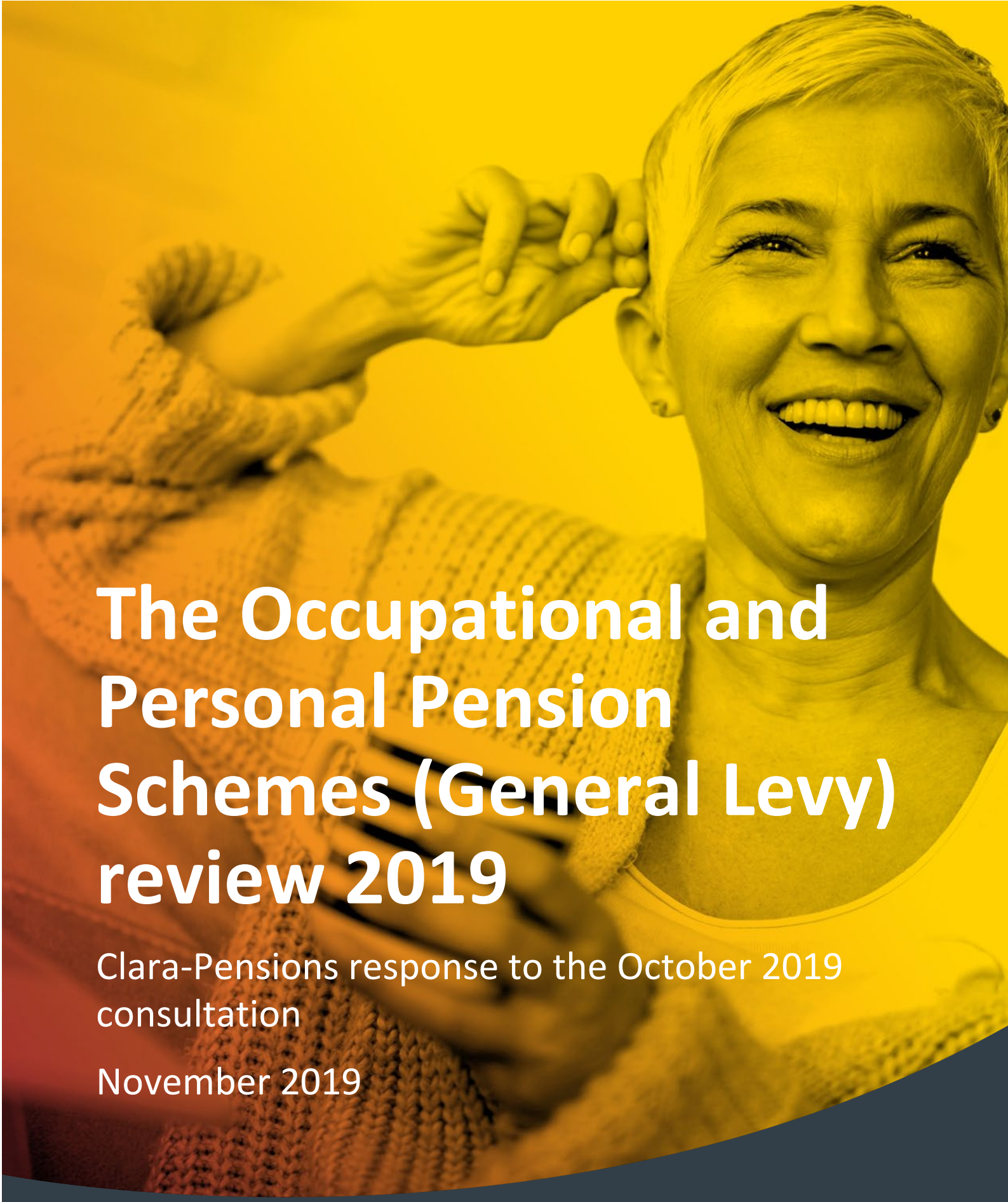

The Occupational and Personal Pension Schemes (General Levy) review 2019

Clara-Pensions response to the October 2019 consultation

November 2019

Clara PENSIONS

Introduction

It's right that pension schemes, and ultimately their members and sponsors, meet the costs of the regulatory, dispute resolution and advisory framework that exists around them.

We welcome the opportunity to respond to this consultation on the future of the General Levy. The main elements of our response are outlined below. We've then directly answered the specific questions posed.

- We strongly support the investment that continues to be made in strengthening the capabilities of The Pensions Regulator.
- Likewise, we strongly support the work being undertaken by TPO and MaPS, particularly the development of pension dashboards.
- These activities need to be funded properly and therefore the levies charged to pension schemes need to recover these costs.
- The pension schemes landscape is however one that is changing and evolving. Alongside wider developments like the rise of auto-enrolment, as a commercial consolidator Clara is part of that evolution.
- We support the option of a single year increase in levies to provide the opportunity for a wider review 'to consider longer-term options for changing the structure of the levy.'
- We would be keen to participate in any review; It should consider the existing banding and structure of levies, alongside the absolute level.

Appropriate levies for all pension schemes

The consultation notes the increased demands on The Pensions Regulator of an evolving pensions landscape and how this should be met through increases to the General Levy. We welcome that the consultation does not revisit the suggestion from December 2018 to further sub-divide pension schemes by type and apportion regulatory costs and hence

levies accordingly[1]. Our consultation response of February 2019 explained our concerns about the inappropriate sharing of costs that this might create[2]. This would also have wider implications for other specific forms of occupational pension scheme such as Master Trusts.

We would also note that the current approach in applying the tiered per member rate to sectionalised multi-employer schemes fails to adequately reflect the benefits of operating as a single scheme.

Consultation questions

Within the framework outlined above our answers to the specific questions raised are as follows:

1. ***Question 1*** *Which option do you prefer?*

   Our preference is Option 1.

2. ***Question 2*** *In respect of your answer to Question 1, why do you support your preferred option?*

   We support Option 1 for two principal reasons:

   - While increases are justified, committing to sustained increases in levies over an extended period would be pre-emptive at this stage.

   - We support the proposed wider review of the General Levy which forms part of this proposed option.

   Given the commitment to a wider review it might be appropriate for DWP to consider whether an inflationary increase rather than a ten per cent increase is appropriate at this stage.

3. ***Question 3*** *Would you like to propose any alternative option(s) to those set out in this consultation which would eliminate the levy deficit? If so, please provide details.*

   We believe that TPR, TPO and MaPS should be appropriately funded and that substantial tax-payer funding is not appropriate. As such the levy deficit will have to be eliminated through increases in levy income. We do not propose any alternative options at this stage.

4. ***Question 4*** *Do you agree/disagree that we should increase the fixed levy contribution for small schemes with 2 to 11 members? Please give your reasons.*

   We believe that the minimum levy payable should reflect the base fixed costs of regulating a pension scheme (e.g. costs of charging and processing levy, costs of

[1] Question 62, Consolidation of defined benefit pension schemes, DWP, 7 December 2018 https://www.gov.uk/government/consultations/defined-benefit-pension-scheme-consolidation
[2] Page 50, Clara-Pensions consultation response, 5 February 2019 https://clara-pensions.com/content/uploads/2019/01/20190205-Clara-Pensions-DWP-Consultation-Response-Public.pdf

mailings and the costs of maintaining Exchange for the scheme). The minimum fixed levy contribution should therefore be derived from these costs.

5. ***Question 5*** *What is the impact to your scheme of raising the levy? How will your scheme respond to a levy increase? (For example: would it be absorbed by scheme, passed on to members, or employers?)*

   In the Clara model, expected levies payable over the lifetime of the scheme are factored into the scheme funding required as each section enters the consolidator. We allow for some variability and increases in these levies. As such, reasonable levy increases would be absorbed by the scheme. It is unlikely that levies would increase to a level where the impact on scheme funding would be material and delay the relevant section's journey to buy-out.

6. ***Question 6*** *If you were to consider passing on costs to employers to absorb the levy increase, what is the size composition of employers using your scheme? (For example: are they mainly small, with less than 50 employees or larger employers?)*

   See our answer to Question 5.