HEALTH WEALTH CAREER

ENERGY

AN OCIO SOLUTION CAN BOOST EMPLOYEE BENEFITS AND COST SAVINGS

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The energy industry has a clear purpose — to find, extract, produce, transport and sell the energy that runs the world. It's safe to say that no energy company would list "managing millions or billions of dollars of retirement assets" as a core competency. Yet many companies continue to devote substantial resources to this very task, saddling key HR, finance and legal professionals with the complexity, risk and administrative drudgery of investment management.

The good news for plan sponsors is that there's an alternative to the company self-managing its retirement plans. It's called an outsourced chief investment officer (OCIO) solution. Simply put, an OCIO solution lets the company outsource plan management to a third-party firm. Rather than shoulder the complete responsibility for managing the plan, an internal investment committee sets the strategy but relies on an external team of experts to implement and evaluate that strategy, monitoring fund performance and making adjustments when necessary. The partner serves as a fiduciary and investment manager as defined by the Employee Retirement Income Security Act (ERISA) section 3(38).[1]

Whether the sponsor offers a defined benefit plan (pension) or a defined contribution plan, an OCIO approach to plan management can help the company reduce risk, save time, potentially cut costs and empower employees to build a more secure financial future.

[1] United States Department of Labor. "Employee Retirement Income Security Act (ERISA)," available at https://www.dol.gov/agencies/ebsa/laws-and-regulations/laws/erisa.

Reduce Fiduciary Risk

An OCIO solution with a strong governance framework helps reduce fiduciary risk to the committee and the company. The delegated provider is explicitly named as the investment manager and must therefore act as the fiduciary and bear the associated risks. Although the sponsor company will always carry part of the responsibility, delegating the fiduciary responsibility of manager selection, implementation and evaluation to a third party is an increasingly common strategy to lessen the potential business impact of poor investment decisions.

Increase Productivity

Members of internal investment committees have a lot on their plates. They're responsible for staying abreast of an evolving investment marketplace, managing regulatory filings and administrative burdens, and responding to the questions and concerns of increasingly savvy participants. In most cases, these part-time responsibilities are piled on top of committee members' everyday jobs.

This is a common and problematic scenario in the volatile energy industry, where fluctuating oil prices, alternative energy, geopolitical turmoil and other factors are creating complexity and uncertainty. To succeed, energy companies need all their best people working toward their core business purpose.

Delegated investments can help alleviate this problem. An external management firm handles all the heavy lifting, while the sponsor company's executives have more time to focus on their day jobs.

Potentially Cut Costs

Although it may seem counterintuitive, delegating investment management to an outside firm can actually help the sponsor reduce costs. Global service providers, such as Mercer, make investments on behalf of hundreds of major clients, so they can leverage their assets under management to potentially negotiate lower fees with investment funds. In some cases, the provider is also able to manage the retirement plan more efficiently, simplifying and streamlining the selection of funds to facilitate better participant choices.

For example, one Mercer client with $2.8 billion in 401(k) assets recently made the decision to switch to an OCIO solution. The new model reduced investment management and operating fees, resulting in a net savings of $1.5 million.[2]

Seek Better Outcomes for Participants

Finally, adopting a delegated investment solution isn't just good for the sponsor company — it can benefit employees, too. The potentially lower fund fees negotiated by an outside plan manager may translate to higher balances for defined contribution participants. When employees contribute regularly to the plan over time, even small savings can add up to significant dollars through the power of compounding.

The delegated provider can also help the sponsor company assemble a simple yet effective menu of fund offerings that makes it easier for employees to understand their options and make smart investment choices.

All told, a delegated investment approach could very well offer energy companies a golden opportunity to resolve several employee benefits woes in one fell swoop. Cost-cutting demands may be met, overworked executives can get their time back and plan participants can get a tailwind toward retirement. While the benefits of the solution can vary case by case, we believe it's certainly an opportunity any company would be wise to consider.

Mercer Energy

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[2] The case study is an illustration of Mercer's capabilities provided to one client. Client results will vary, and there can be no guarantee of similar results.

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