

The Occupational Pension Schemes (Levies) (Amendment) Regulations 2015

Public consultation

November 2014

Contents

Introduction	3
About this consultation	3
How to respond to this consultation or raise queries about its content	3
How we consult	4
Consultation principles	4
Feedback on the consultation process	5
The Occupational Pension Schemes (Levies) (Amendment) Regulations 2015	6
Background	6
Current position	6
Options considered	7
Commentary on the draft Occupational Pension Schemes (Levies) (Amendment) Regulations 2015	11
Impact Assessment	12
Summary of consultation questions	12

Introduction

The consultation seeks views on the enclosed draft of the Occupational Pension Schemes (Levies) (Amendment) Regulations 2015, which would make changes to the rates of the Pension Protection Fund (PPF) administration levy for each of the years 2015/16, 2016/17 and 2017/18. The intention is that the first change will come into force on 1 April 2015, and the subsequent changes on 1 April 2016 and then 1 April 2017.

About this consultation

Who this consultation is aimed at

This consultation is primarily aimed at employers, pension scheme administrators, trustees and managers. Comments are also welcomed from the wider public.

Purpose of the consultation

This consultation seeks views on the proposed rates of the PPF administration levy in 2015/16; 2016/17; and then 2017/18 onwards.

Scope of consultation

This consultation applies to England, Wales and Scotland. It is anticipated that Northern Ireland will make corresponding regulations.

Duration of the consultation

The consultation period begins on 14 November 2014 and runs until 9 January 2015. Please ensure your response reaches us by that date as any replies received after that date may not be taken into account.

How to respond to this consultation or raise queries about its content

Please send your consultation response and any queries to:

Paul Bovey

Department for Work and Pensions

1st Floor, Caxton House

6 – 12 Tothill Street

London

SW1H 9NA

Email: pensions.ppfadministrationlevyconsultation@dwp.gsi.gov.uk

Please ensure your response reaches us by 9 January 2015.

When responding, please state whether you are doing so as an individual or are representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled. We will acknowledge your response.

How we consult

Freedom of information

The information you send us may need to be passed to colleagues within the Department for Work and Pensions, published in a summary of responses received and referred to in the published consultation report.

All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purposes of the public consultation exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information provided, or remove it completely. If you want the information in your response to the consultation to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this.

To find out more about the general principles of Freedom of Information and how it is applied within DWP, please contact:

Central Freedom of Information Team
Caxton House
6-12 Tothill Street
London SW1H 9NA

Freedom-of-information-request@dwp.gsi.gov.uk

The Central Freedom of Information team cannot advise on specific consultation exercises, only on Freedom of Information issues. More information about the Freedom of Information Act can be found at www.gov.uk/make-a-freedom-of-information-request

Consultation principles

This consultation is being conducted in line with the government's consultation principles, which were introduced on 17 July 2012, and which were subsequently updated. The revised principles are at – www.gov.uk/government/publications/consultation-principles-guidance

The key principles are:

- departments will follow a range of timescales rather than defaulting to a 12-week period, particularly where extensive engagement has occurred before;
- departments will need to give more thought to how they engage with and consult with those who are affected;
- consultation should be ‘digital by default’, but other forms should be used where these are needed to reach the groups affected by a policy; and
- the principles of the Compact between government and the voluntary and community sector will continue to be respected.

Feedback on the consultation process

We value your feedback on how well we consult. If you have any comments on the process of this consultation (as opposed to the issues raised) please contact our Consultation Coordinator:

DWP Consultation Coordinator
2nd Floor
Caxton House
Tothill Street
London
SW1H 9NA

caxtonhouse.legislation@dwp.gsi.gov.uk

In particular, please tell us if you feel that the consultation does not satisfy the consultation criteria. Please also make any suggestions as to how the process of consultation could be improved further.

If you have any requirements that we need to meet to enable you to comment, please let us know.

We aim to publish the government response to the consultation on the same page as the consultation – www.gov.uk/government/consultations/the-occupational-pension-schemes-levies-amendment-regulations-2015. The report will summarise the responses and the action that we took in respect of them.

The Occupational Pension Schemes (Levies) (Amendment) Regulations 2015

Background

1. The PPF was established by the Pensions Act 2004 in order to protect the members of eligible defined benefit occupational pension schemes (and the defined benefit element of hybrid schemes) by paying compensation where an employer has a qualifying insolvency event and there are insufficient assets in the scheme to pay benefits at PPF compensation levels.
2. Some of the administration costs of the PPF are met by the Department for Work and Pensions (DWP). These costs are recoverable via the administration levy which is payable by those pension schemes eligible for the protection provided by the PPF, as provided for by section 117 of the Pensions Act 2004.
3. The rates of the PPF administration levy are set in regulations (regulation 6(2) of the Occupational Pension Schemes (Levies) Regulations 2005) (S.I. 2005 No. 842), which are regularly reviewed. The levy is collected annually by the Pensions Regulator (the “Regulator”) on behalf of the Secretary of State.
4. The initial administration levy rates were applied for the two years 2005/06 and 2006/07. Those rates were increased by 48% for the 2007/08 year, followed by a 17% increase for 2008/09. The levy rates remained unchanged until they were reduced by approximately 26% for 2012/13. The rates have remained unchanged since then.

Current position

5. In reviewing the administration levy rates, we have considered the PPF’s current and planned administrative costs recoverable via this levy. These costs were set out in the PPF’s annual strategic plan and were £18.7m in 2013/14, are expected to rise to £20.7m in 2014/15, but reduce in later years (£20.3m in 2015/16 and then to £19.5m in 2016/17) as the PPF complete their transition to the PPF’s new protection levy risk scoring provider.
6. The PPF’s administrative costs should be viewed against a background where the body’s size, scope and the risks it is required to manage have been growing steadily. At the end of 2009/10 it had funds of £4.5bn under management; by the end of 2013/14, this figure had risen to £16.5bn.

7. We have also considered the amount we expect will be paid by eligible pension schemes in 2014/15, and in subsequent years, if the current levy rates remain unchanged. We estimate this figure to be £14.8m per annum.
8. Having concluded the review of the administration levy rates, we estimate that a levy deficit of £5.1m will exist at the end of 2014/15. We anticipate that this deficit would increase by approximately £5m in each subsequent year if remedial action is not taken. We have therefore gone on to consider options for changes in the levy rates. These options are discussed in the following section.

Options considered

9. In considering all of the options described in this consultation we have had regard to other elements of the overall levy burden. These are as follows:
 - the general levy applied, under section 175 of the Pension Schemes Act 1993 as amended, to occupational and personal pension schemes to recover the administration costs of the Regulator, the Pensions Advisory Service and the Pensions Ombudsman, which was reduced by 13% for 2012/13, has remained at these rates, and no changes are proposed for 2015/16;
 - the announcement by the PPF on 6 October 2014 that the pension protection levy estimate for 2015/16 is to be set at £635m, a near 10% reduction on the estimate for 2014/15.

Option 1 – no change

10. Whilst leaving the current administration levy rates unchanged would mean that eligible schemes faced no increase in their levy, it would also result in an increasing gap between the PPF's administration costs and the funding received via the levy.

Current PPF Administration Levy Rates

Number of members of scheme	Levy rate per member	Minimum amount of levy
2 to 11		£31
12 to 99	£3.20	
100 to 999	£2.31	£320
1,000 to 4,999	£1.80	£2,310
5,000 to 9,999	£1.36	£9,000
Over 10,000	£0.95	£13,600

11. As the recoverable administration costs of the PPF are to be met by eligible schemes, and not from general taxation, the rates of the administration levy need to increase to make good the gap between these costs and the income received from this levy. For this reason we are not attracted to this option.

Option 2 – increase the levy to immediately make good the deficit

12. Under this option, the levy rates would be increased by some 72% from 1 April 2015 to immediately restore the balance between the PPF's administration levy expenditure and the funds raised by this levy, and to recover the accumulated deficit in a single year.

PPF Administration Levy Rates Under Option 2

Number of members of scheme	Levy rate per member	Minimum amount of levy
2 to 11		£54
12 to 99	£5.51	
100 to 999	£3.97	£550
1,000 to 4,999	£3.09	£3,970
5,000 to 9,999	£2.34	£15,450
Over 10,000	£1.64	£23,400

13. While this option provides the quickest resolution to this developing funding gap and the recovery of the deficit building up in 2014/15, it would result in a very significant immediate increase in the levy rates, which schemes will have had little time to prepare for. For this reason we do not propose to pursue this option.

Option 3 – increase the levy to eliminate the deficit by 31 March 2020

14. In considering how the funding gap can be closed whilst also limiting the size of the immediate increase in the administration levy rates, we looked at extending the period taken to achieve this. Under option 3, administration levy rates are increased by 43% for 2015/16 onwards, which would eliminate the deficit over the five year period 2015/16 to 2019/20.
15. This would be on the basis that the PPF's recoverable administration costs are as set out in paragraph 5 above; that they will increase by 2% in 2017/18 and in each subsequent year; and that the total amount paid by eligible pension schemes remains broadly the same during the period 2015/16 – 2019/20.

PPF Administration Levy Rates Under Option 3

Number of member in scheme	Levy rate per member	Minimum amount of levy
2 to 11		£45
12 to 99	£4.58	
100 to 999	£3.30	£460
1,000 to 4,999	£2.57	£3,300
5,000 to 9,999	£1.94	£12,850
Over 10,000	£1.36	£19,500

16. This option would still impose a significant percentage increase in these rates from 2015/16, which is considered too high, making this option unattractive. We therefore further considered how we could eliminate the deficit whilst reducing the immediate impact on eligible schemes.

Option 4 - increase levy rates each year in 2015/16, 2016/17 and 2017/18 to eliminate the deficit by 31 March 2022

17. Under this option, which is the Government's proposed approach, the time to eliminate the deficit is extended to 2021/22, and the administration levy rates are increased from the current rates by 15% for 2015/16, with a further 15% increase in both 2016/17 and 2017/18.

PPF Administration Levy Rates Under Option 4: 2015/16

Number of member in scheme	Levy rate per member	Minimum amount of levy
2 to 11		£36
12 to 99	£3.68	
100 to 999	£2.65	£370
1,000 to 4,999	£2.07	£2,650
5,000 to 9,999	£1.57	£10,350
Over 10,000	£1.09	£15,700

PPF Administration Levy Rates Under Option 4: 2016/17

Number of member in scheme	Levy rate per member	Minimum amount of levy
2 to 11		£42
12 to 99	£4.24	
100 to 999	£3.06	£420
1,000 to 4,999	£2.38	£3,060
5,000 to 9,999	£1.80	£11,900
Over 10,000	£1.26	£18,000

PPF Administration Levy Rates Under Option 4: 2017/18

Number of member in scheme	Levy rate per member	Minimum amount of levy
2 to 11		£49
12 to 99	£4.88	
100 to 999	£3.52	£490
1,000 to 4,999	£2.74	£3,520
5,000 to 9,999	£2.07	£13,700
Over 10,000	£1.45	£20,700

18. This option extends the period needed to recover the deficit to seven years (on the basis that the PPF's administration costs are as set out in paragraphs 5 and 15 above); limits the immediate impact of the increase in the levy rates for 2015/16; and would provide eligible schemes with time to plan for further levy increases in 2016/17 and 2017/18.

Questions

We welcome your comments on the proposed changes to the PPF administration levy rates as set out under Option 4 and in the enclosed draft of the regulations.

1. Do you support the proposed approach?
2. Would you prefer the Government to take forward one of the other options noted in this consultation? If yes, which one and why?
3. Would you like to propose any alternative options to those noted in this consultation which would eliminate the PPF administration funding gap and accumulating deficit? If so, please provide details.

Commentary on the draft Occupational Pension Schemes (Levies) (Amendment) Regulations 2015

19. The following summary explains the purpose of each of the provisions.

Regulation 1 – Citation and commencement

20. This is a general regulation which gives the title of the regulations and specifies the different dates on which different regulations are proposed to come into force.

21. It is proposed that regulations 1, 2 and 3 will come into force on 1 April 2015; regulation 4 on 1 April 2016, and regulation 5 on 1 April 2017.

Regulation 2 – Interpretation, revocation and expiry

22. This regulation provides that for the purposes of these regulations, the references made to “the 2005 Regulations” are to the Occupational Pension Schemes (Levies) Regulations 2005.

23. The regulation revokes (with effect from 1 April 2015) regulation 3 of the Occupational and Personal Pension Schemes (Levies – Amendment) Regulations 2012 (S.I. 2012 No. 539), which sets out the current administration levy rates, and earlier provisions which have been superseded by later amendments and which have ceased to have effect.

24. It also provides that regulation 3 of these regulations (the administration levy rates for 2015/16) ceases to have effect on 1 April 2016, when regulation 4 of these regulations comes into force (levy rates for 2016/17), and that regulation 4 ceases to have effect on 1 April 2017, when regulation 5 (levy rates for 2017/18 onwards) comes into force.

Regulation 3 – Amendment of the 2005 Regulations with effect from 1 April 2015

25. This regulation amends regulation 6(2) of the Occupational Pension Schemes (Levies) Regulations 2005 (“the 2005 Regulations”) to provide for the amounts payable by eligible schemes, in respect of the PPF administration levy, for the financial year 2015/16. The rates are 15% higher than the rates payable in each of the 3 years 2012/13 to 2014/15.

Regulation 4 – Amendment of the 2005 Regulations with effect from 1 April 2016

26. This regulation amends regulation 6(2) of the 2005 Regulations to provide the rates of the PPF administration levy payable by eligible schemes in 2016/17. These rates are 15% higher than the rates payable in 2015/16.

Regulation 5 – Amendment of the 2005 Regulations with effect from 1 April 2017

27. This regulation makes the final amendment to the 2005 Regulations, and provides the rates of the PPF administration levy payable in 2017/18 and subsequent years. These rates are 15% higher than the rates payable in 2016/17.

Overview of regulations 3, 4 and 5

28. The proposed new rates would fund the PPF's forecast future administration costs to be met by the administration levy, which are set out in the PPF's Strategic Plan 2014 (at:- http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Strategic_Plan_2014.pdf) and close a developing funding gap between the PPF's administration costs and the income raised by the administration levy by 31 March 2022.
29. We are also formally consulting the Board of the PPF on the proposed changes (as required by section 117(4) of the Pensions Act 2004).
30. These amendments would apply to 2015/16, 2016/17, 2017/18 and subsequent years unless amended further. The rates will be reviewed annually and regulations will be brought forward when it is considered a change to the rates will be needed.

Question 4. Do you have any comments on the content of the draft regulations?

Impact Assessment

31. The draft Occupational Pension Schemes (Levies) (Amendment) Regulations 2015 amend the existing PPF administration levy regime but impose negligible associated administrative costs on business and civil society organisations. A full Impact Assessment is not necessary for such legislation.

Summary of consultation questions

We welcome your comments on the proposed changes to the PPF administration levy as set out under Option 4 and in the enclosed draft of the regulations.

1. Do you support the proposed approach?
2. Would you prefer the Government to take forward one of the other options noted in this consultation? If yes, which one and why?
3. Would you like to propose any alternative options to those noted in this consultation which would eliminate the PPF administration funding gap and accumulating deficit? If so, please provide details.
4. Do you have any comments on the content of the draft regulations?