

Your pension plan is important because...

- The traditional and best approach to achieving retirement security consists of a pension, Social Security, and individual savings. Your pension helps you to maintain a middle-class standard of living, and retirement savings provides important supplemental income for unforeseen expenses.
- Group pension plans provide guaranteed, monthly income for life, which makes retirement security much more achievable for Americans who have them.
- Not surprisingly, almost all Americans still want pensions.
- Pensions are an economically efficient way to fund retirement, which means they are a prudent use of taxpayer money.
- Pensions also help to boost local economies, especially in tough economic times.

There has been a lot of talk in the media recently about retirement insecurity. For a while now, reporters have been talking about how pensions are “disappearing,” being replaced by 401(k) plans. Then, with the recent economic downturn, many Americans’ retirement savings accounts took a big hit.

You may wonder what this means for your retirement security. The good news for you is, the fact that you have a group pension plan right away puts you in a pretty good position.

▶ THE BEST WAY TO ACHIEVE RETIREMENT SECURITY

Retirement researchers have long acknowledged the importance of Social Security benefits, defined benefit (DB) pension income, and supplemental individual savings in providing Americans the greatest opportunity to achieve financial security in retirement.¹

Social Security provides a guaranteed, cost-of-living adjusted income for life in retirement. Social Security is an effective way to keep older Americans out of poverty.²

Yet, Social Security was never meant to fully provide for the retirement of middle-class Americans. And, in fact, as many as 30% percent of state and local government employees do not even receive Social Security benefits at all.³ For the middle class, the second component—group pension plans—is extremely important in providing a reliable, steady source of income in retirement. And for those Americans without Social Security, a pension may represent their only source of guaranteed monthly income.

The final component consists of individual savings. You might save for retirement at work in a defined contribution (DC) plan—a 401(k), 403(b), or 457 plan, for example. You might also save in an individual retirement account (IRA), or have other savings. Having individual savings on top of your pension is a helpful way to ensure financial security, especially if you experience hardships that may be hard to predict and plan for, like long-term care costs for you or a loved one.

▶ PENSIONS PROVIDE GUARANTEED, MONTHLY INCOME FOR LIFE

Pensions are fundamentally different from savings because you cannot outlive the guaranteed monthly income provided by your pension. No matter how long you may live, you can be sure that your pension check will continue to come every month. Savings, on the other hand, can run out.

Also, your pension may provide other benefits as well, such as disability protections, as well as benefits for your spouse, should you die first.⁴ Each of these characteristics is what makes your pension so unique and so different from defined contribution plans.

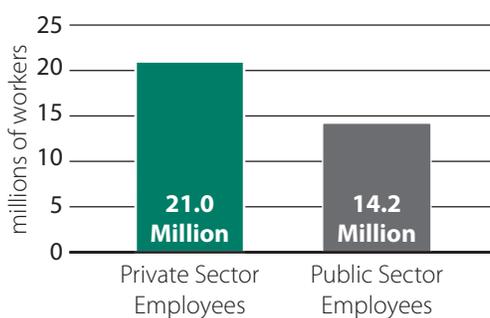
	Defined Benefit Plan (Traditional Pension)	Defined Contribution Plan (401(k)s, 403(b)s, 457s)
Contributions	In the public and private sectors, contributions are made on behalf of each employee by the employer. In the public sector, many pensions are “contributory,” meaning that employees also contribute to the plan out of their own paychecks.	Employees make their own contributions to their savings account at whatever rate they choose. Often, employers will make a certain match—for example, 50 cents on the dollar up to 6% of pay—but they are not required to contribute at all.
Investments	Contributions for all employees are pooled, and invested by professional asset managers in a range of assets—stocks, bonds, real estate, etc.	Employees usually make all investment decisions themselves. They can choose from a range of investment options offered by the plan.
Amount of Money in Retirement	The monthly benefit is determined by a set calculation—usually based on years of service and pay at the end of one’s career.	The money available in retirement is simply the amount that one has accumulated in the savings plan, through contributions and investment earnings.
Payout in Retirement	Payouts are provided as a monthly income stream that is guaranteed for the remainder of the retiree’s life.	Plans are not required to offer a lifetime income payout. Payout can even be a one-time, lump sum payment.
Supplemental Benefits	Spousal protections, disability benefits, and cost of living adjustments are common.	Supplemental benefits are not applicable.

▶ INDIVIDUAL SAVINGS WERE NEVER MEANT TO DO THE JOB ALONE—AND THEY USUALLY CAN'T

Individual savings plans, like 401(k)s, were never meant to serve as the primary source of retirement income. These plans started out as supplements to group pension plans—and are still very effective as supplements. They enable workers to build savings that may be needed to deal with extraordinary life events—like an unexpected health crisis, the loss of a spouse, etc.

Individual plans were never meant to replace group pension plans. Unfortunately, however, in the private sector, this is exactly what has happened over the last few decades—many companies have gotten rid of their group pension plans and replaced them with individual savings plans, like 401(k) plans.

Figure 1. **Active U.S. Workers with a Group Pension Plan, 2007⁸**



This trend has been devastating for the retirement prospects for many Americans. One study found that, on average, middle-class Americans without a pension will have to reduce their living expenses by a full third in order to avoid outliving their assets in retirement.⁵ NIRS found that older households lacking pension income were about six times more likely to be in poverty than those households who had pension income.⁶ Finally, Boston College researchers have found that having a defined contribution plan only reduces retirement risks slightly, if at all.⁷

(It is important to remember that, despite the trend to 401(k)s, millions of private-sector workers still do have pension plans.

In fact, there are still about 6 million *more* private sector workers with a pension than public sector workers with a pension.)

▶ AMERICANS WANT PENSIONS

Given this context, it might not be surprising that many Americans do realize just how important pensions are. With the trend away from pensions in the private sector, it seems more and more Americans are anxious about retirement—and are in favor of having a pension. Recent public opinion research has found...

- More than eight out of ten Americans are worried about their ability to retire.
- Seven in ten Americans feel it is harder today to retire as compared to previous generations. (And remember that previous generations had higher pension coverage.)
- 55% of Americans believe that a pension would increase their own retirement confidence.
- Almost nine out of ten Americans believe that all workers should have a pension plan.⁹

So, it's not just that middle-class Americans *need* pensions. It seems most Americans, whether they work in the public or private sector, *want* pensions, too.

▶ PENSIONS ARE AN EFFICIENT USE OF TAXPAYER FUNDS

Another key feature of group pension plans is their pooled nature—meaning that all of the pension contributions for all workers are put together in the same pot.

This pooling is important because it makes pension plans a good value for the money. By pooling and professionally managing assets, pensions are able to achieve “economies of scale.” (This is the same reason why shopping at a warehouse club saves consumers money—buying in bulk lowers the price.) Research has found that a group pension can achieve a target retirement benefit at about half the cost of individual retirement accounts.¹⁰

So not only do group pensions do the retirement job more effectively than individual savings plans, but to provide any given amount of retirement income, they’re a lot less expensive to boot—a fact that policymakers and taxpayers alike can take solace in.

PENSIONS BOOST LOCAL ECONOMIES

Group pension plans may also benefit local businesses in your town. This is because when you receive your pension check, you probably don’t stuff it under your mattress—you spend it in your local economy. And the business where you make that purchase sees a boost in its profits. This means that they may be able to expand their business or even hire more workers.

This simple act of spending your pension income has very large economic effects. In 2006, expenditures made out of public pension payments supported more than 2.5 million new American jobs and over \$358 billion in total economic output nationwide.¹¹ Those are some huge economic impacts!

So, pensions do a great job of providing modest, secure retirement benefits—and they remain quite popular among Americans. Public pensions make sense for taxpayers, too, because they are still a good deal. As if that weren’t enough, pensions also help boost the broader economy. It’s a classic “win-win” situation for employees, employers, taxpayers, and local business owners.

¹ Munnell, A.H., Soto, M., Webb, A., Golub-Sass, F., and Muldoon, D. 2008. *Health Care Costs Drive up the National Retirement Risk Index*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

² Engelhardt, C.F., and Gruber, J. 2004. *Social Security and the Evolution of Elderly Poverty*. Working Paper 10466. Cambridge, MA: National Bureau of Economic Research.

³ U.S. Government Accountability Office. 2007. *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*. Washington, DC: GAO.

⁴ Almeida, B. 2008. *Retirement Readiness: What Difference Does a Pension Make?* Washington, DC: NIRS.

⁵ Ernst & Young, LLP. 2008. *Retirement Vulnerability of New Retirees: The Likelihood of Outliving Their Assets*. Washington, DC: Americans For Secure Retirement.

⁶ Porell, F., and Almeida, B. 2009. *The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships*. Washington, DC: NIRS.

⁷ Munnell, A., Webb, A., and Delorme, L. 2006. *A New National Retirement Risk Index*. Chestnut Hill MA: Center for Retirement Research at Boston College.

⁸ U.S. Government Accountability Office. 2009. *Private Pensions: Alternative Approaches Could Address Retirement Risks Faced by Workers but Pose Trade-Offs*. Washington, DC: GAO. and U.S. Census Bureau. 2009. *State and Local Government Employee-Retirement Systems*. Washington, DC: U.S. Census Bureau.

⁹ Mathew Greenwald & Associates, Inc., and the National Institute on Retirement Security. 2009. *Pensions & Retirement Security: A Roadmap for Policymakers*. Washington, DC: NIRS.

¹⁰ Almeida, B., and Fornia, W. 2008. *A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans*. Washington, DC: NIRS.

¹¹ Boivie, I. and Almeida, B. *Pensionomics. Measuring the Economic Impact of State and Local Pension Plans*. Washington, DC: NIRS.