

# Summary of Different Plan Designs



Type	Description	Example	Variations	Pros	Cons
1. Final Average Pay DB Plan	Benefit based on a percentage of participant's average earnings during specified period	1:75% x Final 5-year Average Earning x Years of Service	Multiplier can vary with years of service. May limit service or salary; Can limit overall dollar amount	Benefit linked to salary growth; keeps pace with pre-retirement wages. Provides benefit security.	Back-loaded accrual/cost pattern. Highest value in last years. Much of risk lands on employer
2. Cash Balance Plan	Benefit based on account balance that may be converted to annuity at retirement; Account balance is hypothetical and determined similar to DC Plan	9% of pay contributed to account; account balance grows 5% per year for interest credit	Contributions may vary by age and/or service. Additional dividends can be granted when affordable	Benefit partially linked to salary growth; Easier for participants to understand; Benefit defined in terms of account balance	Not common in public sector; Potential increased administration. Still risks that need to be managed.
3. Defined Contribution Plan	Individual account is maintained for each employee with actual investment earnings credited to the account.	9% of pay contributed to the account. Actual investment earnings credited to the account.	Contributions may vary by age and/or service	Easier for participants to understand and grasp the value of the account;	Much of risk lands on employee. Requires ongoing education of employees.

# EE/ER Risk Features of Different Plan Designs



Economic Risk	KPERS Defined Benefit		Defined Contribution		Cash Balance	
	ER	EE	ER	EE	ER	EE
Investment Risk	High	Low	None	High	Medium	Low
Inflation Risk – wage (pre-retirement)	High	None	None	High	None	High
Inflation Risk – price (post-retirement)	None	High	None	High	None	High
Contribution Risk	High	Low	None	High	Medium	Low
Longevity Risk	Medium	None	None	High	Medium	None
<b>Features</b>						
Rewards older/longer service employees	High	High	Low	High	Medium	High
Provides retirement security	High	High	Low	High	Medium	High
Attract employees	Medium	Medium	High	High	High	High
Retain employees	High	High	Low	High	Medium	High
Provides systematic retirement of employees	High	High	Low	High	Medium	High