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?

In Montana, the average annual pension benefit is **$21,920**.

For 401(k) participants, there is no annual benefit amount. The average total account balance is only **$25,306**, 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 $0.80 of every dollar in a pension fund comes from a combination of employee contributions and investment returns. As the "employer," taxpayers are only **contributing twenty cents 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**.