Irish Association of Pension Funds Submission

Department of Social Protection Report on Pension Charges 2012

The Irish Association of Pension Funds welcomes the Report on Pension Charges published by the Department of Social Protection in October 2012. All deductions from contributions and investments impact on the benefits the saver will receive in retirement and it is important that there is significant focus on these. We welcome the comprehensive nature of the report and the additional transparency it brings to this area.

We also welcome the fact that the members we represent, occupational pension schemes, tend to have charges that compare favourably with individual arrangements and with arrangements in the UK. Clearly the benefits of scale apply to these schemes and trustees also work hard with the suppliers of services to ensure they can keep charges and costs to a minimum. This is in keeping with their general duty to act in the best interests of their members.

It was disappointing that there was not more emphasis on those findings in the report and, particularly, that the example used in the summary focused on the highest average reduction in yield identified in the comparison of different pension contracts in Table 3.18. To describe this as “the average charge” in the Summary gave a misleading view of the findings of the report which undermines the good work being done by trustees in obtaining value for their members. It is clear that there is considerable scope for improvement, particularly in relation to individual retail products but this should not overshadow the more positive findings in relation to occupational pension schemes.

We will respond to each of the recommendations individually but would caution about focusing exclusively on the level of charges. While these are critically important, there also needs to be considerable focus on the value that either an individual or a scheme is getting from those charges and fees. Obtaining the lowest level of charges and fees is possibly not necessarily in the best interests of schemes or individuals if the investment performance or service is sub-standard. Increasing the level of transparency and consistency around charges and fees will increase the ability of trustees and individuals to make better informed choices.

We would also encourage the Department to consider the costs incurred by the addition of any new regulatory or legislative requirements as a result of this review, or indeed in general. Any additional costs invariably get passed on to schemes and individuals and therefore it is important that the benefits outweigh the costs and this should form part of an impact analysis prior to introduction. Additionally, we would urge the Department to continuously examine existing requirements with a view to simplifying these where appropriate as this will also help to reduce costs.

While the Government has now confirmed that it will not renew the annual levy on pension savings, the impact of this levy can be put into context when looking at charges. An indefinite continuation of the levy would have resulted in an approximate 10% reduction in gross retirement income of pensioners. For large funds that can achieve extremely low charges, the levy is often a multiple of those charges.

Regarding the specific recommendations set out in the report, we would make the following comments:

1. **Continue to monitor the implementation of the 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 requirements for Annual Statements**

While this is really an issue for individual retail arrangements the recommendation is perfectly reasonable.

2. **Develop approaches to improve consumer, employer and trustee awareness and knowledge of all 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)**

We fully agree with this recommendation. There may need to be differing requirements for different types of arrangements e.g. individual retail arrangements and trust based occupational pension schemes. However, within those there should be consistency on what is included so that comparisons can be made on a like for like basis. The Department should examine work that is being done internationally on this issue such as in the area of Key Investor Documents (KIDs). The IAPF would be happy to discuss this issue in greater detail with the Department.

3. **Develop a communications action plan on pension charges (several organisations have a remit here)**

We agree with this recommendation and would be happy to discuss with the Department ways of developing such a plan.

4. **Improve trustee 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**

We agree with the principle here. It may be that the second part of the recommendation combined with a recommendation to review those principles and best practice on an annual basis would be sufficient.

5. Review occupational pension disclosure specifically to:

a. Provide for the issue of an Annual Statement to all deferred members (DSP, Pensions Board)

b. Improve the information provided in the Statement of Reasonable Projection and the need for focussed detail should be reviewed (DSP, Pensions Board)

In undertaking this review the Department and Pensions Board should consider the cost of implementing the recommendation. In particular, a requirement to issue hard-copy annual statements to deferred members will attract significant administration and postal costs. It would be worthwhile considering other possibilities of achieving the main objective such as the public sector model where hardcopy information is not automatically supplied but members can log on to a website to retrieve information.

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 (DSP, Central Bank, Pensions Board)

We agree with this which is, to some extent, the practical implementation of Recommendations 2-4 and the comments we made on those apply.

7. Conduct further research into the drivers behind consumer choice of individual pension products – with particular reference to PRSAs

We have no comments on this.

8. Ensure data on charges is collected on a periodic basis – 3 yearly intervals is considered appropriate – to allow for continued scrutiny and further decision-making (Central Bank, Pensions Board)

The implementation of Recommendation 6 would help make this process more straightforward.

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 (DSP, Central Bank, Pensions Board)

We have no comment on this.