

[Defined-Benefit Plan v. Defined-Contribution Plan \(Updated\)](#)

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Defined-Benefit Plan:

- Your defined-benefit plan is more cost efficient than the defined-contribution plan
- Your defined-benefit plan offers predictable, guaranteed monthly benefits for life
- Funds are invested by professional asset managers in a diversified portfolio that follows long-term investment strategies
- The large-pooled assets reduce asset management and miscellaneous fees
- Your defined-benefit plan provides spousal (survivor) financial benefits
- Your defined-benefit plan provides disability benefits
- The state is responsible for funding, investment, inflationary and longevity risks
- Your defined-benefit plan is a more effective protection than the defined-contribution plan
- Your defined-benefit plan provides you with self-sufficiency in retirement; it is associated with far fewer households that experience food privation, shelter adversity and health care hardship
- Your defined-benefit plan is less expensive for taxpayers than Social Security – a reason why legislators, et al had negotiated for Illinois teachers to not pay into Social Security
- Your defined-benefit plan has an economic impact of over \$4 billion on Illinois; the effect on Gross Domestic Product is \$2.38 billion; jobs that are created: 30,448 (Teachers Retirement System of Illinois, TRS)
- The Teachers Retirement System of Illinois is the 39th largest in the U.S. with 378,288 members (TRS)
- The average investment returns for TRS: 9.3% (over 30 years), 8.8% (over 25 years), 8.3% (over 20 years) (TRS)
- Defined-benefit plans contribute over \$100 billion to annual local, state, and federal revenue in the U.S. and provide capital to financial markets (National Institute on Retirement Security, NIRS)

Defined-Contribution Plan:

- With a defined-contribution plan (401k, 403b, 457), only your contributions are defined
- A defined-contribution plan shifts all the responsibilities and all of the risk from the employer to you (unless negotiated otherwise); thus, your benefit is not guaranteed for life

- Your benefit is based upon individual investment earnings
- You assume all funding, investment, inflationary and longevity risks
- A defined-contribution plan does not have the pooled investments, professional asset managers, and shared administrative costs that a defined-benefit plan provides
- There are no survivor or disability benefits and guarantees
- Though you bear no portability risks, accounts are not always rolled over when you change jobs
- Your employer (state) will have to bear the administrative costs of both defined-benefit and defined-contribution plans when you switch over
- Though not your problem, “payments to amortize unfunded liabilities for the defined-benefit plan may be accelerated” (NIRS)
- The Governmental Accounting Standards Board “requires [an] acceleration of unfunded liability payments when the defined-benefit plan is closed to be recognized on financial statements” (NIRS)
- When changing from a defined-benefit plan to a defined-contribution plan, “new members do not start with any unfunded obligation” (NIRS)
- “Projected defined-benefit contributions for new members are worth more than the projected defined-benefit costs for those members” (NIRS)
- “No unfunded obligations [liabilities] for existing members are reduced when new members go into a defined-contribution plan” (NIRS)
- “The loss of new members make it difficult to finance the unfunded obligations of the defined-benefit plan” (NIRS)

Sources: the National Institute on Retirement Security (NIRS), the Teachers Retirement System of Illinois