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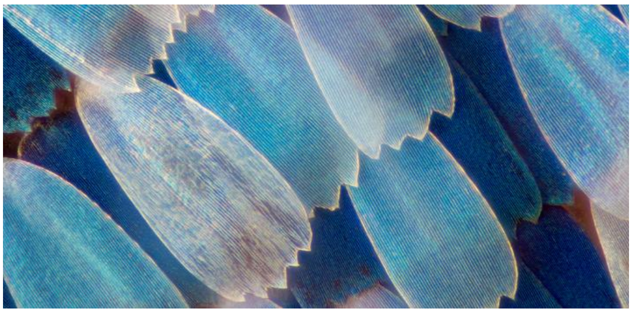
September 2026

DC OVERVIEW SERIES

VALUE FOR MONEY

Welcome to DC Overview, our DC-specific publication designed to bring trustees, master trust providers and employers the latest news and insights in the world of DC pensions.

DWP has recently published a consultation on draft regulations for the forthcoming Value for Money (VFM) regime. It's clear that schemes containing DC arrangements caught by these requirements need to gear up for a significant new addition to their workload. Spoiler alert: the new regime extends beyond what you might expect "value for money" to encompass! Here is a quick overview of those regulations.



WHICH SCHEMES WILL BE AFFECTED?

Trustees of affected schemes will have to compare their scheme against other schemes every year and publish a VFM report in which they categorise the extent to which their scheme delivers value for money.

Finding out whether the new VFM requirements will apply to your scheme is not a straightforward exercise, so the DWP has put together a scope flowchart. There are various exemptions and conditions but, broadly, this will involve working out whether the scheme has a default arrangement or an arrangement treated as such which was set up before auto enrolment and used by at least 80% of members. Hybrid schemes are also potentially affected.

WHAT WILL SCHEMES HAVE TO DO?

Trustees will have to liaise with their administrators and investment managers on a broad range of data so that it can be submitted to a Pensions Regulator VFM database. That data must cover: investment performance, costs and charges, and quality of services (covering record-keeping accuracy, promptness of core financial transactions, complaints, and member engagement).

Using a traffic light approach, affected schemes will have to compare themselves against a benchmark and rank themselves from red ("not delivering value") to dark green ("fully delivering"), although the Regulator will be able to replace the rating if it thinks that it's wrong. Trustees of schemes rated amber or red will have extra work to do, as they will have to consider whether members would be better off transferring out. In any event, new employers would be blocked from joining those schemes. Red scheme trustees will have to tell the employer about any actions they think it should take.

WHEN WILL THE NEW VFM REQUIREMENTS APPLY AND WHAT SHOULD TRUSTEES DO NOW?

Larger schemes will have to publish their VFM report in 2028[1]. Other schemes will have to submit data to the Pensions Regulator in 2028 with a publication deadline of 2029.

The VFM deadlines are not immediate, but there will be plenty of work to do in the run-up. Trustees will first need to understand which of their "arrangements" are in scope of the reporting requirements. They should then assess the extent to which their agreements with administrators and investment managers should be updated, to ensure the necessary reporting of the scheme's performance against the various VFM metrics. Working out how to approach the calculations and assumptions to be deployed when providing investment performance data will take time, as will lining up data in respect of costs and charges plus all the quality of services data.

It may also be worth considering whether any actions could be taken now to improve potential gaps on the quality of services front (such as making sure as many members as possible have nominated a beneficiary, dealing with complaints swiftly, and checking record-keeping standards).

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[1] non-bespoke Master Trusts and single employer trusts with 50,000+ members