Department for Work & Pensions

FINANCIAL CONDUCT AUTHORITY

The Pensions Regulator

Making workplace pensions work

Consultation Outcome

Government-regulator response to 'Value for Money: A framework on metrics, standards and disclosures.'

(FCA paper FS23/3)

---

11 July 2023

Contents

Joint Foreword ... 4
Summary ... 6
Introduction ... 7
Chapter 1: Interaction with the wider policy framework ... 9
1.1 The VFM framework and Consolidation ... 9
1.2 The VFM framework and Improving investment diversification ... 10
1.3 The VFM framework and the Value for Members assessment ... 11
1.4 The VFM framework and Deferred Small Pots ... 11
1.5 The VFM framework and Decumulation ... 12
1.6 The VFM framework and Collective Defined Contribution (CDC) schemes ... 13
1.7 The VFM framework and Pensions Dashboards ... 13
1.8 The VFM framework and FCA Consumer Duty ... 14
Chapter 2: Scope, criteria, and outcomes ... 15
2.1 Summary of proposals ... 15
2.2 A phased approach to implementation ... 15
Chapter 3: Investment performance ... 19
3.1 Summary of proposals ... 19
3.2 Backward-looking returns, net of costs ... 19
3.3 Risk-based metrics for reporting periods and age cohorts ... 24
3.4 Chain-linking ... 25
3.5 Return net of investment charges only ... 27
3.6 Asset allocations ... 28
3.7 Forward-looking metrics ... 31
Chapter 4: Costs and charges ... 34
4.1 Summary of proposals ... 34
4.2 Disclosure of charges: Bundled schemes and combination charges ... 34
Chapter 5: Quality of services ... 39
5.1 Summary of proposals ... 39
5.2 Member communications ... 39
5.3 Scheme administration ... 42
Chapter 6: Disclosure templates and publication timings ... 44
6.1 Summary of proposals ... 44

6.2 Publishing options 44
6.3 Reporting periods and deadlines 46
Chapter 7: Assessing Value for money 50
7.1 Summary of proposals 50
7.2 Regulator-defined benchmarks and market comparisons 50
7.3 Approach to assessing VFM 53
7.4 VFM assessment conclusion and next steps following VFM assessments 55
7.5 Contract-based schemes and the outcome of VFM assessments 57
7.6 Outcomes and communication of the VFM assessment result 59
Chapter 8: The VFM framework and the Chair's Statement 63
8.1 Current policy thinking 63
8.2 A member-facing document 63
8.3 Duplication across the VFM framework and Chair's Statement 64
Chapter 9: FCA specific issues 66
9.1 Summary of proposals 66
9.2 Self-invested personal pension plans (SIPPS) 66
9.3 Saver-focused summary of a VFM assessment 68
9.4 Responsibility for the disclosure of framework data 70
Chapter 10: Impacts 71
10.1 Summary of proposals 71
10.2 Metrics and target audience 71
10.3 Costs and benefits 72
10.4 Equality considerations 74
Annex 1: List of respondents to the Value for Money policy consultation 76
Annex 2: Illustrative list of data points 78
Annex 3: Glossary 83

Joint Foreword

All pension savers rightly expect to get value for money for every hard-earned pound they save.

Automatic Enrolment has been a remarkable success. Millions more people, from all walks of life, are now saving for the future. The last decade's challenge asked; 'how do we build a nation of savers? The next is to ensure the system works as best it can and delivers real value for savers throughout their pension saving journey.

The Department for Work and Pensions, The Pensions Regulator and Financial Conduct Authority are all working together to deliver a consistent regulatory framework. We are firmly committed to the pursuit of good saver outcomes. Our joint work to create a disclosure framework for the holistic assessment of value for money is key to making this a reality. It means that the same requirements will apply across the whole DC market enabling consistent and comparable assessments regardless of the type of scheme a workplace pension saver is in.

At the largest end of today's workplace pension market, we know that short term cost dominates decision making. The Value for Money framework seeks to change this simplistic thinking and has deliberately been designed to shift the focus from cost to value. In an inertia-based system, those that make decisions on behalf of savers have a huge responsibility to make good and informed decisions that can deliver for savers over the long term.

We want trustees, providers and Independent Governance Committees IGCs to use the framework to ask themselves tough and challenging questions. Do we have the scale and expertise needed to access better outcomes? Can we compete with the biggest and best schemes in the market? Is my investment strategy diversified and seeking to take advantage of the full range of asset classes, such as, infrastructure, private markets, and venture capital that have the potential to deliver higher returns for savers?

We will not hesitate to take action against consistent underperformance, and we will require schemes to discontinue or consolidate to a better run, better performing, value for money scheme.

We believe that standardised, consistent, and transparent data and assessment can drive real improvements and create the sea change in thinking that is needed in the pension sector, encouraging competition, driving good schemes to get better, and requiring poorly performing schemes to exit the market. Backed with new strong

powers to ensure schemes comply, our proposals are a vital part in ensuring that we have a regime that is ready for the challenges of the future and one that truly delivers for savers.

We recognise the framework will need to evolve over time as the market and savers expectations change, but as a starting point it introduces, for the first time, a clear set of comparable metrics and standards for schemes to assess value for money. It will improve the availability and transparency of standardised scheme data, enabling trustees, providers, IGCs, employers and the people who advise them with the information they need to ensure savers are getting the best possible value.

We want to thank everyone who responded constructively and engaged so positively during the consultation process. There was a huge amount of interest and a shared desire for improving member outcomes. The responses we received have been instrumental in helping us refine our approach. We will continue to work with industry and other stakeholders as we develop the detail of the framework.

The DWP has published a number of documents today, all designed to drive better outcomes for pension savers. These are all part of a wider government agenda to improve opportunity for investment in alternative assets, including in high growth businesses and improve saver outcomes. We believe that a higher-allocation to high-growth businesses, as part of a balanced portfolio, can increase overall returns for pensions savers leading to better outcomes in retirement. In addition, we want to ensure that our high-growth businesses of tomorrow can access the capital they need to start up, scale up and list in the UK. DWP have been working closely with HM Treasury on this wider package which was set out by the Chancellor in his Mansion House speech.

Mel Stride MP, Secretary of State for the Department of Work and Pensions and Laura Trott MBE MP, Minister for Pensions

Louise Davey, Director of Regulatory Policy, Analysis and Advice, The Pensions Regulator

Sarah Pritchard, Executive Director of Markets, Financial Conduct Authority

Summary

1. This document is the government and Regulators response to the ‘Value for Money: A framework on metrics, standards and disclosures’ policy consultation published in January 2023.

2. The consultation sought views on:

   Policy proposals to require trustees and managers of defined contribution (DC) relevant occupational pension schemes and the providers and Independent Governance Committees (IGCs) of workplace personal pensions schemes to disclose data, assess and compare the value for money their workplace pension schemes provides.

3. The consultation,[1] launched by the Department for Work & Pensions (DWP), the Pensions Regulator (TPR) and the Financial Conduct Authority (FCA), was published on 30 January 2023 and ran for 8 weeks.

4. We received over 80 responses to the consultation. These were made up of a range of stakeholders, including consultant firms, financial services providers, pension providers, industry bodies, law firms, DC trustees / managers, IGCs, employers, pension savers and research organisations.

5. Before, during and subsequent to the policy consultation, we conducted formal engagements with stakeholders, including trustees, IGCs, consultants, employers, and trade bodies and associations.

6. This document highlights the key matters raised by the formal consultation responses and stakeholder engagement. It is a joint response by the DWP, TPR and the FCA. It is not an exhaustive commentary on every response received.

[1] Value for Money: A framework on metrics, standards, and disclosures - GOV.UK (www.gov.uk)

Introduction

7. The overall aim of the Value for Money (VFM) framework is to drive improvements in the value DC pension schemes provide to savers to ensure they receive better retirement outcomes. We are aware that some schemes already conduct VFM assessments, including under FCA rules, and we want to further build on that. At present, there is not a consistent approach to measuring VFM, impacting a scheme's ability to compare its performance relative to others on the market. Costs continue to dominate decision-making and there is limited transparency on the performance of pension products throughout savers' pension journeys.

8. The VFM framework has been developed to support a consistent and more objective process for assessing VFM across DC schemes. It provides a transparent, standardised way for schemes to holistically assess and evidence VFM outcomes and the actions they are taking to improve the value they provide to savers. Three components of the framework will cover: investment performance, costs and charges and quality of services. Their associated published metrics will enable comparisons as part of a scheme's VFM assessment. We set out an illustrative list of data points that may be required to be disclosed in Annex 2. Where underperforming, schemes will be required to take immediate action to improve or wind up and consolidate if this is in savers best interests.

9. By shifting the focus from simply cost towards longer-term performance outcomes, the VFM framework will help protect savers from having their pension savings being eroded by being in underperforming schemes for long periods of time, ensuring schemes deliver real value and good outcomes for savers. A robust regulatory regime aims to ensure appropriate oversight and enforcement.

10. The framework also aims to shift the focus from costs to value by requiring consideration of factors critical to longer term saver outcomes, including investment performance. This is important as too great a focus on lower-costs can preclude consideration of opportunities to invest in a broader range of investment opportunities (including, listed and unlisted asset classes), for diversification and better risk-adjusted returns over the longer term. Driving a long-term focus on VFM across the pension sector could encourage schemes to invest more in productive assets, with the potential for higher returns for savers and boosting economic growth, a key priority for this government.

11. Our VFM proposals have been designed to support and accelerate the consolidation of underperforming and poorly run schemes in the UK pension

sector with better run schemes, so no saver is left languishing in an underperforming scheme. We also acknowledge that consolidation can help improve governance standards and scheme efficiencies and provide greater investment opportunities resulting from economies of scale that have the potential to deliver better outcomes. Publicly available data already shows a wide variance in performance in DC schemes, and our VFM proposals will identify those schemes that lack the scale and buying power needed to deliver real value for savers.

12. Our proposals requiring schemes to compare their performance against those able to deliver economies of scale, combined with proposals to increase TPR powers to require underperforming schemes to wind up and consolidate will help drive value and consolidation where in the best interests of savers.

13. For larger schemes and providers already at scale, our VFM proposals aim to improve performance and encourage competition in the interest of savers. The framework will provide greater transparency and standardisation of reporting across the DC pension market. Trustees and providers will be able to make more informed investment and governance decisions and employers will be able to better compare the value and performance between DC schemes when choosing where to automatically enrol their employees.

14. We will implement the VFM framework in phases and will continue to work with industry to ensure that schemes, providers, and employers are as prepared as possible. It will take time to fully implement the framework and we want to ensure that it is effective and proportionate. The VFM framework will require primary legislation and we intend to consult on draft regulations and FCA rules for the detailed requirements.

Chapter 1: Interaction with the wider policy framework

15. Chapter 2 of the ‘Value for Money: A framework on metrics, standards, and disclosures’ set out how the VFM framework will complement and build on wider policy disclosure requirements and initiatives across occupational and contract-based pension schemes. We have explained these below.

1.1 The VFM framework and Consolidation

16. Our consultation set out our intention for the framework to drive and require consolidation of underperforming pension schemes with better performing schemes, where this is in the best interests of savers. It included a proposal for TPR to have new powers to enforce consolidation and wind up where a scheme is consistently not offering value for its members. We also set out our proposals to enable contract-based providers to transfer savers in underperforming arrangements to schemes providing improved VFM without having to obtain individual consent of all affected savers. We are exploring whether the FCA needs new powers to regulate this.

17. We are concerned that trust-based DC schemes are not meeting the existing Value for Members assessment requirements[2]. According to TPR’s 2022 DC survey, only around a third of schemes with assets under £100m were aware that they are now required to carry out more detailed VFM assessments.[3] TPR has announced a Regulatory Initiative to investigate further. The survey also revealed that only 24% of DC schemes are meeting TPR’s key governance requirements about assessing value for members.[4]

18. We believe that the VFM framework can play a key role in protecting savers against poor outcomes by ensuring that DC schemes are consistently assessed and held accountable for the value they provide to savers. Our proposals mean that where schemes are underperforming and cannot show they will deliver VFM

---

[2] The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 (“the 2021 Regulations”) introduced new requirements for trustees and managers relevant occupational pension schemes to carry out a more detailed assessment of how their schemes delivers value for members.
Completing the annual Value for Members assessment and Reporting of Net Investment Returns (publishing.service.gov.uk)

[3] New initiative under way to check savers are getting value from their pensions | The Pensions Regulator

[4] Pensions research and analysis | The Pensions Regulator

for their savers, they could be required to wind up and consolidate into a better performing scheme. We propose an assessment approach that provides schemes with a clear timeframe for demonstrable improvement of their value for money. Where there is continued underperformance, Regulators will be given the necessary powers to intervene – removing persistently poor performing schemes from the DC pensions market. Further details can be found in section 7.4 of Chapter 7.

1.2 The VFM framework and Improving investment diversification

19. How saver's funds are invested is crucial to the returns they receive. Especially at the largest end of the market a focus on short term cost has the potential to override long-term value considerations. The government has a long-standing commitment to encouraging DC pension schemes to broaden their investment approaches and ensure they are considering a diverse range of assets for the benefits of savers. Most recently, DWP's new regulatory measures introduced disclose and explain proposals and exempted performance-based fees from the regulatory charge cap, with an aim to remove barriers and help stimulate investment in illiquid assets by DC schemes to achieve better outcomes for savers.[5] The FCA has introduced rules to allow the Long-Term Asset Fund (LTAF) designed to accommodate confident investment in illiquid assets.

20. Trustees and providers are also increasingly seeking to access a wider investment universe to meet the needs of all members. Private and long-term investment options are an important part of that portfolio mix, including opportunities to invest in private equity, private debt, real estate, and infrastructure. The VFM framework will continue to support this work by, driving greater transparency on asset allocations which are not delivering value for savers and highlighting opportunities for investment in illiquid assets that could give savers better long-term outcomes. Further details can be found in section 3.6 of Chapter 3.

[5] Government response: Broadening the investment opportunities of defined contribution pension schemes - GOV.UK (www.gov.uk)

1.3 The VFM framework and the Value for Members assessment

21. We intend for the VFM framework to replace the Value for Members assessment[6] and requirements for relevant schemes to assess the extent to which their charges, transaction costs and specified performance-based fees represent good value for members.[7] Our consultation proposed that the VFM framework, would over time, replace the current Value for Members assessment,[8] required of trust-based DC schemes with under £100m in assets under management. Respondents emphasised that a clear approach to the timings of policy initiatives is key to avoid overburden and duplication of disclosures, and we agree. Therefore, we intend to provide further clarification on transition timelines at a later stage.

22. In the meantime, the Value for Members assessment will continue to be a key tool for trustees to show they are shifting their focus from cost to value – demonstrating the value they are delivering to savers on key areas, including net investment returns and governance. Therefore, until the VFM framework comes into force we expect those schemes which are underperforming under the Value for Members assessment to take immediate action to make improvements to the scheme or wind up and transfer the rights of their members into a larger DC occupational pension scheme.

1.4 The VFM framework and Deferred Small Pots

23. Chapter 2 acknowledged that growth of deferred small pots has created inefficiencies in the automatic enrolment (AE) workplace pensions market which need to be addressed. These inefficiencies increase the risks that members lose track of their workplace pension savings and act as a disincentive to member engagement. We also highlighted that the growth of deferred small pots may adversely impact the long-term financial sustainability of pots, as some providers find that their costs of managing them outweigh the amount they receive in charges. To address the growth of deferred small pots, DWP published a Call for

[6] Completing the annual Value for Members assessment and Reporting of Net Investment Returns - GOV.UK (www.gov.uk)
[7] The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (legislation.gov.uk)
[8] Completing the annual Value for Members assessment and Reporting of Net Investment Returns (publishing.service.gov.uk)

Evidence seeking views and evidence on the optimal large scale automated solution that can deliver a material reduction in small pots.[9]

24. Today, we have published our response to this Call for Evidence,[10] alongside a public consultation setting out our policy seeking to build a system to stop the proliferation of unprofitable, often lost, deferred small pots, and consolidate existing such pots into a small number of default consolidator schemes. Ensuring that these authorised consolidators deliver a high-quality scheme that is providing greater value for money for members.

1.5 The VFM framework and Decumulation

25. In 2022, DWP published a Call for Evidence (CfE)[11] to explore what support members of pension schemes need to help them make informed decisions about how to use their savings and what support and decumulation products are currently on offer to members. Responses to this CfE found that there were inconsistencies in the communications and support provided to savers during accumulation and in decumulation. To address these issues, DWP has published a consultation[12] seeking views on a set of communication touchpoints throughout the pension savings journey and that all occupational pension scheme savers should expect their pension scheme to offer or facilitate access to decumulation products and services.

26. Our VFM consultation set out that we want to help schemes deliver the best possible value and outcomes for savers, including those in decumulation. We expect the VFM framework to evolve and assessments derived from the framework to complement work on decumulation by enabling pension savers to better understand the value of different services and products in the decumulation market. For FCA-regulated schemes, extending the VFM framework to decumulation will help show the quality of investment pathways, ready-made investment solutions for non-advised savers entering drawdown.

[9] Addressing the challenge of deferred small pots - GOV.UK (www.gov.uk)
[10] Ending the proliferation of deferred small pot pensions - GOV.UK (publishing.service.gov.uk)
[11] Helping savers understand their pension choices - GOV.UK (www.gov.uk)
[12] Helping savers understand their pension choices: supporting individuals to make informed decisions - GOV.UK (publishing.service.gov.uk)

1.6 The VFM framework and Collective Defined Contribution (CDC) schemes

27. In August 2022, The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 came into force[13], allowing trustees of Collective Defined Contribution (CDC) schemes for single and connected employers to apply for authorisation. This was followed by a consultation[14] in January 2023 seeking to extend CDC provision to unconnected multi-employer schemes, such as master trusts. The VFM framework and the CDC regime share the same overarching aim to improve saver outcomes by ensuring schemes take a longer-term view of value, including a longer-term investment strategy approach. It will be important for CDC schemes to be assessed on the long-term value they provide to their members, and we envisage that the VFM framework will capture CDC schemes during the latter phases of implementation. Further details can be found in section 2.2 in Chapter 2.

1.7 The VFM framework and Pensions Dashboards

28. Several responses to our VFM framework consultation suggested the future inclusion of VFM assessments on Pensions Dashboards. Over time, with the launch of pensions dashboards and the evolution of the VFM framework we expect engaged savers to take an increasing interest in the VFM delivered by their scheme.

29. Initial pensions dashboards will show simple information as set out in the Pensions Dashboard Regulations 2022,[15] but we have been clear that this is a starting point. Future iterations of dashboards could encourage savers to consider VFM by showing a pension scheme's VFM assessment outcome and signposting to further information, helping to support pension savers decision-making.

---

[13] The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 (legislation.gov.uk)
[14] Extending Opportunities for Collective Defined Contribution Pension Schemes - GOV.UK (www.gov.uk)
[15] The Pensions Dashboards Regulations 2022 (legislation.gov.uk)

1.8 The VFM framework and FCA Consumer Duty

30. Public transparency of VFM data will support firms in meeting their obligations under the Consumer Duty. The proposals to disclose a standardised set of framework metrics will provide better data for IGC to consider price and value aspects of the Duty. VFM assessments references in Consumer Duty rules and our proposals will strengthen these assessments and make them more objective and comparable.

Chapter 2: Scope, criteria, and outcomes

2.1 Summary of proposals

31. In Chapter 3 of ‘Value for Money: A framework on metrics, standards, and disclosures’, we set out the proposed scope, criteria and outcomes of the VFM framework, building on TPR and FCA’s previous discussion paper and wider engagement with industry stakeholders and experts. We proposed a phased approach to implementation to give us the opportunity to test and learn and build confidence within industry and savers.

2.2 A phased approach to implementation

Question 1 asked: Do you agree with the proposed phased approach?

Summary of responses

32. Respondents were largely supportive of the proposal to phase the implementation of the VFM framework, with the vast majority agreeing to begin with workplace default arrangements and be aimed at pension professionals and decision makers who oversee these arrangements. A majority of respondents also agreed with the proposal to exclude Small Self-Administered Schemes (SSAS) and Executive Pension Plans (EPP).

    “We think it is sensible to apply a phased approach to implementation of the VFM framework and we agree with the rationale for applying the framework to default funds of workplace schemes in the first phase. Workplace arrangements with governing bodies are best placed to navigate successful implementation in light of their independence, resources and fiduciary and statutory duties.” **Eversheds Sutherland**

33. However, some respondents also advocated for multiple stages within the proposed phases, and many asked for clarification about timeframes between phases. Respondents highlighted that testing and learning of phases and ensuring the pension industry is ready for the implementation of the framework is important.

    “With multiple phases it will be easier to ensure lessons are learned at each stage and there isn’t a “big bang” approach for workplace pensions that could

hinder successful implementation by providers, schemes and regulators". **Phoenix Group and Phoenix Group IGC.**

34. There were mixed views about timing of the commencement for legacy schemes, non-workplace pensions and pensions in decumulation. Many respondents who explicitly referred to legacy schemes, agreed with the proposal to include legacy schemes from Phase 1 as members are likely to not be protected by the charge cap and the governance may not always be as robust.[16] Other respondents said that legacy schemes should be brought into scope at a later phase as they may require a more specific and tailored approach due to the valuable guarantees some can contain.

"Legacy schemes which are not subject to the charge cap should be within scope of phase one as these are likely to be schemes where there is greatest scope for improving value for money" **Hargreaves Lansdown**

"Legacy pensions should be subject to the framework in the second phase as their VfM must be assessed on an individual basis rather than at an employer level because of the valuable guarantees they contain". **Association of British Insurers (ABI)**

35. Similarly, some respondents thought non-workplace pensions and decumulation arrangements should be brought into scope sooner as limited regulatory oversight and poor value products means savers are at risk of poor pension outcomes. Other respondents recognised that non-workplace pensions and pensions in decumulation are complex pension arrangements that require careful consideration before they are brought into scope.

Joint response

36. We welcome the support for a phased approach to the implementation of the VFM framework. It is encouraging that industry is broadly in agreement regarding the need for the VFM framework to be implemented in stages to ensure it is fit for purpose.

37. We also note that most respondents asked for clarification of VFM framework timelines and some asked that the introduction of more than two phases should be considered to ensure VFM metrics are correctly implemented and understood by target audiences. We agree that a staged approach will allow for evidence

[16] In this consultation response, we use the term "legacy" to refer to all relevant schemes (a defined contribution scheme where an employer has contributed on behalf of two or more employees in the past) which are not qualifying schemes for auto-enrolment. This may include schemes which are closed to new members.

gathering, industry adaptation and key learnings to be considered before different pension scheme types are brought into scope.

38. While there were mixed views on whether pensions in decumulation and non-workplace pensions should be brought into scope sooner, and some respondents suggested that legacy schemes should be brought into scope later, we need to strike a balance between targeting pension schemes where savers face the greatest risk and implementing a VFM framework that is workable given the complexities of different types of schemes. Therefore, our primary focus remains on workplace default arrangements where most DC pension savers can be protected from remaining in underperforming schemes for long periods. This will also allow for sufficient time to work with industry to address complex issues for pensions in decumulation, CDCs, non-workplace pensions and self-select options, where the applicability of metrics and comparability between schemes may be more difficult.

39. We agree that savers in older schemes may be at greatest risk of poor VFM. However, we also recognise the challenges in applying the framework to legacy workplace schemes, particularly in assessing and comparing complex charging structures and with profit arrangements. We remain committed to working with industry to address these issues and exploring how the framework will apply to legacy schemes, with a view to include them in scope with AE defaults. However, we will not let any barriers to implementation delay the launch of the framework for default schemes.

40. For any schemes in later phases, we note that the FCA's Consumer Duty will already apply to FCA-authorised firms, including those providing services to trust-based schemes. Firms will still need to consider whether consumers are at risk of receiving services that do not meet their needs or represent poor value. That may be due to the nature of the service(s) they are receiving and/or the underlying charging structure. Firms need to review whether their products and services are delivering fair value. Where problems are identified, we expect firms to fix them.

41. Many of the VFM framework proposals, including the definition of default arrangements, will require primary legislation and we propose to legislate when parliamentary time allows. We will conduct further consultations on draft regulations and FCA rules for detailed requirements. This will take time to implement, and we will continue to work closely with industry to ensure they are as prepared as possible. Further details on phasing, the types of pension scheme funds in scope during each phase, and other elements of the framework will be set out in secondary legislation and future consultations. Until then, we expect DC schemes to continue to meet their regulatory obligations.

42. Our consultation proposed that the VFM framework is targeted at the professional audience who oversee workplace default arrangements. To drive competition and improvement across the market, and to encourage consolidation of poorly performing schemes with better performing schemes, we continue to believe that these decision-makers are the appropriate audience for Phase 1.

43. Over time, we envisage that pension savers will become more engaged once the VFM framework is mature and begins to capture pension schemes that target savers who are more engaged with their pensions. As highlighted in Chapter 1, we anticipate that future pension policy initiatives will help increase savers awareness and interest in pensions and VFM. We will consider how VFM results will be directly communicated to savers in a way that is informative and mitigates against adverse consequences.

44. Given their key role in a saver's pension journey, employers will continue to form part of the target audience for information on VFM results, from Phase 1. Section 7.6 in Chapter 7 provides further details for employers following VFM assessment outcomes.

45. In line with consultation responses and stakeholder engagement feedback we intend to exclude SSAS and EPP from VFM framework requirements. These schemes can participate on a voluntary basis should they wish to do so.

Chapter 3: Investment performance

3.1 Summary of proposals

46. In Chapter 4 of ‘Value for Money: A framework on metrics, standards, and disclosures’, we set out the investment performance metrics for proposed public disclosure. We proposed disclosure of backward-looking investment performance net of all costs and across a range of time periods and age cohorts. We also proposed that this central dataset would be supplemented by simple risk-adjusted metrics to indicate the level of risk borne by pension savers in achieving the reported returns. A simple forward-looking metric of projected target future performance was also proposed.

47. The aim is for factual, historic information showing the past value delivered. It should reflect member outcomes, enable meaningful comparison, support assessment of investment strategies and allow some consideration of expected future performance.

3.2 Backward-looking returns, net of costs

Question 2 asked: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

Summary of responses

48. Most respondents agreed that backward-looking metrics are the accepted way to measure past performance and member outcomes and are widely understood by the industry. However, some respondents commented that past performance is not a guide to future performance and were concerned that it would be used too heavily to evaluate current value. Many noted the inclusion of a forward-looking metric was crucial as a balance, especially for schemes with long term investment horizons who have invested in illiquid assets as part of a diversified investment portfolio.

    “[We] support the development of backward-looking investment performance metrics, because this is the best way to demonstrate whether past investment decisions have added value to members, and as such, are a key measure of accountability for the design and implementation of DC investment strategies. Good performance over a prolonged period represents a vindication of those

investment decisions, while the persistence of poor long-term performance would be evidence that those decisions were not having the desired outcome, and that a change in approach may be necessary." **Investment Association**

49. One respondent also advocated for alternative metrics based on internal rates of return for individual pension savers as better reflecting actual outcomes to date for individual savers in a scheme.

Net or gross

50. While many respondents saw the value of reporting investment performance net of all costs and charges, many noted the large data burden, particularly for multi-employer schemes, and were concerned that this could result in costs of the framework outweighing the benefits.

51. Some respondents also noted that the amount of data required by creating a net metric might mean that meaningful data and qualitative statements are missed. Some suggested prioritising the data metrics which are most important for delivering VFM, with the potential to add in more over time.

52. Other respondents disagreed and favoured gross investment performance. They submitted that a gross metric of investment performance would be more transparent and make comparisons easier. Given that any assessment process would ask schemes to compare their fund's performance versus their costs, there was also concern that a net metric would over-emphasise the importance of costs and charges and could lead them to be inadvertently double counted. A gross metric would also reduce the volume of data that would need to be produced. Other comments included that the amount of data that net reporting would require was confusing, burdensome, costly, and in some cases, not possible to produce.

"We would strongly advocate for performance to be presented gross of charges (other than those transaction costs that are explicit in the price); and for charges to then be presented separately. We believe it will be simpler for a trustee or IGC looking at this data to find the relevant investment metrics for the funds their schemes are invested in and – if they so wish – adjust them for the actual charges their scheme is paying, rather than search through a much larger data set, which still won't be accurate as it will be presented for AMC bands rather than their specific scheme charges." **Royal London**

Employer subsidies

53. Of the responses that commented on this aspect of the proposal, most disagreed with including employer subsidies with the member borne costs and charges to be netted from the investment performance metric.

54. Respondents argued that the backward-looking investment performance metric should be net of member-borne charges only, as the intention is to show member outcomes. Including employer subsidies would artificially reduce the returns. This could have unintended consequences and could either encourage employers to stop subsidies or members to make poor decisions.

55. Others recommended that employer subsidies be presented separately so that these valuable employer contributions could be taken into account and recognised. Others stated that employer subsidies were very complicated and would be difficult to accurately calculate for inclusion in the net figure.

Legacy schemes

56. Few respondents commented on this aspect of question 2. Those that did emphasised the need for flexibility and bespoke guidance in this area and commented on the possible difficulties in factoring in certain products when it came to comparisons.

Employer cohorts

57. In general, respondents were supportive of employer cohorts. There was not clear consensus on whether cohorts based on the proposed assets under management, or number of pension savers was preferred. Neither would be perfect, as it was acknowledged that many factors influence charges, e.g., the number of active and contributing members, the average value of ongoing contributions, the amount of any transferred in assets, the choice of investment strategy and the average age of members.

58. Respondents commented that the proposal requiring disclosure of the range of returns for the employers representing the middle 80% within the cohort (excluding outliers at the top and bottom 10%) should not be considered, as this would lead to distorted outcomes. It was also emphasised that the cohorts should be set, with no discretion, to ensure consistency and comparability.

Reporting periods

59. Respondents were broadly in favour of the proposed reporting periods. Some argued that the focus should be on the long-term view, as pensions are long-term products and short-term views are too susceptible to market volatility, discourage the use of illiquids and can lead to a homogenous investment approach. Others argued that reporting should go back no more than 5 years, as data may not be available and long-term data is not relevant for assessing current value.

60. Respondents also commented that there should be the ability to provide commentary and contextualise returns and that there would need to be provision for where the data was not available.

Age cohorts

61. Respondents were broadly in favour of the proposed age cohorts. Some commented that these should be based on years to retirement, as lifestyling is typically relative to selected retirement ages rather than absolute ages. Others commented that one day before state pension age (SPA) would not be a meaningful metric as it is not the typical retirement age, and that some schemes would be unable to produce or calculate it.

    "On age cohort disclosure, we do not agree that it should be based on the current age of the member. Investment strategies that vary by age such as lifestyle profiles or target date funds are, in our experience, structured to 'de-risk' over a certain timeframe before the member's normal retirement age. It is therefore the proximity to that point that makes the difference rather than the age of the member." **Legal & General**

Joint response

62. We note broad support for backward-looking metrics and acknowledge the feedback we have received on the difficulties associated with the large volume of data that would be required under a net of costs approach.

63. While we recognise that past performance is not always a guide to future performance, it is the best way to measure actual past and present value to members and is an essential metric for the VFM framework. Past performance of an investment strategy reflects the asset allocations by class of asset, which we think is important to inform comparisons of default designs. We acknowledge the suggestion to measure member outcomes using internal rates of return, however this would be a large change from our currently proposed metrics, which were supported by most respondents as an effective way to measure past performance. It could also result in additional operational challenges and costs to industry.

64. We recognise that there is a tension between requiring sufficient data to enable meaningful comparisons and the costs and complications of the disclosures. As this will be a new framework, we are trying to strike a balance between the minimum level of data that can be disclosed to still fulfil our policy aims of having a framework which reflects member outcomes and enables meaningful comparisons, with the end goal of enabling professionals to assess and improve

a scheme's overall value for members. We acknowledge the respondents who said we were asking for too much data at this point, and so have proposed to start more simply and consider building on the framework over time.

65. With this in mind, we intend to proceed with a gross investment performance metric, rather than net of all costs and charges. This will significantly reduce the amount of data points required from multi-employer schemes (as they will no longer need to report on a range of employer cohorts to accommodate differing employer costs), while still providing meaningful backward-looking data for assessment purposes. We propose costs and charges data will still be disclosed separately, and professionals will need to balance these against investment performance to assess the value received by members. Member outcomes will still be the focus of holistic VFM assessments. The change to gross investment performance will also simplify applying the risk metrics, as these are calculated on a gross basis.

66. Taking a gross approach also addresses issues about employee subsidies, as these will no longer be required data. Employer cohorts would also no longer be needed for investment performance metrics, as the gross investment performance of the default will be the same for all employers with a multi-employer scheme, significantly reducing the number of data points required.

67. We intend to work with industry on how to best ensure that special features for legacy schemes are taken into account.

68. We intend to retain proposed reporting periods of 1, 3 and 5 years, with 10 and 15 if available, to allow investment returns to be evaluated over appropriate periods of time. While we recognise that data may not currently be available, we think the main focus for comparisons should be returns over at least 5 years. In future, we expect that schemes will be able to report on more historic returns.

69. The VFM framework is designed to allow comparability. Most schemes enter three life-styling phases over a pension saving journey: growth, de-risking, at retirement. Respondents told us that these are often not based on a defined age, but instead years to retirement, with different schemes entering these phases at different ages dependent on member needs.

70. Therefore, we propose to proceed with years to retirement from the scheme's default retirement date, for consistency in comparisons across schemes. We understand many schemes will use State Pension Age (SPA) as their default retirement age for estimating returns. We will consider further which years to retirement should be disclosed, for example 25 years (to reflect the growth phasing, 5 years (during de-risking) and at the scheme's default retirement date.

3.3 Risk-based metrics for reporting periods and age cohorts

Question 3 asked: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?

Summary of responses

71. Most respondents agreed with the use of risk adjusted metrics. Some responses stated that maximum drawdown and/or annualised standard deviation (ASD) of returns were already used in industry and therefore are familiar to schemes.

    "Using Maximum Drawdown and/or ASD as the risk-based metrics is appropriate – these are both well used and well recognised metrics in the industry. ASD is more common than maximum drawdown but both serve a purpose in quantifying how much risk is being taken." **Aviva**

72. A few respondents suggested that using maximum drawdown as a risk adjusted metric had limitations as it doesn't consider how close to retirement the saver is.

    "We have concerns that Maximum Drawdown ignores the timing of people coming in and out of the workforce, or in and out of a pension product in terms of pot consolidation, and therefore joining schemes/products at different points in the cycle. The maximum drawdown approach could mean that different customers experience a different maximum drawdown within a period being measured." **Scottish Widows**

73. A few respondents stated that the Sharpe Ratio would be a good risk-adjusted metric to use either alongside maximum drawdown and/or ASD or instead of.

    "We would suggest using one metric such as a Sharpe ratio, otherwise schemes will have two metrics to report the return and the standard deviation, and then employers/advisers need to be able to compare both in tandem. The Sharpe ratio attempts to do that in a single metric." **Willis Towers Watson**

74. Some responses misunderstood the intended audience and believed risk adjusted metrics would be for the use of pension savers / members to determine VFM.

Joint response

75. We welcome the broad support received by respondents to the proposed risk-adjusted metrics, acknowledging that both ASD and maximum drawdown are

easily calculable, useful and widely understood by industry. For the avoidance of doubt, these metrics are intended for a professional audience, not savers. They will be used in the VFM assessment alongside investment performance data to provide a transparent picture of the degree of risk associated with the reported investment performance.

76. While we considered the Sharpe Ratio, we concluded that ASD and maximum drawdown are more widely used by industry and together offer a clear, tangible perspective on the level of risk. We therefore intend to proceed as proposed with both ASD and maximum drawdown, to be disclosed over 1, 3, 5-year periods and (where the data is available)10 and 15-year periods on an historic basis, alongside reported gross investment performance.

77. We intend to work with industry to ensure consistency across pensions schemes for the calculation of ASD and maximum drawdown.

3.4 Chain-linking

Question 4 asked: Do you agree with our proposals on “chain-linking” data on past historic performance where changes have been made to the portfolio composition or strategy of the default arrangement?

Summary of responses

78. Most respondents who replied to this question were in favour of the proposed chain-linking approach. Many acknowledged that it may be complex and challenging, but worthwhile and necessary to prevent gaming. Some respondents pointed to the risk that chain-linking could hide recent improvements in investment performance and could fail to account for changes in strategies for sustainability or Environmental, Social and Governance (ESG) requirements.

    “We are supportive of this proposal to help guard against attempts to hide previous investment decisions. However, we would urge the DWP to ensure the methodology for chain-linking is very well defined. This will ensure industry-wide consistency and avoid individual approaches at scheme level.” **BlackRock**

79. A solution suggested was that there should be some way to contextualise the data. Some respondents also suggested that both chain-linked and non-chain-linked data be disclosed, so that an assessment could take into account both previous and current fund performance, as well as chain-linked data showing the investment returns experienced by the savers in the default scheme. Other

respondents suggested that the requirement to chain-link investment performance data be limited to only 5 years back, to make the requirement less burdensome.

“There may be benefit in separating out current and previous strategies so the investment performance of one does not influence the other in the final metric(s) displayed. E.g., a previous strategy may have underperformed whereas the current strategy has overperformed. A single metric would not provide the true performance of the current strategy, which is arguably the most important, as that is what new members would be exposed to.” **The Investing and Saving Alliance (TISA)**

80. Those respondents who disagreed with our proposed approach to chain-linking submitted that as past performance is not a worthwhile metric for determining current value, the difficulties and costs associated with chain-linking would not be proportionate. Some also submitted that the required data to chain-link would not be available. Others were concerned that it would result in unintended consequences where recently improved schemes were weighed down by historic poor performance, which could disincentivise improvements or be misunderstood by savers.

“It is unclear what purpose a backward-looking analysis would serve if the strategy in question no longer exists. A backward-looking performance measure in a VFM assessment can only have value where it helps members or trustees make decisions regarding the future.

In addition, on a purely practical level, requiring chain-linking may greatly increase the cost and complexity of the required calculations. Availability of data will also pose a significant challenge.” **Aon**

Joint response

81. We welcome the feedback received by respondents on our proposed approach to chain-linking. We intend to proceed with the requirement for chain-linking, as we believe it is needed to reflect the actual experience of members and to counter the risk of gaming.

82. We acknowledge feedback from some respondents that chain-linked performance may not reflect what the current design is delivering now and into the future. However, we consider that chain-linked performance reflects the actual experience of members and the investment governance of the scheme over past periods of time and should be used in VFM assessments.

83. As stated above, we intend to retain the proposed reporting periods of 1, 3 and 5 years with 10 and 15 if available. We note the difficulties raised by respondents of applying chain-linking to investment performance over periods going further back in time. We therefore propose to only require chain-linking for the reporting periods of 1, 3 and 5 years back, as we acknowledge that more historic data may not be readily available for many schemes. We also propose to allow schemes to disclose non-chain-linked data alongside the chain-linked. This will allow schemes to demonstrate where they have made positive investment strategy changes and incentivise schemes to continuously improve.

84. We intend to work with industry to ensure that chain-linking is applied in a consistent way to maximise comparability between schemes and remove the risk of gaming.

3.5 Return net of investment charges only

Question 5 asked: Do you agree with proposals for the additional disclosure of returns net of investment charges only?

Summary of responses

85. Most respondents who replied to this question were in favour of the proposal for the additional disclosure of returns net of investment charges only. Respondents agreed that this was a key metric which shows investment returns in a direct relationship with the charges associated with them, encouraging transparency and consideration of underlying investment proposition rather than just a focus on low fees. Respondents also commented that as they are already required to make disclosures on this basis, it would be simple to obtain the relevant information. Several respondents agreed that the requirement for this should only go back one year but could be increased over time.

    “We agree with these proposals and believe they will encourage a level-playing field for schemes and providers by pushing for greater transparency of underlying charges. This will also improve disclosure for vertically integrated providers which we hope will increase competition in the market (if the underlying charges are disclosed).” **Hymans Robertson**

86. Those respondents who disagreed with the proposal argued that it added no value, would add extra complexity, and could risk investment charges being double counted (as these would already be disclosed in the returns net of all

costs and charges metric). Some respondents also argued that it would be hard to unbundle these costs for bundled schemes, and that any unbundling would likely be done in an arbitrary way.

"There is limited value in requiring providers of a bundled service to artificially designate some of their charges as investment charges and some as admin if neither service can be bought without the other." **St. James's Place Wealth Management**

Joint response

87. The purpose of the VFM framework is to help move the focus away from cost to a holistic assessment of value. We welcome respondents feedback and the wide-ranging support for this approach. We agree with the majority of respondents that investment performance net of investment charges is an important metric. It will drive a focussed consideration of investment charges and the value for members that they produce. In addition, many respondents submitted that this would be an easy figure to produce and report on.

88. We agree with respondents' that it will be pragmatic to begin with a requirement to report on only one year back for returns net of investment charges, as we acknowledge the concerns of bundled service providers around unbundling going back in time. Since investment charges are unlikely to vary by employer, we do not anticipate for multi-employer schemes to report using employer cohorts. These concerns are further addressed below under 4.2.

89. Consistent with our approach under 3.2 for gross investment performance, we would expect schemes to disclose return net of investment charges figures over 3, 5, 10 and 15 years, where that information is readily available. If provided, this information should mirror the other investment performance data and be chain-linked.

3.6 Asset allocations

Question 6 asked: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?

Summary of responses

90. Most respondents who answered this question were in favour of the proposal to require the disclosure of asset allocation under the eight existing categories used by trust-based schemes in their chair's statements.

    "We agree with the DWP's proposal to require schemes to disclose the percentage of assets allocated to the eight main asset classes (cash, bonds, listed equities, private equity, property, infrastructure, private debt and "other") in their default arrangements. It is important that these asset allocations capture the investment decisions schemes may make relevant to their default funds, such as ESG factors, which drive long-term financial returns for savers." **Which?**

91. Some respondents disagreed with the categories proposed, suggesting that further categories or sub-categories were needed, or that the classifications needed to be redesigned. Some also commented on the need for clear guidance to ensure that the categories were applied consistently.

92. Other respondents questioned the value of this data and how useful it would be in assessing schemes value. Some also noted the duplication this would cause with the Chair's Statement and recommended that one take priority to avoid duplication.

    "As you mention, disclosure of these eight asset classes is now a requirement of the Chair's Statement. Requiring schemes to disclose the same information as part of its VFM return would cause duplication. We would therefore suggest that the emphasis is placed on one document: this information should be included in either the VFM framework or the Chair's Statement, but not both. Our ultimate preference would be the removal of the Chair's Statement, because the vast majority of members do not read it, and the focus should be on including useful information in the VFM framework instead." **HSBC Bank (UK) Pension Scheme**

Joint response

93. We have taken onboard concerns raised and are considering policy design changes to best allow for further granularity in these disclosures without disproportionately increasing burden on schemes.

94. The disclosure of asset allocation for trust-based DC schemes is already required. From the first scheme year that ends after 01 October 2023, trustees or managers of relevant occupational pension schemes are required to disclose the percentage of assets allocated in the default arrangement to specified asset classes (cash, bonds, listed equities, private equity, property, infrastructure,

private debt and other), in their Chair's Statement.[17] We propose to build on this requirement for the disclosure of asset allocation as part of the VFM framework. We intend to emphasise the importance of disclosure of the suggested sub-asset classes where that data is available.

95. In the first phase of implementation, we propose that we require disclosure of asset allocations mirroring current disclose and explain policy regulations – making it mandatory for all DC schemes to disclose the percentage allocations in their defaults to the eight key asset classes (cash, bonds, listed equities, private equity, property, infrastructure, private debt and other) whilst encouraging and providing guidance on the more granular sub-asset classes we would like to see disclosed. These would mirror the current disclose and explain statutory guidance. This would include strong encouragement to disclose sub-asset classes that include, for example:

    - proportion of UK-based assets invested in;
    - proportion of non-UK assets invested in;
    - proportion invested in particular sectors (example: technology, life sciences, climate-based solutions, sustainable energy, etc.);
    - whether invested through a collective investment scheme / Long Term Asset Fund etc.;
    - proportion invested in venture capital / growth.

96. It would also include strong encouragement to disclose features that may make a material difference to investment performance, for example the use of currency hedging strategies.

97. The VFM framework is designed to shift the focus from cost to value. To deliver value, trustees, providers and their advisors should be considering a wide range of investment opportunities that can improve saver outcomes. This will require correspondingly sophisticated governance capabilities. One consideration is whether savers could benefit from potentially higher returns by investing in venture capital/private equity as part of a diversified portfolio. Regulators and government do not and would not direct DC scheme investment, but we expect trustees, providers and IGCs to use the VFM framework to check and robustly challenge their investment strategy to ensure it is working in the best interests of savers. Regulators may also use this data to check and challenge investment governance practices.

[17] The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 (legislation.gov.uk) / Draft statutory guidance: Disclose and Explain asset allocation reporting and performance-based fees and the charge cap - GOV.UK (www.gov.uk)

98. Standardising these disclosures and making them public would allow for greater transparency across industry and would be an important resource to be used to inform decision-makers on how their asset allocations could be modified to produce the best results possible for savers.

99. One of the key objectives of the VFM framework is to improve transparency and over time having granular asset allocation data in the public domain will shine a light on the significant impact allocations have on returns – especially those with underperforming allocations. This will help inform comparisons and provide clear examples of the importance of a diverse mix of investments within an arrangement to protect savers and bring about the best investment performance.

100. It will also highlight whether a scheme has any allocation to illiquid investments and what impact this has had on performance, with the aim of giving savers better outcomes in the long-term. If schemes do not have the necessary scale to invest across the full range of asset classes, this may contribute to them being unable to provide VFM to members and if improvements cannot made, consolidation may be enforced.

101. Although an important section of the framework, this would not form part of the assessment process that determines the VFM score of a scheme. We intend to review the impact of these disclosures as the framework evolves and expands.

3.7 Forward-looking metrics

Question 7 asked: Do you think we should require a forward-looking performance and risk metric, and if so, which model would you propose and why?

Summary of responses

102. There were mixed responses towards the requirement for forward-looking metrics as well as the models proposed to implement this. Slightly more respondents were in favour of including forward-looking metrics in the framework. However, many also expressed important concerns with its use.

103. Many respondents saw the value of forward-looking performance and risk metrics, recognising it to be useful in supporting future member outcomes. Combined with backward-looking performance, some felt this would allow schemes to show how return expectations compared against what has been

delivered and assess the value for money strategies for the future, rather than the past.

“We believe the framework should include a forward-looking metric, which could be used as a counterweight to the (naturally) more backward-looking focused nature of VFM assessments... it should be clear that all modelling is based on certain assumptions, so making the process as transparent as possible is important." **Age UK**

104. Several respondents found issue with the reliability of forward-looking metrics, arguing that schemes cannot accurately predict the future performance of assets and market behaviour. It was suggested that any forward-looking metrics should come with warnings of accuracy and expected risks.

“No, we disagree. Just as past performance is no guide to future performance, the past performance of asset classes is no guide to the future performance of an investment incorporating them… Any forward-looking performance metric will need to come with warnings about its accuracy.” **Aviva**

105. It was highlighted that these metrics can be too complex. Members or the professional audience could have access to forward-looking data without understanding it, leading to misinterpretations and poor investment decisions. Many respondents stressed that a forward-looking metric would need clear explanation. Another concern was the cost of producing such metrics.

106. ‘Gaming’ and overestimating returns was another risk highlighted by many respondents, including supportive respondents. The forward-looking approach could lead to ‘gaming the system’ by over-estimating high returns leading to riskier investment strategies to make up for any underperformance. Some argued that waiting for these schemes to be called out over time isn’t enough / is over optimistic. Suggestions to resolve this included adding a requirement over time for schemes to report ‘performance against past performance projections’ and scope for the Regulators to intervene when forward-looking metrics are consistently not in line with actual performance.

“Moreover, applying a forward-looking metric increases the risks that asset managers will ‘game’ the reporting system. Once the actuarial approach is understood by asset managers, less scrupulous operators may be able to make allocation decisions on the basis of which investments are likely to improve their firm’s forward-looking metric rather than what they believe to be the best investment.” **Natixis Investment Management**

107. Among those who supported forward-looking metrics responses were mixed about deterministic and stochastic models. The arguments for the deterministic

model were that it is the simpler, straightforward, and less costly option. Those who preferred the stochastic model generally preferred it with a “risk of retirement output” and favoured it as it is a single model that can generate expected and return figures, however there were many who pointed it out as too costly and complex. There were also respondents that felt both are unfit for VFM assessments given their costs of and the subjectivity of the matter, as each scheme has its own investment objectives so standardisation should not be stressed.

“Stochastic modelling is likely to be of most value, but there are some blockers. The biggest benefit of any course of action will be if results are comparable across providers… but we recognise that this would be challenging... Deterministic modelling is simpler, but may be a more appropriate place to start…” **Royal London**

Joint response

108. The VFM framework would provide a range of comparable data points which would help schemes effectively compare their performance against the market. The actual experience of members is critical, as measured by backward-looking investment performance metrics. However, there is also value in balancing this data with projections on expected performance in the future, as forward-looking metrics would reflect a default’s current asset allocation and indicate the expected return and risk. By requiring comparisons of what was projected versus what was delivered, over-promising would be exposed to the market. Regulators could also hold schemes to account using this data.

109. Nevertheless, mixed views from industry stakeholders on forward-looking metrics suggest this is a complex area. For example, it would be hard to create a single comparable and robust forward-looking metric for all schemes to use without the risk of gaming and if it were used in VFM assessments its weighting would need careful consideration.

110. We intend to proceed with a forward-looking metric and undertake further work with the Government Actuary’s Department (GAD) and industry to determine a feasible approach to forward-looking metrics is possible. We therefore aim to include a forward-looking metric as soon as we are able to do so.

Chapter 4: Costs and charges

4.1 Summary of proposals

111. In Chapter 5 of the consultation, we proposed costs and charges to be captured within the VFM framework. We proposed to build on existing disclosures and limit new data to that necessary to enable comparison. We proposed that schemes disclose total charges rather than 'member borne' charges, in line with what was proposed in Chapter 4 of the consultation. Our rationale for this was that the inclusion of employer subsidies would provide a more comparable metric. In addition, we said that schemes should disclose the total amount of administration costs to enable comparison of the quality of their services against the cost of those services. We also proposed that for multi-employer schemes where charges varied by employer, they should be split into employer cohorts consistent with the approach proposed for reporting investment performance net of all costs, based either on assets under management (AUM) or number of savers.

4.2 Disclosure of charges: Bundled schemes and combination charges

Question 8 asked: Are there any barriers to separating out charges in order to disclose the amount paid for services?

Question 9 asked: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?

Summary of responses

112. Most respondents felt there were several barriers to separating out the charges of bundled service providers. It would be difficult, time consuming and expensive to achieve. The split would be arbitrary as there was not a clear delineation of costs within their businesses. Some felt this split would also disclose commercially sensitive information. A couple of respondents also questioned what action could be taken if one element was considered poor value.

"…there is limited value in comparing the elements of a bundled service separately anyway since they cannot be purchased separately. The decision to replace the existing provider can only be made on a total charge for the total service basis." **St James's Place**

113. Although some expressed support for the proposal, most recognised the difficulties:

"We are supportive of this initiative and have been pushing providers to provide greater transparency of their pricing models for a number of years. This is, however, likely to be a significant undertaking for many leading providers as they typically quote charges on a 'bundled' basis and we see significant variations to how charges are calculated." **Barnett Waddingham**

114. Respondents suggested several methods for converting combination charging structures to an annual percentage, the most popular being reduction in yield and total charges divided by average assets under management. However, they also pointed out that these would need to be shown for a range of members, both active and deferred, over different terms to retirement due to the differing nature of the charging structures.

115. Many were of the view this exercise would be complicated and could provide misleading results. Several felt that it would be impractical for legacy schemes. Some therefore questioned its usefulness.

"We understand the rationale of requiring schemes to convert combination charging structures to a single annual percentage as this would theoretically improve comparability. However, our members have indicated that attempting to convert the various combination charges would be highly complex and not necessarily render truly comparable metrics**." PLSA**

Joint response

116. We believe that the standardised disclosure of costs and charges is essential to scheme comparability and that understanding what is provided by a scheme for the price paid is a vital tool to drive competition. This means disclosing costs and charges as an annual percentage charge to enable market-wide comparison and shine a light on how investment and service costs differ to increase focus on how different elements of cost impact on good saver outcomes.

117. Our intention is that schemes will report on the most recent year's charges which aligns with our proposals for disclosure of investment performance net of investment charges and is less burdensome than requiring disclosure over

multiple years. However, we acknowledge the difficulties raised by some respondents and will explore further with stakeholders the practicalities of how this would work. This data will build over time and, as it does, we would expect schemes to disclose that data. Where already readily available, we would expect schemes to immediately disclose investment charges for past reporting periods, to support comparisons. This would mirror our proposed approach to disclosure of investment performance.

118. Our aim is for the framework to assist schemes in comparing value and that can only be achieved by making more data public. However, we want the provision of that data to be proportional and not overly burdensome for schemes.

119. Although not a specific question, some respondents questioned the rationale of showing costs without employer subsidies. As we explained in the consultation, we believe this provides a more accurate comparison and avoids schemes with subsidies appearing better value. Employer subsidies are a valuable contribution to members and if trustees or providers feel strongly that they would like to provide additional data on the amount of employer subsidy, they are free to do so but we are not proposing to make it a requirement. If included, we would expect that the impact of an employer subsidy on the costs borne by members would be set out in a scheme's published assessment as it is clearly a benefit to those members.

120. In summary, we intend to make no changes to our proposals and will:

- Work with industry to understand the practicalities of disclosing charges related to services, particularly for bundled schemes
- Carry out further work to ascertain whether there is a proportionate way to convert combination charging structures used in automatic enrolment schemes and legacy schemes into an annual percentage which would aid comparison.

4.3 Multi-employer schemes

Question 10 asked: Do you agree with our proposal to provide greater transparency where charging levels vary by employer? Do you agree that this is best achieved by breaking down into cohorts of employers or would it be sufficient to simply state the range of charges?

Summary of responses

121. Most respondents agreed with the proposal to provide greater transparency where charging levels varied by employers.

122. Many also agreed this was best achieved by breaking down into cohorts of employers which should be consistently prescribed.

"We are very pleased that the consultation refers to grouping employers into cohorts for comparison purposes. It is misleading to compare charges of two employers, one with a large highly paid and persistent workforce and another with a smaller, or less well paid, or less persistent workforce and suggesting to the latter that because they are being charged more, that they are not receiving value simply doesn't mirror commercial reality or the terms which would be offered elsewhere." **Aegon**

123. However, some did not agree that it should be based on AUM as this would not accurately reflect the multiple reasons behind pricing models and could lead to unintended consequences. In particular, there were concerns about dividing schemes with combination charging structures into employer cohorts.

"Determining these cohorts is difficult as there are several scheme characteristics which affect the value for money which a scheme can achieve. This not only includes member numbers or assets under management, but also average member fund size and employee turnover." **Hargreaves Lansdown**

124. Some felt that stating the range of charges and an average/median would provide sufficient information and that additional layers of cohort analysis were unlikely to provide any more meaningful insight.

"…it would be our preference to state a range of charges. Disclosing by employer cohort will not provide any indication to an employer whether they are likely to obtain lower charges if they change provider." **Legal and General**

125. A few respondents mentioned the increasing number of employers who are designing their own default arrangements and asked for clarification regarding the disclosure of their charges.

Joint response

126. We welcome the broad support for greater transparency where charging levels vary by employer. We acknowledge stakeholder comments on the difficulties around grouping different types of employers together. A split by AUM is not fully comprehensive and could leave some employers to incorrectly believe

they are being overcharged. However, we believe that additional cohort layers would not only still be imperfect but also confusing.

127. We agree that a range could be an alternative to cohorts, particularly if constructed in a way which allowed a grouping between higher, medium, and lower costs.

128. In summary, we believe that differentiating and grouping charging cohorts will be essential for multi-employer schemes to understand the value they provide and for employers to drive competition. This is particularly important as we are no longer intending to require investment performance to be disclosed net of charges. However, we intend to explore further whether this is best achieved by means of a range or by a defined categorisation.

Chapter 5: Quality of services

5.1 Summary of proposals

129. Chapter 6 of the consultation highlighted that our aim is to provide a holistic view of VFM – where factors such as scheme administration and member communication are also considered in assessments of value for money. These factors are important as they can support savers' understanding and decision-making at crucial points in their pension journey. Our proposals centred on quantitative service metrics that could be used to directly measure against the member outcomes they delivered and for which all savers pay. We emphasised that the metrics proposed were not intended to be comprehensive and we expect industry to drive further consistency in this area.

130. As a starting point, we proposed the following metrics for member communications:

- Percentage of members who update/confirm their selected retirement date, and how they wish to take benefits, and/or update their expression of wishes; and
- The outcomes of member satisfaction surveys, including the percentage of members who have completed the survey, the Net Promoter Score, and/or member feedback against a small number of standard focus questions.

131. For scheme administration, we proposed the promptness and accuracy of core financial transactions and quality of record keeping, as providing areas for key metrics.

5.2 Member communications

Question 11 asked: Are these the right metrics to include as options for assessing effective communications? Are there any other communication metrics that are readily quantifiable and comparable that would capture service to vulnerable or different kinds of savers?

Summary of responses

132. Respondents were overall supportive of our proposal to include service metrics. However, although most felt that the proposals around member

communications were a good start, they did not feel that they went far enough and did not reflect a modern scheme with digital offerings.

133. There were calls to consider the membership demographics of schemes as well as the level of employer engagement as these will affect the success of communications.

"It should also be borne in mind that the level of engagement will differ from scheme to scheme based on the membership demographics. Whilst a scheme might demonstrate greater engagement than others, this could be down to the attitude of the individual members or the reluctance of the employer to allow the scheme to be promoted in the workplace." **Legal & General**

134. A number questioned the metric around confirming/selecting a retirement date and how benefits would be taken, pointing out that members are unlikely to proactively engage until they are approaching retirement. They also pointed out that by not updating this information, this could indicate that the members were already in the appropriate default arrangement and therefore did not need to take action.

135. Most felt that the completion of an expression of wish form was a useful measure of engagement although some pointed out it did not directly affect member outcomes. Many offered other metrics that could be measured, the most popular being:

- The number of members registering for an online portal or app and how often they use it
- The number of members opening emails and click through rates
- The number of members increasing contributions over the minimum
- The number of complaints received, how quickly they were resolved and how many were upheld

136. Support for the metric around member surveys and/or Net Promoter Scores was mixed. Many pointed out that Net Promoter Scores, although useful, would be very difficult to compare across different schemes. However, many were in favour of a standardised member satisfaction survey designed by the Regulators. Some noted that this could be designed to consider different scheme membership demographics. Others expressed concern regarding the general poor response rate to surveys and that they could not be guaranteed to accurately represent members' views. They also had concerns that small schemes would struggle to get enough responses for the results to be meaningful.

"In most cases surveys don't produce good and representative response rates and many consumers won't understand the range of communication options they have.... Smaller schemes may not undertake member surveys because, with very small membership, such feedback would not identify meaningful trends, and is likely to be of limited value." **ILAG**

"A solution could be for Regulators to put forward standardised member survey questions and minimum sample sizes to provide a baseline position (and schemes would be free to go further in regard to additional questions asked and members approached for their own purposes if they so wished)." **Smart Pension**

Joint response

137. We are pleased that respondents recognise the importance of including communication metrics as part of the VFM framework. We welcome their suggestions for other metrics that could be used to gauge the success of a scheme's communication. Our focus for the framework remains primarily quantifiable metrics which drive improved saver outcomes.

138. The proposed metrics were a starting point and were not intended to be a comprehensive measure of all services provided by schemes. While we accept that many schemes utilise effective digital communications which can raise awareness and more easily deliver important information to savers, their use is not uniform, and we do not want to exclude members who may not be digitally enabled.

139. Innovation within industry is important for continued growth. One way that successful communications can be measured is through member satisfaction surveys. We agree with respondents that suggested that standardised member surveys could bring a market-wide objective way to measure savers' perception of service. This would need to be issued with tightly defined criteria, with participation thresholds, to ensure validity. It could also be designed to capture results across schemes with differing membership demographics or protected characteristics. With ESG considerations an increasingly important element of investment decisions the survey might also include measures on savers' perception of the quality or impact of ESG integration.

140. We agree that the number of complaints that a scheme receives, both to the Ombudsman and internally, as a proportion of membership and the way it deals with those complaints (e.g., time taken to resolve, consistent with industry-wide practice) would be useful metrics to measure the quality of services provided within the framework.

141. In summary, we will continue to focus on quantifiable metrics that improve member outcomes as proposed in the consultation. Following feedback from respondents, we will also work with industry to develop a standardised member satisfaction survey and adding metrics around complaint data. We will remove the previously proposed requirement to disclose the percentage of members who update/confirm their selected retirement date and how they wish to take benefits as we accept that these are not accurate indicators of quality.

142. We are aware that this is an area of the framework that will naturally evolve over the phases of implementation and there is more we would like to implement when the time is right. We believe that the current proposed approach is a practical starting point for this development.

5.3 Scheme administration

Question 12 asked: Are these the right metrics to include as options for assessing the effectiveness of administration and/or are there any other areas of administration that are readily quantifiable and comparable?

Summary of responses

143. The majority of respondents agreed with our proposal to include metrics on administration. Most felt that the metrics we had proposed were the right ones, although they were metrics that should constitute minimum service standards.

144. Many respondents emphasised the need to standardise how administration metrics were reported, particularly around the time taken to process a transaction. They recommended the 'end to end' approach as being reflective of actual member experience. Many also pointed out the lack of comparability between the performance set out in Service Level Agreements (SLAs) because all schemes set and measure them slightly differently. Some suggested that the Regulators and DWP should set a benchmark or target for SLAs although others were against this, viewing it as minimum standard setting.

"An alternative would be for the DWP and regulators to standardise SLAs across the pension industry. We are not in favour of this approach as not all employers or member groups will necessarily value the same levels of service and raising standards across the board would introduce costs to implement and ongoing costs to maintain." **Aegon**

145. A few respondents thought it important to also measure cases that are not processed within the target standard, to ensure these are still dealt with promptly. Others had concerns that hybrid schemes might not breakdown reporting between metrics related to DC and those related to DB, and therefore may have difficulty providing these.

146. Some pointed out that timeframes regarding the processing of transfer values were dependant on scam checking and that schemes should not be penalised for this. Others noted that some schemes may have inherited legacy data which is of poor quality and suggested dividing into cohorts to reflect this.

"We do not believe that the speed of a transfer between schemes is necessarily a good measure of value for money. Transfers may be delayed as schemes conduct appropriate checks to ensure that members are not at risk of scams or fraud." **Nest**

Joint response

147. We proposed metrics in the framework that we believe have a material impact on saver outcomes. Without high standards in these areas savers simply cannot be receiving value for money. We therefore welcome the broad support for our proposals relating to the administration metrics.

148. We acknowledge respondents' comments regarding the need to tightly define what we expect to be reported and how that should be measured in order to ensure consistency. We will work with industry to help us achieve this.

149. We will clarify how we expect schemes to measure transaction times so that all are doing so on the same basis, as well as outline the key metrics within record keeping and core financial transactions that we expect to be reported. We are not minded to set benchmarks or standards at this time. However, we expect that, over time, the publication of this data will enable us to set minimum standards at a future date. As the VFM framework evolves, we may also look at the costs of transfers.

150. We accept that, in some cases, the quality of data will be out of the control of the scheme, particularly if information from the employer or a consolidating scheme is not forthcoming. We will consider how this can be reflected in the disclosures in the final framework.

Chapter 6: Disclosure templates and publication timings

6.1 Summary of proposals

Question 13 asked: Do you agree with a decentralised or a centralised approach for the publication of the framework data? Do you have any other suggestions for the publication of the framework data?

151. Chapter 7 of our consultation proposed a standardised reporting template for schemes to report data against the metrics of the three VFM framework components. These proposals aimed to help the publication of the framework data to be transparent, consistent, and accessible for use in comparisons with other schemes and overall assessments of VFM. We set out two options for the publication of the framework data: a decentralised approach and a centralised model and asked for stakeholder views.

152. We proposed that framework data should be published by the end of the first quarter of each calendar year. Trustees and IGCs will then be able to use the published framework data from other schemes for their VFM assessments. We also proposed requiring VFM assessment reports to be published by the end of October of each year. For qualifying trust-based schemes, we said the means of publication would be determined at a later stage. Contract-based schemes would publish their VFM results in their IGC Chair's Report.

153. We also proposed that data should be reported to the same end points in time, so that the data is consistent between schemes. For investment performance data, we suggested an end point of 30 June of the previous year.

6.2 Publishing options

Summary of responses

154. The majority of respondents were supportive of a centralised approach to publishing framework data. Those who were supportive thought that a centralised approach would make the data more accessible than a decentralised option, as schemes would not have to go to several different websites to find the data for

comparisons. Respondents acknowledged the extended length of time it would take to get a centralised option developed and implemented. Some acknowledged that a decentralised model would be quicker to implement in the short term. It was noted that the centralised approach could be considered an aim rather than a starting point and would heavily be dependent on costs and timescales.

"A centralised approach would be the better option in the long term, we recognise the costs and delays inherent in developing a central repository. We therefore suggest that a decentralised model be implemented initially, while work is undertaken centrally and with the industry to develop a central repository." **Pensions Management Institute**

155. There was some support for a decentralised approach with schemes notifying the respective Regulators once they have published framework data on their websites. It was felt that this would be preferrable as a lower cost option.

"Given the inherent complexities, cost of creating a centralised platform and potential delays with a centralised approach, on balance, a decentralised approach is preferable. If a decentralised approach is taken, we agree with the proposals under paragraph 131 that it would be appropriate for firms to notify the regulators with the URL…" **Zurich Assurance**

156. There were concerns expressed about making the data publicly available and that it may result in providers prioritising changes less important to member outcomes. Some were also concerned that data may be used by the public and taken out of context which could lead to savers making inappropriate decisions regarding their savings.

"An additional note of concern around the publication of data is the risk of the data being used in a misleading way that may encourage customers to move their savings to another scheme or product that is not delivering VFM. This could be via press coverage or via the data being used as a marketing ploy by competitors." **ABI**

157. Several respondents expressed support for the use of a prescribed template to ensure that effective comparisons can be made across schemes and will encourage consistent reporting. The reporting template was noted as being important across both decentralised and centralised options.

"Providing data via a prescribed template also standardises expectations across schemes and regulators and minimises the potential for manipulation" **PLSA**

Joint response

158. Following stakeholder views, we have noted the benefits that a centralised approach would bring including a simplified collection and validation of the data at a single source, and the reduction in the risk of data manipulation.

159. We agree that this is an aspiration that we may work towards, however we would not want the associated time and costs to delay implementation of the VFM framework. We would expect a decentralised solution to deliver on the aims of transparency and accessibility. A tightly prescribed, machine-readable template published at the same time in Q1 and covering the same reporting periods will help to ensure the consistency of the data that is inputted and will allow for effective comparisons. An illustrative example of this is shown in Annex 2.

160. Therefore, we intend to proceed with a decentralised approach initially, with a prescribed template for consistent reporting. This will allow framework data to be published without potentially delaying implementation of the VFM framework. We will explore in more detail if and how we could collect URLs across both Regulators to develop a single directory where schemes, and potentially later in implementation employers and their advisors, could find published framework data, which should assist with accessibility concerns.

6.3 Reporting periods and deadlines

Question 14 asked: Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?

Summary of responses

161. There was general support for ensuring that there is a common date for publications to allow for more effective comparisons across schemes. Consistent publication dates are essential to ensure that schemes have enough time to analyse the framework data published by other schemes to compare themselves against, and to publish assessments in a timely manner.

"Agree with the principles of having a common date for the publication of data as it would allow for more meaningful comparison" **Hymans Robertson**

Publication of framework data

162. Respondents who commented on our deadline for publication of framework data mostly supported publication by the end of Q1 each year. Trustees and IGCs will then be able to use the published framework data for their assessments which we proposed to be published by the end of October.

"The proposed timings for publishing the framework data at the end of the first quarter of the year and the assessment at the end of October are sensible…" **Nest**

Reporting periods

163. Some of the respondents who answered this question highlighted the importance of up-to-date data being used to inform VFM assessments. It was noted that the proposal as stands would weaken the utility of assessments, but there is a balance to strike between getting the most up to date information and ensuring that there is time for information to be validated.

"It will be important for the regulators and Government to consider whether the data produced will be sufficiently up to date at the time of publication. There is a concern in relation to the fairness of the RAG rating system if older data is used." **ABI**

164. There were some concerns with the proposal to set 30 June as an end date for reporting framework data as this would mean schemes will be assessing against out-of-date data as VFM assessments will not be published until the following October. Some suggested alternative reporting end dates which would help to close the gap and allow more current data to be used in assessments.

"We would suggest that the data should be measured as at 31 December each year but still published by the end of Q1 the following year, but recognise that schemes will be reliant on third parties for much of this data, particularly investment transaction costs which takes time to prepare." **Legal & General**

Publication of VFM assessments

165. While there was support for the VFM assessments to be published in October, some respondents were concerned that this might mean some schemes would need to change their year-end to meet the requirements. Some respondents

were also concerned about the potential for a resource bottleneck at publication time.

"Agree that October would be a suitable point in the annual cycle, with it being 6 months post-tax year end … Yet this proposal compels many schemes – potentially up to half of all schemes that do not use the default scheme year end – to change their scheme year end to meet the proposed statutory disclosure deadlines. These schemes would need a transitional year to facilitate the switch over, which further complicates comparisons. In any case an implementation period of 18 months would be required between publication of the final rules and the first disclosures being required to allow schemes to make the necessary arrangements" **ILAG**

166. There was some acknowledgement that the deadlines would be achievable provided there would be sufficient time to implement, and that it was not practical to have more than one publication date.

"The deadlines are achievable, providing the industry has at least 12, preferably 18 months to implement from the point the final regulations have been laid and the reporting format agreed." **Legal & General**

Frequency of assessments

167. A few respondents questioned whether assessments on an annual basis was necessary and suggested less frequent publications such as every three or five years.

"We would call into question the assumption within the consultation that the assessments must be made annually. Given the complexity and volume of data proposed for the process, it would be more cost effective to conduct this less frequently, perhaps every three or five years" **PLSA**

Joint response

168. We welcome the broad support of having common dates for publication and reporting periods. We propose that framework data still be published in Q1 to allow for timely comparisons to take place. We expect that trustees and IGCs will use the published data to compare their schemes and will publish assessment reports by the end of October. We have noted concerns that an October publication date favours those with scheme year ends in April, however it is impractical to have more than one publication date. We acknowledge that

schemes will need sufficient lead time to implement new internal processes and aim to work with industry to ensure that enough time is provided ahead of implementation to work through the practicalities.

169. We note that the proposed reporting end date of 30 June is not practical, as there would be significant time gap before VFM assessments are published the following October, which would result in outdated data being used in assessments. We want schemes to compare themselves against the most current market data but take the point that this needs to be balanced with the new requirement for schemes to collect, vet and publish the data. Therefore, we propose implementing a reporting end date of 31 December. This will close the gap, as schemes will publish by the end of Q1 the data collated from up to 31 December of the previous year. Schemes will then use this data to conduct and publish VFM assessments by the end of October. To underpin delivery and support timely comparisons, the Regulators will consider taking action or impose penalties for late or poor-quality data and assessments.

170. We maintain that it is in savers' best interests that VFM assessments are conducted and published on an annual basis. Less frequent VFM assessments would mean a saver could be in a poor value scheme for a longer period. The information may also be less useful to employers when choosing a scheme as data published would not be recent. We have taken on board suggestions that the amount of data asked for was too burdensome and have sought to make this less complex for schemes.

Chapter 7: Assessing Value for money

7.1 Summary of proposals

171. Chapter 8 of our consultation proposed two approaches for assessing VFM, three possible outcomes to a VFM assessment and the next steps schemes should take following assessment outcomes. Our two approaches for assessing VFM centred on regulator-defined benchmarks, or comparisons with other schemes and industry benchmarks, supplemented by a step-by-step process to aid objectivity and consistency between assessments.

172. We emphasised that outcomes to VFM assessments should focus on setting clear actions to improve VFM and we proposed a Red/Amber/Green (RAG) rating system to classify the categories that schemes' arrangements would fall into following assessment results. Mandatory communication of VFM assessment outcomes to employers was proposed. Potential compliance and enforcement mechanisms, including enforcing wind up and consolidation where a scheme's arrangement persistently underperforms, were also highlighted.

7.2 Regulator-defined benchmarks and market comparisons

Question 15 asked: Do you think we should require comparisons against regulator-defined benchmarks or comparisons against other schemes and industry benchmarks?

Summary of responses

173. There was a diversity of responses to this question. Those that supported regulator-defined benchmarks considered the approach to provide a level of objectivity for scheme arrangement comparison. However, these responses often raised caution to an increased risk of herding. Some made suggestions for multiple regulator-defined benchmarks that would allow for recognition of different approaches utilised by schemes or to allow consideration of different member demographics.

"From an ease of reference, cost of preparing and consistency of comparison, we agree a regulator defined benchmark would be best. However, care will need to

be taken that any benchmark introduced does not limit innovation" **XPS Pensions Group**

174. Some respondents, including most master trust respondents, supported the approach where comparisons are made against other schemes' arrangements, with subsequent development of industry benchmarks.

175. These respondents considered that this would allow a more holistic comparison of performance and could expand on existing rules under the Value for Members Assessment regime. This would also avoid what was seen as a potential pitfall of regulator-defined benchmarks, an increased risk of herding around benchmarks that could stifle innovation.

"Scheme comparisons would enable the industry to build upon existing requirements for trustees and IGCs when comparing their schemes against at least three other schemes. This view is reinforced when acknowledging that IGCs and providers have existing requirements with a third-party firm where they provide data for benchmarking purposes. Additionally, scheme comparisons would provide trustees with more autonomy, better allowing them to focus on the value elements key to their membership." **PLSA**

176. Pension provider respondents recognised that allowing schemes to choose who they compared their arrangements against introduces a gaming risk. Underperforming scheme arrangements could be deliberately chosen to ensure that value for money would be artificially achieved. Some respondents suggested that Regulators could mitigate this through guidance on how comparative scheme arrangements are chosen and justified. This would also provide an additional avenue for regulatory scrutiny.

177. Many respondents made clear that, regardless of approach, the comparison method needed to consider some elements of scheme design and membership demographics.

"Schemes will structure their investment strategies and service offering appropriate to their membership demographic and target market. It would therefore be more appropriate for schemes to compare against their peer group in the market" **Legal & General**

178. This type of approach was considered to build upon existing best practice already occurring within the market, as IGCs use third parties to provide benchmarking and comparisons on key VFM metrics.

Joint response

179. Effective comparison of scheme arrangement performance is an essential and key component of driving value for money. As we outlined in the consultation, there could be more than one way for schemes and Regulators to do this effectively.

180. We believe that at this initial stage, schemes are better able to assess the value for money provided by their arrangement through a comparative exercise against other schemes' arrangements. This will allow for market forces to drive competition with associated overall positive outcomes for savers. Scheme comparisons following the VFM framework assessment process, with suitable guidance on the considerations expected, will clearly identify poor performance. We expect industry-lead league tables to emerge naturally as the framework data becomes available which will stimulate further competition.

181. The value for members assessment will be phased out as the VFM framework is introduced. However, we consider it reasonable to build upon and enhance the existing requirements within it. To prevent gaming or comparison against poorly performing schemes we intend to introduce tightly defined criteria for comparisons. When conducting a VFM assessment, comparisons will be required against schemes of sufficient scale to deliver good outcomes.

182. It is the Government's aspiration to continue to work to introduce regulator-defined benchmarks, as part of the VFM framework. We believe these could drive good saver outcomes and protect savers from poor performance. Conversations with Australian officials show that, when implemented properly, there is no evidence that benchmarking leads to herding, although the Australian market structure is very different. They can even allow for an increase in competition and bring about positive outcomes for savers.

183. Suitable regulator-defined benchmarks will take time to develop and will depend on the framework data that we see published. We will also consider "red lines" for clear underperformance, including on certain service metrics. We recognise the challenges and complexities involved. We are also mindful that implementing benchmarks improperly could result in herding, which could stifle competition and innovation. However, we believe that regulator-defined benchmarks have the potential to drive faster improvements and greater consolidation to the benefit of savers.

7.3 Approach to assessing VFM

Question 16 asked: Do you agree with the step-by-step process we have outlined, including the additional consideration?

Summary of responses

184. We received a wide range of responses to this question. Many respondents favoured the step-by-step process, considering it logical in its approach and that it would provide greater consistency across completed assessments.

185. Others suggested that the process should incorporate the qualitative context and that further development may be required over time to reduce its complexity.

"The process does make sense. We would just caution that focusing too much on quantitative measures, and not making room for the qualitative improvements, may restrict the full view of value." **Railpen**

186. About a quarter of responses disagreed with the step-by-step process, for a variety of reasons. Some fundamentally rejected the proposed data disclosures used to make an assessment. Others considered the step-by-step process to be complex, costly, and burdensome, particularly for smaller schemes.

"The process outlined looks logical relative to the areas to be assessed, but we do not agree. The process is complex, subject to wide interpretation, costly to deliver (especially given that most schemes in the market are individually priced) and likely to lead to reduction in innovation and differentiation in approaches to investment delivery." **Aon**

187. The consultation also considered whether schemes should consider economies of scale when assessing the performance of their arrangement. Of those that referenced this consideration in their response, there was an even split. Those that agreed that economies of scale should be considered, said that larger schemes could be more efficient and access different asset classes for their arrangement, although they do not necessarily provide better value. Those that opposed the consideration of economies of scale considered it to not be necessary, as if scheme arrangements are providing value for members, then scale would be irrelevant.

"We assume the additional consideration is intended to require schemes to consider whether they should consolidate. Inevitably, consolidation does provide economies of scale and may provide more investment opportunities. However, it may well not be possible for trustees to consolidate due to benefit underpins or guarantees in their current scheme." **Sackers**

Joint response

188. The framework's proposed data metrics will allow a consistent comparison of scheme arrangement performance to take place. However, without a clear process for how that comparison should be undertaken, there could be significant variations of methodology, impacting the comparability of results and increasing the risk of gaming by schemes upon their poorer performing arrangements

189. We recognise that some aspects of the step-by-step process will change in line with proposed amendments to the data metrics as detailed in chapters 3, 4 and 5 of this response. We agree with most respondents that a prescribed process is essential to ensure a consistent and comparative approach and that sufficient guidance should be provided to schemes and providers to ensure a standardisation across the approach.

190. We agree with respondents that framing the assessment will be important to allow a contextualisation of the results as well as the data metrics, particularly which metrics trustees and IGCs have deemed most important to their scheme arrangements' membership.

191. Once comparative data and assessments are in the market, through regulatory scrutiny, we can highlight best practice and challenge unsuitable decision-making within assessments. We can consider, based upon the evidence, whether additional prescription to the step-by-step process is required.

192. As proposed in our consultation, we intend to include a metric that captures economies of scale as part of the VFM assessment. Scale allows a scheme to operate with lower running costs, improved governance and to have access to more diverse investments. Larger schemes also have greater financial resilience to withstand economic shocks.

193. Therefore, we propose that when assessing their VFM, trustees and providers would explain how their arrangements are benefiting from their schemes' scale, including their ability to invest in diversified investment strategies that deliver long-term value for savers. They may be required to compare their data with that

of a large commercial provider and/or pass a test that provides a standardised and comparable quantitative metric for their arrangements.

194. Some respondents thought that ESG considerations should be included in the framework. We recognise their importance to member outcomes and already expect ESG factors, including climate change, to be integrated into scheme design under existing rules. In their assessments, trustees and IGCs may want to consider their scheme's approach relative to other schemes.

7.4 VFM assessment conclusion and next steps following VFM assessments

Question 17 asked: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?

Summary of responses

195. Over half of all responses favoured the use of a RAG rating, considering it a suitable method that provided a simple, clear, and transparent result.

196. Whilst supportive of the approach, over a third of those affirmative responses did consider three categories to be limiting. Challenge was raised as to how VFM is defined between boundaries. It was suggested that the proposed approach was better at identifying underperforming arrangements rather than allowing schemes to differentiate amongst those arrangements that are providing value for money. This concerned some respondents.

"Whilst the RAG rating approach is well understood, we do have reservations that in this context just having three categories may not allow enough room for nuance and differentiation between schemes at different stages of their VFM journey, particularly in the green section" **HSBC Bank (UK) Pension Scheme**

197. Some respondents challenged the use of a RAG rating. Some of these rejected the RAG due to its simplistic style, with additional commentary regarding three categories to be too limiting. Others rejected the RAG based on its inappropriate simplification of a technical assessment. It was suggested that this would provide limited benefit to the professional audience, and instead was a design to allow easier regulation.

"The proposed RAG approach significantly understates the complexity of the whole process and given the target professional audience, is not required. Even where schemes are confident they are providing VFM, they are likely to rate themselves as Amber as there are always improvements that will be sought and made." **The Investing and Saving Alliance (TISA)**

198. Respondents were concerned that nuance would be lost, with over a quarter of respondents expressing the need for a scale greater than the three options provided within the proposed RAG rating. They favoured an increase to five categories. This was suggested as being better able to differentiate across results allowing identification of scheme arrangements that were providing sufficient, good and excellent value for money.

"We would prefer a 5-category system to allow for more divergence and differentiators between schemes. For example, we expect a significant majority of in-scope arrangements will land on "green". Excellent, very good, fair, below VFM expectations, needs improvement may be preferable to the proposed RAG rating." **Eversheds Sutherland**

199. There were also suggestions of differentiating amongst scheme arrangements identifying as not providing value for money. This was because some schemes may not be able to proceed with a wind-up as the trustees may not hold unilateral powers to trigger wind-up, or there may be reasoned justification as to why it is not in the saver's best interest to do so.

Joint response

200. The policy intent of the VFM framework is to make sure that all pension savers receive value for their money, are in schemes that are well run and that can access the full range of asset classes. This requires the identification of poorly performing schemes' arrangements that are unable to improve and requiring those schemes to transfer and/or wind-up, where in the savers best interest to do so. Therefore, we consider it reasonable, at this initial stage of framework delivery, that a rating system allows for a simplified identification of a scheme's arrangement's VFM. This allows for clear actions and swifter resolution to protect savers within arrangements found lacking.

201. We recognise respondents' desire for a more comprehensive RAG which allows for clearer defined boundaries. We believe that boundaries can be better defined via detailed guidance, providing clarity and expectation on how a scheme might assess and demonstrate whether its arrangement is providing value for money.

202. Whilst we understand concerns that the proposed RAG may encourage schemes to aim their arrangements' performance for just 'good enough', we believe that the standardised disclosure of metrics in themselves will enable effective market forces. Employers and schemes will be able to identify high-performance within the market and begin to make evidenced-based decisions accordingly.

203. Over time, through regulatory scrutiny of comparative data and assessments, we can begin to have a better understanding of the market and its value for money offerings. This will allow for consideration of additional refinement and granularity to the RAG, determining if there is value in expanding it to allow for market-leading performance to be more clearly identified.

7.5 Contract-based schemes and the outcome of VFM assessments

Question 18 asked: How should we take into account the specific challenges of contract-based schemes while ensuring equivalent outcomes for pension savers?

Summary of responses

204. As this question focused upon contract-based schemes, a little under half of respondents to the consultation provided a response. Of those that did provide a response, almost all were in favour of recommended legislative change and new FCA rules that would allow contract-based providers to transfer without consent. However, respondents were clear that this should only be conducted with adequate protections and when in the best interest of savers. This would bring contract-based schemes in line with trust-based schemes providing suitable mechanisms and safeguards to protect saver outcomes, ensuring a consistent outcome regardless of the scheme structure.

"We note that the legislative limitation to move members without consent is currently a barrier that would prevent the majority of employers from taking action. We would welcome contract-based providers having the power to shift members without consent as with Trust based schemes, subject to receiving appropriate advice and it being considered in the best interests of members."
ISIO Group

205. Whilst most respondents were supportive of non-consent transfers, respondents stated that this should only occur where necessary and with reasonable expectation that the saver would make the same decision if contact were possible. This did raise questions regarding who would hold responsibility and liability for the decision, and what form of oversight would be required.

"We believe that legislation could be introduced to permit a 'without consent' transfer from a contract-based arrangement to a master trust, reflecting the rules currently in place for trust-based plans. The IGC should be the responsible party for effecting the transfer, although the rules should allow for consultation with employers, not least because they will likely use any successor arrangement as an auto enrolment vehicle." **Association of Consulting Actuaries (ACA)**

206. Only a few of those that responded to this question did not support allowing non-consent transfers. Concerns cited included a significant risk to members, an increase in the potential for saver complaints and increased liability upon providers, particularly if there were future challenges as to whether a transfer did provide a better financial outcome.

"Providers cannot, and should not ever, be able to transfer personal pension member savings to another scheme without member consent, unless the scheme is winding up. This type of power would likely to result in members losing track of their savings and prompt a large volume of complaints to providers." **Investment & Life Assurance Group (ILAG)**

Joint response

207. We believe that all pension savers should receive value for money by default. Therefore, those who make decisions on behalf of savers should do so in savers best interests. We have heard from IGCs and contract-based providers that current legislation around bulk-transfers without consent can be a barrier to delivering good outcomes. This is particularly true where members cannot be contacted and it could be assumed that if informed, would take a decision likely to provide a better outcome.

208. Communications and effective record keeping will be important to help members keep track of their pension savings, especially with many members not currently engaged. We think a provider who has transferred members should be ready to answer future queries from affected members. Future challenges on whether a transfer actually did, with hindsight, deliver a better outcome may need to consider whether at the time the transfer could have been reasonably expected to deliver a better outcome.

209. Given the protections that contract law provides, we will carefully explore legislative changes to enable providers to transfer pension savers without consent, internally or to another provider, with appropriate protections built into the process. At this stage, we think that IGCs would be best placed to determine whether a proposed transfer is in the best interests of workplace pension savers. We will also consider legislative changes for the FCA to support or enforce such a transfer. This work will be undertaken together with complementary work by the DWP to provide a solution to the issue of small pots.

7.6 Outcomes and communication of the VFM assessment result

Question 19 asked: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?

Summary of responses

210. The consultation proposed specific, mandated actions on schemes once they had completed their VFM assessment. These actions were dependent upon whether the scheme has assessed its arrangement as achieving VFM (green), unable to achieve VFM (red), or able to achieve VFM with identified actions (amber). An additional proposal was an inclusion of mandatory communication to employers of savers within the arrangement, where the current VFM status should be advised, regardless of what it is, as well as options available to employers should they wish to consider their provision.

211. Most respondents supported the proposals in this question. There was a range of support for schemes to communicate their VFM assessment results, however, there were mixed considerations regarding whether that communication should be mandatory across all circumstances. Some agreed that all employers should be made aware of the VFM assessment, and that mandating it was a way to ensure change in behaviour and successful impact of the VFM framework. Other respondents suggested communication should only be mandatory for arrangements with poor VFM assessments, where the employer should be informed and consider actions to take.

"We would favour communications to employers which set out a summary of the value-for-money assessment for their scheme, as this will allow them to quickly consider the position without needing to refer to complicated tables of data.

However, we would emphasise that action by small employers should not be relied on to drive improved outcomes since it is costly and time consuming to switch providers.” **Federation of Small Businesses (FSB)**

212. There was a selection of responses from financial advisors and investment consultants that raised concern regarding the proposed actions for a scheme’s arrangement that was assessed as amber. The consultation proposed that if a scheme’s arrangement was assessed as amber for two successive years, then wind up and/or consolidation may be expected or imposed by the regulators. Comments noted that the timings for the proposed data capture and subsequent publication of the assessment the following year, would mean that any improvements could not be demonstrated through the metrics captured for the subsequent assessment.

“The timeline of the data reporting within the VFM framework means that there is not sufficient time for providers and scheme to improve their performance against the included metrics. This means that providers or schemes that fail the VFM test in the first year will also fail in the second year as the performance they are being judge on in the second year is already set in stone.” **ABI**

213. Amongst the responses received there was support for additional regulatory powers to enforce the transfer of savers and wind up where appropriate. Some commented that public disclosure and market forces could only make limited changes and that regulatory action would likely be needed to ensure improvement in outcomes for savers. It was noted however that there were varying rules across DC schemes and that transfers and wind-ups may not be available options, regardless of whether the scheme arrangement is providing poor VFM.

“We wanted to draw to your attention that the rules of occupational pension schemes vary significantly from scheme to scheme and the rules of the vast majority of schemes will not include a unilateral trustee power to trigger the winding-up of the scheme or to make transfers to another scheme. The final proposal put forward in connection with the proposed actions to be taken in a “not VFM” scenario should take account of the significant divergence in the transfer and wind-up powers under the rules of DC occupational pension schemes.” **Association of Pension Lawyers (APL)**

Joint response

214. The overall aim of the VFM framework is to drive better outcomes in DC pensions and increase the value delivered to savers. Public disclosure of VFM

assessments is a vital component as this will incentivise schemes and providers with underperforming arrangements to improve, consolidate or exit the market. Increasing transparency will aid decision-making for professional parties as well as employers when choosing schemes for their employees.

215. In addition to the public disclosure of the VFM assessment, we believe that there are instances where mandatory communication should be issued by a scheme or provider to the employer of savers within an underperforming arrangement. It is important that employers, including those who are paying substantial amounts to subsidise their employees' pension schemes, are aware when their employees are not receiving value for money. Therefore, when a scheme arrangement is not providing value for money, we propose that the employer will be made aware within a reasonable time frame and will understand what actions the scheme intends to take to either improve the VFM offering or transfer/wind-up in savers' best financial interest.

216. Further consideration will be given to the content of this mandatory communication, so that it is a focused, standalone document that provides the employer with an overview of the scheme arrangement's value for money, the intended next steps and a clear direction on what action will be required by the employer. We would encourage schemes with arrangements assessed as providing VFM to issue a similar communication to keep employers engaged and informed, however this decision will be for the scheme to make and not be mandated.

217. We recognise the concern in responses received regarding the timeline between data capture and VFM assessment, and the impact this has upon the proposal that if a scheme arrangement is assessed as amber, and is not VFM for two successive years, then wind up and consolidation may be expected or imposed. If a scheme identifies an arrangement that offers poor VFM it would start by considering whether it has a credible proposal for achieving VFM for that arrangement. We would expect it to take immediate action but recognise that it may take time for that action to show in improved VFM. If a scheme assesses an arrangement as red and 'not providing VFM with no credible prospect of achieving VFM' we will expect it to begin consolidation or explain why it is unable to consolidate or why it would not be in the members' best financial interest to do so. Explanations for why a scheme will not be undertaking consolidation in such instances will face regulatory scrutiny and potential action.

218. To drive better outcomes in DC pensions it is important that savers do not remain in underperforming schemes for extended periods of time. Under the proposed VFM framework, we would not expect savers to be in an underperforming scheme arrangement for more than two years, unless

extenuating circumstances apply and can be clearly demonstrated. Where Regulators have identified concerns, they will investigate further and determine whether to take enforcement action, with proportionate interventions depending on the level of risk.

219. There is also an important distinction between the data metrics and the assessment that is undertaken. At the first year of being assessed as amber, it is expected that an action plan should be constructed. If the following year assessment remains amber, then the assessment should draw reference to the actions undertaken and their initial outcomes. If the scheme cannot demonstrate improvements within the arrangement, in line with expectations set out in the action plan, then unless there are extenuating circumstances, consolidation may be expected or imposed, to protect and improve saver outcomes.

220. The framework's success in driving better outcomes in DC pensions will be driven by changes in market behaviour, however, we recognise that the ability for the regulator to intervene where necessary is also an important factor. We will look to develop a suite of regulatory tools that will ensure schemes comply with the framework and conduct appropriately reasoned VFM assessments. This will include challenging scheme considerations around consolidation and wind up. The Regulators will look to develop additional, streamlined powers to ensure that, where necessary, we can act to remove persistently poor performing schemes' arrangements from the market to protect member outcomes.

Chapter 8: The VFM framework and the Chair's Statement

8.1 Current policy thinking

221. Our consultation recognised that following the results of the Chair's Statement statutory post implementation review (PIR) and the implementation of the VFM framework, the purpose and feasibility of the Chair's Statement needs to be reconsidered. Our policy thinking focused on two possible actions: splitting the Chair's Statement requirement into two separate documents, one member-facing and the other a governance document and considering the continued feasibility of the Chair's Statement as a means to publish governance and member information.

8.2 A member-facing document

Question 20 asked: If the Chair's Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?

Summary of responses

222. There was no overall consensus in the responses to this question. However, whilst the majority of respondents welcomed the opportunity to reconsider the Chair's Statement, many raised concerns that the addition of a separate member-facing document would be of little value, adding that members already receive information relevant to them from annual benefit statements, or from their wakeup packs. A common response was that members have little or no interest in the Chair's Statement and question whether the introduction of a separate document would improve engagement.

"We are not convinced that splitting The Chair's Statement is the solution. Members don't read The Chair's Statement and we are not convinced they are interested in a shorter version" **Aegon**

223. However, were the government inclined to split the Statement into two parts, information relating to Costs and Charges, investment strategy and details of Value for Members performance are the most frequently suggested. Amongst

those in favour of customer facing information, there is a strong belief that content needs to be brief, easily digestible, and relevant.

Government response

224. There is no doubt that communicating accurate and meaningful information to members, which may allow them to be better informed about their pensions, is of the greatest importance.

225. However, subject to further work with the FCA and other interested parties, we understand that separating out member focussed aspects of the Chair's Statement into a separate document may not be beneficial to members, who already have access to costs and charges and other scheme information through their provider and through their benefits statement, which has become standardised for AE DC workplace pensions since the introduction of Simpler Annual Benefit Statements. Indeed, it may be argued that adding in a further document to which members should refer, could create complexity and confusion, when member engagement may already be challenging.

8.3 Duplication across the VFM framework and Chair's Statement

Question 21 asked: Is there any duplication between the VFM framework proposals and current Chair's Statement disclosure requirements?

Summary of responses

226. Respondents were broadly in agreement that there is duplication to varying extents between the Chair's Statement and the proposed VFM framework. With most suggesting that the existing Value for Members reporting requirements will be directly mirrored by the disclosure requirements proposed in the Value for Money framework.

227. The majority of respondents believe that the Chair's Statement should be revised to exclude governance reports when the VFM framework is introduced. Reports relating to Net Investment and Transaction Costs were commonly identified as the areas most likely to be duplicated. Several respondents said that failure to reconsider disclosure requirements within the Chair's Statement would stretch their cost and resources.

"We strongly believe that introducing the VFM framework without reducing the burden of The Chair Statement will be more than many schemes can cope with" **Lane, Clark and Peacock**

228. Several respondents said that removing certain governance reports would allow the Chair's Statement to refocus and provide a more meaningful narrative to the member.

229. Over a quarter of those choosing to comment on this question indicated that the Chair's Statement should be dissolved completely, once a VFM framework was implemented.

"We do not believe the Chair Statement helps to improve member outcomes. If the VFM framework is introduced, we believe that the Chair Statement should be dropped in its entirety." **HSBC Bank (UK) Pension Scheme**

Government response

230. Respondents were clear that once fully implemented, the VFM framework will overlap with the Chair's Statement in several areas. Added to this, previous work by DWP and engagement with industry representatives has highlighted similar requirements in the Master Trust supervisory return, the Effective Systems of Governance and the Own Risk Assessment.

231. There remains a role for the Chair's Statement at the present time, as it continues to be a route DWP can use to manage certain legislative requirements, such as the Value for Members Assessment. However, we recognise that as the VFM framework is implemented, and as respondents to this consultation have told us, an increasing overlap between the role and requirements of the framework and Chair's Statement will develop, bringing into question the necessity of the Statement in the long term. We will therefore consider how the requirements of the Chair's Statement could be managed down, and ultimately phased out as the Framework is phased in.

Chapter 9: FCA specific issues

9.1 Summary of proposals

232. Chapter 10 of our consultation considered three policy proposals for FCA-regulated firms, including workplace personal pension providers and their IGCs. We proposed that where some individual SIPPs are considered as workplace pensions under our rules, they should be excluded from the requirement on providers to establish an IGC/GAA and publicly disclose costs and charges. We also proposed to require all IGC Chair's Report to publish a saver-focused summary of the VFM assessment and to make the provider, rather than the IGC and IGC Chair, directly responsible for preparing and publishing the framework data.

9.2 Self-invested personal pension plans (SIPPS)

Question 22 asked: Should individual SIPP arrangements be excluded from the requirement on providers to establish an IGC/GAA and to publicly disclose costs and charges and, if so, under what circumstances?

Summary of responses

233. Where respondents answered this question, some felt that all workplace SIPP arrangements should be included in the requirement to establish an IGC/GAA and publicly disclose costs and charges, including arrangements where individuals have asked their employer to contribute to the SIPP that they have set up. It was noted that if an employer is contributing for an employee, they should be subject to associated requirements to have oversight of these arrangements.

"If an employer is contributing directly to a SIPP arrangement, then we agree that the provider should continue to be subject to the requirement to establish an IGC/GAA. However, in some instances the self-invested aspect of the scheme is established as a separate arrangement to the one that is receiving the employer contributions and the IGC would not be required to oversee the VFM of the self-invested assets. We believe this approach should continue" **Legal and General**

234. Some stakeholders acknowledged that there may be risks associated with taking such SIPPs outside the scope of our rules on IGCs and the public disclosure of costs and charges. There was caution against assuming that member engagement is high in these products, and even those who are engaged may benefit from oversight of an IGC/GAA.

"In relation to question 22 on the application of IGC/GAA requirements to individual SIPPs which count as workplace pensions, we would caution against assuming that member engagement with such products is high. Company directors have many different things to focus on and may well act like typical consumers in that they pay attention to the SIPP when they take it out but then lack the time to engage with it on an ongoing basis…" **Federation of Small Businesses**

235. Others did not see the case for IGC/GAA arrangements where the only workplace pensions were individual SIPPs into which employer contributions had been directed. These SIPPs and related investments are likely to have been selected by an individual and with advice. Some respondents made the point that where an individual has taken advice, there would be less need for oversight by an IGC/GAA arrangement.

"Yes. Ultimately, the purpose of the VFM framework is to provide an assessment of schemes where individuals have little or no choice as to the pension vehicle they are investing in, usually because their employer makes the selection for them. As stated in the consultation document (paragraph 195) many individually selected SIPPs are utilised as a result of advice and/or personal selection. Therefore, commercial forces will typically dictate which of these options are utilised rather than a VFM assessment" **Aon**

"Yes, but only where the SIPP member has already received advice from an FCA approved individual" **Alliance Bernstein**

236. There were suggestions that the exclusion could apply to those under a certain member threshold, which would keep the smallest SIPPs out of scope for disclosures.

"…our preference would be for all these products to be included from the beginning. Failing this, it may make sense to apply the exclusion discussed to the smallest SIPPs, below a certain membership threshold" **PLSA**

FCA response

237. Under FCA rules some individual SIPPs are considered to be workplace pensions even where they are not established as a workplace scheme. This can happen where an individual asks their employer to direct employer contributions to their SIPP, and the employer does this for more than one individual to the same SIPP scheme.

238. Some respondents conflated the issues; group SIPPs set up by an employer would still be in scope and non-workplace (NWP) SIPPs are a separate issue to be considered in a phased approach.

239. We agree with respondents who did not think it would be proportionate to require an IGC/GAA for small numbers of individual SIPPs that are currently classified as workplace under FCA rules. We recognise concerns that there may be some benefit in having IGC/GAA oversight of these arrangements but believe that where an individual SIPP and related investments have been selected by an individual with advice there is less need for IGC/GAA oversight.

240. We will consider these issues further before consulting on proposed changes to FCA rules. We may explore the use of thresholds to exclude those schemes with the smallest number of workplace pension savers, which would help to address concerns around proportionality.

9.3 Saver-focused summary of a VFM assessment

Question 23 asked: Do you think there would be merit in a proposal to mandate the inclusion of a pension saver-focused summary alongside the IGC's Chair's Report?

Summary of responses

241. Most respondents supported the mandatory inclusion of a saver-focussed summary alongside the IGC Chair's Report. Some noted that the current Chair's Report is often quite technical, and a simplified summary would help to engage savers. They felt that a summary may also contribute to transparency and awareness.

"Yes, we agree that a pension saver-focused summary would simplify the information in the chair's report. This would reduce the risk that members do not misinterpret information in the IGC's Chair's Report, which can be lengthy and technical." **Association of Consulting Actuaries**

242. Some felt that whilst there would be merit in a saver-focused summary, it should be at the discretion of the IGC Chair.

"…the IGC Chair may choose to include a separate saver-focussed summary, they may choose to structure the report so that a summary is included, or they may be able to present a more integrated report while still considering the information needs of their members." **Hargreaves Lansdown**

FCA response

243. The FCA intends to continue requiring an annual IGC Chair's Report, which unlike the Chair's Statement for trust-based schemes is focused on the IGC's assessment of VFM. We are supportive of seeking ways to engage savers with their workplace pensions.

244. We acknowledge that savers are not the only audience for the Chair's Report, which should be evidenced based and can often be technical. We still expect the VFM assessment in the Chair's Report to explain and evidence the results of the assessment, for a professional audience and for the FCA, but the full report is too much detail for most savers. Therefore, the FCA proposes to require a summary for pension savers to be included with the annual IGC's Chair's Report as part of existing annual communication by IGCs to scheme savers. Some Chair's Reports already include such a summary.

9.4 Responsibility for the disclosure of framework data

Question 24 asked: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?

Summary of responses

245. The majority of respondents felt that the provider should be responsible for the publication of framework data under FCA rules. Providers hold and source the metrics that will be required to be disclosed and would have to pass this onto IGCs. It is then the role of IGCs to assess and present the data in their report.

"We agree that the provider should be responsible under FCA rules for the provision of this data, as they would ultimately source this information." **Hymans Robertson**

"It therefore follows that the provider should be entity required to publish metrics related to the scheme. This would then allow the IGC to focus on its primary role, namely, to evaluate the running of the scheme, assess this data, and establish whether the scheme offers sufficient value." **PLSA**

246. Some respondents did not feel strongly about where this responsibility should lie and felt that the provider being responsible may be more convenient in terms of getting the data out in a timely manner.

"The Panel does not have a strong view either way. However, we would err towards making the provider responsible on the grounds that this might in time allow for the timelier publication of data" **FCA's Financial Services Consumer Panel**

FCA response

247. We agree with stakeholder responses that the provider should be responsible for the publishing of framework data, rather than the IGC and the IGC Chair. In practice IGC's tend to rely on staff and resources of the provider to collate and verify the information that is published. IGCs should then use this data to assess Value for Money and publish their assessments, but it should be the responsibility of the provider to ensure this data is available and published correctly.

Chapter 10: Impacts

10.1 Summary of proposals

248. Chapter 11 of our consultation sought to gather evidence of the additional costs and benefits associated with the VFM framework to assess its potential impact on pension schemes. We also asked stakeholders to identify any equality impacts of our policy proposals on protected groups.

10.2 Metrics and target audience

Question 25 asked: Which of the metrics do you not currently produce? (This could be for either internal reports or published data). Do you envisage any problems in producing these metrics?

Question 26 asked: Do you agree with our assumptions regarding who will be affected by the framework?

Summary of responses

249. Many respondents already produced most, if not all, of what the framework proposes and did not foresee any particular problems with providing the data asked for. In part, respondents said that this is due to many of the metrics already being required in the Trust space. For those who don't currently produce all the data, respondents highlighted this will be more challenging for multi-employer schemes due to the number of default options and pricing points.

250. Where respondents raised concerns, the most common issue was producing investment performance net of investment charges only. This was partly due to the difficulty some providers highlighted in splitting out investment charges and administration charges where they are currently bundled, describing it as either a significantly resource intensive or arbitrary task.

251. Some respondents also envisaged problems chain-linking historic performance, due to issues such as manual processes and lack of data. Other metrics not currently produced by multiple respondents include a forward-looking metric, risk-adjusted metrics and all of the age cohorts proposed.

252. The majority of respondents agreed with our assumptions regarding who will be affected by the framework but believe that other stakeholders would also be impacted. Respondents would explicitly mention savers, as well as adding employers and their advisors, who will need to interpret and potentially act upon the results of the VFM assessments.

10.3 Costs and benefits

Question 27 asked: Are you able to quantify these costs at this stage? Are there additional cost components we have not considered? Do you expect these costs to be significantly different for commercial providers and multi-employer schemes?

Question 28 asked: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?

Question 29 asked: Are there additional benefits we have not identified?

Summary of responses

253. Without the finalised requirements, at this stage most respondents were unable to quantify the costs of the framework, however, there was a general consensus that respondents expect the costs to be 'significant'. Where respondents attempted to quantify their potential costs in pounds, estimates were wide-ranging, from the tens of thousands to the millions. Several respondents suggested the cost would be comparable, but greater than, the costs associated with producing the Chair's Statement.

254. Respondents expect costs to be higher for commercial providers and multi-employer schemes due to the wider range of funds and charges, and also noted that the costs are likely to be disproportionately felt by contract-based providers because many of the requirements are already in place in the trustee space.

255. Most respondents thought we had identified all of the benefits, however, couldn't quantify them at this stage. Several respondents noted the potential for the framework to deliver 'large' benefits.

"...the upside benefits - via competition and transparency - are potentially very large and yet hard to predict. Overall, we would anticipate that the benefits of providing comparable VFM data have the potential to be many multiples higher than the costs of providing such information" **FCA's Financial Services Consumer Panel**

256. Some responses were unable to judge whether the benefits would outweigh the costs at this stage, whilst others recognised the benefits but strongly believed that the costs were disproportionately high due to the amount of data required.

"The ABI is supportive of a common framework... However, assessments of value do not require the level of data envisaged in the consultation." **ABI**

Joint response

257. As discussed in Chapters 3 and 4, we recognise that there is a tension between requiring sufficient data to enable meaningful comparisons and the costs and complications of the disclosures. We want every data point in the proposed framework to be used, and for the framework to be proportionate to the costs and benefits associated with the disclosure.

258. As this would be a new framework, we are trying to strike a balance between the minimum level of data which can be disclosed and fulfilling our policy aims of having a framework which reflects member outcomes and enables meaningful comparisons, with the end goal of enabling professionals to assess and improve a scheme's overall value for members. We acknowledge the concerns from respondents who said that there was a risk that we were asking for disclosure of too many data points and so have proposed a refined set of data points to be disclosed initially. We will consider building on the framework over time, consistent with evidence from its operation.

259. We will look to work with industry further to understand the potential costs of our proposals. If cost estimates are available with supporting rationale, please send to: vfmconsultationpaper@fca.org.uk

260. Annex 2 provides an indication of proposed disclosures.

10.4 Equality considerations

Question 30 asked: Do you have any comments on the potential positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?

Summary of responses

261. Many respondents noted the potentially positive impacts of the VFM framework on protected groups. Generally, these respondents state that the framework will positively impact members who are unable to make VFM decisions themselves, many of whom are in protected groups.

“A robust value for money assessment conducted by a professional provider, an IGC or a Trustee Board is likely to positively impact some protected groups and those scheme members who find themselves in vulnerable circumstances. The provision of a good quality workplace pension ensures that employees, who for whatever reason are unable to make an objective assessment of the quality themselves, are enrolled in a scheme that delivers good value.” **Aviva**

262. Some respondents raised the potentially negative impacts of the VFM framework on members in specific groups. For example, where schemes provide funds owing to conscience-based views, performance and cost metrics may be skewed and may deem a faith-based fund as poor value compared to a similar fund without the same considerations.

263. Respondents also highlight the importance of effectively communicating VFM to vulnerable members. This should be done in a way that will not cause distress and exacerbate an individual's situation.

“Members may have invested in certain funds owing to conscience-based views. This needs to be recognised if any switch to new arrangements are in contemplation. Giving effect to beliefs may not contribute to performance and/or may cost more, meaning such funds may be deemed "poorer value" than funds of similar nature without conscience or religious considerations.” **Mercer**

264. Some respondents also highlight the potentially negative impacts of demographic bias on protected groups. Certain individuals are more likely to engage with their pension (and hence have a better scheme engagement metric) which may create incentive for schemes to discriminate against certain groups. This issue is raised within the context of age, gender, race, disability, earnings and pot size.

“Schemes that serve a more diverse population may risk being judged as poorer value for money than those with a less diverse membership. The former may score less well on proposed engagement metrics. This will create a regulatory incentive to discriminate against protected groups that we believe is inappropriate.” **People’s Partnership**

Joint response

265. We have considered all responses on equality considerations. We will continue to use this evidence to develop our policy to help inform the scheme information to employers on VFM. For example, service metrics around engagement have been removed to avoid penalising more diverse schemes which will help mitigate the potential negative impacts of demographic bias on protected groups.

Annex 1: List of respondents to the Value for Money policy consultation

ABI
Aegon
Age UK
AgeWage
Alliance Bernstein
Aon
Association of Consulting Actuaries (ACA)
Association of Pension Lawyers (APL)
Association of Investment Companies (AIC)
Association of Real Estate Funds (AREF)
Aviva
Aviva IGC
Aviva Master Trust
Aviva Staff Pension Scheme
Barnett Waddingham LLP
BCF Pension Trust
BlackRock
Brian Shearing and Partners
Broadstone Corporate Benefits
Chartered Institute of Personnel and Development (CIPD)
Chris Giles
CMC Markets Investments
Cushon
Dalriada Trustees
Darren Philp & Nico Aspinall
Eversheds Sutherland
FCA's Financial Services Consumer Panel
FCA's Practitioner Panel
Federation of Small Businesses (FSB)
Fidelity
Gowling WLG
Hargreaves Lansdown
HSBC Bank (UK) Pension Scheme
Hymans Robertson
IFM Ltd
Investment & Life Assurance Group (ILAG)
Investment Association (IA)
Isio Group
Karen Mason
Lane Clark and Peacock (LCP)
Legal & General
Lloyds Banking Group - Mark Honeyman
M&G PLC
Make My Money Matter (MMMM)
Mark Bolton
Mercer
MHM Trustee Services Ltd
Milliman
MoneyHub
My Penson Expert
National Pension Trust (NPT)
Natixis Investment Management
NatWest Group Retirement Savings Plan
Nest
NOW Pensions
Partners Group
Pensions Administration Standards Association (PASA)
Pensions Management Institute
Pensions People Value (Mercer article)
Pensions Policy Institute
People's Partnership
Phoenix Group and Phoenix Group's IGC
Pinsent Masons
PLSA
Quietroom
Railpen
Redington
Robert Frost
Royal London
Sackers
Schroders
Scottish Widows

Smart Pension Limited / Smart Pension Master Trust
St. James's Place Wealth Management (SJP)
STAR
The Investing and Saving Alliance (TISA)
The Royal Society of Arts, Manufacturers and Commerce (RSA)
The Society of Pension Professionals (SPP)
Universities Superannuation Scheme (USS)
Which?
WTW
XPS Pensions Group
Zurich Assurance

Annex 2: Illustrative list of data points

Our proposed framework for data disclosure covers the 3 key elements of VFM: investment performance, costs and charges, and services. The list is not intended to act as the prescribed template itself but is an illustration of the data points that we may ask for. We will look to further define metrics through consultations on rules and statutory guidance.

Investment Performance and asset allocations

Past performance will be required for the investment portfolio of the default arrangement at points during the growth phase, de-risking, and at retirement. In the indicative template below, we have specified the investment portfolio at 25 years to retirement (YTR), 5 YTR, and at retirement. We will also allow for non-chain linked data to be inputted as optional.

Key

Grey shading	Disclose if readily available
Green shading	Optional, can disclose for additional context if choose to

DRAFT

Investment performance (Report to 2 decimal places)					
Performance metric 25 YTR (growth phase)	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**
Gross investment performance					
Returns net of investment charges					
Annualised standard deviation of returns					
Maximum drawdown					
Optional: Non-chain-linked data					

Performance metric 5 YTR (de-risking)	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**
Gross investment performance					

Returns net of investment charges					
Annualised standard deviation of returns					
Maximum drawdown					
Optional: Non-chain-linked data					

Performance metric AT RETIREMENT	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**
Gross investment performance					
Returns net of investment charges					
Annualised standard deviation of returns					
Maximum drawdown					
Optional: Non-chain-linked data					

Asset Allocation (as of December of previous year)			
Asset class	**Percentage allocation** **25 YTR**	**Percentage allocation** **5 YTR**	**Percentage allocation** **AT RETIREMENT**
Government bonds			
Corporate bonds			
Listed equities			
Private equity			
Property			
Infrastructure			
Private debt			
Cash			
Other *(If other please enter the asset class and the*			

DRAFT

corresponding percentage)			

Forward-looking metric (report to one decimal place)	
Expected performance	
Risk metric	

NOTE: Since the asset allocation assumed for the forward-looking metric may in some cases differ from the asset allocations disclosed above, the template will also allow for separate disclosure of the asset allocation assumed for the forward-looking metric.

Costs and charges

We will require costs to be disclosed for the most recent year. We would expect schemes to also disclose for past reporting periods, where this data is readily available.

Cost and charges (Cohorts will be required – to be explored further)					
Cost Metric **25 YTR**	**Annual percentage charge**				
	1 year	**3 years**	**5 years**	**10 years**	**15 years**
Service costs (All costs aside from investment charges and transaction costs)					
Investment charges (incl transaction costs)					
Total costs and charges					

Cost Metric **5 YTR**	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**
Service costs (All costs aside from investment charges and transaction costs)					

DRAFT

Investment charges (incl transaction costs)					
Total costs and charges					

Cost Metric AT RETIREMENT	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**
Service costs (All costs aside from investment charges and transaction costs)					
Investment charges (incl transaction costs)					
Total costs and charges					

Quality of Service

We will require schemes to disclose quantitative service metrics. The list below is not exhaustive but should provide an indication of the metrics we may ask for. We plan to work with industry to develop meaningful metrics that are feasible to provide.

Quality of Service	
Member complaints	
Proportion of complaints to membership received in the year to 31 Dec	
Proportion of those complaints resolved	
Average / Range of time required to resolve those complaints	
Proportion of complaints received in the year to 31 Dec that were escalated to Ombudsman	
Proportion of complaints escalated to Ombudsman that were upheld	

Member communication	
Percentage of members that have updated/confirmed their expression of wishes	
<Data metrics delivered by standardised customer satisfaction survey (TBD)>	

Scheme administration	
Average / Range of time (end to end) for payment in and investment of member and employer contributions	
Percentage of these transactions completed accurately and within the statutory time limit (Daily trading cycle – maximum 3 days / Less frequent trading cycles – maximum 5 working days)	

Average / Range of time (end to end) for transfers between schemes	
Percentage of these transactions completed accurately and to scheme SLA	
Confirmation of scheme SLA for this transaction	

Average / Range of time (end to end) for transfers in/out and switches between investments within a scheme	
Percentage of these transactions completed accurately and to scheme SLA	
Confirmation of scheme SLA for this transaction	

Average / Range of time (end to end) for payments out of the scheme to beneficiaries	
Percentage of these transactions completed accurately and to scheme SLA	
Confirmation of scheme SLA for this transaction	

Date Common Data was last measured	
Percentage assessed as present and accurate	

Date specific data was last measured	
Percentage assessed as present and accurate	

DRAFT

Annex 3: Glossary

Key terms used in this consultation	Definition
Chain-linking	Chain-linking refers to the methodology of calculating the net investment returns over time, so that any disclosures would continue to reflect the performance of earlier default designs even if the investment strategy is altered or if savers are moved into a new default.
Consolidation	What we mean by consolidation is when various elements of managing different pension schemes are combined, so they can be run more efficiently together than on their own. This would allow schemes to benefit from improved funding, economies of scale and better governance, providing greater security for savers
Decumulation	The process of converting pension savings into retirement income (i.e., annuities or drawdown)
FCA	The Financial Conduct Authority regulates the financial services industry in the UK. Firms and individuals must be authorised or registered by the FCA to carry out certain activities. The FCAs role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.
IGC	Firms that operate a workplace personal pension schemes are required to establish and maintain Independent Governance Committees (IGCs). IGCs have a duty to scrutinize the VFM of the provider’s workplace personal pension schemes, taking into account transaction costs, raising concerns and making recommendations to the provider’s board as appropriate. IGCs must: • act solely in the interests of relevant scheme members • act independently of the provider
Sharpe Ratio	The Sharpe Ratio formula measures the risk-adjusted return of a portfolio by dividing the excess returns by the standard deviation of the portfolio returns.
Savers	Throughout this document we refer to ‘savers’ (known as members) this is an individual / employee who is

	contributing (or has been contributions made on their behalf) to a pension scheme.
TPR	The Pensions Regulator is the public body that protects workplace pensions in the UK. TPRs statutory objectives are: to protect savers' benefits; to reduce the risk of calls on the Pension Protection Fund (PPF); to promote, and to improve understanding of, the good administration of work-based pension schemes; to maximise employer compliance with automatic enrolment duties; and to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pensions Act 2004 only).
VFM	Our definition of 'Value for Money' is that savers' contributions are being well invested and their savings are not being eroded by high costs and charges. Other factors also contribute to whether a saver achieves good retirement outcomes and so these should also be included in the concept of 'Value for Money'. For example, good customer service to help savers make the right decisions at the right time may make a real difference to how much they contribute and engage with their retirement needs. Good scheme governance also makes a meaningful difference to long-term outcomes.