

December 20, 2023

Executive Summary
Proposed Rule Amendment
ATRS Rule 15-1 – Benefit Restoration Plan and Trust

I. Purpose

The Arkansas Teacher Retirement System (“ATRS” or “System”) requests the review and approval of proposed amendments to ATRS Rule 15-1 – Benefit Restoration Plan and Trust (“Rule 15-1”).

On December 4, 2023, the Board of Trustees of the Arkansas Teacher Retirement System (“Board”) voted to proceed with the promulgation process for Rule 15-1.

II. Authority

A.C.A. § 24-7-301 provides that the Board is responsible for the general administration and proper operation of the System and for implementing the Arkansas Teacher Retirement System Act, A.C.A. § 24-7-201 et seq.

A.C.A. § 24-7-305(b) gives the Board the authority to promulgate rules as it deems necessary from time to time in the transaction of its business and in administering the System.

III. Amendments

Rule 15-1 has been amended as follows:

- Redrafted for clarity and to address issues such as formatting, renumbering, grammar, and spelling;
- Redrafted to further align with the Code of Arkansas Rules style format;
- The authority for this rule has been moved to the end of the document; and
- The rule number has been changed to 15 (*See mark-up, page 1*).

IV. Recommendation

The System recommends that the proposed amendments to Rule 15-1 be approved as proposed.

Mark-Up Color Code

- Blue – Non-substantive changes by ATRS staff.
- Green – Substantive changes by ATRS staff.
- Red – Required legislative changes.
- Brown – Non-substantive changes where the rule was transferred from one rule to another.

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ATRS Rule 15

Benefit Restoration Plan and Trust

§ 15-101. Purpose, construction, and establishment of plan and trust.

(a) The Arkansas Teacher Retirement System Benefit Restoration Plan and Trust is established effective upon final adoption by the Board of Trustees of the Arkansas Teacher Retirement System pursuant to authority granted by Arkansas Code § 24-7-305.

(b)(1) The purpose of the plan is solely to restore the part of a participant's retirement benefit that would otherwise have been payable by the except for the limitations of 26 U.S.C. § 415(b).

(2) The plan is intended to be a "qualified governmental excess benefit arrangement" within the meaning of 26 U.S.C. § 415(m)(3) and shall be interpreted and construed consistently with that intent.

(3) This plan is deemed a portion of the employers' qualified plan solely to the extent required under, and within the meaning of, 26 U.S.C. § 415(m)(3) and Arkansas Code § 24-7-305.

(c)(1) The plan is an "exempt governmental deferred compensation plan" described in 26 U.S.C. § 3121(v)(3). 26 U.S.C. §§ 83, 402(b), 457(a) and 457(f)(1) do not apply to this plan.

(2) The system shall not hold any assets or income under this plan in trust for the exclusive benefit of participants or their beneficiaries.

(d) Whenever any actuarial present value or actuarial equivalency is to be determined under the plan to establish a benefit, it shall be based on reasonable actuarial assumptions approved by the board in its sole discretion, and will be determined in a uniform manner for all similarly situated participants.

§ 15-102. Definitions.

(a) The definitions in this rule are exclusive to the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust unless stated otherwise.

(b) As used in this rule:

(1) "Actuary" means the actuary selected by the Board of Trustees of the Arkansas Teacher Retirement System from time to time;

(2) "Administrator" means the Arkansas Teacher Retirement System and includes any person with whom the system contracts to provide services to the plan;

(3) "Beneficiary" means an individual receiving joint and survivor benefits from the system;

(4) "Benefit restoration" means the benefit determined in accordance with § 15-1-104 of this rule;

(5) "Benefit Restoration Trust Fund" or "trust fund" means the Benefit Restoration Trust Fund established pursuant to § 15-1-106 of this rule which fund constitutes a valid trust under the laws of this State;

(6) "Employer" means any public school, other educational agency, or other eligible employer participating in the system as provided under Arkansas Code § 24-7-202;

(7) "Participant" means a retiree or beneficiary who is entitled to benefits under this plan;

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(8) "Plan" means the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust established pursuant to Arkansas Code § 24-7-305;

(9) "Plan year" means the twelve-calendar month period ending on December 31 of each year;

(10) "Retiree" means a member of the system who is receiving a retirement benefit from the system;

(11) "Retirement benefit" means the amount of retirement income payable to a retiree, or the benefit payable to a beneficiary, without regard to any limitations on that retirement income or benefit under 26 U.S.C. § 415(b); and

(12) "Retirement fund" means the trust fund established pursuant to Acts 1937, No. 266, approved March 17, 1937.

§ 15-103. Participation.

(a)(1) All retirees and beneficiaries of the Arkansas Teacher Retirement System are eligible to participate in the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust if their retirement benefits from the system for a plan year are or have been since January 1, 2013, limited by 26 U.S.C. § 415(b).

(2) The Board of Trustees of the Arkansas Teacher Retirement System determine for each plan year which retirees and beneficiaries are eligible to participate in the plan.

(b)(1) Participation in the plan begins each plan year after a retiree or beneficiary has the benefit restoration in that plan year.

(2) Participation in the plan ends for any portion of a plan year in which the retirement benefit of a retiree or beneficiary is not limited by 26 U.S.C. § 415(b) or when all benefit obligations under the plan to the retiree or beneficiary have been satisfied.

§ 15-104. Payment of benefits.

(a)(1) A participant in the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust shall receive a benefit equal to the amount of retirement income that would have been payable by the Arkansas Teacher Retirement System to, or with respect to, a participant, that could not be paid because of the application of the limitations on the participant's retirement income under 26 U.S.C. § 415(b).

(2) The benefit restoration under the plan shall be paid only if and to the extent the participant is receiving retirement benefits from the retirement fund.

(b) The benefit restoration shall be paid at the same time and in the same manner as the retirement benefit payable under the system

(2) The timing of the benefit restoration shall take into consideration the existence of monthly deductions from the retirement benefit.

(3) No election shall be directly or indirectly provided by the system at any time to the participant to defer compensation under this plan.

(c)(1) A participant's right to a restoration benefit shall be vested as of the participant's vesting under the retirement fund.

(2) Additionally, each member in the retirement fund who is receiving a retirement benefit under the retirement fund on the date of adoption of this plan shall be vested.

(3) A beneficiary's right to a restoration benefit shall be vested as of the date of the participant's death.

(d) Notwithstanding the § 15-1-103 of this rule, if the retirement fund is terminated and

MARK UP

employers are making no further contributions to the retirement fund, no further restoration benefits shall be payable after the date that the employers' contributions to the retirement fund cease unless the employers establish another plan to serve the same purpose or to make other arrangements to pay benefit amounts that would have been payable had the plan continued to receive employers' contributions to fully fund the plan.

§ 15-105. Contributions and funding.

(a)(1) The Arkansas Teacher Retirement System Benefit Restoration Plan and Trust is and shall remain unfunded and the rights, if any, of any person to any benefits under the plan are limited to those specified in the plan.

(2) The plan constitutes a mere unsecured promise by the employers to make benefit payments in the future.

(b)(1) The Executive Director of the Arkansas Teacher Retirement System, using authority delegated by the Board of Trustees of the Arkansas Teacher Retirement System shall determine the amount necessary to pay the benefit restoration under the plan for each plan year.

(2) The system shall provide an estimate of the benefit restoration on or before March 1 of each year, provided however, in 2013, the plan administrator will provide an estimate of the benefit restoration within ten (10) days of the effective date of this rule.

(c)(1) The required contribution will be the aggregate of the benefit restorations payable to all participants for the plan year and an amount determined by the executive director, through delegation, to be a necessary and reasonable expense of administering the plan.

(2)(A) The employers will contribute the amount determined to be necessary to pay the benefit restoration of the participants and administrative expenses of the plan, and these payments will be made before the employers' deposits are credited to the retirement fund.

(B) The employers' required contribution will be due at the same time as contributions to the retirement fund.

(C) Under no circumstances will the employers' contributions to fund the benefit restorations be credited to the retirement fund.

(3)(A) Any contributions not used to pay the benefit restoration for a current plan year, together with any income accruing to the trust fund, shall be used to pay the administrative expenses of the plan for the plan year.

(E) Any contributions not used to pay the benefit restoration for the current plan year that remain after paying administrative expenses of the plan for the plan year will be used to fund administrative expenses or benefits of participants in future plan years.

(d)(1) The system shall account separately for the amounts the executive director, using the authority delegated by the board, determines to be necessary to provide the benefit restoration under the plan for each participant.

(2) However, the separate accounting will not be deemed to set aside these amounts for the benefit of a participant.

(e) Benefits under this plan will be paid from the trust fund.

(f)(1) The consultants, independent auditors, attorneys, and actuaries performing services for the system may also perform services for this plan.

(2) However, any fees attributable to services performed with respect to this plan

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will be payable solely from the trust fund.

§ 15-106. Trust fund.

(a)(1) The Benefit Restoration Trust Fund is established pursuant to Arkansas Code § 24-7-305, separate from the retirement fund, to hold employers' contributions to the trust fund.

(2) The trust fund is maintained solely to provide benefits under a qualified governmental excess benefit arrangement within the meaning of 26 U.S.C § 415(m) and pay administrative expenses of this arrangement.

(b) Contributions to the trust fund shall be held separate and apart from the funds comprising the retirement fund and shall not be commingled with assets of the retirement fund, and must be accounted for separately.

(c)(1) All assets held by the trust fund to assist in meeting the employers' obligations under the plan, including all amounts of employers' contributions made under the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust, all property and rights acquired or purchased with these amounts and all income attributable to these amounts, shall be held separate and apart from other funds of the employers and shall be used exclusively for the uses and purposes of participants and general creditors as set forth in this plan.

(2) Participants do not have a preferred claim on, or any beneficial interest in, any assets of the trust fund.

(3) Any rights created under the plan are unsecured contractual rights of participants against the employers.

(4) Any assets held by the trust fund are subject to the claims of the employers' general creditors under federal and state law in the event of insolvency.

(d)(1) The trust fund is intended to be a grantor trust, of which the employers are the grantors, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code as defined by Arkansas Code § 24-7-202, and will be construed accordingly.

(2) Section 15-1-106(d) of this rule does not create an irrevocable trust of any kind.

(e) Income accruing to the trust fund under the plan constitutes income derived from the exercise of an essential governmental function upon which the trust fund is exempt from tax under 26 U.S.C. §§ 415(m)-(l) and 115.

§ 15-107. Administration.

(a)(1) The Board of Trustees of the Arkansas Teacher Retirement System has the exclusive authority to control and manage the operation and administration of the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust.

(2) The board has the same rights, duties and responsibilities respecting the plan as it has with respect to the retirement fund.

(3) The administrator has the same duties and authority respecting the plan as the administrator has with respect to the retirement fund.

(b) The board has the power and authority, including without limitation discretion with respect to the exercise of that power and authority, necessary, advisable, desirable or convenient to enable it to:

(1) Establish procedures to administer the plan in a manner that is not inconsistent

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with the plan and the Internal Revenue Code as defined by Arkansas Code § 24-7-202, and to amend or rescind these procedures;

(2) Determine, consistent with the plan, applicable law, rules or regulations, all questions of law or fact that may arise as to eligibility for participation in the plan and eligibility for distribution of benefits from the plan, and the status of any person claiming benefits under the plan;

(3) Make payments from the trust fund to participants pursuant to § 15-1-104;

(4) Contract with a third-party to perform designated administrative services under this plan; and

(5) Construe and interpret the plan as to administrative issues and to correct any defect, supply any omission or reconcile any inconsistency in the plan with respect to same, subject to and consistent with the Internal Revenue Code as defined by Arkansas Code § 24-7-202.

(c)(1) Any action by the board that is not found to be an abuse of discretion will be final, conclusive and binding on all individuals affected thereby.

(2) The board may take any such action in such manner and to such extent as the board in its sole discretion may deem expedient, and the board will be the sole and final judge of such expediency.

(d)(1) The board may delegate any of its authority to the administrator with respect to the trust fund.

(2) The board has delegated certain authority as set forth herein, to the executive director.

(e)(1) The board may obtain assistance and advice with regard to its responsibilities under the plan.

(2) If in doubt concerning the correctness of their action in making a payment of a benefit, the board may suspend payment until satisfied as to the correctness of the payment or the person to receive the payment.

(f) The administrator shall handle the day-to-day operation of the plan and may delegate certain functions to a third-party as required.

§ 15-108. Plan amendments.

The Board of Trustees of the Arkansas Teacher Retirement System, from time to time, may amend, suspend, or terminate any or all of the provisions of the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust as may be necessary to comply with 26 U.S.C. § 415(m) and to maintain the plan's or the retirement fund's qualified status under the Internal Revenue Code as defined by Arkansas Code § 24-7-202.

§ 15-109. Nonassignability and exemption from taxation and execution.

The interests of participants under the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust are exempt from any state, county, municipal or local tax, and are not subject to execution, garnishment, attachment, or any other process of law whatsoever, and are unassignable and nontransferable.

§ 15-109. Miscellaneous.

(a) The Board of Trustees of the Arkansas Teacher Retirement System, the employers, and the administrator, if any, do not guarantee that any particular federal or state income,

MARK UP

payroll, or other tax consequence will occur because of participation in the Arkansas Teacher Retirement System Benefit Restoration Plan and Trust.

(b) The board may hold the assets of the plan uninvested as it deems advisable for making distributions under the plan.

(c) In resolving any conflict between provisions of the plan, and in resolving any other uncertainty as to the meaning or intention of any provision of the plan, the prevailing interpretation shall be the interpretation that:

(1) Causes the plan to constitute a qualified governmental excess benefit arrangement under 26 U.S.C. § 415(m) and the trust fund to be exempt from tax under 26 U.S.C. §§ 115 and 415(m);

(2) Causes the plan and the Arkansas Teacher Retirement System to comply with all applicable requirements of the Internal Revenue Code as defined by Arkansas Code § 24-7-202; and

(3) Causes the plan and the system to comply with all applicable laws of this state.

(d) Neither the establishment or maintenance of the plan, nor any amendment to the plan, nor any act or omission under the plan or resulting from the operation of the plan shall be construed:

(1) As conferring upon any participant or any other person a right or claim against the board, trustees on the board, employers, or administrator, if any, except to the extent that the right or claim is specifically expressed and provided in the plan;

(2) As creating any responsibility or liability of the employers for the validity or effect of the plan;

(3) As a contract between the employers and any participant or other person;

(4) As being consideration for, or an inducement or condition of, employment of any Participant or other person, or as affecting or restricting in any manner or to any extent whatsoever the rights or obligations of the employers or any participant or other person to continue or terminate the employment relationship at any time; or

(5) As giving any Participant the right to be retained in any employer's service or to interfere with any Employer's right to discharge any Participant or other person at any time.

(e) Any benefit payment that should not have been made according to the terms of the plan and the benefits provided under the plan may be recovered as provided by law.

(f)(1) Any payment to any participant shall, to the extent of the payment, be in full satisfaction of the participant's claim for which the payment is being made.

(2) The board may condition the payment on the participant's delivery of a duly executed receipt and release in a form determined by the board.

(g)(1) The board, board trustees, administrator, if any, shall not incur any liability in acting upon any paper or document or electronic transmission believed by the board, board trustees, or administrator to be genuine or to be executed or sent by an authorized person.

(2) The plan shall hold harmless and indemnify the board, the board trustees, and the administrator, and the officers and employees thereof, from financial loss arising out of any claim, demand, suit or judgment by reason of alleged negligence or other act by that board member, trustee, officer or employee if:

(A) The board member, trustee, officer or employee at the time of the alleged negligence or act was acting in the discharge of his or her duties and within the scope of his or her employment;

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(B) The damages did not result from a willful and wrongful act of gross negligence of the board member, trustee, officer or employee; and

(C) The board member, trustee, officer or employee shall, within five (5) days of the time he or she is served with any summons, complaint, process, notice, demand or pleading, deliver the original or a copy thereof to the administrator's legal advisor.

(3) The board may obtain insurance to provide coverage for any liabilities that may arise as described by this rule.

(h) The plan does not directly or indirectly waive any sovereign immunity protection of the board, board trustees, administrator, or officers and employees thereof.

(i) The laws of Arkansas apply in determining the construction and validity of this plan.

(j)(1) The only party necessary to any accounting, litigation or other proceedings relating to the plan is the administrator.

(2) The settlement or judgment in any case in which the administrator is duly served will be binding upon all affected participants in the plan, their beneficiaries, estates, and all persons claiming by, through, or under them.

(k) If any provision of the plan is held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions of the plan will continue to be fully effective.

Authority: Arkansas Code § 24-7-305.

History

<u>Approved by Board:</u>	<u>July 26, 2013</u>	
<u>Adopted:</u>	<u>October 9, 2013</u>	
<u>Effective:</u>	<u>November 8, 2013</u>	
<u>Effective:</u>	<u>TBD</u>	

FINANCIAL IMPACT STATEMENT

PLEASE ANSWER ALL QUESTIONS COMPLETELY.

DEPARTMENT Legal
BOARD/COMMISSION Arkansas Teacher Retirement System
PERSON COMPLETING THIS STATEMENT Jennifer Liwo
TELEPHONE NO. (501) 682-1517 **EMAIL** jenniferl@artrs.gov

To comply with Ark. Code Ann. § 25-15-204(e), please complete the Financial Impact Statement and email it with the questionnaire, summary, markup and clean copy of the rule, and other documents. Please attach additional pages, if necessary.

TITLE OF THIS RULE Rule 15-1: Benefit Restoration Plan and Trust

1. Does this proposed, amended, or repealed rule have a financial impact?
Yes No

2. Is the rule based on the best reasonably obtainable scientific, technical, economic, or other evidence and information available concerning the need for, consequences of, and alternatives to the rule?
Yes No

3. In consideration of the alternatives to this rule, was this rule determined by the agency to be the least costly rule considered? Yes No

If no, please explain:

(a) how the additional benefits of the more costly rule justify its additional cost;

(b) the reason for adoption of the more costly rule;

(c) whether the reason for adoption of the more costly rule is based on the interests of public health, safety, or welfare, and if so, how; and

(d) whether the reason for adoption of the more costly rule is within the scope of the agency's statutory authority, and if so, how.

4. If the purpose of this rule is to implement a *federal* rule or regulation, please state the following:
 - (a) What is the cost to implement the federal rule or regulation? *n/a*

Current Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total \$0.00

Next Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total \$0.00

(b) What is the additional cost of the state rule?

Current Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total \$0.00

Next Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total \$0.00

5. What is the total estimated cost by fiscal year to any private individual, private entity, or private business subject to the proposed, amended, or repealed rule? Please identify those subject to the rule, and explain how they are affected.

Current Fiscal Year

\$ 0.00

n/a

Next Fiscal Year

\$ 0.00

6. What is the total estimated cost by fiscal year to a state, county, or municipal government to implement this rule? Is this the cost of the program or grant? Please explain how the government is affected.

Current Fiscal Year

\$ 0.00

n/a

Next Fiscal Year

\$ 0.00

7. With respect to the agency's answers to Questions #5 and #6 above, is there a new or increased cost or obligation of at least one hundred thousand dollars (\$100,000) per year to a private individual, private entity, private business, state government, county government, municipal government, or to two (2) or more of those entities combined?

Yes No

If yes, the agency is required by Ark. Code Ann. § 25-15-204(e)(4) to file written findings at the time of filing the financial impact statement. The written findings shall be filed simultaneously with the financial impact statement and shall include, without limitation, the following:

- (1) a statement of the rule's basis and purpose;
- (2) the problem the agency seeks to address with the proposed rule, including a statement of whether a rule is required by statute;
- (3) a description of the factual evidence that:
 - (a) justifies the agency's need for the proposed rule; and
 - (b) describes how the benefits of the rule meet the relevant statutory objectives and justify the rule's costs;
- (4) a list of less costly alternatives to the proposed rule and the reasons why the alternatives do not adequately address the problem to be solved by the proposed rule;
- (5) a list of alternatives to the proposed rule that were suggested as a result of public comment and the reasons why the alternatives do not adequately address the problem to be solved by the proposed rule;
- (6) a statement of whether existing rules have created or contributed to the problem the agency seeks to address with the proposed rule and, if existing rules have created or contributed to the problem, an explanation of why amendment or repeal of the rule creating or contributing to the problem is not a sufficient response; and
- (7) an agency plan for review of the rule no less than every ten (10) years to determine whether, based upon the evidence, there remains a need for the rule including, without limitation, whether:
 - (a) the rule is achieving the statutory objectives;
 - (b) the benefits of the rule continue to justify its costs; and
 - (c) the rule can be amended or repealed to reduce costs while continuing to achieve the statutory objectives.