Second Floor (206) ▪ 40 Gracechurch Street ▪ London EC3V 0BT
020 3102 6761 ▪ www.aca.org.uk

15 September 2026

vfmconsultation2026@dwp.gov.uk

Issued by email

Dear all

The Value for Money Framework: Consultation

I am writing on behalf of the Association of Consulting Actuaries in response to the above consultation.

We are encouraged to see the VFM framework moving forward. Getting this right, and avoiding unintended and damaging consequences, could improve retirement for millions of savers. In a survey of ACA's members in January 2026, in response to the question "Do you believe that the new VFM framework will lead to better financial outcomes for DC members?", some 23.5% of respondents said no. More encouragingly 40.7% said yes, albeit not for 5-10 years, with only 11.1% answering "yes, soon after launch". This highlights the challenge in setting a framework that genuinely tests aspects of value that matter for member outcomes.

Our responses to the questions are set out on the following pages. We also wish to emphasise:

- We continue to believe it would be in the interests of all stakeholders to test the framework through a "dry run" without the release of full public data, in order to assist the Government and regulators in testing the quality of data and the metrics, ahead of the full implementation. This would also deliver full regulatory scrutiny while also allowing teething problems to be ironed out and any surprising results to be considered in order to refine the metrics, if necessary.
- Decumulation arrangements and non-workplace pensions must be brought into the framework as soon as is practicable. We recognise the challenges of doing this now, but would like to see a timeline set out for delivery.
- We admire the political ambition for delivery and the importance of this policy for the benefit of savers and industry. But this ambition must be matched by government and regulatory readiness and further reflection about what businesses and trustee boards need to deliver the framework. There remain inconsistencies between the trust and contract based frameworks which creates an uneven playing field. We do not believe the current status provides sufficient regulatory certainty or safeguards for a successful delivery in the timescales set out.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In this event, please contact me at tessa.page@mercer.com.

Yours sincerely

Tess Page
Chair of DC Committee
On behalf of the Association of Consulting Actuaries Limited

Consultation questions

Chapter 2 - Scope and Thresholds

Question 1: Do you have any comments on our proposals for phasing?

We welcome the Government's decision to phase implementation. We also support the deferral in year one of automatic consequences for amber and red / "not delivering" outcomes and the use of a simplified assessment approach in the first year.

However, we do not believe that the current lead-in time is adequate, given the scope of the data that will be required for the assessments. Trustees, providers, investment managers, and administrators will need time to establish new data collection, calculation, governance and disclosure processes, particularly where this depends on administrator capability, the quality of scheme data, and / or coordination across multiple service providers.

In practice, building the systems for data feeds will commence in earnest only once there is regulatory certainty. Otherwise, there is a significant risk of wasted cost, rework and flawed assessment. This means that while some providers have been starting to prepare and many governance bodies have had initial training, there is still work to do.

To make the framework implementable with the greatest chance of success, we recommend that:

- The first data collection period should be deferred (to allow sufficient time between the regulations being finalised and systems to be developed).
- The data and assessment outcome from the first year should not be published publicly, to allow time for the Government and schemes to iron out any unexpected / erroneous results without risking loss of confidence from members and other stakeholders.

Even without automatic regulatory consequences, there is a risk that the initial / transitional year-one outputs will be treated as indicators of value, even where they are driven by data gaps and / or unresolved methodological issues. This first wave of public data will be highly scrutinised by the press and potentially reported on without the context and background necessary to interpret the information. This could undermine confidence in the framework. We therefore continue to support a non-public test run in year one.

There is also a wider risk to trust. Publishing ratings based on incomplete data or immature methodologies could undermine not only confidence in the VFM framework itself, but members' trust in their pension arrangements and the wider pensions system. Rebuilding that trust would be considerably harder than allowing sufficient time to test the framework properly before publication.

This challenge is compounded by the significant consolidation and M&A activity already taking place across the DC market. Changes of provider, platform and administration systems can fragment historical data and create additional dependencies between parties, increasing both the time required to gather the prescribed information and the risk of inconsistency or error.

We therefore recommend that the first data collection period should commence in 2028. This would provide a meaningful implementation period following regulatory certainty, allowing schemes and providers to build, test and validate the necessary data feeds and controls before they are used to determine VFM outcomes.

Question 2: Do you have any comments on our proposal to limit the first data collection period to 6-months?

We understand that limiting the first data collection period to 6 months (July 2027 – Dec 2027) for Quality of Service metrics is intended to allow time to establish systems and controls, which may require process redesign and a different attribution of service performance at arrangement level than is currently the case.

However, as noted in question 1, we do not think this time is sufficient given the short period between expected regulatory certainty (April 2027) and the collection period.

A shortened first period also creates a risk of comparing the outputs directly with the later 12-month period's output when they are not comparable. In particular, complaints data, member engagement, and transaction timeliness can be sensitive to seasonality (including for example the timing of benefit statements as well as tax year ends), one-off projects, or implementation activity.

It would be lower risk and cleaner to start data collection in 2028. This would give the second half of 2027 for providers and governance bodies to build the required systems and data feeds and to liaise with related parties such as investment managers and outsourced administrators on starting data collection in earnest in 2028.

Question 3: Do you have any concerns about our proposed exemptions and inclusions?

We broadly support the proposed exemption for EPPs, SSAS, and CDC arrangements at this stage, on the basis that these are not straightforward comparators to mainstream workplace DC defaults and often involve materially different benefits and governance arrangements.

<u>AVCs</u>

It is not clear from the draft regulation and the consultation how Additional Voluntary Contributions (AVCs) will be treated.

The consultation states that in-house AVC arrangements (a term which is not common parlance in the industry and is not fully defined) are proposed to be exempt because they typically arise from active saver choice and may have links with a related "main" scheme. That is understandable in the case of free-standing AVCs attached to an otherwise DB-only scheme, where AVCs are ancillary, member-elected, and not equivalent to a workplace DC default.

However, the draft regulations appear broader. For example, regulation 4(2) provides that "an additional voluntary contribution arrangement set up by the employer is not a VFM arrangement."

On its face, that drafting could exclude **all** employer-set-up AVC arrangements, without distinguishing between:

- Free-standing AVCs in an otherwise DB scheme, and
- AVCs within a DC or hybrid scheme, especially where those AVCs are invested and administered alongside core DC contributions.

Our understanding is that free-standing AVCs offered in connection with a scheme that is otherwise DB-only are intended to remain out of scope, even where they may have a default investment strategy and a large proportion of members using the arrangement. If that is the policy intention, it should be stated more clearly and we note that such an approach would be broadly consistent with the current DC governance position, under which AVC-only money purchase benefits in an otherwise DB scheme are carved out from certain governance requirements. We do have some concerns that this may leave "legacy" AVCs that are typical for these arrangements delivering poor value (our experience is that this is often the case, in terms of both performance and costs and charges) and would support a further review of this exemption in the future.

Where a scheme offers only DC benefits or includes a material DC section, the case for excluding AVCs is much weaker. In many DC and hybrid schemes, AVCs are offered through the same provider or platform as core DC contributions and may be invested in the same default or self-select funds, administration, member communications, charges, and service experience may be substantially the same. From the member's perspective, AVC savings form part of the same overall retirement pot-building experience. In such cases, excluding AVCs from the VFM framework could risk removing a meaningful part of member assets from disclosure and assessment and reduce comparability between schemes. We therefore think there is a strong argument that, in DC schemes and hybrid schemes, AVC arrangements should be included within VFM requirements where they are operationally or commercially integrated with the main DC offering, or where they are managed together with core DC contributions. This would avoid a two-tier system developing for AVCs.

There may be a sensible policy distinction between integrated AVCs, which should arguably be brought within scope where they form part of the main DC proposition; and stand-alone AVCs with a separate provider and separate governance structure, where exclusion may be more justifiable.

<u>Technical / Quasi Defaults</u>

We support the proposal that not every non-consented transfer should automatically create a default arrangement. In particular, where a member who previously made an active fund choice is transferred, without consent, into another arrangement that is "not materially different in investment strategy" (for example, as part of fund mapping following fund closure), the receiving arrangement should not automatically be treated as a default arrangement for VFM purposes.

However, there remains confusion between "arrangement" and "scheme" and the treatment of quasi defaults.

Trustees will need guidance to determine what is "not materially different" and how that applies to change in fund feature. For example, we think the removal of a lifestyle switching option from a self-select range resulting in members remaining in the non-lifestyle version of their selected fund would not be deemed as an arrangement with materially different investment strategy. We also note that this is not currently provided in the draft regulation.

Under the proposals, the first “as at” date for determining whether an arrangement is a Default would be 31 December 2027, and thereafter on each subsequent 31 December (though see further below). However, it is not clear in the draft Regulations how they reflect the policy intention set out in the Consultation document itself, as they do not appear to make it clear that reporting should only be in respect of the “Default Arrangements” in a “VFM Scheme”.

On timing of default determination, we understand the policy rationale for a one-off determination to provide certainty. However, the framework also contemplates some flexibility to revisit this classification. Paragraph 50 states that the determination of whether an arrangement is a quasi-default arrangement will be “a one-off decision based on data as of 31 December following the Framework coming into force.” However, paragraph 51 then says that “the proposed FCA rules and draft DWP regulations provide some flexibility… including the ability for providers to revisit the classification periodically where appropriate, such as to assess whether the arrangement continues to be treated as an in-scope legacy arrangement.” The final position needs to be clearer. Trustees and managers need to know whether classification is effectively fixed, reviewable only in limited circumstances, or expected to be reassessed periodically.

Consumer protection gaps

We remain concerned that non-workplace, retail pension schemes come into the scope of the framework. While we recognise the challenges of full alignment, in time (within the next three to five years, and ideally as soon as practical) we would like to see these schemes come into scope. They typically have more complex and expensive charging structures, weaker governance arrangements, and very varied investment strategies and performance levels. Leaving these schemes outside of the scope creates a significant gap in standards between workplace and non-workplace schemes. Transfers to non-workplace schemes may accelerate once pensions dashboards are live and therefore having weaker standards for such schemes presents a growing risk.

Question 4: Do you agree with the proposed exemptions (full and partial) for contract-based arrangements where there is a transfer or a plan to transfer? Why or why not?

In our view, exemptions are appropriate where an arrangement is genuinely in the process of winding up or transfer, and it would add little value to complete a full VFM assessment shortly before the arrangement ceases to be in scope. A proportionate exemption should help avoid unnecessary cost and duplicative governance where members are already moving to a potentially better arrangement. However, the treatment should be consistent as between contract-based and trust-based arrangements.

As currently drafted, the consultation and draft regulations appear to provide a more graduated exemption framework (full exemption when sufficiently advanced, and a partial exemption where there is a clear plan to transfer) for contract based arrangements, By contrast, for trust-based schemes the consultation appears to provide only for full exemption where the whole scheme is being wound up where trustees have reached the point of an agreement in principle to transfer members out of the arrangement.

We do not think that inconsistency is appropriate. Our preference would be to amend the final regulations so that trust-based schemes can benefit from a partial exemption equivalent to that proposed for contract-based arrangements, and guidance from TPR should set out clearly:

- The trigger conditions for that partial exemption
- The evidence required to qualify for the exemption
- Any continuing metric collection / publication obligations during the exemption period
- What will happen if the intended transfer does not proceed.

Question 5: Do you have any further comments on our proposed scope

To give confidence in the system for the whole of life, decumulation products offering traditional DC benefits (rather than CDC) must be brought into scope as soon as is practicable. With workplace schemes expected to provide default solutions from 2030, it will be essential to prevent value leakage at and through retirement.

We recommend that the final framework be supported by detailed guidance and worked examples. In particular, the final rules should deal with arrangements that move into or out of scope because of changing member numbers / M&A activity, and the treatment of schemes undergoing restructuring or benefit redesign around the relevant year end. Further examples would be helpful for multi-employer quasi-default arrangements, employer-linkage and unlinked member scenarios.

Governance bodies and providers would also welcome more information on how the VFM interacts with existing obligations, notably the Chair's Statement, charge cap governance, and the current value assessment expectations for relevant schemes. It should be clear where VFM is replacing an existing activity, adding more, or overlapping with existing requirements. This could be addressed by a review of existing governance requirements in line with VFM framework with a view to remove overlapping requirements to reduce regulatory costs (which may ultimately fall on members) and the scheme governance burden for trustees and managers, to allow a more strategic focus.

Chapter 3 - Investment performance – Backward-looking metrics (BLMs)

Question 6: Do you agree with the proposed updated methodology? Do you envisage any issues with calculating investment performance metrics on a basis that tracks members experience over time, while excluding contributions? Please specify where problems might arise, if any.

We support the return to geometric averaging, and the exclusion of contributions from the calculations.

Guidance is still needed on lifestyling and target dated fund (TDFs) vintages. In particular:

- Where lifestyling is implemented at fixed points, for example on a quarterly basis. A pragmatic approach would be to reflect the 'average' lifestyling allocation during the calendar year to calculate performance during that year. This would limit the administrative burden of calculation while still broadly reflecting member experience.

- For TDFs with multi-year cohorts (for example, 2030 - 2035), reporting performance for a member who reaches their target retirement date on 31st December of the VFM period will not necessarily represent the ‘at retirement’ position in the investment glidepath, which may result in comparability issues. As a result, TDF performance outcomes could be skewed year-on-year due to providers comparing their performance when they are in different de-risking positions. This is due to differences in how TDFs are “bucketed” (in terms of number of retirement years per fund) and the targeted maturity point for the glidepath relative to the range of years (e.g. middle or end).

We still fundamentally disagree with the inclusion of ‘employer subsidies’ in net investment performance calculations. Any spend by the employer to help improve member outcomes (e.g. high-quality third-party administration services; high-quality member communication campaigns) should not be reflected in a lower net investment performance figure being disclosed, all else equal. Net investment performance should only be net of member-borne charges. We would like to see at least consideration of the option to include the value of the employer subsidies in the cost and charge matrix (not just the narratives) as additional information provided alongside the proposed costs and charges metrics and net performance calculation.

We also have concerns that the framework could reward schemes that may be poorly diversified and poorly governed but due to the timing of the reporting period and the strength of equity markets over the last decade, their past performance numbers look excellent. As a practical example, a scheme with a minimum compliance approach may have a 100% passive equity growth strategy moving into cash at retirement. Based on the “as at” date of the metrics calculations, this may look more favourable under the VFM framework (because equity markets have performed well recently) than a top tier, well governed scheme with a diversified multi-asset strategy that includes private markets and full ESG integration. This latter strategy would be expected to be more robust in the future but is likely to have underperformed a basic, cheap, market cap equity approach dominated by US tech stocks.

Question 7: Do you agree with the removal of standalone BLM disclosures at 5YTR? Are there any issues associated with its removal

Yes. This reduces the data burden while still capturing performance across key milestones to retirement.

One consequence of this approach is that it will capture the differences in de-risking timescales between schemes during a consolidation-type phase, c.8-15 years from retirement. In practice many schemes have a distinct strategic asset allocation at this term to retirement. We view this compromise as acceptable in the wider context.

Question 8: Are you comfortable with Annualised Standard Deviation (ASD) as a risk metric for all arrangements, or should some arrangements calculate their volatility metrics differently? Please specify under what circumstances and what modified calculations you would recommend.

We view ASD as a suitable risk metric for arrangements targeting income drawdown or full encashment.

However, ASD / volatility is not a useful metric for arrangements targeting annuity-purchase. The investment strategy of these arrangements will typically involve investment in long dated UK Gilts and corporate bonds on the approach to retirement. These are volatile assets in absolute terms, but they are low risk assets relative to annuity price movements. Volatility of returns versus changes in annuity prices would be informative. The consultation gives a proxy example of "relative to the price volatility of a 15-year gilt". We do not think this would be suitable given the influence of credit spreads on annuity pricing (and the inclusion of credit in investment strategies targeting annuity purchase, but there are a range of annuity indices available which would be suitable.

Question 9: Are there any circumstances in which a scheme would not have access to the historical cost information required to apply the same chain-linking methodology to costs as done to gross performance figures, noting the more limited scope under which chain-linking is applicable?

Our experience is that providers struggle to deliver this, requiring governance bodies to arrange for separate calculations based on raw data, which is messy and often incomplete. This is particularly true for transaction costs, where reporting requirements were only introduced on a consistent basis (using the slippage cost methodology) around halfway through the past 10-year period.

Providers have gone through substantial changes over the last decade, including re-platforming, M&A activity, and share class changes when fees change. This means a full historical history is not always straightforward. The past costs are also not relevant to the future experience.

Question 10: Would there be a material reduction in burden if net performance were to be calculated first, and then chain-linking applied to it, rather than chain-linking costs in order to derive accurate net performance metrics?

Calculating net performance first would be an improvement in that it is deliverable, where the alternative may not be.

As noted above, historical arrangement-level cost data may not exist for part of the lookback period. In those cases, chain-linking a cost series is not possible. Monthly net returns are generally available because unit prices are already net of charges in most cases. However, this would not capture costs and charges deducted at member level rather than within a unitised fund, because those charges are not reflected in unit prices. Nor would it remove the need to separate transaction costs from investment charges.

Therefore, while calculating net performance first would be preferable, a more suitable approach would be to track costs and charges from the framework's first year. That would better reflect the experience members can reasonably expect now and in future, and give all schemes a consistent, clean starting point rather than require them to rebuild a history (likely using manual processes and reconstructions of the past that bring operational and accuracy risks).

Question 11: Would trustees or firms have the necessary data to retrospectively determine if an arrangement would have been classed as quasi-default up to 10 years prior, so as to apply chain-linking where necessary?

No, nor do we believe this is a valuable input to considering whether an arrangement will deliver value in the future.

Retrospective chain-linking should be limited to arrangements that were clearly recorded as defaults at the time of consolidation, which schemes can evidence from existing records and the disclosures they have made in SIPs and Chair's Statements over those periods.

Historical "main" default status is usually straightforward to establish but quasi-default status is not, because it must be calculated rather than retrieved as a recorded fact, and often relies on administration records. Recreating the test for a date up to ten years ago requires member-level employer links (for multi-employer schemes), membership status and fund / arrangement holdings as they stood at that date. Employer links for deferred members in multi-employer arrangements may have been degraded during administration-platform migrations or other consolidation activities.

Chapter 4 – Investment performance – Forward-looking metrics (FLMs)

Question 12: Do you agree with the proposed requirements for FLM disclosures and safeguards? Why or why not?

We remain supportive of FLMs and the direction of travel in this regard. FLMs allow the assessment to reflect more recent investment strategy changes and/or where BLMs/actual returns do not reflect the prevailing strategy or beliefs in the long-term return expectations. They should not, however, be able to “rescue” consistently poor-performing schemes.

FLMs are crucial to ensuring that investment in private markets including UK productive finance is not disincentivised.

Risks do however remain regarding comparability and the potential incentive to adopt optimistic assumptions and “game” the system. These risks are mitigated to a degree by the requirement to publish assumptions (allowing scrutiny) but the removal of the external-advice requirement removes what we had seen as an important safeguard. Our preference would be to bring this back with guidance on ensuring the external party has the appropriate skills, experience, and professional standards. We expect most schemes to continue seeking independent verification, and having this as part of the framework allows regulatory oversight. Its removal also creates misalignment between trust and contract schemes – our expectation is that trust-based schemes will generally continue to use their investment advisers, while contract-based firms may rely on in-house assumptions. Guidance should clarify the degree of independence expected on the contract-based side.

We do not agree with the prescribed 10-year time horizon for the return and risk assumptions, as it may not correspond to the time horizon that firms use when designing the investment strategy, specifically in modelling. Firms could use a time-varying risk premia approach which will as a result be very sensitive to time horizon, resulting in firms using a 20-year time horizon for a 30YTR point and a 10-year time horizon for the 0YTR point. As a result, it should be left to firms to use the risk and return assumptions that underpin their portfolio construction process, with their relevant time horizons and that have resulted in setting the strategic asset allocation for the strategy. The time horizons should then be disclosed.

Regarding the asset class disclosures, it is important that these align to asset classes with distinguishable risk and return characteristics. In fixed income, there is significant variation in risk and return profile, whereas as drafted there is currently only two categories for ‘government bonds’ (fixed interest and index linked) which means UK gilts could feasibly be bucketed with emerging market debt, as both are fixed interest government bonds.

Chapter 5 - Asset Allocation Disclosure

Question 13: Do you agree with our revised proposals in relation to Asset Allocation? Please provide details of any concerns you have relating to our proposals?

Asset-allocation disclosure remains disproportionate. It requires more data points than any component directly used to assess value, even though the data does not itself determine any part of the rating. The number of asset classes has increased, and consistent, accurate reporting will be difficult at launch because definitions remain unclear, templates and formats may be interpreted differently, and some data will be unavailable. Further, the categories are not consistent with those typically used when governance bodies consider their investment arrangements at a strategic level.

While we welcome the new “unknown” category for UK / non-UK splits, which addresses data availability, the consultation states that “these ‘unknown’ fields should be used only in exceptional circumstances” which raises concerns that schemes will open themselves to criticism or suspicion if they simply cannot reliably obtain this information – not least because a “UK asset” may be defined differently by different third parties such as custodians and investment managers.

Guidance is also needed on target date fund vintages. A member's position within a three- or five-year vintage can change growth-asset exposure, causing reported allocations to move between years even where the strategy is unchanged.

The rules currently do not address committed but undrawn capital, which is highly relevant to private markets. They exclude unallocated contributions and cash held for operating expenses, but not cash reserved for commitments to long-term asset funds or private-equity structures while drawdown is awaited, sometimes for a lengthy period. Without clarification, schemes building private-markets allocations will report on different bases.

While a minor point, we also consider moving to 2 decimal places (from the original 1 decimal place proposal) spurious accuracy.

Question 14: Do you have any comments on the definitions used above? In particular, do you have any comments on the definition of ‘UK-based entity’? Is there an alternative definition you would suggest?

Issuers of securities being “UK-registered” or “UK-listed” does not equate to UK economic exposure. There are many large UK-listed businesses with most of their revenue earned overseas. Businesses with substantial UK operations may be listed on an overseas exchange. The proposed disclosure will give information about London-listed exposure, not UK investment exposure.

There is also inconsistency across listed / unlisted assets. Private debt is classified by the borrower's location, private equity by where the company or partnership is registered, and infrastructure and property by physical location. Those tests focus on where the economic activity occurs; listed equity is classified by where the security trades.

While a full look-through for listed assets would give a more “accurate” answer this would be complex and we note again that asset allocation itself is not an indicator of value. A practical alternative would be to use the location of the issuer's principal operations, falling back to primary listing only where that cannot be established.

If the present definition is retained, the disclosure should be labelled clearly as measuring listing location, not “UK investment” so that the data is not misinterpreted.

We would also encourage the regulators to engage with investment managers who will typically be supplying the information for the asset allocation disclosures. Even under current DC governance obligations our member firms experience challenges obtaining asset allocations for chair’s statement purposes, which are relatively simple.

Question 15: Do you agree with our proposed definitions? In particular, do you agree with our definitions of UK assets? Are there any areas where definitions need to be tightened to ensure consistency of measurement?

We agree in principle, aside from the points made in our response above.

Chapter 6 - Costs and Charges

Question 16: Based on the new proposed calculation methodology, we would be interested in views on whether, to help mitigate the risk that there are few – or no – members within the retirement cohorts, it would be more practical to calculate the median based on the number of employers, rather than members?

The fact that there might have been few or no members within the retirement cohorts does not negate that these default investment arrangements were still being maintained for employers.

However, recognising the risk set out, calculating the median based on the number of total members in the scheme, as opposed to requiring data cuts of members within the retirement cohorts, would allow for all the relevant metrics to be calculated and still allow for meaningful comparisons.

We also wish to flag that the proposed General Levy increases would also increase costs for many schemes and providers. Because the levy is charged per member, passing it through to members has the greatest percentage impact on arrangements serving large numbers of savers with smaller pots. It falls within service costs and affects both total costs and charges at Step 1 and the service-cost comparison at Step 2. An arrangement could consequently receive a worse assessment because of an externally imposed cost that reflects neither inefficiency, a sub-scale arrangement, nor weak governance and bears most heavily on lower-paid savers. The interaction between the two regimes should be considered, and guidance should explain how such costs are treated.

Question 17: We would be interested in views on whether all multi-employer arrangements should disclose maximum, minimum and median cost metrics, in order to highlight variations in the treatment of small or large pots?

The minimum and maximum metrics have the potential to be skewed by outliers, therefore expressing costs in percentiles would be more informative.

However, even using 10th and 90th percentiles has the potential for incentivising competitive behaviours that might result in a reduced willingness from multi-employer schemes to serve small pots, small employers, or employers with a lot of low earners.

Additionally, there’s the potential for misuse or misunderstanding with existing employers, who might not have the correct background to fully assess the information.

Multi-employer arrangements who serve different segments in the market would be particularly impacted by these disclosures and wider market consumption of this information without the proper contextualisation would result in harmful competitive behaviours.

Question 18: We would be interested in views on whether member-level calculations (Option A) or the model pot size approach (Option B) would be more effective.

We consider Option B more effective. It applies employer-weighted commercial terms to model pots at defined percentiles rather than calculating charges for every member.

There is no perfect approach - model pots do not reproduce the actual distribution of member outcomes, including the particularly large effect of flat charges on small pots. That limitation is manageable because the proposals in Questions 19 and 20 would show the pot-size effect separately, and because a standardised model is more comparable across arrangements than an observed figure drawn from different member populations.

Question 19: Do you agree with our suggestion that the variable effects of complex charging structures on pots of different sizes should be disclosed separately from the effects of commercial variations of fee terms? Do you agree with our proposal for achieving this?

The two factors are distinct. If there is a proportionate way to capture them separately that might be useful – however the details in the document were not clearly set out and we would appreciate further engagement and consideration of this topic.

Question 20: How should the separate pot size effect disclosures be used in the assessment of value? Should they be based on peer-to-peer comparisons (consistent with the rest of the VFM Framework) or should trustees / IGCs carry out value assessment internal to the arrangement, to determine whether the small pot members are excessively disadvantaged compared to their fellow members with larger pots?

We would not support comparing groups of members within the same arrangement as part of this VFM framework. The VFM tests whether an arrangement delivers value relative to the market; using it to test the value of one internal group relative to another is a different exercise and would create a new duty. The outcome would also be largely predetermined, because fixed costs weigh more heavily on smaller pots in every arrangement. The assessment would identify a structural inevitability of charging and cross subsidies rather than poor value.

The underlying concern is however valid, and we would support an internal governance review.

We also note that the concern is being addressed to some extent through other measures - the charge cap limits the structures that create the extremes of this effect, while small-pots consolidation should move a substantial share of the affected pots. Creating a new legal assessment duty for a population that is about to change would not be an efficient use of industry time and money.

This issue should be revisited through a broader review of the framework when decumulation is brought into scope and small dormant pot consolidation has been implemented.

Chapter 7 - Quality of Services

Question 21: Would it be helpful if we defined STP as a fully automated process for the purposes of VFM and asked schemes to confirm:

- **What percentage of payments fall within this definition?**
- **The mean and range of all contributions falling outside this definition?**

Yes, a common definition of STP would improve consistency. This includes what ‘fully automated’ means and taking into account the additional checks that may take place for complex / large transactions. Additional quality control, which is often essential to avoid very poor member outcomes, should not be penalised.

We also support publication of STP rates alongside transaction time metrics but would caution against giving STP disproportionate weight within the assessment or treated as a proxy for service quality in its own right - it is the outcome that matters most. A high STP rate may indicate process efficiency, but it does not necessarily mean the service delivered is better, nor does a lower STP rate indicate poor quality or member outcomes.

We also question the usefulness of some transaction timing data, for example death cases, each death case is unique and can take very different lengths of time depending on the circumstances, which can be complex. In many cases, the time taken is not an administrative issue and there are broader, often sensitive, factors behind what constitutes a good outcome and experience for those impacted.

Question 22: Do you agree that the metrics for trust-based and contract-based complaints processes are now comparable? Are there any further steps that we should take?

We broadly agree that the suggested improvements achieve comparability, and that this comparability is essential. These metrics will also need contextual commentary – for example one underlying issue may have led to multiple complaints or there may have been ten different issues – this should be captured.

Question 23: Are partly upheld Financial Ombudsman decisions recorded as a separate category by firms or included within the upheld figures?

We suggest that these decisions are recorded separately to give an accurate picture and avoid overstating poor performance. We do question whether all firms will be able to provide this level of data as our experience is that they capture it differently.

Chapter 8 - Assessment Process

Question 24: Do you agree with the proposed approach to consider decumulation aims separately for the 0 YTR cohort? Why or why not?

We are pleased to see different decumulation aims taken into account in the framework and consider separate comparator groups sensible. It would not be right for a scheme to be scored poorly for investment performance because of the need to appropriately de-risk to a specific end goal – the asset portfolio for a drawdown-targeted strategy will be fundamentally different to that for an annuity-targeted strategy.

That said, a framework that compares each approach only with “itself” would not reveal where better outcomes may be possible with different benefit strategies. A key example here is R-CDC which has the potential to deliver higher retirement incomes that other decumulation solutions. The framework should therefore retain some ability to consider differences in outcomes between decumulation approaches.

Question 25: Would decumulation aims be more appropriately considered in step 3 rationalisation?

No, because:

- The data at stage 1 will be published – it is likely that the focus of commentators will be on that data and not the rationalisation. This information out of context could be misconstrued, generating public criticism of well performing schemes, loss of trust, and the consequential commercial and business damage caused.

- A provisional rating is included in step 1. If this doesn’t capture the nature of the targeted decumulation outcome, this is an incomplete basis for a judgement.

We therefore believe that decumulation aims should be considered at both Step 1 and Step 3.

Question 26: Do you agree with the decumulation aim sub-categories? Why or why not? Are they sufficiently clear, or do they need to be defined?

While we broadly agree with the proposed decumulation aim sub-categories, they are not described consistently across the consultation paper and the draft regulations.

The consultation refers to “drawdown / flexible / universal / flex-and-fix decumulation, annuities, cash and other”, whereas the draft regulations define decumulation aim more narrowly as “a drawdown pension, an annuity, cash, or any other benefit”.

It is therefore unclear whether “flexible”, “universal” and “flex-and-fix” are intended to be distinct recognised sub-categories, or whether they are all simply intended to fall within the same group. 'Flex-and-fix' is also not a settled industry term and would need a clear definition if it determines comparator groups.

Our request is therefore for consistency of terminology (rather than adding further categories as the market is still developing).

Question 27: The proposed shift in approach for the first year of the Framework moves away from a more granular assessment of value that we have consulted on previously. We welcome feedback on where stakeholders consider there to be concerns in relation to the data sets, the proposals set out in CP26/1 for the publication and use of multi-employer cohorts, and the proposed changes.

As the consultation recognises, this will materially impact the assessment process (page 89). The change is likely to be disproportionately detrimental to schemes with smaller pots compared to other types of schemes. Having more granular data would have allowed comparisons with arrangements catering for a similar membership profile as well as against the aggregate.

We also remain concerned that survivorship bias means the benchmark is likely to rise over time. Arrangements deemed poorer value are intended to leave the comparator group. As they do, the average of those remaining rises, more arrangements fall below it and the effect compounds. This becomes a significant issue from year 3, when only arrangements rated as value in the preceding year remain in the comparator group. Every amber-rated arrangement then drops out at once, creating a discrete upward step in the benchmark.

Question 28: Does the second factor for consideration proposed for weighting BLMs and FLMs risk excessive use of FLMs? If so, should we restrict this factor more explicitly? For example, to significant investments in assets affected by 'J-curves'?

No. It is important that the judgement about performance is made in a similar basis to how real decisions about long term investments are made. This is rarely backward looking but is focused on the future prognosis of the investment strategy.

The second factor allows the framework to properly reflect arrangements where past returns have limited bearing on future potential, due to changes in strategy including but not limited to the addition of private markets. Restricting the factor to J-curve assets alone would remove the only lever for changes in strategy to be assessed realistically. Similarly, where assessment periods do not align with the economic life of the assets, trustees may face pressure to favour assets whose costs and returns emerge within the framework's measurement period rather than those expected to deliver the best (very) long-term member outcomes. This risks creating incentives that are inconsistent with both member outcomes and wider productive-finance objectives.

Given the assumptions must be published (and we note again our preference for external advice to be taken on these), we do not consider it likely that significant gaming will occur, as providers can be held to account very publicly. Even if they were not published but made available to the regulators, this would mean they could be scrutinised.

To be clear, we do not believe that FLMs should be able to "rescue" consistently poor-performing schemes, rather there should be proper consideration of both the results delivered and the future expectations, noting that arrangements may have changed their investment strategy significantly.

Question 29: Do you agree with the simplified approached proposed for multi employer arrangements for year 1? Why or why not?

We support the simplified approach for multi-employer arrangements in Year 1. However, we remain concerned around the implications of the timing in that data collected but neither disclosed nor used in Year 1 will first determine outcomes in Year 2, the first cycle with consequences. That sequencing is the reverse of what is needed and should be addressed before, not during, the second cycle.

Question 30: Do you agree with the simplified approach proposed for single employer arrangements for year 1? Why or why not?

It is less that single employer arrangements would have a minimum and maximum fee levels, though some may apply different charges for different member categories due to benefit histories and overall scheme design factors (for example, charges may differ pre and post a certain joining date linked to DB benefit change projects).

More broadly, the approach could force well-run single-employer trusts from the market. Such arrangements are designed for a unique, known membership, and they often sit within a more holistic benefit package which may include legacy DB benefits and links between DB and DC sections. The appropriate risk profile and target market may differ substantially from those of commercial providers. Limiting the comparator group to arrangements open to new employers also distorts the position of large single-employer schemes that deliver value through innovative investment (this is paradoxically increasingly easier to do in the single employer trust space, free from commercial pressures). They should either be included in the comparator group or assessed against an additional reference set.

Question 31: Would the simplified approach be appropriate if it was applied from year 2/on an ongoing basis, for all in-scope arrangements completing assessments, with consequences attached? In particular, we are interested in feedback in how it may impact the assessment outcomes of SETs, bespoke and legacy arrangements.

We do not agree with the proposals for the calculations for reasons outlined in our answer to question 18. It is likely that more informed value for money comparisons can be made if more information of different fee levels in arrangements is made available for comparison – but these must be on a fair basis. We would not be in favour of consequences on a simplified approach.

Question 32: Do you agree with the proposal for multi-employer arrangement consideration of minimum, median and maximum? Why or why not?

Yes. We previously supported disclosing the maximum, median, and minimum levels in order to provide a meaningful comparison without significantly increasing complexity and data points, and this remains our preference.

It would though help to distinguish data collected for regulatory purposes from metrics used in assessments or those published publicly.

Chapter 9 – Actions for arrangements offering poor value

Question 33: Do you agree with the proposed actions for not value arrangements? Why or why not?

We support the principle that arrangements delivering poor value should face regulatory consequences. However, the proposed framework needs further refinement and clarity, and a number of fundamental concerns are yet to be addressed. This means that the risk of unintended consequences is unnecessarily high.

Amber and red

We support the concept that where a scheme has been appropriately rated as amber or red, there should be consequences. However, the successful translation of this concept into practice, one which delivers the intended consequences, relies on confidence that the full suite of metrics and assessment process “works”, ensures appropriate level of comparability, and that the outcomes of the process are fair and equally applicable. We still think there are risks that schemes that are managed on a minimum-compliance basis could look more favourable than well-governed, top tier schemes (this is particularly in the single employer trust world), because of the end point timing of metrics and insufficient capture of wider benefits to members in better arrangements.

Our concerns are note elsewhere but span:

- Some of the metrics (in particular those relating to engagement, and the importance given to past performance that, as the financial services industry has spent years trying to communicate, is not a good indicator of future experience)
- Process (the shift to the competitive market comparator group, the publication of raw data).
- The potential for teething problems and anomalies in the interpretation of data, the impact of comparisons not being made on a fair basis, and the response of the media and other commentators and the impact this may have on trust in the system.

These concerns are heightened by the new draft regulatory power for trust-based schemes which would permit TPR, where it considers that trustees or managers have incorrectly assigned a rating, to substitute its own rating. This power increases the importance of ensuring that the underlying metrics and methodology is clear, objective, well-tested and consistently applicable. We also note that TPR does not have a competition objective.

By contrast, the FCA does not appear to have an equivalent express power to override or substitute a rating in the contract-based market. Instead, it appears to rely on its existing oversight of the firm’s response to the IGC assessment through the COBS 19.5 framework, Consumer Duty and fair value obligations, and broader FSMA powers. These different approaches are not, in our view, justified.

To address these risks, the following steps would create a more robust framework:

- A dry run, with regulator oversight, before public disclosures and consequences
- Focused engagement on specific metrics with relevant parties
- Further work to align the trust and contract-based requirements.

Transfers

The proposals rely on there being another scheme willing and able to accept the transfer. There is no counterpart obligation, other than perhaps on the part of Nest and its broader statutory obligation and this would assume that Nest would always be better VFM than other schemes, which cannot be presumed as part of this framework – the framework should be applied in a fair and consistent manner. There also appears to be an assumption that arrangements which are open to new employers are open to all employers. In practice, providers are selective about their target markets. Many providers will not take on smaller employers, or those with mainly lower earners.

Chapter 10 - Disclosure Requirements

Question 34: Do you anticipate that a shorter initial data collection period would create any practical or analytical challenges, and if so, how might these be mitigated?

We do not think that the half year approach is as helpful in practice as it might sound in concept.

- For some metrics, the half year period for reporting in year one will mean different calculations and data gathering will have to be designed and implemented for the transitional year one, than almost immediately for the full-year approach in year two. This creates additional burdens and operational issues and risks diverting effort away from preparing for the full year delivery.
- A 31 March *submission* deadline (for data to 31 December) does not align with the availability of full data sets. A four-month lag is common from investment managers, six months is not unusual and private market data often takes longer. Data received in early March leaves little or no time for schemes to review it and raise queries before submission, increasing the risk of basic errors in the information on which the VFM framework depends. The current Chair's Statement requirements have a 7-month submission deadline, and this is much lighter on data than the new framework.
- As noted earlier, providers and schemes need regulatory confirmation on the metrics, their calculation methodologies, and definitions well in advance - to then plan and deliver accurate, tested and validated data flow against what are very specific and currently non-standard metrics. These have to be ready ahead of the start of the reporting period, not just at the point of reporting. The DWP Roadmap indicates that final regulations and code will not be ready until during quarter 1 2027, which gives very little time.

This could be addressed easily by moving the deadline back. June in Year 1, with the first assessment at the end of December, would still allow delivery in 2028, give schemes time to validate their data and give regulators more than one day to calculate comparator metrics.

Question 35: Do you agree to proceed with data publication in November given the risks identified? How likely are these risks to emerge and what steps could we take to address them effectively?

If the raw data must be published, we support a November rather than a March / April publication date.

The risks relating to publication of the data in November are lower and easier to mitigate. A November timing ensures this is after the trustees have made the assessment and published their reports which allows for trustee consideration and response to the data, and provision of contextualisation in the assessment report.

But we would suggest the raw data should not be published. We set out our position on the publication of data in our response to previous consultations and in earlier questions. The assessment reports are the appropriate form of public facing material – the raw data should be for the assessors only, to use to produce the report.

The policy position has shifted over time. Initially the intent was that the material to be published for public consumption was the RAG rating and the assessment by the scheme – because this also includes the contextualisation information and the trustee considerations about the rating. This was a major part of the reassurance given by regulators in response to concerns we raised about the unfairness of some of the metrics, how some of the metrics fit more naturally for some scheme types than others, and potential misinterpretation by commentators.

In the earlier government and regulator proposals the rationale for publishing the raw data as well as the assessment reports and RAG was only in order to make it available for those making the assessment, but this need has now been addressed with the TPR portal proposal.

The raw data without context, whenever it is published, does not tell the whole story and will likely lead to less than holistic commentary leading to suboptimal outcomes for employers and members and less trust in the system. There will likely be significant market and commercial impacts based on less in-depth or analytical thinking, and employers will face unhelpful business distractions in the event they are targeted in negative reporting. Our member firms have heard concerns from trustees and senior business leaders about the implications of the proposals.

The risk of data leaks between April and November are also real and cannot be fully mitigated.

It would also help to clearly distinguish data collected for regulatory purposes from metrics used in assessments or those published publicly.