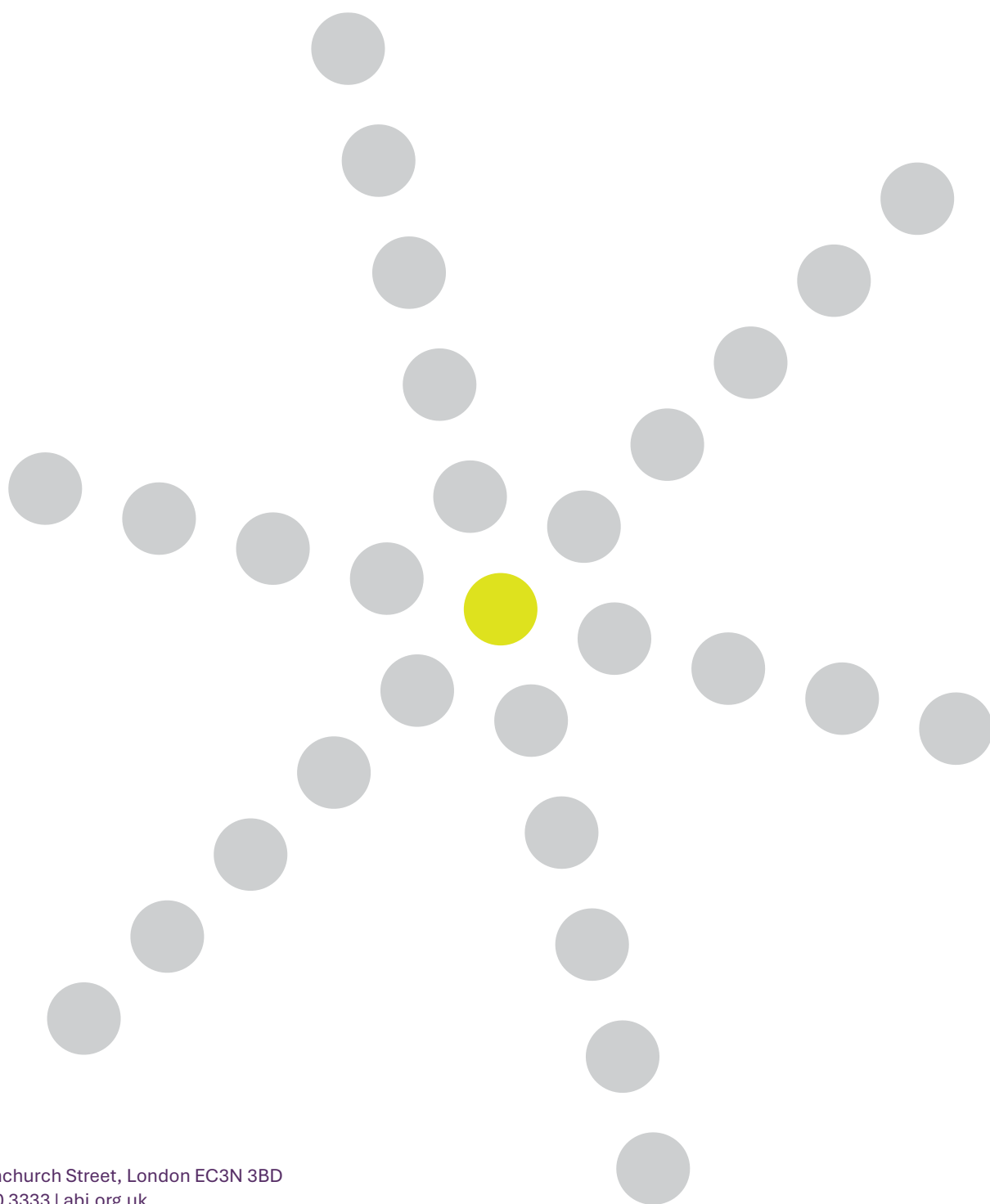


# ABI Response to CP26/1: The Value for Money Framework

March 2026



## Executive summary

- **We have long supported the aim to shift the workplace defined contribution pension system's culture away from "cost is king" and towards a focus on overall value.** The VFM Framework has the potential to provide better outcomes for savers, and we welcome the ongoing collaboration and engagement from the FCA, TPR and DWP on the development of these updated proposals. We want to make sure that the VFM Framework is a success once implemented and remain committed to ensuring comparisons are made on a fair and equal basis.
- **A dry run in the first year of implementation before VFM assessments are binding and made public is essential. Without it, there is a high risk that errors, inconsistent interpretations of metrics or data anomalies may drive incorrect assessments, with the potential for significant legal and commercial consequences from inappropriate wind-ups and a loss of potential new business.** We appreciate that once the regulatory powers are used, then the full framework applies. Therefore, part of this approach should include testing the framework outside the statutory mechanism so that data and processes can be validated before submissions are made to the central database and formal assessments take place. This testing should prioritise areas where interpretation is most challenging, such as metrics and data not typically collected by firms, the interpretation of assessment ratings, and the processes required to identify and correct data errors and anomalies. For instance, whilst the plan for regulators to host the central database is welcome, we remain concerned that no quality-assurance processes have been proposed. A dry run is therefore vital to ensure data is genuinely comparable across firms before the framework becomes operational and the consequences of the assessment ratings are fully implemented.
- **We propose that data should be collected as proposed in 2027 to the fullest extent possible. VFM assessments should be made in 2028 but, where allowed by primary legislation, the consequences of the ratings should not be enforced.** This is a compromise approach to ensure that the VFM framework can be progressed to support other important policy priorities, such as contract override powers, whilst minimising the risk that potentially catastrophic commercial impacts are based on incorrect or unreliable data. In addition, VFM assessment grades would not be made public to avoid unwarranted market movements in response to potentially inaccurate assessments. This approach, along with the testing outside the statutory mechanism, would also allow firms and regulators to engage in a process of moderating scores to ensure their verifiable accuracy and give regulators the opportunity to issue further guidance ahead of punitive action being taken in 2029.
- **The assessment process must ensure that quality of service receives appropriate weight alongside costs and investment performance.** Customer experience can materially impact outcomes, and the framework must recognise this appropriately. The current basic level of quality service metrics means that the VFM framework is heavily skewed towards cost and returns. We welcome the consultation's commitment to progressing metrics on how savers engage with their pensions in the future and we encourage the regulator to coordinate a cross-industry technical working group to progress this further.
- **The change to a RAGG rating system with increased nuance is welcome. However, the result of an Amber grade is still too close to Red for multi-employer schemes, whereas single-employer trusts face a much lighter consequence, as they are not operating in a**

**market where they need to compete for new business.** Our concerns about Amber ratings are magnified now that arrangements are to be compared against a market average benchmark. This has removed IGC and Trustee discretion to select appropriate comparators.

- **We are supportive of forward-looking metrics (FLM) being incorporated into the framework. However, we are unconvinced that this will be enough to support the government’s objective to increase investments into private markets.** Given the terminal consequences of Red and Amber assessment ratings, passing the VFM assessment will be a bigger concern for providers. The use of a comparison against the commercial market comparator group could lead to herding into global equities where historically we’ve seen greater growth, potentially at the expense of investment in the UK. There is a range of views within the ABI membership about at which stage FLMs should be considered, how prescriptive the rules should be and whether or not there should be a blended metric with backward looking metrics. This is discussed in more detail in our answers below.
- **The data and reporting requirements proposed under the VFM framework would place a significant burden on firms and it is essential data collected serves a precise and necessary purpose.** While we recognise that the framework is inherently data-driven, the current proposals are not fully aligned with the FCA’s secondary objective and ambition to reduce burdensome data requirements. For example, the chain-linking proposals are unnecessarily complex, and past performance should instead only be reported where it genuinely reflects the experience of most members in the arrangement. In addition, it is disappointing that earlier expectations that requirements such as Chair’s Statements and lengthy IGC reports would be reduced have not been reflected in these proposals. Given that larger firms could have hundreds of default and bespoke arrangements in scope, it is essential that regulators scrutinise the data and disclosure requirements carefully, removing any that provide limited value relative to their costs.
- **The Cost Benefit Analysis materially understates the scale and complexity of the costs that firms are likely to incur.** In some instances, we have heard from our members that their internal cost estimates are at least double what the per firm estimation is in the CBA. We believe the regulators are underestimating the number of products, defaults and charging structures that exist, or may be identified as ‘quasi defaults’. Also, our members will be implementing the Value for Money Framework against a backdrop of rising regulatory costs, including high change costs from other initiatives and substantial business-as-usual compliance pressures. It is therefore essential that the full cost implications of the framework are well understood, accurately assessed, and that they are subject to meaningful post-implementation review to ensure that assumptions made at consultation stage reflect operational reality. Over time as consolidation into better value arrangements occurs, regular reviews of the framework will be essential to ensuring the framework remains fit for purpose and the costs are proportionate to the benefits.

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

1. The ABI welcomes the continued alignment of introducing the Framework concurrently for both trust and contract-based arrangements. However, there are areas where clarification of the rules is necessary to ensure arrangements are not unintentionally considered in-scope. For example, the consultation appears unclear on whether the term “scheme” refers to an individual employer-level arrangement or to a single HMRC-registered scheme structure. Point 2.7 refers to automatic enrolment schemes and employers when explaining default and quasi-default arrangements, whereas point 2.10 only references “scheme” without specifying which meaning applies. The difference in interpretation could result in hundreds more defaults being in-scope for a given firm, consequently having significant cost implications.
2. In addition, the 1000-member threshold needs clarification on whether personal pension members are included or not.
3. There are practical challenges in applying the 80% quasi-default rule where an employer operates multiple schemes, as linking arrangements and membership across them is not straightforward. The rule also presents significant operational complexity and cost, particularly when trying to identify members’ original schemes. Although the assessment is only required once at launch for existing arrangements, we feel the cost will likely be disproportionate to the value it delivers. In addition, the decision not to proceed with the 50-member rule risks a large number of self-selected funds being incorrectly classified as quasi-defaults; for example, an employer with only five members, four of whom have independently chosen the same fund, would still trigger the 80% threshold. At such micro scale, it is not a reasonable assumption that these savers have been defaulted. Reinstating the 50-member safeguard would provide a more robust and proportionate basis for identifying genuine quasi-default arrangements.
4. If regulators retain a minimum-threshold approach for determining which default arrangements fall in scope, consideration should be given to ensuring that any in-scope default represents a material proportion of savers within the scheme. One way to achieve this would be to require that a default either covers a minimum percentage of savers within the overall scheme structure or has a minimum number of members, thereby ensuring that only defaults of meaningful scale are subject to full VFM reporting. To maintain accuracy over time, defaults should be reassessed on a regular review so that arrangements can move into or out of scope depending on changes in membership.
5. Our understanding is that the Pension Schemes Bill would allow for the scope of the VFM Framework to expand to retail markets and retirement products. While we would in principle, be supportive of this expansion, once the first stage of the framework has been successfully bedded in, we would need to see a clear timetable setting out how this would happen. In addition, it would be necessary for regulators and government to complete scoping work looking at the changes that would be required in moving from an employer focused audience to a customer focused one.

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

6. We agree it is important to avoid very small or incidental cohorts of unlinked members inadvertently bringing arrangements into scope in a disproportionate way. The approach to unlinked members should be proportionate and our preference is that the necessary analysis should be performed at a scheme level.
7. We also believe the FCA's alternative option for unlinked members, where the scheme identifies the arrangement with the largest number of unlinked members and treats only that arrangement as a quasi-default, provides a more pragmatic and representative approach. Many unlinked members pre-date auto-enrolment and hold self-selected portfolios split across multiple funds; treating each of these funds as separate "arrangements" would risk misclassifying self-selection as defaulting and significantly inflate the number of in-scope quasi-defaults. Using a single representative arrangement avoids this distortion.

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

8. We broadly agree that this situation is unlikely to arise for trust-based schemes, as trust-based structures typically involve more centralisation. However, we encourage the regulators to confirm this assumption through evidence to reduce the risk of unintended consequences. Specifically, looking at disengaged trustees and orphaned AVC holders will be important here.

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

9. We support the proposed approach for transferred members, provided it does not penalise schemes that are undertaking transfers in order to improve saver outcomes. In particular, the framework should avoid backward-looking metrics that unjustifiably import legacy underperformance into receiving arrangements. Chain-linking should only apply where past design and performance remain materially relevant to the arrangement now delivering value to members.
10. It is essential for clear regulatory alignment when members are transferred into arrangements governed by a different regime. Where self-selectors cannot be mapped to equivalent funds because the original product is closed, the framework should not force inappropriate default mapping or create inconsistencies in how those members are assessed. In cases where transfers move savers from FCA-regulated to DWP-regulated schemes, equivalent provisions are required to ensure the receiving arrangement is treated consistently and the policy intent of the VFM Framework is preserved. Mirrored rules across FCA and DWP regulation would help to ensure that transfers undertaken in members' interests operate smoothly and do not create unintended consequences.

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

11. We support targeted exemptions to avoid duplicate assessments for contract-based books already reviewed under IGC rules. However, it is important to ensure that the exemptions do not create regulatory divergence between trust and contract arrangements. In addition, we believe the FCA should consider an exemption from producing data when defaults are closed.

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

12. We have heard mixed views from our members regarding the pros and cons of arithmetic averaging. Some members believe it makes sense to compare on an equally weighted basis, while other members have concerns that arithmetic averaging does not reflect members' actual experience over time. However, our overriding concern relates to the divergence between industry practice and how some providers currently calculate and disclose historic investment returns to members. As a result, the backward-looking metrics may differ from provider-reported performance figures that members and employers are familiar with. Different ways of presenting illustrations and projections for pensions have caused confusion in the past and there is a risk of a similar situation here. Also, there will also be costs associated with having to explain why the VFM metrics are different to industry practice.

**Question 7: Do you agree with our proposed disclosures to facilitate comparisons between multi-employer arrangements with variable charges? Why or why not?**

13. We support disclosures that improve comparability between multi-employer arrangements with variable charges, provided they remain proportionate and focused on information that is genuinely useful for VFM assessments. Overly detailed breakdowns risk adding significant cost and operational complexity whilst providing limited additional insights. This is especially relevant where separating service and investment charges, which can be especially complex.
14. Our greatest concern relates to firms charging a single AMC. The FCA's proposals to require the disclosure of upper, lower and median charges add no value in these circumstances. These metrics could generate inaccurate figures that appear to breach the charge cap. In such cases, a single disclosed AMC should be sufficient and proportionate.
15. For schemes with multiple charging structures, the proposals would require disclosure of a mean charge. This will not accurately reflect the range of member experiences, particularly where charges vary due to tiered fees, combined fee structures (for example, a flat fee plus an AMC), or discounts linked to pot size. Since the framework aims to assess the value delivered to members, we believe that schemes with genuinely variable fees should disclose highest, lowest and median charges, mirroring the approach applied to multi-employer variable AMCs. This would support fairer, more meaningful comparison with comparator-group data, which is likely to be expressed using these statistical measures.
16. In addition, separating service and investment charges could expose commercially sensitive information, such as pricing arrangements that are intended to be confidential. A headline figure

of the annualised charge will provide necessary comparisons without the unintended commercial consequences.

**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?**

17. We agree with the proposed approach for mapping the performance of TDFs with multi-year cohorts, as it provides a proportionate solution where exact YTR alignment is not available. The use of the TDF containing the relevant cohort avoids unnecessary complexity while still reflecting members' experience. However, further flexibility should be allowed where a TDF's design or glidepath has materially changed, to avoid historical performance being misleading.

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

18. Yes, we support the risk metrics proposed. However, we encourage the regulators to continually review the metrics to ensure they do not drive risk-averse behaviour or penalise long-term or illiquid allocations.

**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 if there are alternative suggestions that achieve more accurate reporting of net performance?**

19. We do not support mandating the chain-linking of historic costs and charges. While we recognise that costs and charges are an important component of net performance, the additional complexity and operational burden associated with chain-linking historic charges would, in our view, outweigh the marginal benefits.
20. Mandating the chain-linking of charges would disproportionately disadvantage vertically integrated providers, who would be required to recreate or estimate historic internal cost allocations that were never designed to be reported on this basis.
21. A more proportionate approach would be to avoid retrospective chain-linking of charges and instead allow charge histories to build up prospectively over time within the new framework. This would enable more robust, consistent and comparable data to emerge gradually, without imposing excessive burdens or creating distortions in the early years of implementation.

**Question 11: Do you agree with our proposals for chain-linking?**

22. Chain-linking should not apply automatically where historic performance is no longer representative of the underlying investments. IGCs and trustee boards should be able to exercise judgement to chain link or not where it's not proportionally relevant.
23. Nevertheless, the additional exemption to chain-linking is a welcome reform because it recognises that existing, well-established in-scope arrangements with a meaningful operating history should not automatically inherit historic performance when accepting transfers. This is particularly important where consolidation is undertaken to improve long-term outcomes for members.

24. However, there are other scenarios without an exemption where chain-linking risks producing outcomes that are disproportionate and misleading. This may arise where a small or legacy default arrangement is transferred into a significantly larger, provider-designed default. In such cases, the historic performance of the predecessor arrangement may be driven by a very small subset of members or assets, yet becomes embedded in the reported five or ten-year performance of the receiving default. This does not reflect the experience of the vast majority of members in the receiving arrangement.
25. Similar issues arise where employer-specific or consultant-designed bespoke defaults are closed and members are moved into a provider's standard default. The historic performance of the bespoke default may reflect employer-specific design choices or adviser decisions rather than the investment strategy of the default. In these circumstances, requiring the receiving default to inherit that historic performance risks obscuring, rather than illuminating, whether the ongoing arrangement offers value.
26. There is also a need for greater clarity around how chain-linking interacts with the treatment of new or materially redesigned defaults, particularly those incorporating new asset classes or investment structures. Where a new default launches with limited or no assets and subsequently receives a bulk transfer, it is unclear how chain-linked and non-chain-linked data will be used within the assessment process.

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

27. We understand the need to have legacy arrangements in scope due to the risks of customers in these products not getting VFM. However, legacy arrangements can differ fundamentally from modern defaults, reflecting features such as valuable guarantees, bespoke or complex charging structures, and historic investment designs shaped by different regulatory and market conditions. As a result, metrics alone are insufficient to assess value for money. Instead, contextualisation, through clear narrative explanation of guarantees, structural features and the saver cohorts for whom they remain valuable, is essential to avoid the unintended consequences of legacy products being compared against modern products.
28. Also, whilst we prefer the use of unsmoothed returns, collecting the data on the gross investment performance for the required periods might involve complexities if the data is not readily available. A dry-run period will be essential to ensure issues with the data collection are identified and solved.

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

29. We welcome the inclusion of FLMs into the VFM Framework. However, we are unconvinced that this will be sufficient to support the government's objective to increase investments into private markets given the severe consequences of Red and Amber.
30. We have heard a range of views from our members on which stage in the assessment process FLMs should be considered. Some of our members would prefer the FLMs to be included in stage 1 of the assessment process and believe firms should have the ability to weight them

appropriately. However, other firms would prefer FLMs to be part of stage 3 and used to support a narrative explaining how future performance is expected to evolve and how any poor historic performance is being addressed. Whilst we haven't been able to come to a unified industry view, there are agreed positions which will apply whatever stage the regulator decides FLMs to be considered at.

31. Given the freedom for firms to select their own assumptions, it is essential that regulators review the data to identify discrepancies and potential 'gaming'. A dry-run would provide a useful opportunity to assess how comparable FLM results are in practice and whether additional guardrails are needed. This is particularly important because modelling approaches, especially for private markets, can vary significantly. Even small differences in assumptions can compound over time and produce materially different return projections, especially when compared with arrangements invested mainly in listed assets, where modelling is more standardised. Ensuring the different capital market assumptions used does not undermine comparability will be crucial to ensuring the assessment process remains meaningful.

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

32. We have concerns about how the requirement to obtain and consider external advice on the reasonableness of assumptions will work in practice. It is unclear what constitutes an "appropriate" external adviser, how independence will be determined, and whether advice from an existing investment adviser would be sufficient, or whether a separate external party would be required.
33. Also, getting external advice will impose costs on firms. However, the benefits seem limited given there are already rules in place that will compel firms to make reasonable assumptions. Firms must comply with SYSC rules which state they must have robust governance, effective risk management, and internal control mechanisms. In addition, the Consumer Duty reinforces these obligations by requiring firms to act in good faith and avoid foreseeable harm. Therefore, given the existing requirements on firms and that there is no single and universal acceptance of what 'good' capital market assumptions are, it is unclear what value to external advice will provide.

**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 or additions would you propose?**

34. We support the proposal for firms to ensure that they keep evidence for their assumptions, which can be audited by the regulator at a late date. This is a more cost-effective form of accountability than considering external advice. In addition, due to the freedom given to firms to select their own assumptions, it is important for the regulator to have oversight of instances such as when assumptions are changed significantly in order to minimise the risk of gaming.
35. Should the requirement to consider external advice remain, it is important for firms to explain why they have taken a decision materially different to the advice received. The rules should also ensure external advisors meet robust competency standards.

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

36. Our members have indicated that they do not anticipate difficulties collecting this data.

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

37. We do not agree that employer subsidies should be disclosed within the charge metrics. Subsidies do not change the underlying cost of the pension but simply shift who is paying for it. For some of our members, employer administration charges are only applied in specific circumstances to protect member outcomes, for example where changes in an employer's automatic enrolment setup would otherwise require an increase to the member charge. In these cases, disclosing an employer subsidy would not add meaningful value for savers and would not signify better or worse value. However, where subsidies exist, it is appropriate to reference them in the features table, which offers a proportionate and transparent way to flag them.

38. We also disagree with the requirement to separate costs and charges. The requirement to separate costs and charges in year 1 will be burdensome of firms who will need to formulate a methodology for doing this, since this is not common practice today.

**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.**

39. We agree that where profit share or with-profits distributions are made, they should be netted off total costs and charges. The framework should reflect profit share directly through the charge metrics in the period in which distributions are declared or paid, supported by appropriate narrative explanation, where helpful. However, a narrative alone will be insufficient given the significance of the reduction in costs in many circumstances.

40. For legacy with-profits funds in particular, there are additional challenges. These distributions typically arise from surplus or inherited estate that has accumulated over many years and cannot be linked to the performance of any single period. The distribution can be 'lumpy' and not stable. As a result, attempting to allocate a distribution back across earlier years would be technically difficult and would not reflect how members actually receive value. Further consideration is needed to fine-tune these metrics and we welcome industry engagement on this and the use of a dry-run to assess the effectiveness of the metrics.

**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.**

41. We support the inclusion of this measure but the FCA needs to provide greater clarity on the definition. If there is inconsistency in how the industry interprets the measure, comparisons will lose value.
42. Specifically, clarity is needed on what constitutes a valid request and whether the clock starts when the member first contacts the provider or once all forms, identity checks, and options are complete. For many retirement income cases, especially around drawdown access or annuity purchase, customers often need time to make decisions, seek guidance, or provide additional information. These periods are outside the provider’s control and therefore must not influence the measured end-to-end performance.
43. Similar definitional issues arise across many of the proposed service metrics, where key details necessary for consistent application are not yet specified. Given the central importance of service quality in assessing value for money, we propose that the FCA convene industry working groups to develop detailed, operational definitions for these metrics. This would help ensure consistent interpretation, comparability across arrangements, and confidence that assessments accurately reflect member outcomes.
44. We have concerns around how the FCA define the following measures:
  - **Notification of death** – Whether this is defined as when the death certificate is received or first contacted by a relative. Identifying the correct beneficiaries is often complex and not within provider control.
  - **Switch between investments** – Whether this means a switch or redirection, for example, switching already invested money into different funds or redirection of incoming contributions into different funds.
  - **Transfers between schemes** – Whether this is about requesting forms or when forms are sent in. There’s also a need to be clear on whose responsibility this is when the process takes a long time.
  - **Accurate data** – Request for further clarification on the definition of “accurate” data, as referred to in the metrics in table 7.7.
  - **Attribution of responsibility** – It should be made clear how responsibility is assigned in cases where outcomes or delays arise from factors outside the provider’s control, so that providers are not penalised for actions taken (or not taken) by other parties.
  - **Formal request** – Regulators should define “formal request” as the point where the provider has received all information necessary to process the transaction, with examples for consistency. This ensures that only provider-controlled timelines are measured.

**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.**

45. Pension Commencement Lump Sum payments could be included where the definition of the transaction is clearly standardised and providers are assessed only on the elements of the process they directly control.

**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?**

46. We agree that complaints should be collected at the level service is experienced. We also agree that the data should be presented as a percentage of members to avoid penalising larger providers.

**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.**

47. The negative perception metrics need to be tightened to ensure consistency. For example, some firms record FCA reportable and non-FCA reportable complaints separately. Whereas other firms just report FCA reportable complaints. The definition of complaint needs to be made clear and standardised.
48. Service measures based on firms' internal service-level agreements (SLAs) do not provide a meaningful basis for comparison, as SLAs vary significantly across providers and therefore risk rewarding weaker standards rather than better service. SLAs can also be easily gamed. Metrics focused on whether transactions exceeded an SLA give limited insight into actual member experience; what matters more is the end-to-end time taken to complete transactions, using clearly defined and consistent start and end points.
49. We disagree with the inclusion of the range of times to close a complaint metric. The longest time could be a single very complex case or one where the customer has not responded and held up the process.

**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.**

50. We are disappointed that engagement or satisfaction metrics will not be part of the framework at launch, although we appreciate the metrics need to be perfected before being formalised. These metrics are an important part of understanding member experience, and delaying their introduction leaves a significant gap in the framework. It is essential that this work is prioritised.
51. When this proposal is taken forward, it must be fully standardised across providers to ensure consistency and prevent gaming. It is equally important that providers are not assessed on aspects of service that fall outside their control. Robust design, clear guidance and a consistent

methodology will be critical if engagement metrics are to add meaningful value to VFM assessments. Our members undertake their own customer surveys, so we encourage the regulators to engage with them to develop this proposal.

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

52. We agree with the proposed engagement metric, the percentage of savers who have nominated a beneficiary. However, engagement metrics should be viewed as part of a dynamic framework rather than a fixed or final set of measures, with the metrics evolving over time in response to policy, regulatory and market developments. In developing future engagement metrics, it will also be important to recognise the diversity of pension schemes. Comparisons should be made between similar types of scheme, rather than on a one-size-fits-all basis, to ensure that metrics are meaningful and avoid distortion from differing scheme designs or member demographics.
53. We see scope for the FCA to consider additional outcome-focused engagement indicators as part of future iterations of the VFM framework. To ensure robust definitions and clarity of interpretation, these should be developed through industry working groups. Possible examples of such indicators include:
- The percentage of scheme members taking lump sums of more than £30,000, as a potential indicator of whether members are sufficiently engaged to understand tax-free lump sum allowances and the implications of their decumulation decisions; and
  - Whether members can access information about their pension via a digital app or equivalent tool, as an indicator of how easy it is for members to engage with their scheme.
54. We recommend considering additional, cohort-based engagement metrics at the first formal review of VFM. In the interim, such metrics could also be explored on a pilot or best-efforts basis, allowing the FCA and industry to test their usefulness, comparability and link to outcomes before any wider rollout.

**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?**

55. We welcome the proposal to move away from IGCs and trustees independently selecting their own comparators and towards the use of a defined commercial market comparator group. This has the potential to improve consistency and reduce subjectivity when undertaking comparisons.
56. However, we have concerns about the absence of a formal dry run. Given the central role the commercial market comparator group will play in assessment outcomes, it is important that the process is fully tested in advance. This is particularly important in light of ongoing uncertainty and variation in how some metrics, most notably the quality-of-service data, are defined and interpreted across providers. Without a dry run, there is a risk that comparator outcomes and assessments are driven by data inconsistencies or poorly defined metrics rather than genuine differences in value delivered. Should schemes be forced to wind up due to their assessment against inaccurate data, this could result in legal action.

57. Furthermore, it is essential that regulators set out clearly how they will ensure the accuracy and reliability of the data used to create the comparator group. If some providers submit data that looks markedly different from the rest of the market, this raises questions about its validity. Without a robust process to check and challenge the data, there is a real risk of flawed benchmarks, unfair comparisons, and a loss of trust in the entire VFM framework. Arrangements should be put in place to ensure the data is independently audited and create a process for scrutiny by stakeholders to ensure incorrect data can be identified and corrected.
58. We appreciate that once the regulatory powers are used, then the full framework applies. Therefore, we believe testing key aspects of the framework outside of the statutory powers is essential. This will be necessary to issues are identified and corrected before the consequences of a Red rating are enforced.

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

59. We agree that different types of arrangements should not be assessed in the same way. However, we have concerns about comparing net investment returns. Administration charges can vary significantly based on how large and complex the scheme is, thereby reducing comparability if this difference is not factored in. Therefore, investment returns net of investment costs, excluding administration costs, would be a more suitable approach, with administration costs being a separate measure.
60. Also, where employers contribute to some or all of the member charges, those subsidies should not be included in the data used to build the market benchmarks.

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

61. We agree that FLMs should never be given greater weight than BLMs in determining value. This is especially important given the freedom for firms to set their own assumptions for calculating FLMs and the uncertainties of the comparability of the FLM data.
62. There also needs to be greater prescription and guardrails to the selection of weighting between BLMs and FLMs. As currently proposed, we feel the rules could hinder comparability. The FCA's three weighting options create uncertainty for providers that already have long-term, stable investment strategies and are not regularly introducing new asset classes that may model well but have limited realised performance data. For example, where a default has delivered weak past performance, an IGC or trustee might choose to give much greater weight to the FLM. However, these projections may never materialise, meaning the weighting could give a misleading impression of expected performance and the overall value delivered to savers.

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

63. Given the risks raised in Question 13 around the comparability for FLMs, we are more comfortable with option 1 only requiring FLMs to be used to support the judgement on if the arrangement is providing value, rather than being used as part of a prescribed calculation like in option 2. A dry

run will be a valuable opportunity to assess the comparability of FLM data and this would help identify whether the use of own assumptions leads to distortions in comparability.

64. The guidance for option 1 needs to be made clearer. For example, the ‘material difference’ section comes across as arbitrary. Whilst the spirit of the guidance is clear, including performance being “30% below” the comparator group as an indicator of material difference is not helpful given the lack of rationale and further details as to why that figure is suggested. Instead, it is sufficient to expect IGCs and trustees to make reasonable judgements based on the specific context when comparing against the comparator group.

**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?**

65. We have concerns about the composite metric proposed in option 2. This approach will add unnecessary complexity and combine metrics that are not comparable. Because FLMs are inherently sensitive to the assumptions selected and are by nature projections, should they be part of stage 1, BLMs and FLMs should be considered together but not as a composite.

**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?**

66. As referred to in our response to Question 29, we do not agree with the composite comparison calculation.

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

67. As set out in our response to Question 29 and 30, we do not consider option 2 to be appropriate.

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

68. Yes, we agree with the proposed guardrails. However, given the complexity of the assessment process, we consider it necessary that the regulators should conduct a dry run of the process. This would provide industry with greater confidence and help identify unintended consequences from the proposals.
69. We also support the inclusion of further guardrails to alleviate concerns regarding the use of own capital market assumptions. For example, disclosing the frequency of changes to CMAs and in cases where significant anomalies or divergences appear in the data, the disclosure of the assumptions underpinning the projections.

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

70. Should FLMs be part of step 1, we prefer Option 1.

**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?**

71. We agree that FLMs should never be given greater weight than BLMs in determining value and trustees and IGCs should justify decisions on how they weight the FLMs. However, as stated in our response to question 13, there are additional risks associated with utilising own assumptions for FLMs and some of our members would prefer FLMs to be considered in stage 3. For instance, FLMs could be used to support a narrative explaining how future performance is expected to evolve and how any poor historic performance is being addressed.
72. Given these risks, it is essential for the regulators to closely monitor the FLM data to ensure differences in CMAs do not undermine comparability.

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

73. Quality of service must be a core part of the value for money assessment. Poor administration, delays, errors or ineffective communications can cause real and lasting detriment to savers, regardless of investment performance or cost. As currently proposed, the framework does not give sufficient weight to this aspect of value or fully reflect the role service plays in delivering good member outcomes.
74. Priority should be given to strengthening existing measures and developing additional metrics that together provide a more complete and meaningful assessment of service quality. This is particularly important given the significant investment many providers have made to improve member service, which the framework should be capable of recognising appropriately. We believe the establishment of an industry technical working group could be an effective way of ensuring the metrics are precise and comprehensive.
75. As the metrics are currently proposed, a dry run is essential to ensure comparisons are appropriate and the utilisation of these metrics is well understood. As set out elsewhere in our response, service metrics must be underpinned by clear definitions and guidance to ensure consistent interpretation across the market. Without this, there is a material risk that arrangements could be incorrectly assessed, leading to commercial and reputational consequences that are not justifiable based on the true service experience of members.

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

76. Yes, we largely agree with the step 3 proposal. It is important for explicit recognition that member demographics and characteristics (including protected characteristics such as religion or belief) may legitimately influence whether an arrangement delivers value, beyond what is captured in comparative metrics.
77. It is also important for factors such as investment performance to be considered in step 3. For instance, rationalisation is important where action has been taken to improve value, but there is a time lag before the investment returns will materialise.

78. We support the ability of IGCs and trustees to determine if a transfer is in the member's best interests where safeguarded benefits and special features suited to certain demographics are present. It is essential for clear narrative and communication to ensure the reasons why a transfer did not occur are disclosed.

**Question 37: Do you agree with the proposed updated RAGG ratings? Why or why not?**

79. We support the introduction of greater nuance through the updated RAGG ratings. However, we have concerns around how the ratings are currently defined. Dark Green seems very unlikely to be achieved without exceptional investment performance over multiple cohorts and charging structures.
80. Whilst we support distinguishing schemes that offer exceptional value, we have concerns that without developed quality of service metrics, schemes will fluctuate between light and Dark Green due to the varying nature of investment returns, thereby reducing the weight placed on Dark Green. We anticipate most arrangements will be rated Light Green. To improve distinguishing between arrangements of value, we support quality of service metrics being able to move schemes from light to Dark Green.
81. The implication of receiving an Amber score needs to be reconsidered. Amber should be defined as 'at risk of not being value for money' rather than 'not value for money'. IGCs, and trustees for occupational schemes, would potentially be wary of handing out Amber scores where such a harsh punishment is in place, especially where there are strategically significant defaults where a large percentage of members are invested. An Amber rating could potentially put schemes, and therefore providers, out of the game and cause significant market instability. When an arrangement receives an Amber rating, firms should be given the opportunity to enhance their value for money products and services. This would be untenable under current proposals as future revenue streams would be significantly impacted. The risks of Amber are also disproportionate to multi-employer schemes, with no real threat to single employer trusts.
82. We encourage further consideration of whether the traffic light system is the best representation of the final rating. Alternatives such as 'good', 'adequate', 'requires improvement' and 'inadequate' may be more suitable given the introduction of an additional rating.
83. We agree with the decision to allow trustees and IGCs to re-assess Amber-rated arrangements outside of the annual cycle, which provides helpful flexibility where improvements are being made and progress can be evidenced.

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

84. As mentioned above, the assessment process currently focuses too heavily on investment performance. The regulators should develop and tighten the quality of service metrics and allow quality of service to have a bigger influence on the final rating.
85. We also disagree with the requirement for Amber rated multi-employer arrangements with variable charges to notify all employers, not just those in cohorts affected by higher costs that

cause poor value. Requiring universal notification risks causing unnecessary concern and confusion among employers whose cohorts are delivering value.

**Question 39: Do you agree with the proposed transfer requirements for Red rated arrangements? Why or why not?**

86. We agree that members should be transferred from Red rated arrangements where it is in their interests and an appropriate arrangement is available.

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

87. As stated in our response to Q38, the consequences of receiving an Amber rating are too extreme and will be terminal for most arrangements receiving this rating. This could be very damaging to an already well-functioning market.
88. Based on how the assessment ratings are currently proposed, we agree with the option for an Amber rating to be extended, subject to IGC or trustee approval. This flexibility is important given the limited timeframe firms have to evidence improvement, as well as the inherent lag between when data is collected and when assessments are undertaken. But given the anticipated impact on receiving an Amber rating, it is unlikely that this change will have a material impact.

**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.**

89. Given the lack of details about what the central database will look like, it is important for the regulators to continue to engage with industry on this when more detailed proposals can be shared. In addition, regulators need to be explicit if firms should do calculations themselves before submitting the data or send raw data.
90. On the assumption that firms will do the calculations themselves, only an annual submission to the central database is required, and there is no requirement to publish raw data on the firm's own website, our preference would be for the data to be sent through a secure file transfer or secure portal upload. We believe the cost and complexity of building an API is not proportionate for a dataset that only needs to be submitted annually.

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

91. We welcome that industry feedback has been listened to on this issue and we are broadly supportive of the approach for a single database for trust and contract data. We support the requirement for firms to provide a link to the central database on their websites, and we encourage the regulators to produce guidance on when exactly linking will be required.
92. However, this proposal makes the need for a dry-run even more essential. Given how the metrics are currently proposed, firms will have varying understandings of what needs to be recorded so it's vital that impactful decisions are not made until there is strong comparability and issues ironed out. Firms will also need adequate time to become familiar with the database before

submission is required. The repository approach provides an opportunity to cross reference and challenge anomalous data points behind closed doors and before punitive action is taken.

93. In addition to a dry run, we also think regulators should consider utilising an intermediary to ensure the data submitted to the central database is robust and accurate. The current proposal does not give the industry confidence that once the data is submitted, there will be robust checks to ensure the accuracy of the data.
94. We would also want assurance that TPR will be resourced sufficiently and with appropriate expertise, including in contract-based arrangements, to be the repository of such an important database.

**Question 43: When in the VFM cycle should VFM data be made publicly available and why? For example, should data be made publicly available in March or in October alongside assessments?**

95. We have concerns about the data being made publicly available and what the unintended consequences might be. The VFM Framework would remain effective with data kept for a professional audience, for example, IGCs, trustees and regulators only.
96. If the data is to be made public, then it should only do so alongside the assessments in October. This allows IGCs and trustees to present their assessments backed up by the data they used to come to their conclusion.
97. However, this approach should only apply once an appropriate dry run has been completed. A dry run is essential to ensure that the data is genuinely comparable across arrangements, that metrics are being applied consistently, and that any technical or interpretive issues can be identified and resolved without unintended market consequences.
98. Any earlier data publication would likely result in third-party rankings being cobbled together using cherry picked data points, without regulatory scrutiny. The assessments are likely to contain essential contextualisation of the data that is key for employers to make the right decisions for their employees.

**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 on to the proposed central VFM database?**

99. We are supportive in principle, as this will make it easier for firms to compare the final VFM assessment.

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

100. We agree with the proposed changes, however, further changes are necessary. The FCA have prioritised the removal of ineffective, outdated, or duplicative regulation as part of its commitment to be a smarter regulator. Therefore, the current COBS rules around value for money should be amended and where appropriate removed to reduce the regulatory burden on firms. In

addition, the rules in PS20/02 should be removed to avoid customer confusion and reduce duplication.

**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.**

101. The CBA underestimates the costs that firms will experience when implementing the framework. We believe the regulators are underestimating the number of products, defaults or quasi-defaults, and charging structures that exist. Firms with multiple defaults and legacy products with differential charging will incur very significant costs.

102. The VFM Framework is being implemented against a backdrop of rising regulatory costs, including high change costs from other initiatives and substantial business-as-usual compliance pressures. It is therefore essential that the full cost implications of the framework are well understood, accurately assessed, and subject to meaningful post-implementation review to ensure that assumptions made at consultation stage reflect operational reality.

## Appendix

As part of our submission, we have included an illustrative template of the data points required by the Value for Money Framework.

<b>CP26-1 Illustrative template of data Points</b>		
<b>CP 26-1 Annex 4 Table Name</b>	<b>CP Page Number</b>	<b>Data Point Count</b>
Features Table	88	21
Performance Metrics – 30 YTR	89	29
Performance Metrics – 5 YTR	89	29
Performance Metrics – At Retirement	90	29
Optional Performance – 30 YTR	90	12
Optional Performance – 5 YTR	90	12
Optional Performance – At Retirement	91	12
Forward-looking metrics	91	9
Asset Allocation – 30 YTR	92	77
Asset Allocation – 5 YTR	93	77
Asset Allocation – At Retirement	94	77
Asset Allocation – Total in accumulation	95	77
Costs & Charges – 30 YTR	96	9
Costs & Charges – 5 YTR	96	9
Costs & Charges – At Retirement	96	9
Multi-employer – by invested assets	97	24
Multi-employer – by number of members	97	27
Quality of Service – Common data	98	5
Quality of Service – Scheme-specific data	98	5
Processing metrics	99	10
Processing time ranges	99	35
Complaints & Beneficiary table	100	11
	<b>Total</b>	<b>605</b>
	<b>Total Exc. Optional</b>	<b>569</b>

## About us

The ABI is the definitive voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world.

We represent more than 300 firms within our membership including most household names and specialist providers, providing peace of mind to customers across the UK.

Our sector is productive, inclusive and essential to the UK economy and together, we are driving change to protect and build a thriving society.

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