Levying fairness

Gregg McClymont explores the challenges of ensuring the pensions general levy is fair for all

Fairness is something that most right-minded people crave – but achieving it is not so easy.

Take the government consultation on the pensions general levy. The levy is the mechanism through which the Department for Work and Pensions (DWP) raises funding for The Pensions Regulator (TPR), the Money and Pensions Service (Maps) and The Pensions Ombudsman (TPO). The costs of these bodies are growing fast; so fast that a deficit has rapidly opened up between what is raised and what is spent.

The picture is complicated further by the current method of raising the revenue, which defines pension schemes' ability to pay in terms of the size of their memberships, not assets under management. Admittedly, this is easy to administer – doubtless an advantage uppermost in the DWP's mind, but it has increasingly perverse consequences in the light of auto-enrolment's creation of tens of millions of small pension pots. It means auto-enrolment schemes – master trusts – don't just pay a lot more, but that the proportion which they pay is only going to accelerate even further as the number of small pots continues to increase.

For example, just the 10 master trust pension schemes that form the PLSA's Master Trust Committee are liable for a quarter of the overall bill, despite only holding around 2 per cent of the occupational pension sector's assets.

The People's Pension, with nearly five million members and £9 billion of assets will be paying £2.9 million towards the general levy in 2020-21. That amounts to 7 per cent of the total levy raised, when our assets only amount to 0.5 per cent of the assets in occupational pensions. The biggest pension scheme in the country will pay just £390,000, on an asset based seven or eight times bigger than The People's Pension. We mean no criticism of USS – a fine scheme – but with assets of more than £60 billion, it dwarfs the £9 billion managed on behalf of members of The People's Pension. Can the government really justify an auto-enrolment master trust paying 700 per cent more than a blue-chip DB scheme?

These kinds of disparities have set the cat amongst the pension pigeons, especially given the size of the levy increases that have been floated by government in the consultation paper.

As a reminder, the four options contained within the consultation document are:

1) Holding increase of 10 per cent of 2019 to 2020 rates on 1 April 2020, further increases from April 2021 informed by a wider review of the levy.

2) Phased increase in the levy over the three years commencing 1 April 2020.

3) Phased increase in the levy over approximately 10 years commencing 1 April 2020.

4) Phased increase in levy over approximately 10 years commencing 1 April 2021.

The industry is increasingly asking questions about the cost of regulation and how the costs differ between different pensions sectors, most obviously between DB and DC. Clarity on what the levy pays for will be an important part of building a new consensus on the general levy.

For our part, we believe a well-designed levy should do four things:

- Provide a stable revenue stream for Maps, TPO and TPR.
- Place limits on cross subsidy, while recognising that cross subsidy is an inevitable feature of levies and is in some cases desirable.
- Ensure the costs of 'greater good' regulation do not fall disproportionately on any one group of levy payers and that schemes should generally fund the regulation of the benefits they offer.
- Be consistent with government policy for the pensions market. It should not focus on any one market sector or create perverse commercial incentives.

The government is currently considering responses to its consultation paper. There are no easy answers. And fairness is often in the eye of the beholder. But it's hard to see how the per member approach can continue to be justified in an auto -enrolment world where members with small pots pay far more than so schemes with much higher average pensions' entitlements. Appraising the principles above is, we think, a reasonable place to start.

Written by The People's Pension group director of policy and external affairs, Gregg McClymont

In association with the people's pension