DELEGATED IMPLEMENTATION FOR IMPROVED ASSET MANAGEMENT IN DEFINED BENEFIT (DB) PLANS

Q&A WITH GORDON FLETCHER

Q: WHY ARE SOME PLAN SPONSORS CHOOSING DELEGATED IMPLEMENTATION?

Gordon Fletcher: Some clients choose this model because their internal resources are pulled in too many directions and don't have the time — or maybe the expertise — to meet all the investment needs of the pension plan. They can delegate some fiduciary responsibility and often achieve cost reductions by leveraging the scale of the delegated provider.

Delegated providers also typically monitor a plan's liabilities and assets on a daily basis and take decisions on a daily basis. For a typical pension plan, the investment committee may meet only once a quarter or even less frequently. But investment markets move fast, so one advantage companies see in delegating certain actions is the ability to execute actions very quickly.

Q: WHAT IS THE FIRST PIECE OF ADVICE YOU WOULD GIVE TO A COMPANY CONSIDERING DELEGATING IMPLEMENTATION?

GF: The delegated implementation model is not necessarily one-size-fits-all, but offers customized support, so the client has to decide what things it wants to delegate and what it doesn't. Some companies, for example, may feel strongly about retaining decision-making authority over which managers to employ or they may have certain relationships that they want to preserve. It's important for sponsors to recognize that they are not passing off all of the responsibility and all of the power to somebody else. They can choose to delegate certain things and retain others.

Q: CAN DELEGATED IMPLEMENTATION HELP REDUCE RISK FOR PLAN SPONSORS?

GF: Yes. Delegated implementation is designed to manage funded status risk and to match the asset movements with the liabilities. A good delegated provider will help sponsors understand the investment risk they've got, how their portfolio behaves in a volatile market, and how to remove some of that risk. Delegated implementation can also help investment committees reduce some of the operational and fiduciary risks associated with hiring investment managers. The delegated firm will take the fiduciary risk in choosing managers.

Q: WHAT ARE SOME OF THE OTHER BENEFITS SPONSORS CAN GAIN FROM DELEGATED IMPLEMENTATION?

GF: I already mentioned cost savings, but these can be substantial. I recently met with a sponsor that was looking at a savings of roughly $1 million a year in investment management fees due to the aggregation of assets achieved through delegated implementation. Access to online reporting tools that not only show the daily value of a plan's statistics — assets, liabilities, and funded status — but also make it possible for the sponsor to do forecasting and run "what if" scenarios is another benefit offered by some providers. Finally, delegated implementation can improve efficiency in achieving a key milestone, such as an annuity buyout. For example, Mercer can help manage the asset transfer between the plan and the insurance carrier so the plan is giving the insurer some of its bonds without having to sell them into cash. That's a much more efficient route than just liquidating the bonds, and it can save the sponsor money by reducing frictional costs.

Delegated implementation can offer sponsors substantial cost savings.