

EXPLANATORY MEMORANDUM TO
THE OCCUPATIONAL AND PERSONAL PENSION SCHEMES (GENERAL LEVY)
(AMENDMENT) REGULATIONS 2017

2017 No. 203

1. Introduction

This explanatory memorandum has been prepared by the Department for Work and Pensions (DWP) and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

These Regulations give effect to new rates that will be used to calculate the General Levy on eligible pension schemes with 500,000 members or more in 2017/18 and onwards.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

Other matters of interest to the House of Commons

3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

4.1 These Regulations amend regulations 6(2) and 7(2) of the Occupational and Personal Pension Schemes (General Levy) Regulations 2005 (S.I. 2005/626) (“the 2005 Regulations”) (<http://www.legislation.gov.uk/ukSI/2005/626/contents>) to specify the amounts to be used in calculating the payment due from eligible occupational and personal pension schemes in respect of the General Levy in the year 2017/18 and onwards. The Regulations are designed to ensure that the surplus funds that have been raised by the General Levy will be eliminated over time.

5. Extent and Territorial Application

5.1 The extent of this instrument is Great Britain.

5.2 The territorial application of this instrument is Great Britain.

5.3 Corresponding provisions are being made in Northern Ireland.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

- 7.1 The Pensions Regulator (TPR) was established by the Pensions Act 2004 (<http://www.legislation.gov.uk/ukpga/2004/35/contents>) and protects members of work-based pension schemes. The Pensions Ombudsman was established by the Social Security Act 1990 (<http://www.legislation.gov.uk/ukpga/1990/27/contents>); his functions, which are to determine complaints and disputes about the way pension schemes are run, are now specified by the Pension Schemes Act 1993 (<http://www.legislation.gov.uk/ukpga/1993/48>). The Pensions Advisory Service (TPAS) is a non-statutory body that the Secretary of State for Work and Pensions has chosen to fund.
- 7.2 The General Levy recovers the core running costs of the bodies noted in paragraph 7.1 above. The levy rates used to calculate the amount payable by eligible pension schemes have remained unchanged since 2012/13 (when they were reduced by approximately 13%).
- 7.3 The levy rates are reviewed annually to ensure that an appropriate amount is being raised by this levy to meet the costs that are being incurred. The most recent review found that the funding raised by the levy was in surplus, and that the surplus could be expected to increase to £13m by the end of 2016/17. A change to the General Levy rates is therefore needed to eliminate the surplus.
- 7.4 The policy approach is to eliminate the current and developing surplus over time, thereby avoiding the need to change the levy rates each year and providing eligible pension schemes with a firm basis on which to project future levy costs.
- 7.5 These Regulations conform to this approach by introducing new, lower levy rates for pension schemes with 500,000 members or more, pitched approximately 25% lower than the current lowest rates. It is estimated that this change will eliminate the levy surplus by 2020, although movements in the administration costs of the bodies listed in paragraph 7.1 may alter this estimate.
- 7.6 The levy rates for schemes with less than 500,000 are not changed by these Regulations. This has the effect of maintaining, for such schemes, the freeze in the levy rates that has been in force since 2012/13.
- 7.7 Regulation 1 provides for the date when these amendments to the 2005 Regulations will come into force. Regulation 2 specifies the levy rates that shall apply from 1 April 2017. Regulation 3 revokes earlier amendments to the 2005 Regulations which have been superseded by subsequent amendments.

Consolidation

- 7.8 Informal consolidated text of instruments is available to the public free of charge via the National Archives website [legislation.gov.uk](http://www.legislation.gov.uk).

8. Consultation outcome

- 8.1 The Secretary of State has consulted on a draft of these Regulations as required by section 185(1) of the Pension Schemes Act 1993, as amended (see link to this Act in paragraph 7.1).

- 8.2 The consultation period lasted 8 weeks and ran from on 24 November 2016 to 18 January 2017 (see <https://www.gov.uk/government/consultations/the-occupational-and-personal-pension-schemes-general-levy-amendment-regulations-2017>.) An 8 week consultation period was considered appropriate as the primary audience for the consultation exercise was felt to be sufficiently expert not to need a longer period in which to respond.
- 8.3 19 consultation responses were received. Of these, ten supported the proposed approach (option 3: new levy rate band for schemes with 500,000 members or more, pitched at a level 25% lower than the than the current rate for schemes with 10,000 members or more.) 5 respondents supported option 2 (reduce all existing levy rates by 10%.) The remaining 4 respondents either supported or did not support the proposed approach but went on to propose alternative approaches or refinements to the proposed approach.

9. Guidance

- 9.1 The administration of this levy is undertaken by TPR. Information and guidance can be found at the following link:
<http://www.thepensionsregulator.gov.uk/trustees/levy.aspx> which will be updated to reflect the new levy rates from 1 April 2017.

10. Impact

- 10.1 The impact on business, charities or voluntary bodies is to reduce costs where a pension scheme associated with such entities is very large. The following tables depict the effect on very large pension schemes of 4 illustrative sizes. The impact on administration costs is negligible.

Occupational Pension Schemes

Scheme size by number of members	Current levy charge	New levy charge from 1 April 17	Reduction
750,000	£645,000	£487,500	£157,500
1,000,000	£860,000	£650,000	£210,000
1,250,000	£1,075,000	£812,500	£262,500
1,500,000	£1,290,000	£975,000	£315,000

Personal Pension Schemes

Scheme size by number of members	Current levy charge	New levy charge from 1 April 17	Reduction
750,000	£262,500	£195,000	£67,500
1,000,000	£350,000	£260,000	£90,000
1,250,000	£437,500	£325,000	£112,500
1,500,000	£525,000	£390,000	£135,500

- 10.2 The impact on the public sector is to reduce costs by approximately £2m in 2017/18.
- 10.3 A full impact assessment has not been produced as this levy measure falls within one of the statutory exclusions prescribed in the Small Business, Enterprise and Employment Act 2015 (<http://www.legislation.gov.uk/ukpga/2015/26/contents>). It is therefore not a regulatory provision and does not score against the Business Impact Target.

11. Regulating small business

- 11.1 This legislation applies to activities that are undertaken by small businesses. The impact on those businesses is negligible.

12. Monitoring & review

- 12.1 In line with DWP's overall approach to the stewardship of its arm's length bodies, DWP scrutinises and approves the annual business plans and operating budgets of TPR, TPAS and the Pensions Ombudsman. The Chief Executives of TPR and TPAS have Accounting Officer responsibility for those bodies. The Pensions Ombudsman has Accounting Officer responsibility for his office. These bodies must submit annual reports and accounts, which are scrutinised by the National Audit Office before the Secretary of State lays them before Parliament. DWP will continue to review the General Levy rates on an annual basis.

13. Contact

- 13.1 Mark Aldridge at the Department for Work and Pensions (tel: 020 7 449 7401 or e-mail to private.pensionspublicconsultation@dwp.gsi.gov.uk) can answer any queries regarding this instrument.