

Workplace Pensions – guide to transaction costs

When money is paid into your pension, it is invested in one or more funds as chosen by you or your employer. You may decide to change where your money is invested at any time, to best suit your personal financial needs and objectives. The movement of money between funds within your pension pot is called a ‘switch’.

Legal & General does not charge a direct fee for transacting on your pension. However, it is important to understand that your investment may be impacted by costs incurred in performing your request to invest, withdraw or switch.

Key information regarding these costs is provided below and we recommend talking to a financial adviser or our helpline, if you have further questions. Please note, advisers usually charge for their services.

Transaction costs

When a pension member buys or sells units in a fund, or switches units between funds, this usually involves the buying and selling of underlying assets held by these funds, which is performed by fund managers.

Any costs incurred by fund managers in relation to these trades are referred to as ‘transaction costs’ and are paid by the fund. As these costs are included within the ‘dealing price’ each day, they will not be shown as a separate charge on your statements.

How much are these costs?

The exact costs depend on a number of variable factors such as the funds you are switching between, market valuations, the type of underlying assets being traded, and the daily flow of money within the fund. Because of this we are unable to confirm the actual transaction costs applicable to your fund(s) in advance.

Transaction costs include ‘explicit’ costs (which are easily defined such as taxes, brokerage fees, and borrowings) and ‘implicit’ costs (these are harder to define for example the difference between the price the asset is valued at the time the trade is placed and the price at which it is actually traded, or buy/sell spreads applicable to underlying funds).

Transaction costs may be applied in different ways throughout the life of a plan:

- On the investment of contributions or transfers in
- Whilst funds are invested (ongoing management of fund)
- When investments are switched from one fund to another
- When assets are sold to take pension benefits or transfer to another provider.

The below table illustrates how these transaction costs are applied:

	Investment	Ongoing investment management	Switch	Sale
Unit price (Dealing price)	✓		✓	✓
Fund Management Charge (FMC) (Mid-price)*		✓		

* Annual Management Charges applicable to Group Stakeholder Pension Scheme will be deducted monthly by cashing of units.

To ensure transaction costs resulting from unit holder activity as illustrated above are fairly applied to only those members who are transacting (buying, selling, or switching), the daily unit price at which units in each fund are bought and sold (‘dealing price’) will be adjusted to allow for these transaction costs and protect the funds value for existing investors not transacting on their plan.

Members should be aware that comparing transaction costs for a fund, or range of funds, may give a false impression of the relative costs and benefits of investing for the following reasons:

- Transaction costs do not necessarily reduce returns. You should always consider the net impact of fund dealings which are the combination of the effectiveness of the manager's investment decisions in improving returns and the associated costs of investment.
- Transaction costs are offered as a guide only and represent past fund experience. They are not a guarantee of future transaction costs that may be incurred, which will adjust to reflect the actual dealing costs on any dealing day.
- Transaction costs for buying and selling investments due to investors joining or leaving the fund may be recovered from those investors or may be accounted for by the fund's unit price.
- Transaction costs will vary depending on the types of assets a fund invests in, for example hedge funds may cost more to trade than more common FTSE stock.
- Transaction costs are not predictable as they depend on the manager's investment decisions and market conditions.
- Members will not incur the total 'spread' in any one transaction, as this figure represents both the buying and selling swing i.e. the 'dealing' unit price will reflect either the bid or offer swing as outlined below.

Fund Pricing & Spreads

Legal & General Workplace pension funds use what is known as a 'swinging price' methodology. A swinging price methodology aims to reduce the dilution of the value of existing investor fund holdings caused by trading costs from other unit holders buying and selling activity. It aims to ensure that only those members buying or selling units in a fund incur the associated trading costs via a 'spread'.

Legal & General tries to minimise transaction costs where possible by matching ('netting off') sale and purchase transactions within each fund, thereby reducing the need for fund managers to buy and sell underlying asset holdings. For example, if one member sells £50,000 and another invests £200,000, the trader only needs to buy £150,000 for the fund.

Each of our funds will have just one 'dealing price' on any given dealing day which is set by the net flow of assets in the individual fund and will apply to all investor transactions regardless of whether they are buying or selling units. The swing will normally reflect either:

- the 'selling price' (bid) if the fund is in net outflow (more units are being sold than being bought), or
- the 'purchase price' (offer) if the fund is in net inflow (more units are being bought than being sold).

Here is a simplified example to show how this works:

On the first day of the month the total transactions for the following fund were:

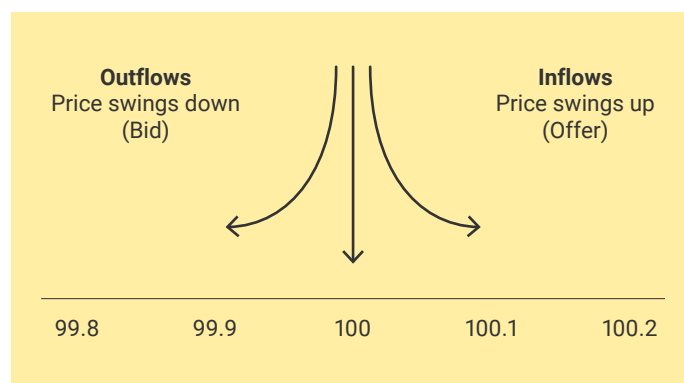
Fund A

Purchases	£300,000
Sales	£200,000
Net trades	£100,000
Transaction costs	£500 (0.5% of net trades)

Based on daily valuations and transaction costs, the unit price for the Fund for that business day moved from £1.00 to £1.005.

The total difference between these two prices (bid/offer) is referred to as the 'spread' and this will vary daily according to market conditions and fund manager decisions.

A fund applies the bid or offer spread adjustments to the mid-price to determine the dealing price. If the fund experiences net flows (balance of units being bought and sold), there is no swing price adjustment and the dealing price published shall equal the mid-price.



Switching between funds actually involves two transactions (the sale of units in one fund and buying of units in another) so members would incur the transaction costs applicable to the sale of the existing fund units, plus transaction costs applicable to the purchase of units in the new fund.

How do transaction costs affect my pension?

Buying

The physical value of money invested into your pension will not change at the time of your investment. Spreads will adjust the unit price of your chosen fund(s) and effectively determine the number of units your money buys.

Here is a simplified example to show how this works:

Kris invests £1,000 into her pension, selecting Fund A. The unit price that applies to that dealing day (either bid or offer) will determine the number of units bought by Kris.

Fund A	Bid	or	Offer
Unit price	0.995	or	1.005
Purchase value	£1,000		£1,000
Units bought	1,005		995

The value of the units which Kris buys will continue to fluctuate each day based on the daily unit prices applicable to her fund. To continue this example, if the next day's unit price for Fund A was £1.07 the value of Kris' pot would depend on the number of units she originally purchased.

Fund A			
Units held	1,005	or	995
Unit price	1.07		1.07
Current value	£1,075		£1,066

Selling

In the case of making a withdrawal, the daily fluctuations in unit price as illustrated above will impact the value, or number of units, withdrawn.

For example, if Kris requests to withdraw £500 from Fund A, the units sold from her pot will be calculated based on the applicable unit price for that dealing day. Or, if Kris requests to withdraw all holdings in Fund A, the amount paid to her will be determined by the daily unit price and number of units held.

Switches

When you request to switch (sell units in one fund and buy units in another) you will experience a spread on both the fund you sell and the fund you buy.

Indicative Fund Spreads

The spreads shown provide an indication of potential spreads incurred when transacting in a fund, but what you pay will vary from this. Spreads are adjusted daily to reflect the actual dealing costs incurred in undertaking market transactions and in exceptional market conditions spreads may widen considerably and be subject to frequent change, so what you pay may be significantly different and higher from normal market conditions.

It is important that you are aware of all the costs and charges that can impact your pension. Legal & General strives to deliver the best possible service to members and as part of that, we intend to continue to deliver clear and timely information regarding all costs and charges associated with your pension plan wherever possible.

Questions?

We provide a range of information and support tools for members via our online service Manage Your Account legalandgeneral.com/mya.

If you have questions about transacting, fees and charges, or any other subject relating to your pension you can call our helpline on **0345 070 8686** between the hours of 8:30am and 7:00pm Monday to Friday. Call charges will vary. We may record and monitor calls. Please be aware our helpline staff cannot provide financial advice.

If you're unsure about your options, we recommend you speak to a qualified financial adviser. You can find one in your local area by visiting unbiased.co.uk. Please note, financial advisers will usually charge for their services. You may be able to pay for this advice directly from your pension pot. Please see the Facilitated Adviser Charge Guide for more information at legalandgeneral.com/adviserchargeguide.

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Q0056785 07/22 DC001208

