

# Defined Benefit or Defined Contribution What's Better?

## Defined Benefit

### *Guaranteed*



- Guaranteed retirement benefits based on a contract with an employer, usually determined by formula of annual wages and years worked.
- OPERS, SERS offer defined benefit pension plans. So called because the *benefit* is defined.
- The risk is on the employer. It must come up with the benefit regardless of market returns.
- The benefit increases with inflation.
- You cannot run out of money before you die.
- Often has a disability retirement plan too.
- Annual pension benefit \$20,000 a year.

## Defined Contribution

### *Gamble*



- Individual tax-favored savings accounts allowing for employee and employer contributions. No guaranteed rate of return or final benefit.
- What is defined here is the contribution, not the benefit.
- The risk is on the employee. If the market doesn't perform well the savings will decrease.
- No guaranteed inflationary increases.
- You can outlive your money.
- No disability benefit.
- Average 401k balance is around \$50,000 that will give you a \$3,000 a year annuity.
- To have \$20,000 a year you would have to save \$300,000 over your working career.