SHIELDS ASSOCIATES

Pension Cost (Cash and Expense)

BEST PRACTICES

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Shields Associates—

Providing access to intelligent investment solutions through independent research and creative thinking.

"Today's Issues"

- **Laws affecting Pension Plan cost have changed.**
- **Most plan fiduciaries have not considered the *dollar cost* implications when setting plan asset allocation policies.**
- **Corporate budgeting improves materially with intelligence from focused scenario cost analysis.**

Traditional Fiduciary Approach: Elements and Weaknesses

The majority of pension allocation strategies utilized by fiduciaries today were established through either efficient frontier analysis, asset/liability studies, or a derivative of the two. The weakness: Neither of these approaches concisely defines the plan cost in dollar terms for likely market outcomes.

- *Efficient frontier analysis* helps guide clients toward diversified investment strategies, but provides no intelligence on plan cost.

- *Asset/liability studies* define a probability weighted range of plan funding outcomes and sometimes dollar cost figures, but often ignore scenario analysis for likely outcomes, and cost clients from $60,000 to more than $$100,000 per study.

Shields Associates — "Best Practices"

Shields helps plan sponsors evaluate plan costs for the current policy and alternative strategies based upon 4-5 likely market outcomes during the next 3-5 years, instead of using only the pension plan actuary to define plan cost. This approach enhances the decision making process by providing plan sponsors with research intelligence that supports cost effective investment policies.

Improved Methodology (Ongoing and Frozen Pension Plans)

A company's ability to cover plan cost and willingness to maintain the plan as an ongoing concern are important factors to assess when defining investment strategies as a plan fiduciary.

Defining targeted cost scenarios for specific policy alternatives:

- Materially improves the quality of the information that fiduciaries utilize to set strategies.
- Educates fiduciaries by defining the upside/downside risks of the decisions being made on participants' behalf.
- Can be completed for less than $50,000.