

# The *Ambachtsheer* Letter

*Research and Commentary on Pension Governance, Finance and Investments*

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## **MONITORING DC PLANS AS ‘VALUE PROPOSITIONS’: THE NEW IMPERATIVE FOR PLAN SPONSORS**

*“Around the world, it is the value provided to employees that marks the successful DC pension plan. Unfortunately, many DC programs lack a structured process for measuring that value....”*

From the Mercer 2002 Global DC Plan Survey

### **Silk Purses from Sows’ Ears**

Winston Churchill once observed that democracy was a terrible system of government, but that the alternatives were worse. We might similarly say that DC plans are terrible vehicles for providing predictable, adequate future pensions, but if the alternative is no plan at all, that would be worse. Thus we face the collective challenge of turning sows’ DC ears into silk pension purses. Where to start? We believe our Mercer friends have it right: by measuring DC plans as value propositions for employees. Unfortunately, their new 2002 global DC Plan Survey suggests that such measurement is not yet common practice. Thus it is timely to explore what a DC ‘value’ measurement system might look like, and what its results might teach us about how to pack more ‘value’ into DC pension plans. We do so in this *Letter*.

*Cost Effectiveness Measurement Inc. (CEM)* launched its DC plan ‘value’ measurement system in 1997 with initial participation by 62 U.S. corporations sponsoring 401(k) plans. Five years later, U.S. participation has increased to 85 sponsors (\$263B), including 19 in the non-corporate category. The *CEM* ‘value’ measurement studies focus on 3 fundamental questions for DC plan sponsors:

1. How ‘prudentially’ is our plan being managed?
2. Are there areas requiring action?
3. How ‘competitive’ is our plan compared to those of our peers?

Let us see what we can learn from five years of *CEM* experience answering these questions.