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vfmconsultationpaper@fca.org.uk and VFMFramework@tpr.gov.uk
Issued by email

Dear all

The Value for Money Framework – Consultation Response

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

The new VFM framework will shape the DC pensions world at a critical juncture. Getting it 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 consultation questions are set out on the following pages. We also wish to highlight the following points:

- We believe it would be in the interests of all stakeholders to test the framework through a "dry run" in private (rather than public data), akin to a thematic review, in order to assist the FCA, TPR and the Government in testing the metrics, and to inform a cost / benefit analysis ahead of the full implementation. This would also allow teething problems to be ironed out and any surprising results to be considered in order to refine the metrics, if necessary.
- Decumulation arrangements must be brought into the framework as soon as is practicable.
- The amount of work involved in collating data, calculating metrics, and discussing the results (for governance bodies and their advisers) should not be underestimated. As an annual exercise, it will take up a substantial part of a scheme year. We would encourage consideration of the breadth and frequency of the regime and whether all metrics / assessments are need from all every year.
- We welcome the new proposal of a four-tier rating system. This will give clearer distinctions between top performers and those requiring intervention, without risking a cliff edge situation. There is some nuance here in how the ratings will be defined, decided, and used, which we cover later.
- Consideration should be given to the format of the annual reports summarising the VFM results. Report authors may wish to provide a concise summary of the context behind the rating.

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

APPENDIX

Consultation questions

Question 1: Do you agree with the application and scope of our proposed regime as set out above? If not, what are the challenges for firms or unintended consequences of this approach?

Yes. We agree with the proposed application and scope of the regime and do not identify any material issues or unintended consequences arising from the approach set out.

Scope and threshold

Question 1: Do you have any comments on the proposed scope? Do you believe any further exemptions should be considered?

We are broadly comfortable with the scope for workplace pension arrangements.

However, in time (within the next five years, and ideally as soon as practical) we would like to see non-workplace, retail pension schemes come into the scope of the framework. These arrangements are more likely to have complex and more 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.

Further, to give confidence in the system for the whole of life, decumulation products must be brought into scope as soon as is practicable. With workplace schemes expected to provide default decumulation solutions in the future, it will be essential to prevent value leakage at and through retirement.

We would also like clarification on the following points:

- Our expectation is that schemes solely offering AVCs are out of scope.
- Schemes with one year or under of operation should be excluded on the basis that results are not expected to be meaningful.
- Our expectation is that legacy defaults are captured at the earliest opportunity as these can contain large assets under management.

Question 2: Do you have any comments on our proposals in relation to unlinked members? Do you have any preference with regard to the options suggested? Are there alternative options you would like to suggest?

We believe it is appropriate to include unlinked members. On balance, we prefer method (a) on the grounds that it offers the potential for more members overall to be within the scope of the VFM framework.

Method (b) risks a potential cliff-edge situation whereby in cases where unlinked members are spread across arrangements under the same scheme, selecting just one of these as the default arrangement for assessment would miss areas of potential poor value.

Question 3: We do not think this situation would arise for trust-based schemes. Do you agree with this understanding?

For trust-based arrangements, typically the vast majority of members should be able to be linked to an employer, the only main exception being where there is incomplete or unavailable data. This issue could arise in schemes who undertake consolidation of smaller schemes where data quality is poor, perhaps from legacy arrangements including older AVC policies. Our suggestion is to monitor this in the first few years of reporting to assess the position. Where such members cannot be linked, consideration could also be given to applying the same requirements to trust-based arrangements as those applicable to contract-based arrangements.

Question 4: Do you agree with this proposal for transferred members? Why or why not?

We agree that members should be protected where benefits are transferred without their consent, as this enhances the overall comprehensiveness of the VFM framework.

Question 5: Do you agree with our proposed exemptions for contract-based arrangements? Why or why not?

We agree that it would not be sensible to require that a scheme that has already agreed to transfer members to another arrangement (meeting the necessary best interests test) to carry out a VFM assessment on the existing (soon to be obsolete) scheme.

We also support the proposal that any exemption from the VFM requirements should fall away if the transfer plans are withdrawn or where no progress has been made by the next yearly cycle. The FCA should consider how “no progress” is defined and tested, as projects can take time. A sharper definition with a degree of flexibility (for example, to allow for reasonable delays due to market conditions, data issues, etc) would avoid any confusion about where an exemption could fall away.

Investment Performance – backward-looking metrics

Question 6: Do you agree with the proposal to use arithmetic averaging instead of geometric averaging? Why or why not?

No.

Firstly, we question the relevance of focusing on the “average experience of multiple cohorts of members as they pass through specific year to retirement points”. This focuses on a notional return based on members as they reach a particular point to retirement that is not actually experienced by anyone. The glidepath is designed to optimise member outcomes across the entirety of a member’s saving journey, not to optimise performance at specific points in isolation.

Secondly, we prefer the use of geometric averaging due to the compounding effect of returns being better captured under this approach, and the fact that this approach would align with existing reporting frameworks (e.g. within the Chair’s Statement, factsheets, etc). If the decision is to adopt arithmetic averaging, we would strongly encourage private disclosures to the regulators and not to members / the wider public, since performance calculated on this basis would differ compared to investment performance that is normally disclosed by other investment products. Having two approaches will be confusing and lead to inappropriate comparisons being made.

Question 7: Do you agree with our proposed disclosures to facilitate comparisons between multi-employer arrangements with variable charges? Why or why not?

We agree with disclosing the maximum, median, and minimum levels in order to provide a meaningful comparison without significantly increasing complexity and data points.

We also agree with disclosing the median charge based on the number of members, in order to avoid skewing fees towards those paid for the largest pots.

Question 8: Do you agree with our suggested approach for mapping the performance of TDFs with multi-year cohorts for the purposes of deriving the relevant performance data?

No. There are substantial differences in the design of TDFs, particularly regarding the terms / buckets of the vintage years available by each provider and the time point relative to that vintage when they are fully de-risked. This method results in different providers comparing their performance when they are in different de-risking positions.

For TDFs with multi-year cohorts rather than single vintage years, this method will result in performance differences that will be a result of the different relative glidepath positions (which will vary each year), as opposed to different glidepath designs or performance levels. As a result, the value of comparative analysis for the 5 year-to-retirement cohort, or indeed any cohort that is mid-de-risking, is going to be lower than the objectively definable growth phase and at-retirement phases. We believe that focussing on the actual member experience will be the more relevant comparison.

Question 9: Do you agree with our proposed risk metrics? Why or why not?

The proposed risk metrics are reasonable and should not be overly burdensome to calculate.

Question 10: In light of the role that total costs and charges play in the calculation of net performance, we would be interested in views on whether chain-linking should be applied to costs and charges or if there are alternative suggestions that achieve more accurate reporting of net performance?

Governance bodies have greater control over costs and charges than is the case for investment performance. This means that changes to cost levels are experienced by members immediately and can reasonably be expected to continue to experience these new costs and charges. Therefore, chain-linking past costs and charges (which are no longer relevant) is less appropriate. Implementing the chain-linking approach would also be complex to achieve for vertically integrated schemes.

As an alternative we favour tracking costs and charges from the first year of the VFM framework. This also means that schemes that have recently moved to materially lower costs and charges are not penalised by historical arrangements that no longer apply to any members.

Question 11: Do you agree with our proposals for chain-linking? Why or why not?

We are comfortable with the proposals. In principle, chain-linking has the benefit that providers will not be able to "reset the clock" at will by transferring members to a new arrangement that may not be particularly different from the last (potentially underperforming) one. It also offers the potential to track very long-term performance which we support, when accompanied by suitable qualitative disclosures on where changes have been made, to provide context around how past performance may not reflect future expectations.

Question 12: Do you agree with our proposals relating to legacy arrangements? Why or why not?

We support not exempting legacy arrangements.

In respect of with-profits funds, we support the use of underlying investment returns as the basis for investment metric calculations, while also disclosing any guaranteed returns in the features table. We agree that trying to add additional layers of calculations to capture smoothing and guarantees would be complex given the breadth of with-profit funds and their characteristics.

The following challenges will need to be addressed in the final regulations and guidance:

- Charging structures for with-profits funds are opaque. As consultants, we struggle to obtain consistent and transparent information from providers. For the framework to be a success, clear cost and charges data will need to be provided by all providers, in a consistent format.
- In our experience, with-profits providers do not typically provide monthly or even quarterly underlying investment returns, only annual. This will need to change at an industry level to allow the calculation of some of the metrics. With-profits providers will need to be engaged and given clear guidance.

Investment Performance – forward-looking metrics

Question 13: Do you agree with the proposed FLM disclosures and the use of own assumptions? Why or why not?

We agree with the use of the provider's own assumptions for FLM disclosures, as these will align with the inputs used by governing bodies to design their investment strategies, and will allow for nuance within asset class allocations (e.g. the risk profile of the specific private markets held). Further, we note that detailed disclosures will be required in order to enable comparisons (which will still be limited), specifically in terms of inflation assumptions, the modelling basis, etc.

A trial period (we would suggest a three year thematic review) will however be essential to allow TPR, the FCA, and other stakeholders to test how FLMs are working and how best to refine the guardrails. There are significant risks to be managed, and it this element of the framework does not "work", confidence in the system could be damaged.

Question 14: Do you agree with the proposed requirement to obtain and consider external advice? Why or why not?

We agree with the proposed requirement to obtain external advice on FLMs. However, the requirement for the external third party to have appropriate skills and experience should be further defined, as well as a way for any external third party involved to demonstrate these skills to the regulator. This role would be expected to be carried out by the existing appointed investment advisers to IGCs and Trustees, but clarity on the expectations would be helpful for all parties.

Question 15: Are the proposed guardrails sufficient to reduce the risk of gaming and ensure the FLMs disclosed are credible for use in the assessment process? If not, what alternatives/ additions would you propose?

We are comfortable with the guardrails.

There is naturally a risk to be managed around the significance of FLMs to the overall assessment. Specifically, providers might look to optimise investment strategies to maximise the future projections, based on herding around assumptions, as opposed to optimising for member outcomes, based on individual in-house views on asset class returns and risks, which are not always captured neatly in modelling assumptions at a single point in time. See our later answers regarding the weighting of these factors within the overall assessment.

Disclosure of the assumptions used and the asset allocations used in the modelling will be essential to provide context and scrutiny.

TPR and FCA oversight of the assumptions behind the FLMs would also help to address risks, especially for the comparator group, and where FLMs have a significant role in the assessment.

Asset allocation disclosures

Question 16: Do you foresee any difficulties in reporting this data? If yes, what specifically?

No material difficulties once the initial definitions, templates and standards are embedded and understood by all stakeholders. However, it is imperative that asset managers are made aware directly by the regulators, with clear expectations set. In gathering information for existing asset allocation disclosures for Chair's Statements we are repeatedly sent poor quality data from some investment managers – for example the manager may send PPF asset allocation information intended for DB schemes even when we have been clear in requesting DC disclosures in line with regulatory guidance, or may simply send a basic factsheet and request that the consultants decide which categories should be used.

We would expect asset allocations for chair statements to be removed (or for the same format / categories to be adopted) to avoid duplication of work.

Cost and charges

Question 17: Do you agree with our proposals for disclosing employer subsidies? Why or why not?

Given the focus of this framework is the value received by the member, in terms of the benefits and costs they experience, our preferred approach is that the assessment should be based on the charges paid by the member, not the charges paid by the employer as a subsidy to that cost.

The employer subsidy is a benefit of the scheme for the member, and the value of that subsidy should be reflected in the overall value assessment. Including costs that are not paid by the member in the assessment – for example as the comparison to costs members pay in other schemes, and the way that net performance is calculated - would exclude the beneficial value of the subsidy, penalise these schemes, and distort the comparison.

We believe that the employer subsidy should be disclosed in the features table only. Given the nature of this framework, we believe that those which are the focus of quantitative comparisons should focus on what is borne by the member only.

To take a hypothetical example – for a scheme which charges 0.75% in total, with 0.40% being paid by the employer, and 0.35% by the member – the figures disclosed and used for the charges comparison and calculation of net investment performance should be 0.35%. The employer subsidy of 0.40% should be declared in the features table.

We are not entirely clear whether this is the approach that is outlined in the consultation – paragraph 6.14 states 'Firms should disclose the total costs and charges paid by both members and their employers' and also 'However, they will not form part of the assessment outcome itself'.

Our preferred approach that we outline above would also fit well with Chapter 8 proposals, whereby the comparator figure calculations include only those arrangements open to new employers and do not include bespoke or single employer trusts (SET). That would mean that:

- SETs with employer subsidies will potentially score well against the comparator group/schemes without employer subsidies - reflecting the value the members receive.
- The charges captured in the metrics / net performance and assessment will not be directly comparable across the landscape. For example a trustee with no employer subsidy will not be able to look at the charges /performance net of charges figures or service performance in a high value scheme with subsidies and hold itself to account against those figures, given the full costs are not disclosed in the same way.
- Multi-employer schemes, including master trusts where employer subsidies are rarer and where those schemes serve smaller employers who are less able to afford subsidising the pension scheme, will not be compared or assessed against the outcome achieved where the employer has subsided the costs.

Finally, we are not fully clear on how 'optional' employer subsidies will be captured. The definition being proposed is 'an employer subsidy consists of the employer paying part of the charge that would otherwise be charged to the member.' This does not capture everything. For example, circumstances when an employer is paying for a service such as advice related to the scheme, but only a small proportion of members use it. This should at least be captured as a valuable benefit.

Question 18: We are aware that profit share and with-profits distribution can follow some time after the performance to which they relate. We have considered whether there would be benefit in apportionment, linking the share/ distribution to the period to which it relates. We would be interested in views on this.

Given the uncertainty and variability in timing of such profit sharing and distribution, we would support reflecting these as far back as available in returns data at the time of schemes submitting VFM assessment information, and specifying detail in the features table as to which year(s) returns data reflect such profit sharing and distribution.

Quality of services

Question 19: We would like to include 'Payments out as retirement income' as a key transaction. We are aware that some individuals approaching retirement may request payment at a future date, hence our request for data based on requests for immediate payment. We would be interested in views on whether our proposed measure above would provide a reasonable measure.

We agree that payment out as a retirement income should form a key transaction, provided it is more clearly defined (for example what is 'immediate payment' - 3 months, 6 months etc). This payment type could include income drawdown payments so the metrics would have to be clear, is the intention to include all withdrawals or just the first payment request made by the member? Drawdown payment frequencies and amounts may change over time and reported statistics will likely fluctuate. However, if this is a measure purely to assess whether core financial transactions are made promptly and are accurate the above may not be an issue.

Providers will likely need to carry out development work on how service level reports are presented, if they are required to break down the types of payments out that are made for example drawdown payments, transfers out, Pension Commencement Lump Sum etc. It is reasonable to request further detail of payment types within providers' reporting, on a consistent basis. Transferring schemes will not necessarily have the information to record what the end destination is and what the funds are ultimately going to be used for.

We welcome the changes to the definitions being proposed, as stated, providers and trustees only have control over their own arrangements and efficacy of administration processes.

Question 20: We would be interested in views on whether the payment of Pension Commencement Lump Sum should be a transaction included in this section.

This is a valid metric for measuring promptness and accuracy but could also be (along with other payment out metrics) a useful indicator of member behaviour and engagement.

Question 21: Do you have any comments about our proposal to collect complaints data at the level at which the same service is experienced? Do you agree with our proposed definition of a platform?

We agree that collection of complaints data of in-scope arrangements at platform level is more appropriate for assessment and comparison purposes

We also believe that the percentage based on members on the platform is the correct measure for comparison purposes and that the number of members is irrelevant, and should be removed from the required metrics, if the number of members on the platform is captured elsewhere.

We would suggest consideration of whether the data is more meaningful if split between actively contributing members and deferred members.

Question 22: We would be interested in views on whether our proposed approach to negative perception metrics will provide relevant data to indicate saver concerns.

Inevitably, negative feedback suffers from selection bias. It is often the people that are frustrated that are sufficiently motivated to respond in any way. This means the sample is not random. This is amplified in workplace DC pension schemes because engagement is low, financial anxiety can be high, and moments of interaction can often coincide with stressful life stages (retirement, bereavement, redundancy, or divorce).

While this applies to all schemes and therefore the metrics will be like-for-like, different types of schemes may receive a higher number of complaints. Notably, mass AE schemes receive more complaints about members being auto-enrolled and not understanding the policy, for example, assertions that schemes have 'taken' money when correct contributions are taken as part of AE, and cannot be withdrawn by the member. This is not necessarily a reflection of poor service. Certain types of scheme will have higher/lower levels of typical member understanding of pensions.

Therefore, a better measure to assess complaints might be whether a complaint is upheld and potential escalations. This would provide a more level playing field which could also take into account that many schemes receive complaints that relate to the scheme and employer undertaking legal requirements, and carrying out appropriate checks around transfers.

Question 23: Does our revised approach to engagement metrics seem appropriate? Additionally, we would be grateful if you could provide us with an explanation of what surveys/data gathering exercises you currently undertake for member engagement. If you would be willing to share a copy of your member engagement survey(s) with us, please tell us.

We see the main challenge as being the fact that different schemes serve different market segments which reflect different member and client types which lead to different levels of engagement. This means that for certain metrics scores will tend to be lower, regardless of the value of the scheme.

We would also stress that "engagement" in and of itself may not be a good outcome. Many current DC savers are there as a result of a government policy, AE, which relies on inertia. The success of AE is built on this inertia, where the member doesn't have to take personal action to have a positive savings outcome - so in some instances no engagement can be the right approach. A good pension scheme can deliver great outcomes whether a member engages or not. The framework should be assessing the aspects of the schemes which are relevant to ensuring that where there is no engagement, the scheme is offering VFM. There is a risk that engagement and behavioural measures not only assess outcomes but also are a reflection of the scheme membership profiles. Good communications do not always influence member engagement.

This does not mean schemes are not or should not make efforts around specific engagement objectives. But it is a step too far, and too early in the maturity of the system, to judge a scheme's value on the basis of engagement, and build a regulatory framework that directly (or indirectly through the consequent market effect) determines whether a scheme may continue on this basis.

Many schemes will have metrics looking at access/log-ins to apps and use of services offered etc – and will also be undertaking surveys and research to support product development and engagement approaches This is not the same as metrics for testing value for money.
Some parts of the industry serving wealthier individuals have sophisticated engagement approaches and achieve engagement that supports their members in increasing contributions (including bonus sacrifice) and taking advice services. Whether members can afford to take up those options is not an assessment of value for money of the scheme – it is a measure of the wealth and financial literacy of the individual.

We therefore agree with the approach to take more time in developing these metrics to ensure they are appropriate. Factors we would like to see consider in the future consultation include:

- Member profiles – age and affordability, employer industry, pot size etc are all critical elements impacting engagement and the appropriateness, type and timing of engagement.
- No engagement can be good – for some members the most critical thing will be staying in the scheme and the investment performance net of charges of the default fund. The focus on engagement metrics needs to be very pertinent and weighted accordingly.
- Channel and content are critical – this needs to be appropriate for the audience and may differ by scheme type/market segment.
- Over-engagement risks. For example, we are aware of schemes in the financial services industry where members trade investments and check their portfolio regularly, such that in at least one

case the scheme has had to put limits on this facility owing to concerns that members were trying to "day trade" a long term investment vehicle.

- Cost vs benefit – where there is significant cost, the metrics should be picking up greater engagement – research is needed to test the propensity for engagement and potential outcomes in terms of behavioural responses if metrics are to be required.

Question 24: We welcome feedback on our revised proposals for engagement metrics and how that engagement generates specific outcomes.

Please refer to our response to question 23.

Assessment Process

Question 25: Do you agree with our proposal for comparisons against a commercial market comparator group and the criteria for it? Why or why not?

While we agree in principle, we have concerns at a practical level:

- Considerations around the commercial market comparator group and how it will operate. It is not clear in the consultation how many schemes will be selected for this group e.g. is it all schemes that meet the criteria in paragraph 8.9 or a sub-set?
- Further, if taking an average of that group, by definition half of the group will not achieve the median. This means that more and more schemes will be seen as poor value over time and the benchmark becomes an ever-rising herded group and there will be a decreasing number of open multi-employer schemes. We question whether that is the intention.
- It may also make sense to have different comparator groups for different types of schemes so that comparisons are on a more equal basis. This is because some schemes operate in very different segments of the market and different subsidy structures apply in some cases. Notably, the impact may be significant for schemes which serve lower earning savers, those with non-traditional working patterns, and smaller employers who were previously un-served before new providers stepped in with a market solution. Certain market providers (who may offer great VFM to the market they serve) do not accept business from these smaller schemes as their focus is on a different demographic.
- There are a number of risks around stifling innovation and creating herding.

Question 26: Do you agree with our proposed approach to comparisons for different types of arrangements? Why or why not?

The proposed approach is sensible as it is attempting to compare more like-for-like between schemes.

However, it does not address how the service metrics should be compared between different schemes. Further explanation is needed here on the approach and justification – especially given that the investment net performance has deducted service charges (net of costs and charges) but performance under quality of service can only be used to downgrade an assessment.

It also does not take into account the benefit of the employer subsidy in the single employer assessment. This could lead to single employers cutting services to members to reduce their own costs, which are captured in the framework, but members are not paying.

Question 27: Do you agree with the approach for weighting of BLMs and FLMs? Why or why not?

We welcome the inclusion of FLM and recognise the difficulties in getting these metrics and the assessment process right.

The approach to weighting appears useful in concept, and allows schemes to reflect the significance of changes to the future investment strategy.

However, it might be that there are other external market, economic or political factors that could mean the BLM might perform better into the future, so there may be some reason to give some (but less) weight to FLM even where there is not recent significant change to the investment strategy.

In addition, the nature of the assets held may also justify giving some weight to FLM even where this is not a new investment strategy – for example where J curve performance may be anticipated,

We think these factors have been considered in the table under para 8.27.

Question 28: Do you have any feedback on the proposed approach in option 1? What improvements or changes would you suggest?

It makes sense for governance bodies to consider and weight FLMs based on their specific circumstances. For example, if the investment strategy has recently been substantially overhauled, involving big changes to asset allocation and risk levels, then the BLM is unlikely to provide an accurate representation of how the investments will perform in the future. The table noted under 8.27 is helpful and it would be important for schemes to be transparent in terms of which option they have used and why - and how it compares to the previous year.

It is beneficial to allow trustees and IGCs to assess in the round the performance of the scheme and to come to an assessment of performance.

There could be differences between trustees and IGCs as to the definition of 'materially worse' which might impact on the number of schemes/arrangements assigning themselves as value, or differentiating between the proposed light and dark green. It may be helpful to have examples of what or would not be considered 'materially worse' performance.

Question 29: Do you agree with the proposal for the composite metric in option 2? Why or why not? Is it helpful for considering value? If so, is equal weighting appropriate for the composite metric or what alternatives would you suggest?

Equal weighting of the FLM/BLMs may be too simplistic. As stated above, there may be times where FLMs should be higher or lower weighted depending on changes in the investment strategy of the scheme/arrangement.

It also adds further data metrics into an already complex picture and do not necessarily add further value to the framework.

Question 30: Do you agree with the proposed composite comparison figure in option 2? If not, what do you think the composite metric or the FLMs should be compared against?

As above, we do not believe that equal weighting should be given to BLMs and FLMs and therefore we do not agree the proposed comparison figure.

We also do not support the use of a reference portfolio or average LCTMA figure for creating a comparison figure - as this is likely to exacerbate the existing risk of herding. Use of a range of LTCMAs also seems to be overly complex – given that this approach would not address the various risks outlined we do not believe this is worth pursuing,

More importantly, the fact that each scheme will determine their own FLM assumptions (which we agree with) will inevitably render FLM comparisons limited. It is more appropriate to follow an approach such as option 1, where the FLMs are used to form conclusions, rather than incorporate FLMs into a quantitative metric which will not be comparable across schemes.

Question 31: Do you have any feedback on the proposed approach in option 2? What improvements or changes would you suggest?

We do not agree the approach in option 2 – please see answers to q 29 and 30 above

Question 32: Do you agree with the proposed guardrails? Do you believe other guardrails would be appropriate?

The guardrails proposed of explaining in the assessment how FLMs have been used to reach an outcome and decreasing weights to be given FLMs over time seem appropriate. Taken also alongside the requirement to take third party advice on the assumptions, and the weighting under option 1, and commitment to review, we believe this approach provides sufficient guardrails.

Question 33: What is your preferred proposed approach to step 1: option 1 or 2? Why?

Option 1 would be preferable as it allows for appropriate flexibility regarding the weighting. It also reflects the actual investment strategy and portfolio, as well as the trustees' beliefs based on advised assumptions, about the future performance of the scheme – factors which have been taken into account in trustee decisions about the investment strategy. Option 2 adds another level of data processing without adding much additional value, and potentially moves the metrics and therefore assessments a step away from the actual scheme investment decision making processes.

Question 34: Do you agree with the proposed use of FLMs in step 1, alongside BLMs? Or should FLMs be considered in a different way in the assessment process? 81 Financial Conduct Authority l The Pensions Regulator

We support the inclusion of FLMs in step 1 of the assessment process.

This is because it is important that investment performance is considered in the round when assessing value so that schemes are not penalised for the inclusion of private market assets where costs will initially be higher in the short term. It is also important that the assessment is an assessment of the outcome of the trustee decision making process – the actual scheme investment strategy, and the effect of future changes.

Question 35: Do you agree with the proposed approach to considering service value in step 2? Why or why not?

In the short term ahead of wider service metrics being considered in the Framework, we understand why the proposal has altered – and that quality of services will have only a downgrading and not an up-lifting factor when assessing whether a scheme/arrangement is 'value' or 'not value'.

However, some of these metrics are still at risk of providing a lower score for some schemes on the basis of their demographics, not the value of the scheme.

For example on engagement and the death benefit nomination metric, schemes which serve younger and less well-off members are likely to score lower on this metric than schemes with older cohorts and higher pot sizes. This is not a failure of the scheme.

More generally, the use of engagement metrics to potentially drive the commercial viability of schemes created to serve the AE market (built by government to rely on inertia) is concerning. The regulatory consequence of falling below the average score across the whole market is not recognising the commonly understood challenges of engagement, nor the research (including that by the FCA) of traits indicating propensity to engage. Nor does it recognise the shape of the market. The proposals – the combination of the metrics, assessment process, scoring system and regulatory response – combine to put schemes serving lower earning AE members at a commercial and competitive disadvantage. Schemes should be assessed on their attempts to get members to engage on the important things and how they thoughtfully review and deliver their engagement programmes, in our view.

Regarding complaints metrics, we support using the percentage of complaints rather than a number which could be easily distorted by scheme size. See also our concerns highlighted on Q22 around complaints and suggestions for what type of complaint should "count".

Regarding the shift to counting the transaction timings on the basis of where the scheme has control, we support this move.

However, once further metrics are introduced (following further consultations) and depending on what those metrics are, and whether they address the types of issue outlined above appropriately, it may be appropriate to give service metrics higher weighting within the Framework.

Question 36: Do you agree with the proposed approach to considering overall value in step 3 and rationalisation? Why or why not?

It is important that governance bodies consider the features and characteristics of the scheme, specifically member demographics, when rationalising the rating.

The consultation paper sets out that governance bodies can only consider saver and employer demographics and safeguarded benefits and special features. We think these are important to take into account as they will impact the cost of the scheme, and other metrics such as engagement, investment strategy, and complaints.

We would like to see more consideration of these issues throughout the proposals and in the regulators' considerations. The current paper focuses on challenges regarding the contract based market, but policy consideration and this paper is relatively silent on the consequences for schemes in the trust based segment, especially those serving lower earners.

In addition - we believe it is also important for trustees/ IGCs to be able to consider:

- ESG and stewardship considerations.
- Which other schemes/arrangements may be open to their members given that not all schemes are open to all employers – because this will also impact the key factors in the assessment This has not been taken into account in the proposals and we think it would be a fair and appropriate addition.
- The FLMs in other schemes and how these have been taken into account – given these are to be based on forecasts and subject to future proof points.
- In terms of wider context - changes made to the scheme that are underway but not yet flowing through to the metrics (with commentary needed on extent of commitment and progress on these activities). This is particularly important indicator to members, the regulators, and the market/evaluators.

Question 37: Do you agree with the proposed updated RAGG ratings? Why or why not?

We are supportive of an additional / fourth RAGG rating that has been introduced. Three categories did not provide sufficient gradation and the risks placed on the Amber rating were too severe, particularly for multi-employer schemes.

However, we still have some concerns about the impact of the market and would like to understand how many schemes the regulators expect to see in the dark green category. There is a risk to the market that advisors will start to only promote dark green schemes to employers which could have severe consequences. Without understanding how these categories will operate in practice it is hard to assess the impact on the market.

The commercial consequences of RAGG could be potentially huge, in that good value schemes could struggle to get new business, which we know is not the policy intent. Further, once decumulation is bought into the VFM assessment (assuming the results show a whole of life journey as opposed to one RAG for accumulation and one RAG for decumulation) it is hard to envisage any scheme being on dark green to start off with.

This risk is further compounded by the way in which the commercial market comparator group process will be conducted. Hypothetically, with the information available, it would appear that it might be the case that schemes serving certain employer types of savers will never be able to achieve dark green – because of being open to lower earners and transient workers, smaller employers meaning there is less engagement and higher complaints, and also due to the charge metrics calculation that has been proposed. This could mean that, regardless of the investment performance, the scheme cannot reach dark green, It also means that scheme might be disincentivised from offering services to certain employers/savers in order to achieve or maintain dark green status. That does not seem an appropriate outcome. Running a private data gather and regulator assessment in advance of full role out would inform this risk and potentially mitigations via tweaks to the policy design.

We welcomed the Bill measures which appear to have more than one score in the amber / 'intermediate' rating. This would allow for schemes to be assessed as 'value' but with areas for improvement, and without attracting the most severe of regulatory consequences. We think this would be clearer than a dark green rating at the upper end, and also better enable the market response to cater for improvement and fluctuation (especially given the continued approach for this to be a yearly process rather than a bi-annual or triannual certainly for the full metrics). This would also potentially mitigate against the advisory businesses potentially being constrained to only signpost to dark green – it creates a more equal impact to have one clear green, and a scale of improvers. Advisers and evaluators can then add value to the regulatory process, within their functions, by differentiating within the green score.

If the dark green rating is taken forward, we would suggest that a dark green rating can only be achieved if the scheme is offering a broad service including harder to reach segments – OR that the dark green rating can be achieved by schemes serving that population even if the scores are lower. Otherwise, scoring is not taking into account the current structure of the market – with the potential outcome that scheme serving higher earners have an unfair advantage (due to the metrics and approach to assessment and comparators) compared to those serving lower earning members.

Question 38: Overall, do you agree with the assessment process we have outlined above? Why or why not? What changes would you propose?

We believe that ESG-related metrics should be reviewed for inclusion in the future. We believe the value of good stewardship should be recognised within the framework - currently it is not. Metrics to consider might include disclosing the proportion of assets investing explicitly in line with ESG considerations where active stewardship is being undertaken, as well as climate-related metrics consistent with the framework used for annual Climate Change reporting (which should therefore not require any additional calculations or data gathering).

On bespoke arrangements – it is not clear as to the rationale for the reference regarding trust-based arrangements being subject to a different level of assessment in contact-based schemes. We recognise the requirements of fiduciary duty in trust-based schemes but it is unclear why it is acceptable for a contract-based scheme to have less scrutiny on its bespoke arrangement(s) than a trust-based scheme. VFM should be for all savers. We would suggest that where a bespoke arrangement is offering poor value for money there should be requirements in relation to action with the employer, or a statement from the employer that they are actioning the issue.

Actions for arrangements offering poor value

Question 39: Do you agree with the proposed transfer requirements for red rated arrangements? Why or why not?

Subject to the clarifications and appropriateness of the market comparator groups and the metrics working for all schemes and the timing for the improvements and action plan under the amber rating - - we agree with the proposals that members should be transferred out of red rated arrangements where this is in the members' best interest. However, timings need to align with the implementation of the contractual override powers in the Pension Schemes Bill to ensure that contract- and trust-based schemes are treated equally.

We are not clear why employers who are not in a not value cohort should also be written and advised the scheme is not value – there are significant impacts from this type of communication, which could put some schemes into a spiral of lower performance – depending on their business model – so this does not have an equal impact across the market.

Question 40: Do you agree with the actions proposed for not value arrangements? Why or why not?

We had read the Bill to be saying 'not value' is Red, and Value is Green – that amber was 'intermediate'. We have outlined or views on the four score RAGG system and on the three year time period restriction for schemes being able to be scored as amber and for moving into green at Q 37.

In actuality where a multi-employer scheme becomes amber the consequences outlined in this consultation and previous one will – as we have raised before - be similar to 'red' Also - they disproportionately impact multi-employer schemes as compared to single-employer trusts.

This is because the impact of not being allowed to take on new employers varies considerably according to the type of scheme. For this will create little impact for single employer trust-based schemes, and arrangements in GPPs or MES where the arrangement is already closed, or where there is a bespoke employer arrangement. Even though these may be the arrangements that could be targets for the government's consolidation agenda.

By contrast, for large scale MTs with simpler structures (i.e. those arrangements covering millions of members) and competing commercially for new employers, this measure could lead to scheme collapse. The pipeline to onboard new employers can be long-term – anyone in that pipeline is likely to drop out as soon as the scheme is rated amber. It will then take some time to recover from amber, given that the proposals also state you cannot take into account in next year's assessment any changes made to improve the scheme until the results of those changes flow through to improved metrics. The third party evaluators would also impact market behaviours in this instance and it would take some time to re-build reputation and a new pipeline of potential clients. This process may take longer than the scheme is able to continue to operate.

Not being able to take on new employers may also lead to a range of other regulatory activities under the Master Trust Authorisation process - for example – the significant events regime, extensive revisions are likely to be needed to business plans and potentially financial sustainability plans, it may result in a triggering event resulting in wind-up.

Therefore, for some scale MT schemes, with multi-millions of members, and tens of thousands of employers - an amber rating on one arrangement may in effect signal the scheme's closure.

We welcome the shift from a three sore RAG to now include a fourth score rating – however, the amber rating does still disproportionately impact multi-employer schemes over single employer trusts. Additionally, a one month timeline to propose an action plan would be a quick turnaround. More time would be required to fully analyse the issues and solutions, rather than just provide a knee jerk reaction which could have significant implications for members.

We think the overall process could be clearer for trust-based schemes, in particular we are keen to understand what a relevant TPR compliance and enforcement policy might look like in terms of ensuring consistency across assessments and integration with supervisory activities more generally which could mitigate some of the risks to members, and incorporate some of these actions.

We also need to understand how these time periods relate to other reporting these new requirements are likely to trigger under the MT authorisation regime.

We think it would be helpful to identify to the employer if it is the employer designed investment strategy which has affected the schemes rating – and to capture what activity could be done to improve that situation.

Finally, consideration should be given to having a scheme(s) of last resort to accept transfers at commercially viable prices (for example, NEST and/or the schemes that apply to be small pots consolidators).

Disclosure requirements

Question 41: How should firms and trustees provide data to the central VFM database? E.g machine-readable flat file, file transfer, webform, direct API etc.

Our preference would be for an automated solution such as machine-readable file such as a CSV file or direct API in order to make the process as efficient as possible. Initially, the submission could be made as a CSV template while the metrics are tested and then over time this could develop into an API. It is key that there is a single submission template for all providers. We believe a webform would be sub-optimal and would increase the burden on schemes to submit data in this way, as well as creating great manual input risks.

Question 42: Do you agree with our proposals for the central VFM database? Why or why not?

We are very supportive of plans for a central VFM database which data from schemes will be submitted to. This is not only because this provides for easy access for those undertaking the assessment, but it also controls when that data is made more publicly available. It will be essential to have strong data validation, clear governance and a straightforward process for correcting mis-reported data.

Our support for the central VFM database concept is dependent on the raw data not being released publicly (or at the very earliest, released only after the assessments have been undertaken and result published). See question 43.

Question 43: When in the VFM cycle should VFM data be made publicly available and why? For example, should data be made publicly available in March or in October alongside assessments?

We had raised concerns about the previous proposed approach - for schemes to publish data on their website ahead of the full assessment. This risks data being put out into the market and analysed /commented on without having appropriate contextualisation provided by the assessment - which could have severe consequences for schemes due to misinterpretation of data or misunderstanding of the context. Whilst this would have lower (but still damaging) impact in a word of single employer trusts, in the MT and GPP part of the market this could have major business consequences.

Restricting access to the data to regulators, government and to those undertaking the assessment allows the policy outcomes to be delivered while minimising the risk of data being published, poorly understood, and misused.

The initial VFM framework proposals had focused on the primary output of the process being the assessment, RAG score and the report – with the raw data needing to be published to equip the assessors. Now that the latter point has been addressed with the proposal for the central VFM data repository, we would also suggest fuller consideration needs to be given to the value, risks and benefits of publishing the full data base in its raw form.

Assurances had been given earlier in this process that the contextualisation would be key to the assessment and ensure a rounded judgment and outcome could be arrived at and scrutinised. Publishing the raw data seems to be slightly at odds to this now that the data can be provided to a central database to inform the assessment, and also as the comparator process now means the raw data isn't necessarily the specific source of comparison.

Also, there will likely be an initial period where there will be inconsistencies in the data collected by schemes which will need to be ironed out to ensure it is consistent and comparable. The risks of unintended consequences impacting schemes and members is high were this data public.

If government and regulators decide to press ahead with publication of raw data we suggest that at the very least there should be a few years pause before this is enabled. This would at least allow time for the system to be fully tested and any issues addressed – and for direct effect of the direct requirements to be assessed and reviewed. When the system is stable and fully tested, and if at the at point government and regulators wish to press ahead with publication of the database and raw data, this should only be undertaken after the full assessments and reports have been published by schemes – and potentially with a link from the database to that full report.

If data is published ahead of assessments and taken by others to inform other reporting before the scheme has set out the full picture, it would also likely generate a significant amount of distracting and potentially inaccurate commentary ahead of the full reports, which will create market and commercial risks which schemes and providers will need to engage with. Trust in the financial system would be further eroded. This commentary would be more productive once the full reports and assessment are published. Specifically regarding investment performance metrics, we note the current proposals (such as the use of arithmetic averaging) are not reflective of measures that reflect members' actual investment experience, which are likely to be the measures that employers focus on when choosing the move to a multi-employer scheme.

We support the decision that the VFM assessment will be standalone from the Chair's statement, given that the VFM assessment is not meant to member facing.

We welcome the confirmation that DWP are still considering amendments to the legislation for the Chairs Statement to ensure there is no duplication or overlap. But we would also suggest that the value of the Chairs Statement as a member facing document has to date been fairly limited. The value in assessing and articulating the 'value for members' is now going to be incorporated/superseded by this new VFM Framework including the required report, but will be undertaken on a different basis. We would suggest that the two should not run on together. This was the suggestion from government and regulators in the consultation in 2023 – and the department and regulator's response in July 2023 confirmed they were considering '*how the requirement of the Chairs Statement could be manged down and ultimately phased out as the Framework is phased in*'. We would be keen to see confirmation that this is the intent, and some progress on the current status of this matter.

Question 44: Do you have any comments on the suggestion that firm/ IGC or trustees should also add a link to the final VFM assessment report on to the proposed central VFM database?

We have suggested that the raw data /database should not be published, In this scenario the data required in the assessment report could be expanded to include further metrics which would fully explain the RAGG rational and not only the investment returns net of all costs and charges over 5 years for 30 YTR, 5 YTR and at retirement (as outlined in para 10.21 of the consultation paper). If further data were to be included, we believe this would be a sufficient number of data metrics to make linking to the central VFM database unnecessary. We believe that the central VFM database should be restricted to regulators, officials and the scheme undertaking the assessment.

If however regulators publish the database, in this scenario, we think a link to the assessment should be published in that table to ensure commentators have ease of access to the important contextualisation as well as the consideration by the governance body, to support responsible commentating. This would be consistent with that messaging to date from government and regulators that it is the final rating that is the core assessment and the official outcome of that heavily prescribed assessment.

We would also like to see regulator and government proposals about managing the consequent commentary and league tables - given this could significantly impact the market and pension landscape and would be a direct consequence of the framework and government policy.

This is another aspect of policy design and implementation that could be supported by a phased implementation approach – as previously suggested, running an initial private data gather and assessment ahead of full implementation – or other approaches that would mitigate the impact of unintended consequences of full publication and regulator action in the first or initial years.

Amendments to current FCA Handbook requirements

We have no comments on the two questions in this section.