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# Have scale effects on cost margins of pension fund investment portfolios disappeared?

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## Abstract

Investment costs of pension funds are crucial for their returns. Consolidation in the pension fund market proceeds continuously, often with cost savings as the main argument. Unused economies of scale in the pension fund investment costs, however, have declined over the years to values close to zero, except for the very small pension funds. This paper investigates investment economies of scale in the Netherlands and pays special attention to the non-linear relationship between investment costs and sizes of pension funds. Furthermore, investment cost margins are disaggregated into three cost types and into six asset categories. Scale economies on investment cost still, ranging from 10% for the smaller pension funds to 5% for the largest ones. Performance fees are in particular paid for complex asset categories held by large pension funds. They show strong diseconomies of scale and reduce the traditional scale economy results for the entire portfolio.

<sup>1</sup> The views expressed here are solely those of the authors and do not in any way represent the views of DNB. Email address: [jabikker@hotmail.com](mailto:jabikker@hotmail.com). The authors are grateful to Maurice Bun for helpful comments.