

06<sup>th</sup> December 2015

Paul Bovey  
Department for Work and Pensions  
1st Floor, Caxton House  
6 – 12 Tothill Street  
London  
SW1H 9NA

Helen Forrest, DB Policy Lead  
020 7601 1737  
[Helen.Forrest@napf.co.uk](mailto:Helen.Forrest@napf.co.uk)

Dear Mr Bovey,

**RE: The Occupational Pension Schemes (Levies) (Amendment) Regulations 2015**

Please find below the NAPF's response to the above consultation.

The NAPF is disappointed that an unexpected deficit has been revealed in the PPF's Administration costs. The sudden resulting increase in the Administration will be unwelcome news for DB schemes who are already dealing with wider changes to the PPF Protection Levy and ongoing pressure to reduce scheme costs. However the NAPF recognises that the £5 million deficit in PPF's administration costs needs to be recovered and, on balance we favour option four - smoothing the payments over four years.

We are more fundamentally concerned with the inadequate explanation put forward by the Department for why a sudden deficit has been revealed for the second time. The NAPF made the same objections in our response to 'The Occupational and Pension Schemes Levy (Regulations) (Amendments) 2008' where another deficit had been revealed with no clear explanation. It is unsatisfactory that this issue has not been addressed. The ongoing lack of transparency gives schemes little comfort that such sudden increases will not to occur again in the future.

Although any increase in costs for schemes is unappealing, it is particularly so when the rationale for the increase is unclear. The explanation provided is wanting on a number of fronts:

<p>The consultation cites the freezing of the administration levy in previous years.</p>	<p>This does little to explain the fact that the deficit is arising now. At the point of freezing schemes were given no warning that this might lead to reparative increases in future.</p>
<p>The consultation suggests that the administration fee should be considered against the backdrop of the PPF's increasingly large investment function.</p>	<p>The NAPF understands that costs associated with the investment function of the PPF are accounted for via the Protection Levy and not the Administration Levy. Indeed, we understand the PPF to be undergoing a program of bringing more of its administrative functions in house, with a view to increasing cost efficiency. It is not clear therefore, without a clear illustration of the rising costs what relevance this backdrop has to an increase in the Administration Levy.</p>
<p>The consultation cites the PPF moving to their new insolvency provider, Experian, as a factor to bear in mind.</p>	<p>We understand from the PPF that this move has contributed to greater administrative costs over the past year and into next year, since costs associated with the old and new insolvency providers are running concurrently for a period of time. However, it would be helpful to be given an explicit illustration of how this (and other larger projects PPF have in mind) is contributing to the deficit.</p>

In summary, these explanations do not adequately account for the sudden appearance of a large deficit; they are also inconsistent with the positive messaging from the PPF's most recent set of report, accounts and strategic plan. UK DB schemes deserve a clear and transparent explanation of exactly why this deficit has arisen, why it will continue to increase without intervention and, ultimately how it might change in the longer term. Without such clarity, schemes are unable to budget for their ongoing costs.

The administration levy is not immaterial. Although the levy is small in proportion to the protection levy, some of our largest schemes have more than 200,000 members, meaning a potential levy increase of at least £138,000 under Option 2 presented. Although the Protection Levy has *on average* been lowered for schemes under the new levy rules for 2015/16 there are a significant

number of outliers that will experience a large increase in their protection levy. Any additional costs imposed on them will not be insignificant.

The NAPF urges the DWP to be more transparent about how the deficit has arisen, so that options for reducing the deficit can be considered from an informed position.

Kind Regards,



Helen Forrest,

DB Policy Lead,

020 7601 1737

[Helen.Forrest@napf.co.uk](mailto:Helen.Forrest@napf.co.uk)