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The Value for Money Framework: consultation on draft regulations and draft FCA rules

The PMI’s response

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Introduction

The Pensions Management Institute (PMI) welcomes the opportunity to respond to the Government's consultation on the Value for Money (VFM) Framework.

We recognise the significant joint work undertaken by the Financial Conduct Authority (FCA), the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR) to develop a coherent, market-wide framework. The development of a consistent and comparable approach to assessing value has the potential to drive better long-term outcomes for savers, support consolidation where appropriate, and enhance transparency and accountability for those responsible for overseeing workplace pension schemes.

The PMI supports the principle of assessing value through a combination of investment performance, costs and service quality, rather than focusing solely on charges. We also welcome the intention to create a framework that operates across different regulatory structures, providing greater consistency between trust-based and contract-based workplace pension arrangements.

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

The PMI considers it important that the framework encourages schemes to seek continuous improvement and develop strategies which are appropriate for their members, rather than creating a regulatory environment which inadvertently rewards conformity.

Overall approach to Value for Money

The PMI welcomes the move towards a framework which considers value as a combination of investment performance, costs and quality of services, rather than treating cost as the primary measure of value.

This represents an important shift in the way value is considered in workplace pensions. A low-cost pension arrangement is not necessarily a good-value arrangement if it delivers poorer investment outcomes or lower-quality services. Conversely, a higher-cost arrangement may deliver better value where additional costs support better investment outcomes, stronger governance, improved member engagement or other services which benefit members.

The framework should therefore continue to reinforce the principle that value is not the same as low cost.

The PMI also welcomes the attempt to establish a framework which can apply across different regulatory structures. A broadly consistent approach should help improve comparability and reduce the potential for differences in regulatory treatment to influence scheme design.

However, comparability should not come at the expense of recognising legitimate differences between schemes. The framework should provide a consistent basis for assessment while allowing schemes to explain the circumstances which underpin their results. VFM should therefore be a tool to support better decision-making rather than a mechanistic exercise in which schemes are judged against a single prescribed model.

Phased implementation

The PMI welcomes the proposed phased implementation of the VFM framework.

We recognise the scale of regulatory change currently being introduced across the pensions sector and consider it pragmatic to allow schemes time to develop the necessary systems, processes, governance arrangements and data.

The proposal that multi-employer schemes and larger single-employer trust-based schemes should complete the full VFM assessment and submit their first assessment during the initial phase appears proportionate.

We also agree with the proposal that there should be no regulatory consequences arising from the first assessments in 2028. This approach should allow schemes and regulators to identify practical difficulties and refine the framework before it becomes fully embedded.

The PMI would encourage the regulators to use the initial implementation period to assess not only compliance with the framework but also whether the resulting assessments are producing meaningful information and supporting better decisions. The framework should remain capable of being refined in light of evidence from its operation.

Metrics and comparability

The PMI welcomes the more focused approach to the proposed cost and performance metrics. A VFM framework needs to strike an appropriate balance between providing meaningful comparable information and avoiding unnecessary complexity.

The PMI supports the use of a broader comparator group and welcomes the proposed four-point rating system. In particular, recognising a category for schemes that demonstrate particularly strong value is important. A framework which only identifies schemes as being above or below a minimum threshold could inadvertently encourage schemes to target the minimum acceptable level rather than seek continuous improvement. The four-point approach should instead support healthy competition and encourage schemes to improve their performance over time.

At the same time, the PMI considers it important that the ratings are accompanied by sufficient contextual information. A numerical or categorical rating should not be interpreted as providing a complete assessment of the quality of a pension scheme. The assessment should therefore continue to recognise that different schemes may adopt different approaches to investment, member services and scheme design while still providing good value.

Employer subsidies

The PMI has particular concerns about the treatment and presentation of employer subsidies.

We recognise the rationale for identifying employer subsidies within the VFM framework. Employer contributions and other forms of employer support can represent a material benefit to members and should not be ignored when considering the overall value provided by a workplace pension arrangement.

However, the proposed narrative disclosure of employer subsidies requires further consideration. There is a risk that members or other users of published VFM information could look primarily at the headline metrics and conclude that an arrangement provides poorer value simply because an employer subsidy is not captured in a directly comparable metric.

For example, an arrangement in which an employer provides significant additional support to members could appear less favourable when compared with an arrangement where no equivalent subsidy exists, despite the first arrangement potentially delivering greater overall value to its members.

The PMI therefore recommends that the treatment of employer subsidies is explained in a clear and accessible way and that sufficient context is provided to prevent misleading comparisons.

The framework should make clear that VFM assessments cannot always be interpreted by comparing individual metrics in isolation.

The PMI would welcome further guidance on:

- what types of employer subsidy should be disclosed;
- how materiality should be determined;
- how subsidies should be described consistently across different scheme structures; and
- how the information will be presented alongside the other VFM metrics.

This will be particularly important where employer subsidies vary significantly between employers participating in the same scheme.

Assessment reports and frequency

The PMI recognises the importance of regular assessment but questions whether annual publication of a full VFM assessment is proportionate in all circumstances.

Schemes are already managing significant operational and regulatory pressures, and the cumulative burden of annual assessments, data collection, validation, governance and publication needs to be considered alongside the benefits delivered to savers.

The PMI therefore encourages the Government and regulators to consider whether an annual full assessment is necessary, particularly where a scheme's circumstances and performance are relatively stable.

One potential approach would be to retain annual monitoring while allowing a more detailed assessment to operate on a longer cycle, with additional reporting where there has been a material change in circumstances or where performance indicates that further scrutiny is warranted. This could reduce unnecessary administrative burdens without weakening accountability.

The PMI would also encourage regulators to consider whether the information generated by annual assessments is likely to change sufficiently frequently to justify the associated costs.

The objective should be to ensure that the frequency of reporting supports meaningful governance and member outcomes rather than creating a largely repetitive compliance exercise.

Service quality

The PMI welcomes the streamlined approach to service quality indicators. Service quality is an important component of value, but the framework needs to ensure that measures are meaningful and capable of being compared consistently.

We support the principle of using a focused set of indicators rather than attempting to measure every aspect of member service.

However, service quality can be difficult to capture through a limited number of quantitative measures. The framework should therefore allow appropriate narrative explanation where a scheme's particular circumstances affect the interpretation of its results.

As with investment performance and costs, the objective should be to support informed assessment rather than create an overly mechanistic scoring system.

We also have concerns about the proposal to use an initial six-month period for service quality metrics. A shortened reporting window could skew results, particularly where service activity is seasonal, affected by scheme events or influenced by operational peaks outside the measurement period. If the first year uses only six months of data, the published results should be clearly caveated and should not be used to draw conclusions that imply a full-year assessment.

The complaints metric also requires clarification. It is not clear whether the framework is intended to capture the number of complaints in aggregate, the number of discrete issues giving rise to complaints, or both. There is a material difference between, for example, 100 complaints relating to a single issue and 100 separate complaints each relating to different aspects of service. Without this distinction, the metric could be misleading and may not help trustees, regulators or members understand the underlying quality of service.

Investment performance

The PMI welcomes the greater emphasis on investment performance within the framework and supports the move towards forward-looking measures where these can provide a more meaningful assessment of likely member outcomes.

However, care will be required to ensure that the framework does not inadvertently encourage schemes to adopt investment strategies which perform well against the VFM metrics at the expense of their broader investment objectives.

Investment strategies may legitimately differ depending on member characteristics, scheme design, time horizon and the retirement outcomes being targeted. The PMI therefore considers it important that VFM does not become a form of indirect investment prescription.

Schemes should remain able to adopt investment strategies which they believe are appropriate for their members and consistent with their governance and fiduciary responsibilities.

The framework should encourage good investment outcomes without creating pressure towards a single investment model.

This is particularly important as schemes increasingly consider illiquid assets, private markets, productive finance, alternative investment approaches and strategies designed around different retirement objectives.

This concern is particularly acute for hybrid schemes and other arrangements whose investment strategy is not designed simply to mirror the broader DC market. The framework should not create incentives for schemes to reduce private market or illiquid asset exposure merely to avoid relative underperformance against inappropriate comparators. Such an outcome would be inconsistent with wider policy ambitions and could reduce the scope for schemes to pursue long-term investment strategies that trustees consider appropriate for their members.

VFM and innovation

The PMI welcomes the Government's recognition that the framework should support competition and innovation. A well-designed VFM framework can provide a valuable incentive for schemes to improve investment performance, control costs and enhance member services.

However, there is a risk that a highly prescriptive framework could have the opposite effect. If schemes believe that departing from the investment, charging or service models used by highly rated comparators could negatively affect their VFM assessment, they may become less willing to innovate.

The PMI therefore supports the use of the broader comparator group and four-point rating system, as these should reduce the risk of a single "correct" model emerging.

We encourage the Government and regulators to continue monitoring the framework for evidence of herding behaviour. The objective should be to promote competition on value, not competition on conformity.

Exemptions

The PMI supports proportionate exemptions where the characteristics of an arrangement mean that the proposed assessment would not produce meaningful or comparable information. However, we have significant concerns that the revised scope appears to bring hybrid schemes within the framework. In our view, this is not appropriate without further work, as the framework is principally designed around commercial, standalone DC arrangements and does not adequately reflect hybrid scheme structures.

We are also concerned that many hybrid schemes may not have realised that the revised scope brings them within the proposed framework. As a result, some affected schemes may not have read the consultation in detail or be actively considering and making representations on the practical and policy challenges associated with the revised scope.

Hybrid schemes can have materially different benefit design, governance, investment strategy, operational processes and employer participation arrangements from standalone DC schemes. Applying the same framework risks creating false comparisons, member misunderstanding and disproportionate cost and work, without necessarily improving member outcomes.

The concern is not simply one of administrative burden. Where a hybrid scheme's DC and DB elements are closely integrated, the consequences attached to an amber or red rating could have wider implications for the overall scheme design, employer participation and member access to the wider package of benefits. In the most acute cases, restrictions or enforcement action affecting the DC element could create practical consequences for the operation of the wider hybrid scheme.

This could undermine rather than support good member outcomes. For example, a hybrid scheme with a long-term investment strategy and significant exposure to private markets could be judged unfavourably against schemes with different objectives, member profiles and asset allocations during periods when public and private market performance diverges. That may create pressure to align investment strategy with the comparator group, even where trustees consider the existing strategy to be in members' best interests and consistent with wider policy ambitions around productive finance and long-term investment.

The PMI therefore recommends that hybrid schemes should be exempt from the initial scope of the VFM framework, or at minimum given a temporary exemption until a bespoke and proportionate approach for hybrid schemes has been developed. This would be consistent with the stated intention to focus initially on areas where the greatest number of members are most at risk of receiving poor value for money. If hybrid schemes remain in scope, the Government and regulators should consider targeted exemptions from disclosure requirements and enforcement consequences where applying them would create risks of member detriment, market distortion or unnecessary disruption to integrated scheme structures.

We would also welcome clarification on the treatment of AVCs. The proposed carve-out for AVCs appears sensible, but it is not clear whether this includes in-house AVC arrangements as well as externally provided AVCs. This should be made explicit to avoid uncertainty for trustees, providers and employers.

More generally, exemptions should be reviewed periodically as the market and regulatory framework develop, but this should not be used as a reason to bring arrangements within scope before the assessment is capable of providing fair, meaningful and decision-useful comparisons.

The accumulation and decumulation gap

The PMI's most significant structural concern is that the proposed framework focuses primarily on the accumulation phase of pension saving within workplace pension arrangements.

The pensions landscape is changing. Policy developments increasingly recognise the importance of helping individuals move from building a pension pot towards achieving an appropriate and sustainable retirement income.

The development of guided retirement pathways and the renewed policy focus on pensions as a source of income rather than simply an accumulated pot make this an increasingly important consideration.

A VFM framework which assesses schemes principally by reference to accumulation risks rewarding arrangements which maximise pension pot size without sufficiently considering how effectively those assets can ultimately support members through retirement.

This could become increasingly problematic as schemes innovate to target different retirement outcomes.

For example, an investment or retirement strategy which is designed to provide greater income sustainability, reduce sequencing risk or provide a more integrated accumulation-to-retirement solution may not necessarily produce the largest projected pot at retirement. It would nevertheless potentially deliver greater value to a member whose objective is sustainable retirement income.

The PMI therefore believes that the VFM framework should ultimately evolve to encompass both accumulation (in all vehicle types) and decumulation.

We recognise that incorporating decumulation into the framework is complex and may not be practicable as part of the immediate implementation. However, this should be regarded as an important future development rather than an issue which can be left indefinitely outside the framework.

The Government and regulators should begin considering how the framework could assess value across the full retirement journey, including:

- the effectiveness of retirement income solutions;
- sustainability of income;
- member outcomes in different retirement pathways;
- the management of sequencing and longevity risks;
- charges and costs associated with decumulation;
- the quality of guidance and support provided to members approaching and entering retirement; and
- the extent to which schemes support members in converting accumulated assets into an appropriate retirement outcome.

Without this broader perspective, there is a risk that the VFM framework becomes overly focused on the size of the pension pot rather than the quality of the retirement outcome.

A future-proof VFM framework should therefore assess value across the member's retirement journey, rather than value only up to the point of retirement.

Communication and member understanding
Clear and accessible communication will be essential if VFM assessments are to support, rather than confuse, members.

The PMI recognises the value of transparency, but the information generated by the VFM framework will inevitably be complex.

There is a risk that members focus on a single metric or rating without understanding the wider context, particularly where schemes have different investment strategies, employer contribution structures or member populations.

The PMI therefore recommends that the Government and regulators give careful consideration to how VFM information should be communicated.

Published information should be sufficiently clear to explain:

- what the assessment measures;
- what the rating means;
- how the scheme compares with relevant comparators;
- where there are material differences in scheme design or employer support; and
- why a particular investment or service approach may differ from that of other schemes.

The objective should be meaningful transparency rather than simply making more data publicly available.

Governance and practical implementation
The VFM framework will create additional responsibilities for trustees, independent governance committees and other bodies responsible for overseeing workplace pension arrangements.

The PMI supports the principle that those responsible for schemes should have access to better information to assess value.

However, the framework must remain proportionate to the governance resources available.

Schemes will need to collect, validate and interpret data, consider the results and determine whether action is required. These processes will require appropriate expertise and governance time.

The PMI therefore encourages regulators to provide clear guidance on the respective responsibilities of trustees, IGCs, providers and other relevant parties.

The framework should also avoid creating unnecessary duplication where information is already collected for other regulatory or governance purposes.

The initial implementation period should be used to identify areas where reporting requirements can be simplified and to ensure that the benefits of the framework justify the administrative burden.

Conclusion

The PMI supports the development of a robust, market-wide VFM framework for workplace DC schemes, but considers that the framework must be applied only where it can produce fair, proportionate and meaningful comparisons.

We welcome the significant work undertaken by DWP, TPR and the FCA and believe that the revised proposals represent a substantial improvement in several important respects.

In particular, we welcome:

- the shift towards assessing overall value rather than cost alone;
- the greater use of forward-looking investment metrics;
- the more focused set of cost, performance and service measures;
- the broader comparator group;
- the four-point rating system, including recognition of top performers;
- the attempt to establish a consistent framework across different regulatory structures; and
- the phased implementation approach.

The PMI's principal recommendations are that:

1. The framework should remain proportionate, particularly in light of the wider programme of pension reform and the operational pressures already facing schemes.
2. Employer subsidies should be appropriately recognised and clearly explained, so that published metrics do not result in misleading comparisons.
3. The frequency of full VFM assessments should be reconsidered, with annual reporting assessed against the actual benefits it provides to members and scheme governance.
4. Hybrid schemes should be exempt from the initial scope of the framework, or given a temporary exemption until a bespoke approach is developed, because the current framework is not designed for integrated DB/DC structures and may create misleading comparisons and unintended member detriment.
5. The position of AVCs should be clarified, including whether the proposed carve-out applies to in-house AVC arrangements.
6. The framework should not become a form of indirect investment prescription or discourage innovation and appropriate differentiation between schemes.
7. The framework should continue to encourage competition on value rather than conformity, with the four-point rating system helping to avoid a single "acceptable" model becoming established.
8. Communication should be clear and accessible, recognising that members may otherwise focus on individual metrics without understanding the wider context.
9. Service quality metrics should be reported over a period that produces reliable information, and any initial six-month data collection period should be clearly caveated to avoid distorted comparisons.
10. The complaints metric should distinguish between complaint volumes and the number of underlying issues so that one widespread issue is not treated in the same way as multiple separate service failures.
11. The framework should ultimately extend beyond accumulation to include decumulation and retirement income outcomes.

The PMI believes that the ultimate test of the VFM framework should be whether it helps those responsible for workplace pensions make better decisions that result in better outcomes for savers.

Value for money should not be reduced to a particular level of charges, investment returns or service performance in isolation. It should reflect the overall quality of the proposition offered to members and, ultimately, the extent to which it helps them achieve a good retirement outcome. This requires a framework that recognises legitimate differences in scheme design, including hybrid structures, rather than treating all arrangements as though they operate in the same commercial standalone DC market.

As the pensions market continues to evolve, the VFM framework must evolve with it. In particular, the increasing focus on retirement income means that a future-proof framework must consider value across the full retirement journey, from accumulation through to decumulation.