

Consultation Response

Value for Money: a framework on metrics standards and disclosures

Department for Work and Pensions, Financial Conduct Authority, the Pensions Regulator

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About this consultation

This consultation from the Department for Work and Pensions, the Pensions Regulator and the Financial Conduct Authority, seeks views on policy proposals to require trustees and managers of defined contribution (DC) relevant occupational pension schemes and the providers and Independent Governance Committees (IGCs) of workplace personal pension schemes to disclose, assess and compare the value for money their workplace pension scheme provides.

Key points and recommendations

Value for Money is a concept at the heart of delivering good outcomes for pension savers, and we welcome the introduction of a framework to assess and compare different pension schemes.

While the system is understandably focused on accumulation, how it interacts with pension access decisions and decumulation is also very important.

pension savings deliver a decent standard of living throughout their retirement. Only this can truly mean that the pensions system is fulfilling its purpose.

Governance is crucial to delivering good outcomes and should be included as a fourth pillar.

vision, and they should be weighted accordingly, with quality of services downgraded.

The fact that past performance is not a guide to the future is a limiting factor for the framework, and this should be made clear.

Introduction

Age UK agrees that the concept of delivering Value for Money

We also agree with the Government that trustees and IGCs should not be able to self-assess this would clearly negate any possibility of an objective framework being put in place.

Secondly, we believe that there should be a clear system of weighting for each of the criteria. As noted above, the ultimate aim of the defined contribution pension system is to allow savers to build enough money to maintain a decent standard of living throughout retirement. However a desirable and useful metric to

regard sending a well-written letter and annual statement does not help scheme members have more money when they come to retire. It may, of course, help members take better decisions, but this is a highly complex area and the evidence is patchy.

It could be used as a delivering poor returns or have high charges.

An eye on the future

One conceptual difficulty with the framework is that past performance is not a guide to the to say whether a scheme will deliver good VFM in a future year, only that it has done in the past. While the proposed solution of included modelled outcomes will go some way to resolving this, there is no complete solution (as not even investment managers can predict the future).

The only certainty within the framework will be the level of charges that are being levied on members. As a result, we believe this is the most important area, and although the detail on charges is a debate for another place, it i charges is consistent and fair to consumers at all times. For example, if the Government decides to relax the charge cap to allow DC schemes to invest in private finance (which is more expensive than other investments) this could have profound implications for how VFM is benchmarked , not necessarily to the advantage of consumers.

Consultation questions

Q1: Do you agree with the proposed phased approach?

We agree with the phased approach. It is important to get the system up and running within a reasonable timescale and we recognise the constraints with attempting to make the framework run before it can walk.

Q2: Do you agree with our focus on and approach to developing backward-looking investment performance metrics?

We agree this should be included in the framework, however the statement performance is not always an indicator of future performance at the level of individual funds

The impact of VFM on different age cohorts is an interesting question. At different ages, people are invested in different assets, which makes a material difference, and we support the proposal for measures that are differentiated by age cohort.