



Charges, returns and transparency in DC: What can we learn from other countries?

Pensions Policy Institute
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Research findings

Nick Hurman

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Study Questions and Approach

- How do UK charge compare with those of other countries?
- Are UK charges low, high or within range?
- What might account for the differences between UK and others?
- Are there lessons to be learned for the UK?

Desk-based research from secondary sources

Supplemented by input from expert respondents

Addressing challenges of comparison

- Focus on workplace pensions
- Try to understand scale effects
- Focus on investment design most often delivered to members
- Identify ancillary benefits – seek out core pricing
- Look at structure of supply
- Convert charge shapes back to single annual management charge

US, UK, Australia and Holland hold most of the world's pension assets

Countries Studied



Australia



The USA



Sweden



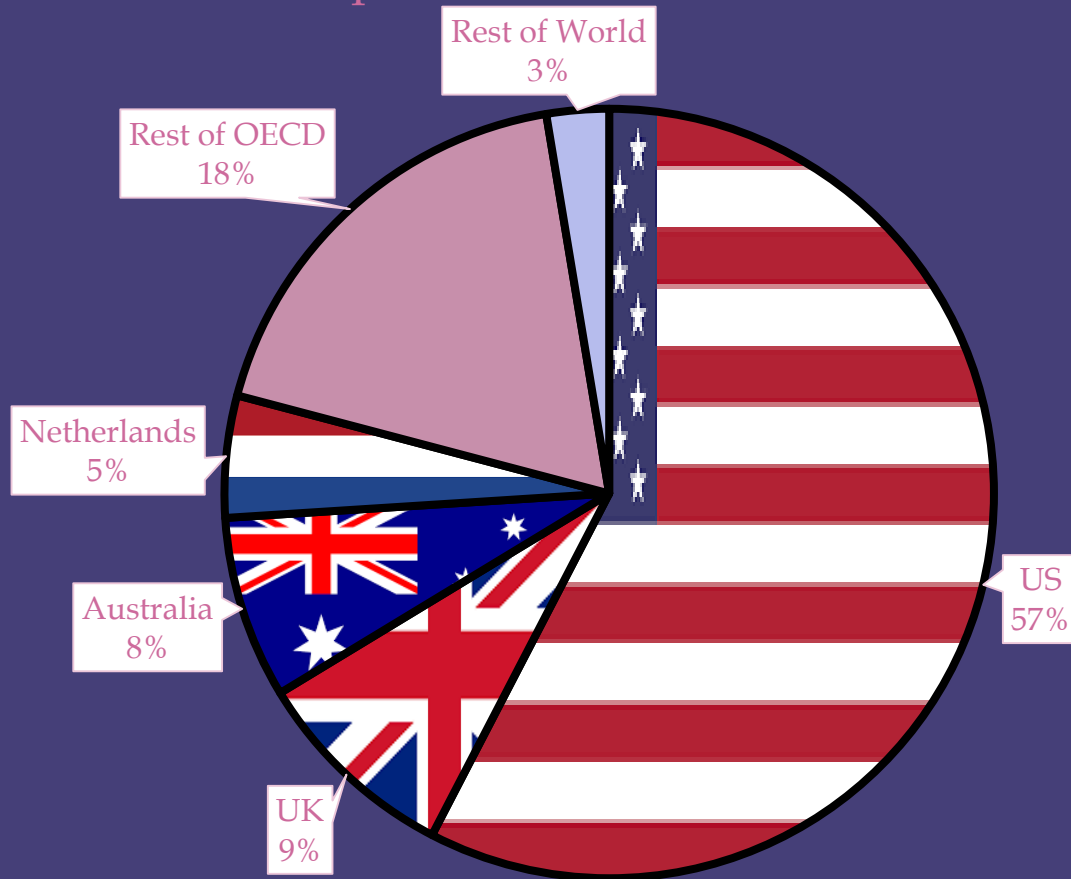
The Netherlands

All have:

- Significant funded pensions
- Significant occupational pensions
- Significant DC in system
- Broadly similar investment style
- Similar approaches to governance

US, UK, Australia and Holland hold most of the world's pension assets

Total investment of pension funds and all retirement vehicles, 2016



Australia – concern about high level of ‘Super’ fees

- Overall average ‘Super’ AMC 0.95% (2013)
 - Large workplace schemes around 0.75%
 - Industry-wide schemes around 1%
 - Retail funds 1.0% - 1.5%
- Reduction in average super fees of 26 bps 2006-17 – 20% in 10 years – to around 1% AMC
- ‘MySuper’ – new default fund design from 2013
 - Reduced charges on retail products but not large occupational schemes
 - 2017 average MySuper 0.81% + A\$74 = 0.96%

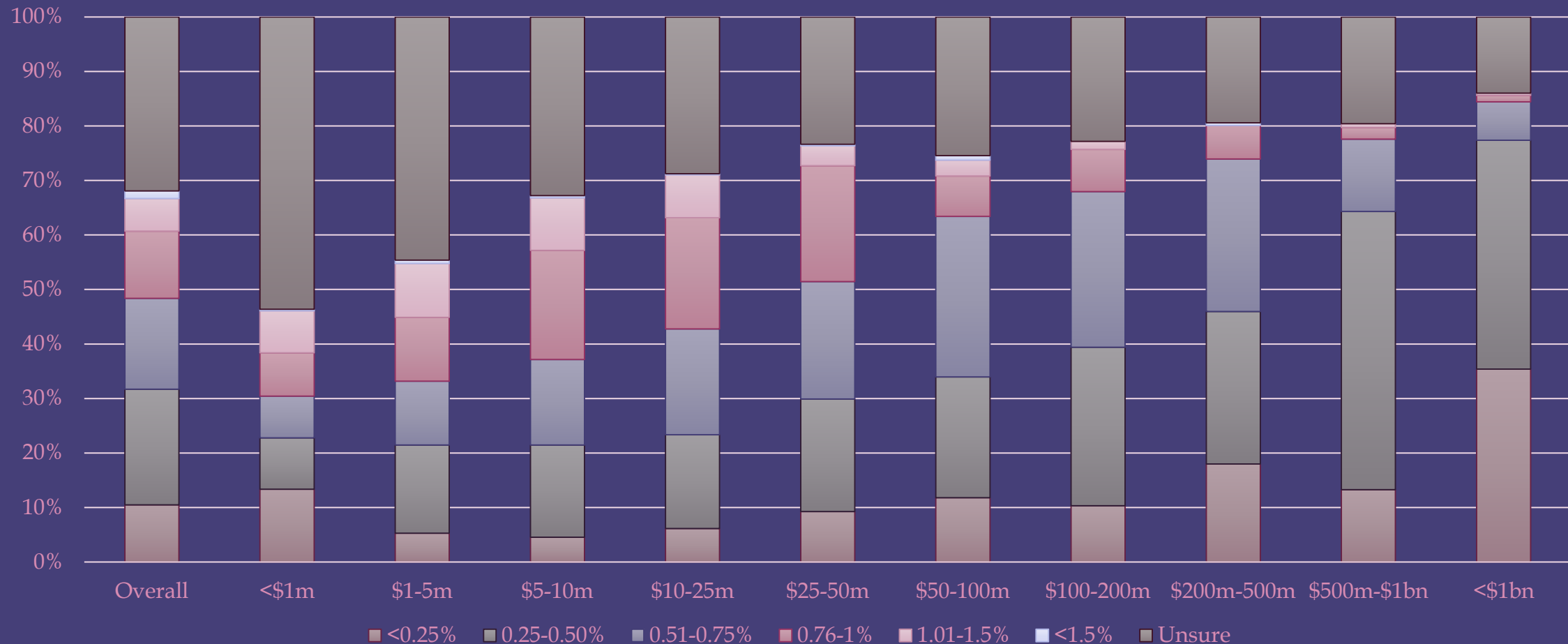
Large US schemes operate at 0.50% or less

Benchmark US DC scheme costs by fund size



70% report scheme charges under 0.75%

Proportion of funds under different AMC charges by scheme size



*401(k) charges have been falling at
c.2% pa*

Asset-weighted average expense ratio is
this is too long. Unit is %.



Dutch member charges appear low

Scheme	IBM Netherlands	Personeelsdiensten	Shell Netherlands	True Blue
Total Members	13,950	1,252,323	6,522	8,052
Total Contributions (€)	€42.7m	€245m	€40.1m	€22.5m
Admin costs / member (€)	€398	€46	€307	€601
Asset management costs (AMC)	0.54%	0.30%	0.38%	0.32%
Transaction Costs	0.12%	0.09%	0.07%	0.13%

Dutch PPI schemes a new benchmark

- Pure DC, broadly equivalent to UK Master Trusts
- Fast growing sector of market, setting new benchmarks
- LCP Netherlands 2018 Survey reports:
 - Asset management fees 0.2-0.6%; average 0.4%
 - Administration charge €30-€60; average €45-€50 per member
- Member pays for asset management, employer for admin
- Passive, lifestyle funds

Swedish charges look competitive but are complex

		Private - White Collar	Private – Blue Collar	Central Government
Traditional Pension Insurance	Default Fund	0.13-0.29% AMC (+0-85SEK/yr)	0.2% AMC (+65 SEK/yr)	0.1% - 0.2% AMC (+ 6 or 75 SEK/yr)
Unit-linked	‘Entry Solution’			0.3-0.4% AMC (+65-75SEK/yr)
	Balanced Fund			0.3-0.5% AMC (+65-70 SEK/yr)
	Minimum	0.16% AMC	0.1% AMC (+65 SEK/yr)	0.1% AMC (+65SEK/yr)
	Maximum	0.30% AMC	0.5 – 1.0% AMC (+50-65 SEK/yr)	0.7% AMC (+75SEK/yr)
Administr- ation Fee	% of contributions	1.0%	1.5%	14SEK/yr

UK fund charges generally toward lower end

Country	Reference Point	Investment Charge (AMC)	Admin Charge	Total expressed as AMC	Default Fund Style
Australia	MySuper – average fees	0.50%	0.31% + \$74	0.96%	Active + direct investment
US	Large 401(k) (>\$250m) fund average	0.45%	0.05%	0.50%	Traditionally active, passive and target date increasing
Netherlands	PPI average charge	0.40%	€50 (employer paid)	0.90%	Passive, lifestyle
Sweden	ITP / Folksam default fund	0.19%	1% of contributions	0.34%	Insured fund with minimum guaranteed annual return
UK	Large Master Trust average			0.48%	Passive, lifestyle

UK private pension returns (DB+DC) in-line or better

	Australia	Netherlands	Sweden	UK	US
2007	12.9%	0.6%	..	0.7%	-0.8%
2008	-11.4%	-17.3%	..	-15.9%	-26.6%
2009	-10.2%	11.5%	..	14.3%	9.5%
2010	5.6%	8.9%	..	11.7%	5.5%
2011	5.3%	4.3%	-1%	9%	-4.1%
2012	0.6%	9.5%	7.9%	9.2%	5.2%
2013	10.3%	1.6%	6.7%	5.5%	10.4%
2014	8.9%	15.1%	10.6%	5%	3.2%
2015	7.8%	0.9%	2.7%	4.4%	-2.2%
2016	3.3%	8.6%	4.6%	12.7%	2.6%
2011-16 average	6.1%	7%	6.5%	7.3%	3.8%

Greater transparency associated with lower costs in Holland

	Management Fee	Transaction Costs	Cost of asset management
2012	0.53%	0.13%	0.66%
2013	0.54%	0.10%	0.64%
2014	0.52%	0.09%	0.61%
2015	0.47%	0.08%	0.55%
2016	0.46%	0.08%	0.54%

Key points

UK pension funds
charges toward lower
end in this
comparison

UK does not exhibit a
long tail of high charging
schemes

Charge levels are
reducing at around
2% pa in Australia
& US

Understanding
economies of scale in
the UK could be
helpful

There is a variety of
investment approaches

Fee transparency
initiatives can be
successful with
co-operation



Response to research findings

Jenni Allen,
Managing Director
Money Content & Guidance,
Which?



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Panel Discussion



Jenni Allen
Which?



David Farrar
DWP



Nick Hurman
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Jonathan Lipkin
IA



Jacqueline Lommen,
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The Netherlands

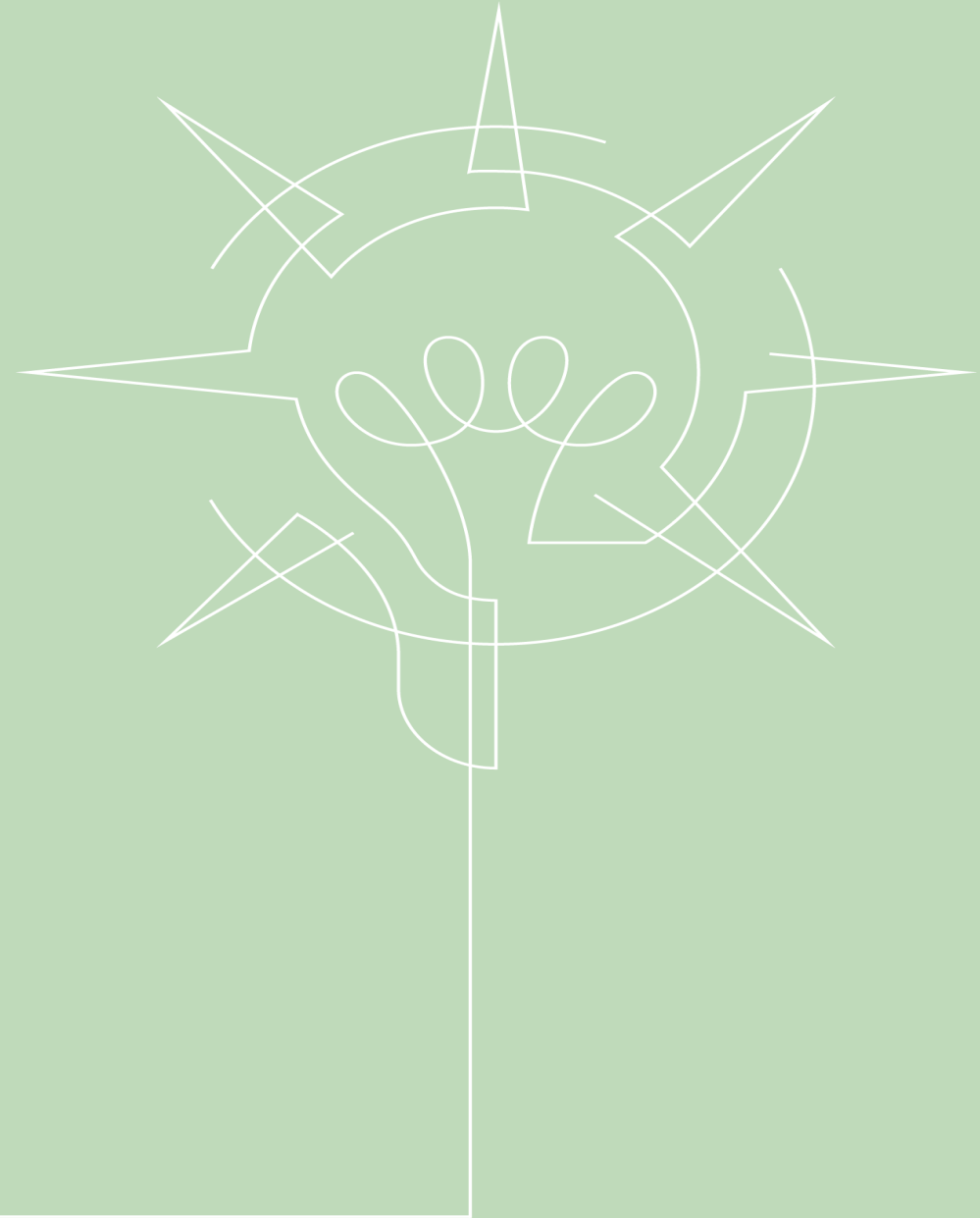
Charges, returns and transparency in DC pensions

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December 2018

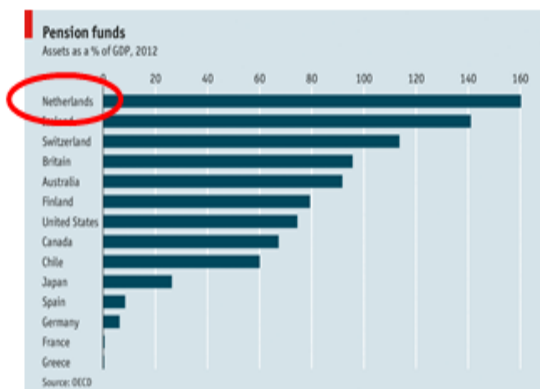
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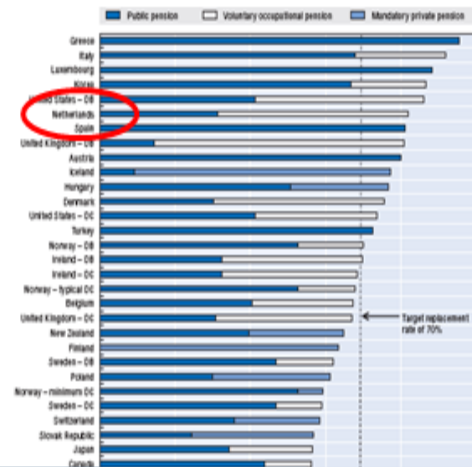


At a glance: well-developed Dutch pension system.....

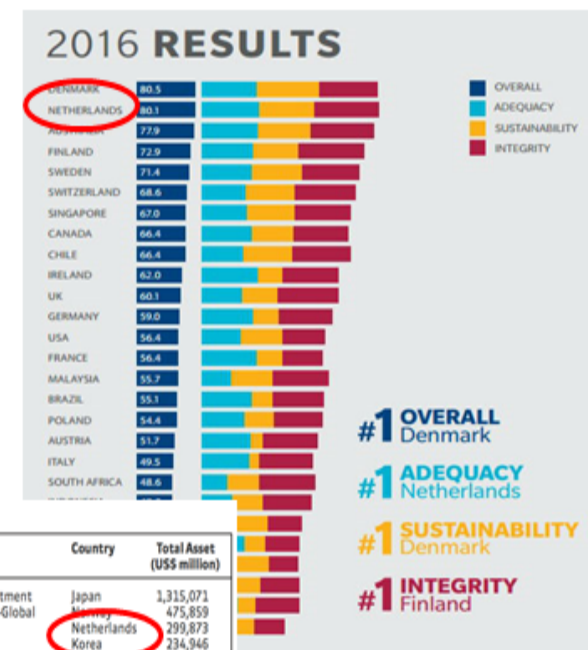
Pension AuM (in % GDP)



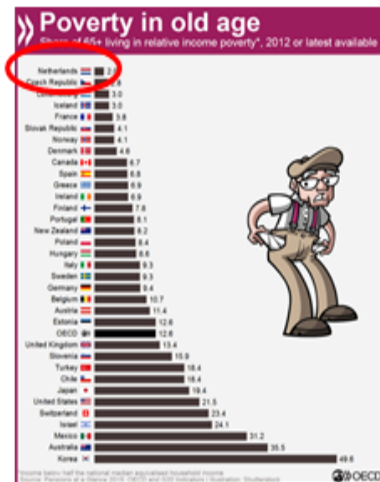
Replacement rate (in % salary)



Mercer Melbourne index (global rating)



Old-age poverty



AuM

Global Pension Assets Study 2015

Key findings - figures

	Total Assets 2014 (USD billion)	% GDP in USD billion ¹
Australia	1,675	113.0%
Brazil ²	268	12.0%
Canada	1,626	85.1%
France	171	5.9%
Germany ³	520	13.6%
Hong Kong	120	41.2%
Ireland	132	53.7%
Japan ⁴	2,862	40.0%
Malaysia	205	40.7%
Mexico	190	14.6%
Netherlands	1,457	165.6%
South Korea	234	68.6%
South Korea	511	35.3%
Switzerland ⁵	823	121.2%
UK	3,309	116.2%
US ⁶	22,117	127.0%
Total	36,119	84.4%

¹ Global Pension Assets only include those from closed entities.
² Only includes pension assets for corporate pension schemes.
³ Do not contain the unfunded benefit obligation of corporate pensioners (account receivable).
⁴ Only includes total of autonomous pension funds. Do not include insurance companies' assets of USD 108.5 billion.
⁵ Includes state.
⁶ Assets/GDP ratio for the world is calculated in USD and assets were estimated as of 31 Dec 2014.
 Source: Towers Watson and secondary sources.

Figure 9: Top 20 Pension Funds

Rank	Fund	Country	Total Asset (US\$ million)
1	Government Pension Investment	Japan	1,315,071
2	Government Pension Fund-Global	Norway	475,859
3	ABP	Netherlands	299,873
4	National Pension	Korea	234,946
5	Federal Retirement Thrift	USA	234,404
6	California Public Employees	USA	198,765
7	Local Government Officials	Japan	164,510
8	California State Teachers	USA	130,461
9	New York State Common	USA	125,692
10	PFWZ	Netherlands	123,390
11	Central Provident Fund	Singapore	122,497
12	Canada Pension	Canada	122,067
13	Florida State Board	USA	114,663
14	National Social Security	China	113,716
15	Pension Fund Association	Japan	113,364
16	ATP	Denmark	111,887
17	New York City Retirement	USA	111,669
18	GEPI	South Africa	110,976
19	Employees Provident Fund	Malaysia	109,002
20	General Motors	USA	99,200

Source: Towers Watson

Largest pension funds (global, AuM)

.....impressive adequacy.....

Pension benefits:

- Coverage: Ca. 95% of employees
- Contributions: Ca. 25% of gross salary premium (mainly by employer)
- State pensions: for all citizens
- Replacement rate: 50-70% replacement of average gross salary
- Benefits: life-long and guaranteed (full annuitisation mandatory)
- Retirement age: 68+ years

Pension providers:

- AuM: euro 1.8 trillion AuM / 180% of GDP
- Providers: 150 pension institutions (incl very large players)
- Master-trusts allowed since 2012

....but unsustainable....

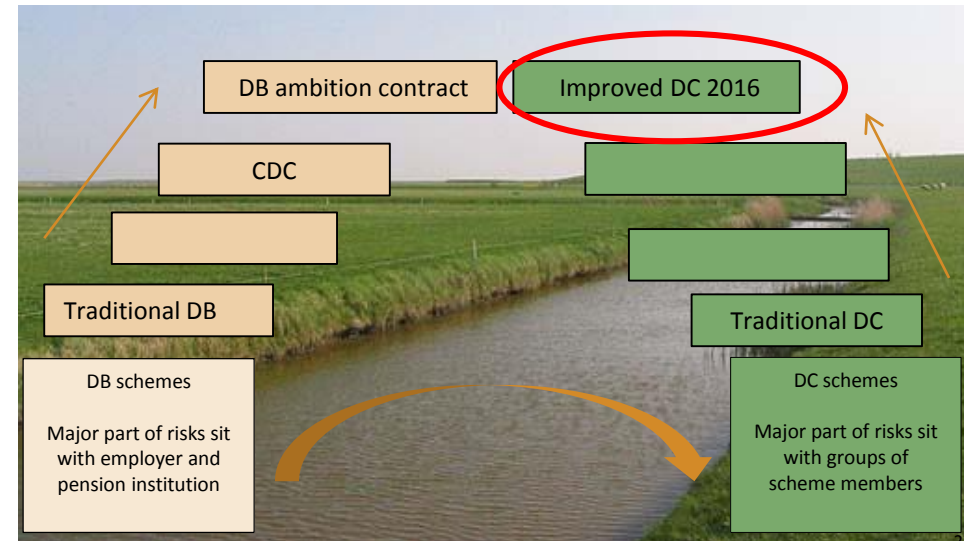
Major challenges:

- Structural underfunding DB plans → financial instability
- Benefits and vested rights not indexed and being cut → members distrust
- Changing labour markets → demand for simple, flexible, portable pensions
- Too high occupational pension savings? → sustainable system?

.....fundamental reforms underway

Proposed Pension reforms

- Variable benefits (DC pensions)
- Transfer all past DB services towards DC
- Pension freedoms
- Foster master-trusts and innovation
- Ongoing fiscal sobering



Research Findings Netherlands – DC charges & returns

1. Fee levels:
 - consistent with UK
 - depend on age cohort and life-cycle investment strategy
 - how to measure?
2. Fee structure:
 - employer pays admin fees
 - employee pays investment fees
3. (Further) fee decline:
 - consolidation
 - launch of master-trust
 - disclosure (self regulation)
4. Investment returns / performance:
 - consistent with UK
 - risk mitigation is as important as absolute returns

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Closing Remarks



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