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Traditional Pension Plans Cost Less than Defined Contribution, Study Shows.

A misperception persists among some that defined contribution plans save money, when compared with traditional pensions, but several states that switched to DC plans have experienced a much different reality over time, according to a recent study from the National Institute on Retirement Security. Pensions deliver the same amount of lifetime income for about half of the cost of providing the lifetime income from a typical DC plan, according to the study, titled Case Studies of State Pension Plans that Switched to Defined Contribution Plans. The paper summarizes the switch from DB to DC in West Virginia, Michigan, and Alaska, which found that changing from a DB plan to a DC plan did not help an existing underfunding problem, and, in fact, increased pension plan costs. Each state found that workers under the DC plan also face increased levels of retirement insecurity, and that the best way to address a pension underfunding problem is to implement a responsible funding policy of making the full annual required contribution each year and to evaluate and adjust assumptions and funding over time.

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