TEXAS PENSION REVIEW BOARD

Principles of Retirement Plan Design
(Adopted June 14, 2018)

The Pension Review Board (PRB) recognizes that offering a sustainable, secure retirement benefit is vital to achieving the objectives of multiple public-sector stakeholders including employers, employees, retirees, beneficiaries, and taxpayers, and that benefits should be protected through sound plan design and adequate funding. Therefore, the PRB intends for these Principles to guide and inform public retirement systems and their associated governmental entities on how to structure retirement plans.

Because:

- state and local government is a major employer in Texas;
- the state and its many political subdivisions–counties, cities, school districts, special districts, and others–rely on employees to deliver essential public services, including teaching at public schools; protecting public health and safety; planning, building, and maintaining transportation, utility and other infrastructure, parks and recreational facilities; protecting vulnerable individuals, including children, the elderly, and those with developmental disabilities; and protecting the state's natural resources;
- employee compensation is a vital component in the ability of the state and its political subdivisions to attract qualified workers to perform public services and to keep those workers employed as long as they continue to add value to their employer and to the public;
- a retirement benefit is a critical element of employee compensation, serving as an important tool in the ability of employers to recruit and retain qualified and experienced employees; and
- the design and prudent financial management of the retirement benefit provided to public employees can significantly affect the ability of employers to attract and retain employees and maintain budgetary stability while providing essential public services;

The PRB supports the following Principles of Retirement Plan Design for public retirement systems in Texas:

1. Public employers should offer a retirement benefit, and participation in the employer-sponsored primary retirement plan should be mandatory.

2. Contributions to retirement plans should be consistent with the PRB *Pension Funding Guidelines*.

3. Employers and employees should share the cost of the benefit.

4. Retirement plan vesting should occur over a short period, preferably five years or less.

5. Benefits should be designed to place employees on the path to financial security in retirement in consideration of participation or nonparticipation in Social Security.

6. A primary retirement plan should require annuitization of a substantial portion of retirement benefits.

7. In the absence of an immediate and heavy financial need, a retirement benefit should be used only for retirement. 8. Retirement benefits should be protected against the erosion of the benefit's value due to inflation; such benefits should not exceed actual inflation and should be funded in accordance with the Pension Review Board's *Pension Funding Guidelines*.

9. Employers should provide death and disability benefits.

10. Employers are encouraged to offer plans that are supplemental to the primary retirement plan.

11. Retirement plan governance should represent the interests of all stakeholders, respect fiduciary standards, and be transparent and publicly accountable.

12. Retirement plan assets should be pooled and professionally invested according to prudent investor standards, giving careful consideration to cost.