

Revised Rates for the General Levy

The DWP has confirmed the rates of the General Levy on occupational and personal pension schemes for 2017/18 onwards.

As had been expected, the DWP is to use a methodology that reduces levy rates for larger schemes and maintains them at current levels for smaller schemes.

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What is the General Levy?

The General Levy on occupational and personal pension schemes recovers the core funding provided by the DWP for the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman.

The levy rates are set out in legislation with the levy being collected annually by the Regulator on the DWP's behalf. Each levy year runs over the course of the financial year: 1 April to 31 March. The current levy rates are as follows:

Number of Members in Scheme	Levy Rates per Member		Minimum Amount of Levy	
	Occupational Pension Schemes	Personal Pension Schemes	Occupational Pension Schemes	Personal Pension Schemes
2 to 11	N/A	N/A	£29	£12
12 to 99	£2.88	£1.15	N/A	N/A
100 to 999	£2.08	£0.81	£290	£120
1,000 to 4,999	£1.62	£0.69	£2,080	£810
5,000 to 9,999	£1.23	£0.46	£8,100	£3,450
10,000 or more	£0.86	£0.35	£12,300	£4,600

Reviewing the General Levy

The levy rates are reviewed annually. Each review takes into account anticipated levy receipts; the agreed spending plans of the bodies listed above and any surplus or deficit that may have accumulated. A smoothing arrangement operates to avoid the need to alter the levy rates each year. This means that, rather than matching exactly the spending of the bodies listed above in a given year, the levy is more commonly in surplus or in deficit.

The levy rates were reduced by 13% for the 2012/13 financial year and have been held at the same level since then.

In conducting the 2017/18 review of the levy rates, the DWP has taken the agreed spending plans of the bodies covered by the levy into account. It estimates that this will be approximately £44m in 2017/18.

The DWP has also considered the amount it expects will be raised from eligible pension schemes in 2017/18 if the current levy rates remain unchanged. This is estimated to be approximately £43m next year.

It is estimated that a levy surplus of approximately £13m will exist at the end of 2016/17. Obviously, this may erode over time if the spending of Regulator, TPAS and the Ombudsman begins to increase, but the process could take a considerable time. For this reason, the DWP has chosen to alter the levy rates from 2017/18 in order to take account of the surplus that has accumulated.

How the General Levy will Change from 2017/18

Following representations from larger schemes, the DWP has chosen to reduce the impact of the levy on very large schemes without imposing additional levy charges on smaller schemes. It has therefore decided to create a new levy rate for schemes with 500,000 members or more, pitched at a level 25% lower than the current rate for schemes with 10,000 members or more. The levy rates for schemes with less than 500,000 members will remain frozen.

The levy rates that are to be payable are as follows:

Number of Members in Scheme	Levy Rate per Member		Minimum Amount of Levy	
	Occupational Pension Schemes	Personal Pension Schemes	Occupational Pension Schemes	Personal Pension Schemes
2 to 11	N/A	N/A	£29	£12
12 to 99	£2.88	£1.15	N/A	N/A
100 to 999	£2.08	£0.81	£290	£120
1,000 to 4,999	£1.62	£0.69	£2,080	£810
5,000 to 9,999	£1.23	£0.46	£8,100	£3,450
10,000 to 499,999	£0.86	£0.35	£12,300	£4,600
500,000 or more	£0.65	£0.26	£430,000	£175,000

This is expected to reduce the surplus to a negligible level by 2020. The DWP believes this balances the need to increase fairness and make the operation of very large pension schemes more economic with the need to avoid imposing an additional burden on smaller schemes. It also believes that this will not limit any increase in scale in the market that may be driven by the consolidation of pension schemes.

In Closing

The UK's very largest pension schemes are to benefit from the surplus that has grown from the General Levy in recent years. While these schemes contribute more in Levy payments, trustees and providers of smaller schemes will no doubt also have wished to see a reduction in their Levy rates. The Levy surplus does at least mean there is no increase in the General Levy for another year though.

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