

# An Overview of TRS and ORP

for Employees who are Eligible to Elect ORP

## Retirement Plan Options

You have a choice to make between two different retirement plans

- TRS: TRS-eligible employees at Texas public institutions of higher education and Texas educational institutions (e.g., K-12 ISDs) are automatically enrolled in the Teacher Retirement System (TRS) on their first day of employment.
- ORP: ORP-eligible employees at Texas public institutions of higher education may choose to participate in the Optional Retirement Program (ORP) as an

## What is TRS?

TRS is a traditional defined benefit pension plan that provides for basic retirement annuities.

### Contributions

- The TRS member and employing institution make mandatory monthly contributions using percentages of salary that are established by the legislature and subject to change. Federal contribution limits may apply to certain highly compensated employees.
- Member contributions are deposited into an individual member account. Employer contributions made on behalf of the member are deposited into a single, separate TRS account from which all retirement and death benefits are paid. TRS manages the investments as a large institutional investor.
- Contributions and interest earnings are not subject to federal income tax until the fund Q q 54.

What is TRS?(cont.)

Service Credit Provisions(cont.)

- TRS members with service credit in other Texas public retirement plans that participate in the Proportionate Retirement Program (certain cities, counties or other governmental entities) may combine their credit from all participating plans to qualify for retirement and receive a proportionate annuity from each plan. ORP does not participate in this program.

## What is ORP?(cont.)

### Retirement Eligibility and Benefits

- ORP retirement benefits are based on the accumulated amount of funds in the participant's ORP account (no age/service formulas)
- Eligible participants choose how and when to take funds out of the plan. Eligible distributions include complete or periodic withdrawals, rollovers of funds to another eligible retirement plan (such as an IRA) and, for some accounts, lifetime annuities. Early withdrawal penalties may apply.
- ORP participants become eligible to take funds out of the plan upon termination of all employment with all Texas public institutions of higher education. Participants who are still employed become eligible to take funds out of the plan at age 70-1/2.
- Postretirement cost-of-living adjustments (COLAs) are not available in an ORP plan.
- There are no provisions in ORP to purchase service credit, transfer or roll over non-ORP funds into the plan (including any pre-election TRS contributions), or take a loan or financial hardship withdrawal. ORP does not participate in the Proportionate Retirement Program.

### Vesting

- Vesting refers to a participant's ownership of employer "matching" contributions. Vesting occurs on the first day of the second year of participation, which is defined as the first day of the 12th month of active participation (e., making contributions by payroll deduction). The vesting period is sometimes referred to as "a year and a day."
- Faculty Members: A year for academic faculty members is generally nine months, so academic faculty members will be credited the three summer months for vesting purposes provided they are participating at the end of the spring semester immediately preceding the summer and resume participation with the same or another Texas public institution of higher education at the beginning of the fall semester immediately following the same summer.
- Participants who terminate ORP-covered employment with all institutions prior to meeting the vesting requirement must forfeit employer contributions made during that period of employment.

Exception: Unvested participants who become employed in a non-eligible position do not contribute to ORP and are not required to forfeit unvested ORP contributions unless they are subsequently employed in a TRS position or have a break in service.

- The vesting requirement cannot be satisfied by prior participation or vested status in any Texas ORP plan (including any pre-election TRS service credit).
- Vesting credit is retained for prior Texas ORP participation in two situations:
  - when an unvested participant directly transfers from one ORP-eligible position to another at the same or another Texas public institution of higher education (with no break in service) or
  - when an unvested participant terminates employment in the ORP-eligible position 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 active TRS membership)

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### What is ORP?(cont.)

#### Vesting (cont.)

- Vesting credit is retained even when a participant takes his/her employee contributions out of the plan during the break in service following termination and prior to reemployment
- A participant who completes the vesting period during a period of employment after a break in service will have a vested right only to employer contributions made during the period of employment in which vesting occurs and any future employment periods. Forfeited employer contributions from earlier periods of employment cannot be restored to the participant's ORP account.
- Once vested, always vested: Once a participant has established vested status, no future ORP vesting period can be required by any institution.

#### More Information about ORP

- For specific information about the ORP plan at your institution, including a list of authorized companies, local policies and procedures for electing ORP, and the current contribution rate



