

Trends in Pensions and Retirement Plans

Construction Economics Research Network

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National Labor College - Silver Spring, Maryland

Beth Almeida
Executive Director



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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

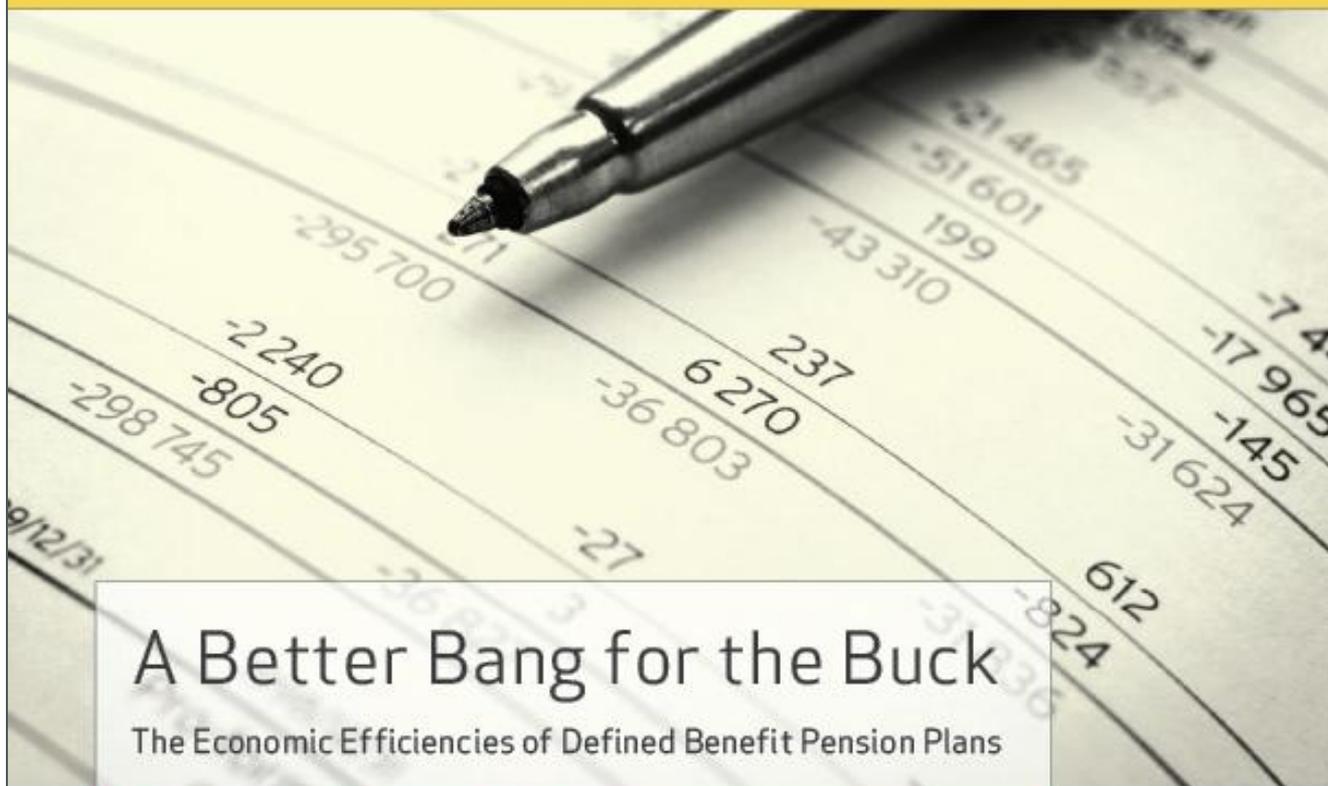
- Contributions made to individual accounts
- Investments are directed by individual employees
- Individuals drawn down DC assets after retirement





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A Better Bang for the Buck

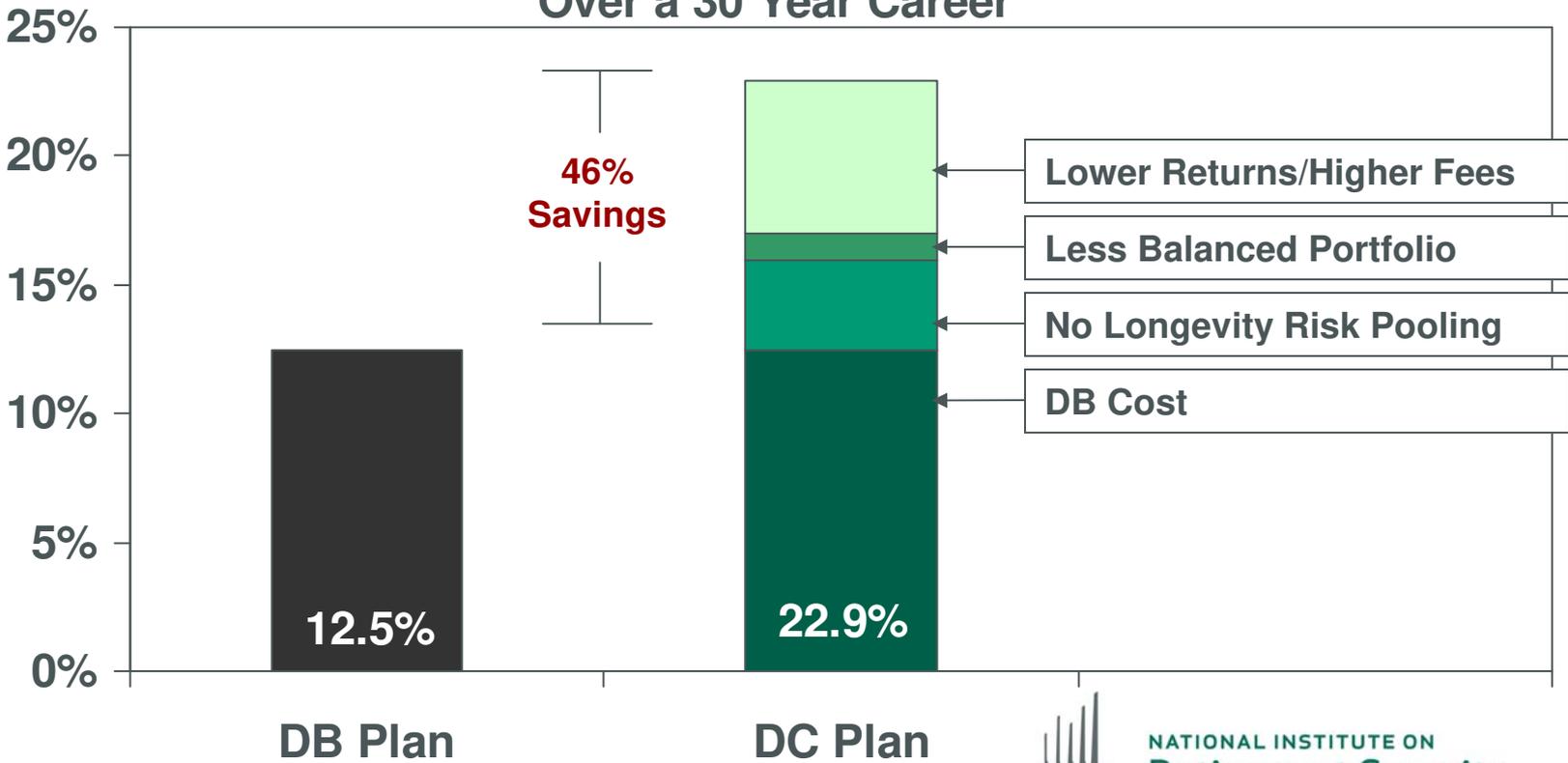
The Economic Efficiencies of Defined Benefit Pension Plans

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

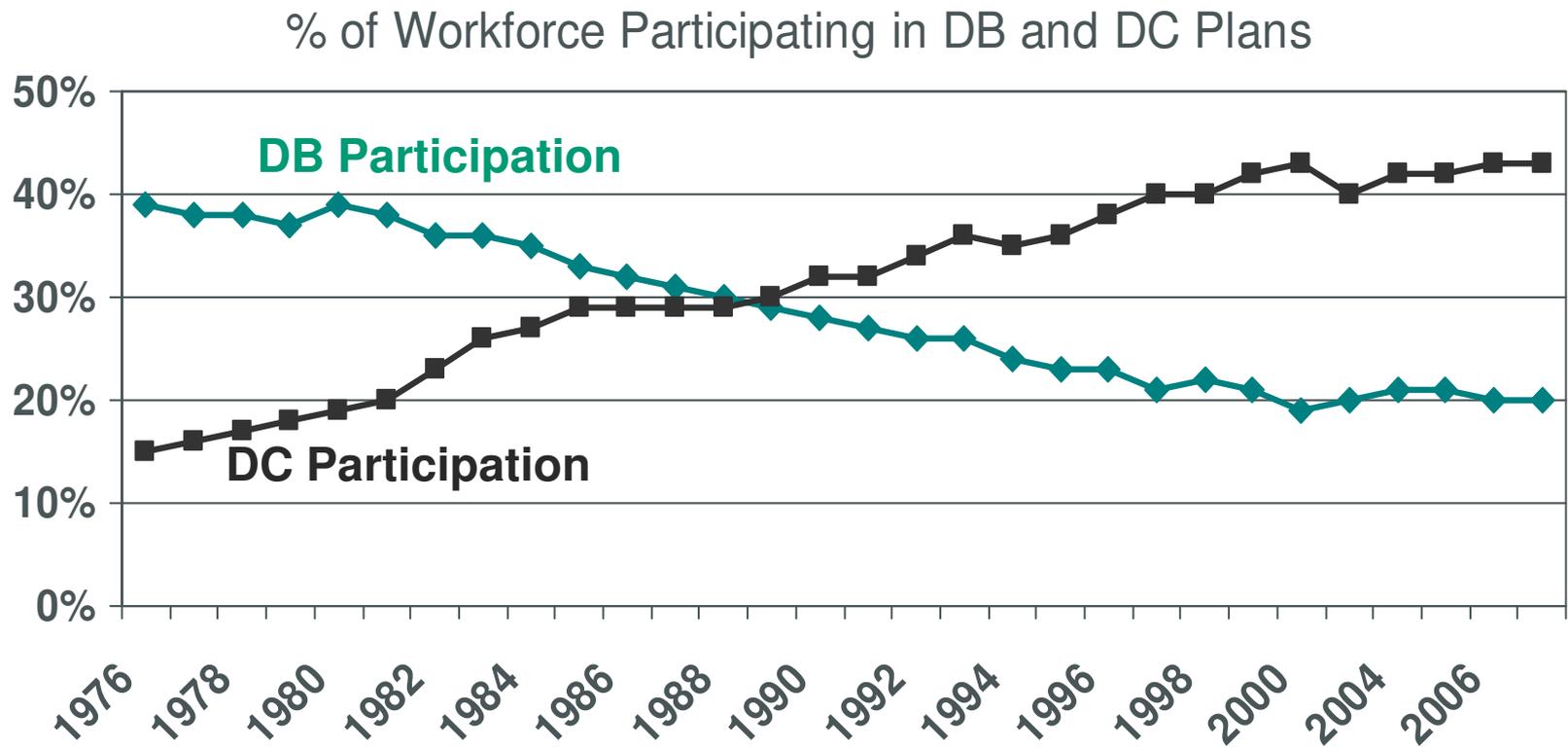


DB Plan Can Do More with Less

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

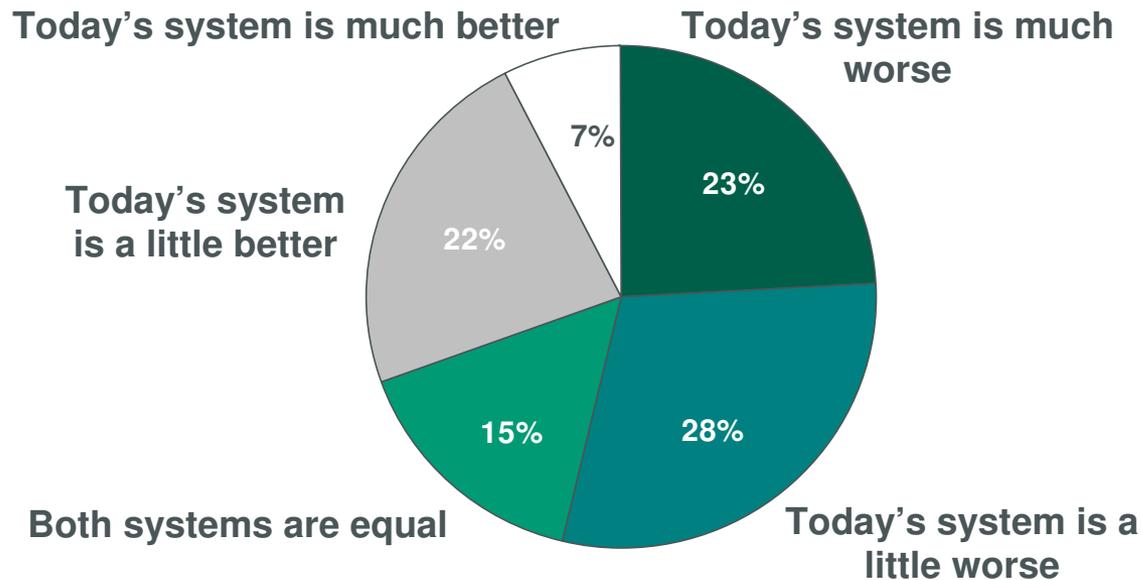


Where would you rather have your retirement wealth?



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.”

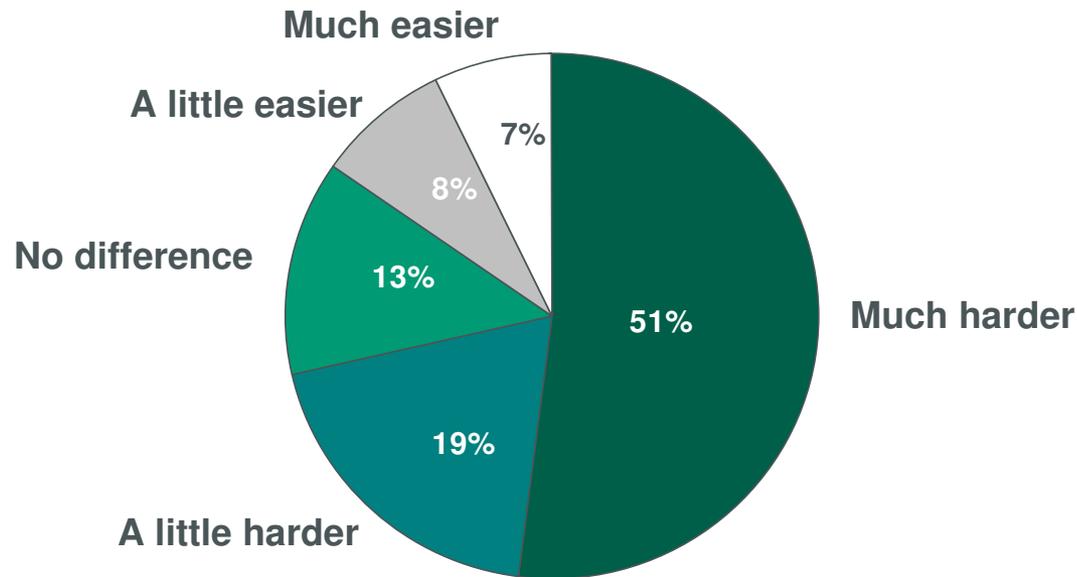
“It is the mental stability and freedom from stress – knowing exactly what you're going to get each month so you can budget accordingly.”



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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."

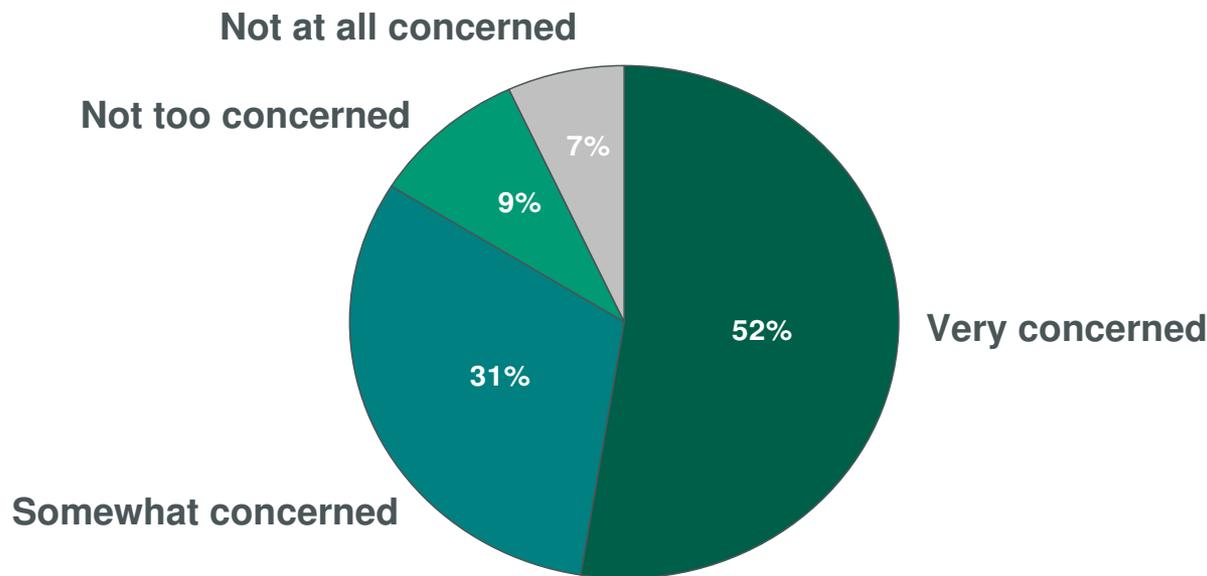
"I don't believe there is such a thing [as a secure retirement]."



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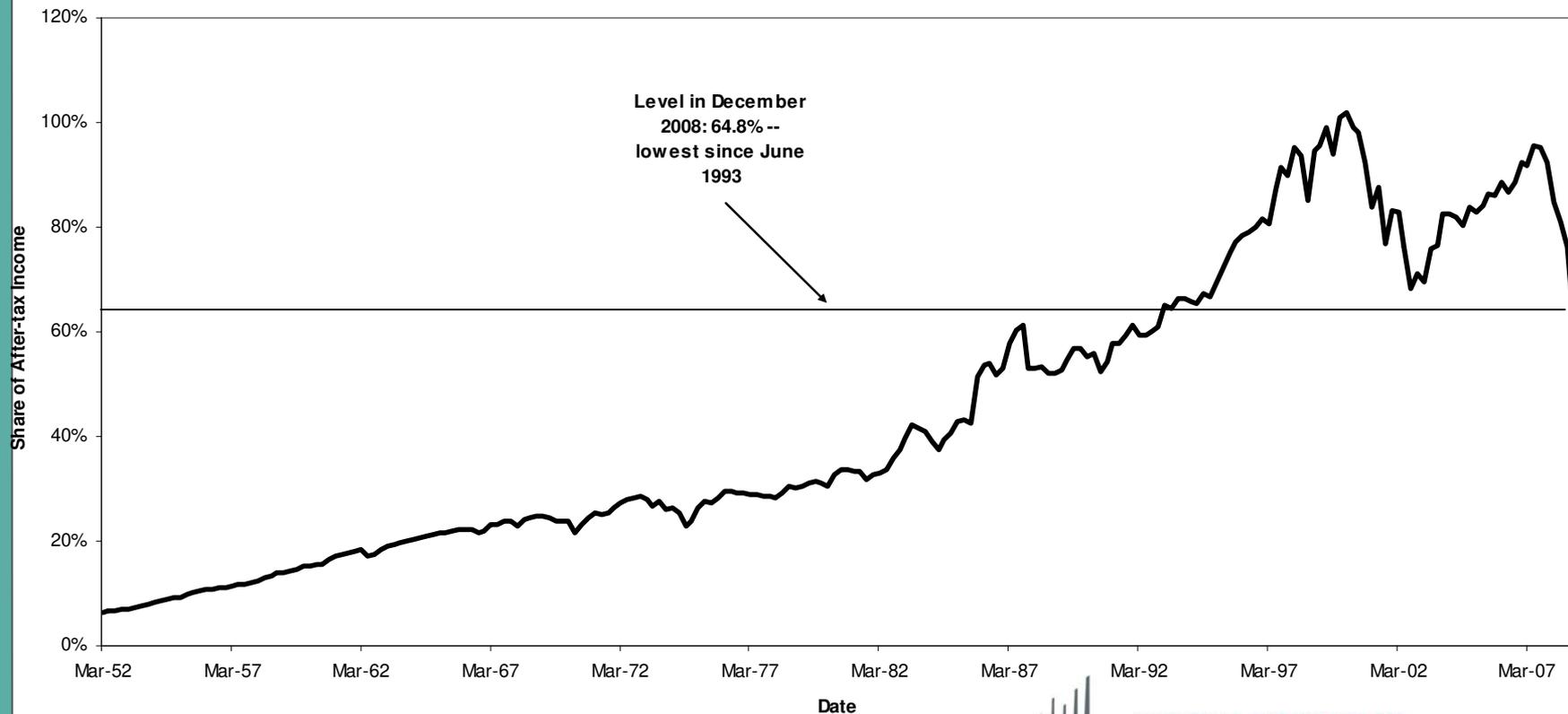
**Americans' concerns about
retirement are not
unfounded.**



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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



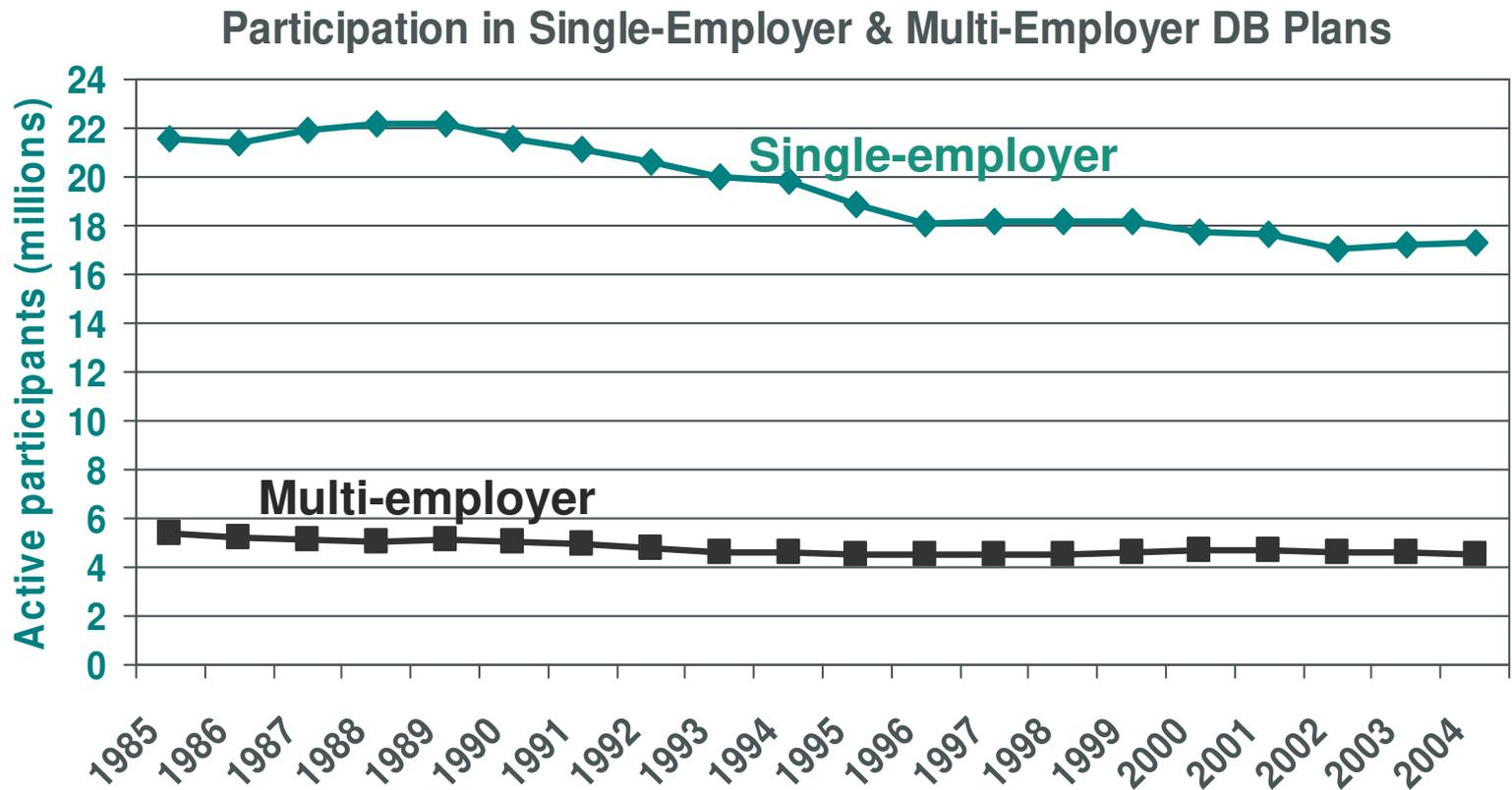
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**DB pension coverage
remains strong in certain
areas of our economy.**

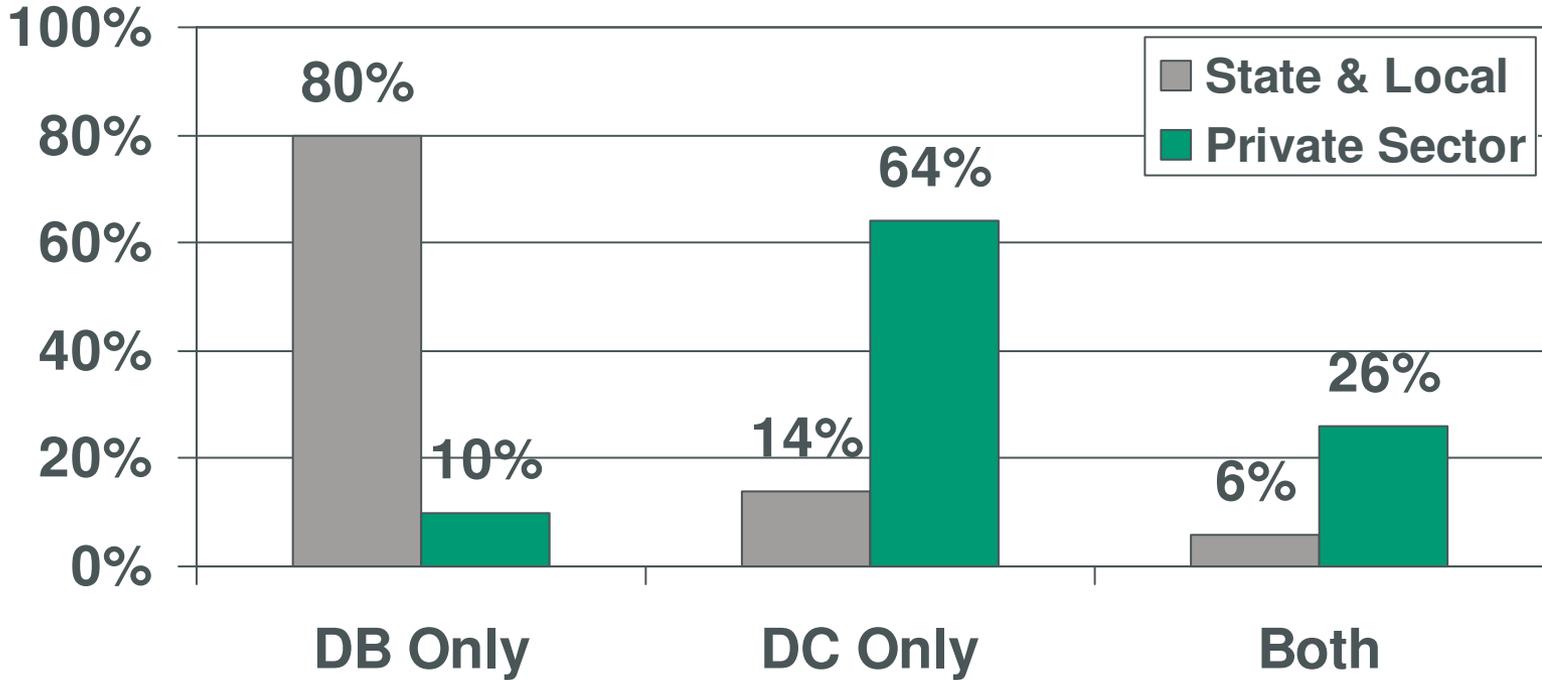


DB Plan Participation

Single Employer vs Multiemployer

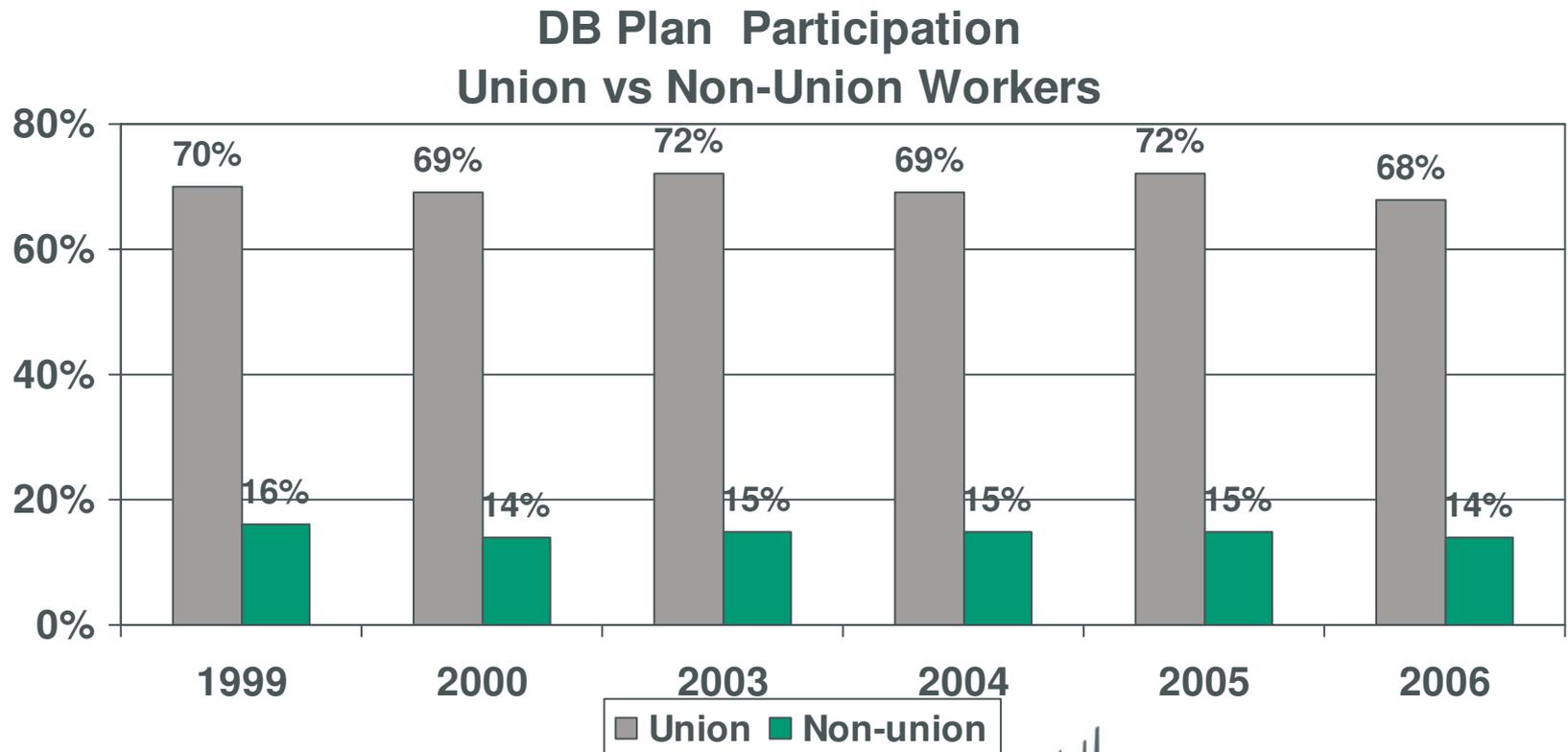


DB coverage is higher in the public sector



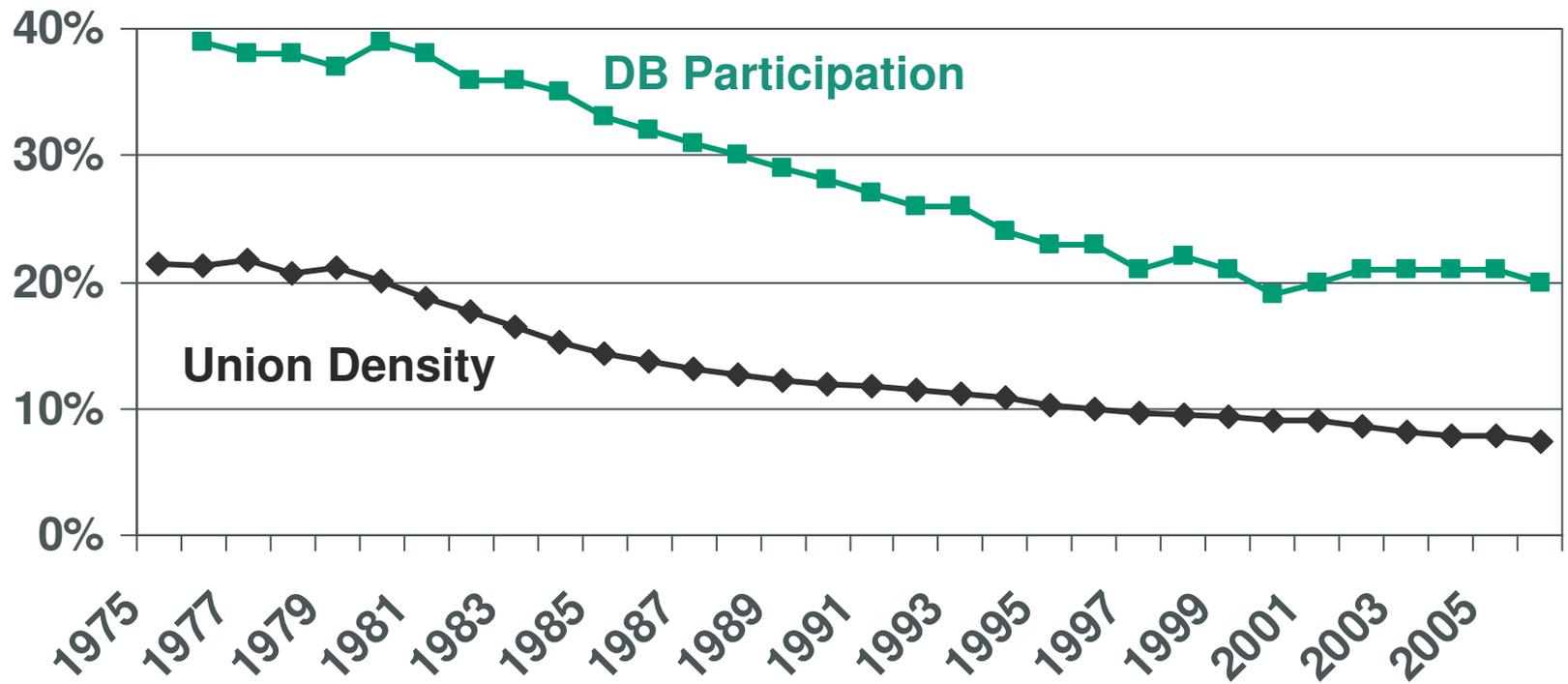
Source: Alicia Munnell and Mauricio Soto, State and Local Pensions are Different from Private Plans, Center for Retirement Research, Boston College, November 2007.

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



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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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