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Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
Motion to sit in private agreed to.
Examination of witnesses.
Adjourned till this day at a quarter to Three o'clock.
Members who wish to have copies of the Official Report of Proceedings in General Committees sent to them are requested to give notice to that effect at the Vote Office.

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Saturday 29 June 2013

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

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The Committee consisted of the following Members:

**Chairs:** †Martin Caton, Mrs Anne Main

† Blenkinsop, Tom (Middlesbrough South and East Cleveland) (Lab)
† Bradley, Karen (Staffordshire Moorlands) (Con)
† Colvile, Oliver (Plymouth, Sutton and Devonport) (Con)
Gilmore, Sheila (Edinburgh East) (Lab)
† Graham, Richard (Gloucester) (Con)
† Griffiths, Andrew (Burton) (Con)
† McCann, Mr Michael (East Kilbride, Strathaven and Lesmahagow) (Lab)
† McClymont, Gregg (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab)
† Nash, Pamela (Airdrie and Shotts) (Lab)
† Pincher, Christopher (Tamworth) (Con)
† Reckless, Mark (Rochester and Strood) (Con)
† Reynolds, Jonathan (Stalybridge and Hyde) (Lab/Co-op)
† Selous, Andrew (South West Bedfordshire) (Con)
† Simpson, David (Upper Bann) (DUP)
† Webb, Steve (Minister of State, Department for Work and Pensions)
Wheeler, Heather (South Derbyshire) (Con)

Neil Caulfield, John-Paul Flaherty, Stephen McGinness, Committee Clerks

† attended the Committee

Witnesses

Sally West, Strategy Adviser—Income and Poverty, Age UK

Jane Vass, Head of Public Policy, Age UK

Craig Berry, Pensions Policy Officer, Trades Union Congress

Phil McEvoy, National Pensions Officer (GMB), Trades Union Congress

Debbie Kerslake, Chief Executive, Cruse Bereavement Care

Di Stubbs, Network Development Officer, Childhood Bereavement Network
Public Bill Committee

Tuesday 25 June 2013

(Morning)

[MARTIN CATON in the Chair]

Pensions Bill

9.25 pm

The Chair: Before we begin, I want to make a few preliminary announcements. Will members of the Committee please ensure that all electronic devices are turned off or switched to silent mode during sittings? As a general rule, I and my fellow Chair do not intend to call starred amendments that have not been tabled with adequate notice. The required notice period for Public Bill Committees is three working days. Amendments should be tabled by the rise of the House on Monday for consideration on Thursday, and by the rise of the House on Thursday for consideration on the following Tuesday. Therefore, this Tuesday is the deadline for amendments for the first day of line-by-line consideration on Tuesday of next week.

Not everyone is familiar with the process of taking oral evidence in Public Bill Committees so it might be helpful if I explain briefly how we will proceed. The Committee will first be asked to consider the programme motion on the amendment paper, for which debate is limited to half an hour. We shall then proceed to a motion to report written evidence and a motion to permit the Committee to deliberate in private in advance of the oral evidence session, which I hope we can take formally. Assuming that the second of those motions has been agreed, the Committee will then move into private session, at which point non-Committee members will be asked to leave the room for a short while. Once the Committee has deliberated, the witnesses and members of the public will be invited back into the room, and our oral evidence session will begin.

Ordered,
That—

1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 25 June) meet—
(a) at 2.45 pm on Tuesday 25 June;
(b) at 11.30 am and 2.00 pm on Thursday 27 June;
(c) at 9.25 am and 2.00 pm on Tuesday 2 July;
(d) at 11.30 am and 2.00 pm on Thursday 4 July;
(e) at 9.25 am and 2.00 pm on Tuesday 9 July;
(f) at 11.30 am and 2.00 pm on Thursday 11 July;

2) the Committee shall hear oral evidence in accordance with the following Table:

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<thead>
<tr>
<th>Date</th>
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<tr>
<td>Tuesday 25 June</td>
<td>Until no later than 10:15 am</td>
<td>Age UK</td>
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<td>Tuesday 25 June</td>
<td>Until no later than 11:00 am</td>
<td>Trades Union Congress</td>
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<td>Tuesday 25 June</td>
<td>Until no later than 11:25 am</td>
<td>Cruse Bereavement Care; Childhood Bereavement Network</td>
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(3) proceedings on consideration of the Bill in Committee shall be taken in the following order: Clauses 1 to 5; Schedules 1 and 2; Clauses 6 and 7; Schedules 3 and 4; Clauses 8 and 9; Schedule 5; Clauses 10 and 11; Schedule 6; Clause 12; Schedule 7; Clause 13; Schedule 8 and 9; Clause 14; Schedule 10; Clause 15; Schedule 11; Clauses 16 to 23; Schedule 12; Clause 24; Schedules 13 and 14; Clauses 25 to 28; Schedule 15; Clause 29; Schedule 16; Clauses 30 to 40; Schedule 17; Clauses 41 to 48; new Clauses; new Schedules; remaining proceedings on the Bill;

(4) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Thursday 11 July.

Resolved,
That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(Steve Webb.)

The Chair: Copies of written evidence that the Committee receives will be made available in the Committee Room.

Resolved,
That, at this and any subsequent meeting at which oral evidence to be heard, the Committee shall sit in private until the witnesses are admitted.—(Steve Webb.)

9.27 am

The Committee deliberated in private.

Examination of Witnesses

Sally West and Jane Vass gave evidence.

9.33 am

The Chair: We will now hear oral evidence from Age UK. Before calling the first member of the Committee to ask a question, may I remind Members that questions should be limited to matters within the scope of the Bill? We must stick to the timings in the programme motion agreed by the Committee. Generally, I will interrupt mid-sentence if a session is still continuing at its scheduled finish time. Hon. Members should declare any interest before the start of each panel if that interest is relevant. I welcome the witnesses to our proceedings. Please introduce yourselves.

Jane Vass: I am Jane Vass, head of public policy at Age UK.
Sally West: I am Sally West, strategy adviser at Age UK.

Mark Reckless (Rochester and Strood) (Con): How closely do the Bill’s provisions match your expectations—perhaps desires—for a reformed pension system?

Jane Vass: Age UK supports the aims of the Bill. We think it will help a lot of people for whom the state pension system has not necessarily worked well in the past, particularly people on low lifetime earnings such as women and the self-employed. There are, however, some issues of concern. As a cost-neutral system, there will be winners and losers and our concern is to ensure that some of those issues are clarified and that people are not penalised. There are also concerns around the illustrative level of the Bill, which is only a little bit above the level of the pension credit guarantee. We are also concerned that the Bill does nothing for the 1.6 million pensioners who are living in poverty.

Q1 Oliver Colvile (Plymouth, Sutton and Devonport) (Con): What key concerns have been expressed to your organisation by the public about the move to a single-tier pension?

Sally West: Our concerns are in three areas. The first is about the people who will receive less under the single-tier system than they would under the current system. As Jane said, we know that the Government’s aim is that the reforms are cost neutral. On that basis, if some people are better off under a new system, others will be worse off. The area that we are specifically concerned about is the transition and the people who do not have time to adjust their affairs and have not been able to benefit from automatic enrolment, which is the other side of the pensions agenda. People may get less because savings credit will go and a means-tested system will be less generous. We have heard from people who were expecting to rely on their partner’s contributions and will not be able to and do not have time to readjust their plans. That is one concern.

Our second concern is that the Bill meets its aims and provides a decent platform and certainty. The level and the uprating mechanism going forward are important, because the Bill has an earnings link, yet the impact assessment and the assessments going forward relate to the triple lock. We would like to see the triple lock enshrined in the legislation.

Our third concern, as Jane has mentioned, is those people with low pension incomes, particularly women, who will not be able to benefit from the single-tier system, because they reach state pension age before April 2016. On Second Reading we heard quite a bit about the cohort of women born between 1951 and 1953, who will not be in the single-tier system, whereas men of the same date of birth will be. Age UK has been hearing from a lot of current pensioners who are on low incomes and perhaps have not had many opportunities to save. They tell us that they feel there is a two-tier system, which is unfair. I am happy to elaborate on any of that, but those are our areas of concern.

Q2 Oliver Colvile: Jane, what is your view?

Jane Vass: I would agree with what Sally said. I would also add that the state pension age reform is dependent on having systems in place to support people as they come up to retirement. In the private pensions arena, it is extremely important that people can get the best possible value from their savings, because that will be an important top-up for their state pension.

Q3 Oliver Colvile: Do you find that the majority of people find it difficult to plan for their retirement and their pensions? Do you find that they suddenly work out what they are going to do in the last five or six minutes before it comes up?

Jane Vass: Yes, is the short answer to that. Just to give you one example, people are not always clear about their state pension age, because of the changes. Recent DWP research found that 62% of women thought their state pension age was earlier than it actually was. If you cannot get that across clearly, it makes it incredibly difficult to plan generally.

Sally West: In terms of the single tier, one of the challenges is communication. People who have heard about the single tier think that everyone is going to get £144 a week, and as you are well aware, that will not be the case. Many will get more, because they have already built up high amounts, and others will get less because of contracting out, which is hugely complicated. Although we will eventually have a simple system, the transition will take quite a time. A lot will need to be done to help people understand what the reforms will mean generally, and specifically what they will mean for individuals, because it may be that people could be doing things to make sure their record is complete.

Q4 Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): What do you think about the bereavement support arrangements in the Bill?

Sally West: We have not specifically looked at those. We didn’t have much evidence about bereavement payments and the changes for working age people, including bereaved parents. We have little evidence from the people who contact us. Although people will come to us when they are in their 50s, we didn’t really have any evidence. The only thing that tends to be raised with us is the matter of pensioners who aren’t able to get the bereavement payment now, so we didn’t respond to the consultation. We feel it is better to leave that area to others.

Q5 Mark Reckless: What do you think of the move to a 35-year period for full qualification and the minimum of 10 years to build up any eligibility at all?

Sally West: It is currently 30 years of contributions and we will be moving to 35. One of the issues is that things keep changing. Not long ago, people needed 40 years of contributions; from 2010, it has been 30 years; and now we are looking at 35 years. A general message is to try to get—hopefully—some consensus around the Bill and not keep having these changes that mean people have to reconsider their plans. We want certainty out of the pension reform.

On having to pay more contributions for the full pension, some people in the 30-years category will be disappointed. In the context of trade-offs, if it has to be cost-neutral, then perhaps that is not our greatest concern. But there is a really important issue about making sure people are aware that it is 35 years and, if there are things they can do to keep up their record, they need information about that.
In terms of the minimum period, again we have had change. It was a quarter of your working life; it went down to a minimum of one year; and now it is going back to seven to 10. That is another concern—it is chopping and changing again—so let us hope the reforms will be more long term. The problem is that you get cliff edges. If it is 10 years, there will be people with nine years and people with 10 years. However, where people have a couple of years, because they have worked here and then spent most of their life abroad, we have fewer concerns.

Q6 Mark Reckless: Do you believe that the Bill could be the foundation for the stability that you wish to see?

Sally West: We hope it will be. One of the advantages of what is being put forward, compared with the current system, is that it will be simpler for people to understand. As I said before, the transition is going to be quite complicated, but if people can understand more what pension they are heading for, that helps to get the public support that will keep a pension system in place. It is a big problem with the additional pension scheme—the state second pension. Very few people really understand that, so when there were changes that cut back or perhaps improved it, there wasn’t a great deal of public understanding. So one advantage of a simpler system, hopefully, will be that people have more of a stake in it and will want to protect the system they understand.

Q7 Andrew Selous (South West Bedfordshire) (Con): I want to ask for your views on the position of those with derived and inherited rights to the state pension, and whether you think protections for them are sufficient? Do you have any suggestions in that area, or any concerns?

Sally West: We absolutely agree that it is right that people have individual entitlements to pension provision. Clearly, it was more of an issue for women, and many women reaching state pension age now have a full contribution record. We welcome the protection for people who pay the reduced rate. It is sometimes called the married woman’s stamp. However, we have big concerns about the couples who planned their life on the understanding that they would receive a pension—the woman receiving a pension on the partner’s contributions—and they don’t have time to rearrange those plans. For example, unless a married woman has about 16 years in her own right, she will be worse off as a married woman under the new system. If she is widowed, she will need 25 or 26 years.

We have been hearing from couples who say, “Well, we have really planned on the basis of what we would get”. That is normally where they don’t have children, so they don’t get credits for having children. People who have spent a lot of time on very low wages or doing voluntary work—I recently spoke to a Church minister who said, “It’s like my wife is part of the package”. She’s done work for the Church, cared for the family and doesn’t have much of a contribution record. He was concerned about the impact on people in that situation.

There should be some transitional arrangements to allow people time to plan. The Work and Pensions Committee suggested a 15-year transition, and I think something along that line—because the whole point of the Bill is to give people certainty and help them to plan. I have spoken to a few people who thought they’d done just that. They had planned very carefully, but potentially they will now find that those plans have gone awry and they don’t have many years left to change the situation.

Q8 Christopher Pincher (Tamworth) (Con): You rightly said that some pensioners will receive a bigger pension than others. Do you have any concerns about the starting level of the STP, which the Government say will be set above the pension credit standard minimum guarantee, which is £135.40 per week for a single person? If you do have concerns about the starting level, what do you think it should be set at? If you think it should be set at a higher level, how do you see the increased costs being met?

Sally West: It is a question of balances, isn’t it? We know that the level will be above the pension credit guarantee, but if it is only £1 or so above, it could float people off means-tested benefits and possibly some of the passported benefits like the cold weather payment. Again, picking up a Work and Pensions Committee suggestion, perhaps it should be set at something like 5% above the pension credit guarantee level, so there is that difference and those people will be better off as a result; and to provide a decent platform for saving.

In terms of cost, that is a difficult one. Generally, where we make suggestions, they are possibly ones that increase the cost of pensions. We are concerned that the increased national insurance that the Treasury will receive as a result of the abolition of contracting out is not taken into account in the general cost-neutral basis. Looking to the long term, our country still spends a relatively small proportion of our GDP on, say, pensions compared with many other countries, so we wouldn’t necessarily say that, going forward, we would have to have a cost-neutral system.

Q9 Andrew Griffiths (Burton) (Con): Ms West, in your last answer you touched on means-tested pensioner benefits. Will you give us a bit of a wider view on how Age UK thinks the reforms will affect those benefits?

Sally West: There is a lot of agreement that we want to have systems that reduce the level of means-testing because of the complexity of the process, the problems of incomplete take-up and the difficulties of disincentives to save or the fact that people get to retirement and say, “Why did I bother? I am no better off.” Having said that, the pension credit and the more generous pensioner mean-tested benefits over the past few years have been a really important driver for the reduction in pensioner poverty. So there is always a balance.

The reforms will about halve the proportion of people receiving pension credit under the single tier, both short term and going forward, but it is of concern to us that most of that reduction in entitlement is because the pension credit system may be made less generous by removing the savings credit, rather than because of the increased single tier. We know that there will be some transitional arrangements to help with housing costs, which are also linked to the savings credit. We would be very interested to see those arrangements, and the issues about passporting benefits.

There is a balance between means-testing and non-means-testing, but it would be unfortunate if people reaching state pension age just after 2016 are potentially
quite a bit worse off than somebody with a low income who reached state pension age just before 2016. They will, of course, not have had an opportunity to be in automatic enrolment for many or, indeed, any years. It is important to look at the transition arrangements. I understand that transition arrangements increase complexity, but we have to accept that there will be a fair amount of complexity in that transitional period. It is about the balance between fairness and complexity.

Q10 Oliver Colville: Do you think the abolition of the savings credit will be balanced out by the benefits of the single-tier pension?

Sally West: It depends very much on your circumstances. People with very low incomes will still be able to claim the pension credit guarantee. People with somewhat higher incomes will probably be taken above means-tested benefits. An advantage will be that they will not need the savings credit, because they will have a higher state pension as a basis and more opportunities to save for automatic enrolment. It will be the people in the first few years of the single tier who perhaps have a small amount of pension saving and have a basic pension or the equivalent of a basic pension who, because they lose the savings credit, will find they are worse off than somebody in the same situation who reached state pension age the year before. That is when it's always difficult, because people say, "I am in almost the same situation as my neighbour. I have a small amount of private pension, and I thought I was going to get more out of this new single-tier system and I realise I am worse off." That is where there needs to be more consideration of the transition.

Q11 Oliver Colville: Do you think there are other groups of pensioners who will be affected by this? Can you specify some groups of pensioners who will be badly hit by this?

Sally West: By the loss of the savings credit?

Oliver Colville: Yes.

Sally West: It will be the people who have small amounts of private pensions and small amounts of savings, because in a sense the savings credit was introduced to help those who had made some savings—not the very poorest, but those who had a little bit. They will turn around and say, "Why did I bother saving?" It is a complicated area, and relatively few people understand quite how it works. It has a role in topping up the income of those who have made some provision but have perhaps not been able to build up high pensions, because they have had low earnings throughout their lives.

Q12 Andrew Selous: Can I ask you about the future increases in state pension age? Do you think the current timetable gives people sufficient time to adjust to the future changes?

Jane Vass: As I have said, it does take an awfully long time for people to get the message about their own state pension age. Generally speaking, the research we have done suggests that people need at least 10 years. There is also the question about the level of change. For example, you might say that if pension age increases by so much, people should have 10 years, but if it increases more steeply, people may need longer, because the stakes are higher. There are all those issues to take into account, as well as, for example, what is happening in the employment market and to healthy life expectancies around the country.

Q13 David Simpson (Upper Bann) (DUP): You may have touched on this broadly in some of your evidence, but what other groups will face the most difficulty with the increase in the pension age? You have dealt with individuals and couples, but what other groups do you believe will face difficulty?

Jane Vass: Carers are a particular issue. Research we have done suggests that in 2011-12, 300,000 people left the work force to undertake caring duties. That particular group may not be able to work longer. There will be people in some parts of the country whose employment possibilities are lower than elsewhere. Another group is those with particular health conditions. At the moment, around two thirds of people already work right up to pension age, although some of those people may be in a position financially to retire early because they have good pensions; but in many cases stopping work comes upon them rather than being a result of a planned decision.

Q14 Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): May I turn briefly to the private pension aspects of the Bill, before returning to the state pension issue? Age UK has, as I understand it, a very clear position on the transfer of small stranded pension pots. Will you comment on the Government's proposals regarding small pot transfer?

Jane Vass: First, we are very pleased that the issue has been picked up. We have been very concerned about it for several years now, as we could see the number of small pots increasing. Having said that, our preference was very much for an aggregator scheme model, where money would be transferred into a sort of collecting box at the end of each employment, rather than going from employment to employment to employment, because that seemed a rather simpler system to work out. The main concern we have with the model of the pot following the member from employment to employment is the question of minimum standards. It is possible, for example, that someone might be in one job, in a very good scheme, and actually get automatically transferred into one with high charges or poor investment practices. For that reason, if the pot-follows-member model does go ahead, we think it is essential that there should be minimum standards for schemes, to encourage better practice in the market.

Q15 Gregg McCoylont: Sally, do you want to say a little on why stranded pots is such an important issue in the first instance? Why does it matter so much?

Sally West: I will let Jane do this.

Jane Vass: I can pick that up. It is actually very easy to lose track of a small pension, because if you move from a job or move house, paperwork might not follow you. So, first, it is easy to lose track of it and, secondly, the costs potentially are high. In some schemes, for example, the charges may be higher for a stranded pot; in the worst cases, because of problems with the tax laws, it might be quite difficult to get your money out.
So there are a number of issues that are likely to cause problems, meaning that this is a question that has to be tackled.

Q16 Gregg McClymont: Is it fair of me to say to you that most of the pensions world has doubts about the pot-follows-member model?

Jane Vass: Certainly, Age UK, the National Association of Pension Funds and Which? wrote last year to the Minister to express our concerns about the systems being proposed. So it is an area where there has been some debate and discussion.

Q17 Richard Graham (Gloucester) (Con): Sally, Age UK calls for current and future older people to have sufficient income from state and private sources to live comfortably. What do you think is sufficient income, and what do you think the split between state and private sources should be? Secondly, do you think the combination of the new single-tier pension and the introduction of auto-enrolment effectively incentivises the non-state element of savings and meets your requirement of measures to maximise private savings?

Sally West: Thank you for that question. The sufficient or adequate income question is a really difficult and quite subjective one. If we are looking at a minimum acceptable income, which might be, say, income to avoid poverty, we are probably looking at something around the pension credit rate. That seems to be more or less in tune with the work that the Joseph Rowntree Foundation has done and the definition of poverty as 60% of median income. We would like people to be able to exceed that. In a sense, that is the basis and that is what the single-tier state pension would do. One might need a decent income—perhaps the same again—from private pensions, but it is a hard one.

In the past, we did some research about the difference between a very minimum income and an adequate income, but we have not done anything on that recently. It also depends on what your expectations are and what your previous incomes was; people often talk about two-thirds replacement, so it depends on what you had before.

Where people have the opportunity to build up private provision or additional provision, a state pension of a little bit over the minimum guarantee—say £140 or £150—is a good basis for building up private provision, but it very much depends on what opportunities you have to do that. If, for example, you have been on very low income all your life—if you have been a carer, or you have been disabled—it is very difficult to build up the private provision on top of that. If you have reasonable earnings, particularly with automatic enrolment—we have been very supportive of that—that will give people more opportunities to head for the income they would want.

Q18 Richard Graham: Would it be fair to say that sufficient income is broadly what the new single-tier pension aims to achieve, and the comfortable living aspiration will depend on the amount of private savings, through auto-enrolment and other occupational schemes and so on? Is that broadly what the Age UK position is moving towards with the Bill’s changes?

Sally West: The proposed pension, being just above the minimum guarantee, means in effect that that basic plank of income is provided by a state non-means-tested pension. That provides the platform for saving and makes it easier for people to build up a decent income. If you are relying on only the state pension, you are, in a sense, in the same position as somebody who is relying on means-tested benefits and claims the benefits they are entitled to.

It is certainly a better foundation and a clearer foundation for future saving. How people will be affected depends not only on their circumstances, but on where they are in their working life. Somebody who is some distance away from retirement or the state pension age has more opportunities to save and build up private pensions; hopefully they will have a clearer view of what the state will provide. Somebody who is very close to state pension age does not have the opportunities to change, so if they are not heading for a decent income, or, if they are affected by some of the changes, there is little they can do.

Q19 Gregg McClymont: With the Chair’s permission, I will pick up a few points that have been mentioned so far. May I start, Jane and Sally, with the issue of the Pensions Bill being cost-neutral? Would you care to comment on the increased national insurance contributions from the end of contracting out, going to the Treasury every year from 2016? Do you believe that, in that context, this is a cost-neutral Bill, or does it include a transfer of several billion pounds a year to the Treasury?

Sally West: In terms of cost-neutrality, we would want that to be added into the balance, because that is additional income that people are specifically paying towards the pensions system. We would have seen that as part of the equation.

Q20 Gregg McClymont: Is your understanding of the Bill as it stands that the Government are committed to making sure that that money is put back into the pensions system?

Sally West: Certain bits have been earmarked—for example, the national insurance for employers—but, as far as I know, not specifically for the pensions scheme.

Q21 Gregg McClymont: That is something for the Committee to tease out a little more. I was fascinated by your observations on the potential impact, with some groups—married women and widows—being perhaps worse off, and your elaborating on who the winners and losers are. Can you say a little more about that? You mentioned, for example, married women, who would need 16 years of contributions in their own right not to be worse off under the new system.

Sally West: It also applies to married men and civil partners. The issue for civil partners is different, because civil partnerships have been in place only since 2005, so people have had fewer years to be able to plan. I have heard from at least one man who has been affected, but I will talk about married women. Currently, a married woman could receive a state pension of £66 a week based on her husband’s contributions once he reaches state pension age. If she has 15 or 16 years of contributions, that would give her a single-tier pension of about the same amount, because, as you know, each year is about £4.11 on the £144 basis. So she will not be worse off. She will not be better off under the single tier, but she will not be worse off as a married woman.
If the woman is divorced or widowed, her pension of £60-something will stay the same under the single tier. Under the current system, it could be increased to a maximum, before basic pension, of about £110. So, again, if she has a record that gives her a pension equivalent to £110, she would not be worse off. She would not be better off under the single tier, but it is fair to say that people in that situation are protected. For people who paid the married woman’s stamp, that is very much what the transitional provision does. Where women have paid that stamp, because they were expecting to put it on the husband’s contributions, there is protection for the married woman’s pension and also in bereavement. In the transitional period it is important to look at the situation for people who are not covered by that.

Jane Vass: Well, you could end up with two, but that would mean that at least one pot would eventually stay in one place. You would potentially have two. Our ideal would be to start with smaller schemes, smaller amounts, and potentially look at the stock of existing savings, longer term; so it would be a simplification, but it would cut out the constant moving of increasingly larger sums from scheme to scheme, and potentially from a good scheme to a worse scheme, which is why we favoured the aggregator model. It would also be possible, we felt, for aggregators to drive down charges overall through economies of scale, which we didn’t think were so likely to be achieved in a pot-follows-member route.

Q22 Gregg McClymont: That is really helpful. Can I ask both of you to elaborate on the means-testing aspect? I was struck by what you said about the projections for a reduction in means-tested entitlement. Are we looking at the abolition of the savings credit being the driver, rather than the move to the single-tier pension? Is that a fair assessment of what your evidence has shown?

Sally West: Yes, that is what the DWP impact assessment shows. The reduction in entitlement to pension credit is mainly because people will not receive savings credit. So that affects the people who are not on the very poorest income, but who are regularly receiving pension credit guarantee or perhaps are just above the pension credit guarantee. They get a top-up in recognition that they have made some savings—a private pension or some kind of savings. The biggest impact will be on the proportion of people on pension credit, according to the impact assessment.

Q23 Mark Reckless: May I probe a little further on the issue of the automatic transfer and the small pension pots? Do you see any better way of doing that than the Bill currently provides for?

Jane Vass: Our preference was very much for the aggregator model: when somebody leaves employment, the sum is transferred to a special aggregator scheme and basically stays there until retirement. In our view, that would have had less friction, rather than moving the pot from job to job.

Q24 Mark Reckless: If that were a single scheme, wouldn’t it come to dominate the pensions system and be quite clunky, and difficult or expensive to manage and to move assets around within?

Jane Vass: That was why we felt it would be acceptable to have a number of aggregator schemes, which would still enable them to have scale, but would also mean that you could actually keep track of your savings in their particular scheme. For that reason, NEST would be a good aggregator scheme.

Q25 The Minister of State, Department for Work and Pensions (Steve Webb): It is helpful to hear the alternative proposition described, because in a sense any of these solutions is imperfect, and we are comparing degrees of imperfection. In the model you describe, you have your pension with your current employer, you have small pots with an aggregator from a set of aggregators, and you have medium-sized pots that are still stranded with your previous firm because they are not too small to be small, but they are not big enough to bother moving. Is that correct? So do you still have a lot of fragmentation?

Q26 Richard Graham: Just on that last point: as to the business of economies of scale, I think we would all agree; but doesn’t that argue for an economy of scale of putting all the little pots into one pot, which is easier for the individual to track and easier for them to be aware of, and at the same time gives greater economies of scale? What have the experiences of your members been on that? There are figures showing large numbers of small pots lying around not being looked at, unknown and everything else. Wouldn’t it be simpler just to have one?

Jane Vass: It would be simpler, but as another Member commented, you run the risk of concentration in the marketplace. It might be possible, however, to have a range of aggregators with one specialising in a particular industry segment, so that effectively for the individual it might end up in one scheme without perhaps reducing competition overall.

Q27 Richard Graham: But the concentration of marketplace risk is a separate issue. That depends on the individual choices that the pensioner has made in each scheme. When they are aggregated together there isn’t an arbitrary decision on suddenly putting the whole lot into, let us say, UK equities. It is just a combination of all the different investments that are there.

Jane Vass: Yes. From an individual’s point of view you might say it would better for everything to end up in one scheme; but from the point of view of the industry wanting to have a range of schemes, or, indeed, offering some choice to employers, who may wish to have links to a particular aggregator, we can see why it might be better to go for a range of aggregators.

Q28 Richard Graham: So is your case based on what is in the best interests of the employer, or what is in the best interests of the future pensioner?

Jane Vass: From our point of view, it is very much the interests of the future pensioner. However, the interests of the employer often drive pension decisions in this world, so it is really important to get a sustainable pension system that employers buy into, and that employees buy into as well, over time.

Q29 Andrew Griffiths: Just to pick up something you’ve said a couple of times, Jane, about the risk of a pension pot being moved from a good scheme to a less
good scheme: what evidence do you have that that is more likely than the opposite—that someone could find that their pension is moved from a bad scheme to a good scheme? Don’t you agree that from an individual potential future pensioner’s perspective, they are more likely to be aware of how their scheme is operating and, therefore, be keen to try to influence that, if it is all in one pot rather than a fragmented pot?

**Jane Vass:** From the point of view of moving to a good scheme, you are absolutely right. However, if the money is automatically transferred and the individual has no choice because the choice of pension scheme is made by the employer, it reduces the competition in the marketplace because the employer is effectively making the decision about the pension scheme. From the point of view of having more competitive—

**The Chair:** Order. I am sorry to interrupt you, Ms Vass, but I am afraid that that brings us to the end of the time allotted for the Committee to ask questions of you as witnesses. I thank you very much on behalf of the Committee. We will now hear oral evidence from the TUC.

While the new witnesses come forward, I should mention something that it was remiss of me not to have mentioned before. If Members have any relevant interests related to our panels of witnesses, they should be declared.

**Richard Graham:** Should they be declared verbally or in writing?

**The Chair:** Orally would be fine.

**Richard Graham:** I am never quite sure what a declaration of interest is, but the Register of Members’ Financial Interests states that I am the recipient of a small defined benefit pension. If it is remotely relevant, I also chair the all-party group on pensions. If either of those interests is declarable, I am happy to do so.

**The Chair:** It is always better to declare than not to declare.

**Examination of Witnesses**

*Craig Berry and Phil McEvoy gave evidence.*

10.15 am

**Q30 The Chair:** I welcome our new witnesses. For the record, please introduce yourselves to the Committee.

**Craig Berry:** I am Craig Berry, the TUC’s pensions policy officer.

**Phil McEvoy:** My name is Phil McEvoy. I am national pensions officer for GMB.

**Q31 Mr Michael McCann** (East Kilbride, Strathaven and Lesmahagow) (Lab): In the interests of transparency, I am a proud member of the GMB trade union. May I ask you a very broad question? Do the provisions of the Bill match your expectations for a reformed state pension?

**Phil McEvoy:** In some respects, yes, and in some respects, no. GMB has a long-standing, clear policy for the state pension system to be simplified. The Bill obviously goes some way towards delivering that. It is also our policy to remove the scrouge of means-testing from pensioners and, to a degree, the Bill will deliver that.

I think it is fair to say that we have concerns on a number of points. We have said all along throughout the reform process that we do not believe any reform will be viable unless it is accompanied by a real-terms expenditure increase in the state pension system for both current and future pensioners. As we have heard, and as the Committee will know, expenditure is neutral. I don’t believe we are in a cost-neutral situation because income to the Treasury will be going up, and it doesn’t look as if that extra income is going to be recycled back with an increase in expenditure. That is the first point: more money needs to be spent. Compared with other countries in the OECD, expenditure on the UK state pension system falls sorely behind by a good few percentage points.

In terms of income, we are very concerned about the impact of moving to a single tier, in that the current contracting-out facilities will end, which we think will put great pressure on occupational pension schemes in both the private and public sector.

We also have a long-standing policy on the state pension age. The Bill, as you know, looks to increase the state pension age and bring in an automatic system. We have a policy of resisting state pension age increases while there is such disparity of longevity across the UK, which, on the face of it, seems to be ever growing.

**Craig Berry:** Possibly the main objective of introducing a single-tier state pension is to simplify the very complex and messy system that is in place now. That is an important goal—one that we have supported and one that the Turner commission in the previous decade sought to bring about. We need to be quite cautious about the idea that a single-tier state pension, as proposed in the Bill, represents a significant simplification of the pensions system. We heard from a representative of Age UK about the means-testing that will remain within the system. Many people will remain entitled to the guaranteed element of pensions credit. My calculation is that if they miss just one of the 35 qualifying years that are now required for a full state pension, they will require guaranteed credit.

The current system has a mechanism whereby you can be passported on to other means-tested benefits, which do not receive as much attention or debate, such as council tax benefit and housing benefit; if you receive guaranteed credit or savings credit you are passported on to those automatically, so you avoid those over-messy claims processes. That will end as savings credit is abolished and fewer people are entitled to guaranteed credit in the future; they will still need those benefits but will have to go through separate, possibly multiple claims processes at national and local level. The system is arguably getting more complicated for people who will require one of those means-tested benefits in the future.

The main claim about simplification of the state pension is that it merges basic state pension and state second pension. That is true to some extent, and it mimics the qualities that the basic state pension has...
now in the current system. The problem is that the vast majority of future pensioners will not be getting as much from single tier in terms of income as they would from a combination of BSP and S2P. That means that what is essentially replacing BSP plus S2P is not the single-tier state pension but the single-tier state pension plus some element of private saving. That is not necessarily a more straightforward system for individuals to understand: it is not necessarily a bad structure, but I think that we need to be clear about what is replacing the current system. It is not just a single state pension benefit; it is a single state pension benefit with a now ever more urgent need to save privately, which can be complex and risky for many individuals.

Q32 Oliver Colville: What is your view on the eligibility criteria for the single pension?

Craig Berry: The 35 qualifying years that will now be required? I think that the Turner commission, which I referred to in my previous answer, struck the right balance when determining that for the basic state pension only 30 qualifying years of national insurance contributions should be required. That struck the right balance between a contributory system, which we support, and a universal system that is accessible to the vast majority of people, with the vast majority of people being able to get a full state pension.

The increase to 35 years therefore undermines the settlement that the Turner commission arrived at, which is unfortunate. My understanding is that it will affect only a small number of people, and the majority of people will still get a full single-tier state pension, as they have been expecting to get a full basic state pension. However, it almost undermines the sense of trust that the system will remain as the Turner commission laid out in its plans for long-term reform.

The increase to 35 has been justified on the basis of working lives being extended, as reflected in the policy on the state pension age. The state pension age is going up by only three years, and the Bill does not change that in any way whatever; it accelerates the increase to 67. Qualifying years are going up by five years, so there is a mismatch there, to some extent. Perhaps the qualifying years policy should rise in line with state pension age—there is a debate to be had there—but the Bill does not provide for that; it provides for an increase beyond the increase in state pension age.

Phil McEvoy: I agree with that. We fail to see any real rationale for raising the level for full state pension from 30 years, but if there were to be what we might call a “meet you in the middle” solution, there may be an argument to say that, as state pension age increases, there could be a justification for the qualification period to rise in line with the state pension age increases.

At the lower end, the seven to 10 year qualification period seems, in our view, very retrograde. We cannot really see the rationale behind it unless there is some underlying reason whereby in order to clear Treasury costings there had to be some underpinned level at which no state pension was going to be payable.

Q33 Andrew Selous: What sort of estimate have you made of the impact on public finances if we were to keep the contribution limit to 30 years, which would be typically somebody working from, say, the age of 20 to the age of 50? Given the increase in life expectancy, what study have you made of the impact of that on public finances, given that you have problems with extending it to 35 years?

Craig Berry: My understanding is that because the impact of the increase to 35 qualifying years is small, the impact of maintaining the criteria that are in place for the basic state pension would also be small in terms of public finances. It would probably mean that the ostensible cost neutrality that underpins these reforms would be breached, but I do not think it would be a significant impact. I am not aware that the Government have published any fiscal analysis in that regard.

Q34 Mark Reckless: It would not be a significant fiscal impact if everyone were to get their single-tier pension after 30 years rather than 35.

Craig Berry: The vast majority of people who can accrue 30 qualifying years will probably also get 35 years. That is why the impact on individuals is minimal. It is more a case of trusting the system.

Q35 Mark Reckless: Which groups are you most concerned about in terms of the ending of contracting out?

Phil McEvoy: GMB has a number of members affected in a number of different ways by the ending of contracting out. Just to give a bit of background, we have members in the public sector schemes and the Bill states quite clearly that the renegotiated public sector schemes will not be impacted by this. They are coming in in 2014 and 2015. That will cause concerns for members because they will have to pay an extra 1.4% in national insurance and these are members who have faced sustained pay freezes and most of whom are already paying a lot more for their occupational pensions, with the NHS scheme paying about 10% on average.

Q36 Mark Reckless: Is not this a pretty good deal for public sector workers to the extent that they will have benefited from contracting out—sometimes for a very long time—yet in as little as nine years they will be able to build up a full entitlement to the higher single-tier pension?

Phil McEvoy: You are absolutely right. But for people whose finances are already stretched, the prospect of finding those extra contributions is difficult. What I was coming on to say—it might not be often that you will hear unions expressing sympathy with employers—is that the prospect of public sector employers having to find an extra 3.4% is causing us great concern, especially as we do not know the outcome of any spending reviews that might be imminent. We also have members in the private sector who have been subject to various levels of protection in the past. We have those in the privatised industries who might have statutory protection, saying on privatisation that pension schemes could not be changed unless they agreed to it. They might have protections built into the rules of their scheme, which say that members have to vote through any changes to their pension scheme or there might be a lesser degree of protection in that trustees of pension schemes have to give consent.
The Bill, as it is written, seeks to completely override any of those protections that have existed in the past. DWP launched a consultation on the statutory protections. We have yet to see the outcome of that. We would welcome seeing that at some stage quickly. Where that leaves us is that members are very worried about the impact on their pension schemes in 2016, particularly in the private sector. Many of them do not necessarily buy the line that these employers are the good guys who have kept the pension schemes open. A lot of them think that these are the pension schemes that they have fought long and hard to keep. They are worried that changes in 2016 would just precipitate the ongoing rate of closure of DB schemes. What GMB has been mooting, certainly, is whether there is some sort of facility to retain a system of contracting out, albeit on a much simplified basis, to allow a reduced rate of national insurance to be maintained for both employees and employers and for a lower level of state benefit to carry on.

Q37 Richard Graham: Phil, you mentioned that pension expenditure by the state in the UK is lower than in other EU countries. Why do you think that is more relevant than, say, comparing the relative costs of total pensions and welfare as a percentage of public spending or as a percentage of GDP as a whole? Have you done such research?

Phil McEvoy: I have not done such research, no. If I said, EU, I meant to say OECD. For colleagues who do not know, the figures at the minute are that OECD countries are paying 8.4% on average, whereas the UK lags behind, paying 6.9% on average. What I would say generally on the social security system is that the issue on pensions tends to be that everyone out there wants to get a pension. The UK population views their pensions very protectively. Not everyone wants to get the other social security benefits out there—in fact, I would say very few people actually want to get those, and I am thinking here of disability allowances and jobseeker’s allowance—but people will keep a very close eye on their pensions. People would and should question why the UK is paying so much less than its counterparts across the OECD.

Q38 Richard Graham: I take that to mean that you have not really considered whether the point I raised is as relevant or more relevant and that you have not done the research as such.

Phil McEvoy: I have not done the research.

Q39 Richard Graham: Craig, you mentioned that private savings can be “complex and risky”. I am sure everyone would agree with that, but what role do you see for private savings in preparation for retirement? Do you see pensions as one aspect of savings, or do you see a state pension as something that should be a large percentage of people’s total savings pot? What role do you see for private savings, and what do you think of auto-enrolment as part of this?

Craig Berry: There is no reason why, in the future, as is the case now for many people, private savings should not play a large part in people’s retirement incomes. The TUC and our affiliated unions have been strong supporters of auto-enrolment from the word go. It is vital that we establish not just an inertia-based system, where people are encouraged to save for the long term, but the minimum employer contributions necessary to enable that system to function properly, alongside Government and individual contributions. We are fully supportive of people saving more privately. The state pension should be a significant aspect of somebody’s retirement income.

One of our concerns about the starting rate that has been talked about for the single-tier state pension is that it does not do enough to incentivise private saving. It is almost a stick, because it is low enough that it forces people to save more—they are getting less from their state pension than they might expect or than they would have got under the current system. But there is no carrot, because the solid platform for private savings that we were promised probably will not materialise. I fear that as a result of putting a greater portion of people’s retirement income in the hands of private saving, people will be more risk averse and more averse to making losses. It is our understanding of these behavioural traits that means we have a system based on inertia in the first place. I worry that people will not want to contribute more, because they will be more fearful of taking risks in private saving and putting a greater portion of their expected retirement income in jeopardy.

Q40 Steve Webb: On the protected persons issue, schedule 14 and clause 24 provide for an override for protected persons, but also for an exemption for protected persons, so the Bill allows us to go either way. Can I give you a chance to respond to what employers’ organisations have said on this issue? They said that if you employ a former privatised worker in the transport industry or the energy sector, you already have a two-tier work force—a set of people with protected persons and a set without. They said that if we do not override the protected persons, recouping the employer national insurance increase will fall entirely on the unprotected workers, and that is unfair within the work force. What is your response to that?

Phil McEvoy: What I would envisage in an ideal world come 2016 is the unions and employers being allowed to sit down and negotiate a settlement. We cannot turn a blind eye to the fact that employers might have to pay this extra national insurance cost—I do not think we would or should. We have experience in recent years of dealing with employers operating such protected schemes, at UK Coal and British Gas, where protections have existed, and GMB has sat down and negotiated detrimental changes to those schemes in the light of representations made by the employer. We do not think the employer necessarily should disproportionately benefit one group of employees over another, because, clearly, we have members in those other groups who might lose out. We are worried about employers having carte blanche to trample over previously hard-fought-for rights. But, by the same token, I strongly suspect that we will be sitting round the table with them, looking at the Bill and saying, “Okay, how do we deal with this?”

Q41 Gregg McClymont: Chair, I should say that I am a member of two TUC-affiliated unions, Community and Unite. Phil, you mentioned that TUC wished to sit down with employers to sort out the problem. Would an amendment to the Bill saying that schemes could not be overridden without trustees’ consent help in that process?
Q42 Gregg McClymont: On Second Reading of the Bill and today, there has been much discussion of the importance of the incentive to save. Craig, you picked up on that in particular. Can you elaborate a little on what the TUC would like the Bill to do to encourage saving, particularly through auto-enrolment?

Craig Berry: I talked in a previous answer about the probably counterintuitive sense that a higher state pension actually incentivises people to save more. As a savings platform, it is more solid, which is important. It is important to note that we have taken away one of the key savings incentives in the current system, savings credit, although there is a debate about how effectively that benefit worked.

More generally, we accept the reality that most people in future will be automatically enrolled in defined contribution pension schemes. We would like those schemes to be large-scale so they have cost efficiencies and are easier for the press, members and trade unions to regulate and monitor, and we would like them to be well governed through trust-based governance. Although obviously there are advantages and disadvantages to both trust and contract-based governance of pension schemes, we think in general that trust is the way forward, although improvements could be made to the contract-based model too.

There is not a great deal in the Bill that moves us towards that kind of system. I notice that there is no reference to the restrictions on NEST. It is important to note that those restrictions are lifted, because NEST is the model of the kind of defined contribution pension scheme that we would like people to be enrolled in. Not only is NEST a good scheme, it provides a benchmark for the rest of the private pensions industry: it is a low-cost, well-governed scheme in which members can trust. There is evidence that it has already had some effect on the market despite the restrictions, but we could enable it to do a lot more.

I do not know whether we are going to come to the automatic transfer system and pot follows member. An unfortunate consequence of that might be that it does not provide us with the opportunity to create the scale that an aggregator approach to solving the problem might create. Possibly it is a backward step in that we do not provide us with the opportunity to create the scale that an automatic transfer system and pot follows member. An effect on the market despite the restrictions, but we would like improvements could be made to the contract-based model too.

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Q43 Christopher Pincher: Can I split my question into two parts? Phil, you said that the policy of the GMB is to resist any increase in the state pension age while there are huge disparities in longevity, but I think you would accept that on average, there has been a significant increase in longevity. What disparity in longevity would you think to be reasonable in order to make the change?

Phil McEvoy: How long is a piece of string? This is very timely. My local council magazine came through my door yesterday. There was an article about longevity. It said that kids born at one end of my borough can expect to live 11 years less than kids born at the other end. To my mind, that seems wrong. What degree of variation? Ideally, none. Maybe that is setting the bar a bit too high. How that would be achieved, I genuinely do not know.

Probably the point that I would like to make is that in considering increases to state pension age, I would not dispute that average longevity is going up. The focus should tend to be on those in the lower deciles of longevity expectation. Anecdotally, I would suggest that those are the groups that tend to rely more on their state pension in retirement. I think we would welcome any independent review body study into state pension age changes, but it should focus on those groups, as well as looking at the average.

Q44 Christopher Pincher: Okay, but in all practical circumstances you will not accept an increase in the state retirement age.

Phil McEvoy: I think it is too difficult for us to accept an increase to the state pension age while these disparities are seen to be ever growing.

Q45 Christopher Pincher: We have heard what Age UK thinks. Can you tell us, from your perspective, of any specific groups of workers or your members who are likely to be disadvantaged by an increase in the state pension age?

Phil McEvoy: As you know, over the past few years we have gone through the public sector reforms, and the outcome of that is that the public sector schemes have a pension age in line with the state pension age, so we have a lot of representation from members in the public sector about the impact of the increase in state pension age. I am thinking of people such as ambulance workers, paramedics, the guys who are carrying people down six flights of stairs to get them to hospital after they have had a heart attack. The prospect of such people working at 66, 67 or 68 is potentially very difficult. We are also talking about people in jobs that are very emotionally stressful—social workers, and we have a lot of members in that profession. The prospect of their working to those later ages, first, does not fill them with much delight, but, secondly, they genuinely question their ability to do their jobs at those later ages.

Q46 Christopher Pincher: What mitigation measures do you see to get around that problem without massively increasing the estimated cost?

Phil McEvoy: One possibility that would be useful for the independent body to look at—it is a radical departure for the state pension system—is almost to mimic occupational schemes and to consider the prospect of early release of state pension, albeit on a cost-neutral basis. A lot of caveats would have to be thrown in there, but the possibility that someone with a state pension age of 67 could actually draw their state pension at 65—as I say, on a reduced, cost-neutral basis—on the proviso that they might have another source of income to take them up to whatever the single-tier level might be, should be strongly looked at. I believe, anecdotally—I do not have the information—that some other countries offer that early access to state pension rights; it is something that the UK should look into as well.

Craig Berry: Sometimes we look at the costs of increased longevity, which is a real phenomenon, in the wrong way, in the sense that we look at the old age
dependency ratio—the only measurement that the Government collect data on—which is the proportion of people in retirement above state pension age to people of working age. What is more important, a recommendation that comes from a recent report by the International Longevity Centre, where I used to work, is to consider the labour market adjusted dependency ratio—the number of people in work of working age—the most important aspect of the equation. The implication is increasing employment opportunities for the working age population, and so higher pay. We are seeing this drift towards the UK becoming a low-wage economy to some extent—lower employment rates and lower wages will impact on tax revenues and our ability to adapt to an older society. At the very least, the Government should be capturing those data, which should be informing policy in a way that I do not think they do at present.

Q47 Tom Blenkinsop: First, I would like to say that I am a member of Community trade union, an affiliate of the TUC, and I am a former Community organiser. You touched on it there, Craig, briefly, but do you think that the Bill and the Government have done enough to take into account recent economic trends in terms of zero-hour contracting?

Craig Berry: The state second pension has not had very long to bed into the state pension system. It was a very good model. I can understand that it increased complexity in some regards for the state pension, but it was a very accessible system for people who are very low earners or out of the labour market for justifiable reasons—the best example being caring responsibilities—so too often we are comparing the single-tier state pension with the people coming up to retirement now and their pension entitlement. The system of credits and allowances that existed in SERPS, the predecessor of the state second pension, was nowhere near as generous and accessible as the policy that the Labour Government introduced—the state second pension—which was then made more accessible following the Turner commission’s recommendations.

We need clarity in that debate about exactly what we are replacing when we introduce a single-tier state pension. We are essentially replacing a benefit that has not had time to bed into the system, and that has not fed through into people’s retirement outcomes yet.

Q48 Tom Blenkinsop: What are your views, Phil?

Phil McEvoy: I would echo what Craig said about the state second pension not getting a chance to bed in. The reforms that were being brought in, albeit slowly, to the state second pension meant that it was moving towards a flat-rate payment anyway. I think that the DWP’s own analysis showed that you could expect an extra £1.60 every week for every year that you were contracted into the state pension. This is moving over to the longer term. I have sat with a calculator and done a few simple sums, and that shows that if you had 35 years of contracted-in service, under the reformed state second pension you would end up with a pension at a much higher rate than £144 a week: you would be looking at £160-something a week. That is under the state second pension system that we have and are moving towards.

I would agree with that. Our preference was to retain, albeit simplified, a state second pension model and—going back to the point that was made earlier—with the facility to contract out if occupational schemes so desired.

Q49 Tom Blenkinsop: I have a brief second question. Have you got any information or research in relation to the discrepancy of longevity between, say, the average shift worker and the average non-shift worker?

Phil McEvoy: I have not got that to hand, but I know I can get hold of it. I could certainly include it in a written submission.

Q50 Pamela Nash: I, too, declare that I am a member of the Community and Unite trade unions. You have spoken a bit about your views on the state pension age—you do not want it to increase—but is there any evidence from your members and workers about the effect of the acceleration of the increase in the state pension age that has affected women recently?

Phil McEvoy: The big one that this obviously refers to is the bringing forward of the increase to 65. At our policy conference, GMB had a lot of people standing up and outlining the impact on them, the main one being the lack of time to prepare. If the state pension age is to change, a key factor that has to be recognised—to be fair, I think most parties would recognise—it is that people have to have sufficient notice to prepare for that. I would argue, and I think a lot of people would argue, that the time allowed to women to prepare for this acceleration just was not enough.

Q51 Richard Graham: Phil, earlier you suggested that the Government should increase their spending on state pensions by 2.5%, which is the difference, on your figures, between the UK spend and that of the rest of the OECD. What would the cost be of an annual increase in expenditure by the Government?

Phil McEvoy: Did I suggest 2.5%? Is that 2.5% of GDP?

Richard Graham: That was roughly what you implied. I think that your figures were something like: UK 6.4%—

Phil McEvoy: UK 6.9% and OECD 8.4%, so there would be a 1.5% difference of GDP.

Q52 Richard Graham: What is your estimate of the cost of that?

Phil McEvoy: Is total GDP—this figure is off the top of my head—£1 trillion? [Interruption.] £1.6 trillion. The cost would be 1.5% of £1.6 trillion. Anyone got a calculator? [Interruption.]

The Chair: We can all work it out for ourselves. I call Andrew Selous.

Richard Graham: I had not quite finished, Mr Caton.

The Chair: We are running out of time, Mr Graham. I will call you again if we have time.

Q53 Andrew Selous: You said that you had concerns about the increase in the state pension age. We all understand that people who do physically and emotionally demanding jobs cannot necessarily do those same jobs all the way up to retirement age. What steps is the TUC taking to try to help workers reskill and retrain for
different types of work towards the end of their careers? Is that an area in which you are engaged at all? If not, will you start to look at that?

**Phil McEvoy:** From the GMB point of view, we are always working with employers to manage ageing workforces and the roles that they can do. I have to say that it is very difficult.

There is the “Working Longer” review that is ongoing at the minute in the NHS. There seems to be an idealism that people can move away from manual roles in their later years and take up more sedentary, office-based roles. The reality is that that does not always happen, but we try to work with employers—the NHS is one example—on ways to manage an ageing work force to provide for people to work into those later years.

Ultimately, we come down to an increase of people leaving the workforce before pensionable age. People have to leave for reasons of ill health or incapacity, which can put strain on occupational schemes whether in the public sector or private sector. Much as you might try to help people to change their role, those who have a lifetime in one industry might not, for their last few years, welcome the opportunity to change that role.

**Craig Berry:** The TUC published an analysis last year of a group of men and women aged just below state pension age on their employment circumstances. As you might expect, there are very high inactivity rates among that group compared with other age groups.

There is particular concern about the extent of ill health and disability experienced by that group. These much wider problems will not be tackled either by pensions policy or even labour market policy; it is going to require long-term change to the way that the labour market works, how careers work and so on—the whole system of disability benefits and everything like that.

A large proportion of that group, especially women, were also out of work due to caring responsibilities. Again, that is not something that can magically disappear overnight as an aspect of the way that people live their lives and their ability to create a place for themselves in the labour market. These are not short-term, insignificant problems; there is much work to be done across Government to deal with these issues.

**QS4 Gregg McClymont:** I have a couple of related questions on the private pensions part of the Bill. First, does the TUC share the Work and Pensions Committee’s view that the Government’s idea of a pot follows member system for automatic transfers of small pots? We felt that the best approach was an aggregator, which could be a single aggregator or a multiple aggregator.

The real risk for us was consumer detriment; moving from a good scheme to a bad scheme.

To the Minister’s credit, he took on board those concerns in terms of addressing scheme quality so that when people are transferred between schemes, they can be assured that there are rigorous quality standards in place. But you can still transfer from a better scheme to a worse scheme even if those two schemes are both part of the same regulatory structure.

We were particularly concerned that an aggregator approach was not sufficiently assessed before the decision was taken. There was only a very rough estimate of the cost of administering dormant pots within the aggregated system upon which the fiscal impact was based. There was no analysis by the Government of the impact on particular individuals who have changed jobs and, therefore, had their pension pot moved very frequently. There is clearly that risk group under this system. The costs will mount up. The risk of consumer detriment will mount but also the cost of frequently transferring their pot. The impact assessment describes the transaction costs of transferring the pension pot as unquantifiable. That may be the case, but unquantifiable is not non-existent. Those transaction costs may well be significant and will build up as you frequently change jobs.

We have concerns about the system and the assessment on which the decision was made. We much prefer a multiple aggregator approach. I should say that the impact assessment also did not model a multiple aggregator approach, only a single aggregator approach, which I assume would be NEST, but there are alternatives that could be employed.

You asked about clause 34. We do have concerns about that because it seems to provide the Government, the Secretary of State, with a very broad power to create exceptions to the employer duties on auto-enrolment. When the Government consulted on the issue they talked about some very sensible real-world circumstances where an exception might be necessary: breaching tax relief allowances, where a member about to be auto-enrolled is leaving that employer or, perhaps tragically, has a terminal illness. Exceptions would be sensible in those circumstances.

The result of that consultation seems to be a very broad power where the Government can create exceptions across a range of circumstances. Clearly, that is open to abuse. We have seen Government increase the earnings trigger for auto-enrolment already, with lower earners being excluded. The commitment to ensuring that all low and medium earners are in auto-enrolment is already in question. This probably puts it in question a little more.

**Phil McEvoy:** Can I come in with two quick points?

**The Chair:** Certainly.

**Phil McEvoy:** On the automatic transfers, on more detailed scrutiny quite recently, schedule 16 threw up the fact that members can be transferred out of money-purchase or other prescribed schemes. I am not sure what those other prescribed schemes might include. I think there might be some concern out there that this might also bring in more hybrid or defined benefit schemes under its umbrella. That may not be the case, but some sort or reassurance on that front would be welcome.
To echo Craig’s point on auto-enrolment, we have seen the goalposts change a few times on auto-enrolment policy, which had consensus under the previous Government and this one. We have seen the goalposts move in real numbers terms since auto-enrolment has kicked off. With the uprating of the personal allowance this year, you will have somebody who might have been earning £8,500 in March, who was auto-enrolled, whereas somebody in May would not have been, because of the change in the lifetime allowance. We would be worried about the impact on both employees and employers of constantly moving the goalposts, meaning that the larger employers might have had to meet one set of requirements, whereas the smaller employers might not.

The Chair: A large number of members have caught my eye, but unfortunately we are down to the last three minutes of questions to this panel and the next question is probably going to be the last. I am going to move on to automatic transfers. David Simpson.

Q55 David Simpson: We have briefly touched on the automatic transfer. Craig referred to it in one of his answers. Could you elaborate a little on your concerns or otherwise in relation to the transfer of funds?

Craig Berry: Yes. As you say, I referred to it in a previous answer. It is the risk of consumer detriment. We have now an inertia-based system in private pensions, which is absolutely right. We need to apply that inertia-based approach to transfers as well when people are moving jobs frequently, because we do not want small pension pots to build up in the system and create inefficiencies and complexity for individuals. But if people’s pots are being transferred from a scheme with low charges to one with high charges there is a risk of detriment.

They will have had very little say and little opportunity to avoid that detriment because we have an inertia-based system. People changing schemes fairly frequently are obviously at greater risk of experiencing consumer detriment and also costs associated with transferring the pot. The transaction costs with selling your assets in one scheme and buying assets in another scheme are considerable. There will be people who spend some time out of the labour market, regrettably perhaps between jobs. That will be very difficult for employers to handle as well. In general, the system creates an administrative burden for employers that perhaps undermines the consensus between trade unions, employers and Government that has been in place and driven forward the auto-enrolment reforms more generally.

The Chair: I am afraid that that brings us to the end of the time allotted for the Committee to ask questions. I am going to move on to automatic transfers. David Simpson.

Q56 Andrew Selous: What is your view of the changes to bereavement benefit and of the introduction of the new bereavement support payment in the Bill?

Di Stubbs: Thank you for the opportunity to come here and talk to you in person about our concerns. We have concerns about the way in which two of the clauses in the Pensions Bill will have an effect on future claimants with bereaved children. We feel that the way in which the changes will take effect will be very unfair and will disproportionately be against families that have bereaved children.

I guess that we have slightly explained our concerns in the shorter statement with which I hope you have been provided. We will provide a much longer briefing at the beginning of next week, which will give you some of the references, some of our thinking out, and perhaps some draft amendments, but I am very happy to answer any specific questions, or to give you more background if that would help.

Debbie Kerslake: One of the big concerns is that the period is being shortened, and that will be particularly seriously negative for those with younger children. For example, those who at the moment would be able to receive benefits until the child was no longer eligible for child benefit would be getting benefits for only 12 months. This is a drastic reduction in the length of time over which families are supported, and we are concerned because we believe that more than 90% of families with dependent children will lose out under the proposals.

There is a very small percentage of families that would benefit, but they would be those with older children, for example 16 and 17-year-olds, whereas a mum whose partner had died leaving her with a one-year-old and a three-year-old would be significantly affected. We are talking about very large sums here, for those families.

Di Stubbs: We are talking about very large sums in terms of what they would lose, and very small sums in terms of the very small percentage of people who would gain anything under the system.

Q57 Steve Webb: Thank you both for coming in. This is not an issue that has had a lot of attention so, partly for the benefit of the Committee, on the issue of losers you will understand that we are increasing the lump sum from £2,000 to £5,000 for families with children, and then paying a monthly amount of about £400 for a year. Obviously, the figures are not in the Bill; it is the structure that we are debating.

We do not recognise the 90% figure that you give, on the basis that if someone gets £5,000 not £2,000, that is an extra £3,000. If they get £400 per month for a year, which is roughly similar to the current rate, the extra £3,000 is gain, and therefore the only bereaved families with children who will get less will be those who would otherwise have been on the benefit for several years and, as you rightly say, this is focused on the immediate bereavement. Could you just talk us through why you think 90% lose, when we just do not recognise that?
Di Stubbs: Certainly, I will talk you through the figures that we have used from the impact statement. In fact, the way in which the impact statement is worded makes it sound as if only a small percentage would be affected because of their making a longer claim. But, taking into account the lump sum and the monthly payment for a year, the break-even point, at which it begins not to make a difference, is at about the two-year mark for families in work—that is from your own figures—and at about three years for families out of work. That means that people whose child was 15 or 16, or 17 or 18 if they were in work, are the only ones who would gain under that system.

The other point to make about the lump-sum bereavement payment is that perhaps it was in your minds that that would be able to be eked out over a period of time. We are very aware of the increase in funeral costs and things like that. Given the chaotic situation that exists when a parent has died and the other parent is trying to support the children and doing other things, it will be very difficult to protect that lump sum from all the immediate demands.

Q58 Steve Webb: I think that that may be a misreading of the numbers. Clearly, if you are bereaved when you have a newborn and would otherwise have got 16 years’ worth of benefit—clearly, you would get far more under the current system. That is clear, but we know that, typically, people flow off the benefits for bereaved parents after three or four years—that is the median—so is it not a misunderstanding of our assessment to say that only those who are on for a couple of years gain and that is hardly anybody?

Di Stubbs: I do not believe so. Admittedly, I was talking about the percentage of parents. There are figures. Your own projections go forward about 12 years, because the Department was talking about the widowed parent’s allowance and that is how long that has been in existence for. Even if you take it up to that point, your figures show a cumulative difference of about—it is difficult because there is no actual loser; it is a hypothetical loser under the new system. They would be cumulatively about £15,000 worse off out of work and £26,000 worse off in work. That is the last one of the figures in the impact assessment.

Q59 Steve Webb: Perhaps I can offer to sit down with you and go through this, because the 90% number that you wrote in your letter to The Times is, I believe, wrong. We will publish our own analysis very shortly with some quite different numbers.

On the wider issue, you will understand that, at the moment, bereavement payments are taxed and are knocked, pound for pound, off your means-tested benefits.

Di Stubbs: The monthly—

Q60 Steve Webb: No, the current weekly ones. We are proposing that, for example, the lump sum will be tax free and that because these payments look more like a death grant than a weekly benefit, we can disregard them for universal credit, so have you taken account of the fact that as well as—on top of—a bigger lump sum and a substantial amount in the first year, people can have quite significant universal credit?

Di Stubbs: We appreciate that. One of the things that members of your Department have told us is that the great majority of families who claim bereavement benefits claim only bereavement benefits. They are not in contact with the Department for Work and Pensions for any other reason, so it would be adding people to universal credit. It would be people who are not automatically considering it. There has been a bit of an implication in some of the consultation documents that it is a way of encouraging families that it might be good for them to be back in work. In fact, three fifths of people who are currently receiving bereavement payments are in work. To add people to universal credit would be to complicate the system when I think the aim was to simplify it.

Q61 Richard Graham: Thank you, Di, for the detailed e-mail from Alison Penny. In case other colleagues have not had it. I should say that it contains your specific estimates of those figures that the Minister was discussing with you. It will be very useful.

Di Stubbs: We circulated it to some people in advance of Second Reading; we will be circulating it to everybody here.

Q62 Richard Graham: That would be very helpful. It would probably enable the DWP then to make its calculations based on some of those elements of tax-free lump sums and so on that the Minister was referring to.

On the broad principles of what is proposed in the Bill, could you both say whether you think that it will help the system to be more understandable on the one hand—I am talking about simplification—and, on the other, whether you think that it will be fairer to those who have no children, who arguably are slightly disadvantaged by the current system? Lastly, could you say whether you think that a single contribution is the right sort of approach?

Debbie Kerslake: I am speaking on behalf of Cruse Bereavement Care. Because we represent anyone who has been bereaved, we do welcome the fact that it is a simpler system. I think we said in our statement that there are things that, as an organisation, we welcome and that is one of them. The system is very complex at the moment. It is hard for people to understand, so I think it is positive that we are looking for a simpler system. Is it fairer? As an organisation, one of the things we welcome is ending the age eligibility. It does not seem to make any sense that a 45-year-old should receive a bereavement allowance, and somebody of 44 does not. That is anachronistic in this day and age, so it is fairer in that sense.

Is it fairer that those without children receive an increase and those with children lose out? That is very difficult, because one of the things that we are aware of as an organisation is that there are ongoing demands and ongoing costs following bereavement. There are ongoing costs, whether you are an individual, but also as a result of having children, and we are conscious that those costs of bereavement are not just in the first or second years. Actually, they are throughout childhood, so it is a very difficult question. I am probably opting out of it slightly, because, as I say, it is good that we are recognising the needs of those without children, but I am really concerned that we are doing it at the expense of those with children.
Q63 Oliver Colvile: Thank you very much for coming to see us and for giving up your time to come here and help us. The new benefit will be paid, as I understand it, to bereaved spouses and civil partners, but those who are not married, in some form or another, will not end up with it. Does that concern you at all?

Debbie Kerslake: Yes, it does concern us, because those families and individuals have the same needs as those who are not married. We had a widow, for example, saying that she and her partner were not married, but that they had lived together for 20 years and had children. Her partner had made contributions for all that time, and yet, it felt an injustice that she was not receiving those allowances. I know that there was an issue about how practical it was, but we know that the armed forces have found a way of setting criteria as to which relationships would be recognised. I think that more than 30% of children in 2010 were born to couples who were cohabiting, so a very significant number of children and young people could lose out, and we are concerned about the impact on those bereaved children of not being able to access it.

Q64 Oliver Colvile: I represent a constituency that is a naval garrison town, and I have a lot of people who come to see me and talk about some of these issues, especially for stepchildren as well, who find that their mother’s partner, for example, might have gone. That is an issue, too, but thank you for that.

Di Stubbs: If I could just add an extra point, I know that your constituency has a strong and established child bereavement service in Jeremiah’s Journey. They key point that people who would go there or to any of the other child bereavement services would say is that children are not able to determine their parents’ marital status. If this benefit is to help children with the enormous additional costs that you could say come with losing a parent, such as the effect on their lives and the multiple losses, it is difficult to say that it has to be down to a legal decision as to who their parent is.

Q65 Mark Reckless: Remarrying will no longer affect payment of bereavement support. Is that something you see as a positive change?

Debbie Kerslake: I think that we see it as a positive, but under how it stands at the moment, it would affect so few people, because how many people would remarry in the first 12 months?

Di Stubbs: Of course, it is welcome to remove it, but if you are thinking in terms of the effect on children, you would lose it otherwise—supposing it was still in place, if you considered the chances of somebody getting round to remarrying the first year after a bereavement, you would imagine that it would probably be towards the end of that period of time, so it might be that they lose one month, or £400. They might lose two months, or £800. A very tiny percentage will actually be affected and by a very tiny amount.

Q66 Mark Reckless: Do you accept that in the system there is now, having that financial penalty—almost a penalty—for getting remarried is a negative element in the current system that will not be present in the new one?

Debbie Kerslake: Yes.

Di Stubbs: We accept it. It just does not outweigh the disadvantages of some of the other elements.

Q67 Gregg McClymont: Overall, how many of those who currently would be entitled to the support will end up losing it under the new system? Can you go back over the numbers? There was a disagreement with the Minister about 90%. Can you clarify that for the Committee?

Di Stubbs: I would like to say one thing straight on. I am working from the Department’s figures and, if we have misunderstood them in any way, we would be delighted to talk it through. It is its figures that we are using. We are amateurs at this, so please forgive me. The figure in the Department’s impact assessment in respect of the number of years of the claim was broken down into 12 years because that is the number of years widowed parents’ allowance has been in place. It depends on an assumption of how old the eldest child would be before a claim was made. If a person is claiming for, say, just over a year, it is likely that the child is at the upper end of child benefit. There is a point at which the lump sum and the monthly payment flip over.

Mr Webb, do you agree that about two to three years for those in work, and about the three years for those out of work, is when people would actually gain from the two added together? That is £800 for those in work, while it is £2,700 for those out of work. In respect of children of 15 years old or younger, and 16 years old or younger if the surviving parent is in work, less money would be received under the system. We have stories from people who were pregnant when bereaved or who had a very small child. They were potentially able to claim for 18 or 19 years, and were able to stay in work. That would be a difference of about £45,000.

Q68 Gregg McClymont: If I understand you correctly, once people are claiming the bereavement payment for, say, more than three years, they are losing under the proposed system. You are talking about only those who make claims for less than three years. On the Department’s figures, how often do people on average or in the medium term claim bereavement payments?

Di Stubbs: I am looking partly at the Minister for support on this, but I believe that the average claim is between four and five years, but many claims are for longer.

Q69 Steve Webb: Just for the Committee’s information, under the current brief on widowed parents’ allowances, the average length of claims is about four years. Only one in 14 last more than 10 years. Clearly, yes, if you are pregnant when you are bereaved and you go on claiming for 16 years, you would get a lot less of this payment, but you would get universal credit for that whole period. You said in your response that that makes it more complicated, but it is cash to live on. It is a substantial addition, whereas current bereavement benefits replace other benefits. It would be cash to live on. You are getting intensive help early on and long-term support if you have no other source.

The levels are not in the Bill—the £5,000; the £400 and all the rest of it. A future Government will decide the levels. We are giving them indicative levels. Let us park the levels. Can you say a little more about the structure?
What bereaved families said to us and what your organisation has to some extent said to us in our consultation was that bereavement is a real financial hit. The original proposal was for all of the money to be a huge lump sum. People then said, “No, we couldn’t cope with a lump sum. We would spend it all,” so they ended up with a big lump sum and 12 monthly instalments. Do you have some sympathy with that direction of travel as opposed to quite a small lump sum and a stringed-out benefit?

Di Stubbs: “Yo,” I think. I definitely have sympathy with the idea of increasing the lump sum because costs have increased so significantly. There have been recent reports about the costs of funerals and things like that. So many families who we are in contact with talk about those chaotic first days when there would be pressure from people saying, “Oh, he would have wanted flowers or this or that.” It is very difficult to say “No” to anything at that point. The increase is indeed welcome, as is the principle of monthly support; I know that there is a sort of semantic difference between weekly and monthly support, but whichever way.

The thing that families like about receiving widowed parent’s allowance—I mean, they don’t want to be receiving it; they would do anything in the world not to be eligible for it—it is almost like, because the person who has died, by definition, has to have paid national insurance, and they are not going to claim their pension or incur additional costs for the health service in their later years and things like that, the actual, very small amount that you get for the allowance feels almost like a gift from that person; it is something that they have done for you. They have made the contribution, and now your children will receive that back.

Because we know that the first year is such a year of changes and difficulties, and that in many cases the impact on the children happens in the second or third year, or at times of transition, which is when you need your parent to be not only physically but emotionally present, not concerned with returning to work soon or trying to make complicated child care arrangements so that you always have the same person consistently, this little bit of money, over the period of the child’s life, really can make all the difference. Of course we welcome the fact that you have increased it. We welcome the concept of a monthly sum, but the duration needs to be longer for the children.

The Chair: If hon. Members have no further questions for the witnesses, may I thank you very much on behalf of the Committee?

Ordered, That further consideration be now adjourned. —(Karen Bradley.)

11.22 am

Adjourned till this day at a quarter to Three o’clock.