

SUBJECT: Expediting transfer of Optional Retirement Program contributions

COMMITTEE: Pensions and Investments — favorable, without amendment

VOTE: 7 ayes — Telford, Woolley, Goolsby, Rangel, Sadler, Serna, Williams
0 nays
2 absent— Berlanga, Tillery

WITNESSES: For — William White; Charles Zucker, Texas Faculty Association
Against — None

BACKGROUND : The Optional Retirement Program (ORP) was created in 1968 as a portable, defined-contribution retirement program for higher education faculty and officials. A defined-contribution program specifies the amount of the contribution but not of the retirement benefits, which are based on the success of investments made by the program. ORP is supported through state and employee contributions. Members are vested in the program after a year's service; upon leaving state employment, they are permitted to withdraw all contributions to their accounts along with whatever money the account has earned in interest.

DIGEST: HB 724 would amend the Government Code to require institutions and agencies with employees participating in the ORP to remit contributions to the investment companies designated by participants no later than three days after the funds became available. Contributions from both the state and the participants would, if possible, have to be sent together.

Entities with employees participating in the ORP would have to electronically transfer contributions when possible. In the event the contributions could not be transferred electronically, the entities could use paper checks. Disbursing officers would have to notify ORP participants at least once each fiscal year about which annuity companies were unable to receive funds by electronic transfer.

HB 724 would take effect September 1, 1997.

**SUPPORTERS
SAY:**

HB 724 would help prevent costly delays in processing ORP retirement contributions. Under Texas Higher Education Coordinating Board rules, public colleges and universities have 10 business days to remit ORP contributions to annuity companies. In reality, two or more weeks can pass before the funds are remitted. This is more time than should be allowed. Since the ORP is a defined contribution retirement plan, untimely payments can translate into a loss of retirement income for members due to delays in investing their money. If this rule were repealed, public colleges and universities would be under no legal obligation whatsoever to transmit ORP funds within any specified period of time, so a statutory time limit is needed.

HB 724 would establish clear requirements to expedite the process of remitting ORP contributions and make it more efficient. Currently, institutions are not required to use electronic transfer for ORP funds, so most rely on paper checks that take time to process and incur postage costs. Furthermore, checks can be lost in the mail. Under state law, funds for the Teacher Retirement System already are transferred electronically when possible. Applying the same policy to ORP funds would save time and money for the state and ensure quicker investment of participants' retirement contributions.

HB 724 would require institutions to annually notify participants about companies that are unable to use wire transfers in order to ensure that participants have information they need to make proper decisions about their retirement plan.

**OPPONENTS
SAY:**

Three days is not enough time to pay retirement contributions to annuity companies that are not eligible to receive them electronically. In months when a payday falls at the end of the week, institutions could face real problems in complying with the three-day requirement for mailing checks. A better approach would be to require that contributions be sent in within three working or business days.

**OTHER
OPPONENTS
SAY:**

HB 724 should specify a date certain for notifying ORP members about companies that cannot receive electronic transfers. Notification ideally should be scheduled for August, since this is when most new employees start on the job. This date also could coincide with the fiscal year, when institutions already are compiling financial reports.

HB 724
House Research Organization
page 3

NOTES: Rep. Serna intends to offer a floor amendment that would modify the deadline for remitting funds to three business days.