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EIOPA Report on Costs and charges of IORPs

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I. Objective

From EIOPA's perspective, the project has been undertaken as a follow up to EIOPA's 2012 Advice to the European Commission on the review of the IORP Directive¹. With regard to information on costs and charges that should be provided to (future) IORP members during the pre-enrolment and ongoing stages, EIOPA's advice read as follows:

*"... EIOPA has the view that the introduction of the requirement of a **pre-enrolment information document** similar to the KIID is useful for DC schemes where members bear the investment risk and are asked to make choices at individual level.*

The contents of a KIID-like document cannot be presented in accordance with the exact provisions of the UCITs Directive and its implementation measures; rather, they should be made relevant to pension schemes and should extend to aspects beyond investment (that may lead to a name such as KID, or Key Information Document).

In particular, such a KID could contain the following elements that, where relevant, should be provided for the relevant investment options that are offered:

...

4. costs/charges;

..."

*"**Ongoing information** requirements should provide for a personalised annual statement to be delivered to each member. In the case of DC schemes, the annual statement should include the individual member's accrued balance and a summary of inflows and outflows, with particular reference to employer's and employee's contributions; the statement may also include additional information, **such as the charges actually levied** and the performance in that particular year. The details of the contents need implementation measures. Anyway, room should be left to country-specific information."*

Therefore it was decided that this project should attempt to "unravel the different categories that comprise the totality of costs and charges borne by members and beneficiaries, consider definitions and work towards uniform ways to quantify them."

¹ https://eiopa.europa.eu/Publications/Consultations/EIOPA-BOS-12-015_EIOPA_s_Advice_to_the_European_Commission_on_the_review_of_the_IORP_Directive.pdf#search=iorp%20review%20advice,p.512andonwards

It was assumed that standardised breakdown and calculations would increase transparency of investment returns and could also help make comparisons between schemes and providers (IORPs) easier.

The project intended to cover:

- Analysis of the totality of costs and charges borne by members and beneficiaries as well as those borne by sponsoring undertakings and IORPs;
- How costs and charges are broken down and disclosed, and to whom.
- Consideration of whether and to what extent it might be possible to develop common definitions and standardised breakdowns of costs and charges;
- Legal and supervisory tools.

The project took the form of a fact-finding mapping exercise to EIOPA members, to gather information on existing practices and approaches in Member States in respect of costs and charges faced by members and beneficiaries of IORPs, as well as what costs are present in Member States.

In order to obtain an overview of how costs and charges are recognised and regulated across Member States a survey was developed and answers were collected from EIOPA members. The replies to this exercise were used as the basis for further, detailed analysis of the situation with regards to costs and charges in Member States.

In order to pinpoint the full picture of costs and charges, the following elements were taken into consideration:

- all elements of the value chain which lead to outflow from or decrease in value of the IORP's assets², except for outflows related to pension benefits payment and decrease in asset value related to price movements/fair value of those assets;
- any reduction by charges to the value of contributions made by/made for the members;
- any costs borne by the employer or IORP/pension scheme.

In total, 26 Member States provided answers to the survey.

² In this respect, it should be noted that the direct investment costs are only the top of the iceberg. In 2011, the Dutch Authority on Financial Markets showed (Dutch version available [here](#)) that the real total investment costs are two or three times higher than the reported costs, which were mostly only the direct investment costs. A recent AFM report (Dutch version available [here](#)) shows that the difference between direct investment costs and total costs considering the look-through-principle, is even higher, quadrupling the investment cost level. The value chain-approach implicates a cost-look-through-principle which is therefore of most importance in (dis)investment decisions.

Both occupational DB and DC pension schemes were considered, although it is noted that costs and charges applied have a more direct impact on the benefits accrued by members of DC pension schemes, especially pure DC pension schemes. In the case of DB pension schemes, costs may be directly borne by the sponsoring undertaking or may be discounted in the pension premium paid by the sponsoring undertaking and/or member– costs may indirectly affect the affordability of DB schemes for members and sponsors.

Interim-result of the mapping exercise

Unfortunately, early on in the project the results of the mapping exercise showed a lack of detailed information and practical experience among some Member States as regards the detail of costs and charges at this moment in time. Also, regulation requirements as regard costs and charges vary widely among Member States and are in some cases not comprehensive or absent altogether.

The wide diversity of regulatory approaches, but especially the fact that there is a lack of detailed information and practical experience in a number of Member States as regards obtaining the details of costs and charges in particular, indicates that, at this moment in time, pension scheme members and a number of National Competent Authorities (**NCAs**) cannot always accurately assess if pension schemes offer value for money or are affordable.³ It should be noted however that not all NCAs consider it necessary to have an overview of **all** costs and charges in order to be able to supervise effectively if pension schemes offer value for money or are affordable.

Therefore, the current situation shows that it would not be possible to consider the original goal of this project - considering common definitions and standardised breakdowns of costs and charges.

However, the outcomes of the survey show that Member States' current approaches to shed light on costs and charges vary greatly. Chapter II of this report contains an overview of these existing practices.

³ E.g.: The Dutch Pensions Act will, as of mid-2015, require pension funds to provide information on costs and charges in their annual reports. In the proposal of law, introducing this requirement, it is explicitly stated that pension funds will most likely not be able to provide an accurate and comprehensive overview of **all** transaction costs. In that case, and under specific conditions, pension funds are allowed to include an estimation of these specific costs in their annual report.

II. Regulation and current trends relating to costs and charges

1. Legal and supervisory framework

The first goal of the mapping exercise was to understand what the legal framework and supervisory practices around costs and charges in Member States are, in order to establish how far this was aligned and the scope for possible further work on potential convergence of supervisory practice at EU level.

Differences in practice between Member States typically relate to differences in the design of the national pension system. It was also assumed that differences in approach would be observed between different types of pension schemes with respect to costs and charges, due to the possible direct impact on member outcomes of costs and charges in DC pension schemes.

Whilst costs and charges can be considered in isolation – that is, without reference to other factors which affect member outcomes or sponsor affordability – EIOPA believes that it is important to not only consider them in isolation but also as part of a range of elements including contributions, risk and investment returns, which may provide a broader view of what individuals or IORPs⁴ are paying in relation to what they are receiving.

Therefore it would be difficult to draw any conclusions on any approach to costs and charges without also considering an IORP's investment performance and management of risk, and how these elements finally influence accrued capital. Therefore, the most significant question to consider is: what are the **costs and charges** of a pension scheme and how do they influence the IORP's **overall ability to deliver value for money or overall affordability for scheme sponsors?**⁵ This means that the total costs of the value chain should be calculated by applying the 'cost-look-through' principle, in order to ensure that the 'real' costs are taken into account.

When looking at the responses of Member States to the mapping exercise, it should be stressed that generally there is a significant variation in both the legislative framework and supervisory practice across the EU – responses to most questions from the exercise show significant variations between Member State participants. However, some broad trends can be observed. Both DC and DB pension schemes are considered here.

⁴ The term IORP is used here and hereafter considering that in some jurisdictions this is a managing company instead of an IORP because of the legal framework in place.

⁵ When considering this, it should be borne in mind that some cost differences are inherent between IORPs, e.g. administration costs associated with collecting sponsor contributions for a multi-employer IORP may be higher than for an IORP with the same number of members and beneficiaries but only a single sponsoring undertaking.

a. Capping costs and charges

Capping costs and charges in law occurs in less than half of the respondents (AT, BE, BG, EE, ES, HU, PL, SK, SI, UK).

Where caps occur, they tend to focus on specific costs and charges and do not attempt to cap *all* charges levied – only BE, EE and ES reported that they have total caps.

Reasons given by Member States for utilising charge caps vary but tend to focus on protection of members from unfair and high costs and on ensuring comparability or standardisation between different market participants, if relevant.

b. Who bears costs and charges

Responses to the survey regarding who ultimately bears costs varied widely. Around half of the Member States who responded to the mapping exercise have some legal requirement for a given party to bear some costs; however there is variation between them as to whether the employer/IORP/member is legally required to pay costs. In addition, these responses refer only to some, specific cost items – they are not indicative of Member States requiring a given party to pay all costs. Table 1 below shows the distribution of this legal requirement across respondents to the mapping exercise.

Employer	NO, PL, UK ⁶
IORP	BE, BG, EL, PL, PT ⁷ , SK
Member	BG, HR, ES, HU, PL ⁸ , SK
Other	EE, PL
None	AT, DE, DK, IE, IT, LT, LU, LV, MT, NL, SI

⁶ In the UK, this refers to a specific case relating to advice taken by employers when selecting/setting up an IORP – this cost cannot be passed onto scheme members through consultancy charging.

⁷ PT: The law provides that certain costs have to be considered costs of the IORP (pension fund), such as the scheme manager fees (remuneration of the pension fund management entity), custodial fees/costs of safekeeping of assets, costs related to portfolio transactions and transfer charges. As these are deducted from total assets, they have ultimately an impact on the capital accumulated by the member or, where applicable, on the account to which contributions made by the sponsor are allocated (DC schemes), or are ultimately borne by the sponsor (DB schemes). The sponsor and the management entity (in closed pension funds) or the latter (in open pension funds) may also determine that other expenses related to its activities are to be borne by the IORP.

⁸ In PL members bear costs and charges indirectly because costs and charges have an effect/impact on the value of accounting units of the fund.

c. Basis for the calculation of charges

Approximately half of Member States respondents have legal requirements specifying how specific costs and charges are to be calculated and deducted. Where Member States specify how charges are to be presented, typically this is required to be shown as a percentage of assets under management. Table 2 below sets out Member States responses.

Table 2. Legal requirements with regard to the basis for calculation and deduction of costs and charges

% of assets/fund value	AT, EE, ES, HU, IT, LT, NL, PL, PT, SI, SK, UK
% of contributions	BG, SI
% of return/investment income	BG, SK
Absolute value (i.e. €X)	BG, HU, SI
Other	SK
None	CY, BE, HR, DE, DK, EL, IE, LU, LV, MT, NO

Synthetic cost indicators (SCI)⁹ do not appear to be a popular method of controlling charges – only IE, IT and SI reported that legal requirements exist over the calculation of these – although some (sometimes commercial) cost benchmarks are used by the pension industry itself (e.g. in NL).

Comparison tools also do not appear to be prevalent in the IORP market across the EU – only ES, IT and UK reported that these are provided either by the NCA or by the industry.

Although most Member States require some information on costs and charges to be reported to NCAs, there is a significant variation in how this is reported. Most typically this is done via an IORP’s annual report to the supervisor, although in some cases IORPs must directly disclose costs and charges. Table 3 below details the information on costs and charges that NCAs require IORPs to report.

⁹ The SCI expresses the value, in percentage, about how much the overall of the applied costs engraves every year for on the individual position of the affiliate; for overall of the costs all direct expenses and the burdening encumbrances, directly or indirectly on the affiliate are considered

Portfolio management costs	AT, BG, IT, LV
Financial statement/actuarial report	BE, BG, HR, DE, FR, IT, LV, MT, NO, PL, SK
Fees charged	BG, ES, IT, LT, LV, PT
Total costs	BG, DK, HU, IT, NL ¹⁰ , SI, SK
None	CY, EE, EL, IE, LU, UK

Where costs and charges are reported to supervisors, overwhelmingly this is done annually (in AT, BE, DE, DK, EL, ES, FR, HU, IT, MT, NO, PT, SI).

In NL, cost data are gathered by the Dutch Central Bank and are made available for analysis by both the prudential and conduct of business supervisors – the Dutch Central Bank and the Authority for Financial Markets.

In the UK, the supervisor provides guidance to pension schemes on how to evaluate the costs and charges levied on their scheme as part of a wider assessment of the scheme’s ability to deliver value for money.

Finally, Member States do not typically publish information or statistics related to costs and charges. Moreover, of those who require information to be reported to NCAs, only BE, DE, LV and PL reported that they publish this information in the form of statistics.

d. Aspects to be taken into account to assess appropriateness of the costs and charges

It is very important that costs and charges are appropriate. As detailed above, whilst costs and charges can be considered in isolation, to obtain a comprehensive picture the elements of contributions, investment return and risk should be taken into account also. However, it should be noted that costs and charges are a significant determinant of outcomes in retirement savings, especially in DC pension schemes, and could substantially reduce an individual’s outcome over the lifecycle of their membership. To ensure that this impact is appropriate and does not have an unduly negative effect on outcomes (in conjunction with investment risk and performance) there are several potential approaches to how costs could be controlled. In the case of DB pension schemes it should be ensured that the costs that are calculated in the contributions are sufficient in order to cover the actual costs borne.

¹⁰ Presenting total costs over the value chain will be a legislative obligation in the Netherlands by mid-2015. DC-pension schemes such as the ‘Net pension scheme’ will then be obliged to administer all costs separately for that scheme. The same will be the case for the Dutch Algemeen Pensioenfonds (General Pension Fund), which must have separate cost administrations per collectivity circle within the Apf.

Costs could be regulated through legal measures, supervisory tools or practices (for instance rules on disclosure to NCAs and/or members/beneficiaries, rules requiring costs to be taken into account in the pension contribution in order to cover the actual costs or capping costs and charges applied) to ensure that costs and charges are appropriate and members' and beneficiaries' rights are fully protected.

Also important is transparency, both of the quantum of costs and charges and how these are structured and broken down¹¹ to ensure that the involved parties have all the necessary information for decision making on appropriateness of the costs they have to bear.

Assessing transparency requires the following:

- the basis of calculation should be specified and uniform, otherwise it is difficult to make a meaningful comparison, where relevant, or to understand how charges are structured;
- it is understood that the volume of costs as well as their impact on outcomes may differ according to the complexity and structure of the investment portfolio as well as risks taken;
- **all** the costs are taken into account (both costs which explicitly and implicitly impact the accrued benefits);
- costs are published – publication is essential for purchasers (either members, employers, or IORP managers) to be able to make comparisons, where relevant, and generate market pressure.
- it is important that costs and charges reported/disclosed are also correct – in particular, investment costs related to complex investment products (e.g. private equity or hedge funds) are often opaque and difficult for IORPs to obtain.

2. Disclosure (to all but supervisors)

As outlined above, it is important to consider how costs and charges are disclosed, including how they are broken down and what their structure is.

When considering disclosure of costs and charges, the distinction between DC and DB pension scheme structures is also relevant:

- Especially in DB pension scheme arrangements, the management of costs and charges is mostly the responsibility of the board or the trustees of the IORP. Members of DB schemes may be less directly affected by costs and charges, since their benefits are defined and costs do not have an immediate effect on their accrued rights (though costs do have a direct impact on the financial reserves of the IORP and therefore on the capacity of the IORP to

¹¹ In the Netherlands, costs will (as of mid-2015) be transparent and broken down into administrative costs, costs for managing the assets and transaction costs. Pension funds will also be obliged to break down the integrated costs for managing the assets per asset class through the new accounting rules (of the 'Raad voor de Jaarverslaggeving').

finance indexation of the accrued rights). However, costs may affect the affordability of the scheme for sponsors (who typically bear the costs of running DB pension scheme arrangements).

- In DC pension scheme arrangements, charges may immediately reduce the value of the member's capital and therefore have a clear and direct effect on outcomes – in this context, clear and comprehensive disclosure of costs and charges levied is important for DC pension scheme members to understand the impact of these reductions.

Costs may be ultimately borne by different parties – the IORP may bear them itself, the IORP's sponsoring undertaking may bear costs, or the members of the pension scheme themselves may bear costs, either directly through charges or indirectly through costs reducing the value of assets. Who bears costs will depend on the structure of the respective IORP or pension system, as well as contracts between related parties. In addition, costs may be divided between different parties. Therefore, it is important that costs are transparent not only to members but also to sponsoring undertakings and other parties, so that there is clarity over which costs are borne by which party.

Observed trends from the survey show that, again, there is little similarity in practice across the EU in respect of Member States disclosure regimes for costs and charges. Typically, the level of detail (number of separate disclosure items) is very low, with most Member States requiring IORPs to disclose costs and charges in between 1-3 separate items, although there are some outliers.

It should be noted that in some cases, there are no formal requirements for disclosure of costs and charges by IORPs within the legal or supervisory framework, with practice in this space being entirely determined by market participants.

The most common forms of disclosure for costs and charges are via member benefit statements and in pre-enrolment/contract information, but some Member States also require costs and charges to be disclosed via IORP reporting obligations. Table 4 below lists the documents in which Member States reported that costs and charges are disclosed.

Table 4. Documents in which costs and charges are disclosed	
Contract/enrolment information	BG, DE, DK, FR, HU, IT, LU, LV, MT, NL ¹² , PL, PT, SK, SI, UK
Member benefit statement	BG, ES, FR, IE, IT, LT, LU, LV, NL, SK, UK
Balance sheet	BE, FR, SK
Scheme rules	LU, LV, PL, SI
Profit & loss Accounts	BE, DE, IT, LV, NL, PT, UK
(Annual) IORP report	BE, BG, FR, IT, LT, LV, NL, PL, PT, SI, SK
Ad-hoc disclosure	BG, DK, FR, IT, LT, PT, UK, SK
Other	DE, FR, NO
N/A	AT, EE, HR

Where costs and charges are disclosed, overwhelmingly the requirement is legislative, but in some cases additional requirements from supervisors or industry codes are provided (DE, UK, SK), or there is informal IORP practice (DE, DK, NL).

Similarly, most Member States focus disclosure of costs and charges on members, requiring costs to be disclosed to scheme members in the forms outlined above. Disclosure by IORPs or service providers to employers of the costs incurred is less common (occurs in BE, BG, DE, LT, NO, PL, PT).

There is significant variation between Member States over when IORPs are required to disclose information regarding costs and charges. Disclosure on an annual basis and/or at pre-enrolment/contract is required by small number of Member States but the most common approach is to have either sole or additional requirements for disclosure on another basis, e.g. ad hoc disclosure or providing this information upon request from the member. Table 5 below details the frequency at which Member States require IORPs to disclose information regarding costs and charges.

Table 5. Frequency at which costs and charges information is disclosed	
Annually	BE, BG, DE, FR, IE, IT, LT, LV, MT, NL, NO, PT, SI, SK, UK
Quarterly	ES, FR
At enrolment	BG, DE, DK, FR, IT, LU, LV, MT, NL ¹³ , PL, PT, SI, SK, UK
Other	BG, DE, DK, FR, HU, PL, UK
N/A	AT, EE, HR

¹² A requirement to inform new members on costs (as part of the enrolment information) will be implemented in the Dutch legislation in mid-2015.

¹³ A requirement to inform new members on costs (as part of the enrolment information) will be implemented in the Dutch legislation in mid-2015.

Where disclosure is required this is typically mandatory/upfront with comparatively fewer Member States (BG, DE, ES, HU, PT, UK) requiring initial or additional disclosure upon member request – most of those Member States also require mandatory upfront disclosure.

Disclosure of costs and charges via paper documents remains the most common method of disclosure in Member States.

There is little similarity between Member States in terms of how costs and charges are displayed when disclosed. Mostly there is a requirement to express charges levied as an absolute value. However, some Member States require these to be shown as a percentage figure. Table 6 below details how Member States require costs and charges to be displayed when disclosed.

Table 6. Basis for presentation of charges in disclosure	
Absolute value	BE, BG, DE, FR, IT, LT, LV, MT, NL, NO, PL, PT, SK, UK
Percentage	BG, ES, FR, IE, IT, NL, PL, PT, SK, SI, UK
Other	DE, HU
N/A	AT, EE, HR

Whilst charges are typically disclosed as an absolute value, it is noteworthy that when Member States elect to use charge caps or other control measures, as discussed in the previous chapter, these are typically implemented on the basis of a percentage figure (e.g. of assets under management or of contributions).

3. Categories of costs and charges

Costs and charges can be broadly divided into three¹⁴ categories:

- Pension scheme/IORP costs – costs related to administration of the pension scheme and/or IORP
- Investment costs – costs related to asset management
- Transaction costs – fees paid for the execution of transactions related to the selling and buying of financial instruments. There are two types of transaction costs :
 - Explicit transaction costs and implicit transaction costs.

¹⁴ In Member States where IORPs make use of the services of intermediaries, e.g. IT, a fourth category of distribution costs should be added. This is particularly the case where pension schemes seek to collect members among the self-employed or small undertakings.

a. Pension scheme / IORP costs

Pension scheme / IORP costs are administration costs that arise from the IORP’s activities when administering individual accounts, collecting contributions, record-keeping, preparing and providing information, ensuring pay-out of the pension, providing adequate management system and governance – in other words, the running costs of the IORP.

These costs may be partly borne by members and beneficiaries, for example via entry fees, annual management charges, decumulation costs, etc. While entry and exit fees are generally relatively simple to identify and disclose, ongoing charges are often more complex. It is sometimes not straightforward to identify all charges that have the effect of reducing the member’s accrued capital, because some costs may be hidden, for example through not being included in specific charge breakdowns, and if not considered will lead to an incomplete and distorted picture of the total costs members face when saving in the scheme.

Otherwise, these may be borne by the IORP itself or by the IORP’s sponsoring undertaking.

EIOPA has identified the following elements as being representative of pension scheme / IORP costs:

A	Pension Scheme/IORP Costs	
1	Registration/Authorisation Fees	Administration Registration with the regulator, any other relevant bodies
2	Set-up fees for pension scheme/IORP	Administration To cover the set up costs of the scheme/IORP
3	Entry fees on transfer	Costs to cover the administration of transferring a pension
4	Commission to external body	Commission paid to an adviser, such as an Employee Benefit Consultant or external actuary, etc
5	Scheme/IORP administration costs	Administration costs levied for the running of the scheme/IORP, e.g.: staff costs, IT, office costs, etc
6	Scheme manager/trustee fees	Administration costs associated with services provided by the persons in charge of managing the scheme.
7	Outsourcing costs	Costs related to outsourcing of the specific function or services of the IORP
8	General banking fees	Administration costs related to maintenance of bank accounts
9	Internal audit costs	Administration costs related to the conducting of internal audit

10	External audit fees	Fees paid to an external auditor
11	Regulatory fees/levy	Costs associated with paying fees/levy to regulators
12	Legal expenses	Legal advice or representation
13	Unrecoverable VAT	Administration costs related to value added tax
14	Statement costs	Costs associated with providing benefit statements for members
15	Accounting fees	Costs of producing annual scheme accounts
16	Printing/ posting accounts	Administration costs related to posting services
17	Exit charges	Charges to cover administration costs of transferring an individual's pension or as a penalty charge
18	Decumulation	Administrative costs of decumulation (payout)
19	Acquisition costs	Costs for selling and underwriting a pension contract (e.g. costs for intermediaries)
20	Depreciation and amortization	Terms used for the apportionment of the cost of a tangible (depreciation) or an intangible asset (amortization) as an operational cost over the asset's estimated useful life.
21	Distribution costs	Costs related to distribution of products/services provided by IORPs

Most Member States who responded to the mapping exercise recognise at least some of these costs as being present in their country. However, a significant number indicated that there is no information of this level of detail available and that all costs are reported/disclosed simply as administration costs. Several Member States also reported that they have no information on which party typically bears this cost, although others indicated that these are generally borne by the IORP itself or the member/beneficiary in the case of DC pension schemes and by the IORP itself or the sponsor, or by a combination of member/sponsor/IORP in the case of DB pension schemes.

b. Investment costs

Investment costs are costs related to asset management and also custody. They can be broadly divided into:

- Asset management fees
- Custodian fees
- Performance fees

The level of investment costs is usually influenced by factors such as the size and complexity of the IORP as well as portfolio structure, internal or external asset management and passive or active management.

EIOPA has identified the following investment costs:

B	Investment costs	
22	Asset management costs	The charge that a fund manager assesses to cover operating expenses
23	Custodial fees	Costs/fees associated with custodianship
24	Costs for administrating and monitoring guarantee assets	Administration of the guarantee funds (where guarantee funds are introduced by legislation)
25	Performance fees	Fees charged by an investment fund/manager, calculated by reference to the investment performance

Asset management costs and custodian costs are widely recognised among Member States who responded to the mapping exercise although several Member States failed to provide any information on which party typically bears these costs. Some others indicated that in the case of DC pension schemes costs are borne by the IORP itself or the members/beneficiaries and in the case of DB pension schemes by the IORP itself, the sponsor, the member or by a combination of member/sponsor/IORP.

c. Explicit transaction costs

Transaction costs are seen as a separate cost element, although these are closely related to asset management. Explicit transaction costs are straightforward to identify, since they are explicitly paid during the investment process and usually these costs can be readily found.

EIOPA has identified the following explicit transaction costs:

C	Explicit transaction costs	
26	Ticket fees	Fees charged by custodians for specific trading operations
27	Brokerage fees	A fee charged by an agent, or agent's company to facilitate transactions between buyers and sellers. The brokerage fee is charged for services such as negotiations, sales, purchases, delivery or advice on the transaction

These costs are well recognised among the Member States who responded to the mapping exercise. However, there is significant variation in how these costs are paid. Only a few Member States indicated that these costs are typically borne by members, while some Member States noted that these costs are borne by IORPs. A few Member States mentioned that the cost is split between employers and IORP or members or that the costs are borne ultimately by the employer.

d. Implicit transaction costs

In addition to explicit transaction costs, implicit transaction costs may arise which can also **affect investment outcomes, but are less straightforward to identify** since they are often included in the price of the financial instruments or deducted by default. Whilst these costs are less straightforward to identify, a comprehensive consideration of costs that arise during the scheme’s life-cycle should consider these implicit costs as far as is practicable.

EIOPA has identified the following implicit transaction costs:

D	Implicit transaction costs	
28	Spreads	The difference between the price to buy and price to sell a financial instrument or currency
29	Equities market impact costs	Transaction costs The effect that a market participant has when it buys or sells an asset. It is the extent to which the buying or selling moves the price against the buyer or seller, i.e. upward when buying and downward when selling
30	Soft dollars included in brokerage fees	The term soft dollars refers to the payments made by their service providers. The difference between soft dollars and hard dollars is that instead of paying the service providers with cash (i.e. hard dollars), the mutual fund will pay in-kind (i.e. with soft dollars) by passing on business to the brokerage.
31	Waiting costs	Opportunity costs because of settlement periods
32	Non-reclaimed dividends	The part of profit paid to ordinary shareholders
33	Non-reclaimed withholding taxes	Taxation deducted from payments made such as interest on bonds before the recipient receives the payment
34	Government taxes, duties or levies	Any levy on trading by national treasury

In general, these costs were not well recognised by those Member States who responded to the mapping exercise. In particular, although these are recognised as implicit transaction costs some Member States indicated that these costs are considered to be explicit in their jurisdiction. Almost the same number of respondents indicated these costs to be borne by members or IORPs or employers, or split between either the sponsor or IORP and members.

e. Observations regarding who bears what costs

The mapping exercise shows that, as in other areas, there is significant variation between Member States in how costs are ultimately paid for. A similar number of Member States indicate that most costs are borne exclusively by members, by employers, by a combination of members and the IORP, and by a combination of members and the employer(s). Member States have also indicated that in many cases this is based on contracts concluded with individual IORPs/schemes, where the contract specifies who bears specific cost items. It should be also noted that in a number of cases, the IORP is said to bear the initial cost but ultimately these are implicitly borne by the member, e.g. through the IORP's running costs being paid out of scheme funds or by the employer.

III. Conclusions

Costs and charges are a key issue when considering the value for money or affordability that IORPs deliver, since these may have an important, and potentially detrimental, impact on the accrued benefits or calculated contributions.

The findings of the survey conducted among EIOPA members indicate that the methods Member States have chosen to address costs and charges vary widely, notably around legal requirements, which party bears specific costs and charges, and disclosure rules. The research also shows that it is highly difficult among a significant number of Member States to ascertain a clear, comprehensive and foremost accurate picture of what parties are paying in costs and charges and to assess the value for money or affordability of the pension schemes concerned.

At large, a need for greater transparency and clarity is observed over what is often an opaque and ill-understood practice (although this does not apply to all Member States). In the context of the social element of pension schemes as providers of retirement income and the ongoing shift to DC pension schemes in many Member States, it is especially important for costs and charges to be understood in the IORP space. Moreover, the concept of what is value for money should be further explored.

EIOPA considers that it would be beneficial for all parties that bear costs and charges in IORPs if:

1. All costs and charges within the value chain are disclosed transparent and comprehensively to the parties bearing them, so that:
 - The parties bearing costs and charges are able to assess if the costs and charges they are paying represent good value for money, and;
 - Disclosure of 'costs and charges' information better enables all parties to exert market pressure on costs.
2. NCAs have effective means to assess costs and charges so as to be able to – in a wider perspective – assess how these affect value for money or the affordability of the pension schemes provided.

Although costs and charges should receive increased, specific attention, EIOPA believes that, when assessing if pension schemes offer value for money or are affordable, costs and charges should be considered in the context of contributions, risks and the performance of investments.

Keeping that in mind: EIOPA will take further steps to address the two issues mentioned above, taking due note of the national initiatives that have already proven effective in this field and the differences in the IORP systems.

IV. Annexes

Annex 1 – countries that provided data for EIOPA’s survey

	<i>Code</i>	<i>Country</i>
1	AT	Austria
2	BE	Belgium
3	BG	Bulgaria
4	CY	Cyprus
5	DK	Denmark
6	EE	Estonia
7	ES	Spain
8	FR	France ¹⁵
9	DE	Germany
10	EL	Greece
11	HR	Croatia
12	HU	Hungary
13	IE	Ireland
14	IT	Italy
15	LV	Latvia
16	LI	Liechtenstein
17	LT	Lithuania
18	LU	Luxembourg (CSSF)
19	MT	Malta
20	NL	The Netherlands
21	NO	Norway
22	PL	Poland
23	PT	Portugal

¹⁵ ACPR answered to the survey regarding a type of pension product in the database (the PERP, code FR-9) to illustrate what the French legislation can cover on the issue of costs and charges. Please note that this is one instance, therefore the description only describes the obligations linked to this very product and does not prejudice of any other legal or regulatory obligations concerning other pension schemes

24	SK	Slovakia
25	SI	Slovenia
26	UK	United Kingdom

Annex 2 – additional sources for reading:

- Dutch Pension Federation:
 - **Recommendations on administrative costs 2011**
Datum: 17-01-2012
Recommendations on administrative costs - Further elaboration on asset management costs
Datum: 20-11-2012
- Better Finance paper “**Pension Savings: The Real Return 2014**” (29 September 2014)
- The UK Financial Services Consumer Panel paper “**Investment costs – more than meets the eye**” (17 November 2014)