Risk Features of Different Plan Designs

Economic Risk	KPERS Defined Benefit ER	KPERS Defined Benefit EE	Defined Contribution ER	Defined Contribution EE	Cash Balance ER	Cash Balance 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
Features						
Rewards older/longer service employees	High		Low		Medium	
Provides retirement security	High		Low		Medium	
Attract employees	Medium		High		High	
Retain employees	High		Low		Medium	
Provides systematic retirement of employees	High		Low		Medium	

House Pensions & Benefits
Date: 3-11-13
Attachment # 4

4-1

4-2

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 similarly 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.