

**EXPLANATORY MEMORANDUM TO  
THE OCCUPATIONAL PENSION SCHEMES (LEVY CEILING) ORDER  
2007**

**2007 No.**

1. This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.
2. **Description**
  - 2.1 This Order specifies the amount of the levy ceiling for the financial year beginning on 1st April 2007.
  - 2.2 It also revokes the 2006 levy ceiling Order, for the financial year beginning on 1st April 2006.
3. **Matters of special interest to the Joint Committee on Statutory Instruments**
  - 3.1 None.
4. **Legislative Background**
  - 4.1 Section 175 of the Act provides for the Pension Protection Fund to charge a levy to defined benefit occupational pension schemes (and the defined benefit element of hybrid schemes) to fund the compensation it will pay to scheme members if their employer becomes insolvent and the scheme is underfunded to a certain level.
  - 4.2 Section 178 of the Act requires the Secretary of State for Work and Pensions to set a levy ceiling, by affirmative Order, preventing the Pension Protection Fund from raising the levy above a set maximum.
  - 4.3 The ceiling is updated annually by affirmative Order in line with the general level of earnings obtaining in Great Britain. The Secretary of State reviewed the general level of earnings in the Occupational Pension Schemes (Levy Ceiling – Earnings Percentage Increase) Order 2006 (S.I. 2006/3105). He concluded that earnings in Great Britain had risen by 3.8% during the prescribed period.
  - 4.4 The ceiling is updated in line with earnings as this is the closest approximation to the increase in a scheme's liabilities where compensation payable is linked to a member's earnings.
  - 4.5 This Order specifies the levy ceiling figure to be imposed on the pension protection levies for the financial year beginning on 1st April 2007 as £804.45m.

## **5. Territorial Extent and Application**

5.1 This instrument applies to Great Britain.

## **6. European Convention on Human Rights**

James Purnell, Minister of State for Pensions Reform has made the following statement regarding Human Rights:

In my view the provisions of the Occupational Pension Schemes (Levy Ceiling) Order 2007 are compatible with the Convention rights.

## **7. Policy Background**

7.1 The Pension Protection Fund (PPF) has been set up to provide a statutory form of compensation for members of defined benefit occupational pension schemes, where the employer has a qualifying insolvency event and the scheme is underfunded to a certain level.

7.2 The PPF is funded through an annual levy charged to all qualifying defined benefit occupational pension schemes. In addition when the PPF assumes responsibility for a scheme it assumes responsibility for all assets of the scheme.

### *Consultation*

7.3 There is no statutory requirement on the Secretary of State to consult before he makes an Order under the Pensions Act 2004. DWP are not required to consult SSAC as this Order has no impact on DWP benefits.

### *Guidance*

7.4 Guidance on this Order will be put on the DWP website "What's New" section when it comes into force. The PPF will also have copies of the instrument and be in a position to explain the provisions to members of the public. This Order is to be read in conjunction with the Pension Protection Fund (Levy Ceiling) Regulations 2006 (S.I. 2006/2692).

### *Consolidation*

7.5 The levy ceiling is updated annually by affirmative Order in line with the general level of earnings obtaining in Great Britain. Consolidation is therefore not appropriate in this instance.

## **8. Impact**

8.1 This order amends an existing regulatory regime by a pre-determined formula and has only a negligible impact on business, charities and the voluntary sector. A full Regulatory Impact Assessment is not necessary for such legislation.

8.2 There is no impact on the public sector.

## **9. Contact**

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