DWP VFM Policy Team

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Dear VFM Policy Team

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LCP's response to the Value for Money Framework consultation on draft regulations and draft FCA rules (FCA CP26/25)

Who we are

LCP is a firm of financial, actuarial, and business consultants, specialising in pensions, investment, insurance, energy, health and business analytics. We have over 1,200 people in the UK, including over 190 partners and around 250 qualified actuaries. The provision of actuarial, investment, covenant, governance, pensions administration and benefits advice, and directly related services, is our core business.

We advise on over £115bn of DC assets covering 10 million members across a variety of DC schemes including Master Trusts, Contract-Based and Single Employer Trusts. We have therefore provided perspective from all DC arrangements.

About 80% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment strategy. The remaining 20% relates to insurance consulting, energy, health and business analytics. LCP is authorised and regulated by the Financial Conduct Authority for some insurance mediation activities only and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

Introduction

We welcome the opportunity to respond to your consultation. We support its objective of improving member outcomes, transparency and accountability. However, we believe that the success will depend on proportionate implementation, meaningful comparability and safeguards against unintended consequences.

We have answered your specific questions below, but we have taken the opportunity to summarise our key messages and observations:

- **Phase implementation carefully.** Given the proposed removal of voluntary inclusion, all schemes should have one full assessment year before formal consequences apply, including schemes first brought fully into scope in 2029. The first reporting period should be used to test data, methodologies and regulatory processes, with early findings focused on remediation rather than sanctions.
- **Broaden scope while removing duplication.** The Framework should extend to decumulation products, CDC schemes and non-workplace pensions as soon as practicable, particularly as part of data collection for wider

assessment. At the same time, overlapping VFM requirements for smaller DC schemes should be withdrawn following a short transition.

- **Use investment metrics that reflect member experience.** Requirements should clearly define gross and net performance, permit proportionate fallbacks where historic data is incomplete, and recognise the distinct characteristics of with-profits, smoothed-return and guaranteed arrangements. Risk measures should also reflect members' retirement objectives, particularly at retirement.
- **Avoid disproportionate reliance on investment performance.** Administration, costs, communications and member support also materially affect member outcomes and are frequent drivers of complaints. The Framework should avoid becoming primarily a performance test at the expense of innovation and investment in these areas.
- **Keep disclosures practical and proportionate.** Granular asset-allocation, cost and performance reporting should only be required where data is robust and comparisons are meaningful. Prescribed fallbacks are needed for legacy arrangements, pooled funds and complex charging structures.
- **Assess costs from the member's perspective.** The Framework should reflect the costs actually borne by members. We are strongly of the view that employer subsidies, benefits and services can materially improve member value and should be properly reflected in the VFM assessment. For multi-employer arrangements, median outcomes should be the primary reference point, with minimum and maximum outcomes providing context rather than determining ratings.
- **Design assessment and comparator groups to avoid distortion.** Comparisons must reflect members' retirement objectives and avoid league-table dynamics, herding and inappropriate like-for-like comparisons. The Framework should allow for the circumstances of bespoke, legacy and single-employer arrangements. Forward-looking metrics should be tightly governed and inform, rather than override, realised outcomes.
- **Ensure consequences are demonstrably in members' interests.** Any poor-value assessment, remediation or transfer requirement should be proportionate and based on evidence that members are likely to receive better value elsewhere. It must take account of transaction costs, protected benefits, employer subsidies, retirement objectives, member support and the practical capacity of receiving arrangements.
- **Remove the requirement to disclose UK/non-UK exposure.** It is unclear how this information would support an assessment of VFM or improve member outcomes.

Overall, we support the direction of travel but urge the regulators to prioritise clarity, proportionality and a phased approach before attaching significant regulatory or commercial consequences to VFM ratings.

Chapter 2 – Scope and thresholds

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

We support phased implementation, given the scale of the new reporting and the significant consequences of the RAGG rating system. However, guidance should clarify how schemes outside the first full assessment in 2028 should report VFM in the Chair's Statement.

Given the removal of the previously proposed option for arrangements to participate in the Framework on a voluntary basis, we believe that all schemes should receive one full assessment year without formal consequences (i.e. no formal consequences until the 2030 assessment for schemes with their first full in-scope assessment in 2029). Early assessments should focus on diagnosis, engagement with the regulator and, where appropriate, remediation. This would avoid firms and trustees being exposed to disproportionate consequences arising from immature data or methodology.

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

We understand the rationale for a six-month initial period, but it may produce less representative and more volatile results – particularly for service, complaints, transaction and engagement metrics, where outcomes can be affected by temporary operational events, seasonal patterns or a small number of unusual cases.

Guidance should make clear that six-month results are not directly equivalent to annual data and should permit contextual explanation where the reporting period creates an unrepresentative outcome.

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

We welcome clarification on AVCs but request a clearer definition of "in-house" AVCs. We interpret this as AVC arrangements run by a Single Employer Trust's in house team, rather than the more common approach whereby they are outsourced to a third-party provider but remain within the legal umbrella of the scheme. Please confirm whether the latter are intended to be in scope or not.

We also request a clearer definition of AVC arrangements "set up by the employer" within draft regulation 4(2). We believe a reference to being set up by the trustees will be more appropriate in most situations.

Noting that the intention is DC elements within schemes with hybrid benefits will be in scope, this should be more widely communicated to schemes which may primarily identify as "DB" and may not have followed the development of the VFM framework closely.

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

We agree with the proposed exemptions, however, guidance is needed on what constitutes a "clear plan" and on what basis the FCA is considered to have been notified.

Question 5: Do you have any further comments on our proposed scope?

To maximise consumer benefit, non-workplace pensions, CDC schemes and decumulation products should be brought into scope as soon as practical, particularly as part of the data collection and assessment.

The current additional VFM requirements for DC schemes below £100m should also be withdrawn soon after the Framework takes effect, subject to any short transition period if necessary (no more than 1 year).

Chapter 3: Investment performance – Backward-looking metrics (BLMs)

Question 6: Do you agree with the proposed updated methodology? Do you envisage any issues with calculating investment performance metrics on a basis that tracks members experience over time, while excluding contributions? Please specify where problems might arise, if any.

We support using the geometric rather than arithmetic average for the reasons set out in our previous response.

We have concerns regarding the proposed definition of "gross investment performance" as performance net only of transaction costs. In industry practice, gross performance is commonly understood to be before an administrator's and investment manager's Annual Management Charges ("AMC") but after certain other fund expenses. Requiring performance before both AMCs and other expenses may be operationally difficult where expenses are embedded in fund prices, calculated retrospectively, or are not separately available at strategy level. We therefore favour an established and more practical definition: gross performance before investment manager AMCs, but after other fund expenses.

We also would welcome clarity on how performance fees should be treated to avoid any confusion or difference in interpretation.

For multi-employer arrangements with variable charges, the median gross return should be the primary disclosure. Minimum and maximum figures may be driven by small, atypical or legacy employer cohorts and can be difficult to interpret without further context.

Conventional metrics may be unsuitable for with-profits and smoothed-return funds, where member outcomes depend on smoothing, bonuses, guarantees and market-value adjustments. These arrangements should be permitted to focus on quoted member returns and qualitative explanations, with proportionate cost disclosures where underlying costs cannot be reliably separated to avoid misleading reporting.

Question 7: Do you agree with the removal of standalone BLM disclosures at 5YTR? Are there any issues associated with its removal?

Under the proposed methodology, the performance reported for the 0YTR metric should capture the experience of a representative member through the de-risking phase and up to retirement. A separate 5YTR disclosure provides more information but also additional reporting and data burden, and we agree with the removal of 5YTR BLM disclosures. However, we suggest retaining disclosure of the strategic asset allocation at 5YTR. This would provide better visibility of the investment journey and the de-risking process and provide useful context for interpreting the 0YTR metric.

Question 8: Are you comfortable with ASD as a risk metric for all arrangements, or should some arrangements calculate their volatility metrics differently. Please specify under what circumstances and what modified calculations you would recommend.

We consider ASD to be an appropriate core risk metric for most arrangements, particularly at 30YTR and for arrangements targeting drawdown. It is familiar, relatively straightforward to calculate from monthly return data, and supports consistent comparison across arrangements.

However, we note that ASD measures the volatility of investment returns rather than the risk of failing to achieve a member’s intended retirement outcome. We believe it should therefore not be the sole risk metric in all circumstances, particularly at 0YTR where the relevant risk depends materially on the arrangement’s stated decumulation objective and believe this should be revisited in the future.

Question 9: Are there any circumstances in which a scheme would not have access to the historical cost information required to apply the same chain-linking methodology to costs as done to gross performance figures, noting the more limited scope under which chain-linking is applicable?

Although the proposed narrower application of chain-linking should reduce the frequency of data gaps, there will remain circumstances where it is not possible to access sufficiently granular and reliable historic cost information to apply the same methodology used for gross performance. Examples include:

- Legacy arrangements or historic consolidations, where cost data was not retained at monthly or arrangement level.
- Changes in administrator, platform, insurer, investment manager or record-keeping system, particularly where historic data has not been migrated or mapped consistently.
- Acquired books of business, where the receiving firm has incomplete access to the ceding provider’s cost records.
- Complex or member-specific charging structures, such as employer-negotiated discounts, tiered fees, rebates, fixed-fee elements, legacy terms or charges varying by pot size.
- Embedded or opaque underlying charges, including some legacy insured, with-profits, pooled-fund or bundled arrangements, where historic costs may be reflected in unit pricing but not available as separately identifiable monthly data.
- Performance fees may accrue through the period but only crystallise or become known quarterly or annually.

- Third-party data dependencies, where historic information is held by external managers, administrators or insurers and is unavailable, incomplete or held in a non-comparable format. In particular, many charges, fund expenses, performance fees and transaction costs are calculated quarterly or annually, rather than monthly.
- Material changes in the objective or design of the default arrangement, for example a transition from an annuity-targeting to a drawdown-targeting strategy, or a significant change in the intended retirement outcome. While historic cost data may be available, chain-linking across the change could create a potentially misleading comparison because the pre- and post-change arrangements are not economically equivalent.

We therefore support the principle of chain-linking costs where the required data is complete, reliable and available at a sufficiently granular level. However, the Framework should include a clear, proportionate fallback where this is not reasonably practicable.

As noted in our previous consultation response, we also suggest an aggregate default return figure weighted by year-end default assets. To ensure a proportionate like-for-like comparison, we would also suggest only strategies with similar targets are amalgamated in this way as this could affect performance comparisons. There should also be a de minimis cut off to reduce any calculation and compliance burden.

Question 10: Would there be a material reduction in burden if net performance were to be calculated first, and then chain-linking applied to it, rather than chain-linking costs in order to derive accurate net performance metrics?

Calculating net performance first and then chain-linking would reduce operational burden and better reflect member experience where robust net-return data exists, particularly for legacy arrangements and transfers involving different charging structures.

This approach would avoid the need to obtain, standardise and chain-link historic monthly cost data for each ceding and receiving arrangement. As noted in our response to Question 9, such data may be incomplete, unavailable at the required frequency, embedded in historic unit prices, or difficult to reconcile following changes of provider, administrator, platform, investment manager or charging structure.

In contrast, a historic net-return series may often be more readily available, particularly where it can be derived from published unit prices or from existing fund-performance records. Chain-linking monthly net returns using the same AUM-weighted methodology as for gross returns would also be operationally simpler and would directly reflect the net investment experience of members in the relevant arrangements.

However, the extent of the burden reduction will vary. It may be limited where net performance itself must be reconstructed using member-specific charges, employer-negotiated discounts, rebates, fixed monetary fees, or legacy charging structures. In these circumstances, calculating a robust monthly net-return series may require much of the same underlying cost data and operational work as the proposed approach.

We therefore suggest you opt for net-performance-first chain-linking as the standard approach, or at least as an explicit fallback where chain-linking individual cost components is not reasonably practicable. This should be conditional on the historic net-return series being complete, reliable and calculated consistently across the arrangements being combined.

Where this approach is used, the methodology should make clear how the implied cost figure is to be derived from the difference between chain-linked gross and net performance. This is important to avoid small differences arising solely from methodology being interpreted as differences in costs and charges.

Question 11: Would trustees or firms have the necessary data to retrospectively determine if an arrangement would have been classed as quasi-default up to 10 years prior, so as to apply chain-linking where necessary?

We expect that trustees and firms will often be able to determine retrospective quasi-default status, but not consistently or with sufficient certainty in all cases, particularly over a ten-year period.

The proposed test requires historical information on whether an arrangement was a pre-automatic-enrolment arrangement and whether it was used by at least 80% of the current and former employees of at least one employer. While some providers may hold this information, it may not have been retained or maintained in a form that allows the test to be applied retrospectively.

We suggest adopting a reasonable-endeavours, evidence-based approach. Trustees and firms should be required to apply the retrospective test using available contemporaneous records, such as scheme rules, employer agreements, payroll or enrolment records, governance papers and historic membership data. They should not be required to undertake disproportionate data-reconstruction exercises where the necessary evidence is incomplete or unavailable. Where quasi-default status cannot be established with reasonable confidence, trustees and firms should document the data limitation and the basis for their conclusion.

Chapter 4: Investment performance – Forward-looking metrics (FLMs)

Question 12: Do you agree with the proposed requirements for FLM disclosures and safeguards? Why or why not?

FLMs complement backward-looking metrics. A VFM framework based only on historic outcomes could discourage investment decisions expected to improve long-term member outcomes, but whose benefits have not yet emerged in realised performance. We therefore support disclosure of 10-year expected annualised net returns and annualised standard deviation for the 30YTR and 0YTR cohorts.

We also support allowing trustees and providers to use their own long-term capital market assumptions, where these are consistent with the assumptions used by them to set and monitor strategic asset allocation. We agree that a universal requirement for standalone external advice is unlikely to be proportionate. However, disclosure of asset-class assumptions and peer scrutiny alone may not sufficiently prevent overly optimistic assumptions or undue reliance on FLMs where historic outcomes are weak. We suggest the following additional safeguards:

- To improve accountability, Trustees and IGCs should provide an annual confirmation statement (potentially signed by the chair of trustees or IGC) that assumptions are reasonable, evidence-based, and consistent with investment decision-making outside of VFM reporting.
- Material changes in assumptions, methodology, strategic asset allocation or resulting FLMs should be explained year-on-year.
- Disclosure should cover key modelling methodology as well as asset-class assumptions, including the treatment of fees, inflation and where material correlations or other dependency assumptions.
- The FCA and TPR should use the central data repository to identify and challenge outlier assumptions and unexplained changes.
- Additional independent challenge should be expected in higher-risk cases, such as where assumptions are materially outside a reasonable range or FLMs are being relied on despite persistently poor BLMs.

ASD is a practical starting point for risk disclosure, but it may not fully capture the risks most relevant to members at retirement. For the 0YTR cohort, guidance should permit supplementary risk metrics or narrative where this better reflects the arrangement’s decumulation objective, for example, annuity-price mismatch or drawdown sustainability risk.

Favourable FLMs should not normally offset sustained, unexplained poor BLMs. The proposed principle that reliance on FLMs should reduce over time as realised outcomes become available should therefore be clearly reflected in the final rules and guidance. Consideration could also be given to testing the FLMs reported in the past, against the actual subsequent outcomes and requiring explanations for any material differences.

Overall, we support inclusion of scheme-specific FLMs, but consider that stronger governance, methodological transparency and regulatory outlier monitoring are needed for them to form a robust part of the VFM assessment.

Chapter 5: Asset Allocation Disclosure

Question 13: Do you agree with our revised proposals in relation to Asset Allocation? Please provide details of any concerns you have relating to our proposals.

We broadly agree with the revised asset-allocation disclosure proposals. Asset allocation provides important context for BLM, FLM and cost reporting and costs. We support disclosure by principal asset class, relevant sub-asset classes, listed/unlisted status, together with allocation disclosures for the 30YTR and 0YTR cohorts and the default as a whole. We also support the inclusion of narrative disclosure for material features affecting performance, including the use of hedging, derivatives and synthetic exposures.

However, we suggest the following refinements:

- **Retain disclosure of 5YTR strategic asset allocation** – Although we support the removal of 5YTR performance metrics, this point remains an important stage in many default investment journeys. Disclosure at this point would provide useful visibility of how a default de-risks.
- **Be clear on actual vs strategic asset allocation** – A consistent actual asset allocation at 31 December snapshot is useful. But this may differ materially from the strategic / desired allocation (for example due to tactical positioning, market movements, transitions or the deployment profile of private-market investments). Where there is a material difference, trustees and providers should be allowed to include a concise explanation. This would improve interpretation, particularly for private markets where deployed-only reporting can understate an arrangement's intended private-market allocation during the investment ramp-up phase.
- **Remove the requirement to disclose UK/non-UK exposure** – It is unclear how this information would support an assessment of VFM or improve member outcomes. There are also practical difficulties in classifying multinational companies, pooled funds, private assets and derivatives consistently. The proportion of assets invested in the UK is not an indicator of good or poor investment design. Comparisons across providers are therefore not meaningful and may encourage inappropriate conclusions or pressure to deviate from members' best financial interests.
- **Look-through should be proportionate** – We support reporting underlying exposures where reasonably practicable, but recognise that full, timely and consistent look-through may not be available in all cases. The final framework should set out a clear hierarchy of acceptable data sources and permit reasonable, consistently applied estimation where necessary. It should also allow sufficient flexibility where listed/unlisted exposure cannot be identified reliably, rather than assuming this will always be possible. This is particularly important where holdings are small.
- **Require one decimal place not two** – 2d.p. may imply a degree of precision not supported by the data, particularly where allocations rely on estimates or comparables (for example property). Collection at two decimal places is fine where possible, but publication to 1 d.p. is more proportionate.

Subject to these points, we support the proposals. They should improve transparency while preserving the ability of trustees and providers to design investment strategies that are appropriate for their members and objectives.

Question 14: Do you agree with our proposed definitions? In particular, do you agree with our definitions of UK assets? Are there any areas where definitions need to be tightened to ensure consistency of measurement?

We support the objective of providing clear and consistently applied asset-class definitions. However, we have concerns about the proposed definitions of UK assets, including the term “UK-based entity”. As noted in our response to Question 13, we do not believe that UK/non-UK exposure disclosure is useful for a VFM assessment. The level of UK exposure is not inherently positive or negative. If the requirement is retained, the definitions should be as simple, objective and consistent as possible.

The proposed definitions currently use different tests across asset classes, including primary listing, inclusion in UK indices, legal registration, issuer location and the location of underlying economic assets. This could result in similar exposures being classified differently and make comparisons less reliable. For example, a multinational company’s primary listing, legal domicile, operational footprint and revenue exposure may all point to different jurisdictions. In particular, “UK-based entity” should be defined or replaced. We suggest using a single legal test: an entity should be treated as UK-based only where it is incorporated or registered in the UK. For debt securities, this should apply to the legal issuer of the instrument; for sovereign debt, the issuing government should determine the classification. The reference to subsidiaries of UK-registered companies should be removed, as a subsidiary may itself be incorporated and operate outside the UK.

Chapter 6: Costs and Charges

Question 15: Based on the new proposed calculation methodology, we would be interested in views on whether, to help mitigate the risk that there are few – or no – members within the retirement cohorts it would be more practical to calculate the median based on the number of employers, rather than members.

While there are practical challenges for arrangements that have few or no members at 30YTR or 0YTR, we do not support replacing the member-based median with an employer-based median in all cases. A member-based approach better reflects the typical saver’s experience, whereas employer-based measures may give a disproportionate weight to smaller employers, while underrepresenting the experience of savers in larger sections of an arrangement.

That said, small retirement cohorts can produce volatile or unrepresentative results, especially for arrangements with complex charging structures where tiering or fixed charges apply, making individual member outcomes highly sensitive to pot size. We therefore favour a pragmatic hybrid approach: retain member-based medians where numbers are sufficient, but below a prescribed threshold permit proportionate alternatives, such as employer-weighted measures, a broader age cohort around the target retirement point, or a representative/model-pot methodology.

More broadly, we support the move towards calculating costs and charges using the experience of a hypothetical member, consistent with the proposed investment performance methodology, but representative member assumptions are particularly important where contribution charges, tiered pricing or fixed charges mean that non-contributing members do not reflect active savers’ experience.

Consideration is needed with regards to whether it is possible to improve value for these cohorts of members. For example, small pots can appear expensive when fixed charges are expressed as percentages, despite benefiting from employer-negotiated pricing. A metric suggesting poor value should not lead to action unless there is a realistic prospect of better value elsewhere.

Overall, we support member-based medians with proportionate alternatives for small cohorts, to reduce volatility and administrative burden, while maintaining a focus on saver outcomes.

Question 16: We would be interested in views on whether all multi-employer arrangements should disclose maximum, minimum and median cost metrics, in order to highlight variations in the treatment of small or large pots.

We support greater transparency but do not consider maximum, minimum and median disclosures proportionate for all multi-employer arrangements.

A median-only disclosure should be sufficient for simple percentage-based charging structures with no variation in commercial terms, avoiding reporting complexity that adds minimal meaningful insight into member outcomes. Where charges vary materially through tiering, fixed fees or employer-specific terms, a broader range of outcomes is useful to represent member experience.

We prefer the representative-pot approach in Option B over member-level calculations that could create significant administrative burden and misleading results, particularly for small cohorts (and older tiered-charge arrangements that are closed to new entrants hence may never again have members in the specified cohorts).

Using model pot sizes derived from the overall distribution of pots is more stable, practical and consistent with the Framework's direction towards hypothetical member experience.

Fixed charges may be converted to percentage equivalents for transparency, but this should not imply direct comparability between different charging structures – two arrangements with the same effective percentage charge for a model pot may still deliver different outcomes across the wider membership.

We have concerns about aspects of the proposed methodologies. Calculating effective fee rates using only start- and end-of-year average assets may obscure significant intra-year fluctuations. Member-level assets can also be affected by contributions, withdrawals and the timing of charge deductions, potentially distorting charge percentages.

Where employer subsidies exist, the methodology is also unclear. Adding back an estimated subsidy to create an artificial member-level charge may not reflect any member's actual experience, could be difficult to interpret alongside narrative disclosure, and raises questions over how it would be calculated.

More broadly, we would encourage the Framework to focus on identifying genuinely poor-value outcomes rather than apparent differences driven by small groups with atypical pot sizes. Members with small pots may benefit from pricing negotiated for a wider employer population, so assessing them in isolation may overstate the potential benefit of moving elsewhere.

Overall, we support Option B as a more proportionate and practical approach. Median-only disclosure is appropriate terms do not vary. More complex or variable charging structures should instead disclose a range of outcomes using representative pot sizes, rather than member-level calculations. This would improve transparency reduce administrative burden and limit the risk of skewed or unrepresentative results.

Question 17: We would be interested in views on whether member-level calculations (Option A) or the model pot size approach (Option B) would be more effective.

As noted in question 16, overall we support Option B as a more proportionate and practical approach. Median-only disclosure is appropriate terms do not vary. More complex or variable charging structures should instead disclose a range of outcomes using representative pot sizes, rather than member-level calculations. This would improve transparency reduce administrative burden and limit the risk of skewed or unrepresentative results.

Question 18: Do you agree with our suggestion that the variable effects of complex charging structures on pots of different sizes should be disclosed separately from the effects of commercial variations of fee terms? Do you agree with our proposal for achieving this?

We support separating the effects of pot size from employer-specific commercial variations as they are distinct drivers of member outcomes. Separating the two sources of variation should improve transparency and help explain the extent to which outcomes are driven by charging structure design versus employer-specific pricing arrangements.

However, model-pot results depend heavily on assumptions embedded within the representative pot sizes selected. In particular, converting fixed monetary charges into equivalent percentage rates should not be treated as directly comparable across arrangements.

However, representative model pots remain preferable to member-level calculations to reduce administrative burden and reduce reliance on small or absent cohorts, which could generate volatile and potentially misleading disclosures.

As previously noted, members with smaller pots may benefit from employer negotiated commercial terms. Assessing effective in isolation may therefore overstate poor value or the potential benefit of moving elsewhere. Pot-size disclosures therefore not automatically imply poor value without appropriate context.

Where commercial terms do not vary, median disclosures should be sufficient; minimum and maximum figures are unlikely to add meaningful insight.

We support separate disclosures of pot size and commercial pricing effects, but the Framework should clarify how these feed into overall assessments. A maximum charge or minimum net performance result may affect very few members (or no current members where model pots are used) and should not, by itself, determine a poor-value outcome.

Minimum and maximum disclosures could therefore act primarily as risk indicators, with consequences linked to the materiality of the affected population rather than a theoretical extreme. This could include:

- using minimum and maximum metrics as diagnostic, rather than primary, determinants of value;
- applying a materiality threshold based on the proportion of affected members or assets;
- allowing trustees and IGCs to disregard hypothetical model-pots with no corresponding membership; and/or
- requiring consideration of both the severity of an issue and the scale of the affected population before it influences the overall RAGG rating.

Overall, we support separating the impacts of pot size and commercial pricing, with a model-pot approach likely to be the most practical method. However, these disclosures should be treated as contextual information rather than direct indicators of value, recognising the limitations of expressing fixed charges as percentages and interpreting outcomes for very small pots in isolation.

Question 19: How should the separate pot size effect disclosures be used in the assessment of value? Should they be based on peer-to-peer comparisons (consistent with the rest of the VFM Framework) or should trustees / IGCs carry out value assessment internal to the arrangement, to determine whether the small pot members are excessively disadvantaged compared to their fellow members with larger pots?

Pot-size effects should primarily be assessed internally rather than through peer comparisons. Such differences often arise from a scheme’s charging mechanics rather than its overall value.

Trustees and IGCs should consider whether small-pot members are treated fairly relative to other members within the same arrangement, and whether differences are justified. This better reflects the purpose of the disclosures: identifying groups that may be disproportionally disadvantaged.

Peer-group comparisons could give undue weight to hypothetical model pots, or outcomes affecting few (or no) members, particularly in closed legacy arrangements. Small-pot outcomes should also be considered in the context of wider employer-negotiated pricing.

Where poorer outcomes affect a material group of members, trustees and IGCs should investigate and consider action. However, isolated or theoretical high charges should not automatically affect the overall VFM rating or trigger regulatory consequences. Assessments should reflect both the severity of the outcome and the members and assets affected.

We therefore support using pot-size disclosures as an internal diagnostic tool, rather than as a direct peer-comparison metric, to provide valuable transparency while avoiding disproportionate consequences driven by hypothetical outcomes.

Chapter 7: Quality of Services

Question 20: Would it be helpful if we defined STP as a fully automated process for the purposes of VFM and asked schemes to confirm:
• What percentage of payments fall within this definition?
• The mean and range of all contributions falling outside this definition?

We are not in a position to comment on this.

Question 21: Do you agree that the metrics for trust-based and contract-based complaints processes are now comparable? Are there any further steps that we should take?

We agree and have nothing further to add.

Question 22: Are partly upheld Financial Ombudsman decisions recorded as a separate category by firms or included within the upheld figures?

We are not in a position to comment on this.

Chapter 8: Assessment Process

Question 23: Do you agree with the proposed approach to consider decumulation aims separately for the 0 YTR cohort? Why or why not?

We support assessing decumulation aims separately at 0YTR. Comparator groups should reflect the retirement outcome being targeted, rather than favouring a particular decumulation strategy. It also aligns with the wider objective of promoting innovation and avoiding unnecessary pressure towards a single investment approach.

However, there remains a risk of informal league tables and herding towards strategies that are perceived to perform well against the disclosed metrics, despite measures proposed to mitigate this risk (FLMs, rationalisation and the absence of formal benchmarking).

We therefore strongly support the proposal that the assessment using the range and distribution of outcomes, rather than relying solely on comparator-group averages. This should reduce the likelihood of a single average becoming the default benchmark.

The four decumulation-specific comparator groups appear reasonable, provided groups remain large enough for reliable, meaningful comparisons and to avoid volatile or confidentiality concerns. However, the design of strategies targeting Drawdown/flexible/universal/flex-and-fix decumulation could vary significantly due to the target. We also expect the range of benefit targets to increase, as an example, to take into account developments with Retirement Collective Defined Contribution income solutions.

As we noted earlier, it is not clear what happens where there is a material change in the objective or design of the default arrangement, for example a transition from an annuity-targeting to a drawdown-targeting strategy, or a significant change in the intended retirement outcome target.

Clear guidance will also be needed on the charge and performance measures being compared to identify suitable destinations for consolidation. Comparator groups should reflect realistic consolidation or transfer destinations, while still allowing comparison with high-value own-trust based schemes that may set valuable standard for the wider market.

Overall, we support the proposed 0YTR segmentation, provided comparisons remain sufficiently robust, transparent and focused on the full distribution of outcomes rather than creating indirect incentives towards a single decumulation approach.

Question 24: Would decumulation aims be more appropriately considered in step 3 rationalisation?

On balance, we do not believe decumulation aims should be considered solely in Step 3 rationalisation. Where possible they should be reflected in the Step 1 comparator group.

At 0YTR, investment performance is closely linked to the retirement outcome being targeted. Arrangements targeting annuity purchase, drawdown or cash withdrawal may have very different risk and return profiles while all delivering their intended objectives. Comparing them first against a broad market average could therefore create an unwarranted presumption of poor value. Objective-specific comparator groups should provide a fairer and more meaningful assessment, reducing the need for trustees and IGCs to explain differences that simply reflect strategic intent rather than value.

That said, Step 3 should remain important. It provides flexibility to explain differences in investment design, risk appetite or implementation that are not captured by the comparator group. The two steps should therefore be complementary.

Relying only on Step 3 also risks reputational harm – an initial finding of underperformance may attract more attention than any subsequent explanation, particularly where published data are used for informal benchmarking or league tables.

Appropriate safeguards are needed. Comparator groups must be sufficiently large to produce reliable results and avoid revealing commercially sensitive information. Where this is not possible, decumulation aims should instead be addressed through Step 3.

Overall, decumulation aims should be incorporated into Step 1 where there is a sufficiently large and meaningful comparator group, with Step 3 acting as a backstop for more nuanced cases.

Question 25: Do you agree with the decumulation aim sub-categories? Why or why not? Are they sufficiently clear, or do they need to be defined?

We broadly agree with the proposed sub-categories, however, note that these will likely develop over time. They reflect the main retirement outcomes targeted currently by default arrangements and should support meaningful comparisons at 0YTR.

However, further guidance will be needed to ensure consistent classification. Many modern strategies are designed to support flexibility at retirement and may accommodate a mix of drawdown, cash withdrawals and annuity purchase. Without clearer definitions, similar arrangements could be classified differently across providers.

In particular, regulators should clarify the distinction between arrangements described as "drawdown", "flexible", "universal" or "flex-and-fix", including the key characteristics that determine the appropriate category. This would improve consistency and reduce the scope for gaming. In particular, we note that the universal category varies significantly and might not be an appropriate comparator to drawdown/flexible strategies.

We note that comparing annuity-targeted strategies against a peer group is not necessarily of primary importance, given the ultimate aim is to improve outcomes for members purchasing an annuity. A lower return could be justified if the strategy is more closely tracking changes in annuity rates.

We also have some concerns about the "other" category. While a catch-all category is necessary, it could bring together materially different strategies and make comparisons less meaningful. Regulators should monitor its use and consider whether further categories are needed as common new approaches emerge.

More generally, the categories should remain sufficiently broad to avoid discouraging innovation or encouraging unnecessary convergence in investment design. Where comparator groups are too small, or an arrangement falls within “other”, Step 3 rationalisation should remain available to reflect genuinely different objectives.

Overall, we support the categories as a starting point, subject to clearer guidance, worked examples and periodic review as the decumulation market evolves.

Question 26: The proposed shift in approach for the first year of the Framework moves away from a more granular assessment of value that we have consulted on previously. We welcome feedback on where stakeholders consider there to be concerns in relation to the data sets, the proposals set out in CP26/1 for the publication and use of multi-employer cohorts, and the proposed changes.

We support using an overall average benchmark rather than a multi-employer cohort comparison in the first year. This is a pragmatic starting point while data quality, methodology and treatment of employer subsidies develop.

More granular peer comparisons may become appropriate over time, provided commercially sensitive information is protected.

Question 27: Do you agree with the simplified approached proposed for multi-employer arrangements for year 1? Why or why not?

We are generally supportive of the simplified first-year approach, given that pricing at the extremes may reflect historic terms, seed pricing or specific commercial circumstances. The focus should remain on comparison with the average.

Question 28: Do you agree with the simplified approach proposed for single employer arrangements for year 1? Why or why not?

We broadly support the simplified first year approach as a transitional measure. However, value assessments for single-employer arrangements are inherently challenging because charges reflect factors such as average pot sizes, membership profiles, deferred and small pot populations, service requirements, scheme complexity and wider benefit relationships. We also note that scheme-specific services can provide significant value which may not be fully captured through simplified comparisons (e.g. governance arrangements and higher levels of member support). Results should therefore be interpreted cautiously and not treated as definitive. Over time, a more granular approach may be appropriate as data availability and consistency improve.

Question 29: Would the simplified approach be appropriate if it was applied from year 2/on an ongoing basis, for all in-scope arrangements completing assessments, with consequences attached? In particular, we are interested in feedback in how it may impact the assessment outcomes of SETs, bespoke and legacy arrangements.

We do not believe the simplified approach is suitable as a permanent basis for assessments where regulatory consequences apply.

It may be appropriate as a transitional measure, but could produce misleading outcomes for bespoke, legacy and SETs arrangements whose design, membership profile, service model or employer objectives differ from market norms.

A simplified approach may also overemphasise investment performance and charges, without properly recognising governance, administration and member support. This could disadvantage arrangements that provide value through higher-quality services or tailored design.

The approach should therefore remain temporary. A longer-term framework should allow sufficient flexibility to reflect individual circumstances and avoid driving schemes towards a narrow definition of value.

Question 30: Do you agree with the proposal for multi-employer arrangement consideration of minimum, median and maximum? Why or why not?

We broadly support reporting minimum, median and maximum outcomes as a transparent and straightforward way to show the range experience within a multi-employer arrangement.

However, minimum and maximum figures may be driven by unusual employer characteristics, historic pricing, bespoke services or membership profiles, and may not reflect the experience of most employers. They should therefore be treated cautiously and not given undue weight.

The median is likely to be the most informative measure. Minimum and maximum figures should provide useful context, rather than act as primary determinants of value for money.

Chapter 9: Actions for arrangements offering poor value

Question 31: Do you agree with the proposed actions for not value arrangements? Why or why not?

We have significant concerns about attaching consequential actions to ratings that rely heavily on investment performance and FLMs.

FLMs may remain relevant for long periods, as performance may take years or decades to materialise, particularly following strategic changes or private markets allocations. Equally, investment strategies often evolve over time, meaning there may never be a clear point at which FLMs become less relevant. More fundamentally, assumptions can be difficult to assess objectively and simply requiring providers to explain their use does not ensure that assumptions are reasonable or prevent overly optimistic forecasts, for which there is no deterrent.

The Framework should also recognise employer subsidies, services and benefits, particular for single-employer trusts where these can form a material part of member value.

Any requirement to transfer members should be based on clear evidence that they are likely to receive better value elsewhere. This should consider more than investment performance and charges, including transaction costs, protected benefits, proximity to retirement, retirement support, member services and other scheme features.

Further clarity is needed on practical implementation, including who bears the transfer costs, the impact on members who remain, member choice where transfers without consent occur, realistic communication timescales and regulatory oversight of judgements. We also believe the operational requirements may be underestimated.

Overall, consequences must be proportionate, deliverable and demonstrably in members' best interests.

Chapter 10: Disclosure Requirements

Question 32: Do you anticipate that a shorter initial data collection period would create any practical or analytical challenges, and if so, how might these be mitigated?

We refer to our answer to Q2.

Question 33: Do you agree to proceed with data publication in November given the risks identified? How likely are these risks to emerge and what steps could we take to address them effectively?

We have previously stated our preference for data to be made available as soon as possible to enhance transparency and avoid the risk of market abuse. We maintain that preference.

Conclusion

We are happy for LCP to be named as a respondent to the consultation and for our response to be in the public domain. We are happy for you to reference our comments in any response. We would of course be very pleased to discuss further any of our comments in detail with you.

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