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TO: Employees Who Are Eligible for the Optional Retirement Program
FROM: Kathy DeShong, Assistant Vice President, Human Resources
RE: **2007 Optional Retirement Program Enrollment Update**

On May 8, 2007, Governor O'Malley signed into law Senate Bill 515, which affects enrollment in the Optional Retirement Program (ORP). The bill changes the timing during which an ORP-eligible employee may enroll in the ORP.

WHEN MAY AN ELIGIBLE EMPLOYEE ENROLL IN THE ORP

IF YOU WERE EMPLOYED IN AN ORP-ELIGIBLE POSITION PRIOR TO OCTOBER 1, 2006, you may enroll in the ORP on or before September 28, 2007.

IF YOU WERE EMPLOYED IN AN ORP-ELIGIBLE POSITION AFTER OCTOBER 1, 2006, you may enroll in the ORP until the later to occur of: 1) September 28, 2007, OR 2) one year after the date you first became eligible for the ORP.

For purposes of determining ORP eligibility, the time begins to run on the first date that you were ever eligible for the ORP with 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 BOT school prior to the creation of a statewide system);
- 2) Morgan State University;
- 3) St. Mary's College of Maryland;
- 4) Baltimore City Community College (including any of its precursors, provided that such institution offered the ORP to its eligible employees);
- 5) Maryland Higher Education Commission; and
- 6) Any regional or community college established under Title 16 of the Education Article of the Annotated Code of Maryland . This basically means any public community or regional college in the State of Maryland.

It is the **employee's obligation to report all prior ORP eligibility with any of the employers on the list to the current employer**, so that a proper determination of ORP-eligibility can be made. Failure to provide correct information may result in an improper enrollment, and the possible loss of retirement benefits.

FACTORS TO CONSIDER IN DECIDING WHETHER TO ENROLL IN THE ORP

1) If you do not enroll in the ORP, you will be enrolled (or continue to be enrolled) in either the Employees' Pension System (EPS) or the Teachers' Pension System (TPS). (Note that some long-term employees will remain in the Employees' Retirement System (ERS) or the Teachers' Retirement System (TRS).) The EPS and TPS (as well as the ERS and TRS) are defined benefits systems, with retirement benefits determined by a statutory formula based upon an employees' earnings, creditable service, and age at the time of retirement. An employee has no responsibility for, nor ability to affect, any investment decisions related to the EPS/TPS. The ORP, by comparison, is a defined contribution system. The employer contributes a set percentage of compensation to the employee's ORP account (for the ORP, the contribution rate is 7.25% of earnable compensation). The employee has the responsibility for making investment decisions from among selected investment options offered by the ORP vendors. The benefits that will be available to the employee upon retirement are dependent on the investment performance of the options selected by the employee, as well as factors such as the employee's length of service, salary, and age at retirement.

2) Benefits in the ORP vest immediately; an employee does not vest in the EPS or TPS until he or she has 5 years of service as a participant in the EPS or TPS.

3) Employees are required to contribute 3% of earnable compensation (increasing to 4% on July 1, 2007 and 5% on July 1, 2008) to the EPS or TPS. The ORP has no mandatory contribution.

4) Vested members of the EPS or TPS are entitled to a death benefit equal to one year's salary; there is no death benefit for ORP participants.

5) There is no disability retirement for ORP participants, while vested EPS and TPS participants may qualify for a disability retirement.

6) Members of the ORP are not eligible for the State match plan.

7) EPS and TPS allow conversion of unused sick leave to extra creditable service at the time of an immediate retirement, while members of the ORP cannot convert unused sick leave for credit at the time of the retirement. Employees who do not retire directly from EPS/TPS will not receive any credit for unused sick leave at the time of their deferred retirement.

8) The eligibility for the State's health benefits plan and subsidy differ significantly for EPS and TPS retirees, spouses and dependents from those for ORP retirees, spouses and dependents, and employees should refer to the detailed description contained in the State's Open Enrollment booklet. **There are significant differences in eligibility for the health benefits plan and subsidy for a retiree, as well as spouse or dependent. You should examine the differences carefully.**

You should also understand that **switching from the Employees' or Teachers' Pension System (or the Employees' Retirement System or Teachers' Retirement System) to the ORP may result in a change in eligibility for the State health benefits plan and subsidy at the time of retirement.** Determinations of eligibility concerning health benefits and subsidy for retirees are made by the Department of Budget and Management, rather than by the employing institutions, and inquiries about the impact of switching to the ORP should be directed to DBM.

Additionally, if you are a new employee, and you do not join the ORP immediately but you opt to join the ORP at a later date, you will likely lose all effective pension and retirement health subsidy benefits for the period prior to the date your ORP participation begins. If you are a current employee who has not yet vested in the EPS or TPS, and you are considering electing the ORP, you should consider the impact of this decision on EPS, TPS, and related benefits.

You should understand that there could be future statutory changes to the State's retirement, pension and health benefit plans and subsidies for EPS, TPS and/or the ORP.

To make an informed decision, you might require information about your pension/retirement participation history from the Maryland State Retirement and Pension System, and/or information from the Maryland Department of Budget and Management about your eligibility for the State of Maryland's Health Benefits Plan and subsidy for yourself, your spouse, or your dependent child at the time that you retire. DO NOT DELAY any inquiries that you must make, as the response process from these agencies could take some time, and the deadlines stated in this memorandum CANNOT be extended.

Acknowledgement of ORP Election Notification

I have been advised of the foregoing information concerning election of the Optional Retirement Program. I have had an opportunity to ask questions, and I also understand that I am free to seek further specific information from the ORP vendors, the State Retirement Agency, the Department of Budget and Management, as well as any outside financial or other consultants from whom I choose to seek input. Based upon the foregoing:

[PLEASE SELECT ONE]

_____ I elect to participate in the ORP by filing an ORP election along with all supporting paperwork

_____ I declined to participate in the ORP.

_____ I am not yet ready to make a decision because I want to consider the impact on my personal financial situation.

I understand that failure to file an ORP election on or before the applicable date described in “When may an employee enroll in the ORP” portion of this handout will forever foreclose my ability to participate in the ORP. I further understand that, if I do not elect the ORP, I will be enrolled (or continue to be enrolled) in the EPS or TPS as the default option.

Witness, Signature

Employee, Signature

Witness, Printed Name

Employee, Printed Name

Date

Date