

The logo for Pensions UK, featuring a dark blue square with a white 'P' shape cutout on the left side, and the text 'Pensions UK' in white at the top left.

Pensions UK

# **The Value for Money Framework: Response to consultation, further consultation and discussion paper**

Pensions UK Response

6 March 2026

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## **About Pensions UK**

### *The voice of pensions*

Pensions UK is the voice of pensions in the UK, trusted and heard by the Government and the pensions industry. For more than 100 years we've delivered influential thought leadership, practical guidance and research for our members; pro-actively solving the sector's biggest issues and setting the future direction. As a not-for-profit organisation, we exist for the benefit of our members, and to deliver the best possible outcome for savers in the UK, so they can retire in confidence and with dignity.

### *Our membership and reach*

We're the voice of pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest £2 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. Across our work in strategic and regulatory policy development, advocacy, membership engagement, events and communications, we engage with over 2,500 organisations, with nearly 16,000 contacts within our membership and a further 17,000 in the pensions and financial services industries.

### *Our objectives*

Pensions UK has set five strategic objectives for 2025 to 2029. These are:

- Making pensions better
- Influencing pensions policy
- Giving outstanding value to our members
- Building a great place to work
- Securing our future as a purpose-led, forward-thinking organisation

## **Introduction**

That we require a way for those purchasing pension schemes, and ultimately those saving in them, to better understand the value they represent is unarguable. Currently that value is opaque, and that is leading to poor purchasing decisions by employers and savers. Those buying decisions have a knock-on effect on how decisions within pension schemes are made. For example, the focus on costs by those advising employers causes schemes to take a more cautious approach to diversification, particularly into private markets, which may have the potential to deliver stronger returns over time as part of a diversified portfolio. Ultimately, the saver loses.

But it is important to recognise that there are policy initiatives in train besides the Value for Money framework that will help to protect saver outcomes. Regulatory requirements for smaller schemes are tightening, benefitting those schemes that can deliver value through economies of scale and in-housing investment. Requirements on workplace schemes to deliver decumulation products will drive further consolidation. Pensions UK has argued consistently for protections for some of the smallest schemes that are delivering particularly strong value for members, and can otherwise comply with requirements.

Inevitably, though we are moving towards a market that is dominated by very large multi-employer schemes with sophisticated investment strategies, regulated prudentially to ensure they deliver appropriate value.

It is within this evolving context that the value for money framework will land. If it is to make an overall positive contribution to saver outcomes, it will need very close scrutiny and continuous critical assessment. That is because it bakes in elements that will change scheme decision making, for better or worse. The way investment returns are assessed risks leading to greater caution, if not herding behaviour, making (for instance) private market investment more challenging – and may also lead schemes to make suboptimal decisions in relation to investment pre-retirement.

None of this is to detract from the need for value delivered by pension schemes to be better understood. But we must collectively be clear that the framework is additive on a cost-benefit basis, from the saver perspective.

That is why, critically, we are proposing:

- A ‘light touch’ first year of delivery in which the focus is fully on identifying the poorest ‘red’ performers – which will in itself solve an important subset of the problem that the framework is intended to address. Pensions UK would be happy to provide more detailed information on the proposal if this would be helpful to regulators.

- A regular formal market assessment to consider whether the framework is producing unintended consequences and is overall additive in relation to our collective goal to deliver better member outcomes.

Turning to the detail of the consultation, we are pleased to see that several key elements called for by Pensions UK have been reflected in this consultation. In particular, the inclusion of forward-looking metrics (FLMs), the refined role of comparator groups, and the layered RAGG rating system are all positive developments. These reflect our longstanding position that delivering good member outcomes requires a holistic assessment of performance, cost and service, rather than an exclusive focus on charges.

However, significant challenges remain in both the interpretation and implementation of the framework. A significant number of aspects of the proposals are high-level and will require further guidance if they are going to be delivered effectively across the market. In some areas, such as the use of bespoke assumptions in FLMs or the reporting of service metrics, the consultation rightly recognises the need for flexibility. However, flexibility without accompanying clarity can lead to confusion and undermines comparability. It is essential that the regulators provide structured guidance in advance of implementation and remain responsive to feedback from schemes during the initial phase.

A related concern is that service quality metrics may not adequately reflect the heterogeneity of the DC market. Schemes serve diverse member demographics, and there is meaningful segmentation between intermediated/underwritten and universal schemes. A single set of service metrics runs the risk of producing misleading comparisons. The regulators should consider how service quality assessments can be calibrated to reflect genuine differences in the populations that schemes serve, so that comparisons are meaningful and fair.

Pensions UK continues to advocate for a prudent approach to implementation. Preparation across the industry is unequal, and member outcomes will not be served by a rushed launch. Building on the *Pound for Pound* exercise, we recommend a "dry run" period to test assumptions, data definitions and reporting pathways. These exercises are essential to ensuring that industry and regulators are equipped to deliver assessments that are robust.

In line with this, we call for a "light touch" first year. In this year, ratings should be restricted to Red and Green, with only the schemes with no pathways to value being asked to exit the market. The rest should receive feedback so

that they can prepare for the full RAGG rating system in the year after. This first year should be used to surface practical issues, promote industry learning, and inform the development of further guidance by the regulators.

In the years after that, a formal market impact assessment should be conducted regularly to ensure that the framework has not produced unintended consequences. Where appropriate, modifications should be made to protect scheme diversity and support positive innovation.

One area where particular care is needed is the treatment of schemes rated as Amber. As currently proposed, an Amber rating may be impossible for schemes to recover from - undermining confidence, blocking new employers, and limiting the ability of schemes to make improvements before being pushed toward closure or consolidation. This would be counterproductive and contrary to the stated goals of the framework. The purpose of the Amber category should be to highlight areas for improvement and support schemes in addressing shortcomings. It must not become a staging ground for eventual failure. The guidance and consequences associated with Amber ratings should therefore be revised to ensure that they provide a clear path to recovery and improvement, rather than accelerating decline.

An additional consideration in this context is the position of schemes operating within ethical or religious frameworks. Where these frameworks affect assessed performance relative to the comparator groups, this should be considered - particularly where it might otherwise contribute to a not-value rating such as Amber. The regulators should provide clear guidance on how schemes with ethical or religious frameworks are to be assessed, to ensure that the rating system does not inadvertently penalise schemes for operating in accordance with the values of their membership.

Overall, Pensions UK supports the direction of the Value for Money framework and recognises the significant potential it holds for improving saver outcomes. We encourage the regulators to continue engaging constructively with the industry, provide detailed guidance where needed, and remain open to adjustment during early implementation. With the right structure, sequencing, and safeguards, the VfM framework can serve as a foundation for a more transparent, accountable and member-focused pensions system.

#### *Note on Value for Money and other ongoing pension reforms*

We have found that there are potential misalignments between the Value for Money framework and other reforms within the Pension Schemes Bill. More specifically, we find that there are questions about coherence and incentives with guided retirement, the scale test and small pot consolidation.

First, the VfM framework is constructed around performance in the accumulation phase. It assesses investment performance, costs and service quality up to retirement, but does not capture outcomes in decumulation. This creates tension with the guided retirement provisions in the Bill, as it makes decumulation quality a secondary consideration. We would like to see a coherent plan to integrate the VfM framework and decumulation to capture the full savings lifecycle and ensure that the two policies work together.

Second, the interaction between the VfM regime and the proposed scale test raises questions on proportionality. The regime is intended to measure performance and net returns while the scale test is built on the view that larger schemes can deliver better results through economies of scale. This creates a question on how small schemes that perform well on the VfM assessment will be treated. If scale obviates the performance of smaller schemes, then it is unnecessary for these to conduct any assessment as they are going to exit the market anyway. More guidance on this interaction is necessary to make sure that the two policies are not overlapping.

Third, in a similar line with the previous point, small pot consolidation is another policy that might have unintended interactions with the VfM framework. Schemes that are actively consolidating small pots in line with legislative requirements may experience short-term disruption to operational performance and investment continuity that is adversely reflected in their ratings.. It would be important to avoid penalising these schemes while they are undertaking consolidation in line with legislative requirements.

*We have conducted a survey among members on key aspects of this consultation. We have added these survey responses where relevant.*

## **Chapter 2: Scope and Thresholds**

### **Question 1 – Do you have any comments on the proposed scope? Do you believe any further exemptions should be considered?**

Pensions UK is broadly satisfied with how the consultation defines default and quasi-default arrangements. The inclusion of schemes' default funds and those that function in a similar way to defaults (for instance, where a high proportion of members are in the same fund by inertia) is appropriate and ensures the focus remains on arrangements that matter most for member outcomes.

However, we are concerned that the current scope still does not extend to non-workplace pension products. Excluding non-workplace schemes will leave a gap in consumer protection over the longer term. As we argued in the

last consultation response, non-workplace schemes often have higher charges without offering improved investment performance nor increased asset allocations to the private market. If they are not included, the framework would be establishing two tiers of accountability and rigour.

This is a particularly urgent issue to address as the volume of transfers from workplace to non-workplace schemes builds. The dashboard will likely accelerate this trend further. Pensions UK would like to see Government and regulators acting now to consider how value for money requirements can be applied to the whole market. We do not propose any additional exemptions beyond those already outlined in the consultation as it would undermine the comprehensiveness of the framework.

Ultimately, value for money metrics could be used to inform decision making by savers transferring their DC pots both within and outside of the workplace perimeter. DC-DC transfer journeys should be considered by both the FCA and TPR and an aligned approach developed that keeps value for money metrics in mind.

**Question 2 – Do you have any comments on our proposals in relation to unlinked members? Do you have any preference with regards to the options suggested? Are there alternative options you would like to suggest?**

We support the proposal to treat arrangement with a high proportion of unlinked members as quasi-defaults (Option 1). Pensions UK has consistently advocated for a more comprehensive VfM framework that brings relevant arrangements into scope. In this instance, we believe that including such arrangement is both appropriate and proportionate.

We think that Option 2 presents a “cliff-edge” due to how its designed. Where unlinked members might be evenly spread out across arrangements under the same scheme, picking just one as the “default” for assessment would miss pockets of potential poor value. Not considering these would make the VfM regime far less comprehensive. Therefore, we do not favour Option 2.

**Question 3 – We do not think this situation would arise for trust-based schemes Do you agree with this understanding?**

Yes, Pensions UK agrees with the regulator’s understanding that the unlinked member scenario is unlikely to happen in trust-based schemes. Nevertheless, some monitoring on this issue should happen in the first years to avoid unintended consequences.

**Question 4 - Do you agree with this proposal for transferred members? Why or why not?**

We agree with the proposal regarding members who are transferred from one scheme to another. If transfers were exempt, it could lead to a loophole being formed where a scheme receiving members can escape scrutiny. Not allowing that – as the proposal intends to do – would enhance protection and improve the comprehensiveness of the VfM framework.

**Question 5 – Do you agree with our proposed exemptions for contract-based arrangements? Why or why not?**

Pension UK supports the proposed exemptions for schemes that are imminently exiting the market. We see little point in burdening these schemes with a VfM assessment, as it would yield limited value.

**Chapter 3: Investment performance- backwards-looking metrics**

**Question 6 – Do you agree with the proposal to use arithmetic average instead of geometric averaging? Why or why not?**

We understand why the use of arithmetic averaging is being propose, but we consider the shift from industry-standard geometric averaging too burdensome to be worthwhile.

The costs associated with the move from geometric calculations to arithmetic calculations will have a significant impact, as providers will need reengineer all their reporting systems. This proposal should be reconsidered and, if not, there should be schemes should be given time to adapt during the initial phase of VfM’s implementation.

The change to arithmetic calculations would add weight to the use of a “lighter touch” approach in the first two years of the VfM framework, to ensure that there is a consistent approach used by the industry.

*Two in five (41%) do not agree with the proposal to use arithmetic averages rather than geometric averages when calculating investment performance, while a quarter agree with this proposal (26%).*

**Question 7 – Do you agree with out proposed disclosures to facilitate comparison between multi-employer arrangements with variable charges? Why or why not?**

Yes, Pension UK supports more granular disclosure for multi-employer pension arrangements with variable charges. We agree that providing the maximum, minimum and median charge levels is an adequate way to improve comparability across such arrangements without significantly increasing complexity.

We lean towards measuring charge level by employer instead of by member, as charge variation primarily arises between employer groups rather than within them. Further to that, when paired with YTR cohorts it would produce a better demographic overview.

**Question 8 – Do you agree with our suggested approach for mapping the performance of TDFs with multi-year cohorts for the purposes of deriving the relevant performance data?**

Yes, we agree with the suggested approach. Attempting to calculate some blended or “average” returns across different TDF cohorts would be too burdensome and could undermine comparability between providers.

**Question 9 – Do you agree with our proposed risk metrics? Why or why not?**

Pensions UK supports the inclusion of a risk measures as part of the performance disclosure. Furthermore, within the context of arithmetic averages, using performance dispersion metrics has the benefit of being simpler and less burdensome while still adequately capturing volatility.

**Question 10 – In light of the role that total costs and charges play in the calculation of net performance, we would be interested in views on whether chain-linking should be applied to costs and charges or there are alternative suggestions that achieve more accurate reporting of net performance?**

We do not believe that a chain-linking approach should be applied to costs and charges in this manner.

Schemes are more in control of costs and charges than of performance, which means that members will experience the new cost levels in their returns immediately. Consequently, chain-linking costs and charges would add a reporting burden on schemes that would outweigh the benefit.

Furthermore, vertically integrated schemes would have to face the challenge of disentangling the costs and charges cross-scheme, in some instances only being able to generate estimates. This would complicate comparability, in addition to generating large amounts of work for schemes.

We propose tracking costs and charges from the first year of the framework’s implementation, allowing schemes to settle on a “clean slate”. If there is a desire to highlight the impact of a change in charges, that can be done qualitatively in the transfer disclosure or via a simple comparison of the two schemes’ charge levels, rather than through a mathematical chain-linking of performance data.

**Question 11 – Do you agree with our proposals for chain-linking? Why or why not?**

We support the targeted exemptions that have been outlined, including those related to provider-to-provider mergers. It makes sense to allow a break in performance reporting if needed, so that the newly merged scheme isn't unfairly penalized by differences in how performance was previously calculated.

Pensions UK does observe some broader issues with chain-linking. We understand that it would prevent gaming by stopping members from being transferred into "empty" schemes with no history, effectively being able to reset their performance at will. We also understand that it would help create a data trail long enough to assess the scheme's performance when the framework launches.

However, we do not see these being major issues, and the potentially distorting effects of chain-linking could make it an overall negative proposal. Constantly transferring members from arrangement to arrangement would trigger alarms and would be visible to members. The data trail would make more sense if it started tracking from the beginning of the VfM framework, once schemes have had time to adapt to its demands.

As a solution, we propose an exemption to chain-linking in the first three years of the VfM framework. This will give time for schemes to adapt to the new regulatory environment, consolidate where necessary and be able to provide a more accurate representation of their performance. The data collected will also be more representative of where the scheme stands regarding performance.

*There are mixed views on a chain-linking methodology when calculating investment performance metrics, with a third (33%) believing that chain-linking adds value within the current VfM proposals, while just over a quarter believe it risks unnecessarily dragging down otherwise good-value schemes (26%).*

**Question 12 – Do you agree with our proposals relating to legacy arrangements? Why or why not?**

In line with previous positions, Pensions UK supports the proposal to not exempting legacy arrangements from VfM assessment and requiring standard metrics to be reported. We are broadly supportive of measures that improve comprehensiveness without generating undue administrative burdens on schemes and this proposal aligns with this principle.

We also agree with the approach of having these legacy products disclose and then qualitatively account for any unique features. Given the complexity of these products, a quantitative approach would fail to capture their particularities and would result in poor comparisons.

## **Chapter 4: Investment performance- forward-looking metrics**

### **Question 13 – Do you agree with the proposed FLM disclosures and the use of own assumptions? Why or why not?**

Pensions UK welcomes the inclusion of Forward-Looking Metrics in the VfM framework. We have consistently advocated for incorporating these types of metrics as a way to encourage long-term value creation over short-term cost focus.

Furthermore, the use of each provider’s own assumptions for the projections is, in our view, a necessary choice to avoid a one-size-fits-all approach that could lead to herding. Different schemes have different asset allocations and risk profiles, and bespoke assumptions allow them to model outcomes that align with their existing strategies. Additionally, using own assumption is a potent narrative tool when dealing with asset allocation in the private market.

We do envisage potential issues with this approach, and robust guardrails will be necessary to minimise their negative impact. The first issue is of comparability – bespoke assumption will make comparison between schemes more difficult, but that can be managed through adequate weighting and supervision. Gaming is another potential problem, as it would allow schemes to “boost” their assessment results by leaning on overly optimistic FLMs.

The proposed guardrails would help with these issues, but we propose the addition of regular “deep dives” performed by regulators to revise the assumptions that schemes are required to keep on record for 6 years. To minimise the burden on participants, these could only be done on a random selection of schemes each time. This be a robust supervision tool that would help minimise gaming and poor data management.

Finally, we observe that requiring 10-year projected returns would not make sense when dealing with cohorts that are less than 10 years away from retiring. Publishing this data may lead scheme members to make choices and decisions based on data that may not be directly relevant to their circumstances.

### **Question 14 – Do you agree with the proposed requirements to obtain and consider external advice? Why or why not?**

We support the requirement to obtain and consider external advice when setting forward-looking assumptions. Independent review provides an important safeguard against overly optimistic projections and improves credibility.

However, further clarity is required regarding what constitutes appropriate external advice. We understand that existing investment advisers under contract by trustees and IGCs may fulfil this role, but we would like it to be confirmed by regulators.

More detailed guidance is necessary to maintain equal standards across schemes and keeping costs under control. There is a risk that smaller schemes might struggle with fulfilling this requirement if the cost is too high.

**Question 15 - Are the proposed guardrails sufficient to reduce the risk of gaming and ensure the FLMs disclosed are credible for use in the assessment process? If not, what alternatives/additions would you propose?**

The proposed guardrails appear broadly sufficient at this stage, as long as they are paired with the regular “deep dives” on assumption we proposed in question 14. It is important to recognise that forward-looking projections inherently contain uncertainty. However, the fact that forward-looking metrics will eventually be validated by future backward-looking outcomes creates a natural test for them.

*Most believe third-party validation of Forward-Looking Metrics will require strong safeguards to ensure genuine independence (90%).*

*Most also believe that Forward-Looking Metrics could influence investment behaviour, potentially leading to herding (81%) and they also risk misleading comparisons between schemes (73%).*

*But, six in ten believe that Forward-Looking Metrics improve VfM decision-making (61%).*

## **Chapter 5: Asset allocation disclosures**

**Question 16 – Do you foresee any difficulties in reporting this data? If yes, what specifically?**

Yes, we foresee challenges in achieving consistent and accurate data reporting under the new framework, especially in its initial phase. Unclear definitions, misunderstandings regarding the templates and formats used to report data, and data availability are likely to be issues.

The *Pound for Pound* we conducted with, the Australian research company, Superratings and a selection of UK schemes showed that difficulties with reporting and processing data are almost guaranteed, even when participants are eager to successfully complete the process. Although more time for preparations is available, we do not think it will be enough for the 2028 launch. Consequently, we propose a “light touch” first year for VfM.

In this first year, schemes could only be rated red or dark green under the proposed RAGG rating. A red rating would be reserved for schemes showing clear signs of underperformance and an inability to recover from it. Everybody else would be awarded “dark green” and given feedback and time to address any weak points. This way, regulators and schemes would have time to let the data system bed-in while minimising consequences for schemes that can potentially deliver value for savers.

## **Chapter 6: Costs and charges**

### **Question 17 - Do you agree with our proposals for disclosing employer subsidies? Why or why not?**

Pensions UK supports the proposal to disclose employer subsidies, provided they do not alter the outcome of the VfM assessment directly. Employer subsidies can affect the member experience and overall value proposition. Disclosure improves transparency and supports informed governance discussions, particularly where employer support meaningfully changes the effective cost burdening members.

### **Question 18 - We are aware that profit share and with-profits distribution can follow some time after the performance to which they relate. We have considered whether there would be benefit in apportionment, linking the share/distribution to the period to which it relates. We would be interested in views on this.**

Pensions UK favours a pragmatic approach, where profit share and with-profits distributions would be reported in the period they were allocated or paid to members, and require a qualitative explanation that clarifies the reporting lag. This would provide the transparency and comparability provided by apportionment without overburdening schemes with reporting requirements. However, care is needed as with-profits distributions are calculated on a capital basis by generational cohorts, this may not lend itself to calculations on a benefit apportionment basis as currently explained in the consultation document.

## **Chapter 7: Quality of services**

### **Question 19 - We would like to include ‘Payments out as retirement income’ as a key transaction. We are aware that some individuals approaching retirement may request payment at a future date, hence our request for data based on requests for immediate payment. We would be interested in views**

**on whether our proposed measure above would provide a reasonable measure.**

Pensions UK agrees with the proposal as long as necessary guidance is provided on what constitutes a valid request and what will be the treatment of delays driven by member-side issues versus scheme-side delays. We also consider it necessary to further flesh out service metrics to ensure consistency in interpretations and comparability.

**Question 20 - We would be interested in views on whether the payment of Pension Commencement Lump Sum should be a transaction included in this section.**

Pensions UK considers payments of PCLS, along with drawdown or other income payments, a key outcome for members and should be included in this section. As with other metrics, standardised definitions and data requirements will be necessary to correctly implement this proposal.

**Question 21 - Do you have any comments about our proposal to collect complaints data at the level at which the same service is experienced? Do you agree with our proposed definition of a platform?**

We do not see any issues with the proposal to collect complaints data at the level at which the same service is experience, nor with the proposed definition of a platform, as they both improve comparability.

**Question 22 - We would be interested in views on whether our proposed approach to negative perception metrics will provide relevant data to indicate saver concerns.**

Pensions UK agrees that negative perception metrics provide insight into saver concerns, but the current proposal runs the risk of creating misleading comparisons.

We disagree with relying on absolute numbers of negative events, as it would unduly penalise larger arrangements that have a higher volume of customer interactions. Using percentages would be a more accurate and fair approach.

End-to-end timing metrics require careful contextualisation. Transaction processing timings can be affected by external factors (e.g. customer-side issues) or by internal processes that are otherwise a net positive (e.g. anti-scam checks). Guidance on this topic needs to allow for the differentiation between scheme inefficiency-based delays and other types of delays, with only the former being considered.

Overall, we think the proposed service quality metrics can be relevant but need more guidance. We suggest creating working groups with industry participation to work on how these metrics should be defined and applied

(and we offer to lead them if the idea is adopted). Furthermore, the “light touch” approach we proposed earlier would allow for sufficient time to refine and test these metrics.

**Question 23 - Does our revised approach to engagement metrics seem appropriate? Additionally, we would be grateful if you could provide us with an explanation of what surveys/data gathering exercises you currently undertake for member engagement. If you would be willing to share a copy of your member engagement survey(s) with us, please tell us.**

Pensions UK understands with the revised approach to engagement metrics, including the decision not to launch a full customer satisfaction survey immediately. The consultation recognises that further work with industry is needed to develop engagement measures that are practical and cost-effective. We support that pragmatic sequencing, while noting that engagement will remain important to linking VfM with better retirement decision-making.

There remains the risk of biased results due to different schemes catering to different groups of savers. Wealthier savers tend to be more engaged, and schemes that have a higher presence of this demographic among their members will do better without necessarily providing a better service. To avoid this type of distortion, demographic characteristics of this type should be normalised across schemes.

Further to that, consideration should be given to market segmentation between intermediated/underwritten versus universal schemes. The former have a natural advantage over the latter in the proposed framework, as their member selection positively skews the metrics that VfM measures. Consequently, there should be separate service quality benchmarks for each of the segments.

We believe that member engagement metrics would require time and close collaboration between regulators and industry. A “light touch” first year would facilitate this without penalising schemes while the VfM framework is bedding in.

**Question 24 - We welcome feedback on our revised proposals for engagement metrics and how that engagement generates specific outcomes.**

Pensions UK welcomes the revised approach, but we do not consider it sufficient to rely at launch on a single engagement metric such as the percentage of savers who have nominated a beneficiary. While beneficiary nomination is a positive behaviour, it is a narrow proxy for engagement and does not demonstrate that members are making better retirement planning decisions or receiving improved outcomes. This is another area where there

remains the risk of biased results due to different schemes catering to different groups of savers. Wealthier savers tend to be more engaged with their scheme without necessarily being provided with a better service.

Consequently, we suggest delaying the measurement of member engagement until such a time that the full set of member engagement metrics can be implemented.

In this instance too, a “light touch” first year would give enough time and opportunity to refine definitions and provide an adequate full set of engagement metrics.

*There are mixed views on saver and service quality metrics. Two in five (39%) agree that saver engagement metrics within the service quality assessment should be postponed, while the same proportion disagree (39%).*

*Similarly, two in five believe service quality metrics should have a phased introduction (39%), while a similar proportion disagree (36%).*

## **Chapter 8: Assessment process**

### **Question 25 - Do you agree with our proposal for comparisons against a commercial market comparator group and the criteria for it? Why or why not?**

Pensions UK agrees with the proposal to benchmark arrangements against a commercial market comparator group. The shift from comparing against a small number of selected peer arrangements to a wider group should improve consistency and reduce gaming risks.

However, we have three concerns. First, restricting comparators to schemes open to new employers risks distorting the behaviour of large single-employer schemes that deliver strong value through innovative investments. We recommend either including these in the comparator group or creating an additional reference set for them.

Second, under the proposed definition the benchmark would be ever rising. As poor value arrangements exit the market, the comparator group would become narrower and more elite, making marginal differences more significant. We recommend a regular review of the comparator criteria and the impact it has on the market.

Third, non-commercial hybrid Master Trusts such as SAUL, USS and Railpen, with combined DC and DB offerings, do not fit easily into a system where they are required to compare themselves directly with a commercial DC market comparator group as, to be direct, there are no suitable comparators.

This is another metric that would benefit from a “light touch” approach in first year.

**Question 26 - Do you agree with our proposed approach to comparisons for different types of arrangements? Why or why not?**

Yes. Pensions UK supports the proposed approach of tailoring comparisons to reflect different arrangement types, while maintaining a clear overall structure for comparability. However, there should be guidance on the calculations for combination changes to ensure consistency across the market.

We also support maintaining flexibility. Overly rigid comparison rules risk either producing misleading comparisons or incentivising herding around whatever model is easier to compare.

**Question 27 - Do you agree with the approach for weighting of BLMs and FLMs? Why or why not?**

Pensions UK supports the principles that FLMs should be considered alongside - but never be weighted more than - BLMs. Backward-looking returns can be uninformative in certain situations, particularly where “J-curve” effects apply, and FLMs offer appropriate contextualisation.

We suggest the final framework should treat the proposed weighting structure as guidance with strong expectations, while allowing trustees and IGCs to deviate if they can explain and evidence their reasoning. Guardrails are essential in the context of FLMs, but the expertise and judgement of governance bodies must be trusted to avoid overly rigid regulatory frameworks.

*There are mixed views on the appropriate weighting between Forward-Looking and Backward-Looking Metrics, with a quarter saying that Forward-Looking Metrics should only have a limited/moderate role, a quarter saying they should have equal weight as Backward-Looking Metrics and another quarter saying they should be determined case by case by trustees/IGCs.*

**Question 28 - Do you have any feedback on the proposed approach in option 1? What improvements or changes would you suggest?**

Pensions UK is broadly supportive of Option 1. In our view, Option 1’s qualitative approach is better aligned with how VfM decisions must be made in practice: it enables governance bodies to use forward-looking information to contextualise backward-looking data, rather than “forcing” complex information into a single composite score. This supports a more holistic and narrative-driven assessment of long-term value, and reduces the risk of spurious comparisons.

Given the complexity and subjectivity at play in the proposed approach, it would be necessary to provide some type of working example of what regulators expect. This would give guidance to scheme – which would ultimately translate into better comparability – while still maintaining the necessary flexibility.

**Question 29 - Do you agree with the proposal for the composite metric in option 2? Why or why not? Is it helpful for considering value? If so, is equal weighting appropriate for the composite metric or what alternatives would you suggest?**

Pensions UK is sceptical about Option 2's composite metric. While we understand the desire to make comparisons more objective and to reduce subjectivity in balancing BLMs and FLMs, a composite approach risks oversimplifying a judgement that is inherently complex.

The core problem is that if FLMs are based on bespoke assumption, then mathematically combining them with BLMs risks diluting the empirical observations provided by historical outcomes. There is little to be gained from this, so we suggest avoiding Option 2.

**Question 30 - Do you agree with the proposed composite comparison figure in option 2? If not, what do you think the composite metric or the FLMs should be compared against?**

Given our preference for Option 1 and our concerns about Option 2's composite metric, we do not support adopting a composite comparison figure.

A composite comparison figure risks compounding the problems of the composite metric itself - it can imply a false level of precision and may encourage league-table behaviours that are not aligned with careful long-term value governance. The proposal itself recognises the risk that data can be misinterpreted or used without sufficient context. Composite figures heighten that risk because they appear simple and, thus, more likely to be used as rankings.

If regulators wish to retain a benchmark concept for FLMs, we suggest FLMs should be compared qualitatively against a reasonableness range supported by external advisors and supervisory sampling.

**Question 31 - Do you have any feedback on the proposed approaching option 2? What improvements or changes would you suggest?**

Pensions UK feedback on this follows from our response to the previous two questions – we do not consider Option 2 the appropriate approach.

**Question 32 - Do you agree with the proposed guardrails? Do you believe other guardrails would be appropriate?**

Pensions UK agrees that robust guardrails are necessary, particularly in a framework that involves forward-looking data and require governance bodies to exercise judgement. We also support the approach that trustees and IGCs should explain the reason for the way they have used FLMs, as it would facilitate regulatory scrutiny.

We are less supportive of measures that mandate how FLM weighting must evolve over time irrespective of strategy. Where schemes adopt different asset allocations, it may remain appropriate to give FLMs meaningful weight beyond an arbitrary timeframe. Consequently, we oppose the time-based taper on the grounds it unnecessarily restricts decision-making by trustees and IGCs.

**Question 33 - What is your preferred proposed approach to step 1: option 1 or 2? Why?**

Pensions UK's preferred approach is Option 1. Pensions UK is broadly supportive of Option 1. In our view, Option 1's qualitative approach is better aligned with how VfM decisions must be made in practice: it enables governance bodies to use forward-looking information to contextualise backward-looking data, rather than "forcing" complex information into a single composite score. This supports a more holistic and narrative-driven assessment of long-term value, and reduces the risk of spurious comparisons.

**Question 34 - Do you agree with the proposed use of FLMs in step 1, alongside BLMs? Or should FLMs be considered in a different way in the assessment process?**

Yes, Pensions UK agrees that FLMs should be used in Step 1 alongside BLMs. We support that placement within Step 1 because the purpose of FLMs is to inform the value judgement on performance and costs, not just to decorate the final report.

**Question 35: Do you agree with the proposed approach to considering service value in step 2? Why or why not?**

Pensions UK agrees that service value should be considered in Step 2, but our main caution is that is the sequencing. This step can only drive better assessments if the metrics are stable and well-understood. Given the need for better guidance and other issues described in previous questions, it would be better if Step 2 was not treated as mandatory in the first "light touch" year of the VfM framework.

**Question 36 - Do you agree with the proposed approach to considering overall value in step 3 and rationalisation? Why or why not?**

Yes, Pensions UK supports the Step 3 approach - bringing together Step 1 and Step 2 outcomes to determine value and then considering rationalisation where appropriate. A framework that only publishes metrics without driving action would not deliver the intended saver protection and market improvement.

We also support the proposed recognition that Step 3 should allow governance bodies to consider certain contextual factors when judging whether an arrangement is value, even if some metrics look weaker than comparators. This is critical for helping avoid inappropriate forced consolidation out of arrangements that deliver unique member benefits.

We encourage regulators to provide practical support for Step 3 implementation, especially where schemes claim improvements. A key success factor will be the credibility of improvement plans and the ability to validate whether improvements have occurred. This suggests a need for supervisory engagement and clear guidance.

**Question 37 - Do you agree with the proposed updated RAGG ratings?**

Yes. Pensions UK supports the move to a four-point RAGG approach, as increased granularity is essential for both credibility and effective market incentives. As we argued in the previous consultation, the earlier three-point system produced cliff-edge effects and insufficient nuance.

We do however stress that RAGG will only work if the operational definitions are clearly defined and consistently applied. The proposals descriptions of each category are a useful start, but regulators should provide practical examples of what evidence would typically justify each rating, especially where schemes are close to the boundary between two ratings.

*Most believe the light green rating provides a meaningful improvement in granularity compared to the previous recommendation (72%) and RAGG rating scale improves the VfM framework (71%).*

**Question 38 - Overall, do you agree with the assessment process we have outlined above? Why or why not? What changes would you propose?**

Overall yes, Pensions UK supports the three-step assessment structure and the move towards a more robust assessment process.

Our proposed changes are primarily about avoiding unintended consequences in the initial phase of the VfM framework. We recommend a “light-touch” first cycle to allow data definitions and templates to stabilise. In this cycle, only

red and green rating would be assigned to schemes, ensuring that the worst performers are removed from the market while giving time to the rest to adjust and correct course where necessary. An additional benefit of this measure would be to protect schemes that might be value from the reputational damage of having a lower-than-expected rating in the first year while adjusting to the new regulatory environment.

We also recommend regular market impact reviews so regulators can validate whether the regime is achieving better outcomes and reducing poor value prevalence without inducing harmful herding or short-termism.

## **Chapter 9: Actions for arrangements offering poor value**

### **Question 39 - Do you agree with the proposed transfer requirements for red rated arrangements? Why or why not?**

Pensions UK agrees that red rated arrangements should be required to transfer where that is in members best interests. However, we emphasise that transfer requirements must be workable across both trust-based and contract-based structures. Contract-based arrangements have faced legal and operational barriers to transfers without consent. The proposal indicates that transfer requirements for arrangements rated red will be strengthened for contract-based schemes with the expected introduction of contractual override mechanisms under the Pension Schemes Bill.

### **Question 40 - Do you agree with the actions proposed for not value arrangements? Why or why not?**

Pensions UK is overall satisfied with the implementation of the red rating but we have significant concerns with the implications of the amber rating.

If an amber rating triggers immediate closure to new business and prominent employer messaging, it would likely – when coupled with the reputational impact on the scheme – trigger a “death spiral” that would preclude any possibility of recovery. This would remove any upside from having this rating in the first place.

An amber rating would also force schemes to make immediate adjustments to their strategies, abandoning long-term perspectives for short-term improvements to avoid market exit. This would create significant disruptions in the market and would disproportionately penalise any schemes that “dip” into amber while having better perspectives long term.

As proposed, amber also risks incentivising gaming. Where the consequences are this severe, schemes may feel pressure to use subjective elements - especially FLMs - to avoid an amber rating, undermining integrity.

Pensions UK's proposed remedy to this issue consists in delaying some of the consequences of an amber rating to following years. The first time within a pre-determined period a scheme receives an amber rating, it should only have to notify members and present an improvement plan. Closure to new business should only come in the second or third year of receiving an amber rating. This approach would give some leeway to schemes to improve without having to rush implementing measure that are inadequate in the long term.

*However, two thirds (68%) believe an amber rating could trigger saver run-off that may jeopardise scheme viability.*

*In contrast, two in five (43%) disagree that a light green rating could trigger run-off that may jeopardise scheme viability, with more than a third neutral (36%).*

## **Chapter 10: Disclosure requirements**

### **Question 41 - How should firms and trustees provide data to the central VFM database? E.g. machine-readable flat file, file transfer, webform, direct API etc.**

Pensions UK does not have a preference when it comes to the way data should be provided, but we encourage regulators to use the smallest set of formats possible to allow the related guidance to be as concise and precise as possible.

Whatever the choice is, “dry runs” like the *Pound for Pound* exercise and the “light touch” first year would allow for the testing and selection of the best possible format.

### **Question 42 - Do you agree with our proposals for the central VFM database? Why or why not?**

Yes - Pensions UK supports proposals for a central VfM database. A central repository that can calculate comparator statistics and host disclosure access links is welcome.

The proposal recognises the risk that data could be interpreted without the full dataset or without accompanying narrative, opening the door to partial analysis and potentially misleading league tables. We advise that the contextual information always be provided with the published data and league tables.

We also support some flexibility in submission deadlines and in the operational transition to full reporting, recognising that schemes may face delays in obtaining certain data.

**Question 43 - When in the VFM cycle should VFM data be made publicly available and why? For example, should data be made available as soon as it is submitted, or after IGCs/trustees have completed their assessment?**

We believe that the data should be published together with the assessment in October. This allows for proper contextualisation of the data, avoiding any misinterpretation on the schemes' performance.

Furthermore, we believe that using only a red/green rating in the first year would protect the reputation of the schemes that are still "in play" – those that are going to or have a chance to be assessed as value for money.

**Question 44 - Do you have any comments on the suggestion that firm/IGC or trustees should also add a link to the final VFM assessment report onto the proposed central VFM database?**

Pensions UK strongly supports this proposal. Linking directly to the final VFM assessment report from trustee/IGC websites is a low-burden, high-value measure that improves transparency and reduces search costs for all parties.

*Most are concerned about the requirement to report VFM data using only one year of data (73%), with three in ten very concerned (27%).*

*Over half (54%) feel it is likely (either a great deal/a lot) that VFM data could be misused by the public or advisory services in a way that may harm schemes, while a third believe there is a moderate likelihood this will happen (35%). Few believe it is only likely a little (8%).*

*More than half support the publication of VFM data via a central, regulator-managed database (58%), however, one in five oppose it (20%).*

*Most (65%) believe VFM data should first be published when assessment is finished (expected October 2028).*

## **Chapter 11: Amendments to current FCA Handbook requirements**

**Question 45: We would welcome further comments on our proposals relating to the FCA Handbook.**

We have no specific comments on the FCA Handbook, but we do want to emphasize the need to remove the existing regulatory requirements once VFM is implemented. The new framework should replace the current one instead of being additive, so that the industry is not overburdened with compliance.

**Question 46: Do you have any comments on our updated cost benefit analysis? A new CBA will be produced in the next consultation phase,**

**incorporating further feedback and any substantive market or policy changes.**

The UK pensions system is undergoing significant reforms and this creates a compounding on costs created by a resource gap as schemes and providers manage a significant amount of change in a short period of time. This may also translate into an opportunity cost problem due to firms focusing more on regulatory change rather than pursuing commercial opportunities.

The CBA wording picks up on the Mansion House Accord, which should increase member returns. However, there is a balancing factor here as “productive finance” assets are more expensive than list market assets.