

MSU's ORP Sick Leave Buyback

A new benefit is available to staff and faculty who are in positions requiring at least a bachelors degree and participate in the ORP retirement program. A payment will be made into their ORP account, by the university, based on the amount of sick leave days that are in the faculty or staff's account at the time of retirement.

How is the payment calculated? KTRS counts 92.5 days as a half year, which is the maximum number of sick days credited. Eligible ORP participants would receive a lump sum payment equal to 8.74% of his/her average of the high three (high five if employment started after July 1, 2007) years of salary (calculated as of the date of retirement and including overtime/overload, salary from grants, summer teaching, and other adjustments), multiplied by the ratio of the number of unused sick days (up to 92.5 days) over 92.5 days.

Assume \$50,000 average annual salary and the maximum 92.5 sick leave days were accrued.

\$50,000	Annual salary
x 8.74%	ORP factor
<u>x 100%</u>	<u>% of maximum sick leave possible</u>
\$4,370	Payout

Assume \$50,000 average annual salary and 60 sick leave days were accrued.

\$50,000	Annual salary
x 8.74%	ORP factor
<u>x 64.9%</u>	<u>% of maximum sick leave possible (60/92.5 = .649)</u>
\$2,836	Payout

Who's Eligible? All of the following criteria must be met for an employee to be eligible for the KTRS Sick Leave Credit:

- 1) The employee must fully retire from the university.
 - a. No oral or written pre-arranged commitment to return to work can exist on the date of retirement.
 - b. The retiree will not return to work at MSU within six months after his or her retirement date.
- 2) The employee must qualify under KTRS rules for an unreduced KTRS annuity. Unused sick leave can not be used to meet the minimum years of service credit for an unreduced annuity.
- 3) The employee must have worked full-time at MSU as an exempt staff or faculty member for at least 5 years.
- 4) The employee must provide the completed KTRS retirement application to HR more than 2 months prior to his or her retirement date.
- 5) All leave reports through the retirement date must be submitted by the retirement date.
- 6) The employee must not have received a sick leave credit as a result of previously participating in any other MSU retirement plan.

An MSU faculty or professional staff member is eligible for this benefit only one time and only under one retirement plan option. **Participation in the step-down / early retirement program eliminates / voids eligibility for this benefit.**

When Does This Start? July 1, 2011.

Notification Deadlines. An eligible employee must have a request in writing in the MSU Human Resources office at least 2 months prior to the eligible employee's intended retirement date.

Where Can I Find More Details? Attached is the approval document from the Board of Regents and the specific changes to the KTRS / ORP policy in the Personnel Policies & Procedures Manual.

BOARD OF REGENTS: 05/20/2011

Agenda Item:

TOPIC: Policy Change – *Personnel Policy V B – KTRS/ORP – Sick Leave Buyback*

STAFF CONTACT: Thomas W. Denton, Vice President for Finance and Administrative Services
Tom Hoffacker, Director for Human Resources

BACKGROUND: At the February 25, 2011 meeting, the Board of Regents approved a proposal to provide a credit for sick leave accumulated by participants in the Kentucky Teachers’ Retirement System (KTRS). As you are aware, discussion occurred at that time about the option of providing this benefit in the future to Optional Retirement Plan (ORP) participants.

The Murray State University Faculty and Staff Insurance and Benefits Committee recommended that the university make a payment on behalf of ORP participants at the time of retirement for unused sick leave. This benefit will be similar to the KTRS credit approved by the Board on February 25.

Murray State will be one of only two Kentucky public higher education institutions (Eastern Kentucky is the other) that provide a sick leave buyback for ORP participants retiring with a sick leave balance.

The proposed revisions to the attached policy allow a benefit related to a maximum of 92.5 days of unused sick leave. To be eligible for the benefit, the employee must meet the following conditions:

- a) fully retire from Murray State University;
- b) have all the same time and service requirements as those faculty/staff members eligible for an unreduced KTRS annuity; AND
- c) have at least five (5) years of service to MSU as a faculty member or professional staff member

The payment would be [cash paid directly to the employee / a deposit made to the employee’s ORP account.]

Note: The bracketed option will be determined upon the completion of the analysis by Mercer and Associates.

ANALYSIS: Funding for the estimated annual ORP program cost of \$100,000 has been included in the upcoming 2011-2012 Regents budget. The effective date will be the same effective date of the KTRS Sick Leave Credit that was approved by the Board of Regents in February.

RECOMMENDATION: That the Board of Regents, upon the recommendation of the President of the University, approve the proposed changes to the Kentucky Teachers’ Retirement System (KTRS) / Optional Retirement Plan (ORP) policy in the *Personnel Policies and Procedures Manual*, effective July 1, 2011.

RECOMMEND APPROVAL:

Randy J. Dunn, President

Submitted on _____ to the Board of Regents _____ Committee

COMMITTEE ACTION: Approved _____ Disapproved _____ Postponed _____ Amended _____

BOARD ACTION ON _____: Approved _____ Disapproved _____ Postponed _____

Proposed Changes to the KTRS / ORP Policy

Current Policy	Proposed Policy with Changes Highlighted in Bold Print
<p>POLICY NUMBER: V B SUBJECT: KENTUCKY TEACHERS' RETIREMENT SYSTEM (KTRS) / OPTIONAL RETIREMENT PROGRAM (ORP) APPLIES TO: FACULTY AND QUALIFYING STAFF EFFECTIVE DATE: July 1, 2011 REVISED FROM: July 1, 1993 KENTUCKY TEACHERS' RETIREMENT SYSTEM / OPTIONAL RETIREMENT PROGRAM</p>	<p>POLICY NUMBER: V B SUBJECT: KENTUCKY TEACHERS' RETIREMENT SYSTEM (KTRS) / OPTIONAL RETIREMENT PROGRAM (ORP) APPLIES TO: FACULTY AND QUALIFYING STAFF EFFECTIVE DATE: July 1, 2011 REVISED FROM: July 1, 1993 KENTUCKY TEACHERS' RETIREMENT SYSTEM / OPTIONAL RETIREMENT PROGRAM</p>
<p>1. Eligibility</p> <p>a. An employee of the University is eligible for membership in the Kentucky Teachers' Retirement System (KTRS) / Optional Retirement Program (ORP) when the position requires (as a condition of employment) certification by the Department of Education or graduation from a four (4) year college or university and the employee possesses either the state Department of Education certification or graduation from a four (4) year college or university. Membership is mandatory for regular employees who work 70% or more of full-time employment and meet the above qualifications.</p> <p>b. No retirement deductions shall be made for an employee who is employed on a part-time basis of less than 70%; however, active members may make contributions and receive service credit for substitute, part-time or any service other than regular, full-time teaching as provided in the rules and regulations of the Board of Trustees.</p> <p>c. This plan does not apply to an employee in a University position covered by the Kentucky Employees Retirement System.</p>	<p>1. Eligibility</p> <p>a. An employee of the University is eligible for membership in the Kentucky Teachers' Retirement System (KTRS) / Optional Retirement Program (ORP) when the position requires (as a condition of employment) certification by the Department of Education or graduation from a four (4) year college or university and the employee possesses either the state Department of Education certification or graduation from a four (4) year college or university. Membership is mandatory for regular employees who work 70% or more of full-time employment and meet the above qualifications.</p> <p>b. No retirement deductions shall be made for an employee who is employed on a part-time basis of less than 70%; however, active members may make contributions and receive service credit for substitute, part-time or any service other than regular, full-time teaching as provided in the rules and regulations of the Board of Trustees.</p> <p>c. This plan does not apply to an employee in a University position covered by the Kentucky Employees Retirement System.</p>
<p>2. Social Security</p> <p>Effective January 1, 1987, members no longer pay social security tax on their retirement contributions.</p>	<p>2. Social Security</p> <p>Effective January 1, 1987, members no longer pay social security tax on their retirement contributions.</p>
<p>3. Type of System</p> <p>a. KTRS - The system is of the "actuarial reserve, joint contributory" type.</p> <p>b. ORP - The ORP is a defined contribution plan.</p>	<p>3. Type of System</p> <p>a. KTRS - The system is of the "actuarial reserve, joint contributory" type.</p> <p>b. ORP - The ORP is a defined contribution plan.</p>
<p>4. Deferred Income Tax Payments</p>	<p>4. Deferred Income Tax Payments</p>

<p>Effective August 1, 1982, members no longer pay federal and state income tax on their retirement contributions. Payment of federal income tax on retirement contributions made after August 1, 1982, is deferred until the member retires and would normally have a reduced taxable income or until the member withdraws his account.</p> <p>5. Administration</p> <p>a. KTRS - Administration of the system is the responsibility of a board of trustees of nine members. Two of these are ex-officio, serving by reason of their constitutional office. They are the Superintendent of Public Instruction and State Treasurer. The remaining seven trustees are elected by the members of the retirement system for four-year terms. The Board of Trustees appoints an Executive Secretary who is responsible for the administration of the affairs of the Retirement System under policies established by the Board.</p> <p>b. ORP - The ORP is available to those individuals employed on or after July 1, 1996, who would otherwise be required to participate in the KTRS. The ORP was established as a 403 (b) defined contribution plan under the Internal Revenue Service Code guidelines. Specific rates of contribution are established for both the employee and employer. Although the University contributes to these annuities, the benefits payable to the participants are not the obligation of the Commonwealth of Kentucky or KTRS. The benefits and other rights of ORP are the liability and responsibility of the designated companies to which contributions have been made.</p> <p>6. Contributions</p> <p>a. KTRS - The University deducts from the salary each month the proper contribution and forwards it to the Retirement System. It is the responsibility of the retirement system staff to properly credit the account. Annually on June 30, the University makes a detailed report showing the salary contributions and service of each member. When this report is received in the Retirement System Office, the correct amount is credited to each member and interest is added.</p> <p>b. ORP - The University deducts from the salary each month the proper contribution and forwards it to the designated retirement plan. It is the responsibility of the retirement plan staff to properly credit the account. Periodic reports are sent to the participants showing contributions and interest earned.</p> <p>7. Relation of Contribution, Salary, and Service</p>	<p>Effective August 1, 1982, members no longer pay federal and state income tax on their retirement contributions. Payment of federal income tax on retirement contributions made after August 1, 1982, is deferred until the member retires and would normally have a reduced taxable income or until the member withdraws his account.</p> <p>5. Administration</p> <p>a. KTRS - Administration of the system is the responsibility of a board of trustees of nine members. Two of these are ex-officio, serving by reason of their constitutional office. They are the Superintendent of Public Instruction and State Treasurer. The remaining seven trustees are elected by the members of the retirement system for four-year terms. The Board of Trustees appoints an Executive Secretary who is responsible for the administration of the affairs of the Retirement System under policies established by the Board.</p> <p>b. ORP - The ORP is available to those individuals employed on or after July 1, 1996, who would otherwise be required to participate in the KTRS. The ORP was established as a 403 (b) defined contribution plan under the Internal Revenue Service Code guidelines. Specific rates of contribution are established for both the employee and employer. Although the University contributes to these annuities, the benefits payable to the participants are not the obligation of the Commonwealth of Kentucky or KTRS. The benefits and other rights of ORP are the liability and responsibility of the designated companies to which contributions have been made.</p> <p>6. Contributions</p> <p>a. KTRS - The University deducts from the salary each month the proper contribution and forwards it to the Retirement System. It is the responsibility of the retirement system staff to properly credit the account. Annually on June 30, the University makes a detailed report showing the salary contributions and service of each member. When this report is received in the Retirement System Office, the correct amount is credited to each member and interest is added.</p> <p>b. ORP - The University deducts from the salary each month the proper contribution and forwards it to the designated retirement plan. It is the responsibility of the retirement plan staff to properly credit the account. Periodic reports are sent to the participants showing contributions and interest earned.</p> <p>7. Relation of Contribution, Salary, and Service</p>
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<p>Credit - KTRS</p> <p>a KTRS - Service credit and salary (both of which directly affect the member's rights to retire and his/her annuity payments) are determined on the basis of the contribution made. Contributions of less than full contributions result in a reduction in service credit and salary. If for any reason the member is absent without pay or if his/her salary is reduced for some other reason, he/she should insure that either through the University or by personal check a full contribution of the gross salary is made by December 31, next following the end of the school term.</p> <p>b. ORP - Annuity payments are determined by the employee and University contributions plus the return on investments.</p> <p>8. Sick Leave Credit at Point of Retirement for KTRS participants</p> <p>a. KTRS participants who (i) fully retire from Murray State University, (ii) meet all the service requirements for an unreduced KTRS annuity, and (iii) have at least five (5) years of full-time service to MSU as a faculty member and/or professional staff member, shall have purchased for them by MSU an amount of service credit equal to the documented number of remaining unused sick days while in a KTRS position, not to exceed 92.5 days (½ year), that the eligible members have at the date of retirement.</p> <p>An eligible employee must notify the MSU Human Resources office of his/her desire to retire at least 2 months prior to the eligible employee's intended retirement date. Additionally, a retiring employee must meet any and all deadline requirements set forth by the KTRS to retire by the expected date. The dollar amount of the MSU purchase of service credit shall be computed by KTRS at or near the time of actual retirement of the employee. In accordance with the KTRS statutes, unused sick leave may count towards total years of service, but cannot be used to meet the minimum years of service credit for unreduced annuity.</p>	<p>Credit - KTRS</p> <p>a KTRS - Service credit and salary (both of which directly affect the member's rights to retire and his/her annuity payments) are determined on the basis of the contribution made. Contributions of less than full contributions result in a reduction in service credit and salary. If for any reason the member is absent without pay or if his/her salary is reduced for some other reason, he/she should insure that either through the University or by personal check a full contribution of the gross salary is made by December 31, next following the end of the school term.</p> <p>b. ORP - Annuity payments are determined by the employee and University contributions plus the return on investments.</p> <p>8. Sick Leave Credit/Payment at Point of Retirement for KTRS and ORP participants</p> <p>a. KTRS participants who (i) fully retire from Murray State University, (ii) meet all the service requirements for an unreduced KTRS annuity, and (iii) have at least five (5) years of full-time service to MSU as a faculty member and/or professional staff member, shall have purchased for them by MSU an amount of service credit equal to the documented number of remaining unused sick days while in a KTRS position, not to exceed 92.5 days (½ year), that the eligible members have at the date of retirement.</p> <p>(1) An eligible employee must have a completed KTRS Application for Retirement Benefits in the MSU Human Resources office at least 2 months prior to the eligible employee's intended retirement date. Additionally, a retiring employee must meet any and all deadline requirements set forth by the KTRS to retire by the expected date. The dollar amount of the MSU purchase of service credit shall be computed by KTRS at or near the time of actual retirement of the employee. In accordance with the KTRS statutes, unused sick leave may count towards total years of service, but cannot be used to meet the minimum years of service credit for unreduced annuity.</p> <p>b. ORP participants who (a) fully retire from Murray State University; (b) have all the same time and service requirements as those faculty/staff members eligible for an unreduced KTRS annuity; AND (c) have at least five (5) years of service to MSU as a faculty member or professional staff member, shall be eligible to receive a lump sum <u>[payment in cash / deposit into their ORP account]</u> by MSU equal to 8.74% of his/her average of the high three (high five if</p>
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<p>An MSU faculty or professional staff member is eligible for this benefit only one time and only under one retirement plan option. Participation in the step-down / early retirement program eliminates / voids eligibility for this benefit.</p> <p>9. Annual Statement of Account</p> <p>a. KTRS - Each year at some time following the close of the fiscal year, the member will receive an Annual Statement of Account. This will report the salary earned in the preceding year, the service credit earned in that year, the contribution made, the total in the account, and the total service credit. If there is an error in this statement, write the Retirement System Office immediately in order that it may be corrected or the reason for the apparent discrepancy explained.</p> <p>b. ORP- Participants receive account statements on a frequency determined by the ORP company.</p> <p>10. Beneficiary Designation</p> <p>a. KTRS</p> <p>(1) The member's most important responsibility is to maintain his/her beneficiary designation in a current condition. Failure to do so can cause very serious consequences and possible loss of valuable benefits.</p> <p>(2) The spouse must be the sole beneficiary to be eligible for survivor benefits. If the member marries after becoming a member, the spouse automatically becomes beneficiary and any previous designation of beneficiary is void. Divorce</p>	<p>employment started after July 1, 2007) years of salary wage (including overtime/overload, salary from grants, summer teaching, etc.) multiplied by the proportion of unused sick leave days that the eligible member has at the date of retirement relative to 92.5 days. The proportion of sick leave days can not exceed 100%.</p> <p>(1) Example payout for a qualified ORP retiree with an average of \$50,000 in earnings and 62 days of sick leave: $\\$50,000 \times 8.74\% \times 67.0\%$ (62 / 92.5 = 67.0%) results in a payment of \$2,929.</p> <p>(2) An eligible ORP participant must notify the MSU Human Resources office in writing of his/her desire to retire at least 2 months prior to the eligible employee's intended retirement date. The dollar amount of the MSU payment will be computed by MSU benefits staff at or near the time of actual retirement of the employee.</p> <p>c. An MSU faculty or professional staff member is eligible for this benefit only one time and only under one retirement plan option. Participation in the step-down / early retirement program eliminates / voids eligibility for this benefit.</p> <p>9. Annual Statement of Account</p> <p>a. KTRS - Each year at some time following the close of the fiscal year, the member will receive an Annual Statement of Account. This will report the salary earned in the preceding year, the service credit earned in that year, the contribution made, the total in the account, and the total service credit. If there is an error in this statement, write the Retirement System Office immediately in order that it may be corrected or the reason for the apparent discrepancy explained.</p> <p>b. ORP- Participants receive account statements on a frequency determined by the ORP company.</p> <p>10. Beneficiary Designation</p> <p>a. KTRS</p> <p>(1) The member's most important responsibility is to maintain his/her beneficiary designation in a current condition. Failure to do so can cause very serious consequences and possible loss of valuable benefits.</p> <p>(2) The spouse must be the sole beneficiary to be eligible for survivor benefits. If the member marries after becoming a member, the spouse automatically becomes beneficiary and any previous designation of beneficiary is void. Divorce</p>
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action shall void any previous designation of beneficiary, and the member's estate automatically becomes the beneficiary. In the event of either marriage or divorce, the member should file a new designation of beneficiary with the Retirement System Office.

- (3) If the beneficiary dies, a new beneficiary should be designated. The member may name more than one beneficiary and may designate them as co-beneficiaries or in order of succession. A beneficiary does not have to be a relative, and the member may make a change without notifying the previous beneficiary. The member may name his/her estate as beneficiary. To change the beneficiary, you must request a change of beneficiary form directly from the Retirement System. The law requires that if you have a living spouse and you designate someone else as your beneficiary, the spouse must sign to show that they are aware that they are not the listed beneficiary.

b. ORP

- (1) The member's most important responsibility is to maintain his/her beneficiary designation in a current condition. Failure to do so can cause very serious consequences and possible loss of valuable benefits.
- (2) If the beneficiary dies, a new beneficiary should be designated. The member may name more than one beneficiary and may designate them as co-beneficiaries or in order of succession. A beneficiary does not have to be a relative, and the member may make a change without notifying the previous beneficiary. The member may name his/her estate as beneficiary. To change the beneficiary, you must request a change of beneficiary form directly from the optional retirement company.

11. Benefit Coverage

- a. The pension is a state of Kentucky policy mandated by law and subject to change.

12. Reciprocity - KTRS

This provision is available to individuals who may have earned service credit in more than one Kentucky retirement system. It provides this individual the opportunity to consolidate multiple accounts for the purpose of determining benefit eligibility and benefit amounts.

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11. Benefit Coverage

- a. The pension is a state of Kentucky policy mandated by law and subject to change.

12. Reciprocity - KTRS

The reciprocity regulations of the Kentucky Teachers' Retirement System will be followed.