After Retirement

ORP

- There are no statewide ORP restrictions on the re-employment date or amount of time worked by return-to-work ORP retirees.
- Local institutional restrictions may apply.

Returning to Work After Retirement

ORP

Once retired, always retired:

- An ORP retiree who returns to work with any Texas public institution of higher education is not eligible to make ORP contributions.

Coordination with Other Benefits

- Other benefits offered by your institution are coordinated with the selected retirement plan, including the Tax-Sheltered Annuity (TSA)/Tax-Deferred Account (TDA) Program (described below).
- Because rules and procedures may vary at each institution, detailed information should be obtained from your Human Resources Office regarding interaction between all the benefit programs provided before choosing between TRS and ORP.

TSA/TDA Program

- Both ORP participants and TRS members are eligible to participate in the Tax-Sheltered Annuity (TSA)/Tax Deferred Account (TDA) Program sponsored by the employing institution.
- This voluntary program offers employees an opportunity to save pre-tax dollars through 403(b) accounts but provides no employer matching contributions.

TSA/TDA Program

- There are federal limits on the amount of tax-deferred contributions that you can make per tax year and ORP contributions must be taken into account before any TSA/TDA contributions, so highly compensated ORP participants may not be eligible to contribute to a TSA/TDA.
- Contact your Human Resources Office for more information about your institution's TSA/TDA Program and applicable federal contribution limits.

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 TRS:

- generally favors the long-term employee over the short-term employee (viewed from the perspective of benefits in relation to employee contributions)
- so it might be a better choice if you intend to stay with a TRS-covered employer or other public plans in the Proportionate Retirement Program for a number of years

Length of Service

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 Texas public higher education, public education (*e.g.*, K-12 ISDs) or Proportionate Retirement Program employers

Age

TRS: The TRS plan may benefit individuals who begin eligible employment at an older age with a high salary and who intend to complete their careers with a TRS-covered employer.

ORP: 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: TRS members don't make any investment decisions while ORP participants do.

Stability/Flexibility of Benefits: The formula-based defined benefit provided by TRS (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 TRS-28 election form (and any other required institutional forms) by the end of your ORP Election Period (90 calendar days after your Initial ORP Eligibility Date).

More Information

- Your institution's Human Resources Office/webpage and the websites/representatives of your institution's authorized ORP companies
- TRS website: www.trs.texas.gov
- Texas Higher Education Coordinating Board's ORP webpage: www.thecb.state.tx.us/orp
- Personal financial/tax advisors and internet resources