

# Update on fees and charges

IOPS Secretariat

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# 1. Background

- At the IOPS AGM in Hong Kong, China in November 2016, the IOPS Members decided to follow up on the IOPS research into fees and charges as part of the IOPS Programme of Work for 2017-2018
- Two papers will be developed:
  - An update of the IOPS work in the area of **costs and fees**
  - **Review and assessment** of current **challenges** with regard to the costs of private pension provision, past and recent **policy interventions** aimed at **lowering fee levels** plus **policy recommendations** (jointly with the OECD Working Party on Private Pensions)
- This presentation relates to the paper that updates the IOPS work on costs and fees

## 2. Why costs and fees?

- One of the **most important factors** affecting the **final value of retirement income**
- Proper information about the **level** and the **structure of costs and fees** crucial for the **effective governance of pension plans**
- Important to the **members of the pension scheme**, (particularly the DC and hybrid, members facing investment risks and need to take various decisions)
- The project team members: Iceland\*, Italy, India\*, Mexico, Slovak Republic, South Africa, Turkey\*, Uganda, the World Bank. Other Members are welcome to join (\* New members)

# 3. Purpose of the project

- To provide an **update** of the current situation with regard to the **structure, level and types of fees and charges** present in the surveyed IOPS jurisdictions
  - A follow-up of the IOPS Working Papers No. 20 (April 2014) and No. 6 (June 2008)
- To develop some more **understanding** of the **nature of costs** incurred in IOPS jurisdictions
  - In particular, in line with current WPPP/IOPS work, to learn more about the **total member reductions** of their pension savings, (i.e. the type of costs/expenditures that are covered by the existing fees charged directly to the members and the other costs that are charged indirectly)

## 4. Scope and coverage

- **All private pension funds** including occupational and personal, and mandatory and voluntary
- Focus given to **DC and hybrid plans**, however with an ambition to expand the knowledge on the total member reductions to the DB pension plans as well

# 5. Structure of the paper

Introduction

Scope and coverage

1. Fees charged in the surveyed IOPS jurisdictions

1.1. Current average and maximum values

1.2. Summary of changes since 2014

2. Total member reductions of pension savings in the surveyed IOPS jurisdictions

2.1. Costs/expenditures covered by fees

2.2. Costs/expenditures as indirect member's reductions of pension savings

2.3. Charge ratios

3. Conclusions

References



# 6. Fees charged in the surveyed IOPS jurisdictions

## 1) Updates since the last IOPS meeting in Mauritius, Oct 2017

- **44 Jurisdictions** has provided **fee information** (previous version : 26)
  - **Newly included : 18 jurisdictions** (Australia, Belgium, Czech Republic, Estonia, Ghana, Hong Kong, Iceland, India, Ireland, Jamaica, Korea, Maldives, Namibia, Nigeria, Portugal, Russia, Sweden, UK)
  - **Data updated / Confirmed : 18 jurisdictions** (Albania, Brazil, Bulgaria, Chile, Colombia, Costa Rica, FYR of Macedonia, Hungary, Latvia, Liechtenstein, Mexico, Peru, Poland, Romania, Serbia, Slovak Republic, Slovenia, Turkey)

\* The data on currently charged fees is presented in **Table 1** (pages 5-11)

# 6. Fees charged in the surveyed IOPS jurisdictions

## 2) Fees' structure

- Amongst **87 different pension schemes** in 44 selected jurisdictions,
  - **Majority charge fees on assets**: 40 jurisdictions, 78 schemes (90%)
  - **Contributions**: 23 jurisdictions, 47% of schemes
  - **Returns** (performances fees): 10 jurisdictions, 22% schemes
  - **Salaries**: 4 jurisdictions, 7% of schemes
- 40 schemes (i.e. **46%** of the sample) charged fees on **one component** only
  - Two components: 34 schemes (**39%**)
  - Three components: 12 schemes (**14%**)
  - Four components: 0 schemes

\* In one scheme (Iceland, occupational plans) the number of fees can vary depending on the fund, which makes it hard to classify them to any of these groups





# 6. Fees charged in the surveyed IOPS jurisdictions

## 3) Legal caps on fees

- Many jurisdictions introduced **legal caps** on fees
    - In most cases, the **average fees do not equal the legal cap**, which can be explained as a positive effect of market competition
  - However, the **difference** between the cap and the actual level may be **insignificant**
    - Average fees were lower than the legal caps by at least 10% in 72% (i.e. 26 out of 36) of schemes
- In **25% of the cases**, pension providers tended to adhere to the legal maximum values stipulated by governments



# 6. Fees charged in the surveyed IOPS jurisdictions

## 4) Summary of changes since 2014

- All **22 jurisdictions** who participated in both 2014 and 2017 exercises **maintained** their **ways of charging fees**
- The major tendency is that **average fees decreased in 2017** compared to 2014
  - Amongst various pension schemes from 14 jurisdictions, average fee **clearly increased in only two cases**
- With regard to the change in **legal maximum fees**
  - **9 lowered** (Bulgaria, Costa Rica, Czech Republic, FYR of Macedonia, Lithuania, Poland, Slovak Republic, Spain, and U.K.)
  - **3 increased** (Columbia, Hungary and Serbia)
  - **4 unchanged** (Albania, Ghana, Israel, and Romania)

\* The data on fees charged in 2017 as compared to 2014 is in **Table 2** (pages 12-13)

# 7. Total member reductions of pension savings

## 1) Costs/expenditures covered by fees

- **Direct comparison** of fees and charges across jurisdictions may lead to **inaccurate conclusions**
    - Jurisdictions are therefore presented by **clusters**, i.e. by groups of countries with **identical** or very **similar items** already **covered by pension fees**
  - We will **calculate charge ratio** and **present** them in such **clusters**
- \* The data on cost and fee elements explicitly covered in fees charged to the members in each jurisdiction is presented in **Table 3** (pages 15-16)

# 7. Total member reductions of pension savings

## 2) Costs/expenditures as indirect member reductions of pension savings

- This section will stocktake the information about the **most substantial items** that **indirectly lower plan members' contributions and/or assets**

### Comments received

Jurisdiction	Answer
Romania	<ul style="list-style-type: none"><li>▪ In the mandatory pillar, pension fund management companies are allowed to charge only a fee on contributions and a fee on AUM. All other costs incurred by the pension fund are contained in the AUM fee. The only indirect cost relates to the underlying funds management fee. There is no estimate on the value of this.</li></ul>
Ireland	<ul style="list-style-type: none"><li>▪ Investment management fees for underlying funds and investment transaction costs</li></ul>
Mauritius	<ul style="list-style-type: none"><li>▪ Information not available at this stage</li></ul>

### Request to the Members:

Please let us know which are the most substantial, in your opinion, cost and fee elements in your jurisdiction that are paid indirectly by the pension plan members, therefore reducing members' pension contributions or assets. If possible, please provide the value/estimate of each item

# 7. Total member reductions of pension savings

## 3) Charge Ratios

- **Charge ratios** will be **calculated** in line with the **methodology developed in the past** (IOPS, 2014)
- Based upon the information received in
  - section 2.1 (costs/expenditures covered by fees) and
  - section 2.2 (cost/expenditures as indirect member reductions of pension savings)
- The jurisdictions will **grouped in comparable clusters**, depending on the **degree to which the explicit fees cover the cost and fee elements**.
  - Should any estimates of **indirect member reductions** be available, the charge ratios will be **adjusted accordingly**

## 8. Current timeline

<b>March-April 2018</b>	<ul style="list-style-type: none"><li>▪ <b>Final confirmation regarding data in each jurisdiction</b></li></ul>
<b>June 2018</b>	<ul style="list-style-type: none"><li>▪ 2<sup>nd</sup> draft of the paper (extended with charge ratios and preliminary conclusions)</li></ul>
<b>Summer- Autumn 2018</b>	<ul style="list-style-type: none"><li>▪ Final draft of paper – approval to publish it in IOPS Working Paper series</li></ul>

# Thank you!

