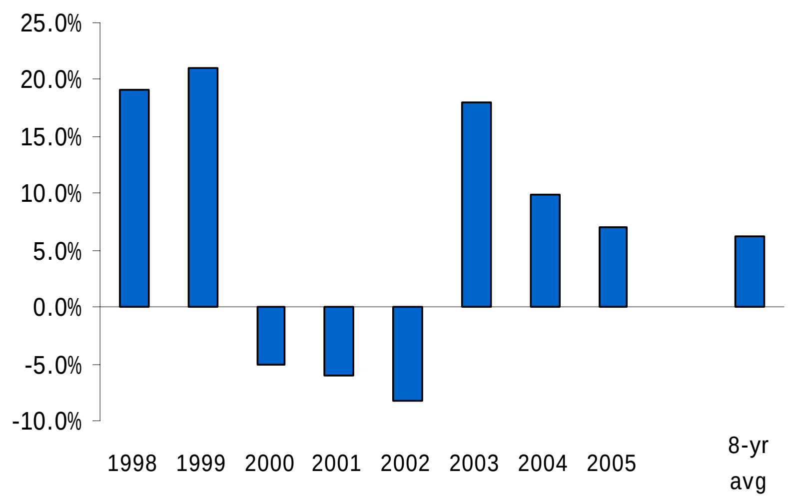
Public Plan Trends

This article highlights some of the key public plan trends in performance, asset mix, investment options and costs found in the latest annual CEM Survey for Defined Contribution/Profit Sharing Plans.

The trends were drawn from 94 US public defined contribution plans from 1998 to 2005. In 2005, 23 public plans with total assets of $201 billion participated in the CEM survey. The median size was $0.8 billion.

Table 1 shows that over the eight-year period ended December 2005, public defined contribution plans had an average annual aggregate return of 6.3%. The benchmark return was 5.5%. The benchmark return was derived by weighting benchmark index returns by corresponding asset holdings. The difference between the average aggregate return and the average benchmark return was 0.8%. This was the value added from active management.

Table 1: Average Aggregate Return



	1998	1999	2000	2001	2002	2003	2004	2005	8-yr avg
Aggregate return	19.1%	21.0%	-5.1%	-6.0%	-8.3%	18.0%	9.8%	7.0%	6.3%

Source: CEM Benchmarking Inc.

Table 2 shows the changes in asset mix over the period. The most significant change was a 19% reduction in domestic large cap and broad market stock from 63% to 44%. The asset classes that increased the most were domestic small cap stock by 9%, bonds by 6% and foreign stock by 5%.

Table 2: Asset Mix								
	1998	1999	2000	2001	2002	2003	2004	2005
Large cap and broad market stock	63%	65%	61%	54%	41%	43%	44%	44%
Small cap stock	3%	9%	6%	5%	5%	9%	12%	12%
Foreign stock	2%	1%	2%	3%	3%	3%	5%	7%
Bonds	7%	7%	5%	8%	11%	12%	13%	13%
GICs/stable value	20%	10%	21%	24%	35%	24%	18%	17%
Cash and equivalents	5%	9%	5%	6%	5%	8%	8%	6%
REITs, real estate and hedge funds	0%	0%	0%	0%	0%	0%	1%	1%

Source: CEM Benchmarking Inc.

The median number of investment options offered grew from 10 in 1998 to 14 in 2005. Table 3 shows that stock-related options constituted the largest segment of investment options offered.

Throughout the period, the median number of bond options offered was one. This may explain, in part, the low proportion of bonds in the average asset mix since participants often practice naïve diversification, whereby contributions are allocated evenly across all investment options offered.

Table 3 is also a reminder that several important asset classes are not part of the average investment option menu. In 2005, only 26% of public plan sponsors offered real estate or REIT options and only 17% offered TIPS.

Table 3: Median Number of Investment Options Offered		
	1998	2005
Domestic stock	4	6
Foreign stock	1	2
Bonds	1	1
Balanced funds	1	3
GICs/stable value/cash	3	1
Other	0	1
Total	10	14

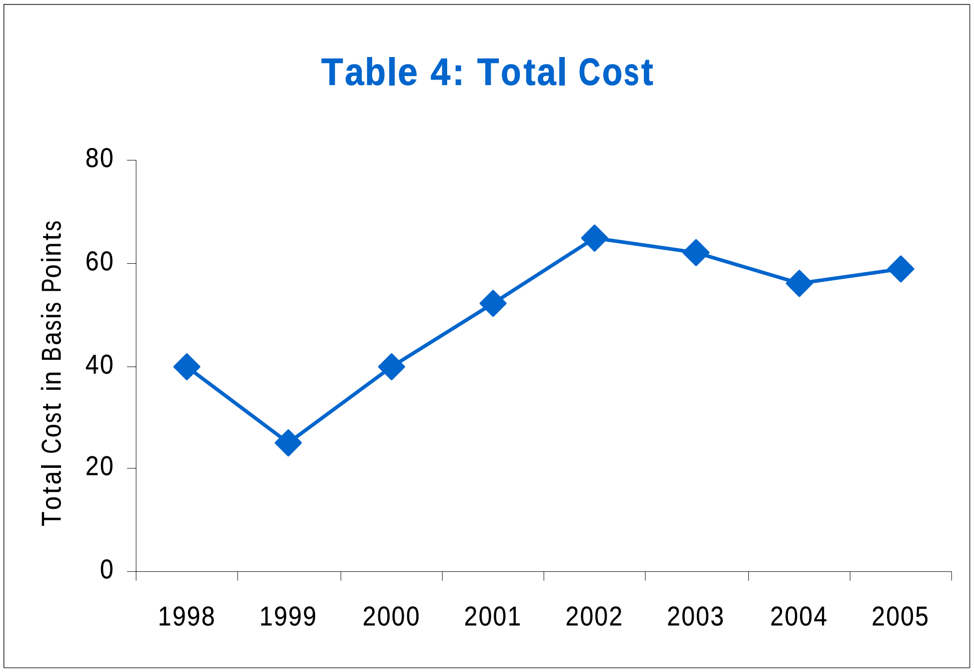
Source: CEM Benchmarking Inc.

Since 2001 (when CEM began to track default options), the number of public plans selecting balanced funds as the default grew from 0% to 32%. Over the same period, the choice of GICs, stable value funds or cash as the default fell from 100% to 68%.

CEM research has shown that assets in an investment option, when designated as the default, were 2.3 times higher than assets in the same option when it was not the default. Given the tendency of participants to leave their contributions in the default option, the trend to a higher performing default is encouraging.

Table 4 shows that total cost, which generally rose from 1998 to 2002, has been relatively stable over the past four years. Total cost is the sum of investment management cost and administrative and fiduciary costs.

This recent stability in total cost may be attributable to two offsetting trends. The first was the negative impact of an increase in high cost assets (domestic small cap stock and foreign stock) in the average asset mix. The second was the positive impact of an increase in low cost passive mandates, which increased from 17% to 24% of total assets from 2002 to 2005.



Source: CEM Benchmarking Inc.

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