# *Defined Benefit vs Defined Contribution*

The following is a simple explanation of the difference between a defined benefit and defined contribution pension program:

In a Defined Benefit (DB) program, the employee and the employer put their required contributions into a single fund.

- The administrators of the fund (the pension system boards) hire highly qualified investment professionals to manage and invest those funds. They in-turn have the resources to call upon experts I every field in whick they want to invest.
- The pension systems have investment committees that watch over the entire process. The investment staffs and their experts have to convince the committee and the pension system boards that a particular investment is the wise investment.
- Millions of dollars can be saved on stock brokerage and transfer fees. Shares can be effectively voted. Companies can be sued for misrepresentation. A large quantity of shares can be traded instantly without affecting the price per share. The business and administrative savings are retained in the fund, allowing its principal base to increase.
- Actuaries (firms that specialize in projecting future outcomes, based on past results and current trends) then determine how much each member's pension can be, by evaluating the size of the fund, investment history, mortality tables, and other factors. Their pension projections are then submitted to the pension system boards, who present their findings to the Ohio General Assembly, and a pension formula is established in law. This benefit is then called a <u>Defined Benefit</u>.
- Because defined benefit pension funds save on business and administrative cost, make wiser investments, and are by nature, lifetime investors; they can ride the ups and downs of the stock market and can still provide the guaranteed benefit. Simply put, your pension check can never go down, only up.

In a Defined Contribution (DC) program, the employee puts his or her contributions into a personal account.

- The employer also puts a portion, not all, of their contribution into each of these personal funds. The funds have an administrator under the direction of the pension system, and the individual is given a choice of products in which to invest.
- Each individual employee then becomes the determining investment expert.
- The individual bares the administrative, transfer, and investment fee costs.
- Stock brokers love these plans, because they receive the fees.
- Corporations love these plans, because they receive your investment dollars, without your ability to effectively vote your shares or bring lawsuits against them.
- When one retires, their total pension is what is in the investment portfolio. There are no future costs of living or health care benefits.