Response by TISA to DWP consultation:

The Occupational and Personal Pension Schemes (General Levy) Regulations review 2023

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry.** We have **over 240-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings, Investments & Pensions**. This reflects TISA's commitment to open standards and independent governance.

Response

We welcome the opportunity to respond to DWP consultation: The Occupational and Personal Pension Schemes (General Levy) Regulations review 2023.

Whilst this is aimed at schemes affected by the levy, there is a wider angle that we are responding to in relation to option 3, the proposed additional £10,000 levy on schemes with less than 10,000 members and the interactions this has with member outcomes, Value for Money and private asset investment.

To put the proposal into context, it is worthwhile outlining the market for the proposed additional levy. TPR scheme return data 2022/23 states there are 25,770 DC Occupational Pension Schemes (OPS) with fewer than 12 members including 21,100 Relevant Small Schemes (SSAS) and 480 Executive Pension Plans (EPP).

SSAS schemes are set up by limited companies with membership usually comprising the company directors, senior employees and family members. As membership is restricted to a maximum of 11 members, these schemes are typically used for the benefit of smaller employers. The members are also the trustees meaning they have full control over the assets and investment selection – they are therefore not likely to be investing in assets which are inappropriate as this will only impact their own outcomes.

The wide range of permitted investments mean it is typical for these schemes to hold the sponsoring employer's premises and other UK commercial property. SSAS rules also enable the scheme to make loans to the employer, which are often used for investment purposes.

Government estimates show that in 2022, there were circa 1.2 million employers in the UK private sector with 1-9 employees, covering over 4.3 million employees. Many of these firms will be start-ups and more generally provide a range of important services to UK citizens and represent a growing sector that the Government is strongly encouraging investment into. The unique rules of the SSAS are clearly designed to benefit smaller employers and as such, have become an important savings vehicle for thousands of employers, providing opportunities to support UK business whilst also securing flexible retirement benefits for their members.

A stated outcome of the proposed £10,000 levy is to promote SSAS consolidation and increase Value for Money (VfM) through scale, whilst also supporting the Mansion House reforms around private asset investment.

Whilst these benefits may be achieved through the consolidation of other types of OPS, there are several reasons why this is not appropriate for smaller pension schemes such as SSAS:

- DWP have previously recognised that SSAS schemes cannot be considered as comparable to other types of OPS such as GPPs and Master Trusts. This is why they are exempt from the existing VfM assessment requirements for schemes with less than £100 million of assets under management.

- The differences are further acknowledged in the extension of VfM to the proposed wider framework. An extract from the FS reads '*We propose to exclude Small Self-Administered Schemes (SSAS) and Executive Pension Plans (EPP) from VfM framework These micro schemes have members who are more engaged with decisions around investments and are typically advised. They may have less need for the VFM framework. We also consider that it would not be proportionate in this phase to apply the VFM framework to these micro schemes given the cost to them.*' It is interesting to note that associated costs are considered disproportionate, yet an additional £10,000 levy is proposed here.

- The consultation also refers to TPR research which indicates smaller schemes have lower governance standards. However, the research paper – 'The DC Schemes Survey' excludes SSAS and EPP so this is not a relevant reference.

- The investment flexibility of SSAS make any consolidation exercise extremely challenging – commercial property is illiquid and crucial to the success of a business. If these are sold then we may see the closure of many smaller businesses including local independent shops, solicitors, accountants, financial advisers, dentists and doctors' surgeries. This goes against what the government is trying to achieve in encouraging investment into UK business and infrastructure. The other complication relates to consolidating SSAS' which have loans attached – there is no easy way to do this.

- If they can be consolidated into another scheme then the only option is a SIPP, given its ability to hold commercial property. However, the benefit of pooling is lost and this is unlikely to create better outcomes for the individual SSAS members. They will also need to take regulated advice in winding up the scheme, which adds to costs along with associated legal expenses. The contraction in the SIPP market of those which allow commercial property also makes the logistics of consolidating possibly 20,000+ SSAS unmanageable.

- In summary, it is not possible to draw comparisons between SSAS consolidation and other OPS consolidation due to the unique nature of SSAS and the benefits and opportunities they bring to small UK businesses and their members. There is no identifiable member benefit and is likely to create detriment – at an individual member and UK business level.

With regards to the £10,000 additional levy, we understand this has been proposed with the flexibility of it being a potentially one-off cost or a recurring fee. These would clearly generate very different funding outcomes and creates a perception that the proposals are designed with the intention of closing impacted schemes, rather than to balance the books. Given the disproportionate impact this has on SSAS schemes and for the reasons we have outlined above we do not favour either, however it would be useful if a a Cost Based Analysis was available for both of these options.

With regards to the enforcement of employer compliance, we do not necessarily see the sector as being responsible for this expense. There is an ever-increasing cost for regulatory change and ongoing compliance. The addition of yet further cost will inevitably lead to an element being passed onto members. The levy regulations came into force in 2005 and we have seen significant change in the OPS sector since then, notably with the introduction of Auto Enrolment in 2012. It would be worth considering whether the existing structure remains appropriate in today's landscape, or whether there are alternative options which could be explored with industry. The employer compliance aspect could be rolled up into this review which should also include considering whether it is appropriate for the reintroduction of the Pensioneer Trustee which was removed in 2006. We believe many administrators would welcome its return, providing more security and better outcomes for members, similar to what is sought under the New Consumer Duty.

We are fully supportive of the drive to increase Value for Money, with several initiatives recently implemented or in the pipeline such as the New Consumer Duty, Pension Dashboards, Small Pot consolidation, Value for Money and an OPS Decumulation framework. Industry is at full capacity in contributing to discussions and developing their propositions. It would be prudent to allow time for these to be implemented and fully embedded, ensuring they successfully deliver on their objectives before considering whether further change is needed.