

**Summary of Proposed Rule Change
For
Arkansas Teacher Retirement System**

Proof of Service Credit (Rule 7-2)(Emergency)

Substantive changes:

Places a rule in effect, consistent with the existing law and ATRS procedures, regarding the calculation of hours worked in 1 day in order for that employee to receive a full day of service credit.

Non-substantive changes:

None

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PROOF OF SERVICE CREDIT

A.C.A. §§ 24-7-601—611, A.C.A. § 24-7-406,
and A.C.A. § 24-7-705

REGULATIONS

The Board shall determine the number of years and fractions thereof for paid service credited to members of the System. No fewer than one hundred sixty (160) days of employee service in a fiscal year (ending June 30) shall be credited as a full year of service.

Members employed less than one fourth ($\frac{1}{4}$) of a fiscal year are not eligible for credit or benefits in ATRS that fiscal year provided however, a contributory member's service days beginning in the 2011-2012 fiscal year, are carried forward from previous fiscal years until at least one quarter year of service is obtained by the member. If a contributory member obtains at least a quarter year of service in a fiscal year, whether using regular service days or accumulated service days, or both, the member begins the next fiscal year with no days of service carried forward.

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RULES

1. FOR MEMBERS WITH SERVICE AFTER JULY 1, 1971

A. Actual service credited to a member's account shall be determined in accordance with the following table:

Number of Days Worked in a Fiscal Year	Service Credit Earned
1 -39	None
40-79	0.25 year
80-119	0.50 year
120-159	0.75 year
160 days or over	1.00 year

B. All contracts between an ATRS employer and member that specify the number of days worked by the member shall be used by ATRS to establish the number of days of service worked. If a member is employed in a position that a regular and typical work day includes eight (8) hours or more of work time (full-day position), then four (4) hours of work in a day shall be required for a "day" of service. For "full-day" members who do not work four (4) hours or more a day, the total number of hours worked in a

fiscal quarter divided by four (4) will determine the number of days to be credited. ATRS employers have specialized support positions that include work as bus drivers, custodial workers, cafeteria workers, and similar positions that a typical day of service by the member will be less than eight (8) hours of work a day. Effective for the 2011-2012 fiscal year, a member employed, without a contract specifying the number of days of service to be worked, in a specialized support position shall receive a full day of service credit, even if the member works less than four (4) hours in a service day, if the ATRS employer reasonably determines that the member performed the regular and usual service expected of a member in that position during the service day.

- C. For purposes of days counted toward service credit, absences shall be counted as service if for paid leave including paid sick leave. However, for administrative leave, the member must be on call by the employer for the service to be counted.
- D. The System shall not give service credit to a member until all required contributions and interest, if any, are remitted to the System.
- E. The participating employers shall certify proof of service on such forms with any documentation required by the System.
- F. If a member is retiring with an effective date other than October 1, January 1, April 1, or July 1, service credited for the year in which a member retires shall not exceed $\frac{1}{4}$ year for each full calendar quarter worked during the fiscal year.
- G. In any case of question as to service credit of a member, the Board of Trustees has the final authority to decide the amount of service creditable to a member.

Amended: July 18, 2005
June 16, 2009 (Emergency)
October 5, 2009 (Permanent)
July 1, 2011 (Emergency)
Adopted: August 8, 2011
Effective: November 11, 2011
Board Approved: February 6, 2012
Amended: April 2, 2012 (Emergency)
Effective:

PROOF OF SERVICE CREDIT

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and A.C.A. § 24-7-705

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Members employed less than one fourth ($\frac{1}{4}$) of a fiscal year are not eligible for credit or benefits in ATRS that fiscal year—provided however, a contributory member's service days beginning in the 2011-2012 fiscal year, are carried forward from previous fiscal years until at least one quarter year of service is obtained by the member. If a contributory member obtains at least a quarter year of service in a fiscal year, whether using regular service days or accumulated service days, or both, the member begins the next fiscal year with no days of service carried forward.

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B. Four (4) hours in a day shall be required as the minimum for a "day of service" for all members. All contracts between an ATRS employer and member that specify the number of days worked by the member shall be used by ATRS to establish the number of days of service worked. If a member is employed in a position that a regular and typical work day includes eight (8) hours or more of work time (full-day position), then four (4) hours of work in a day shall be required for a "day" of service. For "full-

day" members who do not work four (4) hours or more a day, the total number of hours worked in a fiscal quarter divided by four (4) will determine the number of days to be credited. ATRS employers have specialized support positions that include work as bus drivers, custodial workers, cafeteria workers, and similar positions that a typical day of service by the member will be less than eight (8) hours of work a day. Effective for the 2011-2012 fiscal year, a member employed, without a contract specifying the number of days of service to be worked, in a specialized support position shall receive a full day of service credit, even if the member works less than four (4) hours in a service day, if the ATRS employer reasonably determines that the member performed the regular and usual service expected of a member in that position during the service day.

- C. For purposes of days counted toward service credit, absences shall be counted as service if for paid leave including paid sick leave. However, for administrative leave, the member must be on call by the employer for the service to be counted.
- D. The System shall not give service credit to a member until all required contributions and interest, if any, are remitted to the System.
- E. The participating employers shall certify proof of service on such forms with any documentation required by the System.
- F. If a member is retiring with an effective date other than October 1, January 1, April 1, or July 1, service credited for the year in which a member retires shall not exceed $\frac{1}{4}$ year for each full calendar quarter worked during the fiscal year.
- ~~G. If a member has signed an employment contract for a fiscal year and the member does not work for the full period covered by the contract, the member shall receive service credit for only the full calendar quarters worked during the fiscal year.~~
- HG. In any case of question as to service credit of a member, the Board of Trustees has the final authority to decide the amount of service creditable to a member.

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June 16, 2009 (Emergency)
October 5, 2009 (Permanent)
July 1, 2011 (Emergency)

Adopted: August 8, 2011

Effective: November 11, 2011

Board Approved: February 6, 2012
Amended: April 2, 2012 (Emergency)
Effective:

**Summary of Proposed Rule Change
For
Arkansas Teacher Retirement System**

Refunds of Member Contributions (Rule 8-2)(Emergency)

Substantive changes:

Sets the rate of interest for refunded contributions for the fiscal 2011-12 year. Also allows the Board to change the interest rate going forward by resolution, rather than by rule change. Removes the "hardship" requirement that a member has to prove before receiving a refund of member contributions from ATRS. Thus, ATRS no longer has to make a judgment call on the facts presented by a member claiming to have a hardship that justifies a refund of the member's contribution.

Non-substantive changes:

None

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REFUNDS OF MEMBER CONTRIBUTIONS

A.C.A. § 24-7-711

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1. Should an overpayment of contributions of less than \$25.00 be reported from the local level, no refund of this amount will be made to the member, except upon the written request from the member. The total amount reported by the employing authority shall be credited to contributions.
2. On refunded contributions, the rate for all interest credited before June 30, 1984, is 3%, compounded annually, after the first year of contributions. The rate of interest credited on June 30, 1984, through June 30, 2009, is 6%, compounded annually, after the first year of contributions. The rate of interest credited for June 30, 2010, through June 30, 2011, is 2%, compounded annually after the first year of contributions. Beginning June 30, 2012, the interest rate shall be 1% compounded annually after the first year of contributions. Payable interest shall be computed on each member's individual account as of June 30 each year by multiplying the balance in the member's individual account as of July 1 (including all contributions and interest credit from previous years) plus one-half (1/2) of the contributions for the year ending on June 30 by the annual applicable interest percentage rate.
3. The Board may change the interest rate on refunded contributions for future years by Resolution stating the new interest rate, the date that the new interest rate will become effective, and any other features of the interest rate's implementation.
4. Regular interest is not paid on contributions made in the year in which a refund is paid.
5. As of July 1, 2012, ATRS no longer requires a hardship in order to pay a refund in no more than two payments on a direct payment to the member. Upon receipt of a properly completed refund application, ATRS will issue a refund for all member contributions that have been closed on the books of ATRS. Any amount due in a second payment will be made when all quarters of service the member worked are closed on the books of ATRS. Rollovers will be made in one payment when all quarters of service worked have been closed on the books of ATRS.
6. The effective date of a refund is the date that ATRS first issues payment of a refund.

Amended: July 18, 2005
February 1, 2010 under emergency rules.
June 7, 2010 Permanent
July 1, 2011 (Emergency)

Adopted: August 8, 2011

Effective: November 11, 2011

Approved by Board: February 6, 2012

Amended: April 2, 2012 (Emergency)

Effective:

REFUNDS OF MEMBER CONTRIBUTIONS

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3. The Board may change the interest rate on refunded contributions for future years by Resolution stating the new interest rate, the date that the new interest rate will become effective, and any other features of the interest rate's implementation.
34. Regular interest is not paid on contributions made in the year in which a refund is paid.
5. As of July 1, 2012, ATRS no longer requires a hardship in order to pay a refund in no more than two payments on a direct payment to the member. Upon receipt of a properly completed refund application, ATRS will issue a refund for all member contributions that have been closed on the books of ATRS. Any amount due in a second payment will be made when all quarters of service the member worked are closed on the books of ATRS. Rollovers will be made in one payment when all quarters of service worked have been closed on the books of ATRS.
46. The effective date of a refund is the date that ATRS first issues payment of a refund. ~~If a refund is paid in two (2) payments due to a recognized hardship,~~

~~then the effective date of the refund is the date the last refund payment is made.~~

- ~~5. Refunds of contributions will be made within six (6) months from the date of receipt of the written refund application by ATRS.~~

Amended: July 18, 2005
February 1, 2010 under emergency rules.
June 7, 2010 Permanent
July 1, 2011 (Emergency)
Adopted: August 8, 2011
Effective: November 11, 2011
Approved by Board: February 6, 2012
Amended: April 2, 2012 (Emergency)
Effective:

**Summary of Proposed Rule Change
For
Arkansas Teacher Retirement System**

Teacher Deferred Retirement Option Plan (TDROP) (Rule 10-3)(Emergency)

Substantive changes:

Sets rules as outlined in Act 162 of 2011. Defines "T-DROP Cash Balance Account" and "T-DROP Cash Balance Account Interest" consistent with ATRS accounting procedures and prior Board action. Also gives a member the choice of receiving all or part of his/her T-DROP Cash Balance Account, and allows ATRS to maintain any balance of that account for the member. Sets rules for the election of a partial lump-sum distribution and sets the interest rates thereon.

Non-substantive changes:

Adds definition of "Fiscal Year", and "Quarter", consistent with the State fiscal year.

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TEACHER DEFERRED RETIREMENT OPTION PLAN (T-DROP)

A.C.A. §§ 24-7-1301 - 1316

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DEFINITIONS

1. **ATRS** means the Arkansas Teacher Retirement System.
2. **Board** means the Board of Trustees of the Arkansas Teacher Retirement System.
3. **DROP** means a deferred retirement option plan enacted by the General Assembly and administered under ATRS or a reciprocal system.
4. **Fiscal Year** means the operating year for the State of Arkansas that begins on July 1 of each calendar year and ends on June 30 of the next calendar year.
5. **Participant** means a member who elects to participate in T-DROP under A.C.A. § 24-7-1301 et seq. by authorizing ATRS to make plan deposits, plan interest, or 10-year plus T-DROP interest into a member's T-DROP account.
6. **Plan deposits** means the deposits made to each participant's T-DROP account pursuant to A.C.A. § 24-7-1306.
7. **Plan interest** means the rate per annum, compounded annually on June 30, as the Board shall set and adopt at the end of each fiscal year, credited annually in each T-DROP participant's T-DROP account. The interest rate shall be 2% less than the System's average rate of return with a maximum of 6% and minimum of 2%. The Board will determine the interest rate for the following fiscal year based upon the rate of return for the immediately preceding twelve-month period ending March 31 prior to the start of such fiscal year. The initial calculation of this rate shall begin March 31, 2005, for interest to be credited in the 2005-2006 fiscal year.
8. **Quarter** means one-fourth (1/4) of a fiscal year. The four (4) quarters applicable in this rule are:
 - 1st Quarter: July 1 through September 30
 - 2nd Quarter: October 1 through December 31
 - 3rd Quarter: January 1 through March 31
 - 4th Quarter: April 1 through June 30

9. **T-DROP** means the Teacher Deferred Retirement Option Plan established by ATRS under Act 1096 of 1995.
10. **T-DROP Cash Balance Account** means the financial account set up for a participant who elects to defer distribution of his or her T-DROP account at a time that he or she is eligible to receive a lump-sum distribution of the T-DROP balance.
11. **T-DROP Cash Balance Account Interest** means the interest rate per annum applicable to a member's T-DROP Cash Balance Account, compounded annually and credited on June 30 into a participant's T-DROP Cash Balance Account. The interest rates payable on the T-DROP Cash Balance Accounts are set forth in this rule in subsection 4 of the section titled "**T-DROP CASH BALANCE ACCOUNT**". The annual T-DROP Cash Balance Account interest rate shall be applied to T-DROP Cash Balance Accounts that have been held for at least one (1) fiscal year by the System.
12. **T-DROP Service Credit** shall be determined using the same rules that apply for service credit for an active member with the exception that "on call" availability shall not be used for T-DROP service credit requirements.
13. **10-year plus T-DROP interest** means the rate per annum, compounded annually, as the Board shall set and adopt at the end of each fiscal year, credited on June 30 into a member's T-DROP account that meets the following criteria:
 - A. The member participated in T-DROP for ten (10) years and continued employment with an ATRS covered employer; and
 - B. The member has not retired.

T-DROP PARTICIPATION and ACCOUNT CREDIT

Effective July 1, 1995, in lieu of terminating employment and retiring under A.C.A. § 24-7-701, an active member of ATRS may elect to participate in T-DROP and continue to work for a covered employer. By continuing covered employment, the participant defers receipt of retirement benefits until a later date.

During participation in T-DROP, ATRS shall credit each participant's T-DROP account with plan deposits and plan interest.

The plan interest rate determined by majority vote of the Board is final and binding upon ATRS and shall not be adjusted based on any revised rate of return reported after that date.

The 10-year plus T-DROP interest rate shall be set by the Board at same meeting that the plan interest rate is set. The 10-year plus T-DROP interest rate

is limited to a maximum of six percent (6%) and a minimum of four percent (4%). The 10-year plus T-DROP interest rate will be credited to the participant's T-DROP account on June 30th of each year.

The initial 10-year plus T-DROP interest rate for 2010 is set at four percent (4%) and will be credited to the participant's T-DROP account on June 30, 2010. The 10-year plus T-DROP interest rate shall be set prospectively by the Board prior to the beginning of each fiscal year and that interest rate shall be credited to the participant's T-DROP account June 30th of the following year.

The 10-year plus T-DROP interest rate for each year determined by majority vote of the Board is final and binding upon the ATRS and shall not be adjusted based on any revised rate of return reported after that date.

RULES

1. To participate in the T-DROP, the member shall have twenty-eight (28) or more years of ATRS service credit. For reciprocal service, refer to the section in this rule titled "**DROP PARTICIPATION UNDER RECIPROCAL SYSTEMS**".
2. To participate in the T-DROP, the member shall make the election on an application form approved by ATRS.
3. Upon review of the member's application, ATRS shall determine if the member meets the eligibility requirements specified in A.C.A. § 24-7-1302, and approve or disapprove the application.
4. If the member meets the eligibility requirements, the member's T-DROP participation will begin the July 1 after the application is approved.
5. The participant's T-DROP benefit will be the monthly straight life annuity benefit to which the member would have been entitled had the member retired under A.C.A. § 24-7-701. The participant's T-Drop benefit may be reduced under the conditions of No. 7 below. The T-DROP deposit shall not include the benefits provided in A.C.A. § 24-7-713(b) (stipend).
6. Plan deposits shall be a percentage of the T-DROP benefit, as follows:
 - A. One hundred percent (100%) reduced by the product of one percent (1.0%) multiplied by the number of years of contributory service credit and fractions thereof, plus,
 - B. One hundred percent (100%) reduced by the product of six-tenths percent (0.6%) multiplied by the number of years of noncontributory service credit and fractions thereof.

- C. i. In the event a participant whose effective date in the T-DROP is before September 1, 2003, has more than thirty (30) years of service, the years of service above thirty (30) years shall be reduced by one-half of one percent (0.5%) for contributory years and three-tenths of one percent (0.3%) for noncontributory years.
 - ii. Beginning July 1, 2001, when a participant whose effective date in the T-Drop is before September 1, 2003, reaches normal retirement age, the plan deposits shall be 100% with no reduction.
 - iii. For a participant whose effective date in the T-Drop is September 1, 2003, or after, and who has more than thirty (30) years of service, the plan deposits for the years of service above thirty (30) years shall be reduced under Nos. 6A and 6B.
 - iv. For a participant whose effective date in the T-Drop is September 1, 2003, or after, the plan deposits for a participant who reaches normal retirement age shall continue as reduced under Nos. 6A and 6B.
7. A participant's plan deposit will incur an additional reduction of 0.5% for each month the member lacks having thirty (30) years of credited service.
 8. A participant may elect an annuity option provided in A.C.A. § 24-7-706. The election shall be made at the time the participant separates from service and is granted a monthly retirement benefit or files for retirement upon reaching normal retirement age.
 9. A member's participation in T-DROP shall not exceed ten (10) consecutive calendar years for accruing plan deposits.

If a participant continues covered employment after completing ten (10) years in T-DROP, the T-DROP account will be credited with 10-year plus T-DROP interest as set by the Board. Benefits payable at retirement will be based on the account balance the month before the participant begins drawing retirement benefits.

10. The annuity upon which plan deposits are calculated shall receive the cost-of-living increase provided for in A.C.A. § 24-7-713(a) or § 24-7-727. The annuity plus the cost-of-living increase is reduced or adjusted under the procedure described in No. 6 above.
11. If a T-DROP participant elects to retire and ATRS distributes the T-DROP account to the participant, the participant shall not be allowed to reenroll in T-DROP.
12. As soon as possible after the end of each fiscal year, ATRS shall furnish the participant an annual statement of the participant's T-DROP account. The

statement of T-DROP deposits and interest will not be final until the annual accounting has been reconciled for part-time T-DROP participants.

13. Service Credit of 160 days or greater within a fiscal year while in T-DROP participation without termination, retirement, or death will allow crediting of twelve (12) monthly T-DROP deposits per fiscal year.
14. Part time employment while participating in the T-DROP plan:
 - a. In the first or fourth quarter of the fiscal year, five (5) or more days of service credit shall be required to credit the T-DROP participant's account with three (3) monthly deposits for that particular quarter. If a T-DROP participant receives less than five (5) days of service credit in either the first or fourth quarter of the fiscal year, then no T-DROP deposits shall be made in the three months for that particular quarter.
 - b. In the second or third quarters of the fiscal year, fifteen (15) or more days of service credit shall be required to credit the T-DROP participant's account with three (3) monthly deposits for that particular quarter. If a T-DROP participant receives less than fifteen (15) days of service credit in either the second or third quarter of the fiscal year, then no T-DROP deposits shall be made in the three months for that particular quarter.

CEASING T-DROP AND DISTRIBUTION OPTIONS

1. Participation in T-DROP ceases when:
 - a. The participant separates from service and is granted a monthly retirement benefit from ATRS or a reciprocal plan; or
 - b. The participant reaches normal retirement age and retires without separation from service, or
 - c. The participant separates from covered employment but does not apply for monthly retirement benefits; or
 - d. The participant dies.
2. Any lump-sum distribution of a participant's T-DROP account balance is eligible to be rolled over into a qualifying retirement plan. The ATRS shall only roll over the T-DROP lump sum balance into one qualifying plan.
3. A participant may direct that all or a part of his or her lump-sum distribution as set forth in Ark. Code Ann. §24-7-1308 continue to be held by ATRS in a T-DROP Cash Balance Account described in this rule in the section titled **"T-DROP CASH BALANCE ACCOUNT"**.

4. The T-DROP is intended to operate in accordance with Section 415 and other applicable sections of the IRS Code. Any provision of the T-DROP that conflicts with an applicable provision of the IRS Code is invalid.
5. If a participant separates from covered employment but does not apply for monthly retirement benefits, the T-DROP monthly deposit shall cease the month of separation from service. No deposits will be credited to the participant's account for the duration of the separation. Upon returning to covered employment, the monthly deposits will resume. Upon application for retirement, benefits will be paid according to the account balance at the time of separation from service or the month prior to the effective date of benefits after reaching normal retirement age.
6. If a T-DROP participant leaves ATRS-covered employment to serve, on a voluntary or involuntary basis, in the uniformed services of the United States and returns to ATRS-covered employment, the member shall be treated as not having incurred a break in service with the employer. The employer shall certify to the ATRS that reemployment was in accordance with the requirements set forth in Section 4312 of P.L.103-353, the Uniformed Services Employment and Reemployment Act (USERA) of 1994.

Under this subsection, uniformed services of the United States are limited to the armed forces, the Army, and the Air National Guard when engaged in active duty for training, inactive duty training, full-time National Guard duty, the commissioned corps of the Public Health Service, and any other category of persons designated by the President in time of war or emergency.

DEATH OF A T-DROP PARTICIPANT PRIOR TO RETIREMENT

1. In the event a T-DROP participant dies, the benefits payable from the T-DROP account shall be determined according to A.C.A. § 24-7-710.
2. A T-DROP participant's surviving spouse may choose to receive the T-DROP benefit in a lump sum. If the spouse elects a lump-sum payment of the T-DROP balance, the survivor annuities payable under A.C.A. § 24-7-710 shall be calculated on the service credit and salary earned by the member prior to participating in T-DROP.
3. For the purposes of A.C.A. § 24-7-709 related to disposition of residue, any amount received from the T-DROP account, either in the form of a lump sum or annuity payments, shall be considered to be annuity payments received by the member or his or her designated beneficiary and shall act to reduce or eliminate the disposition of residue payable under A.C.A. § 24-7-1310(c).

DROP PARTICIPATION UNDER RECIPROCAL SYSTEMS

1. If a reciprocal system offers a DROP for its members, service credit in ATRS, a reciprocal system, or the combination of service credit in the systems may be counted to meet the minimum service credit requirements for participation under each system's DROP.
2. The benefit payable by the reciprocal system shall be based on the DROP provisions of each system. The final average salary used to determine plan deposits shall be that of the reciprocal system which furnishes the highest final average salary at the time of retirement. Each reciprocal system shall use the method of computing final average salary stipulated by its law. Salaries earned in the Arkansas Judicial Retirement System and alternate retirement plans shall not be used in computing final average salary.
3. Plan deposits and plan interest credited to the DROP account will be paid under the deferred retirement option program in effect for that reciprocal system.
4. ATRS shall promulgate rules and regulations to coordinate its benefits with any reciprocal system providing a DROP.

T-DROP CASH BALANCE ACCOUNT

1. At the time that a T-DROP participant may elect to receive a lump-sum distribution of the participant's T-DROP account balance, the participant may elect to defer all or a part of his or her T-DROP account and direct that such amount be held in a T-DROP Cash Balance Account for the participant. If a member chooses to defer only part of the T-DROP distribution into a T-DROP Cash Balance Account, the member's only other option is to annuitize the remainder of the T-DROP distribution with ATRS on a 25%, 50%, or 75% basis.
2. After the first full quarter of T-DROP Cash Balance Account participation, a participant with a T-DROP Cash Balance Account balance may withdraw funds from the account one time per quarter on such forms as the System may issue. The system may allow a member to obtain an additional withdrawal in a quarter for a manifest emergency. As provided in Ark. Code Ann. §24-7-730, required minimum distributions will be made sufficient to satisfy legal requirements, including Internal Revenue Code §401(a)(9).
3. A T-DROP Cash Balance Account that has been held at least one (1) full fiscal year by the System shall be credited annually on June 30 with T-DROP Cash Balance Account interest (computed on a weighted-average basis) and debited for all withdrawals and distributions.
4. The initial interest rates for T-DROP participants electing to enter the T-DROP Cash Balance Account program are set forth in this subsection. Members establishing a T-DROP Cash Balance Account on or after July 1, 2012, shall

receive interest on their T-DROP Cash Balance Account according to the following schedule:

After one (1) complete fiscal year:	2.00% interest.
After two (2) complete fiscal years:	2.25% interest.
After three (3) complete fiscal years:	2.50% interest.
After four (4) complete fiscal years:	2.75% interest.
After five (5) complete fiscal years:	3.00% interest.
After six (6) complete fiscal years:	3.25% interest.
After seven (7) complete fiscal years:	3.50% interest.
After eight (8) or more complete fiscal years:	4.00% interest.

These interest rates are minimum interest rates that apply to T-DROP Cash Balance Accounts that are established while these rates are in effect. The T-DROP Cash Balance Account interest may be increased by the ATRS Board of Trustees on a forward-looking and Ad Hoc basis.

5. The interest rates set forth in subsection 4 above and payable on T-DROP Cash Balance Accounts established on or after July 1, 2012, shall remain at the initial rate set for July 1, 2012, T-DROP Cash Balance Account entrants unless the ATRS Board of Trustees adopts a different interest rate schedule to be used for future entrants to the T-DROP Cash Balance Account at least one (1) year prior to the beginning of a fiscal year in which the new interest rates shall apply. The ATRS Board of Trustees may adopt an interest rate schedule for new entrants by Resolution, setting forth the new interest rate schedule for the T-DROP Cash Balance Account. T-DROP Cash Balance Accounts existing prior to the effective date of the Resolution shall be unaffected by the new interest rate schedule.
6. Based upon interest rates and financial market conditions, the ATRS Board of Trustees may approve Ad Hoc interest rate increases for T-DROP participants in the T-DROP Cash Balance Account for a subsequent fiscal year through Resolution adopted by the ATRS Board of Trustees.
7. If a participant dies with a T-DROP Cash Balance Account, the account balance shall be paid as provided under Ark. Code Ann. §24-7-1310.

Approved: June 13, 1995
Amended: July 30, 1997
June 17, 2003
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July 18, 2005
April 26, 2007
February 1, 2010 under emergency rules.

June 7, 2010 Permanent
July 1, 2011 (Emergency)
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TEACHER DEFERRED RETIREMENT OPTION PLAN (T-DROP)

A.C.A. §§ 24-7-1301 - 1316

DEFINITIONS

1. **ATRS** means the Arkansas Teacher Retirement System.
2. **Board** means the Board of Trustees of the Arkansas Teacher Retirement System.
3. **DROP** means a deferred retirement option plan enacted by the General Assembly and administered under ATRS or a reciprocal system.
4. **Fiscal Year** means the operating year for the State of Arkansas that begins on July 1 of each calendar year and ends on June 30 of the next calendar year.
45. **Participant** means a member who elects to participate in T-DROP under A.C.A. § 24-7-1301 et seq. by authorizing ATRS to make plan deposits, plan interest, or 10-year plus T-DROP interest into a member's T-DROP account.
56. **Plan deposits** means the deposits made to each participant's T-DROP account pursuant to A.C.A. § 24-7-1306.
67. **Plan interest** means the rate per annum, compounded annually on June 30, as the Board shall set and adopt at the end of each fiscal year, credited annually in each T-DROP participant's T-DROP account. The interest rate shall be 2% less than the System's average rate of return with a maximum of 6% and minimum of 2%. The Board will determine the interest rate for the following fiscal year based upon the rate of return for the immediately preceding twelve-month period ending March 31 prior to the start of such fiscal year. The initial calculation of this rate shall begin March 31, 2005, for interest to be credited in the 2005-2006 fiscal year.
8. **Quarter** means one-fourth (1/4) of a fiscal year. The four (4) quarters applicable in this rule are:
 - 1st Quarter: July 1 through September 30
 - 2nd Quarter: October 1 through December 31
 - 3rd Quarter: January 1 through March 31
 - 4th Quarter: April 1 through June 30

79. **T-DROP** means the Teacher Deferred Retirement Option Plan established by ATRS under Act 1096 of 1995.

10. **T-DROP Cash Balance Account** means the financial account set up for a participant who elects to defer distribution of his or her T-DROP account at a time that he or she is eligible to receive a lump-sum distribution of the T-DROP balance.

11. **T-DROP Cash Balance Account Interest** means the interest rate per annum applicable to a member's T-DROP Cash Balance Account, compounded annually and credited on June 30 into a participant's T-DROP Cash Balance Account. The interest rates payable on the T-DROP Cash Balance Accounts are set forth in this rule in subsection 4 of the section titled "**T-DROP CASH BALANCE ACCOUNT**". The annual T-DROP Cash Balance Account interest rate shall be applied to T-DROP Cash Balance Accounts that have been held for at least one (1) fiscal year by the System.

812. **T-DROP Service Credit** shall be determined using the same rules that apply for service credit for an active member with the exception that "on call" availability shall not be used for T-DROP service credit requirements.

913. **10-year plus T-DROP interest** means the rate per annum, compounded annually, as the Board shall set and adopt at the end of each fiscal year, credited on June 30 into a member's T-DROP account that meets the following criteria:

- A. The member participated in T-DROP for ten (10) years and continued employment with an ATRS covered employer; and
- B. The member has not retired.

T-DROP PARTICIPATION and ACCOUNT CREDIT

Effective July 1, 1995, in lieu of terminating employment and retiring under A.C.A. § 24-7-701, an active member of ATRS may elect to participate in T-DROP and continue to work for a covered employer. By continuing covered employment, the participant defers receipt of retirement benefits until a later date.

During participation in T-DROP, ATRS shall credit each participant's T-DROP account with plan deposits and plan interest.

The plan interest rate determined by majority vote of the Board is final and binding upon ATRS and shall not be adjusted based on any revised rate of return reported after that date.

The 10-year plus T-DROP interest rate shall be set by the Board at same meeting that the plan interest rate is set. The 10-year plus T-DROP interest rate

is limited to a maximum of six percent (6%) and a minimum of four percent (4%). The 10-year plus T-DROP interest rate will be credited to the participant's T-DROP account on June 30th of each year.

The initial 10-year plus T-DROP interest rate for 2010 is set at four percent (4%) and will be credited to the participant's T-DROP account on June 30, 2010. The 10-year plus T-DROP interest rate shall be set prospectively by the Board prior to the beginning of each fiscal year and that interest rate shall be credited to the participant's T-DROP account June 30th of the following year.

The 10-year plus T-DROP interest rate for each year determined by majority vote of the Board is final and binding upon the ATRS and shall not be adjusted based on any revised rate of return reported after that date.

RULES

1. To participate in the T-DROP, the member shall have twenty-eight (28) or more years of ATRS service credit. For reciprocal service, refer to the section in this rule titled "**DROP PARTICIPATION UNDER RECIPROCAL SYSTEMS**".
2. To participate in the T-DROP, the member shall make the election on an application form approved by ATRS.
3. Upon review of the member's application, ATRS shall determine if the member meets the eligibility requirements specified in A.C.A. § 24-7-1302, and approve or disapprove the application.
4. If the member meets the eligibility requirements, the member's T-DROP participation will begin the July 1 after the application is approved.
5. The participant's T-DROP benefit will be the monthly straight life annuity benefit to which the member would have been entitled had the member retired under A.C.A. § 24-7-701. The participant's T-Drop benefit may be reduced under the conditions of No. 7 below. The T-DROP deposit shall not include the benefits provided in A.C.A. § 24-7-713(b) (stipend).
6. Plan deposits shall be a percentage of the T-DROP benefit, as follows:
 - A. One hundred percent (100%) reduced by the product of one percent (1.0%) multiplied by the number of years of contributory service credit and fractions thereof, plus,
 - B. One hundred percent (100%) reduced by the product of six-tenths percent (0.6%) multiplied by the number of years of noncontributory service credit and fractions thereof.

- C. i. In the event a participant whose effective date in the T-DROP is before September 1, 2003, has more than thirty (30) years of service, the years of service above thirty (30) years shall be reduced by one-half of one percent (0.5%) for contributory years and three-tenths of one percent (0.3%) for noncontributory years.
 - ii. Beginning July 1, 2001, when a participant whose effective date in the T-Drop is before September 1, 2003, reaches normal retirement age, the plan deposits shall be 100% with no reduction.
 - iii. For a participant whose effective date in the T-Drop is September 1, 2003, or after, and who has more than thirty (30) years of service, the plan deposits for the years of service above thirty (30) years shall be reduced under Nos. 6A and 6B.
 - iv. For a participant whose effective date in the T-Drop is September 1, 2003, or after, the plan deposits for a participant who reaches normal retirement age shall continue as reduced under Nos. 6A and 6B.
7. A participant's plan deposit will incur an additional reduction of 0.5% for each month the member lacks having thirty (30) years of credited service.
 8. A participant may elect an annuity option provided in A.C.A. § 24-7-706. The election shall be made at the time the participant separates from service and is granted a monthly retirement benefit or files for retirement upon reaching normal retirement age.
 9. A member's participation in T-DROP shall not exceed ten (10) consecutive calendar years for accruing plan deposits.

If a participant continues covered employment after completing ten (10) years in T-DROP, the T-DROP account will be credited with 10-year plus T-DROP interest as set by the Board. Benefits payable at retirement will be based on the account balance the month before the participant begins drawing retirement benefits.

10. The annuity upon which plan deposits are calculated shall receive the cost-of-living increase provided for in A.C.A. § 24-7-713(a) or § 24-7-727. The annuity plus the cost-of-living increase is reduced or adjusted under the procedure described in No. 6 above.
11. If a T-DROP participant elects to retire and ATRS distributes the T-DROP account to the participant, the participant shall not be allowed to reenroll in T-DROP.
12. As soon as possible after the end of each fiscal year, ATRS shall furnish the participant an annual statement of the participant's T-DROP account. The

statement of T-DROP deposits and interest will not be final until the annual accounting has been reconciled for part-time T-DROP participants.

13. Service Credit of 160 days or greater within a fiscal year while in T-DROP participation without termination, retirement, or death will allow crediting of twelve (12) monthly T-DROP deposits per fiscal year.
14. Part time employment while participating in the T-DROP plan:
 - a. In the first or fourth quarter of the fiscal year, five (5) or more days of service credit shall be required to credit the T-DROP participant's account with three (3) monthly deposits for that particular quarter. If a T-DROP participant receives less than five (5) days of service credit in either the first or fourth quarter of the fiscal year, then no T-DROP deposits shall be made in the three months for that particular quarter.
 - b. In the second or third quarters of the fiscal year, fifteen (15) or more days of service credit shall be required to credit the T-DROP participant's account with three (3) monthly deposits for that particular quarter. If a T-DROP participant receives less than fifteen (15) days of service credit in either the second or third quarter of the fiscal year, then no T-DROP deposits shall be made in the three months for that particular quarter.

CEASING T-DROP AND DISTRIBUTION OPTIONS

1. Participation in T-DROP ceases when:
 - a. The participant separates from service and is granted a monthly retirement benefit from ATRS or a reciprocal plan; or
 - b. The participant reaches normal retirement age and retires without separation from service, or
 - c. The participant separates from covered employment but does not apply for monthly retirement benefits; or
 - d. The participant dies.
2. Any lump-sum distribution of a participant's T-DROP account balance is eligible to be rolled over into a qualifying retirement plan. The ATRS shall only roll over the T-DROP lump sum balance into one qualifying plan.
3. A participant may direct that all or a part of his or her lump-sum distribution as set forth in Ark. Code Ann. §24-7-1308 continue to be held by ATRS in a T-DROP Cash Balance Account described in this rule in the section titled "T-DROP CASH BALANCE ACCOUNT".

34. The T-DROP is intended to operate in accordance with Section 415 and other applicable sections of the IRS Code. Any provision of the T-DROP that conflicts with an applicable provision of the IRS Code is invalid.
45. If a participant separates from covered employment but does not apply for monthly retirement benefits, the T-DROP monthly deposit shall cease the month of separation from service. No deposits will be credited to the participant's account for the duration of the separation. Upon returning to covered employment, the monthly deposits will resume. Upon application for retirement, benefits will be paid according to the account balance at the time of separation from service or the month prior to the effective date of benefits after reaching normal retirement age.
56. If a T-DROP participant leaves ATRS-covered employment to serve, on a voluntary or involuntary basis, in the uniformed services of the United States and returns to ATRS-covered employment, the member shall be treated as not having incurred a break in service with the employer. The employer shall certify to the ATRS that reemployment was in accordance with the requirements set forth in Section 4312 of P.L.103-353, the Uniformed Services Employment and Reemployment Act (USERA) of 1994.

Under this subsection, uniformed services of the United States are limited to the armed forces, the Army, and the Air National Guard when engaged in active duty for training, inactive duty training, full-time National Guard duty, the commissioned corps of the Public Health Service, and any other category of persons designated by the President in time of war or emergency.

DEATH OF A T-DROP PARTICIPANT PRIOR TO RETIREMENT

1. In the event a T-DROP participant dies, the benefits payable from the T-DROP account shall be determined according to A.C.A. § 24-7-710.
2. A T-DROP participant's surviving spouse may choose to receive the T-DROP benefit in a lump sum. If the spouse elects a lump-sum payment of the T-DROP balance, the survivor annuities payable under A.C.A. § 24-7-710 shall be calculated on the service credit and salary earned by the member prior to participating in T-DROP.
3. For the purposes of A.C.A. § 24-7-709 related to disposition of residue, any amount received from the T-DROP account, either in the form of a lump sum or annuity payments, shall be considered to be annuity payments received by the member or his or her designated beneficiary and shall act to reduce or eliminate the disposition of residue payable under A.C.A. § 24-7-1310(c).

DROP PARTICIPATION UNDER RECIPROCAL SYSTEMS

1. If a reciprocal system offers a DROP for its members, service credit in ATRS, a reciprocal system, or the combination of service credit in the systems may be counted to meet the minimum service credit requirements for participation under each system's DROP.
2. The benefit payable by the reciprocal system shall be based on the DROP provisions of each system. The final average salary used to determine plan deposits shall be that of the reciprocal system which furnishes the highest final average salary at the time of retirement. Each reciprocal system shall use the method of computing final average salary stipulated by its law. Salaries earned in the Arkansas Judicial Retirement System and alternate retirement plans shall not be used in computing final average salary.
3. Plan deposits and plan interest credited to the DROP account will be paid under the deferred retirement option program in effect for that reciprocal system.
4. ATRS shall promulgate rules and regulations to coordinate its benefits with any reciprocal system providing a DROP.

T-DROP CASH BALANCE ACCOUNT

1. At the time that a T-DROP participant may elect to receive a lump-sum distribution of the participant's T-DROP account balance, the participant may elect to defer all or a part of his or her T-DROP account and direct that such amount be held in a T-DROP Cash Balance Account for the participant. If a member chooses to defer only part of the T-DROP distribution into a T-DROP Cash Balance Account, the member's only other option is to annuitize the remainder of the T-DROP distribution with ATRS on a 25%, 50%, or 75% basis.
2. After the first full quarter of T-DROP Cash Balance Account participation, a participant with a T-DROP Cash Balance Account balance may withdraw funds from the account one time per quarter on such forms as the System may issue. The system may allow a member to obtain an additional withdrawal in a quarter for a manifest emergency. As provided in Ark. Code Ann. §24-7-730, required minimum distributions will be made sufficient to satisfy legal requirements, including Internal Revenue Code §401(a)(9).
3. A T-DROP Cash Balance Account that has been held at least one (1) full fiscal year by the System shall be credited annually on June 30 with T-DROP Cash Balance Account interest (computed on a weighted-average basis) and debited for all withdrawals and distributions.
4. The initial interest rates for T-DROP participants electing to enter the T-DROP Cash Balance Account program are set forth in this subsection. Members establishing a T-DROP Cash Balance Account on or after July 1, 2012, shall

receive interest on their T-DROP Cash Balance Account according to the following schedule:

<u>After one (1) complete fiscal year:</u>	<u>2.00% interest.</u>
<u>After two (2) complete fiscal years:</u>	<u>2.25% interest.</u>
<u>After three (3) complete fiscal years:</u>	<u>2.50% interest.</u>
<u>After four (4) complete fiscal years:</u>	<u>2.75% interest.</u>
<u>After five (5) complete fiscal years:</u>	<u>3.00% interest.</u>
<u>After six (6) complete fiscal years:</u>	<u>3.25% interest.</u>
<u>After seven (7) complete fiscal years:</u>	<u>3.50% interest.</u>
<u>After eight (8) or more complete fiscal years:</u>	<u>4.00% interest.</u>

These interest rates are minimum interest rates that apply to T-DROP Cash Balance Accounts that are established while these rates are in effect. The T-DROP Cash Balance Account interest may be increased by the ATRS Board of Trustees on a forward-looking and Ad Hoc basis.

5. The interest rates set forth in subsection 4 above and payable on T-DROP Cash Balance Accounts established on or after July 1, 2012, shall remain at the initial rate set for July 1, 2012, T-DROP Cash Balance Account entrants unless the ATRS Board of Trustees adopts a different interest rate schedule to be used for future entrants to the T-DROP Cash Balance Account at least one (1) year prior to the beginning of a fiscal year in which the new interest rates shall apply. The ATRS Board of Trustees may adopt an interest rate schedule for new entrants by Resolution, setting forth the new interest rate schedule for the T-DROP Cash Balance Account. T-DROP Cash Balance Accounts existing prior to the effective date of the Resolution shall be unaffected by the new interest rate schedule.
6. Based upon interest rates and financial market conditions, the ATRS Board of Trustees may approve Ad Hoc interest rate increases for T-DROP participants in the T-DROP Cash Balance Account for a subsequent fiscal year through Resolution adopted by the ATRS Board of Trustees.
7. If a participant dies with a T-DROP Cash Balance Account, the account balance shall be paid as provided under Ark. Code Ann. §24-7-1310.

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