

Do Academicians Still Prefer Defined Benefit Plans?

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Many university systems offer the choice between defined benefit (DB) and defined contribution (DC) retirement plans in order to attract and retain employees. This research hypothesizes that individuals with greater financial knowledge on retirement plans will be more likely to select a DC plan. Satisfaction with one's retirement plan depends on both the type of plan and the level of financial knowledge.

The opportunity to select a DB plan may be more attractive to university employees due to the portfolio risk associated with a DC plan. However, DB plans may be unattractive to some employees due to mobility risk. The deciding factor for individuals making the choice between a DB plan and a DC plan may be their levels of financial knowledge.

This study featured an online survey of 275 faculty members employed by a university in the Southeastern United States that offers both DB and DC retirement plans. The sample included 129 males, 106 females, and 2 individuals who chose not to identify. The survey questions asked demographic information, retirement plan type selected, overall satisfaction with their retirement plan, satisfaction with specific aspects of that plan, and self-assessed risk tolerance.

Individuals with greater financial knowledge regarding their retirement plan options were more likely to select the DC plan. In particular, those who selected the DC plan were more knowledgeable about the vesting schedule, the employer's contributions, and what constituted a DC plan. Employees who selected the DC plan were generally less satisfied with their plan choice overall and less satisfied in all specific areas except for plan portability. In a regression analysis in which satisfaction with a retirement plan was the dependent variable, knowledge of DC plans, portability, and perceived accessibility of DC providers were significant and positively related with satisfaction. Length of employment, knowledge of specific aspects of DB and DC plans and risk tolerance were not significant.

Individuals who selected the DC plan were notably less satisfied than the individuals who had selected the DB plan, which is a somewhat surprising result. Since these individuals were more knowledgeable, their ability to choose a plan that featured both portability and control of investment choices should have led to satisfaction levels roughly equivalent to those who selected the DB plan. The decline in stock values from 2007 through 2009 likely had an impact on the satisfaction of individuals in DC plans. Although the market had fully recovered by the time of this survey in 2016, lingering perceptions regarding that downturn and loss aversion of individuals may have continued to influence satisfaction for DC enrollees. Satisfaction for these individuals would potentially improve but only if the value of portability offsets concerns about investment risk or if the individuals were able to recognize the impact of the market recovery. As a result, policy makers in higher education may need to consider retaining DB retirement plans as an option to satisfy current employees and attract new employees.

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