

**Defined Benefit Plan:** An employer pension plan in which a retired employee receives a specific amount based typically on salary history and years of service. The employer determines the investments and bears the investment risk and return, agreeing to pay the stated benefit. Investment gains or losses do not affect the benefit payable to the plan participant at retirement.

Defined benefit plans usually pay out benefits in the form of a life annuity. Due to the Employee Retirement Income Security Act (ERISA) of 1974, most defined benefit plans are further guaranteed with insurance under a program administered by a government agency called the Pension Benefit Guaranty Corporation (PBGC).

**Defined Contribution Plan or 401(k) Plan:** A retirement savings plan administered at the workplace that sets aside a certain amount of money each year for an employee. Employers do not have to contribute to the plan; but they do administer it. The employee determines how much to contribute subject to limitations. These contributed funds are invested in investment products containing stocks, bonds or other securities. The employer chooses the investment products but the worker decides how their funds are allocated among them. Some plans restrict the bulk of the investments in the employer's stock. The plan's accumulated value at retirement or termination represents the total value of all contributions made and investment income earned or lost. The investment results of a defined contribution plan are not guaranteed, and there is no guaranteed amount paid at retirement. Such plans are commonly referred to by the tax code number they are defined by, such as a 401(k) in the for-profit sector and 403(b) in the not-for-profit sector.