Footing the (general levy) bill

Industry experts have called for a full review of the general levy following proposals by the DWP, which have raised concerns around transparency and how the levy is calculated and apportioned

Changes to the general levy, proposed by the Department for Work and Pensions (DWP) in its consultation paper in November 2019, have caused concern in the industry, with some industry experts calling for a full review of the proposals.

The general levy is used to recover funding provided by the DWP, The Pensions Regulator, The Pensions Ombudsman, and the Money and Pensions Service, with the amount levied dependent on the number of members within each scheme.

In its consultation paper, *The Occupational and Personal Pension Schemes (General Levy) review 2019*, the DWP outlined plans to increase the general levy by 45 per cent in 2020.

This would be followed by a further increase of 245 per cent in 2023, a proposal which the Pensions and Lifetime Savings Association (PLSA) have since described as a "significant concern".

Industry experts have expressed concern over both the justification for the increase and over how the levy is calculated, which could see a large disparity in how the costs are shouldered across the industry.

PLSA director of policy and research, Nigel Peaple, says: "There should be no major increase without due transparency and accountability on the part of government. We have to question the planning and cost management that has resulted in the DWP asking for a triple digit increase in the general levy."

Peaple highlights that the lack of transparency from the DWP on the proposed increase was "very disappointing", especially considering the "high standards of transparency and governance the very same regulatory bodies it manages demand from pension schemes".

The levy rates were reduced by 13 per cent in 2012/13, and have remained at this level for most pension schemes since then, though a lower levy rate for schemes of 500,000 members or more was introduced in 2017/18.

While the levy was in surplus by £2 million in 2018, increases in annual expenditure means that the fund now has a cumulative deficit of over £16 million in 2019, which is estimated to reach over £50 million by 2020, according to DWP.

However, Peaple contends that, while there have been changes to the regulatory landscape, "it is not clear how the impact of these changes on the levy, levy payers, and their scheme members have been assessed; nor do we have a broader cost-benefit analysis of how this improves member outcomes".

The proposals have also drawn attention to the issues that result in the general levy being calculated per pension pot, which can leave master trusts paying a disproportionate share of the bill.

According to research by The People's Pension (TPP), the proposals would see 10 defined contribution master trusts liable for 25 per cent of the general levy going forward, despite only holding 2 per cent of assets.

"The general levy is no longer fit for purpose," says TPP director of policy and PLSA chair of the master trust committee, Gregg McClymont. "The burden of levy

payments carried by schemes with many members but few assets is perverse."

Echoing the PLSA's call for better transparency, McClymont adds: "We're calling for an immediate review of the structure of the levy and believe that for transparency purposes the government should provide a breakdown of regulatory costs by pensions sector."

The largest pension scheme in the UK has assets of £60 billion, and 450,000 members, and would therefore pay around £390,000. However, according to TPP, which has assets of £60 billion and 4.7 million members, it would have to pay £2.9 million, equivalent to 7 per cent of the total general levy by 2021.

McClymont also highlights how the success of auto-enrolment has exasperated issues, stating: "Auto-enrolment is a small pot-creation machine, because it's, rightfully, brought in a new group of people with lower earnings who move from job to job much more frequently. It's completely unfair that these savers carry the heaviest regulatory burden, with master trusts paying the highest cost."

The plans could see costs rise "exponentially" McClymont warns, adding that this may see providers "left with little choice but to pass the cost directly on to their membership".

The 10 master trusts that would pay 25 per cent of the levy, according to TPP, would be Nest, Now Pensions, Smart Pension, The People's Pension, LGIM, Lifesight, Cheviot, Mercer, National Pension Trust and TPT Retirement Solutions.

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