

SUBJECT: Expanding participation in the Optional Retirement Program

COMMITTEE: Pensions and Investments — favorable, without amendment

VOTE: 7 ayes — Eiland, Flynn, Griggs, Krusee, McClendon, Rodriguez, Straus
0 nays

WITNESSES: For — Beaman Floyd, Texas Community College Teachers Association
Against — None

BACKGROUND: Government Code, ch. 830 establishes the Optional Retirement Program (ORP) for full-time faculty members and certain administrators at state-supported higher education institutions, including public community colleges. The ORP features one-year vesting, is portable between institutions, and allows participants to retain their contribution accounts if they leave state employment. The Texas Higher Education Coordinating Board (THECB) oversees the program rules, and the comptroller and the various institutions are responsible for the accounting duties. Each governing board selects the annuity vendors.

Each fiscal year, the state is required to contribute to the ORP 6 percent of the aggregate annual compensation of all participants during the year, and participants contribute 6.65 percent. Higher education institutions may use any source of funds to make supplemental contributions of up to 2.5 percent.

DIGEST: HB 2945 would expand the eligibility of certain employees to participate in the ORP. Higher education institutions would be allowed to submit a list to THECB of employment positions that did not meet the eligibility criteria for participation in ORP and that the institution proposed to include for eligibility for participation in ORP. The list would have to be based on the institution's competitive labor market requirements. THECB would be allowed to approve one or more positions for participation in ORP, and THECB periodically would require an institution to reapply for continued approval of each employment position that was approved for participation.

Following the reapplication by an institution for continued approval of an approved employment position, if THECB terminated the eligibility of an employment position for participation, the incumbent employee hired before the date of the termination would remain in the program but a newly hired employee hired after the date of the termination would not have the option to participate in the ORP. That employee, if eligible, would have to participate in the Teacher Retirement System (TRS).

State contributions for the employees would be equal to contributions made for employees in the TRS. The bill would stipulate that institutions would have to contribute the same amount for the newly eligible employees as other employees already participating in ORP and that the newly eligible employees would be entitled to whatever supplement the institutions provided other similarly situated employees.

The bill would take effect September 1, 2005.

**SUPPORTERS
SAY:**

HB 2945 would provide higher education institutions an additional recruitment and retention tool when attempting to fill positions in critical fields, such as nursing or informational technology. By allowing each institution to determine if current marketplace conditions required a portable retirement plan, institutions could make recruiting more attractive to candidates for employment.

Higher education institutions no longer are competing just with each other. They are competing on a worldwide basis with all employers, both public and private. The ORP is a defined contribution plan similar to a 401(k) that is portable with no restrictions on how an employee takes the benefits out. Professionals in today's marketplace are used to a 401(k)-type of plan and have come to expect it as part of a benefits package.

According to the fiscal note, there are approximately 3,000 positions that could become available to participate in the ORP under the bill, but there would be no cost to general revenue because the state already is making retirement contributions through TRS for these positions. The state would contribute to the employee's retirement either way, but the ORP option would provide more flexibility and be more attractive to prospective higher education employees, as well as employees who might have considered leaving state employment for the private sector.

HB 2945
House Research Organization
page 3

OPPONENTS
SAY:

No apparent opposition.

NOTES:

HB 3125 by Eiland, which would allow a university retiree who returned to work to participate in ORP, passed the House on second reading yesterday and is scheduled for third reading consideration today.