



## RETIREMENT 101: ADVANTAGES OF A DEFINED BENEFIT PLAN

There are two types of employer-sponsored retirement plans – Defined Benefit (DB) and Defined Contribution (DC) plans. SBCERA administers a DB plan. DC plans can include 401(k), 403(b) and 457(b) accounts.

In a DB plan, members of the plan are promised a lifetime retirement benefit based on years of service, age at retirement, and compensation. Generally, as one of these factors increases, so does the lifetime benefit amount. In a DC plan, any benefit depends on the amount of money that has accumulated in the account from contributions and possible investment earnings. When the account balance falls to \$0.00, all benefits end.

Sometimes called “the foundation for a secure retirement,” a DB plan is intended to serve as a stable, reliable source of income from which members can build a safe and secure retirement. Below are some of the many advantages of participating in a DB plan such as that administered by SBCERA:

**Promised Benefit** – Sponsors of DB plans offer their employees a lifetime, monthly retirement benefit.

**Financial Security** – Upon retirement, members receive a specific amount every month for the rest of their lifetime.

**Predictability** – The benefit is defined by a formula. You can estimate your future benefit whether it is 5, 10, 15 or 20 years from now to help you plan for retirement.

**Inflation Risk** – DB plans usually offer some form of an annual cost-of-living adjustment (COLA) to offset the loss of purchasing power due to inflation. SBCERA members can receive a COLA of up to 2% per year in April based on the change in the Consumer Price Index (CPI).

**Longevity Risk** – You can't outlive a DB benefit. It is a lifetime benefit. Therefore, regardless of how long a member lives, they can count on receiving their monthly benefit indefinitely.

**Reduced Investment Risk** – Employer and member contributions are pooled together to increase efficiency, reduce fees, lower risk, diversify investments and improve returns.

**Professional Management** – Investments are managed by a professional investment staff and outside experts. Members do not have to make difficult investment decisions.

**Termination Options** – If you terminate employment prior to retirement, there are a variety of options available including refunds, rollovers, deferred retirement and/or leaving your funds on deposit.

**Survivor Benefits** – Several death benefit options exist for qualified beneficiaries while members are actively employed and after retirement including lifetime continuances.