HOW TO AVOID COMMON PENSION OVERSIGHT MISTAKES

Companies who offer defined benefit plans often have investment committees formed mainly of non-investment professionals supervising their pension plan and its investments. In this era of heightened regulation and low rates of return, the job of investment committee members is more difficult than ever. A look at some of the most common mistakes by investment committees can help a new committee member avoid any liability down the road. First, investment committees often overestimate the importance of choosing a fund manager while underestimating the importance of asset allocation. The three most common asset classes are stocks (equities), bonds (fixed income), and cash equivalents like money market funds. Studies have shown that more than 90 percent of the variability of a plan’s performance over time is attributable to asset allocation. Second, investment committees often do not pay close enough attention to the requirements of the outstanding pension liabilities. A committee needs to understand the scope of those liabilities and develop an investment portfolio designed to produce a projected return capable of meeting the liabilities. Third, investment committees, like individual investors, are often subject to a “backward looking bias.” Just because an asset performed well recently does not necessarily mean it is a good choice going forward. Finally, investment committees make fiduciary errors, such as failing to create an investment policy statement; failing to assess potential conflicts of interest on the part of the committee member or fund manager; and having a dysfunctional committee where, for example, one member exercises outsize influence. For more details on the article Click Here Looking for HR jobs? Click here.