Why pension charges DO matter

Phil Brown explains why pension providers should focus on scheme costs, even if members don't

As the nation gets to grips with a cost-of-living crisis, households everywhere are reviewing the cost of their utilities and services. As belts tighten, it's surprising to learn that fewer than half of UK adults with a pension (48 per cent) say they care about the cost of their pension charges. The research conducted by YouGov[1] on our behalf shows that, in comparison, seven in 10 people with a mortgage (71 per cent) or a current bank account (70 per cent) pay close attention to what they're charged for these products.

The poll also found that, of those who say they don't care about what charges they pay on their pension savings, almost one in five (18 per cent) haven't got round to looking into or thinking about what they are paying, 16 per cent think they don't have enough currently saved for charges to make a difference, and 14 per cent say they don't believe charges will make a difference to their pension savings when they come to retire. Meanwhile, a further 14 per cent say that they trust their pension companies' charges are reasonable, so they don't need to take any further action. Just over one in 10 (11 per cent) say that pension charges are too complex to understand, and 10 per cent say it's too difficult to find out what charges they pay.

On reading the findings of this research, a layperson might ask the question, 'do charges on a pension really matter?' and every time the answer must be 'yes, they absolutely do'. On the face of it, pension charges don't appear to be that high, especially when presented in percentage points. For qualifying workplace pensions, there is a charge cap of 0.75 per cent (or a broadly equivalent charge under a combination charging structure) for all default funds, with many providers charging below this, but even then, there are genuine differences between how much particular schemes charge customers over the long term.

Paying less in pension charges can significantly affect an individual's retirement pot in later life. If you take our rebate on member charges as an example, it could help the average worker save thousands of pounds by the time they reach retirement.[2] The rebate on our already competitive 0.5 per cent management charge, ranges between 0.1 per cent for pots of £3,000 or more to 0.3 per cent for pots of £50,000 or above, and since it was introduced two years ago, we've given back a total of more than £20 million to our members.

Despite the evidence that charges matter, many pension savers may continue to pay higher charges for similar products, without giving it much thought, unless they start thinking about how much it is costing them in the long run.

While charges are important, they are, however, only one aspect of the value members get from workplace pensions. Over the past decade, a sharp focus on charges has helped to deliver better value for members. With the impending introduction of the new value-for-money metrics[3] – part of a joint FCA/TPR initiative – we expect a renewed focus on other aspects of value.

This is expected to include the new online pensions dashboards, so that people logging on to dashboards, who might be thinking about decumulating or consolidating their pots, have a clearer idea about the value of the product they are transferring from and to. Over time, we think that these metrics should be clearly visible at times when savers are likely to make decisions about their pensions.

Increasingly, we think the new value-for-money metrics will help to drive more informed consumer and institutional decisions when choices are made to select a pension provider.

In an era where both the cost and value for money of pretty much everything are, quite rightly, under the microscope, it's important that pension providers remember the responsibilities they have to their customers.

Written by Phil Brown, director of policy and external affairs, at B&CE, provider of The People's Pension

In association with the people's pension

1. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1,618 adults with a pension. Fieldwork was undertaken between 7th - 10th January 2022. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).
2. For a full breakdown of our charging structure visit: https://thepeoplespension.co.uk/member-annual-management-charge/ Assuming a member aged 35 with a starting fund of £15,000, a salary of £30,000 per year, paying 8% gross contributions, investment returns of 5% per annum, inflation of 2.5% per annum, and a retirement age of 68.
3. The Pension Regulator (TPR) and the Financial Conduct Authority (FCA) – Driving Value for Money in defined contribution pensions - https://www.thepensionsregulator.gov.uk/en/document-library/consultations/value-for-money-discussion-paper/driving-value-for-money-in-defined-contribution-pensions