Introduction

Penbridge Advisors, in cooperation with Institutional Investor Journals, recently concluded the initial fielding period of the first survey to capture all the costs associated with maintaining a U.S. corporate defined benefit (DB) plan. Our objective in conducting the survey is to gain insight into the costs plan sponsors incur to maintain their DB plan, whether paid by the plan or directly by the plan sponsor. The survey results are being used to provide respondents with a customized DB Expense Benchmarks Report as part of Penbridge’s initiative to help plan sponsors make informed decisions involving the cost of maintaining their DB plan.

Set up as a rolling survey, the initial findings summarized in this report are based on 23 plans. These plans represent a broad variety of plan types and sizes. An aggregate profile of the respondents is shown on Page 3. We want to acknowledge and thank the pioneering plan sponsors that participated in the initial survey.

Penbridge is seeking to increase plan sponsor participation in the survey. Plan sponsors that participate receive, at no charge, a customized Penbridge DB Expense Benchmarks Report as described on the last page.

Survey Methodology

For each participating plan sponsor, the survey was designed to capture plan expenses for a single U.S. DB plan. For companies with multiple U.S. plans, it was each respondent’s choice to complete the survey for each of their plans or for the largest plan(s). To date, 22 plan sponsors representing $52 billion in plan assets have completed the survey, one of whom completed the survey for two plans, resulting in 23 completed surveys.

The survey addressed the full range of DB plan expense categories including in-house and external provider expenses as well as expenses that are recurring and non-recurring. The survey also asked respondents to approximate the percentage of expenses paid by the plan for each expense category.¹ The results sometimes varied significantly depending on whether the analysis was done on an unweighted basis (i.e. based on the number of plans) or on a weighted basis (i.e. based on plan assets).

Not all questions were answered by all respondents. To aggregate the results, responses of ‘NA’ were treated as zero expense. In the few cases where the respondent could not supply an answer, we excluded the non-response from the analysis. We have indicated the number of responses (n) received to each of the questions (max = 23).

Survey Findings

- **Most plan’s total expense ratios are between 0.50% and 1.50%** – The chart below shows the total expense ratio by plan size for each of the plans that participated in the initial survey. The average expense ratio for all plans was 0.97%. But on a weighted basis (i.e. based on plan assets), the average expense ratio was 0.73%, indicating that larger plans operate more efficiently.

Total Expense Ratio by Plan Size (n=21)²

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¹ Department of Labor regulations under ERISA section 408(b)(2) require plan fiduciaries to obtain disclosures of fees paid by the plan, and further require that all such fees be reasonable.

² Total Expense Ratio is defined as total DB plan expenses divided by assets. Excludes survey respondents that did not supply a response for all expense categories. Responses of ‘NA’ were treated as zero expense.
• **Investment Management is the largest expense** – Not surprisingly, the largest plan expenses collected in the survey were attributed to investment management. On a weighted average basis investment management expenses were even higher than on an unweighted average basis. This reflects relatively higher investment expenses by the larger plan sponsors, most likely due to their higher allocation to alternatives and their higher use of active management. PBGC premiums and administration were the next largest expense categories.

**Average Expense Ratio by Category**

![Expense Ratio Chart]

- Trust and Custody (n=23)
- Administration (n=23)
- Actuarial (n=23)
- Investment Management (n=22)
- Investment Advisory - Non-Discretionary (n=23)
- Investment Advisory - Discretionary (n=23)
- Total PBGC Premium (n=23)
- Legal (n=22)
- Plan Audit (n=22)
- Insurance (operational) (n=22)
- Other (n=22)
- Total (n=21)

• **Source of payments varies widely** – Survey respondents identified both plan assets and direct payment from plan sponsor as significant sources of payment for each plan expense category. These findings indicate that a complete view of a DB plan’s expenses is not available on a Form 5500. Interestingly, in every expense category there are some plan sponsors who pay those expenses entirely from plan assets, and there are some who do not use plan assets at all. Relatively few expenses are paid partially from plan assets.

**Source of Payment for Plan Expenses**

![Payment Source Chart]

- Trust and Custody (n=19)
- Administration (n=21)
- Actuarial (n=22)
- Investment Management (n=21)
- Investment Advisory - Non-Discretionary (n=13)
- Investment Advisory - Discretionary (n=6)
- Total PBGC Premium (n=22)
- Legal (n=19)
- Plan Audit (n=20)
- Insurance (operational) (n=11)
- Other (n=5)

• **In-house pension management resources are constrained** – The average full-time equivalent (FTE) headcount devoted to U.S. DB plan management for all plan sponsors that participated in the survey was 2.5. This compares to 3.8 for plans more than $1 billion, 2.1 for plans $100 million to $1 billion and 1.8 for plans less than $100 million. Anecdotally, sponsors across the size spectrum communicated an ability to focus only on the highest priority activities.

**Average Full-time Equivalent (FTE) Headcount Devoted to U.S. DB Plan Management (n=22)**

![Headcount Chart]

- All Plans
- More than $1 billion
- $100 million - $1 billion
- Less than $100 million

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3 Detailed descriptions of the expense categories are provided to respondents in the Defined Benefit Expense Survey.
Other Observations

- **Benchmarking plan expenses is a complex exercise** – We worked collaboratively with many plan sponsors to improve the accuracy and consistency of their expense data in spite of complicating issues, e.g. internal access to information, the high number of vendors and varying fee arrangements, potential lack of transparency on all fees, whether fees are paid inside or outside the plan, difficulty of quantifying internal resource time/cost, etc.

- **Overall improvement in plan governance** – Many of the plan sponsors that participated in the survey acknowledged the time spent completing the survey was extremely valuable in enhancing their benchmarking efforts, identifying potential cost savings, and improving overall plan governance.

Profile of Respondents

The information below describes the characteristics of the respondents to the survey during the initial fielding period and provides a context for understanding the results.

**Plan Asset Size (n=23)**

- Less than $100 million: 30%
- $100 million – $1 billion: 30%
- More than $1 billion: 40%

**Current Plan Status (n=23)**

- Open to new entrants, and continuing to accrue benefits: 43%
- Closed to new entrants, but continuing to accrue benefits for existing participants: 35%
- Frozen; no longer accruing benefits: 22%

**Plan's Type of Benefit Formula (n=23)**

- Final average pay: 13%
- Career average: 48%
- Cash balance: 13%
- Other: 30%

**Plan Demographics (n=23)**

- Retirees: 35%
- Terminated Vested: 16%
- Actives Accruing: 35%
- Actives Non-Accruing: 14%

**Average Asset Allocation (n=23)**

- Domestic Equities: [Graph]
- International Equities: [Graph]
- Short Duration U.S. Fixed Income: [Graph]
- Interm. Duration U.S. Fixed Income: [Graph]
- Long Duration U.S. Fixed Income: [Graph]
- International Fixed Income: [Graph]
- High Yield Fixed Income: [Graph]
- Alternatives: [Graph]
- Cash: [Graph]
- Other: [Graph]

**Average Management Style (n=23)**

- Active Management: [Graph]
- Passive Management: [Graph]

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4 Life insurance companies represented 4 of the 23 respondents. All of them had significantly lower expenses in certain categories such as investment management and administration. This should not be surprising, given the nature of their companies and internal resources. But, it probably did skew the expense averages down a bit (we estimate by about 10%).
DB Expense Benchmarks Reports

A Penbridge DB Expense Benchmarks Report allows plan sponsors and fiduciaries to compare the expenses of their plans with those of other plans that participate in the Penbridge Defined Benefit Expense Survey. Shown below is a sample Benchmarks Report for a hypothetical respondent (shown here as 'XYZ Company'). The Benchmarks Report includes several types of analysis as follows: (1) a scatter chart showing how the plan’s total expense ratio compares with those of other plans by plan size, (2) a bar chart showing how the plan’s expenses by category compare to the average expenses for participating plans (on both a weighted and unweighted basis) and (3) a percentile analysis showing how each category of the plan’s expenses ranks relative to other plans with expenses in the same category. The Report will also show how the plan’s characteristics compare to those of other survey respondents, providing additional context for interpretation of the results.

We look forward to additional plan sponsor participation in the Penbridge Defined Benefit Expense Survey. As more sponsors participate, we intend to refine the benchmarking process by creating specific benchmark groups. If you have questions about the initial fielding period survey results or the Benchmarks Reports, please contact us. To participate in the survey, please visit www.penbridgeadvisors.com.

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