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Briefing note

'Value for Money framework' – the Government and joint regulator response

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The Department for Work and Pensions, The Pensions Regulator and Financial Conduct Authority have issued a joint response to the consultation 'Value for Money: A framework on metrics, standards and disclosures' policy' which was published in January 2023.

Overall aims

The joint response expressed concern that trust-based DC schemes are not meeting the existing Value for Members assessment requirements.[1] According to The Pension Regulator's 2022 DC survey, only 24% of DC schemes are meeting the key governance requirements for assessing value for members.[2]

The Value for Money (VFM) framework aims to drive improvements in the value which DC pension schemes provide to ensure that savers receive better outcomes in retirement. The framework is designed to support a consistent and more objective process for assessing VFM across DC schemes, shifting the focus from cost to longer-term performance and delivering transparency to pension savers.

Investment performance

Gross investment performance (by age cohort) will be used to provide meaningful backwards-looking data to assess a scheme's performance (and will significantly reduce the amount of data points required from multi-employer schemes). The Government Actuary's Department (GAD) and industry will work to determine a feasible approach to forward-looking metrics which will be included in the framework as soon as possible.

Reporting periods of 1, 3, and 5 years will be used to assess investment returns over appropriate periods of time (10 and 15 years to be used if available). Chain-linking for the reporting periods of 1,3 and 5 years will be required. A 'years to retirement' from the scheme's default retirement date approach is to be used.

There will be a requirement to report on only one year back for returns net of investment charges and it is unlikely that multi-employer schemes will need to report on this metric using employer cohorts.

Disclosure of asset allocations will mirror the current "disclose and explain" policy regulations, making it mandatory for all DC schemes to disclose the percentage allocations in their defaults to the eight key asset classes (cash,

[1] The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ("the 2021 Regulations") introduced new requirements for trustees and managers relevant occupational pension schemes to carry out a more detailed assessment of how their schemes delivers value for members.
[2] Too many small DC schemes failing to meet expectations on value, survey shows | The Pensions Regulator

bonds, listed equities, private equity, property, infrastructure, private debt and other) whilst encouraging and providing guidance on more granular sub-asset classes.

Cost and charges

Cost and charges will be disclosed as an annual percentage charge to enable market-wide comparison. Schemes will need to disclose total charges, rather than 'member-borne' charges. Multi-employer schemes, where charges differ across employers, will be split into employer cohorts based on the number of savers or assets under management.

There will be no requirement to show data on the amount of employer subsidy, but schemes are free to do so, acknowledging that this is a valuable contribution to members. If included, there is an expectation that the impact of any employer subsidy on the costs borne by members is set out in the scheme's published assessment.

Quality of services

A set of quantifiable metrics have been proposed as a starting point and the expectation is that industry will drive further consistency in this area. A standardised member satisfaction survey will be developed and metrics around complaint data are expected to be added to the framework. The previously proposed requirement to disclose the percentage of members who update/confirm their selected retirement date and how they wish to take benefits has been removed.

Assessing VFM

The intention is for the VFM framework to gradually replace both the current Value for Members assessment[3] and the more detailed Enhanced Value for Members assessment which trust-based schemes with under £100m in assets under management must prepare.[4]

Until the VFM framework comes into force the value for members assessment will still be required. There is an expectation that those schemes which are underperforming will take immediate action to make improvements or wind up and transfer the rights of their members into a larger DC pension scheme.

The Government intends to continue to work to introduce regulator-defined benchmarks as part of the VFM framework, with the belief that this will drive faster improvements and greater consolidation to the benefit of savers.

Assessment outcomes

A "red-amber-green" (RAG) rating system will be used:

- amber rated schemes should have an action plan in place to improve value and should be able to demonstrate improvements in the subsequent assessment, otherwise consolidation may be expected or imposed;
- red rated schemes will be expected to consolidate or explain why they would be unable to do so (with such explanations facing regulatory scrutiny and potential action).

VFM assessments will be publicly disclosed to incentivise underperformers to improve, consolidate, or leave the market. Mandatory communication to the employer of savers within an underperforming arrangement is proposed.

Implementation and reporting

The framework will be implemented in phases with primary focus given to workplace default arrangements. More time is required to work with the industry to address complex issues for pensions in decumulation, collective defined contribution (CDC) schemes, non-workplace pensions and self-select options, where the applicability of metrics and

[3] Completing the annual Value for Members assessment and Reporting of Net Investment Returns - GOV.UK (www.gov.uk)
[4] Completing the annual Value for Members assessment and Reporting of Net Investment Returns (publishing.service.gov.uk)

comparability between schemes may be more difficult. Many of the framework proposals will require primary legislation which will be considered when parliamentary time allows.

Under the proposals, schemes would publish their framework data for the year to 31 December, by the end of Q1. This will allow schemes to use this data to conduct and publish VFM assessments by the end of October. The intention is to have a prescribed template to aid consistent reporting. A centralised approach for the publication of framework data will be explored in due course.

Recognising the overlap with the role and requirements between the VFM framework and the current Chair's Statement, consideration will be given to how the requirements of the Chair's Statement could be managed down and ultimately phased out as the framework is phased in.

Many of the proposed developments are positive in terms of delivering better long-term outcomes for members. Whilst we await further detail on the new framework, schemes should continue to assess value for their members and take steps to improve value or wind up their scheme.

If you would like to discuss further, please get in touch.