



MORE PENSION CONFUSION

Last month I criticised the government for causing confusion around pensions. This month I am going to criticise pension providers for the part they have played in adding to the confusion. The catalyst for doing this was provided by George Lee in the RTE documentary “Pension Shock: The Future is Now”. (The documentary came out a couple of weeks after I had written last month’s opinion piece and as soon as I saw it I realised that my original piece was not broad enough.)

Before I go on to talk about the interesting aspects of the documentary I want to be slightly critical of one aspect of the programme. In my opinion the programme was a little disjointed and it may have left the average person confused on some fundamental issues. I believe that the programme did not explain the basic difference between occupational and personal pensions. Nor did it explain properly the difference between defined benefit and defined contribution schemes. I realise that the programme ran the risk of boring people if they did this but I believe that informing people in an entertaining way is part of the art of a documentary maker. Having pointed out this flaw I now want to turn to the more interesting aspects of the documentary. There were many interesting things highlighted but there are three particular ones that I want to talk about. They are complexity, charges and performance.

George did a great job of ridiculing the complexity and legal language used by the profession. Acronyms like MVA (Market Value Adjustment) were used as examples of the way ordinary people are not taken into account when documents are written. As part of my research for this opinion piece I put Market Value Adjustment into Google and a document from Irish Life was highlighted. I have copied part of this document because I think it backs up George in what he said:

What is the MVA

The MVA is the reduction in the fund applied when a non-demographic claim is made. Given the overall fall in equity markets since late 2007, a Market Value Adjustment (MVA) is required for any non-demographic movements out of the Secured Performance Fund.

Current MVA

With effect from the 13th October 2011 the MVA for the Secured Performance Fund is 23%.

I think terms like “non-demographic claim” add to the confusion and give pensions a bad name.

I believe that the industry should respond by committing to use plain English. This would show an industry prepared to play its part but as usual I will believe it when I see it.

George also spent a lot of time talking about sky high charges and fees and he interviewed Bridget McNally an academic from Maynooth University. She talked about the conclusions she has reached from her research. She said that the charges can be quite dramatic. This sounded so interesting that I thought it would be interesting to read her research but to my disappointment it does not appear to be publicly available. I searched the Maynooth website but there is nothing in her publications section. I therefore have to take her word that the research is accurate.

I also find it interesting that Minister Joan Burton has decided to commission a report into the whole issue of charges. The Minister has commissioned PWC to do this at the taxpayers' expense. Am I the only one that thinks the taxpayer might rightly question why the Minister is using PWC when RTE has pointed out that there is an academic already doing this work!

In the programme it appeared as if George concentrated on charges in the whole area of occupational pension schemes. He did not go into much detail on personal pension charges but there are just as many potential problems in this part of the pensions industry. In opinion piece 47 back in September 2009 I wrote the following:

It is also important to point out that I have not even mentioned other aspects of pension fund costs like allocation rates and policy fees. At least these have to be disclosed but I think that many people struggle to understand exactly how these things end up costing them money.

This was just an attempt on my part to highlight the fact that current charging structures are confusing.

The UK has had its own problems in this area and they are about to try a fairly radical change in their charging system. They are going to introduce a system whereby consumers pay a fee for financial advice. I believe that this system should be introduced here because it surely cannot be as bad as the current commission system with its use of allocation rates and policy fees on top of management charges.

Finally I want to turn to the subject of performance. George highlighted an OECD report that showed Irish pension funds as being the worst performing funds in the whole of the OECD area. He basically said that the managers of these funds had gambled on the stock market and got it wrong. This is a fascinating topic and one that could be the subject of a whole opinion piece but all I want to say at this stage is that in my opinion it is harder to find a solution to this particular problem. The numbers however speak for themselves because a decade of poor returns has added to the sense of confusion and disillusionment.

In conclusion I want to say that I genuinely feel sorry for anyone trying to deal with the subject of pensions. The government and the pension industry have managed between them to create an almighty mess. George Lee is right to talk about it but I worry that he may have added to the confusion. I therefore hope that Minister Joan Burton can surprise us all by starting the process of simplification.