

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

### General levy to increase from April 2021

The DWP has announced that the general levy for occupational and personal pension schemes will increase from next month. This follows a consultation on proposals to increase the levy at the end of last year.

Three different options were considered in the consultation for increasing the levy rates. As expected, the government has chosen to introduce separate rates for different types of pension schemes (reflecting the differing levels of oversight required for each scheme type).

With the DWP forecasting an £80m deficit in the general levy this year, changes were inevitable even against the background of the COVID-19 pandemic.

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#### What is the general levy?

The general levy recovers the DWP's funding for some or all of the activities of The Pensions Regulator, The Pensions Ombudsman and the Money & Pensions Service (MaPS). It is payable by all registered pension schemes with more than one member.

The levy is collected each year by the Regulator on the DWP's behalf. The amount payable is based on the number of members in the scheme, but subject to a minimum charge. (The levy year is aligned with the financial year, running from 1 April to 31 March.) For general levy purposes, "members" includes all active, deferred, pensioners and pension credit members. Neither life assurance only members or dependants with a pension in payment are included. The membership data that pension schemes submit to the Regulator in their Scheme Return is therefore reflected in the levy invoice.

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The current levy rates, for occupational pension schemes and personal pension schemes, are as follows:

Number of members	Occupational pension schemes		Personal pension schemes	
	Levy per member rate	Minimum charge per scheme	Levy per member rate	Minimum charge per scheme
2-11	N/A	£29	N/A	£12
12-99	£2.88	N/A	£1.15	N/A
100-999	£2.08	£290	£0.81	£120
1,000-4,999	£1.62	£2,080	£0.69	£810
5,000-9,999	£1.23	£8,100	£0.46	£3,450
10,000-499,999	£0.86	£12,300	£0.35	£4,600
500,000+	£0.65	£430,000	£0.26	£175,000

### Current funding position of the levy

Eight years ago, the general levy was in surplus by around £24m. Funding has worsened since then and moved into deficit in the last three years. According to DWP modelling, contained in last year's consultation, the levy was expected to be operating with an accumulated deficit of £80m by this year.

Without an increase in the rates, some of the core activities of the Regulator, the Ombudsman or MaPS would need to cease or be curtailed. Following the consultation, the government has accepted that the current levels of funding for the three bodies must also be considered. Accordingly, the 2021/22 operating budgets of the Regulator and the Ombudsman will be frozen at 2020/21 levels. The DWP has also decided to reduce the core element of funding for MaPS that will be chargeable to the levy by 25% in 2021/22.

### The DWP's chosen method of increasing the levy

Rather than just differentiating between occupational and personal pension schemes, the DWP is introducing separate levy scales for DB and hybrid schemes, DC occupational pension schemes, master trusts, and personal pensions. This reflects the differing levels of attention given to the various types of pension scheme (and recognises the separate supervisory regime that authorised master trusts are already subject to).

A 10% increase will apply from April 2021 for DB and hybrid schemes and DC occupational pension schemes, while levy rates will rise by 5% for master trusts and personal pension schemes. These increases are intended to begin the process of bringing the levy into balance, without imposing an unreasonable burden on pension schemes at the current time. It also recognises that the supervisory regime directs more operational effort towards some scheme types than others.

Higher increases in the levy rates will be brought in over the following two years ending 2023/24. The aim thereafter is to set the levy rates for forward periods of three years which, as well as providing for

more robust planning for payment of the levy by schemes, would also align with the corporate planning cycles operated by the levy-funded bodies.

The levy rates for 2021/22 to 2023/24 are shown below.

### DB and hybrid occupational pension schemes

Number of members	Rate (2021/22)	Minimum charge per scheme (2021/22)	Rate (2022/23)	Minimum charge per scheme (2022/23)	Rate (2023/24)	Minimum charge per scheme (2023/24)
2-11	N/A	£32	N/A	£54	N/A	£64
12-99	£3.17	N/A	£5.33	N/A	£6.34	N/A
100-999	£2.29	£310	£3.85	£530	£4.58	£630
1,000-4,999	£1.78	£2,290	£3.00	£3,850	£3.56	£4,580
5,000-9,999	£1.35	£8,900	£2.28	£15,000	£2.71	£17,800
10,000-499,999	£0.95	£13,500	£1.59	£22,800	£1.89	£27,100
500,000+	£0.72	£475,000	£1.20	£795,000	£1.43	£945,000

### DC occupational pension schemes

Number of members	Rate (2021/22)	Minimum charge per scheme (2021/22)	Rate (2022/23)	Minimum charge per scheme (2022/23)	Rate (2023/24)	Minimum charge per scheme (2023/24)
2-11	N/A	£32	N/A	£38	N/A	£44
12-99	£3.17	N/A	£3.74	N/A	£4.32	N/A
100-999	£2.29	£310	£2.70	£370	£3.12	£430
1,000-4,999	£1.78	£2,290	£2.11	£2,700	£2.43	£3,120
5,000-9,999	£1.35	£8,900	£1.60	£10,550	£1.85	£12,150
10,000-499,999	£0.95	£13,500	£1.12	£16,000	£1.29	£18,500
500,000+	£0.72	£475,000	£0.85	£560,000	£0.98	£645,000

**Master trusts**

<b>Number of members</b>	<b>Rate (2021/22)</b>	<b>Minimum charge per scheme (2021/22)</b>	<b>Rate (2022/23)</b>	<b>Minimum charge per scheme (2022/23)</b>	<b>Rate (2023/24)</b>	<b>Minimum charge per scheme (2023/24)</b>
2-11	N/A	£31	N/A	£32	N/A	£32
12-99	£3.02	N/A	£3.08	N/A	£3.14	N/A
100-999	£2.18	£300	£2.23	£300	£2.27	£310
1,000-4,999	£1.70	£2,180	£1.73	£2,230	£1.77	£2,270
5,000-9,999	£1.29	£8,500	£1.32	£8,650	£1.34	£8,850
10,000-499,999	£0.90	£12,900	£0.92	£13,200	£0.94	£13,400
500,000+	£0.68	£450,000	£0.70	£460,000	£0.71	£470,000

**Personal pension schemes**

<b>Number of members</b>	<b>Rate (2021/22)</b>	<b>Minimum charge per scheme (2021/22)</b>	<b>Rate (2022/23)</b>	<b>Minimum charge per scheme (2022/23)</b>	<b>Rate (2023/24)</b>	<b>Minimum charge per scheme (2023/24)</b>
2-11	N/A	£13	N/A	£13	N/A	£14
12-99	£1.21	N/A	£1.23	N/A	£1.25	N/A
100-999	£0.85	£120	£0.87	£120	£0.88	£120
1,000-4,999	£0.72	£850	£0.74	£870	£0.75	£880
5,000-9,999	£0.48	£3,600	£0.49	£3,700	£0.50	£3,750
10,000-499,999	£0.37	£4,800	£0.37	£4,900	£0.38	£5,000
500,000+	£0.27	£185,000	£0.28	£185,000	£0.28	£190,000

As an example, a DB pension scheme with 1,500 members currently pays a levy of £2,430. From April 2021, this will increase to £2,670, and from April 2023, the levy for such schemes will have risen to £5,340 (more than double the current rate).

In comparison, a master trust with the same number of members currently pays the same amount of levy as the DB scheme above but will be liable to pay £2,550 in 2021/22 and £2,655 from April 2023. (It should be recognised though that master trusts must pay substantial fees as part of their authorisation process with the Regulator.)

## Comment

In 2019, the DWP had proposed a small initial increase in levy rates; this increase was scrapped due to the COVID-19 pandemic. It also proposed a structural review of the levy to inform on future increases. The DWP regrets that due to unavoidable time pressures no consultation with the pensions industry on this structural review has this time been possible, but the decision to introduce separate rates for different types of pension scheme, relative to the degree of regulatory involvement, is a step in the right direction.

However, trustees and providers are likely to want closer scrutiny of levy funding by the DWP going forward. The levy rates are reviewed annually by the DWP, and there has not been an increase in the rates since 2008, with an across the board decrease in 2012, and the largest schemes saw a further fall in their levy rates in 2017.

Over this period, the workload of both the Regulator and the Ombudsman has increased, and with it the costs involved. It is important that the DWP monitors the funding of the general levy more closely in future to try and avoid these levels of increases in the levy being necessary again.

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