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# Charges, returns and transparency in DC: What can we learn from other countries? – launch write-up

The Pensions Policy Institute (PPI) held a policy seminar on 20th November 2018 to launch the report ***Charges, returns and transparency in DC: What can we learn from other countries?*** sponsored by Which?. The report compares data for Defined Contribution (DC) workplace pension schemes from Australia, The United States, The Netherlands and Sweden to explore the levels of disclosed costs and charges in each country in the context of each country's pensions system, the investment returns achieved and also the transparency and effectiveness of the governance oversight of charging. Around 40 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

**Caroline Normand, Director of Policy, Which?** opened the event and welcomed the research.

**Laurie Edmans CBE, PPI Governor**, as chairperson for the event welcomed attendees and introduced the panel. He suggested that the discussion needed to look at charges in perspective relative to the very substantial fall in UK charges occasioned by regulations which ensued from the introduction of stakeholder pensions, and the much wider impacts on pension pot size, of variations in default fund investment returns which have become apparent.

**Nick Hurman, Independent Consultant for PPI and author of the report** presented the findings of the research.

**Jenni Allen, Managing Director, Money Content and Guidance, Which?** responded to the report. She stated that there were many positive indications that the UK market was moving in the right direction regarding the reduction of charges and that the charge cap was working well. She asked whether the cap should be reduced further over time as the DC industry matures. On the issue of transparency, she acknowledged that the recommendations of the FCA's Institutional Disclosure Working Group for voluntary disclosure was a step forward, but argued that a better outcome for stakeholders would be a centralised data source whereby trustees could access and compare charges and provide better value for money. Also, there is a potential role for the regulator to use centralised data to identify poor practice. Furthermore, providing full disclosure to scheme members as part of their annual statement is important in building trust, asking the question whether it was fair that consumers should be asked to pay for a product when they don't know its price.

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**Laurie Edmans** chaired a panel session with contributions from Jenni Allen, David Farrar (Senior Policy Manager, DWP), Dr Jonathan Lipkin (Director of Policy, Strategy and Research, the Investment Association), Jacqueline Lommen (Senior Pensions Strategist, State Street) and Nick Hurman.

**David Farrar** agreed that the UK has made significant progress in reducing charges and increasing transparency, and that the charge cap has succeeded despite some suspicion that a market as fragmented as the UK could embrace it. Increased transparency has increased stakeholder confidence and increased value for money. However, gaps and inconsistencies remain, particularly in legacy pensions and older DB schemes subject to consolidation. In these instances, the appetite is currently for a voluntary commitment to improvement rather than a regulatory approach that runs the risk of disturbing the market.

**Jacqueline Lommen** gave further insight into the Dutch system. Often held up as an example of a well-developed scheme, with impressive adequacy, she revealed that major reforms were underway as the current DB model was proving increasingly unsustainable, with rights and benefits for members falling and index-linking having been abandoned. The system is currently moving from DB to DC with ongoing debates about how to compensate members who might lose out. A key feature of the Dutch scheme is that the costs are split, with employers paying the bill for scheme administration and employees paying asset management fees. Against this background, she noted that overall fees are falling as a result of greater consolidation of existing schemes and the growth of master trusts.

**Jonathan Lipkin** called for full transparency of DC schemes with complete disclosure of charges and administration costs both within the UK market and internationally. This would include data on the costs of all components within schemes and allow for trustees to compare performance and make informed choices. He identified a need to develop and use appropriate methodologies for measuring costs and charges in order to reveal value for money. The industry should be clear about understanding value as measuring delivery against the expectations of member-focused products transparently, building the trust with consumers that is necessary to drive further investment in pensions and so create better retirement outcomes.

The following themes were explored during the subsequent question and discussion session held with the panel and the audience under the Chatham House Rule. They do not necessarily reflect the views of the Pensions Policy Institute:

### Decumulation charges

- The report examined charges insofar as they relate to accumulation, but there is also a need to understand the charges associated with decumulation.
- Capping decumulation charges would be problematic without a default option in place, and the onus would be on the FCA to build an evidence base.

### Asset management charges

- There is still a feeling that despite falling costs, asset management charges are too high. Improvements in governance and transparency have made for some changes in the pensions sector, but it is debatable as to whether these have crossed over into wider asset management practice and therefore financial products that people may access in retirement.

### Administration and investment fees

- There was consensus that transparency should mean that administration and investment charges should be disaggregated.
- Compulsory disclosure, not only of charges, but of how they are comprised is an important factor in increasing efficiency, particularly in smaller DC schemes.
- Further disaggregation of costs associated with communication and advice and guidance could also drive improvements in these areas.

### Further reduction of costs

- There was debate about further cost reduction over the next five years.
- This can only be achieved if we understand what the drivers for recent reductions have been. Questions that need to be examined include the relative changes in administration and investment charges, the effects of the charge cap and increased competition in the market and the role of consolidation.
- Discussion about the value of reduction in costs needed to be carried out with much greater transparency and understanding of what services are being provided for the charge being made, and the value of those services to members. More unbundling of costs is needed to show how much is attributed to fund management, administration and communication and how effective each is in achieving good results for members.

### Standardised methods for identifying and calculating costs.

- Another area of agreement was the need for standardised methodologies for understanding costs that are both accurate and accessible for trustees and members, allowing for more direct comparisons between schemes to be made in a fragmented market.
- This was also seen as a necessary step in developing investment strategies and reporting returns to inform a wider public debate about investment risks and profiles.