



# The Personal Retirement Optimization (PRO) Plan

## Frequently Asked Questions

### What is the Personal Retirement Optimization (PRO) Plan?

The Personal Retirement Optimization Plan (or PRO Plan) is a new framework for public worker retirement benefits that delivers post-employment security in a cost-effective way that is attractive for both employees and employers and provides a viable alternative to traditional public pension plan designs, which have proven vulnerable in many cases to underfunding and politicized decision making.

Built on a defined contribution (DC) foundation, the PRO Plan improves on traditional designs with clear and measurable objectives on maximizing benefits for a wide range of individual situations, flexibility in both investment and benefit distribution options, and an emphasis on guaranteed lifetime income through annuities. In short, the PRO Plan blends the risk management benefits to employers associated with DC plans with the lifetime income protections public workers value in pension plans.

Executed correctly, the PRO Plan could provide a more secure DC benefit at a lower cost to governments and taxpayers.

### What are the key elements of the PRO Plan?

1. The PRO Plan uses a defined contribution approach as its base structure.
2. Participation is mandatory for the core plan.
3. Contribution amounts must be sufficient to deliver a target lifetime income replacement amount at the employee's Normal Retirement Age between 70-90% of final income taking into account any Social Security benefit.
4. The default investments should be "one-touch" in nature that automatically managed investment risk based on the individual's situation. There are multiple possible investment approaches that a plan sponsor can adopt, including Target Date funds, Liability Driven Investments, custom life cycle and individual advice, and even managed accounts.
5. The benefit must be portable with immediate or very short vesting periods to reflect the reality that employees rarely stay with one employer their entire career.
6. The default retirement benefit form should be a lifetime income annuity with an option to take different forms and amounts.
7. Disability benefits should be separately provided.
8. Employers should offer a broad range of retirement plan communication, education, and income planning services that are delivered at key life stages and events to allow changes to be made to stay on track for a successful retirement.

## What are the advantages of the PRO Plan over a traditional pension?

Government-sponsored defined benefit (or DB) pension plans are structured to provide benefits for those who stay and work for their entire career, making them less advantageous for the majority of the modern workforce who are unlikely to stick around for 10+ years.

With an increasingly mobile workforce as employees move and switch jobs more frequently, providing adequate retirement benefits for all workers—not just those few long-term or full-career workers—is crucial. Whether used as an alternative to or a replacement of a traditional pension, the PRO Plan offers an ideal structure for employers seeking to maximize benefit adequacy for short and long-term employees, and everyone in between.

The PRO Plan also completely avoids risks of unfunded liabilities and unexpected costs, which has become a major challenge for government pensions.

## What are the advantages of the PRO Plan over a standard DC plan?

Some government employers offer employees a core defined contribution (DC) plan instead of a traditional DB pension. These can be in the form of one or a combination of standard 401(a), 457(b), or 401(k)-style plans. While these plans offer flexibility and portability to public employees, they can fall short in helping employees manage investment risk and life event risk.

This common shortcoming is addressed in the PRO Plan by using risk-managed investment structures coupled with periodic “check-ins” and portfolio recalibration to make investment and savings adjustments that may be needed. This approach means the PRO Plan will be able to serve and adjust to a wider range of life situations and unique financial circumstances.

The PRO Plan also helps retirees avoid longevity risk, or outliving one's benefits. Using built-in annuity options, the PRO Plan ensures that retirees will have a high probability of meeting guaranteed lifetime needs.

## Why use a DC foundation for the PRO Plan?

The major reason the PRO Plan uses a DC platform is that a DC approach best serves the needs of the majority of employees, as it provides a uniform benefit accrual, allows employees to adjust retirement savings to changing life and career circumstances, and is portable (meaning a departing employee can take their savings with them to their next job). Traditional pension approaches have inherent limitations that deprive individual employees of the chance to adjust and change course if their life circumstances change.

## Is the PRO Plan cost-efficient?

Analysis from the Pension Integrity Project at Reason Foundation (available in the [PRO Plan report](#)) indicates that, through flexible savings options, the PRO Plan can be more cost-efficient at an individual level than a rigid traditional pension or early-generation DC plan. Depending on the type of annuity used in the PRO Plan, the authors estimate that the individual cost of insuring for longevity risk could be 28-38% cheaper in the PRO Plan than doing so on one's own.

## What role do plan sponsor benefit objectives play in the PRO Plan?

Clearly articulated and understood objectives are a crucial aspect of the PRO Plan. Before making important decisions on investment and benefit options that will be available to members, an employer must first set what exactly they intend to accomplish with the plan. The objectives don't have to be overly detailed, but they should spell out what the employer wants to achieve through the plan and what the employee can expect by participating in the plan.

As an example, "providing lifetime income in retirement when combined with other retirement assets, that maintains an employee's standard of living throughout retirement." Employers should also set the income replacement rate they are targeting. Typically, employers should build the plan around a 70-90% income replacement rate at normal retirement age, taking into account other sources such as Social Security benefits.

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