The Decline of Defined Benefit Retirement Plans and Asset Flows

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Policy Abstract

In order to better understand the likely effect of population aging on asset returns, this study projects the flow of funds into and out of investment accounts that hold retirement-related assets. While the focus of the study is on asset flows in traditional defined-benefit (DB) pension programs, the results are compared and integrated with findings from a companion study on the flow of funds into and out of 401(k)-type pension plans. Focusing first on the DB plans, the projections suggest that the average (over all people) of the present value of real DB benefits at age 65 attained an historical maximum in 2003, declining thereafter, as the proportion of new retirees covered by DB plans decreases over time. The projections also suggest that the average value of 401(k) assets at age 65 grows steadily over time, surpasses the average present value of DB benefits in about 2010, and attaining levels much greater than DB assets. The offsetting and dominating influence of 401(k)-type saving, compared with flows in DB assets, is the central conclusion of the analysis. Focusing on DB assets alone suggests that an aging population, in conjunction with a shift away from DB plans, will lead to a decline in the real value of pension assets averaged across all retirees in future cohorts. When we combine projected 401(k) assets with projected DB assets, however, we find that real pension assets not only increase, but increase substantially, in future decades.