
FCA Value for Money consultation

30 August 2024

The FCA is consulting on the introduction of a "Value for Money" (VfM) framework to provide a consistent framework for assessing the performance of DC pension arrangements, and to require pension providers to take action where an arrangement fails the VfM test. The consultation relates to FCA-regulated firms operating personal pension schemes, but ultimately the Government intends that equivalent frameworks will apply across the DC workplace pensions market (ie to occupational pension schemes too). Once fully in force, it looks likely that the VfM framework will impose significant additional compliance requirements on providers of personal pension schemes. We take a look at what we know so far about the proposed new framework.

On 8 August 2024 the FCA published a [consultation](#) on the introduction of a "Value for Money" (VfM) framework. The key idea behind this is to provide a consistent framework for assessing the performance of DC arrangements, and to require pension providers to take action where an arrangement fails the VfM test. The consultation relates to firms operating personal pension schemes, but ultimately it is intended that equivalent frameworks will apply across the DC workplace pensions market (ie to occupational pension schemes too).

Which schemes/arrangements will be in scope?

The FCA proposes that the VfM framework will apply to schemes with "direct payment arrangements" in place, ie the employer makes contributions and/or pension contributions are made via the employer's payroll.

The arrangements that will be in scope are "default arrangements" ie the arrangement into which a member's contributions will be paid under the auto-enrolment regime where the member makes no active choice, and "quasi-default" arrangements", ie arrangements within a pre-auto-enrolment workplace pension scheme where the arrangement is used by at least 80% of employees and ex-employees of at least one employer in the arrangement. The FCA proposes that the assessment of whether an arrangement is a "quasi-default arrangement" will occur only once on 31 December after the new framework comes into force. The FCA proposes to exempt arrangements with less than 1000 members unless the arrangement is the scheme's only default or quasi-default arrangement or is its largest such arrangement by number of members. An arrangement will only be in scope if it is "in accumulation".

The FCA does not propose to insert an official definition of "arrangement" into the relevant rules, but the consultation paper says that the FCA uses the term "to describe an investment arrangement within a

scheme which is used for the investment of pension contributions". It says that a default arrangement may include an arrangement under which the investment mix of the fund changes according to how far the member is from his/her expected retirement date.

The assessment criteria

The consultation proposes a detailed set of metrics for assessing an arrangement's performance. These include:

- investment performance, with the measure being a test that looks at past performance rather than future anticipated performance;
- costs and charges; and
- quality of service.

Asset allocation disclosures/ Reporting on UK investments

The consultation sets out proposals for standardised asset allocation disclosures, though these do not form a direct part of the process that determines a VfM rating. The disclosure requirements will cover the split between UK and non-UK assets.

The assessment process

The process to give an arrangement a red/amber/green (RAG) rating will generally be carried out by a scheme's independent governance committee (IGC). An arrangement will need to be compared with comparator arrangements offered by at least three other providers. The consultation sets out detailed proposed rules regarding which arrangements can be used for comparison purposes. The consultation goes into some detail on the process to be followed, but IGCs will still have a level of discretion as to the ultimate rating.

Consequences of an amber or red rating

A firm responsible for an in-scope arrangement rated amber or red will be required to communicate the rating each year to any employer currently paying contributions. Firms will be prohibited from accepting business from new employers into an in-scope arrangement rated amber or red, but will be permitted to continue to accept contributions in respect of employees of existing employers.

A firm that receives an amber or red rating will need to notify the FCA of that fact and provide the FCA with an action plan setting out how the firm intends to address the poor value. This will need to specify the intended outcome and timescale. An arrangement rated as providing poor value for four consecutive years will normally have to be rated red, even if an amber assessment would have been appropriate had the fourth year been looked at in isolation.

A red rating means that the IGC considers that the arrangement is unlikely to be improved sufficiently to deliver VfM within a reasonable period of time. The FCA proposes that firms will have to consider transferring savers in red-rated arrangements into alternative arrangements. However, in the absence of legislation to allow bulk transfers without consent, it recognises that transferring members may not be possible if existing contractual terms require member consent to a transfer. The FCA specifically seeks

views on this issue. Where it is not possible to move savers from a red arrangement in bulk, the FCA will expect mitigating steps to be taken to protect savers from foreseeable harm, eg seeking agreement to transfer from some of the savers.

"Accidental workplace SIPPs"

The FCA flags that existing rules can result in a SIPP being classified as a workplace pension scheme, thus triggering a requirement for the SIPP provider to establish an IGC or Governance Advisory Arrangement (GAA), where the SIPP provider did not intend to establish a workplace pension scheme. This happens where the employer allows employees to nominate a scheme into which employer contributions are paid and two or more of its employees nominate the same SIPP. The FCA proposes to change the rules so that where each employee has made an active choice to join a SIPP and has also made an active choice regarding how their fund will be invested, no IGC or GAA will be required.

Future developments

The existing consultation closes on 17 October 2024, so it will be some time before we see the relevant changes take effect.