Pressure builds for passive pension management in Ireland

By Editor Test *Wed, Apr 25, 2012*

The U.S. isn't the only country where retirement plan fees are coming under unprecedented scrutiny. Take Ireland...

A new survey from the British actuarial consulting firm, LCP, suggests that high levels of fees paid by Irish pension funds could be cancelling out the benefits of active asset management, IPE.com reported.

LCP's *Ireland Investment Management Fees Survey 2012* found that the fees charged for active management are at least three times those for passive management. The report asserted that because investment managers charge fees based on the level of assets under management, fee bases generally fail to align the interests of trustees with those of the investment managers.

Indirect costs remain high, while many plans may be paying high investment advisers' fees because of the larger number of manager selection exercises and the increased complexity in monitoring investment arrangements.

Michael Butler, head of investment consulting for LCP in Ireland and the report's author, said: "Clients are focusing on investment strategy reviews but neglect the fact they can renegotiate fees with their managers. Fees for both active and passive management have become more competitive because there are many more managers now offering investment services in Ireland."

Butler reckons pension funds could save as much as 30% off managers' standard fees by negotiation. More than 90% of the managers in the survey said they were willing to negotiate on fees, even for pensions with relatively low assets. He added fees could also be reduced by shrewd selection of active or passive management for different asset classes.

"Managers in specialist asset classes such as diversified growth funds and multi-asset funds often deliver added value by active management," Butler said. "This means the performance can justify the fees being paid."

But in other asset classes such as developed equities, active managers are not necessarily adding a lot of value, he said. Fees can, therefore, wipe out any value added.

"We are seeing clients move those asset classes to passive mandates," he said. "However, there are many more pension funds that should be doing this."

Butler also said more managers in Ireland could offer performance-related fee structures. At present, these are only generally offered by hedge funds, but LCP is putting pressure on the industry to make these structures more widespread.

Jerry Moriarty, director of policy at the Irish Association of Pension Funds, said: "The report is very helpful in giving trustees a benchmark as to what they should be paying and highlights the benefits of negotiating on fees with investment managers.”

He pointed to the report’s finding that differences between fees charged in the UK and Ireland had narrowed dramatically.

“When the Irish government introduced the pensions levy last year, to deflect criticism, they argued that pension funds paid much higher asset management fees than in the UK, and at much higher levels than the levy,” he said.

“This research shows the complete lack of substance in that argument, which was used to justify the levy.”