FACTS ABOUT IPERS
Because facts matter

"401k's, 403b's, and 457 plans are defined contribution plans.

Zerber

"Benefits are portable yet unpredictable because they are based on the amount contributed and how the stock market performs."

One of the advantages of a DC plan is the benefits are portable. The 60% of teachers in IPERS who don't make it seven years (required in order to be vested in the plan) forfeit all the contributions plus interest that were made by the employer on their behalf over that period. In contrast, in a DC plan the employee is able to take with them all the contributions that were made, plus interest, and can continue to build retirement security over the course of their career. Of course, the earlier one's saving begins, the more valuable those savings eventually become. The current plan shortchanges the majority of teachers, especially the young, mobile ones, by taking back their early-career savings. In effect, those dollars end up being used to subsidize the fewer but longest-tenured teachers, whose benefits increase dramatically towards the end of their careers.

The reality is the characteristics most appreciated in a DB plan like IPERS can be incorporated into a well-designed "best practice" DC plan, while making the majority of employees better off. It can even be administered by IPERS. Features of a "best practice" DC plan include:

- Required employee contributions
- Prohibition of early withdrawal
- Investments pooled and managed at low cost (keeping notional accounts for individual members)
- Default investment mix based on target retirement date
- Required lifetime annuitization

Defined contribution plans shouldn't be rejected out of hand just because certain types of defined contribution plans have shortcomings. In fact, a well-designed DC plan can be superior for the majority of employees because the early career savings are greater and it is portable.