

Defined Benefit or Defined Contribution?

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For more than a half-century, the Arizona State Retirement System (ASRS) has provided retirement, health insurance and long term disability benefits for Arizona's public servants in the fields of government and education.

Understanding your pension

The two key features of ASRS that are essential to our retirement security are the lifetime guarantee of retirement income based on our active, professional salaries. We refer to this type of retirement system as a Defined Benefit (DB) pension plan. DB plans are secure because the amount of your retirement income is predictable and stable, is paid monthly, and is guaranteed for life. In other words, you cannot outlive the pension benefit you earned.

ASRS is funded by your contributions, contributions from your school district and the investment earnings on those contributions. All of these funds are pooled and managed by expert investment professionals. Some are proposing that Arizona convert ASRS from a DB plan to a Defined Contribution (DC) plan. Examples of DC plans include 401(k) and 403(b) plans.

In a DC plan, the amount of money contributed is specified, but the retirement benefit is not guaranteed. The retirement income available under a DC plan is based solely on the amount of contributions into the plan and the investment earnings on those contributions. Investment performance in a DC plan depends on each employee's investment skill, *luck, and the vagaries of the economy* and the investment marketplace. Because a retirement benefit is not guaranteed under a DC plan, *you bear the risk of outliving your pension or having to severely reduce your retirement income to make it last.*

So how would a change from defined benefit to defined contribution impact your own retirement pension and your ability to receive cost of living increases? It could leave the ASRS plan underfunded. With an underfunded plan, and with an "every man for himself" investment plan, how would any raises for your future be funded? They wouldn't be. You would find yourself relying more and more on your families and charity. You may find yourself short on funds at the most vulnerable time of your life. Let's keep our ASRS strong by keeping the promise to public school employees, and to ourselves – let's keep our ASRS plan a Defined Benefit.