ASSOCIATION OF CONSULTING ACTUARIES

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3 September 2018

Work and Pensions Select Committee
via online submission

Dear Sirs

Pension Costs and Transparency

I am writing on behalf of the Association of Consulting Actuaries (ACA) in response to the inquiry on pension costs and transparency and in particular whether the pensions industry provides sufficient transparency around charges, investment strategy and performance to consumers. The ACA has not carried out any specific in-depth research or longitudinal study in this area and our comments are therefore intended simply to offer a contextual opinion from specialist practitioners.

The attached Appendix sets out brief details of the ACA, which is the representative body for consulting actuaries in the UK. In summary, our comments recognise the importance of low cost products as default arrangements but we also believe there is an important role for a wider range of options for consumers. Engaged savers can improve their outcomes by paying higher charges for products that provide better value. We would therefore encourage transparent information about charges and benefits to enable individuals to make wise choices about the investment of their pension savings. Our responses to the specific questions raised are as follows:

1. Do higher-cost providers deliver higher performance, or simply eat into clients' savings?

1.1 Higher cost can deliver higher performance but often at higher risk. It should also be noted that higher cost funds can offer diversification benefits to an investment portfolio. However in general we believe that the additional potential returns from higher cost funds do not always provide value for money and the risks are not well understood by investors. In the absence of active portfolio management, lower cost funds may well offer better value.

1.2 Although many savers do not have a detailed understanding of charges, our experience suggests that there are some savers who are engaged and are willing to pay a higher charge for something worthwhile. Savers in this select group do often gain extra value by paying higher headline charges. The best outcome is not necessarily achieved at the lowest cost.

1.3 Charges on workplace schemes can deliver extremely low charges compared to those available to an individual retail investor and this can significantly enhance the outcomes available to savers who have access to such schemes.

2. Is the Government doing enough to ensure that workplace pension savers get value for money?

2.1 We welcome the charge cap of 0.75% for default funds for auto-enrolment and note that the majority of pension savers stay in the default funds. This goes a long way to help regulate charges in the market

2.2 There is perhaps more work to be done in the personal pension market where charges are not highly regulated, particularly with the increased numbers of individuals transferring to these arrangements as part of the flexibilities introduced with Freedom and Choice.

2.3 Charges levied by drawdown funds are another area where the government might wish to focus some attention.

2.4 Finally, we would encourage the government to undertake further study of why some consumers select higher cost products and whether the chosen products deliver what is hoped for.

3. What is the relative importance of empowering consumers or regulating providers?

3.1 The majority of consumers do not actively engage with their pensions saving. Against this background we believe it is important that the government provides some de minimus protection to consumers. If a consumer is actively engaged then they should be empowered to select alternative arrangements.

4. How can savers be encouraged to engage with their savings?

4.1 Pension savings are traditionally not a priority for younger or even middle aged savers. Attempts to increase engagement are rarely successful without an intensive and sustained campaign. The importance of the role of auto enrolment should not be underestimated in ensuring provision is made.

4.2 We are concerned about an overly negative narrative that can develop around pensions and comments on “rip-off charges” can be extremely unhelpful in encouraging long-term saving. We believe a more positive and constructive narrative could improve engagement. We would therefore prefer a positive message that savers should choose wisely to get the best value available from their selected product.

4.3 Allowing more flexible access to pension saving vehicles could not only make saving more attractive but could increase engagement. For example, the possibility of early withdrawal from pension funds (even if only in particular circumstances) would transform the level of active engagement from savers who currently largely ignore a fund that won’t mature for decades. The increased engagement possible here does however need to be balanced against the danger of frequent early withdrawal undermining the original policy intention to encourage long-term saving.

4.4 The pensions dashboard and similar technological innovations may help with engagement but this remains to be seen.

5. How important is investment transparency to savers?

5.1 The majority of savers do not have an in depth knowledge of investments. Transparency is important to ensure confidence but should be balanced with ensuring that the information provided does not overwhelm savers and ultimately deter them.

6. If customers are unhappy with their providers' costs and investment performance/strategy, are there barriers to them going elsewhere?

6.1 As previously acknowledged, the majority of customers aren't engaged with their savings and do not actively monitor costs, performance or strategy. We do not believe there are any practical barriers to going elsewhere. However behavioral aspects such as the role of inertia and individuals' lack of knowledge of the pension savings market are likely to be more significant barriers.

6.2 We have seen that where individuals do move investments, it is often led by an adviser proactively approaching individuals, rather than individuals seeking support themselves. This may be an area of concern for the government.

7. Are Independent Governance Committees effective in driving value for money?

7.1 Independent Governance Committees (IGCs) are better placed to assess value for money than individual savers. We believe that the majority of IGCs are effective but note that they are mainly concerned with the default arrangements. There is scope for IGCs to be more effective in wider investment areas.

8. Do pension customers get value for money from financial advisers?

8.1 We believe that there will be other contributors who are better placed to comment on this particular question and will therefore leave them to do so.

I hope these comments are of interest and would be happy to expand or clarify if this would be helpful.

Yours faithfully

Hugh Nolan

Hugh Nolan
Chair, DC Committee
On behalf of the Association of Consulting Actuaries Limited

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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