EXPLANATORY MEMORANDUM TO

THE PENSION PROTECTION FUND AND OCCUPATIONAL PENSION SCHEMES (LEVY CEILING) ORDER 2026

2026 No. 83

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Torsten Bell, Minister for Pensions at the Department for Work and Pensions and HM Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Sam Hainsworth, Deputy Director for 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 can be contacted by email at the following address with any queries regarding the instrument: sarah.kennedy2@dwp.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Pension Protection Fund pays compensation to eligible defined benefit 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 eligible pension schemes. This Order increases the levy ceiling with the maximum amount of pension protection levy ("levy") that the Board of the Pension Protection Fund[1] ("the Board") can collect in the 1st April 2026 – 31st March 2027 financial year. The levy ceiling is increased annually in line with growth in the general level of earnings.

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 England and Wales and Scotland.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales and Scotland.

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

[1] https://www.ppf.co.uk/

5. Policy Context

What is being done and why?

5.1 The Pension Protection Fund is funded by:

- A levy that is charged to eligible defined benefit occupational pension schemes that fall within the Pension Protection Fund's remit;
- 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 levy is made up of a risk-based 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 percentage. The scheme-based levy is calculated using the level of a 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 The Pension Protection Fund Board is required annually to estimate the total amount of 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 Pension Protection Fund's compensation obligations 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.

5.5 The Pension Schemes Bill[2], currently before Parliament, gives the Board greater flexibility to adjust the levy that it sets. The Bill contains measures that remove restrictions in the legislation preventing the Board from reducing the levy to zero and re-instating it, when needed. It also introduces a safeguard which prevents the Board from charging a levy that is more than the sum of the previous financial year's levy and 25 per cent of the previous financial year's levy ceiling.

5.6 The Secretary of State has a statutory duty to lay an order before Parliament to uprate the levy ceiling annually in line with increases in the general level of earnings in Great Britain, under section 178(1) of the Pensions Act 2004 Act[3]. This requirement remains unchanged as the ceiling acts as a statutory cap on the maximum levy that could be charged. This duty persists even where a levy is not being collected for certain schemes, so that the levy ceiling can continue to be uprated in line with earnings.

5.7 The Pension Protection Fund Board has announced[4] that it will not be charging a levy to conventional defined benefits schemes for the 2025/26 year. The Pension Schemes Bill still requires an order to uprate the ceiling annually, but the Pension Protection Fund may choose to set a zero or very low levy within that ceiling.

5.8 This ceiling acts as a legal safeguard to ensure the levy cannot rise above a set limit, even though the actual levy collected is expected to remain much lower.

[2] https://bills.parliament.uk/bills/3982
[3] https://www.legislation.gov.uk/ukpga/2004/35/section/178
[4] https://www.ppf.co.uk/levy-payers/Levy-2025-26

What was the previous policy, how is this different?

5.9 Last year's levy ceiling Order increased 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. The growth in Average Weekly Earnings for the year ending 31 July 2025 has increased by 5 per cent[5]. This instrument increases the level of the levy ceiling by 5 per cent to £1,473,343,665.61 for the financial year beginning 1 April 2026.

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 2026. This is the maximum amount that the Board can charge eligible defined benefit schemes.

6.2 Under section 178(1) of the Pensions Act 2004 ("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 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[6] provide that the review period is the period 12 months ending 31 July each year.

6.3 This Order revokes last year's levy ceiling increase Order (SI 2025/103)[7].

Why was this approach taken to change the law?

6.4 The requirement to lay the Order is a statutory duty set out in the Pensions Act 2004.

7. Consultation

Summary of consultation outcome and methodology

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

8. Applicable Guidance

8.1 No guidance is being issued on this instrument as 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[8].

[5] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsbysectorearn02/current
[6] https://www.legislation.gov.uk/uksi/2006/2692/made
[7] https://www.legislation.gov.uk/uksi/2025/103/introduction/made
[8] https://assets.publishing.service.gov.uk/media/67587ba55a2e4d4b993bfa83/better-regulation-framework-guidance-2023.pdf

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because the Order only sets the maximum levy the Pension Protection Fund could charge, without changing actual levy rates or imposing new obligations, so it has no material effect on businesses, charities, or voluntary bodies.

9.3 The legislation does not impact small or micro businesses. This is because the Order only sets the maximum levy limit and does not impose any new costs or obligations.

9.4 There is no, or no significant, impact on the public sector because the Order does not introduce new duties or costs for public sector bodies; it simply updates the statutory levy ceiling.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This legislation 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.

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 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 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).