DEFINED BENEFIT PLANS vs RRSP's

Why is DB better than DC (RSP)?

1. Investment process is hands off, you have cost effective professional money managers.
2. Investment risk of the pension funds lies with the plan sponsor in a DB plan whereas in a DC plan it is solely on the individual plan member.
3. Fees are generally significantly lower which means more money stays in the plan working for you that being withdrawn to pay the investment manager each month.
4. Pension income is formula based which means that the timing of your retirement (your pension) is not impacted by the short term fluctuations of the market. If you suffer a significant loss in an RSP just prior to your planned retirement, most would have to postpone their retirement date until their RSP recovered. (e.g. 2008 collapse)
5. Your percentage of income at retirement can be reasonably predicted in a DB plan where as in an RSP you will have to wait until your retirement date to see exactly how much you will have to retire on and then preserve it to match your planned income.
6. A DB pension is for life and in many cases indexed to provide inflation protection. In an RSP, when your money runs out, it is gone and usually not indexed which means your purchasing power erodes in retirement due to increasing prices but no change in your income level from the annuity. Note: Annuities are dependent on interest rates when you retire. If they are low, the individual gets less per month.

DEFINED BENEFIT (PSPP/MPP)	Defined Contribution (RRSP)
Sponsors assume most of the investment risk.	Employee assumes investment risk while contributing and interest rate/risk at retirement.
Adequate benefits if members has sufficient service.	Adequate benefits if investment performance is good, and if contributions are high enough at all ages.
Flexibility in providing past service, early retirement, death and disability benefits.	Amount of annuity that can be purchased at retirement is directly affected by: - investment performance - actual interest rate at date of annuity purchase.
Pension at retirement is calculated in accordance with a defined formula, i.e. not directly affected by short term investment performance.	Income at retirement directly impacted by contributions, fees and investment performance
As salary increases, the benefit increases. This provides pre-retirement inflation protection.	Same value whether the employee terminates or retires.
Indexing provides post-retirement inflation protection, but not guaranteed.	Does not provide inflation protection or if they do, monthly income reduced.
Generally more administratively efficient.	Flexible options at retirement. RRIF, LIF or annuity
Contribution rates set by the Plan.	Contribution rates subject to negotiations.
Fees are generally significantly lower because of economies of scale. More money at work for members vs. going to fees each year.	The investment and administrative fees in the retail sector are extremely costly and seriously impair a member's ability to accrue a meaningful account.