The Occupational and Personal Pension Schemes (General Levy) Regulations Review 2023

The government response

April 2024

Introduction

1. This consultation ran from 2 October to 13 November 2023.

2. The consultation sought views on proposals for changes to the rates of the General Levy on occupational and personal pension schemes ("the levy") from April 2024, 2025, and 2026.

3. There were 287 respondents to the consultation and the government is grateful to them for providing their comments and advice on the proposals.

4. This document notes why it is considered necessary to 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 response to the comments made.

5. The government response advises that, following consideration of these responses, the government has decided to proceed with Option 2, a rise of 6.5% across all scheme categories which aligns with the majority of consultation responses received.

6. Accordingly, regulations (The Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2024), have been made and laid in both Houses of Parliament.

Background

7. 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 of The Pensions Regulator (TPR), the activities of The Pensions Ombudsman (TPO), and the pensions-related activities (excluding Pension Wise) of the Money and Pensions Service (MaPS).

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

9. Section 175(1) of the Pension Schemes Act 1993 empowers the Secretary of State to make regulations imposing levies in respect of prescribed occupational or prescribed personal pension schemes for the purpose of meeting the expenditure of the bodies noted in paragraph 6 above. Having

reviewed the funds that are likely to be raised by this levy under the current levy rates and considered the planned expenditure of the bodies, we estimate that a significant levy deficit will build unless changes are made.

10. As advised in the consultation, the government has considered options for future levy rates in order to begin the process of eliminating the deficit.

11. The consultation advised that the government's preferred option was Option 3. This option would increase rates for all scheme types by 4% per year and add an additional premium of £10,000 for small schemes (with membership under 10,000), excluding Defined Benefit (DB) schemes, in 2026/27.

12. From the consultation responses, it has been made clear that this is not the industry's preferred approach to remedying the deficit and that certain elements would need to be changed to make this option appropriate. Whilst several responses agreed that consolidation was a positive move for the pension industry, the consensus was that 2026/27 would be extremely difficult for schemes to meet the premium payment deadline. This option has therefore not been chosen at this time.

13. Option 2 was undoubtedly the preferred option of those who responded to the consultation: to retain the current levy structure and increase rates by 6.5% per year for all schemes. The government is grateful for all responses and has amended the preferred approach accordingly. Option 2 will be the option taken forward from 1 April 2024. Following discussion with the body responsible for collecting the levy, the minimum amount of the levy for certain schemes was adjusted to ensure charging between different membership bands did not overlap.

Summary of the consultation responses received

14. The consultation asked six 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 and/or premium? (For example: would it be absorbed by the 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?)

15. 287 responses to the consultation were received. Of these:

- 4 responses preferred Option 1 (to keep the rates at the same levels as 2023/24 for the next 3 years);

- 278 responses preferred Option 2 (a 6.5% per year rise for all scheme types).

- 3 responses preferred Option 3 (increase rates for all scheme types by 4% and add an additional premium of £10,000 for small schemes (with membership under 10,000), excluding DB schemes, from 2026/27); and

- 2 responses disagreed with all options proposed.

16. Due to the number of responses, the full list is not included in this document but can be made available on request by emailing: caxtonhouse.generallevyconsultation2023@dwp.gov.uk

Option 1

17. The 4 respondents who preferred Option 1 argued that this was the most appropriate dissemination of costs. One argued that the department should take account of the appropriate distribution of costs across the industry, on the back of the independent review of TPR by Mary Starks. Another argued that the expansion of the roles of TPR, TPO and MaPS should happen in a considered way that is proportionate and transparent. The other two argued that any increase in fees would have a disproportionately adverse effect on their scheme.

18. 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 and Accounts are laid in Parliament and published by each body to give a comprehensive picture of activity and expenditure.

19. The majority of responses recognised that it is essential for pensions bodies receive funding sufficient to allow services to be maintained and that funding requirements will continue to increase over the coming years.

20. The government was pleased that the majority of respondents agreed that this was not the best way to remedy the deficit. This option leaves the deficit to continue to grow. Without any increases, the cumulative deficit would reach nearly £205m in 2030/31 as expenditure outstrips levy revenue. This does not meet the policy intent that the pensions industry, rather than the taxpayer, should pay for the pensions bodies, and is not in line with the previously stated plan of increasing the levy rates to bring down the deficit.

Option 2

21. The majority of respondents chose Option 2 as the preferred way forward and accepted that there is a need to remedy the deficit through increased levy rates.

22. Of these respondents, many commented that they understood Option 1 was not viable as this would negatively impact the General Levy deficit. Most commented that they agreed with the government that an increase in levy rates was a reliable way to eliminate the deficit by the end of the remediation period and that the impact of the premium cannot be reliably quantified at this stage. Many also commented that this was the fairest for 'all schemes,' whilst also addressing the shortfall in a sustainable way. It was also noted by many respondents that it had been expected that there was to be a rise in line with rising industry costs.

23. Some respondents suggested Option 2 was the easiest option to understand across all schemes, and a straight increase would provide clarity on payments.

24. Some respondents commented that the 6.5% increase would be considered reasonable and could be absorbed by schemes and some noted that the current General Levy is not a material cost for most businesses. Some of the respondents commented that the sponsoring employers of the schemes they looked after would generally manage to absorb the increase themselves.

25. Some of the responses called for a cost benefit analysis for the industry to see the justification regarding who pays for the levy and who benefits from it.

26. Other responses called for a full review of the financial value for money of the bodies themselves to confirm the increase is essential.

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

Option 3

28. Only 3 respondents considered this their preference. Those who stated this option as their preference commented that consolidation will allow small schemes to properly govern their schemes. However, some commented that it might not be appropriate for this level of additional premium to be universally applied across all scheme types. The government wish to make clear; the premium, were it to have been taken forward, would have only applied to Defined Contribution (DC) schemes.

29. There were common themes in the responses to Option 3 and there were issues highlighted particularly for micro schemes with 2-11 members. These included:

    29.1. The proposed £10,000 premium was considered unaffordable and disproportionate, especially for smaller schemes. Whilst many schemes reflected that they could contribute more than current levels, the £10,000 premium was disproportionately high and would have a catastrophic impact.

    29.2. There were considerations that the premium would ‘take away a vital part of the pension market’ through damaging Small Self-Administered Schemes (SSAS’s). It was also commented that this would be counter to the government’s policy to grow small businesses and would, in effect, take them out the market. The government has reconsidered this option and will not be applying a premium on schemes at this time. The aim of the £10,000 premium was not to penalise SSAS’s or schemes with low membership, more to encourage the best value for money for members.

30. Other impacts noted that were not specific to schemes with 2-11 members included:

    30.1. Option 3 could have an unpredictable impact on the levy deficit. As projections assumed a 50% consolidation rate, there were arguments that there was limited basis to confirm the deficit would be met by levying a premium on those remaining.

    30.2. One of the respondents commented that the £10,000 premium could lead to worsening member outcomes and that consolidating DB schemes was flawed. As noted above, it was not the government’s intention to apply this premium to DB schemes.

    30.3. Some of the respondents commented that the proposal to introduce the premium in 2026/27 might not allow schemes sufficient time to prepare for the most important transaction that trustees will make: consolidation. Whilst supporting consolidation as a policy objective, the timeframe for consolidation with that option was not thought to be possible for most small schemes particularly given the illiquid assets that many hold. It was also flagged that the buy-out market is extremely busy and there are very few options currently available.

30.4. Some of the respondents wrote that, whilst the scheme supported consolidation of the market, Option 3 was considered punitive as drafted, although an amended version of Option 3 might be supported.

30.5. Some commented that only schemes that use or benefit from TPR should pay the premium. It is the government's view that the collective approach underpins the current levy system. Having a well-regulated pension protection regime, with sources of information and guidance and routes of redress is central in ensuring public confidence in the pensions industry. TPR, TPO and MaPS are integral to this, and it is essential that they have sufficient funding to deliver their roles effectively. The Treasury's Managing Public Money recognises that levies may be justified in the wider public interest, not because they provide a direct beneficial service to those who pay them.

30.6. One respondent argued that Option 3 was not in line with the Value for Money (VfM) framework.

30.7. Some respondents asked for more information on the current deficit or details of how it would develop. As mentioned in the consultation (paragraph 16) there has been significant expansion in the pensions sector and therefore the activities of the levy-funded bodies. At the same time, the levy was not increased in 2019 and 2020 when the longer-term deficit began to emerge, due to EU exit and the Covid pandemic.

30.8. The creation of MaPS was also mentioned as part of the consultation response and questioned on the value for money it provides. MaPS is funded by the Financial Services Levy (which provides most of its funding) and the General Levy. Full annual reports and accounts are available on GOV.UK. MaPS ensures people across the UK have access to quality pensions and money guidance, as well as being the largest funder of free debt advice in England. As an arms-length body, MaPS has a responsibility to ensure it provides value for money and operates in accordance with Managing Public Money guidelines and relevant spend controls. As the sponsor department, DWP works with MaPS and other government departments to agree its budget and review its performance.

Impact

31. Questions 3-6 in the consultation document addressed the impact of increases in the levy on providers and employers.

32. The majority of respondents noted the potential negative impact that Option 3 would have on their schemes. The government has listened to this and amended the favoured option accordingly and, as noted above, will be proceeding with Option 2.

33. There were 268 responses to one or more of questions 3-6. A summary of these responses on the impact of the chosen option (Option 2) is as follows:

    33.1. Some respondents indicated that Option 2 could be managed within their existing cost base in the short term.

    33.2. Some respondents indicated that levies are paid out of schemes so the cost would be passed onto members whilst others indicated that there would be a mix between being passed on to employers or paid by schemes. It is not the government's preference that costs are passed onto the members - there is a cap on the amount of costs that can be passed on. Some commented that Option 2 would have little impact on the scheme and would be absorbed as a cost willingly, whereas Option 3 would have a devastating impact. This has been reflected in the government's decision to adopt Option 2.

    33.3. Some respondents sought more information on costs before responding substantively to the consultation. As noted in paragraph 17, the work levels of pensions bodies funded by the levy has increased. Information about future delivery plans can be found in the published strategies of the bodies.

34. A more detailed summary of impacts is at Annex A.

Government response

35. Having considered the responses received, the government will proceed with Option 2: to retain the current levy structure and increase rates by 6.5% per year for all schemes.

36. 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 2024) which amend the 2005 Regulations to reflect the government response have been made and laid before both Houses of Parliament.

Annex A

Summary of impacts – Proposed levy rates from April 2024

Table 1: Proposed levy rates from April 2024

The following tables show the proposed levy rates from April 2024:

Occupational schemes: Defined Benefit and Hybrid

Number of members	2024/25		2025/26		2026/27	
	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme
2-11	£0.00	£68	£0.00	£73	£0.00	£77
12-99	£6.75	N/A	£7.19	N/A	£7.66	N/A
100-999	£4.88	£669	£5.19	£712	£5.53	£759
1,000-4,999	£3.79	£4,876	£4.04	£5,185	£4.30	£5,525
5,000-9,999	£2.89	£18,947	£3.07	£20,196	£3.27	£21,496
10,000-499,999	£2.01	£28,898	£2.14	£30,697	£2.28	£32,697
500,000+	£1.52	£1,004,998	£1.62	£1,069,998	£1.73	£1,139,998

Occupational schemes: Defined Contribution

Number of members	2024/25		2025/26		2026/27	
	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme
2-11	£0.00	£47	£0.00	£50	£0.00	£53
12-99	£4.60	N/A	£4.90	N/A	£5.22	N/A
100-999	£3.32	£456	£3.54	£486	£3.77	£517

1,000-4,999	£2.59	£3,317	£2.76	£3,537	£2.94	£3,767
5,000-9,999	£1.97	£12,948	£2.10	£13,798	£2.23	£14,698
10,000-499,999	£1.37	£19,699	£1.46	£20,998	£1.56	£22,298
500,000+	£1.04	£684,999	£1.11	£729,999	£1.18	£779,999

Occupational schemes: Master Trust

Number of members	2024/25		2025/26		2026/27	
	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme
2-11	£0.00	£34	£0.00	£36	£0.00	£39
12-99	£3.34	N/A	£3.56	N/A	£3.79	N/A
100-999	£2.42	£331	£2.57	£353	£2.74	£376
1,000-4,999	£1.89	£2,418	£2.01	£2,568	£2.14	£2,738
5,000-9,999	£1.43	£9,449	£1.52	£10,048	£1.62	£10,698
10,000-499,999	£1.00	£14,299	£1.07	£15,199	£1.14	£16,199
500,000+	£0.76	£499,999	£0.81	£534,999	£0.86	£569,999

Personal Pension schemes

Number of members	2024/25		2025/26		2026/27	
	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme	Rate	Minimum Payment per scheme
2-11	£0.00	£15	£0.00	£16	£0.00	£17
12-99	£1.33	N/A	£1.42	N/A	£1.51	N/A
100-999	£0.94	£132	£1.00	£141	£1.06	£150

1,000-4,999	£0.80	£940	£0.85	£999	£0.91	£1,059
5,000-9,999	£0.53	£4,000	£0.57	£4,250	£0.60	£4,550
10,000-499,999	£0.40	£5,300	£0.43	£5,700	£0.46	£6,000
500,000+	£0.30	£200,000	£0.32	£215,000	£0.34	£230,000

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.

Counterfactual

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 2 shows the estimated revenue in a 'Do Nothing' scenario. Analysis on the impacts of the proposed change is compared to this counterfactual.

Table 2: Revenue projections in a "Do Nothing" and "Proposed changes" scenario, 2023 to 2024 to 2026 to 2027

Scenario	2023 to 2024	2024 to 2025	2025 to 2026	2026 to 2027
Do nothing (£m)	84.8	85.5	87.0	88.9
Proposed change (£m)	Not applicable	91.1	98.7	107.4
Impact (£m)	Not applicable	5.6	11.7	18.5

Impact of proposed levy rates

Impacts are appraised over a 3-year appraisal period in line with the 3 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 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.

Table 3: Breakdown of impacts in a “proposed change” scenario for each scheme type from 2024 to 2025 to 2026 to 2027.

Impact of proposed change on the schemes (£m)	2024 to 2025	2025 to 2026	2026 to 2027	Total over a 3-year period
Public Sector DB/Hybrid	1.9	4.0	6.2	12.0
Private Sector DB/Hybrid	1.6	3.3	4.9	9.8
Occupational DC (Minus Master Trust)	0.2	0.3	0.5	1.0
Master Trust	1.3	2.9	5.0	9.3
Personal Pension	0.6	1.2	1.9	3.7
Total for all schemes	5.6	11.7	18.5	35.7

Eligible public sector pension schemes will be impacted by the changes to the levy rates. We estimate the additional cost to public sector schemes to be £1.9 million in 2024 to 2025, £4 million in 2025 to 2026 and £6.2 million in 2026 to 2027. The estimated additional cost over the 3-year period to end of 2024 to 2027 would be £12 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.

52% of DB schemes are closed to new benefit accrual with only 9% of schemes open to new members, 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.

We estimate the additional cost to private sector DB and Hybrid schemes to be £1.6 million in 2024 to 2025, £3.3 million in 2025 to 2026 and £4.9 million in 2026 to 2027. The cost over the 3-year period will be an additional £9.8 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 2024 to 2025 is expected to be £0.2 million, £0.3 million in 2025 to 2026 and £0.5 million in 2026 to 2027. We estimate the cost over the 3 year period to be an extra £1 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 2024 to 2025 for authorised Master Trusts is estimated to be £1.3 million, £2.9 million in 2025 to 2026 and £5 million in 2026 to 2027. Master Trusts are expected to pay an additional £9.3 million over the 3-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 £3.7 million over the 3 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 for DC default funds. This is explored further in the member impacts section below.

The 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 £3.5 million in 2024 to 2025, £7.2million in 2025 to 2026, and £11.1 million in 2026 to 2027. The

estimated additional cost over the 3 year period to end of 2023 to 2024 is £21.8 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 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 8% of DB members are actively contributing 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 or 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 £100m in 2024 to 2025, is around twice 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 20), 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 Master Trust (5 pence per member per year increase by 2026 to 2027) and Personal Pension schemes (2 pence) which contain the majority of DC members.

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.