13 November 2023

Response from the Pensions Management Institute to DWP consultation: ‘The Occupational and Personal Pension Schemes (General Levy) Regulations review 2023'

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Introduction

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 7,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

We trust that the feedback in the following pages proves helpful.

Executive Summary

- Out of the three options you propose we favour Option 2 – increasing the levy by 6.5% pa for all schemes in scope.
- We have serious concerns about your preferred Option 3 which we have set out below.
- We are troubled by the implication that you prefer Option 3 in order to drive broader government policy of consolidating pension schemes. We do not think that the levy is the appropriate tool to drive this policy and instead believe that the levy should be set to cover the costs of activity in a fair and equitable way. Furthermore, rather than use indirect means to achieve policy aims, we would rather the Government consider more appropriate legislative mechanisms to drive consolidation,.
- We think that there should be greater accountability to the industry about how TPR in particular manages its budget and that there should be a greater commitment to reduce its costs and demonstrate its own value for money.

Question 1 - Which option do you prefer?

Option 2.

Question 2 - In respect of your answer to Question 1, why do you support your preferred option?

Option 2 is straightforward to understand and implement, gives more predictable costs and applies equally across all schemes paying the levy.

We accept that Option 1 will not solve the funding deficit and agree it is important that the levy covers its costs. However, we would also like to see greater scrutiny of regulatory expenditure to ensure levy payers are seeing value for money.

We believe that Option 3 has a disproportionate effect on schemes with less than 10,000 members and we do not believe that you have sufficiently made your case for why this is your preferred option. Related to this we are very concerned by your implications that Option 3 has been chosen to drive government policy for consolidation of small schemes rather than to raise the necessary levies to fund TPR, TPO and the pensions-related activities of the MaPS. We do not think this is an appropriate approach to take to setting the levy.

We also take issue with your use of wording to describe schemes with less than 10,000 members as being "small" and do not recognise this as being standard usage across the industry.

Your apparent assumption that all "small" schemes who wish to will be able to consolidate before the £10,000 additional premium comes into effect in 2026/27 does not seem realistic to us. Consolidation projects are time-consuming and require a lot of resources which the industry is unlikely to have before 2026/27. This could lead to a significant capacity crunch and probably higher consolidation costs as a result. We are also aware that some schemes are finding it very difficult to consolidate due to certain scheme features such as DB underpins on DC benefits.
Option 3 will penalise schemes just for being below an arbitrary threshold, no matter how well governed they are.

We are particularly concerned about the impact Option 3 will have on relevant small schemes ("SSASs"). You have not indicated that you intend to exempt these schemes from the £10,000 additional premium and without such an exemption you will significantly increase the running costs of these schemes, possibly by as much as 50% - 100%. Given that many SSASs are used to provide pension benefits for small and entrepreneurial businesses, we question whether this is consistent with broader government policy.

Your consultation is unclear about whether you intend the additional £10,000 premium to continue indefinitely from 2026/27 or whether it will only apply for one year. We assume you intend that it will continue but if that is the case then, based on your figures in Annex C it appears that the funding deficit will be cleared within a couple of years and that thereafter the levy will bring in a significant surplus of funding for the levy bodies.

Question 3 - What is the impact on your scheme/business of raising the levy under Option 2?

We are an industry body and will leave it to impacted schemes and businesses to answer this question.

Question 4 - What is the impact on your scheme/business of raising the levy under Option 3?

We are an industry body and will leave it to impacted schemes and businesses to answer this question.

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?)

We are an industry body and will leave it to impacted schemes and businesses to answer this question.

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 fewer than 50 employees or larger employers?)

We are an industry body and will leave it to impacted schemes and businesses to answer this question.

Conclusion

We hope that you find our comments useful. We would be happy to discuss them further with you if that would be helpful.

Contacts for comments

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