PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

THE OCCUPATIONAL AND PERSONAL PENSION SCHEMES (GENERAL LEVY) REGULATIONS REVIEW 2020: PUBLIC CONSULTATION

25 JANUARY 2020

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ABOUT THE PLSA

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

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INTRODUCTION

The PLSA is a strong supporter of good regulation that results in well run schemes. We support the Pensions Regulator, the Pensions Ombudsman, the Money and Pensions Service and all the good work that they have been doing. There is a clear need to address the funding deficit but we do not think that there should be any increase in levy contributions before there is a full structural review.

In April 2020 increases to the General Levy were withdrawn by the government because of the uncertainty businesses and employers were facing at the time. The pandemic still presents challenges to employers and businesses with a third national lockdown and the Job Retention Scheme extended until at least April 2021.

The government also stated that it would focus its attention on reviewing the structure of the levy and consulting with industry.

This full structural review has yet to take place. It is the view of our members that the principles for the review should be:

- To place bounds on cross subsidy. Cross subsidy is an inevitable feature of levies and is in some cases desirable. But it should be limited in the following ways:
    - The costs of "greater good" regulation should not fall disproportionately on any one group of levy payers.
    - Schemes should generally fund the regulation of the benefits they offer.
- Distribution of costs should be consistent with government policy for the pensions market. It should not focus on any one market sector. It should not create perverse commercial incentives.

Our members are of the strong view that there needs to be greater transparency on how costs are apportioned and the levy funded bodies should set out a plan of how they intend to help keep costs under control and limit or plan for increases in the future.

We are also extremely disappointed with the short notice that pension schemes have been given to accommodate the proposals. Increases at short notice of the proposed increases of 120% over 3 years for Defined Benefits Schemes, which are likely to simultaneously be facing increased pressures on funding, or the Pension Protection Levy, are unreasonable.

The proposals will also still leave automatic enrolment providers paying on a per member basis, when they currently have mass membership and low assets under management. The proposals also have no regard for the challenge of inactive small pots which we hoped to see excluded from per member calculations as an initial reform.

We strongly urge DWP to rethink these proposals and have a full structural review prior to any levy increases.

CONSULTATION RESPONSE

Question 1

Which option do you prefer?

Our preference would be for no increases to take place this year due to economic uncertainty and the absence of a structural review to establish a settled and long-term approach to the levy.

The principles for the structural review should be:

- Place bounds on cross subsidy. Cross subsidy is an inevitable feature of levies and is in some cases desirable. But it should be limited.
  - The costs of "greater good" regulation should not fall disproportionately on any one group of levy payers.
  - Schemes should generally fund the regulation of the benefits they offer.
- Distribution of costs should be consistent with government policy for the pensions market. It should not focus on any one market sector. It should not create perverse commercial incentives.

After the PPF v Dalriada High Court judgement, we would expect the Fraud Compensation Fund levy to also be part of any structural review, as this will also result in significant extra levy costs for our members. The combined cost of multiple levy increases cannot be underestimated.

There also needs to be greater transparency in respect of:

- what part of the levy costs relate to which bodies, areas of activities, projects;
- how the levy costs relate to other funding - such as for the dashboard, and the Master Trust Authorisation fee;
- which costs are incurred in respect of specific scheme types; and
- which costs are borne for the greater good.

We believe that option one is preferable to options two and three as it applies different rates of contribution increases to the four different scheme types, and in doing so not only acknowledges the challenges around Master Trusts and cross subsidy but also those of Single Employer DC Pension Schemes.

Option one still results in a 120% increase for DB Schemes over 3 years and a 51% increase for DC Schemes over the same time period. The short window for consultation and the short notice period for the first increase in April make these large increases difficult to accept.

Automatic Enrolment providers faced larger General Levy bills this year even without an increase in the rate because of the growth in membership. Option one does not address the question of the per member calculation for mass membership schemes with low assets under management. Nor does option one provide a carve out for inactive small pots.

Question 2

In respect of your answer to Question 1, why do you support your preferred option?

Our preference is for a structural review of the General Levy before any increase in rates is implemented.

This consultation states that options one and two address imbalances and issues of cross subsidy and we would concur that option one goes part way to doing that by limiting the increases to Master Trusts and DC Single Employer Schemes compared to DB Schemes.

We have a number of significant concerns about the costs accrued and budgetary governance that has led to. Pension schemes are expected to meet high standards of financial governance with DC schemes operating the creation of the deficit within charging caps and DB schemes operating to the DB funding code. Master Trusts have been through a rigorous authorisation regime with capital reserves and continuity strategies.

For the schemes that fund the levy there is a significant gap in transparency about how this deficit has accrued and how costs are apportioned to service different parts of the pensions sector. There does not appear to be appropriate checks and balances on expenditure, with a large deficit built up and projected, and further costs likely with fresh legislative obligations.

We are keen to see a cost benefits analysis for any increase in levy and commitments for better financial management with controls that check and report spending. It would also appear to be the case that there has been a growth of responsibilities and regulatory duties, without clear evidence that the costs on schemes have been properly accounted for or the overall costs of the regulator and other bodies are being managed within the budgeted envelope.

In the past, we have sought reassurances that regulatory and operational changes would be manageable within current resources – it now appears this may not have been the case. For example we were assured DB one-to-one supervision would not require additional resources. Moreover, we had understood that The Pensions Ombudsman taking on the Early Dispute Resolution from the Pensions Advisory Service was cost neutral in respect of the General Levy. Master Trust Authorisation has worked well but it would seem that the Master Trusts are paying more as a group than the cost of the authorisation process and ongoing supervision.

It is also worth noting that AE enabled Master Trusts are paying a disproportionate amount of the general levy as it currently stands and even with the increases at lower rates proposed this continues to mean redistributing fees from people with low levels of pensions savings.

Question 3

What is the impact on your scheme or business of raising the levy under Option 2?

It is the view of our members that option 2 would be worse for our DC Single Employer schemes than option one. Option 2 sees DC schemes paying 120% increases on their contributions over 3 years when they are also accruing small pots and there is an element of them cross-subsidising other pension scheme types.

For DB schemes Option 2 is equally bad as Option 1 with the same 120% increase over the three years.

The size, scale and timing of these increases is unreasonable.

Option 2 still leaves Master Trusts paying on a per member basis and AE providers facing increases as stipulated in the option and from the growth of membership and inactive small pots.

Question 4

What is the impact on your scheme or business of raising the levy under Option 3?

It is the view of our members that this option would be a retrograde step as it makes no changes to the structure of the General Levy and applies a flat increase to all.

It is not an option our members can be supportive or as does not attempt to address issues of cross-subsidies between different scheme types.

There is also no clear indication of the level of increases that would be levied as a result of Option 3 over the three years for all schemes so the ensuing uncertainty would augment problems with notice period that currently exist with this consultation.

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