

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



A Ten-Year Analysis

Through December 31, 2021



What Experts are saying...

The proportion of retirees who have defined-benefit pension plans has decreased substantially. According to the Pension Research Center, a mere 23 percent of U.S. workers have such a pension plan.

Today's retirees are more dependent on defined-contribution plans, such as 401(k)s. With a defined contribution plan, the retiree must manage the portfolio himself or herself or pay a financial planner to do so.

- *Chicago Tribune August 31, 2018*



What Experts are saying...

- *The Champions of the 401(k) Lament the Revolution They Started*
 - The Wall Street Journal January 2, 2017
- *Why 'Father of the 401(k)' says he regrets pushing the retirement plan*
 - The Christian Science Monitor January 4, 2017
- *401(k) founder: My creation is “a monster”*
 - CBS News November 29, 2011
- *Retirement Account Pioneers Regret What They Started*
 - NPR January 3, 2017
- *Those who created the 401(k) never meant them to replace the pension, but that’s what happened...*

...The 401(k) is a way to save money, but it isn’t a source of guaranteed lifelong retirement income, like a pension is. There’s good reason to believe that for individuals, pensions provided something far more valuable than the current do-it yourself 401(k) system provides. It certainly had flaws and it’s unlikely to see a comeback, but there’s good reason to believe that aspects of our old pension system should be part of our future retirement paradigm.

 - Forbes.com June 5, 2017



5 Ways A 401(k) Isn't As Good As A Pension

On June 5, 2017 Forbes.com stated:

Forbes

1. A pension provided protection from market risk.

“With a guaranteed income coming in the door each month, people on pensions didn’t have to worry whether their savings, meant to support them for the rest of their lives, would suddenly disappear in the event of a market crash.”

2. A pension provided protection from outliving your savings.

“Lifespans have increased substantially over the last generation (despite some recent data indicating certain parts of the population may be seeing slight declines), and while that means more time with grandkids, it means saving more money. It’s hard to predict in early retirement whether you should prepare for a 15 or 30 year retirement and that makes things more difficult if you don’t have lifetime income.”

3. A pension lets you budget your retirement expenses.

“With a pension, you know exactly what’s coming in the door each month. Even better, when you have more retirement income, you can take more risk with your investments in the market, without fear that riskier investment decisions will leave you unable to cover even the bare basics.”

4. It’s hard to translate the assets in a 401(k) into a steady monthly benefit.

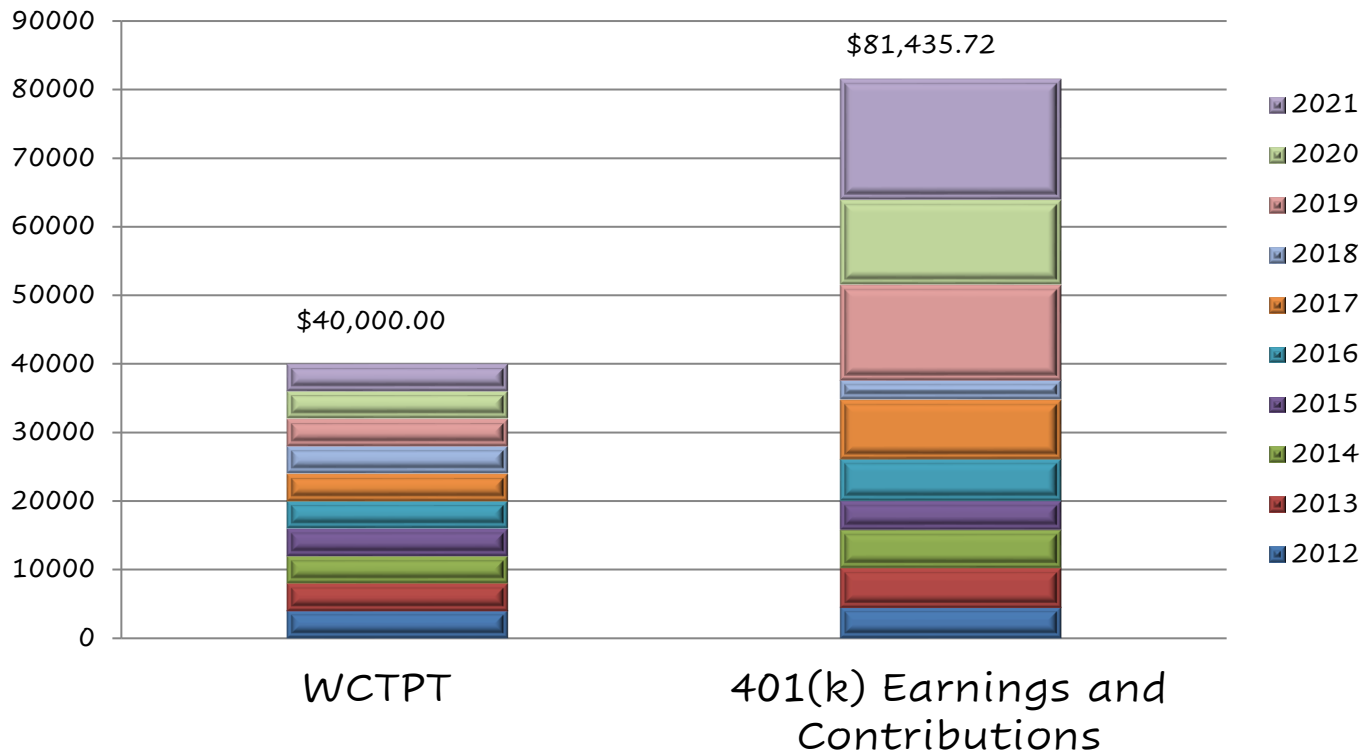
“It’s on you to budget and withdraw what you think you’ll need each month, putting greater responsibility in your hands and increasing the risk of outliving savings.”

5. A pension incentivizes you to be healthy.

“If you have lifetime income, living longer is a good thing, not one that induces worry that you might not have enough. Knowing you don’t have a timer on your savings incentivizes people to be healthy and stay healthy, enjoying life for what it can offer rather than worrying what to do if you’re enjoying life for a longer period than you, or the market, could estimate. With a pension, you’re guaranteed an income stream to cover your basic expenses regardless of how long you live.”



Compare: WCTPT vs. 401(k) Earnings and 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 (2012 – 2021).
- 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 \$41,432.72 in investment earnings, assuming those contributions were invested 60% in stocks and 40% in Bonds during the 10 years (the S&P 500 and an ETF based on the Bloomberg 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 \$81,435.72 at the end of 2021.



What can \$81,435.72 buy?

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

Add to My Report	Average Estimated Quotes Single Life & Period Certain Options Income Starts Immediately	Est. Monthly Income
<input checked="" type="checkbox"/>	Life (?)	\$370
<input checked="" type="checkbox"/>	Life & 10 Years Certain (?)	\$366
<input type="checkbox"/>	Life with Cash Refund (?)	\$341
<input type="checkbox"/>	5 Year Period Certain (?)	\$1,391
<input type="checkbox"/>	10 Year Period Certain (?)	\$735

Premium \$81,435 (Male 62). These quotes are estimates. To get exact quotes, check the "Add to My Report" box next to any annuity options and continue to step 2.

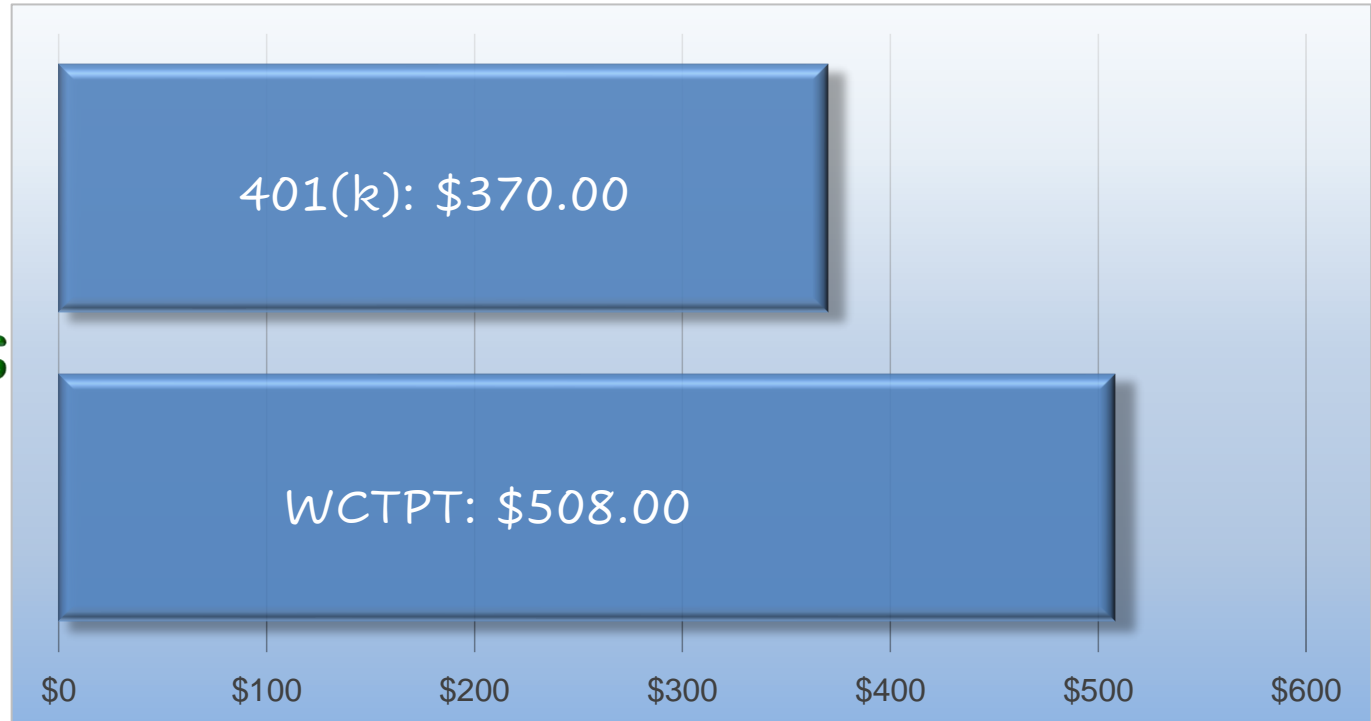
← **\$370.00**

- With the 401(k) account balance of \$81,435.72, 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](https://www.immediateannuities.com) (January 26, 2022), with a sum of \$81,435.72 you can purchase a fixed income annuity for the person's lifetime and receive \$370 per month.



Monthly Benefit Earned: 2012 - 2021 (10 Years of Contributions)

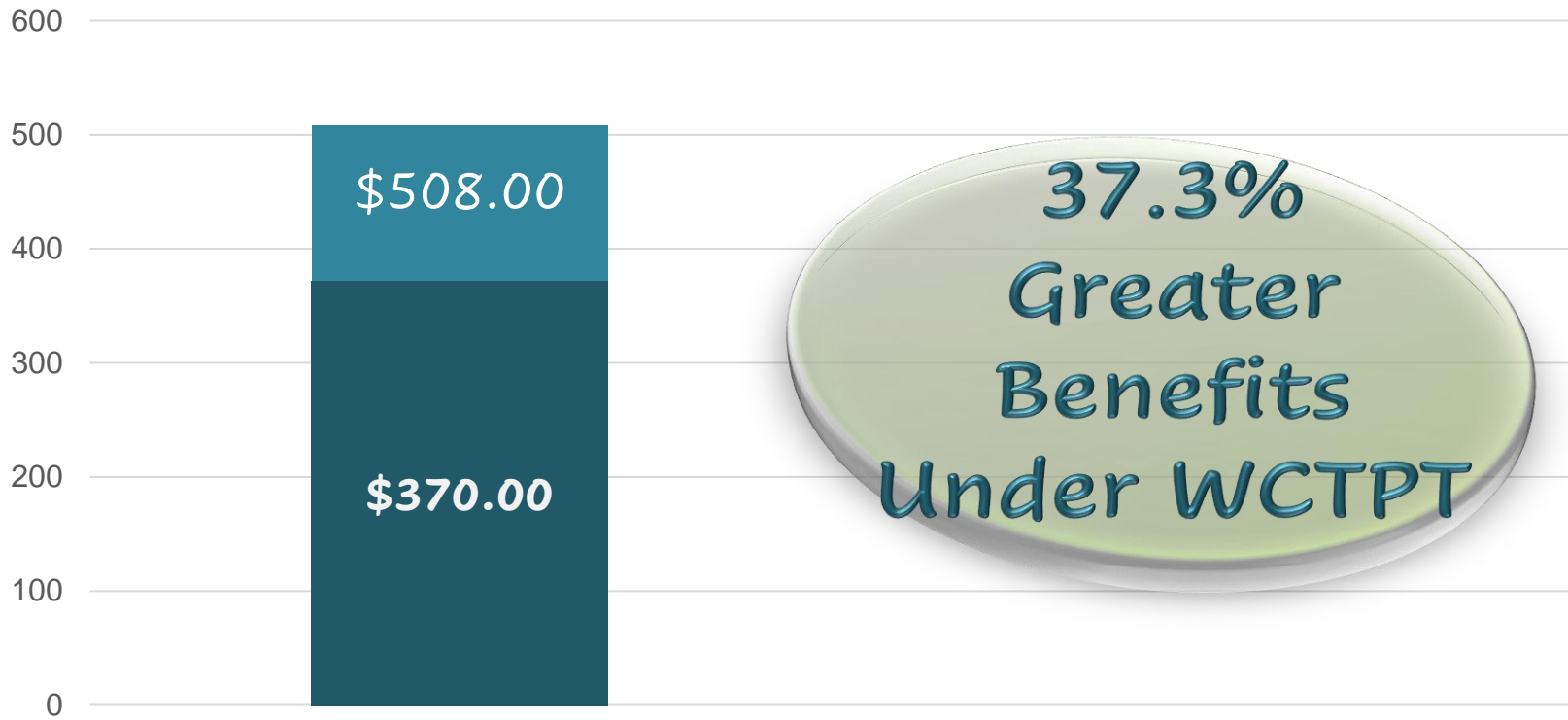
**37.3%
Greater
Benefits
Under
WCTPT**



- How does the \$370 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 2012 - 2021, is \$508.00 beginning at age 62, assuming the Recent Coverage test is met (at the accrual rate of 1.2% 2012-2019, 1.5% for 2020, and 1.6% for 2021).
- The difference in benefits is \$138.00 per month, or **37.3%** greater benefits under the WCTPT than offered by the 401(k) plan!



Monthly Benefit Earned: 2012 - 2021 (10 Years of Contributions)



- How does the \$370 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 2012 - 2021, is \$508.00 beginning at age 62, assuming the Recent Coverage test is met (at the accrual rate of 1.2% 2012-2019, 1.5% for 2020, and 1.6% for 2021).
- The difference in benefits is \$138.00 per month, or **37.3%** greater benefits under the WCTPT than offered by the 401(k) plan!



Total Benefits After 20 Years of Retirement: 2022 - 2041 (10 Years of Contributions)

Year	WCTPT Monthly Benefit \$508	401(k) Monthly Benefit \$370
2022	\$6,096.00	\$4,440.00
2023	\$12,192.00	\$8,880.00
2024	\$18,288.00	\$13,320.00
2025	\$24,384.00	\$17,760.00
2026	\$30,480.00	\$22,200.00
2027	\$36,576.00	\$26,640.00
2028	\$42,672.00	\$31,080.00
2029	\$48,768.00	\$35,520.00
2030	\$54,864.00	\$39,960.00
2031	\$60,960.00	\$44,400.00
2032	\$67,056.00	\$48,840.00
2033	\$73,152.00	\$53,280.00
2034	\$79,248.00	\$57,720.00
2035	\$85,344.00	\$62,160.00
2036	\$91,440.00	\$66,600.00
2037	\$97,536.00	\$71,040.00
2038	\$103,632.00	\$75,480.00
2039	\$109,728.00	\$79,920.00
2040	\$115,824.00	\$84,360.00
2041	\$121,920.00	\$88,800.00

- 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 approximately six and a half (6.5) years (middle of 2028).
- By the end of 2028 \$42,672.00 in benefits will have been received. At this same time, the 401(k) annuity will have paid benefits totaling \$31,080.00.
- It isn't until the early 2040(after nearly 19 years of retirement) that the 401(k) annuity will reach its breakeven point, when \$84,360.00 in benefits will have been paid (to exceed the annuity purchase price of \$81,435.72.). At this same time the WCTPT will have paid benefits totaling \$115,824.00
- After 20 years of retirement benefit payments: Under the WCTPT, a retiree will have received \$121,920.00; under the 401(k) annuity, the retiree will have received \$88,800.00.



The Longevity Challenge

As of June 2022 We Have:

8,623

Retirees/Beneficiaries

between

Ages 90 and 99!



The Longevity Challenge

As of December 2021 We Have:

261

Retirees/Beneficiaries

Age 100 or more!



WCT Pension Plan vs. 401(k) Plan

Conclusion

- 401(k) Plans are excellent savings vehicles, but they are not designed to provide true lifetime security.
- Even after a 10-year period (2010 – 2019) that was very good for stocks, 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-