Pensions

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By Simoney Kyriakou

Pension products are still failing to deliver good value for money, despite 30 years' worth of financial services regulation, the founder of MoneyTrainers has told MPs.

In his submission to the Work and Pensions committee's Pension costs and transparency inquiry, Richard Smith stated the "same topics keep arising", and stressed the need for a complete overhaul of how pensions are provided in the UK.

He told the committee: "Despite years of regulation, since 1988, the same topics keep arising, mis-selling is still going on, poor investment returns are a constant topic and product charges are a real problem."

Moreover, he claimed the legacy institutions were a large part of that problem. He wrote: "Pension providers are in a unique position in the UK and don't seem to doing their best to provide value for money.

"There is little evidence to show that higher charging pension providers deliver higher performance. Many providers still don't produce adequate levels of administration and nor are the comparison tools available to allow consumers to decide."

Even where there have been measures put in place to ensure there is more flexibility, such as the pensions freedom and choice regime, which came into force in April 2015, Mr Smith said, the rules still have not helped matters.

> Focussing on reducing costs to increase the potential value of pensions should, therefore, increase the value for money.
>
> Daniel Elkington

He told the committee: "People are still not able to get their money out of pensions and into things they understand without first ‘throwing a six to start’ or being forced to ‘take advice’ at a heavy upfront cost or ongoing advice fees.

"Pension providers are in a unique position in the UK with access to customer funds over many years, [but they are still imposing] levels of charges that are at best expensive and complicated and at their very worst designed to confuse."

The charge cap on defined contribution pensions was a particular bone of contention, with a senior official at the FCA telling an evidence session before the committee that a 0.75 per cent cap did not necessarily mean value for money - or indeed whether it was effective at all.

As reported on FTAdviser, Chris Sier, chairman of the institutional disclosure working group at the FCA, cast doubt over the effectiveness of the 0.75 per cent charge cap set up by the government for DC funds. He told the WPC setting up an arbitrary charge cap of 75 basis points was "nice" but not necessarily effective.

Daniel Elkington, chartered financial planner at MT Financial Management, agreed 'value for money' was important, and more should be done to reduce costs, but he said there would need to be more work done on what costs could and should be reduced.

In his response to the committee's inquiry, Mr Elkington wrote: "Defining value and then value for money is key.