PROJECT PLAN AND REPORT OF THE TRIBAL PENSIONS SUBCOMMITTEE

FOR THE SEPTEMBER 16, 2020 TTAC MEETING

The Treasury/Tribal Advisory Committee (TTAC) subcommittee on Tribal Pensions (the “Pensions Subcommittee”) will be seeking input from Tribal governments before making final recommendations to the TTAC on guidance to enhance equal government status for Tribes under the Pension Protection Act (the “PPA”), including related provisions under Internal Revenue Code (the “Code”) Section 414 and Section 3(32) of the Employee Retirement Income Security Act (“ERISA”). This initial report is intended to provide an outline of proposed guidance recommendations and to secure additional input from TTAC members and other stakeholders. This initial report does not reflect final guidance.

The report includes background on the unique issues faced by Tribal employers who offer retirement benefits for their employees and an initial set of core guidance principles for consideration and further input. The report also provides a summary of broader topics and concepts derived from Tribal Pensions Subcommittee deliberations since the last TTAC public meeting of December, 2019. The Pensions Subcommittee will expand and fine tune the report as public input and comments are received from Tribal governments and Tribal employers.

The TTAC supports the Pensions Subcommittee seeking additional Tribal input and ensuring continued transparency in the development of guidance related to government status for Tribes under the Code and ERISA.

I. Important Background on Tribal Pension Issues.

When ERISA was enacted in 1974, it drew a line between government sector and private sector employers. Private employers were subject to ERISA and a new set of Code requirements and regulations. Government employers were exempt.

The decision to treat governments differently was not an oversight. There were concerns that ERISA would infringe on sovereignty if applied to government employers. It was recognized that governments could raise tax revenues to secure benefit promises, if needed, while private companies could not. Congress understood that government employers were already subject to oversight through the political process and election cycles, while private employers were not. And the “equities” favoring ERISA regulation did not apply. In exchange for the added regulation of ERISA, private sector employers received “benefits” that government sector employers do not need: caps on liability (no punitive damages), limitations on jury trials, protection against conflicting state laws, and tax deductions.

Unfortunately, the original “government” definition under Section 3(32) of ERISA and Section 414(d) of the Code was silent on its treatment of Tribes. For more than 20 years, many tribal governments throughout the country asserted government status under ERISA and Code Section 414(d). Tribes applied for and routinely received IRS governmental plan determination letters on their tax-qualified retirement programs. And while the IRS now takes a more limited view of
the scope of retirement plan determination letters, Tribes were comforted by the receipt of these
governmental plan determinations for over two decades without challenge. As tribal gaming
grew in the late 1990s and early 2000s, however, Tribes began to get push back from IRS and
DOL on whether Tribes were truly “governments” under ERISA and Code Section 414(d).

The federal agency push back on governmental status for Tribes resulted in a legislative effort to
clarify once and for all that tribal governments were “governments” under ERISA and Code
Section 414(d). After several Tribal parity bills were introduced in Congress, the Senate passed
a bill (S. 1783) in the fall of 2006 that included tribal parity language. Unfortunately, the
companion bill in the House did not include tribal parity language, and Congress was pressing
hard to enact legislation that would become the Pension Protection Act (“PPA”).

The PPA was pulled for a vote before all of the differences between the Senate and House bills
were reconciled and before a final conference report was issued. Unfortunately, the draft being
circulated within conference at that time included a parenthetical adding the essential
government function and commercial activity limitations for Tribal governments and Tribal
employers. The language included for Tribes when the PPA was presented for a vote stated that
Tribes are entitled to government status for their employee retirement and welfare plans when
the participants in those benefit programs are “employees ... substantially all of whose services
as such an employee are in the performance of essential governmental functions but not in the
performance of commercial activities (whether or not an essential government function)”
(emphasis added). The PPA, with the Tribal provision quoted above, was approved by Congress
on the eve of a Congressional recess for a fall election cycle and with no debate or discussion
regarding the Tribal provision.

In the final analysis we are left with concepts added during a legislative conference process that
was not completed, that are inconsistent with all prior House and Senate efforts on this issue, that
received no debate or input from Tribes in the legislative process, have proven unworkable in
other areas of taxation, and have now stood for more 14 years with no substantive guidance from
the Departments of Treasury or Labor.

II. Core principles for consideration and potential integration into PPA guidance:

The following represent core principles for which the Pensions Subcommittee believes there is a
high likelihood of consensus from Tribal stakeholders based on initial public meetings and input,
as well as subcommittee deliberations to date. This initial listing of core principles is not
intended to be an all-inclusive list as it is anticipated that the list will expand and be modified as
additional input is gathered and considered.

The Pensions Subcommittee will take these core principles into account when developing
specific guidance. The Pensions Subcommittee will refine and add to these principles as
additional input is received and considered.

1. Alignment with the General Welfare Exclusion Act and TTAC Charter:
Retirement benefits provide support to the overall general welfare of Indian Tribal
governments by helping to secure the financial future of individual citizens, as
well as non-member citizens of surrounding communities, after their working years end. Tribal Pensions are offered by Indian Tribal governments as a method to support the general welfare of the Tribe and to attract, reward and retain talented employees who can assist the Tribe with its governmental operations and revenue generating activities. The TTAC is authorized to provide advice and recommendations to Treasury regarding the taxation of Indians, in accordance with the TTAC Charter. The TTAC has recognized Tribal Pensions as a priority issue on which it will provide understanding and solutions to Treasury, in connection with efforts to promote economic development in Indian Country and to remove barriers to economic opportunity for Tribes.

2. **Governmental Parity:** Guidance must strive for maximum parity between state and Tribal governments to the fullest extent permitted under existing statutes. Currently state and local governments engage in many of the same activities in which Tribal governments engage, without losing governmental status: e.g., state lotteries; convention centers / hotels; marinas; tourism; golf courses.

3. **Ambiguity Construed in Favor of Tribes:** Guidance should take into account the Tribal canon of statutory construction whereby ambiguity in federal statutes must be construed in favor of Tribal governments.

4. **Raising Revenue as an Essential Government Function:** Guidance should recognize that raising revenue for public purposes is an essential government function. In this regard, there should be recognition that Tribes typically do not have the type of property tax base often used by other governments, and that Tribal sales tax revenues are often limited by issues of state dual taxation and rural geographical locations.

5. **Public Versus Private Use of Funds:** Guidance must take into account the difference between Tribal enterprises that raise revenue for public purposes versus commercial entities that are operated for private gain.

6. **Consultation and Negotiated Rule Making:** Guidance must reflect government-to-government consultation and a cooperative rulemaking process between Tribes and federal agencies, consistent with Executive Order 13175.

III. **Interim Guidance and Legislative Correction:**

1. **Deference to Tribal Sovereignty:** Unless specifically defined in the Internal Revenue Code, Treasury guidance shall defer to the sovereign authority of Tribes to define the scope, purpose and function of their governmental activities.

2. **Updated Transition Relief:** While legislative solutions and detailed guidance are being developed, the transition relief in Notice 2007-67 should be updated and expanded. The relief should continue to recognize Tribes’ good faith efforts to comply with the PPA, allow Tribes the flexibility to modify the design of
retirement plans to fit their employment and fiscal needs, and identify the Code and ERISA compliance requirements that will not apply until guidance is finalized.

3. **Guidance before Enforcement:** Tribal governments should not be subject to PPA enforcement actions, and Tribal government status should not be challenged, until after clear guidance is issued. An enforcement moratorium similar to the General Welfare Exclusion Act audit suspension should be considered. An enforcement moratorium was put in place by federal agencies in the past when similar pension compliance issues were addressed for state and local governments.

4. **Legislative Elimination of “Essential Governmental Function” and “Commercial Activity” Tests:** In tandem with the guidance projects identified herein, legislative options to permanently eliminate the “essential governmental function” and “commercial activities” tests, as applied to Tribes, should be pursued.

5. **Legislative Recognition of Tribal Courts and Tribal Laws:** Any legislative efforts should include the recognition of Tribal courts and Tribal laws in the resolution of retirement plan claims and the issuance of qualified domestic relations orders for retirement plans.

IV. **Specific Concepts under Consideration:**

The following represent specific concepts under consideration for the possible development of guidance. This initial listing is not intended to be an all-inclusive list as it is anticipated that the list will expand and be modified as additional input is gathered and considered.

1. **Definition of Essential Governmental Functions:**

   **Issue:** Essential governmental functions should be defined in a manner that affords Tribes parity with other governmental entities and recognizes the fundamental need of Tribes to generate revenue.

   **Possible Guidance Solution:** Consider guidance as follows:

   (A) The generation of revenue for public/Tribal purposes must be prioritized over function or activity (regardless of whether the activity engaged in would be considered, itself, an essential governmental function), because Tribes do not have the same revenue generation opportunities as state and local governments.

   (B) Consider the Tribes’ public purposes/needs in relation to the average levels at which Tribes are funded by the federal government and the remaining need.
2. **Definition of “Commercial”**

**Issue:** Whether there is a difference between “commercial” activities that are engaged in for private interests or those by a government to raise revenues for public purposes.

**Possible Guidance Solution:** Consider guidance as follows:

(A) Activities engaged in for public purposes are not “commercial” in nature. *For example:* States engage in gaming (lotteries) to raise revenues for public purposes. Cities also routinely operate convention centers and hotels.

(B) Activities engaged in for private gain may be commercial in nature.

(C) Regardless of the use of the term “commercial activities” in the Code and ERISA, guidance needs to distinguish between activities and purpose. Otherwise, any state or city that performs the same activity as MGM or Hilton is performing a “commercial activity.”

(D) Any revenue generating activities conducted to support the overall general welfare of the Tribe, are operated in the best interest of the Tribe and not for the benefit of shareholders or private interests that are independent of and not directly related to the Tribe. Tribal citizens who are enrolled shareholders (members) of Tribes or Alaskan Native regional and village corporations under ANSCA are not to be considered or treated as entities holding private interests in a Tribe or a Tribe’s revenue generation.

3. **Control Group Testing:**

**Issue:** Private sector and ERISA covered employers are subject to certain retirement plan compliance requirements that do not apply to governmental employers. A significant component of the private sector compliance testing is the “control group” rules, which require the employer to treat all related entities as a single employer. The control group rules are intended to, and effectively, make it harder for different entities to have different benefit structures. Tribal governments and their various enterprises often have very different employment bases, needs and revenue flows. The application of control group rules to Tribes or any subset of Tribal employers (“commercial activity” employers) significantly limits Tribal control over employee benefits and the related costs. The practical result of imposing control group requirements on
Tribal employers is likely to be the elimination of retirement benefits for a portion of the Tribal employee population.

Possible Guidance Solution: Consider guidance as follows:

(A) Tribes should be afforded the same flexibility to design different employee benefits for their various employment groups that state and local governments enjoy; control group requirements should not apply to Tribes.

(B) Control group rules under the Code are written in terms of stock ownership and other corporate control concepts. Tribes do not establish and operate enterprises in the same manner as private sector businesses and the interim guidance for Tribes should recognize that the current Code rules do not apply to Tribal employers.

4. Employee Sharing, Transfers and Rehires:

Issue: Tribes often experience a high level of employee movement among Tribal employers, as well as a high level of rehire activity. Employees also may be shared among Tribal employers for the efficient use of resources and talent, such as HR and IT professionals. Tribal employment functions that may be classified as commercial activities are significantly limited in their ability to accommodate these unique Tribal employment issues, due to private sector and ERISA compliance requirements. Governmental compliance standards for retirement plans allow for flexibility and easily accommodate employee rehires and sharing arrangements.

Possible Guidance Solution: Consider guidance as follows:

(A) Consider a good faith compliance standard for addressing rehires in Tribal retirement plans with regard to the service crediting rules and rehire requirements under the Code and ERISA. A similar standard has been implemented for governmental employers with regard to minimum required distributions, a similarly complex area of retirement plan compliance.

(B) Consider guidance that allocates any employee of the Tribal government who provides shared services to a Tribal enterprise to the governmental retirement plan and eliminate the potential need to enroll a single individual in two or more retirement plans at the same time.

(C) To the extent that Tribal employers are required to maintain separate retirement plans for various Tribal entities and enterprises, consider an exemption from ERISA plan asset requirements that will allow an employee’s accumulated retirement plan balance to be transferred between
plans maintained by the Tribe, as the employee moves to different positions. The current inability to move an employee’s balance between plans when the employee moves has a significant impact on retirement plan loans, hardship withdrawals and administrative costs.

5. **Domestic Relations Orders:**

**Issue:** ERISA and the Code currently recognize plan distributions pursuant to state domestic relations laws. Under both the governmental and commercial retirement plan rules, Tribal members may be forced to address divorce issues in state rather than Tribal courts or in more than one forum.

**Possible Guidance Solution:** Consider guidance as follows:

(A) Confirm that Tribal court and Tribal domestic relations laws should be given full recognition, on par with state domestic relations laws.

6. **Combined Assets:**

**Issue:** When a Tribal government is forced to maintain more than one retirement plan for its workforce in order to retain governmental status, they often incur duplicative expenses. Retirement plans are operated and priced on an individual plan, average account balance basis. The plan maintained for a Tribal government workforce may be much smaller than the plan maintained for a Tribal enterprise. Not only will the plans be priced differently and have access to different classes of service providers and services, the Tribe will have less bargaining power with divided asset pools.

**Possible Guidance Solution:** Consider guidance as follows:

(A) Create a mechanism that allows retirement plans to operate with joint trust funds, subdivided as necessary to reflect the assets of each participating retirement plan. The auditing of commercial plan assets must be accommodated in this topic, as well as the certification of assets required for an ERISA limited scope audit.

(B) Consider similar bargaining power and pricing issues for Tribal health plans that also are subject to the current governmental vs commercial legal structure. Health plans that are divided into governmental plans and commercial plans have smaller risk pools which can mean less security for plan participants.
7. **Coordination with CPA Audit Standards:**

**Issues:** Form 5500 filings in many cases require audited financial statements for the retirement plan. The ERISA audit standards for CPAs do not address the unique issues faced by Tribal plans. This can make the standard ERISA audit process very costly for Tribes and in some cases result in filing delays. There also is no coordination between the ERISA audit standards for commercial plans and the GASB fiduciary fund audit requirements for Tribes. With regard to some retirement plans, it is possible that a single Tribal retirement plan may need an ERISA audit and GASB compliant financial statements, each prepared under different rules.

**Possible Guidance Solution:** Consider guidance as follows:

(A) Incorporate good faith compliance standards for Tribal retirement plan audit issues into updated transition guidance under the PPA. Encourage the audit of and reporting on Tribal retirement plans, without the threat of penalties for compliance deficiencies in areas where no guidance has been finalized (such as definitions of PPA standards, application of control group testing).

(B) Until such time as the audit requirements under ERISA and GASB are coordinated, provide administrative relief that will eliminate the need for Tribal entities to obtain two audits of retirement plan financial statements for the same time period.

8. **State Court Enforcement Actions:**

**Issue:** ERISA provides for litigation over benefit claims in state or federal court, but many Tribes have their own court systems. If Tribes are treated as “commercial,” Tribal governments may be forced to answer and defend law suits in state court.

**Possible Guidance Solution:** Consider guidance as follows:

(A) Confirm that Tribal court and Tribal law should be given full recognition on par with state court and state laws.

(B) Incorporate Tribal court exhaustion into any judicial access procedures for federal or state court.

9. **Prospective Enforcement:**

**Issue:** Some Tribes have been subject to Form 5500 penalty assessments and enforcement actions pending guidance under the PPA.
Possible Guidance Solution: Consider guidance as follows:

(A) Consider prospective enforcement and temporary administrative relief that would offer certainty to Tribes pending final guidance.

(B) Consider parity issues between Tribes that make good faith, but incomplete, Form 5500 filings, and Tribes that are not making annual filings under the current transition guidance.

(C) Consider prospective effects of all future guidance.

V. Collection of Retirement Plan Data from Tribes for Analysis

The Pensions Subcommittee would benefit from data and additional information from Tribes regarding the types of retirement plans offered by Tribal employers. The Pension Subcommittee also is acutely aware of the sensitive nature of this data. Data and research shall be collected by third party researchers to protect confidentiality and sensitivity of Tribal information. The third party researcher shall be approved by all related and applicable university, local, State, Federal and Tribal Institutional Review Board, Human Subject Review and other necessary research approvals.

Data that is important to the Pension Subcommittee may include, but is not limited to, the following types of data:

- Tribal employee groups covered by retirement plans
- Identification of retirement plan population as tribal members, non-member native employees, non-native employees
- Types of plans offered: defined benefit, cash balance, defined contribution, 401(k), 403(b), 457
- Governmental or commercial status of current retirement plans
- Identification of low and high compensation ranges for covered employees
- Information on shared employees providing services to various tribal units
- Employee turnover rates and timing for tribal employment groups
- Information on retirement plan audit protocols
- Information on the availability of a Tribal court system that can be accessed to handle retirement plan claims and domestic relations matters