



EBRI News

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Article Details EBRI-AARP Conference on Pensions

WASHINGTON—The nonpartisan Employee Benefit Research Institute (EBRI) today published a detailed article about a day-long conference it co-sponsored with AARP on the future of the U.S. employment-based pension system. Several conference speakers predicted that the evolution currently under way in the system will lead to radical change and the ultimate demise of private-sector defined benefit pensions, the article reports.

The article, “The Employment-Based Pension System: Evolution or Revolution,” appears in the July 2006 *EBRI Notes* and is available at www.ebri.org

In 1960, the article notes, traditional defined benefit pension plans covered 23 million individuals, about half of all private-sector workers in the United States. But in the final years of the 20th century, the trend reversed, and by 2006 the decline was dramatic, with employers either freezing or dropping their “traditional” defined benefit plans. About half of all American private-sector workers are still offered a retirement plan at work, but among those who are, the “defined contribution” 401(k)-type of individual account is now overwhelmingly dominant. By contrast, in 2005, 21 percent of private-industry workers participated in a traditional pension plan.

According to the article, which quotes several national experts on retirement issues, these were the key points to emerge from the conference:

- Corporate America finds itself locked in global competition and has decided it can no longer afford, for competitive and cost reasons, to offer employees the same kind of retirement plans that many workers enjoyed in the past.
- Although traditional defined benefit pensions remain common in the public sector, federal, state, and local governments are gradually realizing that they face the same financial pressures from pension costs. As a result, their workers are likely to experience the same trends as the private sector in the years ahead.
- Employers have sponsored defined contribution plans since the early 1900s, but only with the creation and growth of the 401(k) plan have defined contribution plans become dominant. Many advocates see the need for design changes in 401(k) plans as the financing of retirement in America continues to evolve—especially making participation automatic rather than requiring individuals to make a positive decision to sign up.
- The decline of the traditional pension and the rise of the 401(k) plan have left many workers wrestling with the realization that they have personal responsibility for their health and retirement planning and expenses. This shift, some said, is a move away from the long-standing “social compact” among workers, their employers, and the government. Others argued that the change is the best result for workers in a highly mobile work force, where relatively few workers stay at any one job long enough to qualify for traditional pensions.

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