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We welcome the opportunity to provide our comments on the FCA's Consultation Paper relating to the Value-for-Money Framework (CP24/16).

As a firm of Professional Trustees, we have appointments which span single employer trust arrangements, master trusts, governance committees (on behalf of employers utilising both master trusts and GPP arrangements for their employees) and Investment Governance Committees (IGCs). As such, we can provide insight into Value-for-Money assessments from multiple angles and are particularly well placed to comment on the extension of the Value-for-Money Framework from contract-based arrangements to the trust-based pensions landscape.

Overall, the UK pensions landscape in scope for the Framework is currently in reasonably good shape: it has evolved to provide a range of offerings for employers and savers, depending on their specific circumstances and preferences. We believe the existence of two auto-enrolment master trusts allows even very small employers to make well-governed, cost-effective and strongly performing savings arrangements available to their employees. Furthermore, a substantial and growing DC market, together with the existing disclosure arrangements, notably IGC annual reports, encourages commercial arrangements to stay competitive and deliver good services to members and employers.

In considering the proposals set out in this Framework, we are mindful that the introduction of additional disclosures may drive behaviour in unintended ways. In particular, we are concerned that the consequences of the public disclosure of an amber rating coupled with the provider being unable to take on new business could drive behaviours that are not in the best interests of savers. In particular, we are concerned that:

- providers will be ***disincentivised to introduce private market asset classes*** due to the higher costs and longer payback periods, which may make their performance appear relatively unattractive over the initial investment period;
- as soon as an arrangement is marked as amber, some employers will take steps to find an replacement and the reduction in assets will then make it harder for the provider to attain the scale it needs to improve. We believe there is ***a risk that this could escalate into a "run" on the arrangement*** which could lead to gating should there be insufficient liquid assets to meet redemption requests;
- ***providers may be incentivised to "herd" around a median asset allocation***, based on the asset allocation disclosures provided by their competitors, in order to avoid material underperformance relative to their peers. This could create a situation not dissimilar to the behaviour of balanced funds in the 1990s, where portfolios were not being built in the best interests of savers, but rather with the primary aim of not underperforming their competition;
- ***innovation may be stifled***, as providers focus their efforts on being in line with their peers, rather than standing apart to deliver superior services.

We would prefer to see a more nuanced rating system. The RAG system could effectively become a binary score, where an arrangement is a "pass" as a green-rated arrangement, or a “fail” if it achieves an amber or red rating. A rating scale that spans from 1-5 or even 1-10, would allow an arrangement to be able to acknowledge where it has room for improvement (for example if it scores 4/5), without necessarily resulting in material sanction from the market. An alternative would be some form of league table, which does not provide a “judgement” score. However, we recognise the appeal of a simpler approach which allows comparison across the whole landscape, and accept that a more sophisticated approach may be hard to implement fairly in practice.

A second area where we are concerned about unintended consequences relates to the *expansion of this framework to the trust-based pension environment* and specifically to single employer trust-based pension arrangements.

We acknowledge that there are many small single employer trust-based DC schemes that lack the scale to deliver a solution which is competitive across the Value-for-Money framework measures for their membership and may benefit from consolidation. Nevertheless, there are some single employer trust-based DC schemes where paternalistic employers have worked hard with the trustees of their pension schemes to deliver arrangements that provide excellent pension provision, which meet the specific needs of their membership and which may incorporate benefits that are not possible to achieve within the master trust market place. For example, such arrangements may provide a DB underpin, or contributions may be maintained at a higher level by using surplus from a DB scheme under the same trust.

We are concerned that these highly performing arrangements may find the provisions of this Framework so burdensome that they feel they have no option but to close their DC arrangements and move to master trust, despite this not being expected to be in the best interests of members.

We therefore suggest that careful consideration and additional consultation be carried out prior to expanding this Framework to single employer trust-based DC schemes. In particular, we would prefer to see a smaller amount of data being required to be collated for these arrangements, which still allow the identification of good value, without creating a burden that is unmanageable for most of these schemes.

We also suggest that in developing a Framework for the trust-based pension environment, consideration be given to the interplay between the provider, the trustees and the employer. Specifically, we note that in a contract-based pension environment, the provider will be the key entity under assessment by the Framework. In the trust-based environment, however, all three parties have an important role to play in delivering value to members and so assessment metrics need to be adjusted to capture the right data and carry out the assessment in a more holistic way.

The third and final area where we have concerns about unintended consequences relates to the *backward-looking nature of the assessment*, which we believe could misrepresent the quality of an arrangement at the point of assessment and lead to poor decisions being made by the users of the data. We believe further consideration should be given as to whether asset allocation disclosures could be supplemented by forward looking risk and return expectations and whether these disclosures should be incorporated into the formal assessment process. We acknowledge the complications and limitations of delivering forward-looking risk and return expectations but we would welcome a discussion as to whether standard assumptions, derived from a recognised industry body, could provide a relatively fair playing field for forward-looking return assumptions. We also note, in relation to the asset allocation disclosures, that the classification of assets between UK and non-UK assets, is not in line with how investors think about allocating and does not, in our view, have a clear benefit in terms of providing value to members.

Our responses to the specific questions in the Consultation Paper explore these concerns and suggestions in more detail. In considering each section, we have borne in mind how each of the proposals may incentivise behaviour and whether all of these incentives are in the best interests of savers.

Aside from our responses to the questions, we also believe there is value in using this opportunity to acknowledge three wider issues relating to DC pension provision that are not covered through this Framework.

Firstly, and crucially, whilst Value-for-Money is an important consideration, the key factor that will determine whether a saver has adequate pension provision is the ***amount of contributions paid into the arrangement***. We are supportive of initiatives that widen the scope of auto-enrolment to capture more employees and that increase the level of contributions paid into arrangements.

Secondly, we believe that ***enhancing member education and engagement*** in relation to pensions and broader financial issues is vital to enable savers to make appropriate decisions in saving for their retirement. The quality of service factors in this Framework touch briefly on this topic, but we believe much more is needed to improve levels of financial education in the UK. Linked to this, the information provided to members when joining pension arrangements needs to be much more succinct, accessible and clear if members are going to be able to understand and act on it.

Finally, we believe that more work is required to address issues relating to ***diversity, fairness and accessibility within pensions***. In relation to the framework, the quality of service assessment should include a review of how accessible pensions information is to the individual needs of savers, such as vulnerable or disabled individuals. The framework could also include the value to savers associated with delivering options to address cultural and religious preferences, such as Shariah-compliant investment options.

In conclusion, we are supportive of regulatory initiatives that improve outcomes for DC savers across the contract-based and trust-based pensions environment. We hope our response to this consultation provides useful insight from the trustee perspective, in particular in relation to the potential impact of expanding this Framework from the contract-based pensions market to the trust-based environment. We would welcome the opportunity to work with our partners in the pensions industry and regulatory bodies to further refine and develop the Framework to help deliver a healthy, fair and good value pensions environment for savers.