



**July 1, 2018**

**Teacher Deferred Retirement Option Plan (T-DROP)**

**FAQ'S**

**Q** What is the deadline to enter Teacher Deferred Retirement Option Plan (T-DROP) for the coming school year that starts 2018-2019?

**May 31, 2018** is the deadline. **T-DROP** entry is only allowed once per year. **No exceptions.** If you miss the May 31, 2018, deadline, the next opportunity is May 31, 2019 for the 2019-2020 fiscal year.

**Q** What is the Teacher Deferred Retirement Option Plan (T-DROP)?

**T-DROP** is an optional deferred "retirement" plan for ATRS members. Active members who meet eligibility requirements may elect to participate in **T-DROP** in **lieu of retiring** and accepting a service retirement benefit.

**Q** How does **T-DROP** work?

Once **T-DROP** participation begins, ATRS processes member accounts as if members are retiring. ATRS will determine years of service credit, both contributory and noncontributory, a final average salary, and use the applicable multipliers to calculate a monthly benefit amount. The monthly benefit stipend that may be payable will not be added to the member's benefit until the member leaves **T-DROP** participation and begins drawing a monthly retirement benefit.

Members will continue to work for an ATRS employer, but **will not** accrue any additional service credit. Importantly, contributory members receive the advantage of no longer paying the 6% member contributions to ATRS. That is like a 6% pay raise. That leaves more money in the member's paycheck. Any increase in salary after entering **T-DROP** will not increase the final average salary determined at the time **T-DROP** participation begins.

The monthly deposit for **T-DROP** is calculated by multiplying the regular monthly benefit determined at the time **T-DROP** participation begins by 1% for each year of ATRS and reciprocal service credit,

then subtracting the product from the regular monthly benefit. Entry into **T-DROP** with at least 28 but less than 30 years of service credit further reduces the **T-DROP** deposit by 6% for each year less than 30 years of service credit, up to a 12% additional reduction.

In lieu of receiving a monthly benefit, a **T-DROP** deposit will accrue each month in a tax-deferred **T-DROP** account for up to ten (10) consecutive calendar years. An annual interest rate will be adopted by the ATRS Board of Trustees to be credited to the **T-DROP** balance each June 30, and applied to the mean balance of the annual **T-DROP** deposits for the following fiscal year. The **T-DROP** interest rate for the fiscal year that begins on July 1, 2018 will be a strong 6% interest rate.

**Q** So, in layman terms, how does **T-DROP** benefit me?

The intent of **T-DROP** is to recruit, retain, and reward career educators in Arkansas schools. Prior to **T-DROP**, members had a tendency to retire with 28-30 years of service credit. **T-DROP** allows members to continue to work in the public schools and also build a cash account for later when they are ready to leave the workforce. Many use this account as a safety net.

Members who were contributory members prior to **T-DROP** will no longer contribute employee contributions of 6% of salary to ATRS. The regular monthly benefit amount upon which the monthly **T-DROP** deposit is calculated also accrues a Cost of Living Adjustment (COLA) every fiscal year. The **T-DROP** account deposits increase by the simple COLA at the beginning of each fiscal year. After 10 years in **T-DROP** a member's monthly benefit will have grown by 30% (i.e. \$2,000 turning into \$2,600).

**\*T-DROP ACCRUAL EXAMPLES:**

MEMBER'S FINAL AVERAGE SALARY	NUMBER OF CONTRIBUTORY YEARS	NUMBER OF NONCONTRIBUTORY YEARS	T-DROP LUMP SUM BALANCE @ FIVE (5) YEARS	T-DROP LUMP SUM BALANCE @ TEN (10) YEARS
\$ 30,000.00	0	28	\$ 42,374.17	\$97,349.23
30,000.00	28	0	65,542.96	150,576.52
30,000.00	30	0	77,584.28	178,241.25
60,000.00	0	28	84,748.37	194,698.92
60,000.00	28	0	131,085.64	301,152.83
60,000.00	30	0	155,167.55	356,478.11
100,000.00	0	28	141,247.30	324,497.98
100,000.00	28	0	218,476.12	501,921.40
100,000.00	30	0	258,612.67	594,130.20

*\*The examples are based on a fixed annual interest rate of 3% on the mean balance. Cost-of-Living Adjustments (COLAs) are 3% and are based on the regular retirement benefit computed at the time of entry into **T-DROP**. A typical member would accrue higher **T-DROP** account balances since ATRS plans to pay higher interest on annual balances versus the assumed 3% minimum in the table when returns are strong.*

**Q** You mentioned interest accrual on my **T-DROP** balance above, how does that work?

*The **T-DROP** account earns interest, compounded annually on each June 30. In addition, interest is applied to the mean balance (the average balance over the 12 months of deposits since every month the balance increases) of the annual **T-DROP** deposits. The **T-DROP** interest rate is adopted by the ATRS Board of Trustees each fiscal year for the following year. The interest rate varies from a minimum of 3% and a maximum of 6%, dependent upon the System's investment rate of return. For instance, the last five interest rates were set as follows:*

2014 – 6%  
2015 – 5.5%  
2016 – 2%  
2017 – 5%  
2018 – 5%  
2019 – 6%

**Q** Are there any other financial incentives with **T-DROP**?

*Upon entering **T-DROP**, contributory members will no longer be required to contribute employee contributions of 6% of salary. That 6% will remain in the member's paycheck. The **T-DROP** account increases by a cost-of-living adjustment (COLA) applied to the regular retirement benefit. The regular retirement benefit that will be paid after retirement from **T-DROP** keeps pace with inflation by continuing to accrue COLAs.*

**Q** Is there a "down side" to **T-DROP**?

*A member's retirement benefit is based upon years of service credit, final average salary, and the benefit multipliers in effect at the time of entry into **T-DROP**. Like all decisions concerning retirement, the decision to participate in **T-DROP** should be made very carefully – **T-DROP is irrevocable**. The election to enter **T-DROP** freezes retirement benefits, subject only to COLA increases. Any additional years worked will not add service credit and any salary increases will not enhance the final average salary.*

### **Points to Consider:**

- *Entering **T-DROP** too early will affect retirement benefits if a member needs to continue working past the 10 years of **T-DROP** participation. Members should target **T-DROP** participation to most likely match the anticipated retirement date. Thankfully for those who start **T-DROP** too early, ATRS does pay interest on **T-DROP** account balances after 10 years of participation in **T-DROP** of between 4% and 6%, but does not add more monthly deposits.*
- *Large increases in salary after **T-DROP** entry does not increase retirement benefits, since entry into **T-DROP** freezes final average salary for retirement. So, if a member was changing from a certified position to an administrator with materially more salary, the member should get projections from ATRS before making a final decision.*

### **Q** What are the eligibility requirements for **T-DROP**?

*In order to participate in **T-DROP**, active members of ATRS or a qualified state reciprocal plan must have at least thirty (30) years of combined ATRS and reciprocal service credit for full participation. Active members may elect to participate early with a reduction if the members have at least twenty-eight (28) years of ATRS and reciprocal service credit.*

### **Q** What must I do to participate in **T-DROP**?

***T-DROP** participation begins only on the first day of a fiscal year, **July 1<sup>st</sup>**. A **T-DROP** application must be received by ATRS no later than May 31<sup>st</sup> to be able to participate on the following July 1<sup>st</sup>. An application received on May 31, 2018, begins participation on July 1, 2018. So to begin **T-DROP** on July 1, 2018, ATRS must have received the completed **T-DROP** application on or before May 31, 2018.*

### **Q** What if I change my mind after I apply and begin **T-DROP**?

*The **T-DROP** application may be withdrawn with a written notice to ATRS no later than two (2) calendar months after the **T-DROP** effective date, which is always July 1<sup>st</sup>. After the initial two month period (August 31), **T-DROP** is irrevocable.*

**Q** I understand that I can participate in **T-DROP** for ten (10) years – am I required to stay for the full ten (10) years or can I get out at any time?

*The consecutive ten (10) year period is the **maximum** amount of time a member can receive monthly deposits in **T-DROP**. A **T-DROP** participant may retire at any time before reaching 10 years of **T-DROP** participation. A person in **T-DROP** for even just one (1) month may retire from **T-DROP**. Participants may stay in **T-DROP** beyond 10 years with interest payments only, ranging from 4% to 7.5% each fiscal year.*

**Q** If I am in **T-DROP**, do not retire, and stop working for an ATRS employer, do I automatically receive 10 years of monthly deposits?

*Employment by an ATRS employer is required to accrue uninterrupted monthly **T-DROP** deposits.*  
*5 days of service credit earned in the first fiscal quarter (July, August, September);*  
*15 days of service credit earned in the second fiscal quarter (October, November, December);*  
*15 days of service credit earned in the third fiscal quarter (January, February, March); and,*  
*5 days of service credit earned in the fourth fiscal quarter (April, May, June)*  
*are the minimum days of service credit required to accrue 12 monthly **T-DROP** deposits in a fiscal year.*

*If one of the following occurs, then the monthly **T-DROP** deposits stop:*

- *The **T-DROP** participant separates from employment by an ATRS employer and is granted monthly retirement benefits from ATRS or a reciprocal plan.*
- *The **T-DROP** participant separates from employment (voluntary or terminated) with an ATRS employer and does not apply for monthly benefits.*
- *The **T-DROP** participant dies and deposits become payable to designated beneficiaries.*

**Q** May I withdraw or "take a loan" from the money in my **T-DROP** account?

*The funds in **T-DROP** may not be accessed for any reason until the participant's retirement or death.*

**Q** May I change jobs while in **T-DROP**?

***T-DROP** deposits and participation continue as long as members continue to work for an ATRS employer or an employer of a qualified state reciprocal retirement plan as long as the reciprocal*

service had been established with ATRS **prior to** entry into **T-DROP**. **T-DROP** deposits are not accrued during a break in service for the months not employed by an ATRS employer or an employer of a qualified state reciprocal retirement plan that was established prior to the entry into **T-DROP**. However, even with a break in service, additional **T-DROP** deposits may accrue until 10 years from the participant's entry date in **T-DROP** has elapsed so long as the participant has not actually retired from ATRS. ATRS always pays interest on **T-DROP** deposits until the member retires.

If you are in **T-DROP** and intend to change employment to an employer of a reciprocal retirement plan, please call ATRS prior to accepting the position to fully understand the impact in both systems.

**Q** What happens after I have participated for ten (10) years in **T-DROP** and I decide not to retire?

After completion of ten (10) consecutive fiscal years in **T-DROP**, ATRS pays annual interest on the **T-DROP** balance each June 30<sup>th</sup>. The ATRS Board of Trustees sets the post 10-year **T-DROP** interest rate each fiscal year for the following year. The interest rate varies from a minimum of 4% and a maximum of 7.5%.

**Q** Once I decide to retire, how do I get my **T-DROP** balance?

To retire from **T-DROP**, members must submit a **retirement application**, and a **T-DROP Account Distribution Request** form. ATRS will provide members retiring from **T-DROP** several options on how to distribute the **T-DROP** balance.

**Q** How do I know I am eligible for retirement if I have not completed 10 years in **T-DROP**?

All **T-DROP** participants have **already** met the retirement eligibility requirements in order to participate in the **T-DROP** plan. A **retirement application** and a **T-DROP Account Distribution** form must be completed in order to file for retirement from **T-DROP** with ATRS. ATRS' termination separation period must be adhered to if the retiree is under age 65 on the effective date of retirement. Once retired, a **stipend** is applied to the regular retirement benefit. The stipend is currently set at the legally maximum rate of **\$75 per month for the coming fiscal year**.

Preretirement counselors travel the state and are available to assist individual members and answer questions in group settings or one-on-one. The ATRS office also has a Benefits and Counseling Department for those members who prefer to meet one-on-one with a counselor who can spend more time with individual members. Plus, if members schedule early enough, the ATRS director and deputy director will meet with members during the retirement season to provide counseling. Retirement laws

and rules change from time-to-time and may affect benefits. Individual or special circumstances may also affect retirement decisions. Members may also want to consult with financial planners before making a final decision to retire. ATRS is happy to work with members' financial consultants once a member has signed an **Authorization to Release ATRS Records** form. Any member who faces special circumstances, should always feel free to call the executive director at (501) 682-1820.

To find out more or to schedule an appointment, please call ATRS at 1-800-666-ATRS (1-800-666-2877) to meet with a Preretirement counselor at your place of employment or schedule an appointment with a counselor in the Little Rock office. Although appointments are not required to visit with counselors at the Little Rock office, calling ahead allows ATRS counselors time to thoroughly review individual retirement records prior to the meeting.

You can also keep up-to-date on ATRS law, policy, and other important member information through our Executive Director Updates posted regularly on the ATRS website: [www.arts.gov](http://www.arts.gov). You can sign up on the ATRS homepage to receive the Executive Director Updates directly into your work or home email account.

**Q** What can I do with my T-DROP when I retire?

A **T-DROP Distribution Form** is required to notify ATRS how the **T-DROP** account balance will be distributed at the time of retirement.

The options are as follows: the two options are lump sum distribution and annuitization (using the balance to increase the monthly retirement benefit check). ATRS now allows a combination of lump sum and annuitization of the **T-DROP** account balance.

**LUMP SUM DISTRIBUTION:**

A. All or a portion of the **T-DROP** account balance may be paid directly to the member in a check as a lump sum payment at retirement. This type of distribution is immediately taxable. Mandatory tax withholdings are deducted from the payment by ATRS, and an additional IRS early penalty withdrawal may be applied by IRS if the distribution is made before the IRS age requirement for this type of distribution.

B. All or a portion of the **T-DROP** account balance may be rolled over to ATRS in a **T-DROP Cash Balance Account (CBA)** that pays a competitive interest rate that increases over time. The funds are not taxed until withdrawals are made and the IRS early withdrawal penalty ends at age 55.

C. All or a portion of the **T-DROP** account balance is also eligible for rollover into another qualified plan such as an IRA. Rollovers are generally taxed upon withdrawal from the rollover institution and not at the time of rollover from ATRS to the institution receiving the funds. Typically these funds are subject to an IRS early withdrawal penalty up to age 59 ½.

### **ANNUITIZED:**

All or a portion of the **T-DROP** account balance may be annuitized and added to the regular monthly retirement benefit. This increase to the regular retirement benefit is calculated using actuarial tables and becomes a lifetime benefit. The **T-DROP** benefit will receive an annual 3% simple cost-of-living adjustment (COLA) after retirement just like the regular retirement benefit. Said another way, all or part of the **T-DROP** balance may be traded in for a higher lifetime monthly benefit.

### **COMBINATION OF LUMP SUM & ANNUITY DISTRIBUTION:**

The **T-DROP** balance may be divided by annuitizing 75%, 50%, or 25% as an addition to the ATRS monthly benefit, and receiving the balance as a taxable lump sum payment, or rolling the remaining balance to ATRS' CBA or another eligible retirement plan.

#### **EXAMPLE:**

A T-DROP participant who retires at age 62 and annuitizes all or a portion of the **T-DROP** account balance increases the regular retirement benefit according to the chart below and receives a simple 3% COLA annually on the annuitized balance:

<b>AMOUNT OF T-DROP LUMP SUM ANNUITIZED AT AGE 62</b>	<b>MONTHLY AMOUNT ADDED TO REGULAR RETIREMENT BENEFIT</b>	<b>ANNUAL AMOUNT ADDED TO YOUR REGULAR RETIREMENT BENEFIT</b>
\$ 30,000.00	\$ 173.59	\$ 2,083.09
60,000.00	347.18	4,166.18
100,000.00	578.64	6,943.63
200,000.00	1,157.27	13,887.27
300,000.00	1,735.91	20,830.90
400,000.00	2,314.54	27,774.54

**Q** What happens to my **T-DROP** balance if I die prior to retirement?

Monthly **T-DROP** deposits cease immediately upon a participant's death. The **T-DROP** participant's surviving spouse, if designated as the residue beneficiary and married to the participant for at least two years immediately preceding the participant's death, shall receive survivor benefits as if the participant had retired under annuity Option A to provide 100% lifetime benefits to the surviving spouse. The surviving spouse may choose to receive the **T-DROP** account balance in a combination of a lump sum and/or as an annuitized monthly benefit added to the surviving spouse's regular monthly retirement benefit. The monthly benefits are payable for the surviving spouse's lifetime.

If no monthly survivor benefits are payable (no minor children, no incapacitated children of any age, or no eligible spouse), ATRS will pay the higher of the deceased member's **T-DROP** account balance

or the deceased member's accumulated member contributions plus interest to the T-DROP participant's designated residue beneficiary.

**Q** What happens if I annuitize all or part of my **T-DROP** balance and die after retirement?

If a retiree has selected **Straight Life Annuity**, and dies **within the first year of retirement**, the surviving spouse, if designated as the residue beneficiary and married to the participant for at least one year immediately preceding the retiree's death, may elect to cancel the **Straight Life Annuity** choice and elect Option A, 100% Survivor Annuity, for the remainder of his or her lifetime.

If a retiree dies **after the first year of retirement**, and has selected **Straight Life Annuity**, the eligible beneficiary shall receive the **greater** of the **T-DROP** Lump Sum amount that was annuitized, less the **T-DROP** benefit payments paid to the retiree (typically a residual balance from an annuitized **T-DROP** account will continue to be payable for approximately 14 years); or the accumulated member contributions plus interest less all benefits paid to the deceased retiree.

Retirees who select Option A or Option B and have annuitized part or all of their **T-DROP** account balance, have provided payments upon their death to an option beneficiary for the remainder of the option beneficiary's lifetime. The **T-DROP** annuity will continue to be paid as designated by the retiree.

**Q** What is a **T-DROP Cash Balance Account (CBA)**?

The **CBA** allows **T-DROP** participants to leave all or a portion of the **T-DROP** balance in an interest bearing cash account with ATRS. The interest rate starts at 2½ % and grows to 4% over time. The **CBA** account is tax deferred until withdrawals are made. This account will never lose the principal amount initially deposited, unlike private investments that may rely heavily upon stock market fluctuations.

An important advantage of a **CBA** account left at ATRS is that the member may receive distributions at age 55 without penalty versus age 59 1/2 that applies to funds rolled over to other retirement administrators.

**Q** Do I gain interest on my **CBA**?

As of July 1, 2018, your **CBA** will receive interest according to the following schedule:

For the first fiscal year of participation: 2.50% interest.

For two (2) fiscal years:	2.75% interest.
For three (3) fiscal years:	3.00% interest.
For four (4) fiscal years:	3.25% interest.
For five (5) fiscal years:	3.50% interest.
For six (6) or more fiscal years:	4.00% interest.

- An extra 1% may be added to the CBA accounts if ATRS has strong returns.

The ATRS Board of Trustees may adopt, by resolution, an interest rate increase based upon current interest rates and financial market conditions. Once a member rolls all or a portion of their **T-DROP** balance into the **CBA**, the interest rates in effect at that time can never be lowered but may be increased.

**Q** May I withdraw funds from my **CBA**?

After the **CBA** participant's account has been established on the ATRS' membership system, the participant may withdraw funds from the account **two times per quarter**. However, the participant may request, in writing, that ATRS allow the participant to make an additional withdrawal within a quarter for an important reason.

**CBA** interest is credited monthly with T-DROP CBA interest beginning the month after the account is established, and debited for all withdrawals and distributions.

**Q** Once I've established a **CBA**, may I make additional deposits to ATRS from another administrator, personal bank account, etc.?

The answer is **NO**. Because the **CBA** is part of the ATRS defined benefit plan, additional deposits cannot be made. The ATRS **CBA** provides special advantages including distributions beginning at age 55 without penalty, so certain restrictions apply such as outside contributions not being allowed.

**Q** May I get a loan from my **CBA** and pay it back?

Any **CBA** withdrawal is permanent. The **CBA** is not subject to a member loan of any type.

**Q** May I replace funds already withdrawn from my **CBA**?

The answer is **NO**. Any **CBA** withdrawal is permanent. Once money is withdrawn, it cannot be returned to the **CBA** plan.

**Q** Once I've established my **CBA** may I decide later to annuitize all or part of the balance?

Once a **CBA** is established, it cannot be annuitized. The **CBA** is the same as a lump sum **T-DROP** balance that has been rolled over to an outside administrator. The ATRS actuaries have told ATRS that allowing a **CBA** to be annuitized after retirement creates too much complexity in the calculation.

**Q** If I decide to transfer my **CBA** account to another retirement administrator, may I do so?

Yes. You can roll all or part of the **CBA** account to another qualified retirement plan administrator. Many ATRS members now initially place all the **T-DROP** distribution in the **CBA** and get 2.5% initial monthly interest. The member then has more time to decide if another administrator is best without the pressure of such a decision while retiring.