Considering benefits wise for graduates

Medical, retirement coverage becomes important later in life

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WASHINGTON — To all the soon-to-be graduates out there, I want to say one word to you. Just one word. No, not plastics. I'm talking about benefits. When you're looking for that first post-degree job, the tendency is to focus on salary in deciding which offer to take. But salary is just one piece of the financial package. A job with a lower salary might be worth more than a job with a higher salary because of medical, retirement and other benefits.

I confess that I didn't catch on to this until later in life. When I snagged my first job at age 19 at the neighborhood dry cleaners, I was so excited I didn't even ask how much I would get paid. And when I came to The Washington Post, I was oblivious to benefits that turned out to be among the major advantages of working here.

But now I know. Last week, I asked Ron Gebhardt, a senior fellow at the American Academy of Actuaries, to figure how much I would have needed in savings to produce the monthly income I receive from The Post as a retiree. The answer: It would have taken about $500,000 in savings to buy an annuity that would provide me with the same lifetime stream of payments.

My pension is the old-fashioned, defined-benefit variety, a species that is fast disappearing. Most recent graduates will be talking to employers who offer cash balance plans or 401(k) or other defined-contribution plans. It's important to know the pluses and minuses of each type of pension plan and to understand other benefits, such as employer-provided health insurance and paid parental leave.

Most recent graduates need help understanding the value of the benefits they're being offered, said Monica Shute, a career adviser at the Robert H. Smith School of Business at the University of Maryland. Her office counsels job-hunting graduates to read benefits packages and to create a spreadsheet that shows salary and the cost of benefits to both the employer and the employee. Job seekers should know, for example, how much the employer pays toward health insurance but also the premiums and co-pays for which the employee will be responsible.

"That visual aid for the student makes it very real for them how much a role benefits are paying in addition to salary," she said. They can add up everything to see which offer is worth the most.

Shute said most employers provide detailed information about benefits to prospective workers. "Because it's becoming more and more competitive out there, the salary range is very tight, so benefits packages are what separates one company from another," she said.

Questions to ask

Here are some questions to ask a prospective employer about benefits:

- What kind of retirement savings plan do you have?
- How many years does it take to vest (be legally entitled to receive pension payments)?
- Is there an employer match for a 401(k) or other retirement savings plan? How much?
- How much will the employer's health plan cost me?

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Some benefits may be more or less attractive, depending on your age and your long-range plan. For instance, as valuable as a defined-benefit pension has been to me, Gebhardt said a worker who doesn't plan to stay with a company for most of his or her career might benefit more from a different type of retirement plan.

In a traditional pension, your employer funds all contributions, which increase as you get closer to retirement, and decides how to invest the money. At retirement, you receive a guaranteed payment based on your age, salary and years of service. The longer you stay, the bigger your take at retirement.

However, younger workers who plan to leave after a few years might prefer a cash-balance plan or 401(k), both of which are more portable than a traditional defined-benefit plan, Gebhardt said.

In a cash-balance plan, companies contribute a set amount for each worker but put in nearly the same amount for all employees regardless of age or years on the job. Like a traditional pension, the cash-balance plan promises a specific payout at retirement. Once you are vested — or legally entitled to benefits — you'll have more money in a cash-balance plan than in a regular plan should you decide to leave after just a few years. If you leave, you can take a lump sum that you can spend or roll over into another retirement account.

In a defined-contribution plan, the best known of which is the 401(k), you and, usually, your employer each contribute to your retirement account. Unlike a traditional pension, you choose how that money is invested. When you leave your job or retire, you may either get a lump sum based on how much the account is worth after investment gains and losses, or you might leave it in the 401(k) plan or roll it over to another retirement account. Gebhardt had advice for job hunters deciding between a job that offers health insurance and a job with a higher salary that doesn't. Call an insurance company to find out how much it would cost to buy an individual health policy to see whether the higher salary would cover it.