

## 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:** All TRS-eligible employees at Texas public institutions of higher education and Texas public 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 elect to participate in the Optional Retirement Program (ORP) as an ***alternative to TRS***.

### Limited ORP Election Period

You have a ***one-time opportunity*** during your employment in Texas public higher education to choose between TRS and ORP.

- You're eligible to elect ORP on your first day of employment in an ORP-eligible position, which is your Initial ORP Eligibility Date.
- You have ***90 additional calendar days to make your election***, which is your ORP Election Period.

### Default Plan is TRS

- You will be an active member of TRS unless and until an election of ORP is made by submitting your completed TRS 28 election form to your Human Resources Office.
- If you submit your completed TRS 28 election form:
  - **on or before** your Initial ORP Eligibility Date, you will become an active ORP participant on your Initial ORP Eligibility Date and your active TRS membership is waived as of that date.
  - **after** your Initial ORP Eligibility Date, you will remain in TRS until your ORP participation start date, which is generally the first of the month following the date you submit your completed TRS 28. Check with your Human Resources Office for local policies and procedures.
- If you don't submit your completed TRS 28 by the end of your ORP Election Period (90<sup>th</sup> calendar day after your Initial ORP Eligibility Date), you will automatically stay in TRS for the remainder of your benefits-eligible career in Texas public higher education. You will ***never be eligible for ORP again***, even if you terminate employment with your current institution and become employed in an ORP-eligible position with another institution.

### Irrevocable Decision

Your retirement program choice ***cannot be changed***.

- These two types of retirement plans are suitable to different individual needs, so the decision should be made very carefully after considering your personal circumstances.

*This document is intended to provide a brief and general overview and is subject to change. In case of conflict between this summary and applicable laws and rules, the laws and rules control.*

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### What is TRS?

TRS is a traditional defined benefit pension plan that provides formula-based retirement annuities.

### Contributions

- The TRS member and employing institution make mandatory monthly contributions using percentages of salary that are established by the state 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 funds are withdrawn or paid as a retirement annuity.
- TRS members who don't retire upon termination of employment can withdraw their accumulated member contributions (plus interest earnings) but doing so forfeits their right to a retirement benefit. The refund of a member's accumulated member contributions (plus interest earnings) is subject to federal income tax and early withdrawal penalties may apply. The eligible portion of the refund can be rolled over to eligible retirement plans such as an IRA.
- Active members are not permitted to withdraw (or take a loan from) their member contributions. Employer contributions made on behalf of the member are not available for withdrawal at any time.

### Retirement Eligibility and Benefits

- Eligibility to retire and the annuity formulas are based on age, years of service, salary, date of retirement, and the applicable membership tier, which is determined by factors including the first date of membership.
- Refer to the [TRS Benefits Handbook](#) on the TRS website to identify the membership tier that applies to you and the corresponding retirement eligibility requirements and annuity formulas.
- Alternatives to the standard annuity include survivor payment continuation options and if eligible, reduced early-age annuities and Partial Lump Sum Option (PLSO).
- The TRS plan provides disability and death benefits from the first day of membership that are not available under an ORP-type plan.
- State law allows *ad hoc* cost-of-living adjustments (COLAs) to retirement annuities when the trust fund meets certain minimum criteria.

### Service Credit Provisions

- Eligible TRS members may purchase limited amounts of eligible service credit (*e.g.*, military time) and "buy back" previously withdrawn TRS service credit.
- TRS members with at least three years of TRS service credit who also have service credit with the Employees Retirement System (ERS) for Texas state agency employees can transfer their ERS credit to TRS at retirement (and vice versa).

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**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.

**More Information about TRS**

- TRS website: [www.trs.texas.gov](http://www.trs.texas.gov)
- TRS Benefits Handbook: [www.trs.texas.gov/TRS%20Documents/benefits\\_handbook.pdf](http://www.trs.texas.gov/TRS%20Documents/benefits_handbook.pdf)

**What is ORP?**

ORP is a defined contribution plan that is similar to a 401(k) plan with employer “matching” contributions.

**Contributions**

- The ORP participant and employing institution make mandatory monthly contributions using percentages of salary that are established by the state legislature and subject to change. Federal contribution limits may apply to certain highly compensated employees.
- Contributions are invested in a 403(b) account with an ORP company that is authorized by the employing institution. ORP participants choose a company from the institution’s list of authorized companies, set up an ORP account with the company, and make decisions on how to manage their funds.
- Contributions and any net earnings are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity.
- Participants who are under age 70-1/2 cannot take contributions or any net earnings out of the plan (including amounts from prior periods of employment) until termination of all employment with all Texas public institutions of higher education.

**ORP Companies and Accounts**

- ORP participants are responsible for monitoring their selected companies and investments. The employing institution has no fiduciary responsibility for the market value of a participant’s ORP investments or the financial stability of the ORP companies chosen by the participant.
- ORP participants have at least two occasions each year to change their selected ORP company.
- All of a company’s products may not be available under the institution’s ORP plan.
- Types of ORP Accounts:
  - 403(b)(1) fixed or variable (mutual fund) annuity account
  - 403(b)(7) custodial account (mutual fund investments with no annuity shell)

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**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.
- Post-retirement cost-of-living adjustments (COLAs) are not available in an ORP-type 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 13<sup>th</sup> month of active participation (*i.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-benefits-eligible position do not contribute to ORP and are not required to forfeit unvested ORP contributions unless they are subsequently employed in a TRS-only position or have a break in service.*

- The vesting requirement cannot be satisfied by prior participation or vested status in any non-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 re-employment.
- 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 rates, contact your Human Resources Office.
- General information about Texas ORP is available at the Texas Higher Education Coordinating Board's ORP webpage ([www.theccb.state.tx.us/orp](http://www.theccb.state.tx.us/orp)).
- Other information resources include: personal financial/tax advisors, your institution's authorized ORP company representatives and websites, articles on retirement planning, financial market news, and insurance company rating services.

**Additional Applicable Provisions**

**TRS Membership after ORP Election**

- An election of ORP in lieu of TRS is a waiver of TRS retirement benefits, even if you have prior service credit in TRS. Upon electing ORP, your TRS membership is terminated and you are only entitled to withdraw your accumulated member contributions (plus interest earnings).
- There are only two circumstances in which an ORP participant can resume active TRS membership:
  - when an ORP participant terminates employment with all Texas public institutions of higher education and becomes employed in a TRS-eligible position with a TRS-covered employer that does not offer ORP (*e.g.*, K-12 ISD); or
  - when an unvested ORP participant terminates employment in the ORP-eligible position and becomes employed with the same or another Texas public institution of higher education in a position that is eligible for TRS membership but is not ORP-eligible
- Employees who fall under one of the above two employment situations will resume active TRS membership and will again be eligible to qualify for a TRS retirement.
- Active TRS members may "buy back" any withdrawn TRS service credit earned prior to their election of ORP.
- TRS credit cannot be established for any years of participation in ORP.

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**Additional Applicable Provisions** *(cont.)*

**TRS Membership after ORP Election** *(cont.)*

- A former ORP participant who becomes an active TRS member is no longer eligible to participate in ORP at any Texas public institution of higher education, even if previously vested in ORP or subsequently employed in an ORP-eligible position.

**Returning to Work After Retirement**

**TRS**

- Once retired, always retired: A TRS retiree is no longer eligible to be an active member.
- TRS retirees may return to work with a TRS-covered employer without loss of retirement benefits if applicable provisions are followed, including satisfaction of a minimum break in service and working no more than the established maximum amount of time during certain periods. Provisions vary depending on the date of retirement and type of employment. Refer to the TRS brochure "[Employment After Retirement](#)" on the TRS website for details.
- TRS retirees who become employed with a Texas institution of higher education in what would otherwise be considered an ORP-eligible position are not eligible to elect ORP because the election of ORP is an alternative to active membership in the retirement system.

**ORP**

- An ORP retiree is defined as a participant who established retiree status by enrolling in retiree group insurance as an ORP retiree, regardless of whether currently enrolled.
- There are no statewide restrictions on the re-employment date or amount of time worked but local institutional restrictions may apply.
- Once retired, always retired: An ORP retiree who returns to work with any Texas public institution of higher education is not eligible to make ORP contributions.

**Coordination with Other Benefits**

- Other benefits offered by your institution are coordinated with the selected retirement plan, including the Tax-Sheltered Annuity (TSA)/Tax-Deferred Account (TDA) Program (described below).
- Because rules and procedures may vary at each institution, detailed information should be obtained from your Human Resources Office regarding interaction between all the benefit programs provided before choosing between TRS and ORP.

**Tax-Sheltered Annuity (TSA)/Tax-Deferred Account (TDA) Program**

- Both ORP participants and TRS members are eligible to participate in the Tax-Sheltered Annuity (TSA)/Tax-Deferred Account (TDA) Program sponsored by the employing institution.
- This voluntary program offers employees an opportunity to save pre-tax dollars through 403(b) accounts but provides no employer matching contributions.

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**Coordination with Other Benefits** *(cont.)*

**Tax-Sheltered Annuity(TSA)/Tax-Deferred Account (TDA) Program** *(cont.)*

- There are federal limits on the amount of tax-deferred contributions that you can make per tax year and ORP contributions must be taken into account before any TSA/TDA contributions, so highly compensated ORP participants may not be eligible to contribute to a TSA/TDA.
- Contact your Human Resources Office for more information about your institution's TSA/TDA Program and applicable federal contribution limits.

**General Comparison**

Your individual circumstances will drive your retirement plan choice but there are some general factors to consider when making your decision.

**Length of Service**

- A defined benefit plan such as TRS generally favors the long-term employee over the short-term employee (viewed from the perspective of benefits in relation to employee contributions), so TRS might be a better choice if you intend to stay with a TRS-covered employer (or other public employer included in the Proportionate Retirement Program) for more than a few years.
- A defined contribution plan such as ORP is considered more “portable” and generally a better choice for employees who may anticipate a shorter period of employment with Texas public higher education, public education (*e.g.*, K-12), or other Proportionate Retirement Program employers.

**Age**

- TRS may benefit individuals who begin eligible employment at an older age with a high salary and who intend to complete their careers with a TRS-covered employer.
- Because individual investments depend in large part on the passage of time to accrue meaningful returns, a defined contribution plan such as ORP generally favors the younger employee (and employees with prior participation in an ORP-type plan).

**Personal Preference**

- Investment Management: TRS members don't make any investment decisions while ORP participants do.
- Stability/Flexibility of Benefits: The formula-based defined benefit provided by TRS (lifetime annuity) is more stable and predictable than the retirement benefit provided under ORP, which has more direct exposure to market volatility for the individual participant, but ORP participants have more flexibility in management of retirement fund distributions.

**Deadline Reminder**

If you want to elect ORP, you must submit your completed TRS 28 election form to your Human Resources Office by the end of your ORP Election Period (90 calendar days after your Initial ORP Eligibility Date).