

# **Comparison of 401(k) Plan vs. WCT Pension Plan**



## **A Ten-Year Analysis**

**Through December 31, 2015**

# What Experts are saying...



## HUFFPOST BUSINESS

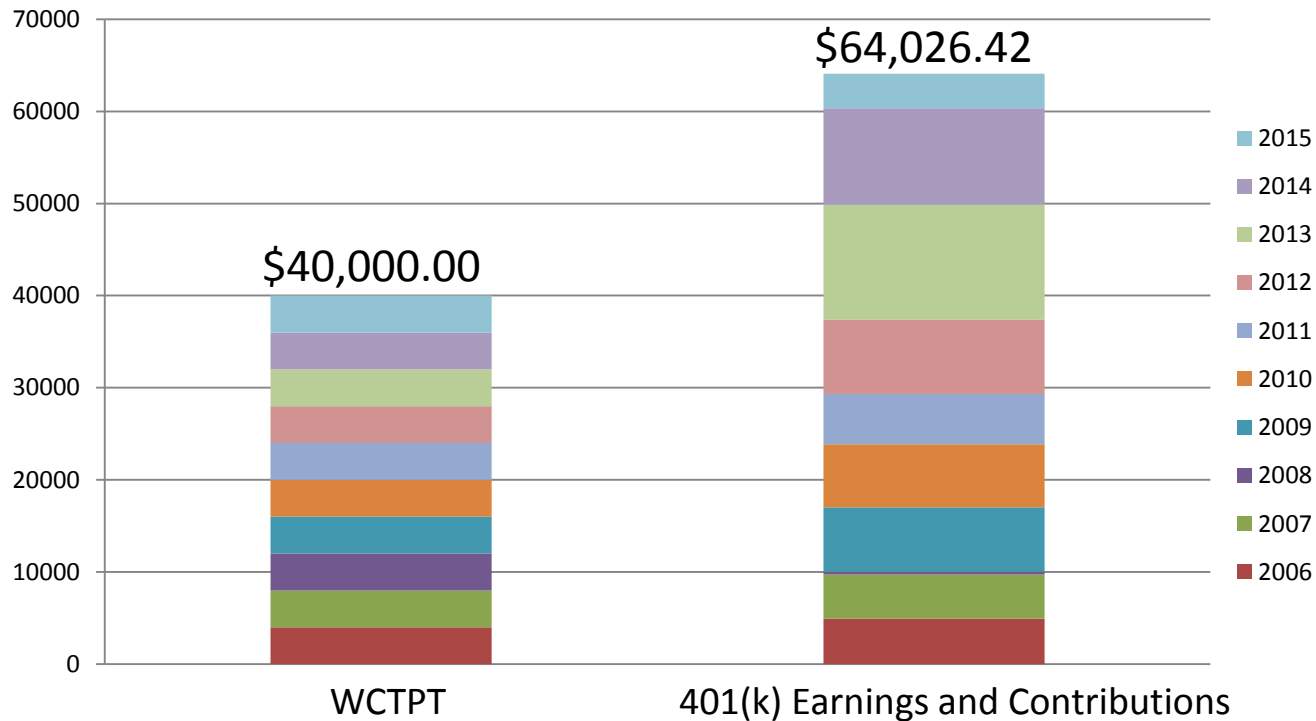
THE BLOG

### **Five Reasons Why Traditional Pensions Are Still the Best Way to Provide Retirement Security**

🕒 10/19/2015 11:02 am ET | Updated Oct 19, 2015

1. Defined benefit plans guarantee a reliable retirement benefit for life.
2. Defined benefit plans pool risks, are professionally managed, and yield the best returns.
3. Defined benefit plans can absorb market fluctuations.
4. Defined benefit plans attract and retain people who are committed to the long-term success of their employer.
5. Defined benefit plans are the most cost-effective retirement savings method available.

# Compare: WCTPT vs. 401(k) Earnings and Contributions 2006 - 2015 (10 Years of Contributions)



- In this slide, we compare \$40,000 in contributions (\$4,000 each year) made to WCT Pension Plan (WCTPT) and a 401(k) plan, each over the latest 10-year period (2006 – 2015).
- At the end of the ten years, the WCTPT has \$40,000 in contributions paid on behalf of the Plan member; the 401(k) plan has \$40,000 in contributions plus another \$24,026.42 in investment earnings, assuming those contributions were invested 60% in stocks and 40% in Bonds during the 10 years (the S&P 500 and Barclays Bond Index – which is the most favorable comparison that can be made over this period). In total, the 401(k) plan has an account balance of \$64,026.42 at the end of 2015.

# What can \$64,026.42 buy?



According to [ImmediateAnnuities.com](http://www.immediateannuities.com), you can purchase a fixed income annuity for your lifetime:

Add to Your Report	Immediate Income Single Life & Period Certain Options	Est. Monthly Income	Cashflow Rate
<input checked="" type="checkbox"/>	Single Life Only ( <a href="#">info</a> )	\$325	6.10%
<input type="checkbox"/>	Single Life with 5 Years Certain ( <a href="#">info</a> )	\$327	6.13%
<input type="checkbox"/>	Single Life with 10 Years Certain ( <a href="#">info</a> )	\$321	6.01%
<input type="checkbox"/>	Single Life with 15 Years Certain ( <a href="#">info</a> )	\$312	5.84%
<input type="checkbox"/>	Single Life with 20 Years Certain ( <a href="#">info</a> )	\$302	5.66%
<input type="checkbox"/>	Single Life with Cash Refund ( <a href="#">info</a> )	\$300	5.63%
<input type="checkbox"/>	5 Year Period Certain ( <a href="#">info</a> )	\$1,101	20.63%
<input type="checkbox"/>	10 Year Period Certain ( <a href="#">info</a> )	\$591	11.07%
<input type="checkbox"/>	15 Year Period Certain ( <a href="#">info</a> )	\$429	8.04%
<input type="checkbox"/>	20 Year Period Certain ( <a href="#">info</a> )	\$354	6.63%
<input type="checkbox"/>	25 Year Period Certain ( <a href="#">info</a> )	\$312	5.85%

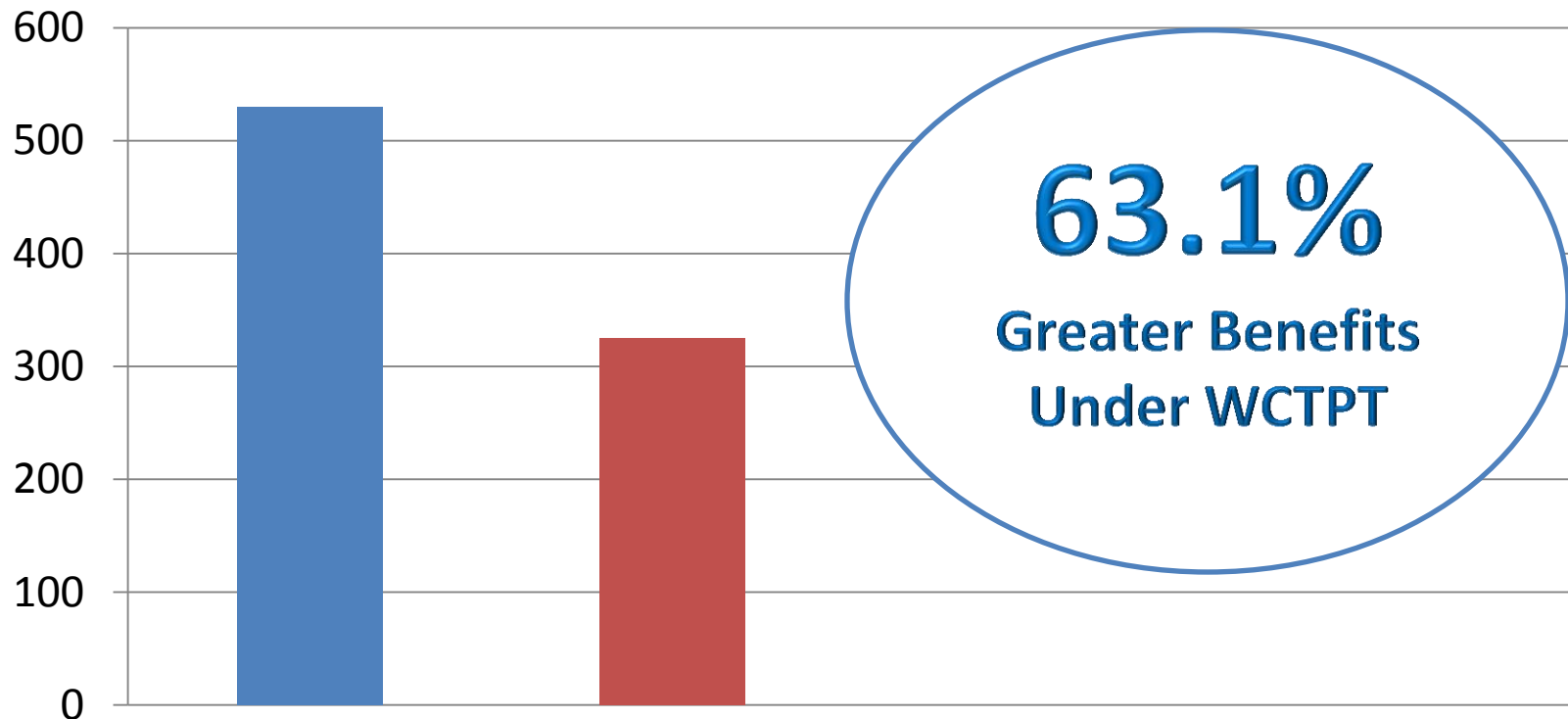
← \$325.00

- With the 401(k) account balance of \$64,026.42, how much of a monthly benefit does this generate if we convert it to a monthly annuity for a male beginning at age 62?
- According to ImmediateAnnuities.com, with a sum of \$64,026.00 you can purchase a fixed income annuity for the person's lifetime and receive \$325 per month.

Premium \$64,026 (Male 62). These figures are estimates. To receive guaranteed quotes continue to the last step. This information is not intended to provide personalized advice nor a recommendation to buy an annuity. Cashflow rate is the percentage of premium paid out each year and includes interest plus return of principal. It is not an interest rate.

Source: <http://www.immediateannuities.com> April 1, 2016

# Monthly Benefit Earned: 2006 - 2015 (10 Years of Contributions)



- How does the \$325 per month purchased as an annuity from the 401(k) balance compare with the monthly benefit earned under the WCTPT?
- The monthly benefit provided by the WCTPT, based on the \$40,000 in contributions from 2006 – 2015, is \$530.00 beginning at age 62, assuming the Recent Coverage test is met (at the accrual rate of 1.2%).
- The difference in benefits is \$205.00 per month, or **63.1%** greater benefits under the WCTPT than offered by the 401(k) plan!

# Total Benefits After 20 Years of Retirement: 2006 - 2015 (10 Years of Contributions)



Year	WCTPT Monthly Benefit of \$530	401(k) Monthly Benefit of \$325
2016	\$6,360.00	\$3,900.00
2017	\$12,720.00	\$7,800.00
2018	\$19,080.00	\$11,700.00
2019	\$25,440.00	\$15,600.00
2020	\$31,800.00	\$19,500.00
2021	\$38,160.00	\$23,400.00
<b>2022</b>	<b>\$44,520.00</b>	<b>\$27,300.00</b>
2023	\$50,880.00	\$31,200.00
2024	\$57,240.00	\$35,100.00
2025	\$63,600.00	\$39,000.00
2026	\$69,960.00	\$42,900.00
2027	\$76,320.00	\$46,800.00
2028	\$82,680.00	\$50,700.00
2029	\$89,040.00	\$54,600.00
2030	\$95,400.00	\$58,500.00
2031	\$101,760.00	\$62,400.00
<b>2032</b>	<b>\$108,120.00</b>	<b>\$66,300.00</b>
2033	\$114,480.00	\$70,200.00
2034	\$120,840.00	\$74,100.00
<b>2035</b>	<b>\$127,200.00</b>	<b>\$78,000.00</b>

## – The Payoff –

Looking at the benefits paid over 20 years under the WCTPT versus the 401(k) purchased annuity, we find:

- The breakeven point for contributions paid (\$40,000) versus benefits received from the WCTPT is seven (7) years (at the end of 2022), when \$44,520 in benefits will have been received. At this same time, the 401(k) annuity will have paid benefits totaling \$27,300.
- It isn't until the end of 2032 (after nearly 17 years of retirement) that the 401(k) annuity will reach its breakeven point, when \$66,300 in benefits will have been paid (to exceed the annuity purchase price of \$64,026). At this same time the WCTPT will have paid benefits totaling \$108,120.
- After 20 years of retirement benefit payments: Under the WCTPT, a retiree will have received \$127,200; under the 401(k) annuity, the retiree will have received \$78,000.

# WCT Pension Plan vs. 401(k) Plan



## Conclusions:

- 401(k) Plans are excellent savings vehicles, but they are not designed to provide true lifetime security.
- Even after a 10-year period (2006 – 2015) that was very good for stocks (a 160% cumulative return with dividends reinvested), the WCT Pension Plan compares very favorably to any lifetime benefits offered by a 401(k) plan.
- And in years when the investment markets are unstable or even negative, the WCT Pension Plan will continue to accrue steady, positive benefits. Contrast that with a 401(k) plan where a major market downturn at the time your annuity is purchased could reduce your account balance, leaving you no options to recover the amount you were expecting.
- In addition, the WCT Pension Plan provides an umbrella of security, with child and spousal survivor benefits and disability benefits, as well as predictable monthly retirement benefits – not so, the 401(k).
- The Western Conference of Teamsters Pension Plan is:

**-Retirement Security for a Lifetime-**