VFM Policy Team
Financial Conduct Authority

By email to: vfmconsultationpaper@fca.org.uk

17 October 2024

Dear VFM Policy Team

USS response: The Value for Money Framework (CP24/16)

I am writing in response to your Consultation Paper CP24/16 *The Value for Money Framework.*

As a trust-based occupational pension scheme, regulated by the Pensions Regulator (TPR), the proposed rules will not apply to Universities Superannuation Scheme (USS). However, we note the intention that this Framework is applied consistently across contract and trust-based schemes, and TPR has requested that trust-based schemes respond to this consultation on that basis.

About USS
USS was established in 1974 as the principal pension scheme for universities and higher education institutions in the UK. We work with around 330 employers to help build a secure financial future for 554,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £78bn (as at 31 March 2024).

USS currently provides active members with a combination of DB benefits (for earnings up to a salary threshold of around £70,000) and DC benefits (for earnings above this level and for any additional contributions or transfers in). These benefits are held within the same trust and from a member's perspective, together form their USS retirement pension. As of 31 March 2024, around 185,000 of our 554,000 members have some DC benefits in the scheme (all have DB), and around £3bn of our £78bn assets were held in the DC part of USS. The DC part of USS is authorised as a Master Trust by TPR.

Key points to highlight
We would highlight two key points from our response, which we would like to be shared with DWP and TPR, particularly given some of these issues will only become relevant on application of the Framework to the trust-based sector:

1) The Framework is very ambitious in its scope, with more than 1,000 data items requested. This will not only be burdensome to complete, but the assessments of VfM will not be straightforward. We therefore strongly support the PLSA's request that the overall quantum of disclosure needs to be reduced and simplified and have suggested some areas in our response where we feel that this could be done.

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2) There are some aspects of the Framework which will be particularly challenging for a scheme that offers hybrid benefits, such as USS, and that operates at a collective, industry level rather than as a commercial provider. They include:

   a. *Calculations of service costs* – No charges are currently levied on members' DC accounts to pay for administration of the scheme, and in most cases, investment charges are subsidised by employers too. We understand the rationale for looking at investment and service *costs* rather than charges to members. However, this is complicated in a hybrid scheme as many member services are provided to members regardless of whether they have DC benefits. It is very challenging to estimate the share of costs which relates to DC. We therefore will in due course be seeking assurance that our methodology for assigning costs is acceptable.

   b. *Comparisons of service quality* – We agree with many of the points raised in the consultation discussions around the challenge of fairly assessing service value across schemes in very different situations. To demonstrate this from USS's perspective, many if not most aspects of our member service relate to both DB and DC benefits, and this will make it difficult to find suitable benchmarks. For example, a member looking to transfer out their DC benefits will in many cases, be transferring out their DB benefits too. Due to the legislative and regulatory framework governing DB transfers, including the requirements around member's receiving FCA registered advice, this may take much longer than a non-advised DC transfer. Likewise, most members access their DC benefits at the same time as they take their DB benefits, and payment may take longer than a DC-only withdrawal.

   c. *Actions following an adverse VfM assessment* – In the unfortunate event that our DC arrangement was to be assessed as amber or red, we do not believe that we could follow the requirements without causing disproportionate harm to employers and members. If we were not allowed to take on new employers, then a new HE employer (perhaps created by a structural change) would not be able to join USS and therefore its members would not be able to build valuable DB benefits with an employer contribution. The employer would need to find alternative non-DB provision (at the minimum, to meet its automatic enrolment obligations). Likewise, in the case of a red rating assessment, there would be concerns that members being transferred out would lose advantages of the employer subsidy of costs and the benefits of being able to maximise their tax free cash when taking their DC alongside their DB pension.

We appreciate that these issues will not affect FCA regulated firms, but we urge the DWP and TPR to start considering them in its plans to apply the Framework in the trust-based sector, and across a range of different scheme arrangements including hybrid arrangements, via the Pension Schemes Bill next year. We look forward to further engagement in due course to ensure that there are no unintended and undesirable consequences for schemes such as USS as part of the broader implementation.

Yours faithfully

Carol Young
Group Chief Executive

Our responses to the questions are set out below. Please note that our response to Question 21 is set out on pages 11-12.

Question	USS response
Question 1: Do you agree with the proposed scope, thresholds and exclusions? Why or why not? If not, what alternatives would you suggest?	Agree with it focusing on default arrangements, as it encapsulates where the majority of members savings are invested and where the governance efforts are spent. There are circumstances where funds can be made a default in a technical sense whilst not being a default in any true sense, and we don't think it is proportionate to include these funds.
Question 2: Do you agree with the proposed application of the 80% threshold to determine whether legacy arrangements are quasi-defaults? Why or why not? If not, what would you propose?	No opinion.
Question 3: Do you agree with the proposed 1,000 member threshold? Why or why not? Do you think there are risks around this level, for example excluding too many savers? If you don't agree, what would you suggest?	No opinion.
Investment Performance	USS Response
Question 4: Do you agree with the proposed investment performance metrics? Why or why not? If not, what alternatives would you suggest?	Agree that the proposed investment performance metrics align with current measures of success used by Trustees. Individual calendar year performance should be included, so as to allow for the consideration of whether one single year has disproportionally contributed to the long-term performance of a fund – aligned with COBS requirements.
Question 5: Do you agree with the proposed calculation methodology? Why or why not? If not, what alternative methodology would you suggest?	Agree with using monthly returns, particularly with the increasing allocations to illiquid assets which will contain exposure to assets that do not price daily. Although we note using monthly returns for illiquid assets may lead to smoothing of investment returns and risk may be underrepresented due to autocorrelation between time periods. That said, we acknowledge that this is the return received by the member, and therefore the most appropriate to disclose. Regarding the calculation method for 5 years to retirement, this calculation is not performed as such by the Trustee, nor does it relate to how glidepaths are designed. The calculation method for 30 years to retirement and at retirement could be retained and another measure introduced, showing the last 5 year returns experienced by a member who has reached the retirement age (capturing the last 5 years of the glidepath). A static allocation also completely disregards the rebalancing. It should be noted that there are already age-related performance disclosure requirements in place for trust based schemes on the Chair's Statement, so these should be harmonised in terms of periods shown and calculation method.

Question 6: Do you agree with the proposed requirement for chain-linking? Why or why not? If not, what would you propose?	Yes, at it represents the member experience. The merging scenario would not be applicable to us so no opinion on the weighting method.
Question 7: Do you agree with the approach to in-scope legacy arrangement features? Why or why not? If not, what alternative approach would you suggest?	No opinion.
Question 8: Do you have further feedback on the incorporation of forward-looking metrics within the Framework? If included, how prescriptive do you think we should be on assumptions and methodology, and what would you propose?	A forward looking assessment should be a part of the framework, as an exclusive focus on historic performance could result in rewarding strategies that aren't designed with proper risk diversification in mind. As an example, strategies with a high allocation to equities (with higher allocations to a small number of US technology stocks) have significantly outperformed more diversified strategies in recent history. A focus on historic performance would deem these as higher value, when this performance is not expected to persist in the long term and is exposing members to a high concentration risk. Following modelling rules such as the FCA would allow for comparability but may not capture the reasons for investment decisions – for e.g., climate scenario modelling that may result in different asset class expectations and relationships. So, allowing each provider to use their investment modelling tools for forward-looking metrics, with room for commentary on how these diverge from market-wide measures such as the FCA's assumptions for rate of returns that must be used for standardised deterministic projections. The current SMPI methodology would not be of use in this context given that it is based on historical performance.
Asset Allocation Disclosures	USS Response
Question 9: Do you agree with the approach to asset allocation disclosures? Why or why not? If not, what would you suggest? Do you think asset allocation disclosures will support better decisions in the interests of savers?	Agree with the approach, as it will enable the understanding of investment performance differences between providers. It should be noted that there are already asset allocation disclosure requirements in place for trust based schemes in the Chair's Statement, so these should be harmonised.
Question 10: Do you agree that asset allocation disclosures should be limited to firm designed in scope arrangements only? Why or why not? If not, how would you broaden this requirement and to what arrangements?	Agree that the approach to asset allocation disclosures should be limited to in scope arrangements, to provide a direct relationship between where investment performance is reported and the asset allocation disclosures.
Question 11: Do you agree that we should require the disclosure of the overall asset allocation of the whole arrangement, as well as for the YTR points? Will this be of use to firms, and will it be an added burden to disclose?	Providing asset allocation for the YTR points provides a good representation of the overall strategy, particularly as the glidepaths focus on providing a smooth experience for members. However, providing the asset allocation for the whole arrangement would be an added burden and of limited additional value.

Question 12: Do you agree with the proposed definitions for UK assets? If not, what would you propose?	Agree
Question 13: Do you think we should break out 'Quoted but not listed' (e.g., AIM) and if so, how would that be useful? Would there be additional cost to doing this and can you indicate how much?	No. We do not believe this data point provides useful information above and beyond the public/ private split already being disclosed. Furthermore, we anticipate an annual cost of between £15,000-£30,000 across all of our equity and bond positions for this information (based on per position per question).
Costs and charges	USS Response
Question 14: Do you agree with the proposed costs and charges metrics? Why or why not? If not, what alternative metrics would you suggest?	Agree, as they align with the levels of disclosure for Trustee and members.
Question 15: Do you agree that historic costs and charges information should be calculated in the first year of implementation, rather than waiting for this data to build over time? Please explain your answer. If you do not agree with either approach, what alternative would you suggest?	No opinion.
Question 16: Do you agree with our proposed approach to converting combination charging structures to annual percentage charges? Why or why not? If not, what alternative would you suggest?	Not relevant.
Question 17: Do you agree with the proposed approach to unbundling? Why or why not? If not, what alternative would you suggest?	No. As a hybrid scheme we have a different challenge around unbundling that is not reflected in this consultation, namely unbundling between DB and DC costs, particularly administration and group shared service costs where most activity is not explicitly for one section or the other (for example, our call centre or communications). Whilst efforts are made to identify the relevant allocations when establishing our notional DC charges, these are necessarily based on broad assumptions. When this framework is applied to trust based schemes we would need to seek reassurance that our approach was acceptable.
Question 18: Do you agree with the proposed approach to multi-employer cohorts? Why or why not? If not, what alternative would you suggest?	It is not clear what additional value the proposal to require the cohort tables for multi-employer schemes where charges do not vary by employer. As there would just be one set of costs and charges, the table would not aid any additional comparison of value.
Quality of services	USS Response
Question 19: Do you agree with the proposals on scope? If not, what alternative approach would you suggest?	We agree. We think it is best to have a clear distinction between investment and administration aspects of the framework, and that it wouldn't be appropriate to include asset stewardship for instance.

Question 20: Do you agree with the five proposed indicators of service quality? If not, what alternatives would you suggest, with metrics?	We agree that it is helpful to have indicators of service quality that clearly relate to member outcomes, notwithstanding the difficulties in comparable measurement of these outcomes across schemes serving different demographics (and in the case of USS, a hybrid DB/DC benefit).
Question 21: For each of the five proposed indicators, do you agree with the proposed metrics for measuring these? If not, what metrics would you suggest? We would particularly welcome views on these metrics.	See annex response on pages 11-12.
Question 22: Do you agree with our proposal to include a non-employer related email address and phone number when defining common data? If you don't agree, please explain why not.	See annex response on pages 11-12.
Question 23: Do you agree with our proposals for an event-based member satisfaction survey? We would particularly welcome feedback on the trigger events and proposed questions.	See annex response on pages 11-12.
Question 24: Do you think that a firm should be able to provide a saver specific view of access to tools and saver use across its digital offerings? If not, what metric would you suggest?	We do not understand this question but have fed back on saver engagement metrics in the annex (pages 11-12).
Assessment and outcomes	USS Response
Question 25: Do you agree with our proposed conditions for the selection of comparator arrangements? If not, what would you suggest?	Agree with a minimum but not maximum number of comparators. Whilst scale is important, a £10bn minimum could inadvertently force comparisons with a small number of schemes that might be dissimilar in member demographics and other characteristics. For trust based clients, comparisons should not be required to include contract based schemes, due to the differences in regulations and governance. We would argue that USS's relative uniqueness as a hybrid scheme would be likely to make it of limited value as a comparator to others, and likewise will gain relatively modest benefit from comparing USS to others (unless the valid points of difference can be fully acknowledged in that assessment).
Question 26: Do you agree with the assessment process we have outlined above? Do you have views on what should be considered a material difference in value relative to comparator arrangements? If you think that RAG ratings will not be	Agree with the framework of steps and what they assess, as well as with no definition for materiality being proposed, particularly as in many cases, materiality will depend on scheme-specific factors, such as its member demographics, or the investment objectives of its default funds. However, the RAGs provide far too narrow of a view when put together with the actions. The consequences of an amber rating will make this a "death

sufficiently comparable, what refinements would you suggest?	sentence” for a lot of providers, so providers will construct arguments to rate themselves as green in all cases. The framework could provide for a “yellow-amber” classification which highlights areas for improvement but does not result in other action immediately. Additionally, but not as important, an 'excellent' rating would also be helpful, as we believe trustees of well-run schemes are likely to want to focus on excellence rather than achieving a basic level. It will be important to focus on the details provided by the features document to ensure they capture the key characteristics that result in offerings being different. The definition of provider own default should also be clearly stated.
Question 27: Do you agree that a multi-employer arrangement should be rated amber if it fails to deliver value for a material number of savers in relation to at least one employer cohort? If not, what would you suggest?	No opinion.
Question 28: Do you have any concerns about our proposals for assessing bespoke in-scope arrangements? If you do have concerns, please explain them. If you anticipate negative effects, what can be done to address those?	No opinion.
Question 29: Do you agree that IGCs should consider and report on whether their firm’s current scale may prevent it from offering value to savers? If not, what would you propose?	Broadly agree.
Question 30: Do you agree that IGCs should consider how ESG considerations have been taken into account across firm-designed in-scope arrangement? Do you think this is sufficient and if not, what would you suggest?	Yes, as these are financially material considerations and will have a significant impact over the long term. Given the lack of comparable metrics used in the industry, agree with no metrics being proposed at present, but that this should be continuously reviewed with the view of changing in the future, when meaningful metrics can be calculated and compared.
Actions for arrangements offering poor value	USS Response
Question 31: Do you agree that firms should inform employers of amber and red ratings and proposed steps to address the poor value, where an employer’s current and past employees are at risk? If not, why not and what would you suggest?	No opinion.
Question 32: Do you agree that firms should not be allowed to accept business from new employers into an	We have concerns with how this could be applied in USS’s situation. We would highlight that as a collective hybrid scheme,

arrangement rated amber or red? If not, why not and what would you suggest?	USS would have severe practical challenges with this requirement. We regularly accept new employers into the scheme (arising from structural changes in UK Higher Education sector) that wish to provide USS benefits, which are predominantly DB. Would we be required to not accept their enrolment because of an amber DC VfM rating? This could prevent the Trustee from accepting new employers participating in USS, as their automatic enrolment requirements may not be met, and would be a detriment to a strategically important sector for the UK.
Question 33: Do you agree with our proposed actions and timings for firms with arrangements rated amber or red? If not, what alternative approach would you suggest?	Timings seem sensible – though the intra-year assessment requirement evidence in framework data comparisons seems difficult to put into practice with the annual data submissions.
Question 34: Do you think that we should require firms to transfer savers out of red-rated arrangements, subject to enabling legislative changes? What are the costs associated with the proposed actions and are they proportionate? If you don't agree with our proposed actions, what would you suggest?	If a firm has deemed that it cannot put a plan in place to offer value to its members, then they should be required to transfer savers out of red-rated arrangements. We note that this can be facilitated on a non-consent basis in a trust-based arrangement but not on a contract-based, a situation that should be harmonised for a more efficient running of schemes. The proposed actions seemed proportionate, in a context where an amber or red rating has found that action is required, however as per our answer to Q26, more ratings should be put in place, to allow for a classification where trustees are required to take actions to improve, whilst still operating largely as normal.
Question 35: Do you think that requiring transfer from arrangements could benefit one group of savers to the potential detriment of others? If so, please explain and can you suggest an approach that doesn't risk detriment to some savers?	No opinion.
Disclosure Requirements	USS Response
Question 36: Do you agree with our proposals for how the Chair's annual reports should be expanded to include the results of VFM assessments? Are there any proposed elements that in practice would not be useful?	Agree with expansion and proposed elements. Note that the DWP has already set performance disclosure requirements for the Trustee's chair's statement, so these should be harmonised.
Question 37: Do you agree with requiring a narrative explanation for the RAG rating for all firm-designed in-scope arrangements including those rated green? Do you think this requirement should be limited to amber and red ratings?	Agree with narrative required for all.

Question 38: Should IGC Chairs be required to produce a plain-language summary of their reports?	Yes. We note that trust base arrangements already have such a requirement with the DC Chair's Statement, where Trustees already comment on the value for members' assessments, so that could be a consideration for the IGC Chairs communication requirements.
Question 39: Do you agree with the need for a features table and the contents we are proposing? Are there changes we should consider? Do you think that the disclosure requirements for bespoke arrangements should be different and if so, in what way?	Agree with features table, which should also include: - Sector - Average number of savers per employer should split out active and deferred, not just total - Average age - Instead of average turnover – average length of stay at employer
Question 40: Do you agree with our proposed approach to publication including requiring publication of a flat file? What other solutions would best support the aims of the Framework in due course?	No opinion.
Question 41: Do you think we should require machine-readable RAG ratings and potentially other information from the IGC Chair's annual report? What do you think are the benefits and costs or possible negative effects of this?	No opinion.
Amendments to current Handbook requirements	USS Response
Question 42: Do you agree that the proposed new rules should be under existing requirements for IGCs, with carve outs as appropriate? If not, what alternative approach would you suggest?	N/A
Question 43: Do you have suggestions for further amendments to existing requirements for IGCs and if so, why do you think these are needed?	N/A
Question 44: Do you agree that we should exempt "accidental workplace SIPPs" from COBS 19.5 and the requirement for an IGC or GAA? If not, what would you propose?	N/A
Future development	USS Response
Question 45: How do you think the use of data will evolve and what other measures may be needed?	It is important not to form prescriptive tests around the data and to allow for elements of qualitative overlay, otherwise there is the danger of generating a short term focus on differences in performance and on winners and losers and, on the services side, it might not allow schemes to capture any improvements and investments that are planned and that might take some time to be reflected in the metrics reported. There will also be the risk of creating incentives for herd-like behaviour and sub-optimal

	investment design which focuses on peer-relative outperformance rather than actual member outcomes. We appreciate the need for transparency of the data so that schemes can conduct assessments, but we are equally concerned that it will facilitate third party league tables that will not necessarily reflect the context around performance.
Question 46: We invite views on the roll out, evolution and future phases of the framework, over what time periods, and on the correct sequencing of these developments.	We think it is important that schemes can conduct a 'trial run' of the metrics disclosure for one year – i.e. data as at 31 December 2025, before the assessment requirements come into force. This will allow for Trustees and IGCs to familiarise themselves with the large number of metrics involved, and discuss the results prior to having to make assessments that immediately define the future of the scheme.

Annex: Response to Question 21

Question 21: For each of the five proposed indicators, do you agree with the proposed metrics for measuring these? If not, what metrics would you suggest? We would particularly welcome views on these metrics.

In general, we recognise the difficulty in choosing metrics that can facilitate comparison of service quality across schemes that go beyond a checklist of services provided. We have provided some detailed responses based on our experience of focusing on member experience for many years.

1) Savers can be confident that transactions are secure, prompt, and accurate.

Data - We agree that is it important for schemes to hold non-employer related email addresses for members, which are routinely used for outbound communication and believe that all schemes will have a legal basis for requesting and holding that data. However, we do not believe that is likely to be the same for phone numbers. They are not routinely used for outbound communications and where they are not used for 2FA it may be challenging for schemes to justify collecting and holding the data. It is important that there is alignment between TPR common data items and the VfM framework. If there are additional items to be included, they should be added to the TPR guidance promptly.

We do not believe there is any benefit to comparing scheme specific data in what is intended to be a comparative framework. It is unclear what a trustee of IGC would do to compare itself with other schemes that have different scheme-specific data requirements and how this would support a VfM assessment.

Transaction processing - We agree with the 4 transactions included and the metrics proposed. We do however wish to flag that this is an area where USS, as a hybrid pension scheme, may not see itself as comparable with standard DC schemes. For example, most of our transfer out activity relates to both DB and DC benefits (relatively few are DC only), and, due to the regulatory requirements on DB transfers, these transfers may take significantly longer. Similarly, payments out to beneficiaries usually include an element of a member's DB accrued benefits, for which the underlying calculations are complex and time consuming and may require employer involvement. It therefore can take longer to settle payments that incorporate both DB and DC benefits in a hybrid pension scheme, than it would for a pure DC scheme. We would not consider a lower relative performance on either of these metrics as an indicator of poor value, and would resist any suggestion that we would be required to disclose on that basis as it could cause our members unnecessary concern which is contrary to the aim of creating value in its broadest sense for members.

2) Savers are satisfied with the service they receive.

Complaints - We understand the wish to look at complaints. In practice, it will be challenging to draw inferences about value from this data. In USS's case, we would need to establish if a complaint is related to DC administration or investment, as opposed to the DB element of the scheme. It is also not clear what the requirement would be where there are aspects of the complaint that relate to both DB and DC elements of the scheme, and so clarification would be needed on how this is represented.

> *Customer satisfaction* - Registering for an online account and nominating death beneficiaries are relatively basic processes. We would expect all schemes to offer similar value here and therefore it is unlikely to reveal differences in service levels. On the other hand we consider that satisfaction with using the member portal (or app) is an important component of value that is not included. Of the specific questions the first 3 questions proposed seem sensible, but the final 2 are not aligned with the events. If the Government believes that overall satisfaction with the scheme and its communications are important, these would ideally be measured from a sample of the whole membership, and we believe many schemes already do this. But linking them to these events is inappropriateFurthermore, as USS is a hybrid scheme, we would be concerned that assessments of

satisfaction and communications quality might reflect factors much wider than the quality of our DC administration and communications.

3) Savers are supported to make plans and decisions for their retirement.

We agree with these two measures but would appreciate clarity on what an 'app' is for these purposes. A mobile app is a channel rather than a tool and in itself doesn't offer any support. However, if a saver accesses a calculator or planning tool via an app then that saver is being supported.

4) Savers can amend their pension with ease.

We do not believe that it is easy to measure whether someone has reviewed their pension and we believe clarity is needed before schemes are asked to benchmark on this data. Reviewing does not necessarily lead to action, so could be defined as members who have visited a certain part of a member portal (or visited the USS website to review the current contribution rates), or members who have attested that details are up to date. Furthermore, in a scheme like USS, members have a high minimum contribution rate (aggregate 20% into DC above our salary threshold, and a DB underpin), and therefore we would not anticipate our data being comparable with schemes with lower contribution rates.

5) Savers are supported to engage with their pension.

We agree with the inclusion of basic digital engagement data (registrations and annual access), as it is clear that this is important to drive member outcomes, notwithstanding the difficulty in comparing between providers based on the nature of their membership, which could be dealt with through careful choice of comparators.

However, we do not agree that the % contacting the scheme is a good measure of value, because it is much less clear how this relates to positive member outcomes. For instance, a scheme with a high proportion of members switching investments would score highly here, but it is not clear that this is a good thing. A lower % of members contacting the scheme could indicate member satisfaction with the engagement provided by the scheme.