



LOW COST, HIGH ACCOUNTABILITY: A PENSION FUND FOR THE 21ST CENTURY

**Strictly Embargoed: Not for publication or broadcast before 00.01 Hrs
Wednesday 17TH December 2008**

Millions of pounds could be added to the value of the UK's pension pot by reducing charges, according to research published today by the RSA (Royal Society for the Encouragement of the Arts Manufactures and Commerce). It found that people were shocked to discover that total charges swallow up to 40 per cent of the value of their pensions.

The RSA's report – *Tomorrow's Investor* – calls for a substantial reduction in charges and an increase in accountability and investor engagement. It argues that costs could be significantly reduced by the simplification of investment products and the use of long-term investment strategies.

RSA research shows that private pension plan members are almost universally detached from the management of their money and that when they do try to discover more they find fund managers unaccountable and financial institutions opaque.

The report outlines the dangers inherent in shifting away from final salary pensions, which are cheaper than other schemes. It concludes that people are badly prepared for taking on the risks and responsibilities inherent in defined contribution schemes.

Over the next five months the RSA will be developing a business plan for a new pension fund, offering investors a highly transparent, accountable, low cost fund with reasonably secure returns at a decent level of risk.

Tomorrow's Investor calls for:

- A dramatic reduction in costs and charges following the discovery that people typically pay 40 per cent in fees over the lifetime of their investment. Lessons can be learnt from countries such as Sweden and Holland, where pension funds charge 0.5 per cent per annum compared with around 1.5 per cent in the UK.
- Fees to be expressed in a different way: as a total over the lifetime of an investment, rather than an annual charge. This would give ordinary investors a better idea of the total sums they are paying.
- The simplification of investment products in order that consumers are offered clear and simple choices that allow them to express a preference.
- 'Long term, low friction' fund management strategies that hold onto investments instead of trading them. Fund managers could add as much as 20 per cent onto the value of a pension through this approach and reduce volatility in the stock market.

Commenting on the report, Chief Executive of the RSA, Matthew Taylor said: "Over the last twenty years people have been paying more money for worse performance. If we are going to avoid a pensions meltdown then we need to make sure the investment chain works for the people who really own it.

"The financial system has for too long focused on short-term gains at the expense of long-term stability. This report calls for pension funds to act in the best interests of ordinary people, cutting costs and ensuring transparency and accountability".

Commenting on the report and prior to his lecture given to the RSA on Wednesday evening, Secretary of State for Business, Enterprise and Regulatory Reform Peter Mandelson said: “The current financial climate will reward brave new thinking and policy innovation in the financial services market. History shows that those businesses that are prepared to adapt and welcome new measures such as those outlined in the RSA report stand a better chance of weathering the economic downturn.”

ENDS

Notes to editors

- 1. For more information contact Luke Robinson, RSA Head of Media on 020 7451 6893 or luke.robinson@rsa.org.uk**
- 2. Lord Mandelson will deliver a lecture on a new industrial activism to the RSA on Wednesday 17th December 2008.**
3. *Tomorrow's Investor* is the culmination of six months research and was written by RSA researcher, Rowland Manthorpe. It is available at www.thersa.org
4. The *Tomorrow's Investor* project has been funded by PricewaterHouse Coopers and Invesco Perpetual.
5. Development of the business plan for the 'Tomorrow's Investment Fund' will be led by David Pitt-Watson, founder and former Chair of Hermes Equity.
6. The research has been informed by an expert seminar and keynote lecture. Participants included Paul Myners (now City Minister), Jasmine Birtles (MoneyMagpie.com), Penny Shepherd (UKSIF) and Sir John Banham (former Chair of the Audit Commission).