## Defined Benefit vs. Defined Contribution Plan

<table>
<thead>
<tr>
<th>TYPE</th>
<th>DESCRIPTION</th>
<th>BENEFIT FORMULA</th>
<th>BENEFIT DURATION</th>
<th>WHO MANAGES INVESTMENTS?</th>
<th>WHO IS AT FINANCIAL RISK?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit (DB plan)</td>
<td>Defines how much employee receives at retirement</td>
<td>1.1% x Average High 5 Year Salary x Years of Service</td>
<td>Guaranteed for life</td>
<td>Investment Professionals</td>
<td>Employer</td>
</tr>
<tr>
<td>Defined Contribution (DC plan)</td>
<td>Defines how much is contributed to employee’s retirement account</td>
<td>Contributions x investment gains or losses</td>
<td>Until the money runs out. (Purchasing an annuity is an option)</td>
<td>Employee chooses from several investment options</td>
<td>Employee/Member</td>
</tr>
</tbody>
</table>

### Defined Benefit (DB)
- No control over contribution rates
- Confidence that longer-term employees have enough money at retirement
- Less employee education needed

### Defined Contribution (DC)
- More control over contribution rates
- Hope, but not confidence that employees will have enough money for retirement
- Significant ongoing employee education needed

### Employee
- Guaranteed benefit at retirement
- No control over how money is invested
- Longer vesting period
- Not very portable

### Employer
- No guaranteed benefit at retirement
- Control over how money is invested
- Shorter vesting period
- Portable
### DEFINED BENEFIT VS. DEFINED CONTRIBUTION PLAN

<table>
<thead>
<tr>
<th>CONTRIBUTIONS</th>
<th>PERF HYBRID PLAN</th>
<th>PERF ASA ONLY PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Normal Cost</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td>ER pays (currently 5.8%)</td>
<td>ER can pay 0% up to 5.8% (the normal cost percentage) into the employee’s ASA Only plan&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Supplemental Rate</strong>&lt;sup&gt;3&lt;/sup&gt; (unfunded liability)</td>
<td>ER pays (currently 5.4%)</td>
<td>ER pays (currently 5.4%, goes to INPRS, not EE account)</td>
</tr>
<tr>
<td><strong>Employee Mandatory 3%</strong></td>
<td>EE or ER pays or shares</td>
<td>EE or ER pays or shares</td>
</tr>
<tr>
<td><strong>Additional employee contributions (10% maximum)</strong></td>
<td>No ER match</td>
<td>ER match (0% OR 50% of the EE contribution)</td>
</tr>
</tbody>
</table>

<sup>1</sup>The “normal cost” is part of the rate employers pay into the PERF Hybrid plan.

<sup>2</sup>Effective Jan. 1, 2017 through Dec. 31, 2017, the normal cost of 4 percent is part of the rate employers will pay into the PERF Hybrid Plan. They can pay from 0 percent to 4 percent into an employee’s ASA Only Plan.

<sup>3</sup>Effective Jan. 1, 2017 through Dec. 31, 2017, the supplemental rate will be 7.2%.

### FOR YOUR BENEFIT

This employer handout is an overview of PERF’s defined benefit and defined contribution plans. More information is available at [www.inprs.in.gov](http://www.inprs.in.gov). If you have questions, please contact the Employer Pension Plan Administration (EPPA) team at (888) 876-2707.

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