



# IMPROVING THE COMPARABILITY OF DATA ON COSTS OF RUNNING PENSION PLANS

WORKING PARTY ON PRIVATE PENSIONS

OECD

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# THE IMPORTANCE OF MEASURING COSTS

1. Costs incurred by pension providers in running a pension plan have a direct impact on members' accumulation of assets
2. Operating costs can affect member outcomes in Defined Contribution (DC) schemes or sponsor affordability in Defined Benefit (DB) arrangements
3. On top of the fees that pension providers charge to recover costs, indirect costs may further reduce the amount of assets accumulated
4. This in turn, may lead to lower pension benefits in the future

**Comparable data on operating costs would help identify inefficiencies in the system and pension arrangements that are more cost-efficient**

- According to the study, the main difficulties in comparing operating costs across countries are:
  - Differences in reporting and classification of some costs
  - Uneven coverage of data of costs
- In this sense, it has become vital to identify and define the types of costs that Pension Fund Providers (PFP) incur while running pension plans
- Nonetheless, some costs are difficult to collect or estimate, such as indirect costs (i.e. transaction costs or implicit costs)
- Some potential reporting issues are:
  - Countries aggregate investment expenses into administrative costs or vice versa
  - Countries report operating expenses under other classifications

# HOW IS MEXICO FACING THESE CHALLENGES?

## 1. Cost Reporting by Pension Fund Administrators (AFORE)

- CONSAR introduced an *Accounting Guide* in line with the Mexican Financial Reporting Standards. The main AFORE costs categories are:
  - Comercial
  - Regulatory
  - Services
  - Investment and risk management
  - Administration

# HOW IS MEXICO FACING THESE CHALLENGES?

## 2. Cost Reporting by Pension Funds (SIEFORE)

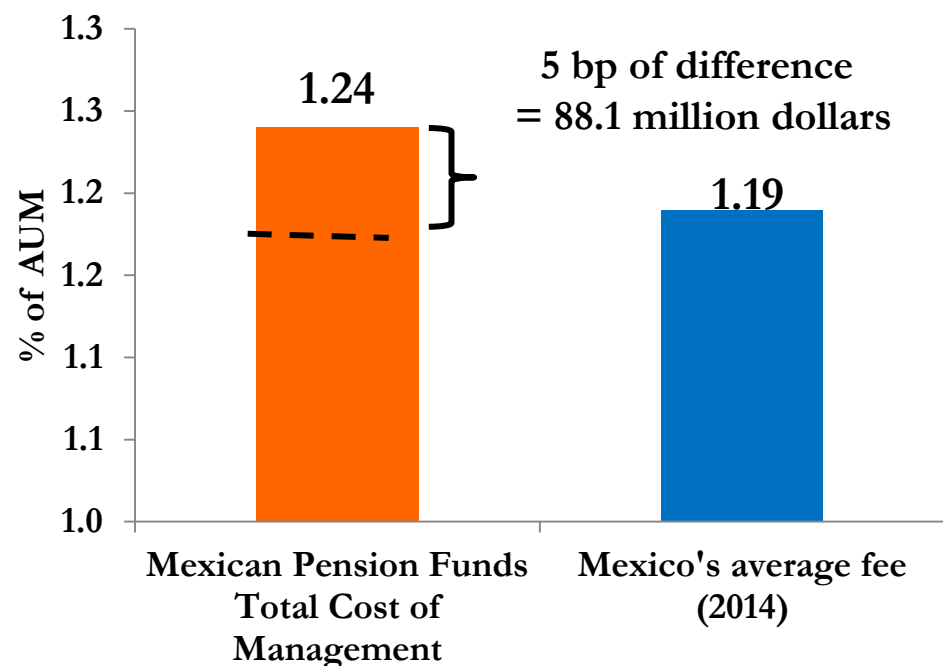
- CONSAR expanded the Accounting Guide for pension funds in order to align cost reporting between Administrators and Pension Funds. The main SIEFORE costs categories are:
  - Fees incurred in the purchase and sale of financial instruments
  - Taxes and rights of financial instruments
  - Brokerage costs and taxes applied to them

# HOW IS MEXICO FACING THESE CHALLENGES?

## 3. Transaction costs

- A study by CEM Benchmarking reported a gap worth 88.1 million dollars between the average fee reported to workers and the estimated total cost of management of Mexican Pension Funds.

Mexico's Total Cost of Management vs Average Fee



- To estimate transaction costs, CONSAR recently required information of fees paid to:
  - Financial intermediaries
  - Electronic brokers and trading partners of listed operations with derivatives
  - National and international custodians

# HOW IS CONSAR USING THE COST INFORMATION?

1. **Diagnosis:** Analysis of indicators and financial ratios to identify trends and variations that can imply misreporting
2. **Disclosure:** Monthly disclosure of costs information at CONSAR's website
3. **Supervision:** On-site and off-site supervision to verify compliance with the Accounting Guide

## QUESTIONS FOR DISCUSSION

- Do you support the reintroduction of a broad category “operating expenses”?
- Do you consider “operating costs” should be the sum of “administrative costs”, “investment expenses” and “other expenses”?
- Do you think operating costs should cover both the expenses borne by the fund and fund administrator?
- How would you suggest to deal with the fees that are paid from the pension funds to the PFP in the calculation of operating costs?
- Do you encourage the Secretariat to examine further indirect costs and in particular transaction costs?
- Is it useful to continue to collect tax expenses on income in the annual exercise?





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