Office of the Chancellor

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Dear Optional Retirement Plan Participant:

Below is some important information about a change in your Optional Retirement Plan (ORP) contribution that OUS would like to share with you. In November 2003, the employer contribution to your Optional Retirement Plan (ORP) account will be reduced as a result of a change in the state's PERS contribution rate. The 6% employee contribution remains unchanged.

Although the Oregon University System (OUS) does not regularly notify you when the ORP employer account contribution rate changes, this is a change that ORP participants will want to understand.

As required by statute, the OUS contributes the same percentage of salary for an ORP participant as would be paid if the person had elected PERS. This provision was enacted by the 1995 legislature. Although the OUS asked the 2003 Legislature to de-couple PERS and ORP contribution rates, our proposal failed to gain the approval of both the House and the Senate. As a result, the state's option to reduce PERS costs, approved by voters' passage of Measure 29 in September 2003, will affect the employer contribution rate for ORP participants.

As a Tier One member (hired before January 1, 1996), your ORP employer contribution has been 11.31% of salary since July 1, 2003. Your new employer contribution will be 3.71% of your salary, and OUS continues to pay the additional 6% employee contribution for you.

Although the ORP contribution rate has changed as required by law, the combination of employer and employee contributions continues to provide nearly 10% of salary to the retirement plan savings program.

Please read further for answers to questions that we expect this letter will generate.

What happened between July and November 2003 to change the employer contribution rate?

Simply stated, the state paid $2 billion into the PERS Fund to pay part of the cost of future PERS retirements. This lump sum payment reduced the annual employer contributions that would have otherwise been necessary to fund PERS retirements. The lump sum payment to refinance the state's pension liability through the issuance of general obligation bonds was approved by voters in the September 16, 2003, Measure 29 special election.

How long will the new employer contribution rate be in effect?

To the best of our knowledge, PERS expects to adopt new employer contribution rates effective July 1, 2005, unless other events affect the regular rate-setting cycle. However, a number of factors, not excluding the possibility of an interim legislative session, may lead to new rate-making before the next regular rate adoption date. Among these factors are court challenges to actions taken by the 2003 Legislature and market performance since the last plan valuation.

What options are open to Optional Retirement Plan participants?

Optional Retirement Plan participants should work with their ORP Investment Companies and personal financial advisors to ensure their asset allocations are optimized to meet their retirement goals. As investment market performance has changed in the past year, the strategies that were effective during previous years may no longer provide the most efficient earnings.

In addition, ORP participants may want to consider additional tax-deferred or pre-tax savings in the voluntary retirement plans, if the revised contribution rates do not meet their retirement goals. The ORP and PERS continue to provide viable retirement options under the new rates, but the projected post-retirement income may be reduced from earlier levels. The two options for additional voluntary retirement savings through the Oregon Savings Growth (457) Plan or the Tax-Deferred Investment (403(b)) Program can help ORP participants to tax shelter current income and supplement retirement savings.

Has the ORP been affected by changes the legislature made to PERS?

On a positive note, ORP participants are not subject to the more stringent participation rules that now apply to PERS members. Initial eligibility rules for new employees before they make their election of PERS or the ORP apply, but the Optional Retirement Plan is largely unaffected by recent PERS legislation.

Updated information about the Optional Retirement Plan is under preparation, and will be published before the end of the year to outline amendments to the Plan. In addition, campus benefits offices will receive regular updates important to Optional Retirement Plan participants and should be able to answer most of your questions about the ORP.

Thank you.

Optional Retirement Plan

Retirement Committee and Trustees