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.

Retirement researchers have long acknowledged the importance of the so-called “three-legged” stool—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. Each leg of this stool fills a specific, unique purpose.

Social Security is our near-universal social insurance system, administered by the Federal government. It provides a guaranteed, cost-of-living adjusted income for life in retirement. Since at least the 1960s, Social Security has been a very effective way to keep older Americans out of poverty.

Yet Social Security was never meant to fully provide for the retirement of middle-class Americans. For the middle class,
the second leg of the stool—group pension plans—are very important. Also, it’s important to remember that about 30% of state and local government employees are not in the Social Security system.³ So a pension may represent that retired household’s only source of guaranteed monthly income.

The final leg of the retirement stool 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 and Social Security 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.

<table>
<thead>
<tr>
<th>Defined Benefit Plan (Traditional Pension)</th>
<th>Defined Contribution Plan (401(k)s, 403(b)s, 457s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>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.</td>
</tr>
<tr>
<td>Investments</td>
<td>Contributions for all employees are pooled, and invested by professional asset managers in a range of assets—stocks, bonds, real estate, etc.</td>
</tr>
<tr>
<td>Amount of Money in Retirement</td>
<td>The monthly benefit is determined by a set calculation—usually based on years of service and pay at the end of one’s career.</td>
</tr>
<tr>
<td>Payout in Retirement</td>
<td>Payouts are provided as a monthly income stream that is guaranteed for the remainder of the retiree’s life.</td>
</tr>
<tr>
<td>Supplemental Benefits</td>
<td>Spousal protections, disability benefits, and cost of living adjustments are common.</td>
</tr>
</tbody>
</table>
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. 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. 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. Finally, Boston College researchers have found that having a defined contribution plan only reduces retirement risks slightly, if at all.

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.

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.\(^\text{10}\)

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.\(^\text{11}\) 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.


