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The Independent Governance Committee's
annual report for the year ending 31 March 2019
for EasyBuild Stakeholder Pension Scheme

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We are here for you

Dear EasyBuild Member

As Chair of your Independent Governance Committee (IGC), I am delighted to share with you our fourth annual report explaining what we have been doing on your behalf.

The IGC was established by B&CE Insurance Limited (B&CE) in March 2015 as part of regulatory changes introduced by the Financial Conduct Authority (FCA) to provide greater protection to you and to ensure appropriate independent oversight to protect your interests as a member of the EasyBuild Stakeholder Pension Scheme (the Scheme). Members of the IGC are listed on pages 5 and 6.

During 2018, Sue Lewis was appointed to the IGC on 14 May with Mark Plant joining on 19 December. Michael Mann left the IGC on 30 June 2018 and I would like to thank Michael for his contribution to the committee.

The IGC is independent of B&CE and we aim to act in your best interests. Our role is to review the value for money that you are receiving from your pension savings and raise with B&CE any concerns we might have on any aspect of what they are delivering for you.

Pension schemes offer value for money where the costs and charges deducted from members are appropriate and justifiable in relation to the benefits and services members receive.

Following the transfer of 460,000 EasyBuild members to The People's Pension on 9 February 2018:

- the Scheme has dramatically reduced in size with membership in 2018/19 falling further
- the focus is now on decommissioning the Scheme - see EasyBuild decommissioning plan on page 5 for more details
- we have discussed with B&CE the potential for reducing charges under the Scheme
- tracing legacy members has been (and remains) a key issue to ensure we pay the right benefits to the right person at the right time.

The decision to transfer members of EasyBuild to The People's Pension was made as B&CE decided that its master trust (The People's Pension) could offer better value to EasyBuild members than the current Scheme. We supported this conclusion. The main reason this was in the members' interests was because of the lower charges offered by The People's Pension. It is a market-leading pension scheme with additional features not offered in EasyBuild. More details about this can be found in our 2018 report which is available at www.bandce.co.uk/products-services/construction/easybuild/#Independent-Governance-Committee

You will be pleased to know the option for you to transfer your fund to The People's Pension for free is still open to you and you should contact 0300 2000 555 if you'd like to do this.

Later in the year, B&CE will be writing to all remaining members of EasyBuild to give them another opportunity to move across to The People's Pension.

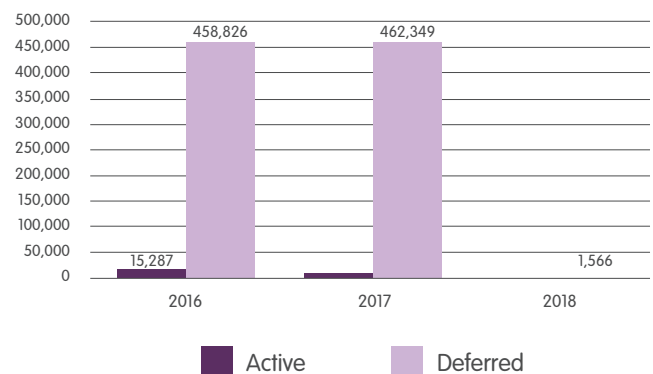
Profile of membership

To recap, the transfer to The People's Pension on 9 February 2018 resulted in a substantial reduction in the size and the scope of the Scheme. The pension pots for all the members remaining in the Scheme at 31 December 2018 are now deferred until members decide to draw their benefits on or after age 55 or transfer the value of their pot to another approved pension arrangement, for example The People's Pension.

- Membership immediately before the transfer was 462,349
- Membership immediately after the transfer stood at 2,085
- Membership at 31 December 2018 was 1,566

Membership over the three years from January 2016 to 31 December 2018 has been as follows:

Membership year ending December



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The remaining 1,566 members of the Scheme as at 31 December were made up as follows:

- 429 members had died and their beneficiaries are yet to be traced
- 1,137 members chose to remain in the Scheme

The Scheme currently holds £5.1 million in assets compared to £1,107 million in January 2017.

Investment strategy

Given the current decommissioning planning, no formal review of the investment strategy took place during the year. However, investments were rigorously monitored at B&CE's Investment Committee meetings on:

- 3 May 2018
- 26 July 2018
- 1 November 2018
- 18 January 2019

The Scheme offers 3 investment profiles 'balanced', 'cautious' and 'adventurous'. Each of these gradually and automatically move your money into lower-risk investments starting 15 years before your selected retirement age.

Balanced investment profile (also known as our default investment profile)

Usually suitable for all members. It aims to meet the changing needs of a typical member throughout their working life. There is potential for long-term growth with some security.

Cautious investment profile

For members who would prefer to try and lessen the risk of short-term changes in the value of their pension savings (also known as volatility). There is potential for moderate growth over the long-term.

Adventurous investment profile

For members who are prepared to accept greater short to medium-term changes in the value of their pension savings, in exchange for the chance of greater investment returns than those under the balanced profile.

In addition, there are 6 investment funds available to select from. These are:

B&CE EasyBuild Annuity

This fund is for those who are thinking of buying a regular retirement income, usually for life (an annuity), with their pension savings when they retire, and who want to protect against any falls in annuity rates.

B&CE EasyBuild Cash

This fund is used to maintain the value of members' pension savings. This could mean the value of their pension savings may not keep pace with inflation over a longer period.

B&CE EasyBuild Global Investments (up to 100% shares)

This fund provides diversified exposure to UK and overseas equity markets.

B&CE EasyBuild Global Investments (up to 85% shares)

This fund combines the long-term growth potential of UK and Global Equity with the relative security provided by gilts, corporate bonds and cash.

B&CE EasyBuild Global Investments (up to 60% shares)

This fund invests in a combination of shares and bonds. It aims to produce moderate growth over the long-term.

B&CE EasyBuild Pre-Retirement

This fund is for members who have not yet decided what they want to do with their pension savings at retirement by providing a balance between capital growth and capital preservation.

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Investment questions answered

1. Does the default investment strategy have clear aims and objectives?

The aims and objectives of all of the investment funds are found in the EasyBuild fund factsheets which are available online at www.bandce.co.uk/about-us/how-we-work/fund-factsheets/. When changes were made to the B&CE Pre-Retirement Fund, B&CE wrote to all policyholders who were invested in the fund or due to enter the fund within the following 12 months. The letter included an explanation of the new objective of the fund.

We are satisfied that the default strategy is suitable given pension freedoms.

Due to the relatively small pot sizes, a low level of member engagement and 74% of members in the default strategy, no changes were made to non-default investment strategies. We agreed this is reasonable given the number of members in the non-default investment strategies and the transition to The People's Pension.

2. Are the characteristics and net performance of investment strategies regularly reviewed to ensure alignment with the interests of policyholders and is action taken to make any necessary changes?

We analysed the work of the B&CE Investment Committee to assess whether B&CE regularly reviews the characteristics and investment performance of all relevant funds to ensure they are aligned with members' interests.

We are satisfied that there is an active review of all relevant funds by the appropriate individuals with adequate external investment advice, and with appropriate action being taken when necessary.

B&CE is satisfied with the long-term performance of the funds which have all delivered returns for 3 years to 31/12/2018 ranging from -0.84% (Cash) to 26.01% (Global Investments up to 100% shares fund). We are satisfied that the net performance of investment strategies has been regularly and adequately monitored by B&CE's Investment Committee. We believe that the performance of the Cash Fund is acceptable given it has achieved its stated aim of reducing volatility for members in the lead up to retirement.

The Statement of Investment Principles is reviewed periodically by B&CE's Investment Committee in line with legal requirements. There were no changes to the investment manager or the funds over the past 12 months.

Overall, we have concluded that B&CE regularly reviews all its investment strategies (both default and non-default) to ensure that the characteristics and net performance are aligned with members' interests.

Analysis on the core scheme transactions

We reviewed the processing of core scheme transactions which arise during administration.

We have a duty to assess the ongoing value for money for members of EasyBuild by assessing whether core scheme financial transactions are processed promptly and accurately.

B&CE has a large and experienced pension administration team and we are pleased to report that B&CE has strong risk management and control standards. These standards ensure that core scheme transactions are processed promptly and accurately and that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements.

The independent auditor of the Scheme carries out analysis across all core areas, notably processes relating to claims (benefit payments), transfers, investment of contributions and daily movement checks (transfers in/out, investment switching). Receipts and payments, accounting reconciliations and bank reconciliation were sample tested. It was useful to note that B&CE has clear business lines and distinct business control and transaction processing functions that focus on the timely processing and recording of all transactions.

In addition, the quarterly administration reports for the IGC provide detailed information on:

- the membership
- claims and payments
- investment profile switches
- administration volumes
- administration performance levels
- any administration errors and breaches should these occur.

Based on the information that has been made available by B&CE, we are satisfied that core scheme financial transactions have been processed promptly and accurately. B&CE has confirmed that all necessary documentation has been received and that transactions are processed in accordance with the contractual terms. Any errors or complaints relating to financial transactions are logged and dealt with in agreed timescales through a clear process including the establishment of root causes to help prevent recurrence.

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Review of B&CE's administrative systems

Value for money is also about what members experience and that includes the quality of the service you receive from B&CE, how easy it is to get in touch with them and how they treat you if things go wrong. Customer service is a key part of our review. We have focused on B&CE's administration, service standards, communication materials and complaint handling, including visiting the administration teams.

Charges and transaction costs

Currently the annual charges that apply to your EasyBuild policy are as follows:

- 0.95% for savings totalling under £5,000
- 0.8% for savings totalling from £5,000-£25,000
- 0.6% for savings totalling over £25,000.

The People's Pension current annual management charge is 0.5% and in the summer of 2019 they are introducing a new charging structure.

One of the principal reasons members of the Scheme were offered the opportunity to transfer to The People's Pension was so members could benefit from the lower annual charges under The People's Pension.

B&CE has advised that the costs of running EasyBuild now exceed the income generated from the charges since the majority of members switched to The People's Pension. It is not, therefore, economically feasible to reduce charges. However, B&CE does not propose to increase the charges at this point.

More details comparing the charges between EasyBuild and The People's Pension can be found below and on page 7.

The Committee has also reviewed the transaction costs associated with the investment funds used by the Scheme. Transaction costs are an important component of the overall costs faced by members, as they can have the effect of reducing the net investment returns of the funds.

Transaction costs are incurred by pension schemes for two reasons. Firstly, a fund manager will trade in markets to invest money flowing into or out of a fund (when scheme members contribute to or leave a fund). Secondly, they will implement investment decisions in the course of the day-to-day management to achieve the fund's objectives.

Until the relatively recent intervention by the Financial Conduct Authority (FCA) there has been no agreed definition of transaction costs across the industry, although they can be broadly broken down into explicit and implicit costs. Explicit costs are observable and, where the costs are incurred, an invoice could be generated. Examples include brokerage fees, stamp duty and

custodian fees, and foreign exchange levies.

Implicit costs cannot be directly observed and cannot be invoiced. These include bid ask/offer spreads, implementation shortfall (the difference between the decision price and the execution price of a trade) and market impact (the change in the price of a security caused by the trade). Implicit costs can be positive or negative depending on market movements.

In the summer of 2018, the transaction costs for the year to 31 March 2018 were made available to B&CE, more recently the full year 2018 figures based on the FCA-prescribed methodology known as the 'slippage cost' were provided to B&CE by State Street Global Advisors using the standardised reporting template.

The slippage cost methodology is a combination of the implicit and explicit costs incurred by the funds. The full year transaction costs data based on this methodology are in the table below:

Fund	Transaction cost 2018 (bps)
B&CE Global Investments (up to 85% shares) Fund	0.3
B&CE Global Investments (up to 60% shares) Fund	1.4
B&CE Global Investments (up to 100% shares) Fund	-0.8
B&CE Pre-Retirement Fund	2.4
B&CE Cash Fund	-1.0
B&CE Annuity Fund	0.4

As you can see above, a consequence of the slippage cost calculation is that it can produce negative transaction costs if the implicit cost is negative and is greater than the effect of the explicit transaction costs. As the table illustrates, four of the six funds had a negative cost during 2018.

In respect of the B&CE Global Investments (up to 85%) Fund, the B&CE Global Investments (up to 60%) Fund and the B&CE Pre-Retirement Fund, this is primarily due to the Sterling Corporate Bond All Stock Index sub fund, which is part of the asset allocation of those three funds to varying degrees incurring a negative cost of 11 basis points.

While the B&CE Annuity Fund has a small negative cost due to the Sterling Non-Gilts Bond Over 15 Years sub fund, which accounts for 70% of the fund's assets incurring a negative cost of 1 basis point.

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While negative transaction costs should not be taken to mean that trading in the market carries no cost, by reviewing underlying data and associated disclosure the IGC is comfortable that the level of transaction costs incurred by the funds are reasonable, in line with other providers and represent a small proportion of the overall cost.

EasyBuild decommissioning plan

We believe we have pursued improvements to charging and value for members as far as is possible. We note that, in the main, those pots remaining in EasyBuild relate to either 429 deceased members and those whose beneficiaries are yet to be traced and 1,137 members who chose to remain in the Scheme.

We accept that those members who have elected to remain within EasyBuild may have done so for a variety of reasons, but those reasons might not now remain valid. It is therefore appropriate that the option to transfer to The People's Pension remains available. There are options within the market that will deliver better value for members than EasyBuild, including The People's Pension, and therefore, we believe that EasyBuild should not continue beyond 2020 given its low comparative size and disproportionate running costs.

We are mindful that some 460,000 members have transferred to The People's Pension. These members enjoy a beneficial charging structure (that will further improve in 2019 with the introduction of a new pricing structure – see page 7) and an updated investment strategy. On the other hand, only 1,566 member pots remain in EasyBuild.

For illustrative purposes, a member pot of £3,000 will be charged £15pa under The People's Pension pricing structure compared with £28.50pa under the existing Scheme.

We strongly feel that work needs to progress during the first half of the Scheme year (from 1 April 2019) to facilitate a further transfer to The People's Pension followed by the ultimate decommissioning of the Scheme. This transfer should ideally be scheduled to begin soon after The People's Pension has completed Master Trust authorisation with The Pensions Regulator.

The nature of the legal and regulatory structures and the very small size of the Scheme means that a single transfer of the remaining membership/assets cannot readily be achieved. At the current rate of claims, it's expected that the membership will naturally reduce to around 1,100 members by April 2020. It is hoped that a further facilitated transfer to The People's Pension (to be made once the new pricing structure is implemented in 2019) will prove attractive and result in a significant additional reduction in the remaining members. This could result in the number of members reducing to as low as 500. With this scenario, we have asked B&CE to investigate a pragmatic method for securing the rights of any remaining members.

We are fully engaged with and will support B&CE throughout this process. It is anticipated that B&CE will write to members with more news to explain the opportunity to transfer to The People's Pension.

About the EasyBuild IGC

IGC expertise

The IGC has five members, the majority of whom (including the Chair) are independent of B&CE.

Members of the IGC have wide ranging pensions expertise outlined below:



Steve Delo
Independent Chairman

Steve Delo is Managing Director of PAN Governance LLP and a former President of the Pensions Management Institute. His experience includes senior roles in consulting and asset management. He is an Independent Trustee to a range of occupational defined benefit and

defined contribution schemes, in most cases acting as Chair of Trustees, with total assets in excess of £15 billion.

He is a popular conference speaker and writes extensively on pensions matters. During his career, Steve has won several individual professional awards – Business Presenter of the Year, Pensions Personality of the Year and Independent Trustee of the Year.

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Alan Pickering CBE
Independent IGC Member

Alan Pickering has spent his working life at the interface of employee relations, pension schemes and the wider financial services sector.

After university, Alan worked for 20 years with a leading moderate trade union. During that time, he was responsible for the pension scheme which the union provided to its staff and, building on this experience, he became one of the union movement's leading pension practitioners.

In 1992, he joined Willis Towers Watson as a Partner and had overall responsibility for trustee training and many other client facing educational events. He deployed his industrial relations experience to the benefit of the firm's clients – sponsoring employers and trustees alike – gaining a reputation for explaining complex issues in a simple fashion.

Since 2008, he has been Chairman of BESTrustees. He also has a wide range of trustee appointments covering defined benefits, defined contribution and hybrid arrangements. He has a unique experience of multi-employer schemes having been a trustee of one since 1981 and Chairman of the same scheme since 2002. He is a trustee of two master trusts.

Alan is a regular speaker at conferences and contributor to trade papers. He has chaired the National Association of Pension Funds in Britain and the European Federation for Retirement Provision on the continent. He was Vice Chairman of the Occupational Pensions Board and Non-Executive Director of The Pensions Regulator for 7 years.



Sam Stedman
IGC Member

Sam Stedman is the Director of Finance for B&CE and is a Member of the Association of Chartered Certified Accountants. He is responsible for managing the Group's financial and regulatory reporting, corporate management information and

financial/corporate modelling, as well as helping to shape and drive financial strategy for the business.

Sam joined B&CE in 2004 and has undertaken a range of roles within the company including audit, financial analysis and financial control. Prior to joining B&CE, he studied mathematics at the University of Bath.



Mark Plant
IGC Member

Mark Plant is the Director of Strategic Delivery for B&CE. His current role sees him working closely with the executive team on significant business activities and he is currently responsible for oversight of corporate governance. Mark played a key role in the development and delivery of The People's Pension in 2012.

Mark joined B&CE in 1997 and has undertaken a range of roles within the company including customer services, business analysis, project and programme management. Prior to joining B&CE, he studied business studies at the University of Bedfordshire.



Sue Lewis
Independent IGC Member

Sue is an expert in financial services consumer protection. Until December 2018, she was Chair of the Financial Conduct Authority Financial Services Consumer Panel. She is a Trustee of national charities StepChange, Surviving Economic Abuse, and the

FairBanking Foundation. Sue is also on the professional standards boards of the Chartered Insurance Institute and the Chartered Banker.

Sue also has international expertise in financial education, financial inclusion and consumer protection regulation, working with organisations such as the Organisation for Economic Co-operation and Development and Alliance for Financial Inclusion. She is a frequent speaker and moderator at conferences in the UK and overseas. Sue spent most of her career as a senior civil servant, advising government ministers on policy issues including financial services, early years, children and young people, and gender equality.

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Looking ahead

The B&CE operational teams continue to try and trace any potential beneficiaries for the deceased members' funds which currently remain within EasyBuild.

While the future of the Scheme is being considered the option to transfer to The People's Pension will remain open for those members who elected not to transfer previously. It is expected that some of these members will change their minds, given the lower charging in The People's Pension. The business will communicate with members later this year when the opportunity to transfer to The People's Pension or for members over age 55 to claim their benefits will be explained.

The People's Pension new charging structure

The People's Pension is introducing a new charging structure in the summer of 2019. If you choose to move to The People's Pension, as your pension savings grow, you'll pay a reducing annual management charge as your savings move through the bands.

- The first £3,000 of your savings will be charged at 0.5%
- Savings above £3,000 and up to £10,000 will be charged at 0.4%
- Savings above £10,000 and up to £25,000 will be charged at 0.3%
- Savings above £25,000 and up to £50,000 will be charged at 0.25%
- Any remaining savings above £50,000 will be charged at 0.2%

This will give you a charge of between 0.2% and 0.5%. For example if you have £40,000 in your pension pot, your charge would be 0.31%.

Below is an example of how the new annual management charge will be calculated for members of The People's Pension.

Money in pension savings	How The People's Pension annual management charge is calculated	The People's Pension new cost (£)	Overall annual management charge for comparison purposes	EasyBuild cost
£1,000	£1,000 @ 0.5%	£5.00	0.5%	£9.50
£4,000	£3,000 @ 0.5% +	£19.00	0.48%	£38.00
	£1,000 @ 0.4%			
£40,000	£3,000 @ 0.5% +	£125.50	0.31%	£297.50
	£7,000 @ 0.4% +			
	£15,000 @ 0.3% +			
	£15,000 @ 0.25%			
£80,000	£3,000 @ 0.5% +	£210.50	0.26%	£537.50
	£7,000 @ 0.4% +			
	£15,000 @ 0.3% +			
	£25,000 @ 0.25% +			
	£30,000 @ 0.2%			

We'd like to hear from you

We represent your interests, so we are keen to hear from you on what value for money means to you or about any concerns you may have with your EasyBuild pension savings.

Please get in touch with us at igc@bandce.co.uk.