UK companies selling pensions take 80 percent in fees and commissions

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Research carried out by the BBC has revealed that some pension-selling companies take as much as 80 percent in fees and commission from some of their private pension plans. The rip-off involves not merely rogue operators or a few isolated cases, but well known high street names such as HSBC, Legal and General, and the Co-Op.

None of the companies concerned disputed the BBC's findings.

Concerns have been raised for some time about the high level of fees being charged by private pension providers.

The BBC examined the pension plans sold by the main providers, using data provided by the companies themselves and the Consumer Finance Education Body (CFEB). Of the 24 providers, 21 volunteered the information to the CFEB and confirmed it as accurate.

According to *Panorama*, the BBC's flagship investigative programme, the fees and commission accruing on one HSBC pension plan, where someone pays in £200 a month, would amount to £99,900, or 80 percent of the £120,000 money paid in over 40 years.

HSBC admitted that it makes a 20 percent profit margin on such a pension, but claimed that the pension was "good value for money", "competitive" with other similar pension plans and was "certainly not one of the most expensive pension schemes on the market".

In that case, all the other pension providers are also ripping off their customers.

The Co-Op, a mutual insurance society with no shareholders to satisfy, would take nearly £96,000 in fees over 40 years on deposits worth £120,000 in its Individual Personal Pension. The Co-Op claimed that it had higher costs because it used external fund managers to administer the pension plan.

It said, "Our pension charges are fully transparent, and include not only investment costs, but also administration expenses and financial advice provided."

"The vast majority of our customers' pension invest in funds with funds lower than or equal to the 'stakeholder' government-set levels," it continued. What the Co-Op did not say was that "stakeholder" pensions are notorious for their high charges and are widely acknowledged to be poor value for money.

The Legal and General would take about £61,000 on its Co-funds Portfolio Pension.

According to pension consultant Malcolm McLean, each time the pension is sold on, the annual percentage charge, which seems small, grows in real terms each year as the fund grows and each new management firm takes its cut. Customers have to bear the cost of management fees, an annual fund management charge, establishment fees, dealing fees and brokers' bonuses.

The high fees come at the expense of customers' future pensions. According to Dr Paul Woolley, who used to run a multi-billion pound investment fund and established the Centre for Capital Market Dysfunctionality at the London School of Economics, fees and commissions have doubled over the last 10 years to reach 1.5 percent. He said, "The net return to pension funds collectively has reduced. And it is reduced by the amount that the fees have gone up."

The BBC's investigation makes it clear that working people have once again been sold a pup. These pension plans are almost worthless. The City of London is thoroughly deserving of its reputation as a bunch of swindlers, cheats and parasites, preying upon hard working families.

While successive governments claimed to have cleaned up the pensions industry after the pensions misselling scandal of the 1980s, the Maxwell pension scandal in the early 1990s, and the collapse of the insurance company, Equitable Life, it is business as usual.

Just 18 million workers have an occupational pension. Many employers have closed their schemes to new members. The state pension provision, upon which more than half of pensioners rely, is derisory. It is equal to only 15 percent of average male earnings.

Millions have been forced to make their own provision for their retirement by buying a personal pension plan, whose funds are invested in the stock market. And that is the preferred solution to the “pensions crisis” of all the parties. The Labour government introduced a new scheme, to start in 2012, that will force workers to save for their retirement in stock market-based pension funds. With almost nothing coming from such pension investments, they will still find themselves dependent upon the meagre state pension they sought to augment.

More than a third of pensioners live in poverty and this figure will rise.

According to research from Lincoln Financial Group, 41 percent of workers in the UK doubt whether they will have enough to live on once they reach pensionable age. More than a third of people expect to work full or part time during their retirement to avoid poverty. Older workers are even more worried. Of those aged 55 or more, one in 10 already plan to work full time during retirement and 47 percent say they will work part time. Some doubt whether they will ever be able to retire. More than 1.2 million men and women over retirement age are working today. Traditional retirement is already a thing of the past.

A social catastrophe and untold distress faces millions of pensioners and those soon to become pensioners, as the mechanisms to evade that fate have fallen apart.

As occupational pensions in the private sector, personal pensions and the value of savings have been eroded with the onset of the financial crisis, Britain’s bosses, the media and political parties have mounted a deafening campaign against the occupational pensions for civil servants, teachers, police and National Health Service and local authority workers, claiming that they are unaffordable.

The Conservative-Liberal Democrat government brought in Lord Hutton, a former Secretary of State for Work and Pensions in the Labour government, to review public sector pensions. Hutton’s first report, published last week, claims that the cost is simply unsustainable, even though he acknowledges that the average pension is just £7,800 a year and the cost has fallen as employees’ contributions have risen. He has indicated that higher contributions, postponement of the retirement age, and a switch from final salary to average career salary are all under consideration.