

DEFINED BENEFIT PENSION PLANS ARE ECONOMICALLY EFFICIENT

*DB pensions deliver benefits more efficiently than defined contributions (DC) retirement accounts.*

*DB pension benefits thus afford teachers a higher standard of living in retirement than would be the case for the same amount of savings in a DC account.*

--Christian E. Weller, Ph.D., "Win-Win: Pensions Efficiently Serve American Schools and Teachers," National Institute on Retirement Security, October 2017

# The KCPSRS Defined Benefit Plan vs. Defined Contribution Plans:

## What is the Difference?

When it comes to understanding retirement plans, many people get confused and nervous. KCPSRS is committed to helping you make sense of it all. The chart below is designed to help you sort out the differences between KCPSRS (a defined benefit pension plan), and defined contribution retirement accounts – most common are 401(k) and 403(b) plans.



|  | Guaranteed Benefit   | Monthly Benefit  | Investment Risk   | Withdrawals & Loans   | Portability   | Death Benefits  | Disability Benefits  | Fees & Expenses  |
|--|--|--|---|---|---|---|--|--|
| <b>KCPSRS (Defined Benefit Pension Plan)</b>                     | <b>YES.</b><br>Your benefit is guaranteed for life, no matter how long you live, and no matter how the investments perform.  | <b>STABLE</b><br>Your benefit is determined by a formula based on your years of service and your average salary. Once determined, your retirement benefit will NOT change. | <b>KCPSRS takes all the investment risks.</b><br>Investment professionals manage the KCPSRS Trust Fund investments. The amount of your benefit is not affected by fluctuations in the investment markets. | <b>NOT Available.</b><br>Your KCPSRS funds are not available to withdraw or borrow against. Only terminated members may withdraw their money.   | <b>YES.</b><br>If you leave KCPSRS covered employment, you can roll over your account to another qualified retirement plan, take a refund or leave it with KCPSRS if you have 5 years of service. | <b>YES.</b><br>KCPSRS provides pre- and post-retirement death benefits. Your beneficiary if eligible can elect to receive a monthly benefit for life. | <b>YES.</b><br>KCPSRS provides disability benefits if you meet certain qualifications. | <b>KCPSRS Pays.</b><br>All fees and expenses are paid by the KCPSRS Trust Fund and do not affect the amount of your retirement benefit.          |
| <b>401(k)s, 403(b)s, and Others (Defined Contribution Plans)</b> | <b>NO.</b><br>The amount of your benefit fluctuates depending on the amount you have in your account and how your investments perform. Your account balance can reach \$0. | <b>UNPREDICTABLE</b><br>Your benefit is based on your account balance (minus any withdrawals or loans received, and any investment earnings or losses).                    | <b>YOU take all the investment risks.</b><br>You are responsible for deciding how your money is invested. The amount of your benefit is affected by your investment earnings and losses.                  | <b>LIMITED Availability.</b><br>Some DC plans allow for hardship withdrawals or loans. Taxes & penalties (approx. 20%) are charged. These will significantly reduce your future benefits. | <b>YES.</b><br>Your account may be rolled over to another qualified retirement plan.  | <b>YES.</b><br>Your account balance will transfer to your beneficiary when you die.   | <b>NO.</b><br>Defined contributions plans do not usually provide disability benefits.  | <b>YOU Pay.</b><br>Investment fees and administrative expenses are often paid from your account and ultimately decrease your retirement benefit. |