Podcast: Cost transparency

Pensions Age editor, Laura Blows, discusses cost transparency with Aon’s cost transparency team heads, Neil Smith and Chris Hawksworth

“We’re living in very uncertain times at the moment with everything that’s happening around the world and with rising inflation. So, there’s a lot of uncertainty in investment markets. But one of the things that we can be certain about is how much we’re being charged for asset management services, and therefore, we think it’s important that you have some focus and understand what you’re paying, to whom you’re paying, and what services you’re receiving for that.”

So says Aon cost transparency team co-head, Neil Smith, in our latest Pensions Age Podcast Cost transparency.

“As asset owners, we can influence how much we’re paying for these asset management services. If we feel there is a lack of transparency, or we’re paying too much, then we can decide to seek other services at a fairer cost. The challenge has always been actually getting access to that information, really understanding how much we’re paying, and to whom,” he adds.

However, that has changed over the past few years, Smith says. “Now, there’s really no excuse to say, well, I don’t really have that information to hand, I don’t know how much I’m paying and how this is good value for money or not.”

However, cost is arguably only one part of assessing value for money, with Smith citing manager performance and services provided as other considerations.

Also speaking on the podcast is Aon cost transparency team co-head, Chris Hawksworth, who notes trends that have occurred with cost transparency benchmarking in recent years.

One is the level of detail that clients can now gather on costs, to a granular level of detail, he says.

Another trend is a significant increase in trustee awareness and understanding on all types of costs, Hawksworth says.

“Going back three years, an average trustee board, I’d say, understated their investment costs by about 10 times relative to what the actual costs were. Where we sit today, is actually that trustee boards having a really good understanding of the costs they are incurring as part of their investment strategies.

“Neil [Smith] and I have been working with clients to benchmark data and compare costs, and we’re starting to see some really significant outcomes for trustees and their members. In terms of benchmarking, we’ve almost got to a million pounds worth of savings per annum since this process started six months ago. So, we really are seeing some trends there in terms of cost coming down for asset owners,” he states.

The increased demand from trustees to benchmark costs is another trend seen, Hawksworth adds.

Over the past few years, Smith and Hawksworth have helped over 100 schemes to collect and understand their cost data and to analyse it year-on-year, for trustees to monitor and potentially challenge their asset manager.

Aon also benchmarks these costs against the overall pension market – not just Aon clients.

This enables Aon to go to fund managers and request a fairer fee if considered necessary, Smith explains.

“Over the past six months or so, we have managed to secure savings of well over £500,000 per annum for schemes,” he adds.

Looking ahead, Hawksworth expects the collection of cost data to become the norm for trustee boards, along with an increased focus on more complex asset classes such as illiquids and the transparency around those asset classes.

Finally, he adds, benchmarking will become standard, as “there is a really strong desire from trustees and sponsors to tackle this problem of cost transparency and reduce costs where possible”.

To listen to the podcast, please visit www.pensionsage.com