



# **PENSION FUNDAMENTALS**

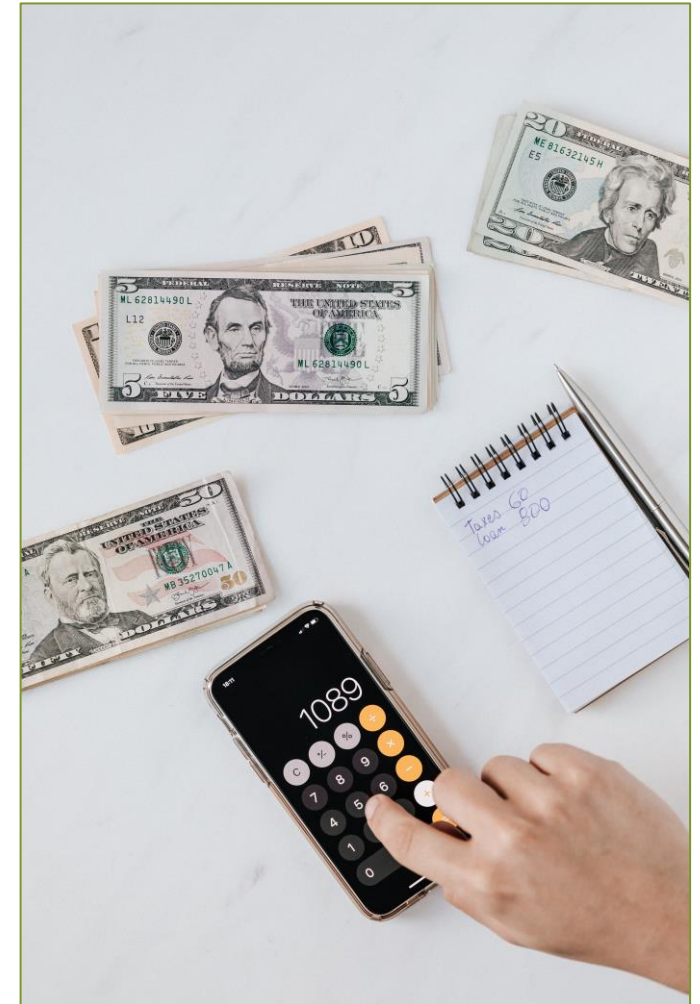
## **THE LANGUAGE OF PENSION TRUSTEES**

Fred Nesbitt, FPPTA Education Committee

# DEFINED BENEFIT PLAN

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- Defines the benefit you will receive when you qualify for retirement.
- Over 90% of public sector employees have a defined benefit plan.
- It is prefunded.
- Benefits are based on a formula taking into consideration age, years of service, salary replacement and compensation levels
- You can predict pension benefit when you begin employment based on the retirement formula
- Once you're receiving the benefit, you cannot outlive the benefit.





## DEFINED CONTRIBUTION ACCOUNT

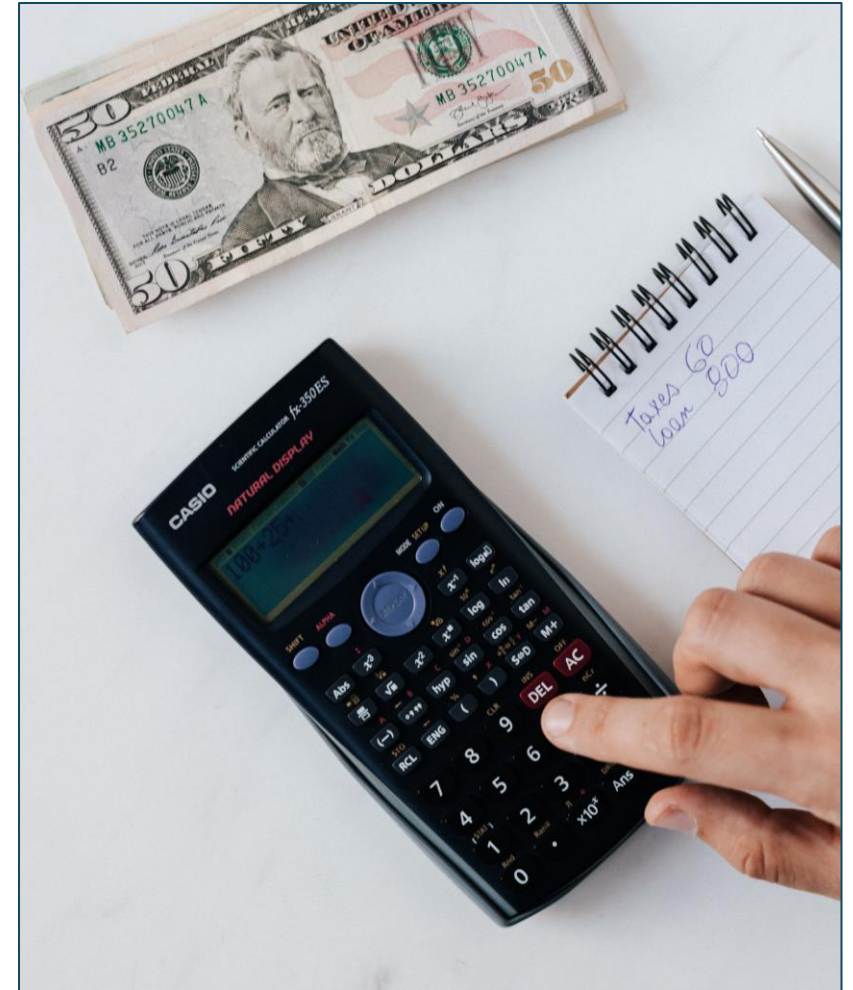
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- Defines the contribution that you, your employer, or both make to your individual retirement account
- When eligible to retire, you can then draw money to provide for retirement years.
- Most are self directed as to investment options.

# DEFERRED COMPENSATION

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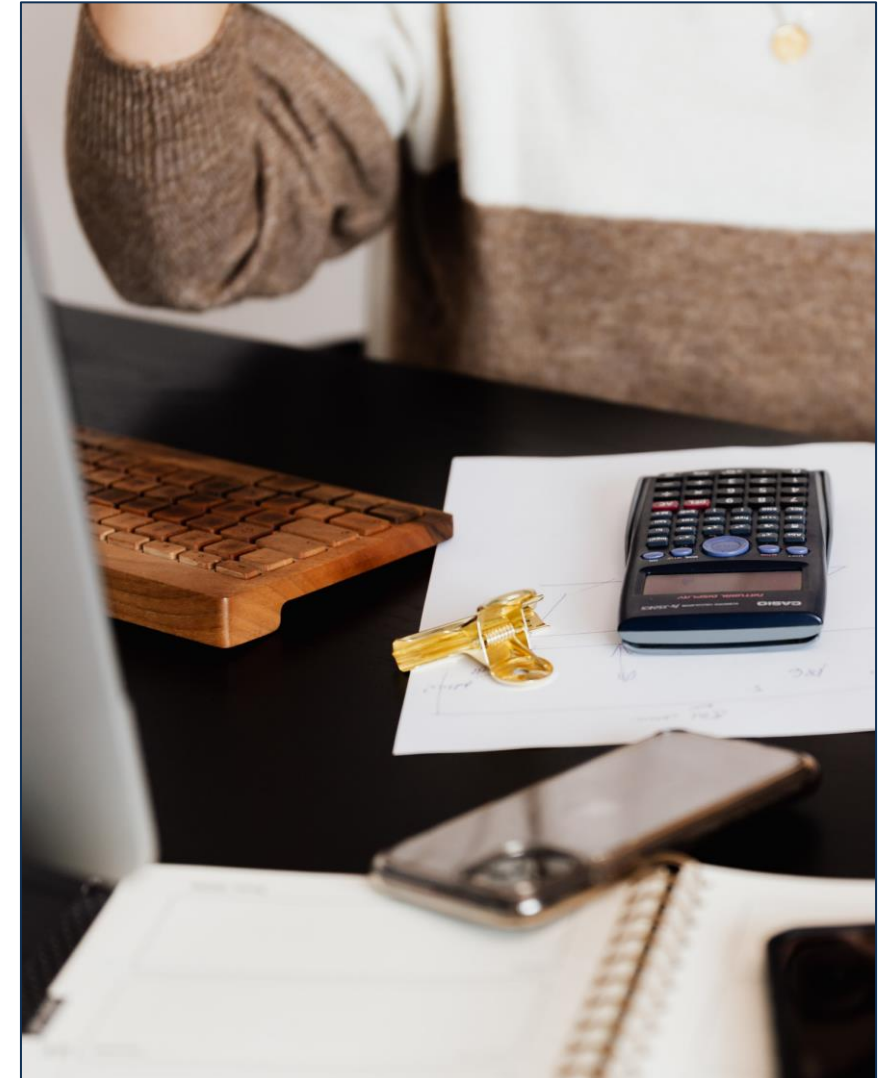
- In most cities, employees have the option to participate in a deferred compensation plan.
- Allows you to put away some compensation that is tax deferred until withdrawn at retirement.
- IRA, 401(K), 457(B). 403(B)
- The Internal Revenue Code (IRC) limits how much compensation you can defer, sets the age at which you can withdraw without penalty, and taxes these distributions.



## DROP – DEFERRED RETIREMENT OPTION PROGRAM

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- Freezes your retirement benefits, but the employee continues to work for a defined number of years.
- During this time, pension benefits are not paid to the pensioner, but placed in their individual DROP account held by the Pension Board.
- When employment is terminated, this DROP account balance becomes available to the pensioner.
- The Trustees role is administrative in ensuring eligibility, crediting funds and disbursing funds.





# LET'S REVIEW

## KEY TERMS

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- Defined Benefit Plan
- Defined Contribution Account
- Deferred Compensation
- Social Security
- Deferred Retirement Option Plan
- Internal Revenue Code
- Certified Public Pension Trustee

## REMEMBER...

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- You, the Trustee, are in charge.



# LET'S REVIEW

## KEY TAKE AWAYS

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- You, the Trustee, are the expert.

