PPI response to the PADA consultation *Building personal accounts: Choosing a charging structure*

Summary

I. In March 2007 the PPI published ***Charging structures for personal accounts***. This research, co-funded by the Department for Work and Pensions, Standard Life and Aegon, analysed the potential implications for individuals of using different charging structures within personal accounts, and looked at the different financing requirements that could arise from the different structures. This response is based around the findings from this research.

II. PADA have suggested 3 criteria for evaluating charging structures. These criteria are similar to, but not the same as, those proposed by the Department for Work and Pensions (DWP), and used in the PPI research. The links between the two sets of criteria allow previous PPI research to be recast in light of the new criteria.

III. The criterion relating to retirement outcomes is heavily linked to fairness. However, there are many different views as to what constitutes 'fair'.

IV. The participation criterion is based on members perceptions of charging structures, and whether different (and in particular more complex) structures may encourage individuals to opt out of personal accounts. There are many factors that are likely to affect participation in personal accounts. However research evidence suggests that the charging structure used may not be a significant factor.

V. There are a number of potential factors to take into account in the evaluation of sustainability:

- Raising revenue in early years to avoid extensive borrowing
- Business risk, including avoiding reliance on active accounts – so continuing to receive enough revenue from dormant accounts
- Market risk, or avoiding reliance on markets – so continuing to receive enough revenue if assets under management decline

VI. As with fairness, not all of the sustainability measures are necessarily compatible with each other. For example, structures which perform well on one type of sustainability may not perform well on another.

VII. One potential additional criterion to use is the impact on the wider market for pension saving. This could give some weight to the retirement outcomes of those outside of the membership of the personal accounts scheme, which are likely to be affected by the introduction of personal accounts.

VIII. The final decision on the structure of the charge for personal accounts could also affect the level of the charge. For example, the total cost of providing personal accounts would initially be much higher with a pure AMC charge than with the other types of charge, due to the cost of debt. If the only way to meet these costs is through the charges, then the charge would need to be higher under an AMC system.

IX. Participation is obviously one of the key outcomes for personal accounts. If participation is low, the personal accounts system is unlikely to be sustainable and overall retirement outcomes will not improve for many people.

X. But even if participation could be described as the most important outcome for personal accounts, there is little evidence to suggest it should be an over-riding criterion in the selection of the charging structure. The criteria where charges are likely to be more significant are retirement outcomes and sustainability.

XI. Which structures perform best in different scenarios, or the variability in outcomes across different scenarios, may be important indicators for a successful charging structure. The evaluation of different charging structures against some of the selected criteria is likely to be sensitive to the assumptions made. These assumptions, and the sensitivity of the evaluation to the assumptions, should be made clear.

XII. No single charging structure performs well against all of the criteria, with most scoring well on some but poorly on others. Under some criteria, such as participation, the differences between the structures may be minor. Some criteria can be interpreted in a number of ways. Each charge structure has advantages and disadvantages and there are trade-offs that have to be made.

XIII. Depending on what the main priority is, different charging structures might be chosen (see Table 1):

- If fairness was the main priority, then the choice of charging structure would depend on the definition of 'fairness' being used. For example:
  - If it meant that everybody should pay the cost of running their fund, then this might suggest an annual flat fee is the best structure.
  - If it meant that everybody should lose the same proportion of their fund value to charges, then a contribution charge may be appropriate.

- If sustainability was the main priority, then this may lead to a hybrid between a joining charge and an AMC.

- If being simple and easy to understand was the main priority, then there may be different views on which structure is the most appropriate:
  - An AMC may be the easiest to compare to existing Stakeholder Pensions.
  - A contribution charge has the most consistent impact on the proportion of final pension funds lost to charges.
  - An annual flat fee may be the easiest to understand in terms of how much is being paid each year.

Table 1

	Retirement Outcomes			Sustainability		Participation
	Fairness within generations		Fairness between generations	Reducing financing costs	Business and Market Risk	
	Same proportion of fund size lost to charges	Same absolute amount lost to charges				
Annual Management Charge (AMC)	• Members who start saving early in life but then stop contributing pay the highest proportion of their fund value	• High earners pay more in absolute terms than low earners • People with full saving histories pay more in absolute terms than people with broken histories	• Initial generation face higher charges for a long period of time • But spread over a larger group	• £1.7-£4.5bn borrowing • 15-28 year payback • £900-£11,800m cost of debt	• Not at risk from excessive dormant accounts • But at risk from falling fund values	• Most comparable to existing Stakeholder Pensions
Joining charge plus AMC	• Compared to a pure AMC, outcomes are worse for people with very short saving histories and slightly better for those with full saving histories	• As with the pure AMC, high earners and people with full saving histories pay more in absolute terms	• Charges fall quickly • But all set-up costs met by the first generation	• No borrowing required after 2012	• Business and Market risks more likely to be balanced by a combination charge • But could be at risk of no new members in a falling market	• Two components may seem less easy to understand
Annual flat fee	• Low earners pay a higher proportion of their fund value than high earners	• Everybody pays the same absolute amount each year	• Charges fall relatively quickly • But the vast majority of all set-up costs met by the first generation	• £700-£800m borrowing • 2-3 year payback • £100 to £200m cost of debt	• Not at risk from excessive dormant accounts • No market risk	• Could be easiest to understand the amount lost in charges each year
Contribution charge	• Everybody pays the same proportion of their fund value	• High earners pay more in absolute terms than low earners	• Charges fall relatively quickly • But the vast majority of all set-up costs met by the first generation	• £600m borrowing • 2 year payback • £0 to £100m cost of debt	• At risk from excessive dormant accounts • But not at risk of falling fund values	• Could be easiest to understand the impact of charges on the final fund value
Contribution charge plus AMC	• Members who start saving early in life but then stop contributing pay the highest proportion of their fund value (but not as much as under a pure AMC)	• High earners pay more in absolute terms than low earners	• Charges fall relatively quickly • But the vast majority of all set-up costs met by the first generation	• £900m-£1bn borrowing • 5-6 year payback • £100 to £500m cost of debt	• Business and Market risks more likely to be balanced by a combination charge • But could be at risk of no new contributions in a falling market	• Two components may seem less easy to understand

The role of the Pensions Policy Institute

1. The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique in the study of pensions, as it is independent (no political bias or vested interest); focused and expert in the field; and takes a long-term perspective across all elements of the pension system. The PPI does not make policy recommendations, but exists to contribute facts and analysis to help all commentators and policy decision-makers.

2. In March 2007 the PPI published ***Charging structures for personal accounts***. This research, co-funded by the Department for Work and Pensions, Standard Life and Aegon, analysed the potential implications for individuals of using different charging structures within personal accounts, and looked at the different financing requirements that could arise from the different structures.

3. This response is based around the findings from this research. As the PPI exists to provide evidence and analysis, the response does not answer all of the questions set out in the consultation document. However, the response is structured around the issues raised in the consultation, and where the analysis is relevant to specific consultation questions this has been highlighted.

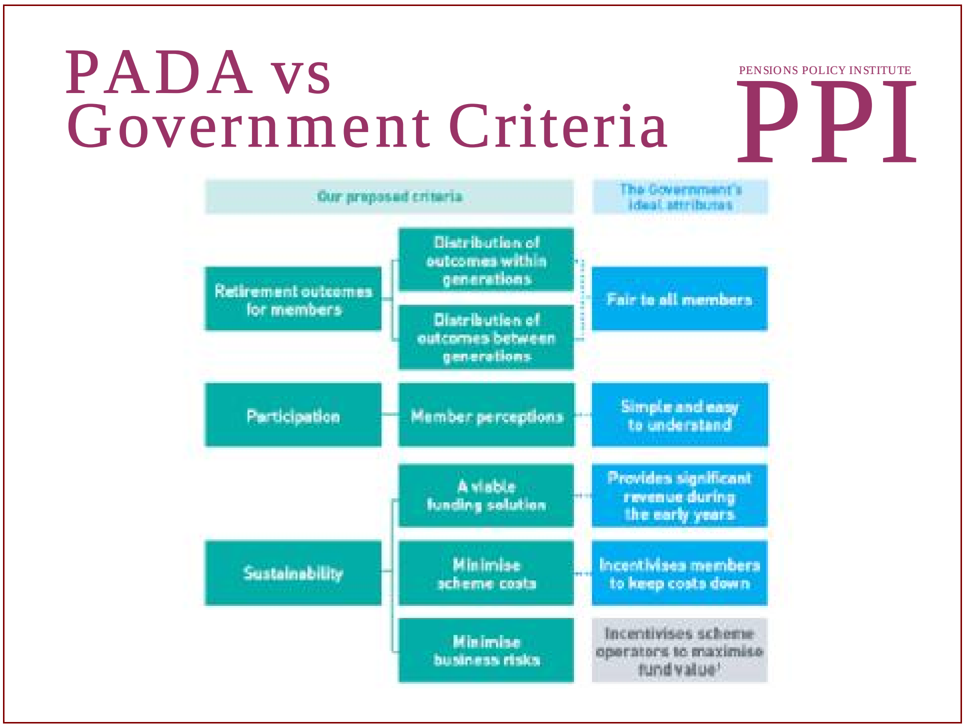
4. This response covers:
    - The criteria used to evaluate charging structures
    - Evaluating the structures against the criteria
    - The ranking of different criteria

The criteria used for evaluation (Chapter 3, questions 7 and 9)

5. PADA have suggested 3 criteria for evaluating charging structures:
    - Retirement outcomes: covering the distribution of outcomes within generations, and the distribution of outcomes across different generations.
    - Participation: based on the way in which charging structures are perceived by members.
    - Sustainability: based on a viable funding solution, business risk and scheme costs.

6. These criteria are similar, but not the same as, those proposed by the Department for Work and Pensions (DWP)[1], and used in PPI research last year. PADA have suggested that the new criteria can be mapped against those used by DWP (Chart 1).

Chart 1[2]



7. However, there may be other relationships between the criteria, as well as those highlighted by PADA.

8. For example, the DWP criteria ‘Provides significant revenue during the early years’ is not only linked to a viable solution, but is also closely linked to retirement outcomes between generations. A charging structure that incurs large debts may also affect the outcomes for different generations.

9. However, the links between the two sets of criteria do allow previous PPI research to be recast in light of the new criteria.

[1] Department for Work and Pensions (DWP) (2006 PA) ***Personal Accounts: a new way to save*** TSO Cm 6975
[2] Taken from page 47 of the PADA consultation document

Retirement outcomes

10. The criterion relating to retirement outcomes is heavily linked to fairness. However, there are many different views as to what constitutes 'fair'.

11. One definition of 'fairness' is that everybody pays the cost of running their fund, with no cross-subsidy between members.

12. An alternative interpretation of 'fairness' is that everybody loses the same proportion of their fund value to charges. This links the amount of charges paid to the size of a member's fund, which is likely to be lower for lower earners and for people with short saving histories.

13. Using different definitions of fairness would lead to very different evaluations for alternative charging structures. For example, a charging structure that leads to every individual paying their own costs (or close to their own costs) is unlikely to be the same proportion of every individuals fund.

14. There is also some ambiguity about the criteria relating to fairness between different generations. PADA suggest this criteria should be based on the amount of variation in retirement outcome between different generations, taking into account the potential for charges to reduce over time. On this basis, a preference is expressed for those structures which quickly reduce debt, and allow charges to fall. However, in these scenarios, all of the set-up costs would fall onto the initial generation.

15. An alternative view may be that a charging structure that takes longer to pay off any initial debt arising from set up costs allows these costs to be spread over more 'generations'.

Participation

16. The participation criterion is based on members perceptions of charging structures, and whether different (and in particular more complex) structures may encourage individuals to opt out of personal accounts.

17. There are many factors that are likely to affect participation in personal accounts. However research evidence suggests that the charging structure used may not be a significant factor[3].

18. But research does suggest that simpler, transparent structures may be preferred to complex structures.

Sustainability

19. There are a number of potential factors to take into account in the evaluation of sustainability:
   - Raising revenue in early years to avoid extensive borrowing
   - Business risk, including avoiding reliance on active accounts – so continuing to receive enough revenue from dormant accounts
   - Market risk, or avoiding reliance on markets – so continuing to receive enough revenue if assets under management decline

20. As with fairness, not all of the sustainability measures are necessarily compatible with each other. For example, structures which perform well on one type of sustainability may not perform well on another.

21. One potential additional criterion to use is the impact on the wider market for pension saving. This could give some weight to the retirement outcomes of those outside of the membership of the personal accounts scheme, which are likely to be affected by the introduction of personal accounts[4].

Evaluating the structures against the criteria (Chapters 3 and 5)

22. The PPI research evaluated 5 different charging structures against the DWP evaluation criteria:
   - An Annual Management Charge (AMC): This is a charge made annually as a proportion of an individual's funds under management.
   - A joining charge: A one-off payment made by a member on entry to the scheme. A joining charge is likely to be insufficient by itself to finance personal accounts, so in the consultation paper it is combined with an AMC.

[3] Rowe. B, Hunt J and Phillips J (2008) ***Personal accounts: Attitudes and reactions to possible charging structures*** A qualitative research study carried out by BMRB and Henley Centre HeadlightVision on behalf of PADA

[4] See for example PPI (2007) ***Will Personal Accounts increase pension saving?*** A PPI report funded by the Nuffield Foundation

- A contribution charge: A proportion of each contribution made. In this response, this is taken to include contributions made by the individual, the employer and by the state through tax relief.
- A combination of a contribution charge and an AMC: With both elements of the charge lower than if they were used alone.
- An annual flat fee: A flat amount that is the same for all individuals, made annually for as long as the individual is a member of the scheme.

23. The PADA consultation document considers four different charging structures— it does not consider an annual flat fee on the basis that it could produce large variation in outcomes and completely erode the whole of small pension funds[5]. However, this could be overcome if charges could be capped. For example, in Australia, superannuation accounts of less than AU $1,000 (around £400) are protected so that the amount of charges levied in each year cannot exceed the level of investment returns in that year[6]. Accounts that are 'lost' (for example, where individual members cannot be contacted) are also protected.

24. The remainder of this response therefore considers the five different charging structures, including an annual flat fee.

Participation

25. The key considerations for this criterion are member perceptions, and simplicity.

26. An AMC would be readily comparable to existing pension products. However, it may be difficult for individuals to understand the impact of AMCs on final pension funds, since the AMC has a cumulative impact over time. Apparently small changes in the level of an AMC charge have a disproportionate impact on the final fund values[7].

27. A contribution charge has the most consistent impact on the proportion of final fund value lost to charges, while an annual flat fee may be the easiest to understand in terms of how much is being paid each year.

[5] PADA consultation document page 17
[6] Superannuation Industry (Supervision) Act
[7] See PPI Briefing Note Number 33 ***How important are low charges in personal accounts?***

28. An annual flat fee may be very visible to members and make personal accounts appear more expensive than stakeholder pensions, even if they are not. An annual flat fee may therefore put personal accounts at a disadvantage relative to existing types of pension provision.

29. Recent PADA research for the consultation tested consumer attitudes to different charging structures[8]. Overall the research suggests that the consumers questioned did not feel that the charging structure would be an important consideration for them in determining whether they opted out from personal accounts or remained in the scheme. This could be the most important finding from the research.

30. However, those questioned did express a preference for a single type of charge rather than a combination charge, for simplicity and transparency, and the idea of a joining charge had the most negative response, suggesting it could lead to lower participation.

Sustainability: Initial borrowing requirements

31. Some short-term borrowing may be inevitable under any of the charging options. This is because charging revenue would not be raised until personal accounts are fully implemented in 2012, but there will be costs involved in the setting-up of personal accounts in the run up to this date. However, depending on the charging structure used, long-term borrowing may also be needed.

32. A pure AMC would raise very little revenue in the short term, until the size of funds under management has built up. This could mean that the organisations financing personal accounts may have to borrow between £1.7 and £4.5 billion, depending on the cost of capital. In the central scenario used in this paper, the total amount of interest paid over the course of the borrowing could amount to £3 billion, which may ultimately be passed on to members (Table 2).

33. The most effective way to reduce borrowing requirements could be to introduce a joining charge, so that members pay an upfront fee for taking out a personal account. This could eliminate the need for borrowing after 2012.

34. The other charging structures may also require borrowing over a much shorter period than the pure AMC:

[8] Rowe et al (2008)

- A pure annual flat fee or a pure contribution charge could mean that borrowing could be fully repaid by 2015, three years after the assumed implementation date of personal accounts.
- If an AMC element was desirable, then it may be possible to combine an AMC with other types of charge in such a way as to reduce financing costs. For example, a hybrid between an AMC and a joining charge or a contribution charge.

Table 2[9]: The financing of the different charging structures

	Payback period	Peak amount of borrowing (£bn, 2006/7 earnings)	Total cost of capital (£bn, 2006/7 earnings)
AMC	15 to 28 years	£1.7to £4.5	£0.9 to £11.8
Joining charge + AMC	No borrowing required after 2012		
Annual flat fee	2 to 3 years	£0.7 to £0.8	£0.1 to £0.2
Contribution charge	2 years	£0.6	£0 to £0.1
Contribution charge + AMC	5 to 6 years	£0.9 to £1	£0.1 to £0.5

35. Any pure charging structure, rather than a hybrid, could lead to a mismatching between charging revenue and costs. This is because the providers of different services may charge in different ways. For example, providers of administrative services for personal accounts may charge on a per member basis, while providers of fund management services might charge on an AMC basis.

36. The financing analysis illustrates how the final decision on the structure of the charge for personal accounts could also affect the level of the charge. For example, the total cost of providing personal accounts would initially be much higher with a pure AMC charge than with the other types of charge due to the cost of debt. If the only way to meet these costs is through the charges, then the charge would need to be higher under an AMC system.

[9] Ranges show the impact of a cost of capital of 5% and 15%, the lower and upper assumptions used in this paper. £ million figures are rounded to the nearest £100 million. Figures of less than £50 million are rounded to £0, although this does not mean that there is no cost. No range is shown when both the upper and lower estimates round to the same figure. Taken from PPI (2007) ***Charging structures for personal accounts***. See the technical appendix to PPI (2007) for further details of the assumptions used.

Sustainability: Business and market risk

37. The financing analysis does not cover all sustainability risks.
    - A contribution charge may be susceptible to business risk, for example if many accounts are dormant (and so not receiving contributions) revenue from charges could fall.
    - An AMC may be susceptible to market risk. If investment returns are bad, revenue from charges could be reduced.

38. Combination charges tend to overcome these issues by balancing one risk against another

Retirement outcomes: Within generations

39. As mentioned above (paragraph 10 et seq), there are many ways in which fairness could be defined. One definition of 'fairness' is that everybody pays the cost of running their fund, with no cross-subsidy between members. None of the charging structures analysed fully meets this test, due to how providers charge for different services. For example :
    - The cost of setting up an individual personal account policy would occur once when a member begins saving
    - The administrative costs of running personal accounts are likely to be similar for all individuals, regardless of the length of their saving histories or the size of the fund
    - The costs of managing personal account funds are likely to be proportional to the size of the funds

40. To satisfy this first definition of fairness, a combination of a joining charge, a flat fee and an AMC would be needed, to cover each of these three types of costs. None of the charging structures analysed in this paper fully meets this definition of fairness, although the annual flat fee may be the closest.

41. An alternative interpretation of 'fairness' is that everybody loses the same proportion of their fund value to charges. This links the amount of charges paid to the size of a member's fund, which is likely to be lower for lower earners and for people with short saving histories.

42. Only a pure contribution charge would meet this test. Column D in Table 3 shows that, under a contribution charge, all of the hypothetical individuals could lose 10% of their fund value to charges.

Table 3[10]: Estimated percentage of fund value lost to charges for different hypothetical individuals. NOTE: The best charging structures for each individual are shaded in grey.

	A	B	C	D	E
	AMC	Joining charge + AMC	Annual flat fee	Cont. charge	Cont. charge + AMC
1) Median-earning man with full saving history, aged 25 in 2012	11%	10%	5%	10%	11%
2) Low-earning woman with caring breaks, aged 25 in 2012	10%	10%	28%	10%	10%
3) Low-earning woman with short saving period at 25, aged 25 in 2012	19%	22%	100%	10%	14%
4) Low-earning man with short saving period at 50, aged 25 in 2012	7%	13%	36%	10%	9%
5) Median-earning man with full saving history, aged 55 in 2012	3%	5%	5%	10%	6%

43. A pure AMC would mean that high and low earners lose the same proportion of their fund value to charges, providing that they have the same saving histories. However, an AMC could affect people differently depending on when in life they save (column A in Table 3):
    - Of all of the hypothetical individuals modelled, people with short periods of saving early in life could lose the greatest proportion of their fund value to charges under an AMC (see, for example, individual 3 in Table 3). People could have this saving history because they change job and are auto-enrolled into an occupational pension scheme, or because of caring responsibilities, disability, unemployment or any other reason.
    - At the other extreme, people with short periods of saving late in life could be affected proportionally the least by an AMC (see, for example, individual 4 in Table 3).
    - People with long saving histories could see a reduction somewhere in the middle of these two extremes (see, for example, individual 1 in Table 3).

[10] See PPI (2007) for details of the individuals used. For the purposes of this table, ‘low earning’ means ‘earns at the 1st decile for individuals of the same age and sex’ and ‘high earning’ means ‘earns at the 9th decile for individuals of the same age and sex’.

44. Because an AMC has a small proportionate impact on people with short periods of saving late in life, it is likely to have a small proportionate impact on people in their forties or fifties when personal accounts are introduced in 2012 (see, for example, individual 5 in Table 3).

45. A hybrid between a contribution charge and an AMC would mean that there is less variation in the impact of charges between individuals than under a pure AMC (column E in Table 3).

46. Young people with a relatively full saving history could generally do best under an annual flat fee (column C in Table 3). This is because the impact of a sustained contribution history and investment returns could mean that the size of their saving is relatively large, and so the impact of an annual flat fee is relatively small.

47. However, an annual flat fee could have a larger impact on individuals with low incomes and shorter periods of saving. In certain extreme cases, of people who save for a few years early in life and then stop contributing, it may mean that the entire value of saving is lost to charges (see, for example, individual 3 in Table 3), unless charges are capped as described above.

Retirement outcomes: Across generations

48. Fairness across different generations is closely linked to sustainability, and the different funding requirements of different charging structures. Some structures would raise significant amounts of money straight away, while others would take time to raise money and so would need to rely on large amounts of borrowing.

49. PADA have suggested that structures that repay borrowing quickly allow the levels of charges to fall more quickly, and so reduce the burden on earlier generations. On this basis, as an AMC would take between 15 and 28 years to repay (Table 2), it would not be seen as fair. The most fair would be the joining fee, which requires no borrowing.

50. However, there may be other ways to judge intergenerational fairness. An alternative may be to look at structures which repay the initial set-up costs over a longer period of time, and therefore share the initial costs over a wider group of people.

51. At the very extreme, this could operate like an interest-only mortgage, with the set up costs not repaid but held as debt and continually serviced. In theory any charging structure could operate like this.

52. The length of time taken to pay back the initial set-up costs is a factor of both the size of the set-up cost, and the level at which the charge is initially set. In any of the structures, the charge could theoretically be set high enough to repay set-up costs quickly, or low enough to maintain a debt for a considerable period. A charging structure that never repaid the debt would lead to higher charges in the long term than if the debt had been repaid, because of the cost of servicing the debt. But this could be seen as a fairer way of sharing costs across generations.

53. The final decision as to which charging structure is preferred is likely to depend upon which criteria are seen as the most important.

Ranking the evaluation criteria (Chapter 3 question 8)

54. The criteria used are interdependent, so it is not easy to say which criterion is the most important. For example, if a structure is to be sustainable, it should encourage participation, and participation is likely to be encouraged by a structure that gives good retirement outcomes.

55. However, it is important to consider the extent to which the charging structure will impact on the evaluation criteria, and how the same criteria might be affected by other factors.

56. Participation is obviously one of the key outcomes for personal accounts. If participation is low, the personal accounts system is unlikely to be sustainable and overall retirement outcomes will not improve for many people. Participation could therefore be seen as the most important criteria.

57. Qualitative research into the potential impact of different charging structures on participation in personal accounts has highlighted some important findings (see paragraphs 29 and 30 above)[11].

[11] Rowe et al (2008)

58. However, what cannot be determined for the research is what impact the choice of charging structure would actually have on participation. Although the research suggests that a simple, transparent and with a clear rationale is preferred[12], and that complicated charging structures combining more than one element have '***the potential to damage trust in the scheme as a whole and increase the risk of opt-out***[13], the research also found that charging structures are a relatively small barrier when considering the personal accounts scheme[14].

59. So even if participation could be described as the most important factor, there is little evidence to suggest it should be an over-riding criterion in the selection of the charging structure.

60. For example, the choice of charging structure may have only a marginal direct impact on participation. It may also have an indirect impact, through the interaction with the level of the charge. But other factors, such as the affordability of contributions and the attitude of individuals and employers to the scheme may have a more significant impact on participation than the charging structure.

61. This suggests that the criteria where charges are likely to be more significant are retirement outcomes and sustainability.

62. But it is difficult to predict the actual retirement outcomes that could arise from alternative charging structures, and how sustainable the personal accounts system could be. Both elements are dependant on a number of different factors.

63. Retirement outcomes could be estimated using specific assumptions, but any single set of assumptions is unlikely to be able to replicate actual experience. So there is a need to scenario test the different structures against different assumptions in key areas, such as different levels of:
    - participation
    - persistency
    - investment return and
    - contribution levels.

[12] Rowe et al (2008) page 7
[13] Rowe et al (2008)page 6
[14] Rowe et al (2008) page 6

64. Which structures perform best in different scenarios, or the variability in outcomes across different scenarios, may be important indicators for a successful charging structure.

65. If the wider outcome on the pensions market is an important criteria for PADA, there is likely to be strong interest in the pensions industry in the final charging structure chosen. The industry is very keen for there to be a level playing field between personal accounts and other forms of pension saving. Therefore, if any charging structure other than a pure AMC is chosen, there is likely to be pressure for other forms of pension arrangement to be allowed to charge in the same way.

66. This could affect the retirement outcomes of individuals who save in the existing pensions market, and also potentially the participation levels in personal accounts. Different charging structures for the rest of the market may allow more flexibility in charging arrangements, and more scope for marketing and potential competition.

Conclusions

67. No single charging structure performs well against all of the criteria, with most scoring well on some but poorly on others. Under some criteria, such as participation, the differences between the structures may be minor. Some criteria can be interpreted in a number of ways. Each charge structure has advantages and disadvantages and there are trade-offs that have to be made.

68. Depending on what the main priority is, different charging structures might be chosen (see Table 1):
    - If fairness was the main priority, then the choice of charging structure would depend on the definition of 'fairness' being used. For example:
        - If it meant that everybody should pay the cost of running their fund, then this might suggest an annual flat fee is the best structure.
        - If it meant that everybody should lose the same proportion of their fund value to charges, then a contribution charge may be appropriate.

    - If sustainability was the main priority, then this may lead to a hybrid between a joining charge and an AMC.

- If being simple and easy to understand was the main priority, then there may be different views on which structure is the most appropriate:
  - An AMC may be the easiest to compare to existing Stakeholder Pensions.
  - A contribution charge has the most consistent impact on the proportion of final pension funds lost to charges.
  - An annual flat fee may be the easiest to understand in terms of how much is being paid each year.