FCA
Cost Benefit Analysis Panel

Consultation Paper title	**Exempting performance fees from the workplace pensions charge cap**
Summary of intervention	Proposes to exempt specified performance fees from the charge cap for FCA-regulated workplace default pension schemes operated by FCA-regulated firms.
Feedback date of issue	11/09/2026
CBA Panel reference number	CBAP-0025

CBA Panel advice

The Panel recognises the amount of technical work conducted in the estimation of assumed benefits arising from changes to specific performance fee exemptions.

Main recommendations

- **Strengthen the rationale for intervention and explain why an exemption is now justified.** The CBA does not articulate sufficiently why the original 0.75% charge cap rationale no longer holds or provide compelling evidence to justify the proposed deregulation. The analysis would benefit from summarising the original rationale for the cap as analysed in the CBA accompanying CP14/24 and PS15/05; setting out the evidence on how it has operated in practice; and explaining whether market developments, growth considerations, or regulatory misalignment have altered the cost-benefit balance. Alignment with trust-based schemes is frequently referenced but not clearly evidenced as a source of harm. An analysis more closely integrated with the arguments of the CP itself – which identifies potential conflicts and risks more robustly – would improve confidence that the intervention addresses a genuine market problem.

- **Strengthen evidence for the central benefits assumptions and analyse downside risks more fully.** The return modelling is extensive and represents a significant analytical strength. However, many estimated benefits rely on the assumption that the charge cap is the primary obstacle to greater investment in private markets. Evidence supporting this appears limited. Other barriers, including governance requirements, liquidity constraints, valuation challenges and operational complexity, receive comparatively little attention. The analysis also has relatively little discussion of downside risks. The analysis assumes that firms will use the exemption only where it benefits consumers, yet supporting evidence is limited. Greater consideration should be given to how performance fees affect incentives, whether consumers in default arrangements have the implied risk tolerance, and how higher expected returns compare with increased volatility.

- **Present a more systematic post-implementation evaluation plan.** Just as the proposals to relax the existing cap would benefit from a more systematic comparison of realised outcomes against original ex ante estimates of costs and benefits, so a more systematic plan for the monitoring and evaluation framework for its future impact would be beneficial. Such a plan could for example include systematic monitoring of investment behaviour and fees, clear success metrics, and a defined post-implementation review period.

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Summary

Category	CBA Panel comments
The market	The market description is generally clear but would benefit from more evidence on current charging practices, existing private market exposure, and the extent to which the charge cap constrains investment decisions in practice. Greater discussion of differences between contract-based and trust-based schemes would help establish the economic context for intervention.
Problem and rationale for intervention	The rationale requires further development. The CBA does not clearly explain why the original charge cap rationale no longer applies, what has changed, or whether regulatory misalignment now creates material costs. The relationship between the original intervention, as analysed in the CBA accompanying CP14/24 and PS15/05, and the proposed deregulation should be more explicitly evidenced.
Proposed intervention and alternative options	The proposal is clearly described, but the options assessment feels narrow. The paper gives limited consideration to intermediate approaches, such as raising the cap threshold, exemptions targeted by type of underlying investment, or alternative safeguards. Further justification of why the chosen option is preferable would strengthen the appraisal.
Assessment of costs and benefits	**Baseline and counterfactual**. The baseline assumes the charge cap is constraining private market investment, but evidence is limited. Greater evidence on current behaviour and experience under the trust-based exemption would strengthen the counterfactual analysis.
	Evidence and data. The modelling is detailed and sophisticated. However, evidence linking the charge cap to investment decisions is less developed, and there is limited evidence on whether the cap is currently binding across a significant proportion of firms.
	Assumptions. Key benefits depend on assumptions that increased fee flexibility will materially change investment behaviour. The treatment of fees as transfers could be challenged and may also understate real resource costs associated with private market investment structures, for example the benefits of the change are in the form of changed portfolios, compared to the original cap transfer rationale of no major change to portfolios.
	Economic analysis. • The returns modelling is a strength. However, greater consideration of risk-adjusted returns, downside outcomes, and scenarios where intervention underperforms the baseline would provide a more balanced welfare assessment. • The treatment of higher fees as transfers merits a fuller explanation. On the one hand, higher fees may reflect genuine resource cost increases associated with more complex investments. On the other, the benefits of the proposed cap relaxation are estimated to flow from firms that already invest in private market assets and hence already have the required infrastructure in place. A fuller exploration

	of the incremental costs of more private markets investment, perhaps in the course of consultation, would help resolve this question of how higher fees will affect social welfare.
Risk and uncertainty	The discussion of risk is less developed than the assessment of benefits. Greater attention should be given to consumer risk tolerance, incentive effects created by performance fees, and uncertainty around whether increased private market investment will deliver projected returns. The CBA should also discuss industry claims that private market assets can provide diversification benefits despite higher standalone risk, and the extent to which such benefits are likely to be realised in practice. Discussion around risks of incentivising the marketing of higher risk products should be considered further.
Wider economic impacts	The wider growth narrative is plausible but underdeveloped. The paper provides limited discussion of the UK's broader productivity and investment challenges and how the intervention could address them. While the claimed growth benefits depend on several uncertain behavioural responses, the paper should more clearly articulate the economic rationale linking the intervention to productive investment and productivity improvements. Given the uncertainty around these channels, the resulting benefits should also be presented with appropriate caution.
Monitoring and evaluation	The CBA would benefit from clear metrics covering investment allocations, fee levels, use of performance fees and consumer outcomes, plus a clear, explicit, and time-bound plan for post-implementation monitoring and evaluation.