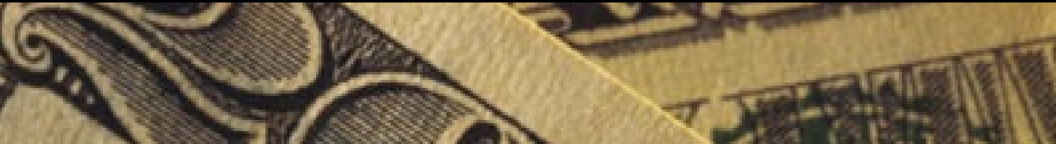
The Value *of* Your Public Sector DB Plan



Introduction

Most public employees in the United States, including members of your Retirement System, receive their primary retirement benefit through a **Defined *Benefit* Plan** rather than a **Defined *Contribution* Plan**. Because in some states there is an active effort to alter—or even close—Defined *Benefit* Plans, we believe it critically important that you understand the fundamental differences between the two types of plans.

In a Defined *Benefit* Plan (also known as a DB Plan), your benefit at retirement is determined by a preset formula. Critical to determining that benefit are (1) your years of service with your employer and (2) your final average salary over a set period of time. Typically, during your active employment, both you and your employer make monthly contributions to the Retirement System. These contributions become part of the System's trust fund and are invested by professionals retained by the System. Funds in the System's investment portfolio are used to pay retirement, disability, and survivor benefits. You personally are not impacted by investment decisions because your benefit level is established in advance by a formula set by state law or local ordinance.

In a Defined *Contribution* Plan (also known as a DC Plan), your retirement benefit is determined by the amount of assets in your personal account *at the time of your retirement*; and you determine how these assets are to be distributed in your retirement years. Typically, during your active employment, both you and your employer make monthly contributions to your personal account. You have the primary responsibility to determine how these funds are then invested. Your investment decisions and factors such as the general state of the economy will influence the amount of funds available at the time of your retirement. Poor investment choices have a profound impact on your retirement benefit.

This brochure is intended to highlight the importance of your Defined Benefit Plan and why it is so valuable to you. It is intended to provide general information. Participants should consult their financial advisors to determine the specific impact on their individual situations.

Protect What You Have Earned

Your Defined Benefit Plan:
The Most Important Part of Your Retirement Security

- It's probably something you rarely think about, but that doesn't mean it's not valuable to you.

- During the years you have been in public service, you and your employer have been contributing towards your retirement security through your Defined Benefit Plan.

don't underestimate the value of this important asset of yours

- Don't underestimate the value of this important asset of yours. Throughout the years you are working, as your salary and contributions grow, your Defined Benefit Plan can grow significantly in value.

- After you retire, your Defined Benefit Plan will provide you with a *guaranteed lifetime income*, regardless of how long you live.

- For this reason, your Defined Benefit Plan should be the *foundation* of your retirement plan. You may also have Social Security and your own personal savings to enhance your retirement income, but nothing can truly replace what your Defined Benefit Plan can provide you. Because it cannot be diminished, it is the most critical asset you own.

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Four Important Benefits of Your Defined Benefit Plan

1. Guaranteed Lifetime Income that You Cannot Outlive

Regardless of how long you live and what happens in the stock market before, during, or after your retirement, you can count on a predictable retirement benefit each month for the rest of your life from your Defined Benefit Plan. No other retirement plan can offer you that security.

2. Professional Investment Management

Just as not everyone can teach or perform your public sector job, not everyone can successfully invest in the stock and bond markets. In your Defined Benefit Plan, your employer has an obligation to deliver your promised retirement benefits. To fulfill this obligation, the Retirement System hires professional consultants and money managers for your Plan. These professional investors determine the best mix of stocks, bonds, and other investments at a given time, and research and select the most appropriate securities for your Plan. Their full-time jobs are to manage assets for Defined Benefit Plans such as yours. If your Plan's investment results fall short of what is necessary to pay your retirement benefit, your assets and retirement are not at risk—*because the benefit is guaranteed by your employer.*

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In a Defined Contribution Plan, *you* are responsible for selecting the investment choices. You bear the risk that a poor choice of investments at a given time or a poor investment return will cause your assets to decline. In addition, your assets may decline at an inopportune time for you. Forty percent of retired Americans recently surveyed were forced to retire early due to health or family issues. If you need to—or wish to—retire at a time when the stock or bond market is declining, you could be surprised at what a hit your nest egg has taken. You may have to postpone your retirement for a few more years while you try to rebuild your retirement fund!

3. Relatively Low Cost

Defined Benefit Plans retain and create assets for retirement via a very large portfolio. The investment earnings alone from this portfolio fund a significant portion of the ultimate benefits that will be paid out to you and your colleagues. Because of the size of the typical Defined Benefit Plan portfolio and the associated economies of scale, administrative and investment management fees are typically fairly low in Defined Benefit Plans. In fact, per dollar of benefits paid, a Defined Benefit Plan is often less costly than a Defined Contribution Plan.

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Over time, these fees can really eat into the value of your retirement fund. In the example below, Clare—like you—participates in a public sector Defined Benefit Plan.

Tom participates in a private sector Defined Contribution 401(k) Plan. Each averages $40,000 in annual earnings over 30-year careers. We are assuming Clare and her employer each contribute 5% of pay, and that Tom and his employer also each contribute 5% of pay. *Here's the important distinction:* the investment and administrative expenses under Clare's DB Plan have averaged $.18 for every $100 invested. Under Tom's DC Plan, they have averaged $1.35 for every $100 invested.

	Clare	Tom
Salary	$ 40,000	$ 40,000
Annual contributions	$ 4,000	$ 4,000
Total accumulation available for benefits after 30 years, with annual contributions less annual fees from contributions	$390,774	$314,218
Clare comes out more than $76,000 ahead. Expenses really do make a difference in your personal retirement portfolio.		

4. A Disciplined, Ongoing Investment Program Requiring No Effort On Your Part

You probably don't give your Defined Benefit Plan much thought, and that's exactly how it should be. During the years you have been teaching, your employer has been contributing towards your retirement security through your Defined Benefit Plan.

You are not required to determine appropriate asset allocation for your Plan, research and select investment options, monitor performance, and make changes when necessary. Your Plan's investment manager does all of that.

In fact, one of the biggest benefits of a Defined Benefit Plan is that participants *don't* have to think about it much. Time works as your ally: a good retirement benefit depends on leaving your assets invested over the long-term. In fact, many people who take a lump sum from their Defined Contribution Plan when they move to another job end up using the money for immediate cash needs instead of reinvesting it for retirement.

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Understand What You Have and Its Value

Your Defined Benefit Plan offers many benefits. As you have seen above, it provides strength and stability for your years of retirement by providing you with a predictable, guaranteed retirement income for life.

In addition, your Defined Benefit Plan offers many other important benefits that a Defined Contribution Plan does not. Defined Benefit Plans usually provide for disability retirement, death benefits, and cost of living adjustments for retirees. These features must often be purchased in a Defined Contribution Plan.

a predictable, guaranteed retirement income for life

Your Defined Benefit Plan also provides strength and stability for your state and local government. It helps fuel the economy, boosts economic growth, creates entrepreneurial capital, and creates and stabilizes a high performance work force by attracting and retaining high caliber employees.

Don’t Let Anyone Take It Away!

Defined Benefit Plans and Defined Contribution Plans are not equal. A Defined Benefit Plan is a more valuable, guaranteed asset. In addition, State and Local Governments have a long history of success in providing retirement security to the participants in their Defined Benefit Plans.

The situation regarding the efforts of some to convert Defined Benefit Plans to Defined Contribution Plans is highly complex and varies from state to state.

In all cases, however, the outcome could influence the security of your retirement. We urge you to be mindful of and oppose any efforts in your state that could alter or convert your Defined *Benefit* Plan to a Defined *Contribution* Plan.

This publication was developed
by NCTR, the

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