

Pensions Investment Academy

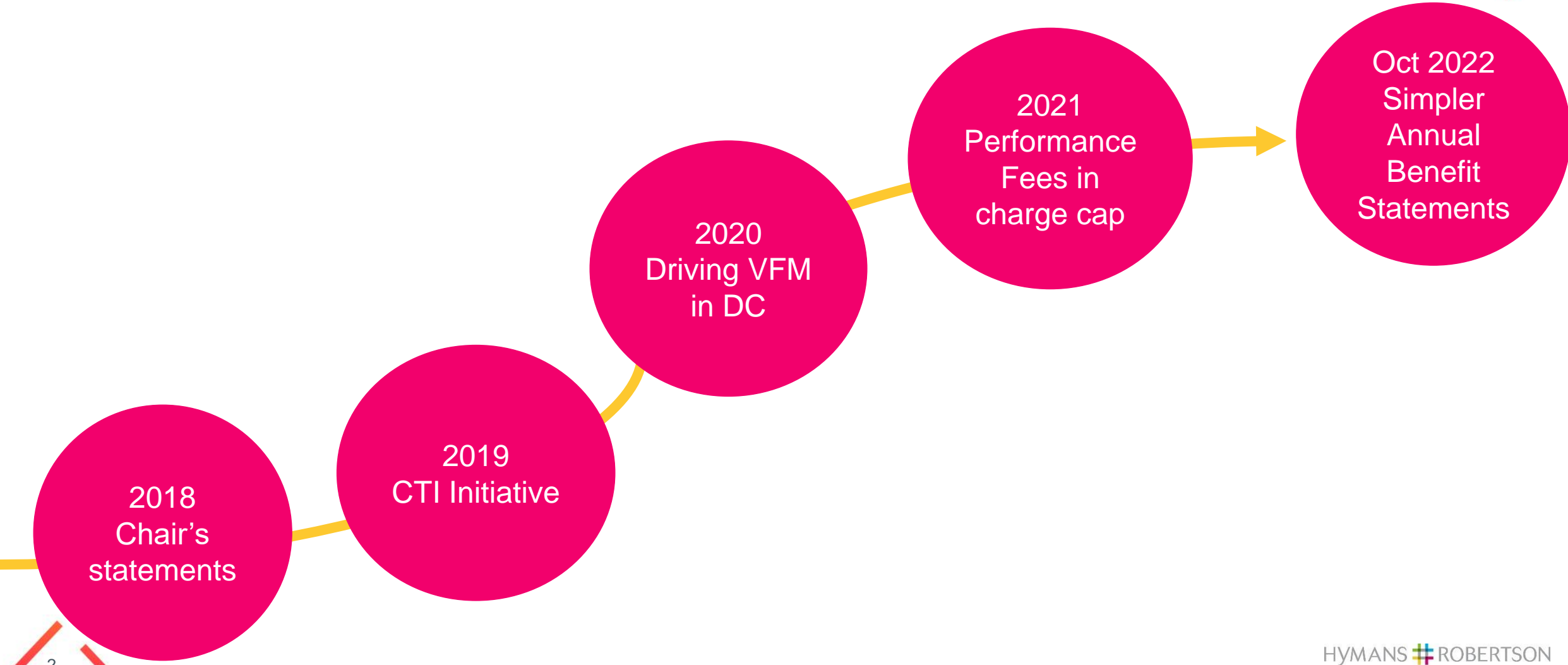
Fees, Costs and Transparency

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Developments so far..



What's The Issue?

PORTFOLIO TRANSACTION COSTS

Explicit transaction costs
<ul style="list-style-type: none">• Transaction taxes• Broker commissions• Transaction related services• Other explicit costs
Implicit transaction costs
Indirect transaction costs
Less: anti-dilution offset

Source: PLSA Template

FMCs, AMC, TERs

PROPERTY EXPENSES

Property expenses
<ul style="list-style-type: none">• Property management fees• Property leasing costs• Property maintenance and repairs• Property utilities and service charges• Property void costs• Property insurance costs• Property valuation fees• Property failed transaction costs• Indirect property expenses• Other property expenses

Source: PLSA Template

TLAs!

Effect on allocation to illiquids

INCIDENTAL COSTS

Performance fees invoiced
Performance fees paid through NAV
Carried interest charged

Total incidental costs

LENDING AND BORROWING COSTS

Stock lending fees not retained (see below)
Stock borrowing fees
Interest on borrowing
Borrowing and arrangement fees

Performance fee smoothing

Design of multi-year smoothing option

What Do Members Think?

Transparent Charges: The Member Perspective

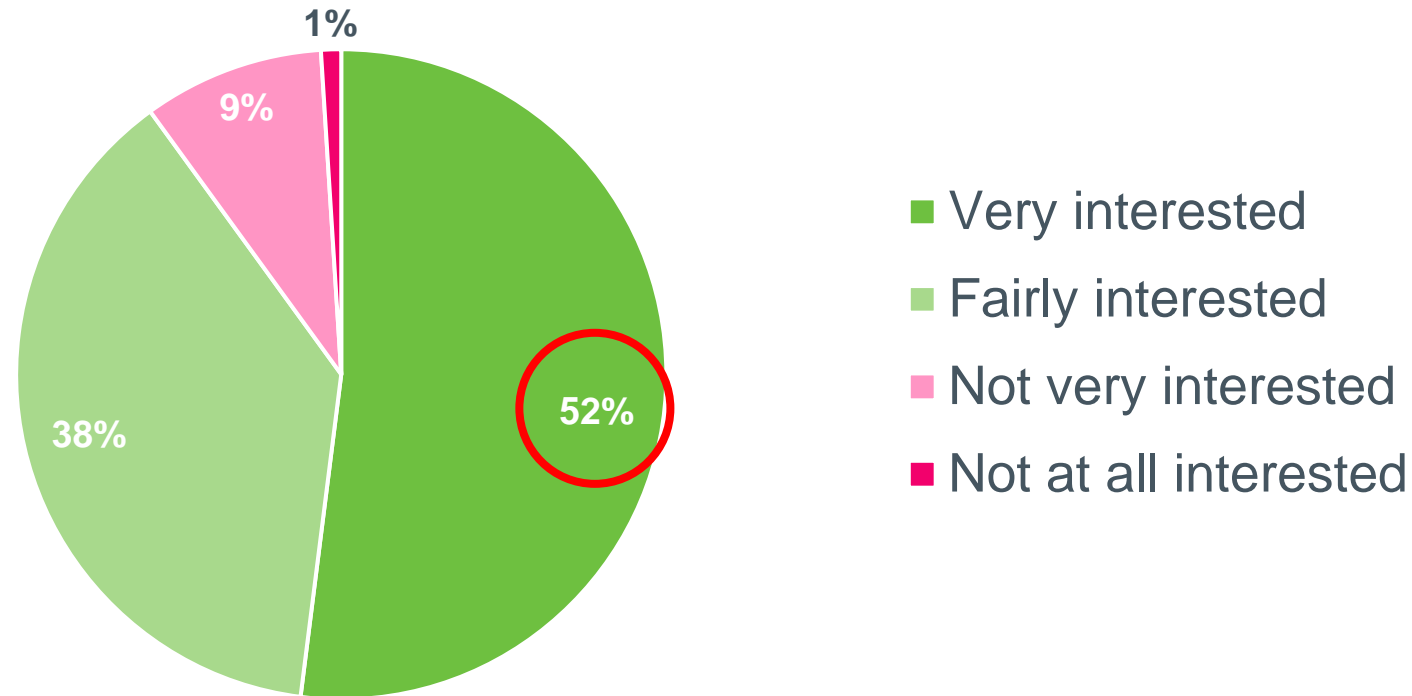
Prepared by Ignition House
September 2021

“Today I was shocked because I didn’t know that we pay charges for a pension. And as much as I clearly have not done enough research as I should have done on my pension, I don’t feel I’m alone. So at which point you’d be a bit, hang on a minute, it’s sort of been back-doored in there. It probably was somewhere in between all the jargon, but I think it needs to be more transparent. At the end of the day, people should know what they’re paying. And see if there are any alternatives to that because you get loads of people asking you to switch your pension to them.” **Depth respondent, age 35+, low engagement**

Source: Ignition House

Are Members Really Interested in Charges?

Figure 8: Levels of member interest in charges



Base: All DC pension members aged 22-65 (1,016)

Question: Q8. How interested are you in seeing the charges you pay on your statement?

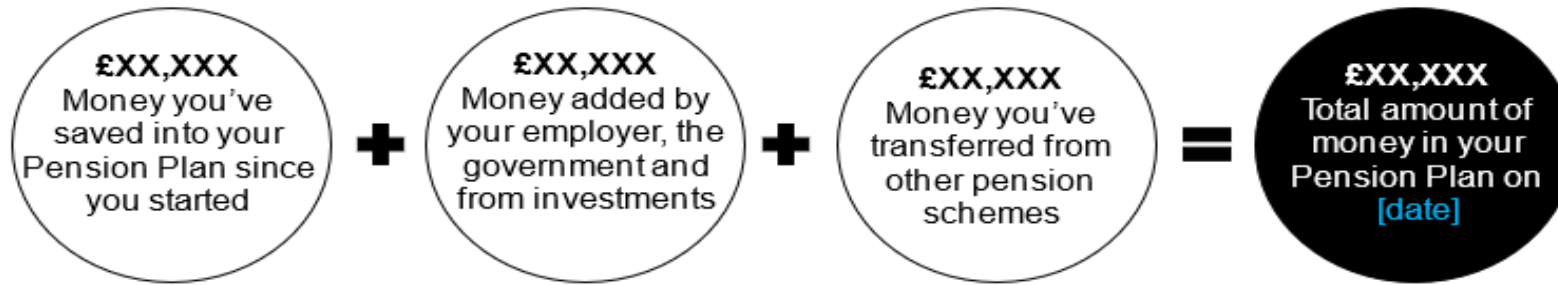
Source: Ignition House

Simpler Annual Benefit Statements

Your Annual Statement shows you three things:

- How much money you already have in your Pension Plan
- How much money you could have on your [\[retirement date\]](#)
- What you can do to give yourself more money in retirement?

2. How much money you already have in your Pension Plan



Last year

The total amount of money in your Pension Plan on [date for previous year]

£XX,XXX

This year

You have saved into your Pension Plan

£XX,XXX

Your employer has added

£XX,XXX

The government has added – through tax relief (if applicable/available)

£XX,XXX

Your investments have increased or decreased in value after charges (if separate costs and charges are unavailable)

£XX,XXX

or

Costs and charges have been deducted from your pension plan

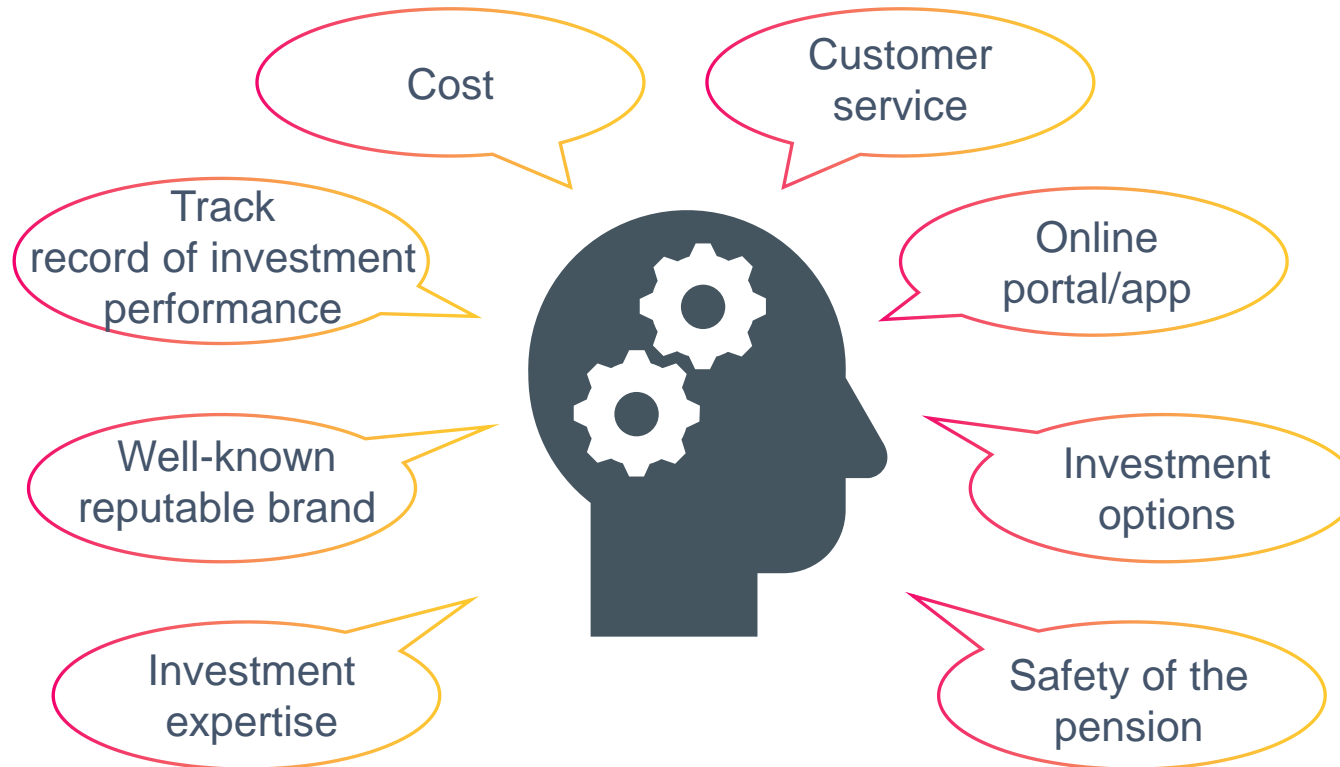
£XX,XXX

You have transferred money from another pension scheme

£XX,XXX

What do we mean by Value for Money?

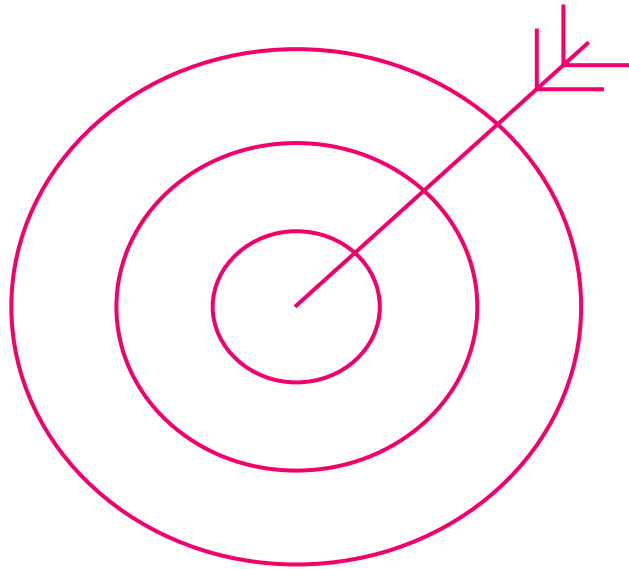
Figure 10: Members' perception of value for money



Nine in ten members agreed that cost alone is not that important, and the concept of Net Benefit resonated well

Source: Ignition House

What's Next?



- Build Back Better – Access to Illiquids and Cost Considerations
- Consistency – FMR, AMC, FMC – confusing for members
- Member education – comparing apples with apples
- How can we simplify further? Pensions Dashboard?
- With profits?
- It's not all about cost!

Thank you!

