Retirement Income
JOURNAL

DC participants should contribute 15% of pay for 40 years: Schroders

By Editor Test *Thu, Sep 19, 2013*

A Schroders executive criticized most collective DC fund managers for failing to target real returns of at least 3%. "You can't eat relative returns," said Lesley-Ann Morgan, head of Global Strategic Solutions in London.

Retirement plan participants should be required to contribute at least 15% of salary for 40 years or they'll risk an inadequate standard of living in retirement, according to a global study of defined contribution (DC) pension funds by Schroders Global Strategic Solutions.

Even in countries where employees must contribute to plans, contributions tend to be too low, with Sweden a notable exception, said the authors of the 44-page report, "Lessons Learnt in DC from Around the World." Two-thirds of final salary was Schroders' benchmark for an adequate retirement income level. A 3.5% discount rate was assumed. Achieving even half of final salary would, with a 3.5% return, require four decades of 11% contributions, Schroders said.

Even in Australia, where the obligatory rate will rise to 12% by 2019, a report by the country's largest accounting body, CPA Australia, warned this may not allow citizens to give up work at the current retirement age.

To reduce volatility of returns, Schroders recommends diversification by pension funds into assets outside their domestic market. The firm criticized most collective DC fund managers for failing to target real returns of at least 3%. "You can't eat relative returns," said Lesley-Ann Morgan, head of Global Strategic Solutions in London.

This story was originally reported by IPE.com.

© 2013 RIJ Publishing LLC. All rights reserved.