

# 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. **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.
5. **Plan deposits** means the deposits made to each participant's T-DROP account pursuant to A.C.A. § 24-7-1306.
6. **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.
7. **T-DROP** means the Teacher Deferred Retirement Option Plan established by ATRS under Act 1096 of 1995.
8. **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 30<sup>th</sup> 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 30<sup>th</sup> 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 PARTICPATION 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. The election to participate in the T-DROP is irrevocable.
12. An application for ATRS disability benefits by a participant is considered a voluntary retirement. Therefore, a participant is not eligible for disability retirement benefits.
13. During or after completion of T-DROP participation, a member shall not receive service credit in ATRS or any other state-supported retirement system.
14. A member may not rescind T-DROP participation or retirement after T-DROP participation to accrue additional service credit for retirement.
15. 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.
16. 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.
17. 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.
18. When the member's participation in the T-DROP ceases, the member may elect to receive the balance in the T-DROP account as a lump sum or as a monthly benefit annuitized according to an annuity option offered for voluntary retirement and elected by the member. If annuitized, the T-DROP benefit shall be in addition to the monthly benefit that the member is entitled to under the age and service retirement provisions.
19. A lump-sum distribution of a participant's T-DROP account balance is eligible to be rolled over into a qualifying retirement plan. The ATRS may

only roll over the T-DROP account balance into one qualifying plan. A participant must elect to roll over a minimum of \$2,500 in order to request a rollover of the T-DROP account balance. All rollovers must be done in accordance with Policy No. 8-4 (Rollover Acceptance and Distribution).

20. If the participant elects to receive the balance in the T-DROP account as a monthly benefit, a factor approved by the Board shall be used to determine the conversion of the T-DROP balance to a lifetime monthly benefit amount.
21. When the member's participation in the T-DROP ceases, ATRS shall calculate age and service retirement as if the member had retired on the T-DROP election date.
22. 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.
23. 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.
24. 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, ~~or~~ 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 PARTICPATION 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.

**Approved:** June 13, 1995

**Amended:** July 30, 1997

June 17, 2003

February 15, 2005

July 18, 2005

April 26, 2007

February 1, 2010 under emergency rules.

June 7, 2010 Permanent