News You Can Use!

Important Information for Employees of Oklahoma State University

June 2004

Retirement Improvements: 11.5% Retirement Contributions Proposed Plus HB 2226 When Signed by Governor

At the June 18, 2004 OSU/A&M Board of Regents meeting, President David J. Schmidly will request an increase in university contributions to 11.5% of pay for employees in the OSU Retirement Plan to be effective July 1, 2004. This change will affect all employees currently in the 11% Plan.

Employees in the OSU Retirement Plan and OTRS prior to July 1, 1993, will continue to receive an adjustment acknowledging their participation in the plan that existed prior to July 1, 1993. These employees will receive at least 11.5% of pay in retirement contributions with the formula adjusted to reflect the pre-93 contribution. The new OSU contribution rate will be $1,500 to OTRS plus 10% of pay over $7,800 of salary, plus 11.5% of pay over $48,000 of salary each fiscal year. The threshold amount of $48,000 has been lowered from the current $72,000 to reflect the increase in contributions.

This improvement, plus those resulting from the passage of HB 2226 (pending signature by the Governor), will create a premier retirement system for OSU employees. With an optional OTRS program, new hires on or after July 1, 2004, will be able to select the retirement program best suited to their needs, thus enhancing recruitment of faculty and researchers. Other changes, such as the increase to 11.5% for OSU contributions and the change in the OTRS retirement benefit formula, will enhance retirement for current employees.

President Announces Passage of Retirement Legislation

On May 27, President David J. Schmidly announced the passage of HB 2226 by the State Legislature. The legislation has been forwarded to the Governor for signature. The legislation is to become effective July 1, 2004, if signed by the Governor. Representative Terry Ingmire and Senator Mike Morgan led the effort within the legislature.

The successful passage of this bill is the most positive retirement legislation affecting OSU in many years. President Schmidly deemed this project as one of his top priorities for this year. Members of the Flexible Compensation Benefits Committee, Faculty Council, Emeriti Association, and Human Resources worked together to draft and promote passage of the legislation. They worked with OU, OTRS, and legislative staff. All of OSU expressed support during this effort.

Key features of the legislation include:
* Improvement in the benefit formula for OSU and OU members who joined OTRS prior to 7-1-1995
* Recalculation of retiree benefits affected by a new formula with possible increase in retirement beginning January 1, 2005
* Option for OSU/OU employees now in OTRS to withdraw from OTRS in the future after IRS approval
* Option for OSU employees hired July 1, 2004, or thereafter, to join OTRS or the OSU Alternate Retirement Plan

**OTRS Benefit Formulas Improved**

OSU/OU employees joining OTRS prior to July 1, 1995, are expected to have increased monthly retirement benefits based on the new formulas established in HB 2226. The new benefit formulas increase benefits to be more comparable to the benefits received by other higher education institutions and common school members for the same contributions.

Basically the new formulas eliminate the year by year calculation for 1995 through 2007 when the salary caps are gradually lifted. Years in which a member contributes less than the applicable low or high base cap will be considered with all years after 2007 when the caps are removed. Years in which a member contributes at the applicable salary cap will be considered together. In both cases, the high three year average that applies to members who joined prior to July 1, 1992, or the high consecutive five year average that applies to members who joined after July 1, 1992, will apply for this period.

Additional information, including sample calculations provided by Oklahoma Teachers’ Retirement System and the full text of HB 2226, are available on the OSU Human Resources website at http://www.okstate.edu/OSU_per/retadd.htm. In addition, you may wish to obtain a new Retirement Estimate from OTRS, 1-877-738-6365, or from the OTRS website at www.trs.state.ok.us.

**Long-Term Care Enrollment Deadline of June 11**

Employees have guaranteed acceptance if enrolling in the new OSU-John Hancock Long-Term Care plan by June 11. You may not be accepted if you wait past the deadline. There will likely be no annual “open enrollment” period for Long-Term Care. Employees not currently working due to Long-Term Disability status are not eligible.

**OTRS Will Recalculate Monthly Retiree Payments**

HB 2226 provides for recalculation of OTRS retirement benefits of OSU/OU retirees who retired after July 1, 1995. If the recalculation based on the new benefits formula in HB 2226 results in an increase, the retiree will receive the new monthly retirement income beginning January 1, 2005. Regardless of calculation results, OTRS will not reduce income of a retiree. Due to provisions in HB 2226, no retroactive benefits will be paid.
**OSU Commitment to OTRS**

OSU is committed to a strong OTRS and has agreed to pay the unfunded liability for OSU employees and retirees who are OTRS members. Detailed actuarial studies were performed by OTRS and private actuaries. A provision of HB 2226 designates that OU/OSU will pay a surcharge of 2.5% of compensation for new hires that do not join OTRS, but would have prior to passage of HB 2226.

The surcharge will be recalculated on an annual basis and adjustments made as necessary to uphold OSU’s commitment.

**Future Option for Members to Opt Out of OTRS**

HB 2226 allows current employees participating in OTRS an opportunity for a one-time irrevocable lifetime election to opt out of OTRS. However, it must be noted that while the legislation specifies such an option, IRS approval must be obtained prior to implementation. The exact provisions of such an election will also be determined by the IRS approval process. OSU has been advised that it may take a year before the IRS ruling is received. Once the approval is received, affected employees will have a year in which to make a one-time irrevocable decision of whether to stay in OTRS or not. OSU will provide individual information to assist employees in the decision-making process.

Exact details of the opting out election cannot be determined until IRS approval is secured. However, it is the intent of HB 2226 that current OTRS members who opt out could roll the member contributions plus interest to the Alternate Plan. If the member is vested, the member could leave contributions with OTRS and receive retirement credit when separating employment with OSU. If a member opts out of OTRS, no future credit will accrue. Again, the exact details will become known as the IRS approval process continues.

Those employees who have been mandated into OTRS, but are not yet enrolled in the OSU Retirement Plan, will continue under the existing provisions of the OSU Retirement Plan. They will be enrolled in the OSU Retirement Plan as eligibility criteria is met. Unless determined otherwise by the IRS ruling, these employees will be eligible to continue to receive the 11.5% contribution if they elect to remain in OTRS, with any OSU contributions in excess of the 7.0% OTRS member contribution being contributed to their individual TIAA-CREF account.

Employees who elect to continue active participation in OTRS will continue to receive the 11.5% OSU contribution. If OSU currently pays OTRS from the 11.5%, this will continue, with the rest of OSU contributions deposited to the employee’s individual TIAA-CREF account.

**Retirement Plan Options for New Hires**

Eligible OSU employees hired to begin work on or after July 1, 2004, will have 90 days to make a one-time lifetime irrevocable election to join OTRS or join the OSU Alternate Retirement Plan. If no election is made, the new employee will be default enrolled in OTRS. Contributions to OTRS or the Alternate Plan will be made retroactively to date of hire.

If an employee is enrolled in OTRS, OSU will pay the OTRS member contribution of 7.00% of
compensation and the OTRS employer fee of 7.05% of compensation. The employer fee is not credited to the account of OTRS participants.

If the employee elects to join the Alternate Retirement Plan, OSU will contribute 11.5% of pay to TIAA-CREF. Unlike the current OSU Retirement Plan, the Alternate Plan will have a two year vesting requirement. This means if an employee leaves before the end of two years, all retirement contributions made by OSU will return to OSU.

The one year employment and age 26 eligibility requirement will not be repeated in the Alternate Plan. New employees who elect participation in OTRS will not have to pay their own OTRS contributions for the first year of employment or until age 26. Employees must be regular continuous employees (an appointment of at least six months) with an FTE of at least .75. Employees with federal benefits, visiting faculty, interns, post docs, and residents and certain other classification will remain ineligible for participation in OSU retirement contributions.

Retirement Insurance Seminar
Make sure you have the information you need about your health insurance before you retire. The State Insurance Board offers several seminars around the state. Visit their website for locations, dates and times -- www.healthchoiceok.com/PreRetirement_meeting.htm.

Voluntary Retirement Contributions for Bi-weekly Paid Employees
OSU will change its payroll system in July to allow greater opportunities for employees on the bi-weekly payroll to voluntarily save for retirement. Effective July 2004, employees voluntarily contributing into a 403(b) tax deferred annuity and/or a 457(b) deferred compensation program will have their monthly contribution split between the first and second bi-weekly payroll of each month rather than to have the full amount taken once a month. No action on your part is needed for this change to occur.

If you would like to increase or decrease your contributions for July based upon this opportunity to have deductions from two checks each month, please complete a new Salary Reduction Form before June 14 to meet the payroll cutoff for the July 2 check. Forms can be found on the web at www.okstate.edu/osu_per/benefits/benforms.html.

OSU Human Resources developed this information for the convenience of OSU employees. It is a brief interpretation of more detailed and complex materials. If further clarification is needed, the actual law, policy and contract should be consulted as the authoritative source. OSU continually monitors benefits, policy and procedures and reserves the right to change, modify, amend, or terminate benefit programs at any time.