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The future of the General Levy

The DWP is consulting until 13 November 2023 on proposed changes to the structure and rates of the General Levy on different types of occupational and personal pension schemes.

The consultation is intended to raise awareness of the ongoing deficit in levy funding and sets out three options for mitigating this over the next three tax years from 2024/25 through to 2026/27.

The DWP's preferred option will be unwelcome news for many small schemes.

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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 and 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.

Different rates apply to defined benefit schemes, personal pension schemes, master trusts and defined contribution schemes other than master trusts. The current and proposed rates of the levy are set out in Annex A and B respectively of the consultation document.

The amount payable is based on the number of active, deferred, pensioners and pension credit members in the scheme, but subject to a minimum charge. Neither life assurance only members/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. (The levy year is aligned with the financial year, running from 1 April to 31 March.)

The levy rates are reviewed annually by DWP. Each review considers, amongst other things, anticipated levy receipts; the agreed spending plans of the bodies listed above, normally over a forward period of three years; and any surplus or deficit that may have accumulated.

Funding issues

The increasing span of activities carried out by the Regulator, the Ombudsman and MaPS positively support government objectives, pension schemes and members. However, a natural consequence of increased activity is additional pressure on the levy. Without an increase in the levy rates or a significant reduction in the activity of the levy-funded bodies, the amount by which the expected revenue from the levy falls short of forecast expenditure (the deficit) will continue to grow significantly.

As of 2020, the government had protected schemes from increases in the levy for eight years, even though expenditure exceeded revenue throughout that period. While the rates in force since 2021 have gone some way to addressing the deficit, levy income is not keeping pace with expenditure. Without further intervention, the levy is expected to be operating with an accumulated deficit of over £200m by the end of the agreed remediation period.

The DWP’s proposed options for dealing with the levy deficit

Continue with the current levy rates and levy structure

This option would freeze rates at this year’s rates until tax year 2026/2027 and retain the four existing categories of rate payer. It would see the levy deficit continue to grow, requiring greater rises at a later date.

Retain the current levy structure and increase rates by 6.5% per year

This allows for the current structure of the levy to be retained while increasing rates for all schemes at 6.5% per year. It will bring the cumulative deficit back into a compliant level by 2031.

Increase rates by 4% per year and signal an additional premium rate for small schemes (with memberships up to 10,000) from 2026

This is the DWP’s preferred option and increases rates by 4% per year across all schemes and will add a £10,000 premium to schemes which, as of April 2026, have memberships under 10,000.

The premium allows for a lower initial increase across all schemes, while still paying off the deficit, and supporting the consolidation of smaller schemes.

Comment

The increased activities of the bodies in scope, such as The Pensions Regulator, make the funding pressures on the General Levy entirely understandable. The government is right to keep the funding position under regular review and to take action to remedy the deficit.

Consultations on the General Levy are notable in that while the government normally proposes a number of options for funding the levy going forward, they usually come with a distinct ‘preferred approach’, as is the case here.

However, the preferred option this time appears to be a direct attack on small schemes, which the government is using to advance its drive for consolidation.

While the consultation highlights the fact that “most [small] schemes … are frequently found in research to have lower governance standards, lower knowledge and awareness of pensions and low compliance levels”, the government doesn’t appear to have provided a genuine case for penalising small schemes paying the proposed General Levy premium. It is unclear whether small schemes take up a disproportionate amount of the resources of the bodies funded by the levy, to justify the premium.

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