B&CE Response to Financial Reporting Council (FRC) consultation on the Levy

1. Introduction

B&CE is the provider of The People's Pension. The People's Pension is a master trust serving 2.4 million savers in the auto-enrolment market. We provide low cost, high quality pensions to low and moderate income earners. We are an efficient, private sector alternative to the government-funded state intervention of NEST. We are not reliant on state subsidy of any kind. We are run under a trust in the interest of our members. B&CE Holdings has been providing welfare and employee financial benefits for the construction sector since 1942 (B&CE also provides a stakeholder pension for the construction industry, which serves a further 476,000 members).

2. General comment

It is unclear to us what rationale the FRC has applied in order to decide to exempt schemes with less than 5,000 members from paying the levy. Neither considerations of fairness nor good policy making would appear to support the approach. If it adopted such a charging structure, the FRC would be applying a rationale that is the opposite of that being applied by the DWP in relation to the general levy in its pursuit of a more equitable charging structure. As an economic signal, it also conveys the opposite information to that which regulators are now seeking to convey to employers. It would seem desirable on these two counts for the FRC to reconsider its approach.

3. Consultation question:

Pension levy for 2017/18

The FRC pension levy normally applies to all Defined Benefit and Defined Contribution schemes with 1,000 members or more. We are proposing to exempt pension schemes with fewer than 5,000 members from paying the levy. This will have the effect of removing around 1,200 small schemes from our funding group.

We will finalise the levy rate to be applied to the schemes that remain in scope informed by the latest available data on scheme membership provided by The Pensions Regulator, and taking into account the smaller levy population. We are proposing an increase in the pension levy rate to £3.12 per 100 members.

Do you have any comments on our proposed levy rates?

4. Our comment

4.1.In the Department of Work and Pensions consultation: The Occupational and Personal Pension Schemes (General Levy) (Amendment) Regulations 2017, the government has proposed, based on considerations of fairness, to adopt an approach which is the precise opposite to that proposed by the FRC.

> 4.1.1. In its document, the DWP state (at page 7):
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> "- the Government has received representations from a group of very large pension schemes, who argue that their levy charges are unfairly distributed and unreasonably high. The number of members in these schemes is growing on account of Automatic Enrolment and any future consolidation of schemes could add to this effect.
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> - the schemes that have made representations have also pointed out that they are currently serving a large number of scheme members with small pension pots, which, they argue, make their levy charges uneconomic.
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> - the Government believes that the representations that have been made carry weight. An occupational pension scheme with 1m members currently pays a levy charge of £860,000 – a charge 70 times larger than is applied to a scheme with 10,000 members paying a charge of £12,300. Yet the larger scheme is most unlikely to receive 70 times

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the supervisory effort that is directed towards the smaller scheme by the pension protection regime."

4.1.2. The Government is therefore proposing that the charge per member should be £2.88 per member for schemes with 12-99 members, with the sum per member reducing gradually as the number of members rises. The lowest cost would then be £0.65 per member for schemes with over 500,000 members.

4.1.3. It is unclear to us why the FRC have reached the conclusion that members of large schemes are better able to sustain a reduction in the value of their savings caused by the subtraction of a levy than a member of a small scheme? Typically, members of schemes with less than 5,000 members are higher earners than members of the largest schemes. Frequently, they also work for larger employers. Our members are typically lower earners and many work for smaller companies.

4.2.There is central government and regulatory concern at the tail of small schemes that provide poor governance and high cost services to members. It is unclear why the FRC believe that it is appropriate to send an economic signal that large schemes should cross-subsidise what are generally less efficient small schemes.

4.2.1.The Financial Conduct Authority note in their Interim Report for the Asset Management Market Study (MS 15/2.2) that smaller pension schemes are less effective at ensuring value for money for their members: "We find that there is a relationship between some of the challenges facing oversight committees and their size, with smaller schemes (in terms of assets under management (AUM) and the number of trustees), generally being less well-resourced and knowledgeable. The amount of assets also affects oversight committees' bargaining position, with smaller schemes being less able to secure discounts from asset managers". (p.67)

4.2.2.The Pension Regulator notes on p.19 of its paper "21st Trusteeship and Governance that; "The correlation between scheme size and governance behaviours is a theme that runs through all our surveys and research, with smaller schemes often associated with lower quality of governance and administration."

More information

For further information on this response, or the work of B&CE and The People's Pension, please contact: Andy Tarrant, Head of Policy & Government Relations at andytarrant@bandce.co.uk or 07515 121204.

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