



Cheap and cheerful?

➤ **The debate between cost and value has continued to persist, as whilst increased scale has allowed providers to negotiate better fees, not all are convinced that this is delivering the best value for savers. *Pensions Age* reports**

The past year has seen continued market volatility and cost-of-living strains faced by many, and big businesses are no exception, with many looking to push down costs in key areas.

The recent push for scale in the pensions industry has given those looking to save on fees a strong hand, with WTW's 20th annual *DC Pensions and Savings* survey revealing evidence that employers are using their size to negotiate better terms, as fees for DC pensions continued to decline.

According to the study, the average annual management charge (AMC) for DC investments has fallen to around 28 basis points (bps), down from 30bps in 2024 and 38bps in 2017. Nearly two-thirds of schemes now report charges below 30bps, reflecting continued cost discipline across the sector.

But this has reignited the broader cost/value debate, as industry voices warned that an overemphasis on headline costs could limit schemes' ability to deliver strong long-term outcomes.

"The question is whether we have now reached the stage where the focus on driving costs down has gone too far and whether there is room to increase value for money by accessing alternative investment strategies that can provide growth, diversification and value, despite higher costs," WTW head of DC consulting, Helen Holman, said.

"Whether illiquid assets, such as private equity or infrastructure, hold the potential to enhance risk-adjusted returns is a key debate in the pension industry, with the UK government seeking to encourage greater investment in illiquid assets via the Mansion House Compact."

Consolidation could help improve the focus on value, however, as the research also revealed growing differences between large and small schemes. According to WTW, around 40 per cent of larger schemes said they were willing to pay more to gain exposure to private markets and other illiquids, compared with just 12 per cent of smaller schemes.

WTW explained that larger providers are increasingly leveraging their scale to improve diversification, while smaller schemes remain constrained by governance and implementation costs.

Broader investment opportunities were not the only potential reason to spend more, as WTW also found that many companies are also looking at the best ways to improve the employee experience when it comes to retirement savings.

Providing guidance services, rather than full financial advice, was seen as a cost-effective way to support workers approaching retirement.

Currently, three in 10 (29 per cent) employers provide or facilitate such services, with nearly seven in 10 (69 per cent) planning to do so in the next two years.

DC schemes are not the only ones facing growing scrutiny around the value versus cost debate, however, as pension schemes in the public sector have also been met with renewed focus over investment costs and transparency, particularly given the fiscal squeeze currently faced by government.

Reform UK, for instance, recently criticised aspects of the Local Government Pension Scheme (LGPS), branding some of its fees and performance "negligent".

Reform UK Deputy Leader, Richard Tice, argued that the investment fees currently facing LGPS funds are "frankly egregious", estimating that the 13 councils included in Reform's analysis are overpaying by some £265 million in just one year.

But industry experts were quick to hit back, as Pensions UK said that it did not recognise the claims made by Reform UK, pointing out that the LGPS is one of the most successful pension schemes in the world and is already on a reform journey intended to further enhance the effectiveness of the scheme.

Pensions UK director of policy, Zoe Alexander, said: "The latest valuation figures show that the LGPS delivered an aggregate return of 8.9 per cent in 2024 with average funding level of 108 per cent.

"The next valuation is expected to show this position even further improved. Significant improvements in funding over this valuation cycle are already expected to result in reduced employer contributions."

And whilst the latest government data showed that total LGPS expenditure in England and Wales had increased in 2024/25, with a specific 8.6 per cent increase in costs (to £2.3 billion), this was more than offset by the group's investment income.

This pushed the market value of LGPS up by 2.7 per cent, or around £10.7 billion, over the past year, rising to £402.3 billion at the end of March 2025.

The argument for value over cost is growing, but whether this will truly translate into returns and better outcomes for savers is yet to be seen.

➤ **Written by the *Pensions Age* team**