

Summary

- The latest in a series of consultations on the value for money (VFM) framework ran from January to March this year and introduced changes, including proposals for the use of Forward-Looking Metrics (FLMs) assessing investment performance.
- There are concerns in the industry about the assumptions underlying proposed FLMs and a general lack of detail about how the framework will operate, as the 2028 deadline for implementation approaches.
- There are also concerns about how implementation of the framework will influence the DC market in future, including the possibility of 'herding' distorting investment strategies; and market consolidation reducing competition and innovation.
- Nonetheless, there appears to be widespread support for the aims of the framework, provided the industry is able to maintain a focus on member outcomes. In future, the framework may also be applied to aspects of the decumulation phase.

A difficult landing

➤ Policymakers are taking a long time to finalise the value for money (VFM) framework for DC schemes. But that may be a wise move, as the framework needs to function alongside so many other competing regulatory and political priorities. David Adams reports on industry preparations for VFM implementation, and considers how it might influence the pensions landscape in the longer term

The launch of a new Nasa lunar mission in April 2026, after a gap of more than 53 years, is a reminder that some things take a lot of planning and patience – and that some things are even more complicated than devising an effective value for money (VFM) framework for DC pension schemes.

Building and successfully implementing the VFM framework is certainly proving very difficult. Its purpose is to ensure that workplace pension providers, employers, trustees and Independent Governance Committees (IGCs) overseeing contract-based schemes focus on delivering long-term value and optimum outcomes for scheme members and savers, rather than on minimising short-term costs.

The current proposed version of

the framework, revealed in the latest of a series of consultations, which ran from 8 January to 8 March this year, would assess schemes and other vehicles against forward-looking metrics (FLMs) on expected investment returns, as well as backward-looking metrics (BLMs) covering previous investment performance, costs, fees and some aspects of service.

FLMs will set out expected net returns and associated risks over 10 years, based on assumptions tailored to the scheme's investment strategies. Those assumptions will not be publicly disclosed, but schemes must obtain third-party independent advice to confirm they are 'reasonable'. Schemes or arrangements will be assessed against a commercial market comparator group, then be given a rating of Dark Green (strong



performance), Light Green (offering good value), Amber or Red.

Those with a Red rating must either improve, or (more likely, in the view of both The Pensions Regulator (TPR) and the government) close to new business and seek to transfer members into alternative pension vehicles. The framework would also enable (via the Pension Schemes Bill) contractual overrides for contract-based schemes, so members can be transferred without their consent if necessary. VFM will apply at first to default and 'quasi-default' legacy DC workplace arrangements, but may be extended to other DC arrangements and to the decumulation phase in future. While further consultations will follow, the framework is expected to be in operation by the end of 2028.

"It is difficult for people to plan at the moment, because we don't know what the final rules will be," says Sackers partner, Andy Lewis. "Nevertheless, providers will need help with their data pretty much from now on. I'm not sure there's a lot that trustees and IGCs can do right now, other than continue to follow developments."

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Inappropriate assumptions?

Zedra client director, Anne Sander, runs Zedra’s Governance Advisory Arrangement (GAA) offering for contract-based pension schemes. She highlights difficulties likely to arise in comparing metrics likely to be used by different providers or schemes. For example, a provider’s administration fees will cover a range of services that differ significantly from those offered by another. She fears some providers will end up cutting services that might add a great deal of value for some pension savers or members but that also increase administration costs.

“There’s a danger that in the longer term we will see less innovation, because innovation costs money,” she warns.

Pi Partnership governance consultant

and scheme secretary, Laura Johns, is among some in the industry who have concerns about the efficacy of some FLMs that may be used and the assumptions behind them.

“Even a small change in assumptions can drastically change what’s being shown,” she warns. The Society of Pension Professionals (SPP) response to the latest consultation states that its support for allowing firms and trustees to set assumptions for FLMs is based on use of effective guardrails that “mitigate the risk of optimistic assumptions being used to obscure poor past performance, to game comparative assessments or to improve overall VFM ratings”.

Another significant concern is that poor VFM ratings could lead to the demise of schemes or vehicles, or the

departure of providers from the market, which might have continued to serve members or savers effectively if remedial action were applied. Pensions UK has suggested a ‘light touch’ regime for the first year of VFM to help the industry to adapt to the new system.

“You would still be running the process, but making sure everything is done correctly,” says Pensions UK head of DC, master trusts and lifetime savings Phil Brown.

Implementation of the VFM framework could also have a significant influence on scheme or provider investment strategies, as they seek to maintain a Green rating. It may lead to ‘herding’ around investments that seem likely to help secure that rating, as has been seen in Australia following



implementation of a similar regulatory regime.

“No-one knows for sure that it will influence behaviour that way, but there is definitely a risk that it will,” says SPP DC Committee chair, David James.

But this imperative to maintain a Green rating will also need to be accommodated alongside increasing pressure from government to invest in ‘productive’, UK-based assets. While these investments may outperform other asset classes in the longer term, schemes may have to endure significant volatility to access those returns. As Hymans Robertson partner and head of DC investment, Alison Leslie, points out, the nature of some private markets assets means there will be periods during which they do not appear to be performing very

well, so judging their performance over a two year period doesn’t make sense.

She thinks it will be necessary to provide additional information alongside VFM assessments, explaining why strategies using these assets may at times appear to be providing poor value in comparison to use of strategies that make use of different underlying holdings.

“Private markets assets cover a wide spectrum, so comparison of like with like is crucial,” she says. “There needs to be a qualitative overview, and the time period within which you assess these schemes needs to be longer.”

Consequences of consolidation

The introduction of VFM will almost certainly encourage consolidation among schemes and perhaps also providers in the DC market, a stated policy objective of both TPR and the government.

“In the contract-based space consolidation could be really helpful, if combined with the removal of the need to get consent from members to move them,” says Leslie. “But it may lead to good providers being closed, meaning it will stifle innovation and could lead to a loss of confidence in the pensions system *[among savers]*.”

Pensions Management Institute (PMI) chief strategy officer, Helen Forrest Hall, believes one consequence of consolidation should be further enhancements of the regulatory regime, to help ensure better member outcomes.

“Large, complex schemes should require richer metrics, transparency and a more nuanced understanding of how their value is being created over the lifetimes of their members,” she says.

But Sander fears consolidation within the market that makes it more difficult for smaller new entrants to compete could discourage innovation.

“It may be that with fewer but larger providers that’s great for government oversight, but in the end savers will be

poorer for it,” she suggests.

“There will be less choice, but in theory better governance,” says Johns. “There needs to be some maintenance of competitive tension and innovation. But I think this is the right way forward.”

Forrest Hall believes VFM “has the potential to strengthen DC pensions”, but she also hopes that in future VFM will also offer an assessment of value offered by a scheme or provider during the decumulation phase.

“We don’t think VFM should be rewarding pot size alone,” she says. “It should be an assessment of how effectively is an arrangement turning your pot into the retirement income you are looking to achieve.”

Noting that “consumers are struggling to understand the value they’re getting from pension providers”, David James says the SPP is working on a paper discussing the future expansion of the framework to offer more help to consumers, which should be published within the next few months.

After all, for all the complaints coming from the pensions industry about preparing for VFM alongside other regulatory and systemic changes, it may be that individuals’ perceptions of the value for money they get from their pension has the greatest impact on the future of the pensions system.

“What do people actually value about their pension arrangement?” James asks. Even though this is another question the industry has been grappling with for years, he is undoubtedly correct when he says: “There’s a lot of thinking still to be done about that.”

Improving member engagement and understanding of pensions is another long-awaited mission for the industry. Perhaps VFM, alongside the dashboards and targeted support initiatives, will finally inspire a successful take-off.

 Written by by Dave Adams, a freelance journalist