UNISON
the public service union

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Briefing: Parliamentary inquiry into pension scheme costs

Introduction
UNISON supports this inquiry into the costs borne by our members when saving into a workplace pension scheme. Millions of workers have been auto-enrolled into a workplace pension, most of these pension schemes do not disclose how much it costs to manage and invest the money you contribute.

The inquiry runs until September 6th 2018 UNISON will be making a submission. But if you have anything to report on this important issue then please contact: Colin Meech, c.meech@unison.co.uk

Summary of key issues

- Your pension fund incurs costs and fees to administer retirement savings and manage investments: more than 90% of the total costs paid by pension funds are linked to asset management. Those costs are not always transparent or understood.

- These costs that are not understood or revealed will eat away at your retirement savings reducing the amount you have to live on, this is particularly the case for 'defined contribution' or DC schemes. In these arrangements all of the costs and charges are made against your savings fund.

- Incremental reductions in costs, which are facilitated by cost transparency, can have a material upward impact on the performance of pension funds and the ability to deliver retirement payouts.

Parliamentary inquiry
The Department for Work and Pensions Select Committee inquiry focuses on whether the pensions industry provides sufficient transparency around charges, investment strategy and performance to scheme members. The Inquiry will examine whether enough is being done to ensure individuals:

- get value for money for their pension savings;
- understand what they are being charged and why;
- understand the short- and long-term impact of costs on retirement outcomes;
- can see how their money is being invested and how their investments are performing;
- are engaged enough to use information about costs and investments to make informed choices about their pension savings; and
- get good-value, impartial service from financial advisers.

Background
Recent years have seen a rapid rise in enrolment in workplace pension schemes, creating millions of new retirement savers. Alongside this, pension freedoms have spurred a sharp increase in demand for drawdown products, and there has also been a surge in transfers out of defined benefit schemes, with funds principally moving into self-invested personal pensions (SIPPs).

These developments have intensified concerns about the effect of investment management charges, transaction, advisory and other intermediation costs, in eroding the value of individuals' savings. These are part of broader concerns that low levels of customer engagement and understanding, coupled with costly and opaque intermediation, risk leading to poor outcomes for scheme members.

The Committee invites evidence from all interested parties on the following questions:

- Do higher-cost providers deliver higher performance, or simply eat into clients' savings?
- Is the Government doing enough to ensure that workplace pension savers get value for money?
- What is the relative importance of empowering consumers or regulating providers?
- How can savers be encouraged to engage with their savings?
- How important is investment transparency to savers?
- If customers are unhappy with their providers' costs and investment performance/strategy, are there barriers to them going elsewhere?
- Are Independent Governance Committees effective in driving value for money?
- Do pension customers get value for money from financial advisers?

If you wish to make your own contribution please do so here https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2017/inquiry11/commons-written-submission-form/

UNISON comment
On August 3rd The Work and Pensions Committee (WPC) launched an inquiry to ask whether the pensions industry provides "sufficient transparency" of charges, strategy and performance to savers.

In 2017 Former Tory Secretary of State for Work and Pensions Damien Green said in Parliament ”Transparency is a key area, hidden costs and charges often erode savers pensions. We are committed to giving members sight of all the costs that affect their pension savings”.

Over five years ago the Office of Fair Trading (OFT) launched a market study into Defined Contribution workplace pensions with the aim of examining whether, in the light of AE, competition is capable of driving value for money and good outcomes for scheme members.

One of the key findings of the OFT report was “DC workplace pensions are complicated products, both their costs and quality are difficult to observe and outcomes may not be apparent for some years. This makes decision- making on value for money very difficult”.

So over five years on and the Government and Parliament continue to struggle with this key problem, nothing seems to have been learned from the OFT's ground breaking report. Our members who are saving at the workplace have been let down time and time again, we are sure they would never buy anything without knowing the cost.

No purchasing decision is made by people without knowing the costs, including an indicator of future or ongoing costs for large capital items like fridges or cars. Moreover, a car or a fridge will offer an indicator of efficiency (allowing an assessment of future costs) in their energy or fuel efficiency ratings, our pension funds have no such measure.

Transparency around costs would have a significant impact on the ability of funds to pay out retirement savings. A study by the Netherlands Authority for Financial Markets found that a reduction in costs of 0.25% would result in a 7.5% increase in pension assets over 40 years.

Put simply the costs that are not understood or revealed will eat away at your retirement savings reducing the amount you have to live on, this is particularly the case for ‘defined contribution’ or DC schemes. In these arrangements all of the costs and charges are made against your savings.

Report by Netherlands Authority for Financial Markets - Asset management costs and financial performance of Dutch pension funds in 2011-2014
https://www.netspar.nl/assets/uploads/20161014-artikel-hollanders.pdf