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ADELPHI, MD 20783-1690

TO: New USM Exempt Staff and Faculty employees who are eligible for the Optional Retirement Program
FROM: University System of Maryland (USM)
RE: Retirement Plan Elections For ORP-Eligible Employees Hired On Or After July 1, 2011

Employee Name _____ **Social Security Number** _____

Hiring USM Institution Name _____ **Hire Date** _____

Certain Higher Education employees in the State of Maryland have an option to join the Optional Retirement Program (“ORP”) in lieu of the State Reformed Contributory Employees’/Teachers’ Pension System (“EPS/TPS”). This memorandum describes circumstances that are applicable to those who are employed on or after July 1, 2011. If you were employed by any agency of the State of Maryland (including a public institution of Higher Education) prior to July 1, 2011 and you participated in either the ORP or any retirement or pension system of the State of Maryland, please notify your Human Resources office immediately, as different rules may apply to you. Prior employment by any Maryland public college or university, including a regional or community college, as well as employment with the Maryland Higher Education Commission, may also limit your retirement plan options.

Your Institution’s Human Resources Office has determined that you have been hired in a position that is ORP-eligible and, as such, you may elect to participate in the ORP in lieu of the EPS/TPS. Enrollment in a retirement plan is **mandatory by your first date of initial employment** with any Institution of the USM. To participate in a retirement plan you will need to fill out the form at the end of this memo and provide additional required documents and forms

If you do not elect to join the ORP on your first day of employment, by default you will be required to enroll in either the EPS or TPS and you will need to complete the State enrollment Forms: 001 and 004. If by default you enrolled in the EPS/TPS, you are still eligible to change plans and enroll in the ORP **but only within one year of the date you ever first became eligible to participate in the ORP** at any of the institutions from the list provided in the next paragraph. If you delay enrollment in the ORP, your service time in the EPS/TPS may be lost and it may impact your retiree health benefit eligibility for purposes of participation and subsidy.

For purposes of determining ORP-eligibility, the time begins to run on the first date that you were **ever in a position eligible** to participate in the ORP while employed by **any of the following employers**:

- 1) University System of Maryland, any of its constituent Institutions or centers, and any precursors to these Institutions (such as employment with a former State of Maryland Board of Trustees school prior to the creation of the University System);
- 2) Morgan State University;
- 3) St. Mary’s College of Maryland;
- 4) Baltimore City Community College (including any of its predecessors, provided that such institution offered the ORP to its eligible employees);
- 5) The Maryland Higher Education Commission; or
- 6) Any regional or community college established under Title 16 of the Education Article of the Annotated Code of Maryland. Essentially, this means any public community or regional college in the State of Maryland.

It is your obligation to report to the Human Resources Office all prior employment with any of the employers on the above list, and to assist Human Resources in determining whether a previous position was ORP-eligible. Failure to provide correct and complete information may result in an improper enrollment, and the possible loss of retirement service credit and health benefits eligibility.

FACTORS TO CONSIDER IN DECIDING WHETHER TO ENROLL IN THE ORP vs. THE EPS/TPS

1. Defined Benefits (DB) plan or Defined Contributions (DC) plan. If you do not enroll in the ORP, by default you will be required to enroll (or continue to be enrolled) in the EPS/TPS. Please consult with your Human Resources Office if you were employed by **ANY** agency of the State of Maryland, including a Higher Education institution, prior to July 1, 2011.

- The **EPS and TPS** are Defined Benefits (DB) plans, with retirement benefits determined by a statutory formula based upon an employee's date of employment, earnings history, creditable service, and age at the time of retirement. A participant in the EPS/TPS has no responsibility for, nor ability to direct, any investment decisions related to the EPS/TPS.
- The **ORP**, by comparison, is a Defined Contribution (DC) plan; the employer contributes a set percentage of compensation to the employee's ORP account. The current ORP contribution rate is 7.25% of the employees' annual salary up to the Federal limit on employer ORP contributions during the fiscal year, but this percentage could be changed by the State of Maryland, just as the statutory formula for computing EPS/TPS benefits could be changed by legislative action. An ORP participant has the responsibility for making investment decisions from among certain investment vehicles offered by the ORP vendors. The benefits that will be available to an ORP participant upon retirement are dependent on the final value of the account based on the investment performance of the options selected by the participant.

2. Employee contributions.

- **EPS/TPS** -Employees are required to contribute 7% of earnable compensation to the EPS/TPS.
- **ORP** -The ORP requires no employee contributions at this time. Changes to these provisions could be made by the State of MD in both cases.

3. Retirement Vesting.

- **EPS/TPS** -In order to be vested and be eligible to receive EPS/TPS retirement payments, an employee must have 10 years of creditable service as a participant in the EPS/TPS.
- **ORP** -Retirement benefits in the ORP vest immediately and the funds in the account may be withdrawn by the employee upon termination from employment according to the ORP guidelines.

EPS/TPS and ORP -However, as a word of caution, note that for any of the retirement plans, retirement payments are directly linked to health benefits eligibility as noted below in item 4.

4. Health Benefits Eligibility for a Retiree, Retiree's Spouse or Child, and Retiree's Surviving Spouse or Child to participate in State health benefits and to receive a subsidy from the State. There are major and complex eligibility differences and rules between the EPS/TPS and the ORP. The differences are impacted by the employee's years of service and employing agency; with the rules being more demanding for the ORP member.

- **EPS/TPS** -The EPS/TPS retiree, retiree's spouse or child, and retiree's surviving spouse or child generally are eligible to participate in the State health benefits and receive a State contribution for the cost of the health benefits premium (i.e., the State subsidy) after 10 years of creditable service by the **EPS/TPS member**, beginning at 10/25ths (or 40%) of the State subsidy, up to 25/25ths (or 100%) of the State subsidy after 25 years of creditable service.
- **ORP** -Specifically the ORP retiree must retire directly from an ORP employer in order to be eligible to participate in the State health benefits and receive a State subsidy after 10 years of creditable service, beginning at 10/25ths (or 40%) of the State subsidy, up to 25/25ths (or 100%) of the State subsidy, after 25 years of creditable service. If the employee has 25 years of Full Time Equivalent (FTE) employment then retirement may be deferred and he/she shall continue to qualify for health benefits.

However, the **ORP retiree's spouse or child**, and **retiree's surviving spouse or child** will be eligible for the State subsidy **only** if the **ORP** member has 25 or more years of service as an employee in the legislative, judicial or

executive branch of Maryland State Government participating in any retirement or pension plan (which includes service as a USM employee). The subsidy for health benefits will equal 25/25ths (or 100%) of the State subsidy. There is no partial subsidy for fewer years of service, but access to the State's health insurance is available at the full cost of the group insurance rate. If the **ORP** retiree had combined EPS/TPS and ORP membership, then creditable service calculations and further regulations are mandated to determine eligibility and State subsidy.

EPS/TPS and ORP -In order to be eligible to receive State health benefits, both **EPS/TPS and ORP** plans mandate additional requirements that a retiree, retiree's spouse or child, or retiree's surviving spouse or child must be receiving either a monthly allowance from State Retirement EPS/TPS or a periodic distribution of payments from the ORP. If all retirement funds are withdrawn from the EPS/TPS or the ORP then the **health benefits will stop**. Potential concerns over the criteria described here can be further clarified by the Institution Benefits Coordinator before making a final retirement plan selection.

5. Death benefit.

- **EPS/TPS** -Employees who have completed one year of service as members of the EPS/TPS are entitled to a death benefit equal to one year's salary.
- **ORP** -There is no death benefit for ORP participants.

6. Disability retirement.

- **EPS/TPS** -Employees who have completed five years of service as EPS/TPS participants may qualify for a disability retirement allowance.
- **ORP** -There is no disability retirement benefit associated with the ORP.

7. Unused sick leave conversion.

- **EPS/TPS** - If the employee retires directly from State service, EPS/TPS allow conversion of unused sick leave to extra creditable service.
- **ORP** -Members of the ORP cannot convert sick leave, which is lost when an ORP employee leaves State service.

The highlights of programs listed above are in effect as of July 1, 2011 and not intended to be all inclusive. Additional details are provided in the official booklets from the State Retirement Agency (SRA) and the Department of Budget & Management–Employees Benefits Division (DBM-EBD), as well as in consultation with your Institution Benefits Coordinator.

Note that the State of Maryland can change the terms and conditions relating to retirement or pensions, such as vesting, employer contribution rate or benefits formula, employee contribution rate, etc. at any time by legislative action. The State of Maryland can also change the health benefits offered to employees, retirees, and their family members, or the amount of the State's subsidy, as well as eligibility to participate in the State's health benefits plan or to receive a State subsidy for such plans.

Please proceed to the next page to fill out the **USM - Retirement Plan Selection Form for USM Exempt Staff and Faculty employees**. To make an informed decision, you may require information about your pension/retirement history from the Maryland State Retirement and Pension System. You may also require further health benefits information for retirees from the Maryland Department of Budget and Management-Employee Benefits Division (DBM-EBD). **DO NOT DELAY** any inquiries that you must make; the agency response may take some time, and the one year period in which you can elect the ORP CANNOT be extended.

