



An Roinn Coimirce Sóisialaí Department of Social Protection

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Minister Burton publishes Report on Pension Charges 2012

The Minister for Social Protection Joan Burton announced the publication of the Report on Pensions Charges 2012 today Tuesday 23th of October 2012.

Minister Burton explained: **“This is the first comprehensive Government report on this subject. It is clear from the research that many schemes and individuals are paying more than they need to. The research particularly points to small occupational schemes and individual pension policies incurring high costs.”**

The purpose of the report was to gather information on the level of pension charges levied to assess whether charges are reasonable and transparent, to report on the findings and make recommendations. The report obtained information from occupational pension scheme trustees, pension providers, pension advisors and investment managers.

The report highlights a wide range of issues in relation to pension charges and identifies a number of serious problems. While the provision of pension schemes cannot be cost free, it is clear that there are major challenges to be addressed in the two main areas of reasonableness and transparency of charges.

Key findings include:

- ▶ There is a wide variation in charges.
- ▶ Individual pension charges are expensive.
 - ▶ An individual with a final pension fund of 400,000 could lose up to 30% or €120,000 in charges
- ▶ Occupational pension charges can be reasonable, but many schemes are paying more.
 - ▶ A person in a defined contribution scheme with a final pension fund of 400,000 could lose up to 15% or €60,000 in charges
- ▶ Strong economies of scale exist – smaller occupational schemes pay more.
- ▶ There is considerable evidence of re-brokering (scheme review and amendment) in recent years which needs further examination.

Minister Burton continued: **“With our ageing population and with people living longer, planning and saving for retirement is more important than ever. A key part of this is to know what level of pension you are likely to receive in retirement and understanding the very significant impact pension charges can have on your final pension fund. The report shows that apparently small percentages can add up to big reductions in a pension fund over time.”**

For example, if an individual age 35 saves €250 per month for a pension for 30 years, a fund of approximately €200,000 is created which results in a pension of about €10,000 per annum. Apply the average charge of 2.18% per annum to this fund and the final fund is reduced by 31% i.e. the

fund is reduced by €62,000, resulting in a lower pension of €6,900 per annum. This impact would be significantly higher where the maximum charges apply.

Minister Burton said: **“A further conclusion from the research is that trustees of schemes and individuals may not fully understand the charges and how they apply, and that the information provided on charges is not as clear as it could be.**

“This is the first look at this subject and it is an area I will prioritise. Similar to any service, consumers should be able to compare prices and obtain the best value available”.

Improvements in disclosure requirements, including those for pensions, were introduced in the Central Bank’s 2012 Consumer Protection Code and these should enhance transparency for those consumers covered by the Code. There are also various ongoing developments at EU level which should lead to stronger consumer protection over time.

Minister Burton invited comments on the report saying: **“As this report is a fact finding study, which is technical and complex in nature, I would also like to give interested individuals and bodies an opportunity to consider the report and its recommendations and respond over the next 3 months (end of January 2013). I will then propose to Government any further policy or regulatory action necessary.”**

The Report on Pension Charges in Ireland 2012 is published on the Department’s website at ["www.welfare.ie"](http://www.welfare.ie)

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Note to Editor:

Report on Pension Charges 2012

Report Conclusions

The report highlights a wide range of issues in relation to pension charges and identifies a number of serious problems. While it is fully recognised that the provision of pension schemes cannot be cost free, it is clear that there are major challenges to be addressed in the two main areas of reasonableness and transparency of charges.

On reasonableness, the report concludes that there is a considerable variation in the range of charges imposed. Some schemes and individuals appear to be paying more than they need to. Smaller occupational pension schemes and individual pension arrangements appear to be comparatively expensive. In relation to transparency, the report concludes that there are deficiencies and inconsistencies in current practices and a culture of providing clear information in a simple manner is not evident. A move towards greater clarity and transparency of pension charges is needed, in particular, so that consumers should understand that a modest charge can have a very large impact on the final pension. Initiatives must focus upon increased consistency across all pension types relating to the application and the real impact of pension charges as well as informing and educating consumers.

Improvements in disclosure requirements, including those for pensions, were introduced in the Central Bank's 2012 Consumer Protection Code and these should enhance transparency for those consumers covered by the Code. There are also various on-going developments at EU level which should lead to stronger consumer protection over time. The report may also be of interest to other agencies that have a role in market regulation and consumer protection.

Developments on the broader pensions policy could also have a significant impact given that the research clearly identifies the importance of economies of scale in driving down charges. The proposed introduction of an auto-enrolment pension scheme for all employees may be the most effective way to introduce change and could have a major impact in reducing charges, particularly for those people with small pension funds and reduced pension expectations. International experience has shown that this type of scheme is extremely successful in providing a simplified and lower cost charging structure and a consistent application across employers. Although this policy issue is outside the remit of this report, it does appear to offer a longer term solution to tackling many of these difficult challenges.

Report Recommendations

The recommendations in the report, as set out below, are principally focused on what can be achieved at an earlier stage by improving regulation and best practice in disclosure. This will be revised when the longer term developments at EU level are complete. The following specific recommendations are proposed:

1. Continue to monitor the implementation of the 2012 Consumer Code (Central Bank) and take specific actions to:
 - a. Examine the practice of re-brokering to ensure that it is always in the best interests of the consumer; and
 - b. Conduct an exercise to ensure compliance with the recently introduced requirement for Annual Statements.
2. Develop approaches to improve consumer, employer and trustee awareness and knowledge of pension charges. This should ensure that information is clear and concise. It should be standardised, where possible, and based on best practice (several organisations have a remit here).
3. Develop a communications action plan on pension charges (several organisations have a remit here).
4. Improve trustees' knowledge and awareness of pension charges (Pensions Board). Take specific actions to:
 - a. Develop a separate module on pension charges in trustee training;
 - b. Provide a support service to trustees setting out principles and best practice.
5. Review occupational pension disclosure regulations specifically to:
 - a. Provide for the issue of an Annual Statement to all deferred members (Department of Social Protection, Pensions Board);

- b. Improve the information provided in the Statement of Reasonable Projection and the need for focussed detail should be reviewed (Department of Social Protection, Pensions Board).
6. Monitor developments and continue efforts to develop a single standard measure that would assess all costs and charges and thereby enable easier comparisons to be made (Department of Social Protection, Central Bank, Pensions Board).
7. Conduct further research on the drivers behind consumer choice of individual pension products – with particular reference to PRSAs.
8. Ensure data on charges is collected on a periodic basis - 3 yearly intervals is considered appropriate - to allow for continued scrutiny and future decision-making. (Central Bank, Pensions Board).
9. Evaluate the impact of this report, these recommendations and future EU developments after two years and assess if further and more stringent recommendations are required (Department of Social Protection, Central Bank, Pensions Board).

The work was undertaken by the Department of Social Protection, with support from the Pensions Board and the Central Bank and with assistance provided by PWC.

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