Review of Retirement Options for University Employees

Executive Committee
Oregon State University Faculty Senate
March 9, 2009

The Executive Committee of the Faculty Senate at Oregon State University has reviewed the history of changes in the public employees retirement system to help faculty and staff better understand the features of their retirement options. Questions about past decisions and potential inequities have been raised before the Executive Committee and we have attempted to better understand these issues and possible future remedies.

Four retirement plans are currently in existence: PERS Tier 1, PERS Tier 2, OPSRP, ORP.

- Tier One covers members employed before January 1, 1996
- Tier Two covers members employed between January 1, 1996 and August 28, 2003
- OPSRP covers members employed on or after August 29, 2003
- IAP contains all member contributions (6 percent of covered salary) made on and after January 1, 2004
- ORP has been available as a one-time-only option on or after January 1, 1996

PERS Tier 1, created in 1970, is the oldest retirement plan of the four plans.

PERS Tier 2 and ORP were developed as of January 1, 1996. All employees had a one-time-only opportunity to switch to ORP.

After January 1, 1996, new employees were required to enroll in either PERS Tier 2 or ORP. If they did not designate a retirement plan within 30 days after hire, they were automatically enrolled in PERS Tier 2.

The Oregon Legislature terminated the “Defined Benefit” for Tier 1 and Tier 2 employees as of August 28, 2003 and created the OPSRP.

After January 1, 2004, existing employees remained in their existing plan. All benefits for Tier 1 and Tier 2 employees after January 1, 2004 were based on the “Defined Contribution” in the employees Individual Account Program (IAP) and their pension benefit.

**Tier 1 and Tier 2 employees were not given an opportunity to switch to ORP.**

- The statute that created ORP in 1996 stipulated that employees could decide whether to enroll in Tier 2 or ORP.
- If the employee did not choose within 30 days, they would be enrolled in the Tier 2 Plan under PERS.
- The statute stated that this was a “one-time” decision and employees could not switch plans after enrollment in either plan.
In 2003, OUS decided that the statute was binding. Employees would not be allowed to reconsider their decision about OPSRP and ORP even though substantial changes had been made to their retirement program. OUS did not ask the Legislature to amend the statute.

Initially the PERS Reform also altered the retirement credit for years of service to be based on FTE for employees other than those on academic full time 9-month appointments. In 2007, the Legislature reversed this decision and restored the previous system of one year of service credit for employees working in each calendar month and at least 600 hours over the year. This amendment was made retroactive to January 1, 2004.

It is possible for employees in OPSRP to enroll in ORP if they 1) retire under the Lump-sum Option, 2) do not work for the state in any capacity for 6 months, and 3) are rehired as a state employee. Under these conditions, the rehired employee has the initial option of enrolling in OPSRP or ORP.

PERS Tier 1 benefits are based on the annuity based on the value of their individual defined employee contributions (pre-2004), defined benefits derived from employer contribution into the general pooled PERS retirement fund, and the value of their IAP account. Employees have three major alternatives: full formula, full formula + annuity, or money match.

PERS Tier 2 benefits are based on the annuity based on the value of their individual defined employee contributions (pre-2004), defined benefits derived from employer contribution into the general pooled PERS retirement fund, and the value of their IAP account. Employees have two major alternatives: full formula or money match.

OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). A defined benefit plan is benefit-based and uses predictable criteria such as a pension determined by salary x length of service x factor. This portion of OPSRP provides a life pension funded by employer contributions. The Pension Program has a normal retirement age of 65 (58 with 30 or more years of service) for general service members. And the Pension benefit is solely formula based, with a 1.5 percent factor for general service members. (Retirement ages and formulas differ for Tier 1 and Tier 2 employees.)

ORP employees manage their accounts based on employee and employer contributions (based on formula). No guaranteed return or pension option.