TISA

Response by TISA to: CP26/1: The Value for Money Framework

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March 2026

About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have approximately 270-member firms involved in the supply and distribution of savings and investment products and associated services. Our members include the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on four key workstreams that best support the consumer and UK financial services, TISA has become a leading industry voice and ally for delivering consumer focused initiatives.

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members and our industry. From improving financial education, inclusion and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **three distinct workstreams**:

1. **Consumer Protection**
   Protecting the best interests of UK consumers in their financial journeys.

2. **Consumer Access**
   Considering issues that could directly impact access to financial products.

3. **Effective Products**
   Examining key considerations and legislation relating to products across the investing and saving landscape.

All groups focus on both strategic and technical elements of policy/regulation. Key outputs from our workstreams can include recommendations to government and regulators on developing a financial services framework that protects and benefits UK consumers, finding solutions to operational/infrastructure challenges and developing standards of good practice on the interpretation and implementation of new regulation.

We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government and regulators.

Find out **more about TISA here:** https://www.tisa.uk.com/about-tisa/

Executive Summary

TISA welcomes the opportunity to respond to the FCA consultation - CP26/1: The Value for Money Framework

The framework is a concept which we fully support. A shift to a more holistic focus on the total value that a pension arrangement delivers to its members is the right approach to take. We agree with the three main components which underpin the proposals but recommend further work is undertaken to refine some of the metrics which sit beneath these.

Further information is contained within our response however at a high level, we are concerned to see the absence of any engagement metrics included within the Quality of Services component. This is an area which has come under considerable scrutiny by government and the regulators over recent years. Whilst Auto Enrolment has been successful at enrolling millions of employees into pension saving, it has created a mass market of unengaged pension savers. The defaults have proven to be very sticky with most savers in the scheme default fund and a significant number of savers across the earnings spectrum staying on the minimum contribution level. The likelihood of an increase in minimum contribution rates this decade is low, despite it being widely acknowledged that the rates will not produce adequate retirement pots for the majority of savers. We are therefore solely reliant on members taking personal responsibility to increase contributions to an appropriate level and take advantage of any matching structures that may exist with their employers. Engagement is central to the adequacy challenge and as such, it must be represented within the framework. Whilst we recognise that not all scheme demographics are the same and some schemes will have a higher natural engagement level from members than others, this is not a reason to not address the challenge. Without it, VfM essentially becomes a two-component framework with Quality of Services being a largely inconsequential 'add on.'

The scale of the framework is considerable with each default arrangement needing to disclose circa 400 data points. Expecting schemes to undertake in a consistent manner the disclosure of information and the assessment of it against a benchmark, whilst allowing for an element contextualisation from day 1 is unrealistic. Mistakes will inevitably be made and ratings will not be applied in a consistent way. As with all projects of this scale, it will take time for it to become embedded and operate as intended. There is a lot riding on the outcomes of these assessments both for schemes and members. It is therefore crucial that when this does go into a live environment, it needs to be fully tested and everyone needs 100% confidence there will not be systemic issues or poor consumer and industry outcomes created. As such we strongly recommend this is undertaken on a test basis for two years to allow for the embedding and familiarisation process to take place without unintended consequences arising. This has the advantage of then aligning with the scale threshold in 2030 which should significantly reduce the number of default arrangements which will be in scope for VfM and allow you as the regulators the time to ensure you have an effective governance process in place.

With Guided Retirement coming through and a firm focus being placed on decumulation we would expect to see the framework include this at a later stage and potentially expand out to include retail pension schemes over time. The linking of VfM to Pension Dashboards and the transfer process over time shows there is the opportunity for members to benefit from these potential synergies and we look forward to working with you to ensure VfM forms an important part of the overarching DC pension system.

Question responses

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

The scale, magnitude and complexity of the proposed VfM framework is quite simply immense.

It is impossible to know how this will work in an operational environment until it is up and running. Forward looking metrics may produce some unintended outcomes. Including risk metrics for the 30 YTR cohort could compromise the much-needed focus on growth during this phase of the journey. The use of arithmetic calculations over geometric tends to favour investment in more volatile assets and creates more misleading outputs than a geometric approach would. The assessment process will be challenging for governance boards, particularly in the first few years and we are likely to see widescale differences in interpretation of data. Trying to bring thousands of schemes together to undertake this in a uniform way from day 1 is the impossible dream. Mistakes will be made, incorrect data will be used, wrong metrics will be reported, wrong assumptions will be made and ultimately, incorrect RAGG ratings will be applied. And of course, the regulators will need to test their plans for robustness, to ensure all of this data and thousands of assessments are implemented and conducted in the correct way.

Six large multi-employer schemes recently undertook a VfM assessment based on the Australian model – with the assessment conducted by SuperRatings. This is a simpler VfM framework to that proposed for UK schemes and only covers submission of the data, not the assessment process itself (as it was undertaken by SuperRatings). Even for this much scaled down version, the exercise clearly demonstrated that mistakes did occur and incorrect data was submitted, despite providers initially being certain it was correct when prompted to check. There is a lot riding on VfM - commercial and reputational risk will be at stake and member outcomes could be negatively impacted. When this does go into a live environment, it needs to be fully tested and everyone needs 100% confidence this will operate as intended.

As with any initiative of this scale, running it in a test phase that simulates a BAU environment is where the real learnings emerge and changes are made. Up until then, it is largely theoretical and based on assumptions. Given VfM will be fundamental to generating good retirement outcomes for millions of employees and designed to increase confidence in Auto Enrolment and DC pensions more generally, the risk of getting it wrong must be mitigated and has to take precedence over meeting an arbitrary implementation date. We strongly recommend:

- Running this from 2028-2030 as a test phase behind closed doors to ensure major issues can be addressed without commercial impact or incorrect consumer/media perceptions.
- Only including arrangements which are likely to be in force in 2030. The scale requirement deadline for defaults will be reached by then and a significant number of those in operation in 2028 will have disappeared. This means schemes will not be spending unnecessary time collecting and assessing data for those arrangements.
- Consider bringing consolidator schemes into a scaled back VfM framework at the same time. These schemes are experiencing significant growth and should therefore, be subject to a similar level of scrutiny. Obvious differences with workplace schemes would need to be taken into account.

Many of the scenarios which may only impact a small number of members, including quasi-defaults should remain out of scope until the framework is firmly embedded and operating as intended for the masses i.e. those in main scale defaults.

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?

We do not know the scale of this group at present. It may be challenging for some schemes to trace former employees, who are now in an individual pension back to their former employer scheme.

If it transpires there are hundreds of members who form part of this group within single multi-employer schemes, this could become a group in its own right, with them technically needing to be assessed against all of the employers scheme metrics.

This potentially becomes unwieldy in nature and we recommend a firm focus on main scale defaults in the first instance and getting it right for them, before we add complications which could distract from that objective.

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

Yes, we agree with this understanding.

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

Where accidental defaults occur, these should be out of scope. For instance, if a group of members are in a self-selected old managed fund and the scheme undertakes a non-consent transfer to place them in a newer managed fund which offers better VfM, this would be classed as a default under the proposals. However, for the purposes of the VfM framework, it should not be included as they were not in a default fund prior to the non-consent transfer taking place.

As this is a joint consultation, there needs to be a join up between TPR and FCA to ensure the same rules and requirements apply to schemes where the transfer moves members from one regulatory regime to the other. E.g. pension transfers from a relevant scheme to an authorised Master Trust requires strict adherence to TPR guidance. However, a GPP is not considered a relevant scheme, so those requirements do not currently exist for this scenario.

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

We agree with the proposed exemptions but recommend these are extended to include arrangements which are due to be transferred, where the FCA have been informed but the process has not yet commenced. Whilst the proposal is that these would not be subject to a VfM assessment, the scheme would still be required to go through the entire data collection and disclosure process. For an arrangement that is due to shortly be transferred, this seems overly onerous and pointless. The independent person undertaking the Best Interests Test is not likely to use this entire data set but schemes should be ready to provide any arrangement information that is required upon request.

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

The use of an arithmetic average as opposed to geometric average, favours assets with more volatility.

At a simplistic level, consider a 2-year time horizon with -50% and +50% returns. An initial £100 investment will fall to £50 with the -50% return and then increase to £75 with the +50% return. The geometric method shows a return of -25% which is logical. However, the arithmetic averaging method provides a return of 0%. Arithmetic averaging ignores volatility drag and therefore, all else equal, favours more volatile investment strategies.

Given that member returns are impacted by volatility drag and are experienced geometrically, we believe that you need to consider geometric returns when considering value for money.

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

Yes, we agree with the proposals.

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?

Whilst the approach will result in outcomes that no member actually experiences, this will be consistent across the framework. As such and in the spirit of limiting the complexity involved to produce these metrics, we agree with the proposals.

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

Including risk metrics for the 30 YTR cohort could compromise the important focus on growth during this phase of the journey. This could have a significant and detrimental impact on retirement outcomes. We recommend risk metrics are removed for this group.

Although the target audience for this phase of VfM is a professional audience, this information will be publicly available and likely to be commented on by media in consumer facing publications. Referring to this sections as 'risk and reward' may help consumers understand the potential trade-offs involved between risk and performance and provides balance and contextualisation.

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?

There is already a significant amount of proposed data to be disclosed, with a high likelihood that some will be viewed much more useful than others. We believe this would probably fall into the less useful category and merely adds an additional layer of complication.

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

Mansion House agreements have and will continue to result in new default arrangements being established to meet private asset commitments. Many of these will not have 3 years of history at the time the framework is introduced.

Where a bespoke arrangement is being transferred into a firm designed default which does not meet the exemption, it would be misleading and unfair for the receiving firm designed default to be tainted with the performance of the bespoke default, for which it had no control over its composition.

Whilst there is clearly stated a requirement to chain-link in certain scenarios as per COBS 19 Annex 9 12.1 R, COBS 19 Annex 9 6.1 G states a firm may choose to disclose data that has not been chain-linked. Does this mean they can disregard the chain-linked data for disclosure purposes? We assume this means they could choose to disclose both but this does not appear to be clearly set out in the draft handbook.

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

We have no strong views here.

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

Whilst we agree that the proposed guardrails could mitigate overly optimistic assumptions, we do not believe this risk can be completely removed. Even a slightly over optimistic assumption could generate a significant difference in pot size at retirement.

We believe there needs to be some measure of standardisation in place, the regulators need to decide what this is and enforce it for all schemes subject to the framework. Otherwise, identical portfolios could result in completely different assumptions – with the respective independent experts both providing personal justifications why they believe theirs is accurate.

Standardisation could again lead to herding but this is better than wide variations based on inaccurate and misleading assumptions.

If the proposals are to proceed largely unchanged, we would recommend that FLM are not included in the first data disclosure run, to allow firms to collaborate and assess their FLMs and potentially come to some agreement on best practice.

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

Yes, we agree with this proposal. However, this will not remove the risks associated with a non-standardised approach, as views for what the future holds and how markets will react are subjective and will vary.

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

Yes, it reduces the risk but cannot remove it altogether – please see our response to Q14.

Additionally, schemes can choose to disregard the advice given. We recommend that the regulators introduce some additional measures to mitigate the risks:

- Explain any material departure from external advice within their FLM disclosures
- Disclose the key assumptions underpinning their figures, particularly equity risk premia and any explicit alpha assumptions
- Ensure that external advisers meet minimum competency standards (e.g., FCA authorised investment advisers or equivalent under a regulated framework

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

Whilst there maybe some challenges, we recognise that schemes need to be able to unpack their defaults into these categories. It is not necessarily possible to currently do this solely from the data provided through the value chain and a further look through may be required. We recommend that the reporting requirements from the fund manager to the pension scheme is reviewed, to ensure that the relevant information is reported to ultimately ensure that schemes can comply with these requirements without it being an excessively onerous exercise.

More holistically, reporting requirements for schemes should be reviewed, to ensure there is no duplication, synergies can be identified and all asset allocation reporting can be stored in a centralised format which is easily accessible.

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

We agree with the proposals, however the definition for 'total costs and charges' in the glossary includes employer subsidies, so there appears some misalignment.

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.

This is complicated in nature, with responses better suited to those schemes which are directly impacted.

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.

We recommend further discussion takes place to determine the start and end dates for included transactions. In the example for future retirement income requests, some schemes will be able to process this upon receipt, with the payment pending in the system until the requested date is reached. For other schemes, they will need to diarise the request and process on a specific day. So we understand the reason for only including 'immediate' payments, although this could exclude a significant number of requests. A definition would also be needed for 'immediate.'

There are regulatory friction processes that need to be followed. Members will be sent an OMO statement before access can take place The stronger nudge may result in the member going through a Pension Wise appointment or take regulated advice. These are intended outcomes but will extend the timelines and is out of the control of the provider. We recommend the clock starts at the point these steps have been completed and the process is then in the control of the provider.

At a higher level we do not see any benefit of schemes disclosing data on percentage of transactions which did not meet the firm's SLA. This is not comparable data given SLAs will vary by firm and the end-to-end times will already be included. You could have a firm which has the worst end to end timescales but the lowest percentage of transactions not meeting SLA. We recommend the SLA disclosure requirement is removed.

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.

Yes, given the importance that a PCLS payment represents to members, this should be included and aside from drip feed drawdown, is typically required ASAP. Consideration needs to be given as to whether you measure requests where only PCLS is required separately to PCLS and income – as this could influence the timescales of paying out the PCLS element.

The payment of UFPLS is technically neither income or PCLS, however is an option used by members to access their pension. We recommend these are included in the reporting.

Could you clarify if a transfer out for annuity purchase is due to be included? This is not a standard transfer but an open market option. It could be treated as an income payment however the ceding scheme has no control over when the annuity commences payment. It would therefore be appropriate for the timeline for these to complete at the point the transfer is made to the annuity provider.

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

We have no concerns with the proposals.

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.

We agree with the metrics proposed in 7.9.

However, we do note that Annex 12 6.3 R (1) states the following is a metric - ***the number of complaints received by the firm in relation to the platform in the previous calendar year.*** Larger platforms with more members will inevitably receive a greater number of complaints than small schemes. The figure that is needed for comparison purposes is the number measured as a percentage of the platform total membership.

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.

No. Given the direction of travel with regulation, empowering members to make informed decisions through effective engagement, we need to do more in this space for VfM or it is a missed opportunity. It is not unreasonable to expect providers to do more to encourage engagement and offer options such as modellers and tools, together with a functional online portal where plan details can be viewed and basic updates can be made. Not including these means firms can largely ignore engagement, knowing it will not be monitored through VfM.

Research shows that consumers are placing a growing value on user experience (UX), with well over half agreeing useful tools would improve their understanding. It is unsurprising that we see outflows from workplace to retail, where engaged members are selecting a pension provider based on UX. With no metrics proposed within the VfM framework to incentivise firms to innovate and enhance their propositions or to measure the quality of their communications, we can expect to see this outflow continue, with workplace in danger of being regarded as a lower grade pension scheme.

The occasional paper 65 published by FCA in September 2024 which focused on encouraging better pension engagement concluded that firms need to explore new ways in which to engage savers. Online apps and modellers are currently a focus of regulatory change, knowing that an increasing cohort of people want to engage this way. And there is a strong FCA concern that members are transferring pensions without understanding the full ramifications of their decisions.

We strongly recommend that at the very least, some basic engagement metrics are included from the outset. Otherwise, in its current state, VfM is being defined almost solely by investment performance and costs & charges. The proposed quality of services component is largely defined by simple metrics which will produce very little variation between schemes. In its present state, it seems an almost superfluous addition to VfM, which is why it cannot positively influence a rating, It is also highly unlikely to result in a rating downgrade. Bringing in engagement metrics provides another dimension and would mean this could stand as a component in its own right and be an equally important factor to the framework as investment performance and costs & charges. This would then make VfM a more holistic assessment and representative of the total value a member receives.

Suggested metric inclusions are:

- % of members who have logged into their online account in the last 12 months.
  This indicates how effective the communication and website proposition are at engaging members to check their current position at least annually. We know that Annual Statements are not effective at engaging most members.

- % of members who have used your pension tools and modellers in the last 12 months.
  This indicates how many members are accessing modelling tools to understand what their retirement might look like. We know that there is a significant under-saving issue at present with members typically overestimating what their retirement lifestyle will be based on existing trajectory.

- % of members who have taken a taxed lump sum of £30,000 or more in the last 12 months.
  For median earners, taking a £30,000 is broadly the threshold which takes a member into the higher rate tax bracket. This will not be the right outcome for most members and indicates poor decision making and support. It may also highlight where there is a lack of accessible retirement options available within the scheme.

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

We don't really understand the question as there are basically no engagement metrics in the proposed framework. Please see our response to Q23 for the likely impact this will create.

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?

We agree that all schemes should be assessing themselves against a commercial comparator group and with the criteria for determining which schemes this group comprise.

As the data repository is a new proposal that has not been discussed previously, we would be interested to understand more about this. How will the data be displayed, who would have access, will it be able to immediately perform the averaging calculations so the data will be ready for early April based in later March submission, can incorrect data be updated etc.

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

Yes, we agree with the proposals.

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

BLM are FLM are fundamentally different and as such, we have some concerns around the blending of these to produce a single metric. BLMs reflect observed, realised outcomes and therefore provide a fact-based record of what members have experienced. FLMs are projections, dependent on assumptions and modelling choices, and the consultation itself acknowledges that comparisons of FLMs across arrangements may not be meaningful given differing assumptions.

For that reason, combining the two, explicitly through a composite metric or implicitly through prescriptive weighting rules, risks creating a headline figure that is neither transparently "outcome-based" nor reliably comparable across providers. Given the professional audience for this framework, we think it is more effective and more useful to preserve the distinction between the metrics and require decision-makers to apply judgement transparently. In practice, this means presenting BLMs and FLMs side-by-side, using BLMs as the primary evidential anchor, and then using FLMs as a structured overlay.

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

Please see our response to Q27.

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?

Please see our response to Q27.

We do not believe options 1 and 2 would generate particularly different outcomes.

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?

Please see our response to Q27.

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

Please see our response to Q27.

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

Yes, we agree with the proposals. Please also see our response to Q14.

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

Our preferred approach is set out in the response to Q27.

To answer the question, we have no strong opinion. However, option 1 provides more discretion for the scheme to determine the weightings and as such, would select this as the preferred option.

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?

If BLM and FLM were separated out, then given that FLM is only a projection and not a fact-based record, there would be scope to include this as part of the rationalisation process in step 3. This would mitigate some of the risk associated with the speculative nature of FLMs and how they could be used to influence a VfM rating.

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

The framework is very much geared to investment performance and costs & charges. Without engagement metrics, quality of services is significantly diluted and is reflected in the inability for excellent performance in this component to offset poorer performance elsewhere, through a ratings change.

Schemes are unlikely to be outliers in this section based on the restricted metrics and as such, it means it becomes largely irrelevant to the final rating. This means VfM is not a holistic assessment.

In its current state, we agree with the proposed approach.

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

We broadly agree with the proposals.

An additional step could be included to assess whether the default arrangement is performing in line with its stated objectives, beliefs and fund benchmark. Whilst an arrangement may underperform against the comparator group average, it may still be the right investment strategy. ESG factors could potentially carry greater weight, rather than just expecting the IGC to opine on the firm's ESG policies, as they do now

The age of scheme members will not be disclosed, however this could influence certain metrics e.g. younger members may be less likely to nominate a beneficiary, so schemes with a membership skewed towards younger cohorts may not compare as favourably if the comparator group average is higher.

Given that the consideration of other contextual information cannot impact on a rating, we would question the benefit of including this within the assessment process.

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

When the framework is introduced, there will inevitably be mistakes made and incorrect ratings attributed. This is why we strongly recommend a two year trial period for these to run without commercial impact. In the absence of this, we would recommend an initial grace period is given to schemes rated amber, where commercial impacts are not invoked until the second assessment and rating.

More generally, if an amber rated scheme is delivering value for certain employer cohorts, we do not see why they could not continue to accept new employers who fall within these groups.

Where a scheme is rated amber, it will take four years for it to be rated as red. This is too long for members to be experiencing poor quality outcomes and recommend it is reduced to three years.

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

We agree with the proposals for bespoke arrangements.

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

Where a firm is rated red, the proposals state the provider must use the contractual override process to transfer members to a new arrangement to meet the assessment exemption. However, there may be instances where this can be achieved without needing to go through this process e,g, where it is a transfer within the same product to a different arrangement (same T&Cs). We recommend the proposals are amended so that the contractual override becomes an option in this scenario but where an alternative is available, this could be used if it results in an identical member outcome.

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

Where a scheme is rated amber, it will take four years for it to be rated as red. This is too long for members to be experiencing poor quality value and recommend it is reduced to three years.

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.

There needs to be flexibility as schemes will have different challenges and requirements. Further work will be needed to understand the range of options that will be required to ensure schemes can meet these requirements without undue burden and cost.

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

We broadly agree with the principle but would like some further information on this. Please see our response to Q25.

Having a centralised database does create an escalated likelihood of concentration risk, where schemes are investing in the same asset with an objective of avoiding an amber or red rating. Events which prompt investment sales at this scale will have a big market impact and cause member detriment. Somer shorter-term market shocks can have a lasting impact on investment performance stretching in some cases to 5 years or even beyond.

The proposed disclosures for features include average contribution for active savers, yet under multi-employer in-scope tables, the average contribution is spread across active and deferred savers. Obviously, a high proportion of deferred savers would impact on this figure and would not be a comparable metric. We recommend only active savers are included and duplication is removed in the wider set of disclosures.

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?

We recommend this is made publicly available in October, however we are unsure how you would restrict public data access, whilst making this available for governance boards.

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?

We agree with this proposal.

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

We welcome and agree with the FCA's intent for 'accidental workplace SIPPs' not to be required to have IGC or GAA oversight, nor be required to produce value for money assessments.

Where employers facilitate the employees' retirement journey by paying in one payment covering multiple employees' contributions this becomes a "workplace scheme". However, mostly there is no default investment and the employer is not involved in any investment choice, the individual is fully engaged with their investment decisions and their pension. Such pensions seem to fit the description in paragraph 11.5 of CP 26/1:

> "11.5 In some circumstances individual SIPPs can be considered workplace pension schemes where arguably they should not. Where at least 2 relevant employees or ex-employees have made an active choice to 'set up' a SIPP and all relevant employees and employees have selected some or all of their investments in the arrangement, we believe these become 'accidental workplace SIPPs'."

However, we do not believe the current proposed wording in the draft regulations is robust enough to prevent these arrangements from being subject to 19.5 and 19.5A.

The proposed paragraph 19.5.1 ZA R 2. (a) requires that the SIPP members choose the SIPP, "without any involvement from that employer", but, in reality, there will always have to have been some employer involvement resulting from the employer deducting contributions and paying these to the scheme or any work by the employer of the scheme informing employees about the scheme.

We suggest redrafting 19.5.1 ZA R 2. (a) and (b) so that the absence of involvement of the employer is no longer part of the requirement. This could be achieved by changing 'involvement' to 'incentive' in (a) and removing the concept of a request in (b) so that refers to the employer or an employer… deducting contributions.

If this was not considered to be appropriate, we suggest you take a more comprehensive approach by changing the glossary definition of *relevant pension scheme* to:

> *"A relevant scheme is a personal pension scheme for which direct payment arrangements are, or have been, in place and under which contributions have been paid for two or more employees of the same employer unless:*
> *(i) all members or their or their employer's regulated advisers direct the investments;*
> *(ii) there is no default investment, and*
> *(iii) where there are over 1,000 active members*
> *a. there is no quasi-default investment and*
> *b. no member of six months standing or more has been invested wholly in cash for the period beginning with the first contribution."*

This would ensure that those cases where the individual is fully engaged with their investment decision, and has taken action to trade following contribution payment, are not incorrectly required to follow the governance or value for money requirements.

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.

We have no comments at this time and await the new CBA.