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Administrative Costs of State DB and DC Plans

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Administrative Expenses

- Almost all large public sector plans began as DB plans: 3 have switched to DC but many more have added a DC option.
- Paper compares the administrative expenses for plans with both a DC and DB component.
- Administrative structure for DB plan already existed, so incremental costs for additional DC plans are small.
- DC expenses somewhat higher than for DB plans - because DC plans much smaller.

Comparison of Administrative Costs

- DB plan administrative expenses =
~ 0.1 % of DB assets.
- Most DC plans cost 0.2-0.3 % of DC assets.
- Exception: Ohio DC plans that cost ~ 5% of plan assets.
- Some variation in DC costs probably due to different methods of allocating cost.

Federal Retirement Plans

- Unlike States, Federal government has Thrift Savings Plan: separate administrative organization for its DC plan
- Administrative costs of Federal DB and DC plans small and similar to each other.
- Administrative expenses of DB plan (FERS) are 0.3 % of contributions or 0.02 % of assets.
- Administrative expenses of DC plan 0.4% of contributions or 0.04% of assets.

Conclusion

A large public sector retirement system that is exclusively DB or exclusively DC would have about the same small administrative cost: around 0.1 % of assets.

Costs are a minor consideration in choosing between a DB or a DC plan.