

Report on Pension Charges in Ireland 2012



An Roinn Coimirce Sóisialaí
Department of Social Protection
Helping you build a better life

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Executive Summary

Introduction

This report has gathered information on the level of pension charges levied on pension arrangements for the purpose of assessing whether charges are reasonable and transparent, to report on the findings and make recommendations, as appropriate, to the Minister for Social Protection and the Government.

A primary objective of the research is to undertake a fact-finding exercise and to provide an insight into the breakdown of charges and costs relating to pension provision in Ireland with the goal of enhancing the understanding of the impact of charges levied on occupational pension scheme members and individual policy holders. The research work was designed to obtain comprehensive and detailed information on all types of costs across the range of pension scheme types. The scope of the research focused on costs arising during the pension saving cycle from initial setup through the accumulation phase, up to and including the point of retirement.

While the process of saving for a pension cannot be cost free due to administration and management requirements, the charges incurred serve to reduce the level of income which individuals receive in retirement. In addition to gathering information on the level and application of pension charges, the report has sought to provide visibility on the financial impact of these charges. This is important, as evidence would suggest the impact of pension charges is not necessarily readily understood by the saver.

Pension costs are expressed as either ad valorem costs (i.e. charges which are levied on funds invested and expressed as a percentage of the fund under management), fixed costs (such as regular fees, of a certain amount every month) or as contribution charges (where a certain percentage of each pension contribution made is deducted as a pension charge). This can mean that the monetary impact of each of these charges individually, and the cumulative impact of the charges overall in monetary terms, can be relatively difficult to identify and understand. Potentially adding to this challenge is the fact that pension savings are by their nature made over long periods of time, meaning that the impact of apparently smaller charges can be amplified over time.

This can be illustrated in the following example. If an individual age 35 saves €250 per month for a pension for 30 years, a fund of approximately €200,000 is created which results in a pension of about €10,000 per annum. Apply the average charge of 2.18% per annum to this fund and the final fund is reduced by 31% i.e. the fund is reduced by €62,000, resulting in a lower pension of €6,900 per annum. This impact would be significantly higher where the maximum charges apply.

What initially appears to be modest charge equates to significant difference in pension payment.

How the Report is Constructed

Chapter 1 provides a background to the Irish pension landscape, identifying the key stakeholders and broad role of each in the provision of pensions in Ireland. It also explains the various occupational and personal pension types. An overview of the number of pension arrangements in operation and estimated member coverage is also provided.

In Chapter 2 the structure and mechanics of how pension charges operate are explained. This includes consideration of disclosed and implicit (non-disclosed) costs, and within this, the use of distribution charges (or commissions) and the practice of ‘bundling costs’. The chapter sets out the rationale for using the Reduction in Yield (RIY) as an approach for measuring disclosed charges. Implicit/Non disclosed charges are measured separately. The Reduction in Yield then provides the basis for the assessment of the impact of charges on a pension scheme/arrangement over a period of time.

Chapter 3 describes the methodology used to conduct the research, the data gathering process and the survey participants. It highlights the challenges involved in carrying out the research and details the limitations involved.

Chapters 4 to 7 consider group schemes which are occupational pension vehicles utilised by a large number of Irish pension savers. These include Defined Contribution and Defined Benefit schemes. Defined Contribution schemes can be set up as ‘insured’ or ‘non-insured’ and the nature of each is outlined in chapters 4 and 5.

Chapter 6 builds on the two previous chapters, by providing a comparison between the charges applying to Defined Contribution insured and Defined Contribution non-insured schemes. In addition, other benchmark comparators are provided to allow a level of understanding of the relative competitiveness of Irish occupational pension schemes from a member’s perspective. For this purpose, Personal Retirement Savings Accounts (PRSAs), UK Stakeholder Pensions and the relatively newly established UK National Employment Savings Trust were chosen.

Chapter 7 considers funded Defined Benefit occupational schemes. DB arrangements are somewhat different in construction from DC, given that in practically all cases all pension costs and charges are borne by the employer rather than the individual pension saver.

Chapter 8 considers Retirement Annuity Contracts (personal pensions), Executive Pension Plans and PRSAs which are arrangements where it is more common to have a single pension saver only. This chapter outlines the less homogeneous nature of individual pension arrangements versus occupational pension schemes.

Chapter 9 considers public sector additional voluntary contribution (AVC) arrangements.

Chapter 10 considers Buy Out Bonds which are typically used when an individual pension saver withdraws benefits from a company-sponsored pension scheme into a personal vehicle (perhaps on leaving service, or because the scheme is winding up). These arrangements are not used as pension savings vehicles per se, but can be considered as ring-fencing accumulated pension savings until the individual reaches retirement age.

Chapter 11 addresses the entry costs of the two main post retirement options available, these being the purchase of an annuity or the investment of the accumulated pension fund in a post-retirement savings vehicle i.e. an approved retirement fund (ARF).

Chapter 12 focuses on the transparency of pension charges. Having within previous chapters, identified the type and range of pension charges information disclosed at present, this chapter details the various forms of existing regulation and the type of disclosure this regulation prescribes for occupational and individual pension arrangement. It considers developments regarding disclosure on an Irish and EU level and makes a number of findings and recommendations regarding improving transparency of charges for the user.

Finally, Chapter 13 presents the reports overall observations and conclusions and culminates in a summary of recommendations aimed at addressing issued identified in the course of the research.

Research Methodology and Survey Responses

The research was undertaken during late 2011 and early 2012, and reflects market practice over that period. As pension arrangements are long term savings vehicles, the report also considers any pension arrangements which have been set up prior to 2011/2012, but which continue to be used by pension savers in 2011/2012.

The work in this report was led by the Department of Social Protection, with the support of the Pensions Board and the Central Bank. The Pensions Board supported the survey of occupational pension scheme trustees and the Central Bank, the survey of life assurance companies, investment managers and pension advisers. Assistance was provided during the research and the preparation of the report by PricewaterhouseCoopers. The overall conclusions and recommendations in the report are those of the Department of Social Protection.

Due to the complexities involved and the vast range of possible pension scenarios in place, it was recognised that it was not possible to achieve a complete compendium of all pension charges applying to every pension arrangement in the Irish marketplace. For example, certain individuals may consciously opt for pension arrangements with higher pension charges relative to other products for the additional flexibility that these arrangements might offer. Small self-administered pension schemes and non-standard PRSAs are examples of schemes in this category. Private sector AVC arrangements are not included in the scope of this report. AVCs generally follow the form of the DC arrangements to which they attach. The number of AVC arrangements attaching to DB arrangements represents a small proportion of overall pension savings. Public sector AVC arrangements have been included in the scope as they are a single product type.

In planning and undertaking the research, a number of key stakeholders detailed below were identified for the purposes of obtaining information in relation to pension charges. Stakeholders were invited to complete questionnaires that were specifically tailored for each group (and in certain cases each sub group).

- Occupational pension scheme trustees – for those pension arrangements where trustees are in place;

- Life assurance companies – for those pension arrangements where life assurance companies were the predominant provider;
- Investment managers – in respect of charges and costs relating to investment management;
- Pension advisers – who often provide the link between trustees/employers/individuals and pension providers.

There is significant overlap and interaction between these stakeholders in terms of services provided and charges/costs incurred. This overlap was used to verify and compare the responses of one group with the responses of others. The approach was to seek information independently from each and then to validate the information provided by the other parties. This cross referencing approach was designed to provide both validation of information and to highlight any inconsistencies for further consideration. In addition to the identification of charges, the research also sought to provide insights into the transparency of the pension charges which apply. For this purpose, the survey questionnaires were structured to identify trustee understanding regarding the level of costs incurred and the particular service provided in relation to each cost.

In developing the survey questionnaires, it was identified that a balance was required between gathering complete and comprehensive information and securing a reasonable response level. A pilot questionnaire was developed for occupational scheme trustees, which sought to identify whether respondents considered the requested information as being reasonable to provide, whether this information was readily to hand or required significant efforts to source, and whether the responses from the pilot would accurately and comprehensively reflect the underlying scheme charges. In addition, given that there was a significant number of small (i.e. 1-50 members) Defined Contribution non-insured schemes and that a high number of responses were preferable, it was decided that an abridged survey should be developed to target this constituency. The abridged survey was designed to gather basic quantitative information regarding pension charges.

The primary life assurance companies operating in Ireland currently providing pension products to the marketplace were included in the research. In advance of the survey of life assurance companies, checks were made directly with a number of companies to ensure the material being sought could be provided. 60 advisers and 9 investment managers currently providing investment services to a significant number of Irish pension arrangements were invited to participate in the research. The response to the survey questionnaires was as follows:

Trustees:	340 out of 1015
Pension Advisors (Intermediaries):	37 out of 60
Life Assurance Companies:	12 out of 14
Investment Managers:	8 out of 9

Overview of Key Findings of the Report

Scale and Variability of Pension Charges

The report considers the scale and variability of pension charges across different types of pension arrangements and in this context considers disclosed costs, implicit (non disclosed) costs, legacy charging structures, costs met by the employer, commission structures, economies of scale and external benchmarks.

The research considered pension charging structures under the two main categories of occupational/group and individual (and thereafter by sub-category) detailed below. The research then considered the impact of charges on both the scheme member/policy holder and on the employer. However, the focus of the research was on the impact on the scheme member/policy holder.

Survey Categories and Pension Type

Group Pension Arrangements	Individual Pension Arrangements
Defined Contribution Insured Schemes	Retirement Annuity Contracts (Personal Pension Plans)
Defined Contribution Non Insured Schemes	Executive (One Man) Pension Plans
Defined Benefit Schemes	Personal Retirement Savings Accounts
Public Sector AVC schemes	Buy Out Bonds

In Defined Contribution insured and non-insured schemes, the level of sharing of charges between the employer and the member will vary by scheme, whilst in Defined Benefit arrangements the costs are generally borne directly by the employer. There are approximately 239,000 members in 65,770 DC schemes (of which 49,032 are Executive Pension Plans – see below). Within Defined Contribution schemes, support services provided tend to be more individual in nature than Defined Benefit schemes as each individual member is responsible for their own pension savings. There are approximately 197,000 individual members in 993 funded Defined Benefit funded schemes, where running costs do not directly impact members and individualised advice and direct support is very rarely required by, or provided to, members. Advice is generally provided ‘centrally’ to scheme trustees.

In individual pension arrangements, charges are borne in their entirety by the policy holder. There is no single definitive source of information of the number of individual pension arrangements. As an indication of the size of the Retirement Annuity Contracts market, the Revenue Commissioners statistical report for 2010 (Income Tax Section) identifies a cost to the exchequer of tax relief on contributions to Retirement Annuity Contracts as €237.2m for 101,300 contracts in 2009.

An Executive Pension Plan is a Defined Contribution occupational pension plan, issued by a pension provider to an employer, with an employee/director of the company named as the beneficiary of the pension plan. The Pensions Board 2011 annual report indicates that there are 49,032 Executive Pension Plans in Ireland.

A PRSA is an individual pension arrangement with a pension provider. However, whilst PRSAs are set up by individuals in their own right, they can also be set up for employees by their employers. In such circumstances the employer may or may not contribute to the account. The Pensions Board 2011 annual report indicated that there were 151,122 standard PRSA contracts and 46,916 non-standard PRSA contracts with a combined asset value of €3.03 billion.

A Buy Out Bond is bought in substitution of the members rights under a pension scheme where an individual is leaving employment or moving from one employment to another. As such they do not represent ‘new money’ being saved for pension purposes. No comparable figures are available for Buy Out Bonds given they do not result in tax relief being generated for the individual saver in the same way as Retirement Annuity Contracts or PRSAs.

The table below provides a brief summary of identified disclosed charges that apply across the spectrum of pension arrangements in the form of the Reduction in Yield and the resulting impact on the final projected fund value. The Reduction in Yield is a single percentage figure used to express the impact of all charges on a savings, investment or pensions policy over a period of time. It sets out the reduction in the yield (or return) that would otherwise have been provided if the policy carried no charges at all. DB schemes are not included as the costs are generally borne by the employer.

Min/Max RIY Range disclosed charges		Impact on projected Fund Values based on Average RIY	
		Disclosed	All charges
DCNI	<p>0.09% 0.97% (Maturity)</p>	5.0% - 9.6%	8.4% - 12.7%
DCI	<p>0.25% 1.71% Maturity</p>	8.6% - 14.4%	11.9% - 17.4%
	<p>0.26% 1.83% (2yr)</p>	14.9% - 25.1%	17.9% - 28.1%
	<p>0.26% 1.68% (10yr)</p>	11.8% - 19.8%	14.8% - 22.8%
Individual Pension Arrangements	<p>0.89% 3.08% (Maturity)</p>	19% - 28%	21% - 31%
	<p>1.07% 3.64% (2yr)</p>	38% - 49%	41% - 52%
BOBs	<p>0.53% 2.62%</p>	19.5% - 26.2%	24% - 30%
PS AVCs	<p>0.72% 2.2%</p>	22%	25%

As indicated in the table, the reduction in yield to maturity varies from 0.09% to 3.08% across those pension types detailed. This level of charges has the impact in notional terms of reducing the value of the projected final fund by between 5.0% and 28% (based on the range of average reduction in yields). However, if one factors in the implicit costs, again based on the range of average reduction in yields, the level of charges has the impact in notional terms of reducing the value of the projected final fund

value by between 8.4% and 31%. Two of the factors which influence the level of charges are the extent to which the employer bears the costs in the case of an occupational pension scheme and the level of support an individual policy holder requires in selecting and maintaining their pension in the case of a personal pension.

To illustrate the practical effect of disclosed charges on an individual's final pension fund, an example is taken of a member of a Defined Contribution insured scheme (where an employer would also make contributions on behalf of the member) who has started saving €500 per month at aged 35 and continued to retirement at 65 with an assumed annual growth rate of 5%. In this scenario, the projected final fund value assuming no charges apply would be €443,479. Using the range of charges applying to Defined Contribution insured schemes detailed above, this projected fund value including identified disclosed and implicit costs would be reduced by between €52,577 (11.9%) and €77,138 (17.4%).

In the case of an individual pension arrangement such as a Retirement Annuity Contract, assuming contributions of €250 per month and a growth rate of 5% from aged 35 to retirement at 65, the projected final fund value is €199,566 without charges. Taking the disclosed and implicit charges identified for Retirement Annuity Contracts, the projected fund value would be reduced by between € 41,283 (21%) and € 61,338 (31%).

It is evident that the impact of charges applying to some individual pension arrangements is less than that applying to some Defined Contribution scheme arrangements where the employer is bearing some of the costs. However, the impact of charges is generally greater in the case of individual policy holders. In addition, the impact of charges can increase significantly where a scheme member/policy holder ceases contribution after a short period in a scheme as can be seen in the table above (2 year reduction in yield).

To illustrate this point, if the Retirement Annuity Contracts example given above assumes the average reduction in yield on a maximum commission basis, the research indicates that where a person ceases contributions to a Retirement Annuity Contract after two years the impact of all identified charges on the projected fund value is 52%. This reduces the projected fund value from €24,656 to €12,821. This impact would be significantly higher where the maximum reduction in yield applies.

Non-Disclosed Pension Charges/Implicit Costs

Investment managers typically disclose annual investment management charges for the management of a pension investment mandate but this quoted annual management charge may not take into account all expenses incurred by the underlying pension fund. These are not generally reflected in reduction in yield calculations, relate to underlying costs of investment management and are known as implicit costs. These additional costs such as those detailed below, will impact long term pension values to differing degrees and are not typically disclosed to individual pension savers.

- Operational Costs (such as custodian fees, trustee fees, audit fees etc.);
- Trading Costs (typically brokerage commissions payable when an asset of the fund is bought or sold);
- Stamp Duty and other taxes (taxes related to share dealing in certain jurisdictions).

For the purposes of this report, these underlying non-disclosed costs are referred to as 'implicit costs'. In addition to an analysis of the impact of disclosed costs, this report also focuses on the cumulative impact of implicit costs.

The range of additional implicit costs identified amount to reduction in yields of between 0.1% and 0.3% per annum, resulting in a further overall reduction in final pension fund value of 2% - 4% for occupational pension schemes and individual pension arrangements. However, costs will depend on the underlying fund structure and can be significantly higher.

Occupational Scheme Running Costs – Funded by Employers

The research identified that additional pension costs, not impacting members directly, are also incurred by trustees but are paid for by the sponsoring employer. Such scheme running costs will differ from scheme to scheme and by type of occupational pension scheme. However certain costs are typical across scheme types including:

- Pension consultancy costs – professional pension advice to sponsoring employers/trustees;
- Statutory reporting requirements – trustee annual reports and financial statements;
- Member communication/support – such as member presentations, one to one advisory meetings etc.;
- Audit fees – i.e. a specific regulatory requirement where a scheme membership is in excess of 100 members;
- Professional trustee costs – where a professional trustee is appointed as trustee to a scheme;
- Legal fees – legal opinion provided to sponsoring employers/trustees relating to specific pension issues.

Trustee survey questionnaire responses identifying typical employer costs incurred are detailed below.

Employer Costs – Defined Contribution Insured Schemes

Group Scheme Membership	Average Total Per Annum Fees Identified	% above average	% below average	Average Per Annum Fees Identified per Member
0 to 50	€3,727	40%	60%	€509
51 to 500	€12,313	38%	62%	€106
501+	€50,437	50%	50%	€61
All Schemes	€9,956	32%	68%	€306

Employer Costs – Defined Contribution Non Insured Schemes

Group Scheme Membership	Average Total Per Annum Fees Identified	% above average	% below average	Average Per Annum Fees Identified per Member
0 to 50	€2,336	14%	86%	€1,472
51 to 500	€26,628	55%	45%	€153
501+	€73,344	33%	67%	€50
All Schemes	€29,078	40%	60%	€370

Compared to a Defined Contribution insured scheme, a greater share of the costs of a Defined Contribution non-insured pension scheme are typically borne by the sponsoring employer. In addition the running costs associated with non-insured pension schemes will more typically include administration services, independent consultancy or advisory services, member support services and statutory reporting services as the option for a life assurance company to perform such functions does not exist.

Under a Defined Benefit pension scheme, the costs of the pension scheme are normally borne by the sponsoring employer. Such costs are significant and will vary from scheme to scheme.

Employer Costs – Defined Benefit Schemes

Group Membership	Scheme	Average Total Per Annum Fees Identified per scheme	% above average fees identified	% below average fees identified
0 to 50		€31,497	33%	67%
51 to 500		€72,898	33%	67%
501+		€318,249	20%	80%

Legacy Charging Structures and Rebrokering

The research observed that the number of occupational pension schemes with legacy pension charging structures is small. The data provided by both the life companies and trustees indicates that the majority of Defined Contribution pension schemes have engaged in a review of the scheme charging structure arrangements over the last decade. The data from the life companies indicates that within occupational pensions, approximately 75% of contributions in 2011 were paid into pension contracts set up within the past 5 years.

A lower level of review/amendment activity was identified in relation to individual pension arrangements. The data from life companies suggest that 50% of contributions were paid into retirement annuity contracts set up in the past 5 years, while in the case of Executive Pension Plans approximately 60% of contributions paid in 2011 were paid into contracts set up in the last 5 years. It is not clear to what extent Retirement Annuity Contracts set up in the last 5 years were in respect of single premium payments or renegotiation of a current arrangement.

There appears to be a greater prevalence of legacy charging structures within Retirement Annuity Contracts and Executive Pension Plans. Information from life assurance companies on contribution flows suggest there may be closer to a 50/50 split between legacy and modern charging structures within such individual pension policies. (This observation however, is potentially impacted by variances in how life assurance companies interpret and record contribution flows.) It is important to point out that legacy charging structures can include mechanisms which reduce costs at the point of retirement such as bonuses and/or reductions in annual management charges.

By contrast the research observed that charging structures for Buy Out Bonds have changed little with time and pricing structures advised by life assurance companies for investments made 10 and 15 years ago are similar to those available today. The reduction in yield analysis indicated that the impact on projected fund values to maturity is in the range 21% to 31% whereas the average 10 years ago was 23% and 15 years ago was 25%.

Standard PRSAs have predetermined charging structures and as a result only commission terms can vary and impact the reduction in yield. Approved Retirement Funds are a relatively recent development and thus do not offer the opportunity for similar historic comparison. The research observed little variance in charging structures since the introduction of such post retirement savings vehicles. Annuities have no associated direct costs from the policy holders' perspective with the exception of the entry cost of commission.

A key finding is that scheme re-brokering is significant in the case of occupational pension schemes and is also relatively common in individual pension arrangements. However, detailed consideration of the range and extent of the re-brokering being undertaken and its impact on all beneficiaries did not form a central part of the research. The high level of re-brokering in the marketplace raises a number of questions in relation to schemes. Anecdotal evidence would suggest that pension advisers are frequently the drivers behind the re-brokering of schemes, but the trustee survey also provides evidence that trustee efforts to obtain best values can provide some part of an explanation.

Commission

A universal approach to reflecting commission (also known as distribution charges) payments through pension charging structures is not evident. Various methods used such as reducing allocation rates, increasing annual management charges etc. will impact members differently depending upon circumstances, for example their age and period to retirement. The research also identified that commission structures are a less significant feature of occupational pension schemes where fee based arrangements are more common.

Pension adviser costs can be borne by the employer in a Defined Contribution pension scheme through a fee arrangement with the adviser. Alternatively, the payment to the scheme adviser can indirectly be borne by the employee by adjusting the components of the pension charging structure to reflect the level of commission. The research identified that commission arises in 7% of Defined Contribution non-insured schemes, in 39% of defined contribution insured schemes and in 13% of defined benefit schemes. Commission can take the form of initial, renewal and trail/fund based commission. The response from trustees of Defined Contribution insured schemes indicated that the initial commission can be up to 25%. The renewal commission can be in the range of 1% to 5%. Trail/fund commission, while not a common feature, can range from 0.25% to 0.75%.

The research identified that commission is a prevalent feature within individual pension arrangements, with 25% of new retirement annuity contracts and executive pension plans based on maximum commission terms, 5% created on a nil commission basis and 70% on partial or reduced commission. Where initial/upfront commission is evident, it is typically at levels of up to 25% of first year's contributions (and any increases in premiums thereafter). Renewal commission payments of between 1% and 5% of annual contributions are also a common feature. Commission levels for Buy Out Bonds and annuities have shown little variation with time.

The research also identified that maximum commission terms are more likely to apply within legacy arrangements. Life assurance companies advised of upfront commission of up to 50% of first year's contributions (and any increases in premiums thereafter) for Retirement Annuity Contracts and Executive Pension Plans set up 10 years ago and up to 60% of first year's contributions (and any increases in premiums thereafter) for Retirement Annuity Contracts and Executive Pension Plans set up 15 years ago. Renewal commission for policies set up 10 and 15 years was between 2.5% and 4%. As stated above current renewal commission rates are in the range of 1% to 5%. While the research would indicate that upfront commission levels have reduced, the overall charging regime as measured in the reduction in yield analysis has not reduced. The adviser surveys show a broad consistency of findings with the information provided by life assurance companies.

Economies of Scale

There is evidence that larger pension schemes incur lower pension costs. This is likely due to both efficiencies of scale, and the potential 'buying power' of trustees of schemes with larger contributions and asset values. The research identified that economies of scale are evident across defined contribution pension schemes. Schemes with greater than 500 members showed the following efficiencies when compared to schemes with less than 50 members:

- Lower annual management charges (both insured and non-insured);
- Higher allocation rates (insured schemes);
- Lower policy fees (insured schemes);
- Greater instance of employers meeting the cost of policy fees (insured schemes);
- Less prevalence of exit penalties (insured schemes).

The combined impact of these economies of scale was captured by the reduction in yield analysis. Economies of scale are more evident in Defined Contribution insured schemes where the reduction in yield notional impact on projected fund values can vary by up to 3% on average and reflect the higher level of charges borne by the employer in a Defined Contribution non-insured arrangement. Economies of scale are also evident in the cost incurred by an employer in running a pension scheme. It is evident that the employer cost per member in a small scheme is much greater than that for a member in a large scheme.

In relation to individual pension arrangements there is some evidence to suggest that individual pension contracts incur lower pension costs where contribution levels, including both regular and lump sum contributions, are higher. This can be seen in the higher allocation rates advised by a number of providers where contribution assumptions were increased. This was evident for Retirement Annuity Contracts, Executive Pension Plans, Buy Out Bonds and Approved Retirement Funds.

Comparison of Pension Charges with External Benchmarks

The research provided a comparison of charges with other external benchmark pension types to show the relative competitiveness of pension charges in Ireland from a member or individual pension savers' perspective.

Findings suggest that occupational pension schemes compare favourably to these benchmarks. The average Irish occupational scheme reduction in yields (in relation to disclosed costs only) identified are 0.52% to 0.91% (Defined Contribution insured schemes of various sizes) and 0.30% - 0.58% (Defined Contribution non-insured schemes of various sizes) compare favourably to the equivalent reduction in yields calculated for UK Stakeholder pensions (1% and 1.63%) and the typical charging structure for standard PRSAs (1.27 to 1.57%). Irish Defined Contribution occupational pension schemes identified higher costs than the new UK NEST Pension scheme from an individual members' perspective. The UK NEST scheme is set up specifically to provide a low cost pension scheme to members and has an equivalent reduction in yield of 0.42% per annum. The NEST scheme benefits from considerable efficiencies of scale due to the potential membership size it presents. It also involved a considerable investment on behalf of the UK State with estimated costs of over £500 million. The research findings suggest that Irish Defined Contribution pension schemes are reasonably competitive from a members' perspective. Most reduction in yields calculated based on the results of the trustee surveys identified a cost structure which is closer to the lower end of pension costs (as identified via the UK NEST scheme) than to the higher end (represented by UK stakeholder pensions and standard charging structures under PRSAs).

For individual pension arrangements, the research focused on both ends of the cost spectrum for individual pension arrangements i.e. where both maximum and nil commission terms apply, and compared such identified reduction in yields to external benchmarks. The research identified that where maximum commission arrangements apply (25% of Retirement Annuity Contracts and Executive Pension Plans), the associated Retirement Annuity Contracts and Executive Pension Plans are high relative to external benchmarks. The maximum commission reduction in yields identified of 1.78% per annum and 1.79% per annum can be compared to standard PRSAs where identified reduction in yields were 1.2% per annum, and UK Stakeholder pensions where identified reduction in yields were between 1% and 1.63%.

On the opposite end of the scale the research identified that where nil commission arrangements apply (5% of Retirement Annuity Contracts and Executive Pension Plans), the associated reduction in yields for Retirement Annuity Contracts and Executive Pension Plans are low relative to external benchmarks. The nil commission reduction in yields identified of 1.14% and 1.15% per annum can be compared to standard PRSA reduction in yields, and UK Stakeholder pensions reduction in yields of 1% to 1.63%.

The Irish Pension Saver

The report examined its findings from the perspective of the Irish person saving for a pension. Access to a particular pension vehicle can be determined by a person's employment status. An employed person will have access to any pension options available through the employer and this may be to a large or a small scheme, and be a Defined Contribution or Defined Benefit scheme (or Personal Retirement Savings Account). A self-employed person can access a Retirement Annuity Contracts, but cannot access an Executive Pension Plan or an employer sponsored scheme.

Another very important factor regarding the impact of pension charges is a person's duration in a scheme. The reduction in yield to maturity analysis was based on a person age 35 contributing to the same scheme for 30 years. However, for various reasons this may not occur, perhaps due to changes in employment circumstances, ill health, concerns over market conditions etc. As is evident from the

reduction in yield analysis within the report, charges incurred by a scheme member or a policy holder can increase significantly depending on the duration in a scheme and the number of schemes or pension policies a person may acquire.

Considerable variations exist and the individual pension saver will have a differing retirement result based on their pension arrangement. For occupational pension schemes, Defined Contribution non-insured pension arrangements are less costly from the members perspective than Defined Contribution insured schemes as sponsoring employers carry a greater proportion of pension costs, and in particular, the costs of administration.

The report outlines how these costs can vary significantly where a person ceases contributions to a pensions plan after a short period in a pension scheme. The analysis indicates that for a Defined Contribution insured scheme the impact of the average pension charge to maturity on the projected fund values is 13.4%. Where a person ceases contribution to a scheme after 2 years then the impact on the projected fund increases to 23.3%. However in the case of a Retirement Annuity Contract or an Executive Pension Plan, where the contributions cease after 2 years, the impact on the projected fund value increases from 28% to 49%. It is possible that a person's pension fund at retirement could be made up of a number of pension saving arrangements and in these cases the accumulated cost will be significantly higher to that indicated in the reduction in yield to maturity benchmark.

In relation to scheme exit penalties, trustee survey responses identified that exit penalties are not applicable to 77% of occupational pension schemes. Where exit penalties were identified, they impact the scheme as a whole as opposed to individual members on leaving a scheme, generally apply for no more than 5 years and typically reduce in scale during this period. Exit fees are a greater feature of individual pension arrangements and are more likely to apply where commission arrangements are in place.

Under legacy pension arrangements exit penalties are not a typical feature. However, should an individual policy holder exit such a contract by transferring to another life assurance company, they may forego future cost reductions. Therefore, wide consideration must be given to the best financial outcome in respect of legacy pension arrangements in terms of pension mobility.

Other Findings

The analysis also considered pension arrangements which involved a one off payment such as single premium payments to a Retirement Annuity Contract (which represent a significant part of the annual investment in Retirement Annuity Contracts) or a Buy-Out Bond. The research noted that in the case of single premium vehicles, the impact of charges varied significantly between these two pension arrangements. Where minimum commission applied, the impact on the projected fund value was 15% for single premium Retirement Annuity Contracts and 24% for a Buy-Out Bond. Where maximum commission applied the impact on the projected fund value for a single premium Retirement Annuity Contracts was 19% while it was 30% for a Buy-Out Bond.

The research also considered the level of charges arising in public sector AVCs. Findings indicated that the reduction in yield is in the range 0.72% to 2.20% with an average reduction in yield of 1.35%. The notional impact of the average reduction in yield to maturity for disclosed costs on the projected fund value is 22%. This can increase to 35% where a person ceases contributions to the scheme after 2

years. The average reduction in yield for a public sector AVC scheme is high when compared to DC occupational pension schemes. However, when compared to individual pension contracts the reduction in yields for identified public sector AVC schemes are lower than Retirement Annuity Contracts and Executive Pension Plans where maximum commission applies, but are higher than Retirement Annuity Contracts and Executive Pension Plans where nil commission applies.

In relation to the purchase of annuities at point of retirement, the level of income provided to a pension scheme member or policy holder varies based upon a number of factors such as gender, the number of additional benefits that are included such as guarantee periods in the event of death, the addition of a second life, inflation protection etc. From a life assurance company perspective, annuity prices are dictated by such as prevailing interest rates, re-insurance terms, capital requirements, expense loadings and commercial considerations, amongst other factors.

In addition the level of commission payment to a pension adviser can impact the income payable through retirement. The research identified that typical commission payments are 2% of the annuity cost. The knock on impact of such commission is to reduce the on-going retirement income provided by the annuity. Current annuity prices were provided by the research to illustrate that annuity incomes can be reduced by between €540 and €900 per annum due to the impact of such commission payments.

Are Charges Reasonable?

One of the primary objectives of the research was to determine whether or not pension charges are reasonable in Ireland. Consideration of this issue can be informed by the following points in the report;

- The sponsor of group occupational pension schemes can incur some or all of the pension charges. The extent to which these charges are borne by the sponsoring employer will vary depending on particular arrangement;
- The research indicates that smaller schemes can incur a higher level of costs than that experienced by larger schemes. This is likely to arise because of efficiencies of scale and the negotiating power of trustees with larger contributions and asset values;
- To consider the reasonableness of a charging regime within a particular scheme, the level of charges might be compared to the average for a similar scheme type or with an external benchmark;
- The pension savings arrangement utilised by an individual is largely influenced by their employment status. If it is an employer sponsored DC insured scheme the average reduction in yield to maturity for disclosed costs is 0.84%, the lowest reduction in yield is 0.29% and the highest is 1.71%. This average reduction in yield translates to a reduction of 13.4 % in the projected value of the fund at maturity. The average reduction in yield to maturity for a Retirement Annuity Contract or an Executive Pension Plan on max commission is 1.97%, the lowest reduction in yield is 1.08% and the highest is 3.08%. The distance from the average reduction in yield might indicate the reasonableness of the charge;

- Situations where contributions to a pension arrangement have ceased must also be considered. In such a scenario, any annual management charge and policy fee, where applicable, will continue to apply. The level of the annual management charge and policy fee can vary significantly and raises questions of reasonableness.

Annual Management Charge and Policy Fee by Pension type

Pension Type	AMC	Policy Fee
DC - Insured	0.78%	€45.81 per annum
RACs	0.5% to 1.5%	€3.50 to €12.00 per month
Exec. Pension plan	0.5% to 2.5%	€3.50 to €7.31 per month
Buy Out Bonds	0.5% to 2.5%	€3.59 to €5.42 per month

- The table below compares the average disclosed cost reduction in yield to maturity across personal pension schemes. Again there are some significant variations from the average and the question of reasonableness arises. Implicit costs, which are not included below, would typically add 0.1% to 0.3% to the reduction in yield to maturity.

Plan Type		Min RIY	Average	Max RIY
Retirement Annuity Contract	Min. Commission	0.89% to	1.18%	1.73%
	Max Commission	1.08%	1.97%	3.08%
Exec. Pension Plan	Min. Commission	0.89%	1.24%	1.77%
	Max Commission	1.08%	1.97%	3.08%
PRSA	Min. Commission	N/A	1.27%	N/A
	Max Commission	N/A	1.57%	N/A

- Overall, individual pension arrangements are expensive. Where maximum commission arrangements apply the associated reduction in yields for Retirement Annuity Contracts and Executive Pension Plans are high relative to external benchmarks. The average reduction in yield for a Retirement Annuity Contract or an Executive Pension Plan on maximum commission is 1.97% compared to an average of between 1.27% and 1.57% for a PRSA and in the case of the UK Stakeholder pension identified reduction in yields were between 1% and 1.63%.
- Commission is a particularly prevalent feature in individual pension arrangements and a universal approach to reflecting commission is not evident. The research identified that commission terms vary significantly. Maximum commission terms are more prevalent within Retirement Annuity Contracts and Executive Pension Plans than for occupational pension schemes.
- The question of reasonableness is also considered in terms of the current and past (or legacy) charging structures. The research indicates that the current average cost structures for Defined Contribution insured schemes are better than those in operation 10 and 15 years ago. This is evidenced by the high level of scheme reviews undertaken in the last 10 years. However, the same level of activity is not apparent in the case of individual pension arrangements and the research would indicate that pricing structures for these arrangements have changed little with time.

- For trustees/consumers attempting to determine the relative position of their scheme from a cost perspective, they can consider where their reduction in yield is placed on the spectrum outlined in the report. In order to determine the overall impact of the reduction in yield on a fund, as a general rule of thumb the conclusion from this research is that every 0.25% increase in reduction in yield results in a corresponding 4% reduction in the final value of the pension fund (on the basis of a 35 year old with 30 years to maturity).
- In relation to occupational pensions, the point immediately above has to be qualified by a statement repeated throughout this report, which is that it was considered probable that, in general, the more engaged/active trustees responded to the survey and it is likely that charges are somewhat higher for non-respondents. The guideline provided by the OECD is that every 0.25% increase results in a 5% reduction in the value of the fund.

Transparency and Understanding of Pension Charges

Regulatory Structure

The report examines the regulatory structure in terms of the disclosure of pension charges. As regulated savings vehicles, pension arrangements include disclosure requirements, laid down under various regulatory frameworks by the Pensions Board and by the Central Bank. Variations exist within such regulatory frameworks in terms of disclosing pension charges. Such differing requirements, and the various formats within which such disclosures take place, do not help the consumer make an informed decision to better understand and appreciate their pension arrangements.

A number of regulatory gaps and inconsistencies were identified. In relation to occupational pensions, there is no requirement to provide information on charges to deferred members of pension schemes. In addition, the Statement of Reasonable Projection (SORP) provided to occupational scheme members lacks detail. For individual pensions, until recently there has been no regulatory obligation to provide information on charges once the policy agreement has commenced. However, the Central Bank's 2012 Consumer Protection Code contains provisions to provide information on charges and on services provided. Implementation of the code should address this deficiency. This report recommends that an exercise be undertaken to ensure compliance with the requirements in the code.

In contrast, the most transparent product from a charges information perspective is the PRSA.¹ Both its charging structures and rates are addressed in regulation, the information provided in relation to them in the SORPs is relatively transparent.

The report examines developments in the EU, in relation to Packaged Retail Investment Products' (PRIIPS), Markets in Financial Instruments Directive (MiFID) and Insurance the Mediation Directive (IMD2) which express a consistent view in relation to the need for clearer information and increased transparency. The Central Bank and Pensions Board are involved in this work, together with other member states, to review and develop a number of key related issues. The discussions on these proposals are on-going and will continue into 2013. When this work is concluded, it is intended to conduct a review of the relevant regulatory landscape in Ireland. This will take account of

¹ Personal Retirement Savings Accounts (Disclosure) Regulations, 2002 to 2007

developments that enhance the provision of clear, concise and meaningful information to consumers in line with best practice.

Quality and Understanding of Information Disclosed by Providers

In relation to occupational pensions, the research sought information on the availability of pension charges and cost information to trustees, and the difficulty that trustees experienced in completing the survey. The report has identified that the majority of trustees (63%) did not have all of the required information to hand and had some level of difficulty in completing the survey.

A review of sample documentation issued by providers to individual policy holders also concludes that the information disclosed prior to the policy being signed, is unclear and confusing and lacks explicit information on what services are received for the charges imposed. Documentation is also largely illustrative being based on assumptions that may not materialise. Once the policy is signed little further information on charges is provided. This will change with the implementation of the 2012 Consumer Protection Code.

The report concludes that the disclosure of information by providers is driven by existing regulation but is frequently presented in a format that does not impart upon the policy holder the level of insight or understanding intended by that regulation. Where there is no explicit requirement in regulation requiring the provision of particular information on charges, typically no information is provided to the policy holder. There is lack of a culture of clear and transparent provision of information to the consumer, which also impacts on competitiveness in the market.

Additional Conclusions

There are a number of other key conclusions in the report.

The low response rate by pension scheme trustees to the surveys was concerning. This was disappointing given the importance of the role of the trustee and their fiduciary responsibility. A number of potential conclusions may be drawn. Trustees may not always be fully engaged in the management of their scheme and/or they may not be engaged in determining the most reasonable rate of charges. It is also clear from the survey that trustees had difficulty obtaining information and providing survey responses, which leads to broader concerns regarding trustees ability to oversee the management of pension schemes.

Obtaining the data was a difficult exercise and there was some variance in the quality of responses received. The report recommends that an exercise be undertaken periodically to obtain data that allows benchmarks to be set and facilitates comparison on charges on an on-going basis. As well as providing market intelligence, the data is also essential to assess the impact over time of the implementation of measures following on the recommendations arising from this report.

The report has identified a multiplicity of potential disclosed and implicit charges. All or some of these charges apply to all of the pension products outlined. Increased standardisation and consistency of charging structures and their application generally would likely help the consumer, for example, in respect of terminology used and in terms of how the impact of charges are presented.

One of the features of pension charging which has been highlighted is the practice of ‘bundling’ of charges. This practice is most evident within insured pension schemes where it is an integral part of the way in which life assurance companies operate pension arrangements. While on the one hand, bundling may simplify charges for the consumer as it reduces the issue of multiple charges being applied, it also masks the impact of individual costs and the consumer is less clear on what they are paying for.

This is not just a feature of bundling. It was frequently found that there is no direct link to a clear service for the charges applied. The 2012 Consumer Protection Code requires intermediaries to disclose to the consumer the nature of the service to be provided in respect of remuneration which is to be received on an on-going basis. It should be a fundamental principle that on-going charges should only be levied where a consumer is paying for an on-going service.

The report discusses the optimum means of capturing all charges and assesses the Reduction In Yield (RIY), with other measures such as the Total Expenses Ratio (TER). An approach based on reduction in yield was used throughout this report as it captures the impact of the greatest number of pension charges, with the exception of implicit charges. There have been discussions about other alternate means of capturing charges. TERs are particularly relevant to investment management costs and incorporate the additional operational costs of investment funds, such as fund administration and audit fees. However, administration and distribution costs also impact pension charging structures, and these costs are not reflected in TERs. It is important that any comparator provides full and complete information on charges in order to achieve full transparency for the consumer. The creation and adoption of a universal, all-encompassing measure of pension charges would be of considerable benefit to pension consumers. Investment Managers in the United Kingdom have proposed an adoption of a new ‘Total Cost of Ownership’ measurement which would provide a standardised measurement of pension charges and incorporate all pension charges including advisory fees/commissions and fund related investment costs. The report recommends monitoring developments in this area.

Are Pension Charges Transparent?

This report asks the question, are charges transparent? The conclusion is that there are deficiencies and inconsistencies in current practices regarding transparency and no culture of providing clear information in a simple manner was evident. A move towards greater clarity and transparency of pension charges is needed and would be of benefit to consumers. Any such initiatives must focus upon an increased consistency across all pension types relating to the provision and the real impact of pension charges as well as informing and educating consumers.

Conclusions

The purpose of this research has been to establish factual, primarily quantitative information in relation to pension charges in Ireland and, in particular, to ascertain if (a) they are reasonable and (b) transparent.

In its approach to the recommendations, the report considers the possibility of addressing issues relating to charging structures by regulation, in a manner similar to the PRSA. However, it concludes that it is not policy to interfere in market pricing mechanisms and to impact on competition.

Regulating for price, either by introducing a price ceiling or a range could encourage a move to the maximum and discourage competition. Rather, recommendations within the report concern measures that would introduce clarity and consistency across the various products, increase consumer understanding and provide a better result for the consumer. The report recommends that further research of the drivers behind consumer choice of individual pension products, with particular reference to PRSAs, should be conducted.

An important aspect of the report findings is the relationship between both the transparency of charges and reasonableness of pension charges. If a consumer does not know, or is unable to understand, the cost of a product, then they will have no appreciation of the impact of related charges on the final pension, will be unable to plan accordingly and may find their income at retirement is significantly less than expected. This may in turn lead to increased dependency on the State. The importance of pension charges and their overall impact on a pension is not sufficiently appreciated by consumers. As is detailed within the report, what may appear to be a small percentage charge can result ultimately in a high cost to the policy holder that may substantially reduce the final pension received. Improvements in transparency, while not a complete panacea, should if successful, at least give consumers increased options, and may also introduce increased competitiveness into the market. Similarly to any service, consumers should be in a position to shop around and compare prices and obtain the best product available. Currently, the opaque nature of many of the charges and their structures means that this is not always possible.

Finally, the report points to the real need for increased simplicity in this area. It refers to the broader pensions policy debate on the introduction of a national employment pensions scheme based on the principle of auto-enrolment, whereby an employee is automatically enrolled in a scheme but can opt out. The introduction of auto-enrolment may be the most effective way to introduce change in this area. International experience has shown that this type of scheme is extremely successful in providing a simplified and lower cost charging structure and a consistent application across employers. This type of arrangement could assist in resolving the difficulties inherent in the current structure of a proliferation of small schemes paying considerably higher charges than larger schemes, ultimately eroding the value of the pension received by the member. Although this policy issue is outside the remit of this report, it does appear to offer a longer term solution to tackling many of these difficult challenges.

Summary of Recommendations

This report has highlighted a wide range of issues in relation to pension charges and identified a number of serious problems. It is clear that there are major challenges to be addressed in the two main areas of transparency and reasonableness of charges. The report fully accepts that pension savings cannot be cost free. However, it appears very clear that consumers do not understand that even a modest charge can have a very large impact on the final pension. This summary presents the main recommendations of the report. This report may also be of interest to other agencies that have a role in the market regulation in and in consumer protection.

At national level, improvements in disclosure requirements, including those for pensions, were introduced in the Central Bank's 2012 Consumer Protection Code and these should enhance transparency for those consumers covered by the code.

Cognisant of longer term developments, the recommendations below are principally focused on what can be achieved at an earlier stage by improving regulation and best practice in disclosure. The following is recommended:

1. Continue to monitor the implementation of the Consumer Code (Central Bank) and take specific actions to:
 - a. Examine the practice of re-brokering to ensure that it is always in the best interests of the consumer; and
 - b. Conduct an exercise to ensure compliance with the recently introduced requirement for Annual Statements;
2. Develop approaches to improve consumer, employer and trustee awareness and knowledge of all pension charges. This should ensure that information is clear and concise. It should be standardised, where possible, and based on best practice (several organisations have a remit here);
3. Develop a communications action plan on pension charges (several organisations have a remit here);
4. Improve trustees' knowledge and awareness of pension charges (Pensions Board). Take specific actions to:
 - a. Develop a separate module on pension charges in trustee training.
 - b. Provide a support service to trustees setting out principles and best practice;
5. Review occupational pension disclosure regulations specifically to:
 - a. Provide for the issue of an Annual Statement to all deferred members (DSP, Pensions Board)
 - b. Improve the information provided in the Statement of Reasonable Projection and the need for focussed detail should be reviewed (DSP, Pensions Board);
6. Monitor developments and continue efforts to develop a single standard measure that would assess all costs and charges and thereby enable easier comparisons to be made (DSP, Central Bank, Pensions Board);
7. Conduct further research on the drivers behind consumer choice of individual pension products – with particular reference to PRSAs;
8. Ensure data on charges is collected on a periodic basis - 3 yearly intervals is considered appropriate - to allow for continued scrutiny and future decision-making. (Central Bank, Pensions Board);
9. Evaluate the impact of this report, these recommendations and future EU developments after two years and assess if further and more stringent recommendations are required (DSP, Central Bank, Pensions Board).

PREFACE

In October 2011 the Minister for Social Protection announced a study into pension charges in Ireland. The intention of the study was to primarily consider the twin issues of reasonableness and transparency of charges. The objectives and Terms of Reference of the study are detailed below.

Objectives of Study

The objective of the study was to gather information on the level of pension charges levied on pension schemes for the purpose of ensuring that charges are reasonable and transparent and to report on the findings and make recommendations, as appropriate, to the Minister for Social Protection and the Government.

Study Terms of Reference

To obtain comprehensive and detailed information on all types of costs across all pension scheme types. The examination should be derived from information requested for a representative sample of the following scheme types;

- Funded defined benefit schemes;
- Defined contribution occupational schemes;
- Retirement annuity contracts and;
- Personal retirement savings accounts;
- AVCs.

To include all charges incurred directly by either the individual, the scheme or the employer with a view to obtaining a complete and clear view of the charges that are applied including; how charges are applied across the distribution model, identifying and assessing the impact of changes in the charging structure over time, identifying and assessing what impact if any the pricing structure might have on member mobility, coverage and take-up.

- Obtain any previous research in this area and information on the position in other countries and make international comparisons;
- Evaluate the findings and complete a report;
- Report on any conclusions and recommendations to the Steering Group of the National Pensions Framework;
- Report to the Minister for Social Protection and the Government;
- Publish the report.

CHAPTER 1 - THE IRISH PENSIONS LANDSCAPE

- The Irish Pensions Landscape
- Employer Sponsored Occupational Pension Arrangements
- Individual Pension Arrangements
- Key Stakeholders and Services Provided

CHAPTER 1 – THE IRISH PENSIONS LANDSCAPE

1.1 The Irish Pensions Landscape

The private pension system in Ireland is comprised of employer sponsored occupational pension schemes and individual pension arrangements. Estimates would indicate that the combined aggregate monetary value held within occupational and individual pension arrangements in Ireland is c.€72 billion². Most recent figures, released in 2011, suggest that 43% of private sector employees and 36% of self-employed workers had a pension³. The CSO survey on Income and Living Conditions (SILC) released in August 2012 shows that for all those aged over 65 years, the proportion of gross income in 2010 accounted for by private pensions was 20.5%, compared to 15% in 2004.

1.2 Employer Sponsored Occupational Pension Arrangements

An occupational pension scheme is a legal arrangement generally established on a voluntary basis by an employer, to provide retirement and/or other relevant benefits for one or more of its employees. Such schemes are typically set up under trust and are registered with, and regulated by, the Pensions Board. In this context, two types of pension schemes exist i.e. defined benefit (DB) and defined contribution (DC)⁴.

In the case of defined benefit pension arrangements, schemes may be ‘funded’ or ‘unfunded’. In an unfunded defined benefit pension, no ring-fenced assets are set aside and the benefits are paid for by the employer as they arise. This method of financing is commonly known as ‘Pay-As-You-Go’. Funded pension schemes are schemes where the member and/or employer contributions are put into a designated fund and the benefits are paid from that fund. It should be noted that this report is specific to funded pension schemes. The report does not consider unfunded schemes, the most notable of which are public service pensions being funded from current government expenditure.

As detailed in table 1.1, the 2011 Pensions Board annual report indicates that in April 2012 there were 436,327 members in 66,763 funded occupational pension schemes. This can be broken down into 239,150 members of 65,770 DC schemes and 197,177 members of 993 DB schemes.

1.3 Individual Pension Arrangements

Within an individual pension arrangement a person enters into a contract with a provider of retirement and other related benefits in return for the payment of one or more contributions. In general, such providers are life assurance companies and the contract is therefore usually a policy issued by the life assurance company to the individual.

The individual pensions market in Ireland is concentrated in a number of areas. This includes the self-employed, employees who do not have access to an employer sponsored occupational scheme and those who have previously left pensionable employment and transferred their pension benefits (from their previous employers’ scheme) into a policy in their own name. The following are types of individual pension arrangements:

² IAPF Pensions Investment Survey 2011

³ Central Statistics Office - Quarterly National Household Survey Qtr. 4 2009.

⁴ Hybrid schemes also exist that take elements of DB/DC schemes

- Retirement Annuity Contracts (RACs - often referred to as Personal Pension Plans);
- Executive Pension Plans⁵;
- Personal Retirement Savings Accounts (PRSA - both Standard and Non Standard) and;
- Buy Out Bonds.

Table 1.1 Breakdown of Occupational/Employer Sponsored Pension Scheme Membership

Number of schemes and scheme membership as at April 2012						
Number of Members/Scheme Size	Defined Contribution		Defined Benefit (Funded only)		All Schemes	
	No of Schemes	Active Members	No of Schemes	Active Members	No of Schemes	Active Members
Frozen	n/a	n/a	115	1,323	115	1,323
In wind-up	n/a	n/a	20	4,639	20	4,639
Non Group	49,032	49,032	3	3	49,035	49,035
1 to 50	16,132	70,656	545	7,913	16,677	78,569
51 to 99	313	21,500	93	6,858	406	28,358
100 to 500	250	48,513	149	35,081	399	83,594
501 to 1000	24	16,538	39	26,527	63	43,065
1001+	19	32,911	29	114,833	48	147,744
Totals	65,770	239,150	993	197,177	66,763	436,327

There is no complete central register of the total number of RACs and Buy Out Bond contracts in existence. As an indication of the size of the RAC market, the Revenue Commissioners statistical report for 2010 (Income Tax Section) identifies a cost to the exchequer of tax relief on contributions to RACs as €237.2m for 101,300 contracts in 2009.

A Buy Out Bond is bought in substitution of the members rights under a pension scheme where an individual is leaving employment or moving from one employment to another. As such they do not represent 'new money' being saved for pension purposes. No comparable figures are available for Buy Out Bonds given they do not result in tax relief being generated for the individual saver in the same way as RACs or PRSAs.

An Executive Pension Plan is a defined contribution occupational pension plan, issued by a pension provider to an employer, with an employee/director of the company named as the beneficiary of the

⁵An executive pension plan is a defined contribution, employer sponsored, pension scheme. An employee/director of the company is named as the beneficiary of the pension plan. This is a one member scheme holding one asset which is a policy issued by a life assurance company and held in trust on behalf of the employee/director. Therefore, for the purposes of the research Executive Pension Plans are treated as individual pension plans

pension plan. The Pensions Board 2011 annual report indicates that there are 49,032 Executive Pension Plans in Ireland.

A PRSA is an individual pension arrangement with a pension provider. However, whilst PRSAs are set up by individuals in their own right, they can also be set up for employees by their employers. In such circumstances the employer may or may not contribute to the account. From a regulatory viewpoint, PRSA products are jointly approved by the Pensions Board and the Revenue Commissioners. The Pensions Board supervise the activities of providers in relation to their approved products and monitors compliance with the legislation regarding PRSAs. The Board's 2011 report indicated that there were 151,122 standard PRSA contracts and 46,916 non-standard PRSA contracts with a combined asset value of €3.03 billion. The report also indicated that 130 PRSA products have been approved by the Board and the Revenue Commissioners. These products are facilitated through 18 PRSA providers.

1.4 Key Stakeholders and Services Provided

For the purposes of this report, the key stakeholders in the pensions industry are Trustees, Employers, Life Assurance Companies, Investment Managers and Pension Advisers. However, it should be noted that the engagement of a range of other pension related service providers may also be required depending on the nature of particular pension arrangements. For example, this may include actuarial, accounting and legal services resulting from legislative and other scheme requirements.

Pension charges are generally applied by life assurance companies, administrators, investment managers and pension advisers as a means of recouping the costs associated with the provision of pension services. The provision and delivery of such services will differ for various pension types and will also vary due to the particular levels of interaction with the service provider. Some service needs are driven by standard regulatory requirements while others are provided as standard/best practice and may differ from provider to provider.

1.4.1 Employer Role

Within occupational pension schemes the employer will have a central involvement as the scheme sponsor. This typically involves making pension contributions and can often include meeting certain aspects of the schemes wider administration and support costs.

Representatives of the employer, or the employer themselves, often also perform the role of trustee (see below) in relation to occupational pension schemes and may themselves be members, and as such beneficiaries, of that scheme.

1.4.2 Trustee Role

All employer sponsored occupational pension schemes and a small number of RACs are established under trust. This means that the trustees of the scheme hold and administer the underlying assets on behalf of the members. These assets may include one or more investment instruments such as shares, bonds, collective investment funds, property, life assurance and pension policies issued by life assurance companies.

Trustees of a pension scheme usually comprise of employer and employee representatives. Section 59 of the 1990 Pensions Act lays down in broad terms the general duties of trustees of schemes as follows:

- to ensure that contributions are received;
- to invest the funds;
- to make arrangements for paying the benefits;
- to ensure that records are kept;
- to undertake trustee training;
- to ensure that a Registered Administrator is appointed.

Trust based arrangements which only hold policies issued by a life assurance company, and no other assets, are sometimes referred to as ‘insured’ arrangements. The trustees of insured arrangements pay one or more premiums to a life assurance policy or policies, in return for which the life company undertakes to pay one or more benefits to the trustees in certain specified circumstances.

The term ‘non-insured’ is therefore generally used to describe trust based arrangements which are not ‘insured’ arrangements, i.e. arrangements which hold assets other than policies issued by a life assurance company. However, some non-insured arrangements may hold one or more assurance policies, e.g. to insure death in service benefits or hold an investment in a life company unit fund, but will hold other types of assets as well.

The employer and trustees collectively have a role in selecting the providers of services to the scheme and in funding the costs of these services. Trustees of occupational pension schemes are required to appoint a Registered Administrator to the scheme. This Registered Administrator would generally be the life assurance company or a specialist third party pension administration company. The appointed administrator must be registered with the Pensions Board. There are approximately 185 registered administrators in Ireland at present, of which a small number have a significant market share.

1.4.3 Life Assurance Companies – (Insured Pension Arrangements)

At present, 71 life assurance companies (also referred in to in this report as life companies or ‘providers’) are authorised by the Central Bank of Ireland to carry out life assurance business in the Republic of Ireland. However, many of these are not active in the pensions market. The pension products provided by companies authorised to carry out life assurance business include occupational pension schemes and individual pension arrangements. In addition a small number of overseas life assurance companies operate within the Irish pensions marketplace.

As outlined above, where pension products are provided by a life assurance company they are set up on an insured basis and for the purpose of this report are referred to as insured pension arrangements. Under such an arrangement the assets of the pension scheme/pension contract in question are held in unit linked fund(s)⁶ and the life assurance company will typically provide both the administration and investment management services. Both occupational pension schemes and individual pension arrangements can be set up on this basis.

Life assurance companies offer various individual services in relation to private funded pensions. They would also typically offer a ‘bundle’ of these services as a broad investment and administration

⁶ A unit-linked fund is an investment plan, which combines your money with money from other investors and buys units in a fund. The number of units you get depends on how much you invest and the price of the units at the time you buy.

package to companies and trustees (in respect of occupational pension schemes) or to individuals in the case of PRSAs, RACs and Buy Out Bonds. This would include administration and record keeping services on behalf of the client. In addition, the life company may also provide an investment management service on a standalone basis involving life assurance and annuity policies.

The total number of non-insured pension arrangements is small compared to the number of insured pension arrangements and would be more likely to arise in the case of larger pension schemes.

1.4.4 Third Party Administrator (Non-Insured Pension Arrangements)

In the case of non-insured occupational pension arrangements, a third party administrator which, in general is not a life company, is appointed to act as the administrator of the scheme. This administrator, in providing administration and record keeping support to the scheme, will generally charge the sponsoring employer a fee based on the number of pension scheme members and the range of services to be provided. In such circumstances a separate investment manager, being independent of the third party administrator, would be appointed to carry out the investment mandate of the pension scheme.

1.4.5 Investment Managers

In an insured pension arrangement, the investment management is typically provided by the asset manager of the life assurance company. Where pension products are set up on a non-insured basis, the investment function is typically provided by a third party investment manager on an 'investment only' basis. As such, there is typically a separation between the role and responsibilities of the investment manager and registered administrator. This type of structure is predominant in larger pension schemes and 'bespoke' individual pension arrangements for 'high net worth' individuals.

Pension funds are invested for a significant period of time and providers typically offer a wide range of pension investment funds to meet client expectations. The investment manager will invest funds and manage the portfolio with a view to meeting the client's investment objectives. The investment manager will incur costs in the management of funds such as the cost of research, resources (including salary costs), trading, custodianship and reconciliation amongst many others.

Central Bank information as of September 2012 indicates that there are 124 firms authorised to provide investment services under the Markets in Financial Instruments Directive ("MiFID")⁷. Firms established in the State are authorised by the Central Bank under the MiFID Regulations to provide specified investment services, two of which may be investment advice and/or discretionary portfolio management services. Not all of the MiFID authorised investment firms actively provide either investment advice or discretionary management services and not all may be involved in the Irish pension marketplace. In addition a number of overseas investment managers operate within the Irish marketplace.

1.4.6 Pension Advisers

For the purposes of this report, the term 'Pension Adviser' encompasses a relatively wide range of parties and includes 'Intermediaries' (also often referred to as brokers) and consultants who advise both companies and individuals in relation to the set up and on-going management of various pension

⁷ See <http://www.centralbank.ie/regulation/industry-sectors/investment-firms/mifid-firms/Pages/legislation.aspx>

types. As the title suggests, the role is advisory in nature and pension contributions are not invested directly with advisers but with the pension provider.

The Central Bank regulates Intermediaries that are engaged in assurance mediation which includes mediation in relation to insured pension products. Central Bank records indicate that approximately 2,000 intermediaries are authorised to provide pension and investment advice in Ireland. In general intermediaries are remunerated in one of two ways, through a commission payment from the company that is selling the pension product to their client or, alternatively, through a fee structure agreed directly with the client to whom advice is being given.

Chapter 2 - Explaining Pension Charges

- Overview of Pension Charges
- Pension Charging Events – Disclosed Charges
- What Costs Gives Rise to Pension Charges?
- Pension Charging Events – Non-Disclosed Charges (Implicit Costs)
- Lifecycle of Pension Costs
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Chapter 2 - Explaining Pension Charges

2.1 Overview of Pension Charges

The charges associated with provision of pension services occur at various stages of the pension plan lifecycle. These charges can be incurred at the initial setup stage, during the accumulation or contribution phase and when a member exits from a plan.

The cost of these charges can be borne by either the employer or the member/beneficiary depending on the pension plan arrangement. Where a person is a member of an employer sponsored occupational scheme the distribution of costs between the employer and the scheme member will be determined by the type of pension arrangement. This will differ depending on whether the scheme is defined benefit or defined contribution. In turn, within DC schemes, the distribution of costs will also be influenced by whether the scheme is insured or non-insured. In the case of an individual pension plan the costs will, by their nature, be borne by the policy holder.

2.2 Pension Charging Events – Disclosed Charges

The types of pension charging events that can arise during the lifecycle of a pension plan include:

- Annual management charges – charge associated with the costs of fund management;
- Contribution charge – typically an umbrella term used to describe pension charges that apply to member contributions and typically made up of;
 - Allocation rate* - The percentage of the members contribution that actually goes towards the purchase of units. This amount is net of any fees that may be incurred upon initial investment and is effectively the amount that is exposed to the investment.
 - Bid Offer spreads* – similar to the allocation rate where not all member contributions are invested in the fund. In unit-linked investment contracts, the difference between the price at which units can be purchased (“Offer” price) and the price at which they can be sold back to the investment manager (“Bid” price) on any given day.
- Policy fees – a monthly or annual fee levied by a life assurance company to cover administration costs;
- Exit Penalties – Fee or cost applied to policy holder for early exit from policy.

For the purposes of this report, the costs detailed above will be referred to as ‘disclosed charges’ and analysis will focus on the cumulative impact of these disclosed charges.

2.3 What Costs Gives Rise to Pension Charges?

There are various costs which are incurred in the day to day operation of a pension scheme which give rise to charges including but not limited to:

- Distribution or sales costs;
- Consultancy and advisory costs;
- Administration costs – for example costs associated with record keeping, the provision of annual reports and benefit statements;

- Other regulatory costs (such as professional trusteeship, audit fees etc.);
- Costs associated with actuarial compliance (such as Actuarial Valuation Report, Actuarial Funding Certificate etc.);
- Legal costs;
- Costs associated with the provision of risk benefits.

2.4 Pension Charging Events – Non-Disclosed Charges (Implicit Costs)

While investment managers disclose an associated annual management charge related to the investment of pension assets, these disclosed charges, referred to above, do not take into account other additional underlying costs on pension investment funds. For the purposes of this report, these underlying non-disclosed costs are referred to as ‘implicit costs’. In addition to an analysis of the impact of disclosed costs, this report will also focus on the cumulative impact of implicit costs. Implicit costs relate to the operation of the investment fund and can be summarised as:

- Operational Costs (such as custodian fees, trustee fees, audit fees etc.);
- Trading Costs (typically brokerage commissions payable when an asset of the fund is bought or sold);
- Stamp Duty and other taxes (taxes related to share dealing in certain jurisdictions).

The impact of these implicit costs is reflected in unit fund prices⁸ and thus have an impact on scheme/member values. Previous pension cost studies have generally not focused on analysis of such costs.

2.5 Lifecycle of Pension Costs

The research undertaken for this report considered both member and employer pension costs. However, the analysis primarily focuses on the impact of costs on the individual member as the pension recipient. This involved tracing the lifecycle of pension costs from the initial set-up, through the accumulation phase up to the point of retirement.

In this context the following lifestyle approach to pension charges as they arise within each lifecycle phase was developed to provide a structured classification of costs incurred:

Set Up Phase	Accumulation Phase	Exit Phase
Allocation Rates	Annual Management Charges	Exit Penalties on Transfer
Bid-Offer Spread	Policy fees	Entry Costs to Post-Retirement Vehicles
	Implicit Costs	

Various extra costs incurred in the operation of a pension scheme can be incorporated in different ways into the charges detailed above (which will increase the relevant charge to the client). In this way the actual charge applying under each heading may vary from scheme to scheme depending on the breakdown of services being provided for this charge.

⁸ Unit fund prices apply where assets are invested in unitised funds, that is, where the underlying value of the assets, less any charges applying, is divided into a number of units and the value of the units fluctuates in line with value of the underlying assets held.

2.6 Bundling of Costs

There is a relatively widespread practice of ‘bundling’ of costs within the pensions market. For example this can occur where pension advisers/registered administrators agree a total fee with the trustees of an occupational pension scheme for the provision of all services to the scheme. Other examples of bundling of costs is where a life assurance company will include the costs of administering a scheme through the annual management charge or include the distribution (commission) costs through an increase in the annual management charge or through a reduction in the allocation rate. As such, the cost is applied as an annual fund management charge, but it in some part relates to administration or distribution costs.

The Green Paper on Pensions (2007) refers to such practices and acknowledges resulting difficulties in identifying and disaggregating services provided. In recognising these difficulties, this report focuses on the cumulative impact of bundled costs and does not seek to disaggregate individual costs elements.

2.7 Distribution Costs (Commission)

Within the pensions industry pension advisers are often remunerated by pension providers for the distribution of pension products and such payments are a cost of distribution to the pension provider. The form of remuneration varies by sales channel. Where an adviser acts as an intermediary the remuneration is a commission payment from the pension provider. Where the adviser is a direct sales agent of the pension provider, the payment may instead take the form of salary and bonus. Commission based payment is prevalent within the pensions industry and has a direct identifiable impact on pension charges. For this reason the report focuses solely on this form of distribution costs.

When a pension product is arranged through a life assurance company via a pension adviser, and the basis for their remuneration is a commission payment, there are a number of potential constituents of the commission payment:

- *Initial and Renewal commission* - generally based on any pension contribution made in Year 1 and on any years the policy is in existence thereafter. For example on a 25/3⁹ commission basis, where a member pays a premium of €6,000 per annum. The commission paid by the policy provider to the adviser would then be 25% or €1,500 in year 1 and 3% or €180 for every year thereafter. This commission may also include a percentage of any increase in pension contributions in future years. Where pension contributions are being made based on a percentage of salary, if the salary levels increase the initial commission is generally paid on the amount of any increase in future periods;
- *Trail/Fund-Based commission* - rather than being based on contributions made, fund based commission is calculated and payable based on the value of a pension fund and is paid on an on-going basis, and up to the point where pension benefits are drawn on retirement;
- *Override or Volume Based commission*¹⁰ - financial services firms may seek to remunerate advisers and intermediaries who generate volumes of business by paying additional levels of commission, over and above which they might pay generally. Such commission arrangements contain

⁹ Typically this is age driven. The 25% is 1.25% by term to normal retirement age to a max of 25%. If the policy is set up at aged 55 the payment will be less than 25% ie 1.25% X 10

¹⁰ The 2012 Consumer Protection Code has introduced new requirements in relation to the payment of override commission: ‘Where a *product producer* distributes its products to *consumers* through an intermediary and pays commission to an intermediary based on levels of business introduced, the *product producer* must be able to demonstrate that these arrangements do not impair the intermediary’s duty to act in the best interests of *consumers*; and do not give rise to a conflict of interest between the intermediary and the *consumer*.’

conditions such as a level of persistency i.e. the business is retained by the life assurance company for a specific period. As a result, the level of override commission payable will differ by adviser, and by the life assurance company in question. Override commission has no impact on pension pricing structures. As a result the report does not include analysis of override commission.

Where a commission is paid by a pension provider to a pensions adviser, the cost of this commission is typically reflected in increased pension charges levied by the pension provider and incurred by the policy holder.

Distribution costs can also relate to the sale of pension products by direct sales channels of the life assurance company. A commission payment is not be payable as the sales representative is an employee of the company. There may be some unique examples where direct sales teams are remunerated by commission but this is not the norm and would not apply to the majority of circumstances. Instead the cost associated may be built into the pension charging structure of the pension contract and the costs of the scheme are higher as a result.

2.8 Who Funds the Charges arising from Pensions Costs

For employer sponsored occupational pension schemes there can be a sharing of the impact of pension charges between the member, the employer and the trustees (although ultimately trustee costs are generally met by the employer). The charges relating to individual pension arrangements are almost always borne by the individual policy holder. Table 2.1 details common pension administration costs incurred and the party who bears the impact of the charge that is levied by the service provider.

Table 2.1: Who Bears the Impact of Pension Charges?

Type of Scheme	DB Employer	DC Employer	DC Individual	PRSA Individual	RAC Individual
Pension Consulting / Advisory services	√	Employer/ individual	√	Generally only at set- up	√
Record keeping, administration and member service	√	√	√	√	√
Asset Consulting	√	√	Likely Employer	N/A	N/A-
Asset Management, brokerage and custody	√	√	√	√	√
Audit	√	√	Likely Employer	√	√
Legal	√	√	Likely Employer	√	√
Governance (including Trustees costs)	√	√	Likely Employer	√	√

2.9 Practical Application of Pension Charges

The type of pension arrangement will itself largely dictate the structure and application of service charges. An example of the application of charges provided below illustrates how various charges

interact and can impact on the value of a pension. This example could apply to members of a DC insured pension scheme and to individual pension arrangements.

Base Assumptions

Allocation rate: 96%
 Bid-Offer spread 5%
 Policy fee €3 per month
 Annual Management Charge 1% per annum (reflected in the unit price)

Day 1

€1,000 contribution made \Rightarrow 96% allocation rate, so €960 is applied to purchase units \Rightarrow Offer price is €1.00 – so 960 units are bought

A Bid-Offer Spread of 5% applies (Offer price is €1.00; Bid price is €0.95), meaning that the value of the fund where it encashed on Day 1 is: 960 units x Bid Price of €0.95 = **€912**

Impact of charges = €88.00 – all related to Allocation Rate / Bid Offer spread

Year 1

Underlying assets increase by 10%; Annual Management Charge of 1% per annum applies

960 units \Rightarrow Policy fee of €3 per month applies- over the course of the year 36 units are encashed (at offer price of €1.00 each) \Rightarrow 924 units remain

Growth in unit price is $10\% \times (1 - 1\% \text{ AMC}/12) = 9.9\%$.

At end of the year, Offer price is €1.099; Bid price is €1.0441 – both to 4 decimal places)

Encashment value: 924 units x Bid Price of €1.0441 = **€964.75**

Impact of charges = €37.46 – split €36.55 in policy fees; €0.91 in Annual Management Charge

Month 101

Continued contributions and investment performance have resulted in a position where 10,000 units are held. Offer price is €3.00; Bid price is €2.85 – encashment value of the fund is €28,500.

10,000 units \Rightarrow Policy fee of €3.00 per month applies- over the course of the year \Rightarrow 9,988 units remain

Underlying assets remain flat over the year; Annual Management Charge of 1% per annum applies

Growth in unit price is $0\% \times (1 - 1\% \text{ AMC}) = -1.0\%$

Unit price reduces by 1.0% (Offer price is €2.9700; Bid price is €2.8215 – both to 4 decimal places)

Encashment value: 9,988 units x Bid Price of €2.8215 = **€28,181.14**

Impact of charges = €318.86 – split €36.00 in policy fees; €282.86 in Annual Management Charge

2.10 Assessing the Impact of Pension Charges - Reduction in Yield

As has been detailed, there is a wide range of possible pension charges. The manner in which these charges are presented and the complexities involved in understanding what they represent presents a difficulty in easily identifying their impact and comparing across products.

To address this problem a 'Reduction in Yield' (RIY) approach can be used. The Reduction in Yield is a single percentage figure used to express the impact of all charges on a savings, investment or pensions policy over a period of time. It sets out the reduction in the yield (or return) that would otherwise have been provided if the policy carried no charges at all. All other things being equal, a prospective purchaser would select the product with the lowest RIY as this would result in their accruing lower charges.

It should be noted that although RIY calculations provide a good basis for comparison between products, they will vary depending upon the assumptions used. This may include an assumed age profile and contribution level/frequency, i.e. whether or not pension contributions are stopped or continue throughout the life of the pension.

Consideration of pension charges generally focuses upon the RIY to maturity of the pension i.e. until a person retires. This calculates the cumulative impact of pension charges assuming that an individual saver continues to make contributions through to retirement age. However, in many cases the pension fund may not continue to maturity date and/or contributions may cease for a period of time. For example, due to the current economic environment many pension savers have experienced a change in their circumstances meaning they can no longer afford to continue contributing to a pension. Also, in today's more fluid labour market, a greater proportion of the population may have been a member of a number of pension schemes during the course of their working life. Alternatively, in certain circumstances, employers who sponsor pension arrangements may choose to reduce or cease pension contributions.

Notwithstanding the fact that an individual may cease contributions to a pension scheme before maturity, some of the charges identified within this report would continue to be payable in respect of the fund they have accumulated. For example, this would generally include an annual management charge and a policy fee. Only those charges that relate to the process of making contributions such as allocation rates and bid-offer spreads would cease to apply. For these reasons, and to demonstrate the differing impact of pension charges on funds throughout this report, as well as calculating 'RIY to Maturity', an RIY is calculated using a scenario where contributions cease after 2 years and 10 years respectively.

Chapter 3 - Research Approach and Methodology

- Introduction and Scope of the Research
- Identifying Information Sources
- Research and Methodology
- Key Stakeholders a- Developing Survey Questionnaires
- Presentation of Survey Findings Within the Report

Chapter 3 - Research Approach and Methodology

3.1 Introduction and Scope of Research

The work in this report was led by the Department of Social Protection, with the support of the Pensions Board and the Central Bank. The Pensions Board supported the survey of occupational pension scheme trustees and the Central Bank, the survey of life assurance companies, investment managers and pension advisers. Assistance was provided during the research and the preparation of the report by PricewaterhouseCoopers. The overall conclusions and recommendations in the report are those of the Department of Social Protection.

A primary objective of the research undertaken was to provide an insight into the breakdown of costs and charges relating to pension provision in Ireland with the goal of enhancing the understanding of the impact of charges levied on scheme members/policy holders. The research was designed to obtain comprehensive and detailed information on all charges incurred across the range of pension scheme types. Due to the complexities involved and the vast range of possible pension scenarios in place, it was recognised that it was not possible to achieve a complete compendium of all pension charges applying to every pension arrangement in the Irish marketplace. For example, certain individuals may consciously opt for pension arrangements with higher pension charges relative to other products as a result of the additional flexibility that these arrangements might offer. Small self-administered pension schemes and non-standard PRSAs are examples of schemes in this category. This report does not consider such 'bespoke' arrangements and focusses on those pension types utilised by the great majority of pension savers within the Irish marketplace.

The scope of the research focused on charges arising during the pension saving cycle from initial setup, through the accumulation phase up to and including the point of retirement. At the point of retirement, there are broadly two choices available to most individual pension savers: an annuity can be purchased; or the pension fund accumulated can be invested in an approved retirement fund (ARF). This report identifies the costs that can arise where an annuity is purchased and where the funds are invested in an approved retirement fund but does not consider the costs relating to any alternative option that may be pursued in retirement.

Private sector Additional Voluntary Contribution (AVC) arrangements are not included in the scope of this report. AVCs generally follow the form of the defined contribution arrangements to which they attach. The number of AVC arrangements attaching to defined benefit arrangements represents a small proportion of overall pension savings. Public sector AVC arrangements have been included in the scope of this report as they are a single product type.

3.2 Identifying Information Sources

In planning and undertaking the research, a number of the key stakeholders were identified for the purposes of obtaining information in relation to pension charges. Prospective respondents were invited to complete questionnaires that were specifically tailored for each group (and in certain cases, each sub group).

- Occupational pension scheme trustees – for those pension arrangements where trustees are in place;

- Life assurance companies – for those pension arrangements where life assurance companies were the predominant provider;
- Investment managers – in respect of charges and costs relating to investment management;
- Pension advisers – who often provide the link between trustees/employers/individuals and pension providers.

There is significant overlap and interaction between the key stakeholders in terms of services provided and charges/costs incurred. This overlap was used to verify and compare the responses of one group with the responses of other groups. This cross referencing approach was designed to provide both validation of information and to highlight any inconsistencies for further consideration. In many cases the information gathered related to the same service (i.e. one of the key stakeholders above was the provider of the service for which a charge was arising and another key stakeholder was the recipient of the service) and so anomalies, where different charges for a service were detailed, would be evident.

In addition to the identification of charges, the research also sought to provide insights into the transparency of the pension charges which apply. For this reason, the survey questionnaires were designed to identify trustee understanding regarding the level of costs incurred and of the particular service provided in relation to each cost.

Due to the nature (and commercial sensitivities) of the information being sought, appropriate measures were put in place to guarantee respondent confidentiality and anonymity at all stages.

3.3 Research and Methodology

In undertaking the research, pension arrangements were divided into the two main categories as outlined in table 3.1 below, i.e. group pension arrangements (occupational pension schemes where trust based structures exist) and individual pension arrangements (one member pension arrangements where typically no trust based structure exists).

Table 3.1: Survey Categories and Pension Type

Group Pension Arrangements	Individual Pension Arrangements
Defined Benefit Schemes	Retirement Annuity Contracts (Personal Pension Plans)
Defined Contribution Insured Schemes	Executive (One Man) Pension Plans
Defined Contribution Non-insured Schemes	Standard Personal Retirement Savings Accounts
Public Sector Additional Voluntary Contribution schemes	Buy Out Bonds

Information on pension charges was requested from the various groups of respondents in a manner that would facilitate an analysis of charges by pension type and would also identify how these charges were communicated. The key costs and charges differ by pension type and the research approach addressed this by segmenting the pensions market and costs associated. The disclosed charges identified were annual management charges, contribution charges i.e. allocation rate & bid-offer spreads, policy fees and exit penalties. For most DC insured schemes and individual pension arrangements, these disclosed charges are all that is required to develop a RIY calculation to identify the cumulative impact of charges on individual savers who participate in those schemes. However, this quantitative information does not provide any qualitative insight into the actual service giving rise to the pension charges being incurred. In addition, it is not sufficiently comprehensive to allow for an

understanding of the full costs and charges associated with DC non-insured schemes or DB schemes. For these reasons, additional information was gathered on various costs incurred as follows:

- Distribution or sales commission costs;
- Consultancy and advisory costs;
- Administration costs – such as record keeping costs, and the provision of annual reports and benefit statements;
- Other regulatory costs (such as professional trusteeship, audit fees etc.);
- Costs associated with actuarial compliance (such as Actuarial Valuation Report, Actuarial Funding Certificate etc.);
- Legal costs;
- Costs associated with the provision of risk benefits.

3.4 Key Stakeholders - Developing Survey Questionnaires

In developing the survey questionnaires, it was considered that a balance was required between the objective of gathering complete and comprehensive information whilst endeavouring to secure a reasonable response level. It was considered that some market participants were more likely to respond than others and the nature and range of the responses was likely to vary.

Complete questionnaires used for each group can be found in Appendix 1 . In relation to life assurance companies and investment managers it was anticipated that relatively significant levels of information with high levels of accuracy and detail would be made available. Pension advisers were also identified as being able to provide significant levels of information.

In relation to trustees, in selecting the survey samples, particular attention was afforded to identifying a representative spread of schemes. The Pensions Board was able to provide individual scheme information in a manner which allowed the targeting of a range of schemes by the date of registration of the scheme and by scheme size. In this regard, a pilot study was developed which also sought to identify whether trustees considered they could reasonably provide the information being requested, whether this information was readily to hand or required significant efforts to source, and whether the responses from the pilot would accurately and comprehensively reflect the underlying scheme charges.

The pilot trustee survey questionnaire was sent to 5 DC schemes and 5 DB schemes. The feedback received in the responses was that the information sought was possible to provide but that it was a significant undertaking. A particular issue that arose was the level of breakdown of pension costs that is provided on an on-going basis. For example, within DB schemes, the pilot survey identified that the total level of pension costs being incurred was generally relatively understandable and available, but that the breakdown of these costs into their component parts was much less readily available.

Based on feedback and outcomes of the pilot, a number of changes were made to the trustee questionnaire which primarily involved simplifying the information being sought. In developing the final questionnaires, it was recognised that that there were many different types of trustees, with trustees of DB schemes dealing with a greater range of costs and charges, versus, for example, trustees of DC insured schemes.

In advance of the survey of life assurance companies, checks were made directly with a number of companies to ensure it was feasible to provide the material being sought. As a result a number of amendments and clarifications were made to the final survey.

3.4.1 Key Stakeholder Survey – Trustees

Separate questionnaires were developed for each of the three categories of occupational pension arrangements set up under trust: DC insured, DC non-insured and DB schemes. Trustees were specifically requested to provide the information without the help of their pension provider or pension adviser. While acknowledging that acceding to such a request may not always have been possible, it was hoped that by doing so, and by allowing the trustee advise where they were 'unsure' regarding the information sought, responses would provide an insight into the availability and transparency of the costs associated with occupational pension schemes. A summary of the information requested and why the data requirements were different for each type of pension arrangement is set out below.

3.4.2 Key Stakeholder Survey – Trustees - DC Insured Schemes

The DC insured survey sought to identify the total charges of these schemes and the services which gave rise to these charges. The questionnaire sought information on scheme characteristics and identify following charges which are typically applied to DC schemes:

- Contribution charges - allocation rates & bid-ffer spreads;
- Policy fees;
- Exit penalties;
- Variances in annual management charges.

Where policy fees exist many employers will bear such charges and trustees were asked to confirm, where applicable, which party bears these charges. Trustees were also asked if charges are typically disclosed to scheme members.

Trustees were requested to confirm how pension advisers are remunerated, whether by fees or commission. Where more than one remuneration arrangement existed, trustees were asked how these arrangements overlap. In seeking to identify the commission mechanisms most often used in the marketplace, trustees were asked to break down commission arrangements into:

- Initial commission (payable on new pension contributions and future increases);
- Renewal commission (payable on annual contributions);
- Fund\Trail based commission (levied upon fund asset values);

Having identified how advisers are remunerated the survey then queried what services are provided in respect of these commission payments. Respondents were asked to break down adviser costs and to identify where such costs were normal or exceptional.

3.4.3 Key Stakeholder Survey –Trustees DC Insured Scheme (additional abridged survey)

During the course of the research, and with reference to the significant number of DC insured schemes, the survey sample was expanded. An abridged version of the DC insured survey was developed which aimed to capture the disclosed pension charges that impacted directly on individual member fund values. This abridged version was sent to 521 schemes which had members sizes of between 1 and 50, this being the largest segment of the DC pensions market.

3.4.4 Key Stakeholder Survey – Trustees DC Non-insured Schemes

Under a DC non-insured scheme a significant proportion of scheme administrative costs can be borne by employers. The DC non-insured survey sought to identify the pension costs and charges incurred and asked trustees to detail charges and the services that gave rise to these charges. Trustees were again offered the opportunity to identify where they were unsure of the breakdown of total costs.

As before, information on a range of scheme characteristics was gathered including scheme membership size, contribution levels, scheme assets, annual management charges for investment of assets and costs of risk benefits. The survey of DC non-insured schemes also aimed to provide additional information in relation to the prevalence of remuneration agreements regarding the use of fees versus commission.

To gain a greater understanding of the transparency of pension charging practices across pension arrangements, trustees were also asked if charges are typically disclosed to scheme members.

3.4.5 Key Stakeholder Survey - Trustees DB Pension Schemes

Under a DB scheme pension costs are generally borne in their entirety by the employer as opposed to the members of the scheme in question. The DB survey gathered information on each scheme including:

- Membership size;
- Contribution levels;
- Scheme assets;
- Current scheme status/position – Minimum Funding Standard;
- Annual management charges for investment of assets;
- Cost of risk benefits.

In addition, the following details regarding scheme fees payable to pension advisers were requested;

- Administration costs and pension payroll costs;
- Trustee meetings and member presentations;
- Investment consulting advice;
- Advice relating to redundancies, mergers and acquisitions or other similar corporate activity;
- Pension restructuring advice;
- General pensions advice;
- Actuarial compliance;

- Pension accounting.

Trustees were offered the opportunity to identify where costs were normal i.e. expected to be repeated year after year, and where costs were exceptional in nature. Finally trustees were asked how advisers were typically remunerated i.e. through a fee structure or commission payment.

As each DB scheme will operate an investment strategy appropriate to their own needs, trustees were asked to identify the annual management charges for common funds in which the scheme assets were invested (identified as Managed Funds, Global Equity Funds, Bond Funds and Cash Funds incorporating both active and passive mandates). Such fund types were selected to allow the greatest comparability of costs across schemes.

3.4.6 Trustee survey - Data Gathering Process

When preparing the group pension surveys, a sample of 1,015 Pensions Board registered schemes were selected randomly, though in a manner which resulted in a representative range and volume of schemes (see table 3.2). The first survey covered approximately 500 DC insured and non-insured and DB schemes. The second survey covered covered approximately 500 DC insured schemes with a membership of 1 to 50 to ensure appropriate representation (as numbers of schemes in this particular segment of the pension market are particularly large).

Table 3.2: Total Schemes Surveyed by Scheme Type/Size and Response Rate

Membership Size	Scheme Type	Scheme Type	Scheme Type	Total Sample
	Defined Benefit Schemes	Defined Contribution Insured Schemes	Defined Contribution Non-insured Schemes	
1 to 50	59 (14 or 24%)	536 (127 or 24%)	25 (10 or 40%)	620 (151 or 24%)
51 – 500	108 (53 or 49%)	187 (62 or 33%)	54 (37 or 69%)	349 (152 or 43%)
501 – 1000	30 (25 or 83%)	8 (4 or 50%)	8 (8 or 100%)	46 (37 or 80%)
Totals	197 (92 or 47%)	731 (193 or 26%)	87 (55 or 63%)	1015 (340 or 34%)

The Pensions Board contacted scheme trustees to request participation in the research process by registering their pension scheme on the Board’s website and providing the scheme Pension Board number and a contact email address (to allow for follow up of information as required).

Each trustee was then provided with a link to the appropriate survey questionnaire for completion. Of the 1,015 scheme trustee groups contacted to request participation in the survey process, 447 or 44% initially responded and registered their details with the Board as the first step of inclusion in the process. However, 107 of these did not participate further in the process with a final total of 340, or 34% of those initially contacted, completing the survey. No specific reasons for non-engagement were recorded. Whilst there is a regulatory relationship between the Pensions Board and scheme trustees, and a stronger rate of return would have been preferable, it should be noted that participation in the research process was voluntary in nature.

3.4.7 Key Stakeholder Survey - Life Assurance Companies

Each of the life assurance companies operating in Ireland and currently providing pension products to the marketplace was included in the research. Companies which may have ceased operating in the past or have closed to new pension business were excluded from the research. Overseas pension providers were also excluded. The life assurance company questionnaire was issued by the Central Bank to 14 companies with 12 companies responding. The questionnaire covered the following pension arrangements:

- Group Pension Schemes – Defined Contribution;
- Retirement Annuity Contracts;
- Executive Pension Plans;
- Buy Out Bonds;
- Approved Retirement Funds.

The questionnaire sought information on:

- The various cost structures available to pension arrangements set up today for a range of different pricing factors (such as age profile, contribution flows, transfer of existing assets) to show the variety of structures that exist and to identify sensitivity to such pricing factors. The questionnaire sought information on the gross allocation rate, bid-offer spread, policy fee, annual management charge and exit penalties;
- Pension cost structures on legacy business to allow a comparison with new and legacy cost structures;
- The current contribution flows into pension arrangements pre and post 2006;
- The schedule of commission options for a selection of various pension types and a breakdown of the most prevalent commission options chosen for business written between 1 January 2010 and December 2011 and within the pension back book of legacy business;
- Investment fund options including information on the level of assets under management for each fund type and the fund managements costs incurred including custody fees, stamp duty and brokerage commission.

The information provided by the life assurance companies in response to questionnaires was sent directly from each respondent to the Central Bank. The Central Bank required that each respondent signed a relevant waiver (required under Section 33AK of the Central Bank Act 1942) to allow use of the information.

3.4.8 Key Stakeholder Survey - Investment Managers

In total the 9 largest investment managers currently providing investment services to a significant number of Irish pension arrangements were invited to participate in the research, 8 of whom completed and returned questionnaires. Respondents were asked to provide information relating to all pension investment fund options, both open and closed. This information included annual management charges and level of assets under management. To better understand the additional implicit fund costs, investment managers were also asked to provide details of additional costs such as:

- Custody costs;

- Stamp Duty;
- Brokerage fees (trading commissions).

Investment managers were further asked to estimate the total impact of such costs for the four largest funds, ranked by assets, which they manage.

3.4.9 Key Stakeholder Survey - Pension Advisers

In total 60 advisers were invited to participate in the research, 37 of which completed and returned questionnaires. Questionnaires were designed to obtain an understanding of pension adviser costs, to provide visibility on the services provided by pension advisers, methods for disclosing remuneration and the most common remuneration arrangements. Advisers were contacted by the Central Bank and, in relation to business written in the previous two years, were asked to confirm;

- Number of life assurance agencies held;
- Three life assurance companies most supported;
- Remuneration model most prevalent (fees or commissions);
- How remuneration structures are disclosed;
- Factors that influence remuneration structures;
- Services provided (at set up phase and on an on-going basis over a longer term basis);
- Tailoring of service proposition.

The adviser survey was designed to identify the most common commission structures for various pension types i.e. initial commission, renewal commission, single premium/transfer commission or fund based trail commission. To this end, advisers were asked to confirm the most common commission terms typically chosen for a selection of pension products including:

- DC insured schemes;
- Retirement Annuity Contracts;
- Executive Pension Plans;
- PRSAs;
- Buy Out Bonds;
- Approved Retirement Funds (and Approved Minimum Retirement Funds);
- Annuities.

The pension adviser survey was designed to allow cross referencing with the information provided by trustees and life assurance companies. Survey outcomes would also allow a greater understanding of advisory costs and provide details as to how remuneration arrangements compare amongst a range of advisers of varying scale.

3.4.10 Key Stakeholder Survey - Public Sector AVC Pension Advisers

Within the overall advisory market, a small number of advisers have exclusive agreements with particular public sector trade unions to provide AVC facilities to members. With reference to the fact that less than 10 firms were involved, a separate and modified adviser survey particular to the nature of public sector AVC arrangements was developed. The information was sought from pension advisers by the Central Bank and included:

- Trade Union represented;
- Remuneration model most prevalent (fees or commissions);
- Factors that influence remuneration structures;
- Services provided (at set up phase and on an on-going basis);
- Life assurance company used to facilitate the AVC scheme in question;
- The charging structure of the scheme in question.

In most cases public sector AVC pension advisers will have a scheme specific charging structure agreed. Therefore the pension adviser was asked to confirm the following terms available for the AVC scheme in question:

- Allocation rates;
- Annual management charges;
- Bid offer spreads;
- Exit penalties;
- Other (non typical) pension costs (e.g. deduction for facilitating contributions made at source from salary).

To better understand the commission structures most favoured (where relevant) for the AVC scheme in question, pension advisers were also asked to advise the commission terms typically chosen in respect of:

- Initial commission (on regular premiums and future increases);
- Renewal commission;
- Trail/Fund based commission.
- Single premium/Transfer commission;

3.5 Presentation of Survey Findings within the Report

Using the survey responses of the key stakeholders, the analysis throughout this report is presented by pension category i.e. occupational or individual pensions, and by pension type i.e. DC/DB/PRSA/RAC etc. Due to the individual nature of each, certain elements of analysis within each will be particular to that pension type. However, wherever possible, presentation of outcomes is structured in a common format for consistency and comparability purposes. As such, within each chapter, the structure outlined below will be used to detail the survey responses of relevant key stakeholders in relation to charges.

3.5.1 Disclosed Pension Charges

For each pension type, the responses of relevant key stakeholders in relation to the disclosed pension charges that impact on the scheme member will be detailed. These disclosed charges are;

- Annual management charges;
- Allocation rates and bid-offer spreads;
- Policy fees;
- Exit penalties (where applicable).

3.5.2 Commission and Distribution Costs

Where fee arrangements are not in place, pension advisers may instead be remunerated for services provided via commission payments from a life assurance company. To recoup the costs of this commission, life assurance companies will increase pension charges. This can be done in different ways and a universal approach to reflecting commission is not evident. The various approaches used (i.e. reducing allocation rates, increasing annual management charges etc.) will impact members differently depending upon the circumstances of the member, for example their age and period to retirement.

The research sought to identify both the prevalence and levels of commission payments within the pensions industry and sought information from trustees, life assurance companies and pension advisers (intermediaries). Within each chapter of the report the prevalence and levels of commission are outlined based on information received from the most appropriate party. This information was independently verified to confirm consistency.

In each chapter the various commission constituents that impact pension charges are outlined i.e. the levels of initial commission, renewal commission and fund based trail commission. These are presented in percentage terms. Both initial commission and renewal commission are based on a percentage of contributions. Fund based trail commission is based on assets under management.

Each chapter outlines the commission structures evident for both pension products recently set up i.e. since 2010, and for legacy pension products already in place.

3.5.2.1 Research Approach to Varying Quality of Disclosures

A challenge which the research encountered was that the manner in which the life assurance companies disclosed the prevalence of commission structures was not consistent¹¹ across all companies, reflecting in part the level of variety within commission structures and the accessibility of the data. In addition the research identified significant variation in commission terms available to pension advisers today and commission terms applying to existing pension contracts. There is also an evident variation in what life assurance companies consider 'maximum' commission terms.

Such complexities resulted in the research needing to develop an approach to commission to allow a level of understanding as to the prevalence of commission arrangements within the marketplace. The research approach was to consider the detailed information provided from a number of life assurance companies (broadly representing 60% of 2010 contribution flows) and use this data to check for consistency against other, less comprehensive information provided.

This approach was designed to ensure the research findings are representative of the market place as a whole. The data provided by the life assurance companies in relation to commission prevalence was then sub divided into three commission categories to represent:

- 1) Maximum Commission¹²;

¹¹ The quality of information differed by life assurance company, by period being considered and by pension contract type. A number of life assurance companies provided detailed analysis of both the commission structures most often used and the percentage of business represented by such commission arrangements (including the effective weighted average commission) while others provided a range of commission structures that would be most prevalent.

¹² The research grouped commission arrangements with high levels of initial commission and / or renewal commission into this category.

- 2) Reduced or Partial Commission¹³;
- 3) Nil commission.

This approach would allow the research represent the varied format of information provided and highlight the prevalence of high commission structures within the marketplace.

3.5.3 Disclosed Costs - Impact of Identified Pension Charges on Members – RIY

For each pension type, an RIY is calculated as a single percentage figure and expressed as an adjustment to investment returns, which captures the effect of the total disclosed charges in each circumstance¹⁴. This approach is consistent with the approach taken to disclosures generally and with the calculation of a RIY as required by the Pensions Board for occupational pension schemes. It also allows comparability with other product types and jurisdictions where a similar approach is taken.

3.5.4 RIY – 2 Year, 10 Year and RIY to Maturity

A key assumption being made in the 'RIY to Maturity' calculation is that an individual pension saver will remain within that employment to retirement and will continue to make pension contributions over that period. As such, it is appropriate to consider alternative scenarios where an individual pension saver makes pension contributions for a shorter period of time.

Analysis for each pension type throughout the report also assumes contributions are made for 2 and 10 years only and the resulting RIY variance is highlighted. These examples reflect situations where an individual is in employment for a short period and then moves employment, but decides to leave the existing accumulated pension funds within the previous pension scheme. The purpose of considering such examples is to identify the potential impact on RIY where individuals have more fragmented careers and accumulate a number of smaller pots of pension savings.

In calculating the 2 and 10 year RIY and RIY to maturity for each pension type, an assumption is made that the individual begins making contributions at 35 years of age and an investment growth rate of 5% applies. Contribution rates vary by pension type and will be detailed where appropriate. The RIYs identified under the 2, 10 year, and contributions to maturity scenarios, are then converted to identify their impact on the notional value of member funds. This approach allows a simple calculation of the percentage value that pension charges represent. This is achieved by projecting the pension value at retirement if no pension costs exist versus the pension value at retirement with disclosed charges applied.

3.5.5 RIY – Investment Funds Used In Analysis

The RIY analysis contained throughout this report includes the associated investment management costs of Balanced Managed Funds and Consensus Funds. These funds were chosen for RIY analysis purposes due to their prevalence within the marketplace. The use of alternative investment funds, with differing annual management charges will impact the RIY's identified.

¹³ Where commission levels were evident but were less than those identified under max commission, the research grouped these commission arrangements as partial or reduced commission - on the basis that the adviser has chosen to reduce the commission payable from the maximum allowed.

¹⁴ See Chapter 2.10 for Reduction in Yield

It should be noted that Balanced Managed Funds and Consensus Funds differ considerably in both design and investment objective. Balanced Managed Funds are actively managed and seek to outperform an investment benchmark. Consensus Funds are passively managed and instead seek to replicate an investment benchmark. As a result the costs associated will differ.

As Balanced Managed Funds are attempting to 'outperform' they will thus include additional costs not applicable to Consensus Funds which operate to lower costs. Both funds are represented throughout this report but it should be noted that pension savers may have chosen to invest in Balanced Managed Funds for non-cost related reasons such as the differing objective outlined (or may in fact choose to invest in both types of fund).

3.5.6 Legacy Pension Schemes – Pension Charging Structures and Contribution Flows

When considering current pension charging structures it is also relevant to consider legacy charging structures. The long term nature of pension funding is such that contributions being made in 2012 may reflect pricing structures that were in force at the time the pension in question was originally established.

For the purpose of comparison, within each pension type, life assurance companies were requested to provide the most common charging structures that were available to insured pension schemes set up both 10 and 15 years previously. These timeframes were chosen to take into account the introduction and impact of disclosure of commission requirements, any market trends towards changing commission levels and the trends in pension charging structures more generally. This legacy pension information provided by the life assurance companies was compared to trustee survey responses.

In order to understand the prevalence of each pension scheme type in the marketplace today, life assurance companies were also requested to provide details of contribution flows within each pension type. Specifically they were asked to advise the level of contributions flowing into pension schemes set up within the last 5 years and flowing into pension schemes set up prior to the last 5 years.

Responses from life assurance companies to this question identify the percentage of contributions in respect of 2011 that were paid into pension contracts which were set up within the previous 5 years. For each pension type, this information is considered against trustee survey responses which highlight the percentage of schemes that had been reviewed/amended in the last 5 and 10 years respectively in terms of pension charging structures.

3.5.7 Impact of Additional Implicit or Non-Disclosed Charges

Within each pension type, analysis of RIYs identified initially focuses on disclosed pension charges and their impact on long term pension values. These charges are readily identifiable in survey responses and indeed many pension arrangements quote an RIY which would capture the impact of these charges.

However, as detailed previously, there is a level of additional costs that are not readily identifiable and which are not necessarily reflected in any RIY calculations. These costs typically relate to the underlying costs of investment management, for example, the costs of custodianship of the assets or

the transaction costs where assets are being bought or sold. Such costs are often referred to as 'implicit' or fund related investment costs.

Typically investment managers disclose annual investment management charges for the management of a pension mandate. This quoted (disclosed) annual management charge may not take into account all expenses incurred by the underlying pension fund. Additional fund level expenses, as detailed in chapter 2.4, can be incurred which impact on pension values.

Identifying and quantifying of implicit costs presents a number of challenges. For example different fund structures can result in different levels of costs being incurred. The majority of pension funds in Ireland are invested in 'unit linked' funds where the assets of the fund are not held in a segregated entity such as a trust but instead form part of the overall assets of the life assurance company. As a result the fund and the specific operational costs of the fund are not as readily identifiable. Other funds structures also exist which differ in design, for example UCITS¹⁵ and similar structures will incur trusteeship costs and a greater level of auditing / fund accounting costs, as compared to a unit-linked fund alternative. UCITS-type structures are set up under a separate trust and do not form part of a life assurance company's balance sheet. Disclosed costs are more readily identifiable within UCIT fund structures. UCIT's must be accompanied by a Key Information Document which outline the key features and disclosed costs related to the fund.

Another complexity is brokerage commissions and stamp duty. Brokerage commissions are incurred on share trading and are incurred by the investment manager to a stockbroker who affects the share trade. Thus the portfolio turnover, i.e. the aggregate amount of buying and selling of shares, of a fund will dictate the level of such costs. Those funds with larger turnovers of stock would be expected to incur the largest brokerage fees. Stamp Duty is a tax on share trading and can apply in particular jurisdictions. If an investment fund has holdings in such jurisdictions stamp duty will apply to trades. Thus this can be an additional cost incurred at fund level depending upon the geographical spread of investments within the pension fund in question.

Where brokerage commissions and stamp duty can be readily identified, the information provided will be historic in nature i.e. will relate to trades already made. Brokerage commissions and stamp duty that will apply in the future will be dictated by future investment decisions.

Costs will vary with activity, and while broadly static in any one year, they are charged as a percentage of the fund value, so as the fund value changes, the percentage impact changes.

In forming conclusions in relation to the levels of implicit costs identified within the report, it is important to highlight that the implicit costs provided by investment managers were estimations and applied only to the largest 4 funds of the investment managers by fund size, to identify what is most common in the Irish pension market. It should not be assumed that the same rates of implicit costs are consistent across the full range of pension investment funds available in the Irish marketplace. The spread of implicit costs within the marketplace as a whole will be wider, and there will be examples where implicit costs may be significantly higher than those identified.

¹⁵ Undertaking for Collective Investment in Transferable Securities - A public limited company that coordinates the distribution and management of unit trusts amongst countries within the European Union.

3.5.8 Research Approach to Additional Implicit or Non-Disclosed Charges

This level of uncertainty around the calculation of implicit costs means that there is no single right figure than can capture the quantum of implicit or fund level costs. To identify the levels of implicit costs that would be considered prevalent, and the impact of such costs on member pension values, investment managers were requested to detail additional implicit costs that apply to their four largest funds. For each pension type, this information is used to identify the potential impact of these additional costs on the long term pension values by extending the RIYs previously calculated to include these costs (which before the addition of implicit costs accommodate disclosed costs only).

Investment managers provided detailed information on annual management charges, total expense ratios, brokerage commission and stamp duty. Implicit costs were identified by taking the total expense ratio identified, subtracting the annual management charge (to identify the additional operational costs) and by adding the additional costs of brokerage commission and stamp duty (which are not reflected in total expense ratios).

In forming conclusions in relation to the levels of implicit costs identified, it is important to highlight that the implicit costs provided by investment managers were estimations and applied only to the largest 4 funds of the investment managers by fund size, to identify what is most common in the Irish pension market. It should not be assumed that the same rates of implicit costs are consistent across the full range of pension investment funds available in the Irish marketplace. The spread of implicit costs within the marketplace as a whole will be wider, and there will be examples where implicit costs may be significantly higher than those identified in this report.

3.5.9 Limitations of Research Findings

It should be recognised that the findings of the research may be influenced by a number of limiting factors. For example 'non respondent bias' is a consequence of research which relies on the provision of information from willing participants. Findings can only reflect the position of respondents that have provided information and thus those who have not participated in the research whether due to an unwillingness for any reason, an insufficient interest or any particular inability to participate, will not be represented.

The research findings are based on the totality of information received from the respondents. The reliability of information presented is dictated by the accuracy and completeness of this information. As such, this report necessarily relies on the accuracy of information voluntarily provided by the various parties who participated in the research. The nature of the research was such that it was not possible to verify individual responses.

While acknowledging these limitations, the report findings do represent a large range and number of pension scheme types and scheme membership sizes and are considered representative of various pension schemes currently in operation in Ireland.

Chapter 4 - Occupational Pension Schemes - Defined Contribution Insured Schemes

- Introduction
- Part A - Trustee Surveys: Member Pension Charges Identified
- Part B - Impact of Pension Charges on Members - Reductions in Yield
- Part C - Notional Impact of RIYs on Pension Values
- Part D - How do RIYs identified compare – Past and Present?
- Part E - Impact of Additional Implicit Costs
- Part F - Employer Considerations
- Part G - DC Insured - Summary and Observations

Chapter 4 - Occupational Pension Schemes - Defined Contribution Insured Schemes

4.1 INTRODUCTION

Defined contribution insured pension schemes represent a significant proportion of Irish pension schemes by membership numbers. Under a DC insured pension scheme, the trustees engage a life assurance company or group of companies to provide administration and investment management services. The life assurance company acts as the registered administrator. In addition, the trustees may engage a pension adviser to provide services such as pension consultancy advice in relation to the management of the scheme and member support.

Payment for services provided by the life assurance company is recouped through disclosed pension charging structures. The payment for services provided by a pension adviser can be paid directly by the trustees/employer in the form of a fee and/or by a commission payment paid directly by the life assurance company to the adviser. Where commission arrangements exist, the costs are borne by members through an increase in the disclosed charges imposed by the life assurance company. This typically occurs through a reduction in the allocation rate of member contributions and/or through an increase in the annual management charge. Survey outcomes indicate that trustee commission is payable to advisers in approximately 39% of occupational pension schemes with fee based engagements being more common. Where payments to advisers are instead made in the form of a fee paid by the trustee/employer, such costs are not borne by members. Thus they do not form part of disclosed member pension charges, as such costs are primarily borne by the employer.

In many circumstances, the burden of pension costs will be shared between members and sponsoring employers. The sponsoring employer may cover the cost of specific elements such as audit fees (a regulatory requirement where a pension scheme membership is greater than 100 members), policy fees and/or the costs associated with professional independent trustees. In other circumstances, the sponsoring employer will bear the cost of appointing professional advisers to the pension scheme, who will provide advice and support services to the pension scheme, such as trustee advice, member presentations and member one to one meetings/personal advice.

In addition to disclosed pension charges, DC insured pension schemes are also impacted by implicit (or non-disclosed) investment costs borne by the underlying investment fund through which the pension is invested.

Part A - Trustee Surveys: Member Pension Charges Identified

4.2 Trustee Surveys

In total, the trustees of 340 occupational pension schemes provided information relating to their scheme. Of the total responses received, 193 schemes were identified as DC insured pension schemes and can be broken down by the following membership size.

Table 4.1: DC insured scheme trustee survey respondents

Number of Members	Number of Trustee Survey Responses
1 to 50	127
51 to 500	62
501+	4

Trustees were asked to provide information in relation to the disclosed pension charges that impact on the scheme member which are:

- Annual management charges;
- Allocation rates\contribution rates;
- Bid-offer spreads;
- Policy fees;
- Exit penalties (where applicable).

4.2.1 Annual Management Charges

The trustees of a DC insured pension scheme will select a range of investment funds for members to choose from (typically provided by the same life assurance company who acts as the administrator) and, in particular, will choose a default investment fund for those members unable or unwilling to make a choice for themselves. Each fund will have an associated annual management charge which may differ due to a number of factors including (but not limited to);

- Type of assets held by the fund (differing asset types have various costs for e.g. property vs. equity);
- Geographical region (costs will differ in various countries e.g. emerging markets versus developed markets);
- Investment philosophy (active investment management versus passive investment management);

This annual management charge is not necessarily solely reflective of the cost of managing the investment fund. This can result from the practice of bundling of charges where a life assurance company will recoup other administration costs through the annual management charge. As a result the associated annual management charge will not only relate to the actual investment management costs but will also, at least in part, relate to other administrative costs of the life assurance company in question, such as record-keeping, processing of contributions received, production of scheme documentation and annual benefit statements etc. Commission payments to advisers can also be bundled into an annual management charge.

The total number of investment funds within the Irish marketplace is considerable and investment choices will differ from scheme to scheme. However, trends do exist which are applicable to a large proportion of the marketplace. The IAPF 2010 pension investment survey provided the following fund breakdown for DC pension schemes:

Table 4.2: IAPF 2010 Investment Survey Fund Breakdown

Defined Contribution Investment Split by Fund Options	End 2010 (2011)
	%
Cash and Bonds	16.7% (24.8%)
100% Equity	14.0% (18.2%)
Traditional Balanced (Peer Group Benchmark)	57.9% (45.5%)
Balanced with Alternatives > 10%	2.1% (2.5%)
Property	3.5% (3.9%)
Other Specialist Funds (Technology, Green, High Yield, Alternatives, Ethical)	5.8% (5.1%)

To ensure appropriate coverage, trustee surveys were designed to reflect this market information. Trustees were provided with a broad fund description of four types of actively managed funds (global equity, balanced managed, bonds and cash) and three types of passively managed funds (consensus, global equity and bonds) specifically chosen due to their prevalence within the marketplace. Respondents were asked to identify which of these fund types are provided to members of their pension scheme and to specify the associated annual management charge(s). The percentage of schemes offering such fund options is provided in table 4.3.

Table 4.3: Trustee Survey Responses - Prevalence of Investment Funds

Fund Type	% of Schemes where in use
Balanced Managed Funds	63%
Consensus Fund	60%
Passive Global Equity Fund	39%
Active Global Equity Fund	45%
Passive Bond Fund	35%
Active Bond Fund	40%
Cash Fund	54%

It is important to highlight that schemes may include a number of different fund options and each individual pension scheme may have members invested in a number of the fund types identified. Survey responses identified a range of fund charges applicable to each of the fund types. This report focuses on two specific funds i.e. balanced managed funds and consensus funds, due to their prominence within the pensions marketplace. Appendix 2 contains details for other funds which were also considered.

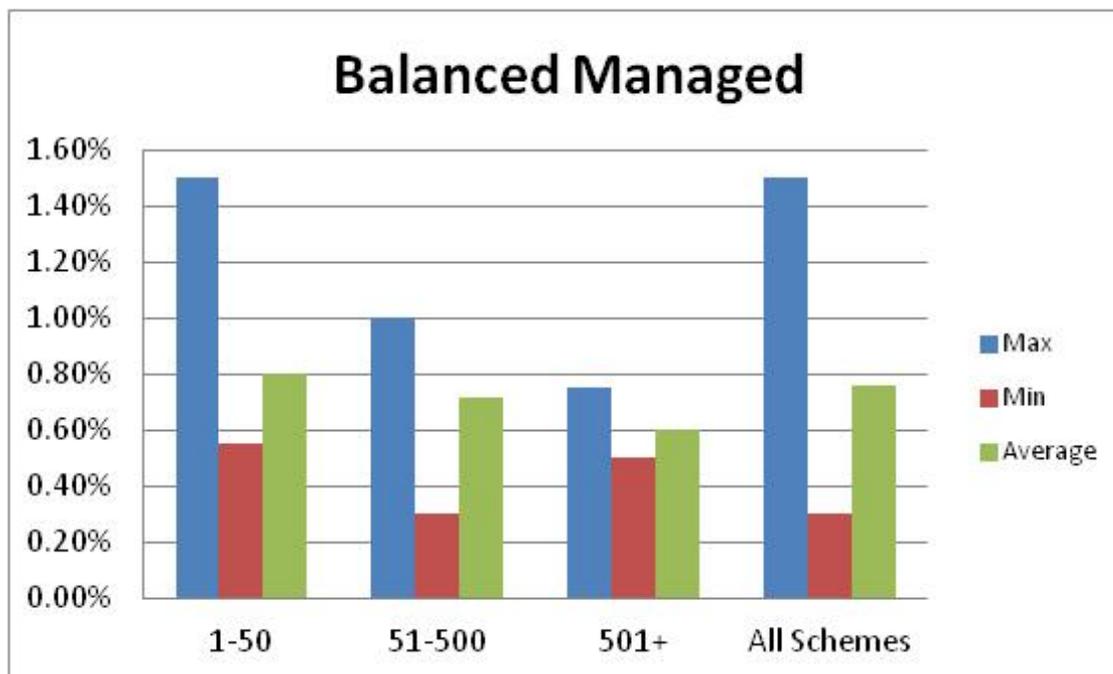
4.2.2 Annual Management Charges Identified – Balanced Managed Funds

DC insured trustee responses identified that balanced managed funds were the most prevalent fund type within DC insured schemes. The associated per annum annual management charges (AMC's) in relation to these funds are detailed in table 4.4.

Table 4.4: DC Insured Annual Management Charges for Balanced Managed Funds

Scheme Membership	1-50	51-500	501+	All Schemes
Maximum AMC	1.50%	1.00%	0.75%	1.50%
Minimum AMC	0.55%	0.30%	0.50%	0.30%
Average AMC	1.00%	0.71%	0.60%	0.76%

Chart 4.1: DC Insured Annual Management Charge by Scheme Membership Size



Comment: The research identified annual management charges of between 0.3% and 1.5% per annum for balanced managed funds for all scheme sizes. The findings suggest increased scale allows the achievement of lower annual management charges as the average charge reduces with membership size. Schemes with membership of less than 50 members reported an average annual management charge of 1% per annum versus an average charge of 0.6% for schemes with more than 500 members.

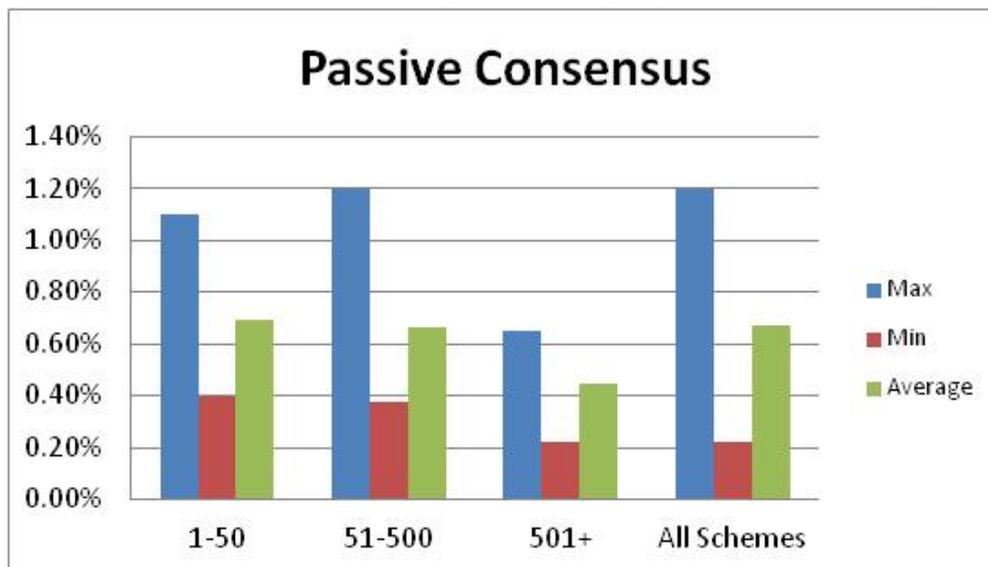
4.2.3 Annual Management Charges Identified – Consensus Funds

Trustee responses identified that consensus funds were the second most prevalent fund type within DC insured schemes. The annual management charges in relation to these funds are detailed in table 4.5.

Table 4.5: DC Insured Annual Management Charges for Consensus Funds

Scheme Membership	1-50	51-500	501+	All Schemes
Maximum AMC	1.10%	1.20%	0.65%	1.20%
Minimum AMC	0.40%	0.38%	0.22%	0.22%
Average AMC	0.69%	0.67%	0.45%	0.67%

Chart 4.2: DC Insured Annual Management Charge by Scheme Membership Size



Comment: The research identified annual management charges of between 0.22% and 1.20% for consensus funds for all scheme sizes. A similar trend to that of balanced managed funds is identified for consensus funds suggesting greater scale allows the achievement of lower annual management charges as the average charge reduces as the average membership size increases. Schemes with membership sizes of less than 50 members reported an average annual management charge of 0.69% versus a charge of 0.45% for schemes with more than 500 members.

4.2.4 Allocation Rates and Bid-Offer Spreads

Allocation rates represent the percentage amount of member contributions invested in the pension scheme net of any contribution charges. If the allocation rate is less than 100%, this reflects the fact that not all contributions are invested on Day 1. As an example, where the allocation rate is 95% of each €100 contribution on behalf of a member, only €95 is invested to purchase unit. This means that there is an effective charge of €5 on each €100 contribution made.

The impact of an allocation rate may be applied to both the contributions made by the member and those made by the employer on behalf of the member. However, it is the member who ultimately bears the cost of this charge by way of a reduced amount allocated to their individual pension 'pot' and thus a reduced pension scheme value over the long term.

Survey responses identified that one factor negatively impacting allocation rates is the payment of commission to an adviser. Where commission is reflected as a reduction in allocation rate, there is typically a one for one relationship i.e. a 1% increase in commission terms will be reflected by a 1% decrease in allocation rate.

Alternatively the commission payment may impact the annual management charge rather than the allocation rate. Where this circumstance exists there is no comparable direct correlation between the commission level and the annual management charge and the allocation rate is not impacted. In some circumstances there may be a combination of both practices. More recently, there has been a move away from commission being reflected in the allocation rate to instead being reflected through an

increase in annual management charge. The trustee findings represented in tables 4.4 and 4.5 are inclusive of commission (where applicable).

A bid-offer spread is the difference between the unit price the investment manager quotes to the investor to purchase units in a specific pension investment fund and the unit price the investment manager uses to sell units in a pension investment fund. If applicable this is 5%. This percentage differential operates as a charge which the member bears.

To an individual member, the net allocation rate (net of any bid offers spread and/or commission payments) is most relevant, as this represents the actual amount of contributions invested in the pension scheme. Trustees were asked to advise the gross allocation rate applicable to pension contributions and whether a bid-offer spread applies. They were also asked if commission payments are payable to an adviser.

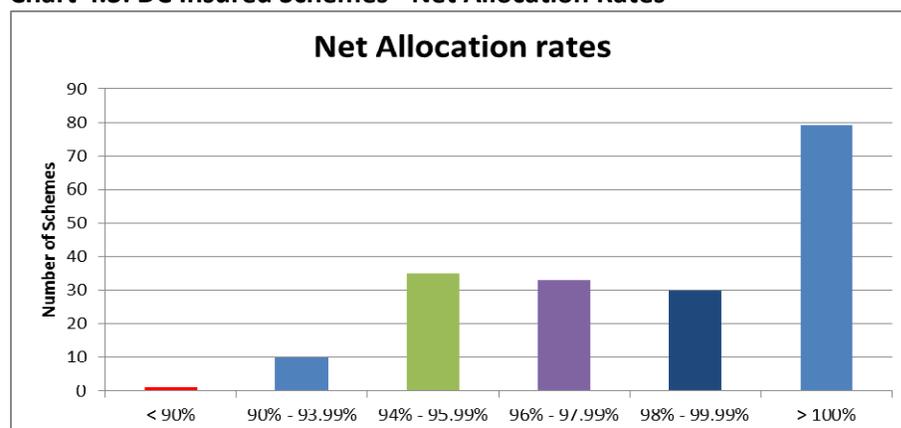
4.2.5 Allocation Rates Identified

A summary of net allocation rates (after the deduction of any bid-offer spread and or commission payments) identified by trustees is provided in table 4.6. This information is broken down by scheme size¹⁶.

Table 4.6: Net Allocation Rates identified by Trustees Allocation Rate:

	Scheme Size 1-50	Scheme Size 51-500	Scheme Size 501+	Total number of schemes
< 90%	1	0	0	1
90% - 93.99%	8	2	0	10
94% - 95.99%	27	7	1	35
96% - 97.99%	27	6	0	33
98% - 99.99%	15	14	1	30
≥ 100% ¹⁷	46	31	2	79

Chart 4.3: DC Insured Schemes - Net Allocation Rates



¹⁶ Of the total number of DC insured scheme trustees responding to the questionnaire, 5 did not provide details of allocation rates applying to their scheme and are not represented in table 4.6.

¹⁷ In such instances the life assurance company is offering incentives to a pension scheme by allocating greater contributions to the scheme than those received. These incentives are generally agreed where a life assurance company attracts a scheme from another life assurance company. In other circumstances the incentive may be agreed in order to retain a scheme that may otherwise move to another life assurance company.

Comment: The level of allocation rates advised varied by scheme. 42% of all identified schemes have an allocation rate of 100% or greater. 25% of all schemes identified an allocation rate of less than 96%.

Larger pension schemes typically confirmed higher allocation rates. At first glance it would appear that efficiencies of scale are particularly evident, but the results above may also indicate that there is a greater trend towards commission being payable in respect of smaller pension schemes, with a consequent reduction in allocation rates.

Trustees were requested to provide a single allocation rate applying to contributions. In some circumstances a life company may vary the allocation rate applying to contributions. This can include instances where there are single premium lump sums, transfers into a scheme from another pension scheme or larger regular premiums.

The net allocation rates advised above include schemes where a bid-offer spread is evident which represents approximately 39% of all schemes. Where a bid-offer spread applies, there is little variance in allocation levels with 5% typically advised.

39% of all schemes advised that commission is payable to an adviser. The incidence of commission arrangements varied with scheme sizes. 45% of schemes with less than 50 members advised commission payments. By contrast 25% of schemes with greater than 500 members advised of commission payments. It is not possible to confirm definitively the manner in which commission payments are reflected i.e. variations to allocation rates and annual management charges.

4.2.6 Policy Fees

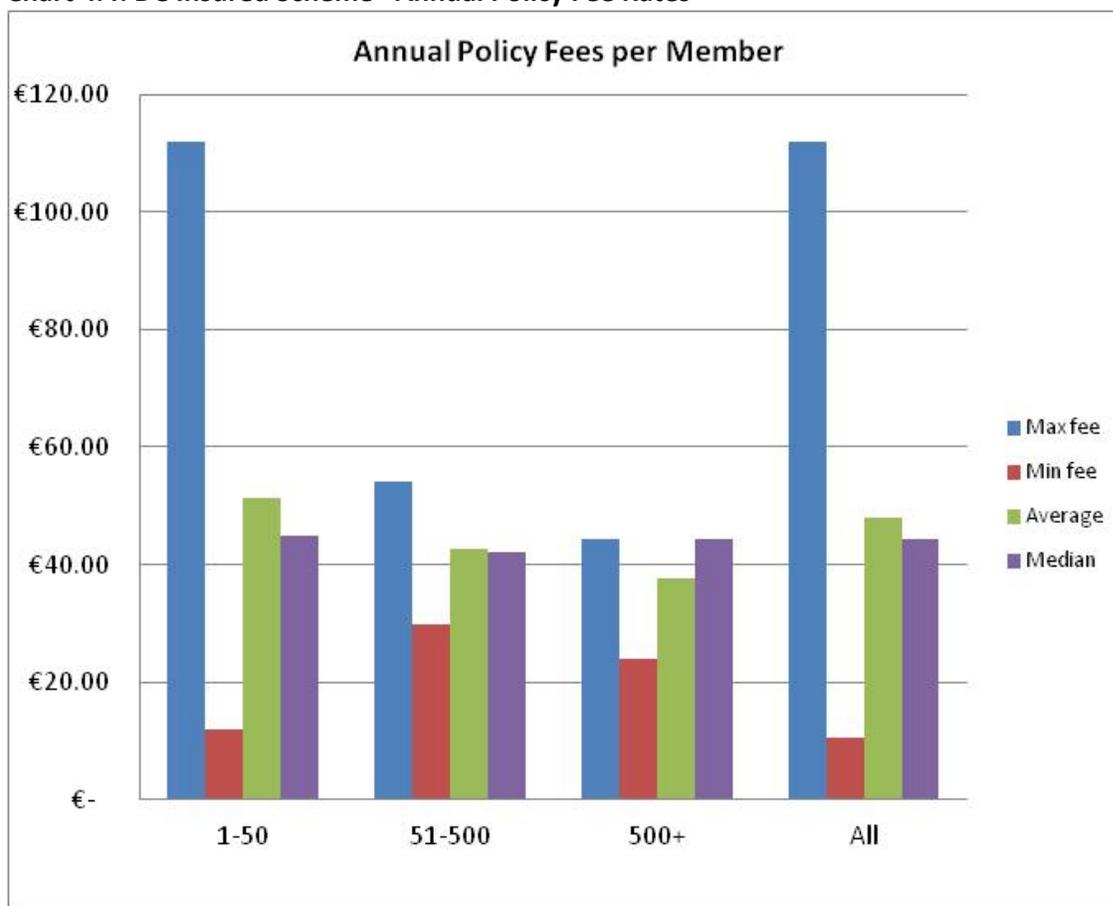
Under a DC insured pension scheme the life assurance company may levy a policy fee on a monthly or annual basis typically referred to as an administration cost. The cost associated can be met by the sponsoring employer and invoiced separately (avoiding a charge on member pensions). In other circumstances the cost will be borne by the member and in such cases it is generally applied by the cancellation of fund units. For example, if a policy fee of €1 is to apply, and a member's account holds 1,000 units valued at 50 cent each, then 2 units would be cancelled to meet the policy fee. As such, the number of units in the member's account would reduce from 1,000 to 998 and the value of the member's account would reduce from €500 to €499.

Trustees were asked to advise the annual equivalent amount of any policy fees and, where applicable, which party meets this cost. The findings are summarised in table 4.7.

Table 4.7: DC Insured Scheme Annual Policy Fee Rates Identified

Membership Size:	1-50	51-500	501+	All Schemes
Max fee identified	€111.78	€54.00	€44.40	€ 111.78
Min fee identified	€10.50	€18.90	€24.00	€ 10.50
Average fee identified	€47.82	€41.60	€37.60	€ 45.81

Chart 4.4: DC Insured Scheme –Annual Policy Fee Rates



Comment: Approximately 36% of all schemes (regardless of scheme size) reported having no policy fees applicable. Where fees are applicable, in more than half of schemes, the individual members bear the associated cost. Where trustees advised that policy fees exist, they are most prevalent where membership size is less than 50. 50% of schemes with membership sizes in excess of 500 members reported no policy fees payable versus 32% of schemes where membership size was less than 50. Table 4.8 below identifies the prevalence of policy fees and the party bearing the associated cost.

Table 4.8: Prevalence of Policy Fees and Party Bearing the Associated Cost

Membership Size:	1-50	51-500	501+	All Schemes
Number Paid by Sponsoring Employer	30%	26%	25%	28%
Number Paid by Member	38%	32%	25%	36%
No fees applicable	32%	42%	50%	36%

The level of fees identified varied by scheme size. Across all scheme sizes an average policy fee of approximately €46 per annum is evident. The range of fees identified was €10 to €111 per annum¹⁸. The research findings would suggest that the size of scheme membership typically impacts the prevalence and levels of policy fees applying.

¹⁸ Given what appear to be unusually inflated annual policy fees detailed in a number of responses (and excluded from the analysis) it would appear that some trustees misinterpreted the question regarding fees.

Although the identified levels of policy fees may appear low with an average fee identified of approximately €46 per annum, in terms of overall impact, cognisance of an individual's particular circumstance is required. If an individual has a number of smaller pension contracts (for example where there has been a change in employment on a number of occasions), the impact of policy fees will be more pronounced.

4.2.7 Exit Penalties

Exit penalties are applied by an assurance company to recover the initial policy set up costs incurred by that company. As an example, an exit penalty can be triggered if the pension scheme moves from one life assurance company to another during a predefined period. The overall pension scheme value will incur the penalty, and by association, individual member values.

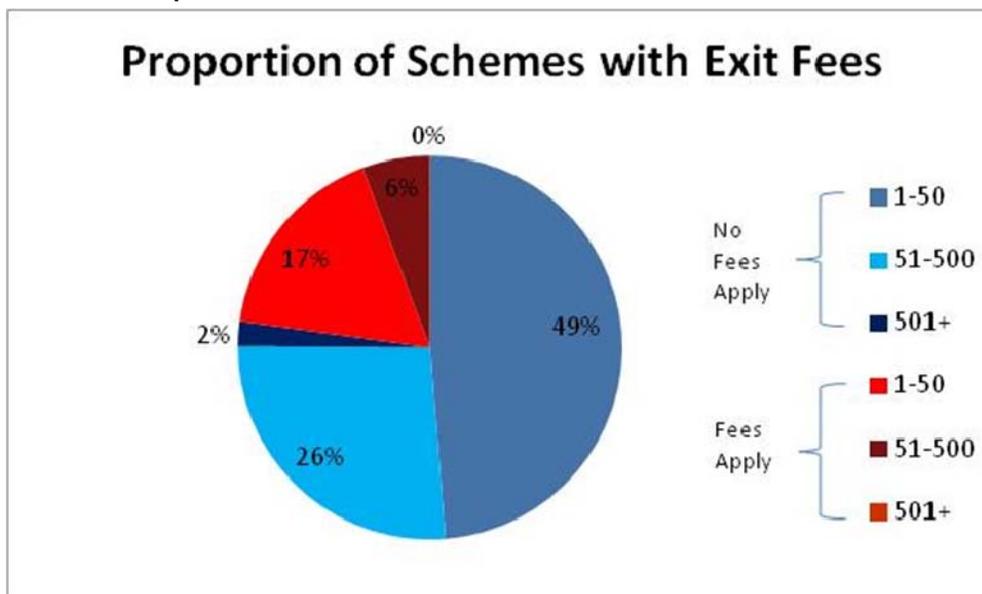
The research identified that when exit penalties are applicable they typically apply for 5 years and reduce each year by a set percentage. The most common structure evident was a penalty of 5% (of fund value) in year one, 4% in year 2, 3% in year 3, 2% in year 4, 1% in year 5 and no exit penalties thereafter. After the defined period has passed the exit penalty does not apply. Table 4.9 details trustee responses regarding the prevalence of exit penalties.

Table 4.9: Proportion of Schemes with Exit Penalties

Membership Size	1-50	51-500	501+	All Schemes
Percentage of Schemes where not applicable	74%	82%	100%	77%
Percentage of Schemes where exit penalties are applicable	26%	18%	0%	23%

Comment: Surveys responses found that 77% of all schemes have no exit penalties applying. Membership sizes appear to influence the prevalence of exit penalties. The research identified that 26% of schemes with membership sizes of less than 50 have exit penalties applying. 18% of schemes with membership sizes of between 50 and 500 identified had exit penalties. All schemes with memberships in excess of 500 identified that exit penalties do not apply.

Chart 4.5: Proportion of Schemes with Exit Penalties



4.2.8 Commission and Distribution Costs

Distribution costs, which are explained in section 2.7, relate to charges associated with the sale of pension products. The most common distribution cost is commission payments to independent pension advisers.

The trustee surveys identified that commission arrangements were evident in approximately 39% of DC insured schemes. This finding would suggest that the remaining 61% of schemes identified through trustee surveys are set up on fee based arrangements (directly between the adviser and trustee/employer) or have no adviser involvement and therefore no fee or commission.

Trustees provided details of commission in different formats with some providing the percentage breakdown while others provided the monetary value. The table below summarises the responses to the trustee survey.

Table 4.10: Commission Paid as a % of Member Contribution (where commission is payable)

Commission Type	Initial Commission	Renewal Commission	Trail/Fund Based Commission
Range Identified	1% to 21.25%	1% to 4.5%	0.25% to 0.75%
Average	3.1%	2.8%	0.5%

Comment: The average initial commission identified of 3.1% represents a range of schemes where 25% of schemes identified initial commission levels in excess of 20% of first year contributions (and any increases thereafter), while 75% of schemes identified initial commission levels of less than 5% of first year contributions (and any increases thereafter). The highest initial commission identified was 21.25% of first year contributions (and any increases thereafter).

The average renewal commission of 2.8% represents a range of schemes where 30% of schemes identified commission levels in excess of 3% of annual contributions while 70% of schemes identified commission levels of less than 3% of annual contributions. The highest renewal commission identified was 4.5% of annual contributions.

There was no variation in trail/fund based commission identified. Just 3% of schemes identified that fund based commission is payable, and each of these schemes advised the same level of commission i.e. 0.5% per annum of asset values.

The trustees of schemes with 1 to 50 members also provided additional information in relation to the monetary value of commission payable to intermediaries. Table 4.11 summarises the responses received:

Table 4.11: Commission Paid – Monetary Value

Scheme Size	% of schemes with commission payable	Average Commission:	% above average	% below average	High Commission Value:	Low Commission Value (where payable):
1 to 50 Members	45%	€3,276	21%	79%	€20,000	€15

When such commission arrangements are agreed between trustees and pension advisers, a number of areas will be first considered, such as the level of on-going member support required by the trustees, and the level of contributions / assets under management of the scheme¹⁹.

The response from the life assurance companies survey indicated that 50% of insured schemes were set up on a nil commission basis and 50% on a commission paying basis in relation to 2010 contributions.

Where commission applies, the structures used differ by life assurance company and pension adviser. Renewal commission payments of between 1% and 5% of annual contributions are a common feature. Where initial commission is evident, it is typically at levels of up to 25% of first year's contributions and any increases in premiums thereafter. Such initial commission is more prevalent within smaller pension schemes. Fund based trail commission is not a common feature of occupational pension schemes. The trustee responses as outlined in table 4.10 are broadly consistent with such findings.

4.2.9 Legacy Commission Structures

Life assurance companies were able to provide comparative data for schemes set up in the past. Each life assurance company provided the typical commission structure that was evident for schemes set up 10 and 15 years ago, where commission was payable. The responses received are outlined in Table 4.12

Table 4.12: Legacy Commission Structures Identified:

Period	Typical Commission Structure			
	Initial	Renewal	Single / Transfer	Fund Based
15 Years Ago	50%	4%	5%	0%
10 Years Ago	25%	4%	5%	0%

Comment: In addition to providing typical legacy pension structures (as highlighted in the table above), the life assurance companies also advised that initial commission levels of 50% to 60% of first year's contributions (and any increases in premiums thereafter) were a common feature of schemes set up in the past, where commission applied.

Trustee surveys identified that there were no schemes with initial commission in excess of 21.25% of first year's contributions (and any increases in premium thereafter). The life assurance companies advised that, where initial commission is evident for schemes set up in 2010, it is typically at levels of up to 25% of first year's contributions and any increases in premiums thereafter.

The survey also indicated that renewal commission of up to 5% of annual contributions was evident for both current schemes and schemes set up 10 and 15 years ago, where commission is payable.

Fund based commission was not a feature of legacy pension schemes and only represents a small proportion of current pension schemes as highlighted above.

¹⁹ It would be generally expected that higher levels of initial commission are more typical for schemes with lower contributions and assets under management.

Part B - Impact of Pension Charges on Members

4.3 Impact of Identified Charges on Members

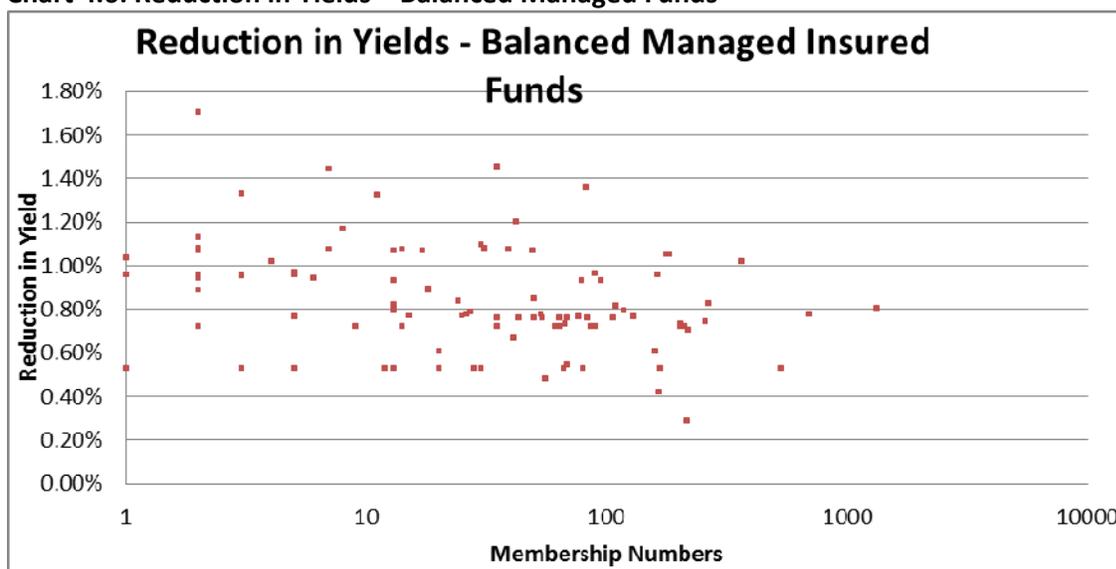
This chapter has provided information on the range of member pension charges for DC insured schemes identified through trustee survey responses and information provided by life assurance companies. The following analysis considers the member experience of such charges and outlines the cumulative impact of identified pension charges on the pension values of members. The additional impact of non-disclosed implicit investment costs is also considered.

The information provided in survey responses can be used to calculate the RIY impact of identified charges. To allow the calculation of an RIY to maturity for DC insured schemes, contributions were assumed to be €500 per month from age 35 with investment returns of 5% gross per annum. The RIY was also calculated on the assumption that contributions ceased after 2 and 10 years respectively.

4.3.1 Spread of RIY to Maturity – Balanced Managed Funds

193 trustees of DC insured schemes provided detailed information on their pension scheme charging structures which allow the calculation of RIY to maturity. Chart 4.6 details the range of RIYs identified and are calculated using all disclosed pension charges identified for balanced managed funds.

Chart 4.6: Reduction in Yields – Balanced Managed Funds

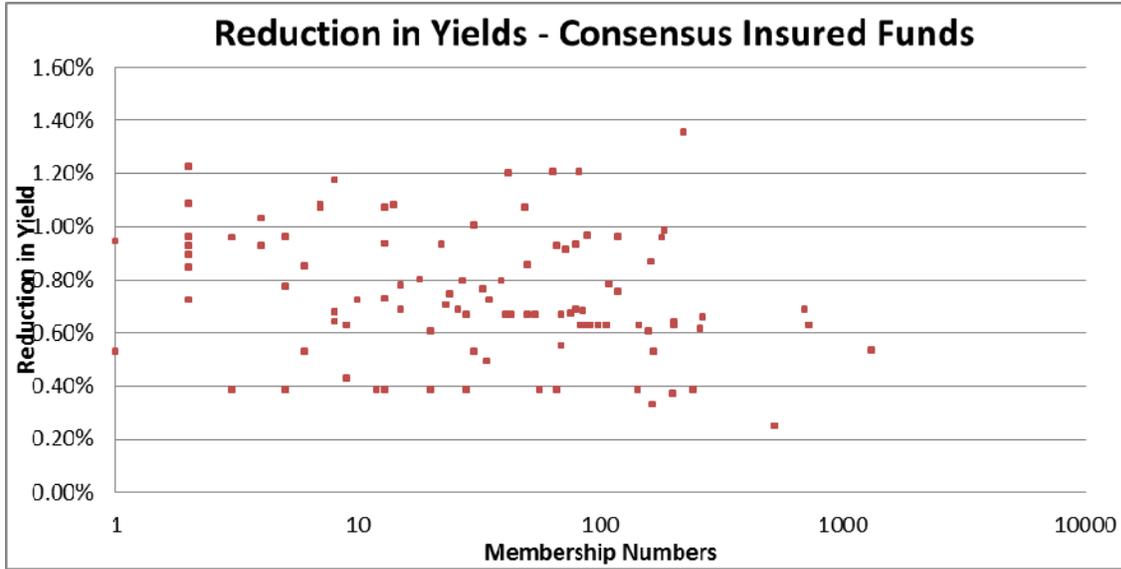


Comment: The majority of pension schemes fall within an RIY range of 0.72% to 0.97%. The average RIY is 0.84%. A number of outliers are also evident. The highest RIY identified is 1.71% and the lowest RIY is 0.29%. The concentration of schemes is around an RIY of 0.78%

4.3.2 Spread of RIY to Maturity – Consensus Funds

If the associated disclosed costs of consensus funds are used to calculate RIYs the following spread is evident.

Chart 4.7: Reduction in Yields – Consensus Funds



Comment: The majority of consensus fund schemes fall within an RIY range of 0.63% to 0.93%. The average RIY is 0.74%. A number of outliers are also evident. The highest RIY identified is 1.36% and the lowest RIY is 0.25%. The concentration of schemes is around an RIY of 0.69%.

4.3.3 Impact of Pension Charges on Members – 2 and 10 Year Contribution Assumptions

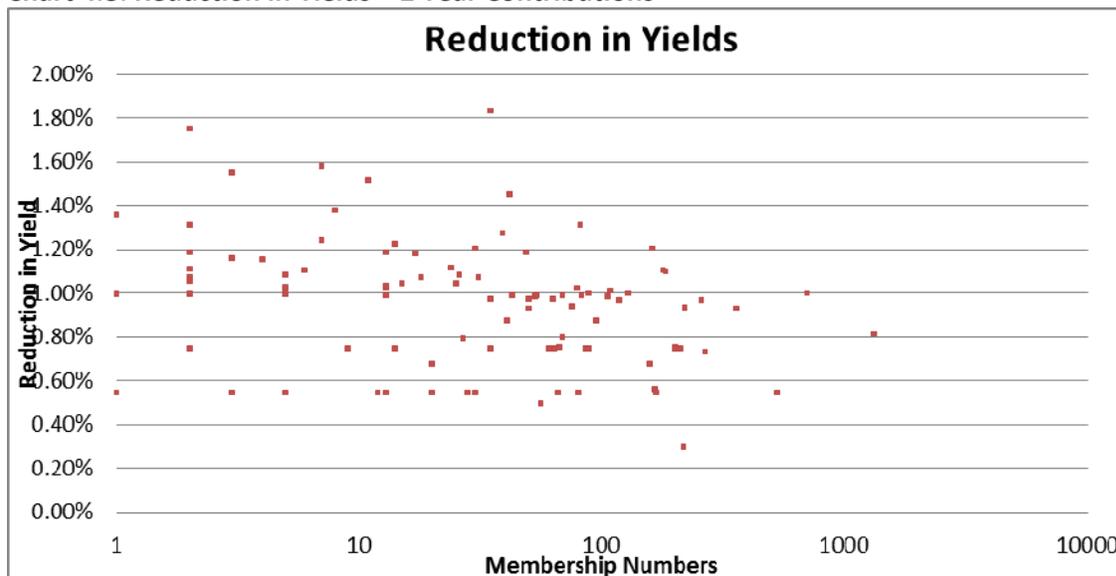
It is likely that the experience of many pension savers may not be reflected in a RIY to maturity set out above. It is therefore appropriate to consider alternative scenarios, for example where an individual pension saver makes pension savings for a shorter period of time. The following analysis assumes contributions are made for 2 and 10 years only and highlights the resulting RIY variance. Such examples represent circumstances where an individual worked for a company for a short period and then, on changing employment decides to leave their existing accumulated pension funds within their previous pension scheme. The purpose of considering such examples is to identify the potential impact on reductions in yield where individuals have more fragmented careers, and accumulate a number of smaller pots of pension savings.

Chart 4.8 identifies the cumulative impact of pension charges at retirement for an individual pension saver who makes 2 years of contributions and then ceases contributing. In these examples the individual is assumed to commence contributions at the age of 35, to cease contributions at the age of 37 and leave that pension fund in place until retirement age. The contributions assumption is €500 per month with an annual investment growth rate of 5%.

As before, the RIYs identified are calculated using all disclosed pension charges and includes the average annual management charge identified for both the balanced managed fund and consensus fund.

4.3.4 RIY – Contributions for 2 years only – Balanced Managed Funds

Chart 4.8: Reduction in Yields – 2 Year Contributions



Comment: The majority of insured pension schemes fall within an RIY range of 0.75% to 1.10%. The average RIY is 0.96%. A number of outliers are also evident. The highest RIY identified is 1.83% and the lowest RIY is 0.30%. The concentration of schemes is around an RIY of 0.99%.

Table 4.13 contains the comparable RIYs to maturity where contributions are made for the full period to retirement. It can be seen that the impact of pension charges for an individual pension saver who makes 2 years of contributions before stopping contributions can be more significant than the impact of pension charges on a pension saver who saves for their full career in a single savings arrangement.

Table 4.13: Balanced Managed Fund 2 year contribution RIY and RIY to Maturity

	Contributions for 2 years only Balanced Managed Fund	Contributions to Retirement Age Balanced Managed Fund
Range of RIYs:	0.75% - 1.10%	0.72% - 0.97%
Average RIY	0.96%	0.84%
Highest RIY Identified	1.83%	1.71%
Lowest RIY Identified	0.30%	0.29%

The average RIY identified is 0.96% per annum where contributions cease after 2 years versus 0.84% per annum where contributions continue throughout the lifetime of the pension scheme. If converted to a notional figure representing the portion of an individual's total pension fund taken up by charges incurred at point of retirement, this represents 13.4% of the fund value of the individual saving to maturity and 23.3% of the fund value where contributions cease after 2 years. These values will be higher when implicit charges are included and are considered in Part E of this chapter.

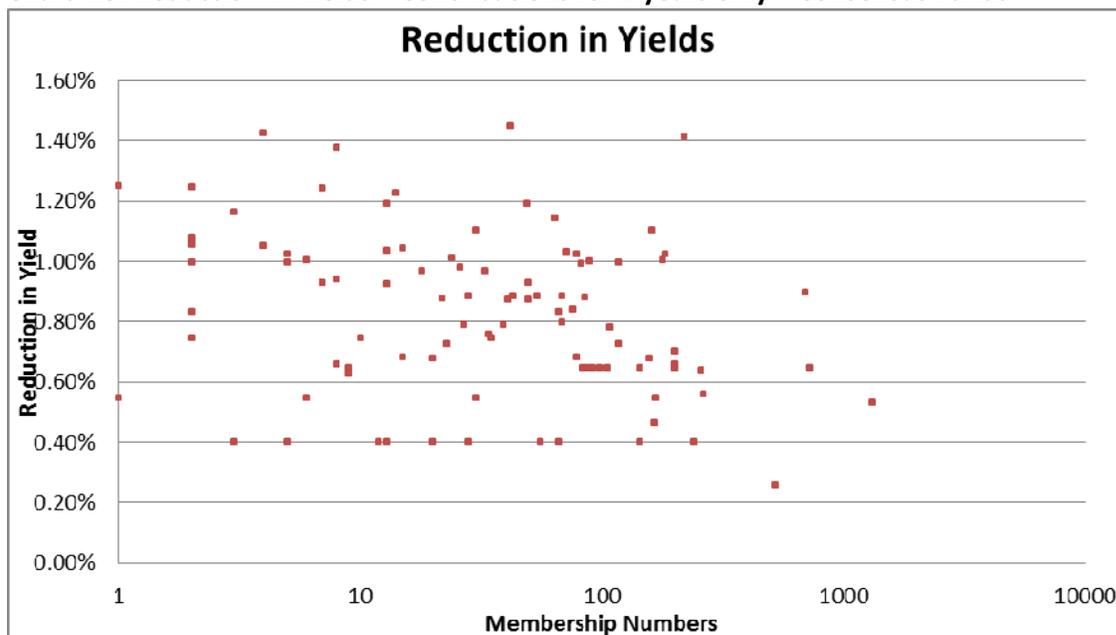
The reason for the variation in RIY above is that the impact of contribution charges (i.e. allocation rates and bid offer spreads) is magnified where a small number of contributions are made and also

because the impact of fixed costs such as policy fees are magnified, as their impact is relatively more significant on a smaller fund.

4.3.5 RIY – Contributions for 2 years only – Consensus Funds

If the associated costs of consensus funds are used to calculate RIYs the following spread is evident:

Chart 4.9: Reduction in Yields – Contributions for 2 years only – Consensus Funds



Comment: The majority of insured pension schemes fall within an RIY range of 0.65% to 1.01%. The average RIY is 0.83%. A number of outliers are also evident. The highest RIY identified is 1.45% and the lowest RIY is 0.26%. The concentration of schemes is around an RIY of 0.86%.

Table 4.14 contains the comparable RIYs to maturity where contributions are made for the full period to retirement. Again, outcomes confirm that the impact of pension charges for an individual pension saver who makes 2 years of contributions before stopping contributions can be far more significant than the impact of pension charges on a pension saver who saves for their full career in a single savings arrangement.

Table 4.14: Consensus Funds 2 year RIY and RIY to Maturity

	Contributions for 2 years only Consensus Funds	Contributions to Retirement Age Consensus Funds
Range of RIYs:	0.65% - 1.01%	0.63% - 0.93%
Average RIY	0.83%	0.74%
Highest RIY Identified	1.45%	1.36%
Lowest RIY Identified	0.26%	0.25%

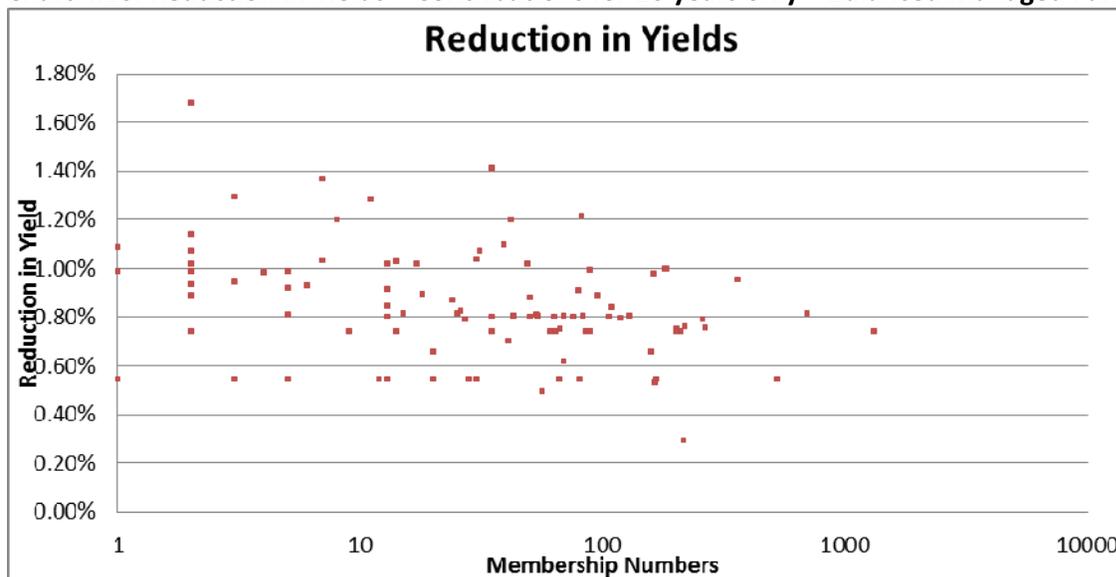
The average RIY identified is 0.83% per annum where contributions cease after 2 years versus 0.74% per annum where contributions continue throughout the lifetime of the pension scheme. If converted to a notional figure representing the portion of an individual's total pension fund taken up by charges incurred at point of retirement, this represents 12.0% of the fund value of the individual saving to maturity and 20.5% of the fund value where contributions cease after 2 years. These values will be higher when implicit charges are included and are considered in Part E of this chapter. The reason for the variation above is as detailed in section 4.3.5.

4.3.6 RIY – Contributions for 10 years only – Balanced Managed Funds

Chart 4.10 identifies the cumulative impact of pension charges at retirement for an individual pension saver who makes 10 years of contributions and then ceases contributing. In these examples the individual is assumed to commence contributions at the age of 35, to cease contributions at the age of 45 and leave that pension fund in place until retirement age. The contributions assumption is €500 per month with an annual investment growth rate of 5%.

As before, the RIYs identified are calculated using all disclosed pension charges and include the average annual management charge identified for both the balanced managed fund and consensus fund.

Chart 4.10: Reduction in Yields – Contributions for 10 years only – Balanced Managed Funds



Comment: The majority of insured pension schemes fall within an RIY range of 0.74% to 0.99%. The average RIY is 0.85%. A number of outliers are also evident. The highest RIY identified is 1.68% and the lowest RIY is 0.30%. The concentration of schemes is around an RIY of 0.81%.

Table 4.15 contains the comparable RIYs to maturity where contributions are made for the full period to retirement. It can be seen that the overall impact of pension charges for an individual pension saver who makes 10 years of contributions and then stops contributing is far more consistent with the analysis pertaining to RIY to maturity rather than individuals saving for 2 years only.

Table 4.15: Balanced Managed Funds – RIY with contributions for 2 years, 10 year and RIY to Maturity

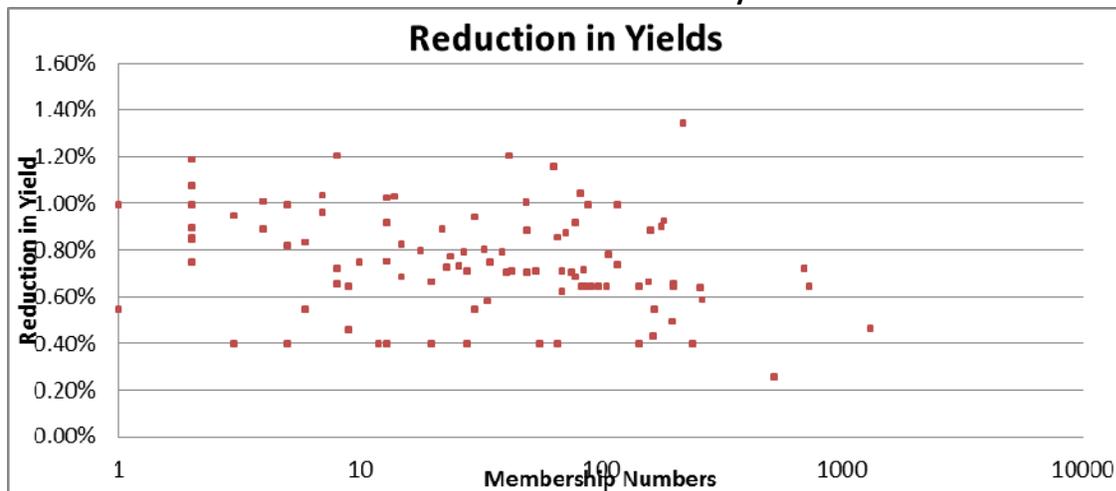
	Contributions for 10 years only Balanced Managed Fund	Contributions for 2 years only Balanced Managed Fund	Contributions to Retirement Age Balanced Managed Fund
Range of RIYs:	0.74% - 0.99%	0.75% - 1.10%	0.72% - 0.97%
Average RIY	0.85%	0.96%	0.84%
Highest RIY Identified	1.68%	1.83%	1.71%
Lowest RIY Identified	0.30%	0.30%	0.29%

The average RIY identified is 0.85% per annum where contributions cease after 10 years versus 0.84% per annum where contributions continue throughout the lifetime of the pension scheme. If converted to notional terms, the total costs incurred at point of retirement under each assumed contribution period are 13.4% where contributions continue throughout and 18.6% where contributions cease after 10 years.

4.3.7 Reduction in Yields – Contributions for 10 years only – Consensus Funds

If the associated costs of consensus funds are used to calculate RIYs the following spread is evident.

Chart 4.11: Reduction in Yields – Consensus Funds with 10 years contributions



Comment: The majority of insured pension schemes fall within an RIY range of 0.64% to 0.89%. The average RIY is 0.75%. A number of outliers are also evident. The highest RIY identified is 1.34% and the lowest RIY is 0.26%. The concentration of schemes is around an RIY of 0.73%

Table 4.16 contains the comparable RIYs to maturity where contributions are made for the full period to retirement.

Table 4.16: Consensus Fund – RIY with contributions for 2 years, 10 years and full period to retirement

	Contributions for 10 years only Consensus Fund	Contributions for 2 years only Consensus Fund	Contributions to Retirement Age Consensus Fund
Range of RIYs:	0.64% - 0.89%	0.65% - 1.01%	0.63% - 0.93%
Average RIY	0.75%	0.83%	0.74%
Highest RIY Identified	1.34%	1.45%	1.36%
Lowest RIY Identified	0.26%	0.26%	0.25%

The average RIY identified is 0.75% per annum where contributions cease after 10 years versus 0.74% per annum where contributions continue throughout the lifetime of the pension scheme. If converted to notional terms, the total costs incurred at point of retirement under each assumed contribution period are 12.0% where contributions continue throughout and 16.5% where contributions cease after 10 years.

4.3.8 Member Mobility – Deferred Members of Pension Schemes:

The above analysis assumes contributions are made for shorter periods and highlights the resulting RIY variance. It provides an overview of the impact on RIY where an individual leaves an employment but decides to retain their pension benefits with their previous employer. These examples are provided to identify the potential impact on Reductions in Yield where individuals have more fragmented careers, and accumulate a number of smaller pots of pension savings.

The individual could instead choose to transfer the pension benefits to another pension vehicle such as a new occupational pension scheme, a Personal Retirement Bond / Buy out Bond or a Personal Retirement Savings Account. Should they decide to do so, the impact of cost will differ and will be dependent on the pricing structure of the new pension vehicle chosen. The most cost effective solution will differ by individual and it is not possible to provide comparative RIY analysis without knowing the pricing structure of the new pension vehicle.

It would be rare for member pension values to incur a penalty on exiting an occupational pension scheme. It would also be considered typical for no costs to be incurred on entry to a new occupational pension scheme. As such it is unlikely that pension charges play a significant role in the decision making process, as to whether to retain funds in an existing pension scheme or transfer such funds to another occupational pension scheme. There will however be occasions where entry costs may be incurred, and in such circumstances pension costs may have a bearing.

Transfers into PRSAs bear no entry charges but restrictions apply²⁰. Transfers into a Buy Out Bond may incur charges. These charges are reflected as a reduction in allocation rate applying to the value of the transfer, and where such an allocation rate is less than 100% an entry cost is effectively being incurred, albeit that the term 'entry cost' is not used. Such reductions are typically no more than 2% - 3% of the value of the transfer. Research findings in relation to Buy out Bonds are outlined in chapter 10 of this report.

²⁰ The individual must have less than 15 years pensionable service. In addition if the scheme is not winding up, and the value is in excess of €15,000 a 'Certificate of Comparison and Written Statement' must be first prepared by a qualified actuary who will charge a fee for such services.

Part C - Notional Impact of RIYs on Pension Values

4.4 Notional Impact of RIYs on Long Term Pension Values

In tables 4.17 and 4.18, the RIYs identified under the 2 year, 10 year and RIY to maturity contribution scenarios are converted to identify their impact on the notional value of member funds at retirement. The percentage of a projected fund that will be utilised in pension charges is also detailed.

Table 4.17: RIY Impact on Fund Values - Contributions to Maturity

Scheme Membership	Average RIY Identified	Total Contributions	Projected Fund excluding any pension charges	Projected Fund including disclosed pension charges	Total Charges as % of Total Projected Values
Balanced Managed Funds:					
0 to 50	0.91%	€197,778	€443,479	€379,450	14.4%
51 to 500	0.76%	€197,778	€443,479	€389,196	12.2%
501+	0.71%	€197,778	€443,479	€392,715	11.4%
All schemes	0.84%	€197,778	€443,479	€383,836	13.4%
Consensus Funds:					
0 to 50	0.78%	€197,778	€443,479	€387,957	12.5%
51 to 500	0.71%	€197,778	€443,479	€392,156	11.6%
501+	0.52%	€197,778	€443,479	€405,119	8.6%
All schemes	0.74%	€197,778	€443,479	€390,247	12.0%

Table 4.18: RIY Impact on Fund Values - Contributions for 2 and 10 Years

Scheme Membership	Average RIY (2 years)	Total Charges as a % of Total Projected Values	Average RIY (10 years)	Total Charges as a % of Total Projected Values
Balanced Managed Funds:				
0 to 50	1.04%	25.1%	0.91%	19.8%
51 to 500	0.85%	21.0%	0.77%	17.0%
501+	0.79%	19.6%	0.70%	15.6%
All schemes	0.96%	23.3%	0.85%	18.6%
Consensus Funds:				
0 to 50	0.89%	21.8%	0.78%	17.3%
51 to 500	0.77%	19.2%	0.72%	16.0%
501+	0.58%	14.9%	0.52%	11.8%
All schemes	0.83%	20.5%	0.75%	16.5%

Comment: It can be seen from table 4.18 that the impact of pension charges for an individual pension saver who makes 2 years of contributions before stopping can be far more significant than the impact of pension charges on a pension saver who saves for a longer period.

There is an infinite variety of individual pension savings scenarios possible. This includes variations on for how long savings are made, how much is saved, whether on transferring employment an individual's pension savings are transferred to that employment, whether a fund is transferred to a Buy Out Bond or left in the pension scheme etc. Each of these decisions can cause the overall impact of pension charges to change.

Part D - How do RIYs identified compare – Past and Present?

4.5 Life Assurance Company Surveys

Life assurance companies were asked to provide the charging structures for a typical DC scheme set up over 10 and over 15 years ago. These timeframes were chosen to take into account the introduction and impact of disclosure of commission requirements, any market trends towards changing commission levels, and the trends in pension charging structures more generally. The information provided by life companies allowed the calculation of associated RIYs to maturity for legacy pension schemes. This information provides a context for trustee survey findings and in particular identifies the prevalence of historic pension charging structures within the marketplace, as represented by sample.

Table 4.19 details the range of charges identified by the life assurance companies. For comparison purposes table 4.20 details the range of charges identified through trustee surveys for current schemes:

Table 4.19: DC scheme Legacy Charging Structures:

Period	Range of Gross Allocation Rates	Range of Net Allocation Rates	Typical Bid-Offer Spread	Range of Monthly Policy Fees:	Exit Penalties	Range of Annual Management Charges
15 Years Ago	94% to 103%	94% to 103%	5% applied to all	€1.59 to €3.81	Applicable in 11% of cases	4.75% Initial Units ²¹ + 0.75% Accumulator Units
10 Years Ago	93% to 104%	45% to 104% ²²	5% applied to all	€2.25 to €3.81	Applicable in 8% of cases	0.5% to 0.875%

Table 4.20: Trustee Surveys – Current Charging Structures Identified

Scheme Size	Range of Gross Allocation Rates	Range of Net Allocation Rates	Typical Bid-Offer Spread	Range of Monthly Policy Fees:	Exit Penalties apply in	Range of Annual Management Charges
0 to 50	78% - 105.3%	74.1% - 103%	2% - 6%	€0.88 – €9.32	26% of schemes	0.1% - 1.85%
51 to 500	90% - 105.5%	90% - 105.3%	2% - 5.25%	€1.58 – €4.50	18% of schemes	0.1% - 1.2%
501 +	100% - 105%	95% - 100%	5%	€2.00 - €3.70	0% of schemes	0.1% - 0.75%
All	78% - 105.5%	74.1% - 105.3%	2% - 6%	€0.88 – €9.32	23% of schemes	0.1% - 1.85%

²¹ Legacy pension vehicles often operated on the basis of initial and accumulator units. Under this arrangement a variation of annual management charges applied to each unit type. The practice was used as a form of exit penalty thereby encouraging pension savers to remain with the same life assurance company for the full duration of the pension. If a pension saver transferred their pension benefits pre retirement, higher charges would apply.

²² A significantly wide range of net allocation rates were advised. However it should be noted that within this range the majority of responses were in excess of 90% with only a small number advising of net allocation rates of less than 90%.

Comment: The charging structures applicable to pension schemes will be influenced by the manner in which commission is recouped by the life assurance company, where commission arrangements are in place. It was common in legacy pension arrangements for commission to directly impact allocation terms applicable. However in more recent times there has been an increasing trend to recoup commission payments through increasing annual management charges and keeping allocation rates at higher levels.

The trustee responses provided in table 4.12 will likely include both types of arrangements. Pension advisers can choose between these commission arrangements and the impact on members will differ by age profile.

It should also be noted that a practice existed in legacy arrangements whereby some pension schemes included loyalty bonuses (or other cost reduction measures) which become payable at set points in the future, for example on reaching retirement age. Such measures were included to incentivise the scheme to remain with the particular life assurance company. The above tables do not take into account circumstances where loyalty bonuses or other cost reduction measures apply to older pension contracts and a small number of life assurance companies made reference to this practise.

4.5.1 Member Impact of Identified Charges – Legacy Pension Comparison

Table 4.21 details the member impact of the above identified charges using RIYs to maturity. RIYs have been calculated based on the average costs confirmed across the life assurance companies. For comparison purposes the current RIYs identified through trustee survey findings are also included.

Table 4.21: RIY to Maturity

Period:	Pension Type	Membership Size	Average RIY (Balanced Managed Fund)	Average RIY (Consensus Fund)
15 Years Ago (Life Co Surveys)	DC Insured	N/A	1.16%	Not Provided
10 Years Ago (Life Co Surveys)	DC Insured	N/A	1.26%	Not Provided
Current (Trustee Surveys)	DC Insured	0 to 50	0.91%	0.78%
Current (Trustee Surveys)	DC Insured	51 to 500	0.76%	0.71%
Current (Trustee Surveys)	DC Insured	501+	0.71%	0.52%
Current (Trustee Surveys)	DC Insured	All schemes	0.84%	0.74%

4.5.2 RIY to Maturity - Notional Impact on Fund Values

Table 4.22 uses the RIY figures identified in Table 4.21 to identify the notional total impact of disclosed charges on the projected final value of a pension fund. Outcomes suggest that pension schemes set up today are more cost effective (from the member’s perspective) than those set up 10 and 15 years ago, as identified by the lower associated RIY.

Table 4.22: RIY to Maturity – Notional Values

Period:	Pension Type	Membership Size	Projected Fund excluding any charges	Projected Fund including all disclosed charges (Balanced Managed Fund)	Total Charges as a % of Projected Values	Projected Fund including all disclosed charges (Consensus Fund)	Total Charges as a % of Projected Values
15 Years Ago (Life Co Surveys)	DC Insured	N/A	€443,479	€363,597	18.0%	Not Provided	Not Provided
10 Years Ago (Life Co Surveys)	DC Insured	N/A	€443,479	€357,529	19.4%	Not Provided	Not Provided
Current (Trustee Surveys)	DC Insured	0 to 50	€443,479	€379,450	14.4%	€387,957	12.5%
Current (Trustee Surveys)	DC Insured	51 to 500	€443,479	€389,196	12.2%	€392,156	11.6%
Current (Trustee Surveys)	DC Insured	501+	€443,479	€392,715	11.4%	€405,119	8.6%
Current (Trustee Surveys)	DC Insured	All schemes	€443,479	€383,836	13.4%	€390,247	12.0%

4.5.3 Care of Interpretation

The above analysis does not take into account a practice that existed in the past whereby some pension schemes included loyalty bonuses (or other cost reduction measures) which become payable at set points in the future for example on reaching retirement age.

Such measures were included to incentivise the scheme to remain with the particular life assurance company. Life assurance companies did not include specific details (as part of the information submissions) but a small number made reference to the practice.

4.5.4 Prevalence of Legacy Charging Structures

The information provided by the life assurance companies can be compared to the previous analysis of RIYs evident in the Irish group pensions marketplace, as represented through trustee surveys, in order to identify the prevalence of schemes with legacy charging structures. This comparison is provided in charts 4.12 and 4.13 below, by updating the RIY distribution chart of trustee survey responses, with the legacy RIY information provided by assurance companies.

Charts 4.12 and 4.13 plot identified RIYs for the trustee surveys using the associated costs of balanced managed funds and consensus funds respectively. The legacy RIYs, based on information provided by life assurance companies, is also plotted for comparison purposes.

Chart 4.12: RIYs identified for DC Insured Schemes - Balanced Managed Funds

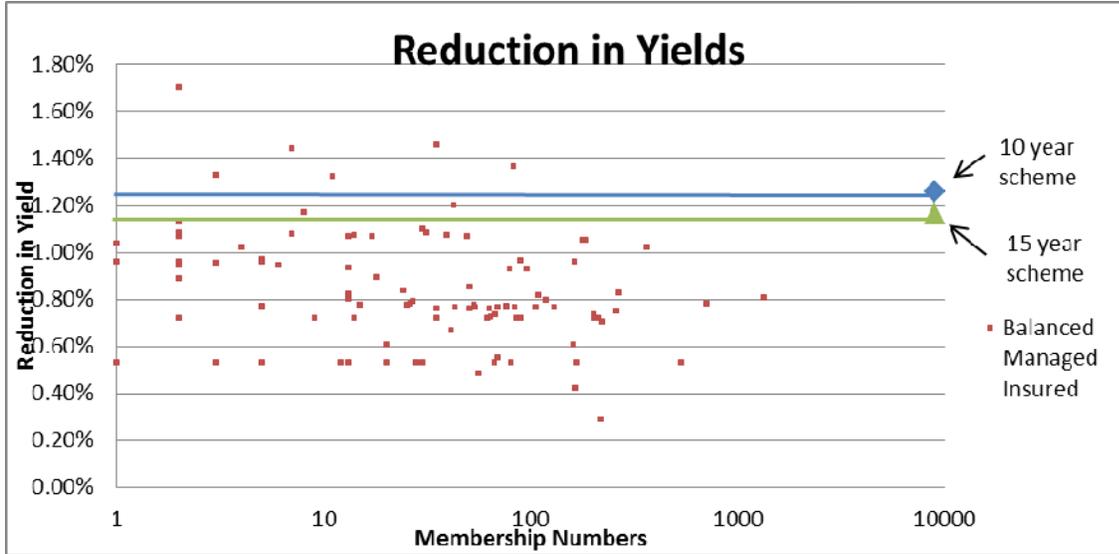
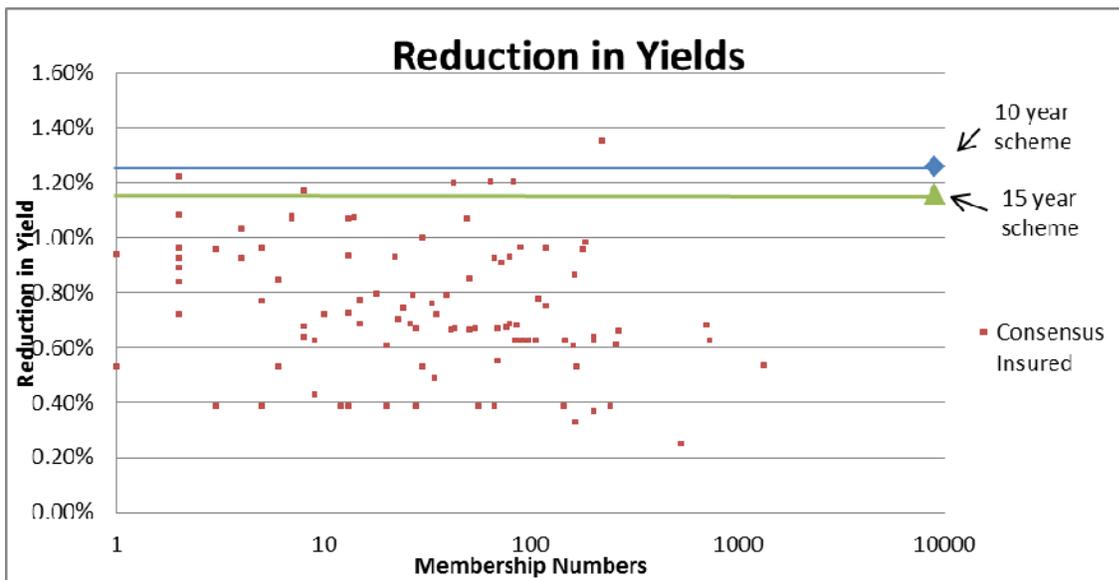


Chart 4.13: RIYs identified for DC Insured Schemes - Consensus Funds



Comment: Trustee survey responses would suggest a relatively small number of schemes have current RIYs similar to those evident 10 and 15 years ago. This would suggest that current DC schemes have more competitive charging structures than is evident within schemes set up in the past.

4.5.5 Life Assurance Company Surveys – Contribution Flows

In order to validate the finding in relation to RIYs, life assurance companies were also requested to provide a summary of contribution flows over specified periods. This involved confirming the level of contributions flowing into pension schemes set up in the last 5 years and also those contributions

flowing into pension schemes set up prior to the last 5 years. The data returned confirmed that within occupational pension schemes, broadly 75% of contributions in respect of 2011, were paid into pension contracts set up within the previous 5 years. However it was noted that the way in which contribution flows are accounted for, differs within life assurance companies. For example top-ups to historic premiums can be treated either as 'new business' written in the last 5 years, or, as it is a top-up, may be categorised as relating to the start date of the original contract. The contribution flows into contracts set up within the last 5 years that were identified based on the information provided by the life assurance companies is consistent with the information provided via the trustee surveys.

Part E - Impact of Implicit Investment Costs

4.6 Implicit Investment Costs

Thus far, the analysis and in particular the RIYs identified, have focused on disclosed pension charges and their impact on long term pension values. These charges are readily identifiable in survey responses and many pension arrangements quote an RIY which would capture the impact of these charges.

However, there is a level of additional implicit costs not readily identifiable and which are not necessarily reflected in any RIY calculations. These costs typically relate to the underlying costs of investment management, for example, the costs of custodianship of the assets or the transaction costs where assets are being bought or sold.

4.6.1 Research Findings - Implicit Costs

In order to highlight the impact of additional implicit costs, investment managers were asked to provide details of the level and impact of such costs for their 4 largest funds by aggregate value to provide prevalent cost information.

Table 4.23: Implicit Costs

Range of Annual Management Charges identified	Range of Total Expense ratios identified	Range of Stamp Duty identified	Range of Brokerage Commission identified
0.15% to 0.725% per annum	0.26% to 0.885% per annum	0.01% to 0.04% per annum	0.01% to 0.08% per annum

Comment: Implicit costs are identified by taking the Total Expense Ratio identified, subtracting the Annual Management Charge (to identify the additional operational costs) and by adding the additional costs of brokerage commission and stamp duty (which are not reflected in TER's). The information provided by investment managers would suggest that for the largest investment funds, the additional impact of implicit costs (not typically disclosed to investors) is between 0.1% and 0.3% per annum.

4.6.2 Impact of Implicit Costs on Member Pension Values

The information provided by investment managers can be used to identify the potential impact of additional implicit costs on long term pension values using the RIY. Table 4.24 provides a comparison of the RIYs for DC insured pension schemes identified previously with RIYs for the same schemes when implicit costs are included.

Table 4.25 provides a comparison of the associated notional pension values inclusive and exclusive of implicit costs identified. As can be seen, implicit investment costs increase the impact of pension charges. The research indicates that this impact equates to an RIY of 0.2% per annum from the fund which in turn will account for approximately 3% to 4% of the fund value over its lifetime.

The total charges at point of retirement vary depending on whether investments are made to a balanced managed funds or a consensus fund. This is due to the manner in which the funds in

question operate. Balanced managed funds are actively managed where the fund manager is attempting to outperform an agreed benchmark. The fund involves active asset allocation decisions and stock selection. By contrast consensus funds are passively managed and the fund manager is attempting to match or replicate benchmark performance. Consensus funds do not involve asset allocation decisions and stock selection. Due to the objectives of each fund and the manner in which they operate the costs associated differ. This results in a variation in annual management charges, which over the lifetime of the pension scheme, result in the variation in total costs, identified in the table above.

Table 4.24: DC Insured RIYs including and excluding Implicit Costs

Pension Type	Membership Size	Excluding Implicit Costs Average RIY (Balanced Managed Fund)	Including Implicit Costs Average RIY (Balanced Managed Fund)	Excluding Implicit Costs Average RIY (Consensus Fund)	Including Implicit Costs Average RIY (Consensus Fund)
DC Insured	0 to 50	0.91%	1.12%	0.78%	0.99%
DC Insured	51 to 500	0.76%	0.97%	0.71%	0.92%
DC Insured	501+	0.71%	0.91%	0.52%	0.73%
DC Insured	All schemes	0.84%	1.05%	0.74%	0.95%

Table 4.25: Notional Impact on Pension Values - using RIYs including and excluding Implicit Costs

Membership Size	Projected Fund excluding any charges	Projected Fund including disclosed charges (Balanced Managed Fund)	Total Charges as a % of Projected Values	Projected Fund including implicit costs (Balanced Managed Fund)	Total Charges as a % of Projected Values	Projected Fund including disclosed charges (Consensus Fund)	Total Charges as a % of Projected Values	Projected Fund including implicit costs (Consensus Fund)	Total Charges as a % of Projected Values
0 to 50	€443,479	€379,450	14.4%	€366,341	17.4%	€387,957	12.5%	€374,452	15.6%
51 to 500	€443,479	€389,196	12.2%	€375,676	15.3%	€392,156	11.6%	€378,494	14.7%
501+	€443,479	€392,715	11.4%	€379,047	14.5%	€405,119	8.6%	€390,902	11.9%
All schemes	€443,479	€383,598	13.4%	€370,314	16.5%	€390,247	12.0%	€376,653	15.1%

Part F - Employer Cost Considerations

4.7 Employer Cost Considerations

The findings thus far have focused primarily on pension charges impacting members. However it is appropriate to also consider other costs, which the research refers to as 'scheme running costs', which are not met by the member by way of pension scheme charges but are instead met by the sponsoring employer. As these costs are typically not met by the member they do not directly impact on member values (though it may be argued that additional sponsoring employer costs of this nature may influence the level of contributions an employer will make to a pension scheme).

While scheme running costs may be billed to, or agreed with, the trustees of the scheme, they are generally borne by the sponsoring employer. Such costs will be applicable to both DC insured and non-insured pension schemes but will differ from scheme to scheme. However certain costs are typical and might include;

- Pension advisory costs – professional pension advice to sponsoring employers/trustees;
- Statutory reporting requirements – e.g. trustee annual reports and financial statements;
- Member communication/support – such as member presentations, one to one advisory meetings etc.;
- Audit fees – i.e. a specific regulatory requirement where a scheme membership is in excess of 100 members;
- Professional trustee costs – where a professional trustee is appointed as trustee to a scheme;
- Legal fees – legal opinion provided to sponsoring employers/trustees relating to specific pension issues.

4.7.1 Scheme Running Costs Identified Through Trustee Surveys

Trustee survey responses provide some insight into typical scheme running costs (and the related services provided). Trustees were requested to detail the total fees payable to pension advisers and to break down the total fees identified into the following typical cost categories:

- Pension administration costs (including the cost of producing trustee annual reports and financial statements);
- Pension payroll costs;
- Trustee meetings;
- Member presentations;
- Investment consulting advice;
- Advices relating to redundancies, mergers and acquisitions or other similar corporate activity;
- Annual cost of professional trusteeship;
- Audit fees;
- Legal fees;
- General pension advice;
- Other.

It was recognised that some scheme running costs may be exceptional in nature. Therefore trustees were given the option to advise if such costs identified would be considered 'normal' i.e. expected to be repeated year on year or 'exceptional' i.e. a one off scheme specific cost. Trustees were also given the option to advise where they were 'unsure' of the breakdown of total costs identified.

Under a DC insured pension scheme the typical additional scheme running costs primarily relate to support of the pension scheme (such as advice, member support services etc.) and statutory reporting requirements. The costs and services provided may also vary due to the manner in which the scheme is set up and what advice is provided to the scheme on an on-going basis. For example some insured pension schemes may be set up directly with a life assurance company (without the support of an adviser) and the employer would therefore not carry associated adviser costs. In this instance member support services are typically provided by the life assurance company.

The trustee survey responses include schemes with both independent advisers and schemes set up directly with life assurance companies. Table 4.26 summarises the responses received and categorises the responses by scheme size.

Table 4.26: DC Insured Scheme Running Costs by Scheme Size

Group Scheme Membership	Average Total Fees Identified	% above average	% below average	Average Fees Identified per Member
0 to 50	€3,727	40%	60%	€509
51 to 500	€12,313	38%	62%	€106
501+	€50,437	50%	50%	€61
All Schemes	€9,956	32%	68%	€306

Trustees were also asked to provide a breakdown of the scheme running costs. Survey responses confirmed that that 77% of trustees were unsure as to the breakdown of total costs and the services provided for the costs. For those who could identify some level of total fee breakdown, responses suggest that support for trustee meetings, investment consulting and general pensions advice are the services most frequently identified.

Part G: DC Insured - Summary and Observations

Allocation Rates

The larger the scheme the higher the allocation rate. 42% of identified schemes have an allocation rate of 100% or higher while 25% of schemes had an allocation rate less than 96%.

Policy Fees

64% of schemes had policy fees. The range of fees identified was broadly consistent across scheme sizes. The average policy fee was c.€46 per annum across all schemes. The range of fees identified was €10 per annum to €111 per annum.

Scheme size appears to impact the prevalence of fees (as opposed to the level of fees identified). 50% of schemes with membership sizes in excess of 500 reported no policy fees payable as opposed to 32% of schemes where membership size was less than 50.

Annual Management Charges

There were annual management charges of between 0.3% and 1.5% per annum for balanced managed funds and 0.22% and 1.2% for consensus funds.

Efficiencies of scale were evident with schemes of more than 500 members reporting an average annual management charge of 0.6% per annum for balanced managed funds versus 1% for schemes with membership of less than 50. For consensus funds the equivalent costs identified were an average annual management charge of 0.45% per annum for schemes with more than 500 members and 0.69% for schemes with membership of less than 50.

Exit Penalties

Exit fees were not particularly common. 76% of schemes advised no exit penalties applying. Where exit penalties are applicable, they typically apply for a period of 5 years and reduce each year until removal.

Scheme membership size appears to influence the prevalence of exit penalties as opposed to the level of exit penalties. Schemes with membership sizes of between 50 and 500 identified that exit penalties were applicable in 18% of schemes versus 26% of schemes with membership sizes of less than 50.

Commission

Trustee surveys identified that commission arrangements were evident in approximately 39% of DC insured schemes. Initial commission ranged from 1% to 21% with an average of 3.1%, renewal commission ranged from 1% to 4.5% with an average of 2.8% and trail/fund based commission ranged from 0.25% to 0.75% with an average of 0.5%.

The response from the life assurance companies survey indicated that 50% of insured schemes were set up on a nil commission basis and 50% on a commission paying basis in relation to 2010 contributions. Where commission applies, the structures used differ by life assurance company and pension adviser. Renewal commission payments of between 1% and 5% of annual contributions are a common feature. Where initial commission is evident, it is typically at levels of up to 25% of first year's contributions and any increases in premiums thereafter. Such initial commission is more

prevalent within smaller pension schemes. Trail/Fund based trail commission is not a common feature of occupational pension schemes.

Bundling of Pension Charges

As insured pension schemes often operate on the basis of 'bundling of charges'. It is not possible to disaggregate specific services provided for such charges.

Prevalence of Legacy Pension Schemes

Life assurance company survey responses suggest that the prevalence of legacy pension schemes in the marketplace is low and that most schemes have been restructured in recent years. This trend is verified by information provided by trustees suggesting that 75% of insured pension schemes have had a cost review/restructure within the last 5 years.

Cost Burden Sharing and Additional Pension Costs

Under a DC insured pension scheme the costs of administration are met through charges levied on members' contributions or accumulated pension values. As a result the member ultimately bears the cost.

Employers may cover additional costs, not typically impacting member pension values, such as audit fees and/or advisory fees to an independent pension adviser to provide pension support services.

Additional non-member costs will vary from scheme to scheme. Trustees advised of average additional costs of between €3,727 per annum and €50,437 depending on scheme size with a range of services provided for such costs. The most common support services advised were trustee meetings, member presentations and general pension advice.

Member Impact of Pension Charges: RIY to Maturity

RIYs identified for schemes ranged from 0.29% to 1.71% per annum based on investment in balanced managed funds and 0.25% to 1.36% per annum based on investment in consensus funds. The RIY will be higher where contributions to the scheme cease before retirement age. The trustee survey indicated that the average RIY 10 years ago was 1.26% and 1.16% 15 years ago.

Notional Impact of RIYs on Member Fund

If converted to reflect a notional impact on member values, the identified charges can represent between 11.4% and 14.4% of the total projected fund value, at the point of retirement where invested in balanced managed funds and between 8.6% and 12.5% for the consensus fund. This can increase from 13.4% to 23.3% where the contributions cease after two years (balanced managed fund).

Impact of Additional Implicit Investment Costs

Investment managers advised that implicit costs, applicable to their largest funds, are between 0.1% and 0.3% per annum. These costs can represent approximately 3% to 4% of the final fund value.

Chapter 5 - Occupational Pension Schemes – Defined Contribution Non-insured Schemes

- Introduction
- Part A - Trustee Surveys: Member Pension Charges Identified
- Part B - Member Impact of Pension Charges - Reductions in Yield
- Part C - Notional Impact of RIYs on Pension Values
- Part D - Impact of Additional Implicit Costs
- Part E - Employer Considerations
- Part F - Chapter Observations and Conclusions

Chapter 5 Occupational Pension Schemes – Defined Contribution Non-Insured Schemes

5.1 Introduction

Defined contribution non-insured pension schemes are less prevalent in an overall market context (by number of schemes) and are typically operated by larger employers. In comparison to the alternative DC insured scheme a greater separation of pension functions exists within DC non-insured schemes.

Within DC non-insured pension schemes an administrator is appointed (typically not a life assurance company) to act as the ‘registered administrator’ to the scheme and provides the administration function. The administrator will usually charge the sponsoring employer a fee based on the number of pension scheme members and the type of services to be provided. Within these schemes, a greater proportion of administration costs are borne by the sponsoring employer rather than the individual member.

The trustees may also engage a pension adviser to provide services such as pension consultancy, advice in relation to the management of a scheme, and member support. The payments for such services are typically made directly by the trustees/employer in the form of a fee to the pension adviser. DC non-insured survey findings identified that only 7% of trustees indicated a commission payable to advisers in respect of their schemes.

A separate investment manager, typically independent to the administrator, is also appointed by the trustees to carry out the investment mandate of the pension scheme. This investment manager provides only core investment fund services. In general, as no bundling of charges occurs within quoted annual management charges for non-insured pension schemes, the charge of each investment fund is a truer reflection of actual investment management services. The only disclosed member pension charge which, in the significant majority of circumstances, directly impacts member pension values, is the annual management charge.

Implicit investment costs, relating to the operation of the underlying investment fund through which the pension is invested also impact DC non-insured pension schemes.

Due to the greater separation of pension functions that exist within DC non-insured schemes, the identification of legacy schemes, for comparison with DC insured findings, is not possible. Unlike an insured scheme where a life assurance company will record the pricing structure of legacy schemes, there is no equivalent party for a non-insured scheme to provide such information. Based on trustee responses to the pilot survey, and the difficulties advised in providing detailed scheme information, it was felt trustees would be unable to provide legacy information for non-insured schemes. With the exception of annual management charges, the costs relating to DC non-insured schemes are not fixed and differ from year to year. These costs are borne by the employer. As a result this chapter does not provide a comparison of current and legacy non-insured schemes.

Part A - Trustee Surveys: Member Pension Charges Identified

5.2 Trustee Surveys

Of the 340 trustee responses received, 55 schemes were identified as DC non-insured pension schemes and membership size is broken down in table 5.1.

Table 5.1: DC Non Insured Trustee Surveys

Number of Members	Number of Trustee Survey Responses
1 to 50	10
51 to 500	37
501+	8

Trustees were asked to provide information in relation to these schemes and in particular in relation to annual management charges, which is taken as the only pension charge that directly impacts on members.

5.2.1 Annual Management Charges

The trustees of a DC non-insured pension scheme will select a range of investment funds (typically provided by an independent third party investment manager) for members to choose from. Trustees will also select a default investment fund for those members unable or unwilling to make a choice for themselves. Each fund will have an associated annual management charge which will differ due to a range of factors as detailed in Ch. 4.2.1.

The research approach taken for non-insured pension schemes was similar to the approach to insured schemes. To ensure appropriate coverage, trustee surveys were designed to reflect market investment trends. Trustees were provided with four categories of actively managed funds (global equity, balanced managed, bonds and cash) and three categories of passively managed funds (consensus, global equity and bonds).

Trustees were then provided with the broad fund description and were asked to identify which of these fund types are provided to members of their pension scheme and to specify the associated annual management charge(s). Survey responses identified a range of fund charges applicable to each of the fund types.

As was the case with DC insured schemes, two specific fund types were selected for detailed analysis due to their prominence within the pension's marketplace i.e. balanced managed funds and consensus funds. As detailed in table 5.2, trustee responses identified that consensus funds were the most prevalent fund type identified within non-insured pension schemes. Again, it is highlighted that schemes may include a number of the above fund options and each individual pension scheme may have members invested in a number of the funds identified.

Table 5.2: Trustee Survey Responses - Prevalence of Investment Funds

Fund Type	% of Schemes where in use
Balanced Managed Funds	49%
Consensus Fund	67%
Passive Global Equity Fund	56%
Active Global Equity Fund	55%
Passive Bond Fund	55%
Active Bond Fund	33%
Cash Fund	65%

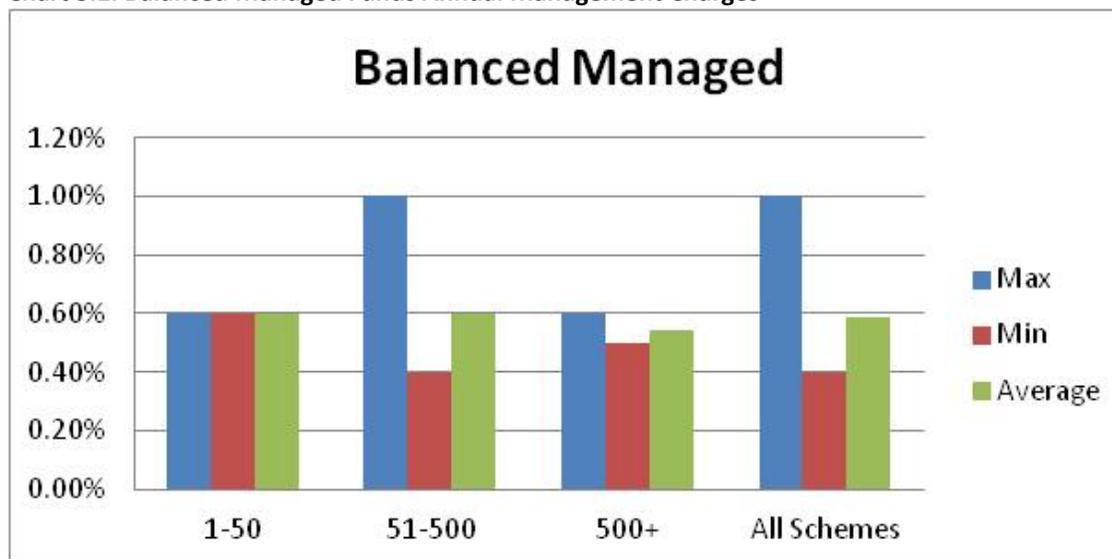
5.2.2 Annual Management Charges Identified – Balanced Managed Funds

Table 5.3 details trustee surveys responses regarding annual management charges in relation to balanced managed funds.

Table 5.3: DC Non-Insured - Balanced Managed Fund Annual Management Charges

Membership Size	1-50	51-500	501+	All Schemes
Maximum AMC	0.60%	1.00%	0.60%	1.00%
Minimum AMC	0.60%	0.40%	0.50%	0.40%
Average AMC	0.60%	0.60%	0.54%	0.59%

Chart 5.1: Balanced Managed Funds Annual Management Charges



Comment: The research identified annual management charges of between 0.4% and 1.0%. With reference to the minimum annual management charge identified, the findings suggest that greater scale may support the achievement of a lower management charge though the impact of scale is not as pronounced as is the case with DC insured schemes.

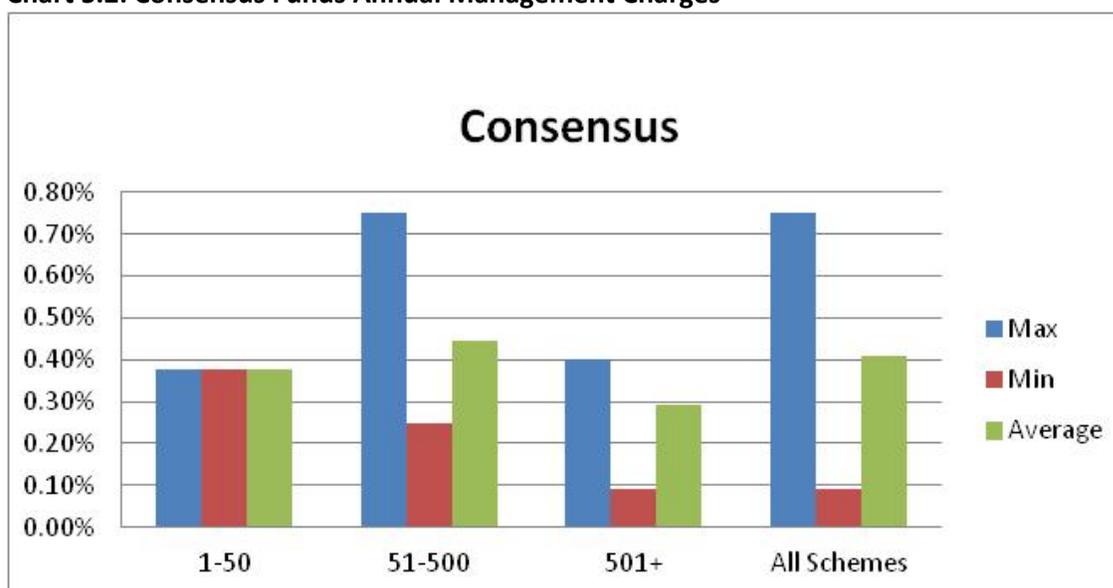
5.2.3 Annual Management Charges Identified – Consensus Funds

Table 5.4 details trustee surveys responses regarding annual management charges in relation to consensus funds.

Table 5.4: DC Non-insured - Consensus Funds Annual Management Charges

Membership Size	1-50	51-500	501+	All Schemes
Maximum AMC	0.38%	0.74%	0.40%	0.74%
Minimum AMC	0.38%	0.26%	0.09%	0.09%
Average AMC	0.38%	0.44%	0.29%	0.41%

Chart 5.2: Consensus Funds Annual Management Charges



Comment: The research identified annual management charges of between and 0.09% and 0.74%. The impact of scale can continue to be seen when considering the minimum annual management charge identified. Schemes of more than 500 members report an average annual management charge of 0.29% per annum versus 0.38% for schemes with membership of less than 50.

Part B - Member Impact of Pension Charges – RIY to Maturity

5.3 Member Impact of Identified Charges and RIY analysis

The analysis now considers the member experience of pension charges and details the cumulative impact to maturity of identified charges on member pension values. The additional impact of non-disclosed implicit investment costs is also considered.

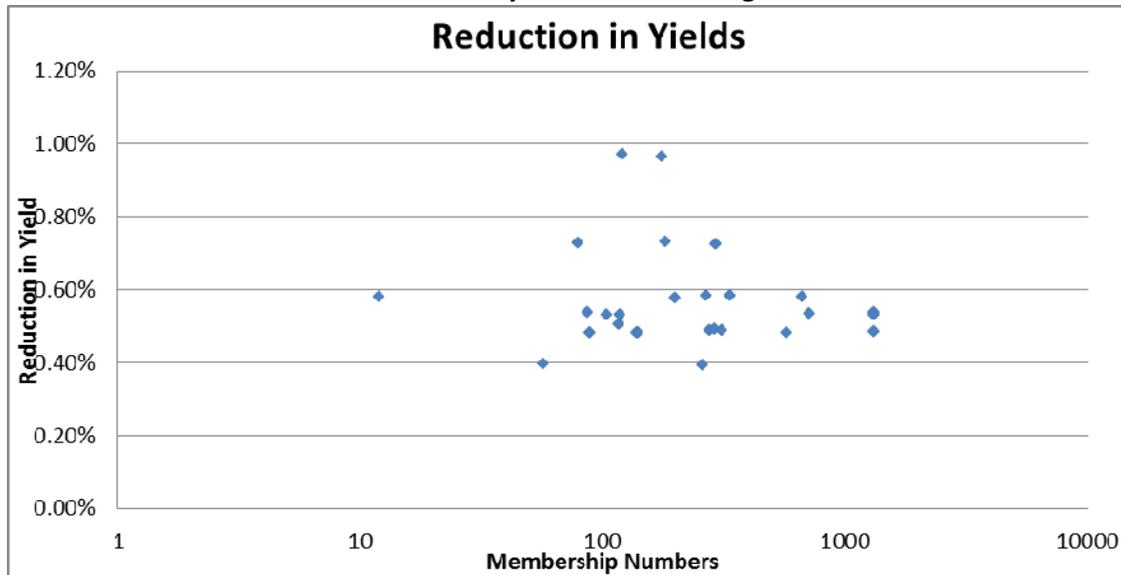
For cost comparison purposes the research returns to the ‘Reduction in Yield’ (RIY) impact of member pension charges identified. As in the case of defined contribution insured schemes, the RIY is calculated with reference to the balanced managed fund and consensus fund.

To allow the calculation of an RIY to maturity, for DC non-insured schemes contributions were assumed to be €500 per month from age 35 to retirement with investment returns of 5% gross per annum.

5.3.1 Spread of RIYs to Maturity – Balanced Managed Funds

Survey responses from the trustees of 55 schemes provided detailed information on charging structures to allow the calculation of RIY to maturity. The percentage of each of these schemes with balanced managed and consensus funds available to members is detailed in table 5.2. Chart 5.3 illustrates the variability of RIYs identified.

Chart 5.3: Reduction in Yields to Maturity – Balanced Managed Funds

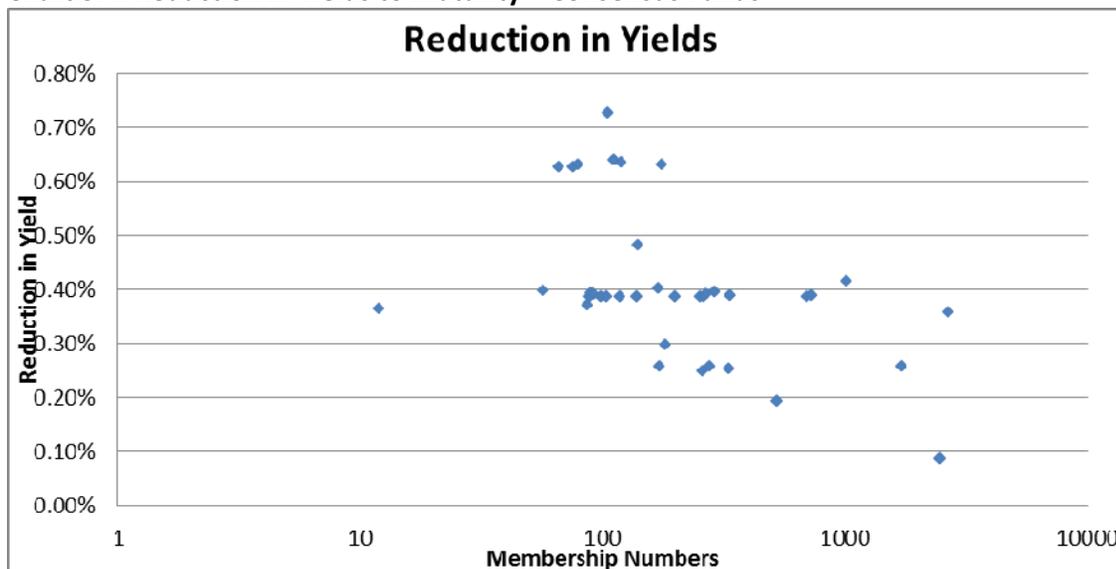


Comment: The majority of balanced managed funds fall within an RIY range of 0.49% to 0.58%. The average RIY is 0.57%. A number of outliers are also evident. The highest RIY identified is 0.97% and the lowest RIY is 0.39%. The concentration of schemes is around an RIY of 0.53%.

5.3.2 Spread of RIY to Maturity – Consensus Funds

If the associated charges of consensus funds are used to calculate RIYs, the variability of RIY detailed in Chart 5.4 is evident.

Chart 5.4: Reduction in Yields to Maturity – Consensus Funds



Comment: The majority of consensus funds fall within an RIY range of 0.37% to 0.40%. The average RIY is 0.41%. A number of outliers are also evident. The highest RIY identified is 0.73% and the lowest RIY is 0.09%. The concentration of schemes is around an RIY of 0.39%.

5.3.3 Member Impact of Pension Charges – Varying Contribution Assumptions

A key assumption being made in the ‘RIY to Maturity’ calculation is that an individual pension saver will remain within that employment to retirement and will continue to make pension contributions over that period. As with DC insured schemes, it is appropriate to consider alternative scenarios where an individual pension saver makes pension contributions for a shorter period of time.

Under a non-insured pension scheme, the only pension charge which directly impacts on member pension values is the associated annual management charge of the fund in question. From a members perspective, a variation in contributions will have no impact on the RIY as the RIY equals the annual management charge in a non-insured pension scheme. Annual management charges are a fixed percentage agreed and set at the outset of the scheme and are not impacted by contribution levels thereafter. Thus the RIY to maturity figures represented above will be the same regardless of the period of contribution chosen.

Part C - Notional Impact of RIYs on Pension Values

5.4 Notional Impact of RIYs on Long Term Pension Values

Table 5.5 provides a summary of the impact on notional pension values of the DC non-insured RIY to maturity and details the percentage of the projected member fund that will be utilised for pension charges. The table assumes contributions to be €500 per month from age 35 with investment returns of 5% gross per annum.

Table 5.5: DC Non-Insured Schemes - RIY Impact on Fund Values - Contributions to Maturity

Scheme Membership	Average RIY Identified	Total Contributions	Projected Fund excluding any pension charges	Projected Fund including pension charges	Total Charges as % of Total Projected Values
Balanced Managed Funds					
0 to 50	0.58%	€197,778	€443,479	€401,101	9.6%
51 to 500	0.58%	€197,778	€443,479	€400,954	9.6%
501+	0.52%	€197,778	€443,479	€405,070	8.7%
All schemes	0.57%	€197,778	€443,479	€401,870	9.4%
Consensus Funds					
0 to 50	0.37%	€197,778	€443,479	€416,311	6.1%
51 to 500	0.43%	€197,778	€443,479	€411,546	7.2%
501+	0.30%	€197,778	€443,479	€421,172	5.0%
All schemes	0.41%	€197,778	€443,479	€413,476	6.8%

5.4.1 Member Mobility – Deferred Members of Pension Schemes

As the annual management charge is the only member pension cost associated with defined contribution non-insured schemes, the disproportionate impact of contribution charges associated with insured schemes does not apply. As a result the need to identify the potential impact on Reductions in Yield, where individuals have more fragmented careers and accumulate a number of smaller pots of pension savings, is less relevant.

The member can choose to retain the funds in the existing scheme or could instead choose to transfer the pension benefits to another pension vehicle such as a new occupational pension scheme, a Buy out Bond or a PRSA.

Should they decide to do so, the impact of cost will differ and will be dependent on the pricing structure of the new pension vehicle chosen. The most cost effective solution will differ by individual and it is not possible to provide comparative RIY analysis without knowing the pricing structure of the new pension vehicle.

It would be rare for member pension values to incur penalty on exiting an occupational pension scheme. It would also be considered typical for no costs to be incurred on entry to a new occupational

pension scheme. As such it is unlikely that pension charges play a significant role in the decision making process, as to whether to retain funds in an existing pension scheme or transfer such funds to another scheme.

There will however be occasions where entry costs may be incurred, and in such circumstances pension costs may have a bearing. As such decisions will be specific to circumstances, it would be recommended to seek independent financial advice.

Transfers into a PRSA bear no entry charges but restrictions apply²³. Transfers into a Buy Out Bond may incur charges. These charges are reflected as a reduction in allocation rate applying to the value of the transfer, and where such an allocation rate is less than 100% an entry cost is effectively being incurred, albeit that the term entry cost is not used. Such reductions are typically no more than 2% - 3% of the value of the transfer. Research findings in relation to Buy out Bonds are outlined in Chapter 10 of this report.

²³ The individual must have less than 15 years pensionable service. In addition if the scheme is not winding up, and the value is in excess of €15,000 a 'Certificate of Comparison and Written Statement' must be first prepared by a qualified actuary who will charge a fee for such services

Part D - Impact of Implicit Investment Costs

5.5 Implicit Investment costs

The information provided by investment managers can be used to provide insights into the potential impact of additional implicit costs on long term pension values using the disclosed cost RIYs identified. Table 5.6 details the level of typical additional implicit costs incurred by investment funds as indicated by investment managers.

Table 5.6: Summary of Investment Manager Survey Responses re Implicit Costs

Range of Annual Management Charges identified	Range of Total Expense ratios identified	Range of Stamp Duty identified	Range of Brokerage Commission identified
0.15% to 0.725% per annum	0.26% to 0.885% per annum	0.01% to 0.04% per annum	0.01% to 0.08% per annum

Comment: Implicit costs are identified by taking the Total Expense Ratio identified, subtracting the Annual Management Charge (to identify the additional operational costs) and by adding the additional costs of brokerage commission and stamp duty (which are not reflected in TER's). As was the case with DC insured schemes, the range of costs identified would suggest that the total additional fund related costs (not typically disclosed to investors) amount to between 0.1% and 0.3% per annum. Similar caveats apply to the research findings in this area for DC non-insured schemes as was detailed in Ch. 4.6.1.

As was detailed in 4.6.2, in forming conclusions in relation to the levels of implicit costs identified, it is important to highlight that the implicit costs provided by investment managers were estimations and applied only to the largest 4 funds of the investment managers by fund size, to identify what is most common in the Irish pension market.

5.5.1 Impact of Implicit Costs on Member Pension Values

The information provided by investment managers can be used to identify the potential impact of additional implicit costs on long term pension values using the RIY model. Table 5.7 compares the DC non-insured RIYs inclusive of disclosed charges with an adjusted DC non-insured RIY which is inclusive of both disclosed charges and implicit costs.

Using details from table 5.7, table 5.8 provides a comparison of the notional impact of the various RIYs on pension values exclusive of pension charges, inclusive of disclosed charges and inclusive of disclosed and implicit charges.

Table 5.7: DC Non-insured RIY including and excluding Implicit Costs

Pension Type	Membership Size	Excluding Implicit Costs Average RIY (Balanced Managed Fund)	Including Implicit Costs Average RIY (Balanced Managed Fund)	Excluding Implicit Costs Average RIY (Consensus Fund)	Including Implicit Costs Average RIY (Consensus Fund)
DC Non-insured	0 to 50	0.58%	0.79%	0.37%	0.57%
DC Non-insured	51 to 500	0.58%	0.79%	0.43%	0.64%
DC Non-insured	501+	0.52%	0.73%	0.30%	0.51%
DC Non-insured	All schemes	0.57%	0.78%	0.41%	0.61%

Table 5.8: DC Non-Insured – Impact of RIYs on Notional Pension Value

Membership Size	Projected Fund excluding any charges	Projected Fund including disclosed charges (Balanced Managed Fund)	Total Charges as a % of Projected Values	Projected Fund including implicit costs (Balanced Managed Fund)	Total Charges as a % of Projected Values	Projected Fund including disclosed charges (Consensus Fund)	Total Charges as a % of Projected Values	Projected Fund including implicit costs (Consensus Fund)	Total Charges as a % of Projected Values
0 to 50	€443,479	€401,101	9.6%	€387,078	12.7%	€416,311	6.1%	€401,644	9.4%
51 to 500	€443,479	€400,954	9.6%	€386,938	12.7%	€411,546	7.2%	€397,081	10.5%
501+	€443,479	€405,070	8.7%	€390,880	11.9%	€421,172	5.0%	€406,299	8.4%
All schemes	€443,479	€401,870	9.4%	€387,815	12.6%	€413,476	6.8%	€398,930	10.0%

Comment: Table 5.8 provides a comparison of the associated notional pension values inclusive and exclusive of implicit costs identified. As can be seen, implicit investment costs increase the impact of pension charges. The research indicates that this impact equates to an RIY of 0.2% per annum from the fund which in turn will account for approximately 3% to 4% of the fund value over its lifetime.

The total charges at point of retirement vary depending on the nature of the fund and how it operates i.e. balanced managed funds or consensus funds (see 4.6.2, for greater detail).

Part E - Employer Cost Considerations

5.6 Employer Cost Considerations

Employer cost considerations as outlined in greater detail in section 4.7 are applicable to both DC insured and DC non-insured schemes. On the same basis as with DC insured schemes, trustees of non-insured schemes were requested to detail the total fees payable to pension advisers and to break down these fees identified into certain cost categories.

Under a DC non-insured pension scheme, a greater share of the costs of operating the pension scheme are borne by the sponsoring employer. Non-insured pension schemes will typically include independent advisory services and member support services, as the option to have a life assurance company perform such functions does not exist. Table 5.9 below summarises the responses received by scheme size.

Table 5.9: DC Non-insured Scheme Running Costs by Scheme Size

Group Scheme Membership	Average Total Fees Identified	% above average	% below average	Average Fees Identified per Member
0 to 50	€2,336	14%	86%	€1,472
51 to 500	€26,628	55%	45%	€153
501+	€73,344	33%	67%	€50
All Schemes	€29,078	40%	60%	€370

Comment: Trustees advised of costs of between €2,336 and €73,344 per annum depending on scheme size. These costs are typically larger than those identified for the equivalent DC insured pension schemes. This reflects the additional administrative cost burden typically borne by employers who operate DC non-insured arrangements. It should not be interpreted that non-insured schemes are more expensive but indicates the cost is borne to a greater extent by sponsoring employers when compared to an insured pension scheme where members bear a greater burden of the cost.

Trustees were also asked to provide a breakdown of pension costs into typical pension services. Survey responses indicated that trustees ability to do so was somewhat greater within non-insured pension schemes (as compared to insured schemes). However, 62% of trustees advised they were unsure as to the breakdown of total fees. For those who could identify some level of total fee breakdown, responses suggest that support for trustee meetings, investment consulting and general pensions advice are the services most frequently identified.

5.6.1 Distribution Costs

Trustee survey responses identified that 7% of schemes have commission arrangements in place. As these DC schemes are non-insured, commission payments from a life assurance company are not applicable as a third party administrator provides the registered administration services. The commission levels advised by the small number of schemes may relate to:

- Transfers out of the pension scheme on leaving employment;
- Advice provided to individual members on reaching retirement;

- The placement of risk benefits.

Alternatively, the trustees of the schemes in question may have misunderstood the information requested. The average monetary value of commission advised by the four schemes providing details was €3,877.

5.6.2 Trustee Reviews of Pension Costs

A similar finding to insured schemes was evident in relation to trustees reviewing the associated costs of non-insured pension schemes. 91% of trustee of non-insured schemes advised their scheme was reviewed/restructured from a cost perspective within the last 5 years.

Part F – DC Non-insured - Summary and Observations

Annual Management Charges

There were annual management charges of between 0.4% and 1.0% per annum for balanced managed funds and 0.09% and 0.74% for consensus funds which reflects the differing structure and underlying investment rationale for these funds.

Efficiencies of scale were evident with schemes of more than 500 members reporting an average annual management charge of 0.54% per annum for balanced managed funds versus 0.6% for schemes with membership of less than 50. For consensus funds, there was an average annual management charge of 0.29% per annum for schemes with more than 500 members and 0.38% for schemes with membership of less than 50.

Commission

Commission arrangements were confirmed in only 7% of DC non-insured schemes.

Bundling of Pension Charges

Unlike insured pension schemes, the practice of bundling pension charges is not particularly evident within the non-insured schemes.

Cost Burden Sharing and Additional Non Member Pension Costs

Compared to a DC insured scheme, there is more cost burden sharing between the employer and employee under a DC non-insured pension. Under a non-insured pension scheme the costs of administration are typically met by an employer through a fee structure agreed with an administrator. The employer may also cover additional costs, such as audit fees and/or advisory fees to an independent pension adviser to provide pension support. The employer covers a greater share of the costs of operating the pension scheme. Trustees advised of costs of between €2,336 per annum and €73,344 depending on scheme size.

Member Impact of Pension Charges: RIY to Maturity

RIYs identified for schemes ranged from 0.52% to 0.58% per annum based on investment in balanced managed funds and 0.30% to 0.43% per annum based on investment in consensus funds.

Notional Impact of RIYs on Member Fund

RIY and disclosed charges can represent between 8.7% and 9.6% of the total projected fund value, at the point of retirement where invested in balanced managed funds and between 5.0% and 7.2% for the consensus fund.

Impact of Additional Implicit Investment Costs

Investment managers advised that additional implicit costs are between 0.1% and 0.3% per annum. These additional costs can add approximately 3% to 4% to the total costs associated with schemes, from the individual members' perspective, over the life time of the pension scheme.

Trustee Reviews of Pension Charging Structures

91% of trustees advising their scheme was reviewed/restructured from a cost perspective within the last 5 years.

Chapter 6 - Defined Contribution Pension Schemes: How do identified charges compare?

- Introduction
- Part A - How do RIYs identified for defined contribution insured and non-insured schemes compare?
- Part B - How do RIYs identified compare to other pension products?
- Part C - How do RIYs identified compare – past and present?
- Part D - Efficiencies of scale
- Part E - Chapter Summary and Observations

Chapter 6 - Defined Contribution Pension Schemes: How do Identified Charges Compare?

6.1 Introduction

Chapters 4 and 5 of this report outline the range and type of pension charges for DC insured and non-insured pension schemes and highlighted the impact on members of these charges through an analysis of Reductions in Yield under various circumstances. This chapter will present comparative data to inform considerations regarding the reasonableness of member pension charges identified.

Part A - How do RIYs identified for Defined Contribution Insured and Non-insured Schemes Compare

248 DC pension schemes provided details of their underlying charging structure. As has been illustrated, the charging structure applicable to a DC insured scheme is different to that applicable to a DC non-insured scheme. The disclosed pension charges for DC insured/non-insured, directly impacting member pension values, are as follows:

DC – Insured Schemes

- Allocation Rates and Bid-Offer Spreads
- Policy Fees
- Annual Management Charges
- Exit Penalties (where applicable)

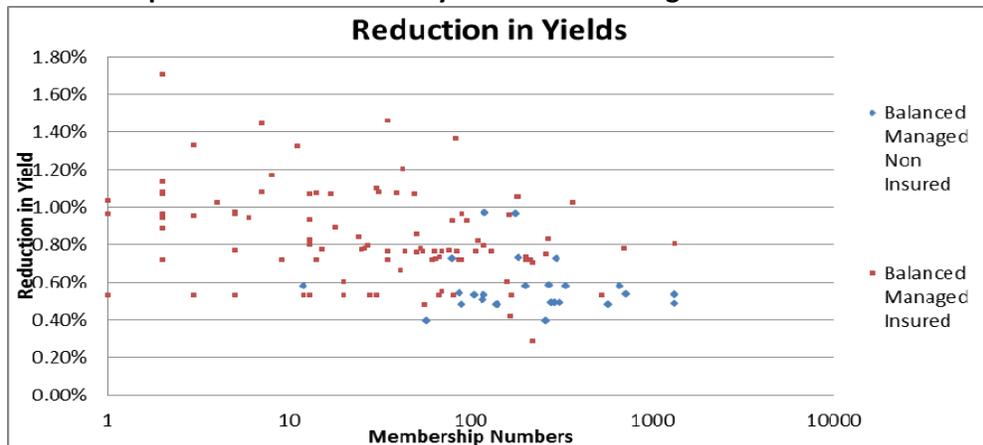
DC – Non-insured Schemes

- Annual Management Charges

There is a greater separation of pension functions within DC non-insured schemes and a greater proportion of the administration costs are borne by the sponsoring employer rather than by the individual member compared to a DC insured scheme.

The analysis of RIYs for DC insured and non-insured schemes were calculated with reference to balanced managed and consensus funds. Chart 6.1 illustrated how the RIYs compare by reference to a balanced managed fund.

Chart 6.1: Spread of RIY to Maturity - Balanced Managed Funds - DC Insured and Non-insured



The majority of insured pension schemes fall within an RIY range of 0.72% to 0.97% based on investment in a balanced managed fund. By contrast, the majority of non-insured pension schemes fall within an RIY range of 0.49% to 0.58% based on investment in balanced managed funds. The concentration of schemes is around an RIY of 0.53%.

Chart 6.2: Spread of RIY to Maturity – Consensus Funds - DC Insured and Non-insured

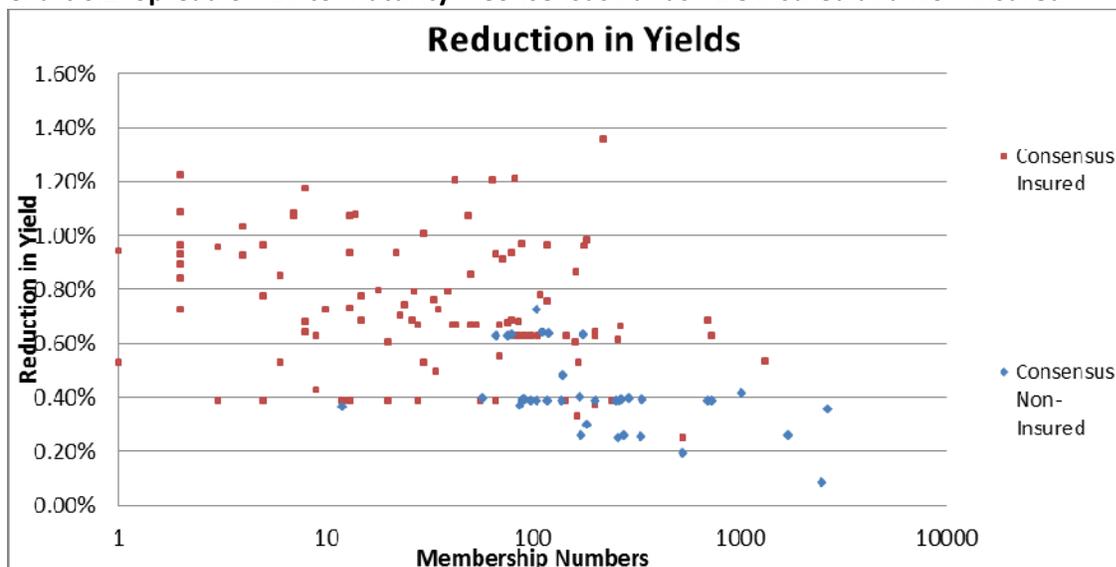


Chart 6.2 illustrates how the RIYs compare with reference to a consensus fund. The majority of insured pension schemes fall within an RIY range of 0.63% to 0.93%. By contrast, the majority of non-insured pension schemes fall within an RIY range of 0.37% to 0.40%. The concentration of schemes is around an RIY of 0.39%. Chart 6.1 and 6.2 shows that the RIY for insured DC schemes is generally higher and in some instances significantly higher than the RIYs for a non-insured scheme.

Table 6.1 below shows the impact of the RIY (disclosed costs) for both insured and non-insured DC schemes on the projected value of the pension fund at retirement.

Table 6.1 Impact of DC Insured and Non Insured RIYs on Fund Value

Scheme Type	Scheme size	Derived from RIY to Maturity			
		Manager Fund		Consensus Fund	
		Reduction in Yield	Notional Impact on Fund Value	Reduction in Yield	Notional Impact on Fund Value
DC - Insured	1-50	0.91%	14.4%	0.78%	12.5%
	51-500	0.76%	12.2%	0.71%	11.6%
	500+	0.71%	11.4%	0.52%	8.6%
	All Schemes	0.84%	13.4%	0.74%	12.0%
DC Non-insured	1 - 50	0.58%	9.6%	0.37%	6.1%
	51 - 500	0.58%	9.6%	0.43%	7.2%
	500+	0.52%	8.7%	0.30%	5.0%
	All Schemes	0.57%	9.4%	0.41%	6.8%

It is clear from table 6.1 that the impact of the RIY on the projected fund values can vary by up to 5% between insured and non-insured DC schemes and reflects the high level of administration costs typically paid by the sponsoring employer. It should not be taken that such arrangements are cheaper from an overall cost perspective as the RIY calculations do not incorporate costs borne by the sponsoring employer.

As illustrated in table 4.25 the average RIY of 13.4% for a DC insured scheme has the impact of reducing the projected fund value of the managed fund from €443,479 to €383,598 and to €370,314 if implicit charges as included. As illustrated in table 5.8 the average RIY of 9.4% for a DC non-insured scheme has the impact of reducing the projected fund value of a managed fund from €443,479 to €401,870 and to €387,815 if implicit charges are included.

The research indicates that for every 0.25% increase in the reduction in yield, the projected fund values is reduced by 4% approx.

6.1.2 Reductions in Yield – Shorter Contribution Periods

As outlined previously, the impact of pension charges on member values, as captured through RIY to maturity, is influenced by contribution assumptions. This impact is greater for DC insured scheme as the impact of contribution charges (i.e. allocation rates and bid offer spreads) is magnified where a small number of contributions are made and also because the impact of fixed costs such as policy fees are magnified, as their impact is relatively more significant on a smaller fund.

Using DC insured scheme survey responses, Charts 6.3 and 6.4 show the spread of RIYs to maturity. Where contributions are made for only a short period the impact of charges such as the annual management charge and policy fees is magnified. For comparison purposes the chart also highlights an average RIY for shorter contribution periods of 2 and 10 years. As before, the assumptions being made are that the contributions would be €500 per month from age 35, and that investment returns of 5% gross per annum would be achieved.

Chart 6.3: Spread of Reductions in Yield - Balanced Managed Funds

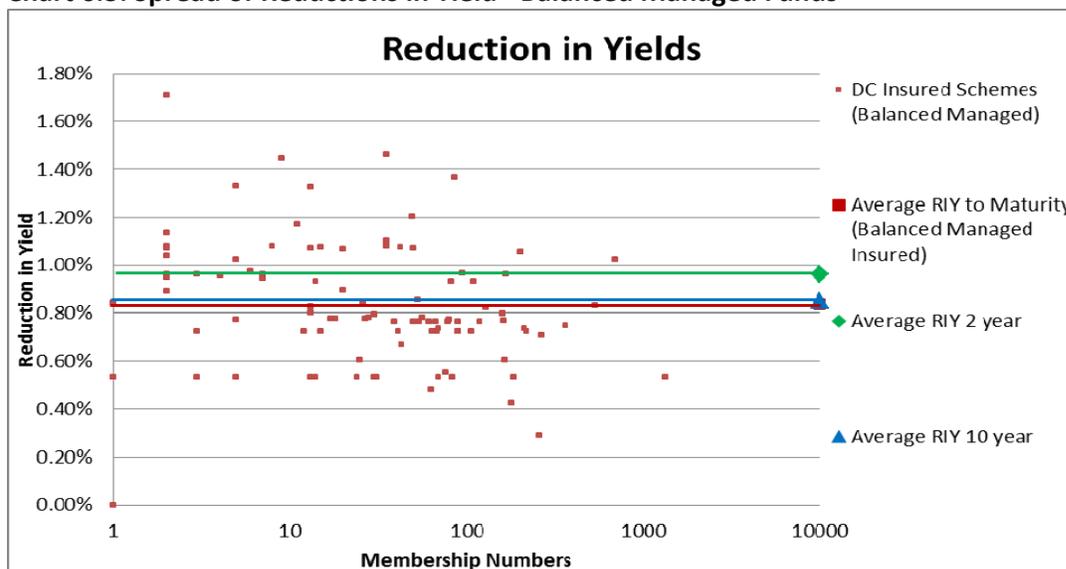
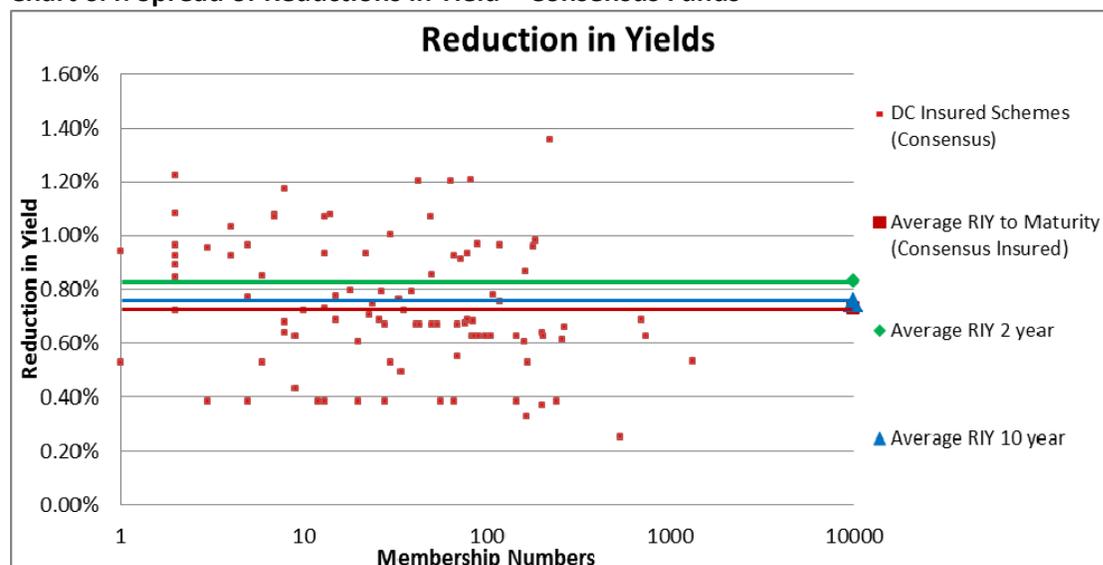


Chart 6.4: Spread of Reductions in Yield – Consensus Funds



Comment: All other things remaining equal, it can be seen that the impact of pension charges on an individual pension saver, who ceases contribution to a scheme after 2 years is more significant than the impact of pension charges on a pension saver who saves for a longer period. For example, the average RIY identified for schemes investing in balanced managed funds is 0.96% per annum where contributions cease after 2 years. If contributions continue throughout the pension savers full career the average RIY identified is 0.84% per annum.

If these RIYs are converted to identify the total costs incurred by the pension member, at point of retirement 13.4% of the fund receiving contributions to maturity is taken by charges as against 23.3% of the fund where contributions cease after 2 years.

As previously detailed, under a DC non-insured pension scheme, the only pension charge which directly impacts on member pension values is the associated annual management charge of the fund in question which is a fixed percentage agreed and set at the outset of the scheme. From a member's perspective, a variation in contributions will have no impact on the RIY as the RIY equals the annual management charge in a non-insured pension scheme. Thus the RIY to maturity figures represented above will be the same regardless of the period of contribution chosen.

Part B - How do DC RIYs identified compare to other pension products?

6.2 How do DC RIYs Identified Compare to Other Pension Products?

As has been illustrated, within DC schemes a wide range of RIYs is possible depending on the scheme structure and the member profile. Consideration is now given to how these RIYs compare to other pension arrangements in Ireland and the UK.

There is a limited comparable international research and literature base regarding the overall level and impact of pension scheme charges. To provide a basis for comparison, a number of ‘benchmark’ pension products were identified in the preparation of this report for cost comparison purposes. These products are Irish Personal Retirement Savings Accounts (PRSAs), UK Stakeholder Pensions (both pre and post 2005) and the newly established UK National Employment Savings Trust (NEST).

These comparators were selected to allow a level of understanding of the relative cost competitiveness of Irish occupational pension schemes from a member’s perspective. The products are not a perfect equivalent of an Irish DC occupational pension scheme. However each of the pension arrangements allow both employee and employer contributions and include legislated maximum pension charges and are considered to provide a suitable benchmark for comparison purposes.

Table 6.3: Benchmark Pension Products

Pension Product:	Description
Personal Retirement Savings Accounts	<p>PRSAs were introduced in Ireland in 2003 and mirrored the introduction of Stakeholder Pensions in the UK. They are an individual pension arrangement in which an employer may or may not make contributions.</p> <p>PRSA charges were capped at 1% per annum (via an annual management charge) and 5% contribution charge. Similar to the UK, Irish employers were required to offer such arrangements to staff not already part of a company pension scheme.</p>
Stakeholders Pension (Pre 2005)	<p>Stakeholder Pensions were introduced to the UK in 2001 and included capped pension charges (set in regulation) to address calls for more competitive charging structures. They are a form of individual pension arrangement.</p> <p>Legislation was enacted to ensure employers provide access to such arrangements for employees not already part of a company pension scheme. The charging structure was designed to offer simplicity – an annual management charge of 1% per annum representing the only charge to policy holders.</p>
Stakeholders Pension (Post 2005)	<p>In 2005 changes were introduced to UK Stakeholder pensions. The maximum capped charges permitted were increased from 1% throughout the life of the pension to 1.5% for the first 10 years and 1% thereafter. As such, two forms of Stakeholder Pensions are currently in existence in the</p>

Pension Product:	Description
	United Kingdom.
National Employment Savings Trust	<p>The National Employment Savings Trust (NEST) is a universal DC pension scheme introduced to coincide with the introduction of auto enrolment in the United Kingdom. From Oct 2012 UK employers must automatically enrol staff into a pension scheme and both employer and employee must contribute to the scheme.</p> <p>NEST was designed to provide a facility for those employers not currently operating a pension. It is a not for profit organisation managed by trustees and is designed to target low to middle income earners not currently saving into any pension.</p> <p>A 1.8% initial charge is applied to contributions and an on-going investment management charge of 0.3% per annum will apply to the choice of investment funds available under the NEST scheme.</p> <p>The dual charging structure (on both contributions and assets) is designed to recoup the start-up costs associated with the introduction of NEST (which have been estimated at levels in excess of £600 million). The authority (Pension Accounts Delivery Authority) tasked with overseeing NEST has committed to the removal of the contribution charge once start-up costs have been repaid. The UK government estimates participation of between 4 and 7 million people in the scheme over the coming years.</p>

Part C - 6.2.1 Reduction in Yield Comparison to Benchmark Pension Products

Charts 6.5 and 6.6 plot the DC insured and non-insured scheme RIYs together with the average RIY of the benchmark comparators detailed in table 6.4.

Table 6.4: RIY to Maturity Comparison – DC Schemes and Benchmark Pension Products

Pension Product:	Charging Structure	Reduction in Yield to Maturity
Personal Retirement Savings Accounts (Min Commission)	95% allocation rate, 1.0% annual management charge	1.27%
Personal Retirement Savings Accounts (Max Commission)	95% allocation rate, 1.0% annual management charge	1.57%
Stakeholders Pension (Pre 2005)	100% allocation rate, 1% annual management charge	1.00%
Stakeholders Pension (Post 2005)	100% allocation rate, 1.5% annual management charge	1.10%
National Employment Savings Trust	98.2% allocation rate, 0.3% annual management charge	0.41%

Chart 6.5: RIY to Maturity Comparison – Balanced Managed Funds and Benchmark Pension Products

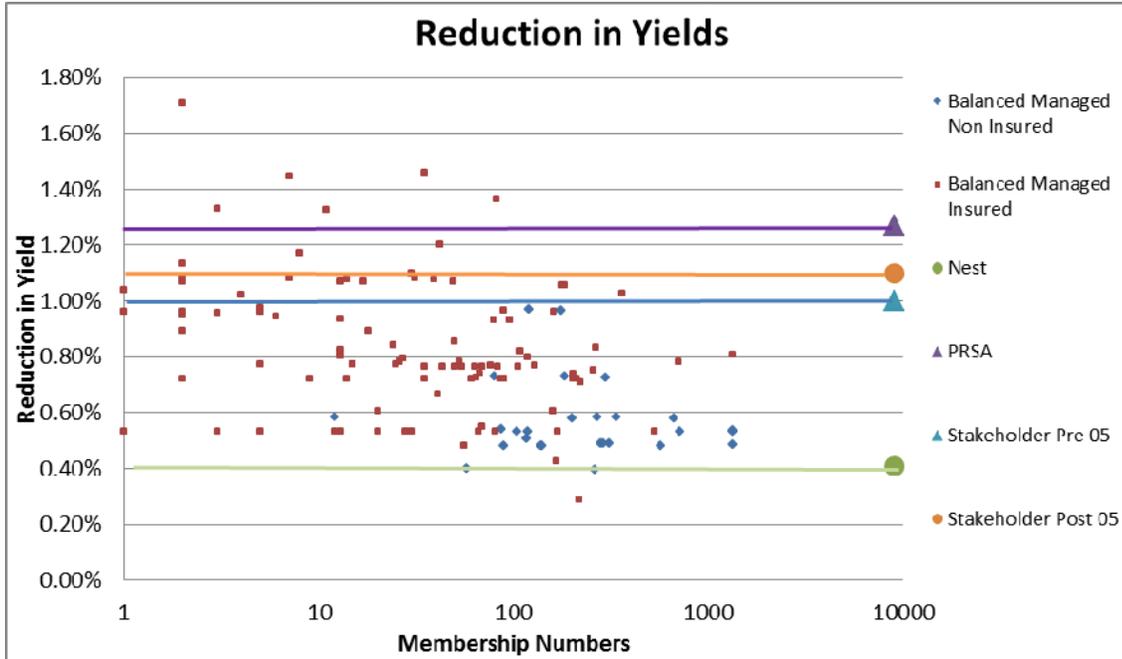
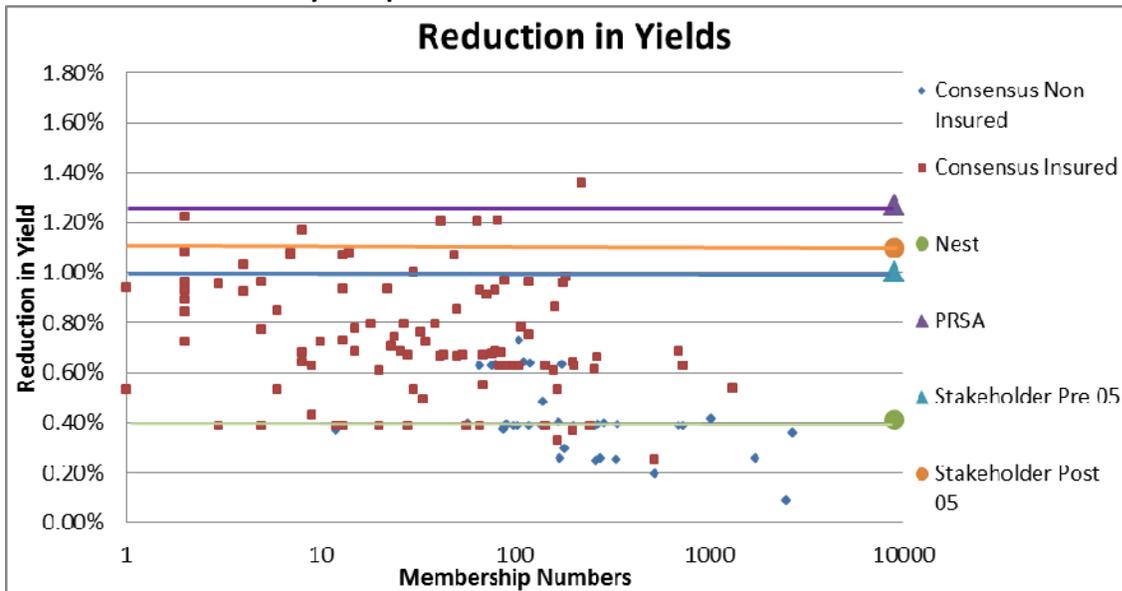


Chart 6.6: RIY to Maturity Comparison - Consensus Funds and Benchmark Pension Products



Comment: The results indicate that the DC RIYs compare favourably to both Irish PRSAs and UK Stakeholder pension arrangements from an individual members perspective. A significant number of DC schemes show lower RIYs than those identified for both Stakeholder Pensions and PRSAs.

The RIYs identified for DC insured schemes ranged from 0.29% to 1.71% per annum based on investment in balanced managed funds and 0.25% to 1.36% per annum based on investment in consensus funds. The RIYs identified for non-insured schemes ranged from 0.39% to 0.97% per annum

based on investment in balanced managed funds and 0.09% to 0.73% per annum based on investment in consensus funds. These can be compared to pension vehicles such as PRSAs (RIY of 1.27 to 1.57%) and UK Stakeholder Pensions (RIY of 1% and 1.1%).

The RIYs identified are not as competitive as the new UK NEST pension scheme which exhibits an equivalent RIY of 0.41%. However the potential very large scale of the NEST scheme must also be considered when comparing charges given this scale will achieve considerable cost efficiencies.

6.2.2 Pension Scheme Restructuring

The research identified that restructuring of pension schemes, to improve terms, is common practice. Through the trustee survey, trustees were asked when their pension scheme charging structure was last reviewed and/or amended. Table 6.5 provides details of the responses.

Table 6.5: Restructuring of Pension Schemes

Scheme Type	DC Insured Scheme	DC Non-insured Scheme
% of schemes identifying a review / amendment in the last 12 months	32%	45%
% of schemes identifying a review / amendment In the last 3 years	80%	80%
% of schemes identifying a review / amendment in the last 5 years	86%	91%
% of schemes identifying a review / amendment in the last 10 years	92%	95%

Part D - Efficiencies of Scale

Throughout the analysis of DC pension schemes there is evidence that larger pension schemes incur lower pension costs. This is likely due to both efficiencies of scale and the potential 'buying power' of trustees of schemes with larger contributions and asset values.

6.3.1 Reduction in Yield Analysis

The identified RIY is lower in DC non-insured schemes than in insured schemes. This is largely accounted for by the level of costs borne by the employer. However, there is evidence of efficiency of scale in DC insured as against DC non insured schemes.

Table 6.5: Range of Reduction in Yield Identified – Balanced Managed funds

<i>Pension Type</i>	<i>Balanced Managed Fund Less than 50 Members</i>	<i>Balanced Managed Fund More than 500 Members</i>
Defined Contribution Insured Scheme	0.91%	0.76
Defined Contribution Non-insured Scheme	0.58%	0.58%

6.3.2 Commission

The research indicated that commission is part of the charging structure in 39% across all DC insured schemes compared to 7% in DC non-insured schemes. Within DC insured schemes commission is prevalent in 45% of schemes with less than 50 members compared to 25% of scheme with a membership greater than 500.

6.3.3 Defined Contribution Insured Schemes – Additional Charges

For DC insured schemes, which represent the greatest number of pension schemes in the marketplace, economies of scale are also evident in relation to other pension charges identified. The research found that schemes with less than 50 members exhibited the following variances when compared with schemes with over 500 members.

Table 6.6: Defined Contribution Insured Schemes – Pricing Variations Identified

<i>Implications for Charging Structures:</i>	<i>Less than 50 Members</i>	<i>More than 500 Members</i>
% of Schemes with a Net Allocation Rate of less than 98%	72%	25%
Average Policy Fees Identified	€48	€38
Percentage of Schemes where policy fees are met by employer or no policy fees are payable	62%	75%
Prevalence of Exit Penalties	26%	0%

Part E - DC Schemes – How do identified charges compare? Summary and Observations

Member Impact of Pension Charges: Insured versus Non-Insured

As the costs associated with administration are typically paid for by sponsoring employers under a DC non-insured pension scheme as compared to a DC insured scheme, the identified RIY impact on members is typically lower. This is not to suggest such arrangements are cheaper from an overall cost perspective as the RIY calculations do not incorporate costs borne by the sponsoring employer. However from the individual member's perspective such arrangements typically involve lower charges.

Comparison of identified pension charges with other pension products

DC RIYs identified in the research compare favourably to both PRSAs and UK Stakeholder pension arrangements from an individual members perspective. The RIYs identified through trustee surveys are not as competitive as the new UK NEST pension scheme. The potential scale of this NEST scheme must be considered when comparing charges, as this scale allows for cost efficiencies.

Prevalence of legacy pension charges

86% of trustees of insured schemes and 92% of trustees of non-insured schemes advised the review of pension charging structures within the last 5 years. Trustees indicate there is not a significant prevalence of legacy charging structures within insured schemes, which are higher than those available today. This was also reflected through identification of contribution flows by the life assurance companies.

Commission

Commission is prevalent in 39% of DB insured schemes compared to 7% in DC non-insured schemes. Commission is more prevalent in scheme of less than 50 members.

Efficiencies of scale

The RIY is lower in DC non-insured schemes as compared to DC insured schemes across the range of scheme sizes identified in the research.

Chapter 7 - Occupational Pensions – Defined Benefit Schemes

- Introduction and Research Approach to Defined Benefit Schemes;
- Part A - Scheme Profiles Identified
- Part B - Investment Management Costs
- Part C - Employer Considerations
- Part D - Internal Resources
- Part E - Chapter Observations and Conclusions

Chapter 7- Occupational Pensions – Defined Benefit Schemes

7.1 Introduction

The Pensions Board 2011 annual report details 993 funded registered defined benefit funded schemes with 197,177 active members. Assets to the value of €45.8 billion (63.3%) are managed on behalf of DB schemes out of a total of €72.3 billion managed on behalf of Irish pension funds²⁴. Within this particular scheme type, an administrator is appointed to act as the ‘registered administrator’ to the scheme. This role can be undertaken by a life company or by a third party administrator (or in instances by appropriate internal resources of the company). In the significant majority of cases the scheme will be set up on a non-insured basis and the role of registered administrator is provided by a third party administrator who will typically charge the sponsoring employer a fee for the services provided.

In addition, the trustees will engage a pension adviser to help manage the pension scheme. The services provided by the adviser may include actuarial support, investment advice and general advice in relation to the management of the scheme. Payment for such services is typically made directly by the employer on the basis of an agreed fee structure. However, in a small number of cases, commission payments from a life assurance company may be payable. The survey of DC scheme trustees identified that 13% of schemes have commission arrangements in place.

An investment manager, typically independent of the administrator, is appointed to manage the investment assets of the pension scheme and may do so on an ‘investment only’ basis i.e. the investment manager provides no additional services. In this circumstance the associated annual management charges for each investment fund utilised will relate to investment management services. Implicit investment costs, relating to the operation of the underlying investment funds through which the pension scheme assets are invested, also impact DB schemes.

Members may contribute to the scheme but are unlikely to directly bear any of the associated scheme costs which are met by the employer. Employer costs include both funding the scheme i.e. contributions to meet projected liabilities, and the costs of operation of the scheme.

The costs of a DB scheme will change from year to year and exceptional/once off costs are more likely than for a DC scheme. For example, where there is adverse experience and unanticipated deficits emerge, this can result in a need for higher cash funding costs leading to greater need for advice, and in turn, higher costs. Similarly costs will also be dependent on the funding position of the scheme in question, as the management of DB pension deficits can incur substantial additional costs. Some costs are commonly experienced across all schemes and would include:

- Pension advisory costs – professional pension advice to sponsoring employers/trustees;
- Pension administration costs – administration of scheme;
- Investment consulting – scheme specific investment advice;
- Statutory reporting requirements - such as trustee annual reports and financial statements;

²⁴ Irish Association of Pension Funds - Pension Investment Survey - 2011

- Member communication/support – such as member presentations, one to one advisory meetings etc.;
- Audit fees – a specific regulatory requirement where a scheme membership is in excess of 100 members;
- Professional trustee costs – where a professional trustee is appointed as trustee to a scheme;
- Legal fees – legal opinion provided to sponsoring employers/trustees.

In addition to these typical pension costs, schemes will likely incur ‘scheme specific’ costs. These costs can include:

- Pension advisory fees in relation to a scheme wind up, or benefit restructuring project;
- Actuarial input relating to pension scheme valuations in the event of a merger/acquisition;
- Legal/tax advice relating to the introduction (and knock on impact) of the pension cap and pension levy.

The full range of possible scheme specific services and associated costs is extensive. As a result the ability to meaningfully compare costs and services provided is particularly difficult. In addition members do not typically bear any of such costs, thus preventing a comparison of the member experience of such schemes.

Due to the greater separation of pension functions that exist within DB schemes, the identification of legacy schemes, for comparison with DC insured findings, is not possible. Unlike an insured scheme where a life assurance company will record the pricing structure of legacy schemes, there is no equivalent party for a non-insured scheme to provide such information. Based on trustee responses to the pilot survey, and the difficulties advised in providing detailed scheme information, it was felt trustees would be unable to provide legacy information for non-insured schemes. As a result of such considerations the report does not provide a comparison of current and legacy DB schemes.

7.1.1 Research Approach to Defined Benefit Schemes

Within the occupational pension scheme marketplace, DB schemes are a unique form of pension arrangement, and not easily comparable with other pension types. From a cost perspective, the costs of provision and on-going operation of such schemes are borne by the sponsoring employer. In some circumstances an employee will make a contribution to the scheme, in a similar manner to that of a DC scheme, for example as a percentage of salary. However, unlike a DC scheme, the contribution is not impacted by identifiable costs. Instead the employee contribution to a DB scheme is pooled with other assets of the scheme, thus making the segregation and assignment of specific costs to members particularly difficult.

Unlike a DC scheme, where operational costs impact member pension values, the operational costs of a DB scheme have no impact on member pension values. They do not have the effect of reducing members’ contributions or investment returns. The preparation of this report included significant discussion as to how costs associated with DB schemes would be best compared with an appropriate alternative. A number of concerns arise in attempting to make such a comparison:

- the RIY calculated in respect of DC pension schemes is borne by members. Within a DB pension scheme all costs are generally borne by the employer;

- to calculate an RIY for a DB scheme, which includes the annual management charge only, is to disregard relatively significant advisory costs which can be incurred in respect of these arrangements;
- the calculation of an RIY to include the impact of advisory costs requires a knowledge of fund values (which vary from time to time), and it requires a decision is taken as to how exceptional costs are treated given there is no equivalent phenomenon in DC pension schemes;
- compared to the more homogenous nature of DC schemes, DB pension costs are often scheme specific and reflect factors such as the nature of the scheme legal documentation, the employer covenant, the composition of the trustee board;

Reflecting these concerns, the research has focused on providing an overview of typical pension charges incurred, and the related services provided to DB schemes, with differing profiles.

7.1.2 Trustee Surveys

Of the total 340 trustee groups providing information relating to their occupational pension schemes, 92 were from DB schemes. Trustees were asked to provide information relating to a number of different areas including:

- Scheme profile (including current status of the scheme regarding the funding standard to provide context);
- Financial information (available from latest trustee annual report/alternative trustee annual report);
- Adviser fees and services provided;
- Investment management.

This information was sought to provide visibility of costs identified, and to enable an understanding of why these costs arise. The information provided by DB trustees is summarised under the following headings:

- Scheme profiles;
- Investment management costs;
- Employer cost considerations;
- Internal resources.

Part A – Scheme Profiles

7.2 Scheme Profiles

Table 7.1 provides an overview of the 92 schemes who contributed to the research.

Table 7.1 Overview of DB Schemes by Member Size

Membership Size	Number of respondents	Average Assets	Average Membership	Average Annual Contribution
1 to 50	14	€2.7m	15	€192,251
50 to 500	53	€14.4m	211	€1,085,007
501+	25	€109.3m	2,688	€6,583,017
All Schemes	92	€38.5m	854	€2,443,177

Comment: The particular nature of DB schemes differ significantly from scheme to scheme. Asset values will be dictated by investment strategies which may be growth orientated or instead focused on liability matching. These considerations, along with issues such as the funding position of the scheme and the age profile of the scheme membership will also impact annual contribution levels. It is not therefore possible to draw conclusions relating to this information based solely on membership sizes.

The schemes participating in the survey display a wide range of profiles. An understanding of the schemes circumstance was required in order to provide context for costs identified. To this end, trustees were asked to advise in relation to the current status of the scheme (i.e. open to new members, closed to new members but open to accrual, closed to future accrual, in process of winding up or currently frozen).

Using this information, the research could identify schemes in deficit and where potential funding issues may be evident. Such schemes would likely incur additional advisory costs as a result for example through investment consulting, actuarial and legal services. In addition schemes may be forced to consider benefit restructuring options for example wind up, closed for future accrual, or closing to new entrants. The schemes invited to participate in the survey were chosen on a random basis from the Pensions Board register of active schemes. Schemes that had a status of frozen, were in wind-up, or had been wound-up, were excluded from the survey.²⁵ Table 7.2 details scheme status.

Table 7.2: DB Sample Survey - Scheme Status

	All Schemes	Membership 1 to 50	Membership 50 to 500	Membership 501+
Closed to future accrual	4%	0 %	6%	4%
Closed to new entrants and open to accrual	54%	57%	58%	44%
Frozen	1%	7 %	0%	0%
In process of winding up	6%	22%	4%	0%
Open to new members	35%	14%	32%	52%

²⁵ Some schemes may have changed status in the intervening period.

Part B – Investment Management Costs

7.3 Investment Management Costs

The investment strategy operated by a DB scheme and the underlying investment funds chosen will vary widely from scheme to scheme. Unlike a DC scheme, where the key drivers are risk and return expectations, a DB investment strategy will also be driven by additional factors such as the solvency position, strength of employer covenant, liability considerations and scheme status. Thus the trustees will choose a range of investment funds to match their investment needs and each fund will have an associated annual management charge. As previously highlighted the annual management charge will differ due to the assets, investment philosophy and geographical considerations of the fund in question.

In order to establish comparative data in relation to the investment management costs identified for DB schemes, trustees were provided with four categories of actively managed funds (global equity, balanced managed, bonds and cash) and three categories of passively managed funds (consensus, global equity and bonds). As with DC schemes, these funds were specifically chosen due to their prominence within the investment marketplace. Trustees were provided with the broad fund descriptions and asked to confirm the associated annual management charge of the fund/s that formed part of their investment strategy.

Using this approach a range of fund charges was established applicable to each of the fund types. Due to their prominence within the overall pension's marketplace, and for comparability purposes with the analysis of DC schemes, balanced managed funds and consensus funds were selected for investigation. Of these two funds, trustee responses identified that consensus funds were the more prevalent fund type identified, within DB pension schemes. In relation to all funds identified for DB pension schemes, table 7.3 provides the percentage of schemes currently offering the relevant fund to members.

Table 7.3: DB Trustee Survey Responses - Prevalence of Investment Funds

Fund Type	% of Schemes where identified
Consensus Fund	39%
Balanced Managed Fund	33%
Passive Global Equity Fund	42%
Active Global Equity Fund	39%
Passive Bond Fund	42%
Active Bond Fund	35%
Cash Fund	26%

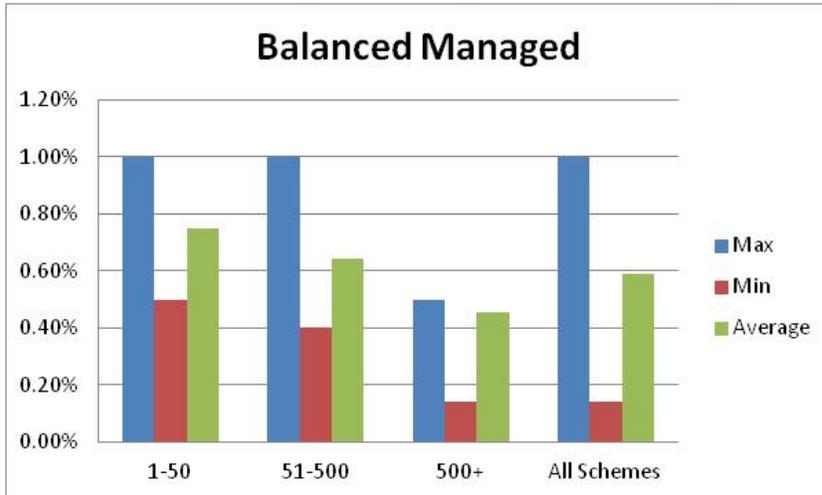
7.3.1 Annual Management Charges Identified – Balanced Managed Funds

Table 7.4 details the annual management charges identified by trustees in relation to balanced managed funds.

Table 7.4: DB Annual Management Charges – Balanced Managed Funds

Membership Size	1-50	51-500	501+	All Schemes
Max AMC	1.00%	1.00%	0.50%	1.00%
Min AMC	0.50%	0.40%	0.14%	0.14%
Average AMC	0.75%	0.64%	0.46%	0.59%

Chart 7.1: Annual Management Charges – Balanced Managed Funds



Comment: The research identified annual management charges of between 0.14% and 1.00% annum for balanced managed funds. Efficiencies of scale are evident as the average annual management charge identified reduces with membership size. For example, schemes of more than 500 members report an average charge of 0.46% per annum versus 0.75% for schemes with membership of less than 50.

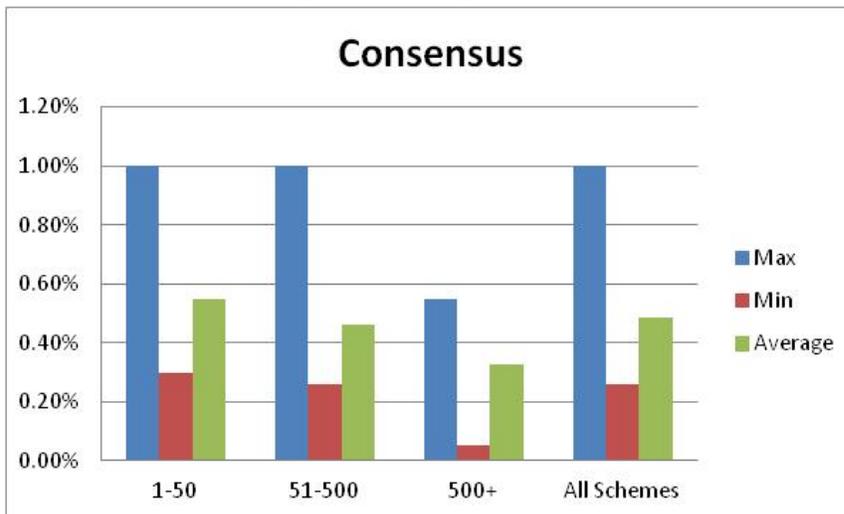
7.3.2 Annual Management Charges Identified – Consensus Funds

Table 7.5 details the annual management charges identified by trustees in relation to consensus funds.

Table 7.5: DC Annual Management Charges – Consensus Funds

Membership Size	1-50	51-500	501+	All Schemes
Max AMC	1.00%	1.00%	0.55%	1.00%
Min AMC	0.30%	0.26%	0.05%	0.26%
Average AMC	0.55%	0.46%	0.33%	0.49%

Chart 7.2: Annual Management Charges Identified – Balanced Managed Funds



Comment: The research identified annual management charges of between 0.26% and 1.00% for consensus funds. Again, the findings suggest efficiencies of scale are evident as average annual management charges reduce with membership size. For example, the average charge identified for schemes with more than 500 members was 0.33% per annum versus 0.55% for schemes with membership of less than 50.

7.3.3 Implicit Investment costs

As was outlined in relation to DC schemes, within DB schemes there is a level of additional implicit costs that are not readily identifiable and which are typically not disclosed. These costs relate to the underlying costs of investment management. Such additional fund level expenses can be reflected in the investment funds unit price.

Under a DB scheme, implicit costs are borne by the pension fund and it is ultimately the employer who bears such additional costs. Survey responses provide some visibility in relation to DB implicit costs such costs. DB investment managers were asked to provide details of the level and impact of implicit costs for their 4 largest funds by aggregate value. Responses suggest that for the largest investment funds, the additional impact of implicit fund related expenses is between 0.1% and 0.3% per annum.

Part C - Employer Cost Considerations

7.4 Employer Cost Considerations – Fees and Services Provided

Trustees were asked to provide details regarding the advisory fees paid by sponsoring employers of DB schemes and the services provided for these fees. Table 7.6 summarises the information provided.

Table 7.6: DB Scheme Average Advisory Fees by Scheme Size

Group Membership	Scheme	Average Total Fees per annum Identified per scheme	% above average	% below average
0 to 50		€31,497	33%	67%
51 to 500		€72,898	33%	67%
501+		€318,249	20%	80%
All Schemes		€132,496	27%	63%

Comment: Survey responses identified a range of fees payable which vary by scheme size and funding position. DB schemes with membership sizes of less than 50 advised of average fees of €31,497 per annum compared to approximately €72,898 for schemes with 50 to 500 members and €318,249 for schemes with more than 501 members.

However, unlike DC schemes, the total fees associated with DB schemes will be influenced by a number of other scheme specific factors including the funding position of the scheme in question, the schemes investment strategy and the immediate plans for the scheme in question. As a result, in relation to understanding DB scheme advisory fees, the ability to draw consistent conclusions or to derive particular insight from the information provided is limited.

Trustees were also asked to break down the services they had received for the fees and group them, in as much as was possible, under the following headings;

- Pension administration costs and pension payroll costs;
- Costs of producing trustee annual reports and financial statements – where separately payable;
- Trustee meetings and member presentations;
- Actuarial compliance (such as actuarial valuation reports, actuarial funding certificates, and actuarial statements);
- Pension accounting relating to information required under relevant accounting standards;
- Investment consulting advice;
- Advices relating to redundancies, mergers and acquisitions or other similar corporate activity;
- Pension restructuring advice such as section 50 applications, benefit amendments etc.;
- Annual cost of professional trusteeship;
- Audit and Legal fees;
- General pension advice;
- Other.

The pension services detailed above will often be delivered by a number of different providers. For example pension administration services are provided by registered administrators, actuarial

compliance services will be provided by a scheme actuary and pension accounting services will be provided by a qualified accountant. In addition, pension advisers will typically provide services such as support to trustee meetings, presentations and briefings to members, investment consulting advice, general pension advice etc.

There may be an overlap of service provision between different providers and it may not always be possible to clearly segment services and costs identified to specific parties. For example the larger pension advisers will often provide a broad range of the services detailed and employ the specific qualified resources that will allow them to do so.

In addition to requesting a breakdown of fees and services, trustees were also asked to advise if the services identified would be considered normal or exceptional in nature. They were also given the option to advise where they were 'unsure' of the breakdown of total costs identified, in appreciation of the fact that such a breakdown may not always be possible, for example where fixed fee arrangements are in place.

The majority of trustees advised that the greater part of services received would be considered normal and would be expected to recur year on year. 15% of trustees advised of exceptional costs and the average of these exceptional costs across all scheme sizes was €10,590. Table 7.7 provides a summary of the most common services identified by trustees (and broken down by scheme size) and the average costs disclosed for each.

7.4.1 Distribution Costs – Fees Payable by way of Commission

The trustee surveys identified that 13% of schemes have commission arrangements in place in relation to the operation of the pension scheme. Trustees advised the following average monetary values of commission payments in respect of these schemes:

Group Scheme Membership	Average Monetary Commission Levels:
0 to 50	€4,175
51 to 500	€8,668
501+	€5,750
All Schemes	€8,050

7.4.2 Trustee Reviews of Pension Costs

A similar finding to DB insured schemes was evident in relation to trustees reviewing the associated costs of DB non-insured pension schemes. 76% of trustees advised their scheme was reviewed/restructured from a cost perspective within the last 5 years.

Table 7.7: Services Provided to DB Schemes by Scheme Size

Group Scheme Membership	Most Common Services Provided	% of schemes where identified	Average fee identified per annum
1 to 50	Pension Administration	64%	€15,705
	Actuarial compliance	64%	€4,739
	Pension accounting	50%	€4,357
	General Pensions advice	43%	€5,792
	Trustee meeting(s)	21%	€6,712
	Investment consulting advice	21%	€2,767
51 to 500	Pension Administration	57%	€21,445
	Actuarial compliance	40%	€13,841
	General Pensions advice	36%	€13,733
	Pension accounting	34%	€7,147
	Trustee meeting(s)	30%	€5,039
501 plus	Pension Administration	60%	€94,181
	Investment consulting advice	56%	€153,547
	Actuarial compliance	56%	€18,930
	Pension accounting	48%	€17,645
	General Pensions advice	40%	€37,448
All	Pension Administration	59%	€40,693
	Actuarial compliance	48%	€13,599
	Pension accounting	40%	€10,024
	General Pensions advice	38%	€19,147
	Investment consulting advice	35%	€82,425

Comment: The most commonly identifiable services were pension administration costs, actuarial compliance, pension accounting and general pensions advice. The services identified by trustees were not consistent across all scheme sizes. For example investment consultancy services were identified as the second most prevalent service category received by trustees to schemes with membership sizes in excess of 500. This is not to suggest that such services are not applicable to smaller schemes. The survey responses received suggest that trustees found it difficult to break down fees into identifiable services. However the ability to do so was somewhat greater for DB schemes than for DC schemes.

Part D - Internal Resources

7.5 Internal Resources

Due to the complex nature of DB pension schemes, larger employers may utilise internal company resources to operate the pension scheme in conjunction with professional advisers. These resources are an additional cost to running a pension scheme. For example, a company staff member may take on the role of registered administrator and register with the Pensions Board. Alternatively, nominated staff may simply provide support to scheme members and to the general the running of the scheme.

In order to gain an insight to the prevalence of this practice, trustees were asked to advise whether company resources were used. Trustee responses are summarised in Table 7.8. It should be recognised figures provided by trustees are estimations only.

Table 7.8: DB Schemes Utilising Internal Employer Resources by Scheme Size

	All Scheme Sizes	Membership 1-50	Membership 51-500	Membership 501+
% of scheme that use internal resources	24%	14%	17%	44%
% of schemes that don't use internal resources	76%	86%	83%	56%
Average cost identified for those using internal resources	€66,939	€8,500	€24,222	€112,514

Comment: The use of internal resources by employers operating DB schemes is discretionary and as such scheme specific. Responses indicate that larger DB schemes are more likely to employ internal resources.

Part E - Chapter Summary and Observations

Scheme Profiles

Trustee surveys provided an overview of 92 DB schemes. Such schemes identified average scheme assets of €38.5m, an average membership of 854 and an average annual contribution of €2.4m.

Scheme Status

The current circumstances of schemes differ considerably. 35% of schemes advised they are open to new members. 54% of schemes advised they were closed to new entrants but open to future accrual with 4% closed to future accrual. Only 1% of schemes advised they were in the process of winding up.

Annual Management Charges

DB schemes often use a number of different funds as part of their asset investment strategy. Such funds may be used for asset accumulation purposes or instead as part of a liability management process.

Fees

The research identified a range of fees payable which vary by scheme size and funding position. DB schemes with membership sizes of less than 50 advised average fees of approx. €31,500 compared to approx. €72,900 for schemes with 50 to 500 and €318,250 for schemes with greater than 501 members.

Commission

Fee agreements are a particular feature of DB schemes. As such commission arrangements are not particularly common being evident in approximately 13% of schemes.

Services Provided

There was little consistency of services provided for fees, the most common being pension administration costs, actuarial compliance, pension accounting and general pension advice.

Internal Resources

Approximately 25% of schemes employ internal resources with average costs identified of €67,000 per annum. The number of schemes using internal resources increase with size with 44% of schemes with excess of 500 members advising such costs compared to 14% of schemes with less than 50 members.

Trustee Reviews of Pension Charging Structures

Trustees advised that non-insured schemes are regularly reviewed from a cost perspective with 76% of trustees advising their scheme was reviewed/restructured from a cost perspective within the last 5 years.

Chapter 8 - Retirement Annuity Contracts, Executive Pension Plans and Personal Retirement Savings Accounts

- Part A - Introduction and research approach
- Part B - Retirement Annuity Contracts and Executive Pension Plans – Charging structures identified
- Part C - Retirement Annuity Contracts and Executive Pension Plans – Factors influencing pricing structures
- Part D- Personal Retirement Savings Accounts
- Part E - Policyholder impact of identified charges - Reduction in Yield (RIY) analysis
- Part F - How do RIYs identified compare to other pension products?
- Part G - How do RIYs identified compare – Past and present?
- Part H - Non-Disclosed pension charges – Impact of implicit investment costs
- Part I - Chapter observations and conclusions

Chapter 8 - Retirement Annuity Contracts, Executive Pension Plans and Personal Retirement Savings Accounts

8.1 Introduction

This chapter focuses on Retirement Annuity Contracts (RACs), Executive Pension Plans²⁶ and Personal Retirement Savings Accounts (PRSAs). Most recent Pension Board figures indicate there are 151,122 standard and 49,916 non-standard PRSA contracts in existence, with total assets under management of €3.03 billion²⁷. The Board's records also identify the number of one man occupational pension schemes (i.e. executive pension plans) at 49,032²⁸ but the records do not provide the level of assets under management. There are no figures for the total number of Retirement Annuity Contracts in existence²⁹. As an indication of the size of the RAC market, there was a cost to the exchequer of tax relief on contributions to RACs of €237.2m for 101,300 contracts in 2009.

The significant majority of RACs, Executive Pension Plans and PRSAs are set up on an insured basis where the individual sets up a pension policy with a life assurance company who provide administration and investment management services. The costs for these services are recouped through disclosed charging structures and are borne in their entirety by the individual pension saver.

Prior to pension set up, the individual will typically engage a pension adviser. The advice provided will typically include consideration of the appropriate life assurance company product, choice of investment fund(s), appropriate contribution levels with reference to an individual's pension expectancy and information on tax relief.

Payment for services provided by a pension adviser can be direct from the individual in the form of a fee and/or by a commission payment paid by the life assurance company to the adviser. Where payments to advisers are in the form of a fee, the life assurance companies will apply charges on a nil commission basis. Where commission arrangements exist, the costs will be borne by the policyholder through an increase in the policy charges. This typically occurs through a reduction in the allocation rate and/or through an increase in the annual management charge.

The research indicates that commission is a particularly prevalent feature of RACs, Executive Pension Plans and PRSAs. However the commission levels vary greatly. In addition to disclosed pension charges, these individual pension policies are also impacted by implicit investment costs borne by the underlying investment fund.

²⁶ For description see Glossary. As Executive Pension Plans are generally individual plans they are grouped with other forms of 'individual' pension arrangements for comparison purposes.

²⁷ Pensions Board Annual Report 2011

²⁸ The Pension Board classify one man pension schemes as 'Non Group' schemes, where the scheme can only ever include one member. The registered administrator to approximately 98% of these schemes is a life assurance company. A number of one man schemes exist within the Board's additional category 'Group Schemes Membership 1 to 50'. This category contains 16,132 schemes of which approximately 50% have only one member.

²⁹ The Central Bank regulate the life assurance companies (i.e. those who provide RACs) and intermediaries (i.e. those who facilitate RACs) rather than the individual contracts themselves. This is in contrast to the Pensions Board who regulate occupational pension schemes and PRSA contracts.

Part B - Charging structures identified

8.2 Charging Structures Identified

As a primary source of verifiable information, life assurance companies were requested to provide detailed material relating to pension charging structures for RACs, Executive Pension Plans and PRSAs. Life companies were asked to use various pricing assumptions and to use two scenarios of maximum commission payable and no commission payable. This approach to commission would allow the identification of both ends of a spectrum of pension charges.

As with other pension types, details were sought on typical pension charges associated with contracts set up 10 and 15 years ago. Respondents were also asked to provide details of the total number of pension contracts in existence, the levels of assets under management, 2010 contribution flows (into each of the various pension contracts) and information regarding the prevalence of commission arrangements both in 2010 and on their existing backbook of pension business.

8.2.1 Retirement Annuity Contracts and Executive Pension Plans

The charging structures of RACs and Executive Pension plans are broadly similar with the key disclosed pension charges outlined in Chapter 2. For Executive Pension Plans it would also include annual Pension Board fees.

In addition to these disclosed pension charges, individual pension arrangements are also impacted by implicit investment costs borne by the underlying investment fund through which the pension is invested.

RACs are most typically set up by the self-employed and are set up on a 'regular contribution basis' or on a 'single/once off contribution basis'. Those contracts set up on a once off contribution basis are often linked to the tax return deadline for the self-employed. The analysis below includes both contribution types. Executive Pension Plans are most typically set up as part of an employment contract and would include the 49,032 active non group pension scheme identified in table 1.1.

8.2.2 Pension Charging Structures Identified

Life assurance companies were provided with a number of pricing assumptions detailed below and requested to provide a breakdown of disclosed pension charges. The changing of these pricing assumptions resulted in a number of variations in charges quoted by life companies which are considered later in this chapter.

Pension Type	Pricing Assumption
Retirement Annuity Contract	Individual Savers Age: 35 Monthly Contributions: €250 per month Retirement Age: 65 Transfer of Existing Assets: €25K
Executive Pension Plan	Individual Savers Age: 35 Monthly Contributions: €250 per month Retirement Age: 65 Transfer of Existing Assets: €30K

Table 8.1 and 8.2 provide a summary of the information received and details the associated charges. Life assurance companies were requested to provide the annual management charge costs for 'typical' managed funds. Tables include net allocation rates only as net rates directly impact individual policyholders. These are calculated by eliminating the charges associated with commission payments and bid offer spreads, where relevant³⁰.

Table 8.1: Identified Charges - Retirement Annuity Contracts

Commission Basis	Range of Net Allocation Rates	Range of Monthly Policy Fees (if applicable)	Exit Penalties	Range of Net Allocation Rates on Transfers into contract*	Range of Annual Management Charges
Nil Commission	95% -100%	€3.50 - €7.31	44% of life companies advised exit penalties apply**	95% - 96%	0.5% -1.0%
Maximum Commission	90% -100%	€4.25 - €7.31	66% of life companies advised exit penalties apply**	93% - 98%	0.5%-1.5%

Table 8.2: Identified Charges – Executive Pension Plans

Commission Basis	Range of Net Allocation Rates	Range of Monthly Policy Fees (if applicable)	Exit Penalties	Range of Net Allocation Rates on Transfers into contract*	Range of Annual Management Charges
Nil Commission	95% -100%	€3.50 - €12.00	30% of life companies advised exit penalties apply**	95%-103%	0.5% -2.0%
Maximum Commission	90% -100%	€4.50 - €12.00	66% of life companies advised exit penalties apply**	93%-100%	0.5%-2.5%

* Transfers into contracts are pension benefits transferred from another pension policy

**Exit penalties, where applicable, typically start at 5% of fund value and apply for a period of up to 5 years, reducing each year by a set percentage.

8.2.3 Retirement Annuity Contracts – Single Contributions

As previously outlined, RACs are often set up on a single contribution basis, often linked to the self-employed tax return deadline. For RACs, life assurance companies were requested to provide a breakdown of disclosed charges based on the following pricing assumption:

³⁰ Bid offer spreads are a less evident feature for Retirement Annuity Contracts and Executive Pension Plans set up today than was evident in the past. 9% of life assurance companies advised that a bid offer spread applies.

Retirement Annuity Contract

Individual Savers Age: 35

Single Premium Contribution: €125,000

Retirement Age: 65

In order to consider pricing incentives typically offered by life assurance companies for a short period of time around the tax return date, the information provided in table 8.3 is based on the self-employed tax return deadline of 31/10/2011. The table provides a summary of the information for each of the associated disclosed charges. The table only includes net allocation rates as these directly impact individual policyholders. The annual management charges for 'typical' managed funds are included:

Table 8.3: Identified Charges - Retirement Annuity Contracts

Commission Basis	Range of Net Allocation Rates	Range of Monthly Policy Fees (if applicable)	Range of Annual Management Charges
Nil Commission	103.25% -105%	Not applicable in the significant majority of cases	0.75% -1.0%
Maximum Commission	97.50% -100.75%	Not applicable in the significant majority of cases	0.75%-1.0%

8.2.4 Non-Disclosed Pension Charges – Implicit Investment Costs

For the purposes of identifying their impact on RACs and Executive Pension Plans, as was the case with other pension types, investment managers were asked to provide details of implicit costs associated with their 4 largest funds. Table 8.4 details the effective impact of additional implicit costs which is to increase associated annual management charges by approximately 0.2%. Implicit costs are identified by taking the Total Expense Ratio identified, subtracting the Annual Management Charge (to identify the additional operational costs) and by adding the additional costs of brokerage commission and stamp duty (which are not reflected in TER's).

Table 8.4: Summary of Responses

Range of Annual Management Charges	Range of Total Expense Ratios	Range of Stamp Duty	Range of Brokerage Commission
0.15% to 0.725%	0.26% to 0.885%	0.01% to 0.04%	0.01% to 0.08%

Part C - Factors influencing pricing structures

8.3 Factors Influencing Pension Charges – Pricing Assumptions

Life assurance companies were then asked to provide a breakdown of pension charging structures using a number of different pricing assumptions outlined below. These assumptions were used to consider two additional factors i.e. contribution levels and term to maturity which can influence the charging structures of insured pension schemes:

Typically the greater the contribution levels, the lower the associated charges of the pension scheme. In relation to term to maturity, the lower the average age of policyholders, the longer the term to maturity and the lower the associated charges of the pension scheme. The changing of pricing assumptions resulted in the following variances.

Table 8.5 Pricing Assumptions for RACs

Change in Pricing Assumption	Percentage of life companies where variances were identified	Change Identified
Regular premium increased from €3K per annum to €6K per annum	33% of the life assurance companies	An average 2.75% increase in allocation rate
Regular premium decreased from €3K per annum to €1.2K per annum	11% of the life assurance companies	2% decrease in allocation rate
Transfer Value was increased from €25K to €50K	22% of the life assurance companies	An average 1% increase in allocation rate
Transfer Value decreased from €25K to €10K	22% of the life assurance companies	2% decrease in allocation rate
Age assumption was increased from 35 to 50	11% of the life assurance companies	2% decrease in allocation rate on both regular premiums and transfer values

Comment: For RACs the changing of pricing assumptions influence pension terms through variations in allocation rates. Other pension charges typically remained constant. However allocation rate variations were only identifiable in a small number of life assurance companies i.e. less than 33% of life assurance companies.

Table 8.6: Pricing Assumptions for Executive Pension Plans

Change in Pricing Assumption	Number of life companies where variances were identified	Change Identified
Regular premium increased from €3K per annum to €6K per annum	40% of the life assurance companies	An average 2.5% increase in allocation rate
Regular premium decreased from €3K per annum to €1.2K per annum	10% of the life assurance companies	2% decrease in allocation rate
Transfer Value was decreased from €30K to €65K	40% of the life assurance companies	An average 1% decrease in allocation rate

Comment: As was the case with RACs, altering the pricing assumptions impacted pension terms through variations in allocation rates whilst other pension charges typically remained constant. Such variations were identifiable in less than 40% of life assurance companies.

8.3.1 Distribution Costs/Commission

Distribution costs, which are outlined in more detail in section 2.4, relate to charges associated with the sale of pension products. Where direct sales is involved, advisers are not paid via commission but through salary and bonuses and therefore commission is not applicable. There may be some unique examples where direct sales teams are remunerated by commission but this is not the norm and would not apply to the majority of circumstances.

The most common distribution costs are commission payments to pension advisers. Findings suggest commission structures are a particularly common feature of both RACs and Executive Pension Plans. The life assurance companies were asked to provide the details of pension charges for a new pension contract, based on various pricing assumptions, where both nil commission and maximum commission terms were to apply. Tables 8.1 and 8.2 provide the variation of terms applying in both circumstances. This provides what can be considered both a 'floor' and 'ceiling' of pension charges for policies being set up at the present time.

Life assurance companies were also asked to provide details of the most prevalent commission structures on pension business set up in 2010 and on legacy pension business set up 10 and 15 years ago.

The research identified a significant variation in commission terms payable to pension advisers for a new pension contract being set up today and commission terms that were payable historically. In addition, there is an evident variation between life assurance companies in relation to what is considered 'maximum' commission terms. Table 8.7 provides a summary of findings in respect of the incidence of commission relating to contributions to RAC's and Executive Pension Plans in 2010.

Table 8.7: RAC and Executive Pension Plans Levels of Commission

Pension Type	Level of 2010 Contribution set up on a Maximum Commission basis³¹	Level of 2010 Contribution set up on a Partial or Reduced levels of commission³²	Level of 2010 Contribution set up on a Nil Commission basis
Retirement Annuity Contracts	Approx. 24%	Approx. 71%	Approx. 5%
Executive Pension Plans	Approx. 25%	Approx. 70%	Approx. 5%

Broadly a quarter of regular premium RACs and Executive Pension Plans are set up on what might be considered 'maximum commission levels' i.e. initial commission of 25%³³ of first year's contributions (and any increases in premiums thereafter) and renewal commission of 4% per annum. For single premium pension contributions the maximum commission levels are typically 5% of contributions.

³¹ The research considered maximum commission as policies with initial commission arrangements of 25% or greater and/or renewal commission of 4% or greater

³² The research considered partial / reduced commission as policies with initial commission arrangements of less than 25% and renewal commission of less than 4% per annum.

³³ Initial commission is most typically calculated as 1.25% by term to maturity subject to a maximum commission of 25%. Thus 25% commission is applicable where the policyholder is under the age of 45 if retiring at 65 and reduced proportionally where older.

The majority of RACs and Executive Pension Plans are set up on partial or reduced commission levels i.e. the adviser has chosen to forego some aspect of commission. In these cases initial commission payments of between 10% and 25% of first year's contributions (and any increases in premiums thereafter) are common, with reduced levels of renewal commission of between 1% and 4% of annual contributions commonly advised.

Fund based trail commission is not particularly prevalent but a number of life assurance companies advised a recent growing trend of advisers forgoing initial and renewal based commission in favour of fund based commission structures. Where such commission is taken it is typically at levels of between 0.25% and 0.75% of assets.

A minority of policies are set up on a nil commission basis. The incidence of commission provided above represents detailed information supplied by a number of life assurance companies. This information however varied in terms of format and thus an approach to representing the information in a presentable manner was required. The approach taken was to focus on the most detailed information provided by a group of life assurance companies, which on an aggregated basis broadly represent 60% of the total RAC & Executive Pension Plan marketplace, based on disclosed 2010 contribution flows. This information was compared to other less detailed information provided by other life assurance companies to test for consistency. An additional 30% of the marketplace showed consistency of findings.

8.3.2 Commission – Pension Adviser disclosures

For the purposes of further validation, the information provided by the life assurance companies was compared to the responses received from pension advisers in relation to commission. Table 8.8 and 8.9 detail the common commission levels identified by advisers.

Table 8.8: Retirement Annuity Contracts Commission

Adviser Size	Most Common Commission Structure	High Commission Structure ³⁴	Low Commission Structure ³⁵ (where commission is payable)
Small to Medium Sized ³⁶	0% to 15% initial commission plus 0% to 5% renewal commission	25% initial commission plus 3% renewal commission	10% initial commission plus 0% renewal commission
Larger	0% to 25% initial commission plus 0% to 5% renewal commission	25% initial commission, 3% renewal commission and 0.5% fund based commission	2% initial commission plus 1.5% renewal commission

³⁴ For the purpose of this research high commission is defined as policies where commission levels are near maximum levels offered by life companies.

³⁵ low commission is defined as policies where commission levels are at the lower scale of those offered by life companies.

³⁶ The Central Bank identified adviser size by levels of turnover.

Table 8.9: Executive Pension Plans

Adviser Size	Most Common Commission Structure	High Commission Structure	Low Commission Structure (where commission is payable)
Small to Medium Sized	5% to 25% initial commission % 0% to 5% renewal commission	25% initial commission plus 2% renewal commission	3% initial commission plus 2% renewal commission
Larger	0% to 25% initial commission plus 0% to 5% renewal commission	25% initial commission, 3% renewal commission and 0.5% fund based commission	2% initial commission plus 2% renewal commission

Comment: The information provided by pension advisers is broadly consistent with information provided by life assurance companies, although the ranges are wider – and significantly more detail was provided by the life assurance companies. It is also acknowledged that there is a relatively significant difference between ‘high commission’ and ‘low commission’ structures. The information received from pension advisers was generally quoted in ranges, meaning that a level of precision was lost.

8.3.3 Legacy Commission levels identified

Tables 8.10 and 8.11 detail commission levels advised by life assurance companies in relation RACs and Executive Pension Plans set up 10 and 15 years ago for comparison with the equivalent 2010 figures detailed in tables 8.8 and 8.9 above.

Table 8.10: Legacy Commission Terms: Retirement Annuity Contracts

Period	Typical Commission Structure			
	Initial:	Renewal:	Single / Transfer:	Fund Based:
15 Years Ago	3% - 60%	2.5% -4%	0% -5%	N/A
10 Years Ago	2.5% -50%	2.5% -4%	0% -5%	N/A

Table 8.11: Legacy Commission Terms - Executive Pension Plans

Period	Typical Commission Structure			
	Initial:	Renewal:	Single / Transfer:	Fund Based:
15 Years Ago	2.5%-60%	2.5%-4%	2.625%-5%	N/A
10 Years Ago	1.25%-50%	4%-5%	2.265%-5%	N/A

Comment: Based on the information provided, there is an evident trend towards reduced levels of commission in more recent times. The maximum commission terms currently available are less than those advised for 10 and 15 years previously, typically by approximately 25% to 35%. Life assurance companies advised that maximum commission terms are common within legacy pension policies.

The ranges appear relatively wide, but this is in part a function of how commission is calculated. Historically a “maximum commission agreement” applied and it was not permitted to pay commission above these levels. Under this agreement the maximum initial commission payable to an adviser for a regular premium contract was up to 60% of the first years’ premium (and any increases thereafter). The maximum renewal commission was 5% of contributions per annum.

The agreement was later reduced to a maximum initial commission of up to 50% of the first years' premium (and any increases thereafter) and a maximum renewal commission of 4% of contributions per annum.

The maximum commission agreement no longer exists. As highlighted above under table 8.7 the typical 'maximum commission' payable for policies set up today is 25% of first years' premium (and any increases thereafter). Such policies represent approximately 25% of RAC's and Executive Pension Plans set up in 2010 with the balance set up with lower levels of commission payable.

Part D- Personal Retirement Savings Accounts

8.4 Introduction

The significant majority of PRSAs are insured arrangements where the providers are life assurance companies, who fulfil both the administration and investment management functions. As a result the common practice of bundling of pension charges is a feature of PRSAs.

PRSAs fall into two categories, standard and non standard. The pension charges relating to standard PRSAs are unique, as maximum charges are prescribed in legislation. The maximum permitted charges are an annual management charge of no more than 1% per annum and a contribution charge of no more than 5% of annual contributions, resulting in a 95% net allocation rate applicable to standard PRSAs. All transfers into a PRSA from existing pension arrangements must attract a 100% allocation rate.

Commission payments to pension advisers are also capped for standard PRSAs. The commission structure can be either 15% of first years contributions (and any increases thereafter) plus an on-going payment of 2% of annual contributions, or a flat 5% of yearly contributions. The commission arrangements are built into the maximum permitted charging structures. No such limits apply to non-standard PRSAs, where the pension charging structure and commission payments to advisers, are set by the life assurance companies. Pension Board records indicate that approximately 85% (151,122) of PRSAs in the Irish marketplace are set up on a standard basis (based on assets under management).

Where an individual decides to take out a non-standard PRSA arrangement they typically do so in order to avail of more sophisticated investment options. Prior to the setup of a non-standard PRSA, the individual investor must sign a declaration to acknowledge they are aware that an alternative lower charging structure option exists but wish to proceed for alternative reasons. Analysis of 'bespoke' pension options such as non-standard PRSAs did not form part of this report and are not considered further in this chapter.

8.4.1 Non-Disclosed Pension Charges – Implicit Investment Costs

For the purposes of identifying the impact of implicit costs on PRSAs, as was the case with other pension types, investment managers were asked to provide details of implicit costs associated with their 4 largest funds. Table 8.14 details the effective impact of additional implicit costs which is to increase associated annual management charges by the corresponding amounts i.e. by approximately 0.2%.

Table 8.14: PRSA Impact of Implicit Costs

Range of Annual Management Charges	Range of Total Expense Ratios	Range of Stamp Duty	Range of Brokerage Commission
0.15% to 0.725%	0.26% to 0.885%	0.01% to 0.04%	0.01% to 0.08%

Part E - Policyholder impact of identified charges - Reduction in Yield (RIY) analysis

8.5 Introduction

RACs, Executive Pension Plans and PRSAs analysis thus far has considered the granularity of pension charges applying. The cumulative impact of these charges on the policyholder will now be considered using RIY analysis. As with the analysis of occupational pensions, RIY to maturity and RIY when contributions cease after 2 and 10 years respectively, has been used to allow a comparison between all pension types. Comparative data on other pension types is also provided in order to inform considerations regarding the reasonableness of pension charges identified.

8.5.1 Reduction in Yields to Maturity

Life companies were asked to provide a breakdown of pension charges where both maximum commission and no commission apply to highlight both ends of the cost spectrum. Tables 8.15 to 8.17 provide the notional value at retirement age if no charges were incurred and notional fund value if identified charges are incurred using the average RIY across the life assurance companies. The average total impact of charges, expressed as a percentage of the average value at point of retirement, is also represented.

These tables are based on the following pricing assumption:

Pension Type	Pricing Assumption
Retirement Annuity Contract	Age: 35 Annual Contributions €250 per month Retirement Age: 65 Transfer: €25K
Executive Pension Plan	Age: 35 Annual Contributions €250 per month Retirement Age: 65 Transfer: €30K
Personal Retirement Savings Account	Age: 35 Annual Contributions €250 per month Retirement Age: 65

Table 8.15: Retirement Annuity Contracts

Period	High RIY identified	Low RIY identified	Average RIY to Maturity	Total Projected Fund excluding any pension charges	Total Projected Fund including all charges (average RIY)	Total Charges as a % of Total Projected Values (average RIY)
New Policy Nil Commission	1.73%	0.89%	1.18%	€199,566	€163,562	18%
New Policy Max Commission	3.08%	1.08%	1.97%	€199,566	€143,821	28%

Table 8.16: Executive Pension Plans

Period:	High RIY identified	Low RIY identified	Average RIY to Maturity	Total Projected Fund excluding any pension charges	Total Projected Fund including all disclosed pension charges (average RIY)	Total Charges as a % of Total Projected Values (average RIY)
New Policy Nil Commission	1.77%	0.89%	1.24%	€199,566	€161,813	19%
New Policy Maximum Commission	3.08%	1.08%	1.97%	€199,566	€143,821	28%

Table 8.17: Personal Retirement Savings Account –PRSA

Period:	Average RIY to Maturity	Total Projected Fund excluding any pension charges	Total Projected Fund including all disclosed pension charges (average RIY)	Total Charges as a % of Total Projected Values (average RIY)
New Policy Nil Commission	1.27%	€199,566	€160,694	19%
New Policy Maximum Commission	1.57%	€199,566	€152,660	24%

Comment: Standard PRSAs have predetermined charging structures and as a result only commission terms can vary and impact RIYs.

Application of maximum commission terms can have a significant impact on long term pension values. Survey responses indicate that reductions in allocation rates and/or increases in annual management charges are the most common methods used by life assurance companies to recoup commission costs. In comparing individual pensions to occupational pensions, it can be seen that the RIYs for RACs and Executive Pension Plans identified are higher than those identified previously for occupational pension schemes. The average RIY identified for DC insured schemes was 0.84% (based on investment in balanced managed funds) and 0.91% for smaller schemes with less than 50 members (based on investment in balanced managed funds).

The average RIY identified for DC non-insured schemes was 0.57% for all schemes (based on investment in balanced managed funds) and 0.58% for smaller schemes with less than 50 members (based on investment in balanced managed funds).

8.5.2 Care of Interpretation

Where consideration is being given to transferring from an older pension contract to a newer contract it should be noted that it may not lead to a better financial outcome at retirement. Typically for older pension structures the impact of higher charges was front-loaded and borne by the policyholder in the early years of the contract. Given that charges are front-loaded, the better financial option may be to continue with the current arrangement.

The research also identified that older pension contracts may include loyalty bonuses and/or reductions in annual management charges which would need to be factored into any consideration of a change in pension contract.

8.5.3 Retirement Annuity Contracts – Single Premium Contributions

As outlined previously, RACs are often set up on a single contribution basis, often with reference to the self-employed tax return deadline. The information provided by the life assurance companies, reflecting the self-employed tax return deadline of 31/10/2011, is used to calculate the associated RIY to maturity. The RIY in table 8.18 are based on a single premium contribution of €125,000 by an individual saver aged 35, with a retirement age of 65.

Table 8.18: Single Premium Retirement Annuity Contracts RIYs to Maturity

Period:	Range of RIY to Maturity	Average RIY to Maturity	Total Projected Fund excluding any pension charges	Total Projected Fund including all disclosed pension charges (average RIY)	Total Charges as a % of Total Projected Values (average RIY)
Nil Commission	0.58% - 0.84	0.71%	€416,466	€352,304	15%
Maximum Commission	0.79% - 1.05%	0.91%	€416,466	€335,432	19%

8.5.4 Regular Premium RAC's / Executive Pensions – Member Impact of Pension Charges Under Various Contribution Assumptions.

As with other pension types, analysis of charges now assumes contributions are instead made for 2 and 10 years only, and highlights the variance in RIY. Table 8.19 identifies the cumulative impact of pension charges at retirement for an individual pension saver who makes 2 years' worth of contributions and then ceases contributing. As such, the individual is assumed to commence saving at the age of 35, to cease saving at the age of 37, and leave their pension fund where it is until retirement age.

The RIYs identified below are calculated using all disclosed pension charges and includes the average annual management charge identified across the life assurance companies. Table 8.19 also contains

the respective RIYs to maturity where contributions are made for the full period to retirement for comparison purposes. Table 8.20 illustrates the notional impact of RIYs identified above:

Table 8.19: Reductions in Yields for 2 Year Contribution Period

Pension Type	Range of RIYs Contributions for 2 years only	Average RIY Contributions for 2 years only	Range of RIYs Contributions to Retirement Age	Average RIY Contributions to Retirement Age
Exec Nil Commission	1.29% - 2.44%	1.77%	0.89% - 1.77%	1.24%
RAC Nil Commission	1.29% - 2.29%	1.70%	0.89% - 1.73%	1.18%
Exec Max Commission	1.07% - 3.64%	2.41%	1.08% - 3.08%	1.97%
RAC Max Commission	1.07% - 3.64%	2.40%	1.08% - 3.08%	1.97%
Standard PRSA Max Commission	N/A	1.37%	N/A	1.57%
Standard PRSA Nil Commission	N/A	1.18%	N/A	1.27%

Table: 8.20: Notional Impact of Reductions in Yield:

Pension Type	Average RIY Contributions for 2 years only	Total Projected Fund excluding any pension charges	Total Projected Fund including all pension charges (average 2 Yr RIY)	Total Charges as a % of Total Projected Values (average 2 Yr RIY)
Exec Nil Commission	1.77%	€24,656	€15,066	39%
RAC Nil Commission	1.70%	€24,656	€15,365	38%
Exec Max Commission	2.41%	€24,656	€12,582	49%
RAC Max Commission	2.40%	€24,656	€12,618	49%
Standard PRSA Max Commission	1.37%	€24,656	€16,853	32%
Standard PRSA Nil Commission	1.18%	€24,656	€17,771	28%

Comment: It can be seen in tables 8.19 and 8.20 that the impact of pension charges for an individual pension saver, who makes 2 years worth of contributions and ceases contributing, can be far more significant than the impact of pension charges on a pension saver who saves for their full career in a single savings arrangement. For example, the average RIY identified for RACs and Executive Pension Plans on a maximum commission basis is approximately 2.4% per annum where contributions cease after 2 years. If contributions continue throughout the lifetime of the pension policy, the average RIY identified is 1.97% per annum. If these RIYs are converted to the notional impact on the final fund, the total costs incurred at point of retirement under each assumed contribution period are 28% (contributions continue throughout) and 49% (contributions cease after 2 years).

A similar trend is evident with Standard PRSAs set up under maximum commission terms where the total costs incurred are 24% (contributions continue throughout) and 32% (contributions cease after 2 years)

8.5.6 Reduction in Yields – Contributions for 10 years only

To take into account a longer contribution period, tables 8.21 to 8.23 identifies the cumulative impact of pension charges at retirement for an individual pension saver who makes 10 years' worth of contributions and then ceases contributing. As such, the individual is assumed to commence saving at the age of 35, to cease saving at the age of 45, and leave their pension fund where it is until retirement age. For comparison purposes table below also contains the respective RIYs to maturity where contributions are made for the full period to retirement:

Table 8.21: Reductions in Yields for 10 Year Contribution Period

Pension Type	Range of RIYs Contributions for 10 years only	Average RIY Contributions for 10 years only	Range of RIYs Contributions to Retirement Age	Average RIY Contributions to Retirement Age
Exec Nil Commission	0.93% - 1.82%	1.27%	0.89% - 1.77%	1.24%
RAC Nil Commission	0.93% - 1.78%	1.21%	0.89% - 1.73%	1.18%
Exec Max Commission	1.07% - 3.04%	1.91%	1.08% - 3.08%	1.97%
RAC Max Commission	1.07% - 3.04%	1.91%	1.08% - 3.08%	1.97%
Standard PRSA Max Commission	N/A	1.42%	N/A	1.57%
Standard PRSA Nil Commission	N/A	1.20%	N/A	1.27%

Table: 8.22: Notional Impact of Reductions in Yield:

Pension Type	Average RIY Contributions for 10 years only	Total Projected Fund excluding any pension charges	Total Projected Fund including all charges (average 10 Yr RIY)	Total Charges as a % of Total Projected Values (average 10 Yr RIY)
Exec Nil Commission	1.27%	€102,392	€75,247	27%
RAC Nil Commission	1.21%	€102,392	€76,354	25%
Exec Max Commission	1.91%	€102,392	€64,366	37%
RAC Max Commission	1.91%	€102,392	€64,366	37%
Standard PRSA Max Commission	1.42%	€102,392	€72,546	29%
Standard PRSA Nil Commission	1.20%	€102,392	€76,541	25%

Table 8.23: Reductions in Yields Comparison:

Pension Type	Contributions for 2 years only	Contributions for 10 years only	Average RIY Contributions to Retirement Age
Exec Nil Commission	1.77%	1.27%	1.24%
RAC Nil Commission	1.70%	1.21%	1.18%
Exec Max Commission	2.40%	1.91%	1.97%
RAC Max Commission	2.40%	1.91%	1.97%
Standard PRSA Max Commission	1.37%	1.42%	1.57%
Standard PRSA Nil Commission	1.18%	1.20%	1.27%

Comment: It can be seen that the impact of pension charges for an individual pension saver, who makes 10 years worth of contributions and then ceases contributing, is more aligned with the experience of a pension saver who contributes to retirement age, than is evident for a pension saver who only contributes for a 2 year period.

Part F - How do RIYs identified compare to other pension products?

8.6 Introduction

The RIYs for RACs, Executive Pension Plans and PRSAs identify the variability of charges across each pension type over selected time frames. A number of pension products have been selected against which RIY information can be compared. These products include UK Stakeholder Pensions (where the pension design was mirrored for the introduction of PRSAs in Ireland) and the newly established UK National Employment Savings Trust (NEST). The findings in relation to DC insured occupational schemes with memberships of less than 50 are also included for comparison purposes. These comparators were selected as benchmarks to allow a level of understanding of the relative competitiveness of Irish individual pension arrangements.

It should be noted that both the NEST scheme and the research findings for occupational schemes represent company pension vehicles. They are not individual in nature but are included to illustrate the positive impact of efficiencies of scale. A direct comparison with Irish standard PRSAs and UK Stakeholder pension arrangements is more appropriate, but cognisance is needed of the greater scale of the pensions industry in the United Kingdom.

Tables 8.24 and chart 8.1 outline the RIY (from the individual policyholder perspective) of identified disclosed pension charges. The benchmarks above are also plotted for comparison purposes:

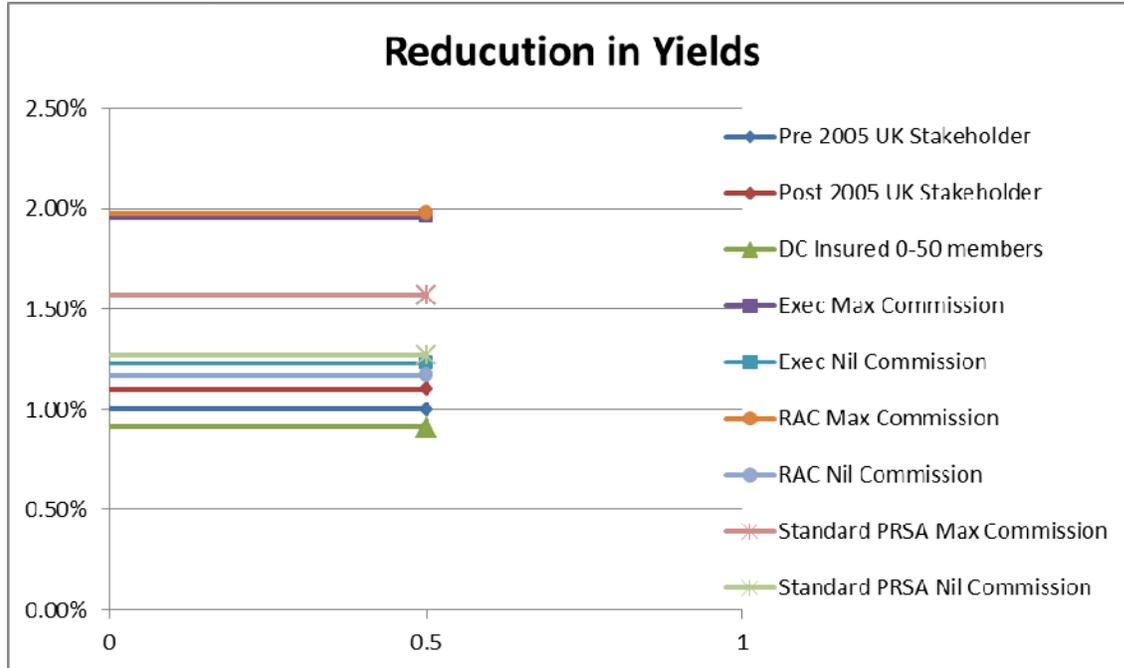
Table 8.24: Range of Reductions in Yields Identified by Type

Pension Type	Average RIY	High RIY	Low RIY
Pre 2005 UK Stakeholder	1.00%	N/A	N/A
Post 2005 UK Stakeholder	1.10%	N/A	N/A
DC Insured 0-50 members	0.91%	1.71%	0.53%
Exec Max Commission	1.97%	3.08%	1.08%
Exec Nil Commission	1.23%	1.77%	0.89%
RAC Max Commission	1.97%	3.08%	1.08%
RAC Nil Commission	1.17%	1.73%	0.89%
Standard PRSA Max Commission	1.57%	N/A	N/A
Standard PRSA Nil Commission	1.27%	N/A	N/A

Chart 8.1 highlights that where maximum commission arrangements apply, the associated RIYs for RACs and Executive Pension Plans are high relative to other pension arrangements. The RIYs identified of 1.97% per annum can be compared to standard PRSAs where identified RIYs were 1.57% per annum and UK Stakeholder pensions where identified RIYs were between 1% and 1.1%.

The last cost comparison provided is a member of a DC insured scheme with between 0 and 50 members, where the member impact of pension charges is a reduction in yield of 0.91% per annum.

Chart 8.1: Average Reductions in Yield Identified



Part G- How do RIYs identified compare – Past and Present?

8.7 Legacy charging structures identified

The life assurance companies were requested to provide the most common pension charging structures available to RACs and Executive Pension Plans set up 10 and 15 years ago. This information allows the calculation of associated RIYs. Table 8.25 and table 8.26. outline the range of information provided.

Table 8.25: Legacy Charging Structures - Retirement Annuity Contracts

Period	Range of Gross Allocation Rates	Range of Net Allocation Rates	Typical Bid- Offer Spread (where applicable)	Range of Monthly Policy Fees (where applicable):	Exit Penalties Applying	Range of Annual Management Charges
15 Years Ago	96%-102%	90%-100%	5%	€2.54-€4.44	N/A	0.4% -0.88%
10 Years Ago	94%-102%	90%-100%	5%	€3.49-€5.47	N/A	0%-1.65%
Current (Nil Commission)	95% - 105.25%	95% -100%	5%	€3.50 -€7.31	44% of companies	0.5% -1%
Current (Max Commission)	90% -100%	90% - 100%	5%	€4.25 -€7.31	66% of companies.*	0.5%-1.5%

*Exit penalties, as operated today, are not a feature of legacy contracts. Instead a form of exit penalty was incurred due to the operation of initial/capital unit and accumulator unit³⁷ pension arrangements. Exit penalties, where applicable, typically start at 5% of fund value and apply for a period of up to 5 years, reducing each year by a set percentage.

Table 8.26: Legacy Charging Structures - Executive Pension Plans

Period	Range of Gross Allocation Rates	Range of Net Allocation Rates	Typical Bid- Offer Spread (where applicable):	Range of Monthly Policy Fees (where applicable):	Exit Penalties Applying	Range of Annual Management Charges
15 Years Ago	96% - 102.5%	90% -98%	5%	€1.59 - €4.44	N/A*	0.4% -0.88%
10 Years Ago	70% - 100%	90% - 100%	5%	€3.49 - €5.47	N/A*	0%-1.65%
Current (Nil Commission)	95% - 105.25%	95% - 100%	5%	€3.50 - €12.00	30% of companies *	0.5% -1%
Current (Max Commission)	90% - 100%	90% - 100%	5%	€4.50 - €12.00	66% of companies *	0.5%-1.5%

³⁷ Legacy pension vehicles often operated on the basis of initial and accumulator units. Under this arrangement a variation of annual management charges applied to each unit type. The practice was used as a form of exit penalty thereby encouraging pension savers to remain with the same life assurance company for the full duration of the pension. If a pension saver transferred their pension benefits pre retirement, higher charges would apply.

8.7.1 Member Impact of Identified Charges – Legacy Pension Comparison

The tables below outline the member impact of the legacy pension charges through the calculation of RIYs to maturity which are based on the average costs identified across the life assurance companies. The RIYs identified are also presented to reflect the impact on notional fund values.

Table 8.27: RIY to Maturity for Legacy Charging Structures

Period:	Pension Type	Average RIY	High RIY	Low RIY
10 Years ago	Retirement Annuity Contracts	1.48%	2.35%	0.91%
15 Years ago	Retirement Annuity Contracts	1.22%	1.66%	0.64%
10 Years ago	Executive Pension Plans	1.39%	2.35%	0.91%
15 Years ago	Executive Pension Plans	1.15%	1.59%	0.64%

Table 8.28: RIY to Maturity – Notional Impact on Pension Values

Period:	Pension Type	Range of RIYs	Average RIY	Projected Fund excluding any charges	Projected Fund including all charges	Total Charges as a % of Projected Values
10 Years ago	Retirement Annuity Contracts	0.91% - 2.35%	1.48%	€199,566	€155,524	22%
15 Years ago	Retirement Annuity Contracts	0.64% - 1.66%	1.22%	€199,566	€162,366	19%
New Policy Nil Commission	Retirement Annuity Contracts	0.89% - 1.73%	1.18%	€199,566	€163,562	18%
New Policy Max Commission	Retirement Annuity Contracts	1.08% - 3.08%	1.97%	€199,566	€143,821	28%
10 years ago	Executive Pensions Plans	0.91% - 2.35%	1.39%	€199,566	€147,730	21%
15 Years ago	Executive Pension Plans	0.64% - 1.59%	1.15%	€199,566	€164,230	18%
New Policy Nil Commission	Executive Pension Plans	0.89% - 1.77%	1.24%	€199,566	€161,813	19%
New Policy Max Commission	Executive pension	1.08% - 3.08%	1.97%	€199,566	€143,821	28%

Comment: As can be seen in the tables above RIY's for policies created today are influenced by the levels of commission taken. Policies with minimum commission are more competitive when compared to legacy structures.

8.7.2 Prevalence of Legacy Pension Schemes – Contribution Flows

In order to understand how prominent legacy policies may be in the marketplace, life assurance companies were asked to provide a summary of contribution flows to contracts set up in the last 5 years and prior to the last 5 years. Data provided in relation to RACs indicates that broadly 50% of contributions in 2010 were paid into contracts set up within the past 5 years though many of these would apply to single premium arrangements. For Executive Pension Plans the equivalent data indicates that broadly 60% of contributions in 2010 were paid into contracts set up within the past 5 years. However it must be noted that due to limitation in the format of data returned and relating to how contracts are accounted for, these figures should be considered best estimates.

8.7.3 Care of Interpretation

The above analysis does not take into account circumstances where loyalty bonuses or other cost reduction measures apply to older pension contracts. In the past, a practice existed whereby some pension policies included loyalty bonuses (or other cost reduction measures) which become payable at set points in the future for example on reaching retirement age. Such measures were included to incentivise the scheme to remain with the particular life assurance company. Life assurance companies did not include specific details (as part of the information submissions) but a small number made reference to the practice.

Part H - Non-Disclosed Pension Charges – Impact of implicit investment costs

8.8 Introduction

The information provided by investment managers in relation to implicit costs can be used to calculate the potential impact of these costs on long term pension values using the RIY factors from earlier in this chapter. The RIY findings in the tables 8.26 to 8.29 have been updated to include implicit costs identified. The associated notional pension values inclusive and exclusive of the implicit costs identified are also provided.

Table 8.29: Reduction in Yield Comparison – Retirement Annuity Contracts

Period:	Average RIY excluding implicit costs	Average RIY including implicit costs	Projected Fund excluding any charges	Projected Fund including all charges	Total Charges as a % of Projected Values
Current (Nil Commission)	1.18%	1.38%	€199,566	€156,182	22%
Current (Max Commission)	1.97%	2.18%	€199,566	€138,228	31%
Legacy (10 years ago)	1.48%	1.69%	€199,566	€152,077	24%
Legacy (15 Years ago)	1.22%	1.43%	€199,566	€158,283	21%

Table 8.30: Reduction in Yield Comparison – Executive Pension Plans

Period:	Average RIY excluding implicit costs	Average RIY including implicit costs	Projected Fund excluding any charges	Projected Fund including all charges	Total Charges as a % of Projected Values
Current (Nil Commission)	1.24%	1.44%	€199,566	€156,182	21%
Current (Max Commission)	1.97%	2.18%	€199,566	€138,228	31%
Legacy (10 years ago)	1.39%	1.60%	€199,566	€152,077	25%
Legacy (15 Years ago)	1.15%	1.36%	€199,566	€158,283	22%

Table 8.31: Reduction in Yield Comparison – PRSA

Period:	Average RIY excluding implicit costs	Average RIY including implicit costs	Projected Fund excluding any charges	Projected Fund including all charges	Total Charges as a % of Projected Values
Current (Nil Commission)	1.27%	1.48%	€199,566	€155,144	22%
Current (Max Commission)	1.57%	1.78%	€199,566	€147,610	26%

Comment: Identified implicit investment costs can add between 2%-4% to the total cost of RACs, Executive Pension Plans and PRSAs over the lifetime of the pension contracts.

Part I - Chapter Observations and Conclusions

Retirement Annuity Contracts and Executive Pension Plans:

Allocation Rates

Regular premium net allocation rates typically range from 90% to 100% where maximum commission payments apply, for both RACS and Executive Pension Plans. Where no commission is taken, the range of net allocation rates advised was between 95% and 100%.

The older the individual policyholder, the more likely it is that allocation rates may be reduced, at the point of taking out a RACs or Executive Pension Plan. Allocation rates can also be sensitive to contribution size. Allocation rates increases where annual premiums were increased from €3,000 to €6,000 per annum and a reduced where contributions decreased from €3,000 from €1,200 per annum.

Allocation rates on single premium transfers into RACS and Executive Pension Plans typically differ from those applicable to regular premium contributions.

In respect of single premiums, allocation ranges of between 97.5% and 100.75% were advised for RACs where maximum commission is taken and between 103.25% and 105% were advised where no commission is taken.

For legacy pension contracts net allocation rates of 90% to 100% were advised for RAC's set up both 10 and 15 years ago. Net allocation rates of 90% to 100% were advised for Executive Pension Plans set up 10 years ago and 90% to 98% for those set up 15 years ago.

Policy Fees

Policy fees are common within RACs and Executive Pension Plans. Where applied, the fees are typically charged monthly with ranges of between €3.50 and €12.00. Policy fees are not a particular feature of Retirement Annuity Contracts set up on a single premium basis.

Annual Management Charges

RACs and Executive Pension Plans will offer a range of investment funds for a policy holder to choose from. Costs of such investment funds can range from 0.5% to 2.0% where no commission is payable and 0.5% to 2.5% where maximum commission is payable.

Exit Penalties

Exit penalties can apply to both RACs and Executive Pension Plans. 66% of life assurance companies advised that exit penalties apply, where maximum commission terms are applied. Where exit penalties are applicable the research identified they typically apply for a period of up to 5 years, reducing each year. Where nil commission terms are evident 44% of life assurance companies advised that exit penalties apply.

Bid-Offer Spread

Bid offer spreads are a less evident feature for RACs and Executive Pension Plans set up today than was evident in the past. Only 9% of life assurance companies advised that a bid-offer spread applies.

Bundling of pension charges

As both RACs and Executive Pension Plans are provided by life assurance companies they also often operate on the basis of 'bundling of charges', thus preventing the ability to disaggregate specific services provided for the above pension charges.

Commission

Commission is particularly common within RACs and Executive Pension Plans. To recoup the costs of commission payments, life assurance companies will increase pension charges. This can be done in different ways and a universal approach to reflecting commission is not evident.

The various approaches used i.e. reducing allocation rates, increasing annual management charges, etc. will impact policyholders differently depending upon the circumstances of the member, for example their period to retirement.

Commission terms vary significantly. Maximum commission terms are more prevalent within RACs and Executive Pension Plans than for Occupational Pension Schemes. Approximately 25% of new RACs and Executive Pension Plans, set up in 2010, were based on maximum commission terms and approx. 5% were created on a nil commission basis.

Where initial commission is evident, it is typically at levels of up to 25% of first year's contributions (and any increases in premiums thereafter). Renewal commission payments of between 1% and 5% of annual contributions are also a common feature.

Life assurance companies advised of initial commission of up to 50% of first year's contributions (and any increases in premiums thereafter) for RACs and Executive Pension Plans set up 10 years ago and up to 60% of first year's contributions (and any increases in premiums thereafter) for RACs and Executive Pension Plans set up 15 years ago. Adviser surveys show a broad consistency of findings with the information provided by life assurance companies.

Implicit Investment Costs

Investment managers advised that the aggregate additional costs, applicable to their largest funds, are between 0.1% and 0.3% per annum. For RACs and Executive Pension Plans, the additional costs identified will have a varying impact on long term pension values depending upon the age of the individual. Additional implicit costs can add approximately 2% to 4% to the total costs, from the individual's perspective, over the life time of the contracts.

Standard Personal Retirement Savings Accounts:

Allocation Rates and Annual Management Charges

Standard PRSAs are the only pension product in Ireland with legislated maximum pension charges. These charges are a maximum 5% per annum contribution charge, resulting in a 95% net allocation rate, and a maximum 1% per annum annual management charge.

Implicit investment costs

Additional costs can add approximately 2% to 3% to the total costs, from the individual's perspective, over the life time of the PRSA.

Bundling of pension charges

As standard PRSAs are provided by life assurance companies they also operate on the basis of 'bundling of charges', thus preventing the ability to disaggregate specific services provided for identified pension charges.

Retirement Annuity Contracts, Executive Pension Plans and Standard PRSAs:

Policyholder Impact of Pension Charges

RIYs identified for regular premium RACs ranged from 1.18% per annum where no commission is payable to 1.97% per annum where maximum commission terms apply. RIYs identified for regular premium Executive Pension Plans ranged from 1.24% per annum where no commission is payable to 1.97% per annum where maximum commission terms apply. RIYs identified for PRSAs are 1.27% on a nil commission basis and 1.57% on a maximum commission basis.

For single premium RAC's, RIYs identified ranged from 0.71% where no commission is payable to 0.91% per annum where maximum commission terms apply

Comparison of identified pension charges with other Pension Products

Identified RIYs were compared to a number of alternative pension arrangements. These included UK Stakeholder Pensions and DC insured pension schemes with membership sizes of between 0 and 50 members.

When compared to UK Stakeholder Pensions, the RIYs for RACs, Executive Pension Plans and Standard PRSAs, are high where maximum commission terms apply. Where nil commission terms apply the identified RIYs for these products are competitive.

If compared to small occupational pension schemes (DC insured schemes with less than 50 members) the RIYs identified for RACs, Executive Pension Plans and PRSAs are higher where both maximum commission and nil commission terms apply.

Comparison of identified pension charges – past and present

RIY's identified for RACs and Executive Pension Plans were 1.48% and 1.39% per annum for policies set up 10 years ago, and 1.22% and 1.15% for both policy types set up 15 years ago. This compares to 1.97% per annum for Retirement Annuity Contracts and Executive Pension Plans set up on a maximum commission basis today.

Prevalence of legacy pension charges

The life assurance companies also identified a broad 50/50 split of contribution flows into policies set up under new pension charging structures and pension structures evident in the past i.e. schemes set up prior to 5 years ago.

Chapter 9 - Public Sector AVCs

- Part A – Introduction
- Part B – Pension Charging structures identified
- Part C – Impact of identified charges on individual policyholders
- Part D – How to identified charges compare?
- Part E - Chapter Observations and Conclusions

Chapter 9 - Public Sector Additional Voluntary Contribution Arrangements (AVCs)

Part A - Introduction

9.1 Introduction

Public servants who wish to supplement their public service pension benefits can do so in one of two ways. An individual, through their employer, can purchase added years to increase the pension income payable at retirement³⁸. Alternatively they can contribute a proportion of salary and purchase AVC schemes, which at retirement can supplement their public service pension income, be drawn down as an additional tax free lump sum, or be invested in an Approved Retirement Fund as appropriate. These AVC arrangements can be facilitated through contributing to a stand-alone PRSA AVC or through a public sector AVC Scheme available to members of a trade union.

The research considers public sector AVC schemes where pension charges can be identified. It does not consider the purchase of added years which is fixed and set by the State.

The Pensions Board regulate public sector AVC arrangements. The Board's records do not differentiate between public sector AVC's and other AVC arrangements. As a result there is no available data to provide an overview for the number of such schemes in existence. Also the Board does not hold data in relation to the total level of assets under management within such schemes.

These AVC schemes are set up on an insured basis where the individual establishes a pension policy with a life assurance company who provide administration and investment management services. The payment for these services, provided by the life assurance company product, is recouped through pension charging structures e.g. annual management charges, allocation rates, policy fees etc. The costs associated with the contract are solely borne by the individual pension saver.

Prior to pension set up, the individual will engage a pension adviser. The advice provided will typically include consideration of the appropriate life assurance company, the investment fund(s) chosen, appropriate contribution levels with reference to an individual's pension expectancy and tax relief.

Payment for services provided by a pension adviser can be made direct from the individual in the form of a fee and/or by a commission payment paid by the life assurance company to the adviser. Where payments to advisers are in the form of a fee, there are no increases to pension charges levied by the life assurance companies. Where commission arrangements exist, the costs will be borne by the policyholder through an increase in the policy charges. This typically occurs through a reduction in the allocation rate and/or through an increase in the annual management charge.

The research indicates that commission is a particularly prevalent feature of public sector AVC's and that commission levels vary greatly. In addition to disclosed pension charges, these individual pension policies are also impacted by implicit investment costs borne by the underlying investment fund through which the pension is invested.

³⁸ The purchase of added years provides a set increase in pension income at retirement i.e. for a fixed percentage of salary a fixed benefit related to final salary is purchased.

Public sector AVC schemes are provided by life assurance companies and are facilitated through a relatively small number of pension advisers. These pension advisers have agreements in place in relation to the provision of AVC pension arrangements to public sector staff. The research findings discussed in this chapter represent approximately 40 public sector organisations, bodies and/or public sector unions.

Part B - Pension Charging structures identified

9.2 Introduction

Each of the pension advisers who facilitate public sector AVC arrangements were written to by the Central Bank and requested to furnish details of the underlying cost structures of the AVC scheme(s) in question. Advisers were also asked to provide details of the services they provide, the preferred remuneration structure and the commission structures most often used (where commission is the preferred remuneration model).

Public sector AVC arrangements are provided exclusively by life assurance companies. The associated disclosed pension charges are borne by the individual policyholder and are;

- Annual Management Charges;
- Allocation Rates and Bid-Offer Spreads;
- Policy Fees;
- Exit Penalties.

Distribution costs, e.g. commission payments to advisers, can be borne by an individual through an increase in the disclosed pension charges. Pension advisers provided the following information in relation to public sector AVC schemes;

Table 9.2: Public Sector AVC Schemes - Cost Structures Identified

Range of Allocation Rates	Range of Monthly Policy Fees (if applicable)	Exit Penalties	Range of Net Allocation Rates on Transfers into scheme:	Range of Annual Management Charges:	Range of RIY to Maturity
91.9% to 100%	€2.00 to €5.00	Do not apply in significant majority of schemes	94% to 100%	0.75% to 2.75% per annum	0.72% to 2.2% per annum

In addition to commission payments, some public sector AVC schemes will include a fee structure within the pricing structure of the scheme, typically attributed to set up cost incurred. Such fee structures will differ by AVC scheme and typically apply for specific periods. Where applicable, set up fees are approximately €450 and are a once off payment, deducted over the first 12 months.

9.2.1 Pension Advisers – Services Provided and Remuneration

The services provided to individuals and identified by advisers vary but typically included;

- Group Presentations;
- Member one to one Meetings;
- Assessment of an individuals' attitude to investment risk;
- Retirement Planning / Funding;
- Advice relating to retirement options;

- Regular review meetings;
- Attendance at trustee Meetings.

In response to a question regarding remuneration, adviser responses confirmed that commission structures are the most prevalent form of remuneration within public sector AVC schemes. Table 9.3 provides summary details of the commission structures used most frequently for business written in the last 2 years.

Table 9.3: Public Sector AVC - Typical Commission Structures

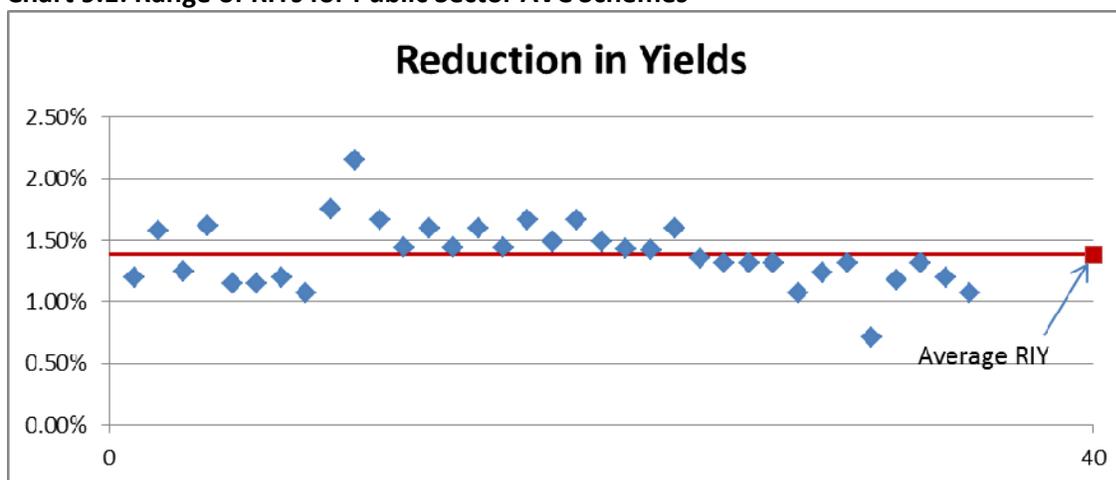
Initial Commission:	Renewal Commission:	Single / Transfer Commission :	Fund Based Commission:
10% to 35% of first years premiums (and any increases thereafter)	3% -5% per annum of annual contributions	2% to 3% of contribution	N/A

Part C - Impact of identified charges on individual policyholders

9.3 Impact of identified charges on individual policyholders

The charges detailed for public sector AVCs can be used to calculate and compare RIYs which are detailed in Chart 9.1. Table 9.4 details the total impact of charges using average RIYs, expressed as a percentage of the average value at point of retirement.

Chart 9.1: Range of RIYs for Public Sector AVC Schemes



Comment: To highlight the distribution and variance of RIYs identified, chart 9.1 plots each scheme. The chart highlights that identified RIYs for these schemes typically range within a band of 1% to 1.75% per annum, with a small number of outliers.

Table 9.4: RIYs for Public Sector AVC Schemes

Pension Type:	High RIY identified	Low RIY identified	Average RIY to Maturity	Projected Fund excluding charges	Projected Fund including all disclosed charges	Charges as a % of Total Projected Values
Public Sector AVC	2.20%	0.72%	1.35%	€199,566 ³⁹	€156,377	22%

9.3.1 Member impact of pension charges – Varying contribution assumptions⁴⁰

Table 9.5 identifies the cumulative impact of pension charges at retirement using different contribution scenarios. These include where an individual pension saver makes 2 years worth of contributions and then ceases contributing, 10 years worth of contributions and then ceases contributing and finally an individual who saves to maturity (retirement age). As such, each individual is assumed to commence saving at the age of 35.

The RIYs identified below are calculated using all disclosed pension charges and includes the average annual management charge identified across the life assurance companies.

³⁹ Based on contributions of 250 per month from age 35 to 65 with a annual return of 5%

⁴⁰ See chapter 3.4 for further details and rationale

Table 9.5: Average Reductions in Yields Identified for 2 Year, 10 Year and Contribution to Maturity

Pension Type	Contributions for 10 years only	Contributions for 2 years only	Contributions to Retirement Age
Public Sector AVC Schemes	1.38%	1.61%	1.35%

Comment: The impact of pension charges for an individual pension saver making 2 years worth of contributions before stopping can be far more significant than the impact of pension charges on a pension saver who saves for their full career in a single savings arrangement. The average RIY identified is 1.61% per annum where contributions cease after 2 years compared to an average RIY of 1.35% if contributions continue throughout the lifetime of the pension.

If this average RIYs are converted to identify the notional impact on pension value, the total costs incurred at point of retirement under each assumed contribution period are 22% (for contributions to maturity) and 35% (where contributions cease after 2 years) as per table 9.6 below.

Table 9.6 - RIY where contributions are made for a shorter period

Pension Type	Average RIY (2 years)	Total Charges as a % of Total Projected Values	Average RIY (10 years)	Total Charges as a % of Total Projected Values	Average RIY to Maturity	Total Charges as a % of Total Projected Values
Public Sector AVC	1.61%	35%	1.38%	28%	1.35%	22%

Comment: The aggregated impact of pension charges where contributions are made for a 10 year period are closer to those where contributions are made for the full period to retirement age. This highlights the disproportionate impact pension charges can have where contributions are made for shorter periods.

Part D - How do RIYs identified compare to other pension products?

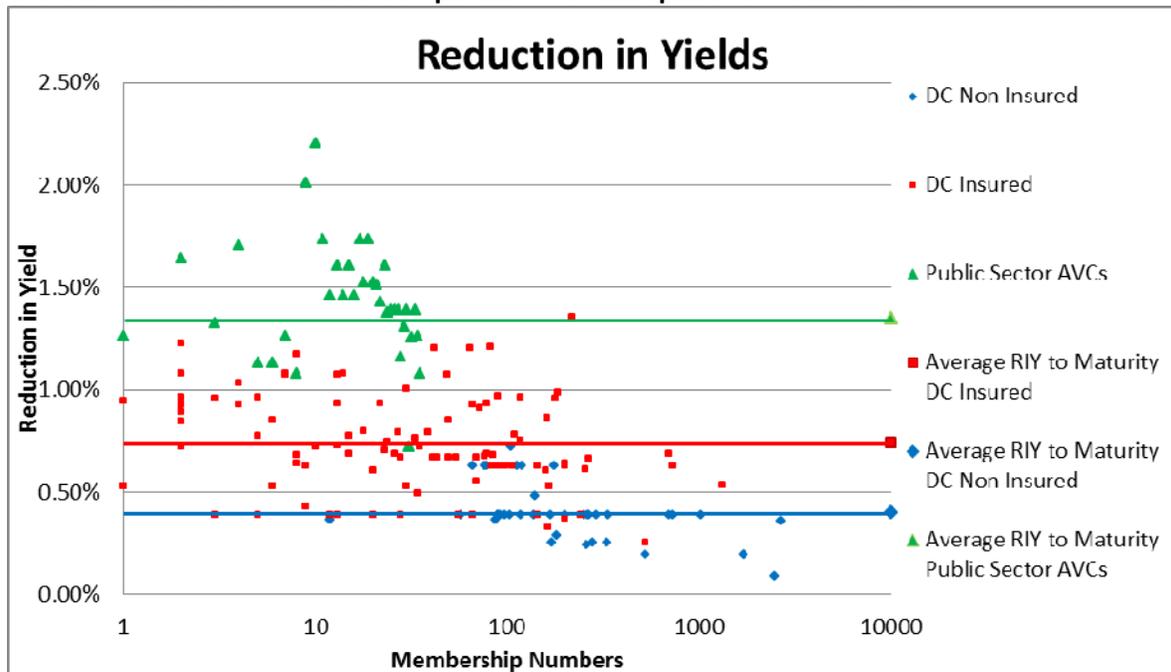
9.4 Introduction

The RIY for public sector AVCs are now compared with the RIY for a number of other pension products including standard PRSAs, RACs, Executive Pension Plans and DC insured pension schemes (using balanced managed funds).

Standard PRSAs, RACs and Executive Pension Plans are all individual pension arrangements and therefore direct comparison is appropriate. The RIY findings for DC insured pension schemes represent occupational schemes and are included to show the impact of efficiencies of scale.

Chart 9.2 highlights the range of RIY's identified for Public Sector AVC schemes and plots the findings against other Occupational DC schemes.

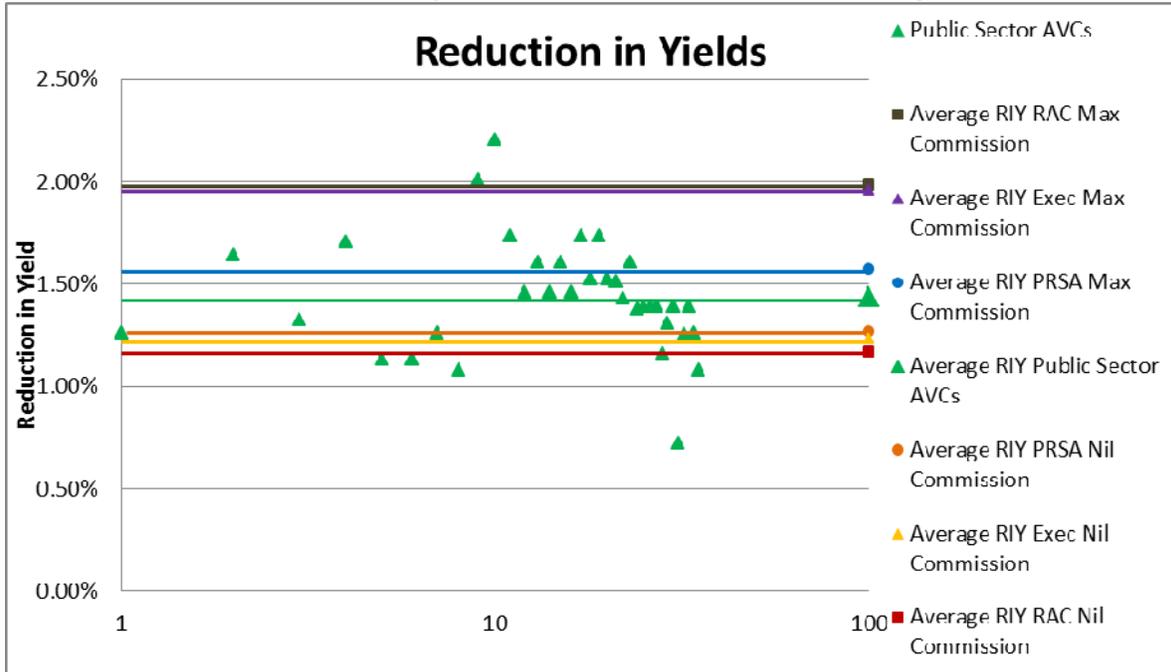
Chart 9.2: Reduction in Yields Comparison with Occupational DC schemes



Comment: The majority of Public Sector AVC schemes fall within a RIY band of between 1.25% and 1.60% per annum and are relatively high when compared to defined contribution occupational pension schemes.

Chart 9.3 highlights the range of RIY's identified for Public Sector AVC schemes and plots the findings against individual pension arrangements.

Chart 9.3: Reduction in Yields Comparison with Individual Pensions Arrangements



Comment: The chart highlights that Public Sector AVC schemes exhibit charging structures that are lower (an average RIY to maturity of 1.35%) than Retirement Annuity Contracts and Executive Pension Plans where maximum commission applies (an average RIY to maturity of 1.97%), but are higher than Retirement Annuity Contracts and Executive Pension Plans where nil commission applies (an average RIY to maturity of 1.18% and 1.24% respectively).

It also shows that Public Sector AVC schemes exhibit charging structures that are lower than Standard PRSA's, where maximum commission applies (an average RIY to maturity of 1.57%), but are higher where nil commission applies (an average RIY to maturity of 1.27%).

Public Sector AVC schemes exhibit efficiencies of scale, when compared to individual pension arrangements, perhaps reflecting the buying power of such schemes due to scale considerations. However such efficiencies of scale are not evident when compared to defined contribution insured pension schemes, where average RIY's to maturity of 0.74% pa (balanced managed funds) and 0.84% (consensus funds) were identified.

Part E - Non-Disclosed Pension Charges – Implicit Investment Costs

As public sector AVC schemes are provided by life assurance companies they are also impacted by implicit investment costs. The information provided by investment managers indicates that for the largest investment funds the additional impact of fund related implicit costs is low at between 0.1% and 0.3% per annum. However, it should be noted that the implicit costs provided by investment managers were estimations and applied to their 4 largest funds only.

9.5.1 Impact of Implicit Costs⁴¹

To illustrate the impact of additional implicit costs on projected pension values, the public sector AVC RIY findings using disclosed costs have been amended in table 9.6 to include implicit costs identified.

Table 9.6: RIY including Implicit Costs

Pension Type	RIY Range (excluding implicit costs)	RIY Average (excluding implicit costs)	RIY Range (including implicit costs)	RIY Average (including implicit costs)
Public Sector AVC Scheme	0.72% to 2.20%	1.35%	0.93% to 2.41%	1.65%

Table 9.7 provides a comparison of the impact of both disclosed and implicit costs on projected fund values.

Table 9.7: Impact of RIYs on Notional Pension Values

Pension Type	Projected Fund at 65 (excluding any costs)	Projected Fund at 65 (including disclosed but excluding implicit costs)	Total Costs as a % of Total Values	Projected Fund at 65 (including disclosed costs and 'implicit' costs)	Total Costs as a % of Total Values
Public Sector AVC Scheme	€199,566	€156,377	22%	€150,820	25%

Comment: Public Sector AVC schemes implicit investment costs can add approximately 3% to the total cost of schemes over their lifetime.

⁴¹ See chapter 3.4 for further details and rationale

Part F - Chapter Observations and Conclusions

Allocation Rates

Regular premium allocation rates typically range from 92% to 100% and can be sensitive to contribution size. Allocation rates on single premium transfers into public sector AVC schemes typically differ from those applicable to regular premium contributions and ranges of between 94% and 100% of contributions were advised.

Policy Fees

Policy fees are a relatively common feature within Public Sector AVC schemes. Where applied, the fees are typically charged monthly with ranges of between €2.00 and €5.00 as confirmed by advisers.

Annual Management Charges

Public sector AVC schemes will offer a range of investment funds for a policy holder to choose from. Costs of such investment funds can range from 0.75% to 2.75% per annum.

Exit Penalties

Exit penalties are not a common feature of public sector AVC schemes.

Additional Fees

Some public sector AVC schemes include both commission and fee arrangements to pension advisers.

Bundling of pension charges

As public sector AVC schemes are provided by life assurance companies they also operate on the basis of 'bundling of charges', thus preventing the ability to disaggregate specific services provided for the above pension charges.

Commission

Commission structures are a common feature of public sector AVC schemes and to recoup these costs life assurance companies will increase pension charges. This can be done in different ways and a universal approach to reflecting commission is not evident. Commission terms vary within Public Sector AVC schemes. Where upfront commission⁴² is evident, it is typically at maximum levels of up to 35% of first year's contributions (and any increases in premiums thereafter). Regular commission payments⁴³ of between 3% and 5% of annual contributions are also a common feature.

Policyholder Impact of Pension Charges

RIYs identified for public sector AVC schemes ranged from 0.72% to 2.2% per annum, with an average RIY of 1.35%.

⁴² Upfront commission refers to a practice whereby life assurance companies pay a pension adviser a commission payment in the first year of a pension contract and then seek to recoup this payment over time. If the pension is transferred during this period the commission is clawed back from the pension adviser. Upfront commission is often referred to as 'initial commission'.

⁴³ Regular commission refers to commission that is payable to pension advisers on an on-going basis i.e. each year. It is often referred to as 'renewal commission' or 'flat commission'.

Comparison of identified pension charges with other Pension Products

RIYs identified for Public Sector AVC schemes ranged from 0.72% to 2.2% per annum, with an average RIY of 1.35%. Broadly 60% of Public Sector AVC schemes have identified RIYs in excess of those of Standard PRSAs on a maximum commission basis.

When compared to RIYs identified for other individual pension arrangements where maximum commission applies, the RIYs identified for Public Sector AVC schemes are lower. For RACs and Executive Pension Plans the average RIY identified was 1.97% where maximum commission applies.

When compared to RIYs identified where no commission applies, the RIYs identified for Public Sector AVC schemes are higher than those identified for RACs and Executive Pension Plans where an average RIY of 1.17% and 1.23% applies.

If compared to DC occupational pension schemes, where the average RIY identified for all schemes was 0.84%, the RIYs identified for public sector AVC schemes are relatively higher.

Public Sector AVC schemes appear to benefit from some efficiencies of scale when compared to other individual pension arrangements, such as RACs and Executive Pension plans set up with maximum commission levels but less so when compared to occupational pension schemes.

Impact of Additional Implicit Costs

Investment managers advised that the aggregate additional costs, applicable to their largest funds, are between 0.1% and 0.3% per annum. These costs can add up to 3% to the total costs associated with Public Sector AVC schemes, from the individual policy holders' perspective, over the life time of the contract.

Chapter 10 - Buy Out Bonds

- Part A - Introduction
- Part B - Charging structures identified
- Part C - Factors influencing pricing structures
- Part D – Legacy pension contracts
- Part E – Policyholder impact of identified charges - Reduction in Yield (RIY) analysis
- Part F – Chapter Observations and Conclusions

Chapter 10 - Buy Out Bonds

Part A - Introduction

10.1 Introduction

Buy Out Bonds (also known as Personal Retirement Bonds) provide a vehicle for the transfer of pension benefits from an occupational pension scheme into a policy set up in the name of the individual member and are most commonly used when a member leaves service with an employer or where a pension scheme is wound up. The value of the existing pension scheme is transferred into the Buy Out Bond as a once off contribution and is invested in accordance with the members' instructions until retirement age. There are no records of the total number of Buy Out Bonds in existence⁴⁴.

The significant majority of Buy Out Bonds are set up on an insured basis with a life assurance company who provide administration and investment management services⁴⁵. Payment for such services are recouped through pension charging structures e.g. annual management charges, allocation rates, policy fees etc. The costs associated with the contract are solely borne by the individual pension saver.

Prior to set up, the individual will engage a pension adviser who provides advice. This advice will typically include considerations regarding an appropriate life assurance company, investment fund(s), contribution level etc. Payment for services provided by a pension adviser can be paid directly in the form of a fee and/or by a commission payment paid directly by the life assurance company to the adviser. Where commission arrangements exist, the costs are borne by the policyholder through an increase disclosed charges. This typically occurs through a reduction in the allocation rate and/or through an increase in the annual management charge. Where payments to advisers are instead made in the form of a fee, the life assurance company will not include commission in the charges levied for the product provided.

The research indicates that commission is a particularly prevalent feature of Buy Out Bonds and there is less variability in commission levels when compared to other pension products. There appears to be little change in prevalence when comparing commission on Buy Out Bonds today to those set up in the past.

In addition to disclosed pension charges, these individual pension policies are also impacted by implicit investment costs borne by the underlying investment fund through which the pension is invested.

⁴⁴ The Central Bank regulate life assurance companies (i.e. those who provide Buy Out Bonds) and intermediaries (i.e. those who facilitate Buy Out Bonds) rather than the individual contracts themselves.

⁴⁵ Where a pension scheme winds up the trustees of the scheme will typically appoint a preferred provider for the transfer of existing benefits. The costs associated are typically met by the sponsoring employer through a fee agreement. However in some circumstances commission arrangements will apply.

Part B - Charging Structures Identified

10.2 Introduction

Life assurance companies were requested to provide detailed information relating to pension charging structures for Buy Out Bonds set up today and to assume both maximum commission and no commission are payable. This approach allowed the identification of both ends of a spectrum of pension charges. Life companies were also asked to provide typical pension charges associated with contracts set up 10 and 15 years ago. They were also asked to provide details of the total number of pension contracts in existence, the levels of assets under management, 2010 contribution flows, and information regarding the prevalence of commission arrangements both in 2010 and on their existing backbook of pension business.

The key disclosed pension charges for of Buy Out Bonds are:

- Annual management charges;
- Allocation rates;
- Bid offer spreads;
- Policy fees
- Exit penalties.

Distribution costs, e.g. commission payments to advisers, can be borne by an individual through an increase in disclosed pension charges.

10.2.1 Pension Charging Structures Identified

Using the pricing assumptions detailed below, life companies were requested to breakdown the disclosed pension charges. The changing of pricing assumptions resulted in a number of variations which are discussed later in this chapter.

Pension Type

Buy Out Bond

Pricing Assumption

Transfer Value €125K

Age 35

Retirement Age 60

Table 10.1: Disclosed Charges – Buy Out Bonds

Commission Type	Range of Allocation Rates	Range of Policy Fees (where applicable)	Range of Annual Management Charges	Bid Offer Spreads	Exit Penalties ⁴⁶
Nil Commission	98%-107%	€3.59 - €5.42	0.5%-2.0%	18% of life assurance companies advised bid offer spreads apply	57% of life assurance companies advised exit penalties apply.
Maximum Commission	97%-100%	€3.59 - €5.42	0.5%-2.5%	18% of life assurance companies advised bid offer spreads apply	71% of life assurance companies advised exit penalties apply.

⁴⁶ When exit penalties are applied they are typically based on a sliding percentage scale over 4/5 years starting at 5% of fund value in Yr 1.

Table 10.1 provides an overview of identified disclosed pension charges. For ease of interpretation the table only includes net allocation rates, as only net allocation rates directly impact individual policyholders. In relation to annual management charges the life assurance companies were requested to provide the associated costs for 'typical' managed funds.

Part C - Factors Influencing Pricing Structures

10.3 Introduction

Differing price assumptions provided to life assurance companies were used to investigate the impact that different contribution levels and length of term to maturity can have upon the charging structures of insured pension schemes. Typically the greater the contribution level, the lower the associated charges of the pension scheme. In relation to term to maturity, the lower the average age of members (with a corresponding longer the term to maturity), the lower the associated charges of the pension scheme. The changing of these assumptions impacted pension terms through variations in allocation rates. However, allocation rate changes were only identifiable in 3 out of 10 life assurance company responses. Other pension charges typically remained constant.

Change in Assumption	Number of Life Companies confirming change	Change Identified
Age increased from 35 to 50	3 out of 10	2% decrease in allocation rate

10.3.1 Prevalence of Distribution Costs

Life companies were asked to confirm commission structures most commonly used by pension advisers for business set up in 2010. Responses identified that commission levels of between 1% and 5% of contributions are available. The most common commission structure advised was 2% of premiums. Fund based trail commission is not a common feature of Buy Out Bonds.

Legacy commission terms advised for Buy Out Bonds set up in the past were typically between 0% and 5% of contributions. Commission payments of 2% of contributions were the most common structure advised.

There appears to be little change in commission prevalence with Buy Out Bonds set up before 2010.

Part D - Legacy Pension Contracts

10.4 Introduction

To allow a comparison of charging structures for Buy Out Bonds set today with those set up in the past, life assurance companies were asked to detail the most common pension charging structures available for policies set up 10 and 15 years ago. Table 10.3 details findings.

Table 10.3: Buy Out Bond Legacy Pension Charging Structures

Period	Range of Gross Allocation Rates	Range of Net Allocation Rates	Typical Bid-Offer Spread (where applicable)	Range of Policy Fees (where applicable):	Exit Penalties ⁴⁷	Range of Annual Management Charges	Typical Commission Structure
15 Years Ago	99%-103.5%	91%-100%	5%	N/A €3.81 to €126.97 ⁴⁸	17% of life assurance companies advised exit penalties apply.	0.65%-1%	0% to 2%
10 Years Ago	99%-106%	96%-101%	5%	€35 (No range identified)*	17% of life assurance companies advised exit penalties apply.	0.65%-0.88%	0% to 2%
Current (Nil Commission)	98%-105%	98%-107%	5%	€3.59-€5.42	57% of life assurance companies advised exit penalties apply.	0.5%-2%	0%
Current (Max Commission)	100% - 103%	97%-100%	5%	€3.5-€5.42	71% of life assurance companies advised exit penalties apply.	0.5%-2.5%	0% to 5%

Comment: Pension charging structures for Buy Out Bonds set up today are broadly similar to those available in the past, reflecting their single premium nature albeit there is evidence of greater variation in charging structures for contracts written at present

10.4.1 Prevalence of Historic Pension Schemes – Contribution Flows

In order to understand the prominence of Buy Out Bonds set up 10/15 years ago in the marketplace today, life companies were also requested to provide a summary of contribution flows. Responses identify that broadly 62% of Buy Out Bonds in force today relate to contributions made in the last five years.

⁴⁷ When exit penalties are applied they are typically based on a sliding percentage scale over 4/5 years starting at 5% of fund value in Yr 1.

⁴⁸ The life assurance company submissions advised that policy fees were not a particularly common feature of Buy Out Bonds set up 15 years ago. The majority of submissions received advised no policy fees applied. One submission advised of a monthly policy fee of €3.81 per month while two others advised of one off fees of €35 and €126.97 at point of set up.

Part E - Policyholder impact of identified charges - Reduction in Yield (RIY) analysis

10.5 Introduction

Table 10.4 details the average RIY for Buy Out Bond and the impact that the disclosed charges has on the projected fund value at retirement age.

Table 10.4: Buy Out Bond RIY and Impact on Notional Pension Value

Period	High RIY to Maturity	Low RIY to Maturity	Average RIY to Maturity	Total Projected Fund excluding any pension charges	Total Projected Fund including all pension charges	Total Charges as a % of Total Projected Values
Current Nil Commission	2.18%	0.53%	0.94%	€416,466	€335,455	19.5%
Current Max Commission	2.62%	0.53%	1.32%	€416,466	€307,451	26.2%
10 Years Ago	0.97%	0.84%	0.88%	€416,466	€338,543	18.7%
15 Years Ago	1.12%	0.80%	0.99%	€416,466	€329,942	20.8%

Comment: The table shows that in the case of an RIY to maturity for disclosed pension charges can have the impact of reducing the projected fund value at retirement by between 19.5% and 26.2% depending on the level of commission applied. The table also shows that the owner of a Buy-Out Bond set up today can incur greater charges than was the case 10 and 15 years ago.

10.5.1 Impact of Non-Disclosed Pension Costs – Implicit Investment Costs⁴⁹

Investment managers were requested to provide information about the additional implicit costs associated with their 4 largest funds. Table 10.5 below summarises the information provided.

Table 10.5: Implicit Costs identified

Range of Annual Management Charges	Range of Total Expense Ratios	Range of Stamp Duty	Range of Brokerage Commission
0.15% to 0.725%	0.26% to 0.885%	0.01% to 0.04%	0.01% to 0.08%

10.5.2 Impact of implicit Costs on Pension Values

This information can be used to consider the impact of additional implicit costs on long term pension values. The range of costs identified would suggest that the total additional fund related costs (not typically disclosed to investors) amount to between 0.1% and 0.3% per annum. Table 10.6 details RIYs for Buy Out Bonds inclusive and exclusive of implicit charges. Table 10.7 provides a comparison of the project pension fund values based on the associated RIYs.

⁴⁹ See chapter 3.4 for further details and rationale

Table 10.6: Buy Out Bond RIY Including and Excluding Implicit Costs

Pension Type and Period	RIY Range (excluding implicit costs)	RIY Average (excluding implicit costs)	RIY Range (including implicit costs)	RIY Average (including implicit costs)
New Buy Out Bond (Max Commission)	0.53%-2.62%	1.32%	0.74%-2.82%	1.53%
New Buy Out Bond (Nil Commission)	0.53%-2.18%	0.94%	0.74%-2.39%	1.15%
Buy Out Bond (10 Years Ago)	0.84% to 0.97%	0.88%	1.05% - 1.18%	1.09%
Buy Out Bond (15 Years Ago)	0.80% - 1.12%	0.99%	1.01% - 1.33%	1.20%

Table 10.7: Buy Out Bond Impact of additional implicit costs on long term values

Pension Type and Period	High RIY to Maturity	Low RIY to Maturity	Average RIY to Maturity	Total Contributions at 65	Total Projected Fund at 65 (excluding any charges)	Projected Fund at 65 (including disclosed but excluding implicit costs)	Total Charges as a % of Total Values	Projected Fund at 65 (including disclosed charges and implicit costs)	Total Charges as a % of Total Values
New Buy Out Bond Max Comm	2.62%	0.53%	1.32%	€125,000	€416,466	€307,451	27%	€290,168	30%
New Buy Out Bond Nil Comm	2.18%	0.53%	0.94%	€125,000	€416,466	€335,455	20%	€317,571	24%
Buy Out Bond 10 Years Ago	0.97%	0.84%	0.88%	€125,000	€416,466	€338,543	19%	€322,118	23%
Buy Out Bond 15 Years Ago	1.12%	0.80%	0.99%	€125,000	€416,466	€329,942	21%	€313,828	25%

Comment: Implicit investment costs can add approximately 4% to the total disclosed cost of Buy Out Bonds over the lifetime of the pension contracts as set out in table 10.7 above.

It should be noted that the implicit costs provided by investment managers were estimations and only applied to the largest 4 funds of the investment managers by fund size, to identify what is most common in the Irish pension market. It cannot be concluded that the identified costs will apply across the full range of pension investment funds available and it is likely that the range of such charges is wider than those identified.

Part F - Chapter Observations and Conclusions

Allocation Rates

Buy Out Bond allocation rates range from 97% to 100% where maximum commission payments apply. Life assurance companies advised that maximum commission levels are most often taken by pension advisers. The life assurance companies advised that broadly 33% of Buy Out Bonds are set up on a nil commission basis. Allocation Rates range from 98% to 107% where nil commission applies. The older the individual the more likely allocation rates may be reduced.

Policy Fees

Policy fees were advised by 50% of life assurance companies. Where applicable, the fees are predominately on a once off basis with ranges of between €45 and €52.50 advised. However a small number of life assurance companies advised that monthly policy fees apply with ranges of between €3.49 and €5.42 per month advised.

Annual Management Charges

Buy Out Bonds will offer a range of investment funds for a policy holder to choose from. The research identified that the costs of such investment funds can range from 0.5% to 2.0% where no pension adviser commission is payable and 0.5% to 2.5% where maximum commission is payable.

Exit Penalties

Exit penalties are a common feature of Buy Out Bonds. 71% of life assurance companies advised that exit penalties apply where maximum commission terms are evident. Exit fees typically apply for a period of 5 years reducing each year until removal. Where nil commission terms are evident, 57% of life assurance companies advised that exit penalties apply.

Bundling of Pension Charges

As Buy Out Bonds are provided by life assurance companies they also often operate on the basis of 'bundling of charges', thus making the ability to disaggregate specific services provided for such charges particularly difficult.

Commission

The life assurance companies advised that the typical commission payment for Buy Out Bonds is 2% of contributions, although greater commission payments are possible. The trend for reducing commission levels, evident for other forms of insured pension vehicles, are not particularly evident for Buy Out Bonds. It appears there has been little change to such commission arrangements over time, as 2% commission was also the most common commission option identified by life assurance companies for Buy Out Bonds set up in the past.

Impact of Additional Implicit Costs

The research has identified that additional investment costs impact policy holders and that such costs are typically not disclosed, due in some part to the form in which such costs exists. Such costs relate to the underlying operational costs of the investment funds in question.

The research can provide some level of detail on such potential additional costs. Investment managers advised that the aggregate additional costs, applicable to their largest funds, are between 0.1% and 0.3% per annum.

This can add between 3% and 4% to the total costs associated with Buy Out Bonds, from the individual policy holders' perspective, over the life time of the contract.

Prevalence of legacy pension charges

The life assurance companies identified that greater contribution flows are evident in recent times. Figures provided suggest that 63% of contributions relate to Buy Out Bonds set up in the last 5 years.

Policyholder Impact of Pension Charges

RIYs identified ranged from 0.94% where nil commission terms applied to 1.32% per annum where maximum commission terms applied. RIYs identified for historic Buy Out Bonds ranged from 0.88% per annum, in respect of Buy Out Bonds set up 10 years ago, to 0.99% per annum, in respect of Buy Out Bonds set up 15 years ago. This would suggest that Buy Out Bonds are now less competitive than those available in the past perhaps due to the inclusion of loyalty bonuses.

Chapter 11 - Post Retirement Options - Approved Retirement Fund and Annuity

- Part A - Approved Retirement Fund
- Part B – Charging structures identified
- Part C - Factors influencing pricing structures
- Part D – Annuity
- Part E – Chapter Overview and Conclusions

Chapter 11 - Post Retirement Options - Approved Retirement Funds and Annuity contracts

Part A – Approved Retirement Fund

11.1 Introduction

Approved Retirement Funds (ARFs) were introduced in Ireland in the 1999 Finance Bill. As a result, the prevalence of ARFs is relatively small in comparison to annuities as an alternative post retirement vehicle. On reaching retirement age, an individual who has accumulated pension funds (within certain types of pension contracts only⁵⁰) can elect to transfer their funds into an ARF⁵¹, instead of securing a retirement income via the purchase of an annuity.

An ARF is an investment product, whereby the individual chooses how to invest the accumulated pension monies post retirement. The funds held within an ARF can be drawn down by the individual at any stage during retirement subject to the deduction of income tax as appropriate. ARFs are offered by both life assurance companies and investment managers who take on the required role of Qualifying Fund Manager (QFM)⁵², ultimately fulfilling an oversight function. There are no records of the total number of ARFs in existence.

The significant majority of ARFs are set up on an insured basis where the individual sets up a policy with a life assurance company that provides administration and investment management services. The payment for such services are recouped through pension charging structures e.g. annual management charges, allocation rates, policy fees etc. The costs associated with the contract are solely borne by the individual pension saver. Prior to set up, the individual will engage a pension adviser, who provides the individual with advice including the choice of life assurance company, appropriate investment fund(s) and advice in relation to contribution level etc.

The payment for services provided by a pension adviser can be paid directly in the form of a fee and/or by a commission payment paid directly by the life assurance company to the adviser. Where commission arrangements exist, the costs are borne by the policyholder through an increase in the above mentioned charges. This typically occurs through a reduction in the allocation rate and/or through an increase in the annual management charge. Where payments to advisers are instead made in the form of a fee the life assurance company will not include commission in the charges levied for the product provided.

In addition to disclosed pension charges, these individual pension policies are also impacted by implicit investment costs borne by the underlying investment fund through which the pension is invested.

⁵⁰ The option to invest in an ARF is not available in relation to the proceeds of DB occupational pension schemes or Buy Out Bonds where the initial transfer of funds came from a DB Scheme.

⁵¹ Where an individual chooses to invest in an ARF, a guaranteed income requirement exists, prior to any such investment. Where this guaranteed income requirement is not met the individual must first set aside a portion of funds into an alternative Approved Minimum Retirement Fund where the capital value cannot be accessed until age 75 (or where the minimum guaranteed income requirement is met later). AMRFs are considered a subset of ARFs, for the purpose of this research, as the cost structures are typically similar.

⁵² A Qualifying Fund Manager (QFM) is a designation given by the Revenue. Their main role is to account for any tax that may be due on distributions from ARF's / AMRF's.

The scope of the research extends to the point of engagement with a post retirement product and identifies the charges arising at the point. It does not in the case of an ARF extend to evaluating how these charges impact over time.

Part B - Charging Structures Identified

11.2 Disclosed Pension Charges

Life assurance companies were requested to provide detailed information relating to pension charging structures using a contribution assumption of €250,000 at aged 65, and to assume both maximum commission and no commission are payable. This approach to commission would allow the identification of both ends of a spectrum of pension charges i.e. low and high cost charging structures. Information in relation to the prevalence of commission structures was also provided. As ARFs are predominantly provided by life assurance companies, they often operate on the basis of bundling of pension charges, a feature of insured contracts. The key disclosed pension charges for ARFs are:

- Annual management charges;
- Allocation rates;
Bid offer spreads;
- Policy Fees;
- Exit penalties.

Distribution costs, e.g. commission payments to advisers, can be borne by an individual through an increase in the above mentioned pension charges. Table 10.1 provides a summary of the disclosed cost information received from the life assurance companies.

Table 11.1: Disclosed Charges –

Distribution Basis	Range of Allocation Rates	Range of Policy Fees	Range of Annual Mgt. Charges	Bid Offer Spread	Exit Penalties ⁵³
Nil Commission	98%-105%	Do Not Typically Apply	0.75%-2.0%	Not applicable	67% of life assurance companies advised exit penalties apply.
Maximum Commission	96%-101%	Do Not Typically Apply	0.75%-2.0%	Not applicable	67% of life assurance companies advised exit penalties apply.

11.2.1 Non-Disclosed Pension Charges – Implicit Investment Costs⁵⁴

Table 11.2 provide details of the additional implicit costs highlighted by Investment managers and associated with their 4 largest funds. The effective impact of additional implicit costs on ARFs is to increase the associated annual management charge by the corresponding amounts above i.e. by approximately 0.2%.

Table 11.2: Implicit Costs - Approved Retirement Funds

Range of Annual Management Charges	Range of Total Expense Ratios	Range of Stamp Duty	Range of Brokerage Commission
0.15% to 0.725%	0.26% to 0.885%	0.01% to 0.04%	0.01% to 0.08%

⁵³ When exit penalties are applied they are typically based on a sliding percentage scale over 4/5 years starting at 5% of fund value in Yr 1.

⁵⁴ See chapter 3.4 for further details and rationale

Part C - Factors Influencing Pricing Structures

11.3 Variation in Contribution Levels

Life assurance companies were asked to consider the different contribution levels as detailed in table 11.3 and advise of any impact on charges. Responses indicate that 22% of life companies increased allocation rates where contribution rates were increased significantly.

Table 11.3: ARF Change in Contribution Levels and Allocation Rates

Change in Assumption	Number of Companies	Change Identified
Contribution level was increased from €250K to €500K	22% of life assurance companies	An average increase of 0.75% in allocation rate
Contribution level was increased from €250K to €750K	22% of life assurance companies	An average increase of 0.775% increase in allocation rate

11.3.1 Prevalence of Distribution Charges

The research indicates that commission is a particularly prevalent feature of ARFs. Commission arrangements vary by life company and pension adviser but typical commission structures exist. There appears to be little change in commission trends between 2010 and legacy pension business since the introduction of ARFs. Fund based commission, which increases annual management charges by the corresponding amount, appears to be more prevalent within ARFS when compared to other pension types.

2010 Commission Levels

Life assurance companies were asked to detail the commission structures applicable to ARFs set up in 2010⁵⁵. Commission terms of between 0% and 5% of contributions are common within the marketplace. 3% commission is the most prevalent commission arrangement. These commission terms would comprise initial commission and fund based commission where applicable.

Fund based commission⁵⁶, when applicable, tends to be on a level of between 0.25% and 0.5% per annum and appears to be more prevalent within this type of pension vehicle than other pension types.

Legacy Commission Trends

The legacy commission terms advised for ARFs are also between 0% and 5%. Commission payments of 3% of contributions was again the most common structure advised. There appears to be little change in commission trends between 2010 and legacy pension business i.e. since introduction of ARFs.

⁵⁵ ARFs have been in existence for just over 10 years and historical comparison may be of lesser relevance than other pension types

⁵⁶ Fund based commission increases the annual management charge by the corresponding amount.

Part D - Annuity

11.4 Introduction

The alternative post retirement vehicle to an ARF is the purchase of an annuity. Once exchanged, the individual no longer retains the capital sum but is instead provided with a guaranteed income in retirement. Annuities are not comparable to other forms of pension vehicles. Annuity contracts are exclusively provided by life assurance companies and there is currently only a small number of annuity providers in Ireland⁵⁷. There are no records of the total number of such contracts in existence⁵⁸.

The level of income provided varies based upon a number of factors such as age, gender, the number of additional benefits included such as guaranteed payment periods in the event of death, the addition of a second life (typically a spouse/partner), inflation protection etc. Annuity prices are dictated by a number of factors including, but not limited to, prevailing interest rates, re-assurance terms, capital requirements, expense loadings and commercial considerations.

The research indicates that commission is a particularly prevalent feature of annuities. The costs of commission are borne by the policyholder through a reduction in the level of income payable to the individual throughout the lifetime of the annuity. Where payments to advisers are instead made in the form of a fee there is no impact on the level of income payable to the individual throughout the lifetime of the annuity. Commission arrangements vary by life company and pension adviser, but typical commission structures exist. There appears to be little change in commission trends between 2010 and legacy pension business.

To provide greater clarity on the impact of entry costs, of which commission is the primary element, life assurance companies currently offering annuities to all customers were asked to provide typical annuity rates based on a number of pricing assumptions and to confirm the maximum commission terms available.

Table 11.4 and 11.5 provides a summary of the pricing assumptions and the responses received inclusive and exclusive of commission to a pension adviser. Responses confirmed that pension advisers typically take the maximum commission terms available for annuity contracts. Findings of the pension adviser surveys were broadly consistent with this outcome.

⁵⁷ Not all life assurance companies currently offer annuities and some only offer annuities to existing customers i.e. those retiring from a pension product held with the life assurance company.

Table 11.4: Annuity Prices Identified – Including Commission

	Commission Terms	Pricing Assumption A	Annuity Rates Advised	Pricing Assumption B	Annuity Rates Advised
Life assurance Company A	3%	Capital: €500,000	5.46% €27,314.60 per annum	Capital: €500,000	3.18% €15,940 per annum
Life assurance Company B	2%	Single Life Annuity	5.287% €26,397.20 per annum	Joint Life Annuity	3.137% €15,647.20 per annum
Life assurance Company C	2%	No Escalation	5.35% €26,750.16 per annum	3% Escalation	3.06% €15,300 per annum
Life assurance Company D	2%	No Guarantee Period	5.37322% €26,866.08	5 Year Guarantee Period	3.15% €15,753.36

Table 11.5: Annuity Prices Identified – Commission exclusive

	Pricing Assumption A	Annuity Rates Advised	Pricing Assumption B	Annuity Rates Advised
Life assurance Company A	Capital: €500,000	5.64% €28,214.60 per annum	Capital: €500,000	3.25% €16,264 per annum
Life assurance Company B	Single Life Annuity	5.395% €26,937.20 per annum	Joint Life Annuity	3.201% €15,967.20 per annum
Life assurance Company C	No Escalation	5.46% €27,300 per annum	3% Escalation	3.12% €15,600 per annum
Life assurance Company D	No Guarantee Period	5.48745% €27,437.28 per annum	5 Year Guarantee Period	3.22% €16,088.28

Comment: The impact of commission payments is to reduce the annuity rate by between 0.06% and 0.16% per annum, and the associated income through retirement by between €540 and €900 per annum. Annuity commission payments, where applicable, are most typically 2% of contributions. The life assurance companies advised that pension advisers typically take the maximum commission terms available for annuity contracts, where commission is taken, and the pension adviser surveys are broadly consistent with this finding.

Part E - Chapter Observations and Conclusions

Approved Retirement Funds - Allocation Rates

Allocation Rates range from 96% to 101% where maximum commission payments apply. Life assurance companies advised that maximum commission levels are often taken by pension advisers with the most prominent commission structure being 3% of contributions. However reduced levels or nil commission terms are also used.

Where nil commission terms apply allocation rates range from 98% to 105%. Contribution levels impact allocation terms and the greater the investment amount the higher the allocation rate. The research identified an average increase in allocation rate of 0.75% when contribution assumptions were increased from €250K to €500K and an increase in allocation rate of 0.775% when contribution assumptions were increased from €250K to €750K

Policy Fees

Policy fees are not a common feature of the ARF market.

Annual Management Charges

The annual management charge can range from 0.75% to 2.0% irrespective of level of commission payable.

Exit Penalties

Exit fees are a common feature of ARFs. 67% of life assurance companies advised that exit penalties apply where maximum commission terms are evident. Where exit penalties are applicable they typically apply for a period of 5 years reducing each year until removal. Where nil commission terms are evident, 67% of life assurance companies advised that exit penalties apply.

Bundling of Pension Charges

As ARFs are predominantly provided by life assurance companies they often operate on the basis of 'bundling of charges', thus making the ability to disaggregate specific services provided for such charges particularly difficult.

Commission

The life assurance companies advised that the typical commission payment for an ARF is 3% of contributions, although greater commission payments are possible. Commission payments are consistent across the marketplace.

It appears there has been little change to such commission arrangements over time, as 3% commission was also the most common commission option identified by life assurance companies for ARFs set up 10 years ago.

Although still not particularly common, fund based commission (or trail commission) is more evident within ARFs than alternative pension vehicles. This is a relatively recent feature of the pensions market and allows commission payments be based on accumulated assets. The impact of fund based commission is to increase the annual management charge by the corresponding amount.

Additional Implicit Costs

Investment managers advised that the aggregate additional costs, applicable to their largest funds, are between 0.1% and 0.3% per annum.

Annuities:

Variability of Income

The level of income provided varies based upon a number of factors such as the gender of the individual and the number of additional benefits that are included such as guarantee periods in the event of death, the addition of a second life, inflation protection etc.

Pricing Factors

From a life assurance company perspective annuity prices are dictated by a number of factors such as prevailing interest rates, reinsurance terms, capital requirements, expense loadings and commercial considerations, amongst other factors. In addition the level of commission payment to a pension adviser can impact the income payable through retirement.

Commission

Typical commission payments are 2% of contributions. Incomes can be reduced by between €540 and €900 per annum due to the impact of such commission payments.

Chapter 12: Transparency of Pension Charges

- Introduction
- Part A - Disclosure of Information Requirements
- Part B – Transparency and Understanding of Pension Charges – Research Outcomes
- Part C – International Developments Regarding Disclosure of Information
- Part D – Research Findings and Recommendations

Chapter 12: Transparency of Pension Charges

12.1 Introduction

Analysis within this report thus far has focused on the charges associated with various types of pension arrangements and the impact of these charges on the pension values of members. In addition to the analysis of information on the level of pension charges, the objective of the report was to identify if charges are reasonable and transparent. This chapter outlines the current disclosure requirements applicable to Irish pension vehicles, looks at developments linked to disclosure in the U.K. and the EU and proposes a number of recommendations.

A significant body of regulation is in place regarding the requirement to disclose the associated charges of pension contracts. The range of pension vehicles considered in this report often have differing disclosure requirements and structures which are dictated by the particular regulatory framework governing their operation.

Occupational Pension Schemes (including Executive Pension Plans and Public Sector AVC schemes) and PRSAs are regulated by the Pensions Board. The Central Bank regulates the providers of Retirement Annuity Contracts, Approved Retirement Funds, Buy Out Bonds, Annuities and the assurance contracts in which DC insured contracts invest. This reflects a somewhat different regulatory approach to that applied by the Pension Board under the Pensions Act 1990, which applies regulation at scheme level.

However, although disclosure requirements may differ by pension type, broadly speaking, in relation to transparency, the regulatory focus of both the Pensions Board and the Central Bank consider and identifies the information that should be disclosed to the end user and the format of these disclosures. For occupational pensions, the end users are employers and trustees and in turn, scheme members. For individual pension arrangements, the individual policy holder is the end user.

Part A: Disclosure Of Information Requirements

12.2 Occupational Pension Schemes – Disclosure Requirements

Current disclosure requirements for Occupational Pension schemes are governed by the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 – 2012. Adherence to these regulations is overseen by the Pensions Board.

Trustees are required to furnish members with specific written information within defined timeframes. This includes a requirement to provide the member with a general overview of the pension scheme but does not specifically include the associated charges.

Members or prospective members in relevant employment must be issued with a ‘Statement of Reasonable Projection’ (SORPs) which must include the ‘effect of charges’ on the investment. A SORP must be issued at least once a year to active members. The Society of Actuaries provides guidance on how to calculate the effect of charges.

It also should be noted that this provision does not apply to deferred members. On early termination of employment, a member is entitled to information regarding their pension entitlements and rights. However, though available to the deferred member on request, there is no requirement to disclose information on the on-going pension charges that will continue to be incurred by the deferred member.

The disclosure regulations require that pension scheme audited accounts identify whether or not the scheme is bearing the costs of any investment manager and, if so, the basis on which the investment manager is paid.

12.2.1 Personal Retirement Savings Accounts – Disclosure Requirements

The launch of PRSA contracts in 2003 brought specific disclosure requirements set out in the Personal Retirement Savings Accounts (Disclosure) Regulations 2002 and Personal Retirement Savings Accounts (Disclosure) (Amendment) Regulations, 2003. Adherence to these regulations is overseen by the Pensions Board.

In advance of establishing a PRSA, a ‘Preliminary Disclosure Certificate’ must be provided to the prospective policyholder and must take a prescribed format as detailed in the regulations. This certificate must include information on the charges associated with the PRSA. Depending on whether the PRSA is standard or non-standard the certificate must include the following statement;

Standard PRSA *‘The maximum permitted level of charges on a standard PRSA such as this is limited by law to 5% of each contribution and 1% per annum of the assets in the Account.’*

Non Standard PRSA *‘For your contract, the total effect of these charges on the benefits at maturity projected above is equivalent to a single charge of [x]%⁵⁹ per annum of the assets held under the contract.’*

⁵⁹ Rate will be applied depending on the provider

This information can be disclosed in a separate document to the Preliminary Disclosure Certificate provided it is delivered at the same time as the certificate and there is a clear statement in the Certificate that it is being furnished as part of the Preliminary Disclosure Certificate (but as a separate document) and the form of presentation chosen does not diminish the prominence of the information given.

Should the creation of the PRSA also include a transfer of pension monies from a pre-existing occupational pension scheme, there is an additional requirement to prepare a 'Certificate of Comparison and Written Statement' for the consumer. This must include an explanation, prepared by a qualified actuary, as to why a transfer to a PRSA would or would not be in the interest of the individual.

Once a prospective consumer becomes a PRSA policy holder, during the lifetime of the contract the PRSA provider is required to produce a 'Statement of Reasonable Projection' (SORPS) annually. This statement must describe, in detail, the charges levied under the PRSA contract, include information on how those charges will operate and how they may change over time.

12.2.2 Individual Pension Arrangements – Disclosure Requirements

The 'Life Assurance (Provision of Information) Regulations 2001' cover Retirement Annuity Contracts, Buy Out Bonds, Annuities and Approved Retirement Funds (including Approved Minimum Retirement Funds). Adherence to these regulations is overseen by the Central Bank. The regulations were introduced *'to ensure that consumers are provided with information, to assist them in making informed and rational choices, between different life assurance products, sales channels and suppliers'*⁶⁰.

Disclosure Requirements Pre Policy Agreement

Before a prospective policyholder signs a proposal/application form they must be provided with (and sign a declaration to confirm receipt of) specific information detailed in the regulations as follows:

- Information about the policy;
- Information to allow the consumer make sure the policy meets their needs;
- What happens if consumer wants to cash in the policy early or stop paying premiums;
- The projected benefits under the policy;
- What intermediary remuneration or sales remuneration is payable;
- Are returns guaranteed and can the premium be reviewed;
- Can the policy be cancelled or amended by the insurer;
- Information on taxation Issues;
- Information on service fee;
- Information about the Insurer or Assurance intermediary or sales employee.

Within the regulations, the approach taken to the disclosure of pension charges is to highlight the total monetary value of charges and the impact on investment returns. Illustrative tables of benefits are required to include;

⁶⁰ Noel Treacy T.D, Minister for Science, Technology and Commerce -February, 2001.

- the projected expenses and charges to date (i.e. the projected total deductions to cover expenses and charges);
- the difference between the sum of the premiums paid and projected investment growth, and the projected surrender or maturity values (accounted for by the cost of protection benefits and the charges and management expenses associated with the policy and surrender penalties);
- the effect of all deductions (excluding the cost of deductions for protection benefits) on the projected investment yield on the gross premiums paid (i.e. a RIY factor).
- Charges and management expenses including deductions from the premium which do not contribute to the value of any benefit such as bid/offer spread, annual management charge and expense charges.

The regulations also require that a separate *'illustrative table of intermediary remuneration or sales remuneration'* be provided. All of this information must be provided to prospective policyholders prior to the creation of the policy.

Disclosure Requirements Post Policy Agreement

Once a prospective consumer becomes a policy holder, pension providers governed by 2001 regulations must provide annual statements to policyholders indicating *'the current premium payable, the current surrender or maturity value of their policies and any other relevant information'* (in the case of policies acquiring a surrender or maturity value). There is no explicit reference to charges.

12.2.3 The Central Bank's Consumer Protection Code

Entities in Ireland which are regulated by the Central Bank are subject to the Central Bank's Consumer Protection Code⁶¹, including those providing pension contracts such as Retirement Annuity Contracts, Personal Retirement Savings Accounts, Approved Retirement Funds, Buy Out Bonds and Annuities. The 2012 Code sets out a number of general principles and specific rules applicable to entities in their dealings with consumers.

One of the key general principles underpinning the code requires regulated entities to make *'full disclosure of all material information, including all charges, in a way that seeks to inform the customer'*⁶². In addition to the general principles of the code, there are a number of specific rules, which are applicable to the provision of pension arrangements and address disclosure of pension charges. For example, prior to providing a product or service to a consumer, a regulated entity must:

- 'provide the consumer, on paper or on another durable medium, with a breakdown of all charges, including third party charges, which will be passed on to the consumer; and
- where such charges cannot be ascertained in advance, notify the consumer that such charges will be levied as part of the transaction'.

⁶¹ Central Bank of Ireland – Consumer Protection Code 2012 (updated and amended from the original 2006 code)

⁶² The Code clarifies its meaning of 'charges' which it defines as 'any cost or fee which a consumer must pay in connection with a product or service provided by a regulated entity'.

Other examples of required practice relating to charges within the code include obligations placed on regulated entities to provide consumer information on the impact, including the cost, of exiting the product early.

Since 2012, the code requires regulated entities to provide:

- a statement in respect of the previous 12 month period, which includes all charges and deductions affecting the investment product, including any charges associated with the management, sale, set up and on-going administration of the investment product. This requirement applies in the case of life assurance products, including individual pension arrangements.
- an explanation of the nature of the service to be provided to the consumer in respect of remuneration which is to be received on an on-going basis.

The code contains a provision for the disclosure of the nature and amount of any fee, commission or other remuneration received, or to be received, from a product producer in relation to that product or service. The disclosure must be in a manner that is '*comprehensive, accurate and understandable*'. However, the code does not apply to assurance policies, including individual pension products which are covered by the Life Assurance (Provision of Information) Regulations, 2001.

For occupational pension schemes, the code applies in certain circumstances. The design and administration of occupational pension schemes do not fall within the remit of the code. However, the sales process and the provision of services, including advice to trustees of occupational pension schemes (who are considered to be consumers) are subject to the code, where the scheme is set up under trust.

The code contains a number of provisions in respect of the prevention of conflicts of interest. A regulated entity must ensure that its remuneration arrangements with employees are not structured in such a way as to impair on the regulated entity obligations in respect of acting in the best interests of consumers or to prevent the firm recommending suitable products to consumers.

The Central Bank of Ireland has the power to administer sanctions for a contravention of the code, under Part IIIC of the Central Bank Act 1942. The provisions of the code are binding on regulated entities and must, at all times, be complied with when providing financial services.

Part B – Transparency and Understanding of Pension Charges -Research Outcomes

12.3 Introduction

As has been highlighted throughout this report there are many and varied forms of pension charges which can be applied to pension vehicles in different ways. The services provided relating to these charges are equally varied.

The primary research undertaken in the preparation of this report, through survey questionnaires to the key stakeholders, was quantitative in nature. An individual's or groups ability to access, or easily deduce, charges information from disclosure documents is a more qualitative exercise. The research process therefore, focused on the availability of basic information, and the form in which such information is provided, to trustees.

Survey outcomes in relation to these areas are presented below. The research did not extend to a survey of individual policy holders. Therefore, existing Irish research was examined. In addition, a sample range of the documentation sent by providers to individual policy holders was also reviewed.

12.3.1 Availability and Disclosure of Pension Charges Information - Occupational Pension Schemes:

As detailed previously in the report, in total the trustees of 340 schemes participated in the survey process (see table 12.1 below). In order to gain a greater understanding in relation to the transparency of costs, the ready availability of information in relation to charges and trustees understanding of same, the surveys included questions to ascertain the level of difficulty experienced by trustees in outlining the costs and services associated with their pension schemes.

Table 12.1 Trustee Survey Responses by Scheme Type and Size

Membership Size:	Scheme Type:		
	DC Insured	DC Non-insured	DB
1 to 50	127	10	14
50 to 500	62	37	53
501+	4	8	25
Total	193	55	92

In this regard, trustees were asked if they had the information required to complete the survey immediately available and to hand. If this was not the case, they were asked to confirm if there was a need to request the information from their advisers. Table 12.2 outlines responses.

Table 12.2 Trustee Availability of Information:

Question:	All Schemes	Defined Contribution Insured	Defined Contribution Non-insured	Defined Benefit
Yes I had the information	37%	41%	42%	27%
No, I had to request the information	10%	14%	4%	6%
I had some of the information but needed to request some aspects	53%	45%	54%	67%

Just over one third of trustees advised they had sufficient information to hand to complete the information request. 53% of trustees advised they had elements of the information to hand, but needed to request some aspects. This proportion is high, particularly as a number of the respondents were professional trustees, who would be expected to encounter fewer difficulties. Overall, 63% either had no information or only partial information. Responses from the trustees of DB schemes appear to indicate a higher level of need for support in completing the information request than those of DC schemes.

The surveys also included questions which sought to provide indicators on the level of difficulty experienced by trustees in outlining the costs and services associated with their pension schemes. Trustees were requested to advise on the perceived level of difficulty experienced in completing the survey. Using a scale of 1 to 5 respondents were asked to rate their experience of gathering the required information under the headings detailed in tables 12.3.

Table 12.3 Level of Difficulty Experienced Completing Survey by Subject Area – All Schemes

	Total Fees and or Total Commissions	Breakdown of Total Fees	Breakdown of Commissions
1 – (Very Easy)	25%	22%	31%
2	18%	16%	24%
3	24%	18%	21%
4	15%	18%	8%
5 – (Very Difficult)	18%	26%	16%

Table 12.4 Level of Difficulty Experienced by Trustees Completing Survey by Scheme Type – DC

Level of Difficulty	Defined Contribution Insured			Defined Contribution Non-insured		
	Total Fees and or commissions	Breakdown of Fees	Breakdown of Commissions	Total Fees and or commissions	Breakdown of Fees	Breakdown of Commissions
1 – Easy	40%	33%	38%	28%	26%	34%
2	13%	14%	22%	21%	15%	18%
3	27%	22%	18%	23%	20%	21%
4	9%	11%	9%	11%	17%	8%
5 – Very Difficult	11%	20%	13%	17%	22%	19%

Table 12.5 Level of Difficulty Experienced by Trustees Completing Survey by scheme type – DB

Level of Difficulty	Defined Benefit		
	Total Fees and or commissions	Breakdown of fees	Breakdown of Commissions
1 – Easy	13%	11%	24%
2	17%	18%	30%
3	23%	15%	22%
4	23%	23%	7%
5 – Very Difficult	24%	33%	17%

Approximately one third of scheme trustees found it difficult to provide a breakdown of fees and commissions. The trustees of DB schemes found it most difficult to breakdown the total fees and commission payable, with 47% advising of difficulties i.e. ranking of 4-5 on difficulty scale. A possible explanation for this is that employers typically cover the cost of DB schemes and it may not be customary for trustees to manage this information.

Trustees of DC non-insured schemes advised of greater difficulties in providing a breakdown of total fees and commissions than trustees of insured schemes.

Across all scheme types, trustees found it more difficult to provide breakdown of information regarding fees than commission. The finding is somewhat unexpected. However, a possible explanation is that trustees can be more engaged in querying and determining the breakdown of commission costs. Again, in undertaking the research used in the preparation of this report, it was considered that taken in the whole, it was likely that those respondents engaging in the research were proportionately more engaged with their schemes than those trustees who did not participate.

12.3.2 Trustee Disclosure of Pension Charges to Occupational Scheme Members

In addition to identifying the level of understanding of costs relating to their scheme, the surveys also sought to identify if trustees provide details of pension charges to individual members. As outlined earlier in this chapter, current disclosure requirements do not require trustees to provide members with a full breakdown of pension charges by charge type. To identify the prevalence and range of trustee/member communications in this regard, DC scheme trustees⁶³ were asked to confirm if members are provided with the charges associated with;

- Allocation Rates and Bid-Offer Spreads;
- Policy Fees;
- Annual Management Charges.

Of the 197 DC schemes providing details, approximately 80% advised the disclosure of at least some of the above key member charges. 79% of insured schemes (where these charges have the largest member impact) advised the disclosure of such charges.

12.3.3 Availability and Disclosure of Pension Charges Information –

⁶³ DB schemes do not include member pension charges.

Individual Pension Arrangements:

As part of the research, life assurance companies and intermediaries were asked to advise how pension charges are disclosed to individual clients. Life assurance companies, as is required of them, advised of the provision of policy documents to individual clients which outline pension charges. These policy documents include disclosure illustrations which meet the Life Assurance (Provision of Information) Regulations 2001. Intermediaries also advised that individual policyholders are provided with full disclosure illustrations prior to the sale of the relevant contract which meet the Life Assurance (Provision of Information) Regulations 2001. Responses would indicate that life assurance companies and intermediaries confidence that full disclosure illustrations of key information is provided to individuals as per regulatory requirements.

However, responses must be viewed within the limitations and gaps in the current regulatory structure in relation to charges.

12.3.4 Review of the Life Assurance (Provision of Information) Regulations 2001 - Consumer views on information provided

In September 2008 the Financial Regulator began a consultation process⁶⁴ reviewing the disclosure regime with the aim of making key information simpler and more clearly presented consumers. During the course of the consultation process, independent consumer research was undertaken with the objective to develop a further understanding of consumer reaction to information provided under the regulations. While the research was limited in scope it did provide the following insights:

- Disclosure documentation is not read on a widespread basis;
- Consumers tend to rely on either information provided to them by an adviser when selling them a product or their assumptions about these products;
- Knowledge gaps exist among consumers of investment products leading to incorrect expectations of investment performance;
- Disclosure documentation is viewed by consumers as additional small print, alongside other material provided by the product provider.

The consultation process initiated by the Financial Regulator (and later transferred to the Central Bank) was not progressed to completion as the review of the regulations have been suspended pending the completion of the PRIPS⁶⁵ work in the European Commission.

Quality of Information Provided

The research did not include individual policy holders. However, the documentation issued from a number of the providers to individual policy holders was reviewed as part of the process. The documentation comprised:

- (i) pre policy agreement information and;
- (ii) post policy agreement information.

⁶⁴ Financial Regulator's Consultation Paper CP 34 Review of the Life Assurance (Provision of Information) Regulations 2001

⁶⁵ See following section 12.4.1

(i) The pre policy agreement information refers to charges by providing illustrative tables of the effect of charges. These figures, which provide projections into the future, are based on certain assumptions e.g. an annual return of 6% growth in the fund. References to charges were in percentages and were not clear. There were, in some instances, no references to charging types. Also, there was no link made to the services provided for the charges applied. Overall, the references to charges were confusing and less than transparent.

(ii) In the samples of post policy information reviewed, there were no references to charges. What were provided were the balance of the fund at the start of the year and the new balance at the end of the year, with no information as to the inputs to the changed balance.

The literature reviewed pre-dates the disclosure enhancements imposed on regulated entities with the implementation of the 2012 Consumer Protection Code, for example:

- All information provided to consumers must be clear and written in 'Plain English';
- At least annually, a statement must be provided to a consumer in respect of the previous 12 month period, which includes, where applicable, information of additions, withdrawals, charges deducted etc.

Part C – International Developments Regarding Disclosure of Information

12.4 Introduction

In recent years a number of initiatives have been progressed at Irish and EU level which focused on the area of disclosure and transparency of pension charges. These initiatives included the publication of the revised Consumer Protection Code by the Central Bank in 2012 as outlined earlier, the recent Pension Board Consultation Paper on Pensions Simplification 2012 and the EU Commission's 'Packaged Retail Investment Products' (PRIIPS) project. These initiatives provide an insight into possible future developments regarding the disclosure of pension information and are considered below.

12.4.1 EU Commission's 'Packaged Retail Investment Products' (PRIIPS) project

In July 2012 the European Commission adopted a proposal to develop regulation that would require a 'Key Investor Document' (KID) be produced by investment product manufacturers and provided to 'retail customers'⁶⁶ when considering buying investment products. The proposal seeks to improve transparency for retail investors.

The proposals seek to address a number of key areas of concern identified by the Commission in referring to *'the current patchwork of regulation due to the various regulatory frameworks'* and *'failures to effectively mitigate asymmetries of information between retail customers and the industry'*⁶⁷.

The Commission expresses the opinion that retail investors are not well equipped in protecting their own best interests and suggests investors often face confusing and overly-complex information about possible investments, where risks and costs of products are difficult to assess or compare. It further states this undermines the efficiency of the investment markets, leading to higher prices for investors and contributes directly to the purchase of unsuitable products by retail investors, leading to detriment to these investors either through unexpected costs or losses, missed opportunities, or, in the worst case, through the loss of life savings with a dramatic impact on individual and family wellbeing.

The Commission's view on current disclosure requirements are that; *'the comparability, comprehensibility and presentation of information vary, so the average investor can struggle to make necessary comparisons between products'* and that *'product disclosures are often focused more on reducing legal risks for the manufacturer rather than providing effective, open and balanced communication to potential customers about the product in a form that the customer is likely to understand and use'*.

At an EU level, new requirements to address the type of issues discussed above have been introduced for UCITS⁶⁸ type funds i.e. the requirement for UCITS 'key investor information' documents (UCITS KID)

⁶⁶ If adopted the regulations may not apply to Occupational Pension Schemes in Ireland as trustees may not be deemed 'retail customers'.

⁶⁷ European Commission 2012 - Proposal for a Regulation of the European Parliament and of the Council on Key information Documents for Investment Products

⁶⁸ Undertaking for Collective Investment in Transferable Securities The UCITS KID seeks to shorten, streamline and focus information provided to the greatest extent possible and ensure the information is comprehensible for the average retail investor.

to be provided. The Commission is now proposing that such requirements be extended and cover “essential elements of an investment product” which should be described in a ‘Key Information Document’ and will include:

- identity of the product and its manufacturer;
- nature and the main features of the product - including whether the investor's might lose capital;
- risk and reward profile;
- costs;
- past performance - as appropriate.

It also advises that other information may be included for specific products, and that information about possible future outcomes should be provided for private pension products. The proposal also sets out a common format and sequence of sections to promote comparability. In particular the proposal stresses the;

‘central importance that information included in the document is kept to a minimum’ and that ‘in order to maintain its short form, no other information should be included’⁶⁹.

The proposals include areas of particular interest regarding requirements for the disclosure of pension charges. Within the new KID a section titled “What are the costs?” will include;

‘the costs associated with an investment in the investment product, comprising both direct and indirect costs to be borne by the investor, including summary indicators of these costs’.

The proposal does not provide detail of how costs will be calculated or presented but suggests the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) shall develop draft regulatory standards to determine the methodology underpinning the presentation of risk and reward and the calculation of costs.

12.4.2 Markets in Financial Instruments Directive II

The Markets in Financial Instruments Directive (MiFID) establishes a regulatory framework for the provision of investment services in financial instruments, such as brokerage, advice, dealing, portfolio management, underwriting etc. by banks and investment firms. The overarching objective has been to further the integration, competitiveness, and efficiency of EU financial markets. The revision of MiFID (MiFID II) which is underway seeks to, inter alia, address concerns in relation to a need for increased market transparency for market participants, and insufficient investor protection.

12.4.3 Insurance Mediation Directive (IMD2)

The Insurance Mediation Directive (IMD2) regulates the selling practices of all insurance products. The revision of the IMD is part of a “consumer retail legislative package” that together with the PRIIPS on

⁶⁹ EU Commission – Regulation of the European Parliament and of the Council on key information documents for investment products. Strasbourg, 3.7.2012COM(2012) 352 final

investment products disclosers and UCITs V aims to, inter alia, provide European consumers with better advice on the insurance products most suited to their needs and clear information and advice on the status of the people who sell the insurance products and the remuneration which they receive.

12.4.4 UK Reports

It is worthwhile looking at current activity regarding pension charges in the UK. The Department of Work and Pensions has published a number of reports on pension charges. These primarily look at the issue of the cost of charges in the context of forthcoming reforms and in particular the impact of the introduction of individual savings accounts on charges and on other existing forms of pension provision. A comparison with costs in the U.K. has already been examined earlier in this report.

The UK's Financial Services Authority's 'Retail Distribution Review' has also examined the issue of commission and is introducing new requirements, due to come into effect in January 2013. From that date, product providers will be banned from offering commission to advisers. Advisers will be obliged to set their own charges for their service and disclose those charges to consumer upfront, using some form of price list or tariff⁷⁰. On-going charges will only be levied where an on-going service has been agreed with the consumer (except for charges on advice on regular contribution products).

In July 2012, a Royal Society for the Encouragement of Arts, Manufactures and Commerce report on "Seeing Through British Pensions" referred to existing publications, and debates costs and transparency in UK pension schemes. The findings show that neither individual consumers nor small companies have a clear understanding of the charges being levied. Their research also shows that pension providers are not freely giving the information needed on costs and charges, or noting its significance for pension outcomes.

12.4.5 Pensions Board Consultation Paper on Pensions Simplification

In Dec 2011 the Pensions Board began a consultation process which sought feedback from interested stakeholders on the topic of pension simplification for DC pension schemes including current disclosure regulations. This work is on-going. In relation to current disclosure requirements there was a general consensus recommending further simplification *'to a situation where the volume of disclosure given is less, but it is more focussed on key messages and given in simple English'*⁷¹. In relation to pension charges a number of suggestions were received including:

- the full disclosure of commissions and a full breakdown of all charges being provided to members;
- the standardisation of fee information generally;
- the introduction of a standard measure, such as a total expense ratio, for pension charges.
- Making pensions more accessible and understandable to pension scheme members and policyholders and to consumers generally through, for example, clearer and more concise communication and the use of "plain language".

⁷⁰ For the purposes of clarity it should be noted that under this structure a payment can still be paid by the life assurance company to the pension adviser. It would be based on a fee which has previously been agreed (and signed) directly between the consumer and pension adviser.

⁷¹ http://www.pensionsboard.ie/en/Research/Overview_of_simplification_consultation.pdf

The majority of the issues raised in the consultation are being considered by the Board's DC Working Group as part of its on-going work programme.

The research in the EU and the UK provides an interesting insight into the fact that other countries are also grappling with similar issues. A consistent view is being expressed in relation to the need for clearer information and increased transparency for market participants.

Part D - Research Findings and Recommendations

12.5 Introduction

This chapter considers the earlier findings and outlines the areas where improvement is required and puts forward recommendations. The research undertaken on transparency in the preparation of this report has highlighted a number of limitations:

- (i) In the regulatory requirements;
- (ii) In the levels of trustee understanding of the level of pension charges; and
- (iii) In the information provided from providers to policy holders

12.5.1 Regulatory Gaps

The review of the regulatory structure has identified a number of gaps as outlined below:

There are no regulatory disclosure requirements in relation to deferred members, who opt to remain in a scheme. Neither is there an obligation on trustees to communicate on a regular basis with deferred members. However, details outlined within this report indicates that annual management charges and policy fees are being charged to the fund and can have a substantial cumulative effect, impacting on the pension of the deferred member. This gap in regulation needs to be addressed. Previously, difficulties in maintaining accurate address information for deferred members have hindered trustee's ability to communicate with these members. However, current work underway on developing a pension tracing service may have the potential to address this difficulty.

Consideration should be given to how to disclose commission payments for all pensions. Currently, under the 2001 Life Assurance (Provision of Information) Regulation there is commission disclosure for products not written under trust such as Retirement Annuity Contracts, Approved Retirement Funds, Buy out Bonds and Annuities. However there are no similar requirements for pension structures where there are trustees such as Occupational Pension Schemes and Executive Pension Plans.

Earlier in the chapter, the requirement in the Statements of Reasonable Projection to comment on the "effect of charges" was outlined. However, while guidance is available (through the Society of Actuaries in Ireland), the methodology outlining how this is done is not prescribed in regulation. Therefore there may not be a consistent approach to the interpretation and presentation of this information. This should also be considered in the review of the regulations.

Overall, there is a need for the regulations to ensure the issue of charges for all forms of pension provision in covered and that it is done in a manner which is consistent and which is focussed on the requirements of the end user. Developments in the EU will also input in to this process.

12.5.2 Provision of Information to Trustees

The report has identified that the majority of trustees (63%, a figure which includes professional trustees) did not have all the information required to complete the survey and had some level of difficulty in completing the survey. This finding also needs to be considered in the context of the low response rate by trustees to this survey. The issue of “responder bias” has already been identified in this report and it is likely that the more engaged and involved trustees were those who completed the survey. In this context, it could perhaps be considered that the level of trustee understanding of pension charges is even lower than that identified in this survey.

A low level of charges information and understanding by the trustee will also impact on the member. Given the important role of the trustee in the management of the scheme, the potential range of charges and their impact on the member’s future pension, this issue needs to be addressed. This would involve increasing the trustee’s knowledge and awareness in this area and trustee communications with members on this issue. At present, the Pensions Board provides training to trustees and there is a legal obligation for trustees to complete this training. The training programme does not include information on charges. It is proposed that a module be included specifically on charges. As the primary source of pension information, it is also recommended that the Pensions Board develop general information for employers, trustees and members on pension charges and their impact. However, it should be recognised that the primary responsibility lies with trustees in acquiring an awareness and understanding of pension charges.

12.5.3 Provision of Information on Individual Pension Arrangements

There are a number of issues arising in relation to individual pension provision. Much of the information provided to individual policy holders is at pre policy signing. This means that information on charges is provided based on future assumptions rather than actual outturns. A review of a range of documentation issued to customers pre-signing, found that the information on charges was unclear and confusing.

Until recently, with the exception of PRSAs, there has been no requirement to provide post-sale information on charges. The revised Consumer Protection Code, which came into effect on 1 January 2012, now requires the production of annual statements, which will incorporate much more meaningful information on charges. It is recommended that an exercise be undertaken to ensure compliance with these requirements and that further effort be made to ensure communications to consumers is clear and concise and based on best practice. Revisions to the Statement of Reasonable Projection for occupational pension schemes should also be considered as part of this process to ensure that the effect of charges to the end user is clear, concise and transparently reflects the real impact on the fund.

The issue of commission on the sale of products is being considered at EU level. It is interesting to note that the proposed MiFID II and IMD2 directives have, unlike the UK, stopped short of banning commission. However, they envisage that intermediaries/investment firms would not be allowed to receive commission from a third party where advice is provided on an independent basis.

In the 2012 Consumer Protection Code, in order to pay commission to an intermediary (adviser) based on sales targets, a product producer must be able to demonstrate that the arrangements do not

impair the intermediary's duty to act in the best interest of the consumers; and do not give rise to a conflict of interest between the intermediary and the consumer. Developments in the U.K. will be monitored and the regulatory landscape be reviewed when the results of the PRIPs, MIFID II and IMD2 work is at a conclusion.

The impact of the existing transparency issues on schemes and on the "reasonableness" of charges is discussed further in the following chapter 'Research Observations and Conclusions'.

Chapter 13 – Research Observations and Conclusions

Overview

This final chapter brings together the key observations derived from the research and presents a number of recommendations.

Chapter 13 – Research Observations and Conclusions

13.1 Introduction

This is the first comprehensive report of pension charges in Ireland and the work involved in delivering this report has proven to be both complex and difficult. The methodology used proved to be suitable and a wide range of data has been provided of sufficient quality to ensure that the findings and recommendations are verifiable and robust. This final chapter of the report considers the key observations of the research and provides a commentary and context for the report's findings.

The major issues arising from the research have been considered and a number of recommendations are put forward, principally aimed at creating a greater awareness and understanding of pension charges for trustees, employers, policy holders and scheme members. The report takes cognisance of the on-going analysis and policy developments being undertaken at EU level and, in this regard, does not attempt to anticipate developments which may be introduced across all Member States. Therefore, the recommendations that follow are principally focused on what can be achieved at an early stage by improving regulation and best practice in disclosure. It is also concluded that further and more stringent recommendations could be warranted if, following any acceptance and implementation of recommendations, future evidence indicates that desired results are not being achieved.

The overall aim of the research was to obtain factual, comprehensive and detailed information on pension scheme costs and charges in order to establish whether the level of charges associated with different forms of private pension arrangements are transparent and reasonable and not on a scale that could undermine the attractiveness of pension savings or reduce retirement incomes disproportionately. Given the wide range of pension vehicles, the focus of the research was on 'typical' or 'standard' pension charges and the pension vehicles most prevalent within the marketplace.

The Reduction in Yield (RIY), was considered the most appropriate measurement of the impact of disclosed charges on future pensions. Implicit (or non-disclosed) costs are assessed separately within each pension type. The RIY analysis focused only on member pension charges. As identified, one key determinant of pension charges that apply to members is the level of costs that their employer may bear, and while these costs form part of the cost of pension provision in aggregate, they are not reflected in the RIY analysis. From the individual members' perspective, this may make some types of pension arrangement look more attractive than others in the comparison table.

In the case of occupational pensions, the RIY analysis focused on balanced managed and consensus funds (the two most common funds) which are utilised by in excess of 60% of schemes. In the case of both occupational and individual schemes, the RIY was assessed in respect of a person entering a scheme at 35 and remaining in the scheme until retirement (RIY to maturity). Shorter contribution periods of 2 and 10 years in a scheme were also considered to ensure that a comprehensive overview was provided.

The research findings are comprehensive being based on responses received from all stakeholders involved including pension scheme trustees, life assurance companies, investment managers and intermediaries.

The key observations and findings identified are broken down as follows:

- Part A The Scale and Variability of Pension Charges in Ireland
- Part B The Irish Pension Saver – a Comparison of Potential Experiences
- Part C Reasonableness of Pension Charges
- Part D Transparency and Understanding of Pension Charges.

Part A - Scale and Variability of Pension Charges in Ireland

13.2 Scale and Variability of Pension Charges

The report considers the scale and variability of pension charges across different types of pension arrangements and in this context considers disclosed costs, implicit (non disclosed) costs, legacy charging structures, costs met by the employer, commission structures, economies of scale and external benchmarks.

The research considered pension charging structures under two main categories i.e. those applying to employer sponsored occupational pension schemes and those applying to individual pension arrangements. It considered the impact of charges on both the scheme member/policy holder and on the employer. However, the focus of the research was on the impact on the scheme member/policy holder.

The charging regime that applies to a pension scheme can vary greatly depending on the level of advice and support required by an individual or trustees, the size of scheme and when the scheme was last brokered. In DB arrangements the costs are generally borne directly by the employer, in DC insured and non-insured schemes, there are varying arrangements for the sharing of charges between employers and the member. In individual pension arrangements, charges are borne in their entirety by the policy holder. Some costs are disclosed while other implicit costs are not disclosed.

Within DC schemes, the services provided tend to be more personalised in nature as each individual member is responsible for their own pension savings. Chart 13.1 below provides a summary of identified RIYs that apply across the spectrum of DC pension arrangements where the scheme member/policy holder is directly impacted by the charging structure.

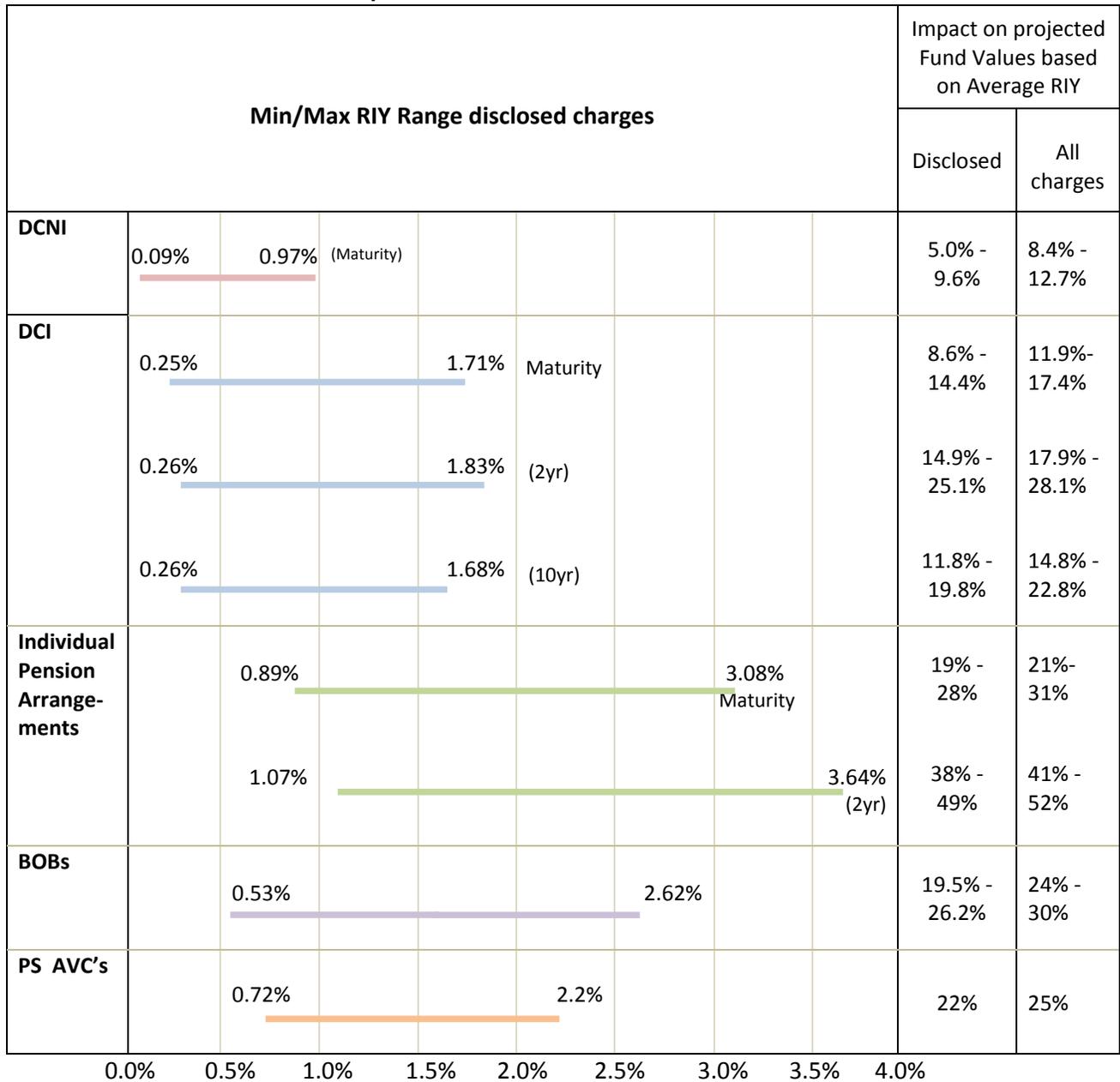
Funded DB schemes which represent very significant numbers of individual members running costs do not directly impact on members and personalised advice and support is very rarely required by, or provided to, members (as compared to DC schemes). These schemes can be significant in size and advice is generally provided 'centrally' to scheme trustees.

As indicated in the chart, the RIY to maturity varies from 0.09% to 3.08% across those pension types detailed. This level of charges has the impact in notional terms of reducing the value of the projected final fund by between 5% and 28% (based on the range of average RIYs). However, if implicit costs are factored in, again based on the range of average RIYs, the level of charges has the impact in notional terms of reducing the value of the projected final fund by between 8.4% and 31%. Two of the factors which influence the level of charges are the extent to which the employer bears the costs in the case of an occupational pension scheme and the level of support an individual policy holder requires in selecting and maintaining their pension in the case of a personal pension.

To illustrate the practical effect of disclosed charges on an individual's final pension fund an example is taken of a member of a DC insured scheme (where an employer would also make contributions on behalf of the member) who has started saving €500 per month at aged 35 and continued to retirement at 65 with an assumed annual growth rate of 5%. In this scenario, the projected final fund value, assuming no charges apply, would be €443,479. Using the range of charges applying to DC

insured schemes detailed above, this projected fund value including identified disclosed and implicit costs would be reduced by between €52,577 (11.9%) and €77,138 (17.4%).

Chart 13.1 Scheme Member Max/Min Reductions in Yield



In the case of an individual pension arrangement such as a RAC, assuming contributions of €250 per month with a growth rate of 5% from aged 35 to retirement at 65, the projected final fund value is €199,566 without charges. Taking the average disclosed and implicit charges identified for RACs, the projected fund value would be reduced by between € 41,283 (21%) and € 61,338 (31%).

It is evident that the impact of charges applying to some individual pension arrangements is less than that applying to some DC scheme arrangements where the employer is bearing some of the costs. However the impact of charges is generally greater in the case of individual policy holders. The impact of charges can increase significantly where a scheme member/policy holder ceases contribution after a short period in a scheme as can be seen in the table above. If the RAC example given above assumes maximum commission, the research indicates that where a person ceases contributions to a RAC after two years the impact of all identified charges on the projected fund value is 52%. This reduces the projected fund value from €24,656 to €12,821.

13.2.1 Non-Disclosed/ Implicit Pension Charges

Investment managers typically disclose annual investment management charges for the management of a pension investment mandate but this quoted annual management charge may not take into account all expenses incurred by the underlying pension fund such as stamp duty and brokerage commissions. These are not generally reflected in RIY calculations, relate to underlying costs of investment management and are known as implicit costs. Additional implicit costs such as those detailed below, will impact long term pension values to differing degrees and are not typically disclosed to individual pension savers.

- Operational Costs (such as custodian fees, trustee fees, audit fees etc.);
- Trading Costs (typically brokerage commissions payable when an asset of the fund is bought or sold);
- Stamp Duty and other taxes (taxes related to share dealing in certain jurisdictions).

The range of additional implicit costs identified amount to RIYs of between 0.1% and 0.3% per annum, resulting in a further overall reduction in pension fund value of 2% - 4% for occupational pension schemes and individual pension arrangements. However, costs will depend on the underlying fund structure and can be significantly higher.

Consumer understanding would be improved by a consistent approach to setting out the calculation, explanation, and illustration of such implicit fund charges.

13.2.2 Occupational Scheme Running Costs Funded by Employers

The research identified that additional pension costs, not impacting on members directly, are also incurred by trustees but can often be paid for by the sponsoring employer rather than the member. Such scheme running costs will differ from scheme to scheme and by type of occupational pension scheme. However certain costs are typical across scheme types including:

- Pension consultancy costs – professional pension advice to sponsoring employers / trustees;
- Statutory reporting requirements - trustee annual reports and financial statements;
- Member communication / support – such as member presentations, one to one advisory meetings etc.;
- Audit fees – i.e. a specific regulatory requirement where a scheme membership is in excess of 100 members;
- Professional trustee costs – where a professional trustee is appointed as trustee to a scheme;

- Legal fees – legal opinion provided to sponsoring employers / trustees relating to specific pension issues.

Where an insured scheme is set up directly with a life assurance company, the sponsoring employer is not engaging an independent consultant/adviser and thus does not bear the associated costs. In this instance member support services would typically be provided directly by the life assurance company. Trustee survey responses provided a summary of typical costs incurred by DC schemes as detailed in table 13.4 and 13.5:

Table 13.4 Employer Costs – DC Insured Schemes

Group Scheme Membership	Average Total Per Annum Fees Identified	% above average	% below average	Average Per Annum Fees Identified per Member
0 to 50	€3,727	40%	60%	€509
51 to 500	€12,313	38%	62%	€106
501+	€50,437	50%	50%	€61
All Schemes	€9,956	32%	68%	€306

Compared to a DC insured scheme, under a DC non-insured pension scheme, typically a greater share of the costs of operating the pension scheme are borne by the sponsoring employer. In addition, the scheme running costs associated with non-insured pension schemes will more generally include pension administration services, independent consultancy or advisory services, member support services and statutory reporting services as the option to have a life assurance company perform such functions does not exist.

Table 13.5 Employer Costs – DC Non-insured Schemes

Group Scheme Membership	Average Total Per Annum Fees Identified	% above average	% below average	Average Per Annum Fees Identified per Member
0 to 50	€2,336	14%	86%	€1,472
51 to 500	€26,628	55%	45%	€153
501+	€73,344	33%	67%	€50
All Schemes	€29,078	40%	60%	€370

Under a DB pension scheme, generally speaking all of the costs of operating the scheme are borne by the sponsoring employer. Such costs are significant and will vary from scheme to scheme. DB trustee survey responses as detailed in table 13.6 the research can provide some insights into the level of fees being incurred in respect of pension services provided by third parties.

Table 13.6 Employer Costs - DB Schemes

Group Scheme Membership	Average Total Per Annum Fees Identified per scheme	% above average fees identified	% below average fees identified
0 to 50	€31,497	33%	67%
51 to 500	€72,898	33%	67%
501+	€318,249	20%	80%

DB trustees were also asked to break down the costs detailed in table 13.6 into typical pension services provided by third parties and to identify if such services would be considered normal or exceptional in nature. Respondents advised that the majority of services received would be considered normal and expected to recur year on year. Only 15% of trustees advised of incurring what would be considered exceptional costs, and the average of these exceptional costs across all scheme sizes was €10,590 per annum. A summary of the most common services provided and the average costs experienced for each is detailed in table 13.7.

Table 13.7 DB – Scheme Services and Costs Identified

Scheme Size	Most Common Services Provided	% of schemes where identified	Average per annum fee identified
0 to 50 Members	Pension Administration	64%	€15,705
	Actuarial Compliance	64%	€4,739
	Pension Accounting	50%	€4,357
51 to 500 Members	Pension Administration	57%	€21,445
	Actuarial Compliance	40%	€13,841
	General Pensions Advice	36%	€13,733
501+ Members	Pension Administration	60%	€94,181
	Investment Consulting	56%	€153,547
	Actuarial Compliance	56%	€18,930

13.2.3 Legacy Charging Structures and Rebrokering

The research observed that the numbers of occupational pension schemes with legacy pension charging structures is small. The data provided by both the life companies and trustees indicates that the majority of DC pension schemes have engaged in a review of the scheme charging structure arrangements over the last decade. The data from the life companies indicates that within occupational pensions, approximately 75% of contributions in 2011 were paid into pension contracts

set up within the past 5 years. The indications from the trustee survey validated this finding and are set out in the table 13.3:

Table 13.3 Pension Scheme Charging Structures - Trustee Reviews

Scheme Type	Defined Contribution Insured Scheme	Defined Contribution Non-insured Scheme
% of schemes identifying a review / amendment of charging structure in the last 5 years	86%	91%
% of schemes identifying a review / amendment of charging structure in the last 10 years	92%	95%

A lower level of review/amendment activity was identified in relation to legacy and modern charging structures within individual pension arrangements. The data from life companies suggest that 50% of contributions were paid into RACs set up in the past 5 years, while in the case of Executive Pension Plans approximately 60% of contributions paid in 2011 were paid into contracts set up in the last 5 years. (This observation however, is potentially impacted by variances in how life assurance companies interpret and record contribution flows). It is not clear to what extent RACs set up in the last 5 years were in respect of single premium payments or renegotiation of a current arrangement. Standard PRSAs have predetermined charging structures and as a result only commission terms can vary and impact the reduction in yield.

It is important to point out that legacy charging structures can include mechanisms which reduce costs at the point of retirement such as bonuses and/or reductions in annual management charges. Therefore, caution is required in against any unqualified presumption that suggests the individual pension saver may gain if they to move to a more contemporary charging structure.

By contrast the research observed that charging structures for Buy Out Bonds have changed little with time and structures advised by life assurance companies for investments made 10 and 15 years ago are similar to those available today. The RIY analysis indicated that the impact on projected fund values to maturity is in the range 21% to 31% whereas the average 10 years ago was 23% and 15 years ago was 25%.

ARFs are a relatively recent development and thus do not offer the opportunity for similar historic comparison. The research observed little variance in charging structures since the introduction of these post retirement savings vehicles. Annuities have no associated direct costs from a policy holders' perspective with the exception of the entry cost of commission.

Life assurance companies advised of a growing trend towards restructuring individual pension arrangements to avail of better terms. This information would suggest that there is awareness of the importance and availability of reduced charging structures by adviser market. In any event, the data indicates that the majority of individual pension arrangements (excluding PRSAs) operate under legacy charging structures.

A key finding is that scheme re-brokering is significant in the case of occupational pension schemes and is also relatively common in individual pension arrangements. However, detailed consideration of the range and extent of the re-brokering being undertaken and its impact on all policy holders did not form a central part of the research. Anecdotal evidence would suggest that pension advisers are

frequently the drivers behind the re-brokering of schemes, but the trustee survey also provides evidence that trustee efforts to obtain best values can provide some part of an explanation. The high level of re-brokering in the marketplace raises some concerns, in particular, data was not available to provide assurances that re-brokering benefits the scheme member or individual policy holder. This is an area which merits further research.

13.2.4 Distribution Charges (Commission)

Like other pension costs, a universal approach to reflecting commission payments through pension charging structures is not evident and the various methods used such as reducing allocation rates, increasing annual management charges etc. will impact members differently depending upon circumstances, for example their age and period to retirement. The research also identified that commission structures are a less significant feature of occupational pension schemes where fee based arrangements are more common.

Pension adviser costs can be borne by the employer in a DC pension scheme through a fee arrangement with the adviser. Alternatively, the payment to the scheme adviser can indirectly be borne by the employee by adjusting the components of the pension charging structure to reflect the level of commission. The research identified that commission arises in 7% of DC non-insured schemes, in 39% of DC insured schemes and in 13% of DB schemes. Commission can take the form of initial, renewal and trail/fund based commission. The response from trustees of DC insured schemes indicated that the initial commission can be up to 25%. The renewal commission can be in the range of 1% to 5%. Trail/fund commission, while not a common feature, can range from 0.25% to 0.75%.

The research identified that commission is a prevalent feature within individual pension arrangements, with 25% of new RACs and Executive Pension Plans based on maximum commission terms, 5% created on a nil commission basis and 70% on partial or reduced commission. Where initial/upfront commission is evident, it is typically at levels of up to 25% of first year's contributions (and any increases in premiums thereafter). Renewal commission payments of between 1% and 5% of annual contributions are also a common feature. Commission levels for Buy Out Bonds and annuities have shown little variation with time.

Life assurance companies advised of upfront commission of up to 50% of first years contributions (and any increases in premiums thereafter) for RACs and Executive Pension Plans set up 10 years ago and up to 60% of first years contributions (and any increases in premiums thereafter) for RACs and Executive Pension Plans set up 15 years ago. Renewal commission for policies set up 10 and 15 years was between 2.5% and 4%. The findings of adviser surveys displayed a broad consistency with the information provided by life assurance companies. While the research indicates that upfront commission levels have reduced for RACs and Executive Pension Plans, the evidence also shows that the overall charging regime as measured by the RIY analysis has not reduced.

13.2.5 Economies of Scale

There is evidence that larger pension schemes incur lower pension costs. This is likely due to both efficiencies of scale, and the potential 'buying power' of trustees of schemes with larger contributions and asset values. The research identified that economies of scale are evident across DC pension

schemes. Schemes with greater than 500 members showed the following efficiencies when compared to schemes with less than 50 members:

- Lower annual management charges (both insured and non-insured);
- Higher allocation rates (insured schemes);
- Lower policy fees (insured schemes);
- Greater instance of employers meeting the cost of policy fees (insured schemes);
- Less prevalence of exit penalties (insured schemes).

The combined impact of these economies of scale was captured by the RIY analysis. The RIY impact on the projected fund values is set out in table 13.1 below.

Table 13.1 Economies of Scale – RIY Impact on Fund Values

Scheme Type	Scheme size	Derived from RIY to Maturity	
		Managed Fund	Consensus Fund
DC - Insured	1-50	14.4%	12.5%
	500+	11.4%	8.6%
DC Non-insured	1 - 50	9.6%	6.1%
	500+	8.7%	6.8%

Economies of scale are more evident in DC insured schemes where the RIY notional impact on projected fund values can vary by up to 3% on average. This reflects the higher level of charges borne by the employer in a DC non-insured arrangement.

Economies of scale are also evident in the costs respondents identified employers incurred in running a pension scheme. It is evident from the table 13.2 that the employer cost per member in a small scheme is much greater than that for a member in a large scheme.

Table 13.2 Employer Costs by scheme member

Group Scheme Membership	Average Per Annum Fees Identified per Member
	DC - Insured
0 to 50	€509
51 to 500	€106
501+	€61
All Schemes	€306

In relation to individual pension arrangements there is some evidence to suggest that individual pension contracts incur lower pension costs where contribution levels, including both regular and lump sum contributions, are higher. This can be seen in the higher allocation rates advised by a number of providers where contribution assumptions were increased. This was evident for RACs, Executive Pension Plans, Buy Out Bonds and ARFs.

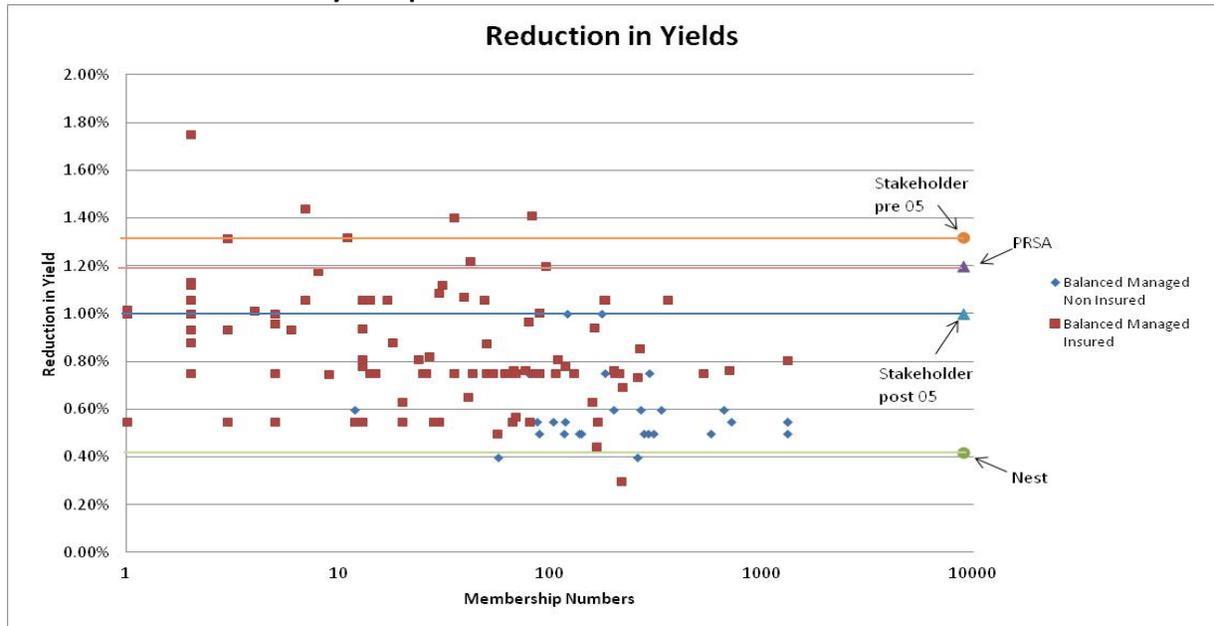
Scale considerations appear to have little impact on the inclusion and level of policy fees, bid offer spreads and the levels of annual management charges as these are related to the terms and conditions of the contract in question.

13.2.6 Comparison of Pension Charges with External Benchmarks

The research provided a comparison of charges with other external benchmark pension types to show the relative competitiveness of pension charges in Ireland from a member or individual pension savers' perspective.

Findings suggest that occupational pension schemes compare favourably to these benchmarks. The average Irish occupational scheme RIYs (in relation to disclosed costs only) identified are 0.52% to 0.91% (DC insured schemes of various sizes) and 0.30% - 0.58% (DC non-insured schemes of various sizes) compare favourably to the equivalent RIYs calculated for UK Stakeholder Pensions (1% and 1.63%) and the typical charging structure for Standard PRSAs (1.27 to 1.57%). Irish DC occupational pension schemes identified higher costs than the new UK NEST Pension scheme from an individual members' perspective. The UK NEST scheme is set up specifically to provide a low cost pension scheme to members and has an equivalent RIY of 0.42% per annum. The NEST scheme benefits from considerable efficiencies of scale due to the potential membership size it presents. It also involved a considerable investment on behalf of the UK State with estimated costs of over £500 million. The research findings suggest that Irish DC pension schemes are reasonably competitive from a members' perspective. Chart 13.2 below (from chapter 4) shows that most RIYs calculated from the trustee surveys identified a cost structure which is closer to the lower end of pension costs (as identified via the UK NEST scheme) than to the higher end (represented by UK Stakeholder Pensions and standard charging structures under PRSAs).

Chart 13.2 RIY to Maturity Comparisons DC Schemes and Benchmark Schemes



For individual pension arrangements, the research focused on both ends of the cost spectrum for individual pension arrangements i.e. where both maximum and nil commission terms apply, and compared such identified RIYs to external benchmarks. The research identified that where maximum

commission arrangements apply (25% of RAC and Executive Pension Plans), the associated RIYs for RACs and Executive Pension Plans are high relative to external benchmarks. The maximum commission RIYs identified of 1.78% per annum and 1.79% per annum can be compared to standard PRSAs RIYs (1.27 to 1.57%), and UK Stakeholder pensions where identified RIYs were between 1% and 1.63%.

On the opposite end of the scale the research identified that where nil commission arrangements apply (5% of RAC and Executive Pension Plans), the associated reduction in yield for RACs and Executive Pension Plans are low relative to external benchmarks.

Part B - The Irish Pension Saver – A Comparison of Potential Experiences

13.3 The Irish Pension Saver

The research shows that pension savers with similar individual characteristics and making the same contributions will have varying retirement outcomes depending upon the nature and type of pension they hold. The report examined its findings from the perspective of the Irish person saving for a pension. Access to a particular pension vehicle can be determined by a person's employment status. An employed person may have access to any pension options available through the employer and this may be to a large or a small scheme, and be a DC or DB scheme. A self-employed person can access a RAC, but cannot access an Executive Pension Plan or an employer sponsored scheme.

Another very important factor regarding the impact of pension charges is a person's duration in a scheme. The RIY to maturity analysis was based on a person age 35 contributing to the same scheme for 30 years. However, for various reasons this may not occur, perhaps due to changes in employment circumstances, ill health, concerns over market conditions etc. As is evident from the reduction in yield analysis within the report, charges incurred by a scheme member or a policy holder can increase significantly depending on the duration in a scheme and the number of schemes or pension policies a person may acquire.

To highlight such variances table 13.8 takes a sample of the pension products analysed and includes the RIYs identified for each. It calculates the associated notional pension values at retirement age and the total costs incurred during the lifetime of the pension contract (including disclosed and implicit charges). These costs are then given as a percentage of the projected value at retirement age. The assumed fund value for occupational schemes is €443,479 and for individual pensions is €199,566

Table 13.8 Comparison of Different Pension Contracts

Pension Product	Average Reduction in Yield Identified	Projected Value at Retirement Age after charges	Total Charges as a % of total projected values
New Retirement Annuity Contract Max Commission	2.18%	€138,228	31%
New Retirement Annuity Contract Nil Commission	1.38%	€156,182	22%
New Exec Pension Max Commission	2.18%	€138,228	31%
New Exec Plan Nil Commission	1.44%	€156,182	21%
Defined Contribution Insured Pension Scheme (0 - 50 Members)	1.12%	€366,341	17.4%
DC Balanced Managed Fund Insured Pension Scheme (500+ Members)	0.91%	€379,047	14.5%
DC Balanced Managed Fund Non-insured (0 - 50 Members)	0.79%	€387,078	12.7%
DC Balanced Managed Fund Non-insured (500+ Members)	0.73%	€390,880	11.7%

As table 13.8 clearly highlights, considerable variations exist and the individual pension saver will have a differing retirement result based on their pension arrangement. For occupational pension schemes, DC non-insured arrangements are less costly from the members perspective than DC insured schemes as sponsoring employers carry a greater proportion of pension costs, and in particular the costs of administration.

These costs can vary significantly where a person ceases contributions to a pension plan after a short period in the scheme. The analysis indicates that for the average DC insured scheme, where an individual begins contributions and saves to maturity, the impact of the average pension charge on the projected fund values is 13.4%. Where a person ceases contribution to a scheme after 2 years then the impact on the projected fund increases to 23.3%. However in the case of a RAC or an Executive Pension Plan, where the contributions cease after 2 years the impact on the projected fund value increases from 28% to 49%.

These examples simply indicate the potential range of charging experiences which an individual can encounter. While it is reasonable to use the RIY to maturity to provide a benchmark, it is possible that a person's pension fund at retirement may be made up of a number of pension saving arrangements and the accumulated cost will be significantly higher to that indicated in the RIY to maturity benchmark. If an individual has a number of small pension contracts (i.e. with low levels of assets within), the impact of certain of the charges will be more pronounced, for example annual management charges and policy fees. An example of this is where an individual has a number of different employers and thereby becomes a deferred member of a number of occupational pension schemes.

The analysis also considered pension arrangements which involved a one off payment such as single premium payments to a RAC (which represent a significant part of the annual investment in RACs) or a Buy-Out Bond. The research noted that in the case of single premium vehicles, the impact of charges varied significantly between these two pension arrangements. Where minimum commission applied, the impact on the projected fund value was 15% for single premium RAC and 24% for a Buy-Out Bond. Where maximum commission applied the impact on the projected fund value for a single premium RAC was 19% while it was 30% for a Buy-Out Bond.

The research also considered the level of charges arising in public sector AVCs. Findings indicated that the RIY is in the range 0.72% to 2.20% with an average RIY of 1.35%. The notional impact of the average RIY to maturity on the projected fund value is 22%. This can increase to 35% where a person ceases contributions to the scheme after 2 years. The average RIY for a public sector AVC scheme is high when compared to DC occupational pension schemes. However, when compared to individual pension contracts the RIYs for identified public sector AVC schemes are lower than RACs and Executive Pension Plans where maximum commission applies, but are higher than RACs and Executive Pension Plans where nil commission applies.

The level of income provided to a scheme member or policy holder at retirement varies based upon a number of factors such as gender, the number of additional benefits that are included such as guarantee periods in the event of death, the addition of a second life, inflation protection etc. From a life assurance company perspective, annuity prices are dictated by a number of factors such as prevailing interest rates, reassurance terms, capital requirements, expense loadings and commercial considerations, amongst other factors.

In addition the level of commission payment to a pension adviser can impact the income payable through retirement. The research identified that typical commission payment is 2% of the annuity cost. The knock on impact of such commission is to reduce the on-going retirement income provided by the annuity. Current annuity prices were provided by the research to illustrate that annuity incomes can be reduced by between €540 and €900 per annum due to the impact of such commission payments.

13.3.1 Pension Mobility

In relation to scheme exit penalties, trustee survey responses identified that exit penalties are not applicable to 77% of occupational pension schemes. Where exit penalties were identified they impact the scheme as a whole as opposed to individual members on leaving a scheme, generally apply for no more than 5 years and typically reduce in scale during this period. Exit fees are a greater feature of individual pension arrangements and are more likely to apply where commission arrangements are in place.

Under legacy pension arrangements exit penalties are not a typical feature. However, should an individual policy holder exit such a contract by transferring to another life assurance company, they may forego future cost reductions. Therefore, wide consideration must be given to the best financial outcome in respect of legacy pension arrangements in terms of pension mobility.

Part C - Reasonableness of Pension Charges

13.4 The “Reasonableness” of Pension Charges

One of the primary objectives of this research was to determine whether or not pension charges are reasonable in Ireland. There is no single measure that enables the drawing of conclusions in this area. Indeed, the very term ‘reasonable’ can be deemed to be quite subjective. Therefore, a number of ways of determining whether or not charges are reasonable are advanced. For example, the reasonableness of a charging regime might consider the level of charges relative to the average for a particular occupational scheme type or individual pension arrangement, and may also consider how an individual pension arrangement might compare with PRSAs or perhaps how a pension arrangement compares with similar pension arrangements in other countries.

Similarly, views on costs can be assessed depending on who bears the cost. Many scheme members may have no interest in the reasonableness of charges if the sponsor of the scheme incurs some or all of the pension charges. These charges would be obviously of greater interest to a sponsoring employer who bears all such costs in a DB scheme and of greater interest to employees who bear a greater portion of the costs in a DC insured scheme.

The pension savings arrangement utilised by an individual is largely influenced by their employment status. If it is an employer sponsored DC insured scheme the average reduction in yield to maturity for disclosed costs is 0.84%, the lowest reduction in yield is 0.29% and the highest is 1.71%. This average reduction in yield translates to a reduction of 13.4 % in the projected value of the fund at maturity. The average reduction in yield to maturity for a Retirement Annuity Contract or an Executive Pension Plan on max commission is 1.97%, the lowest reduction in yield is 1.08% and the highest is 3.08%. The distance from the average reduction in yield might indicate the reasonableness of the charge;

The status of the individual and the pension scheme will also be relevant particularly in situations where contributions to a pension arrangement have ceased. In those situations, the annual management charge and the policy fee, where in place, will continue to apply. Table 13.9 details the range of annual management charges and policy fee charges that can apply across both employer sponsored schemes and individual pension arrangements. This data show that the levels of the annual management charge and the policy fees can vary significantly which suggests that those on higher charges may not be reasonable.

Table 13.9: AMC and Policy Fee by Pension type

Pension Type	AMC	Policy Fee
DC - Insured	0.78%	€45.81 per annum
RAC	0.5% to 1.5%	€3.50 to €12.00 per month
Exec. Pension plan	0.5% to 2.5%	€3.50 to €7.31 per month
Standard PRSA	Max 1%	N/A
PRBs	0.5% to 2.5%	€3.59 to €5.42 per month

An individual pension arrangement can take the form of a RAC, an Executive Pension Plan or a PRSA. Table 13.10 compares the average RIY for disclosed charges to maturity across these schemes. Again there are some significant variations from the average and the question of reasonableness arises.

Table 13.10 Individual Pension Plan RIY to Maturity

Plan Type		Min RIY	Average RIY	Max RIY
RAC	Min. Commission	0.89% to	1.18%	1.73%
	Max Commission	1.08%	1.97%	3.08%
Exec. Pension Plan	Min. Commission	0.89%	1.24%	1.77%
	Max Commission	1.08%	1.97%	3.08%
PRSA	Min. Commission	N/A	1.27%	N/A
	Max Commission	N/A	1.57%	N/A

From an international perspective, if the level of charges applicable to Irish occupational pension arrangements are compared with those in the UK, the research suggests that the average RIY identified of between 0.52% and 0.91% for a DC insured scheme and of between 0.30% to 0.58% for a DC non-insured schemes compared favourably with equivalent RIY calculations for UK stakeholder pension (1% and 1.63%) and typical charging structure for standard PRSA (1.27% to 1.57%). Again, perhaps the scheme position in relation to average RIY might indicate the reasonableness of the charges.

Irish Defined Contribution occupational pension schemes identified higher costs than the new UK NEST Pension scheme from an individual members' perspective. The UK NEST scheme is set up specifically to provide a low cost pension scheme to members and has an equivalent reduction in yield of 0.42% per annum. Most reduction in yields calculated based on the results of the trustee surveys identified a cost structure which is closer to the lower end of pension costs (as identified via the UK NEST scheme) than to the higher end (represented by UK stakeholder pensions and standard charging structures under PRSAs).

The question of reasonableness is also considered in terms of the current and past charging structures. The research indicates that the current average costs structures for DC insured schemes are better than those in operation 10 and 15 years ago. This is evidenced by the high level of scheme review undertaken in the last 10 years. However, the same level of activity is not apparent in the case of individual pension arrangements and the research would indicate that pricing structures for these arrangements have changed little with time.

Commission is a particularly prevalent feature in individual pension arrangements and a universal approach to reflecting commission is not evident, suggesting that charges may not be reasonable in this area. The research identified that commission terms can vary significantly with maximum commission terms being more prevalent within RACs and Executive Pension Plans than for occupational pension schemes.

Overall, individual pension arrangements appear to be comparatively expensive. Where maximum commission arrangements apply the associated RIYs for RAC and Executive Pension Plans are high relative to external benchmarks. The research indicates that the reduction in yield for disclosed charges, where maximum commission applies, ranges from 1.08% to 3.08%. The average reduction in yield for a RAC or an Executive Pension Plan on maximum commission is 1.97% compared to an average of between 1.27% and 1.57% for a PRSA and, in the case of the UK, the reduction in yield for the stakeholder pension was identified at being between 1% and 1.63%.

The data provided in this report outlining the variety, complexity and scale of charges would suggest that there is considerable scope for charges to be applied. A fundamental aim of this research is to

ensure the provision of better information and to assist scheme members in developing greater awareness. Although this is a complicated matter, scheme members attempting to determine the position of their scheme or arrangement in relation to charges can use these results to assess where their RIY is placed on the spectrum outlined above.

The research conducted suggests that as a broad rule of thumb, every 0.25% increase in RIY results in a 4% reduction in the value of the pension fund (on the basis of a 35 year old with 30 years to maturity). This may be useful for scheme members in determining the overall impact of the RIY on their fund. However, this rule must be qualified by the observation that it was considered probable that the more engaged/active trustees responded to this survey and it is likely that charges could be somewhat higher for non-respondents. The guideline provided by the OECD is that every 0.25% increase results in a 5% reduction in the value of the fund.

Part D - Transparency and Understanding of Pension Charges

13.5 Introduction

Chapter 12 on transparency looked at the regulatory landscape and the degree of communication on charges between the entities providing pension products and services and the recipients of these services i.e. the employer, trustee, pension scheme member and individual policy holder. This section summarises the findings on transparency, looks at their impact in the context of the findings on the “reasonableness” of costs and also discusses the overall findings of the report.

13.5.1 Regulatory Structure

Pension arrangements are regulated savings vehicles with formal disclosure requirements, as laid down under various regulatory frameworks by the Pensions Board and by the Central Bank. Variations exist within such regulatory frameworks in terms of disclosing pension charges. Such differing legislative disclosure requirements and various reporting formats, do not help the consumer make an informed decision to better understand and appreciate their pension arrangements.

As detailed in Chapter 12, in relation to occupational pensions, the lack of any information to deferred members (while charges are still being applied to their individual pension funds) is a serious gap in regulations which needs to be addressed.

The most transparent product from a charges information perspective is the PRSA.⁷² Both its charging structures and rates are addressed in regulation and as a result, the information provided in relation to them in the SORPs is relatively transparent.

The Central Bank regulates the providers of pension products and the intermediaries who provide advice on the establishment and on-going management of such pension products. Disclosure of pension charges for individual pension arrangements is governed by both the Life Assurance (Provision of Information) Regulations 2001 and the Consumer Protection Code 2012.

The Life Assurance (Provision of Information) Regulations 2001 sets out the key information that must be provided to an individual pension saver, prior to setting up a pension policy. This information relates to the policy details and its appropriateness to the needs of the client: the approach to disclosure of pension charges is to disclose the total monetary value of pension charges and to disclose the impact on investment returns.

The revised Consumer Protection Code 2012 is a key document which sets out requirements that ‘regulated entities’ must comply with when dealing with customers and the provision of certain pension vehicles, via a ‘regulated entity’, fall within the terms of the code. The purpose of the code is to ensure the same level of protection for consumers regardless of the type of financial services provider they choose to use. One of the key general principles

⁷² Personal Retirement Savings Accounts (Disclosure) Regulations, 2002 to 2007

underpinning the code requires a 'regulated entity' to make 'full disclosure of all material information, including all charges, in a way that seeks to inform the customer'. The revised code also requires that annual statements should be provided. The implementation of measure should address one of the key shortcomings in the current provision of information.

Although a significant number of pension vehicles in Ireland are subject to the code, including RACs, PRSAs, ARFs and Buy Out Bonds it does not apply uniformly to all pension vehicles. In the case of occupational pension schemes, the design and administration of occupational pension schemes do not fall within the remit of the code, although the sales process and the provision of services, including advice to trustees of occupational pension schemes are subject to the code, where the scheme is set up under trust.

13.5.2 Quality and Understanding of Information Disclosed by Providers

The research sought information on the availability of key pension charges and cost information to trustees, and the difficulty that trustees experienced in completing the survey information. It is noteworthy that the majority of trustees (63%) did not have available and to hand all of the required information and had some level difficulty in completing the survey

A review of sample documentation issued by providers to individual policy holders also concludes that the information disclosed prior to the policy being signed, is unclear and confusing and lacks explicit information on what services are received for the charges imposed. Documentation is also largely illustrative being based on assumptions that may not materialise. Once the policy is signed little further information on charges is provided. This will change with the implementation of the 2012 Consumer Protection Code.

The report concludes that the disclosure of information by providers is driven by existing regulation but is frequently presented in a format that does not impart upon the policy holder the level of insight or understanding intended by that regulation. Where there is no explicit requirement in regulation requiring the provision of particular information on charges, typically no information is provided to the policy holder. There is lack of a culture of clear and transparent provision of information to the consumer, which also impacts on competitiveness in the market.

13.5.3 Additional Conclusions

A number of recommendations have been proposed to fill gaps in the existing regulations and improve communication and information standards. However, it must be recognised that while these will assist transparency, they are not a panacea to resolve all issues raised given that other factors also raise challenges, particularly in the area of reasonableness. These are outlined below as are a number of other conclusions emerging from the research.

(i) Trustee Survey Response: One notable factor is the low response rate by trustees to the surveys and it is important to identify that there are limitations involved in analysing survey results. For example 'non respondent bias' is a consequence of research relying on the

provision of information from willing participants. This bias reflects that research findings only represent those who have provided information and thus those who have not participated in the research, whether due to an unwillingness, a lack of knowledge or an inability to participate will not be represented.

The limited trustee response rate (33% of overall survey sample) was disappointing given the importance of the role of the trustee, the amount of regulation applicable to them and the efforts made in undertaking the research to maximise their response. A number of potential conclusions may be drawn from the low response rate: trustees may not always be fully engaged in the management of their scheme and/or they not be engaged in determining the most reasonable rate of charges. It is clear from the survey that trustees had difficulty obtaining information and providing responses which may point to broader concerns on their overall ability to oversee the management of pension schemes.

It was considered that, taken in the overall, trustees who responded to the research may have a greater level of understanding, involvement and oversight within their pension schemes than non-respondents, and it may be inferred that these pension arrangements are better managed as a result. This point is also important when considering issues of transparency.

(ii) Data Issues: This report is the first comprehensive Government report on pension charges in Ireland. Obtaining the data was a difficult exercise and there was some variance in the quality of responses received. It is recommended that an exercise be undertaken periodically to obtain data that allows benchmarks to be set and facilitates comparison of charges on an on-going basis. As well as providing market intelligence, the data is also essential to assess the impact over time of the implementation of measures following on the recommendations arising from this report. Similarly, if further changes are required, it will also facilitate stronger evidence based policy making.

(iii) Multiplicity of Charges - The report has identified a multiplicity of potential disclosed and implicit charges. All or some of these charges apply to all the pension products outlined. Increased standardisation and consistency of charging structures and their application generally would likely help the consumer, for example, in respect of terminology used and in terms of how the impact of charges on the policy holder is presented.

The individual charges do not always have an explicit purpose. They have overlapping meanings and many are simply mechanisms to apply charges. In addition, the manner in which the individual charges are applied can vary with consequential impact on the fund. This applies to commission in particular, which is particularly prevalent in individual pension arrangements. Increased standardisation and consistency generally would likely help the consumer, for example, in respect of terminology used and in terms of how the impact of costs and charges are presented

(iv) "Bundling" - One of the features of pension charging which has been highlighted is the practice of 'bundling' of charges. This practice is most evident within insured occupational pension schemes where it is an integral part of the way in which life assurance companies operate pension arrangements. While on the one hand, bundling may simplify charges for

the consumer as it reduces the issue of multiple charges being applied, it also masks the impact of individual costs and the consumer is less clear on what they are paying for.

The bundling of pension costs is also very prevalent in individual pension arrangements. These contracts are set up on an insured basis, where such practice is an integral part of the way in which life assurance companies operate pension arrangements. Commission payments to intermediaries also impact on identified pension charges and the costs of commission payments are also 'bundled' into the above pension charges. As commission arrangements are a greater feature of individual pension arrangements this impact is more pronounced than under occupational pension plans.

While on the one hand, bundling may simplify charges for the consumer as it reduces the issue of multiple charges being applied, it also masks the impact of individual costs and the consumer is less clear on what exactly is being charged.

(iv) Charges and Service Provision: A difficulty in distinguishing the service delivered for a charge applied is not just a feature of bundling and reduces the ability of the individual policy holder to compare prices and shop around. The 2012 Consumer Protection code requires intermediaries to disclose to the consumer the nature of the service to be provided in respect of remuneration which is to be received on an on-going basis.

It should be a fundamental principal that on-going charges should only be levied where a consumer is paying for an on-going service. One of the findings of this report is that there can be wide range of commission charges applied, particularly in the case of individual pensions with no clear indication as to the service being provided. However, it must be acknowledged that these issues are complex and that they are also being examined under different EU Directives.

(v) Methods of Capturing Charges: There is no one perfect measure for calculating the impact of all charges on pension schemes. The RIY was used throughout this report as it captures the impact of the greatest number of pension charges, with the exception of implicit charges. Other alternate means of capturing charges have been considered as it is important that any comparator provides full and complete information on charges in order to achieve full transparency for the consumer.

In recent times there have been increased calls for the use of the Total Expense Ratio (TER) as a means to provide greater clarity of overall pension charges, including implicit investment charges. TER has been compared with the use of annual equivalent rates (AER) for mortgages. TERs relate to the costs associated with investment fund management and are particularly relevant to investment management costs because they incorporate the additional operational costs of investment funds, such as fund administration and audit fees. As such they are a 'truer' reflection of the real cost associated with investment management. However, as this research has outlined, such costs are only a portion of overall pension charges. For example, administration and distribution costs also impact on pension charging structures, and these costs are not reflected in TERs. A TER and an annual management charge for an investment fund will differ and this variance reflects the additional operational costs of the fund in question. Such additional costs impact on

pension savers as they are built into unit prices. However, non-operational costs such as stamp duty and brokerage commissions do not form part of a TER and may also affect pension savers. For non-insured pension arrangements TERs will provide a 'truer' reflection of the cost of pension investment management albeit without the additional costs of stamp duty and brokerage commissions.

The creation and adoption of a universal, all encompassing measure of pension charges would be of considerable benefit to consumers. However it is unlikely that TERs offer this opportunity. Investment Managers in the United Kingdom have proposed an adoption of a new 'Total Cost of Ownership' measurement which would provide a standardised measurement of pension charges and incorporate all pension charges including adviser's fees/commissions and fund related investment costs. The adoption of such measurements may offer a better alternative to the use of TERs for transparency purposes. Any such proposal would require further analysis before a recommendation could be put forward.

13.5.4 Need for Increased Regulation

The PRSA was developed to fill a gap in the provision of occupational pensions and is unique in that, unlike the other products in this report, its cost structure is regulated. The same issues of transparency do not, as a result, arise. (It should be noted these limits were imposed when PRSAs were created, rather than imposed on an existing financial contract). Consideration has been given as to whether a solution would be to regulate in a similar way for other products.

In principle, it is not good practice to interfere in the price fixing mechanisms of the market, particularly since this could result in unintended consequences which may impact on competition. Regulating for price, either by introducing a ceiling or a range could encourage prices to move to the maximum and would discourage competition. Experience has shown that maximum prices have applied in the case of PRSAs. However, this principle may be less strong in cases where there is inadequate or obscure information preventing or limiting the customer in arriving at the optimum solution for their needs.

It should be noted that one of the Central Bank's responsibilities is to supervise the solvency of life assurance companies and they do not have the power to set charges in this area. In any case, were such maxima imposed, it would be possible to circumvent them in a number of ways, including direct billing of charges, other collective investment structures, assurance policies written by companies based overseas, etc. An alternative to maximum charges on insurers would be to impose maxima on what trustees would be permitted to pay. However, as assurance policies are investments, such regulation would involve restrictions on the investment freedom and responsibility of trustees and would need to be considered very carefully. Furthermore, as there would be cases where high costs may be justified, the definition of the maximum allowable would require precision.

A very important point in relation to the regulation of occupational pensions, is that there would be less need for regulation of charges were all scheme trustees fully engaged in the active management of their scheme regarding charges being incurred. This involves trustees being aware of their responsibilities, competent in regards to their understanding

of the application and impact of charges, and informed about the service alternatives available to them.

Having examined the issue in depth, it is considered that the focus of recommendations should be on measures that would introduce clarity and consistency across the various products, increase consumer understanding and provide a better result for the consumer. This should be kept under review with a view to considering more stringent options if such measures fail to deliver the desired result. In addition, further research into PRSAs and the impact of the regulated cost structure and in particular, whether they have been successful for consumers, is recommended.

13.5.5 Are Pension Charges Transparent?

This chapter asks the question, are charges transparent? The research has clearly indicated that there are significant deficiencies and inconsistencies regarding transparency, with little evidence of a culture of providing clear information in a simple manner. A move towards greater clarity and transparency of pension charges is needed with an increased focus on the needs of the consumer. Any such initiatives must focus upon an increased consistency across all pension types relating to the provision and the real impact of pension charges as well as informing and educating consumers. The recommendations of this report are directly aimed at achieving better outcomes in this area.

13.5.6 Reasonableness and Transparency

The purpose of this research has been to establish the factual and primarily qualitative information in relation to pension charges in Ireland and, in particular, to ascertain if (a) they are reasonable and (b) transparent. These are not mutually exclusive aims. An important aspect of the findings is the relationship between both the transparency of charges and the reasonableness of pension charges. Given the wide variety of charges applied, it appears that the importance of pension charges and their overall impact on a pension is not sufficiently appreciated by consumers. As demonstrated earlier in this chapter, what may appear to be a small percentage can result in a high charge which will substantially reduce the final pension received by the individual. If a consumer does not know, or is unable to understand, the cost of a product, then they will have no appreciation of the impact of related charges on the final pension, will be unable to plan accordingly; and ultimately may find their income at retirement is significantly less than expected. Improvements in transparency, while not a complete panacea, should if successful, at least give consumers increased options, and may also introduce increased competitiveness into the market. Similar to any service, consumers should be in a position to shop around and compare prices and obtain the best product available. The opaque nature of many of the charges and their structures means a consumers ability to make comparisons and secure the most suitable product is greatly diminished.

Conclusion

This research has clearly highlighted the transparency difficulties in this area and identified the real need for increased simplicity in this area. A number of recommendations are put forward that could lead to improvements for scheme members and individual policy holders. While some of these can be dealt with in the short-term, others may be more dependent on developments at EU level.

The report has also highlighted the complexities and high level of charges that can be applied, particularly in the case of smaller occupational schemes and individual pension plans. In particular, it has highlighted the significant savings that be achieved by larger schemes through economies of scale. There has been significant debate and consideration within the broader pensions policy debate on the introduction of a national employment pensions scheme based on the principle of auto-enrolment, whereby an employee is automatically enrolled in a scheme but can opt out. The main aim of automatically enrolling people into a pension scheme is that it increases occupational pension coverage and overcomes the problem of inertia. An auto-enrolment scheme would be designed to provide an adequate income in retirement (when combined with the State pension) aimed primarily for low and middle income earners. As was detailed within the report, international experience has shown that this type of scheme is extremely successful in providing a simplified and lower cost charging structure and a consistent application across employers. This type of arrangement could assist in resolving the difficulties inherent in the current structure of a proliferation of small schemes paying considerably higher charges than larger schemes, ultimately eroding the value of the pension received by the member. Although this policy issues is outside the remit of this report, it does appear to offer a longer term solution to tackling many of these difficult challenges.

Part E – Summary of Recommendations

13.6 Summary of Recommendations

This report has highlighted a wide range of issues in relation to pension charges and identified a number of serious problems. It is clear that there are major challenges to be addressed in the two main areas of transparency and costs. The report accepts that pension savings cannot be cost free. However, it appears very clear that consumers do not understand that even a modest charge can have a very large impact on the final pension. This summary presents the main recommendations of the report. This report may also be of interest to other agencies that have a role in market regulation and in consumer protection.

Significant work is on-going at EU level which will impact on the regulatory landscape for pensions. The Central Bank and Pensions Board are fully involved in this work, working with other member states to review and develop a number of key related issues. The discussions on these proposals are on-going and will continue into 2013. When the results of the different strands, PRIPs, MIFID II and IMD2 work is at a conclusion, it is intended to conduct a full review of the regulatory landscape in Ireland. This will take account of developments that enhance the provision of clear, concise and meaningful information to consumers in line with best practice.

At national level, improvements in disclosure requirements, including those for pensions, were introduced in the Central Bank's 2012 Consumer Protection Code and these should enhance transparency for consumers.

Cognisant of longer term developments, the recommendations below are principally focused on what can be achieved at an earlier stage by improving regulation and best practice in disclosure. It is recommended that

1. Continue to monitor the implementation of the Consumer Code (Central Bank) and take specific actions to:
 - a. Examine the practice of re-brokering to ensure that it is always in the best interests of the consumer; and
 - b. Conduct an exercise to ensure compliance with the recently introduced requirement for Annual Statements
2. Develop improved approaches to improve consumer, employer and trustee awareness and knowledge of all pension charges. This should ensure that information is clear and concise. It should be standardised, where possible, and based on best practice (several organisations have a remit here).
3. Develop a communications action plan on pension charges (several organisations have a remit here)
4. Improve trustees' knowledge and awareness of pension charges (Pensions Board). Take specific actions to:
 - c. Develop a separate module on pension charges in trustee training

- d. Provide a support service to trustees setting out principles and best practice.
5. Review occupational pension disclosure regulations specifically to:
 - a. Provide for the issue of an Annual Statement to all deferred members (DSP, Pensions Board)
 - b. Improve the information provided in the Statement of Reasonable Projections and the need for focussed detail should be reviewed (DSP, Pensions Board)
 6. Monitor developments and continue efforts to develop a single standard measure that would assess all costs and charges and thereby enable easier comparisons to be made (DSP, Central Bank, Pensions Board).
 7. Conduct further research on the drivers behind consumer choice of individual pension products – with particular reference to PRSAs.
 8. Ensure data on charges is collected on a periodic basis - 3 yearly intervals is considered appropriate - to allow for continued scrutiny and future decision-making. (Central Bank, Pensions Board)
 9. Evaluate the impact of this report, these recommendations and future EU developments after two years and assess if further and more stringent recommendations are required (DSP, Central Bank, Pensions Board).

GLOSSARY OF TERMS

Term	Explanation
Accounting Standards	Accounting standards are methodologies and disclosure requirements for the preparation and presentation of financial statements.
Active / Passive investment funds	Active management refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. Passive management is a portfolio management strategy where the manager's aim is simply to match the return of the index.
Active Member	A member of a pension scheme who is in "reckonable service", i.e. currently in the employment to which the scheme relates, and who is included in the scheme for a pension benefit.
Actuarial Funding Certificate	A certificate issued by the actuary under the minimum funding standard provisions of the Pensions Act, stating whether the scheme is capable of meeting specified liabilities in a statutory order of priority in the event of its being wound up on the date of the certificate. A certificate must be submitted to the Regulator every 3 years.
Actuarial Service Providers	A company that provides actuarial service. Actuaries use mathematical and statistical models to evaluate risk in the insurance and finance industries.
Actuarial Valuation Report	An investigation by the actuary into the ability of a pension scheme to meet its benefit promise. This has two purposes. Firstly, the actuary will calculate a recommended contribution rate which will allow the scheme to meet its future liabilities. It is also needed so that the actuary can establish the ability of the existing assets of the fund to meet its accrued benefits and complete an actuarial funding certificate.
Additional Voluntary Contributions (AVCs)	Contributions which a member elects to pay over and above his/her normal contributions in order to secure additional benefits.
Allocation Rate	The percentage of an investor's initial cash or capital outlay that actually goes towards the purchase of units. This amount is net of any fees that may be incurred upon initial investment and is effectively the amount that is exposed to the investment.
Annual Report	The Pensions Act requires the trustees of a pension scheme to communicate information about the scheme, its administration and its financial position on a regular basis. The content of the annual report is specified in the disclosure regulations. A shorter annual report may be issued for defined benefit schemes with fewer than 50 active members and for all defined contribution schemes.
Annual Benefit Statement	A statement of the benefits payable in respect of an individual on the occurrence of specified events, e.g. death, retirement etc.
Annual Management Charge	This is an annual charge paid to the investment manager for managing investments on behalf of members. The annual management charge is usually paid as a percentage of the fund. It will vary with the type of

	investment.
Annuity	A guaranteed retirement income for life paid at stated intervals until a particular event (usually the death of the person receiving the annuity). Annuities are normally purchased from a life assurance company at retirement in return for a lump-sum payment (from your pension fund).
Approved Retirement Fund	An ARF is an investment contract for the proceeds of retirement benefits that are not taken in the form of a lump sum or pension on retirement. Certain qualifying conditions must be met to be eligible to take out an ARF. Money is invested with a qualified fund manager and may be invested in any manner you wish and will accumulate tax-free. Income tax is payable on any withdrawals from the fund.
Approved Minimum Retirement Fund	Approved minimum retirement fund is a post retirement investment account that allows the member on retirement to re-invest their pension until he/she reaches 75 years in exchange for additional tax reliefs and potentially greater investment returns. They are similar to an ARF, except that the original investment may not be withdrawn until age 75. Only the investment income and gains may be withdrawn prior to that age.
Assets Under Management	Assets under management (AUM) is a financial term used denote the market value of funds being managed by a financial institution on behalf of its clients, investors, depositors, etc.
Audit	Audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. The goal of an audit is to express an opinion of the person / organization / system (etc.) in question, under evaluation based on work done on a test basis.
Balanced Managed Fund	A fund that buys a combination of common stock, preferred stock, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk.
Bid Offer spread	In unit-linked investment contracts, the difference between the price at which units can be purchased ("Offer" price) and the price at which they can be sold back to the investment manager ("Bid" price) on any given day.
Brokerage Commissions	A fee charged by a stock broker or agent for his/her service in facilitating a transaction.
Buy Out Bond or Personal Retirement Bond	The purchase by the trustees of a pension scheme of a single premium insurance policy or bond in the name of a member or other beneficiaries following termination of service, retirement, or on the winding-up of a scheme. The bond is bought in substitution of the member's rights under the pension scheme. Under the Pensions Act, purchase of such bonds on leaving service may be at the option of the member or, in certain circumstances, at the option of the trustees.
Cash Fund	A Cash Fund invests 100% in cash and short-term deposits and aims to give investors a stable and predictable return.
Commission	A form of payment to an agent or intermediary by a life insurance company for services rendered.
Consensus Fund	A Consensus Fund invests in equities, bonds, property and cash. It is a passively managed fund, which mirrors the average Irish managed fund's

	allocation to each asset class, and aims to match the index return of each type of asset. In this way, it retains the investment risk associated with a managed fund's allocations between assets, but removes the risk of an individual investment manager selecting individual stock holdings which underperform the benchmark.
Custodian	A financial institution responsible for safeguarding a firm's or individual's financial assets. This implies management as well as safekeeping.
Deferred Member	A person entitled to a pension payment at a future date. Normally this would be an early leaver but the term is sometimes used to describe someone whose retirement is being postponed.
Defined Benefit Scheme	A scheme where the pension and other benefits which will be paid to members and/or dependants are clearly stated in the rules of the scheme. Benefits are often based on a member's salary close to retirement and on his or her pensionable service. For this reason these schemes are sometimes known as "final salary" schemes.
Defined Contribution Scheme	A scheme where the individual member's benefit is determined solely by reference to the contributions paid into the scheme by or on behalf of that member and the investment return earned on those contributions.
Distribution Costs	Cost or expense incurred in getting a product to the consumer. In this context, the cost of providing the pension to the member.
Employee Contribution	The amount the employee/individual pays into the pension scheme. It can be expressed as a percentage of the member's salary or a fixed amount.
Executive Pension Plan / Directors Pension Plan	An executive pension plan is a defined contribution, employer sponsored, pension scheme. An employee/director of the company is named as the beneficiary of the pension plan. This is a one member scheme holding one asset which is a policy issued by a life assurance company and held in trust on behalf of the employee/director. This type of pension can be set up for any employee or director of a limited company, but is typically set up for owner directors of small businesses. They can also be set up for senior company employees.
Exit Penalties	A charge applied when you cash in an investment within a set number of years or before a specific date (also known as an early encashment or exit charge).
Frozen Scheme	A scheme which provides benefits only for members whose service has terminated; or a scheme where continuing service in employment does not entitle members to accrue new pension benefits, and to which no new members are admitted.
Funding Standard	Provisions under the Pensions Act, by which defined benefit schemes are obliged to submit an actuarial funding certificate which confirms that the scheme complies with what is termed the minimum funding standard. This is designed to ensure that, at a minimum, the scheme has sufficient funds to secure specified pension rights which members have built up, if the scheme should have to be wound up at any stage.
Funding Proposal	A proposal required to be submitted to the Pensions Board by the Pensions Act in the case of a defined benefits scheme which fails to meet the Funding Standard. It is designed to ensure that the standard can be met over a specified period of time, and is agreed by the actuary, the

	trustees and the employer.
Global Equity Fund	A Global Equity fund can be managed either actively or passively. The assets of this fund are fully invested in equities; stock selection depending on how the fund is being managed can be an active decision or can replicate the major world market indices.
Initial / Accumulator Units	Initial units are the units bought in the first 12 to 24 months of some contracts. These units have a higher monthly management charge than accumulation units. Initial units are used for the early years of regular premium unit-linked policies, where heavy initial expenses need to be recouped.
Initial Commission	Initial commission is based on a percentage of the initial contribution. Initial commission is a one off payment.
Insured Scheme	A pension scheme where, the trustees engage a life assurance company or group of companies to provide administration and investment management services.
Intermediary	A person or organisation that mediates between the providers of financial products and services, and the consumers who make the purchases.
Investment Consulting	Giving advice to investors to help with their long-term investment planning.
Life Assurance (Provision of Information) Regulations 2001	Regulations aimed at ensuring that consumers are provided with information, to assist them in making informed and rational choices, between different life assurance products, sales channels and suppliers.
Life Assurance Company	A company that provides life assurance and sometimes pension plans.
Managed Fund	A fund with a fund manager who makes considered investments aiming to deliver above average performance through active asset allocation and stock selection.
Markets in Financial Instruments Directive (MiFID)	The Markets in Financial Instruments Directive 2004/39/EC (known as "MiFID") is a European Union law that provides harmonised regulation for investment services across the 30 member states of the European Economic Area (the 27 Member States of the European Union plus Iceland, Norway and Liechtenstein). The main objectives of the Directive are to increase competition and consumer protection in investment services.
Non-Insured Scheme	A pension scheme where, the trustees do not engage a life assurance company to provide administration and investment management services. Trustees may appoint an administrator (typically not a life assurance company) to act as the 'registered administrator' to the scheme and provides the administration function.
Normal Retirement Age	This is the age at which retirement benefits become payable. This will be set out in the governing documents of an occupational benefit scheme. Normal pension age is usually in the range of 60 to 65.
Occupational	A pension scheme set up by an employer to provide retirement and/or

Pension Scheme	other benefits for employees. It is sometimes called a “company pension scheme”.
Override Commission	Extra commission paid by suppliers for quantity or volume sales.
Packaged Retail Investment Products (PRIPs)	The retail investment market is largely dominated by “packaged retail investment products”. These provide retail investors with easy access to financial markets, but can be complex for investors to understand. Those selling these products can also face conflicts of interest since they are often remunerated by the product manufacturers rather than directly by the retail investors.
Pension Administration	The operation and oversight of the pension fund.
Pension Payroll	The sum of all salaries or pensionable salaries taken into account for pension calculation purposes.
Pensioner Trustee (Small Self-Administered Pension Schemes)	A Pensioner trustee is an individual or firm with specialist knowledge in the area of pensions law and pensions administration. It is a Revenue requirement that a pensioner trustee be appointed as a trustee in relation to all self-administered pensions. The role of the pensioner trustee typically involves the establishment and administration of self-administered pensions.
Pensioner Members	A person being paid from a pension scheme (also called a pensioner).
Pensions Board Number	All pension schemes are required to register with the Pensions Board. A reference number or a Pensions Board number is then allocated to the Scheme by the Board. The PB reference number should be quoted on all future correspondence.
Personal Retirement Savings Account	A Personal Retirement Savings Account (PRSA) is a long-term personal retirement account designed to enable saving for retirement in a flexible manner. The PRSA is a contract between the investor/saver and an authorised PRSA provider in the form of an investment account. PRSAs allow the investor/saver to change employment and continue to use the same PRSA or switch from one PRSA to another at any time, free of charge. PRSA’s are a type of defined contribution scheme with regular contributions which are tax deductible.
Policy Fee	This is a regular fee you pay on some investment and pension policies. A policy fee is usually a fixed amount.
Preliminary disclosure certificate	A document received prior to starting a Personal Retirement Savings Account that outlines the charges and benefits applicable under the policy. Benefits are shown on a generic basis.
Professional Trustees	An individual or body corporate involved with pension schemes and accepted under Revenue requirements as a trustee of a small self-administered or small member controlled scheme.
Reduction in Yield (RIY)	Reduction in Yield is a calculation which captures the effect of the total disclosed charges applied to a policy. RIY can be a useful way of comparing the cost aspect of one policy with another.
Registered Administrators	A registered administrator is a person who is registered with The Pensions Board to provide core administration functions for schemes.

Renewal Commission	Renewal commission is based on continuing contributions and is paid over the term of the contract.
Retirement Annuity Contract	A Retirement Annuity Contract (RAC) is the formal name for what is normally called a personal pension and is a defined contribution pension. An RAC is a particular type of insurance contract. The value of the ultimate benefits payable from the contract depends on the level of contributions paid, the investment return achieved and the cost of buying the benefits. An RAC can only be effected by individuals who are in non-pensionable employment or who have taxable earnings from a self-employed trade or profession.
Risk Benefits	Benefits payable in the event of death or disability, which are not pre-funded. These risks are often insured.
Scheme Assets	The property, investments, debtors, cash and other items of which the trustees of a pension scheme are the legal owners.
Scheme Booklet	A booklet outlining the rules of the pension scheme.
Section 50	An instruction given to the trustees of a scheme by the Pensions Board, pursuant to Section 50 of the Pensions Act, to reduce the promised benefits under the scheme so that the Funding Standard can be met.
Small Self Administered Scheme	A pension scheme where the assets are directly invested in stock markets, etc. They may be managed by an in-house manager or an external investment manager. The term is not used to indicate the method by which benefits and contributions are administered, but is now almost exclusively used to refer to the way in which the investments are managed.
Stamp Duty	Stamp duty is charged on the instruments used in the transfer of property. Where enforced, this tax is placed on the transfer of homes, buildings, copyrights, land, patents and securities.
Statement of Reasonable Projection	A statement predicting the likely future worth of a pension, which is based on assumptions relating to future contributions and investment returns.
Total Expense Ratio (TER)	A measure of the total costs (but not including trading transaction costs) associated with managing and operating an investment fund. The total costs of the fund are divided by the fund's total assets to arrive at a percentage amount, which represents the TER.
Trail Commission	An annual fee paid over and above the set-up fee for an investment product bought through a pension adviser, and continues for as long as the investment continues.
Transaction Costs	A transaction cost is a cost incurred when buying or selling securities.
Transfer Payment	A payment from one pension scheme to another, or to an insurance company, to purchase a buy-out bond, in lieu of the benefits which have accrued to the member under the scheme. In this form, it specifically refers to transfers made under the preservation requirements of the Pensions Act.
Trust	The legal concept by which property is held by one or more persons (the trustees) for the benefit of other persons (the beneficiaries) for the

	purposes specified by the person setting up the trust. The trustees may be beneficiaries.
Trust Deed	The legal document, executed in the form of a deed, which establishes, regulates or amends a trust.
Trust Retirement Annuity Contract	A trust Retirement Annuity Contract or trust RAC is a scheme established under trust. Most RACs are set up under individual contracts. However a Trust RACs is a scheme for a group of individuals established under trust and approved by the Revenue Commissioners. Trust RACs are established on a defined contribution basis.
Trustee	An individual or a company which, alone or jointly, becomes the legal owner of property to be administered for the benefit of someone else (the beneficiaries), in accordance with provisions of the document creating the trust and the provisions of trust law generally and the Pensions Act.
Trustee Meetings	Trustees need to hold regular meetings to review the operation of the scheme and supervise the actions of the administrators and advisers to whom they have delegated many of their functions.
Undertakings for Collective Investment in Transferable Securities (UCITS)	The Undertakings for Collective Investment in Transferable Securities Directive 2001/107/EC and 2001/108/EC (or "UCITS") are a set of European Union Directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorisation from one member state.
Unit Linked Investment	Arrangements whereby the contributions paid by the investor purchase units, the price of which fluctuates according to the value of the underlying investment portfolio.
Unit Trusts	A unit trust is a form of collective investment constituted under a trust deed. Unit trusts are close-ended investments; therefore the underlying value of the assets is always directly represented by the total number of units issued multiplied by the unit price less the transaction or management fee charged and any other associated costs.
Winding Up	The process of terminating a pension scheme, usually by applying the assets to the purchase of immediate and deferred annuities or by transferring the assets and liabilities to another pension scheme in accordance with scheme documentation. A scheme is not wound up until no further assets remain under the control of its trustees.

APPENDICES

APPENDIX 1 – QUESTIONNAIRES

1. Defined Contribution - Long Survey

The Department of Social Protection, in conjunction with the Pensions Board and the Central Bank is undertaking a comprehensive study on the level of charges associated with the various types of pension arrangements. PwC has been engaged to help gather the required information to allow such analysis.

The initial phase of this research is focused upon employer sponsored Occupational Pension Schemes. As a result we require you as Trustees to complete the following questionnaire to provide an insight into the costs incurred by your pension scheme and what services are provided for these costs.

The survey has been created with you as Trustee in mind. We expect the information sought should be easily identified. It may be useful to have a copy of the latest Trustee Annual Report to hand when completing the questionnaire. The survey includes a save function allowing you the option to complete the survey in stages (if you need to save the survey instructions will be displayed on screen as to how to return to the survey).

We have set up a Help Desk should you have any queries when completing this questionnaire and they can be contacted at 01 792 5550. In addition there is a link provided below (Survey Support Link) should you instead prefer to email your query.

The questionnaire is provided through an on-line survey tool provided by PwC. To ensure confidentiality, the Department have designed the questionnaire so that the only identifying element of your scheme is the PB number (the register of which is exclusively available to the Pensions Board and thus cannot be linked by any external party to your scheme). The survey tool does not ask for your email address nor is it stored by PwC and thus your response will be anonymous to PwC.

A link below is provided to the PwC Privacy statement which covers all aspects of the PwC website including this survey tool. This privacy policy states that PwC will not disclose information to third parties unless required by law. For the purpose of this research the survey findings will be provided to the Pensions Board and Department of Social Protection.

No data submitted to PwC as part of this survey will be disclosed to other member firms in the PricewaterhouseCoopers network of firms.

Privacy. Do you accept the policies set forth in the privacy statement?
(Link below)

Yes

Section 1: Basic scheme details

1. What is the scheme Pensions Board Number?

PB

2. What is the date of the most recent Trustee Annual Report ("TAR") / Alternative Trustee Annual Report?

Month Year

Date (Click here to choose) (Click here to choose)

3. When was the scheme charging structure last reviewed / amended?

Month Year

Date (Click here to choose) (Click here to choose)

Section 2: Trustee Annual Report / Alternative Trustee Annual Report information

The following information is likely to be available from the Trustee Annual Report / Alternative Trustee Annual Report

4. What was the total number of Active Members (where Alternative Trustee Annual Report the information may need to be obtained elsewhere)?

Number:

5. What was the total number of Deferred Members (where Alternative Trustee Annual Report the information may need to be obtained elsewhere)?

Number:

6. What was the total value of Scheme assets as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

Number (€):

7. What was the total of Employer contributions as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

Number (€):

8. What was the total of Employee (normal) contributions as per the most recent Trustee Annual Report/ Alternative Trustee Annual Report?

Number (€):

9. What was the total of AVC contributions as per the most recent Trustee Annual Report / Alternative Trustee Annual Report? (may be €0 if the AVC scheme is set up under a separate trust or if no AVC scheme exists)

Number (€):

Section 3: Adviser fees & scheme cost structure

The following information will reflect the pension terms that you have agreed with your pension provider / pension advisor - please note that Risk benefits are addressed in a separate section.

10. What is the Gross Allocation Rate for contributions made? (that is, for each €100 of contributions, what percentage is allocated to purchase units - 100% allocation would mean that all monies are allocated to purchase units)

Number (%):

11. What Bid / Offer spread applies on monies allocated to purchase units? (may be 0%, however in some charging structures a bid / offer spread will apply, typically at a rate of 5%)

Number (%):

12. Do Exit Penalties apply where pension funds are withdrawn or transferred out within a certain period?

Yes

No

13. What annual Policy Fee applies to the pension scheme? (may be €0, where a monthly fee applies please enter the annual equivalent amount)

Number (€):

14. Is the policy fee paid by the employer or the member?

Employer

Member

N/A

15. Are the costs above (i.e. Allocation Rates, Bid Offer Spread, Policy Fees, Exit Penalties) disclosed to members?

Yes

No

16. What total annual fees do you pay directly to your advisor(s) direct from company resources in respect of the operation of this pension scheme?

(please ignore the risk benefits scheme for the purposes of this question. Where separate fees are payable to more than one advisor provide the overall total cost - may be €0 where no fees are payable)?

Number (€):

17. Aside from any fees paid directly, what approximate annual commission payment is received by your pension adviser in respect of the operation of this pension scheme? (may be €0 where no commission payable - please ignore the risk benefits scheme for the purposes of this question)

Number (€):

18. If Commission is payable, please provide the percentages that apply below (please enter 0 where that commission type is not paid)

% of Initial Commission applying (i.e. on new contributions or increases in existing contributions)
Number (%):

% of Renewal Commission applying (i.e. on continuing or recurring contributions)
Number (%):

% of Fund Based (Trail) Commission applying (ie a commission payment made which is calculated based on the value of the fund)
Number (%):

19. Where your scheme has more than 100 active / deferred members what is the cost of preparing the annual report and financial statements? (may be €0)

Number (€):

Section 4: Services provided by adviser

Where a component of the fees / commissions paid to your pension advisor was in respect of the following items, can you estimate the annual cost (excluding VAT)? (please enter €0 where no fees were payable in respect of the identified service. If unsure of the cost breakdown for specific services please tick the appropriate box)

20. Please complete:

Normal - Exceptional - Unsure

1. Trustee meeting(s) (please ignore costs of Trusteeship for the purposes of this question)
(Number €):

2. Member presentations
(Number €):

3. Investment consulting advice
(Number €):

4. Advices relating to redundancies, Mergers and Acquisitions or other similar Corporate activity
(Number €):

5. General Pensions advice
(Number €):

6. Other

7. Please provide details of the approximate annual cost of professional Trusteeship (may be Co where no professional Trustees in place)
(Number €):

8. Please provide details of the approximate annual cost of Audit fees (may be Co where no Audit requirement applies)

(Number €):

9. Please provide details of the approximate annual cost of Legal fees (may be €0)

(Number €):

20.1. Please provide a description of 'Other' where relevant from question 19 above:

Section 5: Risk Benefits

The following section deals with Risk Benefits provided to employees.

21. Please provide the approximate annual premium cost of Risk Benefits (Death in Service / Disability Benefits) provided:

Number (€):

22. What annual fees do you pay directly to your pension adviser direct from company resources in respect of the operation of Risk benefit arrangements? (may be €0 where no fees payable)

Number (€):

23. What approximate annual commission payment is received by your pension adviser in respect of the operation of Risk benefit arrangements? (may be €0 where no commission payable / nil commission arrangement applies)

Number (€):

24. Are the cost of Risk Benefits met by the employer separate to pension contributions payable? (may be No where the cost of risk benefits are met from within the pension scheme)

Yes

No

N/A

25. Are Risk Benefit commission payments offset against other fees payable in respect of the operation of the pension arrangements?

Yes

No

N/A

Section 6: Investment management

We have provided a list of funds which are commonly provided to members of Defined Contribution pension schemes. Where an equivalent fund is provided to the members of this scheme, please enter the Annual Management Charge ("AMC") that applies - where no equivalent fund is provided, please enter 0.

Where multiple similar funds are provided, please provide the AMC of the lowest cost equivalent fund.

26. Passively managed funds - funds which seek to track an index:

Consensus Managed fund

(Number %):

Passive Global or World Equity fund
(Number %):

Passive Bond fund
(Number %):

27. Actively managed funds - funds where a fund manager is making decisions as to what should be bought and sold within the portfolio:

Balanced Managed or Managed fund
(Number %):

Global or World Equity fund (actively managed)
(Number %):

Bond fund
(Number %):

Cash fund
(Number %):

28. Are investment management charges disclosed to members?

- Yes
- No

29. Are there any circumstances where the Annual Management Charge would be higher? (for example Performance Fees, Variations in Management Charges for Initial and Accumulated Units or Variations in Management Charges for periods of time)

- Yes
- No

Section 7; Questionnaire completion

30. On a scale of 1 to 5 (1 being very easy and 5 being very difficult) please rate your experience of gathering the information to complete this questionnaire in terms of:

Total fees and or total commissions Rating
Breakdown of total fees Rating
Breakdown of commission Rating

31. Did you hold the information required to complete this survey or did you need to request it from your advisor?

- Yes, I had the information
- No, I had to request the information
- I had some of the information but needed to request some aspects

2. Defined Contribution – (Non-Insured)

The Department of Social Protection, in conjunction with the Pensions Board and the Central Bank is undertaking a comprehensive study on the level of charges associated with the various types of pension arrangements. PwC has been engaged to help gather the required information to allow such analysis.

The initial phase of this research is focused upon employer sponsored Occupational Pension Schemes. As a result we require you as Trustees to complete the following questionnaire to provide an insight into the costs incurred by your pension scheme and what services are provided for these costs.

The survey has been created with you as Trustee in mind. We expect the information sought should be easily identified. It may be useful to have a copy of the latest Trustee Annual Report to hand when completing the questionnaire. The survey includes a save function allowing you the option to complete the survey in stages (if you need to save the survey instructions will be displayed on screen as to how to return to the survey).

We have set up a Help Desk should you have any queries when completing this questionnaire and they can be contacted at 01 792 5550. In addition there is a link provided below (Survey Support Link) should you instead prefer to email your query.

The questionnaire is provided through an on-line survey tool provided by PwC. To ensure confidentiality, the Department have designed the questionnaire so that the only identifying element of your scheme is the PB number (the register of which is exclusively available to the Pensions Board and thus cannot be linked by any external party to your scheme). The survey tool does not ask for your email address nor is it stored by PwC and thus your response will be anonymous to PwC.

A link below is provided to the PwC Privacy statement which covers all aspects of the PwC website including this survey tool. This privacy policy states that PwC will not disclose information to third parties unless required by law. For the purpose of this research the survey findings will be provided to the Pensions Board and Department of Social Protection.

No data submitted to PwC as part of this survey will be disclosed to other member firms in the PricewaterhouseCoopers network of firms.

Privacy. Do you accept the policies set forth in the privacy statement?
(Link below)

Yes

Section 1: Basic scheme details

1. What is the scheme Pensions Board Number?

PB:

2. What is the date of the most recent Trustee Annual Report ("TAR") / Alternative Trustee Annual Report?

Month Year

Date (Click here to choose) (Click here to choose)

3. When was the scheme charging structure last reviewed / amended?

Month Year

Date (Click here to choose) (Click here to choose)

Section 2: Trustee Annual Report / Alternative Trustee Annual Report information

The following information is likely to be available from the Trustee Annual Report / Alternative Trustee Annual Report

4. What was the total number of Active Members (where Alternative Trustee Annual Report the information may need to be obtained elsewhere)?

Number:

5. What was the total number of Deferred Members (where Alternative Trustee Annual Report the information may need to be obtained elsewhere)?

Number:

6. What was the total value of Scheme assets as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

Number (€):

7. What was the total of Employer contributions as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

Number (€):

8. What was the total of Employee (normal) contributions (excluding AVC's) as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

Number (€):

9. What was the total of AVC contributions as per the most recent Trustee Annual Report / Alternative Trustee Annual Report? (may be €0 if the AVC scheme is set up under a separate trust or no AVC scheme exists)

Number (€):

Section 3: Adviser fees & scheme cost structure

The following information will reflect the pension terms that you have agreed with your pension provider /pension advisor - please note that Risk benefits are addressed in a separate section, so should be ignored for the following questions.

10. What total annual fees (excluding VAT) do you pay directly to your advisor(s) direct from company resources in respect of the operation of this pension scheme?

(please ignore the risk benefits scheme for the purposes of this question. Where separate fees are payable to more than one advisor for administration, consultancy services etc. please provide the overall total cost - may be €0 where no fees are payable)?

Number (€):

11. Aside from any fees paid directly, what approximate annual commission payment is received by your pension adviser in respect of the operation of this pension scheme? (may be €0 where no commission payable - please ignore the risk benefits scheme for the purposes of this question)

Number (€):

Section 4: Services provided by adviser

The following information seeks to identify the tasks that gave rise to pension costs that you have identified previously. Where a component of the fees / commissions paid to your pension advisor was in respect of the following items, can you estimate the annual cost {excluding VAT)? (please enter €0 where no fees were payable in respect of the identified service. If unsure of the cost breakdown for specific services please tick the appropriate box).

In responding to certain services in the following section, you can record costs incurred as 'normal' (i.e. costs that can be expected to be incurred year on year) and 'exceptional' (i.e. costs that would not normally be expected to recur frequently, but where in recent periods activity has been higher, leading to higher levels of cost).

12. Please complete:

Normal - Exceptional - Unsure

1. Pension administration costs (exclusive of Pension Payroll Costs)

(Number €):

2. Pension payroll costs

(Number €):

3. Trustee meeting(s) (please ignore costs of Trusteeship for the purposes of this question)

(Numbers):

4. Member presentations

(Number €):

5. Investment consulting advice

(Number €):

6. Advices relating to redundancies. Mergers and Acquisitions or other similar Corporate activity

(Numbers):

7. General pensions advice

(Number €):

8. Other

(Number €):

9. Please provide details of the approximate annual cost of professional Trusteeship (may be €0 here no professional Trustees in place)

(Numbers):

10. Please provide details of the approximate annual cost of Audit fees (may be €0 where no Audit requirement applies),

(Numbers):

11. Please provide details of the approximate annual cost of Legal fees (may be €0)

(Number €):

12.1. Please provide a description of 'Other' where relevant from question 12 above:

13. Do pension administration costs include the cost of producing Trustee Annual Report and Financial Statements?

Yes

No

Unsure

N/A

13.1. Where No - please advise the additional cost applying:

14. Where you are unsure of the cost of producing Trustee Annual report and financial statements please tick below,

Unsure

Section 5: Risk Benefits

The following section deals with Risk Benefits provided to employees.

15. Please provide the approximate annual premium cost of Risk Benefits (Death in Service / Disability Benefits) provided: (may be Co where no risk benefits are provided)

Number (€):

16. Are the cost of Risk Benefits met by the employer separate to pension contributions payable? (may be No where the cost of risk benefits are met from within the pension scheme)

Yes

No

N/A

17. What annual fees (excluding VAT) do you pay directly to your pension adviser direct from company resources in respect of the operation of Risk benefit arrangements? (may be €0 where no fees payable)

Number (€):

18. What approximate annual commission payment is received by your pension adviser in respect of the operation of Risk benefit arrangements? (maybe Co where no commission payable / nil commission arrangement applies)

Number (€):

19. Are Risk Benefit commission payments offset against other fees payable in respect of the operation of the pension arrangements?

Yes

No

N/A

Section 6: Investment management

We have provided a list of funds which are commonly provided to members of Defined Contribution pens: schemes. Where an equivalent fund is provided to the members of this scheme, please enter the Annual Management Charge ("AMC") that applies - where no equivalent fund is provided, please enter 0. Where multiple similar funds are provided, please provide the AMC of the lowest cost equivalent fund.

20. Passively managed funds - funds which seek to track an index:

Consensus Managed fund

(Number %):

Passive Global or World Equity fund

(Number %):

Passive Bond fund

(Number %):

21. Actively managed funds - funds where a fund manager is making decisions as to what should be bought and sold within the portfolio:

Balanced Managed or Managed fund

(Number %):

Global or World Equity fund (actively managed)

(Number %):

Bond fund

(Number %):

Cash fund

(Number %):

22. Are there any circumstances where the Annual Management Charge would be higher?

(for example Performance Fees, Variations in Management Charges for Initial and Accumulated Units Variations in Management Charges for periods of time)

Yes

No

23. What Bid / Offer spread applies on monies allocated to purchase units in relevant investment fund (maybe 0%, however in some charging structures a bid / offer spread will apply, typically at a rate of 55

(Number %):

24. Do Exit Penalties apply where pension funds are withdrawn or transferred out of investment funds within a certain period?

Yes

No

25. Are the above charges (investment management charges, bid offer spread, exit penalties) disclosed to members?

Yes

No

Section 7: Questionnaire completion

26. On a scale of 1 to 5 (1 being very easy and 5 being very difficult) please rate your experience of gathering the information to complete this questionnaire in terms of:

Total fees and or total commissions Rating

Breakdown of total fees Rating

Breakdown of commission Rating

27. Did you hold the information required to complete this survey or did you need to request it from your advisor?

Yes, I had the information

No, I had to request the information

I had some of the information but needed to request some aspects

3. Defined Contribution Short Survey

The Department of Social Protection, in conjunction with the Pensions Board and the Central Bank, is undertaking a comprehensive study on the level of charges associated with various types of pension arrangements. PwC has been engaged to help gather the required information to allow such analysis.

The initial phase of this research is focused on employer sponsored Occupational Pension Schemes. As a result, we require you as Trustees to complete the following questionnaire to provide an insight into the costs incurred by your pension scheme.

The survey has been created with you as a Trustee in mind. We expect the information sought to be easily identifiable. It may be useful to have a copy of the latest Trustee Annual Report / Alternative Trustee Annual Report to hand when completing the questionnaire. The survey includes a save function allowing you the option to complete the survey in stages (if you need to save the survey instructions will be displayed on screen as to how to return to the survey).

Should you have any queries associated with the completion of this questionnaire you can contact the Help Desk we have set up on 01 792 5550. In addition there is a link provided below (Survey Support Link) should you instead prefer to email your query.

The questionnaire is provided through an on-line survey tool provided by PwC. To ensure confidentiality, the Department have designed the questionnaire so that the only identifying element of your scheme is the PB number (the register of which is exclusively available to the Pensions Board and thus cannot be linked by any external party to your scheme). The survey tool does not ask for your email address and nor is it stored by PwC and thus your response will be anonymous to PwC.

A link below is provided to the PwC Privacy statement which covers all aspects of the PwC website including this survey tool. This privacy policy states that PwC will not disclose information to third parties unless required by law. For the purpose of this research the survey findings will be provided to the Pensions Board and Department of Social Protection.

No data submitted to PwC as part of this survey will be disclosed to other member firms in the PricewaterhouseCoopers network of firms.

****Please note: If you select to save the survey and return at a later date the survey will allow you to return to the page you were last working from but it will not allow you to go back to previous results entered.**

Privacy. Do you accept the policies set forth in the privacy statement?

(Link below)

Yes

1	What is the scheme's Pension Board Number?
	Section Two: Trustee Annual Report / Alternative Trustee Annual Report information The following information is likely to be available from the Trustee Annual Report / Alternative Trustee Annual Report
2	What was the total number of Active Members as per the most recent Trustee Annual Report (Alternative Trustee Annual Report may not contain this information and it may need to be obtained elsewhere)?
3	What was the total number of Deferred Members as per the most recent Trustee Annual Report (Alternative Trustee Annual Report may not contain this information and it may need to be obtained elsewhere)?
4	What was the total value of Scheme assets as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?
5	What were the total contributions as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?
	Section Three: Adviser Fees & Scheme Cost Structure The following information will reflect the pension terms that you have agreed with your insurance company provider / pension advisor – please note that Risk Benefits are addressed in a separate section
6	What is the Gross Allocation Rate for contributions made? (<i>that is, for each €100 of contributions, what percentage is allocated to purchase units - 100% allocation would mean that all monies are allocated to purchase units</i>)
7	What Bid / Offer spread applied on monies allocated to purchase units? (<i>may be 0%, however in some charging structures a bid / offer spread will apply, typically at a rate of 5%</i>)
8	Do Exit Penalties apply where pension funds are withdrawn or transferred out within a certain period? (<i>please answer Y or N</i>)
9	What annual Policy Fee is applied to member accounts? (<i>maybe €0, however in some charging structures a monthly / annual policy fee may apply - please enter the equivalent annual amount</i>)
10	Is the policy fee paid by the employer or the member?
11	Are the costs above (i.e. allocation rates, bid offer spreads, policy fees, exit penalties) disclosed to members?
12	What annual fees do you pay <u>directly</u> to your advisor(s) <u>from company resources</u> in respect of the operation of this pension scheme?
13	Aside from any fees paid directly, what approximate annual commission payment is received by your pension adviser in respect of the operation of this pension scheme? (may be €0 where no commission is payable – please ignore the risk benefits scheme for the purpose of this question)
	Section Four: Investment Management Investment Management
	We have provided a list of funds which are commonly provided to members of Defined Contribution pension schemes. <i>Where an equivalent fund is provided to the members of this scheme, please enter the Annual Management Charge ("AMC") that applies - where no equivalent fund is provided, please leave blank. Where multiple similar funds are provided, please provide the AMC of the lowest cost equivalent fund</i>
14	Passively managed funds - funds which seek to track an index
	Consensus Managed fund
	Passive Global or World Equity fund
	Passive Bond fund

15	Actively managed funds - funds where a fund manager is making decisions as to what should be bought and sold within the portfolio
	Balanced Managed or Managed fund
	Global or World Equity fund (<i>actively managed</i>)
	Bond fund
	Cash fund
16	Are investment management charges disclosed to members?
	Section 5: Questionnaire Completion
17	Did you hold the information required to complete this survey or did you need to request it from your advisor?
	Yes I had the information
	No, I had to request the information
	I had some of the information but needed to request some aspects

4. Defined Benefit

The Department of Social Protection, in conjunction with the Pensions Board and the Central Bank is undertaking a comprehensive study on the level of charges associated with the various types of pension arrangements. PwC has been engaged to help gather the required information to allow such analysis.

The initial phase of this research is focused upon employer sponsored Occupational Pension Schemes. As a result we require you as Trustees to complete the following questionnaire to provide an insight into the costs incurred by your pension scheme and what services are provided for these costs.

The survey has been created with you as Trustee in mind. We expect the information sought should be easily identified. It may be useful to have a copy of the latest Trustee Annual Report to hand when completing the questionnaire. The survey includes a save function allowing you the option to complete the survey in stages (if you need to save the survey instructions will be displayed on screen as to how to return to the survey).

We have set up a Help Desk should you have any queries when completing this questionnaire and they can be contacted at 01 792 5550. In addition there is a link provided below (Survey Support Link) should you instead prefer to email your query.

The questionnaire is provided through an on-line survey tool provided by PwC. To ensure confidentiality, the Department have designed the questionnaire so that the only identifying element of your scheme is the PB number (the register of which is exclusively available to the Pensions Board and thus cannot be linked by any external party to your scheme). The survey tool does not ask for your email address nor is it stored by PwC and thus your response will be anonymous to PwC.

A link below is provided to the PwC Privacy statement which covers all aspects of the PwC website including this survey tool. This privacy policy states that PwC will not disclose information to third parties unless required by law. For the purpose of this research the survey findings will be provided to the Pensions Board and Department of Social Protection.

No data submitted to PwC as part of this survey will be disclosed to other member firms in the PricewaterhouseCoopers network of firms.

Privacy. Do you accept the policies set forth in the privacy statement?
(Link below)

Yes

Section 1 - Basic scheme details

1. What is the scheme Pensions Board Number?

PB:

2. What is the date of the most recent Trustee Annual Report ("TAR")?

Month Year

Date (Click here to choose) (Click here to choose)

3. When was the scheme charging structure last renegotiated?

(please enter 2000 if the year was prior to this or the scheme has never been restructured)

Month Year

Date (Click here to choose) (Click here to choose)

4. What is the current status of the scheme?

Open to new members

Closed to new entrants & open to accrual

Closed to future accrual

In process of winding up

Frozen

Other

Section 2: Trustee Annual Report /Alternative Trustee Annual Report information

The following information is likely to be available from the Trustee Annual Report / Alternative Trustee Annual Report

5. What was the total number of Active Members as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

(Number):

6. What was the total number of Deferred Members as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

(Number):

7. What was the total number of Pensioner Members as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

(Number):

8. What was the total value of Scheme assets as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

(Number €):

9. What was the total Employer contributions due as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

(Number €):

10. Do the Employer contributions include an allowance for the cost of running the scheme?

Yes

No

11. What was the total of Employee (normal) contributions (excluding AVCs) as per the most recent Trustee Annual Report / Alternative Trustee Annual Report?

(Number €):

12. What was the total of AVC contributions as per the most recent Trustee Annual Report / Alternative Trustee Annual Report? (may be €0 if the AVC scheme is set up under a separate trust or no AVC scheme exists)

(Number €):

13. Does the scheme currently meet the Minimum Funding Standard?

Yes

No

Section 3: Adviser fees & services provided

The following information will reflect the commercial terms that you have agreed with your pension provider / advisor - please note that Risk benefits are addressed in a separate section, so should be ignored for the questions below.

In responding to the following questions, you can record costs incurred as 'normal' (i.e. costs that can be expected to be incurred year on year) and 'exceptional' (i.e. costs that would not normally be expected to recur frequently, but where in recent periods activity has been higher, leading to higher levels of cost).

14. What total annual fees do you pay to your advisor(s) (excluding VAT) in respect of the operation of this pension scheme?

(Please ignore the risk benefits scheme for the purposes of this question. Where separate fees are payable to more than one advisor for administration, actuarial, consultancy services etc. please provide the overall total cost - may be €0 where no fees are payable)?

(Number €):

15. Where a component of the fees paid to the main Trustee pension advisor was in respect of the following items, please estimate the annual cost (excluding VAT)? (Please enter Co where no fees are payable in respect of the identified service. If unsure of breakdown for specific services please tick the appropriate box). In principle, the following breakdown should reconcile to the total fees identified in question 14.

Normal - Exceptional - Unsure

1. Pension Administration costs (exclusive of Pension Payroll Costs)

{Number €):

2. Pension Payroll Costs

(Number €):

3. Trustee meeting(s) (please ignore costs of Trusteeship for the purposes of this question)

(Number €):

4. Member presentations

(Number €):

5. Investment consulting advice (including any costs of Implemented Consulting where appropriate)

(Number €):

6. Advices relating to redundancies. Mergers and Acquisitions or other similar Corporate activity
(Number €):

7. Pension restructuring advice (e.g. Section 50 application; benefit amendments; Funding Proposal; closure to new entrants etc.) Please ignore legal fees for the purposes of this question
(Number €):

8. General Pensions advice
(Number €):

9. Actuarial compliance (Actuarial Valuation report, Actuarial Funding Certificate, Actuarial Statement)
(Number €):

10. Pension accounting (Provision of information required under the relevant Accounting Standard(s))
(Number €):

11. Other
(Number €):

15.1. Please provide a description of 'Other' where relevant from question 15 above:

16. Do pension administration costs include the cost of producing Trustee Annual Report and Financial Statements?

Yes

No

N/A

Don't know

16.1. Where No - please advise the additional cost applying
(Number €):

17. Aside from any fees above, what approximate annual commission payment is received by your pension adviser in respect of the operation of this pension scheme? (may be €0 where no commission payable – please ignore the risk benefits scheme for the purposes of this question)
Number (€):

18. Where internal resources are employed expressly for the running of pension arrangements, please provide an estimate of costs relating to these resources that relate to this arrangement: (where no internal resource is employed please leave blank)
Number (€):

Section 4: Risk Benefits

The following section deals with Risk Benefits provided to employees

19. Please complete:

1. Please provide the approximate annual premium cost of Risk Benefits provided (Death in Service / Disability Benefits - may be Co where no risk benefits are provided) (Number €):

2. What annual fees do you pay directly to your pension adviser direct from company resources (excluding VAT) in respect of the operation of Risk benefit arrangements? (may be Co where no fees payable) (Number €):

3. What approximate annual commission payment is received by your pension adviser in respect of the operation of Risk benefit arrangements? (may be €0 where no commission payable / nil commission arrangement applies) (Number €):

20. Are Risk Benefit commission payments offset against other fees payable in respect of the operation of the pension arrangements?

Yes

No

Section 5: Other costs

The following information seeks to identify other costs of running your pension scheme, outside of fees and commissions payable to your main pension advisor. If unsure of such costs please tick the appropriate box.

21. Please complete:

Normal - Exceptional - Unsure

1. Please provide details of the approximate annual cost of professional Trusteeship (may be €0 where no professional Trustees in place) (Number €):

2. Please provide details of the approximate annual cost of Audit fees (may be €0 where no Audit requirement applies) (Number €):

3. Please provide details of the approximate annual cost of Legal fees (may be €0) (Number €):

Section 6: Investment management

We have provided a list of investment funds that are commonly used by Defined Benefit pension schemes. Where your fund invests in a fund which is broadly equivalent to any of the funds below, please enter the Annual Management Charge ("AMC") that applies - where no equivalent fund is provided, please leave blank.

Where multiple similar funds are invested in, please provide the AMC of the lowest cost equivalent fund.

22. Passively managed funds - funds which seek to track an index:

Consensus Managed fund

(Number %):

Passive Global or World Equity fund

(Number %):

Passive Bond fund

(Number %):

23. Actively managed funds - funds where a fund manager is making decisions as to what is bought and sold within the portfolio:

Balanced Managed or Managed fund

(Number %):

Global or World Equity fund (actively managed)

(Number %):

Bond fund

(Number %):

Cash fund

(Number %):

24. Are there circumstances in which the Annual Management Charge would be higher - Performance Fees)?

Yes

No

Section 7; Questionnaire completion

25. On a scale of 1 to 5 (1 being very easy and 5 being very difficult) please rate your experience of gathering the information to complete this questionnaire in terms of:

Total Fees and or Total Commissions Rating

Breakdown of Total Fees Rating

Breakdown of Commission Rating

26. Did you hold the information required to complete this survey or did you need to request it from your advisor?

Yes, I had the information

No, I had to request the information

I had some of the information but needed to request some aspects

5. Public Sector – AVC Survey

Re: Department of Social Protection – Pension Study

The Department of Social Protection (the Department) in conjunction with the Pensions Board and the Central Bank of Ireland (the Central Bank) is undertaking a review of the cost structures within the Irish Pensions marketplace.

The Department has been requested by Government to carry out a study of the level of pension charges applying across a range of pension arrangements and has asked the Central Bank to write to intermediaries to obtain relevant information. A breakdown of the information requested is enclosed with this letter.

Completion of the information request before December 16 would be greatly appreciated. It would also be helpful if you could advise the name and contact details of a nominated individual within your organisation who would be available to meet to discuss the findings of your response should the need arise.

Furthermore, PwC have been engaged by the Department to assist with this project. The Central Bank would like to share the information received in relation to this request with the Department and PwC. In this regard, I would be grateful if you could complete and sign the attached waiver so that the Central Bank is released from its obligations under Section 33AK of the Central Bank Act, 1942 which prohibits the Central Bank from disclosure of certain information to third parties.

If you wish to discuss this project and the role of the Central Bank please feel free to contact me at the number below.

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Information Request

- 1) Who is the preferred pension provider(s) for the XXXX Public Sector AVC scheme?

- 2) What pension terms are in place for this scheme:

Standard Annual Management Charge (before any trail commission):

Does a bid offer spread apply? Yes /No

Does a policy fee apply? If Yes please provide details Yes /No

What is the net allocation rate (after deduction of any renewal commission) for regular member contributions? Where allocation rates are premium dependant please insert ranges and required premiums below.

What is the net allocation rate applying to single premiums / transfers? Where allocation rates are premium dependant please insert ranges and required premiums below.

Are there any other fees/costs impacting a members contributions or fund? Yes / No
If Yes please provide brief details:

Do exit penalties apply if funds are withdrawn before a certain time frame? Yes / No
If Yes please provide details:

Adviser Remuneration:

Do you operate primarily on a fee or commission structure?

Fee: Commission: Both:

If both - which structure makes up the majority of your client engagements?

Fee: Commission:

Fee Information:

Where fees are payable on what basis do you prepare fees?

Do you provide the detail of fees payable to clients in a durable medium e.g. in writing, email etc.?

Commission Information:

Where commission is your preferred primary remuneration basis we wish to get a better understanding of the commission structures you favour in relation to the XXX Public Sector Scheme.

With this in mind can you please advise your preferred commission structures based upon the majority of business written in the last 2 years:

Pension Type				
Public Sector AVC Scheme	Initial Commission on Regular Premiums	Commission on Single Premiums / Transfers	Renewal Commission	Fund Based Commission
	%	%	%	%

Is override commission payable from the preferred pension provider? Yes / No

What factors typically influence the type of commission structures you typically choose for such pension arrangements?

In respect of the XX Public Sector AVC scheme are commissions disclosed to clients, prior to issue, in a durable medium i.e. in writing, email etc.? Please provide details:

Services Provided (Fees or Commissions)

What services do you typically provide to clients on both an initial basis (i.e. on set up) and on an on-going annual basis?

In relation to the services you provide do you tailor such services for specific clients?

Yes No

If Yes - do you also scale the associated remuneration?

Yes No

If Yes - How do you scale remuneration?

6. Adviser/Intermediary Survey

Re: Department of Social Protection – Pension Study

The Department of Social Protection (the Department) in conjunction with the Pensions Board and the Central Bank of Ireland (the Central Bank) is undertaking a review of the cost structures within the Irish Pensions marketplace.

The Department has been requested by Government to carry out a study of the level of pension charges applying across a range of pension arrangements and has asked the Central Bank to write to intermediaries to obtain relevant information. A breakdown of the information requested is enclosed with this letter.

Completion of the information request before December 16 would be greatly appreciated. It would also be helpful if you could advise the name and contact details of a nominated individual within your organisation who would be available to meet to discuss the findings of your response should the need arise.

Furthermore, PwC have been engaged by the Department to assist with this project. The Central Bank would like to share the information received in relation to this request with the Department and PwC. In this regard, I would be grateful if you could complete and sign the attached waiver so that the Central Bank is released from its obligations under Section 33AK of the Central Bank Act, 1942 which prohibits the Central Bank from disclosure of certain information to third parties.

If you wish to discuss this project and the role of the Central Bank please feel free to contact me at the number below.

Yours sincerely,

XXXXXXXXXX

Central Bank of Ireland

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Information Request

Please provide a list of all (pension provider) agencies you currently have in place:

Do you operate primarily on a fee or commission structure?

Fee Commission:

Fee Information:

Where fees are payable, typically how are fees determined?

Do you provide the detail of fees payable to clients in a durable medium e.g. in writing, email etc. in advance of any pension business being placed?

Yes

Commission Information:

Where commission is your preferred primary remuneration basis we wish to get a better understanding of the commission structures you favour.

With this in mind can you please advise the following information based upon business written in the last 2 years:

- 1) Which three pension providers did you place most pension business with during the last 2 years?

- 2) In respect of these three providers what commission structures did you most favour for each of the following products (over the last two years):

What factors typically influence the type of commission structures you typically choose for such pension arrangements?

Non Standard PRSA				
Personal Retirement Bond	N/A		N/A	
Executive Pension Plan				
ARF / AMRF	N/A		N/A	
Group DC (Insured) Pension Scheme				

Do you provide the detail of commission receivable to clients in a durable medium e.g. in writing, email etc. in advance of any pension business being placed?

Yes

Services Provided (Fees or Commissions)

What services do you typically provide to clients on both an initial basis (i.e. on set up) and on an on-going annual basis?

In relation to the services you provide do you tailor such services for specific clients?

Yes

If Yes - do you also scale the associated remuneration?

Yes

If Yes - How do you scale remuneration?

7. Investment Manager - Request for Information

Re: Department of Social Protection – Pension Study

The Department of Social Protection in conjunction with the Pensions Board and the Central Bank of Ireland (the Central Bank) is undertaking a review of the cost structures within the Irish Pensions marketplace. The Department has been requested by Government to carry out a study of the level of pension charges applying across a range of pension arrangements and has asked the Central Bank to assist.

In recent weeks the Central Bank has requested each of the life assurance companies to provide a breakdown of pension costs.

We are now requesting investment managers to provide relevant information of the costs specifically associated with investment.

The information we require is as follows:

- A list of all pension investment fund options you operate (both open and closed)
- Assets under management within each fund
- The Annual Management Charge and Total Expense Ratio for each fund.
- Please provide the Annual Management Charge that would be applied to new mandates of €1m, €7.5m and €50m in each fund.

We are also seeking to identify the underlying costs of managing funds such as (but not limited to) stamp duty and brokerage commissions. We request you provide an estimate of the total impact of such costs for your four largest funds (ranked by fund size).

PwC have been engaged by the Department to assist with this project. The Central Bank would like to share the information received in relation to this request with the Department and PwC. In this regard, I would be grateful if you could complete and sign the attached waiver so that the Central Bank is released from its obligations under Section 33AK of the Central Bank Act, 1942 which prohibits the Central Bank from disclosure of certain information to third parties.

We would appreciate a prompt reply as the research study has to be undertaken under strict timescales. Completion of the information request before December 23rd would be greatly appreciated. It would also be helpful if you could advise the name and contact details of a nominated individual within your organisation who would be available to meet to discuss the findings of your response should the need arise.

(Director) of PwC is available to discuss the information request in more detail should you so require and can be contacted on.

If you wish to discuss this project and the role of the Central Bank please feel free to contact me at the number below.

Yours sincerely,

XXXXXXXXXX

Central Bank of Ireland

8. Life Assurance Companies - Request

Re: Department of Social Protection – Pension Study

The Department of Social Protection in conjunction with the Pensions Board and the Central Bank of Ireland (the Central Bank) is undertaking a review of the cost structures within the Irish Pensions marketplace. PwC have been engaged to help with this project and the information which you provide will be passed to them for analysis.

The Department has been requested by Government to carry out a study of the level of pension charges applying across a range of pension arrangements and has asked the Central Bank to write to each insurance company pension provider to obtain relevant information.

We enclose with this letter a breakdown of the information we require. We would appreciate a prompt reply as the research study has to be undertaken under strict timescales.

As such we require this information by Friday 16th December. We also request that you advise the name and contact details for a nominated individual who would be available to meet to discuss the findings of your response should there be any queries.

If you wish to discuss this project and the role of the Central Bank please feel free to contact me at the below number.

Yours sincerely,

XXXXXXXXXX

Central Bank of Ireland

Information Request

The information sought is broken down into four areas:

- 1) Pension cost structures available to new business,
- 2) Commission details;
- 3) Investment Management; and
- 4) Pension cost structures on legacy business.

1) Pension cost structures available to new business:

We wish to obtain a picture of the various cost structures available to pension arrangements.

We enclose a spreadsheet (New Cost Structures) which outlines a number of pension arrangements and outlines the information we require you to provide for each pension type. We have taken a number of examples with various contribution levels and term to maturity to identify sensitivity to such factors.

Please complete the spreadsheet by providing samples if such arrangements were to be set up **today**. We would like you to complete the questionnaire on two bases:

- **exclusive** of any intermediary / distributions costs, and separately.
- **inclusive** of intermediary / distribution costs assuming that the **maximum** commission arrangements were chosen

We are keen to get an understanding of the impact of commission on cost structures.

The sample pension arrangements are:

- 1) Group Pension Schemes – Defined Contribution
- 2) Retirement Annuity Contracts
- 3) Executive Pension Plans
- 4) Personal Retirement Bonds
- 5) Approved Retirement Funds

2) Commission details:

The above information seeks to understand the knock on impact of maximum commission options. We appreciate that there is likely to be a spread of commission options. For this reason please provide a schedule of all commission options (initial, renewal and trail) available for each of the above pension types.

Please provide a breakdown of the most prevalent commission options chosen for business written between 1st January 2010 and present.

In addition we are also keen to also get an understanding of the prevalence of various commission options based on business already in existence. With this aim in mind please provide a breakdown of the prevalence of commission options within your back book of business for the above pension products.

Finally please provide details of what override you provide and any conditions applying.

3) Investment Management:

Please provide a list of all pension investment fund options (both open and closed) including the Annual Management Charges associated. Please provide a breakdown of the level of assets under management for each fund as we wish to get a greater picture of the investment management charges that are most common.

We also wish to get a greater understanding of the underlying fund costs experienced. What we are seeking to identify are costs such as (but not limited to) custody, stamp duty and brokerage

commissions. We request you provide an estimate of the total impact of such costs for your four largest funds (ranked by fund size).

4) Pension cost structures on legacy business:

The final part of this process is to get a greater understanding of the other costs associated with pension arrangements and their prevalence in the Irish market. As a result we would request that you provide the following information for the following pension types (where you provide such arrangements):

- a) Group Pension Schemes – Defined Contribution
 - b) Retirement Annuity Contracts
 - c) Executive Pension Plans
 - d) Personal Retirement Bonds
 - e) Approved Retirement Funds
- 1) Breakdown of the charging structures of your existing back book of pension business. The costs we refer to include: Gross Allocation Rates, Bid Offer Spreads and Policy Fees, Initial/Accumulator units.
 - 2) We also wish to understand current contribution flows to paint a picture of the prevalence of charging structures. With this in mind please provide details of the aggregate levels of contributions being received for pension arrangements that were put in place pre and post 2006.
 - 3) Please provide a high level summary of the total numbers of the various pension contracts in existence (Group Insured DC Schemes, RAC's, PRB's, PRSA's, Non Standard PRSA's, ARF's, AMRF's, Executive Pension Plans,) assets under management within each type, and the calendar year 2010 contribution inflows into each type.
 - 4) Please advise the level of with profit pension investments (both traditional and unitised) currently under management (where relevant).

Finally we include with this letter a second spreadsheet (Historical Cost Structures) for you to complete to allow a comparison of new structures with legacy structures.

The spreadsheet provides a number of pension types. Please advise the cost structure for each pension type (based on prevalence within back book to allow appropriate comparison) based upon terms available 10 years ago and 15 years ago.

Life Company Information – Part A

Report on Pension Charges in Ireland 2012

Executive/Director Pension Plan

Please provide your standard pricing structure applicable to the following Executive/Director Pension Plans assuming no remuneration of any form is payable to an intermediary or direct sales agent.
(If more than one policy type exists please provide the lowest cost option for the individual policy holder.)

Gross Allocation Rate	Does a Bid/Offer Spread Apply?		Policy Fee		Do Exit Penalties Apply?		Annual Management Charge for Typical Managed Fund	Please also advise the gross allocation on transfer payable should these contracts also include a transfer of pre-existing arrangements based on transfers of:		
	(yes/no)	If Yes please provide details.	Amount	Frequency	(yes/no)	If Yes please provide details.		€15,000	€30,000	€65,000
Plan A: Member Age: 35 Annual Contribution: €1,200 Normal Retirement Age: 65										
Plan B: Member Age: 35 Annual Contribution: €3,000 Normal Retirement Age: 65										
Plan C: Member Age: 35 Annual Contribution: €6,000 Normal Retirement Age: 65										
Plan D: Member Age: 50 Annual Contribution: €1,200 Normal Retirement Age: 65										
Plan E: Member Age: 50 Annual Contribution: €3,000 Normal Retirement Age: 65										
Plan F: Member Age: 50 Annual Contribution: €6,000 Normal Retirement Age: 65										

Are the above items disclosed to the individual pension saver? Yes / No

If Yes - please provide an example

Personal Retirement Bond

Please provide your standard pricing structure applicable to the following Personal Retirement Bonds assuming no remuneration of any form is payable to an intermediary or direct sales agent.
(If more than one policy type exists please provide the lowest cost option for the individual policy holder.)

	Gross Allocation Rate	Does a Bid/Offer Spread Apply?		Policy Fee		Do Exit Penalties Apply?		Annual Management Charge for Typical Managed Fund
		(yes/no)	If Yes please provide details.	Amount	Frequency	(yes/no)	If Yes please provide details.	
Bond A: Member Age: 35 Investment: €25,000 Normal Retirement Age: 60								
Bond B: Member Age: 35 Investment: €125,000 Normal Retirement Age: 60								
Bond C: Member Age: 35 Investment: €525,000 Normal Retirement Age: 60								
Bond D: Member Age: 55 Investment: €100,000 Normal Retirement Age: 60								
Bond E: Member Age: 55 Investment: €350,000 Normal Retirement Age: 60								
Bond F: Member Age: 55 Investment: €850,000 Normal Retirement Age: 60								

Are the above items disclosed to the individual pension saver? Yes / No

If Yes - please provide an example

Report on Pension Charges in Ireland 2012

Defined Contribution Group Schemes - Commission Inclusive

Please provide your standard pricing structure applicable to the following **Defined Contribution Insured Schemes** assuming remuneration is payable to an intermediary or direct sales agent.

	What are the Maximum Commission Terms available?	Allocation Rate (Net of Commission)	Does a Bid/Offer Spread Apply?		Policy Fee		Do Exit Penalties Apply?		Annual Management Charge for Typical Managed Fund (Inclusive of commission arrangement)	Please also advise the initial commission on transfer payable should these contracts also include a transfer of pre-existing arrangements based on transfers of:	
			(yes/no)	If Yes please provide details.	Amount	Frequency	(yes/no)	If Yes please provide details.			
Scheme A: Average Member Age: 35 Number of Members: 10 Annual Cashflow: €68,000 Normal Retirement Age: 65										€200,000	
Scheme B: Average Member Age: 50 Number of Members: 50 Annual Cashflow: €350,000 Normal Retirement Age: 65										€1,050,000	
Scheme C: Average Member Age: 35 Number of Members: 90 Annual Cashflow: €600,000 Normal Retirement Age: 65										€1,800,000	
Scheme D: Average Member Age: 50 Number of Members: 250 Annual Cashflow: €1,700,000 Normal Retirement Age: 65										€5,000,000	
Scheme E: Average Member Age: 35 Number of Members: 500 Annual Cashflow: €3,500,000 Normal Retirement Age: 65										€10,000,000	
Scheme F: Average Member Age: 50 Number of Members: 750 Annual Cashflow: €5,000,000 Normal Retirement Age: 65										€15,000,000	

Are the above items disclosed to the individual pension saver? Yes / No

If Yes - please provide an example

Report on Pension Charges in Ireland 2012

Retirement Annuity Contract - Commission Inclusive

Please provide your standard pricing structure applicable to the following Retirement Annuity Contracts assuming remuneration is payable to an intermediary or direct sales agent.

(If more than one policy type exists please provide the lowest cost option for the individual policy holder.)

	What are the Maximum Commission Terms available?	Allocation Rate (Net of Commission)	Does a Bid/Offer Spread Apply?		Policy Fee		Do Exit Penalties Apply?		Annual Management Charge for Typical Managed Fund (Inclusive of commission)	Please also advise the initial commission on transfer payable should these contracts also include a transfer of pre-existing arrangements		
			(yes/no)	If Yes please provide details	Amount	Frequency	(yes/no)	If Yes please provide details		€10,000	€25,000	€50,000
RAC A: Member Age: 35 Annual Contribution: €1,200 Normal Retirement Age: 65												
RAC B: Member Age: 35 Annual Contribution: €3,000 Normal Retirement Age: 65												
RAC C: Member Age: 35 Annual Contribution: €6,000 Normal Retirement Age: 65												
RAC D: Member Age: 50 Annual Contribution: €1,200 Normal Retirement Age: 65												
RAC E: Member Age: 50 Annual Contribution: €3,000 Normal Retirement Age: 65												
RAC F: Member Age: 50 Annual Contribution: €6,000 Normal Retirement Age: 65												

Are the above items disclosed to the individual pension saver? Yes / No
If Yes - please provide an example

Report on Pension Charges in Ireland 2012

Executive/Director Pension Plan - Commission Inclusive

Please provide your standard pricing structure applicable to the following Executive/Director Pension Plans assuming remuneration is payable to an intermediary or direct sales agent.

(If more than one policy type exists please provide the lowest cost option for the individual policy holder.)

	What are the Maximum Commission Terms available?	Allocation Rate (Net of Commission)	Does a Bid/Offer Spread Apply?		Policy Fee		Do Exit Penalties Apply?		Annual Management Charge for Typical Managed Fund (Inclusive of commission)	Please also advise the initial commission on transfer payable should these contracts also include a transfer of pre-existing arrangements		
			(yes/no)	If Yes please provide details	Amount	Frequency	(yes/no)	If Yes please provide details		€15,000	€30,000	€65,000
<u>Plan A:</u> Member Age: 35 Annual Contribution: €1,200 Normal Retirement Age: 65												
<u>Plan B:</u> Member Age: 35 Annual Contribution: €3,000 Normal Retirement Age: 65												
<u>Plan C:</u> Member Age: 35 Annual Contribution: €6,000 Normal Retirement Age: 65												
<u>Plan D:</u> Member Age: 50 Annual Contribution: €1,200 Normal Retirement Age: 65												
<u>Plan E:</u> Member Age: 50 Annual Contribution: €3,000 Normal Retirement Age: 65												
<u>Plan F:</u> Member Age: 50 Annual Contribution: €6,000 Normal Retirement Age: 65												

Are the above items disclosed to the individual pension saver? Yes / No

If Yes - please provide an example

Personal Retirement Bond - Commission Inclusive

Please provide your standard pricing structure applicable to the following Personal Retirement Bonds assuming remuneration is payable to an intermediary or direct sales agent.

(If more than one policy type exists please provide the lowest cost option for the individual policy holder.)

	What are the Maximum Commission Terms available?	Allocation Rate (Net of Commission)	Does a Bid/Offer Spread Apply?		Policy Fee		Do Exit Penalties Apply?		Annual Management Charge for Typical Managed Fund (Inclusive of commission arrangement)
			(yes/no)	If Yes please provide details.	Amount	Frequency	(yes/no)	If Yes please provide details.	
Bond A: Member Age: 35 Investment: €25,000 Normal Retirement Age: 60									
Bond B: Member Age: 35 Investment: €125,000 Normal Retirement Age: 60									
Bond C: Member Age: 35 Investment: €525,000 Normal Retirement Age: 60									
Bond D: Member Age: 55 Investment: €100,000 Normal Retirement Age: 60									
Bond E: Member Age: 55 Investment: €350,000 Normal Retirement Age: 60									
Bond F: Member Age: 55 Investment: €850,000 Normal Retirement Age: 60									

Are the above items disclosed to the individual pension saver? Yes / No

If Yes - please provide an example

Approved Retirement Funds/Approved Minimum Retirement Funds - Commission Inclusive

Please provide your standard pricing structure applicable to the following **Approved Retirement Funds/Approved Minimum Retirement Funds** assuming remuneration is payable to an intermediary or direct sales agent.

(If more than one policy type exists please provide the lowest cost option for the individual policy holder.)

	What are the Maximum Commission Terms available?	Allocation Rate (Net of Commission)	Does a Bid/Offer Spread Apply?		Policy Fee		Do Exit Penalties Apply?		Annual Management Charge for Typical Managed Fund (Inclusive of commission arrangement)
			(yes/no)	If Yes please provide details.	Amount	Frequency	(yes/no)	If Yes please provide details.	
Fund A: Member Age: 65 Transfer Value: €250,000									
Fund B: Member Age: 65 Transfer Value: €500,000									
Fund C: Member Age: 65 Transfer Value: €750,000									

Are the above items disclosed to the individual pension saver? Yes / No

If Yes - please provide an example

Life Company Information – Part B

Pension Arrangements Cost Structures Survey

The Department of Social Protection

in conjunction with:

The Pensions Board

&

The Central Bank

Historical Cost Structures

Appendix 2 - Details for other funds considered

Annual Management Charges

Defined Benefit Schemes – Trustee Responses:

Scheme Membership	Balanced Managed / Active Managed Fund	Balanced Managed / Active Managed Fund	Balanced Managed / Active Managed Fund	Consensus Fund	Consensus Fund	Consensus Fund Managed Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.75%	1.0%	0.5%	0.55%	1.0%	0.3%
50 to 500 Members	0.79%	1%	0.09%	0.68%	1.0%	0.2%
500 + Members	0.6%	1%	0.14%	0.825%	1.0%	0.375%

Scheme Membership	Active Global Equity Fund	Active Global Equity Fund	Active Global Equity Fund	Passive Global Equity Fund	Passive Global Equity Fund	Passive Global Equity Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.65%	1.0%	0.3%	0.73%	1.25%	0.3%
50 to 500 Members	0.70%	1.0%	0.2%	0.58%	1.0%	0.1%
500 + Members	0.6%	1.3%	0.10%	0.5%	1.25%	0.06%

Scheme Membership	Active Bond Fund	Active Bond Fund	Active Bond Fund	Passive Bond Fund	Passive Bond Fund	Passive Bond Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.54%	1.0%	0.3%	0.9%	1.75%	0.2%
50 to 500 Members	0.76%	1.0%	0.2%	0.46%	1.0%	0.01%
500 + Members	0.47%	1.0%	0.12%	0.48%	1.0%	0.08%

Scheme Membership	Cash Fund	Cash Fund	Cash Fund
	Average %	High %	Low %
1 to 50 Members	0.56%	1.0%	0.2%
50 to 500 Members	0.75%	1.0%	0.02%
500 + Members	0.64%	1.0%	0.10%

Defined Contribution Insured Schemes – Trustee Responses:

Scheme Membership	Balanced Managed / Active Managed Fund	Balanced Managed / Active Managed Fund	Balanced Managed / Active Managed Fund	Consensus Fund	Consensus Fund	Consensus Fund Managed Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.79%	1.5%	0.5%	0.69%	0.4%	1.1%
50 to 500 Members	0.71%	1.0%	0.5%	0.67%	1.2%	0.375%
500 + Members	0.6%	0.3%	0.75%	0.44%	0.65%	0.22%

Scheme Membership	Active Global Equity Fund	Active Global Equity Fund	Active Global Equity Fund	Passive Global Equity Fund	Passive Global Equity Fund	Passive Global Equity Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.86%	1.85%	0.5%	0.71%	1.25%	0.2%
50 to 500 Members	0.72%	1.0%	0.55%	0.68%	1%	0.2%
500 + Members	0.75%	0.75%	0.75%	0.48%	0.65%	0.22%

Scheme Membership	Active Bond Fund	Active Bond Fund	Active Bond Fund	Passive Bond Fund	Passive Bond Fund	Passive Bond Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.74%	1.25%	0.10%	0.67%	1%	0.2%
50 to 500 Members	0.69%	1.0%	0.1%	0.65%	1%	0.2%
500 + Members	0.45%	0.75%	0.15%	0.39%	0.65%	0.1%

Scheme Membership	Cash Fund	Cash Fund	Cash Fund
	Average %	High %	Low %
1 to 50 Members	0.68%	1.1%	0.25%
50 to 500 Members	0.66%	1.0%	0.2%
500 + Members	0.45%	0.75%	0.15%

Defined Contribution Non-Insured Schemes – Trustee Responses:

Scheme Membership	Balanced Managed / Active Managed Fund	Balanced Managed / Active Managed Fund	Balanced Managed / Active Managed Fund	Consensus Fund	Consensus Fund	Consensus Fund Managed Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.79%	1.5%	0.5%	0.375%	0.375%	0.375%
50 to 500 Members	0.71%	1.0%	0.5%	0.44%	0.75%	0.25%
500 + Members	0.6%	0.3%	0.75%	0.3%	0.4%	0.09%

Scheme Membership	Active Global Equity Fund	Active Global Equity Fund	Active Global Equity Fund	Passive Global Equity Fund	Passive Global Equity Fund	Passive Global Equity Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.55%	0.6%	0.5%	0.3%	0.3%	0.3%
50 to 500 Members	0.68%	1.5%	0.4%	0.41%	0.65%	0.1%
500 + Members	0.59%	0.7%	0.55%	0.25%	0.4%	0.09%

Scheme Membership	Active Bond Fund	Active Bond Fund	Active Bond Fund	Passive Bond Fund	Passive Bond Fund	Passive Bond Fund
	Average %	High %	Low %	Average %	High %	Low %
1 to 50 Members	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
50 to 500 Members	0.34%	0.65%	0.1%	0.26%	0.65%	0.08%
500 + Members	0.4%	0.45%	0.35%	0.2%	0.31%	0.09%

Scheme Membership	Cash Fund	Cash Fund	Cash Fund
	Average %	High %	Low %
1 to 50 Members	0.3%	0.3%	0.3%
50 to 500 Members	0.31%	0.75%	0.1%
500 + Members	0.26%	0.55%	0.09%