

Media Brief

The General Levy

June 2020

Note: This paper is intended as background information for the media. It is not intended as a comprehensive policy paper for The People's Pension.

What is the General Levy?

The General Levy on Occupational and Personal Pension Schemes is in place to recover the funding provided by Department for Work and Pensions (DWP) for The Pensions Regulator (TPR) the Pensions Ombudsman and The Pensions Advisory Service (TPAS).

The Secretary of State for Work and Pensions sets the rate of the General Levy annually. It is due on April 1 every year.

The cost of the levy is calculated per member's pension pot, with a minimum payment.

For schemes with:

- between 100 and 999 members, the cost is £2.88 per member with a £290 minimum payment per scheme
- between 1,000 and 4,999 members, the cost is £1.62 per member with a £2,080 minimum payment per scheme
- between 5,000 and 9,999 members, the cost is £1.23 per member with a £8,100 minimum payment per scheme
- between 10,000 and 499,999 members, the cost is 86 pence per member with a £12,300
- Between £12,300 and 500,000 and over, the cost is 65 pence per member or a minimum payment of £430,000 per year.

Occupational pension providers also have to pay the Fraud Compensation Levy¹ which is administered by the Pension Protection Fund and is charged at 25 pence per member's pot.

Issues with the General Levy

Following the introduction of automatic enrolment, the high rates of job churn, lower earnings and high rates of retention, has meant there has been a ballooning in the number of small pension pots, some with as little as one pence in, each of which generates a levy payment.

Due to the current structure of the Levy, these pots cost auto-enrolment master trusts - multi-employer pension providers - more to administer than they generate in revenue, with the Levy a significant part of that.

As a consequence, master trusts are left footing more than their share of the overall levy compared to the assets they hold and are unfairly subsidising regulatory activity for Defined Benefit pension funds.

On the current system 10 master trusts will pay at least 25 percent of the total General Levy², despite only holding two per cent of industry assets.

By 2020-21, The People's Pension would alone pay nearly seven per cent of the total general levy as it is currently calculated despite assets of approximately £9bn. Compare this to the largest pension fund in the UK; On assets of £60bn and with 450,000 members, the largest fund would pay around £390,000, whereas with assets of around £9bn The People's Pension would be liable for £2.9m.

It was widely reported that the levy was in a surplus by £2m in 2018, however, increases in annual expenditure means that the fund now has a cumulative deficit of more than £16m in 2019, which is estimated to reach above £50m by 2020, according to the Department of Work and Pensions (DWP).

A review of the Levy

On March 4, 2020, following an industry-wide consultation³, the Government confirmed a 10 per cent increase in the cost of the General Levy – a move which would have further increased the financial burden on automatic enrolment master trusts.

On Friday, March 27, the Government announced that, in light of the coronavirus situation, that it would be revoking the order and there would be no increases in the Levy from April 1 2020.

The Government says it remains committed to a structural review and The People's Pension is urging the Government to make levy restructuring a top priority with a new system in place by April 2021.

What we're calling for:

The People's Pension is calling on the Government to:

- provide a clear breakdown of the rising regulatory costs by pensions sector, so it's clear why the General Levy is rising.
- to make reform of the levy a top priority with a new system in place by April 2021.

Footnotes:

1. The Fraud Compensation Fund pays compensation to occupational pension scheme which have lost out financially due to dishonesty: <https://www.ppf.co.uk/fraud-compensation-fund>
2. This figure is calculated from publicly available data – the assets under management for each relevant provider. The ten master trusts include NEST, NOW Pensions, Smart Pension, The People's Pension, LGIM, Lifesight, Cheviot, Mercer, National Pension Trust, TPT Retirement Solutions.
3. Full details of the General Levy can be found here: <https://www.gov.uk/government/consultations/the-occupational-and-personal-pension-schemes-general-levy-review-2019> levy restructuring