

OPERATING COSTS OF PRIVATE PENSION SYSTEMS AND FEES CHARGED TO MEMBERS

Key results

The efficiency of private pension systems, as measured by the total operating costs in relation to assets managed, varied considerably across countries in 2016, ranging from 0.1% of assets under management annually to 1.5%. Fees charged to plan members to cover these costs also varied considerably in structure and level across countries.

The efficiency of pension providers in offering and running private pension plans can be judged by looking at the total operating costs in relation to assets managed. The total operating costs of private pension systems include all costs of administration and investment management involved in the process of transforming pension contributions into retirement benefits.

Operating costs of private pension systems reported by a selection of OECD countries ranged from 0.1% of assets to 1.5% in 2016. In general, countries with defined contribution and personal plans, and those with large numbers of small funds appear to have higher operating costs than countries with only a few funds offering defined benefit, hybrid, or collective defined contribution pension plans. For instance, operating costs accounted for 1.5% of assets under management in Latvia, 1.3% in the Czech Republic, 1.1% in Spain, 1.0% in Estonia, 0.8% in Australia, and 0.7% in Greece and the Slovak Republic. On the other hand, they accounted for less than 0.3% of total assets in Belgium (0.3%), Portugal (0.3%), Italy (0.2%), Norway (0.2%), Iceland (0.2%), Chile (0.2%, investment expenses only), Denmark (0.2%), Luxembourg (0.2%), the United Kingdom (0.2%), Germany (0.2%) and the Netherlands (0.1%).

In defined contribution and personal private pension systems, providers cover their operating costs through the fees they charge to plan members. The structure of charges across countries is fairly complex. The analysis considers fees in selected countries only. While there is a tendency for countries from the same region (e.g. Latin America, Central and Eastern Europe) to have similar fee structures, they can vary greatly across wider geographical regions.

Fees can either be fixed or variable. Fixed fees are characterised by the fact that their levels depend neither on salaries nor on funds. A variable fee may take the form of a percentage of the inflow of contributions, of the amount of assets managed, or of the investment return on the assets under management.

Variable fees on contributions can be expressed as percentages of salaries or as percentages of contributions. They can be found in Chile (for mandatory plans), Hungary, Israel, Latvia, Poland, the Slovak Republic (2nd pillar plans),

Slovenia and Turkey for instance. Such fees on contributions are not charged in the Czech Republic, Estonia, Mexico and Spain. In Mexico, as of March 2008, Afores may only charge a fee on assets, while before that date they could charge fees both on assets and on contributions.

A variable fee on the stock of funds can be levied either on the value of the fund or on returns. Such fees may encourage pension companies to seek higher investment returns. Fees on assets can be found in all countries presented in the table, for some types of plans at least. Some countries charge both fees on assets and returns such as the Czech Republic, Poland and the Slovak Republic.

On top of the regular fees, members in some countries may also be charged fees when they join, switch or leave a pension provider (e.g. the Slovak Republic, Slovenia and Turkey).

Definition and measurement

The term “private pensions” actually refers to private pension arrangements (funded and book reserves) and funded public arrangements (e.g. ATP in Denmark).

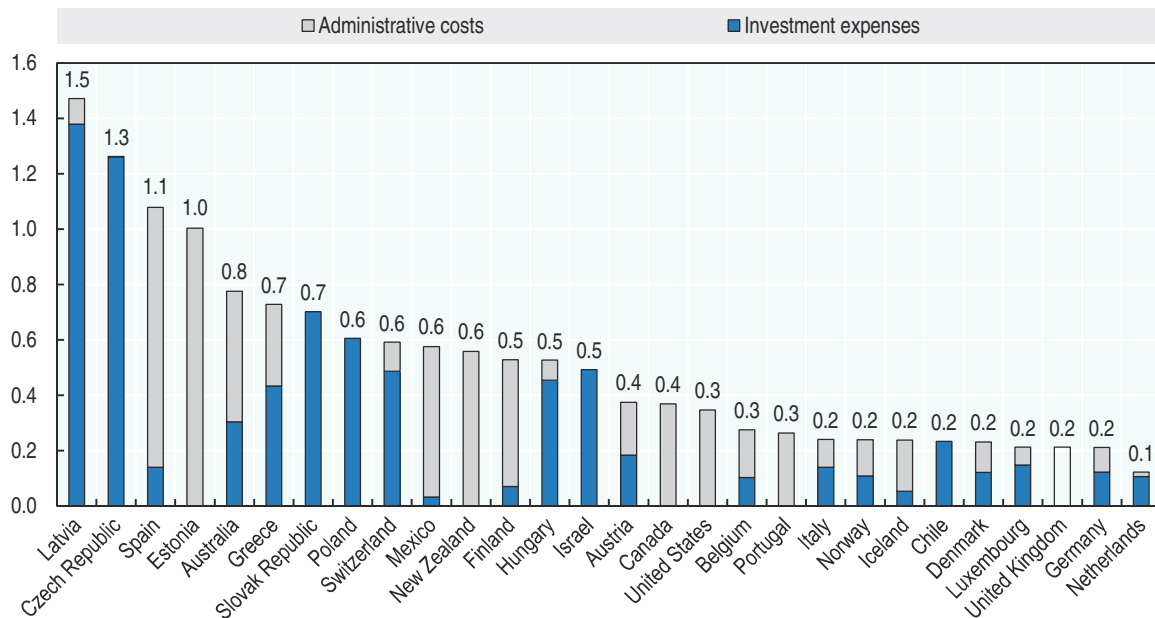
Operating costs include marketing the plan to potential participants, collecting contributions, sending contributions to investment fund managers, keeping records of accounts, sending reports to participants, investing the assets, converting account balances to annuities, and paying annuities.

The comparability of data on costs depends on the types of costs for which data are available in each country. It may be hampered if some costs are not reported, like for example indirect costs (e.g. commissions to brokers) which may be more difficult to collect.

Some fees may not be fully reported in all the cases either. For example, in Chile pension funds that invest in international mutual funds deduct management costs directly from the fund. These costs are reported separately by each pension fund administrator to the Superintendence of Pensions. However, they are not included in the fees charged to members.

8.9. Operating expenses of private pension systems in selected OECD countries, 2016

As a percentage of total investment



Source: OECD Global Pension Statistics.

StatLink <http://dx.doi.org/10.1787/888933634781>

8.10. Fees or commissions charged to members by type of plan and by type of fee in selected OECD countries, 2016

As a percentage of total investment

	Fee on salaries	Fee on contributions	Fee on assets	Fee on return/performance	Other fees (e.g. exit, entry, switching fees)
Chile Mandatory personal plans	0.6	x	x	x	x
Chile Voluntary personal plans	x	x	0.8	x	x
Czech Republic	x	x	0.7	0.1	..
Estonia Mandatory plans	x	x	1.2	x	0.0
Hungary Voluntary personal plans in pension funds	x	0.4	0.4	x	..
Israel DC plans	x	0.4	0.3	x	x
Latvia Mandatory state funded pension schemes	x	0.0	1.4	..	x
Latvia Voluntary occupational plans	x	0.5	0.3	..	x
Latvia Voluntary personal plans	x	0.8	1.2	..	x
Mexico Personal plans	x	x	1.0	x	x
Poland Open pension funds	x	0.0	0.5	0.0	x
Slovak Republic 2nd pillar	x	0.1	0.3	0.2	x
Slovak Republic 3rd pillar	x	x	1.3	0.0	0.1
Slovenia Mutual pension funds	x	..	0.8	x	0.5
Slovenia Pension and insurance companies	x	1.2	x	x	0.2
Spain Occupational plans in pension funds	x	x	0.2	x	x
Spain Personal plans in pension funds	x	x	1.3	x	x
Turkey Personal plans	x	0.3	1.5	x	0.4

Note: “..” = Not available; “x” = Not applicable.

Source: OECD Global Pension Statistics.

StatLink <http://dx.doi.org/10.1787/888933634800>



From:
Pensions at a Glance 2017
OECD and G20 Indicators

Access the complete publication at:
https://doi.org/10.1787/pension_glance-2017-en

Please cite this chapter as:

OECD (2017), “Operating costs of private pension systems and fees charged to members”, in *Pensions at a Glance 2017: OECD and G20 Indicators*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/pension_glance-2017-38-en

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