PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

THE OCCUPATIONAL AND PERSONAL PENSION SCHEMES (GENERAL LEVY) REVIEW 2019: PUBLIC CONSULTATION

29 NOVEMBER 2019

CONTENTS

ABOUT THE PLSA

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

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

CONSULTATION RESPONSE

The PLSA is a strong supporter of good proportionate regulation that results in well run schemes and appropriate member protection. We support the Pensions Regulator, the Pensions Ombudsman, the Money and Pensions Service and recognise that changes and developments in the pensions landscape will mean that there is a need to review costs associated with these bodies.

However, the options presented in the consultation paper cause us significant concern – in particular due to the extent of the increase, the short notice given, and the lack of transparency about how the deficit has been built up and how costs are apportioned.

We are therefore unable to support the options as presented in the consultation document, and would instead propose the most appropriate course of action is for Government to work with industry to:

- conduct a structural review of the General Levy and the Fraud Compensation Levy;
- provide greater transparency on the deficit and forecast costs; and
- develop greater accountability on costs and impacts.

The following paragraphs outline some further details and rationale on each of these areas, which we would like to explore with you.

Conducting a structural review of the levy in terms of how the overall amount required is charged, on whom and in what way – before any increases are applied.

- The consultation document notes a number of changes that have led to increased costs – including changes in the landscape, as well as in approaches and activities by the levy funded bodies. The way the levy is charged and how the costs are apportioned across schemes should be reviewed before these additional costs are charged, to ensure it properly takes account of what the levy is paying for. The current structure has been in place for a significant number of years, with a new lower levy rate introduced more recently for schemes with 500,000 members or more. However, it is not clear that the costs are being shared in an appropriate way.
- There is a risk that there is a disproportionate effect on some types of scheme, due to the charging structure which operates on a per member basis. For example, it is worth noting that:
  - Master Trust Authorisation has worked well but we would question whether master trusts, which serve members with low level of pension saving, are paying more as a group than the cost of the authorisation process and ongoing supervision, and are paying a very high proportion of the general levy – we estimate 10 master trusts are paying 25% of the total levy.

    - DB Multi Employer Schemes do not benefit from the recent introduction of the levy cap - where the scheme is sectionalised the total scheme membership is not taken into account for levy calculation purposes.

- The review should include clarity about the objectives and principles which provide a framework for specific proposals.

- We would expect the Fraud Compensation Fund levy to also be part of any review.

- Option 4 in the consultation allows time for schemes to prepare for an increase – so it would appear that the deficit can be managed through the next year – this time could be used for the structural review.

Providing greater transparency on how the deficit has been built up and how costs are apportioned to the activities of the relevant levy funded bodies.

- A review of the structure of the levy needs to be accompanied by greater transparency on the costs and how these relate to the bodies and their activities. This is essential to inform a meaningful review and to ensure appropriate ongoing transparency. Including for example:

    - what part of the levy costs relate to which bodies, areas of activities, projects;

    - how the levy costs relate to other funding - such as for the dashboard, and the Master Trust Authorisation fee;

    - what costs are incurred in respect of specific scheme types; and

    - which costs are borne for the greater good.

- In terms of the deficit we would also like to know more precisely what the increase costs relate to. In the past, we have sought reassurances that regulatory and operational changes would be manageable within current resources – it now appears this may not have been the case. For example, we were assured DB one-to-one supervision would not require additional resources. Moreover, we had understood that The Pensions Ombudsman taking on the Early Dispute Resolution from the Pensions Advisory Service was cost neutral in respect of the General Levy.

- It is highly disappointing that the levy tipped into deficit in 2017/2018 (see Figure 2 of the consultation document) and that there was no signalling of this to levy payers at the time. The consultation document also forecasts current known costs and a potential deficit as far ahead as 2030. We consider these costs to be highly speculative given the potential for significant changes in the overall landscape or regulatory environment.

Developing greater accountability on the part of Government and levy funded bodies to those who fund them, to live within reasonable cost parameters.

- As noted in the consultation document there have been a number of changes in the landscape. However, it is not clear how the impact of these changes on the levy, levy payers, and their scheme members has been assessed. Nor do we have a broader cost-benefit analysis of the changes - for example, including changes in the regulatory approach by the Pension Regulator, or including how this improves member outcomes.

- Within the industry, Automatic Enrolment schemes are subject to a charge cap, DB schemes are subject to funding requirements, and master trusts and contract-based schemes are required to evidence and hold funding reserves. Within Government, changes in legislation and regulation require impact assessments, and the PPF levy has a cap. We would like to explore with Government the checks and balances applied to the type of changes in the levy funded bodies that have brought about the increases in the levy.

This consultation response reflects the view of the PLSA membership as a whole. In addition, the Chair of our Master Trust Committee will be submitting a letter that addresses the concerns of our Master Trust Committee membership in greater detail.

We would very much welcome a discussion about the above points, and stand ready to assist industry and Government in a broader review on this important matter.

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