

PensionBee Position on Transaction Cost Disclosure

15/06/2018

PensionBee is committed to providing full transparency to its customers regarding their PensionBee Personal Pension and especially on charges.

Recently, MIFID II regulations have come into force that require firms falling under the regulation to disclose transaction costs to their customers.

Although PensionBee, like many pension providers, is not subject to MIFID regulations as it exclusively conducts pension business, we have decided to disclose transaction costs to the best of our ability in order to ensure transparency for our customers.

What are transaction costs?

Transaction costs are necessarily incurred as a part of buying and selling a pension plan's underlying investments. Transaction costs consist of both explicit and implicit components.

Explicit costs include fees charged by brokers to buy or sell shares, stamp duty reserve tax or other taxes or levies charged by regulatory or tax authorities. Implicit costs can include delay costs and opportunity costs (i.e. the impact of waiting too long to trade), which are more difficult to measure.

At PensionBee we think of transaction costs more simply by comparing them to a context we are all familiar with: grocery shopping.

When we go grocery shopping, we pay the shop for the food we purchase ("shop prices"), which covers the costs of keeping the shop open and the costs to the farmer of producing the food. These are the costs we refer to as "PensionBee fees". PensionBee fees support our business ("the shop") and also the business of the fund managers, BlackRock, Legal & General and State Street ("the farmers / manufacturers").

In addition to spending money at the shop, we have to decide how to get to the shop. Do we go quickly by driving and paying for petrol and the congestion charge? Or do we take the cheaper but longer bus route? Do we go during our lunch break when the queue is longer or at the end of the day where we're rather tired and running late for the nursery? These are the transaction costs involved in our grocery run and they are similar in concept to those involved in investing. Government taxes ("the congestion charge") impact us financially and placing an investment at 2pm or 5pm has implications too.

Although we don't usually include these costs when we think about paying the shop, they are important to bear in mind because they impact us financially. PensionBee's objective is to

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disclose transaction costs associated with the PensionBee Personal Pension in the most simple to understand manner so that our customers are assured they always know the financial impact of saving with us.

Transaction costs at PensionBee

As described earlier, PensionBee's fees include our fees and those of our asset managers. Our fees are expressed as a proportion of the pension.

In addition, each of our plans has transaction costs associated with trading investments. These transaction costs will be captured in the overall performance of your pension. Although PensionBee does not profit from transaction costs, which are paid to external parties like the government, transaction costs will usually decrease the value of your pension so it is important to know about them.

Similar to the grocery store that does not include the cost of a bus ticket in the price of its bread, we do not include these transaction costs in the PensionBee fees.

There are three types of transaction costs incurred in your PensionBee Personal Pension:

- Ongoing transaction costs: costs related to rebalancing your plan throughout the course of the year
- Buying into your plan: only incurred when you transfer in, contribute or switch plan
- Selling out of your plan: only incurred when you transfer out, withdraw or switch plan

How do we express transaction costs?

At PensionBee we strongly believe in making pensions simple – in fact it is our mission! We are one of the few providers who adds up our own fees with those of our asset managers to make a single PensionBee fee.

In deciding how to disclose and manage transaction costs, we have adopted the following approach:

- Just like transportation costs or government taxes, transaction costs in investments are unavoidable. We aim to reduce these costs for our customers by only working with the largest and most reputable managers who can demand the lowest transaction prices in the market.
- In addition to disclosing all aspects of the possible transaction costs (ongoing costs, buying costs, selling costs), we will disclose an annualised transaction cost number that can be compared alongside the PensionBee fee. The annualised transaction cost number will be based on a scenario of an "average customer" who transfers several pensions, makes contributions and ultimately makes withdrawals. Based on this calculation, PensionBee transaction fees range from -0.02% to 0.06% (see further below)
- We will not be including the annual transaction fee in the PensionBee fees. To stick to our mission of making pensions simple, we like to keep PensionBee fees as comparable to those of other consumer decisions. When one goes grocery shopping, the shop does not include the cost of the bus ticket in its bread prices.

PensionBee's fees and the transaction costs

Below we have laid out our fees for each of our plans.

Plan	Frequency	Tracker (State Street)	Tailored (BlackRock)	Future World (Legal & General)	Match (BlackRock)
<i>PensionBee fees ("shop prices, including the shop and the farmer")</i>					
Amount up to £100,000	Annual	0.50%	0.70%	0.95%	0.60%
Additional amount over £100,000	Annual	0.25%	0.35%	0.48%	0.30%
<i>Transaction costs ("getting to the shop, back home and the implications of which shop you chose")*</i>					
Ongoing	Annual	0.00%	0.02%***	0.03%	-0.05%****
Buying into your plan	One-time, when you transfer in, contribute or switch into a new plan – applied to the specific amount	0.15%	0.01%***	0.22%	0.26%
Selling out of your plan	One-time when you transfer out, withdraw or switch out of your plan – applied to the specific amount	0.08%	0.01%***	0.22%	0.26%
Estimated total annualised transaction cost**	All transaction costs listed above, annualised based on a profile of an "average" customer	0.01%	0.02%	0.06%	-0.02%

* these figures are compiled based on disclosures made to PensionBee by each asset manager in 2018.

** based on a customer who transfers in a total of £55,000 between the ages of 35 and 45. The customer makes annual contributions of £1,080. The customer withdraws their pension over a 40 year period, beginning with a 25% withdrawal at the age of 55.

*** each fund within the Tailored Plan has its own individual transaction costs. The costs presented here are the weighted average based on PensionBee assets in the funds as at the date of calculation. Ongoing costs range from 0.01% to 0.04% and trading spreads range from 0.00% to 0.12%.

**** The transaction cost is negative because the methodology compares the asset price at the "arrival time" against the achieved price. If markets are generally moving downwards, this will lead to a negative figure for purchases (because the achieved price will be lower than the price at the earlier "arrival time")

In conclusion, we believe transaction costs are important in making financial decisions. Our approach to disclosure allows customers to compare all potential aspects of the PensionBee Personal Pension with any other pension product they may be considering while fundamentally sticking to our mission of keeping pensions simple.