At a Glance | February 14, 2019

How Will Young Millennials Fare With Defined Contribution vs. Defined Benefit Plans?

Over the past 30-odd years, the number of defined benefit (DB) pension plans has continued to decline, while the number of defined contribution (DC) plans has increased. What does that mean for Young Millennials?

COMPARING BREAK-EVEN RATES

For Young Millennial males, the accrual rate that would be required for a DB plan to generate the same retirement income as a 401(k) plan with automatic enrollment is less than 1.5 percent of final earnings in only 2 of the 16 combinations. In the case of Young Millennial females, 5 of the 16 have "break-even" rates under 1.5 percent.

AUTO PORTABILITY

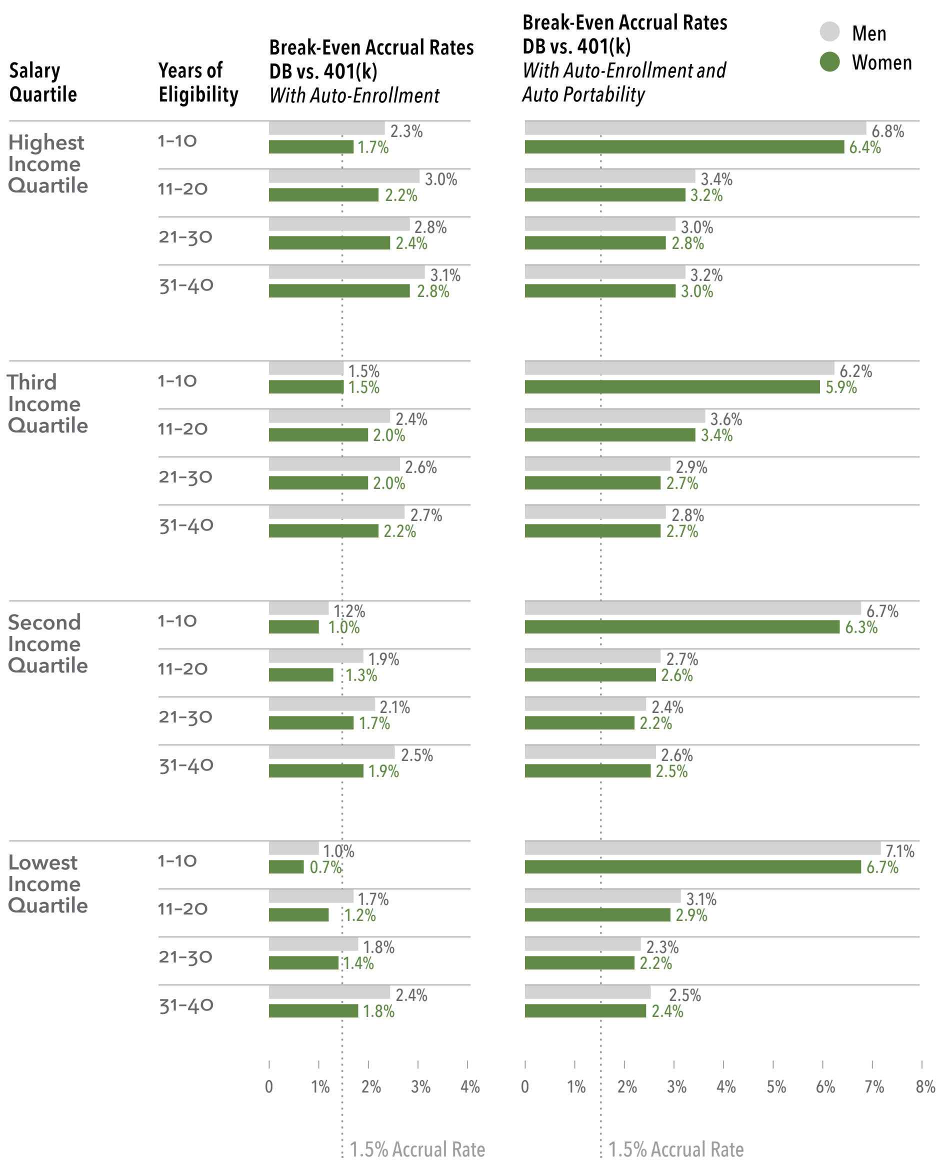
The impact of auto portability would be greatest among those with the fewest years of eligibility given their lower account balances and the negative correlation between account balances and cashout activity.

Accrual Rate – The accrual rate is the percentage of earnings an employee receives as a pension for each year of eligibility.

Break-Even Accrual Rate – A "break-even" accrual rate is the accrual-rate percentage that would be required in order for a defined benefit plan to generate the same retirement income that is projected to come from automatic enrollment 401(k) plan participation.

Median of Defined Benefit Plan Accrual Rates Needed for Equivalence[1] With 401(k) Plan Among Employees Currently Ages 25–29

By Salary Quartile and Years of Eligibility



1. The numbers represent the annual accrual percentage that would be multiplied by final-average salary and years of participation. Figures show the median of the final-average DB plan generosity parameters required for equivalence with the auto-enrollment 401(k) plan among employees currently ages 25–29, assuming the baseline (historical) rates of returns for stocks and bonds and the baseline assumption for the annuity purchase price (reflecting average bond rates over the period from 1986 to 2013).

Source: Jack VanDerhei. "How Much Would It Take? Achieving Retirement Income Equivalency Between Final-Average-Pay Defined Benefit Plan Accruals and Automatic Enrollment 401(k) Plans in the Private Sector." *EBRI Issue Brief*, no. 473 (Employee Benefit Research Institute, February 7, 2019).