Tennessee Department of Treasury

Optional Retirement Plan and 403(b) Plan Bill

Background

- The Optional Retirement Plan (ORP) is a 401(a) defined contribution plan offered exclusively to higher education faculty and staff that are exempt from the Fair Labor Standards Act.
- ORP-eligible employees make a choice to either participate in the Tennessee Consolidated Retirement System (TCRS) or the ORP.
- The ORP plan was established in 1972 for recruitment and retention of highly qualified professors/administrators in higher education, who may not work a 30+ year career in the State of Tennessee or who may have been recruited to work for higher education at a nontraditional life stage and possibly for a finite time period.
- ORP plans are commonplace around the country for institutions of higher education.
- ORP contributions are as follows:
  - Employer: 9% of salary to ORP plan
  - Employee: 5% of salary to ORP plan

    2% auto enrolled in State 401(k) plan (employee may change contribution rate at any time and may opt out within 90 days)
  - Please note that ORP contributions cannot exceed the percentages of salary above. These amounts are specified in State law. Participants may place additional savings in other vehicles provided by the State, including the 401k and 457 plans. Participants have immediate vesting in both the ORP and 401k/457 plans.
- The ORP plan has approximately 11,000 participants.
- The ORP has approximately $3.5. billion in total assets as of June 30, 2017.
- State law currently requires participants to annuitize 50% of distributions.
- Investment options for the ORP are selected and monitored internally by Treasury investment professionals.
- State law requires the Tennessee Treasury Department to offer “more than one vendor but no more than three vendors” to administer the ORP plan.
- Participants choose from three vendors for plan administration:
  - TIAA
  - VALIC
  - Voya Financial
- Public universities also offer 403(b) plans as supplemental savings plans to higher education employees. Current law provides that the University of Tennessee system and Tennessee Board of Regents oversee these plans.

Legislative Action

The Proposed legislation:

1. Eliminates the requirement to annuitize 50% of distributions.
    a. Doing away with this requirement would give participants full control over their ORP funds.
    b. This is the number one concern our office has received from ORP participants.
    c. Treasury conducted a benchmarking study of the ORP, and Tennessee is the only state in the nation to have such a requirement.

2. Eliminates language that requires the State to have at least 2 but no more than 3 ORP vendors
    a. The ORP benchmarking study found that, on average, participants paid higher fees where State law mandated the number of vendors.
    b. The change makes the ORP statute consistent with other deferred compensation programs, which do not require a specific number of vendors.
    c. Treasury is committed to offering competitive retirement programs with high quality investment options, low costs, and robust education and oversight.

3. Shifts the management of 403(b) defined contribution plans from higher education to the Treasury Department
    a. Treasury can provide additional support to our institutions of higher education by becoming the plan sponsor and managing existing 403(b) plans offered on campuses.
    b. Currently, the 403(b) plans being offered have the same investment options that are offered in the ORP plans. The investments offered are selected and monitored by the Tennessee Treasury Department investment professionals.
    c. Treasury would apply our robust oversight process where we monitor investment offerings, fees, and services, including educational services for the 403(b) plans.

Treasury Department Contacts

Courtney Hess, Manager of Legislative and Agency Affairs, 615-532-3067, Courtney.Hess@tn.gov
David H. Lillard Jr., State Treasurer
Joy Harris, Assistant Treasurer, Financial Empowerment
Alison Cleaves, Legal Services Director