

# Making Pension Charges Clearer

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# Aims of the Code of Conduct

- Provide information about charges to employers in a form they can understand, as part of good transparent practice;
- Allow more ready comparison so that employers, trustees and advisers are able to act as well informed customers; and
- Provide a basis on which charges across the industry can be monitored in the public interest

# Issues with Current System

- No requirement to disclose charges to employers before they choose a scheme.
- Scant information about charges in annual statements.
- Hard for to compare charges, and value for money across the market.
- Several definitions of charges and costs
- Complex language

# Example 1

- *The manager's charges differ according to the type of fund. The charges are made within the fund and are reflected in the price of fund units. With some funds, two unit prices are shown-the "bid" price, at which units are sold, and the "offer" price, at which units are bought; the difference-the "bid/offer spread"-reflects the manager's dealing costs. The bid/offer spread on these funds vary.*

## Example 2

- *Additional expenses such as trustees' registrars', auditors and regulators' fees may be deducted from some investment-linked funds. In addition where the [name of insurer] investment-linked fund links to a Fund of Funds (a fund that holds other underlying funds as its investments) the additional expenses may also include the cost of managing the underlying funds. Where these expenses arise within the fund they have been taken into account in the calculation of the unit price. Details of the Annual Management Charge and any Additional Expenses can be obtained from your [insurance company] Pension Pack.*

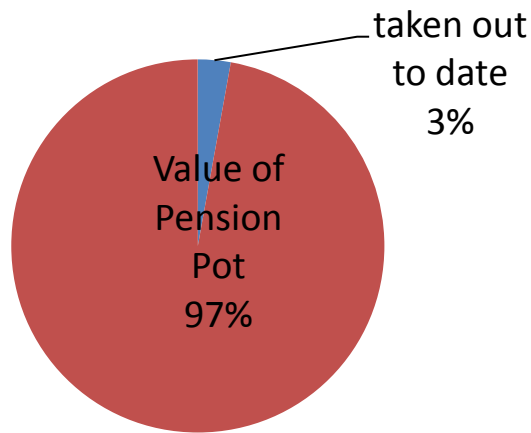
# Illustrating the effect of charges

An idea we consulted on

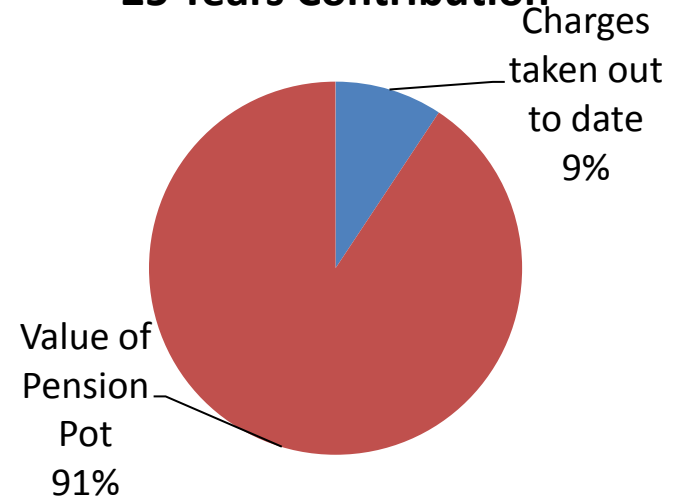
# 1% AMC

£13,000 salary in 2012

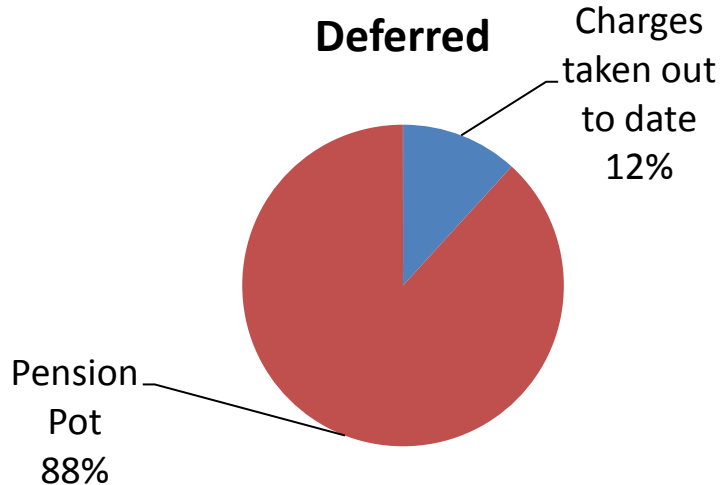
## 5 Years Contribution



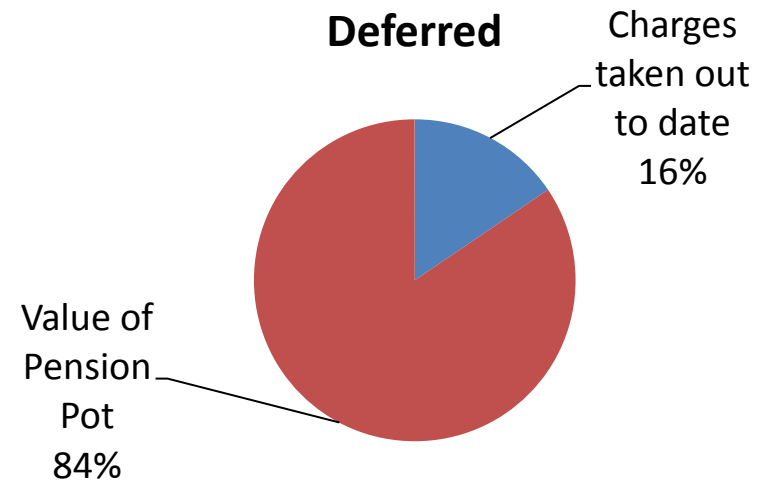
## 25 Years Contribution



## 5 Years Contribution and 20 Years Deferred



## 20 Years Contribution and 20 Years Deferred



Note: Inflation at 2.7%, Investment growth at 5%, Contributions at 8%, AMC at 1%



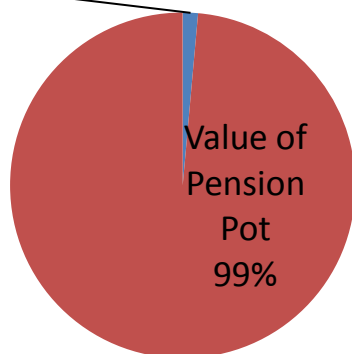


# 0.5% AMC

£13,000 or £26,000  
salary in 2012

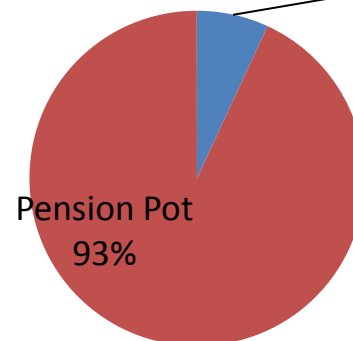
**5 Years Contribution**

Charges  
taken out  
to date  
1%



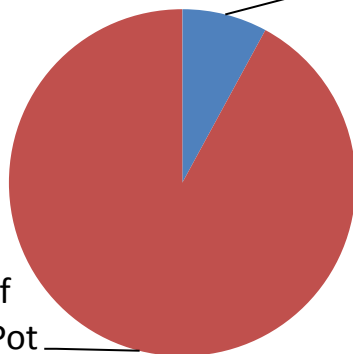
**5 Years of Contribution and 20 Years Deferred Membership**

Charges  
taken out to  
date  
7%



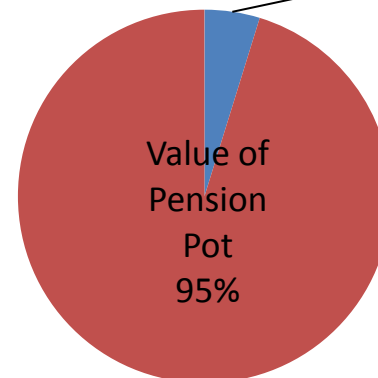
**20 Years Contribution  
& 20 Years Deferred Membership**

Charges  
taken out to  
date  
8%



**25 Years Contribution**

Charges  
taken out  
to date  
5%

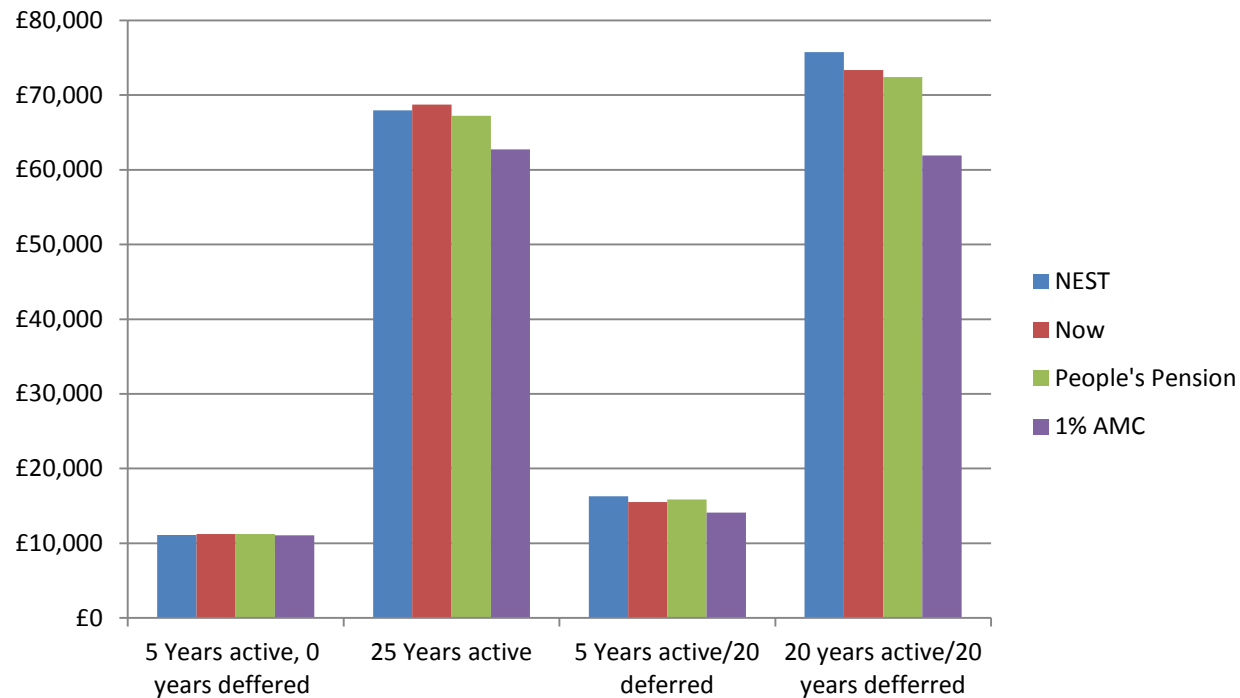


Note: Inflation 2.7%, Investment growth at 5%, Contributions at 8%, AMC at 0.5%





# Pension Pot Size: Comparison of Schemes



- Note: Salary starting at £26,000, Inflation at 2.7%, Investment growth at 5%, Contributions at 8%, Charges levied per scheme – **pension pots in today's prices**

# Some other things we consulted on

- All charges to be clearly stated in writing before employer chooses
- How transaction costs should be disclosed
- A template for comparing services
- What counts as a charge
- Including consultancy charges
- Whether to always offer a comparator

# Choosing a pension scheme for auto-enrolment

Like anything else, knowing the cost is important but so is knowing what you want.

# Knowing what you want

- Default fund and investment choices
- Administration
- Advice
- Information/Support tools
- Retirement process
- Communications
- Governance
- What else?

# Top Tips (1)

- Know your workforce
- Be clear about your 'must haves' and 'nice to haves'
- Compare offerings to get best vfm
- Cheapest may not be best: but know why you're paying more
- Look at the effect of charges on different groups of employees



# Top Tips (2)

- Make sure all charges are captured
- Be clear who is paying who for what
- Look out for one-off charges
- Review value for money periodically
- If your scheme can't deliver best value think about moving to a new arrangement
- Watch out for the Code of Conduct (COMING SOON!)

# Questions and Discussion

- How do you assess value for money at the moment?
- How to balance needs of different workers?
- How much is too much?
- How do you compare quality of administrators, fund managers, advisers, providers?