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Fraud Compensation Levy to increase from April 2022

Following a consultation last year, the DWP has now confirmed that the Fraud Compensation Levy (the Levy) will increase to £1.80 per member for occupational pension schemes (other than master trusts). The Levy for master trusts will increase to £0.65 per member.

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The Levy

The Fraud Compensation Fund (the Fund) provides compensation to defined benefit and defined contribution occupational pension schemes where there has been scheme asset reduction attributable to an offence involving dishonesty, and where the employer has become insolvent or is unlikely to continue as a going concern. The Levy recovers the costs of compensation paid by the Fund from occupational pension schemes.

The Levy is currently limited to £0.30 per member for master trusts and £0.75 per member for other occupational pension schemes. It is collected by The Pensions Regulator.

The reason for the increase

A High Court judgment in 2020 clarified that pension liberation schemes were eligible to make a claim on the Fund, if they satisfied specified criteria.

There are insufficient assets within the Fund to meet the increased claims arising from that judgment in the short term. (The Fund’s Annual Report and Accounts for 2020/21 confirmed it held assets of £33.9m.) The DWP has therefore made a loan of approximately £250m to the PPF (as manager of the Fund) which will be used, along with any assets in the Fund, to meet these potential claims. The loan will be repaid via the Levy. The DWP has estimated that if the Levy rates were to remain unchanged, the Fund would be facing a deficit of over £250m by 2025.

The PPF will be able to set the Levy at levels that will enable it to repay the loan provided by the DWP by 2030/31. The loan is expected to cover 122 schemes, mainly in respect of frauds occurring between 2010 and 2014, over the period from 2021 to 2025.

Buck comment

This was a consultation that raised plenty of objections – not least because of the short notice of the increase coming into force - but in reality, it was unlikely that the DWP would seriously reconsider its proposals, bearing in mind the need for the loan to be repaid.

There have been understandable calls for the operation of the Fund to be reviewed, in a similar way to how the General Levy on pension schemes has also been looked at in recent years. The DWP appears to have rejected these calls, at least for now.

Fraud has blighted pension schemes and members for many years now. The Fund might be seen as a necessary evil, as it supports members that have suffered from fraud, however it is unfortunate that the DWP has rejected this opportunity to properly review the working of the Fund to ensure it is both as efficient and effective as possible going forward.

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