ASSOCIATION OF CONSULTING ACTUARIES

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2 November 2023

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General Levy Consultation Team
Department for Work and Pensions
ALB Partnership Division
1st Floor
Caxton House
London SW1H 9NA

Dear all

The Occupational and Personal Pension Schemes (General Levy) Regulations review 2023

I am writing on behalf of the Association of Consulting Actuaries in response to the above consultation on the general levy regulations.

We have only commented on two of the questions raised, as the other questions appeared to be aimed at individual schemes or product providers. Our comments on these two questions are set out in the Appendix.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In this event, please contact me on 01372 733763 or at peter.williams@aon.com.

Yours faithfully

Peter Williams
Chairman, Pension Schemes Committee
On behalf of the Association of Consulting Actuaries Limited

APPENDIX

The Occupational and Personal Pension Schemes (General Levy) Regulations review 2023

Specific consultation questions

1. Which option do you prefer?

In the previous consultation[1], which as a result introduced the four levy rate scales, under the implemented Option 1, the expectation was that levy income would be brought into balance with levy expenditure over the medium term, then forecasted by 2025, and the accumulated deficit would be recovered by 2030.

You now say that continuation of what is also Option 1 in the current consultation is expected to result in an accumulated deficit of over £200m by 2030/31.

We are disappointed that you have not published any evidence of the current deficit, the variances that have arisen since the general levy was fixed for the three years commencing 1 April 2021, and how the deficit is expected to develop over the current remediation period if no action is taken. We think that you owe it to levy payers to be much more transparent about these matters and to publish simple accounts each year of revenue raised from each of the four sectors and expenditure incurred from each of the regulatory bodies that are set against the general levy, before going on to provide simple projections on the same basis over the proposed remediation period.

In addition, because you are seeking to recoup a material accumulated deficit, we think you owe it to levy payers to set out what the general levy should look like once that deficit has been recovered and the planned level of increases going forward for inflationary and other unavoidable elements.

Turning to the options, and on the basis of the information you have provided, we agree that action needs to be taken and so Option 1 is not viable. We cannot support Option 3 for the reasons set out below and so think that you should proceed with Option 2.

If you decide to proceed with Option 3, we think that Small Self Administrated Schemes (SSAS) and Executive Pension Plans (EPP) should be excluded from the additional £10,000 levy. This is because:

1) It is the Government's clear intent, in the Joint consultation on the Value for Money Framework[2] carried out in January 2023, that these schemes will be excluded from the Framework; and

2) Consolidation is not practicable for these schemes due to the conditions under which they need to operate.

[1] See https://www.gov.uk/government/news/consultation-launched-to-improve-funding-for-pension-bodies
[2] See https://www.thepensionsregulator.gov.uk/en/document-library/consultations/value-for-money-vfm-framework-consultation

For the avoidance of doubt, even if this change was made for these schemes, we would still be unable to support Option 3 for the reasons set out below.

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

Of the three options set out, we support Option 2, simply because we think that you cannot proceed with Option 3, as this applies an exceptionally harsh £10,000 "additional premium" to each scheme with memberships of under 10,000. In practice this premium will be paid by DB and DC occupational pension schemes.

The general levy is raised under powers set out in section 175 of the Pension Schemes Act 1993. This explicitly states that the levy's purpose is to meet the expenditure of the Pensions Ombudsman, the Pensions Regulator and the pensions guidance functions of the Money and Pensions Service. We are not lawyers, but it seems to us that the additional premium is being raised, not for any of these purposes, but to advance the cause of consolidation, which is a DWP policy matter. Consolidation, which we support in principle, should be for Parliament to decide, such as through the implementation of the Value For Money proposals for DC occupational schemes on which the Government set outs its intentions in July 2023.[3] No doubt, as this and as other consolidation initiatives proceed, there will be some small schemes that will have good reasons not to consolidate, such as small self-administered schemes that are set up primarily for owner/managers of smaller businesses.

We note that over £100m is forecast to be raised through this additional premium in just 2026/27, from an expected 50% of affected schemes who fail to consolidate into larger schemes by 31 March 2026. It seems to us to be completely disproportionate to recoup around 50% of the projected deficit in one year from small schemes. Furthermore, if this additional premium achieved its deterrent effect in full, you would not recover the accumulated deficit by 2030/31, without taking further action.

We mention in passing the Better Regulation Framework[4], aimed at Government departments, such as the Department for Work and Pensions, which amongst other things, says that government regulation has to be proportionate. We do not believe that Option 3 is a proportionate means of recouping the accumulated levy deficit.

There is also the Regulator's Code[5], which amongst other things, says that Regulators should avoid imposing unnecessary regulatory burdens through their regulatory activities etc. It seems to us that the proposed additional premium is not in keeping with this Code.

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[3] See https://www.gov.uk/government/consultations/value-for-money-a-framework-on-metrics-standards-and-disclosures

[4] See https://www.gov.uk/government/publications/better-regulation-framework

[5] See https://www.gov.uk/government/publications/regulators-code

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