DO YOU KNOW THE DIFFERENCE?

Defined Benefit vs. Defined Contribution

Do you know the difference between a defined benefit retirement plan and a defined contribution plan? Public school personnel in Texas participate in a defined benefit (DB) program. The DB plan is very important for members of the Teacher Retirement System of Texas (TRS), as our annuities are guaranteed for life by the Texas Constitution. Our annuities are determined by number of years of service, age at retirement, highest salary and a 2.3 multiplier. The state of Texas is required to contribute a minimum of 6% and a maximum of 10% of the active aggregate teacher payroll to the pension fund (the state contribution is 6.8% for 2017). Active employees now pay 7.7% of their salaries into the fund, an amount that increased gradually from 6.4% in 2014. TRS manages the plan, invests the funds and pays out benefits to annuitants monthly.

There are groups that want to eliminate defined benefit programs and replace them with defined contribution (DC) plans. DC plans require individuals to make investment and contribution decisions. Unlike DB plans, they are portable from job to job; however, this encourages job transition that is very costly for the workforce, especially public education. The employee must ride the ups and downs of the market. This shifts the responsibility onto retirees, who can outlive the benefits they receive or be faced with unpredictable retirement income. In contrast, the DB plan assures a lifetime annuity. It is especially important for TRS to remain a defined benefit program as most Texas public school districts are not coordinated with Social Security, and TRS serves as their only form of retirement security.

DB vs. DC: Highlights

	DB	**DC**
Guaranteed for life	Yes	No
Managed by TRS investment professionals	Yes	No
Selling point for recruiting and retaining teachers	Yes	No
Generates a predictable, steady retirement income	Yes	No
Sole guaranteed income for most Texas retirees	Yes	No
Allows retirement on predetermined and predictable formula	Yes	No
Rewards years of service and job stability	Yes	No
Provides secure disability and survivor benefits based on the individual's years of service and established formula	Yes	No