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SCALE IN PENSION FUND MANAGEMENT:

DOES IT MATTER?

“Size may be a greater determinant of pension plan success than plan design”.

Ontario Expert Commission on Pensions
November, 2008

The Scale Debate

Ontario Municipal Employees Retirement System (OMERS) Chief Executive Officer, Michael Nobrega, set the scale cat among the pension pigeons with his April 20 address to the Conference Board of Canada. Citing the recently-released report by the Ontario Expert Commission on Pensions, he asserted that even at \$44 billion, OMERS was too small “to compete against the global giants”. Why? In Nobrega’s words: *“Small funds cannot afford to deliver the quality and depth of governance, investment skills, and risk management expertise their members need and deserve.”*

How did he visualize doubling OMERS’ size? Through consolidating a number of too small pension plans into a few super-funds. Within days, Nobrega’s ideas were attacked in the National Post op-ed pages as a plot by a few large public sector pension plans to take control of the pensions ‘industry’, thus eliminating competition and increasing the risk of systemic failure on a large scale.

Canada is not the only place where the scale of pension management and delivery organizations has become an issue. A similar debate is raging in Australia, where a few vocal critics are asserting that with even the largest Australian pension funds barely exceeding \$20 billion, they too are too small to deliver the quality and depth of governance, investment skills, and risk management

expertise their members need and deserve. A similar controversy has broken out in Sweden, with critics asserting that instead of having five national reserve AP Funds that are too small (i.e., with an average asset value of \$20 billion), it would serve Sweden much better to have only one fund of sufficient scale to be a competitive global player. Only the Dutch have moved beyond just debating the scale issue. The Dutch regulator, De Nederlandsche Bank, has been actively devising and implementing measures to promote the pension industry consolidation that other countries (thus far) only talk about.

Measuring the Impact of Scale

So who is right? Does scale matter? Fortunately, these questions need not be debated in an information vacuum. Toronto-based CEM Benchmarking Inc. began collecting data on the operations of pension organizations in 1991. Today, CEM works with 408 pension clients, including 50 of the world’s 100 largest funds. Three databases form the foundation of its benchmarking services: benefit administration, investment, and DC plans. Recognized as the most comprehensive and accurate in the world, the databases are increasingly being used to understand the drivers of the cost-effective delivery of pension investment and administrative services. This *Letter* explores what the CEM databases can tell us about the impact of scale on pension plan performance.