


## Expertise and Efficiency: The Rise of OCIO Services in the Defined Contribution Space

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Plan sponsors have faced increasing complexity in their roles as plan stewards. Regulatory changes, shifting participant demographics, and turbulent markets have all contributed to the challenges of managing defined contribution (DC) plans. As they seek solutions to better serve their organizations, Outsourced Chief Investment Officer (OCIO) services are gaining traction as a valuable tool in their arsenal. Recent surveys of defined contribution plan sponsors and consultants reveal that OCIO services are more regularly considered and utilized than in years past. In this note, we highlight some findings of recent surveys, examining how OCIO services appear to be on the rise within the defined contribution space.

### Why are DC sponsors looking to OCIO?

Since 2019, there have been significant changes in the defined contribution industry. First, the regulatory environment has undergone considerable changes, including the 2019 SECURE Act.<sup>1</sup> “These changes in the DC industry have also increased the interest in and usage of governance models that delegate some level of fiduciary responsibility to external providers.”<sup>2</sup> In a recent study conducted by PGIM, 17% of DC plans surveyed have or are considering selecting OCIO services.<sup>3</sup>

<sup>1</sup> Source: Defined Contribution Institutional Investment Association (DCIIA), “Defined Contribution Plan Governance Models: A Guide for Plan Sponsors,” April 2023. The Setting Every Community Up for Retirement Enhancement Act is also known as the SECURE Act past in 2019.

<sup>2</sup> Ibid.

<sup>3</sup> Source: PGIM, “The Evolving Defined Contribution Landscape: The Expanding Role of OCIOs,” 2024. PGIM worked with Curcio Web Greenwich Associates to survey 130 DC plans and 20 DC OCIO providers.

Under the Employee Retirement Income Security Act of 1974 (ERISA), US corporate DC plans must outline rules that protect plan participants and define fiduciary roles and rules. Under ERISA rules, plan sponsors may elect to use non-discretionary investment consultants, discretionary OCIO providers, and discretionary administrative service providers to help construct, monitor, and administer defined contribution plans.<sup>4</sup> Unlike a non-discretionary consultant, “a 3(38) OCIO often will exercise discretion broadly across the plan’s investment program.”<sup>5</sup>

According to the PGIM study, DC plan sponsors cited a variety of reasons for delegating some or all fiduciary and decision-making authority to OCIO service providers. The top six reasons (in ranked order) for hiring an OCIO included: 1) desire for expertise in institutional quality implementation, 2) a perception of reduced fiduciary risk, 3) limited investment experience of the plan sponsor, 4) limited time of the plan sponsor, 5) limited resources of the plan sponsor, 6) lower expenses.<sup>6</sup> A similar PIMCO survey found that plan sponsors selected the OCIO governance model to reduce their total workload and because they believe that the OCIO model could reduce fiduciary risk as well as reduce fees.<sup>7</sup>

Plan sponsors may implement a full or limited OCIO governance model. In the latter approach, OCIO fiduciary responsibilities may cover the entire plan’s investment selection and monitoring or may be limited to a single investment product like a custom target date fund.<sup>8</sup> The PGIM survey found that OCIO services were most likely used for third-party target date funds, the selection of single manager funds, as well as the selection and monitoring of multi-manager funds. OCIO services were also used for the implementation of income and distribution strategies.<sup>9</sup> Rather than giving an OCIO full discretionary authority for an entire plan, surveys appear to indicate that plan sponsors have thus far preferred to implement a limited OCIO governance model.

<sup>4</sup> Source: Defined Contribution Institutional Investment Association (DCIIA), “Defined Contribution Plan Governance Models: A Guide for Plan Sponsors,” April 2023. The Setting Every Community Up for Retirement Enhancement Act is also known as the SECURE Act past in 2019. The relevant sections of ERISA are 3(21), 3(16), and 3(38).

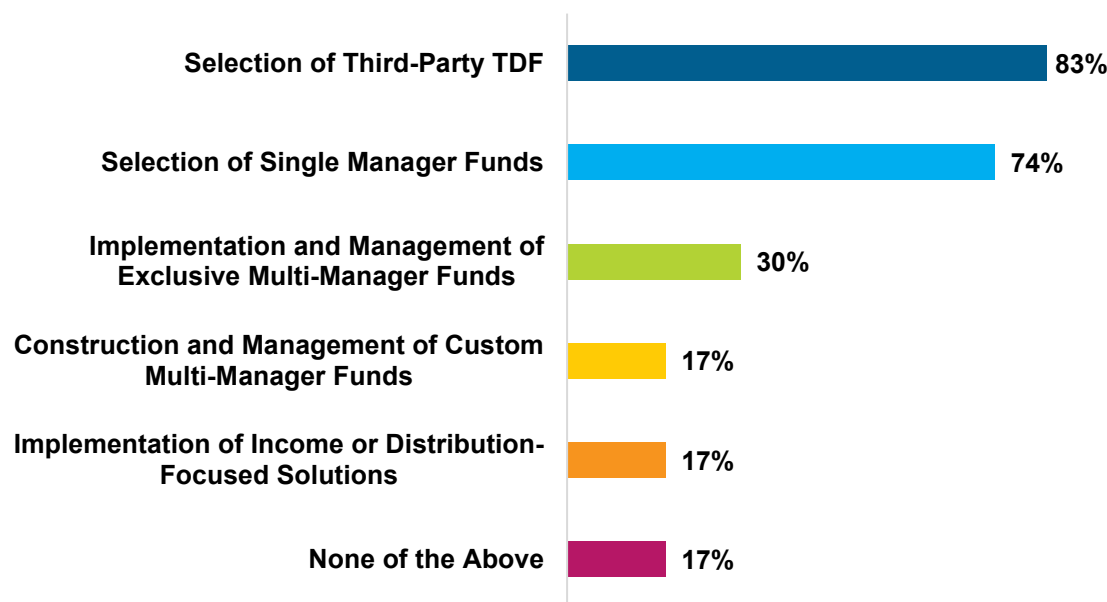
<sup>5</sup> Source: Defined Contribution Institutional Investment Association (DCIIA), “Defined Contribution Plan Governance Models: A Guide for Plan Sponsors,” April 2023. The Setting Every Community Up for Retirement Enhancement Act is also known as the SECURE Act past in 2019.

<sup>6</sup> Source: PGIM, “The Evolving Defined Contribution Landscape: The Expanding Role of OCIOs,” 2024. PGIM worked with Curcio Web Greenwich Associates to survey 130 DC plans and 20 DC OCIO providers.

<sup>7</sup> Source: PIMCO, “2024 PIMCO US DC Consulting Study,” July 2024. The PIMCO study includes 28 consulting and advisory firms, with 15, 379 clients, and \$794 T defined contribution assets.

<sup>8</sup> Source: Defined Contribution Institutional Investment Association (DCIIA), “Defined Contribution Plan Governance Models: A Guide for Plan Sponsors,” April 2023. The Setting Every Community Up for Retirement Enhancement Act is also known as the SECURE Act past in 2019.

<sup>9</sup> Source: PGIM, “The Evolving Defined Contribution Landscape: The Expanding Role of OCIOs,” 2024. PGIM worked with Curcio Web Greenwich Associates to survey 130 DC plans and 20 DC OCIO providers.



**FIGURE 1**  
**Services Used By OCIO**

Source: PGIM, “The Evolving Defined Contribution Landscape: The Expanding Role of OCIOs,” 2024. PGIM worked with Curcio Web Greenwich Associates to survey 130 DC plans and 20 DC OCIO providers.

## Are OCIO services right for your plan?

According to the PGIM survey, DC OCIO's believed that most plan sponsors hired them to first and foremost reduce their fiduciary risk.<sup>10</sup> But surveys indicate that the variety of custom and novel investments coming to market may mean an OCIO's investment expertise may be desired by DC plan sponsors.<sup>11</sup> Indeed, concerns regarding plan sponsor fiduciary risks may prevent sponsors from implementing new investment vehicles, according to PGIM.<sup>12</sup> This would explain their desire to seek the investment expertise offered by OCIO providers.

In general, plan sponsors appear to be satisfied with the use of OCIO services in various capacities. According to PGIM survey 74% of sponsors using OCIO are very happy with outcomes.<sup>13</sup>

## Conclusion

As the landscape of defined contribution plans continue to evolve with increasing complexity, plan sponsors face mounting challenges in fulfilling their fiduciary responsibilities. The growth in plan assets and changing regulatory environment may contribute to an increase in the level of expertise and specialized investment knowledge that may be difficult to maintain internally. By leveraging OCIO services, plan sponsors may be able to streamline the decision-making processes and enhance the overall management of their plans.

<sup>10</sup> Source: PGIM, "The Evolving Defined Contribution Landscape: The Expanding Role of OCIOs," 2024. PGIM worked with Curcio Web Greenwich Associates to survey 130 DC plans and 20 DC OCIO providers.

<sup>11</sup> Source: PIMCO, "2024 PIMCO US DC Consulting Study," July 2024. The PIMCO study includes 28 consulting and advisory firms, with 15, 379 clients, and \$794 T defined contribution assets.

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<sup>13</sup> Source: PGIM, "The Evolving Defined Contribution Landscape: The Expanding Role of OCIOs," 2024. PGIM worked with Curcio Web Greenwich Associates to survey 130 DC plans and 20 DC OCIO providers.

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