

BOARD OF REGENTS OF THE UNIVERSITY SYSTEM OF GEORGIA

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MEMORANDUM

TO: Presidents, University System of Georgia

FROM: Erroll B. Davis, Jr.
Chancellor



DATE: August 31, 2006

SUBJECT: ORP Contribution Rate Change

A number of you have dropped me either notes or e-mails raising concern about the reduction in employer contribution rate for the Optional Retirement Plan (ORP). The purpose of this communication is to try and give a focused response to your concerns.

While I appreciate that any reduction in rate is a significant event and will be viewed negatively, we should all guard against making comparisons that are inappropriate. A history of the employer contribution rates between the Teachers Retirement System of Georgia (TRS), a defined benefit plan, and the ORP, a defined contribution plan, is shown at the end of this memorandum. As you will note, there have been years recently when the employer contribution rate to the ORP has been greater than the employer contribution rate to the TRS. There are also years when it has been below.

From 1990 to 1997, the employer contribution rate to the ORP was statutorily fixed at 4%. In 1997, the Legislature, in an attempt to create contribution parity, mandated that the "normal contributions" to both plans be identical. I am also aware that employee contributions are currently at the 5% level for each plan.

I believe the confusion arises because there are three components of the employer contribution rate for the TRS plan: 1) an administrative fee; 2) an unfunded accrued liability fee; and 3) the normal contribution. There is only one element applicable to the employer contribution rate for the ORP plan, and that is the normal contribution. The normal contribution percentage amount is identical for both plans, as mandated by law.

What I believe has happened in the past is that market performance has been such that the unfunded accrued liability has provided a credit, which more than offset the administrative fee and resulted in a total contribution to the TRS plan that was less than the ORP contribution. On its face, one would assume that if administrative fees and unfunded accrued liability fees were always positive, then the contribution for the defined benefit plan should be always higher than the defined contribution plan.

Holding aside whether it's a good idea ever to reduce contributions or even for that matter vary them annually within a defined contribution plan, I would like to eliminate all the comparative arguments about putting more money in one plan versus the other, particularly in light of recent contribution levels. My sense is when the market is exceptionally robust the ORP contribution rate may be higher than that of the defined benefit plan. In less robust times, the opposite may be the case. **But in each case, the normal contribution rates are identical.** It is important that we understand that the recent change in normal contribution rates to the ORP was not made in some punitive manner towards participants; rather, the retirement system simply acted as directed by its statute. The larger answer, of course, is that comparisons should probably not be made between defined contribution and defined benefit plans.

This situation has, however, brought to light that the ORP statute has not been revised in almost ten years. I intend to ask state policy makers to review the ORP statute in general and the setting of the employer contribution rate in particular to eliminate similar situations going forward.

I hope this information is helpful as you have discussions with members of your team. Please get back to me if I can provide further information.

C: Members, Board of Regents
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Regents Retirement Plan (Optional Retirement Plan)
 Defined Contribution Plan
 Plan Year (January 1 – December 31)

Plan Year	Employee Contribution	Employer Contribution
1990	6.00%	4.00%
1991	6.00%	4.00%
1992	6.00%	4.00%
1993	6.00%	4.00%
1994	6.00%	4.00%
1995	5.00%	4.00%
1996	5.00%	4.00%
1997	5.00%	7.42%
1998	5.00%	7.75%
1999	5.00%	8.34%
2000	5.00%	8.79%
2001	5.00%	8.81%
2002	5.00%	9.62%
2003	5.00%	10.02%
2004	5.00%	10.03%
2005	5.00%	9.65%
2006	5.00%	9.66%
2007	5.00%	8.13%

Teachers Retirement System of Georgia
 Defined Benefit Plan
 Plan Year (July 1 – June 30)

Plan Year	Employee Contribution	Employer Contribution
1990	6.00%	13.63%
1991	6.00%	12.64%
1992	6.00%	11.81%
1993	6.00%	11.81%
1994	6.00%	11.81%
1995	5.00%	11.81%
1996	5.00%	11.81%
1997	5.00%	11.81%
1998	5.00%	11.81%
1999	5.00%	11.95%
2000	5.00%	11.29%
2001	5.00%	11.29%
2002	5.00%	9.24%
2003	5.00%	9.24%
2004	5.00%	9.24%
2005	5.00%	9.24%
2006	5.00%	9.24%
2007	5.00%	9.28%