Defined Benefit Pension Plans vs. 401(k)-style Defined Contribution Plans

Pensions cost less to taxpayers and provide a better benefit to workers

What are the average annual benefits of these different plans?

Nationwide, the average annual pension benefit is **$26,240**.

For 401(k) participants, there is no annual benefit amount. The average total account balance is only **$18,433**, hardly enough for a secure retirement.

Who manages these different types of plans?

Public pension plans are professionally managed and, on average, pension investments **perform 25% better** than defined contribution investments.

With 401(k)s, individuals must manage their own investments or rely on financial advisors. Financial advisors often charge hefty fees to manage 401(k) investments.

They may charge **upwards of 0.7% in fees** per year. Over time this adds up to a significant amount of money.

How do 401(k) fees eat away at your nest egg?

A worker contributes $5,000 a year [to her 401(k)]. Assuming an annual gross rate of return of 9%, a participant paying an additional fee of just 1% would retire with $1,918,678 rather than $2,448,895, or $530,217 less. That 1% difference in fees could wipe out 26% of the employee's retirement nest egg!

source: Milliman

How long will retirement benefits last under these different plans?

Pensions provide a secure and reliable **guaranteed monthly benefit** for life. In a 401(k), a retiree runs the risk of outliving their savings.

Defined benefit pensions are not tied to the lifespan of any one individual because pension fund assets are pooled collectively. This means that pension funds can maintain an **optimal balance of high- and low-risk investments**.

Defined contribution plans are subject to the whims of the financial markets. If there is a sudden economic downturn, like the Great Recession, workers may **lose much of their retirement savings**.

How much do taxpayers spend on these different types of retirement plans?

An average of $0.75 of every dollar in a pension fund comes from a combination of employee contributions and investment returns. As the "employer," taxpayers are only **contributing a quarter of every dollar** in a pension fund.

Every dollar invested in a 401(k)-style account goes a shorter distance than a dollar invested in a pension. As the employer, taxpayers make a contribution equal to a set percentage of the salary of the worker into the 401(k)-style account. These investments are not pooled and professionally managed, so the **investments earn less over time**.