Comparison of Defined Benefit, Defined Contribution and Hybrid Plans

	Traditional Defined Benefit Plan (DB)	Traditional Defined Contribution Plan (DC)	Hybrid Plans[i]			
			Traditional Hybrid Plan	**Banded DB Plan**	**Cash Balance Plan (Statutory Hybrid Plan)**	**Stacked Hybrid Plan**
Description	• Provides a guaranteed benefit, generally paid in the form of a life annuity, based on a predetermined formula. • Generally calculated by age at retirement, years of service, and final compensation. • Employer contributions are actuarially determined and may vary annually. • May require employee contributions.	• Provides a non-guaranteed benefit based solely on the value of a participant's individual retirement account. • Value of the benefit depends on the value of the individual's account, including earnings and losses attributable to contributions. • Contributions depend upon the plan terms and can include both employer and employee contributions. • In some DC plans, employees may make elective deferrals with pre-tax dollars.	• Includes a DB component and a DC component. • DB component provides a guaranteed benefit, generally paid in the form of a life annuity, based on a predetermined formula. • DC component provides a non-guaranteed benefit based on the value of a participant's individual retirement account.	• A DB plan that provides lifetime retirement income based on a predetermined formula. • Benefit includes a guaranteed base-level (floor) benefit plus a variable benefit determined with reference to investment performance. • Employer contributions are actuarially determined and may vary annually. • May require employee contributions.	• A DB plan where the benefit is expressed as a "hypothetical" account balance (i.e., lump sum) that is credited with a fixed rate of interest, although individual accounts are not actually maintained. • The benefit can be paid as a lump sum, annuity, or combination, depending on the terms of the plan. • Employer contributions are actuarially determined and may vary annually. • May require employee contributions.	• Includes a DB component that provides a guaranteed *capped* benefit that is generally paid in the form of a life annuity, based on a predetermined formula. • DB cap may be a wage cap or a benefit allowance cap. • Employer contributions to DB component are actuarially determined and may vary annually. • Plan may include a DC component that provides a non-guaranteed benefit based on the value of a participant's individual retirement account. • DC contributions are generally based on wages that exceed the cap. • May require employee contributions.

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Who Bears Risk	• Employer bears the risk of investment loss. • If plan investments do not perform in accordance with projections, the employer makes additional contributions to provide guaranteed benefits.	• Employee bears the risk of investment loss because the benefit is not guaranteed. • Benefit will go up or down with investment gains or losses.	• For the DB component, employer bears the risk of investment loss. • DB contribution requirements tend to be more stable than in traditional DB plans because the guaranteed benefit is generally smaller. • For the DC component, employee bears the risk of investment loss because the DC benefit is not guaranteed. • Value of the retirement benefit tends to be more stable than in a traditional DC plan because the DC component of the hybrid is designed to replace less of the employee's income.	• Employer bears the risk of investment loss for the floor benefit, but risk can be mitigated by establishing a conservative floor benefit. • Employee bears the risk for the variable component of the benefit because the floor benefit only goes up if investment performance is achieved. • DB contribution requirements tend to be more stable than in traditional DB plans because only a floor benefit is guaranteed.	• Employer bears the risk of investment loss, but risk can be mitigated by setting the interest crediting rate conservatively, allowing for more cost control than in a traditional DB plan.	• Employer bears the risk of investment loss for the capped benefit, but risk can be mitigated by establishing a conservative cap. • If there is a DC component, employee bears the risk of investment loss because the DC benefit is not guaranteed. • DB contribution requirements tend to be more stable than in traditional DB plans because only a capped benefit is guaranteed.

[i] The term "hybrid plan" can encompass many different alternative retirement plan arrangements, including among others, the arrangements discussed above. Generally, hybrid plans provide for risk and/or cost sharing between employers and employees, and tend to have aspects of both defined contribution and defined benefit plans.