

## Significant progress on new Value for Money framework

### What you need to know

- The Financial Conduct Authority (FCA) has published a further consultation paper on the new Value for Money (VFM) framework, for workplace defined contribution (DC) pension schemes. This incorporates industry feedback provided as part of the 2024 consultation.
- There are some significant changes to the framework outlined in 2024, including a greater focus on forward-looking metrics, an expanded rating system intended to avoid herding and reward superior performance, and an online central database to disclose VFM data.
- The proposed scope remains unchanged from 2024. Exclusions are likely only for very small legacy entities, and certain types of plan (e.g. executive pension plans and small self-administered schemes).
- Whilst the consultation continues to be driven by the FCA, the policy intent is for alignment with trust-based schemes and consultation on draft legislation and guidance from the Department of Work and Pensions (DWP) and The Pensions Regulator (TPR) will follow in due course.
- Subject to passage of the Pension Schemes Bill and subsequent FCA and DWP/TPR rulemaking, the intention is that VFM requirements for trust- and contract-based schemes come into force together, with first mandatory VFM assessments required in 2028. Regulators will run further consultations, roundtables and stakeholder events before finalising rules and secondary legislation.

### Actions you can take

- **Plan** for the key steps required to complete the inaugural VFM assessment under the new structure. Data collection and metric selection will likely be the most time-consuming steps and need to commence in 2027.
- **Consider** the future direction of your DC scheme, in light of increased overall governance requirements and innovations in routes to consolidate. Should you govern, or consolidate?
- **Respond** to the consultation by 8 March, either individually or sharing feedback with XPS. Stakeholders from both trust- and contract-based schemes are encouraged to respond.

## Key elements of the new framework, at a glance

VFM Framework stage	Brief summary of what this means for in-scope arrangements
<b>1. Measurement and submission of scheme metrics</b>	Data on investment performance, asset allocation, costs and charges, and service quality in a consistent manner. For the inaugural process, data for the year to 31 December 2027 must be disclosed by 31 March 2028.
<b>2. Assessment of performance against other arrangements</b>	The scheme's governing body must use the data to carry out a comparison with arrangements offered by commercial providers (multi-employer schemes open to new employers). Information from these providers will be available in an online database.
<b>3. Public disclosure of assessment outcomes</b>	The assessment must culminate in a four-point rating, explicitly identifying top performers (dark green) as well as high (light green), medium (amber) and poor (red) value, with ratings and key metrics expected to be made publicly available to employers, advisers and savers. The report must be published no later than 31 October (i.e. the first being 31 October 2028).
<b>4. Specific actions where an arrangement is assessed as 'not VFM' (i.e. red or amber)</b>	Arrangements assessed as 'amber' must take action to deliver improved VFM 'within a reasonable period'. Arrangements assessed as 'red' must consider transferring affected savers to an alternative arrangement if this is in member best interests. Multi-employer arrangements assessed as 'red' or 'amber' will be not be allowed to take on new business from new employers.

# The finer detail: Key changes since 2024

## More focus on the future

The FCA proposes that a greater number of forward-looking investment performance metrics are used in the assessment to complement backward looking counterparts, to ensure decision makers focus on improving member outcomes into the future and providing better long-term outcomes for members.

The FCA recognises that forward looking metrics could allow gaming of assessments and has proposed measures to limit this risk.

## Number of metrics

The number of metrics required in terms of assessing cost and past investment performance has been reduced from earlier proposals. For example, investment performance over a 15-year time horizon will no longer be required. The driver behind this change is to help reduce costs and limit the disclosure burden.

Whilst the workload involved in producing a VFM assessment has reduced versus the earlier proposal, it will still likely be greater than the existing requirements.

## Quality of service and member engagement

The quality of services pillar focuses on measurable operational aspects such as data quality, the timeliness and accuracy of core financial transactions, service levels, and complaints and error rates, primarily at the platform or service-provider level. Engagement metrics and standardised member surveys, which were previously proposed, are now deferred.

Regulators accept that more work with industry is needed as current requirements and proposals for guided retirement and targeted support are embedded to ensure that any future engagement measures are robust, comparable and not unduly burdensome.

## Comparators

The 2024 consultation draft noted the requirement to use three comparators as part of the assessment (two of which had to have assets above £10bn, with coverage across the trust and contract based universe). The proposals in this consultation differ significantly.

A central database of metrics will be created and comparator groups will need to be derived from this database to benchmark investment outcomes, costs and service quality against a broad peer group with similar characteristics.

## Ranking system

The 2024 consultation proposed a red, amber and green (RAG) framework. The recent consultation expands the green category into dark and light green categories (RAGG).

A dark green score suggests limited improvements are required whilst light green means that whilst quality outcomes are already being provided, further improvements are possible. Additionally, there are more severe repercussions required for arrangements rated as red.

The VFM framework will be a critical component of DC pensions policy, it will be a significant time commitment for schemes and will have a large impact on the industry into the future. We have already started to consider our response, and should you wish to input via XPS please confirm your thoughts to your XPS consultant. All scheme's governing bodies should start considering whether it plans to govern or consolidate, and if govern how it will deliver on these new requirements.

## Find out more

For further information, please get in touch with **Pranesh Gathiram, Neil Maines** or speak to your usual XPS Group contact.



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