

DO YOU KNOW THE DIFFERENCE?

Defined Benefit vs. Defined Contribution



Do you know the difference between a defined benefit retirement program and a defined contribution program? Educators and other school personnel in the public schools of Texas are currently participating in a defined benefit program. This is very important for members of the Teacher Retirement System of Texas, and we must keep this program in operation. The problem is that governments and private companies across the nation are looking at these programs and are considering ways to change them to defined contribution plans. Defined contribution programs require considerably less management, and therefore, are much less expensive. The employee is more responsible for making investment decisions and riding the waves of the market's ups and downs. This would shift the responsibility onto the backs of the retirees. In contrast, the defined benefit plan assures a lifetime annuity, because the State is responsible for filling in when the pension fund is down due to unfavorable market conditions. It is especially important for TRS to remain a defined benefit program as most Texas public school districts are not currently part of the Social Security system.

Features of a Defined Benefit Program:

1. You cannot outlive your benefit; it guarantees a lifetime pension.
2. Funds are managed by TRS investment professionals.
3. Its benefit is based on your age at retirement, years of service, and highest salaries; not based on the balance in the individual's account.
4. It is a selling point for employers in recruiting and retaining teachers.
5. It generates a predictable, steady retirement income.
6. It is the sole guaranteed retirement income for most TRS members because most Texas public school districts are not part of the Social Security system.

Features of a Defined Contribution Program:

1. You can outlive your benefits because it is based on the amount in your account.
2. Its success depends on each employee's ability to make good investment decisions.
3. It provides disability and survivor benefits based on the individual's account balance only.
4. It can generate an unpredictable retirement income.
5. It often requires that workers stay in the workforce longer.
6. It is portable from job to job.

There is no effort at this time for such a change to take place here in Texas. However, there is a national concern regarding benefit vs. contribution retirement plans. And, so it is important for active and retired school personnel here in Texas to be alert. WE MUST PAY ATTENTION TO LEGISLATIVE ISSUES.

At the moment there is no danger of retirees losing any part of their pensions. Health care insurance (TRS-Care) is also a very big issue and if nothing had been done by the Legislature to provide additional funding, retirees could have seen a 28% increase in premiums in 2005-2006. Texas Retired Teachers Association worked very hard and achieved NO HEALTH INSURANCE PREMIUM INCREASE! TRTA, TRS and the Legislature worked to identify ways to protect the future interests of active and retired public school educators and other school personnel. Keep up-to-date on this work by logging on to www.trta.org and clicking on Legislative Priorities.