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A Visual Depiction of the Shift from Defined Benefit (DB) to Defined Contribution (DC) Pension Plans in the Private Sector

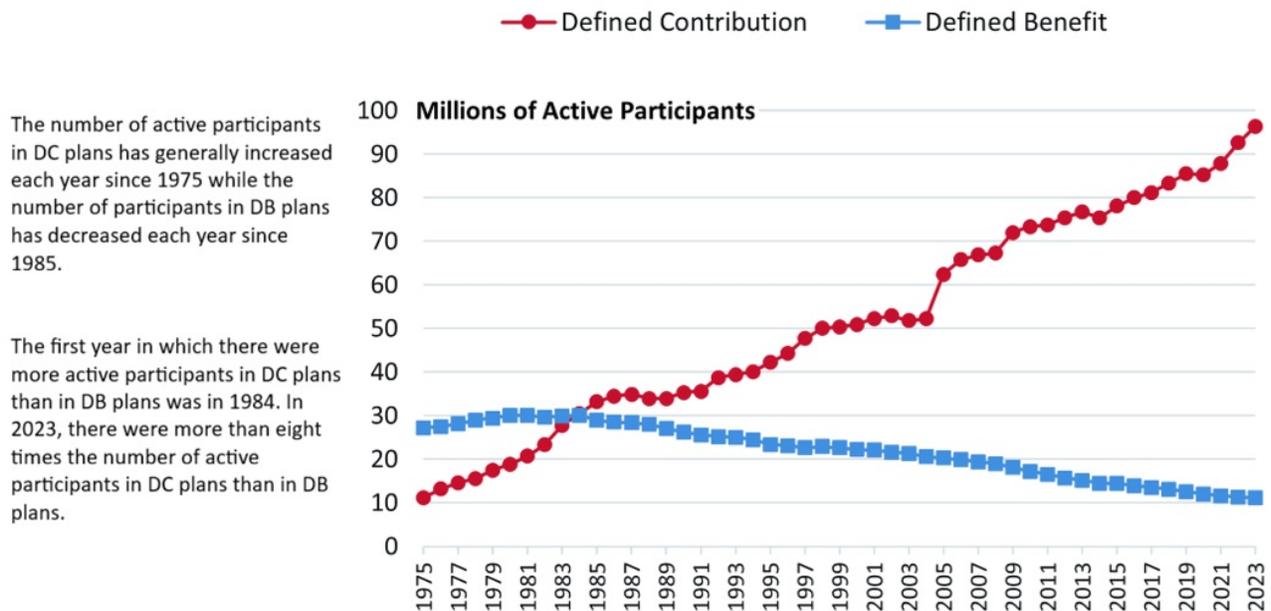
Background

One of the notable trends in the U.S. retirement system over the past five decades is that private sector employees have become less likely to be covered by defined benefit (DB) pension plans and more likely to be covered by defined contribution (DC) pension plans. In recent years, more private sector workers have participated in DC plans than in DB plans. For example, in 2023, DC plans had 93.4 million participants, while DB plans had 11.1 million participants. Until 1984, DB plans had more active participants than DC plans did.

Congress has expressed an interest in helping Americans prepare for a financially secure retirement by providing numerous tax advantages for retirement plans generally and regulatory oversight of private sector retirement plans specifically. The policies that Congress enacts play a role in shaping the types of retirement plans that employers choose, or do not choose, to offer.

Figure 1 shows that the number of active participants in private sector DC plans has generally increased each year since 1975 but that the number of active participants in private sector DB plans has been steadily decreasing since 1984.

Figure 1. Active Participants in Private Sector Pension Plans, 1975-2023



Source: U.S. Department of Labor, Employee Benefits Security Administration (EBSA), *Private Pension Plan Bulletin Historical Tables and Graphs: 1975-2023*, September 2025, Table E7, <https://www.dol.gov/sites/dolgov/files/EBSA/researchers/statistics/retirement-bulletins/private-pension-plan-bulletin-historical-tables-and-graphs.pdf>.

Notes: Participant counts may be slightly higher than the number of individuals with DB and DC plans because an individual is counted more than once if he or she participated in more than one plan. Active participants are individuals who are earning credit under DB plans or are making, or are eligible to make, contributions to DC plans. The increase in active participants in DC plans from 2004 to 2005 is a result of a change in the definition of *active participant* used by EBSA. See U.S. Department of Labor, Instructions for Form 5500, p. 17, <https://www.dol.gov/sites/dolgov/files/EBSA/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/form-5500/2020-instructions.pdf>.

In a DB plan (sometimes referred to as a *traditional* pension plan), a participant receives benefits in retirement based on a formula that typically uses either (1) a combination of the worker’s length of service, an accrual rate, and the average

of a certain number of final years’ salary or (2) a flat-dollar amount and the number of months or years the worker participated in the plan. The benefit is usually paid as a monthly benefit in retirement for the life of the participant

and spouse, if married. Some DB plans allow a participant to take the benefit as a lump-sum dollar amount at retirement.

In DC plans, workers are provided individual accounts funded by their own contributions, contributions from their employers, or both. DC plans do not provide guaranteed income. The funds in the account experience investment gains and losses, and the contributions and earnings (if any) are used as a source of income in retirement. Examples of private sector DC plans include profit-sharing plans, money purchase plans, 401(k) plans, 403(b) plans, and Employee Stock Ownership Plans (ESOPs).

Participant Data

Figure 1 illustrates the decline of DB plan coverage and the growth of DC plan coverage among private sector workers by showing the number of active participants in DB and DC plans from 1975 to 2023. Active participants are individuals who are earning credit under DB plans or are making, or are eligible to make, contributions to DC plans.

In 1975, private sector DB plans had a total of 27.2 million active participants, and private sector DC plans had 11.2 million active participants. In 2023 (the most recent year for which there is data), private sector DB plans had 11.1 million active participants, and private sector DC plans had 96.4 million active participants. Participant counts may be slightly higher than the number of individuals with DB and DC plans because an individual is counted more than once if he or she participated in more than one plan.

Using active participants rather than total participants may better reflect the shift from DB to DC plans among workers. When individuals with DB plans leave their jobs or retire, many remain participants but are classified as *inactive* participants because they are still owed benefits by the plan. In contrast, many individuals with DC savings roll over their account balances to Individual Retirement Accounts (IRAs) when they leave their jobs or retire and are no longer counted as participants. IRAs are tax-advantaged savings accounts that any worker can establish at a financial institution. DC plans may allow participants to keep their assets in the plans after job change or retirement—these participants would be classified as inactive DC plan participants.

Factors Underlying the Shift

This general shift from DB to DC plans in the private sector occurred for a number of possible reasons. Employer costs are generally higher for DB plans than for DC plans, because the benefit in a DB plan is typically funded entirely by the employer, while a smaller portion of the typical DC plan benefit is from employer contributions.

From an *employer's perspective*, contributions to DC plans tend to be a more predictable cost than contributions to DB plans. This is because employer contributions to DB plans may include additional contributions to make up for investment losses, whereas in DC plans employer contributions are typically based on a set formula that uses employee compensation.

In addition, DC plans are easier to administer than DB plans. DB plan actuaries determine the value of benefits earned by participants in a year and how much the plan must set aside to fund those benefits, incorporating factors such as likely retirement ages and mortality rates. DC plans do not use any of these actuarial projections.

For some *employees*, DC plans may be preferable to DB plans because DC plan account balances are portable. When individuals change jobs, they can roll over their account balances to IRAs or, often, to their new employers' plans. In contrast, DB plan benefits are not portable, and the benefit formula typically takes into account the number of years a worker has worked for an employer. Employees who change jobs would not accumulate the same benefits as they would had they stayed with one employer. On the other hand, DC plans place more decisions and risk for retirement income on the worker.

As a result of the shift from DB to DC plans, some have noted that the growth of DC plans since 1974 may have resulted in a greater share of private sector workers receiving income from retirement plans. The reasons may include (1) lengthy vesting provisions that may have prevented some individuals in DB plans from receiving benefits and (2) the overall lower costs of DC plans, which may have resulted in more employers offering these plans.

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