PENSION REVIEW BOARD OF TEXAS
ADVISORY COMMITTEE MEETING ON
PRINCIPLES OF RETIREMENT PLAN DESIGN

AGENDA

Friday, October 13, 2017 – 2:00 PM
Capitol Extension, Committee Room E2.014
1400 N. Congress Avenue, Austin, Texas 78701

The Advisory Committee may deliberate and take action on any of the following items:

1. Meeting called to order
2. Roll call of Committee members
3. Discuss and consider developing recommendations for PRB Principles of Retirement Plan Design
4. Date and location of next Advisory Committee meeting – TBD
5. Invitation for audience participation
6. Adjournment

NOTE: Persons with disabilities who plan to attend this meeting and who may need special assistance are requested to contact Mr. Wes Allen at (800) 213-9425/ (512) 463-1736 three to five (3-5) working days prior to the meeting date so that appropriate arrangements can be made.

National Association of
State Retirement Administrators

RESOLUTION 2016-01 - Guiding Principles for Public Retirement System Plan Design and Sustainability

WHEREAS:

- State and local government retirement systems must balance multiple stakeholder objectives:
    - For employees, competitive compensation that includes income security in retirement
    - For employers, a management tool to maximize the training and experience invested in their employees and an orderly progression of personnel
    - For taxpayers, public services performed in the most effective and cost-efficient manner
- The resilience of public retirement systems is sustained through long-term investment and financing strategies; statutory, contractual, and in some cases constitutional benefit protections; as well as the ability to adjust plan designs, financing structures, and governing statutes to accommodate changing workforce needs and fiscal realities; and
- Needed periodic modifications, which have a history in state and local government retirement plans, require an open public legislative and regulatory process involving all stakeholders - governments, their plans, their employees (who typically share in the financing of their pension), and other taxpayers; and
- This open public process requires honest, unbiased and relevant information on public financing and long-term retirement policy objectives that should not be unduly influenced by projections that include unrelated healthcare liabilities or irrelevant corporate sector metrics, or that exclude relevant data regarding the inefficiencies and steep transition costs of closing, rather than adjusting existing plans; and
- Differing plan designs, financial conditions, and legal frameworks across the country do not lend themselves to one-size-fits all solutions, but rather, require a range of tailored approaches, agreed to by the relevant stakeholders, in order to best secure the viability of each sponsor and its state and local retirement system for the very long-term; and
- Despite this variability, most state and local governments have retained the core elements of public pension plan design proven to best balance retirement security, workforce management and economic efficiencies, namely:
    - **Mandatory participation**. Nearly all state and local governments require participation in the retirement program as a condition of employment.
    - **Cost sharing between employers and employees**. Public employees typically are required to contribute a portion of their wages to their state or local pension.
    - **Pooled and professionally managed assets**. Public pension trusts can earn higher returns with lower fees through pooled investments that are professionally managed, have greater portfolio diversity and large economies of scale.
    - **Targeted income replacement.** Most public pension policies aim to replace a certain percentage of pre-retirement wages at a specified age and/or years of public service, to promote orderly progression of personnel and retirement security.
    - **Lifetime benefit payouts.** The vast majority of state and local governments do not allow for lump sum distribution of benefits; rather, they require retirees to take most or all of

their pensions in installments over their retired lifetimes. Many also make periodic cost-of-living adjustments to curb the effects of inflation.

  - **Survivor and disability benefits.** Many state and local pensions integrate survivor and disability protections into their retirement programs, a particularly critical feature for positions involved in hazardous duty, or a public safety plan.
  - **Supplemental savings.** Governments often sponsor a supplemental savings plan in addition to the general retirement plan to allow participants to defer an additional portion of their salary in anticipation of retirement needs, and some governments provide matching contributions and automatic enrollment/escalation features to encourage participation.

- These core components of public pension plan design are indispensable to sound retirement policy and not only should be retained in current and future benefit designs in the public sector, but also should be cultivated in the design of retirement plans for employees outside the public sector; and
- Federal policy should be supportive of these central features of public pension design and the flexibility of state and local governments to meet local needs and concerns, and should also encourage the development of similar design characteristics in retirement plans beyond the public sector;

NOW, THEREFORE, BE IT RESOLVED, that the National Association of State Retirement Administrators supports the following guiding principles to retirement security and public plan sustainability:

- Participation of all relevant stakeholders, including government employers, their plans, their employees, plan beneficiaries and retirees, and other taxpayers in discussions and processes pertaining to the design and financing arrangements of public retirement plans
- Policy-driven decision making that recognizes the retirement security and workforce management purposes of public employee retirement systems, and which is based on objective and pertinent information that fairly reflects the long-term time horizon and economic effects of public plan financing, benefit adequacy and benefit distributions
- Tailored solutions, achieved by affected stakeholders working through the state and local legislative and regulatory processes
- Retention of core, indispensable elements of public plan design, namely, mandatory participation, shared financing, targeted income replacement, pooled investment and longevity risks, and lifetime benefit payouts
- Removal of federal policy barriers to the preservation of these central retirement plan design features in the public sector and adoption of federal policies that encourage their inclusion in the private sector.

Adopted as Resolution 2010-10 on August 11, 2010
Amended June 2016

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Principles of Retirement Plan Design
Prepared by Keith Brainard
September 26, 2017

Plan design refers to the framework of a retirement plan, as defined by the following elements:

Elements and Considerations of Plan Design

- Participation: mandatory, optional, revocable, irrevocable, default
- Contributions: who contributes, when, and how much
- Asset management: pooled, professionally invested, individual accounts, self-directed
- Treatment of investment gains and losses
- Benefit types: retirement, disability, death, health care
- Benefit eligibility: age, years of service, vesting
- Benefit levels: income replacement rate, amount
- Access to retirement assets: when, under what circumstances, how much, lump sum, annuitized, periodic time-certain, liquidity, loans
- Post-retirement benefit adjustments: none, automatic, linked to an external factor(s)
- Plan governance and administration

Plan Type

The two main types of retirement plans are defined benefit (DB) and defined contribution (DC).

A DB plan is an employer-sponsored retirement benefit that pays, upon attainment of a designated age, length of service, or both, a benefit for the remainder of the recipient's life. The amount of the benefit reflects the employee's salary and length of service. DB plan assets are held in trust, pooled, and professionally invested, typically in a diversified portfolio. The cost of a DB plan is based on the design of the plan and is calculated as part of an actuarial valuation that includes projections, also known as actuarial assumptions, about future demographic and economic outcomes.

A DC plan can be sponsored by an employer or by an individual. A typical employer-sponsored DC plan features contributions made by both the employer and the employee, which are maintained in individual accounts and managed and invested at the direction of the employee. The cost of a DC plan is determined by the employer and usually takes the form of a fixed percentage of employee pay. The benefit provided in a DC plan is based on the amount accumulated in the plan and may take the form of a lump sum, periodic payments over a fixed period, or annuitized.

A hybrid retirement plan is an employer-sponsored retirement benefit that contains elements of both DB and DC plans. The primary types of hybrid plan used in the public sector are cash balance and combination DB-DC plans.