Members would benefit from some certainty about the incomes they are likely to generate after retirement.

INSIGHTS FROM DEFINED BENEFIT FUNDS

How can intermediaries help?
Can we make a DC fund 'behave' like a DB fund? The fundamental thinking behind both types of retirement funds is the same: the task is to spread the income earned during your working life over your entire life[5]. The experience gained in managing DB funds can still help DC funds.

a. Setting the contribution rate
In DB schemes, the employer determines the benefit they would like to offer their employees when they reach retirement. This is usually set in proportion to the length of service and the member's salary at retirement. Once the pension promise has been set, the actuary would determine the contribution rates that would have to be paid to reach that goal.

Similar thinking can be used in a DC fund. If we set a reasonable goal for income in retirement, we can calculate the contribution rate that will get us there.

b. Adjusting contribution rates over time
A good DB fund was close to, if not fully, funded at all times. In other words, it generally stayed on track. As investment returns went up and down, plan sponsors made up the shortfalls when they occurred.

Members in a DC fund can also ensure they remain on track by adjusting their contributions when necessary and possible, given affordability.

There's little room for wishful thinking about the investment markets when funding a retirement benefit[6]. Individuals must adjust their savings rates if they are falling short of their goals. Putting your retirement savings on autopilot and just hoping things will come right simply isn't an option.

c. Finding an appropriate payout strategy
In a DB fund, the member obtains an income for the remainder of their lives, with the employer picking up the tab if individuals live longer than expected.

In a DC fund, members need to be as concerned about their withdrawal strategies as they are about accumulation strategies. Retirees can opt for the certainty of a guaranteed income for the rest of their lives, but this is often costly and can mean a substantial decrease in income. To maintain their living standards, they could take a riskier annuity option, such as a living annuity, but this exposes them to the risk of outliving their income.

5 Sexauer & Siegel (2013)
6 Ibid