ARTRS
Arkansas Teacher Retirement System

Teacher Deferred Retirement Option Plan (T-DROP)

FAQ'S

Q What is the **T**eacher **D**eferred **R**etirement **O**ption **P**lan (**T-DROP**)?

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

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

Once you have elected and been approved to participate in ***T-DROP,*** *the System processes your account as if you have retired. In other words, ATRS will review your years of service credit, type of years of service credit (contributory – noncontributory), and final average salary to determine your monthly benefit. This also means that, although you will continue to work, you* ***will not*** *accrue any additional service credit nor will any increase in salary be considered when you elect to terminate employment with an ATRS employer and truly retire.*

At the time you enter ***T-DROP,*** *your* ***T-DROP*** *benefit will be determined on the number of years of service credit and a final average of your highest three salaries. Your monthly* ***T-DROP*** *deposit will be determined as if you had actually retired.*

Your monthly deposit for ***T-DROP*** *will be based on what your regular monthly benefit would be if you had actually retired, reduced by 1% for each contributory year of service credit and .6% for each year of noncontributory service. If you enter* ***T-DROP*** *early (with at least 28 years of service credit but less than 30 years of service credit), further reduced by an additional reduction of 6% for each year below 30 years of service credit (i.e. 12%, if entering* ***T-DROP*** *with 28 years of service credit, 6% if entering* ***T-DROP*** *with 29 years, or 3% if entering* ***T-DROP*** *with 29.5 years of service credit).*

The monthly benefit that you would have received if you had retired less the reductions explained above will be deposited each month in your tax-deferred ***T-DROP*** *account for up to ten (10) years. An interest rate adopted by the ATRS Board of Trustees will be credited to the balance of your* ***T-DROP*** *account each June 30.*

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

*The intent of **T-DROP** is to recruit, retain, and reward quality educators in Arkansas schools. Prior to **T-DROP**, members had a tendency to retire with 28-30 years of service credit. **T-DROP** allows the member to continue to work in the classroom and also build a savings account for later when they are really ready to leave the workforce.*

*If you were contributory prior to **T-DROP,** you will no longer be contributing 6% of your salary. Also, your **T-DROP** account will earn a Cost of Living Adjustment (COLA) annually. The COLA is also building up the retirement benefit that you will receive when you retire from **T-DROP**.*

****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	$ 48,392.16	$107,788.80
30,000.00	28	0	64,775.12	144,280.10
30,000.00	30	0	76,675.01	170,786.14
60,000.00	0	28	96,784.19	215,577.35
60,000.00	28	0	128,549.98	288,560.05
60,000.00	30	0	153,350.02	341,572.40
100,000.00	0	28	161,290.41	359,258.87
100,000.00	28	0	215,887.97	480,869.55
100,000.00	30	0	255,583.28	569,287.12

*******These estimates are based on a fixed annual interest rate of 2% on the mean balance. Cost-of-Living Adjustments (COLAs) are 3% and are based on the benefit computed at the time of entry into **T-DROP**. Both rates are subject to change by future laws and Board policy.*

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

*Your **T-DROP** account earns interest, compounded annually on each June 30. The **T-DROP** interest rate will be adopted by the ATRS Board of Trustees each fiscal year for the following year. The interest rate varies from a minimum of 2% and a maximum of 6%, dependent upon the System's investment rate of return. For instance, the last three interest rates were set as follows:*
2010 – 2%; 2011 – 6%; 2012 – 6%.

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

*As mentioned above, if you were contributory prior to **T-DROP** you will no longer be required to contribute 6% of your salary. Also, your **T-DROP** account will be increased by a cost-of-living adjustment (COLA) in July after your first year of participation as if you retired on your date of entry into **T-DROP**. Your **T-DROP** deposit will reflect this increase each year. Plus, each COLA increases the monthly benefit that you will be paid when you retire from **T-DROP.***

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

*A member's retirement benefit is based on years of service credit and final average salary (3 highest salaries). Like all decisions concerning retirement, the decision to participate in **T-DROP** should be made very carefully – **T-DROP is irrevocable**. As stated earlier, your election to enter **T-DROP** freezes your retirement benefit, subject only to COLA increases. Therefore additional time you work will not accrue added service credit nor will any salary increase be considered towards your retirement benefit when you retire, since your final average salary is set when you enter **T-DROP**.*

Points to Ponder:

- *An "early" entry (you plan to work well past the maximum 10 years of **T-DROP**) into **T-DROP** may not optimize your years of service*
- *Any large salary increases after **T-DROP** entry will not increase your retirement benefit, since entry into **T-DROP** sets your final average salary for retirement*

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

*In order to participate in **T-DROP**, you must be an active member of ATRS or a reciprocal plan and you must have at least thirty (30) years of credited service for full participation, which can include service credit with an Arkansas reciprocal system. However, a member may elect to participate at twenty-eight (28) or more years of service and less than thirty (30) year of service with an early entry penalty that is up to a 12% reduction.*

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

T-DROP *participation begins on the first day of the fiscal year, July 1. You must submit a* ***T-DROP*** *application* ***no later than May 31*** *to be able to participate by July 1. An application for* ***T-DROP*** *received by the System after May 31 cannot become effective until July 1 of the* ***following*** *fiscal year.*

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

There is a short grace period following the initial entry in ***T-DROP.*** *You may withdraw your application by written notice to withdraw received by ATRS no later than two (2) calendar months after your* ***T-DROP*** *effective date, which is always July 1. After the initial two month period,* ***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?

No, the ten (10) year period is not "all or nothing". A ***T-DROP*** *participant can retire at any time.*

Q If I am in **T-DROP** and do not retire do I automatically collect 10 years of monthly deposits?

In order to acquire uninterrupted monthly deposits you must be employed by an ATRS employer and receive five (5) service days in the first fiscal quarter (July, August, September), fifteen (15) days of service in the second fiscal quarter (October, November, December), fifteen (15) days of service in the third quarter (January, February, March), and five (5) service days in the fourth quarter (April, May, June). As long as you work these minimum amounts, then you will continue to receive monthly deposits.

However if any of the following occurs, then the monthly deposits stop:

- *Voluntary Termination (You voluntarily quit your ATRS covered employment and are not rehired by another ATRS employer with in the same month)*
- *Involuntary Termination (You are terminated by your ATRS-covered employer and are not rehired by another ATRS employer with in the same month)*
- *Death (If you die while in* ***T-DROP****, your benefits will be payable to your beneficiary(s))*

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

*No, once you become a participant in **T-DROP** you do not have access to your account until you exit **T-DROP** through retirement/voluntary termination, involuntary termination, or death.*

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

*Yes, as long as you continue working for an ATRS covered employer or reciprocal employer for a retirement system in which reciprocal service was established **before** T-DROP was entered. However, if a break in service occurs between jobs, you do not receive deposits for the month(s) you are not employed.*

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

*If you wish to continue working for an ATRS employer and do not retire after completing ten (10) years in **T-DROP**, ATRS will pay annual interest on the **T-DROP** balance each June 30. The ATRS Board of Trustees sets the 10-year plus interest rate each fiscal year for the following year. The interest rate varies from a minimum of 4% and a maximum of 6%.*

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

*To retire from **T-DROP**, you must submit all required documents (marriage license, birth certificate, etc.), a retirement application, and a **T-DROP Account Distribution Request** form (see below for information regarding **T-DROP** distribution).*

Q How do I know I am eligible for retirement?

*As a **T-DROP** participant, you have already "technically" met the retirement eligibility requirements. However, you will need to submit a retirement application and determine your **T-DROP** disposition. You must adhere to the System's termination separation period if you retire prior to age 65.*

Preretirement counselors travel the state and are available to assist individual members and answer questions in group settings or one-on-one. ATRS also has a Benefits and Counseling Department for those members who prefer to meet with a counselor at our Little Rock office. Remember that retirement laws and rules change and the change may affect your benefit. Individual or special circumstances may also affect your retirement decisions. While we can and do help, it is your responsibility to make sure that the retirement you choose is best for you. Be sure to keep up with changes in federal law, state law, and ATRS policy that may affect your benefits.

To find out more or to schedule an appointment please call ATRS at 1-800-666-ATRS (1-800-666-2877) to either meet with one of our traveling counselors or schedule an appointment in Little Rock. Appointments are not required to visit with counselors at the Little Rock office. However, it does assist ATRS to thoroughly review your individual retirement record prior to your visit to reduce your waiting time.

Also, you can keep informed of up-to-date ATRS law, policy, and other important member information through our Executive Director Updates posted regularly on the ATRS website @ artrs.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 is a **T-DROP** distribution election?

*As an active **T-DROP** participant, your **T-DROP** account balance, with interest and COLAs, has accrued over the years (up to 10 years). After ten (10) years in **T-DROP** you will still receive interest payments. At the time of your retirement, you will need to decide how you want your **T-DROP** balance distributed. Your options are as follows:*

LUMP SUM DISTRIBUTION:

A. *You may request that you receive your balance of **T-DROP** funds paid to you as a lump sum at retirement. This is the "send me a check" method. This is a taxable distribution and mandatory tax withholdings are applied to the payment. An additional tax penalty may apply if you receive a distribution before the IRS age requirement.*

B. *The **LUMP SUM DISTRIBUTION** may also continue to be held at ATRS in a **T-DROP Cash Balance Account (CBA)**. See below for further description of the **CBA**.*

C. *The **LUMP SUM DISTRIBUTION** is also rollover eligible. This means you may instruct ATRS to pay the **T-DROP** funds into another qualified plan such as an IRA. Rollovers are generally taxed upon withdrawal from the rollover institution and not at the time of the rollover from ATRS to the institution receiving the funds.*

ANNUITIZED: *You may elect to have your **T-DROP** funds added to your monthly retirement benefit. This will increase your regular retirement benefit by the actuarially determined amount of your **T-DROP** account and the annuity is payable for your lifetime. The **T-DROP** annuity will receive a cost-of-living adjustment (COLA) after retirement, just like your regular retirement benefit.*

LUMP SUM & ANNUITY DISTRIBUTION: *You may elect to "split" your **T-DROP** balance by annuitizing 75%, 50%, or 25% with ATRS as part of your monthly benefit and either maintaining the balance with ATRS in a **CBA** (explained below) or rolling the remaining balance to another eligible retirement plan (see Lump Sum Distribution above).*

EXAMPLE:

*If you are age 62 when you annuitize your **T-DROP** account balance, the following amounts would be added to your regular retirement benefit upon your retirement:*

AMOUNT OF T-DROP LUMP SUM THAT IS ANNUITIZED AT AGE 62	MONTHLY AMOUNT ADDED TO YOUR REGULAR RETIREMENT BENEFIT	ANNUAL AMOUNT ADDED TO YOUR REGULAR RETIREMENT BENEFIT
$ 30,000.00	$ 199.66	$ 2,395.97
60,000.00	399.33	4,791.95
100,000.00	665.55	7,986.58
200,000.00	1,331.10	15,973.17
300,000.00	1,996.65	23,959.75
400,000.00	2,662.19	31,946.33

Q What happens to my **T-DROP** balance if I die **prior** to retirement – I've heard that ATRS will keep it?

*Participation in the **T-DROP** plan ceases immediately (monthly deposits are stopped). Upon the death of the **T-DROP** participant the surviving spouse, if designated as the residue beneficiary and who was 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% survivor benefits. This means a surviving spouse who is made the Option A beneficiary receives a lifetime monthly benefit. The surviving spouse may choose to receive the **T-DROP** account balance in a lump sum or as a monthly annuity, added to the surviving spouse's regular monthly retirement benefit. The monthly benefits are payable for the surviving spouse's lifetime.*

*If no survivor benefits are payable, ATRS will pay the higher of the deceased member's **T-DROP** account balance or the deceased member's remaining employee 6% contributions and interest to the designated beneficiary.*

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

*If a retiree has selected Option 1, Straight Life Annuity, and dies **within the first year of retirement**, the surviving spouse, if designated as the residue beneficiary and who was married to the participant for at least one year immediately preceding the participant's death, may elect to cancel the Option 1 in effect 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 **Option 1, Straight Life Annuity**, the eligible beneficiary shall receive the greater of the **T-DROP** Lump Sum amount that was annuitized, less the **T-DROP** annuity payments received; or any remaining employee 6% contributions and interest less **all** benefits paid to the deceased member.*

*Retirees who select Option A or 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 C**ash **B**alance **A**ccount **(CBA)**?

*A **CBA** allows you to leave a cash balance account with ATRS in an interest bearing account of between 2% and 4% that allows your **T-DROP** balance within the CBA to grow on a tax deferred basis.*

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

*As of July 1, 2012, your **CBA** will receive interest 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.*

The ATRS Board of Trustees may adopt, by Resolution, an interest rate increase based upon interest rates and financial market conditions.

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

*After completion of the first full calendar quarter as a **CBA** participant, the participant may withdraw funds from the account one time per quarter. The System, with written request, may allow the participant to make an additional withdrawal within a quarter for a manifest emergency.*

*However, as stated above, your **CBA** must be held for one full fiscal year (July 1 – June 30) in order to be credited with annual interest. Any withdrawals throughout the fiscal year will impact your accrued interest. ATRS will pay the annual interest on the weighted average balance in the CBA each June 30.*

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

*No. Since the **CBA** is part of a defined benefit plan, you cannot make additional deposits.*

Q May I borrow against my **CBA** or replace money already withdrawn from my **CBA**?

*No. The **CBA** is part of a defined benefit plan. You cannot borrow money from a CBA and, once money is withdrawn, it cannot be returned to ATRS.*

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

*No. At this time, once you have elected to establish a **CBA**, it is no different than if you had received a lump sum payout of your **T-DROP** balance or rolled over to another administrator.*