

**By email to:**vfmconsultationpaper@fca.org.ukVFMFramework@tpr.gov.uk

6 March 2026

Dear Value for Money Framework and Policy Teams

USS response to CP26/1 – The Value for Money Framework

We welcome the opportunity to provide input on the Value for Money (VfM) Framework for DC pension schemes. As DC pensions become the dominant part of the UK private pension system, we agree that it is important that they instil confidence and provide good value to savers who will depend on them for security in their later life. As part of this, we support the greater focus on comparative value, supported by consistent reporting of metrics that matter to savers.

We have responded to a number of the specific consultation questions, particularly where there are considerations that are material for USS as a hybrid DB-DC scheme, designed specifically by our stakeholders for the higher education sector, and operating differently to the FCA regulated pension schemes directly affected by these rules. These responses aim to help The Pensions Regulator as it develops the approach for trust-based schemes, including whether it is appropriate to apply the framework to hybrid schemes like USS. The remainder of this letter gives our broader perspective on the framework and how we believe it can support the government's stated policy aims. (*Responses to specific questions are set out on pages 4-10*).

About USS

The Universities Superannuation Scheme (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 almost 600,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £76.8bn (at 31 March 2025).

The trustee of USS is Universities Superannuation Scheme Limited. It has overall responsibility for scheme management and administration, led by a non-executive board of directors and employs a team of pension professionals in Liverpool and London. The trustee is regulated by The Pensions Regulator and must ensure that benefits promised to members are paid in full on a timely basis.

The trustee delegates implementation of its investment strategy to a wholly owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services to the trustee. USSIM manages around three quarters of the investments in-house and appoints and oversees external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority. USS is a hybrid pension scheme, which means we have both a defined benefit (DB) part – the Retirement Income Builder – and a defined contribution (DC) part – the Investment Builder. All active members build up DB benefits and only build up DC benefits if they earn over the salary threshold of £71,484, make additional contributions, or transfer in benefits from another scheme.

USS is a very large investor, and because of our scale and the long-term focus of our stakeholders on value, USSIM has been able to develop significant capabilities to invest in unlisted private assets. Our latest asset allocation return shows that our default fund includes just under 24% in unlisted assets, of which over 11%

is invested in the UK, more than double the Mansion House Accord targets.

The Value for Money Framework

We welcome the collaborative way that regulators have engaged with industry to this point. Implementing a successful VfM framework presents a double challenge. First, it needs to define and assess 'value' in a way that is meaningful, practicable and fair. Second it needs to link those assessments to outcomes that promote a thriving competitive market, which is ultimately what will benefit savers. We understand that government is keen to avoid paralysis and start driving that focus on value throughout the industry, but we believe it is critical that implementation supports the government's other policy priorities and does not have unintended negative consequences for our members, or for savers in the wider pensions market.

Applying the framework to hybrid schemes

We understand that the VfM framework is being introduced for all DC schemes, including those, like USS, that offer limited DC benefits. However, our hybrid nature means that several of the metrics will be challenging to collect and assess, and some of the required actions in the event of an adverse rating could be harmful for members. We have covered these in our detailed responses, but would like to draw particular attention to the following:

- We cannot identify DC administration costs within our overall scheme administration costs, as most services are shared. Any cost will need to be estimated using a simple allocation methodology and is not, in any case, met by members but by the general fund.
- We cannot reliably identify complaints or other service satisfaction metrics specific to DC.
- We do not make DC payments as income, or DC Pension Commencement Lump Sums. Most DC payments are tied to a DB retirement event and therefore are subject to those requirements and timescales.
- Our employers choose to participate in USS as a hybrid scheme, offering a predominantly DB benefit. Removing the ability for a new employer to join USS because of an amber VfM rating – potentially for a short period of time - would be inappropriate given employers and members will not easily be able to replicate the value of that whole offer outside of USS.

While some of these challenges could be dealt with via easements in the application of the framework or the way metrics are measured, we believe others are insurmountable or disproportionately costly for hybrid schemes to implement, as well as adding complexity for regulators. Recognising that hybrid schemes offer a very different set of benefits to pure DC schemes, typically including more generous features, we suggest that government actively considers if it is appropriate to bring hybrid schemes into scope, or it would be a more effective use of resources – for both our members and regulators – to exempt them. Schemes such as USS (and others) are regulated as Master Trusts but operating outside the general workplace DC market. We'd be happy to work with government and regulators to ensure any exemption avoids catching schemes intended to be in scope. If your intent is to include hybrid schemes, we urge the regulator to work carefully with us to ensure we avoid negative unintended consequences for our members and employers.

Policy priorities

Looking at the policy more broadly, it is crucial that the VfM framework supports the other policy priorities government has set out, including increasing investment in productive assets through the Mansion House Accord. As a trustee who has long believed in the diversifying and value-creating power of private market assets, we are concerned about the potential impact that a simultaneous focus on cost and short-term returns may have on achieving this. Greater private markets investments within DC schemes will allow for diversified returns streams, but do add cost, complexity and at least in some instances, volatility of returns. Defining a VfM framework that recognises this will ensure that the policy goal of stimulating more investment in private markets assets does not fall by the wayside as schemes congregate around low cost, homogenous investment propositions to avoid the risk of falling out of line with others in different market conditions.

Market Impacts

Government and regulators should be mindful of the large and unintended impacts that the VfM framework could have on competition. We understand the shift to a RAGG approach is intended to encourage providers to stretch VfM but we believe it introduces new risks to a well-functioning market. Consultants are a key player in the selection of schemes by employers and may default to recommending dark green rated schemes only, increasing the impact on the large number of largely well-run schemes who at times may be assessed to offer merely 'good value'. Given the significant degree of judgement required within the assessment framework, there will be pressure on trustees and IGCs to rate their schemes highly, and it is unlikely this will be fully mitigated by input from professional advisers. When combined with annual assessments that are heavily driven by short-term investment returns, providers could be deterred from taking the long-term view that is necessary to invest in private market assets.

The UK market is already on the path to consolidation, even before the proposed scale requirements within the Pension Schemes Bill. We believe that the move to allow providers to demonstrate they provide 'excellent value' will increase the risks of unintended consequences such as herding, market concentration and a lack of genuine choice for employers and members.

We would also draw regulators' attention to our experience of participating in global cost and service benchmarking for DB providers for over a decade. This VfM benchmarking is very helpful to our Trustee board, but it reveals that different schemes choose different levels of service (and cost) based on the expectations of their members and employers. It will be important that the framework allows for those genuine variations in service expectations and cost appetite, which cannot be captured with reference to averages across a given range of schemes sometimes serving different sectors and employers.

Soft launch

We accept that it is very difficult to understand the market impacts of the VfM framework in advance. The recent £4£ initiative conducted by the industry has uncovered many points of data consistency to address, even within some of the largest providers. Given the need to iron out these technical issues, and the risks outlined, we would like to see the VfM framework introduced on a soft launch basis in 2028 (based on 2027 data). In practice, this would mean providers collecting and providing data to the regulators, and doing assessments, but with no public disclosures for the first 1 or 2 cycles - as regulators build confidence that the framework is working as intended and the market risks are minimised. As part of this soft launch, the Government should establish a clear set of objectives and success measures, including market impacts. Once the framework is up and running, regulators should be required to report to ministers to ensure benefits are being realised.

Crucially, we do not believe that a 'soft launch' would slow the push towards a focus on value. Where schemes are performing poorly on the assessment, trustees will be able to focus on understanding why that is. Where they do not believe good value can be delivered in the future, they will need to plan accordingly, knowing that public disclosure and the other outcomes of the framework are coming into force, and reflecting their fiduciary duties to members.

We hope you find this response helpful. If you have any questions or would like any additional information, we would be happy to follow up with your team.

Kind regards,

Signed by:

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Mel Duffield
Chief Pensions Strategy Officer

Detailed answers to consultation questions

6	<p>Do you agree with the proposal to use arithmetic averaging instead of geometric averaging? Why or why not?</p>	<p>We have no opinion on the use of arithmetic averaging.</p> <p>The disclosure methodology does not reflect member experience: The proposed approach does not correspond to the lived return experience of members and introduces unnecessary complexity. This may lead to interpretative challenges and reduce clarity about how results relate to actual investment outcomes.</p> <p>We would welcome clarity on how weights are assumed to evolve over each one year period. Specifically, whether the methodology assumes:</p> <ul style="list-style-type: none"> - static weights throughout each individual annual period, i.e. the monthly returns are to be based on 5YTR throughout the year - a member transitioning along the glidepath during the year (e.g. 5YTR at 1 January to 4YTR at 31 December). <p>This distinction is important to ensure consistent interpretation and application.</p>
13	<p>Do you agree with the proposed FLM disclosures and the use of own assumptions ? Why or why not?</p>	<p>While we are supportive of FLM, we recognise the complexities that standardised assumptions would be hard to design and risk producing misleading results, given the diversity of asset mixes and fee structures. However, relying entirely on firms own assumptions could lead to projections that differ widely due to modelling choices rather than genuine investment differences. We therefore support the use of provider-specific assumptions, but with safeguards to ensure transparency and limit undue divergence.</p>
14	<p>Do you agree with the proposed requirement to obtain and consider external advice? Why or why not?</p>	<p>We agree with the proposed requirement to obtain and consider external advice and we find that independent challenge strengthens accountability, reduces the risk of overly optimistic assumptions, and makes it harder to “game” outcomes when both provider and advisor must attest to the methodology.</p> <p>We do not see cost as a barrier, any provider operating in this market should be able to absorb the expense of independent validation as a standard component of operating and delivering VFM.</p>

<p>15</p>	<p>Are the proposed guardrails sufficient to reduce the risk of gaming and ensure the FLMs disclosed are credible for use in the assessment process? If not, what alternatives/additions would you propose?</p>	<p>We support the idea of requiring a short summary from the external advisor highlighting any material differences between their assumptions and those used by the provider. It will also be important to monitor the market to avoid clustering around a small number of “favourable” advisors, which could undermine the intent of the requirement.</p>
<p>17</p>	<p>Do you agree with our proposals for disclosing employer subsidies? Why or why not?</p>	<p>We will not be able to identify employer subsidies with any degree of accuracy. We disclose in the Chair's statement that all 1) administration costs are met from the overall DB fund, with a purely notional 0.20% pa charge and 2) investment management costs are subsidised by employers up to 0.30% pa. We state that transfers in do not qualify for the investment costs subsidy. Due to the hybrid scheme structure, most services are provided to DC members once in relation to their combined DB and DC benefits and there would always be a simplified allocation methodology required to create a service cost (i.e. there is not and can not be a separately identifiable unbundled service cost for DC)</p>
<p>19</p>	<p>We would like to include ‘Payments out as retirement income’ as a key transaction. We are aware that some individuals approaching retirement may request payment at a future date, hence our request for data based on requests for immediate payment. We would be interested in views on whether our</p>	<p>As an example of how certain data elements will be challenging for a hybrid pension, USS does not provide members with retirement income from their DC funds. Instead they can be taken as part of their PCLS alongside their DB funds or they can be taken as UFPLS (pre- or post their DB retirement). So whilst we agree that timeliness of retirement income payments is a sensible measure for the general workplace DC market USS would not be able to report it unless it included UFPLS payments.</p>

	<p>proposed measure above would provide a reasonable measure.</p>	
20	<p>We would be interested in views on whether the payment of Pension Commencement Lump Sum should be a transaction included in this section.</p>	<p>Whilst we believe this is a suitable inclusion for the DC workplace market, we note that USS would not be able to report on it as we do not allow immediate payments of PCLS, only payment as part of a DB retirement event, which is often planned for several months into the future.</p>
21	<p>Do you have any comments about our proposal to collect complaints data at the level at which the same service is experienced? Do you agree with our proposed definition of a platform?</p>	<p>We have no comments on the proposed definition of a platform. However, USS's administration system is used for DB and DC administration and therefore we don't segment complaints data to DC only complaints, i.e. aimed at managing and accessing investments. This would require reconfiguration of how we oversee complaints data and it may be difficult to compare this data on a like for like basis with other schemes.</p>
22	<p>We would be interested in views on whether our proposed approach to negative perception metrics will provide relevant data to indicate saver concerns.</p>	<p>Whilst it is important that providers monitor complaints, there is no standard approach to complaints management across pension providers (such as exists in the Dutch pension system). We believe that these metrics are likely to be difficult to compare at least initially, and care should be taken in drawing conclusions. In addition, we would note that it may be challenging for hybrid schemes like USS to always establish whether a member's complaint related to their DC benefits in any way. For instance, some complaints could be about our communications, but the members concern is around changes to early or late retirement factors.</p>

<p>23</p>	<p>Does our revised approach to engagement metrics seem appropriate? Additionally, we would be grateful if you could provide us with an explanation of what surveys/data gathering exercises you currently undertake for member engagement. If you would be willing to share a copy of your member engagement survey(s) with us, please tell us.</p>	<p>We understand the challenge in developing comparable metrics in this space. USS is committed to understanding the member experience and being responsive to member feedback. In 2021 we implemented the CEM (an international pensions benchmarking organisation Voice of the Customer framework (https://peerintelligence.cembenchmarking.com/voice-of-the-customer-spring-2024-0), which involves a set of standards questions across key member journeys such as joining, using the member portal, and retiring from the scheme.</p>
<p>24</p>	<p>We welcome feedback on our revised proposals for engagement metrics and how that engagement generates specific outcomes.</p>	<p>Expression of wish is a very limited measure of engagement but we appreciate the challenges in this space and agree there should be further development of metrics once the framework is up and running.</p>
<p>27</p>	<p>Do you agree with the approach for weighting of BLMs and FLMs? Why or why not?</p>	<p>We have concerns with the proposed weighting approach. Allowing schemes to vary the balance between BLMs and FLMs creates clear potential for gaming particularly after periods of weak performance and risks large year-to-year swings driven by methodology rather than genuine value. The lack of a consistent peer-group weighting standard also undermines comparability. We agree with the Pensions UK position that strong guidance and clear guardrails are needed, which we discuss in later responses.</p>
<p>28</p>	<p>Do you have any feedback on the proposed approach in option 1?</p>	<p>A single, static weighted approach would be more stable and reduce incentives for frequent "strategic repositioning".</p>

	What improvements or changes would you suggest?	
31	Do you have any feedback on the proposed approach in option 2? What improvements or changes would you suggest?	While the composite metric provides a useful baseline, we suggest complementing it with straightforward scenario analysis such as downside or stressed projections to show how value holds up under weaker market conditions. This would help avoid over reliance on base case outcomes that may favour equity heavy strategies and instead support more diversified allocations that remain resilient even in poor return years.
32	Do you agree with the proposed guardrails? Do you believe other guardrails would be appropriate?	We agree with the intent of the guardrails, but they may not go far enough. Even with declining weight over time, there remains a clear risk that schemes could repeatedly “reset” or refresh their investment strategy, allowing them to continually produce new, higher FLMs and mask persistent underperformance. Stronger guardrails such as stricter criteria for when FLM weighting can be renewed or mandatory disclosure of how often strategies have changed would help prevent this type of gaming and ensure FLMs genuinely support member value rather than override weak BLMs.
33	What is your preferred proposed approach to step 1: option 1 or 2? Why?	We lean towards Option 2, mainly because the more structured weighting gives a clearer and more consistent basis for comparison than Option 1. That said, the current proposal still needs quite a bit of refinement before we’d be comfortable with it. As it stands, the framework leaves too much room for unintended behaviours and would benefit from tighter rules on how the weightings are applied in practice.
34	Do you agree with the proposed use of FLMs in step 1, alongside BLMs? Or should FLMs be considered in a different way in the assessment process?	We agree FLMs are useful but using them directly alongside BLMs risks overstating value for members because FLMs reflect only a single base-case outcome. This doesn’t capture the wider range of risks and drawdowns members could actually experience, especially in growth assets. FLMs would add more meaningful insight if used as a standalone disclosure or through scenario analysis, giving a clearer picture of potential outcomes for members without letting optimistic projections outweigh real historical performance and thus a better indicator of a RAGG+ rating and VfM.
35	Do you agree with the proposed approach to considering service value in step 2? Why or why not?	We agree with this but note that service is an important driver of value and its role in the assessment could be strengthened when reliable comparable metrics are developed.

36	Do you agree with the proposed approach to considering overall value in step 3 and rationalisation? Why or why not?	We agree. We would note that in the case of USS, as a hybrid scheme, we interpret this approach as requiring us to consider the overall benefits provided by the scheme, including the DB benefits. In practice, it might be hard for the USS trustee to conclude that the arrangement is not VfM given the DC element is a relatively small component of member benefits.
37	Do you agree with the proposed updated RAGG ratings? Why or why not?	As set out in our cover letter, we believe that the dark green rating could introduce more pressure for providers and trustees/IGCs to rate their default as offering excellent value. The focus of the framework should be on encouraging poor value schemes to exit, as per the previous consultations, rather than attempting to introduce a framework that identified the best value 'winners'.
38	Overall, do you agree with the assessment process we have outlined above? Why or why not? What changes would you propose?	<p>The main changes we would propose are included in our answers to previous questions and include:</p> <ul style="list-style-type: none"> -considering scenario analysis in place of forward looking metrics. Or otherwise limiting the extent to which providers can put emphasis on FLMs in their assessments -considering if the perceived benefits of introducing the dark green assessment outweighs the risks in terms of market impacts. <p>In addition, in line with our cover letter, we think that whatever the final details of the framework, it would be sensible to implement it via a soft launch, for providers and regulators to understand what the data is showing and what issues need to be ironed out, prior to the hard requirements being in force.</p>
39	Do you agree with the proposed transfer requirements for red rated arrangements? Why or why not?	We do not disagree with the principle here, but would note that as a hybrid scheme, we would need to consider the implications for members, including having their DC benefits dislocated from their DB benefits in accumulation and decumulation and the significant member detriment that would potentially incur, given integrated design is a key aspect of the hybrid arrangement
40	Do you agree with the actions proposed for not value arrangements? Why or why not?	We are concerned that being required to close to new business in the case of an amber (or red) rating could have implications for a hybrid majority DB provider. When a new business or entity is set up in the HE sector, they may wish to apply to join USS. Other business or entities may similarly wish to join or expand their participation in USS. It would be inappropriate if this option was blocked for a period because of an amber rating of the DC default, as the employer cannot choose to participate in DB only - it is one scheme.

<p>43</p>	<p>When in the VFM cycle should VFM data be made publicly available and why? For example, should data be made publicly available in March or in October alongside assessments ?</p>	<p>Noting our suggestion that there is a soft launch without public disclosures initially, it would be counterproductive to make data available prior to the trustee's assessment, where the data can be contextualised and the vfm assessment be justified. Otherwise there will be 3rd party assessments that run ahead of the regulatory Vfm assessment by the trustee.</p>
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