MEMORANDUM

DATE: July 30, 2003

TO: Faculty and Staff

FROM: David Bosserman

SUBJECT: Retirement Benefits Improvements

As of July 1, 2003, OSU began contributing 11% toward retirement instead of the previous 7/11% contribution schedule which provided 7% on pay up to $11,520 plus 11% on pay above $11,520. For most employees, this results in an increase in retirement contributions of $460.80 each year. These OSU-paid contributions will continue to be distributed to Oklahoma Teachers’ Retirement System (OTRS) to cover the member contribution for employees with mandated participation. The remainder of OSU’s contributions, after satisfying OTRS member requirements, will be sent to TIAA-CREF.

You will notice on your July Payroll Advice that you no longer have to pay a portion of the OTRS contribution. You will recall that OSU contributions at 7% of pay (up to $11,520 earned each fiscal year) was not enough to cover the full member cost of OTRS. Therefore, you paid a small amount of OTRS at the beginning of each fiscal year. Once your pay exceeded the $11,520 and you began receiving retirement contributions of 11%, OSU’s contributions were more than sufficient to cover the cost of OTRS for the remainder of the fiscal year.

President Schmidly announced in his letter on June 6 that employees who participated in both OTRS and TIAA-CREF prior to 1993 changes might prefer the pre-1993 contribution schedule. OSU proposed that under the pre-1993 schedule, OSU would pay the first $1,500 of OTRS cost (6% of $25,000) plus 10% of covered pay over $7,800. Under this schedule, employees earning less than $72,000 would receive more OSU retirement contributions than they would in a straight 11% contribution, whereas employees earning more than $72,000 would receive greater contributions with a straight 11% contribution.

Choosing between the contribution schedules requires employees to estimate their income in the future. This could be a difficult task since many faculty regularly supplement their income with additional pay through grants or contracts or other overload work. Therefore, the original schedule has been improved to provide the best retirement schedule regardless of whether the employee earns less or more than $72,000. Under the enhanced contribution schedule, OSU will pay the first $1,500 of OTRS cost, plus 10% of pay over $7,800 until the employee’s pay reaches $72,000. Then, when pay reaches the $72,000 break-even threshold, contributions will increase.
from 10% to 11%. Rather than ask employees who were enrolled in OTRS and TIAA-CREF prior to the 1993 changes to choose between the two contribution schedules, OSU will automatically provide maximum contributions to these employees.

When the University increases the retirement contributions, OSU will also change the break-even threshold accordingly. If, for example, retirement contributions increased to 11.5%, the break-even threshold would become $48,000 rather than the current $72,000. That would mean for employees eligible for the pre-1993 plan, OSU would pay the first $1,500 of OTRS cost, plus 10% of pay over $7,800 until the employee’s pay reaches $48,000. Then, when pay reaches the $48,000 break-even threshold, contributions will increase from 10% to 11.5%. A similar change will be implemented when the University is able to move to a 12% retirement program.

All employees who are receiving OSU-paid retirement benefits are currently set up at the 11% schedule. As soon as the changes can be made to the payroll system, OSU will change eligible employees to the enhanced pre-1993 schedule and adjust contributions back to July 1, 2003. Prior to this change, each affected employee will receive notification of the expected change.

In addition, employees who are eligible for the pre-1993 contribution schedule will have contributions distributed the same as they are under the 11% plan. OSU retirement contributions will pay OTRS member contributions with the remainder of OSU contributions sent to TIAA-CREF. Earlier communications suggested that employees might have choice regarding paying OTRS cost out-of-pocket. Legal counsel for our retirement plan advised OSU that offering choice in how contributions are distributed would probably not gain IRS approval and the request process could delay implementation for two years. They are optimistic, however, that the plan as now described will be approved by the IRS, thus ensuring implementation.

Below is a chart that compares the contributions at select salary levels among the two schedules currently available and the 7/11% formula that ended on June 30, 2003.

<table>
<thead>
<tr>
<th>Contribution Schedule</th>
<th>Annual Pay</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$25,000</td>
</tr>
<tr>
<td>Current 11% Contribution Schedule—July 1, 2003</td>
<td>$2,750.00</td>
</tr>
<tr>
<td>Prior 7/11% Contribution Schedule (7% of 1st $11,520 pay plus 11% of pay over $11,520) - Ended June 30, 2003</td>
<td>$2,289.20</td>
</tr>
<tr>
<td>Enhanced Pre-1993 Contribution Schedule (1st $1,500 of OTRS, plus 10% of pay over $7,800 to $72,000, plus 11% of pay over $72,000)—Will be retroactive to July 1, 2003</td>
<td>$3,220.00</td>
</tr>
</tbody>
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The good news about this recent enhancement to the contribution schedule is that employees do not need to make an election. You will automatically receive the highest contribution schedule available. As we implement these changes, you will want to watch the information section of your Payroll Advice for updates. If you were participating in both TIAA-CREF and OTRS prior to the July 1, 1993, change and have continuously participated in both programs, you should be eligible for the pre-1993 contribution schedule.

If you have questions regarding either the enhanced 11% retirement program that has resulted in increased retirement contribution for all employees, or implementation of the pre-1993 schedule, please contact Employee Services, 106 Whitehurst, 744-5449.

Vice-Chair Lionel Raff, OSU Faculty Council, has asked that we provide the following information:

“The OSU Faculty Council officers have examined the proposed enhancement to the retirement contribution schedule. The majority are in agreement that the plan will be beneficial to the large majority of OSU faculty and staff. Furthermore, we extend our commendation to President Schmidly and the Administration for their timely efforts to provide OSU employees with the best retirement program that our current financial situation permits. We are also pleased to see the concern the Administration has shown for eliminating, on a going-forward basis, the damages caused by the 1993 switch to the 7-11 retirement program.

“Lionel M. Raff, Vice-Chair, OSU Faculty Council.
“(Carol Moder, Chair, OSU Faculty Council has had to be away from Stillwater because of a family emergency.)”