

Citizens Information Board Submission on *Report on Pension Charges*

Introduction

The Citizens Information Board welcomes the publication of the *Report on Pension Charges*. The report provides significant information about, and analysis of, pension charges which is an area that has been the subject of much anecdotal comment but, until now, relatively little verified information and factual analysis. The report also raises a number of issues which were not its direct subject matter but which are very relevant to overall pension issues. These include the quality of the information provided about all aspects of pension products, the complexity of the regulatory regime for pensions and the role of trustees in pension schemes.

The Board considers that the recommendations made in the report should all be implemented. Some could be, and should be, implemented fairly quickly by means of amendments to the Pensions Acts, for example, the provision of more detailed information to deferred members of pension schemes.

The Board, however, would argue that further measures are needed to ensure that pension charges are transparent and reasonable. In particular, the Board considers that much needs to be done to improve the quality of the information provided to pension contributors and, indeed, to all customers of financial services. The Board also considers that the other issues raised in the report need to be addressed. The Board recognises that the Department of Social Protection cannot bring about all the changes required and that the active involvement of the Central Bank as the financial regulator will be required if real improvements are to be implemented.

Provision of information

The Board considers that pension charges have to be viewed in the context of, among other things, the need to encourage increased uptake of pensions and the need for effective

consumer protection. Good quality information about pension charges and pension products is an essential requirement in promoting greater pension coverage and ensuring consumer protection.

The CIB's role as information provider means that it is particularly conscious of the need, not only to provide accurate information, but to provide it in an easy to understand and accessible manner. In general, the information provided by the providers of financial services, including pension providers, tends to be difficult to understand and is often quite inaccessible. This applies not only to information about charges but also to information about how the particular product operates. In order to make an assessment of the reasonableness of charges, a customer needs to know, not only what those charges are, but also needs to know the details of the product being purchased. This means that transparent charges must be accompanied by clear information about the product.

The report shows that only limited information about charges was immediately available to trustees of pension schemes. This is particularly worrying because it means that the level of information available to individual pension contributors is likely to be very poor indeed. The report did not examine, nor was it part of the remit, the level of information or understanding which the trustees or individual contributors had about the product in question. Anecdotal comment would suggest that such information and understanding on the part of individual contributors is likely to be limited.

The report places considerable reliance on the effectiveness of the Central Bank's *Consumer Protection Code* (CPC) as a means of improving the quality of information available on pension charges. The Board has no doubt that the CPC will have the effect of improving the quantity of information provided; it remains to be seen if it will have a similar effect on the quality. The revised code has been in operation for a year so it is probably too early to make any assessment of it. However, the Board has not seen any evidence to date that financial services products generally are being described in clearer or more accessible language. Neither has it seen any evidence of improvements in comparability between products. Many consumers complain, for example, about the difficulty of comparing health insurance products. Occupational pension contributors do not have a choice of products but RAC and PRSA contributors do and, again, it is difficult to make informed choices when the products are couched in opaque language.

Regulatory regime for pensions

While addressing the regulatory regime for pensions was not part of the remit of the report, its complexity is obviously an issue.

The Board is, of course, aware that the *Public Service Reform Programme* provides for a review of the Pensions Board with a view to integrating its regulatory functions with those of the Financial Regulator and that it also provides for a merger between the Office of the Pensions Ombudsman and the office of the Financial Services Ombudsman. The Board recognises that such integration and merger require careful consideration, not just because of potential savings, but also to ensure that the new entities are effective.

Consideration should be given to codifying all the legislation and codes of practice dealing with the information to be provided to pension contributors, for example, the relevant parts of the Pensions Acts, the Life Assurance (Provision of Information) Regulations 2001 and the Consumer Protection Code. In particular, the life assurance regulation could and should be immediately updated to, at minimum, the standards set out in the code.

Trustees of pension schemes

The report reveals a number of concerns about the effectiveness of trustees. The failure of many trustees to co-operate with the compilation of data for the report is a matter of concern. The compilation of this report is clearly in the interests of scheme members so the question must be asked as to why trustees did not act in the interests of their members. The lack of information available to trustees about pension charges is, as already stated, also a matter of concern. The role of trustees, their capacity to fulfil that role and sanctions for failure to adequately fulfil it may need further examination.

Further research

The Board considers that further research is needed to try to establish the level of understanding that customers have of pension products and the associated charges. Constant vigilance is required to ensure that customers are properly informed and encouraged to become pension contributors. This should be carried out by the Central Bank. The Financial Services Authority in the UK is actively involved in what this type of activity and has recently launched an investigation into the pricing of annuities and how they are advertised.

<http://www.fsa.gov.uk/static/pubs/newsletters/ins-cond-supervision-newsletter-1.pdf>

Withdrawal from AVCs

The implementation of the proposal in Budget 2013 which will be elaborated in the *Finance Bill 2013* to allow people to withdraw up to 30% of their investments in AVCs will need to be carefully monitored. It is clear and transparent that people will have to pay tax on such withdrawals. It is not yet clear what charges will be levied by the pension providers. This is a one-off measure which is likely to be availed of by people in difficult financial circumstances. Consideration should be given to including a clause in the Finance Bill requiring the approval of the Central Bank, after consultation with the Department of Social Protection, of the charges to be applied to these transactions.