March 2026

Independent Governance Group (IGG) Response to FCA Consultation CP26/1 – Value for Money Framework

About Independent Governance Group

Independent Governance Group (IGG) is a leading provider of professional pensions trusteeship, governance and communication services.

Operating across the UK, Ireland and beyond, IGG has a total of 500+ appointments with a combined asset value of approximately £322bn. Schemes range in size from the low millions to multi-billions, with over 50 of IGG's schemes being £1bn+.

Widely viewed as a leader in its field, professional pensions trusteeship and scheme governance, risk and compliance services are at the heart of IGG's offering and are delivered through a combination of chair of trustees, co-trustee and professional corporate sole trustee appointments. Around a third of IGG's trustee appointments are to act as professional corporate sole trustee, accounting for 150+ appointments. Pensions support services strengthen the professional trusteeship side of the business, with IGG providing secretarial, pensions managerial and governance solutions for over 140 appointments.

The 220+ team includes pensions expertise drawn from many different backgrounds, such as pensions managers and consultants, lawyers, investment specialists, and actuaries. The team is known for providing diversity of thought and wide-ranging collective experience.

IGG is a multi-award-winning active member of the Association of Professional Pension Trustees (APPT). Members of the group play a prominent part in APPT committees, and all Trustee Directors are fully accredited as professional trustees.

Should you wish to discuss any elements of our response, please contact **Louise Davey** (louise.davey@weareigg.com) in the first instance.

Question 1: Scope and Exemptions

The proposed 1,000-member threshold is complex and may not effectively prevent 'gaming'. Providers could operate multiple arrangements each below the threshold that, collectively, represent a substantial membership but escape the requirements, provided only one arrangement falls in scope.

While we acknowledge that a membership threshold is helpful, it would be more proportionate to apply one relative to the provider's total membership (i.e., a proportionate measure) rather than a blanket 1,000-member cut-off. Clarification is also needed on member types - for example, whether members in drawdown are included.

We strongly support the inclusion of decumulation within scope as soon as practicably possible. Poor at-retirement decision-making has the greatest potential to erode value.

CDC schemes do not appear to be excluded from the framework. Whilst there is an argument for CDC schemes to be part of a form of value for money framework, the metrics and assessment approach for DC schemes set out in this consultation do not work for CDC schemes given that investment risk is shared, so their exclusion should be confirmed.

Question 2: Unlinked Members

No comment.

Question 3: Applicability to Trust-Based Schemes

We agree this is unlikely to arise for most trust-based schemes assuming data accuracy is maintained. However, this could become an issue as legacy arrangements grow if data quality deteriorates.

Question 4: Transferred Members

No comment.

Question 5: Exemptions for Contract-Based Arrangements

No comment on contract based arrangements. We agree with the exemption for trust-based schemes where the decision to wind up or transfer members to another arrangement has been made.

Question 6: Arithmetic vs Geometric Averaging

There are reasonable arguments on both sides of this issue, and the consultation makes clear that views will differ depending on how schemes think these figures should be used.

Points in Favour of the Proposed Approach:

1. It removes the "ghost portfolio" issue in lifestyling strategies

A geometric mean annualises the returns of a portfolio that no member actually holds throughout their journey. For glidepaths where asset allocation changes each year, a geometric average can give a misleading impression of what the "long term" experience of that static allocation would be.

2. It provides a cleaner snapshot of performance at a specific point in the glidepath

Where the intention is simply to illustrate how a portfolio at that point behaved over recent periods, a simple average of annual returns can be conceptually clearer. Some see this as less burdensome and less distorted by compounding effects (e.g., a very bad early year dragging the entire geometric mean down).

<u>Reasons for Concern About Arithmetic Averaging:</u>

1. It does not reflect member experience and can be misleading

Even if the performance figure is not intended to reflect actual member outcomes - particularly in lifestyling strategies - the arithmetic average still presents a return metric that members may struggle to reconcile with what they see in their own pot. In volatile markets, arithmetic averages can show materially positive results even when the cumulative return is zero or negative. This risks confusion and complaints, especially for members approaching retirement.

Example: If a market doubles one year and halves the next, the arithmetic average is +25%, but the member's actual return is 0%. This disconnect is not trivial.

2. Arithmetic averaging inherently rewards volatility

Unlike the geometric mean, the arithmetic mean overstates long term returns when volatility is high. This creates perverse incentives, particularly at points in the glidepath near retirement where a scheme should be reducing risk in line with likely member behaviour.

The risk is that schemes with more aggressive asset allocations appear to "perform better," even though such allocations may be inappropriate for members five or fewer years from retirement. This could drive a race towards higher risk strategies simply to avoid appearing uncompetitive under VFM reporting.

3. Regulatory precedent favours methods that avoid overstating performance

If ease of member replication were the determining factor, we would still permit simple interest rather than APR in the consumer market. APR is required precisely because simple averages risk misleading consumers. The same logic applies here: transparency must not come at the cost of accuracy.

Question 7: Multi-Employer Arrangements with Variable Charges

No additional comments beyond our response to earlier consultations.

Question 8: TDF Performance Mapping

We have no concerns with the proposed approach.

Question 9: Risk Metrics

We have no issues with the proposed metrics.

Question 10: Chain-Linking of Costs and Charges

No additional comment.

Question 11: Chain-Linking Approach

We support chain-linking as it more accurately reflects the member's actual investment journey. However, backwards-looking metrics will not be comparable to future performance following changes to defaults. The proposed amendments are therefore sensible.

Question 12: Legacy Arrangements

We consider the proposals proportionate, provided rationales are clearly reflected in any future comparative materials or league tables.

Question 13: FLM Disclosures and Assumptions

We strongly support FLM disclosures. A stochastic projection range would offer more meaningful insight to members than a single deterministic figure.

Question 14: Requirement for External Advice

We consider this sensible as a guardrail, although it will add cost and may disproportionately affect smaller schemes. There is also a risk that a small number of advisers providing FLM advice, coupled with the comparator requirement, will drive herding which could have material impact on markets.

Question 15: Guardrails Against Gaming

The proposals reduce gaming risk but cannot eliminate it entirely. Thought should also be given to safeguarding against FLM's being tweaked to compensate for BLM underperformance.

Question 16: Reporting Difficulties

We foresee no significant practical difficulties.

Question 17: Employer Subsidy Disclosure

This will be challenging to present meaningfully. Employer subsidies vary considerably in form and value across employers and may not be comparable.

Question 18: Timing of Profit-Share and With-Profits Distribution

No comment.

Question 19: Payments Out as Retirement Income

Yes, the proposed measure is reasonable.

Question 20: Pension Commencement Lump Sum (PCLS) as a Key Transaction

This depends on the definition of "retirement income". Further clarification is needed.

Question 21: Complaints Data and Platform Definition

No comment.

Question 22: Negative Perception Metrics

These should provide useful insight. Certain SLAs should be standardised for the comparisons to be meaningful.

Question 23: Engagement Metrics and Survey Information

There are a range of ways in which member engagement is undertaken currently, which are often tailored to the scheme. Surveys are one method but not necessarily the most effective, hence a range of other methods are often used, particularly in larger schemes, such as:

- Pulse surveys to capture timely feedback and sentiment
- Interactive Webinars and Events:

    - Roadshows

    - Quarterly online member events hosted by larger schemes to:

        o Gather direct feedback.

        o Discuss scheme updates and educate members.

        o Provide interactive Q&A sessions.

- Helplines and Direct Support Channels:

    - Phone support across all schemes, supplemented by live chat and email support.

    - Specific protocols for vulnerable members

    - Multi-channel support ensures members can provide feedback in ways that suit their needs.

- Employer-mediated Engagement:

    - Leveraging employer trust and networks to reach members:

        o Employer-led training sessions.

        o Employee Q&A sessions or AGMs.

        o Coordinating with employer communication strategies to embed pension messaging.

- AI-driven behavioural insights to:

        o Identify patterns in engagement, confusion, or distress.

        o Flag vulnerable members for human follow-up.

        o Tailor communications to individual circumstances and accessibility needs.

Question 24: Revised Proposals for Engagement Metrics

This metric in itself, whilst offering comparability, does not reflect member engagement at the point where engagement is most needed – when approaching a decision about their retirement income. As dashboards, targeted support and guided retirement are introduced, metrics should be developed that relate to engagement with and the use of, or otherwise, dashboards, targeted solutions, retirement support services and default pathways.

Question 25: Commercial Market Comparator Group

We agree this is the only reasonable comparator.

Question 26: Comparisons for Different Arrangement Types

We follow the logic of this approach.

Question 27: Weighting of BLMs and FLMs

We have no issues with the proposed weighting.

Question 28: Feedback on Option 1

We follow the logic, but "recent" changes to investment strategies must be clearly defined.

Question 29: Composite Metric in Option 2

The approach appears overly complicated.

Question 30–31: Composite Comparison Figure and Option 2 Approach

No further comments beyond concerns noted above.

Question 32: Guardrails

The proposals are reasonable but would benefit from refinement over time.

Question 33: Preferred Option (1 or 2)

We prefer Option 1, which is less complex and more proportionate.

Question 34: Use of FLMs in Step 1

No comment.

Question 35: Service Value in Step 2

Good service alone does not equate to good value, however, there is a risk that placing too little emphasis on service will deter innovation in this space, if there is no reward for doing so. As it stands the only element where any innovation may be rewarded is in investment. The support provided to make retirement decisions, guided retirement and targeted support solutions, which are not currently included in the framework, potentially will bring as much value (or prevent the loss of as much value) as good investment performance.

Question 36: Overall Value and Rationalisation

We agree.

Question 37: Updated RAGG Ratings

There needs to be clear guidance as to what would factors would define a scheme as dark green versus light green, as although subjective there does need to be consistency. For example, guidance could set out what criteria or metrics threshold must be met in order for a scheme to be classed as dark green.

There is a risk of market distortion if advisers recommend predominantly dark-green schemes.

Question 38: Overall Assessment Process

We agree with the process as outlined.

Question 39: Transfer Requirements for Red-Rated Arrangements

We don't disagree with the proposals but question what the solution is if a red arrangement is unable to transfer to another arrangement, should there be no appetite from another arrangement to take it on.

Question 40: Actions for "Not Value" Arrangements

We agree, though writing to all employers within one calendar month may be challenging.

Question 41: Data Provision to the Central VFM Database

Data transfer should not be via spreadsheet or webform. API-based submission would be most appropriate though may not be achievable for smaller schemes.

Question 42: Central VFM Database

We support the proposals. This will enhance transparency and consistency. We caution against providing member-level access, as the data is not designed for member decision-making and could encourage poor decisions such as opting out.

Question 43: Timing of Public Release of VFM Data

Data should not be made public without the corresponding assessment to ensure context and avoid misinterpretation.

Question 44: Linking Final Assessments to the VFM Database

We support this.

Question 45: FCA Handbook Proposals

No comment.

Question 46: Updated Cost–Benefit Analysis

We note the CBA only assesses the impact on FCA regulated firms, and as the CBA shows the cost will be substantial. The impact on most trust based schemes is likely to be far greater in proportion to their size and relative to current regulatory requirements.