

COMPARING DEFINED BENEFIT AND DEFINED CONTRIBUTION RETIREMENT PLANS

DEFINED BENEFIT PLAN

VS.

DEFINED CONTRIBUTION PLAN (Also known as a 401(k) or 403(b))

Provides retirement income that lasts and cannot run out.



Does not guarantee retirement income will last through retirement.

Helps retirees budget with predictable, monthly retirement benefits



Can experience dramatic fluctuations in account value with stock market downturns.

Offers professional money managers who make investment decisions.



Requires that employee decide how to invest and spend down retirement savings.

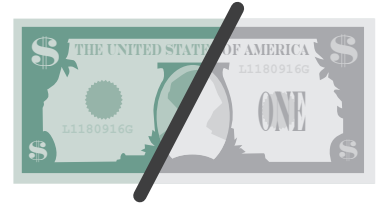
Has low fees.



Often have higher or unclear fees.

DEFINED BENEFIT PENSIONS CAN DO MORE WITH LESS

DB pensions can provide the same benefit as a defined contribution plan at about half the cost.



There are three reasons DB pensions are more efficient than DC plans:

10%
savings

+

11%
savings

+

27%
savings

=

48%
total cost
savings

Longevity Risk Pooling

Pensions only have to save for the average life expectancy of a group of individuals.

Balanced Investment Portfolio

Pensions are “ageless” and therefore can perpetually maintain an optimally balanced investment portfolio.

Investment Returns

Pensions achieve higher investment returns because they have lower fees and are managed by investment professionals.

Lower Cost DB Pension

DB pensions can provide the same retirement benefit as a DC plan at about half the cost.



Pensions are effective at supporting retirement security for the middle class because they:



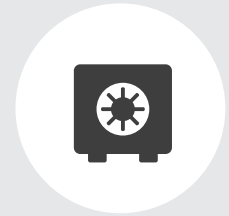
Provide a modest lifetime benefit that doesn't run out.



Deliver a regular benefit so retirees have an easier time budgeting.



Are professionally managed so that employees don't have to make investment decisions.



Do not allow participants to borrow or withdraw money before retirement.

SWITCHING FROM DB PENSIONS TO DC PLANS INCREASES TAXPAYER COSTS, AND DOES NOT REDUCE OR ELIMINATE ANY UNFUNDED PENSION LIABILITIES



In **Alaska**, the switch to a DC plans was sold as a way to slow down the increasing unfunded liabilities. Instead, the total unfunded liability more than doubled, ballooning to **\$12.4 billion**.

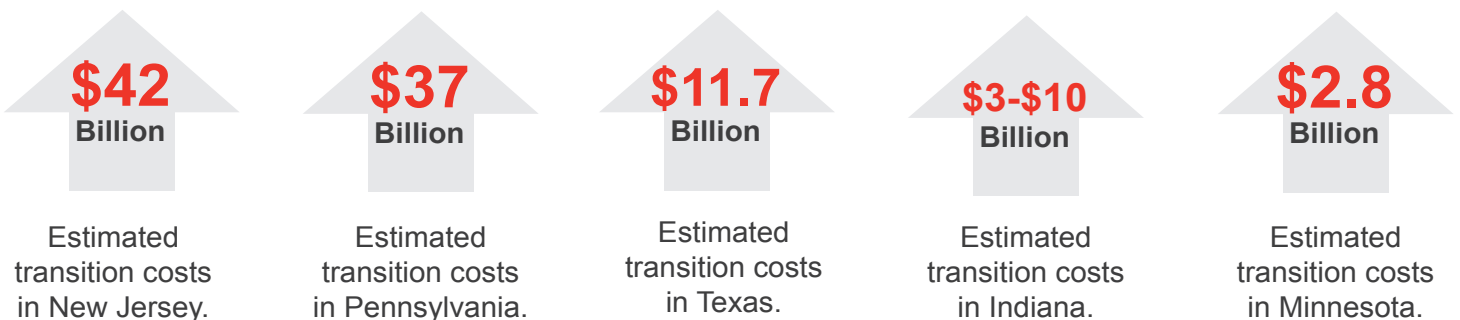


In **Michigan**, the pension plan was overfunded at 109% in 1997. The state closed the plan to new employees, and the funded status dropped about 60%, with **\$6.2 billion** in unfunded liabilities.



In **West Virginia**, the state closed the teacher retirement system in 1991 to new employees to address underfunding. Instead, the total unfunded liability more than doubled, ballooning to **\$12.4 billion** by 2014.

Some states have estimated the transition costs for switching from a DB to DC plan for public employees.



Sources: How to Dig an Even Deeper Pension Hole by New Jersey Policy Perspectives
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