



# GLOBAL MEGATRENDS

**Today, and over the foreseeable future, a series of events** — call them global megatrends — will have a profound impact on the world economy. Each issue of *Point of View* will share insight into these trends and how the institutional investment community is preparing to address them.

## OUTSOURCING AS A SOLUTION TO PLAN ADMINISTRATION AND INVESTMENT CHALLENGES

A series of regulatory changes and economic challenges is prompting retirement plan sponsors to seek out new ways to effectively manage risk while working to meet future funding obligations. Plan sponsors are increasingly looking to outsourcing of the servicing and investment of plan assets as ways to gain simplicity in plan management while maintaining appropriate asset allocations to meet their future liabilities.

## Challenges Facing Plan Sponsors in the Coming Years

When considering potential solutions, plan sponsors likely will have to go beyond traditional methods of plan management.

The landscape for retirement plan sponsors is continually evolving, and these institutional investors will need to remain focused on several key issues:

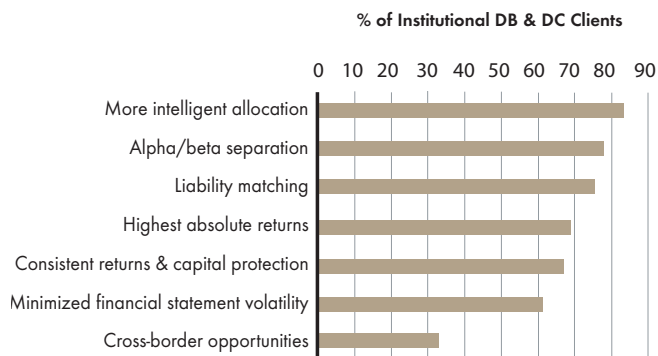
- **Funding liabilities** – Despite a better return environment during 2006, plan sponsors continue to face concerns over appropriate funding levels.
- **Proposed financial accounting changes** – Moving pension liabilities to the corporate balance sheet may materially affect an organization's bottom line.
- **Recent regulatory changes** – Governments around the globe continue to establish new requirements and guidelines that can impact desired funding status and contribution levels.
- **Increased corporate restructuring** – Corporate actions such as M&A activity or divestiture can create new investment or administrative challenges for plan sponsors.
- **Resource constraints** – Organizations face staffing challenges within both the human resources and investment management functions.
- **Hard and soft freezing of plans** – Despite potential advantages to freezing plans, sponsors continue to face a significant expenditure of resources and expertise to manage the administration and investment management of plans.

As a result of these and other challenges, a different mindset on the part of plan sponsors is needed to manage and service these pools of assets.

Source: Northern Trust

## Goals of Plan Sponsors

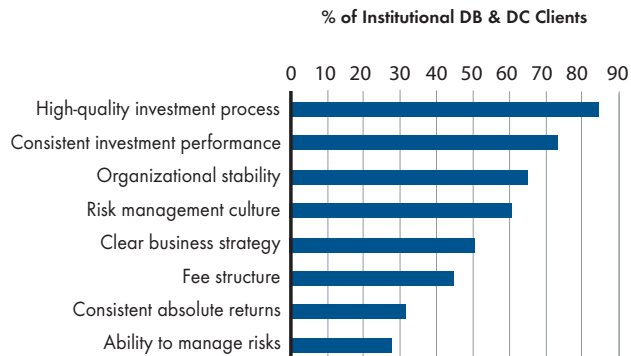
When seeking a partner to help manage plan assets, sponsors have developed a set of key goals to ensure that a vendor can service their particular needs.



Source: Create-Research, "Tomorrow's Products for Tomorrow's Clients," 2006

## What Do Sponsors Value?

When selecting a partner to help manage plan assets, sponsors place a high value on effective investment management processes and results.



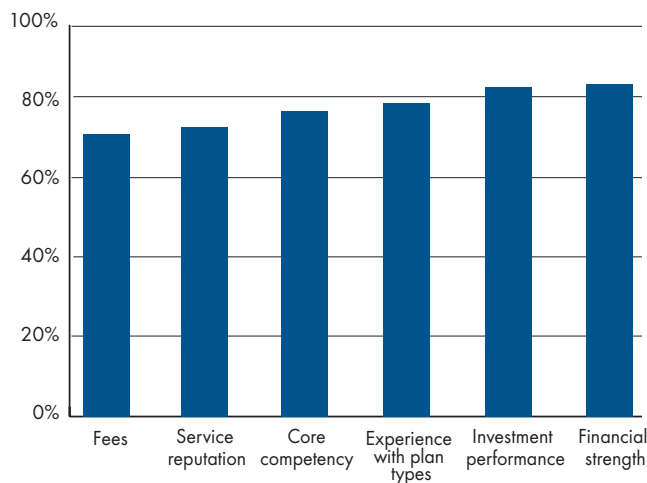
Source: Create-Research, "Tomorrow's Products for Tomorrow's Clients," 2006

*"One of the key drivers of the move to outsourcing either the investment or administrative function is an institution's desire to focus on its core competencies rather than retirement plan management."*

— David Dykstra, managing director, Northern Trust Investment Program Solutions

## Vendor Requirements

Plan sponsors who have made the outsourcing decision have a variety of requirements when selecting a partner to help manage assets or administration.



Source: Chatham Partners

## Perceived Benefits

Plan sponsors perceive a common set of benefits they hope to realize when outsourcing either the investment or administrative functions.

**Savings — of both cost and time** — appear at the top of most plan sponsors' lists:

- Realizing cost savings (76%)
- More efficiency and time savings (71%)

**Quality and ease of vendor services** also represent highly desired benefits among the majority of respondents:

- Single point of contact (66%)
- Higher quality services (61%)
- Greater vendor accountability (61%)

Note: Based on a universe of 283 survey respondents

Source: Chatham Partners