An Chomhairle Pinsean
The Pensions Council

Report on Cost Transparency

July 2022

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Letter to the Minister

Dear Minister

In 2021, you wrote to the Pensions Council to ask for its views on the merits of introducing a cost transparency initiative and if such an initiative should be on a voluntary or mandatory basis.

The Pensions Council considered your request, investigated and discussed all relevant factors and agreed that such an initiative is an important objective. It would enable pension savers to make meaningful value for money comparisons across pension arrangements as well as a comparison of value for money over time; it could highlight (and drive out) potentially inappropriate behaviours and create natural competition. This could ultimately lead to better value for money and maximise retirement benefits for pension savers.

The Pensions Council's view is that any cost transparency framework would include all types of pensions provision where **pension saver fund values are impacted by costs incurred.** We advocate a simplistic approach to avoid detail that requires significant interpretation, meaning that the information can be used by a range of stakeholders.

We have suggested that the initiative be divided into two phases: group occupational defined contribution pension schemes would be in Phase I, while other pension arrangements (pre and post retirement) could be included in Phase II. Phase I would include a consultation process with the pensions industry and initially operate on a voluntary, Code of Practice, basis.

The proposed next steps are for you to ask your officials to consider the recommendations set out in this report and then begin implementation, as appropriate.

The Council is at your service to help you or your officials with any further support or information you might need, and we look forward to helping pension savers achieve better outcomes at retirement.

Yours sincerely,

Roma Burke

Roma Burke

Chairperson

2 July 2022

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Executive Summary

The Minister for Social Protection wrote to the Pensions Council to ask for its views on the merits of introducing a cost transparency initiative in Ireland and if such an initiative should be on a voluntary or mandatory basis.

The Pensions Council considered the Minister's request in the context of the following:

- The issues surrounding pension costs and transparency;
- Initial consideration of the pension contracts that should be in scope, the pension charges that should be in scope and how to give effect to a cost transparency initiative;
- An analysis of the target audience for cost transparency, including the position of the various stakeholders;
- Issues that must be considered in the context of implementing cost transparency;
- Details on cost transparency initiatives that have been implemented in other jurisdictions; and
- An analysis of the impact of pension charges (with reference to the 2012 Department of Social Protection report into pension charges).

The Pensions Council agreed that there would be merit in introducing a cost transparency initiative, that the analysis of charges should be straightforward and allow easy comparisons to be made. The Council favoured mandatory cost disclosure but recognised that this may take time to achieve.

The view of the Pensions Council is that any cost transparency framework would include all types of pensions provision where **pension saver fund values are impacted by costs incurred** and acknowledges that the wider the range, the greater the technical complexity of drawing up rules that treat each type of pension vehicle consistently. There may also be merit in extending a cost transparency initiative to include post-retirement provision, in particular Approved Retirement Funds (ARFs).

Different pension vehicles are subject to different regulatory regimes, many of which already provide for some type of cost disclosure. It would be important that any cost transparency initiative is integrated with existing disclosures and does not simply add an additional level of complexity.

The recommendation of the Pensions Council is that the initiative be introduced in two phases. Defined contribution occupational pension schemes with two or more members would be in "Phase I", and a consultation process with the pensions industry should be undertaken to consider the detail of these proposals with a view to having a Code of Practice for the industry in place by 1 January 2024.

Reflecting on its discussion and analysis, the Pensions Council proposes that two tables should be prepared for **each occupational defined contribution pension scheme** and provided to scheme members as part of existing disclosure requirements. Samples of these tables are laid out in section 4 of this paper.

The tables would be calculated at the **"scheme level"** and would be based on employer and employee contributions under the scheme, and a salary level of €30,000 (age 30) and €45,000 (age 45).

The tables would illustrate the calculated Reduction in Yield over the period to Normal Retirement Age, assuming that the default investment strategy is selected and that salary levels / savings periods are as specified as would the assumptions to be used. The Reduction in Yield (RIY) shows the impact that total costs paid will have on the investment return a pension saver might get.

The tables summarise the impact of pension costs and seek to make them meaningful and comparable across pension schemes. They also allow a comparison of pension scheme value for money over time and highlight any inappropriate behaviours. The proposed approach simplifies the effort required at the provider/scheme level and, in the Council's view, will create natural competition. The simplistic approach avoids detail that requires significant interpretation, meaning that the information can be used by a range of stakeholders.

1. The Minister's request

In March 2021, Minister Humphreys wrote to the Pensions Council and requested that it **consider the merits** of introducing an initiative similar to the **Cost Transparency initiative in the UK** for pension providers in Ireland, and to consider whether such an approach is effective on a **voluntary basis**, as in the UK, or operates better on a **mandatory basis** such as in Denmark and the Netherlands.[1]

The Minister also highlighted the importance of the availability of comprehensive and transparent information on costs and charges as it helps consumers to decide whether investments represent value for money, particularly in the context of the introduction of automatic enrolment.

2. Overview of the issues

Costs are always incurred in the provision of retirement benefits. These include the costs of keeping member records, of communicating with members and beneficiaries, of investing the contributions, of compliance and of paying benefits – this list is not exhaustive. Where costs are met from member fund values (and/or contributions), the greater the costs, the less that is available to provide retirement benefits.

Pension savers and other stakeholders do not always have a straightforward understanding of the impact of the costs on retirement savings. There are three issues that contribute to this complexity:

1. As pensions involve long-term savings, the impact over time of a recurring annual charge can be large, despite the charge each year being small.
2. Some pensions savings products have complex charging structures, and an understanding of the aggregate impact of these charges may not be straightforward.
3. Different pension savers in the same pension scheme can experience a different cost impact – for example due to the amount that they save, the period over which they save and the investment choices that they make.

Points 2 and 3 are more significant in Ireland than in many other jurisdictions due to the practice of funding distribution costs[2] via pension charges (i.e. pension charges are increased where distribution costs are payable). The range of pension costs that need to be considered in the context of any cost transparency initiative is set out in Appendix 1.

Several issues arise from the lack of transparency of pension costs. Pension savers, many of whom already find pensions difficult to understand, as well as pension scheme trustees and other stakeholders may be unable to compare the costs associated with different schemes. This creates a barrier to achieving value for money. A lack of clarity on costs can

[1] Emphasis is that of the Pensions Council.
[2] Distribution costs relate to commission (or equivalent) payments to an intermediary / pension broker.

lead to misrepresentation of the industry and a lack of confidence in the industry – which is an unhelpful backdrop to the introduction of auto-enrolment.

Increasing the transparency of pension costs by establishing a consistent approach to setting out the calculation, explanation and illustration of all costs would help pension savers' understanding and confidence. It would also likely drive price competition. It may also have a positive impact on fund valuations, as even an apparently small reduction in costs each year can have a significant impact over the lifetime of a fund. All of these represent positive outcomes.

This report sets out the detailed considerations and recommendations of the Council. The appendices consist of supporting information, including:

- Initial consideration of the pension arrangements that should be in scope, the pension charges that should be in scope and how to give effect to a cost transparency initiative – acknowledging that this "strawman" would benefit from consultation with a wider range of stakeholders [Appendix 1].
- An analysis of the target audience for cost transparency, including the position of the various stakeholders [Appendix 2].
- Issues that must be considered in the context of implementing cost transparency [Appendix 3].
- Details on cost transparency initiatives that have been implemented in other jurisdictions [Appendix 4].
- An analysis of the impact of pension charges (with reference to the 2012 Department of Social Protection report into pension charges) [Appendix 5].

3. Council considerations

The Pensions Council has considered options to address pension cost transparency, and formed the following views:

- Cost transparency is an important objective that can lead to better outcomes for pension savers.
- Any analysis of charges should be straightforward.
- The priority around cost transparency should be to assist pension savers and allow an easy comparison between pension arrangements. This said, there are many potentially target audiences for cost transparency.
- For occupational pension schemes, information on pension costs should be provided at the pension scheme level – to allow a comparison of Scheme A with Scheme B (or with a benchmark).
- Mandatory cost disclosure is favoured by the Council, but it recognises that this may take time to achieve.

The Pensions Council discussed and debated all of the observations and reflections above, considered cost transparency examples from other jurisdictions and assessed the applicability to Irish occupational pension schemes and other pension vehicles such as Approved Retirement Funds, with a focus on occupational pension schemes at outset. The Pensions Council also considered who might be the target recipient of the cost transparency information, as detailed in Appendix 2.

4. Recommendations

Reflecting on the analysis undertaken and the points noted above, the proposal from the Pensions Council is that the following two tables should be prepared for **each occupational defined contribution pension scheme** and provided to scheme members as part of existing disclosure requirements (i.e. the provision of a Statement of Reasonable Projection on joining a pension scheme, paying a transfer in, as part of the Pension Benefit Statement process and/or the Trustee Annual Report). The Council believes that this is the best format for displaying value for money.

The tables would be calculated at the **"scheme level"** and would be based on employer and employee contributions under the scheme, and a salary level of (for example) €30,000 (age 30) and €45,000 (age 45).

The tables would illustrate the calculated Reduction in Yield over the period to Normal Retirement Age, assuming that the default investment strategy is selected and that salary levels / savings periods are as specified (these would be common across all schemes). The calculations also assume a savings period and that the money is invested through to Normal Retirement Age.

Sample tables are set out below for illustration purposes:

Table 1: Reduction in Yield[3] (%) to retirement

Contribution period	Age	
	30	45
5 years	2.3%	2.0%
10 years	0.9%	1.5%
To retirement	0.3%	0.5%

[3] The Reduction in Yield (RIY) shows the impact that costs paid will have on the investment return a pension saver might get.

Table 2: Impact on fund value in € terms

(for a pension saver who saves every year to retirement)

Starting age of pension saver who saves every year until retirement	Starting fund value	Fund value at retirement: No charges apply (A)	Fund value at retirement: After charges deducted (B)	Impact of charges (A less B)
30-year-old	€nil	€209,988	€199,233	€10,755
45-year-old	€40,000	€193,173	€180,935	€12,238

1. These tables summarise the impact of pension costs borne by pension savers and seeks to make them meaningful and comparable across pension schemes – this allows new joiners to an organisation get an "at a glance" view of the value for money inherent in the pension arrangements being provided.
2. It allows a comparison of pension scheme value for money over time – the information would be prepared and disclosed annually.
3. It simplifies the effort required at the provider level – one set of (relatively straightforward) tables are produced annually for each pension scheme.
4. It creates natural competition. A new joiner to Company A can easily compare pension costs to Company B. This creates a pressure on Company B to ensure competitive costs, and if costs are not competitive to take steps to address this.
5. It will highlight (and hopefully drive out) any inappropriate behaviours – for example very high costs being incurred unless pension savings are maintained for significantly long periods.
6. It simplifies pension costs and avoids pension savers being provided with granular detail that requires significant interpretation.
7. A standard set of assumptions would be used to maximise comparability between pension arrangements – for example, around investment return, salary growth, inflation etc. Employer and employee contribution rates would be based on each individual pension schemes' terms.
8. The information can be used by a range of parties as outlined in Appendix 2.
9. The information is focussed on "active members" of a pension scheme (i.e. those making contributions) rather than deferred members (i.e. those who have left the pension scheme) and this is felt to be appropriate given the greater potential of active members to push for a reduction in the pension costs being incurred.

People can save for their retirement in a variety of ways – occupational pension schemes, Personal Retirement Savings Accounts (PRSAs), Retirement Annuity Contracts (RACs), trust RACs, and buy-out bonds: Pan-European Pension Plans (PEPPs) may soon become available.

The view of the Pensions Council is that any cost transparency framework would ultimately include all types of pensions provision where **pension saver fund values are impacted by costs incurred** and does acknowledge that the wider the range, the greater the technical complexity of drawing up rules that treat each type of pension consistently. There may also be merit in including post-retirement pension provision, in particular Approved Retirement Funds (ARFs) in any initiative given that the ARF is typically the vehicle where the accumulated value of a lifetime of pension savings are invested and remain invested at and through the retirement years.

Different pensions vehicles are subject to different regulatory regimes, many of which already provide for some type of cost disclosure. It would therefore be important that any cost transparency initiative is integrated with existing disclosure and does not just add an additional level of complexity.

The recommendation of the Pensions Council is that occupational pension schemes with two or more members would be in "Phase I", and that a consultation process with the pensions industry would be undertaken to consider the detail of these proposals with a view to having a Code of Practice for the industry in place by 1 January 2024.

Appendices

Appendix 1 – Range of pension costs that can apply

The European Insurance and Occupational Pensions Authority (EIOPA) issued an Opinion on the supervisory reporting of costs and charges of IORPs - and the "cost items" identified by EIOPA are highlighted below.

Cost breakdown
Investment Costs
Fiduciary fees
Manager remuneration - strategic management
Manager remuneration - day-to-day management
Investment administration
Internal management costs
Custodian costs
Stock lending and brokering
Other asset management costs - set-up fees / audit costs / consultancy fees / financing fees / technology costs / tax advice
Property management expenses (where relevant)
Costs of guarantees (where relevant)
Transaction costs
Explicit costs
Indirect transaction costs
Acquisition costs
Private equity costs
Implicit transaction costs
Administrative Costs
Cashflow administration
Staff & premises
Communication administration
Oversight and advice
Sponsor costs
Costs borne by the sponsor, not charged to the IORP

Appendix 2 – Target audience

An important consideration is the intended audience for cost transparency, as it would determine the simplicity or complexity of the disclosure. The Council is of the opinion that costs should be presented in a clear and comparable manner so that any stakeholder can easily compare and understand them, no matter their financial knowledge. Trustees and the Pensions Authority are seen as high-level stakeholders, while policy players such as government departments and state bodies, sponsoring employers and pension scheme members are viewed as second level stakeholders. The role of each potential stakeholder will be discussed here.

It is envisaged that the Pensions Authority, as Ireland's pension regulator, will play a key role in cost transparency. The Authority currently performs a key role in regulating the market and providing information to pension scheme members, employers, trustees and providers, and a role in cost transparency can be seen as a natural extension to this. It is proposed that the Pensions Authority will request the cost information in the format agreed from pension schemes and/or providers for publication on the Pensions Authority website. The results would be presented in a format that is easy to compare across providers and schemes so that interested parties of all levels of financial literacy will be able to read and understand it. The results could be anonymised so that trustees and sponsoring employers in particular would know how their own scheme(s) compare to other schemes.

Trustees are responsible for the administration of funded occupational pension schemes and trust RACs and for compliance with any statutory requirements under the Pensions Act 1990 as amended. They also have fiduciary responsibilities to their members under Trust Law. Trustees therefore have a vested interest in ensuring the security of the fund and to protect members' best interests. As high costs are against members' best interests, cost transparency will be a useful tool for trustees to determine if the scheme they are responsible for provides value for money, or if action is required on their part. For example, trustees can engage with providers and ultimately have the power to move the scheme from one provider to another. This means that they can play a crucial role in driving cost competitiveness in the market.

Other bodies, including the Department of Social Protection, the ESRI and other policy research groups, will not have a direct role in administering cost transparency, nor will they be possible agents for change like some other stakeholders. However, these bodies are likely to take an interest in the results of cost transparency; both the publication of costs and the industry competitiveness that may follow – from a policy research and evidence perspective.

While sponsoring employers may or may not have sufficient levels of pension awareness around the impact of charges, they will likely have an interest in providing access to pension schemes that present value for money for their employees. This could play an important part in giving an employer an edge over its competitors when it comes to attracting talent. Employers can also play a part in driving industry competition by putting pressure on trustees to move to a more cost-effective scheme, or, for example, by selecting a master trust that can demonstrate value for money.

As costs have a direct effect on pension savers' funds, they will arguably have the largest vested interest in cost transparency. However, where these savers do not have sufficient pensions awareness, this could mean that they do not exert their influence to effect change. If cost transparency is easily accessible, it will be more likely that pension savers take an interest and push for better value pension charges.

Appendix 2 continued - detailed considerations around the party to whom pension cost transparency information should be directed:

	Member	Trustees	Employer	Regulator	Other 3rd Party (e.g. "comparison website" / media) which would be accessible to all
Currently responsible	No - if pension benefits are provided through an occupational pension scheme.	Yes - if trustee of an occupational pension scheme.	Yes - but ambiguity often exists between the trustee / Employer role in an occupational pension scheme.	No	No
Understanding	Understanding of financial matters varies across populations - and access to advice would not be appropriate	Reasonable to assume a greater than average understanding of financial matters - and there may be access to advice	Assuming the correct Employer representatives, reasonable to assume a greater than average understanding of financial matters - and there should be access to advice	Clear understanding - and the ability to seek clarification where the information is not fully clear.	Clear understanding would likely result (subject to the inputs / outputs that are agreed)
Behaviour change	Financially motivated to seek behaviour change, however may not have the ability / leverage / option to achieve change	Professionally motivated to seek behaviour change, however may not have the leverage / resources to achieve change	Motivated to seek behaviour change, subject to the matter receiving attention / prioritisation	Regulatory incentive to seek behaviour change. Options would be enforcement (difficult / expensive) or "comply or explain" (uncertain outcome).	Motivation for cost reduction would be reputational. Scale of Irish pension market would be a consideration in terms of effectiveness.
Action steps required	Significant steps required to effect change on an individual level. Inertia is widely in evidence.	Advice needed; action steps largely outsourced. Employer approval of associated costs required.	Advice needed; action steps largely outsourced. Associated costs required are a business decision.	Action steps not for the Regulator to effect.	Action steps not for the 3rd party to effect.
Positive / Negative incentive	Positive incentive to have lowest costs	Concern will be around negative perceptions of excessive costs / lack of cost management	Concern will be around negative perceptions of excessive costs / lack of cost management	Positive / neutral - meets a policy objective	Neutral
Cost of this approach	Limited	Costs of advice to Trustees and cost of implementation of the recommendations - need to be considered relative to the savings being realised.	Costs of advice to the Employer and cost of implementation of the recommendations - need to be considered relative to the savings being realised.	Creates an additional layer of regulation with associated costs - and does not remove the need for Trustees / Employers to take action.	Cost involved, but potentially this can be socialised across the pension market. Considerations around how the proposition is funded (commercial / non-commercial)? Need to manage conflicts of interest (real and perceived).
Other considerations	Scale of pension contributions / pension coverage will increase under AE - important to have concerns around "high costs" addressed from a confidence perspective	Reliance on advisors is significant - and remuneration of those advisors may derive from the costs being examined.	Reliance on advisors is significant - and remuneration of those advisors may derive from the costs being examined.	Regulatory powers are largely directed towards Trustees; other approaches would require change.	Complexity of set-up. How information is validated.

Appendix 3 – Considerations for implementation

A number of countries have introduced cost transparency initiatives in order to encourage cost control. In this context, cost transparency means the regular calculation and publication of pension costs on a standardised basis. Such data allows stakeholders – pensions savers, employers and, in the case of pension schemes, trustees – to see how the costs borne by the pensions savings compare to other retirement saving approaches. The information is also useful for regulators, to help them to understand how well the interests of pensions savers are being looked after. Pension costs data also help policymakers to understand how well pensions compare with those of relevant comparator countries, and to help them to assess the efficiency of national private pension provision. Appendix 4 provides details of cost transparency initiatives in four countries.

However, a system of pensions costs transparency is not straightforward to implement. It will not necessarily result in lower costs in all cases, and other policy measures may be needed where costs are believed to be too high. Nonetheless, the view of the Pensions Council is that cost transparency could be a valuable initiative which will enable pensions savers, employers and scheme trustees with information to help them achieve good value, and will provide regulators and policymakers with the data to inform other possible policy initiatives.

There are several issues to be considered before any final decision is made on a cost transparency initiative. The most significant of these are considered below.

Range of pension saving vehicles

People can save for their retirement in a variety of ways – occupational pension schemes, Personal Retirement Savings Accounts (PRSAs), Retirement Annuity Contracts (RACs), trust RACs, and buy-out bonds: Pan-European Pension Plans (PEPPs) may soon become available. Furthermore, within occupational schemes, there are significant differences between defined benefit and defined contribution schemes, and between insured and other schemes. Ideally, any cost transparency framework would include all types of pensions provision where pension saver fund values are impacted by costs incurred, but the wider the range, the greater the technical complexity of drawing up rules that treat each type of pension consistently. It should be considered also whether any cost transparency initiative should include post-retirement pension provision, especially approved retirement funds (ARFs).

These different pensions vehicles are subject to different regulatory regimes, many of which already provide for some type of cost disclosure. It would be important that any cost transparency initiative was integrated with existing disclosure and was not simply adding an additional level of complexity.

Specific costs

Broadly speaking, pension costs can be charged in two ways: the first, unbundled, approach is that the costs of each service provided to the scheme are paid from the pension funds; the alternative or bundled approach is that some institution provides services in return for a set fee (often expressed as a % of the fund value). While the costs can be a mix of both approaches, in general, the costs incurred by larger pension schemes are more likely to be of the first type whereas costs for smaller pension schemes and for other pension saving vehicles are more likely to be of the second type.

The advantage of the unbundled approach is that it is clear what each service element costs, for instance: administration, investment management, member communications, etc. Where costs are bundled, the total costs are known (though the charging structures can be extremely complex) but the breakdown may not be known.

There can be other costs that impact on the value of pension funds which arise at the fund level, including:

- transaction costs (costs involved in buying and selling the fund's investments, including any commission paid to stockbrokers),
- interest on borrowing,
- transaction taxes where assets are bought or sold (e.g. stamp duty),
- property funds may have additional costs that relate to the expenses of managing properties, and
- costs of fund audits, trusteeship and other similar governance costs.

It is arguable that it does not matter to pension savers what are the different components of the costs they bear: what matters most is what the total costs are and whether they are reasonable compared to what other pension savers pay. However, in looking at total costs, it would be important to be sure that like is being compared with like. For some pension provision, the costs may include the cost of providing financial advice, whereas in others, this advice may not be available. Some pension costs may include distribution costs[4] which may not be relevant in other cases. Any cost transparency initiative would have to decide how to address these issues.

[4] Distribution costs relate to commission (or equivalent) payments to an intermediary / pension broker.

Appendix 4 – International examples

UK

In the UK, regulatory and industry groups have worked together to produce the Cost Transparency Initiative (CTI), a voluntary framework to guide asset managers and pension fund groups.

The Cost Transparency Initiative (CTI) is a voluntary industry standard for institutional **investment cost** data. It was launched in May 2019 by the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the Local Government Pension Scheme (LGPS) Advisory Board. The partnership initiative aims to promote understanding, raise awareness, and encourage full transparency and standardisation of investment costs and charges information.

The initiative provides templates and tools that form a framework that investors can use to receive standardised cost and charges information from asset managers. The framework is continuously developed and improved, with several new tools and guidance added since its first publication.

While the framework is not a regulatory requirement, the CTI Board keeps in close contact with the UK government, regulators and other external associations to ensure that the framework is kept up to date and in step with any developments. Additionally, the Department of Work and Pensions, the Financial Conduct Authority, the Pension Regulator and Trades Union Congress continue to hold 'observer' status on the Board.

The framework has been widely adopted by investment management firms and this take up is expected to increase in the next few years. In a survey of schemes and advisers[5], it was found that 74% of respondents had a good level of awareness of the CTI framework, and over half of respondents had already used the framework either directly or using third-party information providers or intermediaries. Analysis by ClearGlass, a cost data collection platform, found that only around 5% of portfolio managers are not using CTI templates.[6]

The question of whether legislation is needed in addition to self-regulation was raised by the Department of Work and Pensions in a 2020 public consultation.[7] Fifty-four responses were received to the question 'Is legislative intervention required to support the uptake of the CTI templates?'. Overall, there was support for a standardised disclosure process and some were in favour of mandating uptake of the template to ensure transparency, consistency and

[5] See: https://www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative

[6] Data relates to 450 managers across more than 5,000 portfolios – see: https://corporate-adviser.com/in-depth-where-next-for-cost-transparency/

[7] See: https://www.gov.uk/government/consultations/review-of-the-default-fund-charge-cap-and-standardised-cost-disclosure/outcome/government-response-review-of-the-default-fund-charge-cap-and-standardised-cost-disclosure#standardised-cost-disclosure-templates

timeliness in the cost and charges reporting framework. However, the majority of respondents felt that legislation was not required, preferring voluntary measures until the CTI process has bedded in. While some respondents feel that legislation may be needed in the future, others felt that further intervention is not needed as uptake of the CTI framework is increasing and introducing new requirements would be burdensome on the industry and disproportionate in terms of benefits to the consumer.

Having considered the views expressed in the consultation response, the Government responded that they will closely monitor the uptake of the use of the Cost Transparency Initiative framework and will legislate if take-up is not sufficient.

Denmark

Denmark has also focused on building transparency for more than a decade and has developed a comprehensive set of initiatives for individuals at varying levels of financial literacy. While cost transparency is not mandatory by law, the competitiveness of the industry puts pressure on companies to comply to the extent that it has become the norm.

Denmark's transparency initiative has been developed by the industry itself. The Danish Insurance Association (DIA) has been very active in the field of openness and transparency with a comprehensive set of initiatives:

- **PensionsInfo** is an online portal which provides consumers with a clear and understandable overview of their pensions and associated life insurance entitlement from all of their providers, including public pensions.
- **Cost Initiative** ensures that all pension providers disclose annual personal pension costs to consumers. The costs are calculated on a consistent basis and are expressed in a single figure. This enables clear comparison of costs across the industry, resulting in increased competition to the benefit of all consumers.
- **Comparing Pensions** is a tool that enables individuals with a reasonable level of financial literacy to compare key information between Danish pension providers. It allows the comparison of costs, performance, service levels and product features.

A 2013 review of the Danish pension model by Towers Watson found that these initiatives cover each of the steps in the consumer decision making process, with no gaps being identified. The report pointed to some potential areas for improvement including improving the ease of navigation and linkages between initiatives and putting in place a co-ordinated approach to improving financial literacy. [8]

[8] See: https://www.forsikringogpension.dk/media/1657/evaluation-of-openness-and-transparency-initiatives-pb-web.pdf

The Netherlands

In the Netherlands, significant self-regulatory and legislative work has been done in the past decade to raise the level of clarity amongst stakeholders. A point to note is that the pension regime in the Netherlands is largely defined benefit in nature, and as such the focus cost transparency is at the institutional level rather than at the individual pension saver level.

Both self-regulatory and legislative measures to increase cost transparency have been introduced in the Netherlands in the past decade. The Federation of the Dutch Pension Funds first published the Recommendations on Administrative Costs in 2011 and most recently updated them in 2016. The recommendations provide guidelines for presenting transparent accounts of administrative costs in annual reports and communications to stakeholders and are subject to the 'comply or explain' principle, meaning that pension funds must either include the relevant figures or explain why they are not included.

This self-regulation measure was followed with legislation in the form of amendments to the Pensions Act in 2015, making it mandatory for pension funds to include information on their administrative costs in their annual report. The Pensions Communications Act came into force later in 2015 and added new requirements for communication with participants as well as new rules for providing information on administrative costs. Pension funds are legally obliged to state administrative costs in euros per participant, and asset management costs and transaction costs as a percentage of average assets under management.

The combination of self-regulation and legislation has largely been a success, with the country ranking second out of 15 countries on the pension transparency benchmark created by Top1000funds.com and CEM Benchmarking.[9]

Australia

Pension funds in Australia must disclose fees and costs to the Australian Securities and Investments Commission (ASIC) under the Regulatory Guide 97 (RG 97). They must also report disclosed fees and costs to the Australian Prudential Regulation Authority (APRA) according to its Reporting Standard 706.0 (SRS 706.0).

- AISC and RG 97

AISC is Australia's integrated corporate, markets, financial services and consumer credit regulator. It is responsible for administering rules[10] of conduct and disclosure obligations of financial services providers, including superannuation trustees of registrable superannuation

[9] European Pensions, "Netherlands takes European top spot for pension transparency", 2021. Available at: https://www.europeanpensions.net/ep/Netherlands-tops-European-spot-for-pension-transparency.php

[10] Corporations Act 2001 and the Australian Securities and Investments Commission Act 2001 (ASIC Act). ASIC is also responsible for administering parts of the Superannuation Industry (Supervision) Act 1993 (SIS Act).

entities (RSE).[11] AISC's RG 97 provides guidance[12] on how to calculate and present fees and costs information and applies to superannuation trustees and superannuation platform operators. Exclusions to the fees and costs disclosure requirements apply, including self-managed superannuation funds (SMSFs); 'no investment' component ('risk-only') superannuation products and certain kinds of annuities. Depending on the product, RSEs must provide either a full or short Product Disclosure Statement (PDS) to members.

A full PDS must include a 'Fees and Costs' section comprising of:

- Consumer advisory warning,
- Fees and costs summary,
- Example of annual fees and costs,
- Cost of product information; and
- Additional explanation of fees and costs.

The fees and costs summary contains ongoing annual fees and costs, including administration fees and costs, investment fees and costs, and transaction costs, and member activity related fees and costs such as buy-sell spread, switching fee and other fees and costs.

The cost components included in administration fees and costs, and in investment fees and costs, are generally determined based on the costs incurred in the previous financial year. However, fees charged to members directly or otherwise to the superannuation entity as part of administration fees and costs, or investment fees and costs, are always disclosed based on what currently applies.

- APRA and SRS 706.0

APRA is Australia's prudential regulator of banks, insurance companies and most superannuation funds. APRA is authorised[13] to determine reporting standards for its regulated entities and to require them to submit information about their businesses and activities. APRA is also authorised to publish reporting standards that are legislative instruments in whatever manner it deems appropriate. For example, APRA publishes 'heatmaps' on an annual basis which compares superannuation products' performance in the three key areas of investment returns, fees and costs, and sustainability of member outcomes.

SRS 706.0 was introduced in September 2021 in relation to the submission of information to APRA on disclosed fees and costs for the purposes of prudential supervision and publication. In the past, APRA collected information in relation to MySuper products only, but the new

[11] RSEs include APRA-regulated superannuation funds, small APRA funds (SAFs), approved deposit funds (ADFs) and pooled superannuation trusts (PSTs).
[12] The guide covers the fees and costs disclosure requirements of the Corporations Act and Corporations Regulations, as modified by ASIC Corporations (Disclosure of Fees and Costs) Instrument 2019/1070.
[13] Section 13 of the Financial Sector (Collection of Data) Act 2001.

reporting standard applies to MySuper (the auto-enrolment product) and non-MySuper products. The categories of fees and costs have also been amended to align with the classifications used in AISC's RG 97. A form must be completed for each superannuation product, investment menu and option within each RSE, defined benefit RSE and eligible rollover fund[14] within its business operations. Some exclusions apply, such as investment options which solely underlie defined benefits and investment options which are reported under a different reporting standard.

Information must be submitted electronically to APRA annually and on an ad hoc basis if changes are made to fees and costs. Entities must report fees and costs for the superannuation product, investment menu or investment option at which they arise or are incurred. SRF 706.0 captures all fees and costs that are proposed to be charged to a member or would otherwise affect member balances. It includes all standard and customised fee structures, such as fees and costs that would appear in the Product Disclosure Statement (PDS) for the superannuation product, and fees and costs relating to accessible products available on the platform pursuant to the PDS for those accessible products.

[14] i.e. a holding account designed to receive the benefits of lost members and those with low account balances that are no longer receiving contributions.

Appendix 5 – Report on pension charges in Ireland 2012

A 2012 Department of Social Protection report on pension charges in Ireland[15] considered the matter in detail. To assess how pension costs impact final funds, the report examined the Reduction in Yield (RIY) across a spectrum of Defined Contribution (DC) pension arrangements where the scheme member is bore the charges.[16]

The report used an example of a member of a DC insured scheme who saves €500 per month from age 35 until retirement at age 65, with an assumed annual investment return of 5%. The projected final fund value, assuming no charges applied, was €443,479. Using a charging structure that could potentially apply as identified by the report, the projected fund value, including identified, disclosed and implicit costs, was reduced by between €52,577 (11.9%) and €77,138 (17.4%).

In the case of a person with a Retirement Annuity Contract (RAC) who contributes €250 a month from age 35 until retirement at 65 with a growth rate of 5%, the projected final fund without charges was €199,566. Taking the average disclosed and implicit charges identified for RACs, the projected fund value was reduced by between €41,283 (21%) and €61,338 (31%). Table 3 sets out the two examples taken from the Report in table format.

Table 3: Examples illustrating DC and RAC charges

Scheme type	Savings per month	No. of years	Annual growth rate	Projected final fund – no charges	Projected final fund – incl. costs
Defined Contribution	€500	30	5%	€443,479	€366,341 - €390,902
Retirement Annuity Contract	€250	30	5%	€199,566	€138,228 - €158,283

The report found that charges are generally greater in the case of individual policy holders, and the impact can increase significantly where a scheme member ceases contribution after a short period. If, for example, the holder of the RAC ceases contributions after two years, the

[15] Department of Social Protection, "Report on Pension Charges in Ireland 2012", 2012. Available at: https://www.pensionsauthority.ie/en/trustees_registered_administrators/policy/pension_reports/pension_charges_in_ireland_2012_.pdf
[16] This included Defined Contribution non-insured (DCNI), Defined Contribution insured (DCI), Individual Pension Arrangements, Buy Out Bonds (BOBs), and Public Sector Additional Voluntary Contributions (PS AVC).

impact of all identified charges on the projected fund value could be as much as 52%. The projected fund value would be reduced from €24,656 to €12,821.

It is important to note that additional implicit costs such as operational costs, trading costs, stamp duty and other taxes were not included in these calculations. This range of additional costs amount to RIYs of between 0.1% and 0.3% per annum, resulting in a further overall pension fund value reduction of between 2% and 4%.

The Report also showed that larger pension schemes tended to incur lower pension costs, particularly for DC pension schemes.

Appendix 6 – Commentary on the sample tables included in this report

The Pensions Council has proposed that two tables should be prepared for each occupational defined contribution pension scheme and provided to scheme members as part of existing disclosure requirements. Samples of these tables have been laid out in the body of the report.

The tables shown are for illustration purposes only and the final methodology would form part of any consultation.

By way of background, a summary of the calculation methodology considered by the Council is set out below:

i) the value of the pension fund is projected to normal retirement age, assuming:
   (1) the starting age and starting fund value (which could be nil or some other figure);
   (2) the scheme default contribution rate (paid monthly); and
   (3) the contribution pattern set out in the table (i.e. where contributions cease after 5 years / 10 years / are maintained up to normal retirement age).

ii) The projections would be based on an industry-standard set of assumptions

iii) The projections are run on two bases:
   (1) allowing for the impact of all scheme-specific charges borne by the pension saver; and
   (2) ignoring any charges

iv) The first table shows the Reduction in Yield. Using standard methodology, the loss of investment return (or conversely, the investment return required to cover the charges) is calculated. This is the Reduction in Yield over the term to retirement.

v) The second table shows the fund value at retirement age before and after charges, as well as the difference between the two fund values.