

*One of my colleagues is on a diet and keeps informing me of the numbers on his scale. I, on the other hand, cringe every time I walk past a scale. Unfortunately for me, when it comes to reducing the numbers on the scale, eating less is the solution. However, in financial circumstances, this is not necessarily the case.*

## Sometimes *more* is *less*!



There is an economic principle called the economies of scale, which states the larger something becomes, such as a pension plan, the more efficiently it can be administered. This is the principle to which all of the Plans administered by Christian Brothers Services adhere. For example, in the Christian Brothers Employee Retirement Plan (CBERP) the cost of recordkeeping, actuarial, legal, plus other expenses for almost 30,000 participants is not 10 times greater compared to another defined plan of 3,000. The per participant cost is actually much lower for the plan with 30,000 participants. The fact is, that sharing of costs over a larger group results in any fixed costs being proportionately lower.

Another example would be the investment management fee of a plan. The CBERP has nearly \$900 million in assets, and the investment cost, called expense ratio, averages .0016. Since it is difficult for most individuals to comprehend numbers less than 1%, the industry created a measurement called basis points. The scale is 100 basis points equals 1%. In the previous example, the expense ratio would be 16 basis points. This ratio is significantly lower than other defined benefit plans. According to Greenwich Associates, the average expense ratio for a similar size pension plan is 56 basis points.

Economies of scale are also employed in the CBERP 403(b) and 401(k) plans. If a typical Catholic Church organization were to approach Vanguard to provide recordkeeping services, Vanguard would most likely decline. This is due to the fact that the group would not be cost-effective to Vanguard. The Christian Brothers Employee Retirement plan approaches Vanguard as a single entity with nearly 8,000 lives and over \$130 million in assets, even though the plan is really 400 separate employers. This approach allows for a pricing structure which is much more cost-efficient to our clients than that of other plans.

Economies of scale is the reason why many Catholic organizations have merged their defined benefit plans into the CBERP. In all cases, these organizations realized an increase in benefits and a reduction in costs as compared to their current plan. It is also why the 403(b) and 401(k) plans have had participation increases of over 40% within the last three years.

I wish economies of scale worked as well for diets and food consumption as it does for retirement plans! ☀

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