Defined Benefit Plans (DB)	Defined Contribution Plans (DC)
<u>Definition</u>- (traditional pension or fixed pension) – A pension plan under which an employee receives a set monthly amount upon retirement, guaranteed for their life or the joint lives of the member and their spouse. This benefit may also include a cost-of-living increase each year during retirement. The monthly benefit amount is based upon the participant's wages and length of service.	**<u>Definition</u>** – A retirement savings program under which an employer promises certain contributions to a participant's account during employment, but with no guaranteed retirement benefit. The ultimate benefit is based exclusively upon the contributions to, and investment earnings of the plan. The benefit ceases when the account balance is depleted, regardless of the retiree's age or circumstances. Examples of such plans are 457, 401(k), and 403(b) plans.
A DB plan assists employers by promoting orderly turnover. DB plans also enable participants to qualify for a benefit on the basis of their age and service.	By only providing a retirement benefit which is totally portable (such as a 401(k) or 457 plan) government and education run the risk that highly-trained employees who had an incentive to remain in their careers due to a desire to earn a 30 year retirement benefit, will be willing to leave their positions for opportunities in the private sector. The result will be much higher turnover in positions and less loyalty from senior employees, fewer experienced employees and educators, and a more transitory workforce. Also, there will be little "institutional memory".
Investing more money in a DB plan will help keep a flow of money into the system and keep costs relatively minimal. Kentucky's DB plan currently costs no more than if we were paying into Social Security.	Switching to a DC plan and phasing out DB retirement benefits will require that wages increase in order to become more competitive, offsetting any potential savings the employer may have realized from shifting to a DC plan.
DB plans are reliable. The money is required to be there when you are ready to retire. A DB plan is essentially a life-time annuity which the member cannot out live	"Leakage" is a key reason DC plans are unreliable vehicles for ensuring retirement income security. "Leakage" refers to the loss of assets before retirement to such factors as loans and/or by cashing out retirement savings when they change jobs. Studies consistently indicate that half or more of terminating participants fail to retain their retirement assets in a retirement savings account.
DB plans do not require employees to know how to invest their money. The KTRS invests contributions using experts in the field to make smart decisions and gain the most in returns.	As a group, employees are generally poor investors. Employees don't have the time or know how to engage in such practices as market timing, taking too much or too little risk, neglecting or over-managing their account, or not allocating their assets among different asset classes. The frequent result of these factors is insufficient retirement savings. Efforts to educate workers regarding making better investment decisions often produced limited success.
A DB plan assists employers by promoting orderly turnover. DB plans also enable participants to qualify for a benefit on the basis of their age and service.	In contrast, by determining retirement eligibility by the adequacy of savings, DC plans provide neither employers nor employees assurance of retirement eligibility when employees would normally retire. This can result in employees remaining on the job long after their productivity has declined.

DB plans offer both disability as well as line-of-duty death benefits. They may also offer a reduced lifetime benefit for a surviving spouse if the member was employed for a minimum number of years.	DC plan benefits are based only on the amount which has been deposited to and earned in the account. Members who are disabled or lose their life in a line-of-duty death early in their career will not have accumulated sufficient assets to support their spouse and family.

Historically, wages for government and education employees have been lower than for the private industry. In return, retirement benefits have usually been higher.

The cost for the DB plan would climb if the plan is closed. This would be caused because there would be no new members entering the plan who may terminate prior to vesting, thus forfeiting their contributions and helping to fund those employees who remain in the plan. Actuarially, a closed plan is more costly because there is a smaller population to spread the costs over. Also, the time horizon over which costs can be spread is much shorter, meaning that cost increases must be funded over a shorter period resulting in much larger increases.

Kentucky is one of fifteen states where public school employees do not participate in Social Security, making their employer pension their primary source of financial security. Switching their DB pension to a DC only plan will expose many of these workers to the dangers of insufficient retirement savings.