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**New Research from EBRI:**

**Defined Benefit Retirement Plans Especially Valuable  
to Low- and Middle-Income Workers**

WASHINGTON—Baby Boomer and Generation X households that have a defined benefit (DB) pension plan accrual at retirement age are overall almost 12 percentage points less likely to be “at risk” of running short of money for basic needs and uninsured health costs in retirement, according to a new report by the nonpartisan Employee Benefit Research Institute (EBRI).

The EBRI report finds that having a DB pension plan is particularly valuable for those with the lowest income in both age groups, but also has a “strong impact” on reducing at-risk rates for those in the middle class: Among those in the second- and third-income groups combined (covering middle-income workers), the combined relative at-risk reduction is almost 20 percent.

“The data show that defined benefit plans are tremendously important in achieving retirement income adequacy for Baby Boomers and Gen Xers,” said Jack VanDerhei, EBRI research director and author of the report.

Full details are published in the August *EBRI Notes*, online at [www.ebri.org](http://www.ebri.org)

VanDerhei notes that the percentage of private-sector workers participating in an employment-based defined benefit pension plan decreased from 38 percent in 1979 to 15 percent in 2008, but that these plans still cover millions of U.S. workers and have long been valued as an integral component of retirement income adequacy for those households that have one.

He also notes that his research does not compare the relative effectiveness of DB (pension) versus defined contribution (401(k)-type) plans in providing retirement income adequacy. However, VanDerhei said it does demonstrate the value of a defined benefit plan for those without any future eligibility in a defined contribution plan: “For those households without future years of defined contribution plan eligibility, the presence of a defined benefit accrual at age 65 is sufficient to save nearly 1 out of 4 of these households in the Baby Boom and Gen X cohorts from becoming ‘at risk’ of running short of money in retirement for basic expenses and uninsured medical expenses.”

EBRI's analysis is based on its Retirement Security Projection Model™ (RSPM), which has been used previously to quantify the impact that eligibility for a defined contribution plan has on reducing workers' at-risk status.

For this analysis, RSPM was modified to assume that all households retire when the oldest wage earner reaches age 65, and each household was split in terms of whether it retained a DB pension accrual at age 65 to assess the impact of these benefits on retirement income adequacy. The results were run for all Baby Boom and Gen Xer households and found that overall the presence of a defined benefit accrual at age 65 reduces the at-risk percentage by 11.6 percentage points.

**By age:** By age group, the greatest impact is on the Early Boomers: the percentage of households without any DB pension accruals considered to be at risk of insufficient retirement income is 67 percent, compared with only 41 percent for their counterparts with some DB accruals. For Late Boomers the at-risk percentage is 59 percent for those with no DB accruals versus 38 percent for those with some defined benefit accruals.

The gap narrows even more for the Gen Xers: 55 percent for those with no defined benefit accruals versus 38 percent for those with some defined benefit accruals.

**By income:** By preretirement income level, the greatest DB advantage (as measured by the gap between the two at-risk percentages) is for the lowest-income quartile: the percentage of households without any DB pension accruals considered to be at risk of insufficient retirement income is 86 percent, compared with only 68 percent for their counterparts with some defined benefit accruals.

**By both age and income:** By age group and preretirement income level, the greatest DB advantage for each group (as measured by the gap between the two at-risk percentages) is for those in the lowest-income quartile. The absolute difference for the lowest-income quartile is 20.0 percentage points for Early Boomers and 20.7 percentage points for the Late Boomers. It decreases somewhat for Gen Xers but still decreases the at-risk rating for the lowest-income quartile in that cohort by 15.8 percentage points.

The EBRI analysis also quantifies how "at-risk" percentages are further reduced if a household member is eligible for a defined contribution (401(k)-type) retirement plan in addition to a DB pension plan. A key factor shown by the simulation analysis is how many future years of defined contribution plan eligibility a worker has before age 65.

The Employee Benefit Research Institute (EBRI) is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions.

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