

Abstract

Administrative costs per participant appear to vary widely across pension funds in different countries. These costs are important because they reduce the rate of return on the investments of pension funds, and consequently raise the cost of retirement security. Using unique data on 90 pension funds over the period 2004–2008, this paper examines the impact of scale, the complexity of pension plans, and service quality on the administrative costs of pension funds, and compares those costs across Australia, Canada, the Netherlands, and the US. We find that, except for Canada, large unused economies of scale exist. Analyses on a disaggregated level confirm economies of scale for small and medium pension funds. Even though the pension funds in the sample are among the largest in the world, further cost savings appear to be possible. Higher service quality and more complex pension plans significantly raise costs, whereas offering only one pension plan reduces costs, as does a relatively large share of deferred (or sleeping) participants. Administrative costs vary significantly across pension fund types, with differences amounting to 100%.