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TWO TALES OF ONE CITY: HOW SHOULD THE PENSION BUSINESS BE MANAGED?

"It struck me that what we are engaged in is so big and important. I am not sure everyone realizes that the framework and processes we are building will actually change the way all of us do business. The approach allows people with a wide array of backgrounds to develop a common understanding of the issues and how we can improve our business"

Two Tales of One City

Bill Leighty and a pension investment expert (formerly a consultant, now a money manager) we heard speak recently, provide sharply contrasting perspectives on managing pension plans. In providing feedback on a recent Cost Effectiveness Measurement Inc. (CEM) 'best practices' workshop, Leighty expresses the view that understanding and managing a pension plan's business processes and cost drivers are critical to effective pension plan administration.

In her speech (obviously not delivered at a CEM workshop!), the pension investment expert was sharply critical of what she perceived to be an increasing emphasis on managing costs on the investment side of the pension plan ledger. In no uncertain terms she told the audience that if a pension fund is not prepared to pay for performance, there isn't going to be any. Yet, upon questioning, she conceded that she could not back her opinion with sound empirical evidence.

We think these two individual views can be generalized. The recent CEM workshop confirmed that almost to a person, executives accountable for delivering pension administration services to plan members are keenly interested in understanding the value vs. cost tradeoffs they face, and in understanding what they can do to im-

prove these tradeoffs for the pension plan's stakeholders. At the same time, many pension investment executives continue to face considerable ambiguity about what the 'right' business model for them looks like, and what role costs play in it.

Thus there seem to be two cost tales in pension city. This *Letter* explores the meaning of this contradictory state of affairs and how the two tales might be reconciled.