



Survey on Pension Fund Expenses

Report

October 15, 2010

MARKET INFORMATION AND PRODUCT MANAGEMENT

SURVEY ON PENSION FUND EXPENSES

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Introduction

We are pleased to present the very first 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 has been 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 pioneering group of organizations who have supported this initial effort.

With their continued support, we look forward to continuing this survey on an annual basis 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:

Canada Mortgage and Housing Corporation (CMHC)

Canadian Merchant Service Guild - Western Branch

Capgemini Canada

Co-operators Group Limited

Crown Investments Corporation

Edmonton Pipe Industry Pension Plan

Equitable Life Insurance Company of Canada

Gesca Ltée

Government of New Brunswick

Government of Saskatchewan

IBEW Local 586 & Electrical Contractors Association

Kinectrics Inc.

L-3 Communications Canadian Divisions

La Cie McCormick Canada Co.

La Coop Fédérée

Larsen & Shaw Limited

Lutheran Church Canada

North West Company

Northwest Territories Legislative Assembly

Public Service Alliance of Canada

Royal Bank of Scotland N.V., (Canada) Branch

Saskatchewan Mutual Insurance Company

U. A. Local 71

UBCJA Local 2041 & Walls and Ceilings Contractors Assoc.

University of Ottawa

University of Western Ontario

VIA Rail Canada Inc.

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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 March to June 2010 period.

The initial data deadline was July 31st which was later extended to 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.

- 27 organizations participated in the Survey providing data on 76 pension funds, an average of 2.8 funds per sponsor. The largest number of funds reported by a single organization was 13.

Number of Participating Sponsors and Plans

	Count
Plan Sponsors	27
Pension Plans	76

- 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	Count
Defined Benefit	59
Defined Contribution	17
Total	76

- Plans from 7 jurisdictions are included.

Number of Plans by Jurisdiction

Jurisdiction	Count
AB	3
Federal	12
MB	2
NB	6
ON	23
QC	26
SK	4
Total	76

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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	Count
Large –Over \$100 million	24
Medium – \$10 to \$100 million	30
Small – Under \$10 million	22
Total	76

Number of LARGE Plans by Asset Size:

Assets	Count
Over \$1 billion	7
\$500 \$999 million	5
\$100 to \$499 million	12
Total	24

- Most plan data is from calendar year 2009.

Participating Plans by Year End Submitted:

Year End	Count
December 31, 2008	4
March 31, 2009	2
September 30, 2009	1
December 31, 2009	67
March 31, 2010	2
Total	76

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- Plans in the Survey cover over 225,000 members including 46,000 who are receiving pension payments.

Members:

Total Members	Active	Pensioners	Inactive
227,243	133,328	46,053	47,862

Number of Plans by Member Count:

Number of Members	Count
Over 10,000	5
1,000 to 9,999	22
100 to 999	27
Under 100	22
Grand Total	76

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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.

It is recognized that some plan sponsors may subsidize the operation of the pension plans they sponsor. The average expenses in this study would therefore understate the total cost of operating a pension plan. In the data submissions from 10 plans (6 DB and 4 DC) there was some indication that the income statement did not include all expenses of the fund (i.e. the plan sponsor subsidized certain expenses).

It must also be noted that, in the case of Defined Contribution plans in particular, investment and administrative expenses might be absorbed by vendors who recover these costs by a charge against investment income. Such expenses therefore never reach the income statement of the pension fund. For instance, one Defined Contribution plan reported zero expense. We have excluded this particular plan from the survey results.

Despite these reservations, the restrictive definition of expense used in this survey has a number of advantages:

- It keeps the survey simple
- It limits the data burden on participants
- It relies on data already prepared for other purposes and which has been externally validated
- It eliminates the need for complex definitions of what is or is not an eligible expense.

We expect to explore in future editions of this survey whether a broader definition of pension plan expense is practical and desirable.

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Definition of Expense - Revised

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 would provide 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 and Internal. External Expenses are fees paid to an external provider while Internal Expenses were those incurred by the plan sponsor and **charged to the fund.**

All pension funds, with one exception reported External Expenses. The exception is the one fund reporting zero expense, which has been excluded.

Some form of Internal Expenses was reported by 42 funds.

Funds Reporting EXTERNAL Expense

External Administration	62
External Asset Consulting	36
External Plan Consulting	68
External Brokerage Fees	24
External Investment Management	71
External Custody	69
External Audit	71
External Legal	45
External Other	52

Funds Reporting INTERNAL Expense

Internal Administration	51
Internal Asset Consulting	12
Internal Plan Consulting	12
Internal Brokerage Fees	12
Internal Investment Management	28
Internal Custody	12
Internal Audit	12
Internal Legal	17
Internal Other	21

The “Other” expense category most often included what might be called governance expenses such as meetings, memberships and education.

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Compressed Expense Categories

Because not all plans reported expenses in all categories, we collapsed the expense categories to ensure 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
Other	Other

Distribution of Expense by Plan Size

Reporting Categories	Small	Medium	Large
Administration/Consulting	70.3%	50.4%	27.5%
Investment	15.3%	42.4%	67.9%
Audit	8.3%	2.8%	0.7%
Legal	3.3%	1.1%	0.9%
Other	2.7%	3.4%	3.0%

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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	0.39%	0.35%	0.37%
Medium – \$10 to \$100 million	0.85%	0.82%	0.84%
Small – Under \$10 million	1.91%	0.90%	1.81%
All Plans	0.42%	0.36%	0.40%

Expense Ratio (ex. Brokerage) by Member Count:

Number of Members	DB Plans	DC Plans	All Plans
Over 10,000	0.31%	0.33%	0.32%
1,000 to 9,999	0.48%	0.39%	0.45%
100 to 999	0.74%	0.49%	0.70%
Under 100	1.16%	1.81%	1.17%
All Plans	0.42%	0.36%	0.40%

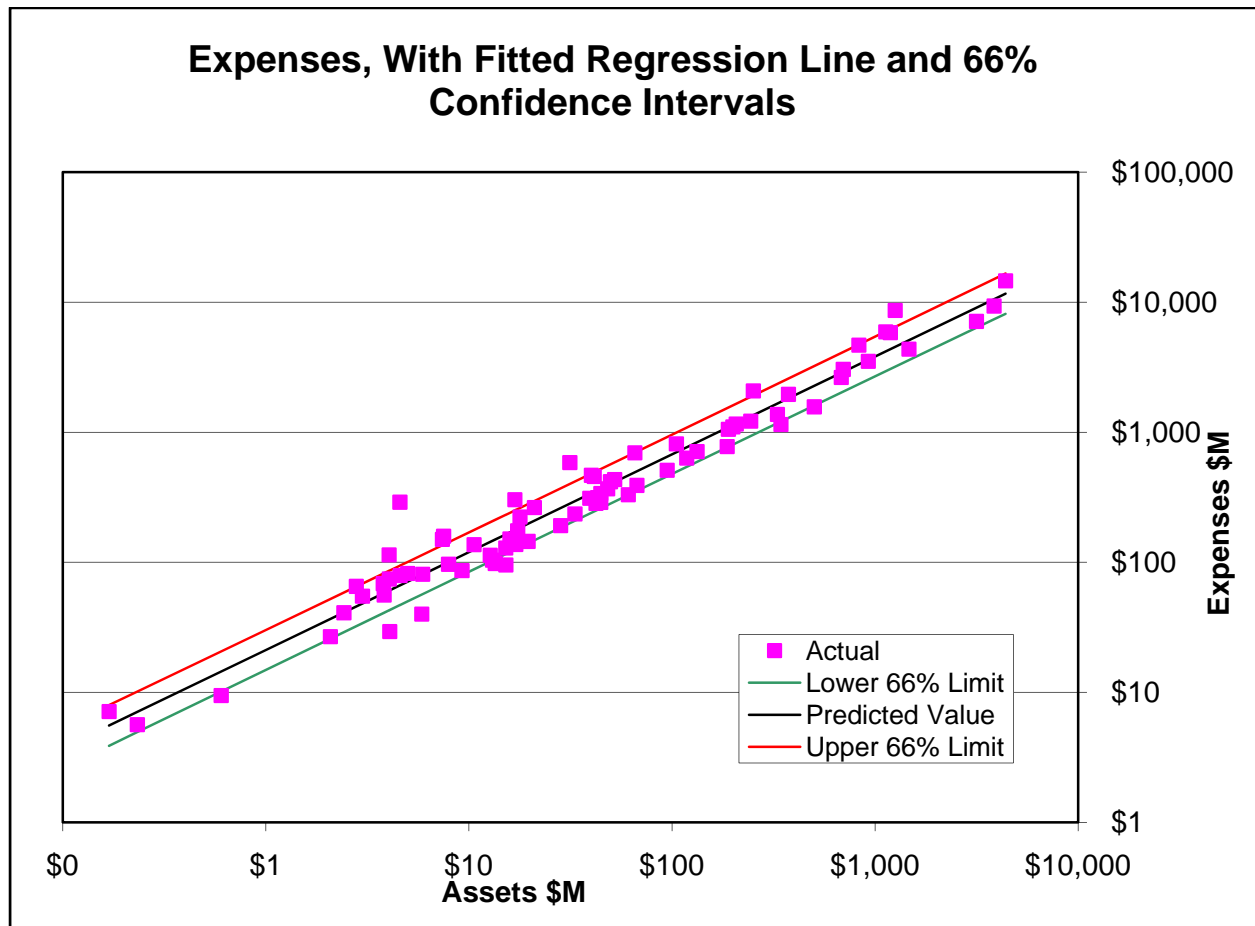
We also subjected the data to a rigorous statistical analysis.

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 both Pension type (DB or DC) and Members/Assets as statistically significant predictor variables.

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 and of the same pension type (DB/DC).

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Custom Benchmark Analysis

A custom benchmark analysis was provided to participants for each pension plan they sponsored.

The analysis provided three separate benchmarking tools.

Benchmark 1 provides the pension plan with an “expected” expense ratio computed from the Model built from the entire Survey database. This section of the analysis also includes Upper and Lower Values which capture two thirds of the statistically expected distribution. This allows plan sponsors to assess how typical their expense ratios are.

Benchmark 2 provides the pension plan with a distribution of their expenses by category along with the average distribution of plans in the same broad size group. The expense categories are:

- Consulting and Administration
- Investment (including Custody but excluding Brokerage Fees)
- Audit
- Legal
- Other

The broad size groups are based on assets:

- Large – Over \$100 million
- Medium – \$10 to \$100 million
- Small – Under \$10 million

Benchmark 3 provides each pension plan with expense ratios from a peer group. The peer group usually consists of the 6 plans from the database closer in size to the client plan, measured by assets. Usually the peer group consists of 3 larger plans and 3 small plans. Occasionally, the peer group is modified by Fraser Group so that the average assets of the peer group are similar to those of the client plan.

Obviously, plans at the extreme limits, either large or small, have less balanced peer groups.

For plan sponsors with more than one pension plan, the peer group is always based on plans from other sponsors.

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The peer group exhibit provides the following data for each plan as well as overall averages:

- Plan Type (DB/DC)
- Jurisdiction
- Assets
- Members
- Asset/Member
- Expense Ratio

Taken together, these benchmark tools allow the plan sponsor, with due consideration to the unique circumstances of their situation, to assess the reasonableness of their plan expenses relative to a broad sample of other plans.

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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.
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, type of plan 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 Pension type (DB or DC) and Assets/Member also included as predictor variables. Each of these variables 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.

Summary

The sample size for this analysis is 75 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.

The regression analysis indicates that the relationship between Assets and Expenses was very close over a wide range of values.

While it is theoretically possible that the expense ratios of the survey respondents are not representative of the expense ratios of all pension plans, nothing in the data suggests this.

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In the absence of other information on the range of expenses of pension plans, plan administrators and their advisors would find the information from this study a useful indication of how their expenses would compare to the expenses of other plans with similar characteristics.

