Trends in Pensions and Retirement Plans

Construction Economics Research Network

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National Labor College - Silver Spring, Maryland

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Executive Director
## Two approaches to preparing for retirement

<table>
<thead>
<tr>
<th>Defined benefit (DB) plan</th>
<th>Defined contribution (DC) plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions to a common pension trust</td>
<td>Contributions made to individual accounts</td>
</tr>
<tr>
<td>Investments are directed by professional managers</td>
<td>Investments are directed by individual employees</td>
</tr>
<tr>
<td>Plan pays employees a fixed lifetime benefit (with spousal options)</td>
<td>Individuals drawn down DC assets after retirement</td>
</tr>
</tbody>
</table>
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: 12.5%
- DC Plan: 22.9%

46% Savings

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

National Institute on Retirement Security
Assets Needed to Finance a Benefit of $2,200/month for a Healthy Female Retiring at Age 62

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB Plan</td>
<td>$354,962</td>
</tr>
<tr>
<td>DC Plan</td>
<td>$549,903</td>
</tr>
</tbody>
</table>

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

% of Workforce Participating in DB and DC Plans

DB Participation

DC Participation

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: 23%
- Today’s system is much worse: 28%
- Today’s system is a little better: 22%
- Both systems are equal: 15%
- Today’s system is a little worse: 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 harder: 51%
- A little harder: 19%
- No difference: 13%
- A little easier: 8%
- Much easier: 7%

“[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].”

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: 9%
- Not too concerned: 7%
- Somewhat concerned: 31%
- Very concerned: 52%

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>1998</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB Wealth</td>
<td>$92,008</td>
<td>$80,917</td>
<td>$65,605</td>
</tr>
<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>
</tr>
</tbody>
</table>

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

NATIONAL INSTITUTE ON Retirement Security
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

**DB Plan Participation**
Union vs Non-Union Workers

<table>
<thead>
<tr>
<th>Year</th>
<th>Union</th>
<th>Non-union</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>70%</td>
<td>16%</td>
</tr>
<tr>
<td>2000</td>
<td>69%</td>
<td>14%</td>
</tr>
<tr>
<td>2003</td>
<td>72%</td>
<td>15%</td>
</tr>
<tr>
<td>2004</td>
<td>69%</td>
<td>15%</td>
</tr>
<tr>
<td>2005</td>
<td>72%</td>
<td>15%</td>
</tr>
<tr>
<td>2006</td>
<td>68%</td>
<td>14%</td>
</tr>
</tbody>
</table>

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?