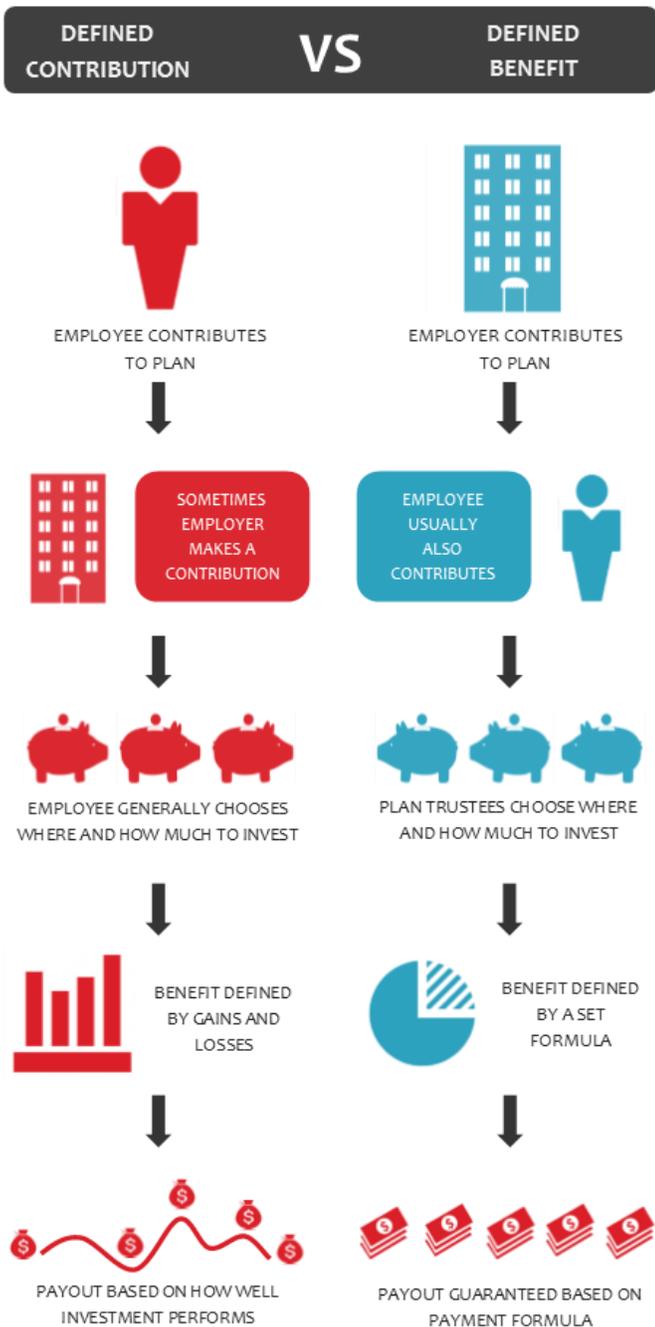




DEFINED BENEFIT PLANS: 3 Key Factors to Consider

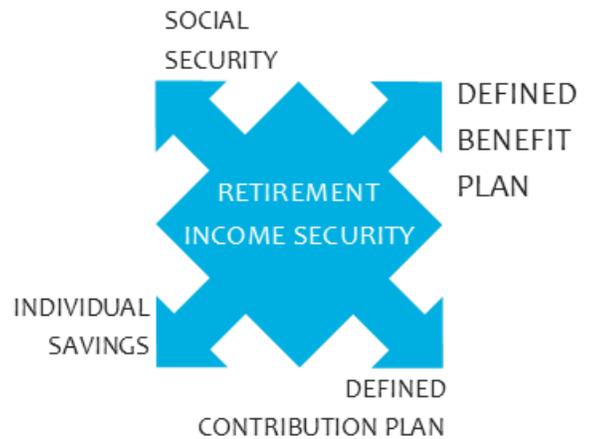
In recent decades, private employers have steadily shifted away from defined benefit plans, such as traditional pensions, toward defined contribution accounts, such as 401(k) plans. More recently, public employers have also explored making similar changes to retirement plans, with the rationale that it would cut costs.

Before making such changes, however, employers should also consider other economic factors, such as the role of a defined benefit plan in overall retirement security, the other advantages of an effective retirement benefits plan, and the improving economic outlook for defined benefits plans.



1 DEFINED BENEFIT PLANS ARE A KEY SOURCE OF RETIREMENT INCOME

Employees are routinely advised to plan on replacing a *minimum* of 75% of their preretirement income in retirement. Retirement income typically comes from a combination of sources. If income from one source is reduced, income in other areas would need to be increased in order to avoid a shortfall in retirement.



Data show that employees prefer a defined benefit plan as part of their retirement benefits. The choice not to offer a defined benefit plan may have a negative impact on an employer's ability to recruit and retain the desired workforce.

2

KEYS TO A MAINTAINING A HEALTHY DEFINED BENEFIT PLAN

PLAN ASSESSMENT

Policymakers and plan administrators regularly evaluate the plan to ensure that it is adequately funded and effectively administered. Small adjustments to contributions or benefits may be made in the short-term.

Arkansas' allocation to ATRS is 2.8% of its budget.



THE OVERALL ECONOMY

The health of the plan is generally tied to the overall economy. As the economy improves, plans will become less expensive to fund and administer.

Long term interest rates are currently 1.79%.
A 2% increase takes a plan that is 80% funded to 100% funded.

PLAN DESIGN

Because risk is pooled and spread over time, the plan can withstand and recover from market fluctuation. Defined benefit plans are designed so that regular contributions plus investment earnings pay the promised benefits.

3

DEFINED BENEFIT PLANS OFFER ADVANTAGES TO KEY STAKEHOLDERS



Each dollar invested by Arkansas taxpayers in ATRS supports an average of \$4 in economic activity in the state.



EMPLOYEES

- Receive competitive compensation.
- Are assured of income security in retirement.
- Can reliably anticipate future income.
- Contribute to economy during both working life and retirement.



EMPLOYERS

- Attract and retain qualified workers to perform essential public services.
- Shift some employee compensation into the future in the form of retirement benefits.
- Can manage labor force by encouraging employees to work longer or retire earlier.



TAXPAYERS

- Receive public services at a fair and predictable cost.
- Tax dollars are administered effectively by experts.
- Tax dollars are an investment in people and economy rather than an expenditure as public assistance.