

Individual Pension Charges

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A combination of
contribution charge
+
fund charge
+
charge rebates

Example



| | |
|-------------------------|--|
| Allocation rate | 108% LESS Broker Commission |
| Bid/Offer charge | 5% |
| Early encashment charge | 4%/3%/2%/1% over first 4 years |
| Fund charge | 0.75% pa PLUS Broker Trail Commission |

Example



| | | Broker Commission 3% + 0.5% pa |
|-------------------------|---------------------------------------|-----------------------------------|
| Allocation rate | 108% LESS Broker Commission | 108% LESS 3% =105% |
| Bid/Offer charge | 5% | 5% |
| Early encashment charge | 4%/3%/2%/1% over first 4 years | 4%/3%/2%/1% over first 4 years |
| Fund charge | 0.75% pa PLUS Broker Trail Commission | 0.75% + 0.5% pa = 1.25% pa |

$$\begin{aligned} & \text{Manufacturer margin} \\ & + \\ & \text{Distributor/sales charge} \\ & = \\ & \text{Consumer charges} \end{aligned}$$

Ways of Disclosing Charges

Implicit Disclosure

Projected Value after 30 yrs

Plan A

€396,200

Plan B

€400,000

Loss of Fund

| | Projected Value after 30 yrs | | |
|--|------------------------------|----------|----------------|
| | Plan A | Plan B | Benchmark Plan |
| If no charges | €497,350 | €497,350 | €497,350 |
| After allowing for charges | €396,200 | €400,000 | €435,750 |
| Loss of fund through charges | €101,150 | €97,350 | €61,600 |
| % of fund taken in charges | 20.3% | 19.6% | 12.4% |
| Additional loss of fund, against benchmark plan | 7.9% | 7.2% | |

Reduction in Yield (RIY)

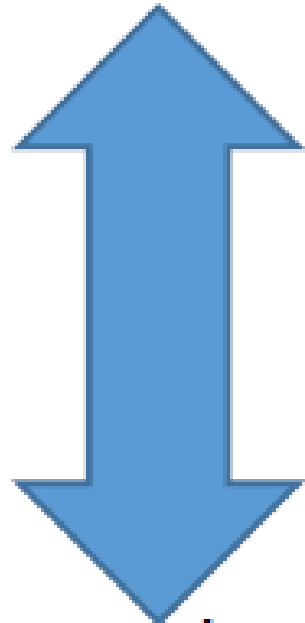
| | Projected Value after 30 yrs | |
|---------------------------------|------------------------------|-----------------|
| | Plan A | Plan B |
| If no charges | €497,350 | €497,350 |
| After allowing for charges | €396,200 | €400,000 |
| Implied rate of return | 3.56% pa | 3.62% pa |
| Reduction in Yield (RIY) | 1.44% pa⁶ | 1.38% pa |

Explicit disclosure of cash charges

| Year | Projected | Projected | A - B |
|------|-----------|-----------|-------|
| | Charges | Charges | |
| | Plan A | Plan B | |
| 1 | €164 | €300 | -€136 |
| 2 | €236 | €361 | -€125 |
| 3 | €312 | €425 | -€113 |
| 4 | €393 | €494 | -€101 |
| 5 | €479 | €567 | -€88 |
| ... | | | |
| 26 | €4,019 | €3,576 | €443 |
| 27 | €4,304 | €3,820 | €484 |
| 28 | €4,604 | €4,076 | €528 |
| 29 | €4,920 | €4,346 | €574 |
| 30 | €5,251 | €4,630 | €621 |

Rating system?

Low



High

Fund Return
Indicator

1
2
3
4
5
6
7

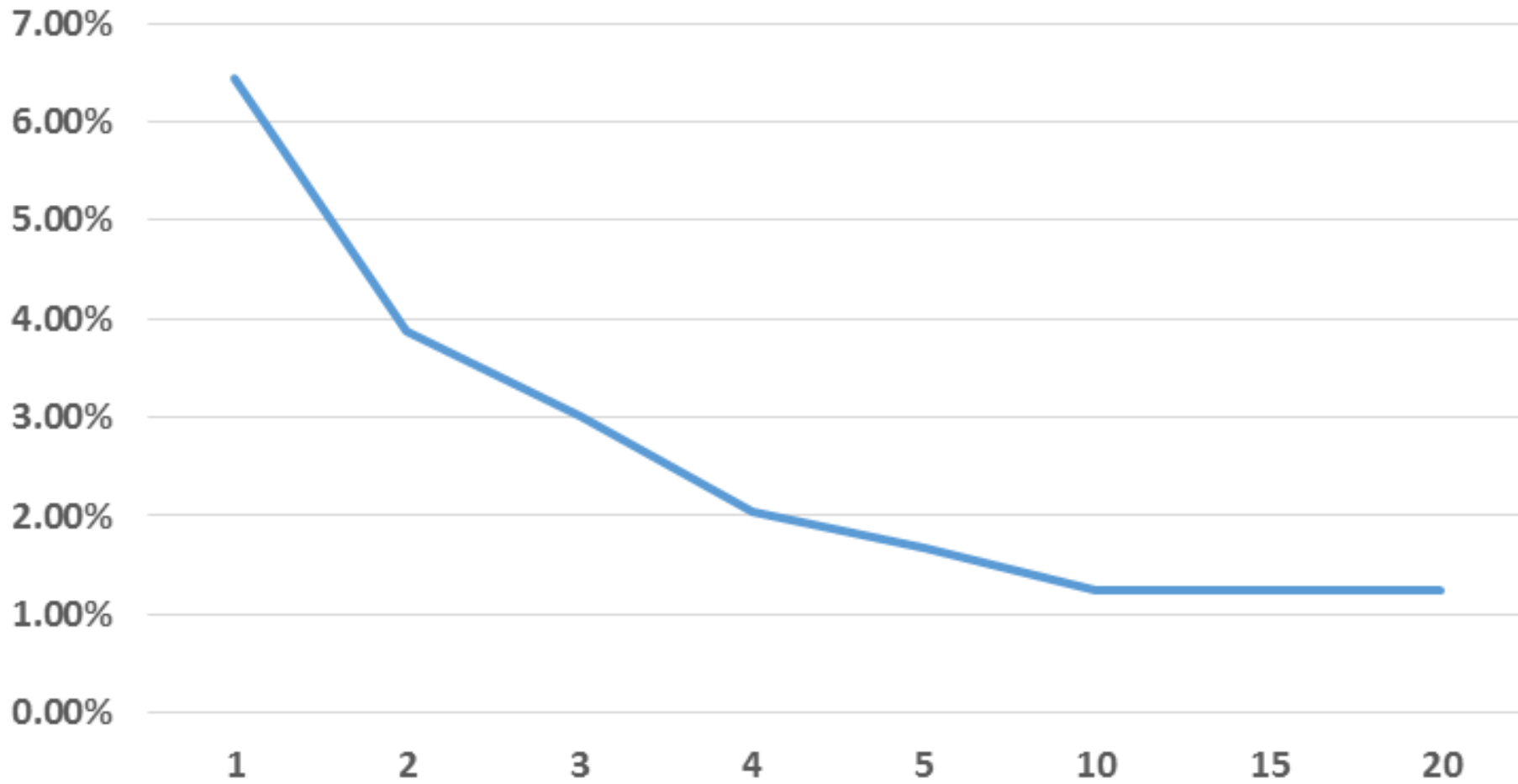
Charges
Indicator

A
B
C
D
E



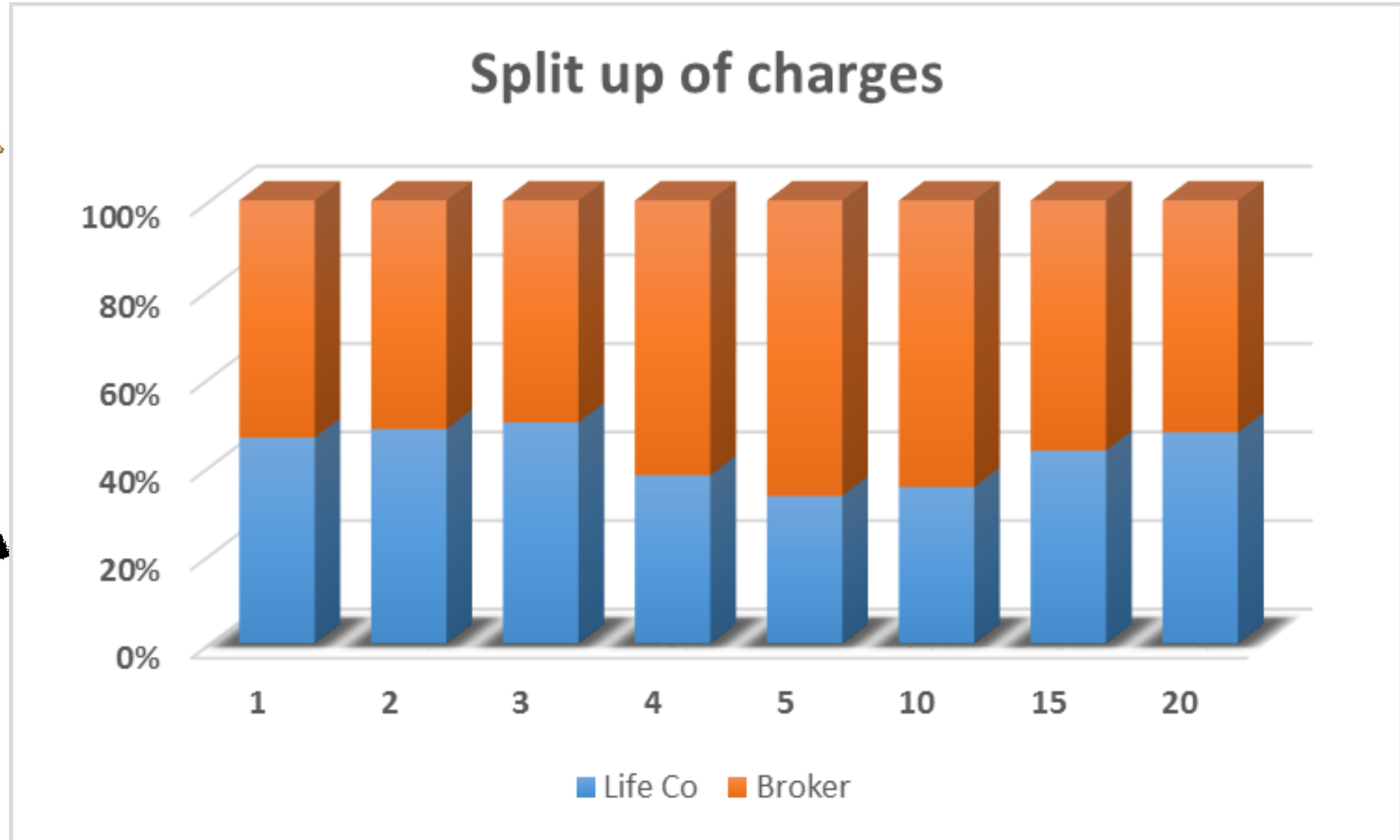
Comparison of Buy Out Bond charges

Reduction In Yield



How long the plan lasts

How much do each get?



Broad Options to reduce charges

Options?

Bulk into large units

Better disclosure

Impose statutory caps on charges

Prohibit sales/advice remuneration being taken from pension pot



PAOs and Threshold Limits

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