This supplement is a point-in-time summary of retirement plans sponsored by the Oregon State Board of Higher Education and operated by Oregon University System. Each of five retirement plans is described in terms of size, participation and participating entities. Potential practical impacts of changes in the status of participating universities are summarized in terms of financial and administrative effects that may occur.

For a summary of participation options available to the public universities and to entities that may participate in an expanded Shared Services Enterprise, see the February 8, 2013 letter provided by independent pension counsel Everett Moreland, Hershner Hunter, LLP.

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Optional Retirement 401(a) Plan
The Oregon University System Optional Retirement Plan (ORP) is an IRC 401(a) tax-qualified, defined contribution, money purchase pension plan that was established in 1996 for academic and administrative employees of the university system. Participants irrevocably elect to participate in the ORP in lieu of the Oregon Public Employees Retirement System (PERS/OPSRP).

Current Status - January 2013

Assets under management as of 12/31/12

- All OUS, including PSU, UO, and OSU: $571 million
- Active Participants: 3,270

Three vendors provide recordkeeping/contract services. Preferred share class pricing is effective in 2013 with two vendors, based on assets under management and duration of contracts. One legacy vendor maintains two annuity contracts unchanged since 2002. Partially decentralized administration of participant transactions is overseen by OUS and contributions/payment processing is done by OUS on behalf of all universities.

The ORP is a governmental plan under IRC 414(d).

Entities Offering 401(a) Defined Contribution Optional/Alternate Plans:

- The Oregon University System offers the ORP to qualifying employees of OUS institutions under ORS 243.800.
- The Oregon Health Sciences University offers an alternative defined contribution 401(a) plan (UPP) under ORS 353.250.
- The Department of Community Colleges and Workforce Development may establish and administer an optional retirement plan for administrative employees of community college districts under ORS 341.551.

OUS, PSU, UO, OSU Separation Impacts

Actual separation from the ORP by participating universities would change eligibility for pricing advantages for 2 campuses (PSU and UO), and would require accommodations for participants investing in the plan through annuity contracts.

Effect on Current Pricing Advantages:

Eligibility for reduced investment expense share class lifecycle funds and enhanced recordkeeping cost offsets is based on asset requirements, e.g., $20 million in assets record-kept by the plan’s fixed-fee provider. Similarly, lower cost "institutional" share classes generally required $100 million in assets managed by the plan’s alternate provider. OUS defined contribution plans reached these required thresholds for pricing reductions in 2013, based on participation by all seven universities and the Chancellor’s Office, in both the ORP and TDI plans. Consolidation of assets under these plans provided
high quality investments to participants and administration costs that can be sustained without direct payment by universities or participants for recordkeeping and other services.

The availability these pricing advantages is show below, including separated campuses’ eligibility under the current vendor price breaks and the effect on remaining OUS campuses. With or without the participation of PSU, UO, and OSU remaining OUS institutions meet the total assets requirements to retain both the fixed fee provider and alternate provider pricing reductions that are effective in 2013, subject to market performance and returns.

Total assets under management* of three vendors as of 12/31/12:

- PSU: $119 million; not eligible for fixed fee, and not eligible alternate provider preferred pricing
- UO: $167 million; eligible for fixed fee, but not eligible for alternate provider preferred pricing
- OSU: $175 million; eligible for fixed fee and alternate provider preferred pricing
- OUS w/o PSU&UO: $285; eligible for fixed fee and alternate provider preferred pricing
- OUS w/o PSU, UO, OSU: $109 million; eligible for fixed fee and alternate provider preferred pricing
- All OUS, including PSU, UO, and OSU: $571 million

*Includes multiple plans under management by the respective 401(a) vendors.

Effect of Individual Annuity Contracts within the Plan:

Transfer of PSU, UO and/or OSU assets to another plan would be limited. Individual annuity contracts are not transferable, except by participant choice.

Alternatives for Continued Participation:

Three alternatives exist for continued participation of UO, PSU, and UO in the ORP:

- OUS, PSU, UO, and OSU are a single common law employer.
- "Related employer" controlled group rules may apply if control can be reasonably demonstrated to the IRS that OSBHE is PSU, UO and/or OSU Employer for purposes of the ORP and aggregation with other OSBHE plans established by OUS. The related employer concept, if campuses meet controlled group rules, is the less complicated than alternative 3 below.
- The ORP could be restated as a multiple-employer plan if PSU, UO and/or OSU become separate tax entities, are not related employers (this is unlikely), and agree to comply with and support OUS administration of the plan.

Each of these alternatives may require procedural and/or plan changes.

Neither a related employer nor a multiple-employer arrangement insulates other participating employers from disqualifying failures of any participating employer. Central administration is required for compliance.
Tax-Deferred Investment 403(b) Plan (TDI)
The Tax-Deferred Investment 403(b) Plan (TDI) offers a tax-favored voluntary retirement savings plan with universal availability to employees of the university system.

If a private employer is a charitable, educational, or scientific nonprofit organization that meets the requirements for tax exemption in IRC section 501(c)(3) it can maintain a 403(b) arrangement. An employer that is an integral part of government can maintain a 403(b) plan if it is a state or local school or university. An employer that is not an integral part of government, but is an instrumentality of government, can obtain Section 501(c)(3) status, and subsequently maintain a 403(b) plan, if it otherwise meets the requirements. (G.C.M. 34476 (Apr. 9, 1971); G.C.M. 36876 (Sept. 30, 1976)

Current Status - January 2013

Assets under management as of 12/31/12

- All OUS, including PSU, UO and OSU: $557 million
- Active Participants: 3,270

Three vendors provide recordkeeping/contract services. Preferred share class pricing is effective in 2013 with two vendors, based on assets under management and duration of contracts. One legacy vendor maintains annuity contracts unchanged since 2002. Fifteen discontinued vendors hold assets in annuity contracts and custodial accounts of participants who had established them prior to November 2007 and are associated with the plan. Partially decentralized administration of participant transactions are overseen by OUS and contributions/payment processing is done by OUS on behalf of all universities.

The Oregon University System, Oregon Health and Sciences University and some community colleges offer 403(b) voluntary retirement saving plans under ORS 243.-820-243-830. Administration is variously performed by the entity or by a commercial third party administrator, and entities include varying numbers of insurance issuers and custodial accounts.

OUS, PSU, UO, OSU Separation Impacts

Actual separation from the TDI plan by participating universities would change eligibility for pricing advantages for 2 campuses (PSU and UO), and would require accommodations for participants investing in the plan through annuity contracts.

Effect on Current Pricing Advantages:

Eligibility for reduced investment expense share class lifecycle funds and enhanced recordkeeping cost offsets is based on asset requirements, e.g., $20 million in assets record-kept by the plan’s fixed-fee provider. Similarly, lower cost “institutional” share classes generally required $100 million in assets managed by the plan’s alternate provider. OUS defined contribution plans reached these required thresholds for pricing reductions in 2013, based on participation by all seven universities and the Chancellor’s Office, in both the ORP and TDI plans. Consolidation of assets under these plans provided
high quality investments to participants and administration costs that can be sustained without direct payment by universities or participants for recordkeeping and other services.

The availability these pricing advantages is show below, including separated campuses’ eligibility under the current vendor price breaks and the effect on remaining OUS campuses. With or without the participation of PSU, UO, and OSU remaining OUS institutions meet the total assets requirements to retain both the fixed fee provider and alternate provider pricing reductions that are effective in 2013, subject to market performance and returns.

Total assets under management* of three vendors as of 12/31/12:

- PSU: $90 million; not eligible for fixed fee or alternate provider preferred pricing
- UO: $147 million; eligible for fixed fee but not eligible for alternate provider preferred pricing
- OSU: $195 million; eligible for fixed fee and eligible for alternate provider preferred pricing
- OUS w/o PSU&UO: $319 million; eligible for fixed fee and alternate provider preferred pricing
- OUS w/o PSU, UO, or OSU: $124 million; eligible for fixed fee and alternate provider preferred pricing
- All OUS, including PSU, UO and OSU: $557 million

*Includes multiple plans under management by the respective 403(b) vendors.

Effect of Individual Annuity Contracts within the Plan:

Transfer of PSU, UO and/or OSU assets to another plan would be limited. Individual annuity contracts are not transferable, except by participant choice. Individual annuity contracts, group annuity contracts, and custodial agreements hold accounts of UO, PSU, and/or OSU participants with 15 discontinued vendors of the OUS plan that are transferable only as qualifying distributions.

Alternatives for Continued Participation:

Three alternatives exist for continued participation of UO, PSU, and/or OSU in the TDI:

- OUS, PSU, UO, and OSU are a single common law employer.
- OUS, PSU, UO, and OSU are single employer under the "related employer" (controlled group) rules such as for the contribution limits under IRS 415, if control can be reasonably demonstrated to the IRS by OSBHE over UO, PSU, and OSU, and they are treated as a single employer under related employer rules for purposes of the ORP and other OSBHE plans
- The TDI could also be restated as a plan for multiple employers, particularly if UO, PSU, and OSU become separate tax entities and agree to comply with and support OUS administration of the plan.

Each of these alternatives may require procedural and/or plan changes.

Neither a related employer nor a multiple-employer arrangement insulates other participating employers from disqualifying failures of any participating employer.
Deferred Compensation 457 Plan

Funded deferred compensation plans under IRC 457 can be maintained only by a state or local government. Other employers can maintain a deferred compensation plan that is unfunded or that is funded through a trust that is subject to the claims of the employer's general creditors (a rabbi trust). An unfunded plan of a tax-exempt non-governmental employer is subject to IRC 457. An unfunded plan of a taxable employer is not subject to IRC 457. Educational institutions outside of state and local governmental entities are not eligible to offer funded 457 deferred compensation plans.

Current Status - January 2013

The Oregon Savings Growth Plan (OSGP) is a 457(b) plan associated with the Oregon Public Employees Retirement System.

OUS participated in the OSGP prior to the passage of SB271 (1995) which authorized the state system of higher education to remain with the OSGP or to establish its own deferred compensation plans (ORS 351.094(3)) and continues to participate in the OSGP. OUS employee participation has been low, at its peak totaling 496 participants at the end of 2012, or about 3% of the total eligible population.

The 457(b) plan is useful for highly compensated employees because 457(b) plan contributions are not subject to IRC 415 and are not coordinated with contributions to the 403(b) plan or the ORP (i.e. contributions to any of the 457(b) plan, 403(b) plan, or ORP will not reduce the amount of contributions allowed to the others).

Until 1997, the OSGP was restricted to state employees. In 1997, local governments were permitted to add the OSGP as an investment provider for their 457 programs, provided they entered into agreements with PERS for administrative services that OSGP provides to all participating employers. Community colleges were among the counties, cities, school districts, and special districts added to the plan.

Nine (9) community colleges are included in the list of local governments participating in the OSGP. These schools use the OSGP for investment options and agree to OSGP administration, but are required to maintain their own plans rather than having full participation in the OSGP.

One community college operates its own 457(b) through a third party administrator (TPA), and one operates a 457 plan without an identified administrator.

Seven community colleges do not list deferred compensation plans as an employee benefit.

OUS, PSU, UO, OSU Separation Impacts

OUS, PSU, UO, and/or OSU participation in OSGP is unlikely to change if OSBHE retains employer status for purposes of the plan.

If PSU, UO, and/or OSU exit the university system and become separate tax entities rather than establishing independent institutional boards, those campuses would have to clarify if statutory language similar to ORS 351.094(3) is needed for each university to participate in the OSGP independently, or they could apply to OSGP for use of the plan under the same type of agreements used
by community colleges, if they are within the definition of “local government” in ORS 243.4001(8) and they have authority to establish their own deferred compensation plans.

Shared Services Enterprise Potential

The Oregon Savings Growth Plan (OSGP) is already operating as a shared services provider that is available to higher education institutions envisioned to be part of a future DPSE shared services program.

Addition of all employers within the DPSE to the OSGP could further reduce the already low administration and investment costs borne by OUS participants. The OSGP volume of assets under management is substantially higher than OUS could expect to achieve and better than an OUS participant expense profile if the university system, with or without PSU, UO and/or OSU, would be able to achieve.

Specialty deferred comp plans for OUS may be advantageous on a limited basis, but unless there is a significant increase in utilization, the OSGP offers a low cost, on-demand opportunity for the small OUS employee population that it benefits.
Higher Education Supplemental Retirement Benefits

A closed legacy plan, restricted to OUS employees holding academic rank, offers a partial PERS benefits and an accompanying annuity contract under provisions of ORS 243.910 through ORS 243.945. From 1965 to 1989, the annuity portion of the plan operated under IRC 403(b) and in 1990 it was re-characterized as an IRC 401(a) money purchase pension plan. The plan was closed to all new enrollment in 1995. Actively participating OHSU employees who had joined the plan prior to OHSU’s separation from the Oregon State System of Higher Education were identified and management of their PERS and annuity accounts was transferred to OHSU after the separation.

Current Status - January 2013

Assets under management as of 12/31/12

- All OUS, including PSU, UO, and OSU: $75,808,543
- Active Participants: 37
- Participants with 403(b)/401(a) account balances: 824
- Closed accounts ($0 balances): 386

The plan document includes all of the seven OUS universities and the Oregon Health and Sciences University. OHSU and OSU coordinate participant recordkeeping and transactions.

OUS retains plan records through the records retention period and administer contracts on behalf of all universities.

No integration with other DPSE employers will affect OUS universities. The plan is closed to new participants. Annuity contracts are non-transferable.

Supplemental Retirement Plan (SRP)

A Supplemental Retirement Plan (SRP) is managed by OUS on behalf of the university foundations and universities that fund this defined benefit cash balance plan for their respective presidents. The public universities, with approval of the Oregon State Board of Higher Education, elect to provide this benefit in addition to presidential compensation. OUS staff serves as plan trustees and administrator.

On advice of counsel in 2010, a request for participation by another state agency was denied. Significant plan amendments and possibly approval of the participating universities and foundations were identified as requirements to expand the plan to another employer.

Issues to be resolved before opening the OUS plan may include:

- Investment control - the plan is currently non-interest earning;
- Protection of employers from other employers’ deferred comp obligations;
- Permanence - IRS requirement that a plan is designed to be in effect 5 or more years;
- Vesting - preventing partial termination of the plan due to early exit of participants.