# Eyes on the prize

**Summary**

• The DWP, TPR and FCA continue to develop new value for money (VFM) frameworks, which will focus on investment performance and quality of service, as well as costs and charges.
• Current areas of concern for the industry about VFM frameworks include the volume of disclosures required, shortcomings of the assessment ratings system, and the difficulty of assessing qualitative metrics. There is also concern that VFM is now linked to government goals for pension scheme consolidation and greater investment in the UK economy.
• The FCA is currently considering responses to a 2024 consultation on VFM for contract-based schemes; the forthcoming Pension Schemes Bill should include measures enabling introduction of a new VFM framework for trust-based schemes.

**Regulators and policymakers continue to consult on whether DC schemes provide value for money to members. But is there a risk their good intentions will be overwhelmed by other political priorities? David Adams reports**

Creating new regulation demands a willingness to believe that the end result will achieve its intended purpose. An optimist might suggest that the time and effort going into creating new value for money (VFM) frameworks for DC schemes will result in effective regulation that safeguards the financial futures of millions of people. But a pessimist might ask why this process is now so closely linked to two other strands of government policy: Encouraging consolidation of smaller schemes into larger vehicles; and encouraging investment in long-term, UK-based 'productive assets' such as infrastructure. Is there a danger the need to keep member/saver interests and outcomes at the heart of these reforms is at risk of getting lost?

In July 2023, after a joint consultation, the Department for Work and Pensions (DWP), The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) published a joint response document outlining revised proposals for the VFM frameworks. Their fundamental purpose would be to ensure that employers, trustees, independent governance committees (IGCs) overseeing contract-based schemes, and pension providers focus on delivering long-term value and optimum outcomes for scheme members and savers, rather than focusing on cutting short-term costs.

The proposed frameworks will require trustees and IGCs to consider value through investment performance, service and costs. Investment performance will be assessed by examining performance by age cohort and years to retirement, based on reporting periods of one, three, five, 10 and 15 years, alongside a forward-looking metric. A red/amber/green (RAG) system will denote, respectively, poor value, room for improvement or delivery of VFM. Schemes performing poorly may then be expected to either improve performance rapidly or enable members or savers to transfer to other vehicles that are delivering VFM.

The frameworks would be introduced in phases, starting with default workplace schemes, with further consultations to shape and guide the process. The FCA ran the next phase of these between August and October 2024, looking at default arrangements for contract-based workplace DC schemes. In October 2024, FCA head of asset management and pensions policy, Nike Trost, told the Pensions and Lifetime Savings Association (PLSA) Annual Conference that the regulators and DWP could spend "a good year … evolving the proposals". During that time, we should also see publication of the Pension Schemes Bill, incorporating legislative measures needed to create a VFM framework for trust-based schemes. The hope is that these two frameworks will be aligned and implemented, in parallel, from 2028.

**A mixed reception**

The DWP also ran another consultation between November 2024 and January 2025, within the Pensions Investment Review, looking at how to "deliver scale, accelerate consolidation and drive a focus on value over cost" in DC workplace pensions. This proposed minimum sizes for DC scheme default funds, aiming to create "fewer, larger funds … to invest in productive assets and … deliver greater returns to members". It also included proposals to enable contractual overrides for contract-based schemes, so members' pensions could be transferred without their consent into other, trust or contract-based arrangements.

Meanwhile, responses from the pensions industry to the proposed frameworks have been cautiously welcoming, but also critical.

"Some of it makes sense, some of it needs more work," says PLSA head of DC and master trusts, Ruari Grant.

The headline objection is the scale of disclosures required. The Society of Pension Professionals' (SPP) response to the FCA consultation expressed concern "about the volume of data that the proposed framework will require providers to collect … which … in some cases appears disproportionate", adding that some of the information requested "appears to be … unnecessary and largely unrelated to the objective of improving VFM".

"There are concerns about whether these metrics are going to be too specific, could stifle creativity and will be too onerous to report on," says independent pensions researcher, Daniela Silcock, formerly of the Pensions Policy Institute. "Will it be particularly difficult for smaller schemes with fewer resources?"

The parallel drive encouraging investment in productive assets may also hamper assessment of investment performance in the short term as these investments may take some years to deliver significant returns. The Pensions Management Institute (PMI) response to the consultation expresses "deep concerns that these two issues are being conflated but are deeply and inherently misaligned", noting that it might force schemes to invest in assets that then underperform.

Concerns have also been expressed about use of a forward metric, which would need to be based on assumptions about future market or macroeconomic conditions. But while conceding that finding an effective forward-looking metric would be difficult, Grant says many PLSA members believe it should be included in some form.

Some consultation responses also suggested additions. The PMI advocates inclusion of ESG disclosures in the VFM frameworks, in part because this would enable "a consistent adoption of ESG considerations being linked to member outcomes". PMI chief strategy officer, Helen Forrest Hall, points out that assessing management of climate risks could be particularly relevant to investing in productive assets.

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A more general concern is the possibility that the nature of the metrics used to assess investment performance might "encourage herding around whichever investment is going to look good against those metrics", as Grant puts it. The SPP response to the FCA consultation notes that this type of behaviour has occurred in Australia following introduction of a VFM framework.

**Waiting game**

The proposed RAG scoring system has also attracted criticism, as being "far too basic a measure for … a complex set of variables", as the PMI puts it. Sackers partner and leader of its DC practice, Jacqui Reid, says RAG ratings prevent differentiation between schemes that are rated green, while also effectively condemning those receiving an amber rating. The PMI suggests a system based on five ratings, including variants of amber leaning towards either green or red allowing for future improvements. The SPP suggests amber be defined as "VFM with room for improvement", with perhaps two years allowed for improvements.

SPP DC committee member, Tim Box, questions whether an amber rating should prevent a provider accepting new contributions (or employers, in the case of a multi-employer arrangement). The SPP questions an amber rating being given to a multi-employer arrangement if VFM is being provided to some of the employers and members using the scheme.

The SPP argues that the consequences of a red rating should include several options for transferring members to other schemes or arrangements. This would mean settling the question of 'without consent' bulk transfers. It acknowledges potential complications if the original scheme offered additional features such as guarantees, but suggests such issues can be resolved.

The SPP and others also note the possible requirement for a receiving scheme or consolidator of last resort to accept less economically attractive transfers.

There are also concerns about the efficacy of qualitative metrics to assess quality of service. In part this is because schemes with fewer resources may face practical difficulties in obtaining the necessary data, in part because evaluations tend to be subjective and the interpretation of questions can vary considerably.

For now, though, we wait: To see how responses to the 2024 FCA consultation are used to adjust the proposals for the contract-based schemes VFM framework; and to see what will be included in the Pension Schemes Bill as a basis for trust-based schemes' VFM framework.

In the meantime, attitudes towards VFM will vary considerably, depending on the circumstances in which a scheme or a provider finds themselves, says Standard Life retirement savings director, Mike Ambery.

"This is relatively easy for us, as a big provider, but others may find it costly and feel it is not valuable for them to go through this process," he says.

**Written by David Adams, a freelance journalist**