



Survey on Pension Fund Expenses

Report

November 15, 2011

MARKET INFORMATION AND PRODUCT MANAGEMENT

SURVEY ON PENSION FUND EXPENSES

Summary Report

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Introduction

We are pleased to present the second annual report of the Survey on Pension Fund Expenses.

The Survey on Pension Fund Expenses is designed to assist plan sponsors interested in knowing if their plan operating costs are reasonable. Our objective is to provide participants with a solid benchmark to support the goal of effective plan governance.

This survey was created by Fraser Group to fill a void in the information needs of plan sponsors and pension fund trustees.

We offer our sincere thanks to the group of organizations who have supported this effort. With their continued support, we look forward to continuing to expand this survey with a growing group of participants.

Fraser Group is an independent provider of market information and does not market other services to pension plan sponsors.

Fraser Group has been in the market research business for over 20 years. We track market share and provide expense analyses and benchmarking reports for the insurance industry including providers of Group Pension products.

Our clients rely on our deep knowledge of group benefit programs and on our expertise in the development of market research models to validate industry statistics.

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Participating Plan Sponsors

The following organizations are participating in this Survey:

Alberta Motor Association	Ideal Roofing Company Ltd.
Association of Universities and Colleges of Canada	La Cie McCormick Canada Co.
Bank of Canada	La Coop fédérée
Banque Laurentienne du Canada	MC Legal Management
BC Credit Union	McGill University
Bell-Alliant Regional Communications	Morneau Shepell Inc.
Canada Mortgage and Housing Corporation (CMHC)	National Bank of Canada
Canadian Cancer Society	NOVA Chemicals Corporation
Canadian Merchant Service Guild - Eastern Branch	Ontario Long Term Care Association
Canadian Merchant Service Guild - Western Branch	Public Employees Benefits Agency
Canadian Utilities Limited	Real Estate Board of Greater Vancouver
Carpentry Worker's Benefit & Pension Plans of British Columbia	Saskatchewan Mutual Insurance Company
Christian Labour Association of Canada Pension Plan	Sun Life Assurance Company of Canada
City of Regina	TD Bank Group
City of Saskatoon	Telesat Canada
Co-operators Group Limited	Tembec Industries Inc
Crown Investments Corporation	The North West Company LP
Empire Life Insurance Company	The Pentecostal Assemblies of Canada
IBEW Local 586 & Electrical Contractors Association	Toyota Motor Manufacturing Canada
	U. A. Local 71
	UA Local 787
	University of Guelph
	University of Western Ontario
	VIA Rail Canada
	York University

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Methodology

Recruiting

The Survey was open to all 19,000 registered pension plans in Canada. For economic reasons, we focused recruiting efforts on plans with more than 50 members, comprising an estimated 6,000 plans.

To recruit participants, we compiled lists of pension plans in each jurisdiction. In most jurisdictions, we were able to access information held by the pension regulator.

The contact information available varied by jurisdiction but in the majority of cases was limited to the corporate name and address. Consequently, it is probable that our mailing did not reach the appropriate decision maker in all cases.

In Atlantic Canada, we were not able to obtain information from the pension regulators. We therefore used a commercial list to approach all employers with more than 200 employees, regardless of whether they had a pension plan.

Supplemental communications were directed at consultants and administrators who serve pension plan sponsors.

Most mailings were sent in the April to July 2011 period.

The data deadline was August 31st.

Quality of Data Submissions

We were very pleased with the quality of data submission.

Most participants completed the questionnaire without needing further clarification or direction from us.

We accepted most submissions without adjustment. In a few cases, we needed to ask for clarification of certain notes.

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Database Demographics

This section provides statistical information from the Survey database.

- 44 organizations participated in the Survey providing data on 79 pension funds, an average of 1.8 funds per sponsor. The largest number of funds reported by a single organization was 15.

Number of Participating Sponsors and Plans

	2011
Plan Sponsors	44
Pension Plans	79

- The majority of plans were Defined Benefit. Plans that were listed as Combination DC/DB plans are reclassified as Defined Benefit plans in this study.

Number of Plans by Plan Type

Plan Type	2011
Defined Benefit	53
Defined Contribution	26
Total	79

- Plans from 9 jurisdictions are included.

Number of Plans by Jurisdiction

Jurisdiction	Count
AB	3
BC	3
Federal	16
MB	2
Multiple	3
NS	1
ON	26
QC	18
SK	7
Total	79

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- Plans ranged in asset size from under \$1 million to over \$4 billion. We have grouped them in 3 size categories for analysis.

Number of Plans by Asset Size Category:

Assets	2011
Large –Over \$100 million	36
Medium – \$10 to \$100 million	29
Small – Under \$10 million	14
Total	79

Number of LARGE Plans by Asset Size:

Assets	Count
Over \$1 billion	10
\$500 \$999 million	8
\$100 to \$499 million	18
Total	25

- Most plan data is from calendar year 2010.

Participating Plans by Year End Submitted:

Year End	Count
June 30, 2010	1
October 31, 2010	1
December 30, 2010	3
December 31, 2010	69
March 31, 2011	1
June 30, 2011	1
September 30, 2011	3
Total	79

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- Plans in the Survey cover around 313,000 members including over 47,000 who are receiving pension payments.

Members:

Total Members	Active	Pensioners	Inactive
313,266	191,831	47,729	73,706

Number of Plans by Member Count:

Number of Members	Count
Over 10,000	6
1,000 to 9,999	40
100 to 999	19
Under 100	14
Grand Total	79

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Expenses

Definition of Expense

In this survey, “Expense” is defined as expenses reported on the audited income statement of the pension fund plus any identified expenses that were subsidized by the plan sponsors. Expense subsidies were reported by 17 plan sponsors for 27 plans (17 DB and 10 DC plans).

Brokerage Fees

Only a minority of pension funds reported “brokerage fees” as a category of expense.

It was suggested by some participants and external observers that brokerage fees are more generally accounted for by adjusting the cost basis (on acquisition) or proceeds (on disposal) of the assets involved and that these should not be considered operating expenses. Based on this input and on an analysis of the data received, we believe excluding brokerage fees provides the most consistent comparison of expense ratios.

Consequently, in this report, we have excluded any reported brokerage fees from the reported expense ratios.

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Expense by Categories of Expense

The questionnaire requested expenses to be reported in a number of categories and to be separated between External, Internal and Absorbed. External Expenses are fees paid to an external provider while Internal Expenses were those incurred by the plan sponsor and **charged to the fund**. Absorbed Expenses refer to those subsidized by the plan sponsor.

All pension funds reported External Expenses. Some form of Internal Expenses was reported by 36 funds and Absorbed Expenses were reported by 27 funds.

Funds Reporting Expenses

	External	Internal	Absorbed
Administration	55	33	16
Asset Consulting	25	15	2
Plan Consulting	56	1	14
Brokerage Fees	8	0	0
Investment Management	74	7	2
Custody	57	2	2
Audit	63	0	12
Legal	36	1	8
Governance	24	2	8
Other	3	1	16
Total Plans Reporting	78	36	27

Most expenses submitted as “Other” were re-classified based on information provided by the plan sponsors. For example, expenses such as fiduciary liability insurance or OSFI filing fees were re-classified according to their respective definitions (Governance and Legal). Where the “Other” expenses submitted were attributable to multiple categories and where detailed breakdowns were unavailable, re-classification was based on our best judgment.

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Compressed Expense Categories

Because not all plans reported expenses in all categories, we collapsed the expense categories to provide more comparable benchmarking results. The following table indicates how this was done.

Expense Categories

Submitted Categories	Reporting Categories
Record keeping, administration and member service	Administration/Consulting
Pension Plan Consulting	
Asset Consulting	
Brokerage Fees	EXCLUDED
Investment Management	Investment
Custody	
Audit	Audit
Legal	Legal
Governance	Governance
Other	Other

Distribution of Expense by Plan Size

Reporting Categories	Small	Medium	Large
Administration/Consulting	72.5%	47.2%	31.5%
Investment	21.0%	48.0%	64.1%
Audit	2.5%	2.2%	0.7%
Legal	0.0%	1.3%	2.4%
Governance	4.0%	1.3%	1.3%
Other	0.0%	0.0%	0.1%

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Expense Ratios

As expected, expense ratios varied by size, whether measured by assets or members, and by plan type.

Expense Ratio (ex. Brokerage) by Size of Assets:

Size Category	DB Plans	DC Plans	All Plans
Large –Over \$100 million	0.44%	0.47%	0.45%
Medium – \$10 to \$100 million	0.80%	0.78%	0.79%
Small – Under \$10 million	1.27%	2.35%	1.72%
All Plans	0.46%	0.49%	0.47%

Expense Ratio (ex. Brokerage) by Member Count:

Number of Members	DB Plans	DC Plans	All Plans
Over 10,000	0.46%	0.49%	0.47%
1,000 to 9,999	0.45%	0.47%	0.45%
100 to 999	0.57%	0.58%	0.57%
Under 100	0.69%	3.59%	0.82%
All Plans	0.46%	0.49%	0.47%

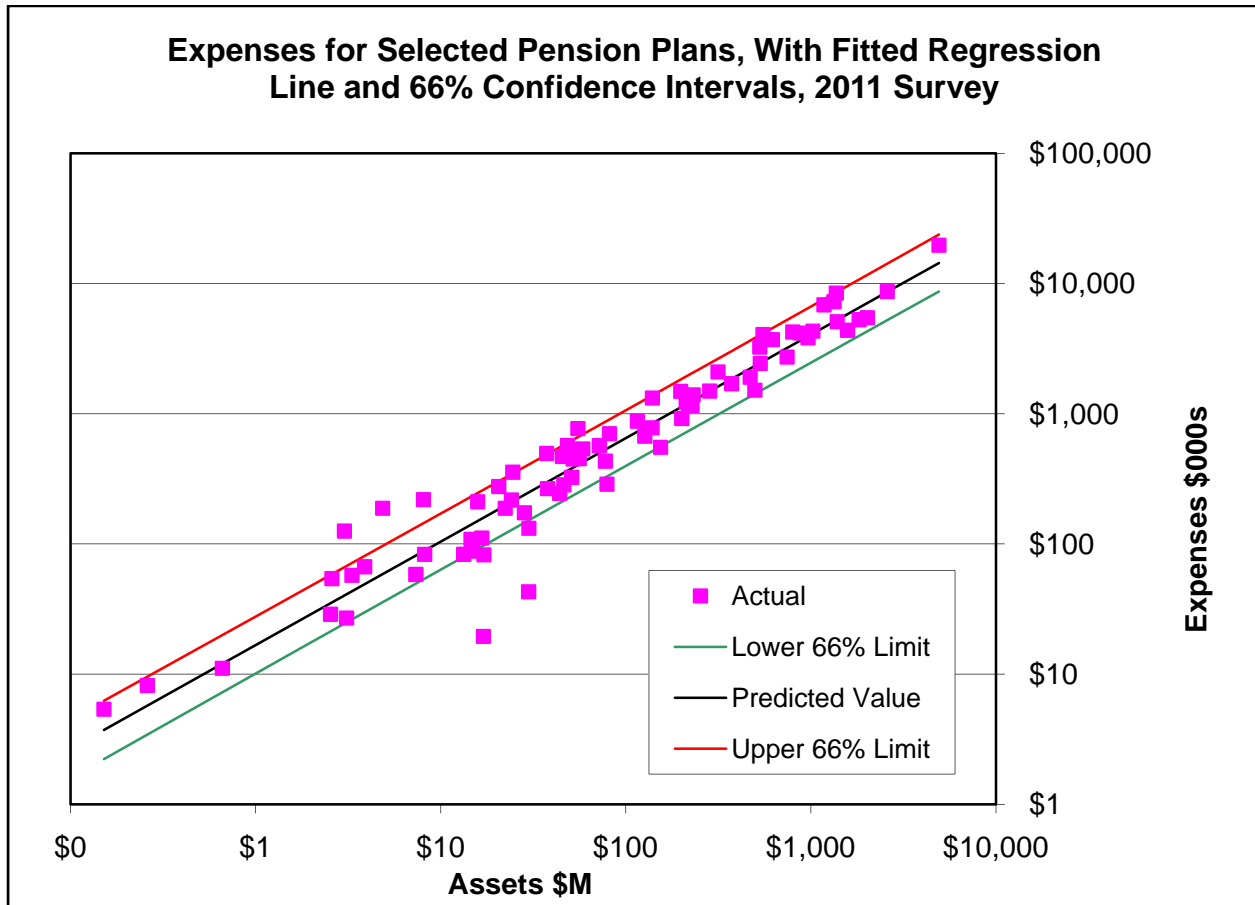
We also subjected the data to a rigorous statistical analysis.

As expected, there is a very strong relationship between the actual dollar value of expenses and assets.

Somewhat more remarkable is the strong linear relationship when both assets and expenses are plotted on logarithmic scales (where the distance from 10 to 100 is the same as from 100 to 1,000).

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Further analysis identified Members/Assets as a statistically significant predictor variable while Pension Type (DB or DC) was statistically insignificant.

Given the strength of the statistical correlations, we were able to construct a Model which computes an “expected” expense level for each plan based on the patterns observed in the entire sample.

We then produced estimates of the expected Expenses and Expense ratio based on the Model.

In effect, the Model allows each plan to compare its actual expense levels to a hypothetical universe of plans with the same assets and member counts.

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Summary and Conclusions

1. The first edition of this survey has attracted considerable interest from a wide variety of plan sponsors and their advisors, not all of whom ultimately participated. This second edition continued to build interest, attracting 30 new plan sponsors with 14 plan sponsors returning this year.
2. A wide range of pension plans from a variety of plan sponsors are represented this survey:
 - a. Large and small
 - b. Public and private sectors
 - c. Union and non-union
 - d. Defined benefit and defined contribution.
3. The data showed statistically significant relationships between expenses and size of assets and number of members.
4. While the sample size is smaller than desirable, the survey provides participants with a number of useful tools with which to evaluate the reasonableness of their plan expenses.

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Appendix – Statistical Analysis Technical Data

Richard Shillington of Tristat Resources assisted with the statistical analysis and construction of the Model. Dr. Shillington is a statistician with extensive experience in social policy research and with retirement plan issues in particular.
(<http://www.shillington.ca/personal/cv.pdf>)

The Model is based on regressions of Log(Expenses) against Log(Assets) with Assets/Members. This variable is statistically significant at a 95% confidence level.

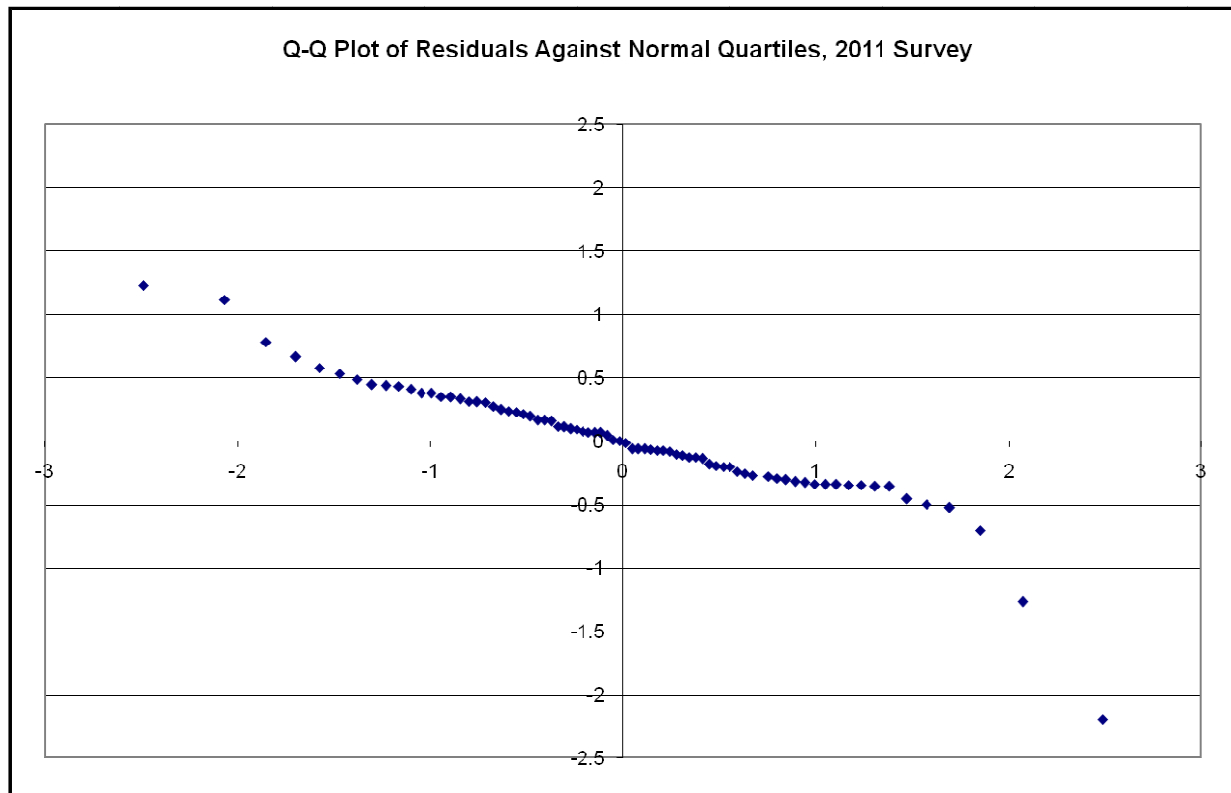
The model produces expected Expenses from which an expense Ratio is calculated and added to the report database. Similarly, values for upper and lower limits based on one standard deviation from the expected value are also produced and added to the database.

Calculation of the confidence intervals requires an assumption that errors in the regression are approximately normal. Plotting the residuals against expected values from a normal distribution produces a reasonably straight line suggesting that the normal distribution assumption is reasonable.

In addition, we would expect that 66% of observations are between the upper and lower limits. In actual fact, 74% of the observations are within the upper and lower limits, a result which is consistent with a normal distribution in a sample of this size.

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Statistician's Summary

The sample size for this analysis is 78 plans which provided information in response to a questionnaire.

One must accept the possibility that the respondents are not representative of all pension plans, as they were self-selected. Yet the regression analysis indicates that the relationship between Assets and Expenses was very close over a wide range of values. In addition, analysis of the prior year's database, whose membership differed significantly from this year's, yielded much the same results.

It is theoretically possible that the expense ratios of the survey respondents are not representative of the expense ratios of all pension plans, but it is difficult to articulate a reason why this might be so.

In the absence of other information on the range of expenses of pension plans, I believe that plan administrators would find this information useful as indicative of how their expenses compare to the expenses of other plans in this sample.

Richard Shillington