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
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

12.5% 22.9%

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

- Lower Returns/Higher Fees
- Less Balanced Portfolio
- No Longevity Risk Pooling
- DB Cost

46% Savings
Assets Needed to Finance a Benefit of $2,200/month for a Healthy Female Retiring at Age 62

- DB Plan: $354,962
- DC Plan: $549,903

DB Plan Can Do More with Less
Shifting Landscape of Retirement Plan Coverage

% of Workforce Participating in DB and DC Plans

Market conditions have Americans very concerned about their retirement prospects.
The market meltdown of 2008-09

S&P 500 -42.7%
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?

- Today’s system is much better: 28%
- Today’s system is much worse: 23%
- Today’s system is a little better: 22%
- Today’s system is a little worse: 15%
- Both systems are equal: 7%

“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.”

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?

- Much easier: 7%
- A little easier: 8%
- No difference: 13%
- A little harder: 19%
- Much harder: 51%

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?

Not at all concerned: 52%
Not too concerned: 31%
Somewhat concerned: 9%
Very concerned: 7%

“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.”

Americans’ concerns about retirement are not unfounded.
After decades of steadily increasing, retirement wealth is now more volatile.

![Graph showing the share of after-tax income from retirement wealth]

*Level in December 2008: 64.8% -- lowest since June 1993*

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

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<tbody>
<tr>
<td>DB Wealth</td>
<td>$92,008</td>
<td>$80,917</td>
<td>$65,605</td>
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<tr>
<td>DC/IRA Wealth</td>
<td>$35,239</td>
<td>$44,581</td>
<td>$48,194</td>
</tr>
<tr>
<td>Total</td>
<td>$127,248</td>
<td>$125,498</td>
<td>$113,799</td>
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DB pension coverage remains strong in certain areas of our economy.
DB Plan Participation
Single Employer vs Multiemployer

Participation in Single-Employer & Multi-Employer DB Plans

Active participants (millions)


Single-employer

Multi-employer
DB coverage is higher in the public sector

Source: Alicia Munnell and Mauricio Soto, State and Local Pensions are Different from Private Plans, Center for Retirement Research, Boston College, November 2007.
Union members are about 5 times more likely to have a DB plan.

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

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?
Trends in Pensions and Retirement Plans

Construction Economics Research Network

April 16, 2009
National Labor College - Silver Spring, Maryland

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