Retirement Choice Q&A

1. What is the difference between a Defined Benefit (DB) and a Defined Contribution (DC) retirement plan?

In a DB plan, your retirement benefit is based on the number of years worked, your highest average salary, and a multiplier. For example, Jason worked for 30 years and his highest average salary is $40,000. His benefit is calculated by multiplying his years of service by a factor; let's say 2.5 percent, which would be 75 percent. Jason, at retirement at age 55, would receive 75 percent of $40,000, or $30,000 a year for the rest of his life.

In a DC plan, your retirement benefit is based on the investment performance of your and your employer's contributions to an individual account in which you direct the investments. For example, you contribute $1000 per year and have annual investment earnings of 7%* your account may have an accumulated value as listed below:

If $1,000 a year is contributed for:	Your account may have an accumulated value of:
5 years	$6,153
10 years	$14,784
20 years	$43,865
30 years	$101,173

*For illustration purposes and is not intended to reflect an actual account. Past performance is not indicative of future returns. Information provided by ICMA-RC

The defined contribution retirement benefit is your account balance, plus or minus investment gains or losses, minus fees.

2. What plan type is better for me?

The selection of a retirement plan should take into consideration other sources of income or assets you may have. As a State employee, you do not contribute to Social Security, so the choice of plan type is very important since it may be the only source of retirement income for you. A DB plan may be better for some individuals, while a DC plan may be better for others.

The answer to this question depends on a variety of factors that include:
Your retirement goals
Your risk tolerance
Your knowledge and ability to invest for retirement

Your desire for ancillary benefits such as survivor and disability benefits
Your personal financial situation

3. What are the advantages of a DB plan?

A DB plan provides a lifetime benefit.
A DB plan may provide ancillary benefits such as survivor and disability benefits that DC plans do not provide.
A DB plan may have cost of living increases to protect the retirement benefit from inflation.
DB plan contributions are invested by professionals on your behalf.
A DB plan may provide more income in retirement for long-term employees.

4. What are the advantages of a DC plan?

A DC plan is easy to understand. You invest your and your employer's contributions and manage your investment portfolio.
A DC plan may be easily transferred to another retirement plan upon termination.
A DC plan may provide more income in retirement for short-term employees.

5. What are the disadvantages of a DB plan?

A DB plan may provide less income in retirement for short-term employees.
A DB plan is complex and benefits are not easily understood.

6. What are the disadvantages of a DC plan?

DC plan participants do not have a guaranteed retirement benefit
DC Plan participants often "cash out" their retirement accounts upon termination, therefore forfeiting savings that should have been dedicated to retirement.
DC plan investors often lack the knowledge to successfully invest their contributions.

7. I know I want a DC plan. What are the differences between the State's DC plans and the PERA DC Plan?

The State DC plans and PERA's DC Plan have different vesting schedules for employer contributions.
•In the State DC plan, you own 100 percent of the employer contributions on the day the first contribution is made.
•The PERA DC Plan has a vesting schedule in which you own 50 percent of your employer's contribution on the day the first contribution is made. For every year thereafter, you own, or vest, in 10 percent more, so at the end of five years of participation, you own 100 percent of your employer's contribution made on your behalf.

The State DC and PERA DC plans have different options or restrictions regarding changes you may make to your future retirement choice.

•If you elect the State DC plan you are not eligible to participate in the PERA DB or PERA DC plans. You may however, change investment providers once a year at open enrollment.
•If you elect the PERA DC plan you may transfer to the PERA DB plan during years 2-5 of employment. You may purchase the service credit for the PERA DC plan years after one year of PERA DB participation.

8. Can I track the investments in the newspaper for all of the DC plans?

If a State DC plan participant chooses individual investments, the investments can be tracked by their stock market or ticker symbol. If a participant chooses a bundled investment based on risk tolerance the choices of investment funds from each provider are customized and may not be tracked individually. All but two of the PERA DC investment funds are available in the retail sector and can be tracked by their stock market or ticker symbol.

9. What are the differences in cost for the plans?

When determining how much it costs to invest your retirement account, you should know that there are two kinds of fees charged – administrative fees and investment (or management) fees.

Administrative and investment expenses for the PERA DB Plan are subtracted from plan assets (not individual member accounts). Administrative costs are less than one-tenth of one percent (0.1%), or 10 cents for every $100 under management. Investment expenses are 0.39 percent or 39 cents for every $100 under management.

Administrative fees for the PERA DC Plan are based on the individual participant account balance and range from $2 to $3.25 a month. Monthly fees assessed for investment fund participation are from 0.05 to 0.92 percent of assets, depending on the fund. Fees are deducted from the participant account monthly.

Administrative fees and investment fees for the State DC Plan vary by investment provider. Administration fees are based on a percentage of the individual participant account balance and range from 0 to 0.55 percent. Investment fees assessed for investment fund participation are from 0.05 to 1.59 percent of assets depending on the fund. Fees are deducted from the participant account monthly.