TheCityUK

Department for Work & Pensions: The Value for Money Framework: Consultation

TheCityUK response

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 12% of the UK's total economic output and employs almost 2.5 million people, with two-thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

Introduction

We welcome the opportunity to respond to this consultation on the Value for Money Framework. We support the broad objective of creating a more transparent and competitive marketplace where schemes are judged on the long-term value they deliver to savers rather than simply on how low their charges are. A well-designed framework should improve comparability, accountability and transparency. As we set out in *No time to lose: Reasserting UK leadership in Financial and Related Professional Services,* successive layers of regulation have made the UK framework more complex and slower than those of international peers. This proposal risks adding further fragmentation: the FCA will oversee three value-for-money frameworks that share the same objective but differ in scope, methodology, disclosure requirements and regulatory consequences. Without greater alignment across the regimes, and between the Financial Conduct Authority (FCA) and DWP approaches, firms and consumers will face unnecessary complexity, duplication and cost, weakening clarity and UK competitiveness.

We believe the framework should:

- **Align with existing regimes:** Align the framework with existing requirements to reduce duplication, costs and complexity. The design should also support UK competitiveness.
- **Phase implementation:** Use first-year data for regulatory assessment only, with no ratings or formal consequences, to support publication once the methodology is proven reliable.
- **Implement proportionately:** Allow time to test data and processes before outcomes are relied upon. The framework should reflect differences between schemes and avoid misleading ratings.
- **Support wider pensions reform objectives:** Assess proposals against the Government's wider objectives for pension scheme scale, consolidation and productive investment. The framework should avoid design choices that unintentionally discourage consolidation or constrain schemes' ability to invest for long-term member value.
- **Provide further clarity:** Clarify the treatment of bespoke, multi-employer and quasi-default arrangements, technical defaults, transfers, AVCs and UK assets. Support implementation with practical examples.

- **Apply chain-linking and consequences proportionately:** Restrict chain-linking where it could distort performance assessments or discourage consolidation. Amber or red ratings should not trigger action before firms have had the opportunity to verify data, explain anomalies and engage affected employers.

Scope and Thresholds

Question 1: Do you have any comments on our proposals for phasing?

We support a phased approach, but the proposed phasing does not sufficiently reflect the scale and complexity of the new metrics for costs and charges, investment performance and service quality. Until the methodology is fully understood, applied consistently and shown to produce reliable comparisons, assessment data should be submitted for regulatory purposes only and should not be published in year one. Other in-scope arrangements should not be required to submit data in year one; publication could begin in year two only if a consistent market-wide approach has been demonstrated. This would reduce unnecessary compliance costs and administrative overheads while firms embed the required systems and processes.

A clear distinction is also needed between bespoke and multi-employer arrangements. The proposed definition of a multi-employer arrangement—an arrangement using an employer-bespoke charge adopted by at least two clients—could capture a very broad and diverse range of schemes. An arrangement designed by an adviser for a particular employer should remain bespoke even if a similar design is subsequently used by more than one employer. Clear definitions and worked examples are needed to avoid disproportionate compliance burdens and inconsistent treatment.

Question 2: Do you have any comments on our proposal to limit the first data collection period to 6-months?

We support a six-month initial data collection period, provided that the timetable avoids the end-of-tax-year operational peak for schemes and that underlying performance metrics continue to reflect member outcomes over appropriate longer-term periods. Any changes to quality-of-service metrics in year two should be confirmed early enough to avoid duplicate systems work and inconsistent reporting.

Question 3: Do you have any concerns about our proposed exemptions and inclusions?

There remains confusion about the distinction between an arrangement and a scheme, and whether technical defaults will fall within the scope of this policy. This could lead to inconsistent application and unnecessary compliance work. We therefore suggest that DWP work with industry to produce further guidance and worked examples of what falls within scope.

Question 4: Do you agree with the proposed exemptions (full and partial) for contract-based arrangements where there is a transfer or a plan to transfer? Why or why not?

Yes, we support the proposed exemptions for schemes that are genuinely being wound up and transferring all members, recognising that a full VFM assessment would provide limited value in these circumstances. We also agree that firms should continue to collect sufficient data to support the transfer decision and maintain transparency throughout the process. However, given that this is the first year of implementation, we encourage the FCA to adopt a proportionate approach to supervision and enforcement, recognising the practical challenges firms may face in implementing the new requirements alongside complex transfer activity.

Question 5: Do you have any further comments on our proposed scope?
We broadly agree with the proposed scope but would welcome greater clarity on the treatment of Additional Voluntary Contributions. The framework should also recognise that de-risking may begin 10–15 years before retirement. Removing information at the five-years-to-retirement point could therefore omit valuable evidence about glidepaths, while the zero-years-to-retirement cohort may not capture this at all. Schemes may also adopt different glidepaths at five years to retirement, which should not in itself imply poorer value.

Investment performance – Backward-looking metrics (BLMs)

Question 6: Do you agree with the proposed updated methodology? Do you envisage any issues with calculating investment performance metrics on a basis that tracks members' experience over time, while excluding contributions? Please specify where problems might arise, if any.
We broadly support the updated methodology because it should better reflect members' experience. However, pricing points used for the assessment are not uniform across the market. Market movements between different pricing points could therefore produce different outcomes for otherwise comparable schemes. A standard pricing point should be adopted for all calculations. To support consistent and proportionate implementation, regulators should work with industry to develop a standardised template through which asset and fund managers can provide the data required for VFM calculations. This would reduce duplication, improve data consistency and ease the operational burden on schemes and providers.

Question 7: Do you agree with the removal of standalone BLM disclosures at 5YTR? Are there any issues associated with its removal?
We support the removal of the standalone BLM disclosures at 5YTR to avoid excessive disclosure requirements.

Question 8: Are you comfortable with ASD as a risk metric for all arrangements, or should some arrangements calculate their volatility metrics differently? Please specify under what circumstances and what modified calculations you would recommend.
ASD may be suitable for many arrangements, but less frequently valued illiquid assets can appear less volatile, creating a false impression of lower risk. Monthly data should be acceptable where assets are not valued daily, with sufficient flexibility for asset classes for which daily pricing is neither available nor meaningful.

Question 9: Are there any circumstances in which a scheme would not have access to the historical cost information required to apply the same chain-linking methodology to costs as done to gross performance figures, noting the more limited scope under which chain-linking is applicable?
Chain-linking should be reconsidered because it can cause the weaker historic performance of a closed default to depress the rating of a better-performing arrangement into which members have transferred. This may discourage consolidation and conflict with wider scale objectives. It could also generate confusing communications to employers where nothing has changed from their perspective. Regulators should either narrow the circumstances in which chain-linking is required or disclose the underperforming predecessor arrangement separately. Chain-linking should not be triggered where an arrangement is only partly closed, or a small number of members remain behind after a transfer.

Question 10: Would there be a material reduction in burden if net performance were to be calculated first, and then chain-linking applied to it, rather than chain-linking costs in order to derive accurate net performance metrics?
Calculating net performance first and then applying chain-linking may reduce some burden, but it would not address our wider concern that chain-linking is being applied too broadly. The current approach adds cost and complexity, can distort performance disclosures and may discourage consolidation. Regulators should narrow the circumstances in which chain-linking is required or instead require the past performance of transferred or closed arrangements to be made available for context.

Question 11: Would trustees or firms have the necessary data to retrospectively determine if an arrangement would have been classed as quasi-default up to 10 years prior, so as to apply chain-linking where necessary?
We do not believe trustees or firms will consistently hold the data needed to determine retrospectively whether an arrangement would have been classed as quasi-default over the preceding ten years. Schemes may have changed administrators, records may not have been retained in a suitable form, or data may sit with a previous administrator. Reconstructing this information would impose significant cost and complexity, could distort performance disclosures and may discourage consolidation. Regulators should narrow the circumstances in which chain-linking is required or instead require the past performance of transferred or closed arrangements to be made available for context.

Investment performance – Forward-looking metrics (FLMs)

Question 12: Do you agree with the proposed requirements for FLM disclosures and safeguards? Why or why not?
We are broadly supportive of forward-looking metrics as a way to reflect long-term value rather than relying solely on historic performance. Scheme-specific capital market assumptions may be appropriate given differences in strategic asset allocation and risk profile, but publishing those assumptions, including minimum and maximum charge information, could raise competition concerns.

Asset Allocation Disclosure

Question 13: Do you agree with our revised proposals in relation to Asset Allocation? Please provide details of any concerns you have relating to our proposals.
We support asset-allocation disclosure in principle, but the proposed zero-years-to-retirement cohort may not provide a representative picture. A disclosure based only on members recorded on 31 December could capture very few members, omit those who retired earlier in the year and misrepresent members who do not retire at their selected retirement date. Regulators should retain actual member outcomes where cohorts are sufficiently representative, while allowing proportionate simplifications where they are not. These could include aggregation across an appropriate period or the use of standardised representative profiles as a fallback, providing a more consistent and comparable basis for disclosure without discarding real scheme experience.

Question 14: Do you have any comments on the definitions used above? In particular, do you have any comments on the definition of 'UK-based entity'? Is there an alternative definition you would suggest?
Part of the benefit of reporting asset allocation is to provide regulators and other stakeholders with a clearer and more consistent view of how assets are allocated geographically and across a range of

asset classes. While views may differ on the extent to which this information should form part of an assessment of value, greater transparency could, without mandating investment decisions, raise member and sponsor interest in allocation and potentially support wider government policy objectives, including investment in the UK.
To ensure that the data collected is reliable and consistent across the Value for Money Framework and other policy initiatives, we recommend that the FCA review the relevant definitions to ensure they are appropriately aligned. For example, an investment made through a listed investment trust may appropriately be reported as listed for VFM purposes, while also contributing to private market exposure for the purposes of the Mansion House Compact or Accord. It may also be helpful to consider how far this information duplicates disclosures already provided to regulators through existing requirements, including the Chair's Statement for schemes in scope.

Question 15: Do you agree with our proposed definitions? In particular, do you agree with our definitions of UK assets? Are there any areas where definitions need to be tightened to ensure consistency of measurement?

We suggest a broad definition of a qualifying UK asset, which could include:
- UK-incorporated private companies
- PE / VC funds (with >50% UK investments)
- UK-listed (Commercial Companies segment) and quoted companies
- UK-listed and quoted closed-ended investment funds
- UK listed ETPs (where the fund invests in "Equity share (commercial companies)", quoted company shares (AIM, Aquis), or UK-listed closed-ended investment funds)
- UK-based infrastructure and real estate
- UK Government debt
- Corporate debt issued by UK-incorporated companies

We also suggest that the government consider including assets that provide a considerable economic footprint or jobs in the UK, although we acknowledge the difficulty in setting such parameters.

We support excluding bespoke arrangements as set out in the consultation. We would welcome clarity on how an arrangement that is designed by an adviser but used by more than one employer is treated. We recommend it is considered bespoke and excluded accordingly.

Costs and Charges

Question 16: Based on the new proposed calculation methodology, we would be interested in views on whether, to help mitigate the risk that there are few – or no – members within the retirement cohorts it would be more practical to calculate the median based on the number of employers, rather than members.
Calculating medians using actual members or employers may still produce unstable results where retirement cohorts are small. We recommend a standardised model-member framework, particularly for large multi-employer arrangements. Applying each arrangement's charges to consistent representative profiles would be simpler, more proportionate and more comparable than relying on small numbers of actual members or employers.

Question 17: We would be interested in views on whether all multi-employer arrangements should disclose maximum, minimum and median cost metrics, in order to highlight variations in the treatment of small or large pots.
The overarching objective should be simplicity, clarity and meaningful comparability. Although maximum, minimum and median cost metrics may provide some insight, they can be distorted by scheme design and cohort composition. A standardised model-member framework would better meet the policy objective and reduce unnecessary complexity.

Question 18: We would be interested in views on whether member-level calculations (Option A) or the model pot size approach (Option B) would be more effective.
Our members have mixed views on the optimal approach. Some support Option A, a member-level approach, with simplification to reduce the reporting burden. Others believe Option B would avoid highly complex calculations and would prefer a hypothetical member model against which charge structures can be applied. We therefore suggest that the FCA tailor its approach to firms' circumstances and membership profiles.

Question 19: Do you agree with our suggestion that the variable effects of complex charging structures on pots of different sizes should be disclosed separately from the effects of commercial variations of fee terms? Do you agree with our proposal for achieving this?

Question 20: How should the separate pot size effect disclosures be used in the assessment of value? Should they be based on peer-to-peer comparisons (consistent with the rest of the VFM Framework) or should trustees / IGCs carry out value assessment internal to the arrangement, to determine whether the small pot members are excessively disadvantaged compared to their fellow members with larger pots?
We have no strong views on Questions 19 and 20, provided that any approach remains proportionate and does not add complexity without improving the assessment of member value.

Quality of Services

Question 21: Would it be helpful if we defined STP as a fully automated process for the purposes of VFM and asked schemes to confirm: • What percentage of payments fall within this definition? • The mean and range of all contributions falling outside this definition?
We have no concerns with refining the definition of straight-through processing, provided that the reporting requirement remains clear, proportionate and aligned with existing operational definitions.

Question 22: Do you agree that the metrics for trust-based and contract-based complaints processes are now comparable? Are there any further steps that we should take?
We support greater comparability, but reporting percentages without the corresponding absolute number may give a misleading impression. The final rules should also ensure that COBS drafting is fully aligned with the consultation proposals and related regulations, including consistent definitions of business and calendar days. Any remaining differences between the Pensions Ombudsman and Financial Ombudsman processes should be clearly identified rather than treated as directly comparable.

Question 23: Are partly upheld Financial Ombudsman decisions recorded as a separate category by firms or included within the upheld figures?

The key requirement is a single, clearly defined and consistently applied reporting approach. Partly upheld decisions should be recorded in a separate category where existing practice permits, rather than being combined in a way that obscures outcomes.

Assessment Process

Question 24: Do you agree with the proposed approach to consider decumulation aims separately for the 0 YTR cohort? Why or why not?
Yes, we support recognising decumulation separately because members close to retirement have different objectives and appetite for risk from accumulation-stage members.

Question 25: Would decumulation aims be more appropriately considered in step 3 rationalisation? Question 26: Do you agree with the decumulation aim sub-categories? Why or why not? Are they sufficiently clear, or do they need to be defined?
Decumulation aims should remain clearly identified rather than being absorbed into a broader rationalisation exercise. Universal, flexible decumulation and retirement collective defined contribution arrangements should be treated as separate categories because they pursue materially different outcomes.

Question 27: The proposed shift in approach for the first year of the Framework moves away from a more granular assessment of value that we have consulted on previously. We welcome feedback on where stakeholders consider there to be concerns in relation to the data sets, the proposals set out in CP26/1 for the publication and use of multi-employer cohorts, and the proposed changes.
We support the FCA taking a simplified approach in the first year as a transitional measure. This reflects the considerable reporting changes firms will face. While a year should allow firms to establish the necessary processes, regulators and supervisors should continue to show pragmatism thereafter, recognising that robust practices take time to embed fully.

The framework should also recognise that multi-employer arrangements may face disproportionate market scrutiny if ratings and assessments are published during the initial implementation period, particularly compared with other arrangements which are less diverse.

Question 28: Does the second factor for consideration proposed for weighting BLMs and FLMs risk excessive use of FLMs? If so, should we restrict this factor more explicitly? For example, to significant investments in assets affected by 'J-curves'?
Forward-looking metrics should be used where they add genuine insight, but explicit restrictions focused only on J-curve assets could create inconsistent treatment across investment types. Any safeguard should be principles-based, evidence-led and applied consistently, while ensuring that forward-looking analysis does not displace consideration of actual member outcomes.

Question 29: Do you agree with the simplified approach proposed for multi-employer arrangements for year 1? Why or why not?
We welcome the simplified approach for multi-employer arrangements for year one but suggest recognition of scheme complexity and the avoidance of blanket employer comparisons.

Question 30: Do you agree with the simplified approach proposed for single employer arrangements for year 1? Why or why not?

Yes, we support the proportionate approach and believe it is appropriate where schemes have a single membership population and fewer sources of variation.

Question 31: Would the simplified approach be appropriate if it were applied from year two, or on an ongoing basis to all in-scope arrangements completing assessments with consequences attached? In particular, we are interested in feedback on how it may affect the assessment outcomes of SET's, bespoke and legacy arrangements.
Simplification may be appropriate during implementation, but ongoing use should depend on whether it provides sufficient information to identify differences in member outcomes. Consequences should not be attached to an approach that risks judging schemes with the benefit of hindsight or treating legitimate design differences as evidence of poor value.

Question 32: Do you agree with the proposal for multi-employer arrangement consideration of minimum, median and maximum? Why or why not?
We welcome the proposed approach but would note that headline figures should be interpreted with care. Maximum and minimum values may be distorted by small sample sizes, outliers do not necessarily indicate poor value, and differences may reflect legitimate employer arrangements rather than underlying concerns.

Actions for arrangements offering poor value

Question 33: Do you agree with the proposed actions for not-value arrangements? Why or why not?
We support proportionate action where there is genuinely poor member value, but the framework should distinguish between arrangements capable of improvement and those that are fundamentally failing. Amber-rated arrangements should be given a proportionate opportunity to address identified weaknesses before restrictions or other consequences apply. The framework must also accommodate longer employer-onboarding timelines. Contractual agreements may not be finalised until late in a process that has already taken several months. An amber rating should not automatically prevent onboarding where an employer has reached an advanced and evidenced stage. Communications should be directed to the employer and limited to the cohorts affected, with sufficient lead time for providers to verify data, explain the methodology and address inaccuracies before consequences apply.

Question 34: Do you anticipate that a shorter initial data collection period would create any practical or analytical challenges, and if so, how might these be mitigated?
The shorter collection period should not itself distort return metrics where longer measurement periods are used. Our principal concern is the limited time between final rules and implementation. In year one, data should be used for regulatory assessment only and should not be published, allowing firms and regulators to test consistency and resolve methodological issues.

Question 35: Do you agree to proceed with data publication in November given the risks identified? How likely are these risks to emerge and what steps could we take to address them effectively?
We do not support publication in November in the first year. Data should initially be submitted to regulators only, while consistency, quality and comparability are tested. Publication should begin no earlier than year two and only once a reliable market-wide methodology has been demonstrated. A one-month period to notify employers and set out next steps would in any event be insufficient for meaningful engagement with all affected stakeholders.

Conclusion

TheCityUK supports the framework's ambition to improve outcomes for pension savers by assessing the long-term value delivered to members rather than cost alone. If designed well, it can strengthen transparency, comparability and accountability across workplace pensions.

To realise these benefits, implementation must be proportionate, evidence-based and sensitive to operational realities. Regulators should test the methodology before publishing results or attaching consequences, provide clear guidance and allow flexibility where data could be misleading. Greater alignment between the FCA and DWP and across the FCA's three value-for-money frameworks is also essential to reduce fragmentation, duplication and cost, improve clarity for firms and consumers, and protect the UK's international competitiveness.