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# Savers with individual personal pensions are losing out due to lack of regulation

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The absence of a third party protecting the interests of individual personal pensions means they perform worse than group personal pensions (GPP), according to new research from the University of Bath's

School of Management.

Without employers' involvement in the creation and monitoring of a pension fund, the difference in performance can vary between 0.96 to 1.67 percent per annum, even when both types of scheme are offered by the same fund management company, and purport to be identical.

"Tighter regulation is urgently needed to ensure better monitoring of individual personal pension plans, to improve returns for individual investors," said Professor Ania Zalewska, director of the University's Centre for Governance, Regulation and Industrial Strategy.

"There has been a focus on unfair charges for pension funds but this research reveals a much bigger problem which is totally hidden from public eye—the difference in performance of pension funds according to whether they have investment oversight or not."

GPP schemes are overseen by a governance body that monitors the pension fund. These Independent Governance Committees (IGCs) scrutinize the value for money of the scheme, escalating any concerns to the provider's board, and if necessary to the Financial Conduct Authority.

While the fee burden continues to be a problem for individual investors, the study found the difference in fees between the two types of schemes to be smaller than the difference in their financial performance. GPP funds were charged 0.7 percent lower fees per annum than individual personal pensions.

"If government wants to solve the problem of providing for a growing older population, it is not enough to create individual personal pension plans and leave it at that. They need to create effective monitoring mechanisms and investment oversight to ensure that people are getting the best return on their money," said Zalewska.

"It is not acceptable to expect individual investors to cover what should be done by regulatory agencies, nor can we continue to blame people for not saving enough to give financial security at retirement when we know they are being badly let down. The research shows that monitoring matters enormously and would benefit millions of investors."

As the number of self-employed people rises, Zalewska sees the issue of 'centrally' organized monitoring becoming even more pressing. "If we wish to encourage people to engage in long-term saving and investing with third parties (such as pension and mutual funds), it is important to create a trustworthy investment environment. Monitoring is an essential part of it and regulators are responsible for creating mechanisms that ensure it is in place and working."

**More information:** Anna (Ania) Zalewska, Saving with Group or Individual Personal Pension Schemes: How Much Difference Does It Make?, *Management Science* (2021). DOI: 10.1287/mnsc.2021.4083

Provided by University of Bath

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