THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

For the attention of:
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The Occupational and Personal Pension Schemes (General Levy) Regulations review 2020 – Consultation Response

The Society of Pension Professionals welcomes the opportunity to respond to this consultation. In developing its response, the Society took a poll of its members, which is referenced here. For more detail on Society members, please see our final section in this document.

Question 1

Which option do you prefer?

From the options under consultation, the preference of the Society's reviewing committees (supported by the majority of those members who responded to our survey) is Option 1. However, it was noted that there was not sufficient detail to fully analyse Options 2 and 3.

As the current consultation acknowledges, a commitment was made that further increases in the Levy rates would be preceded by a wider review of structures, informed by engagement with the industry. The consultation notes that due to time pressure, this was not possible. This is unfortunate and risks impacting on both the credibility of and support for the proposals. The Society extends an offer of future support, to facilitate engagement between Government and the pensions industry, as and when it would be helpful. This could be delivered on an accelerated timescale if necessary. The Society has the breadth of professional membership to ensure that such essential engagement can be facilitated in a focussed and effective way.

Other observations and questions are:

- Schemes are funding the bodies underpinned by the Levy, but what is the mechanism for those who are providing the funding to scrutinise value for money? As the costs increase, the argument for representative oversight becomes greater.
- Further clarity would be welcomed on how the different levy rates proposed between DB/Hybrid, DC Master trusts, and personal pension schemes under Option 1 compare with the different costs in regulating these schemes. Can DWP share their analysis, reflecting that the plan for the current 3-year period represents the actual/projected costs by each of the categories for the Pensions Regulator, the Pensions Ombudsman and Money & Pensions Service.

- It is anticipated that general DC consolidation will, to some degree, reduce the burden for the Pensions Regulator. If overall activity reduces, will the Levy be accordingly decreased through a process of annual review?
- Freezing the Levy in previous years may be seen as something of a false economy, as the deficit grew. Once it is fully funded, at least annual inflationary increases should be considered.
- Occupational Schemes need to understand how they are classified, especially if they have multiple sections – so for example would a scheme that has a closed DB section and an open DC section fall to be treated as one “Defined Benefit and Hybrid Scheme” or as a “Defined Benefit and Hybrid Scheme” for the DB section and a “Defined Contribution” for the DC section. A scheme with different elements of DC and DB could be divided into DC and non-DC members with the DB/hybrid levy only being applied to those who have at least some non-DC rights. The scheme return could capture the relevant breakdown for the levy years 2022/23 onwards.
- Also, what will be the position for schemes that are formally sectionalised and which, under some regulations, are regulated as separate schemes. Will this aspect of sectionalisation be relevant to the general levy?

Question 2

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

Option 1 appears to better represent the costs associated with the different types of scheme, particularly considering the functions and levels of activity of the Pensions Regulator.

With the diminishing number of ‘own trust’ DC occupational schemes, it remains open to question how much impact the difference in Options 1 and 2 will have over the longer term.

Consideration was also given to whether there is ever an argument for a maximum cap for the general levy, particularly for the schemes with very large numbers of members who may have very small pots. This is likely more relevant for Master Trusts, the largest of which currently has c 4.5m members.

Going forward, consideration may also have to be given to commercial consolidators (superfunds) and whether they merit being placed in their own category for the purposes of the levy.

Question 3

What is the impact on your scheme or business of raising the levy under Option 2?

If Option 2 were followed this might be a further reason for DC occupational schemes to consider whether this is the most appropriate way to provide benefits.

Question 4

What is the impact on your scheme or business of raising the levy under Option 3?

It appears that this Option is not being seriously considered but, if Option 3 were followed, it raises the question on how the Regulator and other bodies would be funded over the longer term.

Question 5

How will your scheme respond to a levy increase? (For example: would it be absorbed by scheme, passed on to members, or employers?)

We would expect costs to be met by the employer, and this is reflected in the response to our survey. However, around one fifth of our responding members think the impact will vary depending on schemes. Though it is not anticipated that schemes will pass on costs to the members directly, where schemes absorb additional costs, this may reduce their capacity to deliver other improvements that would otherwise positively impact member outcomes.

Around one third of our responding members consider this the wrong time to raise the levy.

The Society recognises the importance of the bodies and activities funded through the levy but notes that any increase to costs at this point will inevitably have an impact. For example. employer-funded costs will potentially reduce dividends with consequent reduction in equity investment returns; an important investment class for many pension schemes. Fundamentally, all cost increases have an impact at some point and this again raises the question of independent scrutiny of the expenditure.

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?)

Our members look after schemes ranging from small to very large.

Yours faithfully

Fred Emden
Chief Executive, The Society of Pension Professionals

The Society of Pension Professionals (the "**SPP**")

SPP is the representative body for the wide range of providers of advice and services to pension schemes, trustees and employers. The breadth of our membership profile is a unique strength for the SPP and includes actuaries, lawyers, investment managers, administrators, professional trustees, covenant advisors, consultants and specialists providing a very wide range of services relating to pension arrangements.

We do not represent any particular type of pension provision nor any one interest-body or group. Our ethos is that better outcomes are achieved for all our stakeholders and pension scheme members when the regulatory framework is clear, practical to operate, and promotes value and trust.

Many thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds. The SPP's membership collectively employs some 15,000 people providing pension-related advice and services.