The National Institute on Retirement Security reports that Defined benefit (DB) pension plans are designed to provide employees with a predictable monthly benefit for life when they retire. The amount of a monthly pension is typically a function of the number of years an employee devotes to their job and the worker's pay, usually at the end of his career. This plan design is attractive to employees because of the financial security it provides. Employees know they will have a steady, predictable income that will enable them to maintain a stable portion of their pre-retirement income. DB plans are pre-funded retirement systems. That is, employers—and, in the public sector, employees—make contributions to a common pension trust fund over the course of each employee's career.

These funds are invested by professional asset managers whose activities are overseen by trustees and other fiduciaries. The earnings that build up in the fund, along with the dollars contributed while working, pay for the lifetime benefits an employee receives when he or she retires. Defined contribution (DC) plans, such as 401(k) plans, function very differently than DB plans. First, there is no implicit or explicit guarantee of a certain level of retirement income in a DC plan. Rather, employees and sometimes employers contribute to the plan over the course of a worker's career. Whether the funds in the DC account will ultimately be sufficient to meet retirement income needs will depend on a number of factors, such as the level of employer and employee contributions to the plan, the investment returns earned on assets, whether loans are taken or funds are withdrawn prior to retirement and the number of years a retiree will live after they leave work.

DC plans consist of separate, individual accounts for each participant. Plan assets are typically "participant directed," meaning that each individual employee can decide how much to save, how to invest the funds in the account, how to modify these investments over time and how to withdraw the funds at retirement. Along with differences in contributions and investments during employees' careers, another important difference between DC and DB plans becomes apparent at retirement.

Unlike in DB plans, where retirees are entitled to receive regular, monthly pension payments for life, in DC plans it is typically left to the retiree to decide how to spend down one's retirement savings. Research suggests that many individuals struggle with this task. Since retirees find it difficult to estimate how long they will live, they either draw down funds too quickly and run out of money, or hold onto funds too tightly and self-impose a lower standard of living as a result. In theory, employers that offer DC plans could provide annuity payout options, but in practice they rarely do.

Unlike employees in the private sector, who have seen a drastic decrease in DB plan coverage, most public employees still participate in a DB plan. For example, a comparison of a 2008 report from the Bureau of Labor Statistics (BLS) with the 2016 National Compensation Study (NCS) shows that private sector participation in DB plans dropped substantially from 76 percent of full

time employees in 1986 to 15 percent in 2016, yet public employee participation in DB plans only dropped from 93 percent of full time employees in 1986 to 75 percent in 2016. Thus, while private sector DB coverage has declined sharply in the last three decades, public sector coverage has declined modestly; as most state and local government employees still provide DB pension coverage to their employees. A few states offer public employees a choice between a traditional DB pension and a DC account as the primary retirement plan.

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