

# Trends in Pensions and Retirement Plans

## Construction Economics Research Network

April 16, 2009

National Labor College - Silver Spring, Maryland

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# Two approaches to preparing for retirement

## Defined benefit (DB) plan

- Contributions to a common pension trust
- Investments are directed by professional managers
- Plan pays employees a fixed lifetime benefit (with spousal options)

## Defined contribution (DC) plan

- Contributions made to individual accounts
- Investments are directed by individual employees
- Individuals drawn down DC assets after retirement





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# A Better Bang for the Buck

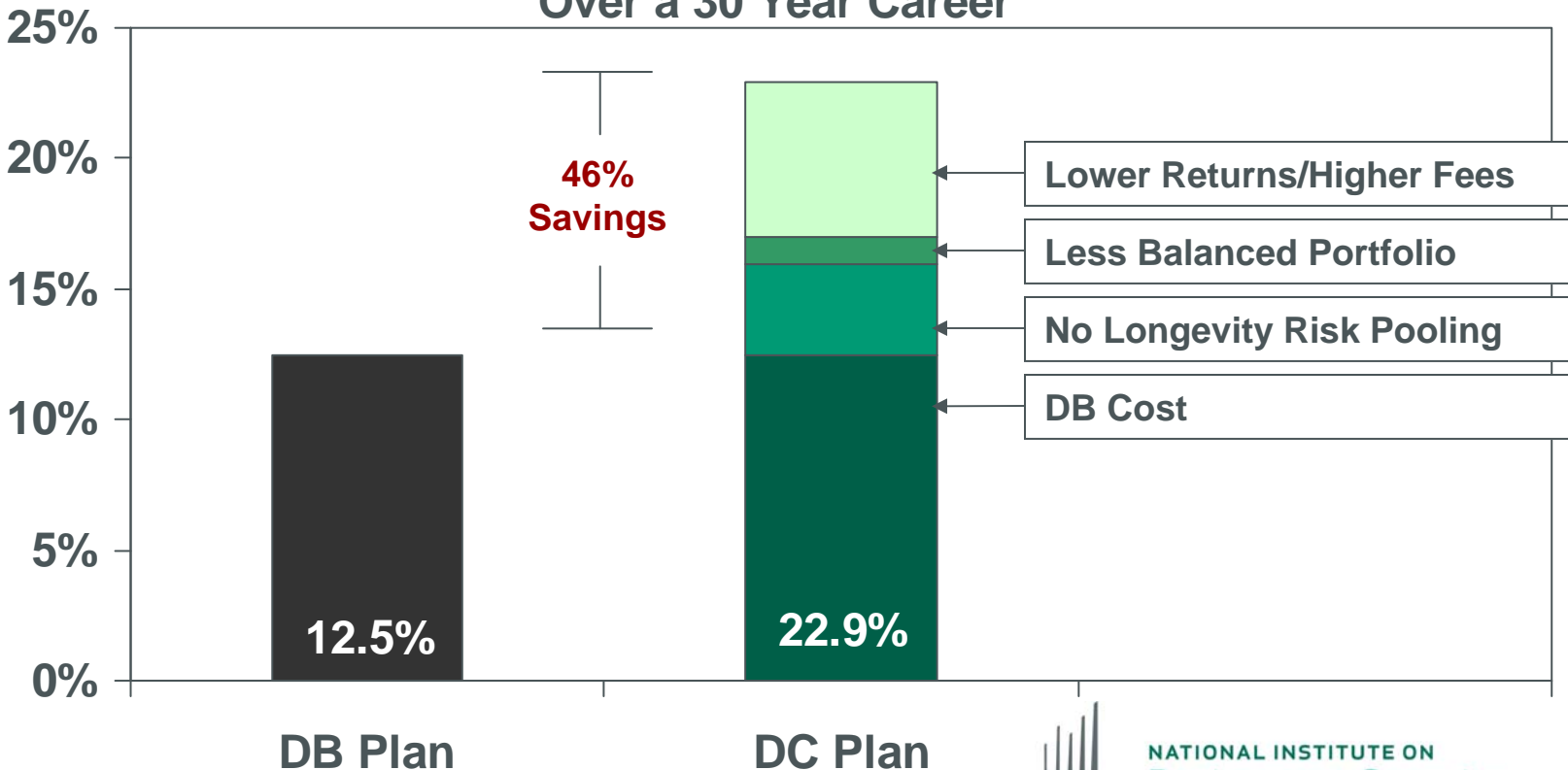
The Economic Efficiencies of Defined Benefit Pension Plans

by Beth Almeida and William B. Fornia, FSA

August 2008

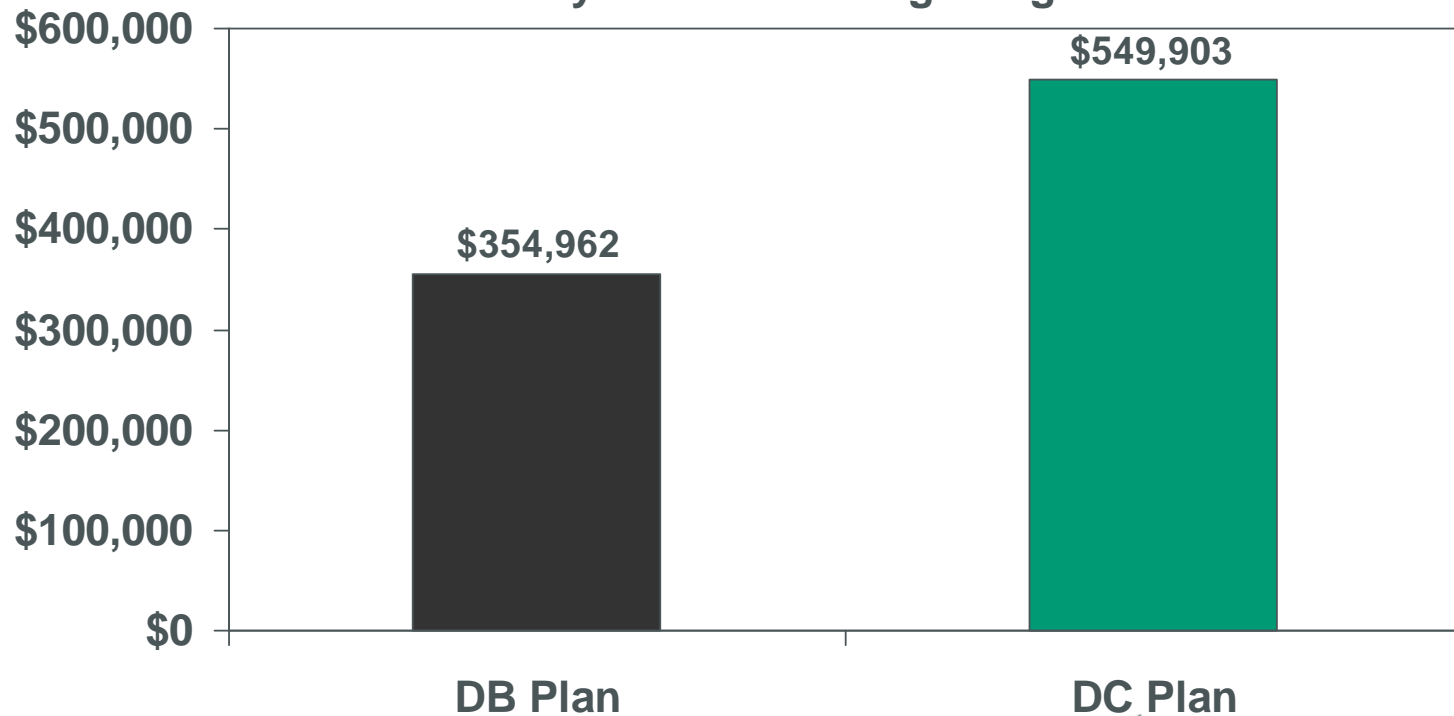
# DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan

Cost of DB and DC Plan as % of Payroll  
Over a 30 Year Career

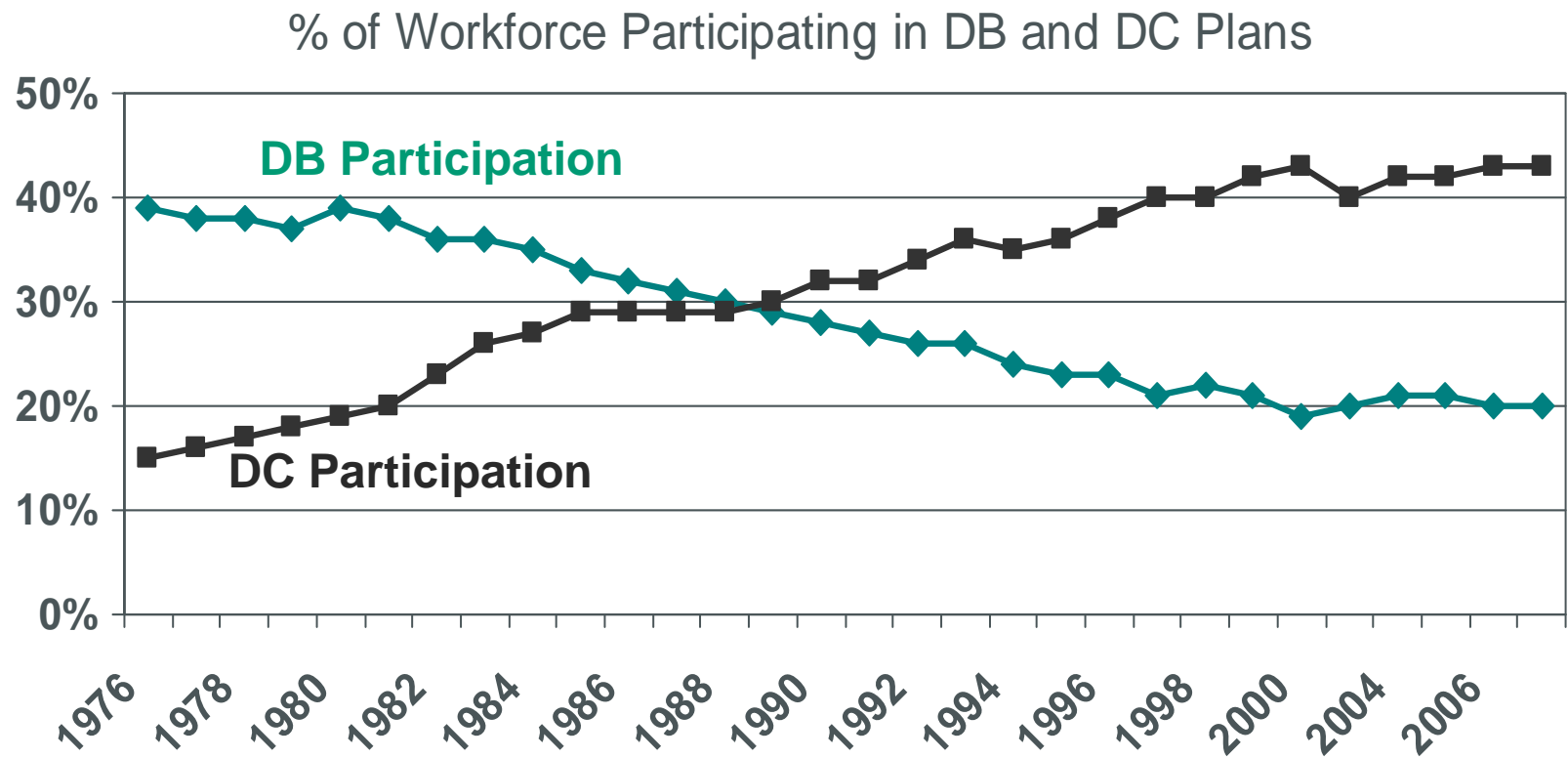


# DB Plan Can Do More with Less

Assets Needed to Finance a Benefit of \$2,200/month  
for a Healthy Female Retiring at Age 62



# Shifting Landscape of Retirement Plan Coverage



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**Market conditions have  
Americans very concerned  
about their retirement  
prospects.**



# The market meltdown of 2008-09

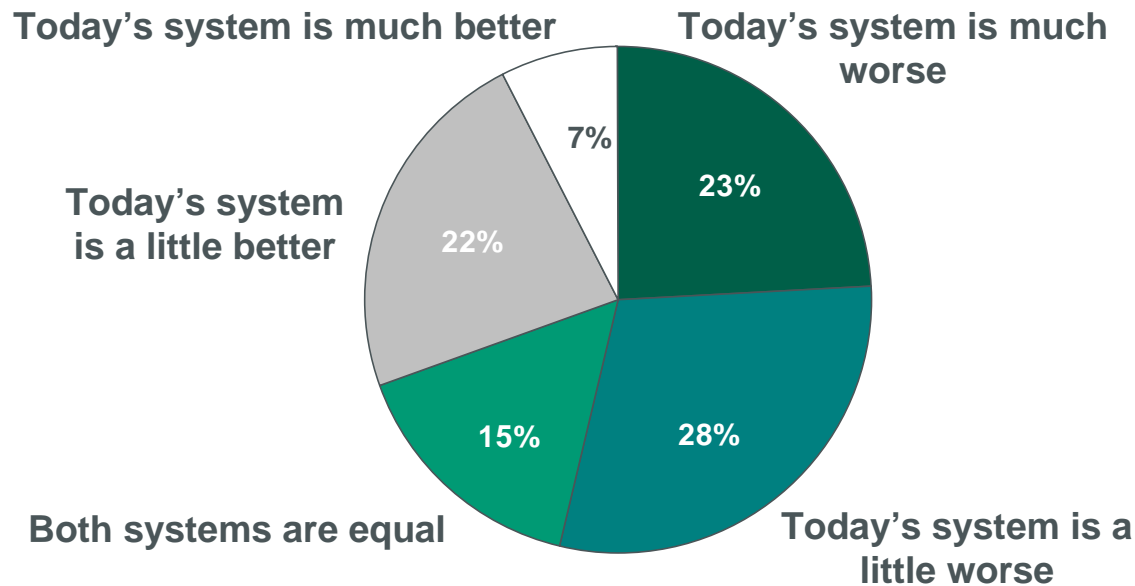


# Where would you rather have your retirement wealth?



# Half of Americans believe the current retirement system is worse than the system of earlier generations with pensions

*Which of the following statements do you think is most true regarding today's retirement system using 401(k) accounts versus the system of earlier generations, which used more employer-provided pensions?*



**“A secure retirement would mean having a pension.”**

**“A secure retirement certainly would mean having an adequate pension to carry me through.”**

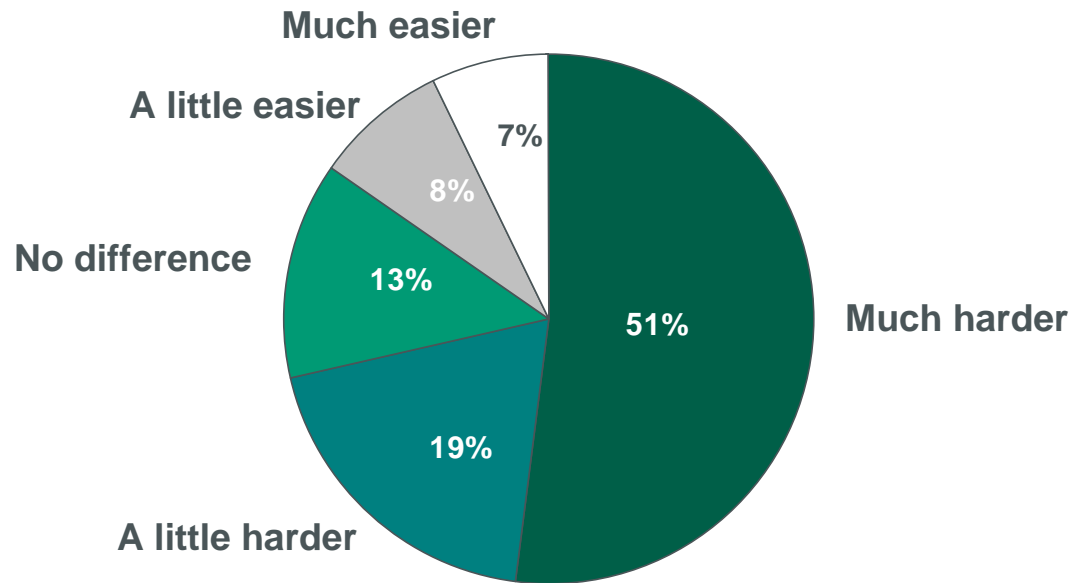
**“It is the mental stability and freedom from stress – knowing exactly what you're going to get each month so you can budget accordingly.”**



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# 71% of Americans believe it is harder today to prepare for retirement than it was for previous generations

*Do you feel that – compared to previous generations – it is easier or harder for people to prepare for retirement today, or is there no difference?*



"It's kind of hard [to prepare for retirement] right now and I really don't want to think about it."

"If I weren't retired I would be very concerned about it. It would be hard to pay bills."

"I do not have a secure [retirement] plan or any idea how I'd get one."

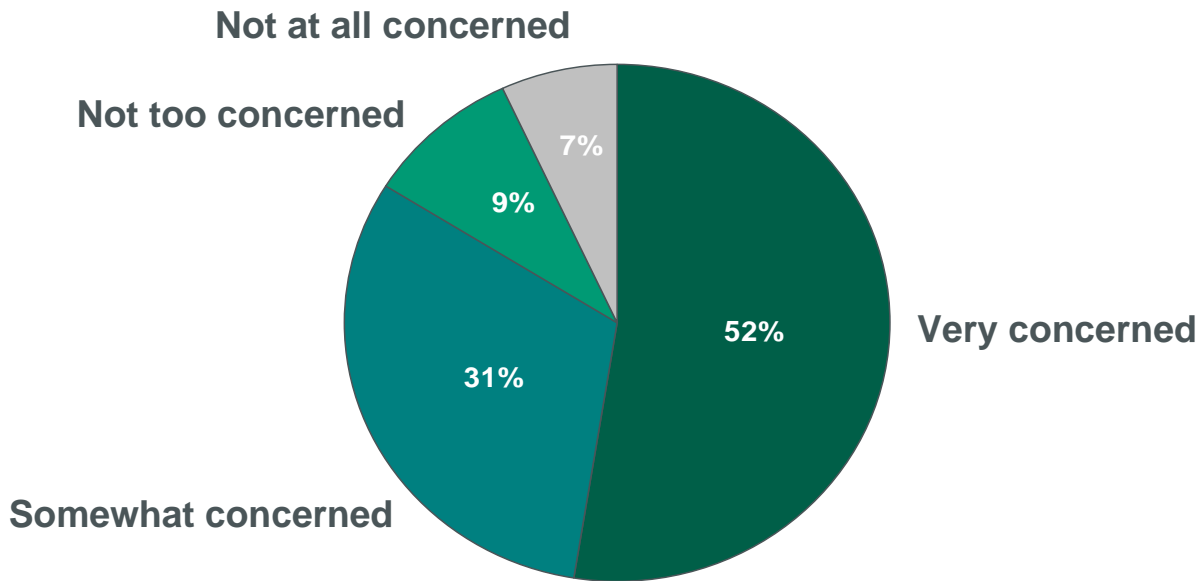
"I don't believe there is such a thing [as a secure retirement]."



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# More than eight out of ten Americans are concerned that current economic conditions will affect their ability to retire

*How concerned are you about current economic conditions affecting your ability to achieve a secure retirement?*



**“If I had not lost a lot of money the last few weeks, I would have had a secure retirement. I just hope that it comes back.”**

**“A financially-secure retirement would mean that the money that I put away will actually be there for me when I do retire. The way the stock market is going, it's not there now.”**

**“The market returning to over 10,000 would make my retirement much more secure.”**



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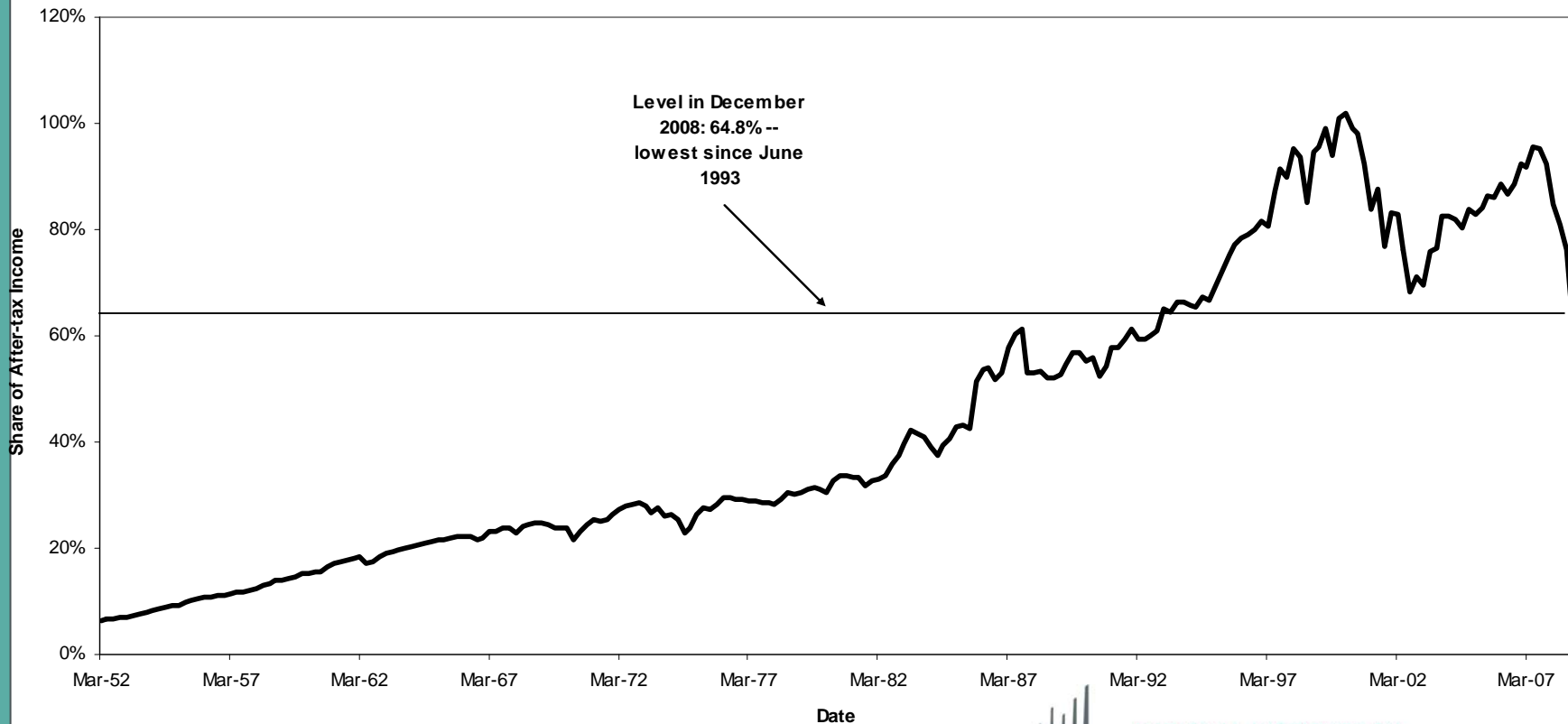
**Americans' concerns about  
retirement are not  
unfounded.**



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# After decades of steadily increasing, retirement wealth is now more volatile

Retirement Wealth to After-tax Income



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# DB to DC shift coincided with a drop in retirement wealth for middle-class

Mean Retirement Plan Wealth for Near-Retiree Households in the Middle Income Quintiles

	1992	1998	2004
DB Wealth	\$92,008	\$80,917	\$65,605
DC/IRA Wealth	<u>\$35,239</u>	<u>\$44,581</u>	<u>\$48,194</u>
Total	\$127,248	\$125,498	\$113,799



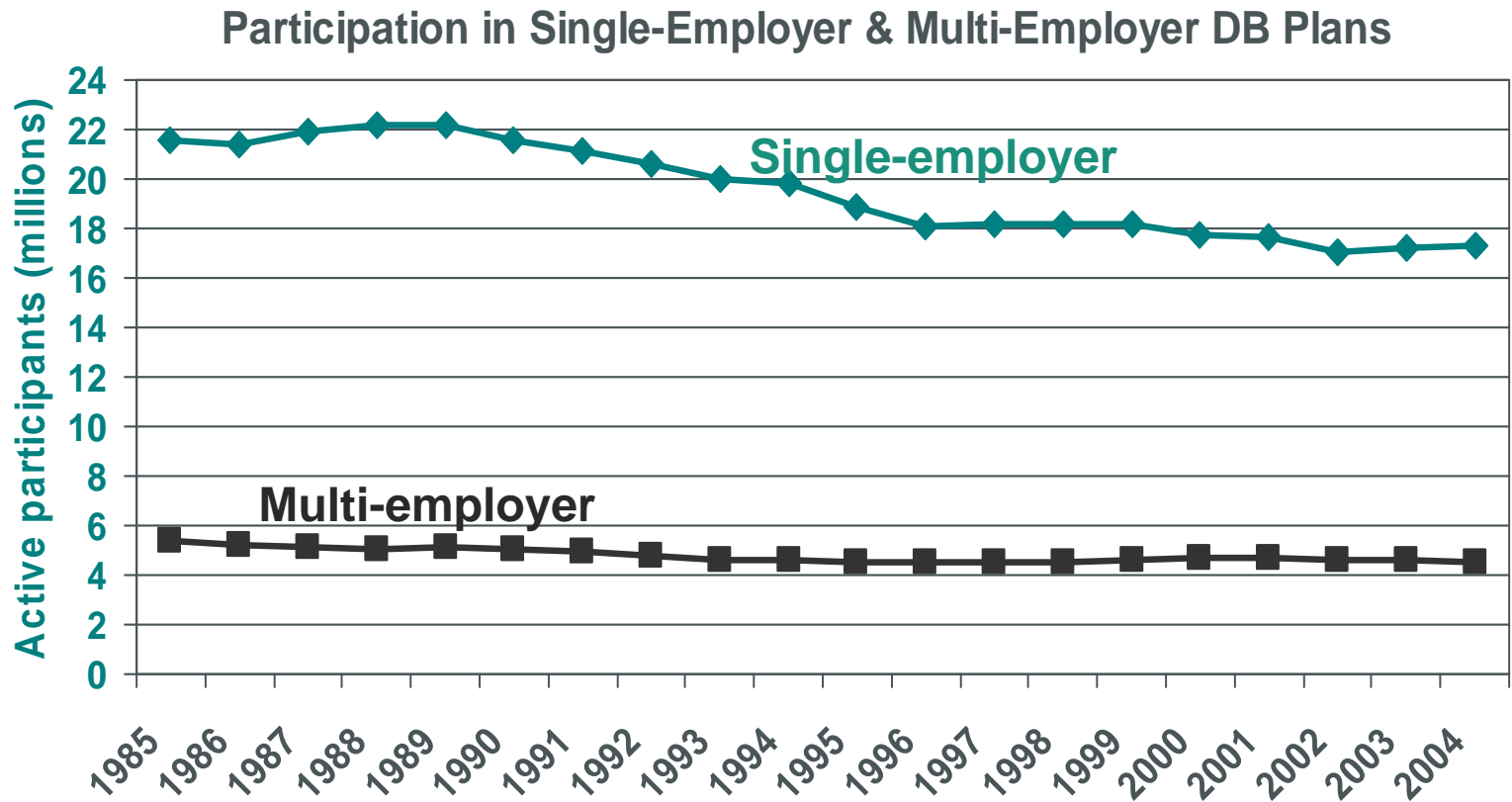
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**DB pension coverage  
remains strong in certain  
areas of our economy.**

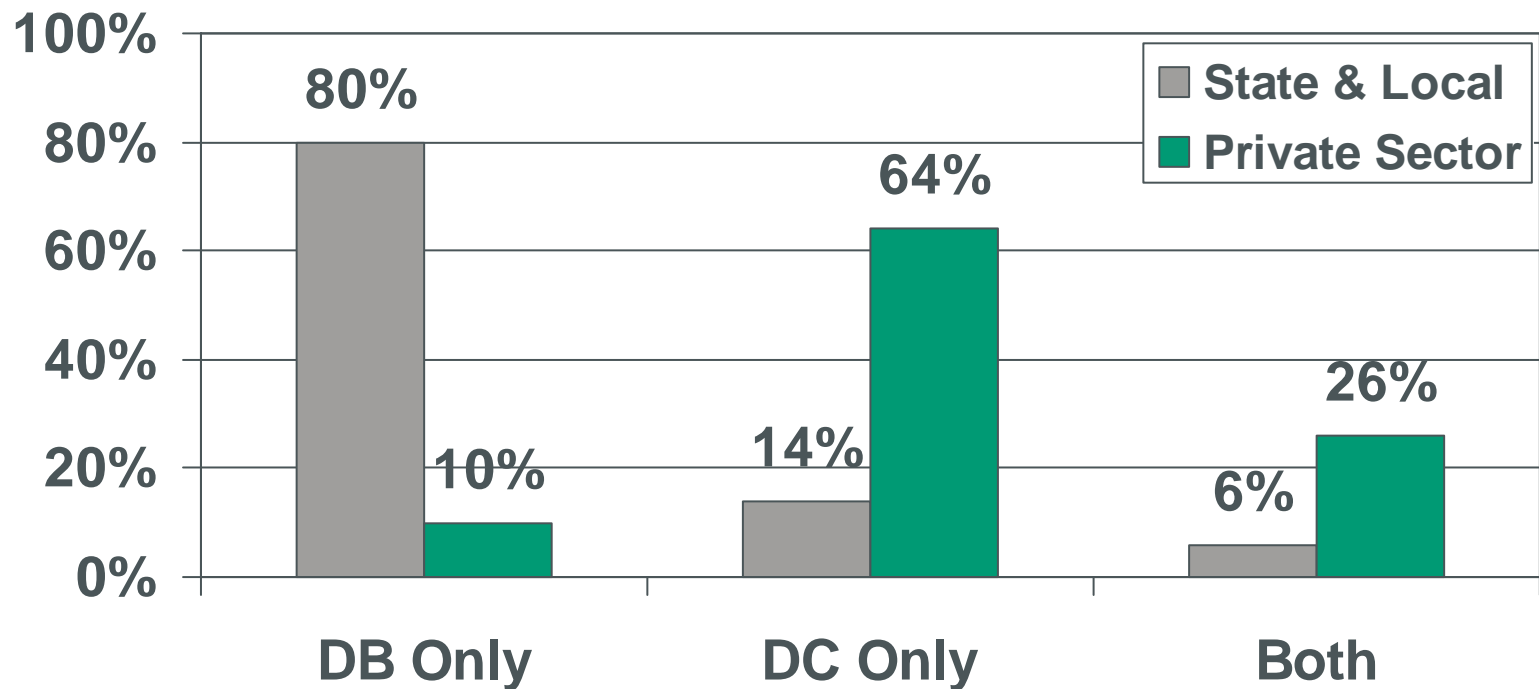


# DB Plan Participation

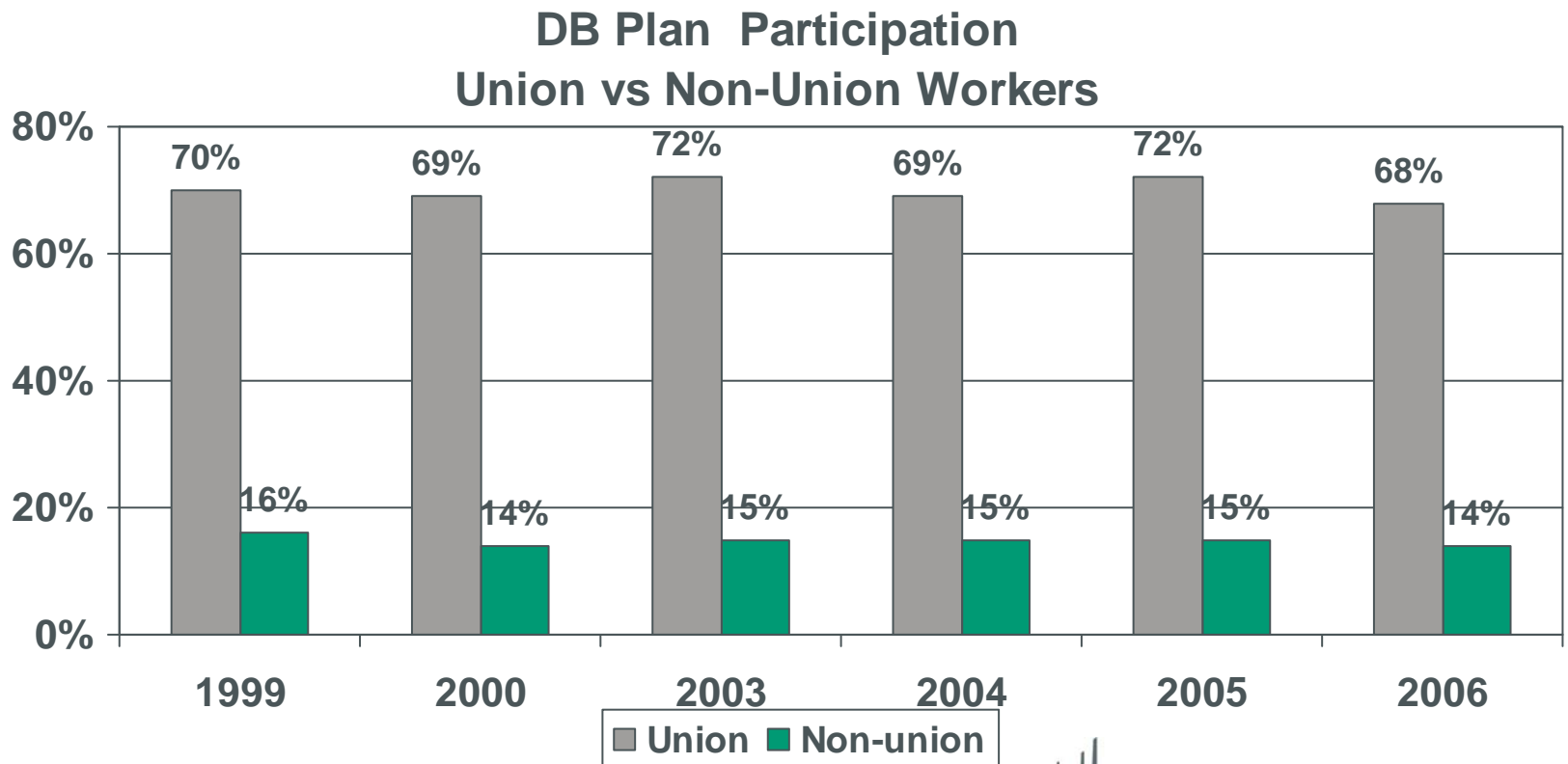
## Single Employer vs Multiemployer



# DB coverage is higher in the public sector

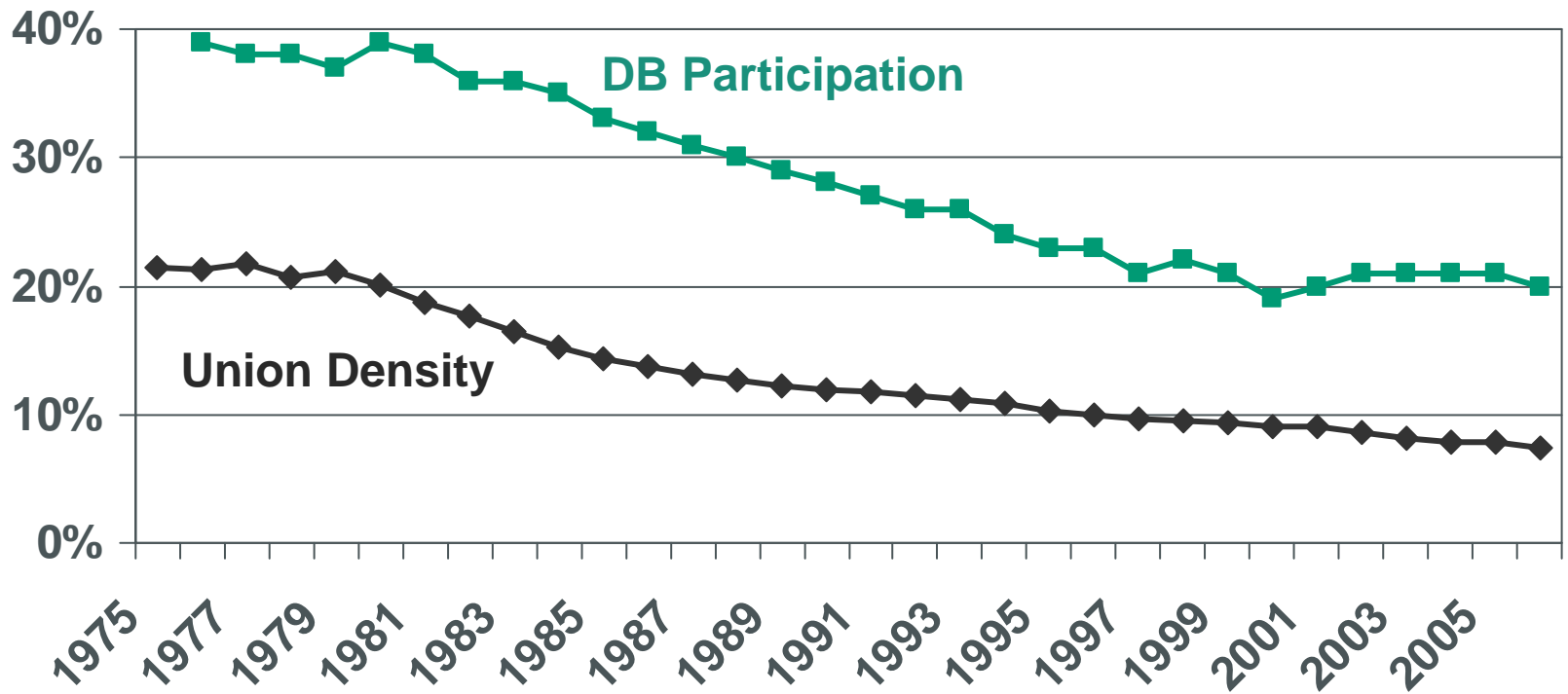


# Union members are about 5 times more likely to have a DB plan



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# The decline in DB participation mirrors the decline in union density



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# Time for a “Pension Renaissance”?



# A New Appreciation of DB Pensions?

- Financial turmoil – renewed awareness of exposure to investment risks in DCs
- Economic weakness – burden of saving for retirement out of already squeezed incomes
- Has bloom come off 401(k) rose?
  - Insufficient savings rates
  - Inadequate accumulations – investments, fees, etc.



# Back to Basics

- More and more we are finding that DB plans are central to achieving retirement income adequacy
- Because of fiscal tightening, renewed focus on getting a better bang for the retirement buck
  - Defending and strengthening existing DB plans
  - Encouraging new DB plan structures (esp. multi-employer)
  - Building more “DB-like” features into DC plans



# Questions?



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