# Portfolio Risk And Performance

## Is Bigger Better? Size and Performance in Pension Plan Management

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*Working paper*

The authors use a novel proprietary dataset to examine the relationship between size and performance of asset management within defined benefit pension plans. They document that pension plans are operating in a region where there are positive economies of scale: Larger plan size is associated with better performance of the entire pension plan portfolio. The effect is economically sizeable: Returns on the largest plans are higher by 43 to 50 basis points per year.

The authors attempt to explain this by hypothesizing that bigger plans use more internal management (exploiting their "make versus buy" option) and shift resources to where larger plans have a comparative advantage (alternatives, particularly private equity and real estate).

One-third to one-half of the benefits of size come through cost savings, primarily via internal management, the authors write. They add that up to two-thirds of the economies come from substantial gains in both gross and net returns on alternatives.

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