Department for Work & Pensions

Making workplace pensions work

Consultation Questions: Consultation on Value for Money: A framework on metrics, standards and disclosures

Name of respondent/s / organisation (please provide):

James Hawkins, Isio Group Limited

Pension Scheme type(s) (please cross all those that apply)	
Master Trust (500 or more employers approx.)	Y
Master Trust (fewer than 500 employers)	Y
Single-employer trust-based defined contribution (DC) workplace pension scheme	Y
Contract-based DC workplace pension scheme (500 or more employers approx.)	Y
Contract-based DC workplace pension scheme (fewer than 500 employers)	Y
Contract-based DC non workplace pensions	N
Defined benefit pension scheme	Y
Hybrid pension scheme	Y
Your role (please cross all those that apply)	
DC pension scheme trustee or manager	
Member of Independent Governance Committee (IGC) or Governance Advisory Arrangement (GAA)	
Administrator	
Investment consultant	Y
Financial advisor	
Employer	
Employee benefit consultant	Y
Consumer organisation	
Law firm	
Pension saver	Y
Other (please state)	

Responses to consultation questions are optional. We ask that you provide your reasoning for your answers to the consultation questions that you respond to.

*Please indicate, next to any responses given, if you are **not** content for DWP to publish relevant sections of your responses in the future. Without a specific request for anonymity, we reserve the right to publish your response in full.*

Chapter 3: Scope, criteria, and outcomes

Question 1: Do you agree with the proposed phased approach?

We are supportive of the Phased approach and note alignment of a centralised database with the launch of the next Phase could be considered.

Chapter 4: Investment performance

Question 2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

We have no major concerns over using backward looking metrics however we would caution that too much focus on historic performance may lead to the wrong behaviours. Sufficient allowance should be made for views around forwarding-looking qualitative views.

In addition, as noted in the Consultation there should be an awareness that the impact of investments that are valued less frequently could lead to artificial smoothing of volatility (e.g. Private Equity).

The industry may benefit from additional guidance on the methodology for aligning valuation frequency across daily and monthly dealt funds to ensure like-to-like comparisons of risk measures can be made.

Question 3: Do you agree with our proposals to use Maximum Drawdown and/or ASD as risk-based metrics for each reporting period and age cohort?

Yes, however we note that further guidance should be provided for the calculation of standard deviation (e.g. daily/weekly/monthly/quarterly). In our view a monthly calculation is most suitable from a data availability and consistency standpoint (noting valuation of private markets is likely to occur monthly rather than daily).

Further consideration could be given to allowing Trustees to select the most appropriate risk metric at each phase of the glidepath / for each example member. A high standard deviation could be perceived as negative for a member at age 25 which is not necessarily the case, and vice versa.

It is important that emphasis on risk metrics does not lead to worse outcomes because the market ‘rewards’ the use of a more cautious strategy.

Question 4: 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?

In principle, we understand the rationale suggestion for the use of chain-linking. The example of chain linking the actual performance that has been experienced by a certain cohort is appropriate. However, many circumstances it may not be practical (or of value) to do so and therefore more clarity is needed around which circumstances which should apply and the methodology being proposed. For example, where a provider elects to launch a new default strategy for new contributions but retain the legacy strategy as an alternative lifestyle (that is no longer a default), will chain linking apply? Is that a possible loophole to exclude defaults that have performed badly historically?

Question 5: Do you agree with proposals for the additional disclosure of returns net of investment charges only?

Yes, further consideration should be given to how this fits in the existing NIR disclosure requirements (i.e. will the NIR still need to be disclosed in the Chair Statement?).

In order to appropriately assess performance success, longer term performance figures will be needed. An annual assessment of one year returns will likely lead to significant different outcomes between schemes which are driven by short-term markets as opposed to whether the scheme is an underperforming scheme.

Question 6: Do you agree with requiring disclosure of asset allocation under the eight existing categories for all in-scope default arrangements?

Yes although in order to get meaningful comparisons, consistency of treatment will be key. Therefore, further guidance is needed regarding disclosure of derivative positions used in a Diversified Growth Strategy – i.e. Cash holdings used for margin, carry trades, etc.

Further consideration should be given to categorisation of private markets into private equity, private credit, etc.

Question 7: Do you think we should require a forward-looking performance and risk metric, and if so, which model would you propose and why?

We support the provision of a forward-looking performance and risk metric, but we believe it is important that the expected performance is given as much emphasis as the risk metric, because an over-emphasis on risk may deter investors from investing in the high-growth assets that are likely to be required to generate sufficient retirement income.

Disclosure of forward looking metrics could be heavily dependent on what output the guidance would like to show. Deterministic and Stochastic modelling, if using the same underlying Capital Market Assumptions, will result in the same median outcome at retirement.

A Value at Risk figure could be shown if the Stochastic method is used, however this is unlikely to be interpretable to members and further guidance would be needed on what measure of VaR should be applied (e.g. cVar, 1/20, etc).

Underlying assumptions (i.e. Capital Market Assumptions and Member assumptions) are very much driven by the adviser and without a prescribed set of assumptions for Inflation/salary growth/retirement age/contributions/investment return it will be very difficult to make comparisons on a like-for-like basis across the industry. Should there be a requirement to disclose all relevant assumptions for example? Method 2 whereby the risk impact is shown in additional years of savings would be heavily skewed by contribution rate and salary.

Other risk metrics (such as Duration) will be implicitly built into Capital Market Assumptions however there may be a desire to state Duration distinctly recognising that the majority of members will *not* be targeting annuity in retirement and therefore could be subject to a duration mis-match.

Consideration could be given to specific stress testing that is used for financial institutions such as the ICAAP requirements that prescribe testing against pre-determined economic scenario shocks (equity falls / widening credit spreads). While stochastic modelling is also required by the ICAAP there is further guidance around what is shown (i.e. 1 in 200 VaR event). The advantage of prescribed tests is that it increases comparability; however the drawback is that the prescribed tests may not cover all circumstances, e.g. what if there is a scheme containing an unusual asset for which there isn't a prescribed shock. The Regulator could consider a prescribed approach with ability for Trustees to diverge if there is good reason to do so.

Sequencing risk should be considered further by the industry as a whole and the Regulator may wish to consider alternative risk metrics as part of a Phased roll out with particular reference to decumulation risks.

Consistency with SMPIs should be considered further. We also think there should be opportunity to factor in a more qualitative forward looking assessment.

Chapter 5: Costs and charges

Question 8: Are there any barriers to separating out charges in order to disclose the amount paid for services?

Charges on With Profits funds are often difficult to evaluate and the Regulator may wish to provide further guidance on how the Framework would apply to legacy With Profits arrangements with guarantees.

Question 9: Do you have any suggestions for converting combination charges into an annual percentage? How would you address charging structures for legacy schemes?

We await further guidance.

Question 10: 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?

Pricing in Master Trust environment is not necessarily dependent on AUM. While larger schemes will typically have a more competitive charge, this is not the only factor for determining pricing and the scheme demographics are often more important (e.g. average pot size, active/deferred split, employee turnover, contribution flow, etc).

Requiring disclosure of multi-employer charges based on AUM may lead to increased pressure on pricing for the industry which may not necessarily be a good outcome for members as it limits the investable asset classes to low-cost investments.

We believe a more suitable methodology would be to state a band of pricing and number of employers in that given band with an AUM range..

Charge band	# of employers	AUM range
0.20-0.25%	x	y-z
0.15-0.20%	x	y-z

The investment strategy impacts the level of charges. The Regulator could consider requiring disclosure of investment related fees and administration fees separately to increase comparability. However, we note there are commercial sensitivities with such an approach.

We believe a low charge does not necessarily lead to better Outcomes, however transparency of charging structures is very important.

Chapter 6: Quality of services

Question 11: 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?

In our opinion, this is the area where the consultation lacks the most detail. It is difficult to set quantifiable measures in this area, but we believe this is key if the VfM framework is to sufficiently include non-financial as well as financial considerations. We note that the small scheme VFM is more onerous in this area.

It may also be appropriate to consider what metrics are more effectively captured at different stages of the lifestyle or within a certain timeframe may be more telling. (e.g. should you instead report on the number of members that have reviewed their retirement age in the last x years?, or what proportion of the membership within the de-risking phase have reaffirmed their retirement age?).

,

Question 12: 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?

The Regulator should consider how comparisons across providers can be made – one provider may have an SLA of 10 days which they meet 100% of the time, another may have 5 days which they meet 95% of the time.

We believe SLAs is a good starting point, but the Regulator should provide guidance for a suitable SLA target for financially critical tasks. E.g.:

- Death claim - 95% in 5 days
- BACS Payment In - 100% in 2 days
- Contribution refund - 95% in 5 days
- Contribution schedule in - 100% in 1 day
- Switch Request - 100% in 1 day
- Redirection - 100% in 3 days

Chapter 7: Disclosure templates and publication timings

Question 13: 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?

In our view a centralised approach must be used here. While we note web-scraping could facilitate cross-industry comparisons, this would be a workaround at best and heavily reliant on schemes publishing their VFM disclosures in a standardised way.

The Regulator should consider holding off launching new requirements until a framework is in place to properly enable schemes to disclose their results and carry out cross-scheme comparisons using centrally available data.

Question 14: Do you agree with the proposed deadlines for both the publication of the framework data and VFM assessment reports?

In our view the suggestion to change scheme year end to publish by the end of October is unrealistic, many schemes will have a year end that is aligned with a DB Section for a wider company accounting reason. However, we appreciate the Regulator may be seeking consistency and therefore a 'best endeavours' approach could be considered.

Further guidance is needed regarding the 31 March data disclosure deadline. Basing this on prior year 30 June data causes some concerns over publication of out of date information, particularly where the default strategy has evolved it's asset allocation significantly over the period. E.g. a change implemented in July 2023 would not be reflected in VFM data disclosures until 31 March 2025.

Chapter 8: Assessing Value for Money

Question 15: Do you think we should require comparisons against regulator-defined benchmarks or comparisons against other schemes and industry benchmarks?

Yes absolutely. In our view the three VFM outcomes could be somewhat open to interpretation and there is a risk that this could artificially lead to schemes reporting VFM in the second or third tier. In the absence of mandated thresholds that must be met to achieve a VFM rating there is a moral hazard.

In order to achieve the Regulator's aim of improving VFM, we agree with the theme of industry wide levelling to ensure all trustees and advisers are working to the same definitions of 'VFM' and 'Not VFM', however a more scientific process could provide a greater degree of transparency in this regard.

In our view, the Regulator should ensure that centralised reporting is in place to enable the creation of benchmarks and standards. As it stands this Framework goes beyond what is currently required (for larger schemes) but is unlikely to materially change the outcome of VFM vs not VFM that a Trustee / adviser would conclude, and as such the focus of the Regulator should be to facilitate comparisons across schemes and consultancy clients (e.g. comparing Own Trust to Master Trust) to enable the Regulator to better measure Value across schemes when the Framework is put into practice.

Where there is a scheme that is meeting the highest VFM standards, this should be available as a comparison for all schemes, and a centralised approach to enable cross-consultancy/industry comparison will provide a transparent way for Trustees (and Master Trust Trustees) to demonstrate Value.

Question 16: Do you agree with the step-by-step process we have outlined, including the additional consideration?

As noted in Q15, we believe benchmark comparisons and targets are essential for this Framework to be effective in meeting the Regulator's objectives.

Question 17: Do you agree with a 'three categories' / RAG rating approach for the result of the VFM assessment?

As noted in Q15, we believe the current categories are open to interpretation but provide a good starting point. Depending how else it can be factored into the assessment, there may be a need for a fourth category where there are unique scheme circumstances e.g. with-profits, guarantees where the scheme structure either presents barriers to wind-up and/or value is justified but not necessarily through the prescribed measures of the proposed assessment.

Question 18: How should we take into account the specific challenges of contract-based schemes while ensuring equivalent outcomes for pension savers?

IGCs could undertake a similar assessment to that of a Master Trust Board, however we note that the legislative limitation to move members without consent is currently a barrier that would prevent the majority of employers from taking action.

We would welcome contract based providers having the power to shift members without consent as with Trust based schemes, subject to receiving appropriate advice and it being considered in the best interests of members.

We also note that IGCs are subject to fewer requirements around independence of the underlying provider.

Question 19: Do you agree with our proposals on next steps to take following VFM assessment results, including on communications?

In our view communicating VFM to employers and members is unlikely to be helpful at this stage. We would recommend further consideration is given to communications as part of a phased approach to implementation.

Chapter 9: The VFM framework and Chair’s Statement

Question 20: If the Chair’s Statement was split into two separate documents, what information do you think would be beneficial in a member-facing document?

In our view a ‘one size fits all’ approach is unlikely to achieve the desired result of a member-facing document. The Trustee should have discretion over what is included in the member facing document depending on the changes over the scheme year, the market environment, and employer specifics.

However, if there is a desire for a member facing document members may benefit most from disclosure of costs and charges, climate impact of the investment strategy (in understandable terms), and a statement of whether the scheme is delivering value.

To that end, we would question whether a non-member facing document is adding value.

Question 21: Is there any duplication between the VFM framework proposals and current Chair’s Statement disclosure requirements?

There appears to be overlap in some areas, particularly regarding the Net Investment Return disclosures, Common and Conditional Data, and elements of the Transaction Cost disclosures.

Chapter 10: FCA specific issues

Question 22: 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?

We are unable to provide an informed opinion on this specific issue.

Question 23: 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?

We do not believe this would be valued by members.

Question 24: Do you think the provider or the IGC should be responsible under FCA rules for the publication of framework data?

In our view the onus should fall on the IGC for disclosure of VFM Framework data.

Chapter 11: Impacts

Question 25: 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?

N/A

Question 26: Do you agree with our assumptions regarding who will be affected by the framework?

Yes, for completeness, some Employers may also be impacted by the Framework should the Trustee decide that the scheme does not provide VFM.

Question 27: 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?

We are unable to quantify our costs for supporting trustees with the VFM Framework without first understanding the capabilities of providers.

Question 28: Overall, do you think the benefits of the framework outweigh the costs? Are you able to quantify any of the potential benefits?

In our view, until benchmark data and a centralised approach can be implemented, it is unlikely that the VFM Framework will have the desired affect of improving VFM across the industry and the parties impacted may not realise any of the anticipated benefits.

There may be a second order effect whereby the cost for consultants to support trustees of very small schemes to undertake the VFM Framework assessment will be a barrier to continuing to run the scheme, and therefore force wind-up and consolidation into an arrangement that has sufficient funding to undertake a VFM Framework assessment.

Question 29: Are there additional benefits we have not identified?

None.

Question 30: Do you have any comments on the potential positive and negative impacts of these proposals on any protected groups, and how any negative effects could be mitigated?

None.