

3 April 2023

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Submitted via email to: pensions.vfmframework@dp.gov.uk

RE: Value for Money: A framework on metrics, standards, and disclosures

BlackRock¹ is pleased to have the opportunity to respond to the consultation on the new Value for Money (VfM) framework, issued jointly by the Department of Work and Pensions (the 'DWP'), The Pensions Regulator ('TPR'), and the Financial Conduct Authority (the 'FCA')

BlackRock manages the pension savings of over 11 million people in the UK. Our investment approach is rooted in our fiduciary duty: we start with our client's objectives, we seek the best risk adjusted returns, and we underpin our work with research, data, and analytics.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the DWP on this and other topics.

Overarching comments

BlackRock welcomes the work that DWP, FCA and TPR have done on the proposed new VfM framework for DC pensions.

As one of the largest managers of UK pensions savings, we are supportive of a common framework that helps to assess VfM. Indeed, this focus on value over costs is something we have consistently championed in other regulatory responses, so this is a very welcome development.²

However, while we are very supportive of the policy intent behind this new framework, we believe there are a number of areas which need to be considered in order to ensure the framework data is both useful and usable.

We recognise the importance of comparability and support the introduction of a centralised platform which holds all VfM disclosures and metrics, as this would enable a more consistent and reliable assessment process. However, with such a diverse market, achieving meaningful comparisons is a complex task and thoughtfulness is needed to ensure that the metrics used in the assessment are not taken out of context or used in isolation.

¹ BlackRock is a leading provider of investment, advisory and risk management solutions, and has been active in the UK for over 50 years. Our purpose is to help more and more people experience financial well-being.

² See [BlackRock Response: Broadening the Investment Opportunities of Defined Contribution Pension Schemes](#); [BlackRock Response: Enabling Investment in Productive Finance](#); and [BlackRock Response: Consultation on Incorporating Performance Fees within the Charge Cap](#)

Pension schemes do not comprise homogenous memberships - nor do they have identical investment objectives - what represents good VfM for one scheme may not for another. It is therefore crucial that the appropriate contextual information accompanies the final agreed metrics to ensure comparisons are accurate and reflect the diversity within the market. Moreover, the framework as currently proposed will produce a huge amount of data, in order to ensure this data is most useful and usable, context will be needed.

Finally, while we understand the rationale behind having benchmarks to measure schemes against, care must be taken to ensure the framework doesn't drive a 'race to the middle'. We believe that the introduction of regulator-defined, industry-wide benchmarks may incentivise herding, which we do not believe is in the interest of the pension saver.

In the first instance, we believe that comparisons against other schemes seem most appropriate. However, as the framework develops and the ecosystem matures, it may make sense to update the framework to include regulator-defined benchmarks in due course.

Please see below for our thoughts on a number of issues raised in the consultation document.

Investment performance

Assessing performance

We agree that for the purposes of assessing investment performance of the default, a longer-term view is necessary. While annual performance is useful to disclose as a means of annual accountability to members, it should not be given undue emphasis, as it is less relevant for the long-term horizon of pension savers and their ultimate retirement goals. Given the focus should be on longer-term outcomes, returns covering a five-year period and above seem a more important metric.

Ultimately, context is extremely important, schemes should be able to explain what it is they are trying to achieve and how this is in the interests of their members. For example, Scheme A may be aiming for a to-and-through retirement solution, while Scheme B may take the position that its members will want to completely cash out at retirement, either may make sense based on the cohort of the scheme, but they will look quite different if compared on an annual basis.

Hence, while we recognise the importance of comparability, it is important to note the diversity within the market. There is a need for schemes to be able to explain what they are trying to achieve and why they are making the investment decisions they are. This text could be included as part of the template for the final agreed metrics, making space for schemes to lay out their objectives and explain why they are in the interest of their members.

Risk based metrics

For the purposes of delivering industry-wide metrics, we understand the desire to focus on standardised disclosures and consider the two proposed measures of Maximum Drawdown and Annualised Standard Deviation (ASD) as appropriate.

However, this is another area where the contextualising information mentioned above would be useful. For example, it may be possible to run a portfolio which would look low in terms of Maximum Drawdown and ASD by holding a lot of credit. In practice this portfolio would be storing up long-term risk.

Chain-linking

We are supportive of this proposal to help guard against attempts to hide previous investment decisions. However, we would urge the DWP to ensure the methodology for chain-linking is very well defined. This will ensure industry-wide consistency and avoid individual approaches at scheme level.

To help DC governance bodies and members make appropriate decisions, regulators should also consider an approach that clearly distinguishes between returns of the 'current default strategy' and those of any 'former default strategies'. This will be especially helpful where improvements have been made as a result of poor performance.

Returns net of investment charges

We support the proposals for additional disclosure of returns net of investment charges. Considering the cost of investment separately from other costs in a pension product will allow for a better assessment of value for money of investment, as well as giving DC scheme decision-makers the tools to assess whether they believe they have an appropriate investment budget within the total cost of the product. Accordingly, disclosing both investment charges and performance net of investment charges only, is an important piece of transparency and accountability.

Disclosure of asset allocation

We are supportive of the requirement to disclose default strategy asset allocation alongside the performance numbers and believe this will bring further transparency to the ecosystem. Asset allocation decisions are a key driver of returns and so the two pieces of information should be shown together to aid the assessment of value of a scheme's investment strategy.

Forward-looking metrics

We are supportive of the inclusion of a forward-looking metric and would suggest that either the stochastic modelling with a range of outputs, or stochastic modelling with a 'risk at retirement' option would be most appropriate.

Combined with the past performance data, a forward-looking metric could show how a scheme's return expectations compare against what has been delivered, providing a further measure of accountability. This same comparison repeated over time will allow assessment as to whether a scheme's return assumptions are consistently over-optimistic, thus reducing any incentive to over-inflate expected returns.

Disclosure templates and publication timings

Approach to the publication of framework data

We support a centralised approach for the publication of framework data, with a dedicated platform - hosted by government or regulators - which collects data from schemes using a prescribed reporting template.

This would simplify the processing and analysis of what is a substantial amount of data and would help ensure quality and consistency. It will also make the process of comparing schemes easier for decision-makers. However, as aforementioned, we believe this template should include space for contextualising information.

Assessing Value for Money

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Benchmarking and categorisation

As stated throughout this response, given the diversity of schemes and their memberships, our view is that market-wide comparisons and regulator-defined benchmarks should be considered with caution.

As observed in Australia, the adoption of this type of benchmark risks creating a herd mentality, with some schemes opting for approaches solely designed to meet the benchmarks rather than adopting a more risk-based approach which is appropriate for their membership.

In the first instance, we believe that comparisons against other schemes seem most appropriate. However, as the framework develops and the ecosystem matures, it may make sense to update the framework to include regulator-defined benchmarks at a later date.

In line with this, while we see the merit in the Red/Amber/Green (RAG) approach to categorisation of schemes in terms of simplicity, we would stress the substantial challenge of synthesising the data - including the potential for qualitative data to be incorporated - into three categories in a way that is meaningful and accurately reflects whether a scheme is considered VfM. Moreover, given the target professional audience in Phase 1, this type of simplification feels unnecessary.

We would also suggest that the VfM assessments should be considered in relation to the VfM assessments being introduced via the Consumer Duty to ensure alignment and consistency.

Conclusion

We are supportive of the work that DWP, FCA and TPR have done on the proposed new VfM framework for DC pensions and welcome the focus on value over costs. However, in order to ensure the framework data is both useful and usable, we believe a number of amendments should be made.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the DWP, FCA, and TPR on any issues that may assist in the final outcome. We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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