BOARD OF REGENTS OF
THE UNIVERSITY SYSTEM OF GEORGIA

OFFICE OF HUMAN RESOURCES-USG
270 WASHINGTON STREET, S.W.
ATLANTA, GEORGIA 30334

404-657-7596
404-463-7499
DOROTHY.ROBERTS@USG.EDU

MEMORANDUM

Date: December 12, 2006

To: Optional Retirement Plan Advisory Committee

From: Dorothy W. Roberts, Interim Associate Vice Chancellor for Human Resources

Re: Committee Recommendations

Enclosed is a copy of the final ORP committee recommendations presented to Chancellor Davis on December 12, 2006.

Thank you.

Enclosure

OPTIONAL RETIREMENT PLAN ADVISORY COMMITTEE

Table of Contents

Optional Retirement Plan (ORP) Advisory Committee

Dr. Richard S. Callan
Assistant Professor, Dentistry
Medical College of Georgia
1120 Fifteenth Street
Augusta, GA 30912
706-721-2811
rcallan@mcg.edu

Dr. Adriance Galloway
Vice President for Fiscal Affairs
East Georgia College
131 College Circle
Swainsboro, GA 30401
478-289-2025
Galloway@ega.edu

Dr. Cliff Gardiner
Associate Professor, English
Augusta State University
2500 Walton Way
Augusta, GA 30904-2200
706-737-1738
cgardiner@aug.edu

Mr. Thomas Gausvik
Associate V.P. for Human Resources
University of Georgia
215 South Jackson Street
Athens, GA 30602
706-542-2621
tgausvik@uga.edu

Mr. John Grovenstein
Director of Benefits
Georgia Institute of Technology
500 Tech Parkway
Atlanta, GA 30332-0435
404-894-8374
john.grovenstein@ohr.gatech.edu

Dr. Hugh Hudson
Chair, History Department
Georgia State University
University Plaza, PO Box 3983
Atlanta, GA 30302-3983
404-651-1424
hhudson@gsu.edu

Dr. Kurt S. Schulzke
Associate Professor of Accounting
Kennesaw State University
1000 Chastain Road
Kennesaw, GA 30144-5591
770-423-6379
kschulzk@kennesaw.edu

Dr. Craig Turner
Professor, Mathematics
Georgia College & State University
231 Hancock Street
Milledgeville, GA 31061-0490
478-445-0973
craig.turner@gcsu.edu

Ms. Dorothy W. Roberts
Interim Associate Vice Chancellor
for Human Resources
270 Washington Street, SW
Atlanta, GA 30334-1450
404-657-7596
dorothy.roberts@usg.edu

Mr. James Kelley
Account Representative
TIAA-Cref
Five Concourse Pkwy., Ste. 2600
Atlanta, GA 30328-6104
770-512-3519
jkelley@tiaa-cref.org

BOARD OF REGENTS OF THE UNIVERSITY SYSTEM OF GEORGIA
270 Washington Street, SW
Atlanta, Georgia 30334-1450

Office of the Associate Vice Chancellor for Human Resources

Telephone (404) 656-2238
FAX (404) 463-7499

MEMORANDUM

TO: Erroll B. Davis, Jr., Chancellor

FROM: Optional Retirement Plan (ORP) Advisory Committee

DATE: December 15, 2006

SUBJECT: ORP Advisory Committee Recommendations

The University System of Georgia has emerged as one of the most dynamic in the country. Its universities and colleges are a driving force in the economic and social development of the State of Georgia and of the country as a whole.

The key to the success of the System and of the further development of the state lies with the recruitment and retention of the highest quality faculty, administrators, and staff. However, salaries within the System are no longer in the top quartile of the regional average. Further, as the present state-wide crisis in the recruitment and retention of nursing faculty demonstrates, universities are seldom, if ever, able to vie with the private sector in salaries. It is therefore essential to protect those remaining mechanisms that allow our universities and colleges to compete effectively in the market. Good retirement packages are vital in the effort to recruit and retain the best employees, whose work is crucial to the further economic and social progress of the state. It is to that end that the following recommendations are made.

Optional Retirement Plan (ORP) Advisory Committee Recommendations

The Optional Retirement Plan established September 1, 1990, to provide a "defined contribution" alternative to the Teachers Retirement System (TRS) was last reviewed more than ten years ago. The ORP asset now exceeds $1 billion with more than 11,000 active participants. (Exhibit 1)

Administrative Process Change

Recommendation 1: Revise current administrative procedures to allow plan participants to move from an annual fund sponsor changes to year round fund sponsor changes.

Background: The current administrative process permits participants to change fund sponsors only during the annual enrollment period.

Rationale: If a participant wishes to explore other opportunities within the plan, the participant can effect timely and proactive plan changes. Less than one percent of ORP participants currently make annual fund sponsor changes so the administrative burden of year round changes would be minimal.

Recommendation 2: Establish a standing Optional Retirement Plan (ORP) Retirement Administrative Committee. This committee should consist of at least 50% ORP participants. This committee will operate independently of the TRS Board of Trustees to ensure that the interests of the ORP participants are addressed.

Background: The Board of Regents currently serves as the ORP Plan Administrator/Sponsor but does not have ongoing oversight of the plan.

Rationale: While the Board of Regents as Plan Sponsor retains the duties of designing and adopting the plan, amending the plan document, and appointing key fiduciaries such as the plan administrator and Retirement Advisory Committee, the BOR should consider creating and appointing a committee to be responsible for administering the plan and for managing the plan's investments. Duties may include:

1. Communicating the plan to participants
2. Interpreting the Plan's provisions
3. Providing retirement plan education or advice to participants
4. Developing an investment policy
5. Selecting and monitoring appropriate investment options
6. Ensuring that plan reporting and testing is performed accurately and on time
7. Increasing the operational efficiencies of the plan through consideration of approaches such as single record keeper or consolidated remitter

Considering the current combined responsibilities of health plan and retirement plan administration, the Board of Regents should also consider creation of a full-time position ORP Plan Administrator. The duties of this individual would be:

1. Maintain employee eligibility and proper enrollment
2. Ensure Plan recordkeeping is in order
3. Monitor timely processing of employee and employer contributions
4. Ensure appropriate withdrawals and distributions are being made from the plan
5. Annual reporting and compliance testing completion
6. Develop and monitor appropriate participant communications and investment education (to include enrollment decision assistance applications)
7. Develop and deliver appropriate institutional administrator training programs to ensure proper administration of the Plan's provisions at each institution
8. Support the Retirement Advisory Committee on an on-going basis.

Recommendation 3: Implement training program for HR professional and provide tools and resources for use in new employee orientation classes.

Background: Currently new employees are not provided adequate resources to make informed decisions regarding a retirement plan.

Rationale: An extensive training program designed to provide employees with the needed information and tools, including simulators for modeling the TRS/ORP returns under certain assumptions, in order to make more informed decisions.

<u>Statutory Change</u>

Recommendation 1: The Board of Regents should explore with its legislative and retirement plan partners viable approaches to permitting ORP participants to rejoin the Teachers Retirement System of Georgia (TRS).

Background: ORP eligible employees make a one time irrevocable decision within the first 60 days of employment on plan (TRS or ORP) participation.

Rationale: Newly hired employees may not have all the necessary information to make an informed retirement decision at the time of hire. After several years in the job, or after a tenure decision, the employee may be in a better position to decide whether they wish to remain long term. The employee may also have a better understanding of plan benefits and options. The University System will benefit by increasing the retention of faculty by way of the golden handcuffs of a defined benefit plan.

ORP participants should be provided the option, at least once in their careers, to opt out of the ORP to switch to TRS. Such change in election should allow the participant the option to transfer assets from the ORP to purchase years in the TRS or to retain assets within the initially selected plan and start fresh in the TRS. Allowing the ORP participant to transfer assets to the TRS would enable him or her to apply existing seniority toward vesting and retirement.

Special Consideration: In its capacity as ORP Plan Sponsor/ Administrator, the Board of Regents should work closely with the TRS to ensure equitable treatment of those ORP employees who choose to re-enter the TRS system. Consideration should be given to a modified purchase formula for ORP participants who wish to buy years of service in TRS.

Different terms for purchasing TRS years of service for ORP participants who wish to re-enter the TRS are mandated by former contribution levels and surrender requirements. During the early years of the ORP, the need to ensure the solvency of the TRS resulted in (1) a special contribution to the TRS, based on ORP participants' salaries, to compensate the TRS for the loss of participants in their own retirement plan; and (2) significantly lower employer contributions to ORP participants compared to those made to the TRS on behalf of TRS employees (Exhibit 2). Thus, ORP employer contribution levels during the years 1990-1996, before the ORP employer contribution was linked to the TRS normal cost, were significantly lower than in years since. To require those employees who entered the ORP during those early years — when ORP employer contributions were at historical lows and TRS employer contributions were two to three times higher — to purchase years of TRS service using TRS contribution percentages would unfairly disadvantage them.

Those in the TRS prior to 1991 and who transferred to ORP in 1991, all were required to forfeit state contributions. They must have their state contributions and years of service recognized in the purchase formula.

Recommendation 2: Retain the current linkage between TRS and ORP employer contribution rates but seek legislative approval to increase the current floor (as found in OCGA 47-21-4 (b) (3)) to the 2007 rate of 8.13%. Additionally, the committee recommends that future rates for ORP employer contributions shall be the total TRS employer contribution rate (rather than the current "normal" contribution rate) with the proviso that the ORP employer contribution rate shall not fall below the new floor.

Background: The current ORP employer contribution rate is linked to TRS formula but at the "normal" contribution rather than the total contribution.

Rationale: The increase, which eliminates the discrepancy between the total employer contribution to TRS and the normal contribution to ORP, would eliminate perceived inequities in state contributions to the two plans. Further guaranteeing a minimum employer contribution to ORP that would more likely assure employees an adequate retirement fund will allow USG to maintain a competitive position in recruiting and retaining world renowned faculty and administrators. (Exhibit 3 & 4)

Recommendation 3: Expand the definition of ORP eligibility to include all exempt employees.

Background: Current definition of eligible employee is limited to Faculty and Principal Administrators.

Rationale: The University System competes in a national market for exempt employees. A defined benefit plan with a ten year vesting requirement puts the University System at a competitive disadvantage when recruiting employees from a job market where 5 year vesting and defined contribution plans predominate. Moreover, units of the University System have widely varying definitions of "Principal Administrator" and Faculty. A more concrete definition of eligibility would result in more uniform eligibility standards for the plan.

Exhibit 1

GEORGIA
OPTIONAL RETIREMENT PLANS
PLAN SUMMARY REPORT
2006

[illegible]	[illegible]	[illegible]
AIG – Valic	195,204,702	1,775
American Century	23,239,274	642
Fidelity Investments	107,000,000	2,500
TIAA-Cref	760,476,511	6,617
Grand Total	**1,085,920,487**	**11,534**

Teachers Retirement System of Georgia Plan
Defined Benefit Plan
Plan Year – Fiscal Year

Plan Year (July 1 – June 30)	Employee Contribution	Employer Contribution
Plan Year 1990	6.00%	13.63%
Plan Year 1991	6.00%	12.64%
Plan Year 1992	6.00%	11.81%
Plan Year 1993	6.00%	11.81%
Plan Year 1994	6.00%	11.81%
Plan Year 1995	5.00%	11.81%
Plan Year 1996	5.00%	11.81%
Plan Year 1997	5.00%	11.81%
Plan Year 1998	5.00%	11.81%
Plan Year 1999	5.00%	11.95%
Plan Year 2000	5.00%	11.29%
Plan Year 2001	5.00%	11.29%
Plan Year 2002	5.00%	9.24%
Plan Year 2003	5.00%	9.24%
Plan Year 2004	5.00%	9.24%
Plan Year 2005	5.00%	9.24%
Plan Year 2006	5.00%	9.24%
Plan Year 2007	5.00%	9.28%

Regents Retirement Plan (Optional Retirement Plan)
Defined Contribution Plan
Plan Year – Calendar Year

Plan Year (Jan 1 – Dec 31)	Employee Contribution	Employer Contribution	Additional USG Contribution Paid to TRS on behalf of ORP Participants	
			Jan - Jun	Jul - Dec
Plan Year 1990	6.00%	4.00%	-	5.60%
Plan Year 1991	6.00%	4.00%	5.60%	5.60%
Plan Year 1992	6.00%	4.00%	5.60%	5.60%
Plan Year 1993	6.00%	4.00%	5.60%	5.60%
Plan Year 1994	6.00%	4.00%	5.60%	5.60%
Plan Year 1995	5.00%	4.00%	5.60%	4.87%
Plan Year 1996	5.00%	4.00%	4.87%	4.24%
Plan Year 1997	5.00%	7.42%	4.24%	3.91%
Plan Year 1998	5.00%	7.75%	3.91%	3.46%
Plan Year 1999	5.00%	8.34%	3.46%	2.35%
Plan Year 2000	5.00%	8.79%	2.35%	2.33%
Plan Year 2001	5.00%	8.81%	2.33%	Terminated 3/2001
Plan Year 2002	5.00%	9.62%		
Plan Year 2003	5.00%	10.02%		
Plan Year 2004	5.00%	10.03%		
Plan Year 2005	5.00%	9.65%		
Plan Year 2006	5.00%	9.66%		
Plan Year 2007	5.00%	8.13%		

CUPA-HR'S 2006
COMPREHENSIVE SURVEY OF COLLEGE AND UNIVERSITY BENEFITS PROGRAMS

Benefits II (Retiree Health Care) were completed by 149 institutions, including 10 systems reporting in the aggregate, providing data for 249 schools.

Defined Contribution Retirement Plan

% offering Defined Contribution Plan Pub: 90% Priv-Rel: 99% Priv-Ind: 98%	95%
Most common plan offered – 403(b)	98%
% indicating vesting period	19%
Median vesting period	4 years
% of institutions contributing to DCP	89%
% of requiring employee match	52%
Median maximum % of salary paid into plan by institution (up to IRS limits)	8.3%
% requiring employee to contribute	58%
% of institutions matching additional employee contributions	10%

Defined Benefit Retirement Plan

% offering Defined Benefit Plan Pub: 90% Priv-Rel: 12% Priv-Ind: 18%	45%
% indicating vesting period	82%
Median vesting period	5 years
Median maximum % of salary paid into plan by institution	9.7%
% requiring employee to contribute	58%
Median maximum % of salary employee required to contribute	6.3%

Exhibit 4

SOUTHEASTERN OPTIONAL RETIREMENT PLANS

State	Employer Contribution	Employee Contribution
Alabama	0 – 5% of Gross Salary	0 – 5% of Gross Salary (This plan supplements mandatory TRS membership)
Florida	10.42% of Gross Salary	Employees are not required to contribute
Georgia	8.13% of Gross Salary – **Effective January 1, 2007**	Tax deferred 5% of Gross Salary
Kentucky	10% of Gross Salary	Tax deferred 5% of Gross Salary
Mississippi	8.8% of Gross Salary	Tax deferred 7.25% of Gross Salary
North Carolina	11.16% of Gross Salary	Tax deferred 6% of Gross Salary
South Carolina	7.55% of Gross Salary	Tax-deferred 6.25% of Gross Salary
Tennessee	10% of Gross Salary covered by S.S. and 11% of salary in excess of the S.S. Wage Base	Employees are not required to contribute
Virginia	**Hired prior to January 1, 1991:** 10.4% of annual base pay or 11.5% of annual base pay - max of $100,000 taken into consideration when calculating contribution **Hired after January 1, 1991:** 10.4% of annual base pay	Employees are not required to contribute