An Overview of TRS and ORP

for Employees Eligible to Elect ORP

Prepared by: Texas Higher Education Coordinating Board Staff
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Note to ORP-eligible Employees:

This document contains basic information about the Optional Retirement Program and the Teacher Retirement System to help you make your one-time irrevocable choice between these two distinct plans that are suited to different individual needs. Prepared by staff of the Texas Higher Education Coordinating Board, this information is provided by each institution to ORP-eligible employees on or before the employee's 90-day ORP election period begins.

It is recommended that you read this entire document. However, for quick reference, read the following sections:

For specific information about the Optional Retirement Program at your institution, please contact your Benefits Office, Human Resources Office, or Business Office. (Location of ORP Administrator varies by institution.)

For general information about the Optional Retirement Program or this document:

ORP Coordinator
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711

(512) 427-6195
e-mail: texorp@thecb.state.tx.us

For more information on the Teacher Retirement System and its benefits:

TRS Information Center
(512) 542-6400 or (800) 223-8778

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

TRS Web Site: www.trs.state.tx.us

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All public K-12 education and public higher education employees who become employed in a position that is eligible for the Teacher Retirement System of Texas (TRS) are automatically enrolled in TRS following a 90-day waiting period that begins with their first day of employment in a position that is otherwise eligible for TRS membership. (The waiting period is not applied to employees who are already members of TRS from prior employment.) Once the 90-day TRS waiting period has been satisfied, full-time faculty, librarians, and certain professionals and administrators employed in public higher education become eligible to elect the Optional Retirement Program (ORP) in lieu of TRS. It is a one-time **irrevocable** choice between two distinct plans suitable to different individual needs that must be made before the 91st day after becoming eligible. This decision should be made very carefully after considering both plans in light of personal circumstances. In addition to reading the material in this document, ORP-eligible employees should obtain specific information from their institution's benefits office, TRS and its web site (www.trs.state.tx.us), ORP company representatives and web sites, colleagues, and personal financial advisors. Other information sources include financial market news reports and insurance company rating services.

Plan Design

The TRS plan is a traditional defined benefit state retirement program in which investment risks are generally absorbed by the state. Contributions go into a large trust fund that is managed by knowledgeable professionals with a prudent, yet successful, investment strategy. This type of plan provides stability and does not require any investment decisions by individual members. Service credit is earned on the basis of required minimum service in a school year, and members also may be eligible to purchase additional service credit such as for military service or out-of-state public school service. Retirement benefits are based on legislatively determined formulas. The standard monthly annuity is currently calculated as the number of years of service credit (five years minimum) multiplied by 2.3 percent of the average of the highest three annual salaries and then divided by 12. A standard annuity is available at age 65 with at least five years, or at any age which, when added to the amount of service credit (five years minimum), equals 80 ("Rule of 80"). Reduced standard annuities are generally available beginning at age 55 with at least five years of service credit. Annuity options provide income for retirees and their beneficiaries for a specified number of years and/or for life. Upon termination from Texas public higher education (or public K-12 education), TRS members who do not desire a retirement benefit may withdraw employee contributions plus five percent interest, but state contributions remain in the fund. TRS also provides death and disability coverage from the first day of membership. System administrative costs are paid with a very small percentage of investment income.

ORP is an individualized defined contribution plan in which each participant selects from a variety of investments offered by several companies (authorized by the employing institution) through annuity contracts or mutual fund investments. Because participants manage their own personal investment accounts, ORP entails more individual risk and responsibility than that associated with TRS membership. Benefits are a direct result of the amounts contributed and any net return on the investments selected by each participant. Upon termination from Texas public higher education, ORP participants with more than one year of participation retain control over all investments (both employee and state contributions). Participants who terminate with one year or less of initial participation forfeit state contributions made during that period of employment. Post-termination distributions are determined by individual contract provisions, federal income tax law and personal preference. Contracts may provide for complete or periodic withdrawals, or annuity income for a specified number of years or for life. ORP has no provisions for death and disability benefits similar to those provided by TRS. Administrative costs are paid by the participant through varying fees, "loads" and/or amount of interest paid.

Contributions

Both the employee and the state make contributions to TRS and ORP based on percentages of the employee's salary. The percentages are established by the Texas Legislature and may fluctuate over time. Employee contribution rates for September 1, 2003, through August 31, 2005, are 6.4 percent for members of TRS and 6.65 percent for ORP participants. The state contribution rate for both plans is six percent. Institutions are authorized to provide local supplements to the ORP state rate (up to 2.5 percent) under certain conditions. Contributions are not subject to federal income tax until paid as benefits.

An Overview of TRS and ORP

for Employees Eligible to Elect ORP

INTRODUCTION

History

The Teacher Retirement System (TRS) is a traditional defined benefit state retirement program covering all eligible public K-12 education and public higher education employees in Texas since 1937. The TRS plan provides valuable retirement benefits to encourage and reward long-term service. In 1967, when the Optional Retirement Program (ORP) was created, TRS required 20 years of creditable service to qualify for a service retirement. Because higher education faculty, librarians, and certain professionals and administrators have careers which normally involve interstate mobility, it was determined that a more "portable" retirement program option would substantially improve Texas public higher education's ability to compete for quality employees at the national level. Providing two different types of plans helps address the varying individual needs of prospective employees, thereby enhancing recruitment.

"Portability" refers to the opportunity for individuals to maintain their retirement savings as they become employed at different colleges and universities across the nation. Most institutions offer ORP-type plans for this purpose, and often it is the only plan available to faculty members. Defined benefit retirement plans such as TRS provide some interstate portability by permitting members to establish limited amounts of out-of-state credit under certain conditions, but this option does not usually allow credit for previous participation in ORP-type plans. However, changes to state retirement laws and federal tax laws have increased the portability of both types of plans. For TRS, the changes include a reduction in the minimum service credit requirement to five years, new types of service credit available for purchase, more flexible transfer provisions with the Employees Retirement System of Texas (for state agency employees), and liberalized rollover opportunities now allowed under federal tax law.

One-time Irrevocable Decision

All full-time public K-12 education and public higher education employees are automatically enrolled in TRS following a 90-day waiting period that begins with their first day of employment in a position that is otherwise eligible for TRS membership. (The waiting period is not applied to employees who are already members of TRS from prior employment.) Once the 90-day TRS waiting period has been satisfied, an individual in public higher education who is employed in an ORP-eligible position at 100 percent effort is given 90 days ("ORP election period") to make a one-time **irrevocable** decision to enroll in ORP in lieu of TRS. Prior enrollment or vested status in a non-Texas ORP plan has no effect on an employee's eligibility or vested status under Texas ORP. Except for two special and unusual circumstances (explained in the *Enrollment* section), employees who elect ORP in lieu of TRS must continue to participate in ORP for the remainder of their careers in Texas public higher education.

Personal Choice

ORP-eligible employees are provided only one opportunity during their entire career in Texas public higher education to select between these two distinct types of plans, and the choice can directly affect financial resources at retirement. Therefore, new or prospective ORP-eligible employees should consider carefully the advantages and disadvantages of each plan in light of personal circumstances. Factors to consider include: age, current and anticipated salary in future years, expected length of employment in Texas, previous retirement plans and contributions, current and anticipated financial position, and, if ORP is selected, willingness to take the risks and responsibilities of managing one's own retirement investments. In addition to reading the material in this document, new or prospective ORP-eligible employees should obtain specific information from the institution's benefits office, TRS and its web site (www.trs.state.tx.us), ORP company representatives and websites, colleagues, and personal financial advisors. Other sources of information include financial market news reports and insurance company rating services.

CONTRIBUTIONS

State law requires both the employee and the state to make contributions to TRS and ORP based on a percentage of the employee's salary. State contribution rates are established biennially by the Texas Legislature and may fluctuate over time, as illustrated in the chart below. Generally speaking, the state contribution rate to TRS is calculated to assure that the trust fund maintains an actuarially-determined amount needed to provide benefit payments to existing members. The ORP state contribution rate is currently the same as the TRS rate, but institutions are authorized to provide local ORP supplements under certain conditions. A change in the state contribution rate to TRS does not have a direct effect on a member's benefit because individual TRS benefits are determined by a formula using number of years of service credit, average of three highest annual salaries, and a "multiplier" set by state law (currently 2.3 percent). However, because ORP benefits are directly dependent on the actual amounts contributed, ORP benefits are more sensitive to a fluctuating contribution rate.

The 78th Legislature (2003) provided that TRS members may establish service credit for the 90-day TRS waiting period by paying actuarial present value (no state funds involved). Most ORP participants can offset the "lost" three months of contributions with a voluntary TSA/TDA (an account similar to an ORP account) by deferring an amount equal to the employee and state contributions they would have received during that period (no state funds involved, similar to TRS members paying actuarial present value), but these amounts cannot be transferred to their ORP accounts ("co-mingling" not allowed).

Contributions and interest earnings under both plans are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity. Federal limits on contributions apply to both TRS and ORP, but usually only affect highly compensated employees (generally, those with salaries over $200,000). These individuals should contact TRS and the benefits office at their institution for information about possible eligibility for "grandfathering" provisions and "excess contribution" plans. In accordance with state law, ORP contributions must be sent to the ORP company within three business days of legal availability and must be sent by electronic funds transfer if the institution and company are able to use that method. Companies must credit ORP accounts immediately upon receipt of funds.

Texas Public Higher Education Retirement Contributions
(as a percentage of salary)

Fiscal Year	TRS		ORP	
	Employee	State	Employee	State
FY38-FY57	5% (of first $3,600)	5% (of first $3,600)	n/a	n/a
FY58-FY68	6% (of first $8,400)	6% (of first $8,400)	n/a	n/a
FY69	6% (of first $8,400)	6% (of first $8,400)	6% (of first $8,400)	6% (of first $8,400)
FY70-FY77	6% (of first $25,000)	6% (of first $25,000)	6% (of first $25,000)	6% (of first $25,000)
FY78-FY79	6.65% (of first $25,000)	7.5% (of first $25,000)	6.65% (of first $25,000)	7.5% (of first $25,000)
FY80-FY83	6.65%	8.5%	6.65%	8.5%
FY84-FY85	6.0%	7.1%	6.65%	8.5%
FY86-FY87	6.4%	8.0%	6.65%	8.5%
FY88-FY89	6.4%	7.2%	6.65%	8.5%
FY90-FY91	6.4%	7.65%	6.65%	8.5%
FY92-FY95	6.4%	7.31%	6.65%	7.31% *
FY96-FY05	6.4%	6.0%	6.65%	6.0% *

** Institutions may supplement the state rate under certain conditions up to a maximum of 8.5%.*

ENROLLMENT

Automatic TRS Enrollment

All public K-12 education and public higher education employees are automatically enrolled in TRS following a 90-day waiting period that begins with their first day of employment in a position that is otherwise eligible for TRS. (The waiting period does not apply to employees who are already TRS members from prior employment.) ORP is an alternative to active TRS membership for full-time higher education employees who are faculty, librarians, and certain professionals and administrators as defined by the Texas Higher Education Coordinating Board. “Full-time” for initial ORP eligibility purposes is employment in an ORP-eligible position at 100 percent effort for at least one full semester or at least four and one-half months. “Visiting” professors who work 100 percent effort for at least one full semester are not considered “temporary” for benefits purposes, so these faculty members must also make this one-time irrevocable decision within 90 days of becoming eligible to elect ORP in lieu of TRS, keeping in mind its effect on any possible future employment in Texas public higher education. Prior enrollment in a non-Texas ORP plan has no effect on an employee’s eligibility or vested status under Texas ORP.

Every ORP-eligible employee is enrolled in TRS unless and until ORP is elected. Although an employee has 90 days from the first day of eligibility to enroll in ORP (after the 90-day TRS waiting period, if applicable), contributions to TRS must be made if an election of ORP – including selection of a company and product – is not made by submitting the appropriate forms to the institution on or before the first day of eligibility. ORP participants may withdraw any employee contributions that were made to TRS prior to the election of ORP, but all state contributions remain with TRS. Therefore, individuals who elect ORP will maximize all contributions and satisfy the vesting requirement as soon as possible if they obtain sufficient information regarding the two plans and make a decision on or before their first day of eligibility. Employees who do not enroll in ORP during their 90-day ORP election period are never eligible to elect ORP in lieu of TRS again during their careers in Texas public higher education.

TRS members who elect ORP after transferring into an ORP-eligible position may either withdraw their TRS employee contributions or leave them on deposit with TRS. Withdrawn amounts contributed to TRS after 1987 will be subject to income taxes and possible IRS early withdrawal penalties unless “rolled over” to an Individual Retirement Account (IRA) or an eligible retirement plan (including the participant’s ORP account) within 60 days of withdrawal.

Returning to TRS after ORP Participation

Employees who elect ORP cannot return to active contributing TRS membership during the remainder of their careers in Texas public higher education except under two circumstances. The first exception occurs when an ORP participant who has not satisfied the ORP vesting period becomes employed by a Texas public institution of higher education in a position that is eligible under TRS but is not ORP-eligible. This individual must return to TRS membership for the remainder of his or her career in Texas public higher education and will never be eligible for ORP again, even if subsequently employed in an ORP-eligible position.

The second exception occurs when an ORP participant leaves public higher education to work in Texas public K-12 education (including regional education service centers) or a state agency covered by TRS that does not offer ORP. Because ORP is not available, this employee must return to TRS. Upon subsequent employment in Texas public higher education, this individual cannot resume ORP participation, even if he or she becomes employed in an ORP-eligible position or had previously vested under ORP.

When active TRS membership is re-established, members can use TRS service credit earned prior to their election of ORP as if no intervening ORP participation had occurred. However, under no circumstances can TRS credit be received for any years of participation in ORP.

VESTING

Teacher Retirement System

"Vesting" has significantly different meanings under TRS and ORP. A TRS member may receive service retirement benefits upon reaching the retirement age established by law for his or her amount of service credit. This is true even if the member terminates covered employment prior to reaching retirement age, as long as the employee portion of the contributions remain in the system and the member has at least five years of TRS service credit (*i.e.*, "vested" status). Withdrawal of employee contributions terminates a member's service credit and any associated future benefits under TRS. Members who withdrew their employee contributions upon termination will only be eligible for service retirement benefits if they return to covered employment and satisfy minimum service requirements again (either through actual service or through "buying back" previously withdrawn service credit) or if they are otherwise eligible by law to reinstate service credit (*e.g.*, ERS/TRS service transfer law).

The amount of time required to maintain membership and eventually draw retirement benefits under TRS is currently five years of service credit for actual service (*i.e.*, not including any purchased service credit a member may be eligible to establish). A year of service credit is established by working a definite period of four and one-half months or a full semester of more than four calendar months. Only one year of service credit may be established during each school year, which generally runs from September through August. Individuals who terminate prior to accruing at least five years of service credit and then return to covered employment within five years do not lose their service credit unless they withdrew their employee contributions following termination. Members may transfer employment from any Texas public educational institution to another without loss of service credit or retirement benefit eligibility.

Optional Retirement Program

ORP vesting refers to a participant's ownership rights to the state portion of the contributions. Upon termination of employment in Texas public higher education, vested ORP participants can take both employee and state contributions with them, but participants who terminate prior to vesting forfeit all state contributions made during that period of employment. ORP participants are vested after one year, or 12 cumulative (but not necessarily consecutive) months, of actual participation. The ORP vesting period is often referred to as "a year and a day" because a participant must begin a second year of participation to meet the vesting requirement. "Participation" means making regular ORP contributions through payroll deduction. For example, if ORP contributions are made based on salary earned as of November 1, an employee with continuous participation will be vested on November 1 of the following year. Because a year for academic faculty members is generally nine months, an academic faculty member will be credited the three summer months towards vesting in ORP provided he or she: (1) is participating in ORP at the end of the spring semester immediately preceding the summer, and (2) resumes participation in an ORP-eligible position at the beginning of the fall semester immediately following the same summer. For participants on leave without pay, a month will count towards vesting if ORP contributions are made based on any amount of salary earned during the month, but there is no credit for participation if the leave without pay status lasts the entire calendar month.

The vesting requirement under ORP cannot be satisfied by previous participation or vested status in any non-Texas ORP plan. Credit is retained for previous Texas ORP participation in two situations: (1) when an unvested participant directly transfers from one ORP-eligible position to another at the same or another Texas public institution of higher education, and (2) when an unvested participant terminates employment and then later returns to work in an ORP-eligible position at the same or another Texas public institution of higher education (with no intervening TRS membership). Credit is retained whether or not any employee contributions were withdrawn following termination because ORP vesting depends on participation rather than the existence of intact employee contributions. An unvested participant's state contributions are forfeited upon termination, so when vesting is completed during subsequent employment, the participant will have a vested right only to state contributions made during the subsequent and any future employment periods. Once vested status has been established, no future ORP vesting period can be required of that participant by any institution – "once vested, always vested."

TEACHER RETIREMENT SYSTEM

TRS Plan Design

The Teacher Retirement System (TRS) provides benefits for service retirement, disability retirement, and death of a member or retiree. Because TRS pays benefits according to a retirement formula (years of service credit times average of highest three annual salaries times 2.3% multiplier), there is no direct effect on individual members if a particular investment in the TRS portfolio does not perform as expected. The vast TRS trust fund, one of the largest public pension funds in the nation, is managed by experienced professional investment officers with a prudent, yet successful, investment strategy. TRS benefits are constitutionally required to be financed based on sound actuarial principles and annually provide more than $4.6 billion to over 200,000 retirees and their beneficiaries. TRS administrative costs are paid with a very small percentage of investment income.

Employee contributions are deposited into individual member accounts each month. Interest is added on August 31 of each year at the rate of five percent of the average balance in the account during the fiscal year. Individual accounts are maintained so that employee contributions can be returned to members who desire to relinquish membership upon termination of covered employment. Withdrawn employee contributions that were made after 1987 will be subject to income taxes and possible IRS early withdrawal penalties unless "rolled over" to an Individual Retirement Account (IRA) or an eligible employer plan within 60 days of withdrawal. All state contributions made on behalf of members are deposited into a single TRS account which is maintained separately from the individual member accounts and used to pay retirement and death benefits. When an employee terminates and withdraws employee contributions, the state contributions deposited on behalf of the employee remain in this account.

The TRS web site (www.trs.state.tx.us) contains detailed information about the plan benefits. See, for example, the Benefit Programs page, which includes a copy of the TRS Benefits Handbook, a retirement estimate calculator, and information on other features of the plan.

TRS Retirement Benefits

The TRS plan is known as a "defined benefit plan" because retirement benefits are based on formulas established by the Legislature that use the number of years of service credit and salary earned. Unlike a "defined contribution plan" such as ORP, the TRS benefit amount has no direct relationship to the actual amount of contributions made. The current formula for a standard monthly annuity is the number of years of service credit multiplied by 2.3 percent of the average of the highest three annual salaries and then divided by 12. Anyone may visit the TRS web site and use the Retirement Estimate Calculator on the Benefit Programs page to estimate future TRS retirement benefits, using various age, salary, and years of service credit assumptions. A standard annuity is available at age 65 with at least five years, or at any age which, when added to the amount of service credit (five years minimum), equals 80 ("Rule of 80"). Reduced standard annuities are available beginning at age 55 with at least five years service credit. However, retiree group health insurance for higher education employees (not administered by TRS) requires a minimum age of 65 (or any age if Rule of 80 is met) with at least 10 years of eligible service credit.

Benefits provided under the formulas have been improved many times over the years, including: increases in the multiplier, reduction of the minimum age and number of years of service credit required for retirement, and reduction of the number of years used to calculate the highest average salary. Improvements apply to all of an active member's service credit, not just credit earned after the improvement is authorized. In addition to formula improvements, the Legislature has granted cost-of-living adjustments to retirement annuities.

TRS Retirement Benefits
(continued)

There are two options that provide an “up-front” cash payment in addition to the monthly retirement annuity. Members who are eligible to retire without a reduction for early age and who have at least 25 years of service credit may participate in the Deferred Retirement Option Plan (DROP) for one to five years prior to retirement. DROP participants continue to make regular contributions, but instead of additional service credit, they accrue cash amounts equal to 60 percent (79 percent for “grandfathered” participants) of their expected retirement annuity, which is “frozen” based on salary and service credit prior to DROP participation. DROP amounts earn five percent interest and are payable in a lump sum or in installments at retirement. Retiring members who did not participate in DROP and who are eligible for an unreduced standard annuity may elect a Partial Lump Sum Option (PLSO), which provides a payment of one, two, or three times their annual standard annuity amount, which is then actuarially reduced by the lump sum amount.

Other TRS Benefits

Disability retirement benefits are provided for members who incur a permanent mental or physical disability that prevents them from further performance of duty. Members with at least 10 years of service credit who become disabled receive a standard annuity or may select from among the payment options provided for service retirements. A disability retiree with less than 10 years of service credit at the time of disability receives $150 per month for a period of time equal to the number of months of service credit. All active members are covered by disability protection from the first day of membership.

TRS members are also covered from the first day of membership by death and survivor benefits. Designated beneficiaries of active members may choose one of five options under the death and survivor benefit, including a lump sum payment equal to twice the member’s annual salary, not to exceed $80,000. The designated beneficiary of a TRS retiree is entitled to receive a lump sum death benefit payment of $10,000 in addition to any continuing annuity that may be payable under the retiree’s selected annuity option. If the total retirement annuity payments made to the retiree and any designated beneficiary are less than the balance in the member’s contribution account on the date of retirement, the excess contributions will be paid to the beneficiary.

Purchasing TRS Service Credit

A TRS member who has at least five years of TRS service credit may purchase one year of eligible out-of-state public school service for each year of Texas service up to a maximum of 15 years. Under certain circumstances, members may purchase credit for other eligible special service, including military service (up to five years), developmental leave (up to two years), and credit for accumulated state sick leave or personal leave as of the last day of employment before retirement. A member with at least seven years of actual TRS membership service credit may purchase one, two, or three years of service credit. Additionally, some TRS members certified under the Texas Education Code may be eligible to buy one or two years of work experience credit, and members who were subject to a membership waiting period may be eligible to purchase service credit for that school year. Members may also “buy back” previously withdrawn TRS service credit.

As an alternative to a lump sum payment, installment payments are permitted (and may be made through payroll deduction) over a period of 12 to 60 months (but not longer than the number of years being purchased), with an annual fee applied to the declining balance due. Special service may also be purchased with a direct rollover of an eligible distribution from another eligible retirement plan.

Purchasing TRS Service Credit
(continued)

Members with service credit in both TRS and the Employees Retirement System (ERS) for Texas state agency employees can transfer credit from one system to the other at retirement and, if eligible, can retire under either system in which they have at least three years of credit. Additionally, a person who has at least three years of service credit in either TRS or ERS can, at retirement, reinstate an account that was withdrawn from the other system and use the reinstated service credit for retirement purposes in either system in which the person has at least three years of service credit. Members with service credit in the retirement systems of certain Texas cities, counties or other governmental entities may qualify for the Proportionate Retirement Program and should contact TRS for details. (Note: The Optional Retirement Program is not included in the Proportionate Retirement Program.)

Returning to Work After TRS Retirement

Returning to work during the month after retirement will revoke a TRS member's retirement. A pre-existing agreement to return to work in what would be considered a TRS-eligible position may also revoke a person's retirement. TRS retirees must be terminated from employment for at least a full calendar month before being re-employed, and most retirees' annuities will be suspended if their post-retirement employment with a TRS-covered employer exceeds certain limits (generally half-time service or six months of full-time service in a school year). TRS should be contacted for further details on annuity suspension during post-retirement employment. Institutions may have local policies regarding return-to-work retirees (often referred to as "modified" retirement programs) that restrict the type and/or amount of employment.

Once retired, TRS members will never again make active contributions to the system even if they return to work in what would otherwise be considered a TRS-eligible position. Because the election of ORP is an alternative to active membership in the retirement system, TRS retirees who return to work in what would otherwise be considered an ORP-eligible position are not eligible to elect ORP.

Additional TRS Information

More information on the Teacher Retirement System and its benefits is available at:

TRS Information Center
(512) 542-6400 or (800) 223-8778

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

TRS Web Site: www.trs.state.tx.us

OPTIONAL RETIREMENT PROGRAM

ORP Plan Design

The Optional Retirement Program (ORP) is an individualized retirement plan in which each participant selects from a variety of investment products provided by several companies. An ORP participant has the opportunity – and the responsibility – to manage a personal retirement plan suited to his or her particular needs. ORP is funded by tax-deferred contributions made by both the state and the employee. The ORP statute authorizes institutions to enter into contractual agreements with insurance and investment companies to purchase, on behalf of their eligible employees, tax-deferred annuities or other types of investments authorized by section 403(b) of the Internal Revenue Code.

Although not a common feature in products offered under ORP, section 403(b) investments may provide for "incidental" death benefits through a life insurance feature. "Incidental" is generally defined by the following limit on contributions applied towards the life insurance component: 50 percent of the cumulative contributions to the annuity account for a permanent policy (*i.e.*, whole life with non-increasing premiums and non-decreasing death benefits), and 25 percent of the cumulative contributions for a temporary policy (*i.e.*, term life or universal life). A portion of the contributions for life insurance, often referred to as the "PS 58" amount, is not tax-deferrable. Section 403(b) contracts do not include disability retirement benefits such as those provided by the Teacher Retirement System (TRS) plan.

ORP Retirement Benefits

ORP is called a "defined contribution plan" because the retirement benefit is based on the actual amount contributed to the individual participant's account. Benefits are a result of the contribution rate, total salary earned during a participant's career in Texas public higher education, and rate of return on investment. There are no provisions for ORP accounts to accept transfers or rollovers from other retirement plans prior to the participant's termination (other than any TRS employee contributions withdrawn in conjunction with an election of ORP). Specific ORP retirement benefits vary among the different investment products available and are subject to individual contract provisions. Contracts may provide for an annuity, periodic withdrawals, or withdrawal of the total balance in the account at one time ("lump sum" payment). Because ORP accounts are managed individually, there are no state provisions for improvement of benefits after termination (*e.g.*, cost-of-living adjustments).

In accordance with state law, benefits from an investment purchased under ORP are available only upon the earlier of termination of participation or attainment of age 70-1/2. An individual terminates participation by death, retirement (including disability retirement), or termination of employment in all Texas public institutions of higher education. Transferring from one institution to another is not considered termination of participation, so employees who transfer are not permitted to access the funds in their ORP accounts. Loans and hardship withdrawals are not available under ORP prior to termination or reaching age 70-1/2. Although such features may be provided by non-ORP 403(b) contracts, the ORP statute has more restrictive distribution rules than the federal 403(b) regulations because ORP is an employee's mandatory retirement plan selected in lieu of membership in TRS, not a supplementary tax-deferred savings vehicle.

Portability

Transferability of ORP among Texas public institutions of higher education is similar to that available under TRS. However, higher education faculty, librarians, and certain professionals and administrators normally require interstate mobility during their careers. To enhance national recruitment of these employees, ORP was created as a more "portable" alternative to TRS. Almost all colleges and universities across the nation offer 403(b) investment opportunities for their employees, so it is highly likely that a prospective or new ORP-eligible employee with previous higher education employment has already contributed to a 403(b) retirement plan and may wish to continue to do so. Likewise, terminated ORP participants will probably have the opportunity to contribute to a 403(b) plan if subsequently employed by a private or out-of-state institution.

Portability
(continued)

ORP is considered a “portable” retirement plan because participants “take their ORP funds with them” when they terminate. A vested ORP participant has “ownership” rights to state contributions, so both employee and state contributions are available at termination. The relatively short one-year vesting period for ORP is a valuable feature of its portability design. After termination of employment, ORP participants independently manage their retirement funds, including determination of the amount and timing of withdrawals, within contractual provisions. A terminated participant’s ORP funds may be left on deposit with the company, transferred to another company, rolled over to an IRA (Individual Retirement Account) or a subsequent employer’s eligible retirement plan (if permitted under that plan), or withdrawn (with any applicable federal income taxes and early withdrawal penalties). Because several companies provide ORP-type products to many institutions across the nation, participants may be able to maintain their relationship with the same company as their careers take them to different institutions.

Authorized ORP Companies

Each institution authorizes companies to provide ORP investment products to its employees. Insurance companies must be qualified to do business in the state of Texas as determined by the Texas Department of Insurance. Mutual fund investment companies must be registered with the federal Securities and Exchange Commission (SEC) and the State Securities Board. All companies must comply with certain conditions, including contract provisions specific to ORP, solicitation rules, and participant notification requirements. There are greater withdrawal restrictions on an ORP 403(b) account than those applied to a non-ORP 403(b) account, so it is essential that ORP companies and representatives understand and comply with the established conditions. In addition to statutory and regulatory requirements, conditions may also include local institutional standards and practices.

Although the list of authorized ORP companies at each institution must contain at least four companies from which participants may select investment products, all institutions currently authorize at least eight companies, so a variety of choices is available; however, all products and funds offered by an authorized company to the general public may not be available under ORP. Institutions must provide at least two separate occasions during the year on which a participant may change ORP companies by directing the institution to stop sending funds to their current ORP account and send future contributions to another authorized company. The resulting “inactive” ORP accounts still have the same distribution restrictions as current accounts (*i.e.*, no access until the earlier of termination of participation or age 70-1/2).

Participants may transfer all or part of their accumulated ORP funds to another authorized company through a “90-24” transfer. Depending on the circumstances (*e.g.*, how long the funds have been held), the transferring company may charge early withdrawal penalties (“surrender fees”). Active participants who desire to transfer ORP funds – including funds contributed in a prior period of employment – should seek authorization to do so from their current institution. This helps ensure compliance with statutory restrictions on distributions (which apply to all ORP funds of an actively contributing participant) and with local institutional policies regarding authorized ORP companies.

Types of ORP Contracts

Two types of contracts are utilized under ORP: individual contracts and group contracts. Under a group contract, participants receive a certificate rather than an individual contract, and each certificate holder’s investments are maintained separately from other certificate holders’ investments. Historically, group contracts have had lower administrative costs and sales charges than individual contracts, but that may not always be the case. Referencing the applicable Internal Revenue Code sections, ORP contracts provide for either a 403(b)(1) fixed or variable annuity account, or a 403(b)(7) custodial account, which is used to directly invest in mutual funds without the annuity shell.

Fixed Annuity

The fixed annuity contract has a guaranteed or "fixed" minimum rate of return and is considered a conservative investment because of the types of reinvestments made by the company. Interest credited to a fixed annuity account is funded by income generated when the company reinvests a participant's contributions, along with those of other fixed annuity contract holders, in various bonds, mortgages, and other debt instruments. To remain competitive, companies may pay more than the minimum rate guaranteed in the contract, resulting in an interest rate that does fluctuate, but it will never drop below the guaranteed level, which will vary depending on the contract. The company also guarantees the investor's principal up to a maximum amount.

In addition to a fixed interest rate, the fixed annuity contract normally establishes the benefit payments available at retirement. Generally, retirement annuities are based on the accumulated value of the participant's account at retirement, life expectancy tables, and an actuarial factor that projects additional earnings over the retirement benefit payment period. An actuarially determined "annuity purchase factor" is established in the contract and is applied to the account balance at maturity. For example, a contract may provide for an annuity purchase factor of 7.0 to be applied to each $1,000 in the account at a retirement age of 65. If the account is credited with $100,000 upon retirement, the benefit payment will be $700 per benefit period. The benefit period is also established in the contract and is usually a calendar month.

There is a loss of purchasing power, called "inflation risk," inherent in fixed investments. While fixed annuities are considered "safe" investments because the principal is returned and there is a guaranteed rate of return, many fixed investments lose value due to inflation and the "closed-end" nature of debt instrument investments. Participants often choose to vary the amount of their ORP funds in fixed investments depending on market and personal factors to take advantage of the benefits attributed to a diversified investment portfolio.

Texas Insurance Guaranty Fund

Most fixed annuity investments are guaranteed by the Texas Insurance Guaranty Fund for up to $100,000 per individual per company. A person who has a fixed annuity investment with a company that is declared "impaired" or "insolvent" by the Texas insurance commissioner can be reimbursed by the guaranty fund up to $100,000. Payouts are funded through assessments on "healthy" companies and are only applicable to fixed annuity investments.

This type of reinsurance may lead ORP participants with a very conservative approach to investing to purchase only fixed annuity investments and limit the amounts in any one company to the guaranty fund's $100,000 maximum. However, this investment strategy may lead to a false sense of security. The guaranty fund serves a useful purpose, but its existence should not stop participants from thoroughly investigating prospective products and companies, actively monitoring the performance of current investments, and considering the advantages of maintaining a diversified investment portfolio.

The guaranty fund is a "last resort" after all other resources have been exhausted. Prior to any payment from the fund, an individual's investments with an impaired company may be "frozen" while various and often lengthy legal proceedings are undertaken. This may create an extremely difficult situation for retirees and participants approaching retirement. Investors should also be aware that the fund may not apply under certain circumstances, depending on the state in which the account holder resides when the company becomes impaired. Interested participants may obtain specific information from the Texas Department of Insurance concerning the guaranty fund's applicability to a particular company and to their own personal situations, both current and that expected as retirees.

Variable Annuity

The other type of annuity account is the variable annuity. Under a variable annuity contract, contributions made by the participant, along with those of other contract holders, are invested by the company in various stocks, bonds, money market instruments, and other investments through what are known as mutual funds. These investments are separate from other assets or investments of the company and are not covered by the Texas Insurance Guaranty Fund (discussed in previous section).

The variable annuity contract offers the purchaser the chance to have the value of the account increase as the economy prospers, but the value can also decrease if the value of the investments in the mutual fund decline, which is called "market risk." A variable annuity is one which varies with the success of the investments made by the fund. Unlike a fixed annuity contract, there is no guaranteed minimum interest rate and no guarantee to repay principal. However, by offering a variety of investment opportunities, the variable annuity contract provides the participant with greater diversification, control and flexibility than that available under a fixed annuity contract.

Monthly ORP contributions are applied toward the purchase of "accumulation units" of the fund or funds that the participant has selected from among several made available by the company as authorized by the employing institution. The value of each accumulation unit increases or decreases as the value of the fund varies. Because a relatively fixed amount of contribution is paid every month under ORP, each payment will purchase varying amounts of accumulation units according to the current value of the fund. As the fund's value decreases, more units can be purchased. Likewise, as the fund's value increases, less units can be purchased. This is called "dollar cost averaging" because over the long term, the value of accumulation units tends to average between the low cost and the high cost.

At retirement, benefits are determined by the number of accumulation units a participant holds at that time and the worth of the fund on that date. Contract holders usually have several distribution options, including a lump sum withdrawal. Individuals who select an annuity option receive payments based on the final number of accumulation units amassed and the value of a unit during each benefit payment period. The amount of each annuity payment will fluctuate as the value of the fund varies.

Mutual Funds

There are several different types of mutual funds, each with its own investment objective, strategy and risks. Monies invested in the fund are reinvested by a professional investor or group of professionals known as the fund manager. Each fund manager provides prospective investors with a document called a "prospectus" which details the fund's objective, administrative costs, and past performance. Individual investors choose funds with objectives that match their own and/or diversify among funds in percentages that suit their overall strategy. To accommodate changes in the investment environment and personal situations, participants may direct the company to move their investments from one fund to another among the "family" of funds offered. Transfers are usually made without charge and can often be handled by telephone or over the Internet.

Funds are generally identified by the type of investments made or by the investment objective. "Money market" funds invest in high quality, short-term securities such as large certificates of deposit and Treasury bills. Funds that invest in stocks and bonds with an objective to produce fairly constant income through dividends and interest payments are referred to as "income" funds. "Growth" stock funds invest in developing companies and have the greatest potential for major increases over time but also include the greatest risk factor. A "balanced" fund selects a mixture of investments to produce a balance of income and growth. Funds investing only in certain types of companies are known by those areas (*e.g.*, "technology," "international" or "environmental"). The term "managed" is applied to funds which have a stated objective that doesn't necessarily fall into one of the more familiar categories.

Custodial Accounts

In addition to 403(b)(1) fixed and variable annuity accounts, the 403(b)(7) custodial account, or mutual fund shares investment, is available. This type of account, authorized under ORP since 1981, permits a participant to directly invest in mutual funds rather than investing through an annuity shell. It provides a great deal of flexibility in managing ORP investments and doesn't include some of the administrative costs associated with annuity accounts such as the mortality risk factor. Amounts invested in mutual funds may be withdrawn at retirement to purchase an annuity contract if the participant so desires.

As with investments in mutual funds through a 403(b)(1) variable annuity account, participants who utilize a 403(b)(7) custodial account select from among several funds offered by the company as authorized by the employing institution and may move their money easily between funds. Monthly contributions are sent to a custodian such as a bank or broker to purchase shares of the selected fund or funds. A share in a fund functions similarly to the accumulation unit discussed in the *Variable Annuity* section. Like variable annuity accounts, mutual fund investments have no guarantees regarding earnings or return of principal. Benefits payable at retirement are determined solely by return on investment, applicable tax law, contractual provisions, and personal preference.

Administrative Costs

Insurance and investment companies must pay expenses to continue operating, so products include provisions for payment of fees or a reduction in interest credited. Expenses vary by company and product. For example, administrative fees for annuity contracts include a mortality risk factor that provides for payment of annuities to individuals who live longer than the average projected life span. All companies have marketing costs and other overhead expenses.

Most companies assess the individual participant for expenses through what is known as a "load." With a "front end load," the company deducts the specified charge from the monthly contribution and then credits the remainder to the participant's account. With a "rear end load" or "surrender charge," the company collects a specified charge when the contract is terminated or when the funds are transferred, surrendered for cash, or distributed as retirement benefits. Surrender charges typically apply to funds invested in fixed and variable annuities less than a certain number of years. A contract may include both types of loads.

"No load" investment products are available but other fees may apply. Contracts (including those with loads) may charge an annual policy fee, a management fee, a billing fee, or miscellaneous fees. Another method for the investment company to collect income is to retain a portion of interest earnings. ORP participants should be sure they understand all current and possible future charges before selecting a particular company or product.

Selection and Monitoring of ORP Companies and Products

ORP participants have many choices, particularly where variable annuities and custodial accounts are concerned. Factors to consider when selecting from among authorized companies and products include: transferability and flexibility without undue expense, guarantees offered, security and reliability of the company, service offered and performed, and concurrence with the individual's personal preferences concerning risk tolerance and attention to financial matters. Maximum return depends on a number of interdependent factors, including: choice of investment vehicles, performance of that vehicle in any given segment of time and over a long time, settlement alternatives at retirement and investment rates available at that time, adaptability to changing circumstances, and charges assessed.

Even when an initial choice of company and product has been made, a certain amount of regular "homework" is involved when one chooses ORP in lieu of TRS. The institution has no fiduciary responsibility for the market value of the participant's investments or for the financial stability of the investment

Selection and Monitoring of ORP Companies and Products
(continued)

companies chosen by the participants, so it is the participant's responsibility to monitor the companies and investments selected. An ORP participant should not select a company or product and then "forget" about it. Prospective and current participants should keep in mind that successful management of one's retirement accounts is a continuing process.

There are many sources of information available to assist participants in this endeavor, such as insurance rating services, general financial market news reports and magazines, and various Internet sites. Participants should obtain specific historical and financial information on prospective companies and products, then continue to seek such information on a regular basis once a selection has been made. An additional resource is the annual analysis of companies offering Texas ORP products that is published by the Texas Association of College Teachers (TACT) and is available at its website (www.tact.org).

Returning to Work After ORP Retirement

An "ORP retiree," as defined by Chapter 25, Rules and Regulations of the Texas Higher Education Coordinating Board, is a person who participated in ORP while employed by a Texas public institution of higher education and who established ORP retiree status by enrolling in retiree insurance provided by the Employees Retirement System (ERS), The University of Texas System, or The Texas A&M University System as an ORP retiree, regardless of whether currently enrolled. Chapter 25 provides that ORP retirees who later return to employment in Texas public institutions of higher education are not eligible to have further ORP contributions made to their ORP account. This restriction applies even if they discontinue their retiree insurance, return to employment in what would otherwise be considered a benefits-eligible position, and/or re-enroll in active insurance (if permitted under the insurance plan).

There is an exception for ORP participants who sign a contract under a "phased retirement plan" that is offered at a few institutions. This is an uncommon type of agreement that allows eligible employees to "ease" into retirement by meeting certain milestones over the contractual period (typically one to two years), such as a reduction of percent effort and enrollment in retiree health insurance, before the employee has been officially changed from active to retired status.

SUPPLEMENTAL TAX DEFERRED ACCOUNT (TDA) PROGRAM

The Tax Deferred Account (TDA) Program (also known as the Tax Sheltered Annuity or TSA Program), is a supplemental non-ORP 403(b) plan offered by Texas public institutions of higher education to both TRS members and ORP participants (and depending on local policy, to other employees as well). This voluntary program offers employees an opportunity to save pre-tax dollars through ORP-type investment products, but provides no state matching contributions. There are federally-established limits on the amount of tax-deferred contributions that an employee can make per tax year, including a limit on contributions to a TDA and also a limit on all contributions to "defined contribution" accounts. Therefore, because ORP and TDA are both "defined contribution" accounts, certain ORP participants can't contribute as much to a TDA as they could if they were TRS members. More information about the TDA program and applicable federal contribution limits is available in each institution's benefits office.

COORDINATION WITH OTHER BENEFITS

Other benefits offered by the institution are coordinated with an individual's selected retirement plan, including eligibility for retiree group health insurance. Because rules and procedures may vary at each institution, detailed information should be obtained from the institution's benefits office regarding interaction between all the benefit programs provided before choosing between TRS and ORP.

KEY POINTS ABOUT ORP

Election of ORP

- An ORP-eligible employee's one-time choice between TRS and ORP is **irrevocable**.
- Employees who don't elect ORP during their 90-day ORP election period are never eligible for ORP again.
- The election of ORP (even with at least five years of TRS service credit) is a waiver of rights to TRS retirement benefits unless active TRS membership is later re-established (*e.g.*, by Texas public K-12 employment).

Eligibility for ORP

- To be initially eligible for ORP, employees must be working full-time (100% effort) in an ORP-eligible position that is expected to last at least 4½ months or a full semester (including most "visiting" professors).
- Because ORP is an alternative to active TRS membership, the 90-day TRS waiting period for new members must be satisfied. New ORP-eligible employees are then enrolled in TRS unless and until ORP is elected.
- Prior enrollment or vested status in a non-Texas ORP-type plan has no effect on Texas ORP eligibility.
- An ORP participant who, prior to vesting, transfers to a position that is TRS-eligible but not ORP-eligible must become a member of TRS and is never eligible for ORP again.
- Terminated ORP participants who become members of TRS as employees of Texas public K-12 education (including regional education service centers) or a state agency covered by TRS, cannot return to ORP if later re-employed in Texas public higher education, even if previously vested under ORP.

ORP Vesting

- State contributions are vested after one year of participation (*i.e.*, making ORP contributions for 12 cumulative, but not necessarily consecutive, months), with vested status conferred on the first anniversary of the first day that ORP contributions began (if continuously participating), and if a break occurred (other than the three summer months for faculty), on the first day of the thirteen cumulative month of participation.
- An ORP participant who terminates participation prior to vesting forfeits state contributions made during that employment period. Forfeited funds are not recoverable, even if the participant later vests in ORP.
- Only one ORP vesting period must be satisfied for any and all Texas public higher education employment.

ORP Distribution Restrictions

- No ORP funds (including employee contributions) can be withdrawn (including through loans or hardship withdrawals) until the earlier of termination of all Texas public higher ed employment or reaching age 70½.

ORP Contributions

- Employee/state contribution rates (currently 6.65%/6%) are established each biennium by the Legislature and may fluctuate. Institutions may provide supplements to the state rate (up to 2.5%) under certain conditions.
- There are no provisions for ORP accounts to accept transfers or rollovers from any other retirement plan prior to the participant's termination of Texas ORP participation (other than a rollover of withdrawn TRS funds made in conjunction with an election of ORP).
- ORP retirees (as defined by the Coordinating Board) who later return to employment in Texas public higher education are not eligible to have further ORP contributions made to their ORP account.

ORP Company Selection

- A company must be selected from the institution's authorized list at the same time that ORP is elected. Each institution authorizes at least eight companies. All of a company's products may not be available under ORP.
- ORP participants are responsible for monitoring their selected companies and investments. The institution has no fiduciary responsibility for the market value of the participant's investments or for the financial stability of the investment companies chosen by the participant.
- ORP participants have at least two occasions each year to change their selected ORP company.

Miscellaneous

- TRS service credit cannot be established for any years of employment as an ORP participant.
- Federal tax law prohibits ORP-type plans from providing disability benefits similar to those provided by TRS.

SUMMARY

An ORP-eligible employee's retirement plan selection is a one-time **irrevocable** choice between two distinct types of plans, so the decision should not be made without due consideration of both plans in light of individual circumstances. This document is intended to provide basic information on each type of plan so that individuals who become eligible to elect ORP in lieu of TRS may make an informed decision. A direct comparison between the plans is difficult because, although contributions under both plans are invested for the benefit of the employee, the method of investing and the benefits provided are fundamentally different and optimally beneficial to different personal circumstances.

Plan Design

TRS is a traditional defined benefit state retirement program in which investment risks and responsibilities are generally assumed by the state. The vast TRS trust fund, one of the largest public pension funds in the nation, is managed by experienced professional investment officers with a prudent, yet successful, investment strategy. The TRS plan provides stability and does not require any attention to investments from the individual member. ORP is a personalized defined contribution plan which provides participants with the opportunity to select from among various companies and products (authorized by each institution) and actively manage their own retirement investments. As such, it requires a certain amount of risk tolerance – the individual ORP participant bears the risk of investment performance – and a desire to make continuing investment decisions.

Benefits

Retirement benefits under TRS are based on a formula that uses the average of the highest three annual salaries and number of years of service credit to calculate several annuity options, including reduced early-age retirement annuities. Two options provide an "up-front" cash payment in addition to the monthly retirement annuity. Although a member with only five years of service credit may receive retirement benefits upon reaching the retirement age established by state law, the TRS plan generally favors the long-term or "career" employee over the short-term employee. It also benefits individuals who begin employment at an older age with a high salary and who intend to complete their careers with a TRS-covered employer (*i.e.*, Texas public institutions of higher education, Texas public K-12 education schools, including regional education service centers, and Texas state agencies covered by TRS). Transfers between covered employers are seamless. Additionally, TRS permits members to purchase limited amounts of out-of-state, military, and other special service credit under certain conditions.

Retirement benefits under ORP are based on actual amounts contributed and rate of return on investment. Because individual investments depend in large part on the passage of time to accrue meaningful returns, ORP generally favors the younger employee over the older employee. ORP also benefits employees who have contributed to personal retirement plans similar to ORP at previous employers and wish to continue doing so. However, there are no provisions for ORP to accept transfers or rollovers from previous employer plans prior to termination (other than a rollover of withdrawn TRS funds made in conjunction with an election of ORP). ORP participants with more than one year of participation have a vested right to both employee and state contributions upon retirement or termination. ORP retirement benefit distributions are determined by individual contract provisions, federal income tax law, and personal preference. Contracts may provide for complete or periodic withdrawals, or annuity income for a specified number of years or for life. Thus, ORP provides more flexibility in management of retirement funds than TRS.

Death and disability coverage is provided for TRS members from the first day of membership. Limited life insurance is permitted under 403(b) plans such as ORP, but it is not a common feature. Federal tax law prohibits 403(b) plans from providing TRS-type disability benefits.

Contributions

State law requires both the employee and the state to make contributions to TRS and ORP based on percentages of the employee's salary. State contribution rates are established biennially by the Texas Legislature and may fluctuate over time. Institutions are authorized to provide supplements to the ORP state rate under certain conditions. A change in the state contribution rate does not have a direct effect on a member's TRS benefit because individual TRS benefits are determined by a formula. However, because ORP benefits are directly dependent on the actual amounts contributed, ORP benefits are more sensitive to a fluctuating contribution rate.

Termination of Employment

To qualify for TRS benefits, members with at least five years of service credit who terminate employment prior to retirement age must maintain TRS membership by leaving employee contributions on deposit. If a retirement benefit is not desired, employee contributions may be withdrawn (plus five percent interest), but all state contributions remain in the fund. Although ORP benefits are available after termination of employment, they are subject to individual contract provisions. Termination prior to vesting under ORP results in forfeiture of state contributions made during that period of employment.

The tax-deferred status of withdrawn ORP or TRS funds may be preserved by "rolling them over" within 60 days to an IRA or another eligible retirement plan the individual may be participating in at the time (if permitted under that plan). Except for pre-1988 TRS contributions (and some pre-1988 ORP contributions), withdrawn amounts from either program which are not rolled over are subject to federal income taxes and any applicable early withdrawal penalties. "Surrender" fees may apply to withdrawn ORP funds (whether rolled over or not), depending on individual contract provisions. Under both retirement programs, contributions may be left on deposit, but no future contributions can be made to these accounts unless they result from active participation during subsequent eligible employment.

Legislative Changes

Legislative changes over the years have lessened some of the differences between TRS and ORP, making this lifetime choice all the more difficult to make. TRS currently has a vesting period of five years as opposed to the 20-year period in effect when ORP was developed. As of January 1988, TRS employee contributions, like those under ORP, are made on a tax-deferred basis, thus lowering the member's taxable income and increasing "take-home" pay. There are now two TRS options that provide "up-front" cash payments in addition to the monthly retirement annuity (*i.e.*, DROP and PLSO).

Other legislative changes to TRS have resulted in improved benefits and flexibility for TRS members and retirees. The formula that determines retirement benefits under TRS has been improved many times, with improvements applying to all of a member's service credit whether or not it was earned prior to the effective date of the improvement. The Legislature also has provided cost-of-living adjustments for TRS retirees. Comparable cost-of-living increases are not possible for ORP retirees because their retirement benefits are determined by individual investments rather than a state system. TRS special service (*e.g.*, out-of-state service) and previously withdrawn service credit can now be purchased on an installment basis (and through payroll deduction) or with direct rollovers of eligible distributions from other eligible retirement plans. The amount and types of service credit that can be "purchased" under TRS have also been enhanced, and there are provisions for direct transfer of credit between TRS and the Employees Retirement System (for Texas state agency employees) at retirement.

Information Resources

Information resources to help make this one-time irrevocable choice between TRS and ORP include: institution's benefits office, TRS and its web site (www.trs.state.tx.us), ORP company representatives, colleagues, personal financial advisors, financial market news reports, insurance company rating services, and various Internet sites.