

A COMPARISON OF DEFINED BENEFIT AND DEFINED CONTRIBUTION PENSION PLANS

Benefit Provision	Defined Benefit Plans	Defined Contribution Plans
Definition	Guarantees a predetermined retirement benefit.	Guarantees a predetermined employer contribution.
Types of Plans	Defined benefit plan; cash balance plan.	Money purchase plan; thrift or profit sharing plan; 401(k), 403(b) or 457 plan; target benefit plan.
Public/Private Participation	Covers most state, large city, and large county employees, and most unionized private sector employees.	Covers an increasing number of public employees, particularly smaller municipalities. Sometimes used as supplement to defined benefit plan.
Amount of Retirement Benefit	Determined by formula, usually based on the number of years of service and average final salary.	Depends on the amount of money accumulated in the employee's account at retirement.
Investment Risk	Employer assumes all of the investment risk, because benefit is guaranteed.	Employee usually assumes all of the investment risk because contribution is defined. Investment losses result in lower benefits. Employees usually select from a variety of investment options with the right to move assets among various options.
Employer Contribution	Whatever is necessary to pay the benefits promised (defined) by the plan.	Fixed, as defined in the plan.