

DC vs DB: The difference between a defined contribution (DC) and a defined benefit (DB) plan

All retirement plans have one common purpose, to help you save money. However, although they have the same purpose, they all have unique characteristics and ways for you to save for retirement.

The two main types of plans are defined contribution and defined benefit. We will start with defined benefit, which is what the SPTRFA retirement plan is. A defined benefit plan means your benefit is determined by a preset formula at the time of retirement. Factors such as final average salary and years of service are used in the formula along with preset multipliers. Defined benefit plans are a relatively inexpensive and easy way for people to save money for retirement. In this plan, both you and the district contribute money which is invested and managed by the fund. Once you are a vested member, you are guaranteed a lifetime monthly benefit at retirement.



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Why does the SPTRFA's website not have a pension calculator?

The other type of plan is a defined contribution plan. This is another way for people to save for retirement but it differs from the SPTRFA defined benefit plan. In a defined contribution plan your benefit is determined by how much you have contributed over the years and how well your investments have done. When you begin contributing to this type of plan you decide how and where your money is invested. It is your responsibility to make any changes to how this is managed. A 401(k), 403(b) or 457 plan are all examples of this type a defined contribution plan

In a defined contribution plan, once you retire and your benefit has been calculated you can decide how you want that distributed to you over your retirement. This gives members a variety of ways to receive their benefit.

The SPTRFA defined benefit plan is the foundation for your retirement, unlike a defined contribution plan, a defined benefit plan guarantees a lifetime benefit. In addition to your SPTRFA benefit; social security, your own personal savings, and contributing to a defined contribution plan can maximize your security and enjoyment in retirement.