

# Team 401(k) versus Team Pension: Understanding Retirement Options

**SUBMITTED BY:** Kathryn McGinn

**SUBJECT(S):** Career Development

**GRADE LEVEL(S):** 9, 10, 11, 12

## ≡ OVERVIEW:

Students will compare and contrast 401(k)s and defined contribution (pension) plans, highlighting the potential advantages and disadvantages of each. Students will read a Knowledge@Wharton article for relevant information about retirement savings and share their findings with the class in the form of a debate. At the end of the lesson, students will consider which type of plan they think makes the most sense.

## ≡ NBEA STANDARD(S):

- Career Development, II. Career Research

## ≡ RELATED ARTICLES:

- [“Why Investors Diversify: Spreading Your Wealth Across Assets, Industries and Countries”](#)
- [“Student Essay: Saving for Retirement: ‘Time Is on Our Side’”](#)
- [“Live Long and Prosper: Planning for a Social Security Shortfall”](#)

## Common Core Standards:

- ELA CCR Writing 1: Write arguments to support claims in an analysis of substantive topics or texts, using valid reasoning and relevant and sufficient evidence.
- ELA CCR Reading 1: Read closely to determine what the text says explicitly and to make logical inferences from it; cite specific textual evidence when writing or speaking to support conclusions drawn from the text.
- ELA CCR Reading 8: Delineate and evaluate the argument and specific claims in a text, including the validity of the reasoning as well as the relevance and sufficiency of the evidence.
- ELA CCR Reading 10: Read and comprehend complex literary and informational texts independently and proficiently.
- ELA CCR Speaking and Listening 1: Prepare for and participate effectively in a range of conversations and collaborations with diverse partners, building on others' ideas and expressing their own clearly and persuasively.

**Objectives/Purposes:**

- Students will understand the advantages and disadvantages of both 401(k)s and pension plans.
- Students will work constructively in groups to compile and present information on an assigned topic.

**Knowledge@Wharton Article:**

- [“Not So Golden: Employees — and Employers — Feel the Pinch from Shortfalls in Retirement Funding”](#)

**Other Resources/Materials:**

- Article graphic organizer ([Handout A](#))

**Activities:**

1. Hand out article graphic organizer (Handout A). Ask students if they know what a 401(k) or a pension plan is. If they don't know, ask students to describe the context in which they have heard these terms discussed. Listen to student ideas, and share the

definitions given in “Not So Golden: Employees — and Employers — Feel the Pinch from Shortfalls in Retirement Funding”:

- a. Pension (defined benefit plan): an employer promises to take care of employees when they retire
- b. 401(k) (defined contribution plan): an employer helps an employee accumulate his/her own retirement funds: employees make investments and receive certain tax breaks

Have students write the definitions for the terms in the spaces provided on the handout.

(5 mins)

2. Give each student a copy of “Not So Golden: Employees — and Employers — Feel the Pinch from Shortfalls in Retirement Funding.” Have students count off by 4s. Each number corresponds to a box on the graphic organizer. As students read, have them take notes in their assigned box. For example, all number 3s should take notes in the 401(k) advantages box on the graphic organizer.

(10 mins)

3. When students have finished reading the article, have them get in their groups (1-4) and share their findings with one another. Students add any information they are missing. Check in with each group to make sure they have the information noted below:

Retirement Plan	Advantages	Disadvantages
Pension	<ul style="list-style-type: none"> <li>• Retirement benefits “supposedly” guaranteed</li> <li>• Insured by the government if company goes bankrupt</li> <li>• Public pensions are funded by taxpayers</li> <li>• Employers are struggling to fulfill their promises</li> <li>• Companies may have to lay workers off, “walk away</li> </ul>	

	<p>from” their pensions, or shut down plants</p> <ul style="list-style-type: none"> <li>• Money that could be spent to grow the business has to be put aside for pensions</li> <li>• Public pensions take money away from needed services</li> </ul>	
401 (k)	<ul style="list-style-type: none"> <li>• While some employers may freeze contributions, it’s not permanent, and it means that companies can avoid laying off workers</li> <li>• Individuals have more control over how to invest their money for retirement <ul style="list-style-type: none"> <li>• Retirement account balances have dropped significantly during the current financial crisis</li> <li>• Many participants did not “diversify” their investments, so they were more vulnerable to market risk</li> <li>• Lots of opportunities for employees to make mistakes: not contribute, not contribute enough, don’t diversity holdings, take out money early, etc.</li> <li>• Employers are scaling back or</li> </ul> </li> </ul>	

	eliminating matching contributions	
--	------------------------------------	--

*(5 minutes)*

4. Explain that the class is going to have a debate about which form of retirement savings is the best. Therefore, groups 1 & 4 (pension advantages and 401(k) disadvantages) will work together to craft an argument in favor of pensions. Groups 2 & 3 will work together to craft an argument in favor of 401(k)s. Students have 10 minutes to share information and create a brief presentation for the class. Presentations should include:

- Clear explanation of all the benefits of their retirement plan.
- Thoughtful description of the disadvantages of the other type of retirement plan.
- At least one visual aid that illustrates an aspect of the argument.

Each group member should be involved in preparing the presentation. If any individuals do not wish to speak in front of the class, they should work on creating a visual aid.

*(10 mins)*

5. Each team has 5 minutes to present their ideas. As teams present, students fill in the empty boxes on their graphic organizer.

*(10 mins)*

### **Tying It All Together:**

Ask students to put aside the teams they were on and to think about retirement plans more objectively. After hearing all the advantages and disadvantages, which type of retirement plan would the students pick and why? Discuss as a class.

*(5 mins)*

### **Practice Outside of the Classroom:**

- Ask adults in your life if they have retirement plans, and discuss what kind of plans they have and why.
- Research how budget cuts in state and city governments are affecting public sector retirement plans.

**What Worked and What I Would Do Differently:**

Because this article assumes a basic knowledge on the part of the reader about 401(k)s and pension plans, it was difficult for students to jump right in and figure out the advantages and disadvantages of each type of plan. Therefore, I would either spend significantly more time at the beginning of the lesson explaining what 401(k) plans and pension plans are, and/or I would read the article aloud together with the students and complete the chart as a class, stopping to address any questions along the way.

u