

Update on Implementation of the Hybrid Plan -- 10/20/2011

SEBAC 2011 created a new Hybrid plan option for professional employees of Higher Education institutions. The plan was created by Paragraph II.C. 7 of the Agreement, which reads:

Hybrid Defined Benefit/Defined Contribution Plan for Employees in Higher Education - Individuals hired on or after July 1, 2011 otherwise eligible for the Alternate Retirement Plan (hereinafter referred to as "ARP") shall be eligible to be members of the new Hybrid Plan in addition to their existing choices. Individuals who are currently members of the ARP shall be eligible to join the Hybrid Plan on a one time option at the full actuarial cost. The Hybrid plan shall have defined benefits identical to Tier II/IIA and Tier III for individuals hired on or after July 1, 2011, but shall require employee contributions three percent (3%) higher than the contribution required from the Applicable Tier II/IIA/III Plan. An employee shall have the option, upon leaving state service, of accepting the defined benefit amount, or electing to receive a return of his/her contributions to the Hybrid Plan, plus a five percent (5%) employer match, plus four percent (4%) interest (hereinafter referred to as the "cash out option"). In the event the employee elects the cash out option, he/she shall permanently waive any entitlement they may have to health insurance as a retired state employee unless they convert the cash out option to a periodic payment as would be required under the current ARP plan.

A number of issues have been raised about implementing the Hybrid plan, the majority of which have been easily resolved. For instance, many ARP participants were afraid they would have to choose whether to switch to the Hybrid plan before they knew whether the ARP Arbitration Award had been approved by the IRS. That problem has been handled by agreeing that the window for ARP participants to decide whether to switch into the Hybrid plan will remain open until 90 days after the IRS rules on the ARP Award. A series of similar issues have been quickly resolved by cooperation among the parties.

One issue has somewhat delayed the full implementation of the Hybrid plan. The most prominent among these is how to handle the substantial sums of money that many ARP participants have in TIAA Traditional Accounts, which TIAA-CREF refuses to release except at 10% per year for 10 years. If that money is not available for ARP participants who wish to purchase past service credit upon switching to the Hybrid plan, it could substantially hamper the ability of many ARP participants to switch. On the other hand, people cannot purchase past service credit with funds they don't have. And the pension fund cannot give credit for past service without receiving the funds to pay for it.

With the agreement of State Treasurer, the parties have found a solution to this issue. ARP participants who wish to purchase service with encumbered funds will be allowed to sign those funds over to the pension fund. An actuarial calculation will be needed to determine how much credit the encumbered funds receive, because while they are encumbered they will earn less interest than the funds would receive as part of the pension fund. The precise calculation is still being determined, and will need the agreement of the parties and the approval of the State Treasurer to assure it is actuarially appropriate for the fund, and fair to the participants.

The parties are hopeful this issue will be fully resolved before the end of October and that the window for switching into the Hybrid plan can be opened in November. We will keep members informed of progress as it occurs.