PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

VALUE FOR MONEY: A FRAMEWORK ON METRICS, STANDARDS, AND DISCLOSURES

PLSA RESPONSE

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RUARI GRANT

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ABOUT US

The Pensions and Lifetime Savings Association is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

EXECUTIVE SUMMARY

The PLSA welcomes this consultation on DWP's proposed new VFM framework for DC pensions. Most DC savers are defaulted into their pensions and their consequent low engagement with them means they are vulnerable should a particular scheme or provider offer poor value. Therefore, measures which seek to raise the overall bar across the market and ensure that these savers can rely on their scheme/provider offering the best possible value, are of fundamental importance.

With such a diverse market, though, achieving meaningful comparisons is a complex task. This process began with the joint regulatory Discussion Paper (DP) in 2021, which we responded to[1], and we also shared our members' views with DWP and the regulators in 2022 as this consultation was drafted. We support this collaborative approach, and our view is that if we are to achieve a framework that truly benefits scheme members, it will take a patient approach involving all parties.

In responding to this consultation, we have had bilateral talks with our members, held roundtable discussions, including with regulatory and government officials, as well as conducted a survey, which a range of our members contributed to, from own-trust, Master Trust and hybrid scheme perspectives.

Scope & purpose

For this initiative to be worthwhile, we need to be clear of the overall purpose up front. Our understanding is that this is to remove those schemes which do not provide comparatively good value, and for those to consolidate in the best interests of their members. On this basis, we welcome the inclusion in phase 1 of defaults and legacy schemes; however, we do not understand why the initial focus is limited to workplace schemes and Master Trusts, with the exclusion of non-workplace and consolidators. These consistently levy higher charges and target defaulted consumers – some of whom can be vulnerable customers - with marketing. Thus, while we acknowledge that the customer base of certain SIPPs may be of slightly above-average financial capability, this assumption must not exclude other segments of the contract-based market from the scrutiny of this framework.

We raised in our DP submission that the audience for both disclosures and assessments was unclear, so we are pleased that this has now been clarified, as well as agree that trustees, IGCs, and some employers are the right target for this information. The proposals are complex, and we know from the Chair's Statement that saver engagement with such information is minimal[2]. Therefore, ahead of any possible saver-focussed element in phase 2, we would urge comprehensive consultation, and consumer research/testing to ensure that only concise and useful options are considered.

[1] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2021/Driving-Value-for-Money-in-Defined-Contribution-Pensions-Dec-2020.pdf

[2] https://www.legislation.gov.uk/uksi/2016/427/pdfs/uksiod_20160427_en.pdf

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Utility & cost-benefit

The proposals are vast, with many hundreds or thousands of potential data points to be disclosed, so we must highlight the burden – and consequently, the significant cost of implementation – this will place on schemes. As a result, these changes will effectively lower the baseline value schemes are providing before they even get to the stage of assessment and consideration of any improvements; therefore, it is vital these measures are proportionate. We acknowledge that government is developing this initiative alongside the current review of the Chair's Statement, a regulatory requirement which covers a lot of the same ground and is known to have failed in achieving a number of its aims. As such, we would urge its removal alongside the introduction of the VFM framework to minimise duplication.

Performance, costs & charges

Net investment performance and costs & charges are two separate components within the proposed framework, however they are inextricably linked, given the latter directly detracts from the value of the former. Therefore, we address them together here, and consider that the treatment of costs & charges in its own right, while also netting performance, risks an exaggerated focus on costs, which is contrary to the initiative's aims (see consultation paragraph 13).

Most schemes already make extensive disclosures of performance and costs, many of which are in line with those proposed. However, these proposals do go further and suggest numerous breakdowns, including by employer cohort, age and time period, alongside risk adjustment and future projections. Suggestions such as chain-linking, splitting out of investment and administration costs, as well as flat percentages for combination charges, further increase the complexity of the metrics. While some schemes will be able to produce this data in short order, this is not the case across the market. Certain charging practices and business structures make some of these breakdowns unfeasible, while certain proposals, such as chain-linking or inclusion of employer-borne charges, are likely to skew the real value members are receiving. As such we would like to see a slimmed down list of metrics, with only the truly worthwhile – and possible – disclosures required.

Service & administration

The consultation acknowledges that this is the most difficult component of value to quantify. As a result, we view the proposed metrics as a minimum bar that all schemes should be achieving. No scheme should be failing to process core financial transactions in good time, while the measures of communications put forward will not provide a full picture of the quality of a scheme's offering. Therefore, we would like to see the framework incorporate a more qualitative element of service offerings, which due to innovation, will naturally look different from scheme to scheme. True, consistent, comparison will be challenging, but this must not mean we discard vital investment some schemes are making to assist their members – especially in the context of the decumulation challenge – and the importance of increasing member engagement when approaching retirement. Member decision-making at that point is paramount, so the value on understanding of different options cannot be underestimated.

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Data comparison & value assessment

Overall, we think the proposals outlined for the publication of framework data on a centralised portal, as well as the timing of assessment, should be workable. Data needs to be presented in an easily accessible and digestible format; therefore, we would prefer the centralised approach, which should work to ensure consistency. Additionally, it should be noted that while like-for-like reporting periods, finishing in Q2 the previous year, should provide schemes enough time, it is possible that there may be a crunch in resource around tax year-end. Having said that, we would challenge the assumption that the whole process should be undertaken annually. Given the long-term nature of value in pensions, as well as the proposed depth and breadth of the assessments, it may be that these are best conducted every three or five years. This might facilitate more detailed data disclosures, as well as provide a better view of medium-term trends.

Our members have unanimously resisted the suggestion that comparisons should be undertaken against regulator-defined benchmarks, as per the Australian system. In the UK, schemes are of far greater diversity and number, and as such, a given benchmark is unlikely to enable a meaningful comparison for every scheme. As a result, trustees and those running schemes will be likely to shift their strategies towards whatever arbitrary focuses the benchmarks impose, often to the detriment of existing strategies more informed by the actual needs of the membership. This could lead to herding and a lack of willingness to 'push the envelope' when it comes to improving value for members. We would therefore rather comparisons were allowed against a number of similar – but well performing – schemes with comparable characteristics. It may be that in the future, following further consolidation, the market will be smaller and more homogenous and such a market might be better suited to regulator-defined benchmarks. However, until that point, it would risk artificially accelerating the consolidation of schemes which currently provide good value to their members.

Consistency with other DC reforms

Generally, we would encourage the Department to consider any VFM solutions in the context of the wider DC reform agenda; we can infer that the Government is intending to support innovation and consolidation (both at a scheme and a pot level), but that the ultimate intended DC and Automatic Enrolment saver outcomes, and required market composition, have not yet been set out with clarity. It will be important that all proposals work in concert with one another to achieve this vision, and that any points of tension to achieve the wider Government strategy for the UK pensions industry are identified in each policy strand and resolved. Scheme and provider strategy is of course dependent on the shape and scale of the market of the future, and therefore contingent on all interventions, such as these on VFM.

CONSULTATION QUESTIONS

CHAPTER 3: SCOPE, CRITERIA, AND OUTCOMES

Q1: Do you agree with the proposed phased approach?

1. We agree with the *principle* of a phased approach, since different areas of the market will need more time to adapt to the new rules than others, as well as that more thought will need to be given to different audiences. Overall, we would request that DWP could specify planned timelines for both phases 1 and 2.

2. In terms of schemes in scope, we are pleased that legacy schemes will be included in the first phase of the VFM rules. Our members have repeatedly made the point that most modern automatic enrolment (AE) and workplace schemes, including Master Trusts, already conduct thorough value assessments and operate in a highly competitive market. Therefore, concentrating just on these in phase 1 would, in our view, focus on the areas of the market least likely to benefit from new requirements.

3. We also welcome the intention to exclude defaults arising from fund suspensions from scope, as per paragraph 35. We have been speaking directly with the DWP recently about a range of scenarios which result in "unintended defaults", largely due to uncertainties over the legislative definition of an "arrangement". This scenario has occurred, as the consultation references, not just following property fund suspensions, but also following other transfers without consent. For instance, when trustees wish to change investment manager, the manager increases ESG focus, or when members are moved between schemes (i.e. through consolidation). As a result, there are numerous "unintended defaults" which still will fall within scope of the VFM framework. Thus, we would recommend amendments to the DWP's 2018 guidance on bulk transfers without consent be made to prevent the creation of more default arrangements, which, absent additional exceptions, would fall within scope of this initiative.

4. However, we do think that non-workplace schemes – and consolidators in particular – should also form part of the first phase. Such pensions are not subject to anything like the same value scrutiny, and do not have to comply with the charge cap. For example, fees for Individual Personal Pensions and Self Invested Personal Pensions tend to vary more and can be considerably higher than in workplace schemes. PPI research indicates that median charges tend to be around the level of the charge cap, but that total charges levied can be up to around 3% of each pot[3]. Unfortunately, we have seen little evidence to suggest that customers in such schemes are any more engaged with the detail of their pensions or the comparative value they offer and are therefore highly vulnerable to the prolific marketing we see in these markets, often resulting in transfers to a product charging far more than their original scheme, with no discernible benefit. We note FCA has opted not to extend the remit of IGCs and GAAs to non-workplace pensions, and we think this exclusion could lead to inconsistency – and possible ineffectiveness – with the implementation of the VFM framework.

5. Regarding the audience for these value assessments, we are glad to see some clarification since the discussion paper stage, where we highlighted[4] that the Regulators still seemed somewhat unsure of the best approach. As we have seen from the Chair's Statement and the DWP's post implementation review[5], disclosures aimed at both professional and saver audiences do not work effectively for either, and most schemes attest that close to zero of their members view these publications. Therefore, it makes sense to concentrate these assessments to those overseeing schemes, such as

[3] 20211124-ppi-what-is-the-impact-on-member-outcomes-of-different-non-capped-charging-structures.pdf (pensionspolicyinstitute.org.uk)
[4] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2021/Driving-Value-for-Money-in-Defined-Contribution-Pensions-Dec-2020.pdf
[5] https://www.legislation.gov.uk/uksi/2016/427/pdfs/uksiod_20160427_en.pdf

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trustees and IGCs. The suggestion to include savers in phase 2 will require careful consideration in order to avoid another ineffective product. The one audience which we feel is perhaps overlooked in this consultation is employers. Given it is they who choose a scheme for their employees, it would be instructive to assess what level of disclosure and assessment would be helpful for them.

6. Finally, there is mention of DC pensions in decumulation as part of phase 2. Some more information on what the DWP sees as the priorities for this market would be useful, especially in light of the current decumulation work within the department. From a scheme VFM perspective there is a distinction between assessment of the level of decumulation support each scheme can and does offer, and assessment of existing retirement products and support available in the market. Further, there is currently no obligation on trustees to support their members in retirement, despite the immense value and importance such guidance and products have in the context of the hugely significant decisions facing retirees. As per our 2022 report[6], retirement offerings vary enormously, so assessment of these would be welcomed.

CHAPTER 4: INVESTMENT PERFORMANCE

Q2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

7. Fundamentally, backward-looking performance metrics are the only way to measure the financial value a scheme has provided for its members. However, we must be mindful of changes that have occurred to the investment strategy over the time frame suggested. For example, if new funds or asset allocation have been added (as we see most Master Trusts do regularly), this means the historical performance will no longer be representative of the current investment strategy which is being selected. We also need to think of the overall disclosure burden on trustees, which as we highlighted in our 2021 submission, includes the “Chair’s Statement, Statements of Investment Principles, an Implementation Statement”, as well as various TCFD, Sustainable Disclosure and Net Zero Transition reporting. Therefore, where VFM disclosures are seen as an improvement to existing similar requirements, those currently in place should be removed and superseded, rather than added to.

8. Overall, we are concerned about the total number of data points which schemes may have to disclose – estimated in the industry at over 3,000 for some schemes – both in terms of feasibility, and how useful these will all be for those assessing value.

    - When netting performance, we disagree with the disclosure of total (rather than member-borne) charges. Costs covered by the employer will typically add value for the member, so grouping these with member costs does not make sense, since the member is ultimately paying less for the service received (typically related to the employer covering things such as admin costs). It also confuses the disclosure stage of the process, which fundamentally aims to outline what members are getting for their money: in the case of employer subsidies, this equates to extra value for members. Therefore, we would suggest that at the assessment stage, schemes should be able to detail any additional value they offer through subsidies (e.g. communications, engagement, guidance); however, this should be kept entirely separate from quantitative assessment of charges levied on members. The possible consequence of the proposed ‘total charges’ is that employers who support their employees beyond their obligations would appear to be comparatively worse value than they are and may discourage them from continuing to offer this support, as it could make total returns look worse.

[6] https://www.plsa.co.uk/portals/0/Documents/Policy-Documents/2022/Retirement-choices-the-evolution-of-products-and-support-June-2022.pdf

- Similar to the above, certain legacy schemes will offer other benefits, such as a with-profits fund, or life assurance. Some of these will be more tangible than others, so we support the suggestion to include a qualitative statement to explain the benefit. However, it is unclear how this could be factored into a binary assessment of value based on metrics – as is the intention – so this is an area where some discretion must be permitted in the process.
- In our 2021 submission, we argued against employer-level disclosures in multi-employer schemes due to the huge volume of data and the commercial agreements which would prevent this. As such, disclosing through employer assets under management cohorts is one potential compromise, although some schemes may consider cohorts defined by number of members to be more representative and/or accurate.
- Reporting periods – we welcome the intention to reflect existing DWP guidance on reporting periods, and agree that if all schemes align reporting period, disclosures should reflect like-for-like past market conditions. In addition, it might be sensible to remove the requirement for one-year period for investment returns, as this may encourage short termism. However, the requirement to set these periods up to 30 June each year does not align with the same time periods which for Chair's Statement purposes are set against scheme year end. Therefore the latter should be removed to avoid the same data points having to be reported on a matter of months apart.
- The age cohorts proposed have not changed from the discussion paper stage, in which we suggested that instead of arbitrary point-in-time ages, disclosures may be more helpful if aligned to 'time until State Pension Age'; overall we understand the rationale and the need to assess performance for members at different points in their life. We are aware, however, that the proposal to require data at "one day to SPa" might be difficult for schemes, which do not typically produce such numbers daily. This is more often calculated monthly and so "one month to SPa" would be more achievable.

Q3: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?

9. As we highlighted in our previous submission, we should not simply assume that disclosure of risk adjustment will be instructive to the assessment of value, per se. Indeed, Trustee Board expertise in the various risk adjustment calculations will vary, and so we think thorough consultation with those conducting assessments should ultimately inform this.

10. It is also important that such risk adjustment is not seen as a replacement for assessment of a scheme's performance against its own investment objectives. Each scheme will have objectives tailored to its own member demographic and so an over-reliance on one risk metric might risk overlooking a more suitable and relevant measurement of how a scheme performs according to its own membership's priorities.

11. We would also argue that risk is less relevant a concept for savers in their earlier years, and so these disclosures are subsequently less relevant for them. ASD and drawdowns are, however, increasingly relevant as people near retirement, so it may be more proportionate to require these risk adjustments solely for members over 55.

Q4: Do you agree with our proposals on "chain-linking" data on past historic performance where changes have been made to the portfolio composition or strategy of the default arrangement?

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12. Our members have indicated that chain-linking data on performance from before changes were made to an investment strategy, would be both highly complex and lead to negative unintended consequences. For instance, where a number of Master Trusts have consolidated and have reduced charging structures, chain-linking these together under one umbrella, especially given the numerous different employer arrangements within each, would be not just highly complicated, but produce a falsely pessimistic outlook. This could provide a disincentive to further consolidation, which would run contrary to Government's intentions.

13. There is a further risk with chain-linking in the context of a scheme which has failed a value assessment one year and the following year implements changes to improve. The scheme might have improved markedly in that second year, but if in its assessment it chain-links the former 'failed' year, the overall performance may still be sub-optimal, and it might be forced out of the market despite being on track to improve. As an alternative, disclosures of each period's data in tables/chronological order would provide a historic view of performance without allowing each year to affect the next. Schemes are also making changes to investment strategy more frequently, often because of different legislative and regulatory changes, for instance, altering ESG tilting. As a result, this would increase the frequency, complexity and volume of chain-linking required.

14. Were DWP to go ahead with the chain-linking proposal, we would suggest that for reasons of practicality and implementation, it is only required from the point at which the VFM framework comes into force, and not retrospectively.

Q5: Do you agree with proposals for the additional disclosure of returns net of investment charges only?

15. We see the merit in this approach; as the consultation document notes, this should indicate the direct impact of both investment and administration charges on the performance a scheme member receives. We therefore support this idea, though it is not without challenges, which we outline below, so it may take time to develop these metrics.

16. Vertically integrated businesses with bundled charges will struggle to disclose this data, while it is unclear what additional transparency the proposed disclosures over 3, 5, 10 and 15 years would provide. Unless a scheme/fund manager changed their fees materially on an annual basis, the impact of both admin and investment charges would be similar year on year. The one exception to this might be performance related fees, though as of yet, allocations to assets attracting such fee structures are currently less common in DC schemes.

12. This splitting of charges will also pose a challenge for certain older products, where the IT and accounting systems bundle fees; for such products, a notional split may be the only possible way of doing this, though this would probably require certain set principles to ensure every provider calculated the split on the same basis. It may be that over time the splitting out of fees gradually provides a more useful disclosure as more of the market moves towards unbundled cost structures.

13. Finally, it needs to be noted that the administration charges for many schemes are based on factors which ultimately are dependent on the employer and average pot sizes of the membership. Therefore, in this sense, charges are a product of scheme characteristics, including contribution levels, average salaries, and lengths of service of the workforce, and so are more an indication of the type of employer than the value of the scheme.

14. We would note again that some own trust schemes pay for these costs for their members. Thus, this would need to be clear to avoid employers being penalised through poor value assessments for, what in reality, is a better value offering to their members.

Q6: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?

15. It is not clear how asset allocations would be factored into the assessment of value, especially given the focus already discussed on performance. As past performance will be comprehensively assessed, alongside a requirement to disclose projected future returns, we are not convinced that requiring allocation disclosures is additive to the VFM framework.

16. Furthermore, proportions allocated to different types of assets will not, per se, provide any useful indication of performance, especially when very different investment objectives would also need to be considered. Such disclosures are also unlikely to contribute to the "Broadening the investment opportunities" work, on which topic we have already highlighted[7] that we do not expect either the performance fee/charge cap exemption – nor the disclose and explain requirements – to engender any marked shift in asset allocations. Several other barriers still exist too, while trustees need to be afforded the freedom to invest according to their members' best interests, therefore any requirement to arbitrarily disclose asset allocations may be unhelpful.

17. Finally, the consultation notes that disclosure of these eight asset classes is a requirement of the Chair's Statement. Requiring schemes to disclose the same information as part of its VFM return would therefore cause duplication, unless, of course, the intention is to abandon the Chair's Statement once the VFM regime is implemented.

Q7: Do you think we should require a forward-looking performance and risk metric, and if so, which model would you propose and why?

12. As a general point, we are conscious that many within the industry have raised the "past performance is no indication of the future" argument in relation to the historic performance reporting and so we understand the desire to include some assessment of future possible returns.

13. However, as the consultation notes at paragraph 98, every scheme will have its own investment objectives, so while theoretically this may mean the data is available for such forward-looking metrics, we would warn against placing too much weight on standardised forecasts.

14. We would also warn against the risk that whichever forward-looking metric is chosen could detract from schemes targeting a more holistic value offering. Where specific metrics can be targeted which will have a positive and inflationary effect on the projection, there is likely to be a focus on these alone while potentially excluding equally important aspects of performance. In a more extreme scenario, where a scheme appeared to be underperforming, forward projections might provide the opportunity to 'game' the system, choosing more ambitious future methodologies, calculations or projections simply to improve the VFM score.

15. Pensions consultancies already use modelling to forecast returns as part of their overall assessment. We would argue this should remain the domain of such advisory services, and that for the purposes of a government/regulator-led initiative where fundamental, binary decisions about the wind up of a scheme are being taken, a more objective, empirically robust and factual basis is preferable.

CHAPTER 5: COSTS AND CHARGES

Q8: Are there any barriers to separating out charges in order to disclose the amount paid for services?

16. The approach outlined regarding the disclosure of costs and charges is broadly sensible. However, we would re-emphasise the point we made in our discussion paper submission, as well as in discussions with DWP and the regulators in 2022, that by requiring net performance disclosure, as well as

[7] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/Broadening-the-investment-opportunities-of-defined-contribution-pension-schemes-PLSA-submission-to-DWP-Consultation-November-2022.pdf

breakdowns of costs, costs risk being, effectively, 'double counted'. This would be at odds with one of the key aims of this initiative, namely to move from an exaggerated focus on cost, to a more holistic assessment of value. Therefore, an alternative, and arguably simper, approach would be to remove costs from the three core components, and account for them within performance.

17. Separating out bundled charges will – as per our answer to question 5 – post a challenge for some vertically integrated providers and older schemes, although we would hope that over time barriers to this should reduce and that all schemes would be able to provide consistent levels of transparency. There may, however, in certain circumstances, be commercial agreements between different schemes and providers which would make such breakdowns more complicated. Unbundling charges is also a challenge that hybrid providers will face when it comes to splitting charges relating to DC as opposed to DB elements of the scheme. While each will have a methodology for doing this, these methodologies may not all be the same, meaning comparison would not be consistent across the market.

Q9: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?

18. We understand the rationale of requiring schemes to convert combination charging structures to a single annual percentage as this would theoretically improve comparability. However, our members have indicated that attempting to convert the various combination charges would be highly complex and not necessarily render truly comparable metrics. Given performance disclosures are all to be net of fees, we would suggest this should be sufficient to assess the impact fees have on value, without requiring such detailed disclosures.

19. As comparison between these commuted annual percentage combination charges would not be comparable, we do not believe that a positive impact for savers could be achieved by this measure. As trustees and employers would not be comparing like with like they would not be able to take consolidation decisions, and Regulators' ability to supervise the market would not be enhanced.

Q10: Do you agree with our proposal to provide greater transparency where charging levels vary by employer? Do you agree that this is best achieved by breaking down into cohorts of employers or would it be sufficient to simply state the range of charges?

20. As per our response to question 2, we agree that a cohort approach to disclosures for multi-employer schemes would be preferable to requiring individual employer-level figures. It also makes sense that the cohort breakdown is consistent with that used for reporting of investment performance, be that based on assets or number of members.

CHAPTER 6: QUALITY OF SERVICES

Q11: Are these the right metrics to include as options for assessing effective communications? Are there any other communication metrics that are readily quantifiable and comparable that would capture service to vulnerable or different kinds of savers?

21. Quality of services – and communications – are indeed key elements of value provided by a pension scheme; however, we anticipate a high degree of difficulty in quantifying such factors, especially in relation to more tangible metrics such as investment performance and costs. Therefore, we understand the proposed approach to only require the measurable metrics discussed, although by focussing in a few specific areas, we feel that this risks overlooking other service offerings that provide extra value. While we appreciate the suggestion in paragraph 117 that trustees will be able to include more details on such points, it is unclear how these would be factored into the overall assessment and so some guidance will be helpful. It would also be useful to understand how assessments should weight service and comms 'scores' against those for performance and costs.

22. While service quality is theoretically measured according to member engagement, one challenge our members have raised with the proposed metrics at paragraph 121 is that most savers in scope for this VFM initiative will have been defaulted into workplace pensions. As such, they are effectively an inert membership, so irrespective of quality of service, many of these schemes will inevitably always have a low level of engagement. Additionally, what constitutes 'good' engagement for one scheme will not necessarily be as good for another. For instance, a Master Trust with mainly younger, low pot value members on minimum AE contributions might consider a small proportion of members updating retirement dates as successful engagement. However, this might represent a poor level of engagement for an own trust scheme with an older demographic with significant savings and a paternalistic employer providing comprehensive retirement guidance. Therefore, the baselines for these comparisons are hugely varied.

23. Member engagement itself is not the only factor which varies and therefore makes for inconsistent bases for comparison. Employer willingness to support their workforce also varies widely, which ultimately has a considerable impact on end outcomes, while member engagement – for instance with satisfaction surveys as proposed – varies according to what transaction or service someone has used. A survey response following receipt of tax-free cash would likely be quite different from the feedback on a successful transfer, even if both are completed quickly and efficiently. As such, while schemes and providers will all have far more data which *could* be provided to evidence service value (including from online tools, sign ups etc.), this is unlikely to be uniform enough for an objective comparison across the board.

24. As a result of all these variations, if DWP does indeed wish to assess value to highlight where schemes are providing a good service, there are perhaps two tiers of assessment emerging. The proposed metrics are so highly dependent on scheme demographics that we believe they cannot be relied upon; rather trustees should be required to complete a service assessment based on those demographics and show why the level of service they provide is appropriate to their particular membership. This could incorporate a summary of services relative to a scheme's membership, as well as additional information on where their services go over and above those which might be disclosed as part of the VFM framework. An example of such service is the retirement support certain – often own-trust – schemes offer their members, which can include educational seminars, and contact with employer-based pension staff to guide and inform about retirement options. We have long called for more comprehensive decumulation support from schemes through our Guided Retirement Income Choices[8] framework - largely because of the variation seen across the market. We feel that is only right that those offering enhanced services are recognised for doing so in the VFM assessment.

25. One additional suggestion which has been raised is a self-assessment of a scheme's own communications over time, rather than a comparison of communications between very different schemes. This would indicate whether a given scheme is indeed seeking – year-on-year – to improve its own offering. The only other option we can see which might enable more meaningful comparison would be industry benchmarking, similar to the 'three schemes' proposal on investment performance. This way, each scheme could compare itself to schemes with similar memberships and objectives and therefore provide a clearer view of how it stacks up against its genuine peers.

26. Finally, we would reiterate an issue which we know has been raised by us and others at previous stages of this initiative: assessment of scheme efforts to encourage members to raise their contribution levels. While we understand some would not necessarily consider this a 'service', members increasing contributions will be positive for outcomes, and the fact that 81% of schemes responding to our member survey would prefer assessment of this highlights its perceived importance. Such a factor could also be quantified and so we would urge DWP to reconsider this issue.

[8] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/Building-on-the-Pension-Freedoms-Guided-Retirement-Income-Choices.pdf

Q12: Are these the right metrics to include as options for assessing the effectiveness of administration and/or are there any other areas of administration that are readily quantifiable and comparable?

27. We agree that both promptness and accuracy of core financial transactions, as well as the quality of record keeping, are key administration factors. We would, however, argue that these standards should represent the minimum expected level as it is surely not unreasonable to expect these matters to be carried out effectively. These are two of the thresholds set for smaller schemes' Value for Members assessments, with those failing being required to improve or consolidate, and they are also largely reflected in tPR's Master Trust Code of Practice. As a result, we feel that this arguably sets the bar low and provides little scope for assessment of schemes striving to operate more effectively.

28. In order to allow a more holistic measure of both service and administration, we may need to accept some less tangible elements into the assessment. For both communications (question 11) and administration, it may be instructive to utilise existing frameworks or standards against which schemes could be assessed. For instance, schemes qualifying for our Pensions Quality Mark (PQM)[9] must consider the member experience, ensuring members:

    - Get the right information at the right time to make appropriate decisions
    - Are informed about their membership of the scheme, how the scheme works, the benefits of membership and the progress of their savings
    - Understand how their own actions, as well of those of the scheme, can influence their outcomes
    - Are encouraged and helped to take action to secure better outcomes.

29. **Governance**
    We acknowledge the consultation proposes not to factor governance into assessments and that there is no question included on this element. However, our members have raised that governance is a vital factor in a scheme which provides its members with good value. Therefore, we would recommend DWP considers this further, whether it would be assessed on a principles basis, or according to more measurable metrics, such as risk register scores or through the metrics already covered by consultancies and advisers.

CHAPTER 7: DISCLOSURE TEMPLATES AND PUBLICATION TIMINGS

Q13: Do you agree with a decentralised or a centralised approach for the publication of the framework data? Do you have any other suggestions for the publication of the framework data?

30. Our members would prefer a centralised approach for the publication of framework data, with a dedicated platform - hosted by government or regulators – which collects data from schemes using a prescribed reporting template. This would simplify the processing and analysis of what is a substantial amount of data, as well as help ensure a high degree of quality and consistency, which are foundational tenets of a robust VFM assessment. Providing data via a prescribed template also standardises expectations across schemes and regulators and therefore minimises the potential for manipulation.

31. While the centralised approach may require more time for development and implementation, this time will allow schemes to deepen their understanding of the reporting requirements and make the necessary changes internally to provide this data and ensure it is as robust as possible.

[9] https://www.plsa.co.uk/Policy-and-Research/Topics/Pension-Quality-Mark

32. We acknowledge a centralised approach will be costlier to build and operate for Government. However, we view this as a necessary short-term investment which will avoid future issues with the accessibility, validity, and comparability of the data. We would therefore welcome further details on how the central portal would be funded.

33. When looking at international comparators, the centralised approach has proven successful in countries including Australia, which introduced a centralised and interactive online comparison tool called YourSuper in July 2021. While the system may not be wholly transferable to the UK, especially to the workplace market where the 'consumer' is the employer, we believe - in addition to factoring in the strengths associated with a central approach - it would be sensible to adopt a model that has proven viable in another country.

Q14: Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?

34. In terms of availability of data, we think the end of March deadline for framework data covering the period up to the previous June, should be possible. However, we need to be mindful of capacity issues. This will not just clash with tax year-end but will also mean a considerable surge in the workload for scheme administrators and advisers, many of whom will be helping schemes with these disclosures, which will need be made at the same point of year for every scheme.

35. In terms of the October deadline for the publication of VFM assessments, requiring changes to align scheme year ends would not be suitable or practical and some flexibility may need to be built in here.

36. We would call into question the assumption within the consultation that these assessments must be made annually. Given the complexity and volume of data proposed for the process, it would be more cost effective to conduct this less frequently, perhaps every three or five years. Given pension scheme value is a long-term concept, we see no reason why less frequent value assessments would have any detrimental effect on the overall outcome and may even serve to prevent the creation of incentives to short-termism.

37. Finally, while the question of compliance and enforcement is not raised in the consultation, we would urge government and regulators to take a pragmatic approach, especially in the initial years of the framework. With multiple other regulatory burdens, it is vital that schemes do not feel overly threatened by heavy sanctions or fines for errors in compliance. As a result, it is key that they are first afforded the opportunity – with regulator guidance where appropriate – to correct any errors before action is taken.

CHAPTER 8: ASSESSING VALUE FOR MONEY

Q15: Do you think we should require comparisons against regulator-defined benchmarks or comparisons against other schemes and industry benchmarks?

38. Comparisons against other schemes and industry benchmarks should be required over comparisons against regulator-defined benchmarks.

39. As the consultation notes, scheme comparisons would enable the industry to build upon existing requirements for trustees and IGCs when comparing their schemes against at least three other schemes. This view is reinforced when acknowledging that IGCs and providers have existing requirements with a third-party firm where they provide data for benchmarking purposes. As a result, the assumption is that these existing arrangements will provide insight on VFM and where it can be improved, which can be incorporated into comparisons against other schemes.

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40. Additionally, scheme comparisons would provide trustees with more autonomy, better allowing them to focus on the value elements key to their membership. Given the considerable variation in the market, this method would ensure that scheme-specific member needs – and therefore strategy – are factored into the assessments and comparisons. Conversely, there are risks with regulator defined benchmarks and their lack of flexibility, while these arguably incentivise schemes to take a myopic view towards short-term performance while disincentivising any sort of long-term risk. This may result in schemes clustering towards the middle to achieve VFM status rather than striving to outperform, thus potentially negating the overall aim of the VFM framework.

41. This eventuality has been evidenced in the Australian model, where the introduction by the regulator of performance benchmarks (and the severe consequences associated with failing to meet those benchmarks) has prompted many trustees towards 'lower (benchmark compared) risk' approaches to investment, such as passive investing, rather than risk underperforming with active strategies or certain risk seeking assets. It has also led to many trustees focussing on short-term investment outcomes (with an acute focus on the next one or two years of investment performance), which is arguably at odds with trustees' and scheme members' long-term investment horizon. While not wholly comparable, we would expect the regulator-defined model would have a similar impact in the UK pensions industry.

42. Although many strengths are associated with this selected approach, there are some remaining questions concerning the usefulness and reliability of comparing some of the data against schemes and industry benchmarks; for example, metrics used for quantifying the quality of service, where schemes will ostensibly be incentivised to reduce all costs, may have a cascading impact on the amount re-invested back into the schemes to improve the value or experience for savers.

43. There are also some more practical considerations with both approaches. We consider that scheme comparisons would be preferable based on the time and effort required for implementation, especially as regulator-defined benchmarks would require considerably more discussion to agree on and develop consistent and reliable standards. Scheme comparisons would, of course, require some more work too, and we welcome that DWP will be establishing how other schemes are to be selected, to mitigate any risk of comparator schemes being 'tactically' selected. As such, we would prompt the DWP to provide more clarity on this issue ahead of implementation.

Q16: Do you agree with the step-by-step process we have outlined, including the additional consideration?

44. We agree that – in theory – a prescriptive step-by-step process would promote objectivity and consistency, as well as provide clarity for schemes on how to conduct the assessments. However, such a process is entirely predicated on the availability and comparability of the metrics on which it is based. These metrics will be the foundation of comparisons, but as we discuss elsewhere in this submission, there are areas yet to be fully agreed, where there may be problems sourcing the relevant data, as well as data being produced on a consistent enough basis for it to be truly comparable.

45. Furthermore, there will doubtless be more qualitative elements to factor in. We have discussed some of these elsewhere in the submission; for instance, around service quality, while the consultation itself suggests some qualitative measure of scale at paragraph 165. It is unclear how those conducting assessments would be expected to factor these into the step-by-step process; it is also unclear how they should weight their relative importance against other areas. We note that this weighting question also applies to the more quantitative elements; for example, could good service offset poor investment performance?

Q17: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?

46. In principle, we agree with the Red/Amber/Green (RAG) approach of reflecting and illustrating the outcome of a VFM assessment as it provides a clearer view of - and more opportunity to improve on -

the performance of a scheme, when compared with a 'pass / fail' type model. A RAG rating is also widely understood and easily communicable as of result of its ubiquitous nature. Looking ahead to a possible phase 2 saver audience, correct interpretation of the results will be vital so as not to destabilise and diminish public confidence in pensions.

47. However, while the RAG approach provides the result in a simple format, we would stress the substantial challenge of synthesising the sheer volume of data - including the potential for qualitative data to be incorporated – into three categories in a way that is meaningful and accurately reflects whether a scheme is considered VFM. While well-intentioned, the challenge of this task should not be underestimated; therefore, we would seek further clarity on these aggregated 'overall' assessments, whether any level of guesswork will be introduced when and where the output of a result is on the margins between R and A, for instance.

48. While we support the inclusion of supplementary information to provide the rationale behind a result, there is a fear that the RAG model is too simplistic or reductive in terms of the amount of information being synthesised into three results and colours. Therefore, we recommend that the regulator be mindful of potential risks stemming from this model; in particular, the danger of the RAG model being used in any unhelpful or unintended ways, which may include marketing or influencing from firms and consequential behavioural and operational problems across the market.

49. A potential solution could be to build in more nuanced detail behind a scheme's RAG rating, such as by using a scale from 1 to 10 for each of the three core components. Additional context highlighting these and how schemes measured up would provide further insight into the composition of the results.

50. In contrast, the RAG model proposed in this consultation builds upon the limitations of Australia's model as it provides the foundation for regulators and other relevant stakeholders to identify and classify an additional sub-group of schemes which may not have achieved a VFM result. It provides a roadmap for doing so in the future by undertaking several improvement actions to address the issues highlighted within their rating. This may help to establish and facilitate an organisational culture of continual performance as schemes strive to reach VFM status, as well as have a 'roadmap' for improvement if they do not initially.

Q18: How should we take into account the specific challenges of contract-based schemes while ensuring equivalent outcomes for pension savers?

51. The majority of member views we have received on this consultation come from the trust-based part of the market, however, it would make sense to enable a contract-based provider to process non-consent transfers to move members to a better value scheme within the same provider.

Q19: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?

52. If the new VFM framework is to have a benefit, it will be vital that the outcomes of assessments are shared with those parties who are in the position to act on it and make any changes required. In the workplace context – where the focus of this consultation is directed – this means employers, as it is they who choose the scheme their employees save into. Therefore, consideration will need to be given to communicating VFM results with employers. Conversely, while the information must be *available* to savers themselves, we would caution against bombarding them with information. As has been seen with the Chair's Statement, we must not assume any particular level of engagement, and communications need to be carefully tailored.

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CHAPTER 9: THE VFM FRAMEWORK AND CHAIR'S STATEMENT

Q20: If the Chair's Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?

53. We do not support option (a) – splitting the Chair's Statement into separate governance and member facing documents. In our view, the new VFM reporting will render the governance side of the Chair's Statement redundant, and given the overall burden on trustees, any duplication of this sort must be avoided.

54. As the post implementation review, as well as data from schemes has indicated, a minimal proportion of savers engage with Chair's Statements, so we would argue that the member-facing element should also be disbanded. The consultation notes at paragraph 184 that members already receive numerous different mandatory and non-mandatory communications; these include annual benefits statements, wake-up packs, as well as more scheme specific engagement. Therefore, for the purposes of most members, who will not have the inclination to read into the finer details of their scheme, these communications will be sufficient. For that minority of savers who have a deeper interest in the performance of their scheme, the publicly available VFM disclosures and assessments would provide the required detail.

Q21: Is there any duplication between the VFM framework proposals and current Chair's Statement disclosure requirements?

55. Our members already disclose a large proportion of the performance related metrics, costs and charges disclosures, and also publish trustees' assessments of value in the Chair's Statement. So as above, the VFM framework should replace existing Chair's Statement requirements in order to avoid widespread duplication.

56. There are certain elements the Chair's Statement which the VFM framework does not cover, including Trustee Knowledge and Understanding. However, this does not warrant keeping the entire Chair's Statement and we feel that the most straightforward and proportionate solution would be to include this as a metric under ***Governance*** – an element which we have already flagged as lacking in this consultation (paragraph 29). Likewise, the Chair's Statement includes self-select funds, which are absent here, but we note that the VFM framework is intended to include these from phase 2 in any case. The final unique feature of the Chair's Statement is costs illustrations, however, given the minimal saver interaction with these documents (as we reference above), we would argue that their removal would have no adverse consequences.

CHAPTER 10: FCA SPECIFIC ISSUES

Q22: Should individual SIPP arrangements be excluded from the requirement on providers to establish an IGC/GAA and to publicly disclose costs and charges and, if so, under what circumstances?

57. Given the overall purpose of this VFM initiative is the comparability of *all DC pensions,* we see no reason that any particular segment of the market should be excluded or exempted. We appreciate certain products, such as SIPPs, may often involve a higher degree of saver engagement, though this is not universal. Therefore, as per our response to question 1, regarding personal pensions and consolidators, our preference would be for all these products to be included from the beginning.

58. Failing this, it may make sense to apply the exclusion discussed to the smallest SIPPs, below a certain membership threshold.

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Q23: Do you think there would be merit in a proposal to mandate the inclusion of a pension saver-focused summary alongside the IGC Chair's Report?

59. We understand the rationale for this proposal, given certain savers in SIPPs and other FCA regulated schemes may be more engaged with their pensions than others defaulted into workplace schemes. Thus, such a publication may arguably have more use than the Chair's Statement. However, it is not clear whether the proposal for a saver-focussed summary would be a requirement on IGCs within the VFM framework, or whether it would be separate. If the former, it would be inconsistent with the application of the framework to other schemes, for which our understanding is that any saver-targeted disclosures and assessment would form part of a second phase. Either way, we would emphasise the importance of only bringing in saver-facing requirements following comprehensive consultation, as referenced in paragraph 200.

60. Linked to this is some uncertainty over the status of VFM assessments and Consumer Duty value assessments for FCA authorised providers with a Master Trust. With this framework, together with existing FCA rules, such providers would have to undertake both assessments; what action should be taken should the outcomes differ, and which assessment takes precedence?

Q24: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?

61. The consensus across our membership is that the provider should be responsible for the publication of this data. It is the provider who runs and administers the scheme, so they will have the best access to the necessary data. It therefore follows that the provider should be the entity required to publish metrics related to the scheme. This would then allow the IGC to focus on its primary role, namely, to evaluate the running of the scheme, assess this data, and establish whether the scheme offers sufficient value.

CHAPTER 11: IMPACTS

Q25: Which of the metrics do you not currently produce? (This could be for either internal reports or published data). Do you envisage any problems in producing these metrics?

62. According to our member survey, at least 60% of scheme respondents already disclose annualised returns over 1, 3, and 5 years, and so we would not see these proposals as causing additional work. However, the proposed age cohort reporting is currently less common, with only around 25% publishing this data. According to our members, various of the performance related and charging metrics proposed will pose problems, especially from a capacity perspective, as discussed above. As a result, we feel that a rationalised list of metrics would be preferable.

Q26: Do you agree with our assumptions regarding who will be affected by the framework?

63. We agree with the assumptions the consultation makes regarding those who will be affected by this framework. It is also worth noting that the requirements will likely provide more work for consultancies, advisers, and administrators. There will also be an indirect cost – although hard to quantify – to scheme members. Certain elements of the framework will require considerably more disclosures than many schemes currently publish, and systems and processes will need to be made capable of providing for these.

Q27: Are you able to quantify these costs at this stage? Are there additional cost components we have not considered? Do you expect these costs to be significantly different for commercial providers and multi-employer schemes?

64. Due to the complexity of the proposed disclosures, our members have not provided precise costs, although we understand these will be considerable.

Q28: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?

65. Overall, we clearly need to be conscious that implementing such a detailed framework will come at a considerable cost to schemes, both in terms of producing the metrics, as well as the capacity and expertise to conduct and publish the assessments. This cost will inevitably fall on scheme members, thus reducing the baseline value they are receiving before improvements can be made.

66. We discuss each element in more detail above, but in essence, we feel that there are certain areas where requirements could be reduced; for instance, within performance, forward looking projections and chain-linking could be removed without reducing the quality of the data on which assessments are based. Likewise, within the costs component, the complexity of the proposed combination charging solution and the suggestion to include employer subsidies are disproportionate in terms of the value they bring to the overall assessment. Furthermore, as we cover in chapter 9, there is a considerable cost attached to the production of the Chair's Statement. Given the acknowledged overlap with VFM, the removal of the Chair's Statement would considerably reduce related cost on schemes, and this itself would make the overall initiative more cost-beneficial for savers.

67. The primary benefit of this initiative must be for savers. We do agree that there may be saver benefits which – long term – may be drawn from the framework, once VFM assessments are established, and those administering schemes have better and more consistent information on which to act in terms of choosing service providers. One significant caveat to this, as we have highlighted elsewhere in this submission, is that the framework will need to push schemes to not focus simply on areas which will improve their VFM 'score', but to assess value as holistically as possible.

68. The other key point, relating to occupational pension schemes, is that the main benefits are likely to come to savers through their employers, and we feel greater attention could be paid to the employer role in this consultation. The suggestion at paragraph 218 that these metrics "could be used to communicate directly with savers" seems unrealistic, given previous experience with the Chair's Statement. Most of these savers are auto enrolled *by their employer*, so in our view, the more effective path to better value would be to better engage employers and make it easier for them to understand relative value, and where appropriate, switch scheme/provider.

69. The wider UK benefits outlined at paragraph 222 appear tenuous, at best. We highlight in our response to question 6 that neither the recent disclose & explain requirements, nor the performance fee exemption, are likely to make a significant difference to investment in illiquids, and this point stands for the VFM framework. There remain barriers from schemes investing in illiquid assets, most significantly the appropriateness of 'riskier' assets for a defaulted saver population. Furthermore, even where a scheme does opt for such assets, there is no guarantee it will choose UK growth assets over international private equity, infrastructure, property, or others.

Q29: Are there additional benefits we have not identified?

70. We have no comments further to those expressed elsewhere in other answers.

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Q30: Do you have any comments on the positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?

71. We have no comments further to those expressed elsewhere in other answers.

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