EXPLANATORY MEMORANDUM TO

THE PENSION PROTECTION FUND AND OCCUPATIONAL PENSION SCHEMES (LEVY CEILING) ORDER 2025

2025 No. 103

1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid by Command of His Majesty.

2. Declaration

2.1 Torsten Bell MP, Minister for Pensions at the Department for Work and Pensions can confirm that this Explanatory Memorandum meets the required standard.

2.2 Samantha Hainsworth, Deputy Director of Defined Benefit Pensions Policy at the Department for Work and Pensions confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Sarah Kennedy at the Department for Work and Pensions email: sarah.kennedy2@dwp.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Pension Protection Fund provides compensation to pension scheme members whose employer has become insolvent and whose scheme cannot secure its liabilities at least at the compensation levels paid by the Pension Protection Fund. It is funded partly by a levy collected from pension schemes. This Order increases the levy ceiling amount which can be collected in the 2025/26 financial year[1] by the Board of the Pension Protection Fund[2] ("the Board"). The levy ceiling is increased annually in line with growth in the general level of earnings and controls is maximum amount of levy the Board can charge pension schemes.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is Great Britain.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is Great Britain.

4.4 The Department for Communities in Northern Ireland will be introducing corresponding legislation.

[1] 1st April 2025 – 31st March 2026.
[2] https://www.ppf.co.uk

5. Policy Context

What is being done and why?

5.1 The Pension Protection Fund is funded by:

- The pension protection levy that is charged to eligible defined benefit occupational pension schemes;
- The remaining assets of schemes that enter the Pension Protection Fund;
- Funds recovered from insolvent employers; and
- Investment returns on the pension Protection Fund's assets.

5.2 The pension protection levy is made up of a risk-based levy and scheme-based levy. The risk-based levy is required by law to be at least 80 per cent of the total levy. The scheme-based levy makes up the remaining 20 per cent. The scheme-based levy is calculated using the level of the scheme's liabilities, whilst the risk-based levy is calculated using the level of a scheme's underfunding and the likelihood of the insolvency of the scheme's sponsoring employer.

5.3 Each year the Board of the Pension Protection Fund ("the Board") is required to estimate the total amount of the pension protection levy it will collect. The levy ceiling prevents the Board from imposing a total levy exceeding the amount specified in the Order. The ceiling is set at a level that is sufficient to allow the Board to raise a levy that ensures the safe funding of the compensation it provides, while providing reassurance to schemes that the Board's estimate of the levy will not be above a certain amount in any one year.

5.4 In practice, the Board calculates how much it needs to raise in levy each year, and to date this amount has always been less than the levy ceiling.

What was the previous policy, how is this different?

5.5 Last year's levy ceiling order increased the level of the levy ceiling by 8.2 per cent to £1,349,215,811 for the financial year beginning on 1 April 2024.

5.6 The growth in Average Weekly Earnings for the year ending 31 July 2024 has increased by 4 per cent[3]. Therefore, this instrument increases the level of the levy ceiling by 4 per cent to £1,403,184,443.44 for the financial year beginning on 1 April 2025.

6. Legislative and Legal Context

How has the law changed?

6.1 This Order sets out the levy ceiling that will apply from 1 April 2025. This is the maximum amount that the Board can charge eligible defined benefit schemes.

Why was this approach taken to change the law?

6.2 Under section 178(1) of the Pensions Act 2004[4] ("the 2004 Act"), the Secretary of State is required to make an Order to specify the levy ceiling before the beginning of each financial year. Section 178(3) of the 2004 Act specifies that the levy ceiling must be uprated in line with the general level of earnings in Great Britain unless there is no

[3] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsbysectorearn02/current

[4] https://www.legislation.gov.uk/ukpga/2004/35/section/178

increase in the general level of earnings in the review period. Section 178(4) of the 2004 Act and regulation 3 of the Pension Protection Fund (Levy Ceiling) Regulations 2006[5] provide that the review period is the period of 12 months ending on 31 July each year.

6.3 This Order revokes last year's levy ceiling increase Order (S.I. 2024/101)[6].

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 Consultation was not considered necessary as this is a routine instrument which fulfils a statutory obligation to amend a levy in accordance with a pre-determined formula and represents no policy change.

8. Applicable Guidance

8.1 No guidance is being issued on this instrument since it is based on existing legislation.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because this levy measure is out of scope from the definition of regulatory provisions as set out in paragraph 2.3 of the Better Regulation Framework Guidance[7] dated September 2023.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities, or voluntary bodies because the levy ceiling order does not impose additional financial or administrative burdens, nor does it alter the existing framework within which these entities operate.

9.3 The legislation does not impact small or micro businesses because it does not introduce new obligations, costs, or regulatory requirements that would affect their operations or competitiveness.

9.4 There is no, or no significant, impact on the public sector because the legislation does not create new responsibilities, require additional resources, or alter existing processes.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This Order is monitored by the Department for Work and Pensions and the Pension Protection Fund and is reviewed every 12 months.

10.2 The instrument does not include a statutory review clause.

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[5] https://www.legislation.gov.uk/uksi/2006/2692/made

[6] https://www.legislation.gov.uk/uksi/2024/101/contents/made

[7] https://assets.publishing.service.gov.uk/media/65420ee8d36c91000d935b58/Better_Regulation_Framework_guidance.pdf

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").