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# Facts About Defined Contribution (DC) Plans and Retirement Security
## *Rise of Private-Sector DC Plans Expected to Improve Retirement Security*

### The share of retirees receiving private-sector pension income has increased substantially since the 1970s.

- The share of retirees receiving private-sector pension income increased by more than 50 percent between 1975 and 1991, and has remained fairly stable since.
    - In 2011, 33 percent of retirees received income—either directly or through a spouse—from private-sector retirement plans, compared with 21 percent in 1975.
- Among those receiving income from private-sector pensions, the median amount of inflation-adjusted income—which had remained fairly flat between 1975 and 1991—has increased nearly 40 percent since 1991.[1]

### The 401(k) system provides unparalleled portability, ownership, and innovation to American workers.

- Americans are a mobile workforce. With the 401(k), workers have access to retirement benefits that move with them and that grow throughout their careers.
- 401(k)s also provide investment choice and flexibility that allow workers to tailor their contributions to the plan and the form of benefits they receive to their circumstances.
- 401(k) participants own actual assets, not a promise of future benefits.
- Innovations—such as automatic enrollment, auto-escalation, and target date funds—help workers keep up with saving, through good times and bad, and have enabled plan participants to enjoy an expanding array of useful services.

### DC plans are a key component of achieving retirement security.

- A number of studies have concluded that the majority of private-sector workers who have access only to DC plans during their working careers will be better off than if they had access only to DB plans.
    - Comparing typical DB plans with typical 401(k) plans under a variety of possible labor market and investment return scenarios, a Dartmouth study concluded that "generally, 401(k) plans...are as good or better than DB plans in providing for retirement."[2]

- In an analysis of data from the University of Michigan's Health and Retirement Study (HRS), using both detailed descriptions of retirement plans and the actual work histories of individuals, economists from MIT, University of Chicago, Dartmouth, and Harvard projected that retirement resources will be higher on average with private-sector DC plans than they would be with private-sector DB plans.[3]

## Beware of the myth of the "golden age" of defined benefit pension plans.

- Some commentators evoke a "golden age of the golden watch" prior to the advent of 401(k) plans in 1981—a time when private-sector workers allegedly retired with a monthly DB pension check that replaced a significant portion of their pre-retirement income.

- In fact, although many people worked at employers that sponsored DB pension plans, the combination of vesting rules, back-loaded benefit accrual, and labor mobility resulted in retirees receiving *less* income, on average, from private-sector pensions than they do today.

    - Regulations on vesting, instituted in 1974 and tightened in 1986, increased the share of workers covered by DB plans who actually had vested benefits. Still, the only workers who received substantial benefits were those who stayed with the same employer for an extended time and who separated from employment close to retirement age. In addition, the share of the private-sector workers covered by DB plans declined over this period.

*For more key facts and positions on retirement, please see www.ici.org/retirement.*

[1] Brady, Peter, and Michael Bogdan. 2012. "A Look at Private-Sector Retirement Plan Income After ERISA, 2011." *ICI Research Perspective* 18, no. 5 (October). Available at www.ici.org/pdf/per18-05.pdf.

[2] Samwick, Andrew A., and Jonathan Skinner. 2004. "How Will 401(k) Pension Plans Affect Retirement Income?" *The American Economic Review* 94, no. 1 (March): 329–343.

[3] Poterba, James, Joshua Rauh, Steven Venti, and David A. Wise. 2007. "Defined Contribution Plans, Defined Benefit Plans, and the Accumulation of Retirement Wealth." *Journal of Public Economics* 91, no. 10 (November): 2062–2086.