

FCA Consultation CP24/16: The Value for Money Framework

The PMI's response

Introduction

The Pensions Management Institute (PMI) welcomes the opportunity to respond to the FCA's consultation on the proposed Value for Money (VFM) framework for workplace defined contribution (DC) pension schemes. As the UK's leading professional body for pensions, representing trustees, governance committees, providers, advisers, and administrators, the PMI supports the ambition to improve outcomes for savers and strengthen confidence in the DC system.

We recognise the significant joint work undertaken by the FCA, DWP and TPR to develop a coherent, market-wide framework. A consistent, comparable approach to the VFM assessment has the potential to drive better long-term outcomes, support consolidation where appropriate, and enhance transparency for those overseeing schemes. Our response focuses on proportionality, practical implementation, and the need to ensure that the framework supports - not inadvertently constrains - innovation, effective investment strategies, and good governance.

Overall Position

The PMI welcomes the fact that Government and regulators have listened to industry feedback and refined the Value for Money proposals in several important areas. The shift towards forward-looking metrics, a more focused set of cost and performance measures, and streamlined service quality indicators reflects a more practical and proportionate approach.

We are also pleased to see a broader comparator group and a four-point rating system that recognises top performers. These changes respond directly to concerns raised by the PMI and others about fairness, competition, and the need to avoid herding schemes towards a single 'acceptable' standard and stifling innovation.

However, the framework must work in practice. We continue to have concerns about the ability of the framework to reflect the value of employer subsidies and DC sections within a wider DB/DC trust where surplus may be being used to bolster DC contributions. Schemes are already managing significant operational pressures, and the cumulative burden must remain proportionate to the benefits delivered for savers. Clear, accessible communication will also be essential if VFM assessments are to support, rather than confuse, members.

Beyond operational considerations, there are also structural limitations within the current design of the proposed framework. While the PMI supports the development of a robust VFM framework for workplace DC schemes, we note that the current proposals focus solely on the accumulation phase. In a pensions landscape increasingly shaped by guided retirement pathways and the re-emergence of pensions as an income rather than a pot, the framework must evolve to reflect the full retirement journey. Without incorporating decumulation, the framework risks rewarding schemes that optimise pot size alone rather than those that design solutions around sustainable retirement income. As schemes innovate to target different retirement outcomes, it is essential that the VFM assessment does not inadvertently penalise providers pursuing more holistic, income-focused strategies. A future-proof VFM regime must therefore extend across both accumulation and decumulation to ensure genuine member value.

Measurement and Disclosure Requirements

Costs and Charges

The PMI welcomes the proposals to streamline how costs and charges are reported. We have consistently called for a pragmatic approach to the VFM framework and these proposals strike the balance between transparency and practicality, driving the intent of the framework whilst reducing the compliance burden on schemes.

Performance Metrics

Overall, the PMI supports the goal of consistent, comparable metrics and the use of a more focused set of cost and performance metrics in the consultation, in particular the inclusion of forward-looking metrics.

In considering the reliability and comparability of performance measures, the methodology used to generate them is equally critical. We have some concerns that the current approach risks producing metrics that are technically neat but economically misleading. The PMI urges Government and Regulators to reconsider the continued reliance on arithmetic averaging and synthetic performance metrics within the proposed framework. These methodologies can mask the real variability in member-level experience and may produce results that diverge significantly from the outcomes members actually receive. As the industry matures, schemes should increasingly be expected to measure and report actual member investment performance rather than relying heavily on modelled or synthetic projections. If data quality, platforms or administration systems do not allow schemes to generate accurate member-level performance data, this may reasonably be viewed as an indicator of operational limitations and a potential barrier to providing pension services under a modernised VFM standard.

We particularly support the inclusion of forward-looking metrics which should give a more meaningful indication of how schemes expect to perform for savers in the future. Here consistency will be key. Regulators should provide clear guidance on the treatment of legacy funds, lifestyle strategies, and multi-stage glidepaths, and allow flexibility for schemes with bespoke or employer-specific designs. The framework must recognise long-term investment horizons and avoid undue focus on short-term volatility. Crucially, it should not penalise innovative investment strategies, including those with higher allocations to illiquid or productive finance assets.

The consultation rightly acknowledges the gaming risk associated with FLMs and the guard rails set out in the paper are sensible, especially the assertion that they must never outweigh backward looking metrics and that schemes must obtain independent advice on the most appropriate metric for their scheme. For comparison purpose it would be helpful if schemes were encouraged/required to publish the underlying assumptions.

Overtime it will be important to consider the extent to which past forward-looking metrics have proved to be accurate. Whilst the disclosure of this to consumers could create the risk of information overload, we believe disclosure and comparison by regulators will be an important part of regulatory oversight of the VFM framework and a way of ensuring the credibility of projections and whether rules around these may need tightening in future.

Service Quality Metrics

The PMI supports the inclusion of a streamlined set of service quality metrics and acknowledges the challenges in developing a universal way that schemes can report service metrics. That said, this remains a critical element of value and we would urge continued focus on the development of an outcome focused measure of consumer satisfaction.

Comparison against centralised data

This is a major new proposal and the PMI acknowledges that a central database for comparison will likely be easier for schemes than having to select and find specific comparators. That said, the consultation does not go into much detail about how this would work in practice, how it will be funded and how easy it will be for schemes to interact with it. In a world of consolidating pension schemes and a busy pensions roadmap there is also a question of how and when such a centralised database could become available and the impact on the industry of providing data to this as well as meeting other new data requirements.

Employer Subsidies and VFM Metrics

The PMI is concerned that the proposed VFM framework may not adequately recognise the impact of employer subsidies within certain schemes. Where employers absorb a material proportion of running costs—resulting in lower effective charges and better net outcomes for members—these benefits may not be fully reflected in the standardised cost and performance metrics. As a result, schemes with strong member outcomes supported by employer commitment could score less favourably than large master trusts, despite delivering equal or superior value. We encourage Government and Regulators to consider how the framework can more accurately capture the role of employer subsidies in driving genuine member value.

Application to DB Schemes

We also urge Government and TPR to consider how the VFM regime should apply to DB schemes that continue to operate a DC section, often for reasons linked to surplus utilisation or ongoing employer strategy. These hybrid arrangements may not fit neatly within the assumptions underpinning the proposed metrics, and the framework should recognise their unique governance, cost structures, and member-value dynamics. Clear guidance will be essential to ensure that such schemes are assessed proportionately and fairly within the VFM framework.

In addition, whilst we welcome the inclusion of AVCs within the framework we do believe that flexibility may be required in how schemes apply the framework to these benefits. Many AVC arrangements were established decades ago under contractual structures that do not map neatly onto the proposed VFM metrics. The PMI believes that specific guidance on AVCs will be essential to ensure that assessments are fair, practicable, and genuinely reflective of member value.

The RAG Rating System

The PMI recognises the value of a simple, public-facing RAG rating and welcomes the proposed change to a four-tier rating system which will give clearer distinctions between top performers and those requiring intervention. That said, the methodology for these rating systems must be transparent and replicable. Schemes with complex or multi-employer structures may require tailored guidance, and the consequences of an amber rating should be proportionate. A single composite rating risks oversimplifying complex investment strategies and may disadvantage schemes that innovate or take a long-term approach.

We recommend that the FCA explicitly monitor behavioural impacts on innovation during the early years of implementation and consider a phased introduction of public ratings to allow for data bedding-in and reduce the risk of misinterpretation by employers or savers.

Remedial Actions and Market Exit

The PMI supports the principle that persistently poor-value arrangements should improve or consolidate, but clear regulatory pathways are needed to support orderly consolidation, including guidance on fiduciary duties, transition costs, and member communications.

Schemes must be given realistic timeframes to address issues, particularly where improvements require contractual renegotiation or system change. The framework should avoid creating cliff-edge outcomes, and consolidation should not become the default outcome for schemes pursuing innovative or long-term investment strategies that may temporarily diverge from standardised metrics.

Implications for Governance Bodies

Trustees, IGCs and GAAs will play a central role in delivering the framework. The PMI recommends clear expectations for governance bodies, appropriate training and competency guidance, and measures to avoid undue liability risk. Governance bodies must be supported to interpret metrics in the context of innovative or evolving investment strategies. The PMI stands ready to support the sector through training, standards, and professional guidance.

Member Communications

The PMI supports transparency for savers but cautions that RAG ratings must be accompanied by consistent terminology and clear, contextual explanations. Communications should avoid creating unnecessary concern, and employers should receive tailored guidance. Innovation in investment or engagement should not be misinterpreted as risk or poor value.

Implementation Timelines

The PMI recommends a phased implementation of the framework, with at least 18–24 months lead-in time from final rules to full public disclosure, and coordination across

regulators to avoid overlapping deadlines with dashboards, CDC, and other reforms, especially if the new framework is going to rely on a centralised database.

Conclusion

The PMI supports the ambition to deliver a consistent, transparent, and outcomes-focused VFM framework and recognises the need for the initial framework to be practical and pragmatic in its implementation. However, in the longer term the regime must evolve to reflect the full retirement journey. A framework that focuses solely on accumulation risks rewarding pot-size optimisation at the expense of sustainable retirement income and guided pathways. We therefore urge Government and Regulators to extend the regime across both accumulation and decumulation as soon as practically possible so that schemes pursuing income-focused and innovative strategies are not penalised. A system that rewards long-term thinking and allows for diverse approaches to value creation will deliver the best outcomes for savers, and PMI stands ready to support its effective implementation.