

Written Evidence Submission

Pension Schemes Bill 2025 - Value for Money Framework

Submitted to: House of Commons Public Bill Committee

Submitted by: CAPAdata

Date: 11 August 2025

Re: Pension Schemes Bill 2025 - Chapter 1, Part 2: Value for Money Requirements for DC Schemes

About CAPAdata

CAPAdata is the UK's leading independent pension performance analytics provider, tracking over 18 million DC workplace pension scheme members across circa 20 default pensions funds. Our Corporate Advisor Pensions Average (CAPA) methodology has been adopted by the Department for Work and Pensions for official pension adequacy modelling and policy development, including the recent "Analysis of Future Pension Incomes 2025." We provide performance analysis and insight through our pension data service (www.capadata.co.uk) to pension providers, employee benefit consultants, employers, and trustees across the UK market.

Declaration of Interests: CAPAdata operates as an independent data provider with no financial interest in any pension scheme provider. Our revenue comes from data services and analytics, not investment management or scheme administration.

Executive Summary

This submission addresses the critical importance of investment performance in the proposed value for money (VFM) framework for defined contribution (DC) pension schemes. While we strongly support the Bill's VFM requirements, we urge that investment performance must be mandated as a central component of VFM assessments.

Current performance disparities in the UK DC market are creating substantial retirement adequacy challenges that can only be addressed through systematic performance evaluation and accountability. Our analysis shows performance gaps of over 80 percentage points between best and worst performers, representing potential lifetime losses of £64,000 per saver according to the "National Economic Impact" assessment.

Summary of Key Recommendations

1. **Mandate investment performance as a core VFM component** (minimum 40-50% weighting)
 2. **Establish CAPA as the primary independent performance benchmark**
 3. **Provide regulatory clarity with safe harbour provisions for performance-based decisions**
 4. **Strengthen accountability mechanisms for employers and trustees**
 5. **Enhance transparency through standardized reporting and member empowerment**
-

The Scale of Performance Disparities

Market-Wide Performance Gaps (Q1 2020 - Q1 2025)

Our analysis of UK DC scheme performance reveals substantial disparities among Younger Savers (30 years from State Pension Age):

- **Top Performer:** SEI Flexi Default at 111.27%
- **Market Average (CAPA):** 66.54%
- **Bottom Performer:** L&G Multi Asset Fund at 31.18%
- **Performance Gap:** 80.09 percentage points between best and worst performers

Performance Tiers Analysis

Exceptional Performers (100%+):

- SEI Flexi Default: 111.27%
- LifeSight MRD: 102.66%

Strong Performers (80-99%):

- Aon MCR: 99.50%
- Aegon MT: 91.23%
- TPT TDF: 89.60%

Above Average (67-79%):

- Lewis: 80.32%
- Fidelity FW: 75.37%
- NW Cushon SIS: 74.39%

Below Average (40-66%):

- Aviva MFU: 72.29%
- SW PIA: 67.59%
- Smart SGF: 65.45%
- Penfold: 64.61%

Poor Performers (<40%):

- Now DGF: 39.25%
- L&G Multi Asset Fund: 31.18%

Written Evidence Submission
Pension Schemes Bill 2025 - Value for Money Framework

Real-World Impact Analysis

Impact on Typical UK Worker (£15,000 pension pot at age 35)

Performance Outcomes by Provider:

- **SEI Flexi Default:** £31,691 (+26.9% vs market average)
- **CAPA Benchmark:** £24,981 (market average)
- **L&G Multi Asset Fund:** £19,677 (-21.2% vs market average)
- **Current Gap:** £12,014 between best and worst performers

Projected Lifetime Impact

Assuming continued performance patterns over remaining 32 years to retirement:

Total Projected Pension Pots at Age 67:

- Best performer pathway: £450,000+
- CAPA - market average pathway: £320,000
- Worst performer pathway: £280,000
- **Projected retirement gap:** £170,000

Retirement Income Consequences

For the median UK worker, poor provider selection results in:

- **Annual income reduction:** £6,800 less per year (4% withdrawal rate)
- **Lifetime income loss:** Over £200,000 across 25-year retirement
- **Additional working years required:** 18-24 years to compensate for poor performance

National Economic Impact

With the UK workplace pension market worth approximately £550 billion:

- **Daily impact:** £263.7 million in suboptimal returns
 - **Annual impact:** £96.25 billion across the market
 - **Per worker impact:** Average potential lifetime loss of £64,000 per saver
 - **Per household impact:** £3,690 annually across UK households
-

Current Decision-Making Challenges

Why Performance is Being Underweighted

Despite material impacts, employers and trustees consistently underweight investment performance due to:

1. **Regulatory disclaimer misapplication:** The standard warning that "past performance is no guide to future performance" is being interpreted as grounds to completely disregard performance data
2. **Liability concerns:** Trustees fear legal exposure from performance-based decisions
3. **Lack of standardized benchmarks:** No consistent framework for comparing DC workplace scheme performance
4. **Information asymmetries:** Employers cannot access comprehensive, independent performance data

Systematic Performance Patterns

The data reveals consistent patterns indicating fundamental differences in management capability:

- **Consistent outperformers:** SEI and LifeSight deliver top-tier performance across different market conditions
- **Consistent underperformers:** Certain providers systematically trail the market across multiple timeframes
- **Market conditions tested:** Performance patterns persist across COVID recovery (2020-2021), inflation concerns (2022-2023), and market normalization (2024-2025)

Detailed Recommendations

1. Mandate Investment Performance as a Core VFM Component

Primary Recommendation: Regulations under Section 10 must explicitly require investment performance as a mandatory component of VFM assessments.

Implementation Framework:

- Minimum weighting of 40-50% for investment performance in VFM assessments
- Performance evaluation across multiple timeframes (1, 3, 5-year periods minimum)
- Risk-adjusted return metrics to ensure appropriate comparisons
- Benchmarking against both CAPA average and peer group performance

2. Establish CAPA as the Primary Independent Performance Benchmark

Government Validation: The Department for Work and Pensions has already recognised CAPA's value as the industry standard benchmark. The DWP's "Analysis of Future Pension Incomes 2025" adopted CAPA-based methodology, moving from RPI+ estimates to market-based projections using CAPA data.

Regulatory Application: CAPA methodology is trusted by:

- DWP for pension adequacy modelling and VFM framework development
- FCA for regulatory analysis
- Bank of England and HM Treasury for policy assessment

Performance Threshold Framework:

- **Excellent:** >20 percentage points above CAPA
- **Good:** 5-20 percentage points above CAPA
- **Adequate:** Within 5 percentage points of CAPA
- **Concerning:** 5-20 percentage points below CAPA
- **Requiring intervention:** >20 percentage points below CAPA

3. Provide Regulatory Clarity on Performance Evaluation

Safe Harbour Provisions: Regulations should explicitly state that:

- Historical performance data over meaningful periods (3-5 years) provides valid evidence of management capability
- Trustees have a duty to consider performance data when making scheme decisions
- Good faith consideration of performance data will not create regulatory liability

Regulatory Guidance: The Pensions Regulator should issue specific guidance on:

- Appropriate weighting of performance in VFM assessments
- Acceptable methodologies for performance comparison
- Circumstances requiring scheme review based on performance concerns

4. Strengthen Accountability Mechanisms

Employer Requirements:

- Evidence of performance consideration in scheme selection decisions
- Annual reporting showing scheme performance versus CAPA benchmark
- Statutory protection for employers changing schemes due to performance concerns

Written Evidence Submission

Pension Schemes Bill 2025 - Value for Money Framework

Trustee Obligations:

- Explicit justification required when schemes underperform CAPA by >10 percentage points
- Mandatory action plans for schemes with "not delivering" ratings due to poor performance
- Member challenge mechanisms for decisions that ignore performance data

5. Enhanced Transparency and Member Empowerment

Public Reporting Requirements:

- Annual publication of all scheme performance versus CAPA benchmark
- Clear member communications showing scheme performance relative to alternatives
- Standardized performance reporting formats across all providers

Member Rights:

- Access to performance comparisons with CAPA and top performers
- Clear escalation routes when employer schemes consistently underperform
- Strengthened member representation in trustee performance discussions

Addressing Common Concerns

"Past Performance Doesn't Guarantee Future Performance"

While legally accurate, this disclaimer should not prevent consideration of the best available evidence. The 5-year period analysed demonstrates consistent patterns across varied market conditions, indicating systematic differences in management capability rather than random variation.

"Performance Focus Could Increase Risk-Taking"

The performance differences observed are primarily attributable to cost efficiency and management effectiveness rather than excessive risk-taking. Risk-adjusted comparisons within appropriate peer groups address this concern. Moreover, pensions represent the longest-term investment most people make, with funds typically inaccessible for 33+ years. This extended timeframe enables pension schemes to capitalise on the risk-return premium available from higher-risk asset classes over long investment periods, making performance evaluation even more critical for member outcomes.

"Small Schemes Cannot Access Top Performers"

The VFM framework should create market pressure that either improves performance across all schemes or facilitates consolidation toward better-performing alternatives. This market discipline aligns with the legislation's objectives.

Written Evidence Submission
Pension Schemes Bill 2025 - Value for Money Framework

Implementation Timeline

Immediate Actions (Within 6 Months)

- Establish CAPA as the official independent performance benchmark
- Issue regulatory guidance clarifying performance evaluation duties
- Create safe harbour provisions for performance-based decisions

Medium-term Implementation (6-18 Months)

- Implement mandatory performance reporting against CAPA benchmark
- Establish performance threshold triggers for trustee action
- Develop standardized member communication requirements

Long-term Framework (18+ Months)

- Full VFM assessment implementation with performance requirements
- Monitor market consolidation toward higher-performing schemes
- Ongoing framework monitoring and refinement

Conclusion

The Pension Schemes Bill's value for money framework represents a critical opportunity to address retirement adequacy challenges in the UK. The performance data demonstrates that systematic differences exist between providers, with material impacts on member outcomes.

Without mandatory consideration of investment performance benchmarked against independent standards, this framework risks perpetuating a system where suboptimal performance decisions systematically disadvantage 23 million UK workers. The 80+ percentage point performance gap represents fundamental differences in management quality and cost efficiency that directly impact retirement outcomes.

The Committee's consideration of these recommendations could ensure that the VFM framework delivers meaningful improvements in retirement adequacy for UK workers. The cost of maintaining the status quo is measured not only in financial terms but in the retirement security of millions of workers who depend on effective pension governance.

Contact Information	Samantha Seaton CAPAdata Email: sam.seaton@capadata.co.uk Website: www.capadata.co.uk
Supporting Data	Detailed performance analysis covering 5+ years of data available upon request, including methodology notes and confidence intervals for all projections cited