

# Difference Between Defined Benefit and Accumulation Fund

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## Key Difference – Defined Benefit vs Accumulation Fund

Making periodic contributions to a fund with the expectation of using them for a future purpose is common among individuals and firms. Although different in structure and [beneficiaries](#), both defined benefit and accumulated fund serve this same purpose. The key difference between defined benefit fund and accumulation fund is that **a defined benefit fund is a pension plan in which an employer contributes with a guaranteed lump-sum on employee's retirement** whereas an accumulated fund is the name given to the capital fund of nonprofit organizations such as societies, charities, and clubs.

## What is a Defined Benefit Fund?

A defined benefit fund is a [pension plan](#) in which an employer contributes with a guaranteed lump-sum on employee's retirement that is predetermined based on the employee's [compensation](#) history, age, number of years of service and other various factors. At retirement, employees are entitled to receive the pension funds as a lump sum or a monthly payment upon discretion.

Defined benefit pension amount is calculated as per below.

Pension income= Pensionable service/Accrual rate\* pensionable earnings

Pensionable service= Number of years the employee had been a part of the pension scheme

Accrual rate= Proportion of earnings for each year the employee will receive as pension (this is generally denominated as 1/60th or 1/80th)

Pensionable earnings= [Salary](#) at retirement/ salary averaged over the career

E.g. an employee who had been a part of the pension scheme for 15 years retires with a salary of \$65,000 per year. The accrual rate of the scheme is 1/60th. Thus,

Pension income=  $15/60 * \$65,000$

= \$ 16,250



Varieties can be found in pension plans, and employee contributions are also common, especially in [public sector](#). Defined benefits are fully taxable if no contributions were made by the employee and if the employer did not withhold contributions from employee's salary. In that case, the funds will be included in the total amount due as income tax. Further, in case that the employee retires before the age of 55 years, the pension could be subject to a 10% tax as a penalty. Having said that, there are some exceptions for illness and disability as well in certain cases.

## What is an Accumulation Fund?

An accumulated fund/ accumulation fund is the name given to the capital fund of nonprofit organizations such as societies, charities, and clubs. Accounting terminology used in nonprofit organizations are different from profit making organizations. When [revenue](#) exceeds [expenditure](#) (this situation is referred to as

a **surplus** in nonprofit organizations), funds are maintained in the accumulated fund. In the case of a loss (this situation is referred to as a **deficit** in nonprofit organizations), funds can be withdrawn from the accumulated fund.

The value of an accumulated fund can be arrived at by deducting the total liabilities by total assets. Money in accumulated fund is utilized to purchase fixed assets such as buildings and office furniture. A **statement of affairs** (a summary of a Company's assets and liabilities) is arranged to determine the accumulated fund of the nonprofit organizations. The accumulated fund at the beginning of the year is calculated by deducting the total of the opening liabilities from the total of the opening assets.

Statement of affairs as at 31.12.2016		Difference Between
Assets (Both Non-current and current)	xxx	
Land	xxx	
Building	xx	
Office equipment	xx	
Prepaid expenses	xx	xxxx
Cash/bank		
Liabilities (Both Non-current and current)		
Bank loan	xxx	
Accounts payable	xx	
Accrued expenses	xx	(xxx)
Capital		xxx

Figure 01: Accumulation Fund

## What is the difference between Defined Benefit and Accumulation Fund?

### Defined Benefit vs Accumulation Fund

Defined benefit fund is a pension plan in which an employer contributes with a guaranteed lump-sum on employee's retirement that is predetermined based on a number of factors.

Accumulated fund is the name given to the capital fund of nonprofit organizations such as societies, charities, and clubs.

Nature	
Defined benefit fund is drawn for the benefit of the employees.	Accumulated fund is prepared exclusively by nonprofit organizations.
Contributions	
Employer (and employee in certain schemes) make contributions to the defined benefit fund.	Contributions to accumulated fund is made by members or donors.
Beneficiary Party	
Employees are the beneficiary party in defined benefit fund.	Members or receivers of welfare benefits from accumulated fund.

## Summary – Defined Benefit vs Accumulation Fund

The difference between defined benefit and accumulation fund depends on a number of factors; one is used to set aside funds to use in retirement period of employees (defined benefit fund) whereas the other (accumulated fund) is the name given to the capital account in a nonprofit organization. Both funds are used to fulfill future purposes; however, in a defined benefit fund, a lump sum is given to the employee following retirement while fund inflow and outflow in an accumulated fund are continuous in nature.

### References:

- 1." Defined benefit pension schemes explained." Money Advice Service. N.p., n.d. Web. [Available here](#). 26 June 2017.
- 2.Caldwell, Miriam. "Learn How to Plan for Your Retirement with a Pension Plan." The Balance. N.p., n.d. Web. [Available here](#). 26 June 2017.
3. "Accumulated Fund." Investopedia. N.p., 10 Oct. 2010. Web. [Available here](#). 26 June 2017.

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