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The Value for Money Framework

Response from the PMI

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Response to the FCA Consultation on the Value for Money Framework from the PMI

Introduction

The PMI is the professional body which supports and develops those who work in the pensions industry. The PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 7,500) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry.

The PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

We trust that the feedback on the following pages proves helpful.

Executive Summary

- The PMI supports the over-arching concept of a value for money framework, and it is with that in mind that our detailed comments to the response should be read.
- Our comments, questions and concerns are intended to constructively add to the debate and to help find a way forward which achieves the purpose of the framework for savers, whilst also proving a fair comparative basis between providers without being overly burdensome for industry and practitioners.
- We agree that a VFM assessment framework is beneficial for consumers and ultimately member outcomes.
- However, we are deeply concerned over an extensive and onerous set of new requirements and standards upon an industry that is already devoting many resources on several legislative initiatives (such as Pensions Dashboards).
- We are also alarmed over the complexity of some of the disclosures, calculation methods and depth of information being proposed as overly prescriptive, from what should be a "principle based" regulatory system supporting market objectives.
- The RAG status approach and penal consequences for an amber rating is of deep concern to the PMI. As we noted in our submission to the recent Pensions Investment call for evidence, Government must avoid herding towards a set standard which is "ok", versus stifling innovation and/or a desire to do better. If Green is "ok" we suggest that there should be a further rating to recognise where results have exceeded expectations against set objectives, rather than ratings just focussing on falling short.
- Beyond the disclosure requirements set out in the framework, the PMI is also concerned about how the results of a VFM assessment might be communicated to members and the potential for misunderstandings and negative reception. We already have mass disengagement towards our pension system, as highlighted by auto-enrolment and the >c.90% (*2023 Broadridge data) of default savers in our market. Adding complexity to member communications or reporting, will not engage consumers better, it is far more likely to disengage them completely and reverses us away from the intent of initiatives such as the simplified annual statement.
- It would be a lost opportunity not to incorporate TCFD/TNFD ESG requirements into VFM. Separate, or worse, conflicting standards of reporting are already rife in our industry and unhelpful at best. Coordinating what's good for the planet to support good member outcomes is on obvious place to start.
- Lastly, the linkage to government ambitions to raise UK investment alongside increasing exposure to private market investments is concerning. On the one hand, government wants to increase UK investment. On the other, it wants to improve member outcomes and demonstrate value for money. The PMI has deep concerns that these two issues are being conflated but are deeply and inherently misaligned. We give the example in Q.13, but if US equities performed at c.20% in 2023 and UK performed at c.6% in the same period, encouraging UK listed investment is simultaneously encouraging investment in a worse-performing asset class. This does not represent VFM or good member outcomes.

Scope and thresholds

Question 1: Do you agree with the proposed scope, thresholds and exclusions? Why or why not? If not, what alternatives would you suggest?

Question 2: Do you agree with the proposed application of the 80% threshold to determine whether legacy arrangements are quasi-defaults? Why or why not? If not, what would you propose?

Question 3: Do you agree with the proposed 1,000 member threshold? Why or why not? Do you think there are risks around this level, for example excluding too many savers? If you don't agree, what would you suggest?

We agree that the initial focus of the value for money framework should be on workplace defaults but would like to see the framework evolve over time, so it encompasses the retail sector and outcomes in retirement (i.e. decumulation). Our view is that all members saving into or benefiting from any DC pension deserve to receive value for money with the transparency and metrics that come with the framework to support that assessment.

While we note that the FCA is trying to reduce the burdens on providers and schemes through excluding certain schemes due to their size, we think this runs counter to the overarching policy objective which is to improve value for all members. It also runs counter to wider policy objectives of delivering a more consolidated pensions market. While the FCA is right to think about proportionality and burdens, we think that consideration should be given to how the framework could be adapted to ensure all arrangements are in scope, regardless of size, with maybe a 'lighter' version of the framework developed for smaller arrangements.

Investment performance

Question 4: Do you agree with the proposed investment performance metrics? Why or why not? If not, what alternatives would you suggest?

The PMI broadly agrees with the proposed approach outlined. However, we would make observations for your consideration:

- In line with desires and ambitions towards asset owners in pensions to grow private markets exposure for accessing illiquidity premia and the government's productive finance agenda, we are unclear if there will be any/much difference between the three approaches outlined i.e. where transaction cost disclosure is less transparent or not as readily accessible in private markets than with public markets and in particular, passive instruments, how will this be reasonably requested and reported?
- You may need to consider where private markets - which may not even have a cost to disclose i.e. an infrastructure project - might need to anticipate future costs requires a different set of rules and/or how you apply this methodology to an LTAF structure as an example.
- The desire to have transparent and backward-looking performance metrics is helpful for the fiduciary decision makers and those setting the strategic asset allocation (SAA) for default funds. However, we note that this detailed level of information and its intended use, needs to be targeted towards those charged with making financial decisions for and on behalf of consumers i.e. investment proposition development teams, investment managers and advisers, not the consumers.
- The desired-for simpler information for customers will not be aided by adding three different measures of backward-looking performance that the member is unlikely to understand or appreciate widely.
- For reporting (4.6-4.8) we would caution the Regulator against the level of detail you are seeking to either request information on or to pass information towards any member. The system and administration changes required to successfully report in this level of detail would require material changes to industry reporting; and there are far bigger systemic market issues to fix. We feel this is better handled by guidance towards investment managers and proposition design functions overseeing the design and maintenance of default funds for the industry, where this level of detail is routinely used already and where appropriate boards (including IGCs) will already oversee investment change.

Question 5: Do you agree with the proposed calculation methodology? Why or why not? If not, what alternative methodology would you suggest?

The long-term benefits of market volatility in a growth engine for regular savers is well publicised. Whilst the metrics and calculation methodology appear sound, the PMI's concerns would be that there is no linkage to overall performance net of charges/fees (as cited above) but crucially net of inflation - which is the biggest long-term savings risk for long term savers in eroding capital value and buying power of savings over time. The PMI would encourage the FCA to consider a calculation methodology which actively encourages and promotes long-term performance against inflation net of fees rather than purely net and gross performance, only including fees.

Question 6: Do you agree with the proposed requirement for chain-linking? Why or why not? If not, what would you propose?

We agree chain-linking is a pragmatic way of taking into consideration any historic investment or SAA designs which change to a new structure over time.

Question 7: Do you agree with the approach to in-scope legacy arrangement features? Why or why not? If not, what alternative approach would you suggest?

We agree with the approach to legacy schemes but would caution against setting a sweeping side standard which could be adopted to use different reporting metrics. We suggest the in-force dates which are acceptable to report legacy arrangements are set by the regulators (i.e. FCA and TPR) to avoid disparity.

Question 8: Do you have further feedback on the incorporation of forward-looking metrics within the Framework? If included, how prescriptive do you think we should be on assumptions and methodology, and what would you propose?

We agree that setting forward looking metrics is complex, and we recognise the concerns about overestimating future returns to attract new business, or other ways of "gaming the system". However, within reasonable tolerance of all event horizons known today, sophisticated stochastic modellers and tools can accurately predict the worst and best case scenarios which are most likely. These same tools can predict an overall mean average "most" likely scenario based on historic returns, even for complex multi-asset portfolios. As such, we would welcome further exploration of how these tools could be used in prospective forecasting on future benefits. This would allow Government and regulators to have better, more transparent data with regards to improving member outcomes over time as a direct result of introducing VFM measures.

The PMI's biggest concern in adopting any such forward looking metric again comes back to the complexity of private markets, where future valuations of individual investments can fluctuate wildly. Better data would also need to exit on historic returns for private markets too before a measure would be useful to decision makers on investments.

Asset allocation disclosures

Question 9: Do you agree with the approach to asset allocation disclosures? Why or why not? If not, what would you suggest? Do you think asset allocation disclosures will support better decisions in the interests of savers?

Whilst the PMI warmly welcomes closing the gap between contract and trust asset allocation disclosures, for the same reason there is a current disparity across the two regimes, we would caution Government against setting a new disparity as an unintended consequence.

The PMI would like to see the adoption of a consistent set of standards across DWP/TPR world and Treasury/FCA world.

So, whilst we have no issue with sub-asset class reporting standards and new suggestions also being included, we would like to see uniform adoption of TPR trust standards, consistently. Our plea then is to adopt these same set of standards across trust schemes too and have a consistent, uniform set of reporting requirements across the industry.

Question 10: Do you agree that asset allocation disclosures should be limited to firm designed in scope arrangements only? Why or why not? If not, how would you broaden this requirement and to what arrangements?

Yes, we agree this is the simplest and most pragmatic way to secure asset allocation disclosure.

Question 11: Do you agree that we should require the disclosure of the overall asset allocation of the whole arrangement, as well as for the YTR points? Will this be of use to firms, and will it be an added burden to disclose?

We would be concerned at adding potentially unnecessary disclosure burdens on industry.

Question 12: Do you agree with the proposed definitions for UK assets? If not, what would you propose?

There is a question to consider before getting to this stage which is whether the actual disclosure of the split of UK and non-UK assets would itself serve any purpose. We think not, and are not convinced by the reasons you put forward in 5.10 as to why it should. Most of the reasons you cite will already be considered by most decision makers acting in a professional investment capacity. We are concerned that the underlying motivation for requiring a UK/ non-UK split is to ultimately coerce by "soft" or "hard" means pension schemes to invest more in the UK when the case for doing so is not proven (see our answer to Q13).

Having said that, if you do proceed with this then we agree with the proposed definitions but would restate the caution noted in the backdrop of subtext for double counting (5.16/5.17). With such a heavy use of passive building blocks within multi-asset default arrangements, gaining meaningful disclosures at the stock level for public markets will be incredibly hard to keep accurate in real time. Unless there was a specific reason i.e. tax incentive for using UK domiciled assets, we would question the practical use for this information.

We also believe that it seems overly simplistic to assume that "*a primary listing on a UK market and constituents of UK market indices*" is a UK asset since many companies listed in the FTSE100 are global businesses and therefore we ask again what is the requirement of a UK/ non-UK split actually trying to achieve?

Question 13: Do you think we should break out 'Quoted but not listed' (eg AIM) and if so, how would that be useful? Would there be additional cost to doing this and can you indicate how much?

PMI does not have evidence about how much additional cost might apply. However, we do hold a view that it is unlikely UK large cap listed assets will offer the same portfolio growth opportunities as small cap i.e. if US equities performed at c.20% in 2023, and UK performed at circa 6%, it is an irrelevant question. Better member outcomes would have been achieved by investing in US or global equities. Therefore, Government and regulators need to be more concerned with where the UK can support better member outcomes.

Costs and charges

Question 14: Do you agree with the proposed costs and charges metrics? Why or why not? If not, what alternative metrics would you suggest?

We agree with the proposal not to include transaction costs. We agree that providing 'Total Costs' is reasonable in principle and that reporting needs to be fair across the whole sector.

We believe that treating an employer subsidy as part of the charges and costs paid by members is a bad idea and runs counter to assessing VFM as it applies to members.

There is a need to keep the focus that value for money is for the member. We don't want to drive out employer subsidies, nor do we want to stifle innovation, which single employer trusts can help drive without the constraints that commercial providers may have.

Question 15: Do you agree that historic costs and charges information should be calculated in the first year of implementation, rather than waiting for this data to build over time? Please explain your answer. If you do not agree with either approach, what alternative would you suggest?

We disagree with providing costs and charges in the first year. The consequences of focusing on the short term could negatively impact members, and the providers (i.e. being closed to business, stifle innovation, disruption of moving to new scheme, additional time and cost burden on employers).

We would like to see the data built over time and see the three year and five-year figures as critical. Without these, it will be difficult to make a fair comparison and to drive consistency.

As an alternative approach, we suggest reporting on the year one period as a narrative only (without comparison) and from year two onwards, schemes reporting and assessing data (including colour-rated comparison).

When comparing integrated v non-integrated schemes, we believe that the same criteria should be apply to all schemes thus phasing in data over a longer period to enable consistency and fairness for all.

We believe that the output / reporting needs to be targeted at the right audience which could lead to a 'two tier reporting structure'.

1. Member facing. Propose colour ratings at year 2+ onwards. Use a one pager, rainbow gradation (e.g. five grades/colours) to quickly show to the members of where their scheme sits on value for money. Page 2 could provide a simple narrative.

2. Regulator facing. Data can be exported in full, flat form.

Question 16: Do you agree with our proposed approach to converting combination charging structures to annual percentage charges? Why or why not? If not, what alternative would you suggest?

Our concern with your proposed approach is that it will be theoretically possible for schemes using combination charging to take advantage of this estimated approach for commercial reasons. Since some of the largest master trusts use combination charging it is vitally important that comparisons can be done on a true like for like basis.

Please also see our comments in Q25 about where such schemes are used as comparators.

Question 17: Do you agree with the proposed approach to unbundling? Why or why not? If not, what alternative would you suggest?

We understand your intention for your approach here to be proportionate and not overly burdensome.

However, we are concerned that any approach which uses approximations for some providers, but not all, is not applying a fair and consistent approach across the whole market.

There will be additional work to do on how to unbundle costs where there are relating to shared services (i.e. in-house comms) for big providers/consultancies. These firms need to provide fair value of all elements in 'service costs.' It is important that cross subsidies of costs are clearly identified and transparent for integrated service providers and that these represent market rates – identifying and pricing these will be essential to compare like for like.

We would question if this approach would be realistic across the board. It might perhaps only be available to large/commercial arrangements. We believe it goes against where the market is going.

Question 18: Do you agree with the proposed approach to multi-employer cohorts? Why or why not? If not, what alternative would you suggest?

We believe that comparing cohorts at 30YTR provides a comparable and fair approach. We do not see the value in using other YTR comparators.

We believe that too many data sets are currently proposed for the asset and membership comparators for multi-employer schemes. As an alternative, we propose the following:

Employer size by asset bands

- Up to £1m
- £1m to £5m
- £5m to £25m
- £25m to £100m
- £100m to £250m
- £250m+

Employer size by number of members

- 1 to 99
- 100 to 999
- 1,000 to 4,999
- 5,000 to 9,999
- 10,000 to 24,999
- 25,000+

Quality of services

Question 19: Do you agree with the proposals on scope? If not, what alternative approach would you suggest?

The proposals in scope raise some technical difficulties. They seek an ideal world where one set of service quality criteria and assessment metrics can be drafted to fit the entire range of pension schemes and investment arrangements However, in the real world of multiple types of pension arrangements, regulated by two distinct regulators each with its own approach to regulation, we do not believe that it is possible to achieve this sought-after level of standardisation in practice.

As a result, the proposals, whilst generally reasonable and capable of being applied across all contract-based arrangements regulated by the FCA, do not all sit well in the context of trust-based schemes regulated by TPR, where various services may be provided by different parties (for example, administration and investment). In addition, the parties responsible for running contract-based arrangements are governed by contract law, whereas trustees are subject to trust law with its own unique demands on trustees. Consequently, there will be further work required to adapt the proposals to fit trust-based schemes and TPR's existing regulatory and enforcement regimes and capabilities.

Nevertheless, we do recognise that all savers should be entitled to expect a similarly high quality of services, regardless of the type of scheme through which they are saving for retirement. We agree therefore that the underlying principles driving the objectives of services quality should be consistent across all arrangements, where possible.

Question 20: Do you agree with the five proposed indicators of service quality? If not, what alternatives would you suggest, with metrics?

The five proposed indicators of service seem reasonable. However, with a trust-based scheme some of these services may be contracted to third parties. Whilst under trust law the trustees will ultimately retain a legal responsibility to beneficiaries for the provision of these services, in the first instance they will be reliant upon the contractual arrangements they have in place with the provider.

Under the proposals, the third-party provider will apparently be under a duty to collect, assess and publish the information in respect of each employer arrangement, including from member feedback. Further thought will need to be given to how this will fit with the same duties that the proposals would also separately place upon the trustees. It will be important to avoid duplication of work.

Question 21: For each of the five proposed indicators, do you agree with the proposed metrics for measuring these? If not, what metrics would you suggest? We would particularly welcome views on these metrics.

We believe that the metrics may be too simplistic to give an accurate picture upon which members, trustees and employers can rely in judging the arrangement. There should also be consideration to how these metrics are weighted. For example, members highly value the service they receive at critical decision-making points.

One potential issue if these are to be applied to trust-based schemes concerns the reporting end dates. We understand the attraction for comparison purposes of the use of a single effective reporting period (such as calendar year as you propose) but that would not sit easily with the reporting dates for trust-based schemes. The latter will vary between schemes. Adding this new requirement for a qualitative review will add to a scheme's administration requirements and therefore costs. The size of this additional effort will be exacerbated if it requires a mid-year collection, assessment and publication of data.

Question 22: Do you agree with our proposal to include a non-employer related email address and phone number when defining common data? If you don't agree, please explain why not.

We agree it is important that a scheme has multiple routes to communicate with members. Some of those routes should be non-employer related. Consequently, we agree with the proposals to include these items in the list of required common data.

However, whilst it can be reasonably expected that members will have access to a non-employer related phone, the same cannot necessarily be said for emails. If email addresses are to form part of common data, in order not to unreasonably prejudice the scheme's score, there needs to be the option of recording that the member has reported that they do not have an email address.

We also believe that regulators need to consider the impact of UK GDPR on this proposal.

Question 23: Do you agree with our proposals for an event-based member satisfaction survey? We would particularly welcome feedback on the trigger events and proposed questions.

A survey of the type proposed should provide some indication of the quality of service provided. However, we would caution that there are limitations to the accuracy of such a survey to show the complete picture. Consequently, the extent to which it is relied upon in any comparison against other schemes should come with a health warning.

Surveys are only as good as the responses they generate. As the consultation paper itself acknowledges, it is often a challenge to get members to engage with their pension scheme at all, let alone to answer a survey. In the wider world consumers are bombarded with requests to complete surveys after almost every transaction, and the public may soon – if they are not already – suffer from "survey fatigue". That does not bode well for the success of compulsory regular pension scheme surveys.

There is also a potential difficulty here with the read-across to trust-based schemes. Unless there is a specific rationalisation of the proposals, they could result in a member receiving a request from multiple parties (e.g. third parties providing specific services to the trustees plus the scheme itself) to complete a survey on their experience following a particular transaction. That is a situation that must be avoided.

It is also well known that part of the reason for the lack of member engagement is the public's poor level of understanding of pension matters. If, immediately following the completion of one of the transactions proposed, a member completes a survey, they might be simply so pleased to have apparently completed a transaction that they had been dreading, that they would give a positive score. However, their lack of understanding combined with that relief might encourage them to give an unduly flattering score, which would skew the scheme's overall score.

On the other hand, it is also well known that people are more likely to contact a provider to register a complaint than to report a positive experience – once again potentially skewing the outcome.

These are just a couple of examples of how a numbers-only based survey could easily give a misleading impression. Thought needs to be given to ways in which anomalies produced by factors such as these might be addressed, to produce more accurate results which would ensure a fair and accurate comparison against rival schemes. We know that incentives such as free shopping vouchers and entry to prize draws appear to improve the number of responses in other fields, but such things themselves could lead to an uneven playing field, as individual arrangements would have to decide what incentives, if any, to offer.

We believe that to produce more accurate results for this important factor it may be necessary to adopt a more sophisticated approach, such as involving a standard algorithm to be applied to the results of every scheme. This might require changes to the suggested questions to be asked in a survey.

Question 24: Do you think that a firm should be able to provide a saver specific view of access to tools and saver use across its digital offerings? If not, what metric would you suggest?

We are concerned that a proposal to draw service quality conclusions from the extent to which saver access tools are used, or to make a generalised subjective assessment of whether a decision taken by a member is “correct” risks giving a misleading result. It would fail to take account of specific circumstances of individual members which could quite validly deviate from any generalised view of what would constitute “correct” action. This would risk skewing results in favour of arrangements whose members follow a path of action which is concentrated around the most popular routes.

We cannot think of an accurate way of measuring this and consequently conclude that it is a proposal that should not be pursued.

Assessment and outcomes

Question 25: Do you agree with our proposed conditions for the selection of comparator arrangements? If not, what would you suggest?

We are highly concerned over the concentration risk of how larger providers in each sub-space of the market will skew data reporting or comparisons for smaller providers doing a really good job. This also links to the recent CFE Pension Review questions around scale not always being a good thing, so we reiterate similar comments here.

How your proposed conditions would link to prospective market disruptors and potential new entrants concerns us. An unintended consequence of this would likely lead to a potentially insurmountable barrier to entry, by setting an inadvertent £10bn bar/hurdle/rubber stamp on those providers above this level with lower asset providers being badged sub-scale.

We also note the requirement to compare against both contract and trust-based providers – this will necessitate that the VFM framework in both spaces is introduced simultaneously and is as near as identical as possible to ensure comparisons are fair.

A further issue is that at least one of the largest master trusts, and one which is likely to be chosen as a comparator, currently operates a combination charging structure. This makes the issue of converting combination charging structures to annual percentage charges as you address in Q.16 even more critical to get right.

Question 26: Do you agree with the assessment process we have outlined above? Do you have views on what should be considered a material difference in value relative to comparator arrangements? If you think that RAG ratings will not be sufficiently comparable, what refinements would you suggest?

In PMI's opinion, RAG is far too basic and crude a measure i.e. with only three stages, where either an amber or a red rating would close a provider's arrangement to new business, or worse a red rating leading to action that a provider could never recover from. This is far too basic a measure for such a complex set of variables. PMI would prefer to see a five-point scale (e.g. with an "amberish green" and a "reddish amber") where at least one of these five ratings indicate that improvement is required but would not lead to a provider closing its doors for new business, whilst a remedial action plan which is being acted upon. A five-point scale also opens the possibility of the top rating not just being "good" but of being "exceptional" which would enable providers to deliver a more positive "good news story" to its savers.

We are also concerned that an overly simplistic RAG rating system would make innovations in investment designed to improve member outcomes in the long-term to commercially risky to undertake. This would include productive asset investments which might show poor returns for members within the timescales being proposed under the investment performance assessment section (i.e. 1, 3 and 5 years) even though over a longer period such investments would outperform other asset classes.

Question 27: Do you agree that a multi-employer arrangement should be rated amber if it fails to deliver value for a material number of savers in relation to at least one employer cohort? If not, what would you suggest?

No, we do not agree. As noted above, RAG is too crude a measure and the Regulator MUST consider the consequences to providers, advisers, members and industry of receiving an amber rating. Setting a standard of defining what good looks like, does not mean that a single year performance below the line means bad. This is too crude and simple a classification.

Question 28: Do you have any concerns about our proposals for assessing bespoke in-scope arrangements? If you do have concerns, please explain them. If you anticipate negative effects, what can be done to address those?

This question is better answered by providers, PMI would caution against any negative effects on industry.

Question 29: Do you agree that IGCs should consider and report on whether their firm's current scale may prevent it from offering value to savers? If not, what would you propose?

We believe that super scale presents its own challenges in addition to those that Government or regulators might consider sub scale. However, we agree it is pragmatic for the IGC chair to comment if they feel that the business has specific challenges that it takes in to account when seeking to deliver against VFM objectives. Again, we consider here the specific use of private markets exposure to improve risk adjusted returns over the long term. This is clearly easier done for larger providers with scale to reduce/manage private market costs by volume of assets under administration.

Question 30: Do you agree that IGCs should consider how ESG considerations have been taken into account across firm-designed in-scope arrangement? Do you think this is sufficient and if not, what would you suggest?

As with a similar response in Question 9, it is unhelpful to industry that there is already a plethora of reporting requirements for IGCs and Trustees when setting investment objectives and reporting outcomes to different bodies - specifically in relation to ESG objectives and outcomes.

The PMI would like to see TCFD/TNFD requirements being incorporated into VFM policy. This would pave the way for a consistent adoption of ESG considerations being linked to member outcomes. This would also link Trustee and DWP/TPR policy to that of the FCA and create a more uniform industry standard across the board.

Actions for arrangements offering poor value

Question 31: Do you agree that firms should inform employers of amber and red ratings and proposed steps to address the poor value, where an employer's current and past employees are at risk? If not, why not and what would you suggest?

We agree with the principle that if the VFM framework is to have teeth then there needs to be appropriate sanctions/action to improve value for money.

However, we think that the RAG rating system is too simple and will create too strong an incentive for IGCs to conclude a green assessment is appropriate. As noted above, we'd like to see two additional ratings added into the assessment - red/amber and green/amber with appropriate sanctions around these assessments as we think this would deliver less herding around a green rating and will make actions following on from a VFM assessment less binary in nature.

Question 32: Do you agree that firms should not be allowed to accept business from new employers into an arrangement rated amber or red? If not, why not and what would you suggest?

We agree with the sentiment but see answer in relation to Question 31 suggesting a slightly more granular approach to the RAG rating.

Question 33: Do you agree with our proposed actions and timings for firms with arrangements rated amber or red? If not, what alternative approach would you suggest?

Yes, we broadly agree, but see answer in relation to Question 31 suggesting a slightly more granular approach to the RAG rating. We also think the DWP and/or Pensions Regulator will need to think carefully about timings and implications for the trust-based sector through a separate consultation exercise.

Question 34: Do you think that we should require firms to transfer savers out of red-rated arrangements, subject to enabling legislative changes? What are the costs associated with the proposed actions and are they proportionate? If you don't agree with our proposed actions, what would you suggest?

We believe that if the VFM framework is to drive change then members should not be left languishing in schemes or with providers that provide poor value for money. However, "*requiring*" firms to transfer savers out of red-rated arrangements is very strong and, for the reasons we set out in Q.35 below, this could be detrimental to some savers. But we strongly support changes to legislation that will *permit* providers to transfer savers out of red-rated arrangements where it is in the saver's best interests to do so.

Question 35: Do you think that requiring transfer from arrangements could benefit one group of savers to the potential detriment of others? If so, please explain and can you suggest an approach that doesn't risk detriment to some savers?

There are two aspects to this.

The first is where a group of savers within the *transferring* group will suffer detriment because of the transfer. This could apply to savers with HMRC tax protections, guaranteed benefits or who are close to retirement age and would not benefit from a transfer.

The second aspect is where this approach applies to a large multi-employer arrangement (i.e. commercial master trust) there may be detriment where a large proportion of assets are transferred out. This would lead to the residual arrangement being of a smaller size by members/value and potentially leading to. The attractiveness of such arrangements lowers as the economy of scale reduces/overall charges increase. Having said that, it would not be right if a group of savers were "trapped" in a non-VFM arrangement because of concerns about the impact of a bulk transfer out on a provider's other arrangements.

Disclosure requirements

Question 36: Do you agree with our proposals for how the Chair's annual reports should be expanded to include the results of VFM assessments? Are there any proposed elements that in practice would not be useful?

We understand that it is important that useful information be provided to members. Regarding the chair's statement, it is already a substantial and lengthy document that is not engaging to many members. Adding further material to it may mean this objective is less likely to be achieved.

One option may be providing a VFM summary that could be appended to a chair statement or standalone. When preparing any summary there is a concern it may miss useful detail and no one summary would necessarily suit all members. However, we think a shorter, more engaging summary style would be the right way forward.

As regards the table in 10.5, it would be helpful to understand what of the proposed table will be visible to the member and what is for the purposes of the FCA and/ or consultants. We note the table currently includes some scheme wide information (e.g. number. of active and deferred members). The member will be interested in what impacts them e.g. whether their arrangement is getting value for money and how that compares to other options available to them. Providing more information about the size of the arrangement may make it difficult for the member to engage with the facts that do impact them.

We note that whilst this consultation is focused on contract-based schemes, we understand there will be a read across to Trust based arrangements. For the disclosure proposals the trust-based equivalent to IGCs is the Trustee. We believe some of the disclosure conditions will be challenging for Trustees and specific conditions should be given consideration while this regime is being developed.

Question 37: Do you agree with requiring a narrative explanation for the RAG rating for all firm-designed in-scope arrangements including those rated green? Do you think this requirement should be limited to amber and red ratings?

We believe narrative explanations should only cover areas of concern e.g. lower ratings. Where something is green, keep it simple.

As noted elsewhere in our response, we believe the RAG system is too simple for such a comparison. We have proposed a five-point graded scoring system from Red to Green.

Question 38: Should IGC Chairs be required to produce a plain-language summary of their reports?

It should already be written in plain language if it is for members. This question highlights the need to be clear whether a document is for members to read and engage with, or for the FCA/ employers/ consultants who may value more granularity. We note to the extent the FCA believes there is a need for two documents e.g. a short one for members and a longer one for FCA/ employers/ consultants will mean additional cost and compliance on top of what is already in place. Our preference is to keep things high-level and understandable for members.

Question 39: Do you agree with the need for a features table and the contents we are proposing? Are there changes we should consider? Do you think that the disclosure requirements for bespoke arrangements should be different and if so, in what way?

In respect of the features table, if it is to be used in the chair's statement, see comments for Question 36 above. If it is for submission in a report to the FCA/ employers/ consultants, then the level of detail is understandable but again note the point the more submissions required of providers has associated cost and compliance requirements. Anything that is beyond the scope of helping members engage and make an informed choice should be subject to a cost/ benefit assessment.

We note that there may be some bespoke arrangements which may have a specific purpose and therefore less comparable to many other arrangements. However, it will still be helpful to share information with members for them to understand that. To the extent there are no obvious three comparators, at least one other comparator should be provided with commentary to explain relevance.

Question 40: Do you agree with our proposed approach to publication including requiring publication of a flat file? What other solutions would best support the aims of the Framework in due course?

From a regulatory perspective we appreciate that having something easy to collate would be helpful. However, from a member perspective, different people engage in different ways. The more engaging the format the information is shared in the more likely members will read and consider it e.g. use of colour, graphics etc.

Question 41: Do you think we should require machine-readable RAG ratings and potentially other information from the IGC Chair's annual report? What do you think are the benefits and costs or possible negative effects of this?

There is an increasing use of AI to support members, consultants and regulators access and compare larger volumes of data. If lengthy documents are provided for members and others to read, the reality is that many people will use AI tools to help them draw out the key facts for them to read and consider.

Amendments to current Handbook requirements

Question 42: Do you agree that the proposed new rules should be under existing requirements for IGCs, with carve outs as appropriate? If not, what alternative approach would you suggest?

Question 43: Do you have suggestions for further amendments to existing requirements for IGCs and if so, why do you think these are needed?

Question 44: Do you agree that we should exempt "accidental workplace SIPPs" from COBS 19.5 and the requirement for an IGC or GAA? If not, what would you propose?

For questions 42-44, the PMI believe these are specialist technical questions, largely aimed at existing insurance providers and IGCs dealing with these specific technical issues as live matters already. We therefore do not feel a PMI response would add to the debate.

Future development

Question 45: How do you think the use of data will evolve and what other measures may be needed?

The metrics and sophistication over how value for money is considered will naturally evolve over time and we hope that the FCA and TPR will learn from experience of the new framework and be agile in adjusting data requirements and measures. This could be introducing new measures or removing measures that prove not to be useful.

While we understand the FCA's approach for not including forward-looking measures at this stage we think that this should be revisited at an appropriate point. Backward looking metrics, while valuable, only tell half the story and we would like to see an approach that allows/encourages schemes and providers to innovate and invest in their propositions.

Regarding the customer service metrics, we think this will naturally evolve over time. It would be good to review the efficacy and coverage of the metrics once pensions dashboards are up and running as this may lead to a step change in how people engage with their pensions.

Question 46: We invite views on the roll out, evolution and future phases of the framework, over what time periods, and on the correct sequencing of these developments.

As previously noted in this submission we would like to see the VFM framework rolled out to cover all pension savers and decumulation.

We recognise the challenges applying the framework to the retail sector but feel that transparency is important to drive better customer outcomes, so we think the FCA should develop proposals and consult on this as soon as it is practicable to do so.

Regarding decumulation, this market is still in its infancy, and we think that the framework should be extended to this part of the market once Government proposals for ensuring providers and schemes have a decumulation option have been legislated for and given time to bed in.

Cost benefit analysis

Question 47: Do you have any comments on our cost benefit analysis?

As we have noted above, we believe that the proposed RAG rating system is too simplistic. As the consequences of being rated Red or Amber are both severe we believe that many IGCs (and trustee boards) will find a rationale to rate arrangements as Green. We believe that if this happens then many employers will take no interest in investigating "under the bonnet" of a Green-rated arrangement to see if it performs as well as other Green-rated arrangements and even where employers retain EBCs to advise them on pension matters, we believe that few employers will be willing to pay EBCs to do this on their behalf. Therefore, we are not convinced that that the VFM framework will make employers push their pension providers to make further VFM improvements. There are views that less-engaged employers view the AE requirements as merely being a "cost of business" rather than a valuable employee benefit and simply do the minimum required (as you allude to in paragraph 13 of the CBA). We fear that any hope that the VFM framework will raise the engagement of such employers is overly optimistic. What will drive improvements in VFM is for savers is actions targeting IGCs and providers – not employers.

We are also somewhat confused as to the assertion in paragraph 42 of the CBA that publication of assessment results will "*encourage employers to review and consider switching providers where necessary*" and the subsequent statement in paragraph 69 that you "*do not expect switching in large numbers, as the threat of switching should drive improvements to existing arrangements.*"

We also would like to see more details about how you have concluded that the introduction of the VFM Framework will close the investment performance gap by 1%-3% each year. This seems quite a significant differential, particularly at the upper bound.

On behalf of:
Policy and Public Affairs Committee (PPAC) – PMI

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