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Pension Plans Can Provide Retirement Income at Half the Cost of Individual Accounts.

Defined benefit plans are inherently more cost-efficient than defined contribution plans, according to A Better Bang for the Buck, an updated study by the National Institute on Retirement Security. A typical DB plan provides equivalent retirement benefits at about half the cost of a DC plan, and 29% lower cost than an “ideal” DC plan modeled with generous assumptions, according to the study. DB plans have three structural cost advantages, compared to DC plans: longevity risk pooling, the ability to maintain a well-diversified portfolio over a long investment horizon, and low fees and professional management. Given the cost efficiencies inherent to DB plans, the study concludes that employers and policymakers should carefully evaluate claims that money can be saved by switching to a DC plan.

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