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## *New Research from EBRI:*

# **Is a Defined Benefit Plan or a 401(k) Plan More Likely to Result in a “Successful” Retirement? Salary Levels and Desired Income Replacement are Key Factors**

**WASHINGTON**—Does a traditional “defined benefit” pension provide greater retirement security than a “defined contribution” 401(k)-type plan?

The complicated answer to that simple question depends on your salary level and the level of pre-retirement income to be replaced, according to a new analysis by the nonpartisan Employee Benefit Research Institute (EBRI).

Focusing on employees who are eligible for participation in a retirement plan for at least 30 years, EBRI found that a final-average defined benefit (DB) plan with an accrual rate of 1.5 percent is more likely to provide “successful” outcomes for lower-income workers when the employer-provided retirement benefits are added to the expected Social Security benefits.

As income increases, a voluntary-enrollment 401(k) plan has a higher probability of producing a successful outcome than this type of defined benefit plan. This type of 401(k) plans is even more likely to produce a successful outcome than the final average defined benefit plan when definition of “success” is defined as a real replacement rates greater than 60 percent.

Among the key findings of the EBRI analysis:

- Using baseline assumptions, it appears that this specific type of DB plan has a higher probability of achieving a real replacement rate (when combined with Social Security payments) of 60 percent of preretirement income than the voluntary enrollment (VE) 401(k) plans for the first three income quartiles.
- Using a 70 percent replacement rate as the goal, participants in the third-and fourth-income quartiles have a much higher probability of success with the 401(k) plans than the DB plans.
- When the threshold is set at a higher (and according to many financial planners, more realistic) replacement rate of 80 percent, the 401(k) plans have a much higher probability of success than the DB plans for all groups except for the lowest-income quartile (where the results are virtually even).

The analysis uses EBRI's proprietary Retirement Security Income Projection Model<sup>®</sup> (RSPM), and expands on earlier EBRI modeling work. EBRI calculated the percentage of "successful" retirements for workers currently ages 25–29 (by income quartile) who will have more than 30 years of simulated eligibility for participation in a 401(k) plan. Results were compared between voluntary-enrollment 401(k) plans and final-average defined benefit plans with a 1.5 percent accrual rate.

The full report is published in the October 2015 *EBRI Notes*, "How Does the Probability of a "Successful" Retirement Differ Between Participants in Final-Average Defined Benefit Plans and Voluntary Enrollment 401(k) Plans?" available online at [www.ebri.org](http://www.ebri.org)

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