Individual personal pensions fare worse than group pensions, shows research

July 20 2017, by Alison Jones

Individual savers are losing out by over one per cent a year compared to savers in group personal pension plans. Credit: University of Bath

People who take out an individual personal pension can expect lower returns than those who invest in a group personal pension plan, suggests new research from the University of Bath's School of Management.

Individual investors are losing out

The study finds that individual investors lose out by over 1 per cent a year in comparison with group personal pension plans negotiated by employers, even before differences in fees are taken into account.

The findings suggest that personal investors are offered worse financial deals from the outset. The performance targets of the individual scheme funds are less challenging than their group counterparts and fund managers tend to be less successful in tracking their benchmarks.

This is the first study to analyse investment opportunities offered to personal investors, rather than concentrating on the impact of financial education and understanding of basic financial concepts on financial decision-making and returns.

The effect was preserved after the size and other characteristics of providers were controlled for, signalling that economies of scale were not behind the results.

The study used a sample of 14,429 individual personal pension (IPP) funds and 1,681 group personal pension (GPP) funds, offered to UK investors between 1986 and 2015.

The sample included a subset of providers who offer both types of scheme, ruling out the notion that better deals stem from companies that focus on group personal pension plans.

Individual personal pension plans do not have any formal body that monitors their performance. In contrast, investments in group personal pensions plans are backed by the bargaining power and scrutiny of employers and their legal and financial representatives that generally outweighs the average IPP investor.

Regulators must provide more protection

Professor Ania Zalewska, Director of the University of Bath's Centre for

Governance and Regulation, said: "Our research shows strong evidence that pension providers are systematically treating individual and group investors differently, by offering better investment opportunities to investors with greater market power and more financial savvy. Individual investors need regulatory bodies to step in and provide more protection by setting performance standards and monitoring mechanisms, so that people can be confident they are getting the best value for their money.

"These results have important implications for investors and policy makers. While regulators around the world are concerned with protecting minority shareholders' rights, the way in which individuals are treated by institutional investors is grossly overlooked. Steps must be taken to minimise differences in the performance of personal individual and group pension schemes so that investors' trust is rebuilt in the pension industry."

More information: Anna Zalewska. Group and Individual Personal Pension Schemes: Who Is Fairest of Them All?, *SSRN Electronic Journal* (2017). DOI: 10.2139/ssrn.2920818

Provided by University of Bath