President Announces Retirement Plan Improvements

On June 6 President David J. Schmidly announced improvements in Oklahoma State University’s retirement plan. His emphasis is to design a retirement program for the future that will enable OSU to "recruit and retain the very best faculty and staff." Improvements include:

• OSU’s contribution toward retirement increases to 11% of pay for all employees in the OSU retirement plan. The increase in 11% contributions will be reflected on your payroll advice in July. No action on your part is necessary at this time.

• Optional plan to be offered to current employees who participated in the retirement program prior to 1993 and prefer the pre-1993 contribution schedule.

• Oklahoma Teachers’ Retirement System changes regarding the mandatory age for participation, vesting, and interest earnings.

President Schmidly’s announcement can be found on the web at www.okstate.edu/osu_per/retadd.htm. This website has been established to provide the latest information on retirement changes and proposals as they occur. It will also include information about future changes to the OSU retirement plan including legislative initiatives. Watch the website for frequently asked questions about the retirement changes.

President Schmidly praised the Flexible Compensation Benefits Committee for its diligent work to bring forth realistic retirement program proposals. If you missed one of the many presentations given by the Committee, you may view their recommendations at this new website.

President Schmidly also indicated a continuing review of other recommendations to eliminate the age 26, one-year service requirement for participation in OSU retirement and further increase contributions.

Other articles in this publication address future initiatives and the changes that will be occurring July 1, 2003, in more detail.
OSU Increases Retirement Contributions

OSU will increase retirement contributions for eligible employees to 11% of pay effective July 1, 2003. Prior to the change, OSU contributed 7% of the first $11,520 of pay and 11% of pay over $11,520. Eligible employees earning $11,520 or more will have $460.80 more paid into retirement by OSU annually.

In addition to providing employees with the opportunity to build larger retirement nest eggs, this change will simplify communications. It eliminates the need for employees who are members of the Oklahoma Teachers’ Retirement System (OTRS) to pay a small portion of the OTRS cost during the time that their salary is under the $11,520 threshold.

The Board of Regents approved this change at their June meeting.

Oklahoma Teachers’ Retirement System Changes

Recent Oklahoma Teachers’ Retirement System (OTRS) legislation created several changes that will become effective July 1:

• Age for mandatory participation changes from age 55 and under to age 45 and under

• Vesting lowered from 10 to five years

• Interest earnings to be paid on withdrawn contributions during the first seven years

The change in the mandatory age for participation will allow choice for faculty and administrative/professional staff hired on or after July 1, 2003, who are age 45 or older. This change applies to OSU and OU only.

Changes in vesting and interest will make OTRS more comparable with other state plans and apply to all OTRS members.

Vesting will occur after five years, instead of 10 years. Full retirement could now occur at age 62 with five years of membership. However, ten years of OTRS membership is still required before a retiree may receive the premium credit on health coverage.

Regarding interest earnings, OTRS will now pay 50% of the current 8% interest earnings for member contributions withdrawn within the first seven years of membership, whereas no interest was paid in the past during the first seven years.

Information in this article represents OSU’s current understanding of the changes. OTRS members should watch for the Trends publication, which is mailed to home addresses by OTRS, as the official explanation of the legislative changes.
Oklahoma Teachers’ Retirement System Benefit Formula

Calculating retirement benefits is not a simple task. You may ask OTRS to perform individual calculations for you. Information about the formulas can assist in understanding benefits and the legislative initiative to correct the inequity in the benefit formula.

OTRS is a defined benefit program. Benefits you receive upon retirement are based upon a formula using years of service and contributory salary, rather than total contributions paid into the system.

Employees who are vested in OTRS may retire at age 55 with reduced benefits and may receive full retirement benefits at age 62 or by meeting the "Rule of 80" or "Rule of 90" (age plus years of OTRS membership). To qualify for "Rule of 80" an employee must have become an OTRS member before July 1, 1992.

The compensation base upon which you contribute into OTRS is used in the calculation.

**OTRS Benefit Formula for OSU/OU Employees Who Became Members of OTRS Prior to July 1, 1995**

<table>
<thead>
<tr>
<th>Membership Period</th>
<th>Current Calculation</th>
<th>Proposed Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1995 Years</td>
<td>2% for each year, times the average of the high three or five years' contributory salary for the period</td>
<td>No Change</td>
</tr>
<tr>
<td>1995-2007</td>
<td>2% of contributory salary for each year (each year stands alone and this period is not averaged)</td>
<td>2% for each year, times the average of the high three or five years' contributory salary for this period; except any years of membership in which contributions fell below the low or high base cap would be calculated with the years after 2007 (next grid)</td>
</tr>
<tr>
<td>2008 and later</td>
<td>2% for each year, times the average of the high three or five years' contributory salary for all years after 2007</td>
<td>No change except some years from the previous grid might be included in this calculation.</td>
</tr>
</tbody>
</table>

* Members who joined prior to July 1, 1992, use high three years in calculating average. All others use high five years.

The sum of the above calculations determines the retirement benefit for OSU and OU members. Other OTRS members (common schools) have a two-tier formula. The pre-1995 years are averaged, then 1995 and years thereafter are averaged. The effect is that an OSU/OU member may pay the same as a common school teacher to OTRS, but will receive less benefits upon retirement.

The Flexible Compensation Benefits Committee has recommended changes to provide more equal benefits. This inequity will require a legislative change and is a major initiative for next year.
### OTRS Benefit Formula for Higher Education Employees Who Became Members of OTRS on or After July 1, 1995

<table>
<thead>
<tr>
<th>Membership Period</th>
<th>Current Calculation</th>
<th>Proposed Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>2% times contributory salary</td>
<td>Average with the 1995 and later years rather than calculate as a stand alone year</td>
</tr>
<tr>
<td>1996 and later</td>
<td>2% for each year, times the average of the high five consecutive years contributory salary for all years after 1995</td>
<td>Include 1995 with the calculation period</td>
</tr>
</tbody>
</table>

The Flexible Compensation Benefits Committee has also recommended all years should be averaged together in accordance with the formula used for other OTRS members who joined after July 1, 1995.

### Optional Retirement Contribution Schedule for Pre-1993 Employees

Members who were in the plan prior to July 1, 1993, will have the option to return to that contribution schedule.

Under this pre-1993 optional plan, OSU would contribute up to $1500 to OTRS (6% of the first $25,000). OSU would also contribute 10% of pay over $7,800 to TIAA-CREF. However, employees could use the TIAA-CREF contribution to pay the member’s portion of OTRS, if desired.

Although employees were required to contribute 5% over $7,800 of their own money into TIAA-CREF prior to the changes in 1993, this out-of-pocket contribution will not be required under this new optional plan.

As with all retirement changes, this option will require IRS approval. Employees will be given adequate time to make the election once the optional program becomes available. OSU Human Resources plans to create a calculator on the web that will allow employees to determine if they are eligible for the pre-1993 option and to determine the contributions that would be paid by OSU under both options based upon salary levels. If possible, this change may be offered retroactively to July 1, 2003.

A Frequently Asked Questions series is available on the web at [www.okstate.edu/osu_per/retadd.htm](http://www.okstate.edu/osu_per/retadd.htm) to provide employees with information as it becomes available.

### Future Legislative Initiatives

OSU will continue its efforts to improve the retirement program by seeking legislation to make OTRS participation more optional for all OSU employees. OSU and OU are working with OTRS to determine suitable alternatives for the present membership criteria. The legislation may allow existing employees the choice of withdrawing from participation.
In addition, the Flexible Compensation Benefits Committee has recommended a change in the retirement benefit formula to address inequities in the present benefit schedule for employees from OSU and OU who became members of OTRS prior to July 1, 1995, and are subject to the gradual uncapping contribution schedule. See related article in this issue about the benefit schedule.

**Pre-Retirement Insurance Seminar - Don’t Leave Work Without It!**

Enjoy your retirement years more by learning about your health insurance retirement options now. Attend one of the upcoming Pre-Retirement Health Insurance Seminars, sponsored by the Oklahoma State and Education Employees Group Insurance Board, the people who bring you HealthChoice.

**Future Seminar Dates**
- Friday, July 11; August 1; September 5
- 1:00 – 3:00 pm
- Location: Landmark Towers
  - 3545 NW 58th Street
  - 5th Floor Board Room
  - Oklahoma City, OK
  - (405) 717-8701
  - (800) 543-6044

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