



University Senate TRANSMITTAL FORM

Senate Document #:	10-11-30
PCC ID #:	N/A
Title:	Proposal for Changes to the Optional Retirement Plan (ORP)
Presenter:	Bob Schwab, Chair of the Senate Faculty Affairs Committee Cynthia Shaw, Chair of the Senate Staff Affairs Committee
Date of SEC Review:	November 17, 2010
Date of Senate Review:	December 8, 2010
Voting (highlight one):	On resolutions or recommendations one by one, or In a single vote To endorse entire report
Statement of Issue:	During its review of Senate Document 10-11-10, the Retirement Program Selection Process Working Group—containing three members from both the Faculty Affairs and Staff Affairs Committees—determined that the University of Maryland has a notably low employer contribution to the Optional Retirement Program (ORP), amongst other inequities.
Relevant Policy # & URL:	N/A
Recommendation:	<p>Both the Senate Faculty Affairs and Staff Affairs Committees recommend that, for Faculty and Exempt Staff members who participate in the ORP, the following proposal be put forth:</p> <ol style="list-style-type: none"> 1. Increase the employer’s contribution to the ORP from the current 7.25% of annual pay to 10%, phased-in over two years. 2. Require employees participating in the ORP to contribute 2% of their annual pay to the program. This would be phased in over a two-year period, with a 1% employee contribution to kick in on 7/1/2012, and an additional 1% employee contribution on 7/1/2013. Notably, in 1998, the State began requiring an employee contribution for the Retirement and Pension System Participants, and it is the next logical step to require the same of ORP participants. 3. Establish parity between the ORP and Maryland State Retirement and Pension System with regards to retiree health

	insurance benefits for dependents by making the benefits available with 16 years of employee service, irrespective of the retirement program.
Committee Work:	<p>On September 3, 2010, the Senate Faculty Affairs and Staff Affairs Committees were charged by the Senate Executive Committee with jointly reviewing a proposal submitted by a faculty member regarding the retirement program selection process for Faculty and Exempt Staff at the University.</p> <p>The committees were asked to conduct a preliminary evaluation that will help determine whether there are areas of concern. A Working Group was established, containing six members—three from Faculty Affairs and three from Staff Affairs. The Working Group met over the course of two months to research, review, and report back to the full committees on its findings and recommendations.</p> <p>The Working Group presented its draft report to both full committees on November 1, 2010. The draft report included a proposal for changes to the ORP. The committees subsequently voted to extract the proposal, due to its time-sensitive nature, and submit it for action now.</p>
Alternatives:	The ORP employer contribution could stay at its comparably low current level.
Risks:	There are no associated risks.
Financial Implications:	This proposal has financial implications for individuals participating in the Optional Retirement Program (ORP), as well as an increased employer contribution rate for the University/State of Maryland.
Further Approvals Required: <i>(*Important for PCC Items)</i>	If approved by the University Senate, this proposal would require approval of the President and Board of Regents before requiring legislative action of the Maryland General Assembly.

Senate Faculty Affairs & Staff Affairs Committee Report November 2010

On September 3, 2010, the Senate Faculty Affairs and Staff Affairs Committees were charged by the Senate Executive Committee with jointly reviewing a proposal submitted by a faculty member regarding the retirement program selection process for Faculty and Exempt Staff at the University.

The committees were asked to conduct a preliminary evaluation that will help determine whether there are areas of concern. They were asked to review the current and past retirement program selection processes for faculty and staff and comment on whether they are, and have been, appropriate. A Working Group was established, containing six members—three from Faculty Affairs and three from Staff Affairs. The Working Group met over the course of two months to research, review, and report back to the full committees on its findings and recommendations.

The largest area of concern identified by the Working Group in its preliminary report is the notably low employer contribution to the Optional Retirement Program (ORP). With the guidance of Dale Anderson, Director of University Human Resources, the Working Group put together a Proposal for Changes to the Optional Retirement Plan in order to remedy the inequities that exist. This issue has been brought up a number of times over the years at the University of Maryland System level. Both the Senate Faculty Affairs and Staff Affairs Committees support this proposal.

Because of the time-sensitive nature of this proposal, the Faculty Affairs and Staff Affairs Committees decided to put this proposal forth separately from the final recommendations on Senate Document 10-11-10. If approved by the University Senate, this proposal would require approval of the President and Board of Regents before requiring legislative action of the Maryland General Assembly.

Proposal for Changes to the Optional Retirement Plan

In order to attract, hire, and retain the highest caliber faculty and exempt staff, the University of Maryland must offer competitive retirement benefits as part of the employee's total compensation package.

Concerns:

- 1) The University currently contributes 7.25% of an employee's base salary into the Optional Retirement Program (ORP) – the plan that most faculty and exempt staff are enrolled in. This is among the lowest employer contribution among UM's peers and other higher education institutions surveyed (see attached chart). In comparison, the Maryland State Teachers' Retirement and Pension System currently requires an employer contribution of 14.34% of the employee's base salary; the Maryland State Employees' Retirement and Pension System currently requires an employer contribution of 11.69%.

- 2) There is also significant disparity between participants in the Maryland State Retirement and Pension System versus the ORP in the way subsidized health insurance benefits are afforded to retiree dependents. Employees enrolled in the State Pension System have the full array of dependent health benefits when they retire with 16 years of service; however ORP members

must wait until 25 years of service to receive fully subsidized dependent health benefits. This is a basic matter of equity that should be remedied.

Recommendations:

For Faculty and Exempt Staff members who participate in the Optional Retirement Program, it is the recommendation of the Senate Faculty Affairs and Staff Affairs Committees that the following proposal be put forth:

1. Increase the employer's contribution to the ORP from the current 7.25% of annual pay to 10%, phased-in over two years.
2. Require employees participating in the ORP to contribute 2% of their annual pay to the program. This would be phased in over a two-year period, with a 1% employee contribution to kick in on 7/1/2012, and an additional 1% employee contribution on 7/1/2013. Notably, in 1998, the State began requiring an employee contribution for the Retirement and Pension System Participants, and it is the next logical step to require the same of ORP participants.
3. Establish parity between the ORP and Maryland State Retirement and Pension System with regards to retiree health insurance benefits for dependents by making the benefits available with 16 years of employee service, irrespective of the retirement program.

Retirement Plans Comparison, UMCP

<u>Institution</u>	<u>Employer</u>	<u>Employee</u>
Duke	8.9% <\$53,750 over \$53,750 = 13.2%	0%
Florida State	10.43%	0%
Georgia Tech	9.24%	5%
Illinois	7.6% but 0.5% goes towards disability	8%
Indiana	10% Level	50% or more full-time equivalent (FTE) appointed academic or professional staff employee hired in an eligible position after June 30, 1999.
	11.25% Level	100% FTE professional staff employee, grade 15 and below, and other appointed academic or professional staff 100% employees who are less than 100% FTE, but are at least: * 50% FTE for 12 pay status; or * 60% FTE for 10 pay status; or *65% FTE for 9 pay status And was hired in an eligible position before July 1, 1999
	12% Level	100% FTE appointed academic or professional staff employee, grade 16 and above hired in an eligible position between January 1, 1989 and June 30, 1999.
	15% Level	100% FTE appointed academic or professional staff employee, grade 16 and above hired in an eligible position before January 1, 1989.

Retirement Plans Comparison, UMCP

Iowa	<p style="text-align: center;">Nov. 09 - Jun 10</p> <p>1st \$4800 of salary-First 5 years 5.33% Salary above \$4800- First 5 years 8% After 5 years - all salaries - 8%</p> <p style="text-align: right;">July 2010</p> <p>1st \$4800 of salary-First 5 years 6.66% Salary above \$4800 - First 5yrs 10% After 5 years - all salaries - 10%</p>	<p style="text-align: center;">Nov. 09 - Jun 10</p> <p>1st \$4800 of salary - First 5 years - 3.33% Salary above \$4800 - First 5 years 5% After 5 years - all salaries - 5%</p> <p style="text-align: center;">July 2010</p> <p>1st \$4800 of salary-First 5 years 3.33% Salary above \$4800 - First 5yrs 5% After 5 years - all salaries -5%</p>
LSU	5.70%	8%
Michigan	10%	5%
Michigan State	10%	5%
Ohio State	13.23%	10%
Penn State	9.29%	5%
Purdue	<p>11% for salary up to \$9,000 15% for salary over \$9,000</p>	<p>0% for salary up to \$9,000 0% for salary over \$9,000</p>
Rutgers	8%	5%
SUNY at Buffalo	<p>1st 7 years 8% 7 - 10 years 10% 10+ years 13%</p>	<p>1st 7 years 3% 7 - 10 years 3% 10+ years 0%</p>
UC – Berkley	DEFINED BENEFIT PLAN	DEFINED BENEFIT PLAN
UCLA – Medical School	DEFINED BENEFIT PLAN	DEFINED BENEFIT PLAN
University of Colorado	10%	5%

Retirement Plans Comparison, UMCP

University of Florida	10.42%	0%
University of Georgia	9.24%	5%
University of Kansas	8.50%	5.50%
University of Missouri	DEFINED BENEFIT PLAN	DEFINED BENEFIT PLAN
University of North Carolina	6.84%	6%
University of Oregon	6%	6%
University of Texas	8.50%	6.65%
University of Washington	Age < 35 years 5% Age > 35 years and < 50 years 7.5% Age > 50 years 10%	Age < 35 years 5% Age > 35 years and < 50 years 7.5% Age > 50 years 10%
USC	5%	0%
	6%	1%
	7%	2%
	8%	3%
	9%	4%
	10%	5%
MEAN (average)	Prior to 7/1/2010 = 8.87% After 7/1/2010 = 9.346%	Prior to 7/1/2010 = 5.46% After 7/1/2010 = 5.25%
MODE (most repeated)	10%	5%
MEDIAN (middle)	9%	5%