



FCA-TPR: The Value for Money Framework: Response to consultation, further consultation and discussion paper

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

Key points

In defined contribution (DC) schemes good outcomes for members can generally be achieved through a combination of putting enough money in, making that money work well in the savings phase, and making the most of that money in the spending phase. The proposals the FCA is consulting on in [CP26/1](#) address the middle of these but need to be considered in the context of the others.

We believe the Value for Money (VFM) framework should be judged in terms of how it will operate alongside wider reforms such as the Pension Schemes Bill's £25bn scale test, contractual overrides and Default Pension Benefit Solutions (DPBS). In this context we are concerned that VFM risks harming other policy initiatives by creating unnecessary burdens and reducing market competition.

On the proposed investment performance metrics, we are concerned that the backward-looking metrics do not sufficiently allow for derisking towards retirement or changes of strategy, while the forward-looking metrics are inherently subjective, gameable, and difficult to compare. We believe that proposals are needed to create a fair basis for comparison of prospective returns.

The framework has, in our view, been weakened by excluding key factors such as ESG as a source of future risk and return; and engagement metrics as a source of customer trust.

Finally, we have concerns that the proposed sanctions regime may overly accelerate consolidation, reducing choice and increasing systemic, 'too big to fail', risks. We are not convinced the sanctions of the VFM regime are needed to further hasten consolidation. Instead they might put smaller employers in particular at risk of failing in their auto-enrolment duties.

Beijing	Room 512 · 5/F Block A · Landgentbldg Center · No. 20 East Middle 3rd Ring Road · Chaoyang District Beijing · 100022 · People's Republic of China	Tel: + 86 10 5878 3008
Edinburgh	Space · 1 Lochrin Square · 92-94 Fountainbridge · Edinburgh · EH3 9QA	Tel: +44 (0) 7632 2100
London (registered office)	1-3 Staple Inn Hall · High Holborn · London · WC1V 7QJ	Tel: +44 (0) 7632 2100
Malaysia	Arcc Spaces · Level 30 · Vancouver suite · The Gardens North Tower · Lingkaran Syed Putra · 59200 Kuala Lumpur	Tel: +60 12 591 3032
Oxford	Belsyre Court · 1st Floor · 57 Woodstock Road · Oxford · OX2 6HJ	Tel: +44 (0) 7632 2100
Singapore	Pacific Tech Centre · 1 Jln Kilang Timor · #06-01 · Singapore 159303	Tel: +65 8778 1784

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the FCA consultation CP26/1 on the proposed Value for Money Framework. This response is prepared by the IFoA's Pensions, Finance & Investment, and Sustainability Boards. We have set out an overview of the proposals as a whole rather than answering the specific questions in CP26/1.
2. Our response reflects the IFoA's Royal Charter mandate to reflect the public interest in our comments.
3. The IFoA supports the broad aims of CP26/1 of increasing transparency around pension provider performance with the aim of improving it and helping to improve member outcomes. However, the Value for Money (VFM) framework must be seen alongside wider reforms such as the Pension Schemes Bill's £25bn scale test, contractual overrides and Default Pension Benefit Solutions (DPBS), which each mean that the VFM requirements may have been overstepped; risk unnecessary burden and reduced market competition; and in some cases may actively damage newer policy initiatives. The framework's scope also contains inconsistencies, particularly when small defaults will be included or excluded depending on scheme structure rather than the desire to ensure participants are consistently offered value for money.
4. The proposed investment performance metrics raise concerns. The proposed backward-looking metrics do not sufficiently allow for derisking towards retirement or changes of strategy; and may create performance figures no member could experience. While we understand the need for forward looking metrics to justify increased investment in private markets, they are inherently subjective, gameable, and difficult to compare. Proposals are needed to create a fair basis for comparison of prospective returns, centralising the assumption setting. In addition, realised and prospective returns should never be combined into one figure.
5. The framework has, in our view, been weakened by excluding key factors such as ESG as a source of future risk and return; and engagement metrics as a source of customer trust. Their exclusion from the previous proposals is concerning and has put more focus on performance. This may be appropriate for propositions aimed at populations with lower propensity to engage, but cannot represent VFM for the market as whole.
6. Finally, we have concerns that the proposed sanctions regime may overly accelerate consolidation, reducing choice and increasing systemic, 'too big to fail', risks. Given the multi-employer market will already need to consolidate to meet the Main Scale Default Arrangement requirements by 2030 we are not convinced the sanctions of the VFM regime are needed to further hasten consolidation. Instead they might put smaller employers in particular at risk of failing in their auto-enrolment duties by the disruption to their existing provider.

Scope

7. The IFoA is supportive of the broad aims of CP26/1 being to improve the performance of pension providers and therefore improve retirement outcomes for members. Under the current system, it is employers who select the pension provider for their employees, and it is typically the pension provider who selects the investments that a member may hold for several decades. It is sensible then, that where these decisions are being made on a member's behalf, some form of performance assessment should apply.

8. However, the framework proposed in the consultation needs to be reconsidered as part of the broader suite of changes proposed in the Pension Schemes Bill. For example, the proposal for contract-based and multi-employer trust workplace pension providers to have a minimum of £25bn scale in a single qualifying default fund by 2030 is intended to ensure that providers have enough scale to deliver value to members. Value is clearly also the aim of the Value for Money Framework, which provides a mechanism to quantitatively assess the performance of pension arrangements. However, it appears duplicative that some schemes will be subject to *both* these requirements. Introducing both a scale test and this proposed Value for Money assessment creates additional regulatory burden on multi-employer schemes and risks reducing competition and choice in the market by closing down otherwise high-performing, smaller-scale multi-employer schemes.
9. Referring to paragraph 2.25, trust-based arrangements which are actively working towards transferring that arrangement to a value arrangement but have not yet agreed an alternative provider should not be required to carry out a further full assessment. Trustees should be permitted to demonstrate that work is underway to identify and select a better arrangement rather than carry out a further assessment and waste trustees' resources (time and money) without improving the member outcome.
10. There will be a number of default or quasi-default arrangements with fewer than 1,000 members which are out of scope of this framework, and it is unclear what principle is being applied here. For example, default arrangements for 800 members would be in scope as the main default of a scheme but out of scope if another larger default was in the scheme. It is unclear why the 800 members of the arrangement should have the protections of the framework removed because another default is alongside theirs. Continuation of unassessed arrangements that would otherwise be rated as 'Not Value' is detrimental to the retirement outcomes of members and a more consistent principle of scope should be established.

Limitations of proposals

11. The stated aim of the framework is to provide savers with 'better value pensions'. Initially under the proposals consulted upon under "Value for Money: A framework on metrics, standards, and disclosures" the metrics could be anything the trustees or IGC could justify as improving pension outcomes. In this consultation the metrics are almost entirely focussed on realised and prospective investment performance. This is disappointing and risks creating a market biased towards defining value only as default performance, not the provision of well-performing choices, encouraging additional contributions, advice, or the myriad of other innovations we anticipate in this market which could improve outcomes for different cohorts of participants.
12. In respect of the performance metrics, it is also disappointing that there is no assessment of the quality or skill of the strategy and governance process as opposed to the luck of markets in rewarding or harming the chosen portfolio positioning. The framework seems to assume that a low-volatility positive outcome must be the result of a repeatable investment process, but even over ten years this could be attributable to luck and not skill, and recent returns of current low-cost passive portfolios could be described as the result of good luck. Depending on investment beliefs, this is of greater importance when investing in high-cost assets with high dispersions of outcomes, such as private markets, than with global market cap-weighted portfolios. Particular areas we would encourage the framework to include are responsible investment governance and a lack of reference to retirement products. These

may require different investment objectives beyond capital appreciation, particularly in the light of the Default Pension Benefit Solution envisioned by the Pension Schemes Bill 2025.

13. Finally, we would note that the proposed reporting requirements are extensive but are not of direct use to members. For a provider with multiple default arrangements, this may take considerable effort from both providers and IGCs and provide nothing to help members understand their different arrangements' value for money. Whilst the data may have a purpose, it is unclear how useful it will be to employers in selecting a better pension for their employees, or to employees in understanding whether to consolidate their assets into one of the arrangements they may be a member of. We would encourage further consideration on consolidating the required disclosure for both efficiency and usability of the output. Ultimately a data platform envisioned by the government should be configured to enable individuals to understand the performance of their arrangements. This can then help generate value for money data, whereas a platform designed for value for money calculations would not easily produce performance data.

Investment Performance

14. The current suggestion for assessing investment performance includes a combination of Backward-Looking Metrics (BLMs) and Forward-Looking Metrics (FLMs) but it is unclear how the proposal either relates to actual past performance or can be relied on to sensibly compare expected future performance. BLMs only capture the 'point in time' returns at 30, 5 and 0 years before retirement. The period between 5- and 0-years pre-retirement is when most change is expected to a portfolio as a member approaches retirement, but this derisking is not captured by the current proposals. FLMs, as they are currently designed, are subjective and incomparable between providers.
15. Where members have access to actual returns achieved through annual statements or through a pension dashboard, providing additional data that is not comparable may cause confusion.
16. The easiest way to compare investment performance across arrangements is to use actual historic performance data (or BLMs). While historical performance is not necessarily indicative of future performance, this data will be useful in assessing relative performance against other arrangements over longer periods. Where an arrangement has poor performance against peers over a period of time this should be explainable and, if deemed necessary, the provider may choose to change their investment strategy. Where the underlying investment strategy of an arrangement is changed, the performance figure should not be adjusted with expected future returns. FLMs may be used as part of the rationale for a change in strategy but should not be used as a replacement for historical performance.
17. It is difficult to see how a reliable comparison can be made using FLMs where the expected return of the arrangement is calculated using provider-generated assumptions on asset class returns. This creates a clear incentive for schemes to maximise the assumptions used in this calculation to either 'survive' by being assessed as 'value' or to achieve a dark green rating which can be used at tenders for new employers. Assumptions on future returns are useful tools when accompanied by relevant warnings and expertise, but it may be dangerous to apply them to a framework such as this where the consequence of underperformance is forced closure.
18. In addition, asset class assumptions will be based on the opinion of the provider's investment team or independent advisers, who will likely have a different opinion from another investment team or

independent adviser unless the same methodology is applied to historical data. Under this scenario, it would be more sensible for a single set of granular asset class return assumptions to be provided by regulators for schemes to use in FLM calculations. We understand that there are fears a central set of assumptions would exacerbate the clustering risks as providers would use them to construct the same portfolio, but this is not realistic. Return assumptions alone cannot be used to construct a unique portfolio for one objective without volatility and correlation assumptions which a central assumption set would not need to provide.

19. We are supportive of allowing IGCs/trustees to attribute value to schemes with valuable additional benefits (e.g. options/guarantees) where the value assessment would otherwise deem the arrangement 'Not Value'. Awarding a 'Not Value' assessment may encourage savers to transfer out and risk missing out on those benefits. Providers should still be aiming to improve underlying investment performance in these arrangements where the product design enables this.

Importance of retirement solutions

20. The assessment of performance is split into 3 cohorts 30YTR, 5YTR and 0YTR with no further split by intended retirement solution. The investment portfolios at 5YTR and 0YTR for defaults which target annuitisation or other DPBS as a result of government initiatives are not well assessed for quality using portfolio growth measures. Generating retirement income at low risk requires hedging approaches uncorrelated with growth objectives. The VFM framework as proposed disincentivises providers to protect member retirement incomes in the run up to retirement.
21. The Pension Schemes Bill has proposed 'Guided Retirement' solutions to be mandatory, which will provide a regular income to members over their retirement. At this stage we do not know what form these solutions will take. They may be a blend of annuities and drawdown, a 'flex first, fix later' solution or Retirement CDC.
22. Where different providers have different solutions for guided retirement products, they require different investment strategies in the lead up to retirement and investment performance which will be measured against different success criteria. Any Value for Money Framework based solely on the success criteria of increasing capital values will not be in line with 'Guided Retirement' solutions and associated regulation for those closer to retirement.

Sanctions regime

23. The IFoA notes that the sanctions on arrangements that are underperforming, even at Amber rating, could effectively result in the closure of the arrangement. Although 'Non-Value' arrangements will be allowed to continue to receive contributions from existing employers, the closure to new employers will likely lead to engaged employers switching out, which could quickly reduce the commercial viability of the arrangement and make improvement an unlikely outcome. Hence an Amber rating in particular should not be given lightly.
24. The continued closure and consolidation of schemes will eliminate choice for members and employers and lead to a system where pension providers are 'too big to fail'. The lack of choice will be more

pronounced for smaller or lower income employers who typically have less choice in providers for their schemes and may put their auto-enrolment duties at risk.

Summary

25. We are supportive of the principle to increase the quality of pension schemes and therefore the intent of improving member retirement outcomes, but we recommend the government carries out further consideration of the scope of the framework in duplicating and conflicting with upcoming policy changes; and the components of the framework and whether they will truly incentivise the industry to innovate in the directions expected.

If you would like to discuss any of the points raised in this response please contact me in the first instance – Matthew Levine, Policy Manager matthew.levine@actuaries.org.uk .

Yours Sincerely,

Matthew Levine
On behalf of Institute and Faculty of Actuaries