Department for Work & Pensions

The Occupational and Personal Pension Schemes (General Levy) Regulations Review 2020

Government response

March 2021

Introduction

1. This consultation ran from 16 December 2020 to 27 January 2021. The consultation document can be viewed at:

   https://www.gov.uk/government/consultations/the-occupational-and-personal-pension-schemes-general-levy-regulations-review-2020

   The consultation sought views on proposals for changes to the structure and rates of the General Levy on occupational and personal pension schemes ("the levy") from April 2021, 2022 and 2023.

2. Annex A lists the 23 respondents to the consultation, and the Government is grateful to them for providing their comments and advice on the proposals.

3. This document notes why it is considered necessary to restructure and increase the levy rates and explains the purpose of the proposals that the Government brought forward. It provides a summary of the responses received to the consultation and the Government's responses to the comments made and advises that, following consideration of these comments, the Government decided to proceed with the preferred option as set out in the consultation document.

4. Accordingly, regulations (The Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2021 (S.I. 2021 No. 214), a copy of which is at Annex B, have been made and laid in both Houses of Parliament. A commentary on the regulations is at paragraphs 11-14 below.

Background

5. The levy, imposed on occupational and personal pension schemes, recovers the funding provided by the Department for Work and Pensions (DWP) in respect of the core activities[1] of the Pensions Regulator ("TPR"), the activities of the Pensions Ombudsman ("TPO") and the pensions-related activities of the Money and Pensions Service ("MaPS").

6. The levy rates are set in regulations (The Occupational and Personal Pension Schemes (General Levy) Regulations 2005 (S.I. 2005 No. 626). The levy is collected annually by TPR on behalf of the Secretary of State.

7. Having reviewed the funds that are likely to be raised by this levy under the current levy rates, and considered the current and planned administration costs of the three public bodies noted in paragraph 5 above, we estimate that a significant levy deficit will exist by the end of 2020/21.

[1] Funding of the Automatic Enrolment compliance regime, operated by TPR, is not recoverable by the levy.

8. As advised in the consultation document, we therefore considered options for future levy rates in order to begin the process of eliminating the deficit.

9. The consultation document advised that the Government's recommended option was Option 1. This option would provide for an increase in the levy rates and for the simultaneous introduction of 4 separate sets of rates: for Defined Benefit ("DB") schemes, Defined Contribution ("DC") schemes other than Master Trusts, Master Trusts and Personal Pension schemes. Currently there are two sets of rates, covering occupational and personal pension schemes respectively.

10. Option 1 was preferred as it would better reflect the differing levels of attention devoted by the supervisory regime as against scheme type. At the same time, the collective approach that underpins the current levy system, together with the inherent simplicity and operability of a levy system based on the number of members in each scheme, would be preserved.

The amendment regulations

Regulation 1 – Citation and commencement

11. This is a general regulation which gives the title of the regulations and specifies the date on which the regulations are proposed to come into force.
12. It is proposed that the regulations will come into force on 1 April 2021.

Regulation 2 – Amendment of the 2005 Regulations with effect from 1 April 2021

13. This regulation amends regulations 6 and 7 of the Occupational and Personal Pension Schemes (General Levy) Regulations 2005 ("the 2005 Regulations") to provide for the amounts payable by eligible occupational and personal pension schemes to appear in a Schedule to the regulations. The Schedule specifies the levy rates applicable for the financial years 2021/22, 2022/23 and 2023/24. Part 1 of the Schedule provides for the rates applicable to 3 types of occupational pension schemes. Part 2 of the Schedule provides for the rates applicable to Personal Pension schemes.

Regulation 3 – Revocation

14. This regulation revokes the Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2017. Those regulations are amendments to the 2005 Regulations (as amended).

Summary of the consultation responses received

15. The consultation noted that the Government sought comments on the options for change set out in the consultation document and asked 6 questions:

- **Question 1** – which option do you prefer?
- **Question 2** – in respect of your answer to Question 1, why do you support your preferred option?
- **Question 3** – what is the impact on your scheme/business of raising the levy under Option 2?
- **Question 4** – what is the impact on your scheme/business of raising the levy under Option 3?
- **Question 5** – how will your scheme respond to a levy increase? (For example, would it be absorbed by scheme, passed on to members, or employers?)
- **Question 6** – if you were to consider passing on costs to employers to absorb the levy increase, what is the size composition of employers using your scheme? (For example, are they mainly small, with less than 50 employees or larger employers?)

16. **23 responses** to the consultation were received. Of these:

- **18** supported the preferred approach as set out in the consultation document (Option 1: 4 sets of levy rates covering DB schemes, DC schemes other than Master Trusts, Master Trusts and Personal Pension schemes);
- **1** respondent supported Option 2 (3 sets of levy rates covering occupational schemes other than Master Trusts, Master Trusts and Personal Pension schemes);
- **1** supported Option 3 (retain existing levy structure with 2 sets of levy rates, covering occupational schemes and personal pension schemes);
- **1** argued for a reduction of 50% in the existing levy rates;
- **1** made observations about the levy but did not express a preference for Option 1, 2 or 3;
- **1** sought further information about the use of resources by the pensions bodies before commenting on the options consulted upon.

A more detailed summary of the responses is in paragraphs 17-42 below.

17. The 18 respondents who preferred Option 1 argued that it would be fairer than the present structure and would produce a result more representative of the manner in which supervisory costs are incurred against different scheme types.

18. 7 respondents from this grouping argued that the pension bodies should be made subject to more intensive cost control and that there should be greater transparency about how costs have increased in recent years. 3 respondents argued that schemes should be given a direct role in issues concerning the expenditure of the pension bodies.

19. As the Government has made clear, it has taken steps to bolster the pension protection regime to ensure that confidence in pensions saving can be maintained and improved. Inevitably this has led to increases in expenditure. The pensions bodies publish Corporate Plans each year that give a detailed view of the strategies and targets they will pursue, linked to the budgets that have been allocated. Annual Reports & Accounts are published by each body that give a comprehensive picture of activity and outturn expenditure and which are laid in Parliament.

20. DWP is committed to the delivery of high standards of governance in its interactions with the pensions bodies. It monitors financial and operational performance closely and provides an effective challenge function through a rigorous accountability regime. It supports the bodies as they strive to deliver their services as efficiently and effectively as possible. Independent tailored reviews are conducted to ensure that each body is providing good governance and is operating efficiently. Each independent tailored review is published so that full transparency is achieved.

21. It is essential that the pensions bodies receive funding sufficient to allow services to be maintained. However, the Government recognises that schemes are entitled to expect a level of cost control that takes account of developments in the external environment. It accepts that the environment in which schemes are operating is particularly challenging currently. Accordingly, the Government has decided to freeze the 2021/22 operating budgets of TPR and TPO at 2020/21 levels. It has also been decided to reduce by 25% the core element of MaPS funding for 2021/22 that will be chargeable to the levy. The Government believes these decisions underscore its commitment to maintain effective cost control alongside delivery of a level of funding that allows the pensions bodies to operate effectively.

22. 7 respondents from the grouping at paragraph 17 above suggested that the structural review of the levy that had been planned for 2020 should still take place. The position is that the Government did conduct a structural review during 2020, which led to the proposals consulted upon and which are the subject of this Government response. It was however unable to deliver the level of engagement with the industry that had been intended in the course of the review, owing to unavoidable time pressures flowing from the COVID-19

pandemic. If this restructuring is implemented, the Government intends to monitor its impact and will give consideration as to whether any further structural changes are required in the light of experience.

23. 7 respondents from the grouping at paragraph 17 argued that the levy calculation should exempt members with small pension pots. Some respondents from within this grouping argued that the case for doing so is strengthened by the Government's intention to legislate to provide a minimum level, initially set at £100, before a flat fee element of a charging structure can be applied to such pots.

24. It is important to note that all members of pension schemes can receive the benefit of supervisory activity by the pension bodies and small pots may of course increase over time. It is also the case that exempting small pots from the levy calculation might act as a disincentive for schemes to consolidate pension pots where this would otherwise be possible. Following the publication of the report by the Small Pots Working Group[2] the Government is keen to see progress made by the pensions industry and providers in this area, working with regulators and the Government. For these reasons we are not attracted to an exemption for small pots at this time, but will monitor their impact on the levy calculation going forward.

25. 6 respondents from the grouping at paragraph 17 sought assurance that consideration would be given to the creation of additional levy categories to reflect the possible development of future scheme types, for example Superfunds. The Government plans to give such consideration.

26. 5 respondents from the grouping at paragraph 17 sought detailed information about how the proposed increases by scheme type had been formulated. The proposed increases are based on indicative data from the pensions bodies as to how their allocations are deployed. TPR's allocation forms the bulk of the funding recovered by the levy. It is a risk-based regulator, operating in a flexible way and adjusting its use of resources dynamically in response to developments in the external environment. Consequently, it would not be sufficiently meaningful to supply granular data reflecting the allocation of its resources at a particular point in time. TPR is considering how it can in future provide more information about its allocation of resources in a way that it is meaningful.

27. 1 respondent from the grouping at paragraph 17 suggested that work conducted by the bodies that is in the public interest, such as that designed to counter pension scams, should be funded by general taxation rather than by the levy. Much of the activity that is undertaken by the bodies can be said to be in the public interest as well as in the interests of scheme members. Work to counter pension scams falls into this category. It would be difficult and often artificial to seek to draw a distinction in such circumstances. A general principle, which successive Governments have adhered to, is to place the

[2] Small Pots Working Group report December 2020: https://www.gov.uk/government/publications/small-pension-pots-working-group

burden of funding supervision on the community being supervised. This policy continues to be appropriate in the case of the levy.

28. A number of suggestions were made by respondents in the grouping at paragraph 17 above about how implementation of increases in the levy under Option 1 could be modified. These were as follows:

   i. implement an increase in 2021 only or apply only a modest temporary increase (2 respondents);
   ii. delay the start of increases until 2022 (1 respondent);
   iii. clarify the levy strategy for 2024 onwards (1 respondent);
   iv. phase in increases over a longer time period; phase over 10 years or longer (2 respondents);
   v. apply inflationary increases in future to avoid future deficits or surpluses arising; provide an assurance that deficits or surpluses will not arise (2 respondents).

29. On i. above, applying an increase for one year only would lead to uncertainty about levy charges in subsequent years.

30. On ii. above, eliminating the increase for 2021/22 would mean higher increases for 2022/23 and/or 2023/24. This would be undesirable.

31. On iii. above, the strategy, as set out in the consultation document, is to bring the levy into balance by the middle of the decade and recover the deficit in full by its end.

32. On iv. above, the Government believes that to aim to recover the deficit within 10 years is a reasonable objective. Modifying the phasing so that the deficit is recovered over a longer time period would not therefore be appropriate.

33. On v. above, primary legislation provides for levy deficits and surpluses to be smoothed over a period of years as appropriate. This avoids the need for frequent changes in the rates during periods in which holding the rates steady is desirable. Consequently, it is not possible to engineer a situation where levy surpluses or deficits cannot arise, and this would be the case whether or not increases in the budgets of the bodies to reflect inflation were implemented.

34. 2 respondents from the grouping at paragraph 17 raised technical issues around the levy calculation for schemes with atypical features. 1 respondent flagged the impact of the levy on sectionalised schemes. The Government will give consideration to these suggestions after discussing them with TPR.

35. 2 respondents queried the extent to which projections on consolidation had influenced the calculation of the increases proposed under Option 1. The key assumptions used to forecast memberships and the number of schemes are outlined in Annex C below. Trends across the pension landscape, such as the consolidation of schemes, have been considered in these forecasts and the Government will keep these forecast assumptions under frequent review.

36. 1 respondent sought an assurance that the costs of pensions dashboards would be apportioned across all schemes paying the levy. This is the Government's intention.

37. 1 respondent preferred Option 2 (3 sets of levy rates covering occupational schemes other than Master Trusts, Master Trusts and Personal Pension schemes) because it would result in a slightly lower levy increase for the scheme in question in 2022/23. This respondent sought clarity on how TPR manages its costs and argued that these should be linked to a common measure of inflation. Such an arrangement would lack flexibility and the Government is not therefore attracted to it. This respondent also suggested alternative funding mechanisms for the Pensions Ombudsman, such as charging the users of its services. The Government will give consideration to these suggestions after discussing them with the Pensions Ombudsman.

38. 1 respondent preferred Option 3 (retain existing levy structure with 2 sets of levy rates, covering occupational schemes and Personal Pension schemes) because this would result in the lowest charge for the scheme in question and its members and also considered Option 3 the fairest option. This respondent also took the view that the easement for Master Trusts under Option 1 because of the preponderance of small pots is unwarranted as DB schemes are also confronted by the small pots issue, albeit the actual and projected increase in the number of deferred members with small pots is in the Master Trust scheme sector serving the automatic enrolment market. The proposed rates for Master Trusts have not been formulated to reflect the existence of small pots; rather, those proposed rates reflect the payment of a fee by Master Trusts in order to obtain authorisation by TPR.

39. 1 respondent argued that the case for additional funding of TPR had not been made and suggested that the levy should be reduced, perhaps by half, by reducing the scope of TPR's operations but improving the quality of its work. This respondent attached a draft document, *Intelligent Regulation*, issued by the Pensions Institute, which makes technical suggestions for improvement of the regulatory regime. DWP will share the draft document with TPR. TPR seeks to improve the quality of its work continuously, but the Government believes that a reduction in its funding by half would inevitably lead to poorer outcomes for pension savers.

40. 1 respondent did not express a preference for Option 1, 2 or 3 but argued, in common with a proportion of those who preferred Option 1, for a structural review of the levy and for more information on costs (see paragraphs 22 and 26 above).

41. 1 respondent sought more information on costs before responding substantively to the consultation. It would not be meaningful to provide this information currently (see paragraph 26 above).

42. 6 respondents made observations about the Fraud Compensation Fund Levy following a recent judgment that could affect the scope of the Fund. DWP is

currently considering the implications of the judgment and an appropriate policy response. An announcement will be made in due course.

Impact

43. Questions 3-6 in the consultation document (see paragraph 15 above) addressed the impact of increases in the levy on providers and employers.

44. There were 18 responses to one or more of questions 3-6. A summary of these responses is as follows:

- 8 respondents indicated that increased levy costs would be absorbed by providers. 2 of this grouping said that this would need to be kept under review in the light of future increases in the levy. 2 said that increases might limit the scope to deliver improvements to their schemes;

- 6 respondents said most, or all, of the increased levy costs would be passed to employers. 1 said this might limit the scope to deliver improvements to the scheme;

- 4 said the increased costs would be passed to members. 1 said an alternative would be to slow the development of the business;

- 1 respondent took the view that the increases envisaged are unreasonable, particularly given the short notice given. The increases proposed for Year 1 have been limited in order to reduce the impact. The notice given is in line with DWP's normal practice for this levy. We will however always seek to maximise the notice period if changes in the rates are proposed. Finally, respondents will be aware that it was the Government's intention to increase the levy with effect from 1 April 2020. Amendment regulations that would have given effect to that increase were revoked in the light of the COVID-19 pandemic.

45. A more detailed summary of impacts is at Annex C.

Government response

46. Having considered the responses received, the Government decided to proceed with its proposed approach (Option 1 in the consultation document) without amendment.

Conclusion

47. The Government would like to thank all the respondents who have offered their views and advice in response to this consultation exercise. The regulations (The Occupational and Personal Pension Schemes (General Levy)

(Amendment) Regulations 2021 (S.I. 2021 No. 214)) which amend the 2005 Regulations to reflect the Government response at paragraph 46 above have been made and laid before both Houses of Parliament.

These regulations are available on the UK Legislation website:

http://www.legislation.gov.uk/id/uksi/2021/214

This document is available on the GOV.UK website:

https://www.gov.uk/government/consultations/the-occupational-and-personal-pension-schemes-general-levy-regulations-review-2020

Annex A: list of those who responded to this consultation

Aegon

A J Bell

Aon

Association of Consulting Actuaries

Aviva

B&CE

Cambridge Colleges Federated Pension Scheme

Clara-Pensions

Creative

ILAG (Investment & Life Assurance Group Ltd)

Institute and Faculty of Actuaries

Mercer

Nest

Now: Pensions

PLSA (Pensions & Lifetime Savings Association)

Railways Pension Trustee Co Ltd

J Sainsbury plc

SAUL (Superannuation Arrangements of the University of London)

Smart Pension

The Society of Pensions Professionals

K Tolladay

Willis Towers Watson

XPS Pensions

Annex B: Amendment regulations

STATUTORY INSTRUMENTS

2021 No. 214

PENSIONS

The Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2021

Made - - - -	*1st March 2021*
Laid before Parliament	*4th March 2021*
Coming into force - -	*1st April 2021*

The Secretary of State for Work and Pensions makes the following Regulations in exercise of the powers conferred by sections 175(1) to (3) and 182(2) of the Pension Schemes Act 1993([a]).

The Secretary of State has consulted such persons as the Secretary of State considers appropriate in accordance with section 185(1) of that Act([b]).

Citation, commencement, extent and application

1.—(1) These Regulations may be cited as the Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2021 and come into force on 1st April 2021.

(2) These Regulations extend to England and Wales and Scotland.

(3) These Regulations apply to England, Wales and Scotland.

Amendment of the Occupational and Personal Pension Schemes (General Levy) Regulations 2005

2.—(1) The Occupational and Personal Pension Schemes (General Levy) Regulations 2005([c]) are amended as follows.

(2) In regulation 6 (amount of the general levy: occupational pension schemes)—

(a) in paragraph (1), for "in column (1) of the table in paragraph (2)" substitute "for that financial year for that scheme in column (1) of the appropriate table in Part 1 of the Schedule";

(b) omit paragraph (2).

(3) In regulation 7 (amount of the general levy: personal pension schemes)—

([a]) 1993 c. 48. Section 175 was substituted by section 165 of the Pensions Act 1995 (c. 26). Subsection (1) was amended by section 12(1) of the Financial Guidance and Claims Act 2018 (c.10) ("the 2018 Act") and by S.I. 2010/22 and 2019/383. Subsections (1) and (3) were amended by paragraph 26 of Schedule 1, and Schedule 13, to the Pensions Act 2004 (c. 35). See section 181(1) for the definitions of "prescribed" and "regulations".

([b]) Section 185(1) was amended by paragraph 46 of Schedule 3, paragraph 80(a) of Schedule 5 and Part 1 of Schedule 7 to the Pensions Act 1995.

([c]) S.I. 2005/626. Relevant amending instrument is S.I. 2017/203.

(a) in paragraph (1), for "in column (1) of the table in paragraph (2)" substitute "for that financial year in column (1) of the appropriate table in Part 2 of the Schedule";

(b) omit paragraph (2).

(4) At the end insert—

"SCHEDULE

Regulations 6(1) and 7(1)

AMOUNT OF THE GENERAL LEVY

PART 1

OCCUPATIONAL PENSION SCHEMES

1.—(1) In this Part—

"defined benefits scheme", "hybrid scheme" and "money purchase scheme" have the meanings given in section 99 of the Pensions Act 2008([a]);

"Master Trust scheme" has the meaning given in section 1 of the Pension Schemes Act 2017([b]).

(2) Where an occupational pension scheme—

(a) is both a Master Trust scheme and a money purchase scheme; or

(b) is both a Master Trust scheme and a hybrid scheme,

the scheme shall be treated for the purposes of this Part as a Master Trust scheme.

2. This table relates to defined benefits schemes and hybrid schemes for the financial year beginning with 1st April 2021—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£32
12 to 99	£3.17 multiplied by M	Not applicable
100 to 999	£2.29 multiplied by M	£310
1,000 to 4,999	£1.78 multiplied by M	£2,290
5,000 to 9,999	£1.35 multiplied by M	£8,900
10,000 to 499,999	£0.95 multiplied by M	£13,500
500,000 or more	£0.72 multiplied by M	£475,000.

3. This table relates to defined benefits schemes and hybrid schemes for the financial year beginning with 1st April 2022—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£54
12 to 99	£5.33 multiplied by M	Not applicable
100 to 999	£3.85 multiplied by M	£530
1,000 to 4,999	£3.00 multiplied by M	£3,850
5,000 to 9,999	£2.28 multiplied by M	£15,000
10,000 to 499,999	£1.59 multiplied by M	£22,800.
500,000 or more	£1.20 multiplied by M	£795,000.

([a]) 2008 c. 30. Section 99 is amended but none of the amendments are relevant.
([b]) 2017 c .17.

4. This table relates to defined benefits schemes and hybrid schemes for the financial year beginning with 1st April 2023—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£64
12 to 99	£6.34 multiplied by M	Not applicable
100 to 999	£4.58 multiplied by M	£630
1,000 to 4,999	£3.56 multiplied by M	£4,580
5,000 to 9,999	£2.71 multiplied by M	£17,800
10,000 to 499,999	£1.89 multiplied by M	£27,100
500,000 or more	£1.43 multiplied by M	£945,000.

5. This table relates to money purchase schemes for the financial year beginning with 1st April 2021—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£32
12 to 99	£3.17 multiplied by M	Not applicable
100 to 999	£2.29 multiplied by M	£310
1,000 to 4,999	£1.78 multiplied by M	£2,290
5,000 to 9,999	£1.35 multiplied by M	£8,900
10,000 to 499,999	£0.95 multiplied by M	£13,500
500,000 or more	£0.72 multiplied by M	£475,000.

6. This table relates to money purchase schemes for the financial year beginning with 1st April 2022—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£38
12 to 99	£3.74 multiplied by M	Not applicable
100 to 999	£2.70 multiplied by M	£370
1,000 to 4,999	£2.11 multiplied by M	£2,700
5,000 to 9,999	£1.60 multiplied by M	£10,550
10,000 to 499,999	£1.12 multiplied by M	£16,000
500,000 or more	£0.85 multiplied by M	£560,000.

7. This table relates to money purchase schemes for the financial year beginning with 1st April 2023—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£44
12 to 99	£4.32 multiplied by M	Not applicable
100 to 999	£3.12 multiplied by M	£430
1,000 to 4,999	£2.43 multiplied by M	£3,120
5,000 to 9,999	£1.85 multiplied by M	£12,150
10,000 to 499,999	£1.29 multiplied by M	£18,500
500,000 or more	£0.98 multiplied by M	£645,000.

8. This table relates to Master Trust schemes for the financial year beginning with 1st April 2021—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£31
12 to 99	£3.02 multiplied by M	Not applicable
100 to 999	£2.18 multiplied by M	£300
1,000 to 4,999	£1.70 multiplied by M	£2,180
5,000 to 9,999	£1.29 multiplied by M	£8,500
10,000 to 499,999	£0.90 multiplied by M	£12,900
500,000 or more	£0.68 multiplied by M	£450,000.

9. This table relates to Master Trust schemes for the financial year beginning with 1st April 2022—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£32
12 to 99	£3.08 multiplied by M	Not applicable
100 to 999	£2.23 multiplied by M	£300
1,000 to 4,999	£1.73 multiplied by M	£2,230
5,000 to 9,999	£1.32 multiplied by M	£8,650
10,000 to 499,999	£0.92 multiplied by M	£13,200
500,000 or more	£0.70 multiplied by M	£460,000.

10. This table relates to Master Trust schemes for the financial year beginning with 1st April 2023—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£32
12 to 99	£3.14 multiplied by M	Not applicable
100 to 999	£2.27 multiplied by M	£310
1,000 to 4,999	£1.77 multiplied by M	£2,270
5,000 to 9,999	£1.34 multiplied by M	£8,850
10,000 to 499,999	£0.94 multiplied by M	£13,400
500,000 or more	£0.71 multiplied by M	£470,000.

PART 2

PERSONAL PENSION SCHEMES

11. This table relates to the financial year beginning with 1st April 2021—

Number of members on the reference day	*Amount of levy calculated by reference to number of members (M)*	*Minimum amount of levy*
2 to 11		£13
12 to 99	£1.21 multiplied by M	Not applicable
100 to 999	£0.85 multiplied by M	£120
1,000 to 4,999	£0.72 multiplied by M	£850
5,000 to 9,999	£0.48 multiplied by M	£3,600
10,000 to 499,999	£0.37 multiplied by M	£4,800
500,000 or more	£0.27 multiplied by M	£185,000.

12. This table relates to the financial year beginning with 1st April 2022—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£13
12 to 99	£1.23 multiplied by M	Not applicable
100 to 999	£0.87 multiplied by M	£120
1,000 to 4,999	£0.74 multiplied by M	£870
5,000 to 9,999	£0.49 multiplied by M	£3,700
10,000 to 499,999	£0.37 multiplied by M	£4,900
500,000 or more	£0.28 multiplied by M	£185,000.

13. This table relates to the financial year beginning with 1st April 2023—

Number of members on the reference day	*Amount of levy calculated by reference to the number of members (M)*	*Minimum amount of levy*
2 to 11		£14
12 to 99	£1.25 multiplied by M	Not applicable
100 to 999	£0.88 multiplied by M	£120
1,000 to 4,999	£0.75 multiplied by M	£880
5,000 to 9,999	£0.50 multiplied by M	£3,750
10,000 to 499,999	£0.38 multiplied by M	£5,000
500,000 or more	£0.28 multiplied by M	£190,000.”.

Revocation

3. The Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2017([a]) are revoked.

Signed by authority of the Secretary of State for Work and Pensions

Guy Opperman
Parliamentary Under Secretary of State
Department for Work and Pensions

1st March 2021

EXPLANATORY NOTE

(This note is not part of the Regulations)

Regulation 2 of these Regulations amends the Occupational and Personal Pension Schemes (General Levy) Regulations 2005 (S.I. 2005/626). It amends regulations 6 and 7 and inserts a new Schedule to specify the new figures that are to be used in calculating the rate at which the general levy for occupational pension schemes and that for personal pension schemes is payable. The new rates apply for the financial years beginning with 1st April 2021, 1st April 2022 and 1st April 2023.

([a]) S.I. 2017/203.

The general levy on occupational and personal pension schemes recovers from schemes the funding provided by the Department for Work and Pensions in respect of the core activities of the Pensions Regulator, the activities of the Pensions Ombudsman and the pensions-related activities of the Money and Pensions Service([a]).

The effect of the changes is to increase the general levy rates for both occupational and personal pension schemes for those financial years and to introduce separate rates for defined benefit and hybrid, money purchase and Master Trust occupational pension schemes.

Regulation 3 of these Regulations revokes the Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2017 (S.I. 2017/203) which imposed the previous increase.

An impact assessment has not been published for these Regulations as they amend an existing statutory levy regime and the associated administrative costs are negligible.

([a]) The 2018 Act created a new body referred to in that Act as the single financial guidance body which took over the functions of the Pensions Advisory Service. This body was named by regulation 2 of the Financial Guidance and Claims Act 2018 (Naming and Consequential Amendments) Regulations 2019 (S.I. 2019/383) as the Money and Pensions Service.

Annex C: Summary of impacts - proposed levy rates from April 2021

As part of its the annual levy review, the Department forecasts levy revenue for the next three years. As the Department is proposing a change to the levy rates, this section sets out the estimated impacts of raising the rates compared to keeping them at their current rates.

The current and proposed levy rates are outlined in Tables 1 and 2.

Table 1: Current rates for the General Levy[3]

	Occupational Schemes		Personal/Stakeholder	
	Levy per member rate	**Minimum charge per scheme**[4]	**Levy per member rate**	**Minimum charge per scheme**
2-11	N/A	£29	N/A	£12
12-99	£2.88	N/A	£1.15	N/A
100-999	£2.08	£290	£0.81	£120
1,000-4,999	£1.62	£2,080	£0.69	£810
5,000-9,999	£1.23	£8,100	£0.46	£3,450
10,000-499,999	£0.86	£12,300	£0.35	£4,600
500,000+	£0.65	£430,000	£0.26	£175,000

[3] 2020 Levy Rates
[4] The minimum charge is in place to ensure that schemes at the edge between bandings pay more for more members. For example, scheme with 99 members pays £285.12, but at the per member rate a scheme with 100 members would contribute £208. The minimum charge ensures that schemes do pay for more members. ↩

Table 2: Proposed levy rates from April 2021

Occupational schemes: Defined Benefit and Hybrid

Number of members	2020/21		2021/22		2022/23		2023/24	
	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme
2 to 11		£29		£32		£54		£64
12-99	£2.88	Not applicable	£3.17	Not applicable	£5.33	Not applicable	£6.34	Not applicable
100-999	£2.08	£290	£2.29	£310	£3.85	£530	£4.58	£630
1,000-4,999	£1.62	£2,080	£1.78	£2,290	£3.00	£3,850	£3.56	£4,580
5,000-9,999	£1.23	£8,100	£1.35	£8,900	£2.28	£15,000	£2.71	£17,800
10,000-499,999	£0.86	£12,300	£0.95	£13,500	£1.59	£22,800	£1.89	£27,100
500,000 or more	£0.65	£430,000	£0.72	£475,000	£1.20	£795,000	£1.43	£945,000

Occupational schemes: Defined Contribution

Number of members	2020/21		2021/22		2022/23		2023/24	
	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme
2 to 11		£29		£32		£38		£44
12-99	£2.88	Not applicable	£3.17	Not applicable	£3.74	Not applicable	£4.32	Not applicable
100-999	£2.08	£290	£2.29	£310	£2.70	£370	£3.12	£430
1,000-4,999	£1.62	£2,080	£1.78	£2,290	£2.11	£2,700	£2.43	£3,120
5,000-9,999	£1.23	£8,100	£1.35	£8,900	£1.60	£10,550	£1.85	£12,150
10,000-499,999	£0.86	£12,300	£0.95	£13,500	£1.12	£16,000	£1.29	£18,500
500,000 or more	£0.65	£430,000	£0.72	£475,000	£0.85	£560,000	£0.98	£645,000

Occupational schemes: Master Trust

Number of members	2020/21		2021/22		2022/23		2023/24	
	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme
2 to 11		£29		£31		£32		£32
12-99	£2.88	Not applicable	£3.02	Not applicable	£3.08	Not applicable	£3.14	Not applicable
100-999	£2.08	£290	£2.18	£300	£2.23	£300	£2.27	£310
1,000-4,999	£1.62	£2,080	£1.70	£2,180	£1.73	£2,230	£1.77	£2,270
5,000-9,999	£1.23	£8,100	£1.29	£8,500	£1.32	£8,650	£1.34	£8,850
10,000-499,999	£0.86	£12,300	£0.90	£12,900	£0.92	£13,200	£0.94	£13,400
500,000 or more	£0.65	£430,000	£0.68	£450,000	£0.70	£460,000	£0.71	£470,000

Personal Pension schemes

Number of members	2020/21		2021/22		2022/23		2023/24	
	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme	Rate	Min. payment per scheme
2 to 11		£12		£13		£13		£14
12 to 99	£1.15	Not applicable	£1.21	Not applicable	£1.23	Not applicable	£1.25	Not applicable
100-999	£0.81	£120	£0.85	£120	£0.87	£120	£0.88	£120
1,000-4,999	£0.69	£810	£0.72	£850	£0.74	£870	£0.75	£880
5,000-9,999	£0.46	£3,450	£0.48	£3,600	£0.49	£3,700	£0.50	£3,750
10,000-499,999	£0.35	£4,600	£0.37	£4,800	£0.37	£4,900	£0.38	£5,000
500,000 or more	£0.26	£175,000	£0.27	£185,000	£0.28	£185,000	£0.28	£190,000

The revenue forecasts are based on forecasts of scheme membership over the next three years, split by scheme size. These figures are then multiplied by the relevant levy rates (see Table 1 and 2), to generate a figure for forecast revenue in the counterfactual scenario, using current levy rates, and the proposed change scenario. It should be emphasised that any modelling is subject to related uncertainties and limitations and is heavily dependent on the underlying assumptions.

Forecast membership

Total membership is estimated by forecasting the average number of members and of schemes, split by scheme size. These are then multiplied to generate total membership split by scheme size.

Our forecasts for average members and the number of schemes are based on the following key assumptions:

Type of pension	**Average number of members**	**Number of schemes**
Occupational Defined Benefit and Hybrid (DBH)	Number of members remains at current level.	Remains at current level.
Occupational Defined Contribution (DC), including Master Trust	Grows at the average growth rate for the previous 3 years[5]. For schemes with 500,000+ members, average number of members grows at the average growth rate for the previous 2 years[6] to better reflect recent trends.	Grows at the average growth rate for the previous 3 years[7]. For smaller schemes this growth rate is negative. For schemes with more than 10,000 members, the number of schemes will remain at the current level.

[5] This uses scheme return data from 2018, 2019 and 2020. This data may be lagged as depends on when the scheme year end is and when data is submitted to TPR.

[6] This is from the 2019 and 2020 scheme return data. This data may be lagged as depends on when the scheme year end is and when data is submitted to TPR.

[7] This is from the 2019 and 2020 scheme return data. This data may be lagged as depends on when the scheme year end is and when data is submitted to TPR.

Type of pension	Average number of members	Number of schemes
Personal/Stakeholder DC	Grows at the average growth rate for the previous 3 years[8].	Grows at the average growth rate for the previous 3 years[9]. For smaller schemes this growth rate is negative. For schemes with more than 10,000 members, the number of schemes remains at the current level.

We have used a different assumption for larger DC schemes, using the average growth rate of the last two year period. This is because the three year period captures the end of Automatic Enrolment rollout, predominantly in these larger DC schemes. For example, at the end of 2012 there were just under 1.2 million members of occupational DC schemes with more than 5,000 members. This grew to almost 19 million by the end of 2019[10].

Counterfactual – Levy frozen at 2020/21 rates

Even with no changes to the levy rates, we would still expect a change in revenue, driven by the increase in members over time. Table 3 shows the estimated revenue in a 'Do Nothing' scenario. Analysis on the impacts of the proposed change is compared to this counterfactual.

Table 3: Revenue projections in a "Do Nothing" and "Proposed changes" scenario, 2020/21 to 2023/24[11]

Scenario	2020/21	2021/22	2022/23	2023 /24
Do nothing (£m)	45.9	47.4	48.6	49.8
Proposed change (£m)	N/A	51.1	72.1	83.2

[8] This uses scheme return data from 2018, 2019 and 2020. This data may be lagged as depends on when the scheme year end is and when data is submitted to TPR.

[9] This uses scheme return data from 2018, 2019 and 2020. This data may be lagged as depends on when the scheme year end is and when data is submitted to TPR.

[10] DC trust: scheme return data 2019-2020, Table 2.1 ↩

[11] DWP Analysis, using revenue projections model. Rounded to the nearest £0.1 million. Totals may not sum to the total impacts in the table due to rounding. ↩

Scenario	2020/21	2021/22	2022/23	2023 /24
Impact (£m)[12]	N/A	3.7	23.5	33.4

Table 3 shows projected revenue is expected to rise from £45.9 million in 2020/21 to £49.8 million in 2023/24 as a result of growth in pension membership in a scenario where the levy rates remain at 2020/21 levels. The introduction of the proposed change will have an additional impact of an estimated £61 million over the three year period.

Impact of proposed levy rates

Impacts are appraised over a three year appraisal period in line with the three years of levy rates changes. Rates in years beyond this period will be decided following future annual levy rates reviews.

Businesses

The increases in the levy are designed to ensure that TPR, TPO and MaPS receive the correct level of funding to reflect their statutory duties. A number of these duties provide benefits to employers.

TPR provides support in relation to workplace pension provision and has a statutory objective "to promote and to improve understanding of the good administration of work-based pension schemes" and "to minimise any adverse impact on the sustainable growth of an employer". Businesses also benefit from the work TPO does in investigating potential issues in the running of pension schemes and helping to resolve disputes in relation to pension schemes.

Due to uncertainty of what would happen in the case of a "do nothing" scenario (i.e., what savings the pensions bodies would choose to make), it is not possible to quantify this benefit to business.

[12] This is the aggregate impact for both Business and government.

Table 4: Breakdown of impacts in a "proposed change" scenario for each scheme type from 2020/21 to 2023/24.

Impact of proposed change on schemes (£m)	2021/22	2022/23	2023/24	Total over 3 year period
Public Sector DB[13]	1.2	9.9	13.9	25.0
Private sector DB	1.3	11.5	16.3	29.1
Occupational DC (Minus Master Trust)	0.3	0.8	1.3	2.4
Master Trust	0.7	1.0	1.3	3.0
Personal Pension	0.3	0.5	0.7	1.5
Total for all schemes	3.8	23.7	33.5	61.0

Eligible private sector pension schemes will be impacted by the changes to the levy rates. We estimate the additional cost to private sector schemes to be £2.6 million in 2021/22, £13.8 million in 2022/23 and £19.6 million in 2023/24. The estimated additional cost over the three year period to end of 2023/24 would be £36 million.

For DB schemes, the cost of regulation ultimately lies with the sponsoring employer. Sponsoring employers meet the 'balance of cost' of funding the promised benefits and associated scheme expenses. In a few cases, employers may operate a 'share of cost' approach where the additional levy cost is shared between employers and active members.

46 per cent of DB schemes are closed to new benefit accrual with only 11 per cent of schemes open to new members[14], so we anticipate that the majority of DB schemes will be unable to pass costs on to members and instead must either absorb the cost of increased levy charges into the scheme itself or pass the cost to employers. Therefore, we assume that any cost incurred to DB schemes will therefore largely represent a cost to business.

13 Public sector impacts are described in the Government section below.

14 The Purple Book, 2020

We estimate the additional cost to private sector DB and Hybrid schemes to be £1.3 million in 2021/22, £11.5 million in 2022/23 and £16.3 million in 2023/24. The cost over the three year period will be an additional £29.1 million compared to the "Do nothing" counterfactual. The cost of increased levy charges may affect the speed at which sponsoring employers can meet their funding costs. However, the levy makes up a relatively small proportion of DB scheme costs and levies. As such, we would expect levy increases to have a smaller impact on the affordability of DB schemes.

For occupational DC schemes (excluding Master Trusts), there would be a direct cost to the pension scheme provider. The additional cost in 2021/22 is expected to be £0.3 million, £0.8 million in 2022/23 and £1.3 million in 2023/24. We estimate the cost over the three year period to be an extra £2.4 million compared to the counterfactual. Providers may choose to absorb these costs or pass costs on to employers or members. Passing the costs on to employers would represent a cost to business.

The additional cost in 2021/22 for authorised Master Trusts is estimated to be £0.7 million, £1 million in 2022/23 and £1.3 million in 2023/24. Master Trusts are expected to pay an additional £3 million over the three year period compared to the counterfactual. It would generally be unviable to pass additional costs to employers as schemes such as NEST do not charge employers. Increased levy costs may instead be funded through charges on member assets.

Personal pension schemes are expected to pay an additional £1.5 million over the three year period compared to the counterfactual.

We expect that a small number of DB schemes and some DC schemes will be able to pass on costs to members, although this is limited by the charge cap[15] for DC default funds. This is explored further in the member impacts section below.

Government

The Government contributes to the levy for all public sector schemes. Under the new regulations we forecast the additional cost to public sector schemes to be £1.2 million in 2021/22, £9.9 million in 2022/23, and £13.9 million in 2023/24. The estimated additional cost over the three-year period to end of 2023/24 is £25 million.

Members

The increases to the levy are designed to ensure that the pensions bodies receive the correct level of funding to reflect their statutory duties. Many of these requirements are designed to ensure that members' pensions are protected and to provide advice and guidance to members, thereby benefitting members. It is not possible to quantify potential benefits to members from pensions bodies' activities

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[15] The charge cap is 0.75% of funds under management within the default arrangement, or an equivalent combination charge. The cap applies to all scheme and investment administration costs and a small number of other specified costs and charges. [More information]

funded through the proposed levy increases due to lack of evidence around how support for the pensions bodies might vary under the counterfactual.

Pension scheme members will not incur any direct costs from the levy changes. Members will not be required to do anything as a result of the levy changes and there will be no costs arising from familiarisation or implementation. However, members could experience indirect costs as outlined below.

For members of DB schemes, the additional cost of the levy could affect the affordability of contributions for sponsoring employers and thus be passed to active members through increased contribution rates. Active members of DB schemes generally pay a fixed percentage of pensionable pay as set out in the Trust Deed and Rules. Increasing active member contribution rates in order to cover additional levy costs would require amending the Trust Deed and Rules. Where employers operate a 'share of cost' approach, the additional levy cost is shared between employers and active members.

Only 11 per cent of DB members are actively contributing[16] with most schemes closed to future accrual and thus most DB schemes are unable to pass the increased cost of the levy on to members.

Though it is not anticipated that schemes will pass on costs to members through increased contribution rates, where the scheme/sponsoring employer absorbs the additional levy costs, this could reduce their ability to deliver other improvements to members such as salaries or benefits. However, in the context of the scale of administering a DB scheme, in particular DB funding gaps, annual deficit repair contributions and PPF levies, any impact would be unlikely to be material. For example, the PPF levy, estimated to collect £620m in 2020/21, is over twenty times the General Levy paid by DB schemes in the same year.

Members of DC schemes typically pay a charge towards their pension scheme. DC schemes may choose to pass on the additional levy cost to members through increased annual management charges, or by altering the combination charge which may be a charge on contributions or a flat fee. However, whether a scheme chooses to do this depends on several factors including current charges, whether they are close to or at the charge cap level, the pot size the member holds, competitive reasons, or whether the provider is a not-for-profit organisation. For some schemes all costs of regulation must ultimately fall to members. This could lead to increased charges in future or a reduction in schemes ability to reduce future charges. As the consultation responses indicate (see paragraph 44 above), most schemes will either be able to absorb the additional levy charges or will be unable (due to the charge cap) or unwilling to increase member charges.

There is not enough evidence to provide an estimate of how many DC schemes might raise charges and, of these, how many would be due to levy increases. However, the levy increases for DC schemes are relatively small, especially for

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[16] The Purple Book, 2020 ↩

Master Trust (6 pence per member per year increase by 2023/24) and Personal Pension schemes (2 pence) which contain the majority of DC members.

Moreover, evidence from the Pension Charges Survey 2020[17], shows strong downward pressure on charges for both qualifying schemes used for automatic enrolment) and non-qualifying schemes, with an average charge to members of 0.48% for qualifying schemes significantly below the charge cap of 0.75%. Similarly charges for non-qualifying schemes have fallen to an average of 0.53%, with 88 per cent of members of non-qualifying schemes now below the cap level. Providers typically felt that competition would continue to maintain a downward pressure on charges.

We conclude that whilst some pension schemes will ultimately pass the additional cost of the levy on to members, for DB schemes the levy is a small cost in comparison to the costs of administering and funding a scheme. For DC schemes, the per member levy increases are relatively small and the charge cap, along with downward competitive pressures, mean charge increases are unlikely. This view is supported by the consultation responses where only 4 of the 18 responses to one or more of questions 3-6 indicated the levy increases would be passed to members (see paragraph 44 above).

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17 Pension Charges Survey 2020 can be found at the following link.