Public Bill Committee

PENSIONS BILL

Second Sitting
Tuesday 25 June 2013
(Afternoon)

CONTENTS
Programme order amended.
Examination of witnesses.
Adjourned till Thursday 27 June at half-past Eleven o’clock.
Written evidence reported to the House.

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Saturday 29 June 2013

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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

Darren Philp, Director of Policy, National Association of Pension Funds

Dr Yvonne Braun, Assistant Director—Head of Savings, Retirement and Social Care, Association of British Insurers

Bill Galvin, Chief Executive, The Pensions Regulator

Stephen Soper, Executive Director, Defined Benefit Regulation, The Pensions Regulator

Dr Ros Altmann, independent pensions expert

Dr Hari Mann, independent pensions expert; Director, Tomorrow’s Investor, Royal Society of Arts
Public Bill Committee

Tuesday 25 June 2013

(Afternoon)

[Mrs Anne Main in the Chair]

Pensions Bill

2.45 pm

The Committee deliberated in private.

2.50 pm

Ordered.

That the Order of the Committee of 25 June be amended as follows—

in table leave out ‘4.30 pm’ and insert ‘4.45 pm’.—(Karen Bradley.)

Examination of Witnesses

Darren Philp and Dr Yvonne Braun gave evidence.

2.51 pm

The Chair: We will now hear evidence from the National Association of Pension Funds and the Association of British Insurers. Thank you for coming. Before calling the first Member to ask a question, I remind Members that questions should be limited to matters within the scope of the Bill.

Heather Wheeler (South Derbyshire) (Con): I am an associate of the Chartered Insurance Institute, but do not practise anymore. I do not know if that is a declaration of interest that I need to make.

The Chair: It is noted, thank you.

I also remind Members that we must stick to the timings in the programme order the Committee has agreed. I hope that I do not have to interrupt any of our evidence givers mid-sentence, but I will do if need be. For the record, please will the new witnesses introduce themselves to the Committee?

Dr Braun: My name is Yvonne Braun. I am head of savings, retirement and social care at the Association of British Insurers.

Darren Philp: I am Darren Philp, director of policy at the National Association of Pension Funds.

The Chair: Thank you very much. I call on Mr Andrew Selous to ask the first question.

Q70 Andrew Selous (South West Bedfordshire) (Con): Good afternoon, and thank you for coming before us. May I ask you about the revised implementation date that is in the Bill, and whether you think it gives employers and pension schemes enough time to make the necessary changes?

Darren Philp: The first thing to say is that we very much welcome the Government’s proposals for a single-tier pension, which provide a good foundation on which people can save for their retirement. As a whole, the National Association of Pension Funds is very supportive of the provisions in the Bill.

We all know that the timing is very tight. I think that the Government, in their White Paper, said that they would introduce the reforms no earlier than 2017. That has been brought forward to 2016, which will cause issues for our members in terms of the abolition of contracting out and making changes to their schemes to enact the reforms, but they see it as a great opportunity to provide a good foundation for pensions. Even though the timing is tight, if we get the detail and the regulations early so that we can start planning, it is probably doable.

Dr Braun: I echo that. We very much welcome the Pensions Bill and the clarity it brings to people about what the state provides, and the need to save on top of that if they aspire to a higher standard of living in retirement. Also I would note the link to the social care work that is going on and the Care Bill, which are, of course, very strongly linked and are also coming in in 2016. We think that although the timing is tight, as my colleague says, we should work towards that date.

Q71 Oliver Colvile (Plymouth, Sutton and Devonport) (Con): Welcome, and thank you very much indeed for giving your time to come to see us. Are you satisfied with the provisions in the Bill that would allow employers to amend pension scheme rules to take account of the ending of contracting out, or the statutory override, as it is called?

Darren Philp: From our perspective, it was really important that the Government include the statutory override in the Bill. Employers who are contracted out of the state second pension currently receive a national insurance rebate. They pay lower national insurance contributions, but have to provide increased benefits through their defined-benefit schemes to offset that. It was important to have the statutory override; without it, my earlier comments on the timetable for delivery would have been very different. It is important that the override stay there.

There remain issues to resolve about whether the override applies to protected persons, such as those who are covered by legislation from former nationalised industries, for example; I think there are still decisions to be made on that. There are also issues that we need to work through with regard to how employer statutory override applies to a multi-employer scheme, but this is something that we are working through with officials in the Department. I repeat my call: the earlier we can see draft regulations and the earlier we can see the detail, the sooner we can work through that and the sooner schemes and employees can start to plan.

Q72 David Simpson (Upper Bann) (DUP): Are you satisfied with the proposed new arrangements for the Government to review every six years whether increases need to be made to the state pension age?

Dr Braun: It is very sensible that the Government should take account of the latest developments in longevity. We know that often in the past, the official estimates...
were not very accurate and underestimated what was happening, so it is a sensible thing to do. For some people perhaps it raises the fear that there will be further adjustments upwards all the time in terms of the state pension age. What is sensible is that, actually, there will have to be additional legislation, so it is not an automatic mechanism that raises the state pension age. If I remember rightly, the report will have to look at longevity developments, but also at other factors, so things such as inequality in life expectancy, for example, could also be taken account of. We think that that makes sense.

Q73 David Simpson: Do you agree, Mr Philp?
Darren Philp: Yes, I think it is a sensible provision. Changing the state pension age is a big deal: it has big implications for individuals' lives and big fiscal implications as well. Having a rolling review to ensure that the state pension age stays in tune with changes in longevity, basing that on an independent report from the Government's Actuary's Department and having it discussed by an independent body to present Ministers with all the facts, analysis and evidence—that has to be an improvement for policy making. I very much welcome what the Government have said on this.

I would like to see some certainty for individuals. It would be a shame if we were changing state pension age every five or six years; people need time to plan, especially if they are saving in defined-contribution schemes. I would like to see something in the legislation that said that the Government will give at least 5 years’ notice, with x being 10 or so, to give a bit more certainty.

Q74 Gregg McColmont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): May I ask the panellists about their views on the Bill's provisions on and the Government's approach to stranded small pots—how to transfer pension pots automatically? What is the NAPF’s position on pot follows member and what is the ABI's position on that?
Darren Philp: Who would you like to go first?
Gregg McColmont: I am entirely relaxed.
Darren Philp: Our starting point is that we agree that dealing with small pots is a potential issue. The Department for Work and Pensions statistics say that, by 2050, there will be 50 million very small pots. Consolidating those—going for “operation big fat pot”, as the Pensions Minister calls it—has to be the right approach on one of the objectives that we want to achieve.

We are on record as having quite strong reservations and concerns about the pot follows member approach. One of our key concerns is the potential for pots to be transferred from an employer who is running a good scheme, with good governance, low charges and good investment returns, into perhaps a less well run scheme, with good governance, low charges and good investment returns. We welcome that. That is an important debate, so that is really good and we welcome that.

We also need to think about investment when it comes to small pots. There is a potential for individuals to suffer some detriment for being out of the market at any particular time. It raises liquidity issues around pensions funds' investment. Will DC pensions be more likely to invest in more liquid assets because there is always the risk of their being transferred at short notice?

A lot is going on in pensions at the moment. We have auto-enrolment, which is a huge change for the industry. We all know that it has gone very well so far, but next year will be a crunch point, with lots of employers coming on to their staging dates. The Pensions Regulator has a big job to stage all those employers on to the reforms. That places capacity and advice constraints on the industry, too. I have to ask: what is the rush? This is a big issue. It will be a big issue in the future, but let us stop, think, and check that we have the right approach. For the record, the NAPF is very much in favour of an aggregator solution, whereby you have a series—not just one—of well run, low charge, well governed aggregator schemes that could be used to consolidate individuals' pots.

Dr Braun: It is absolutely right to help people merge their small pots. We know that people lose track, and that can be quite detrimental when you actually reach retirement. Last year, we looked at what people want and found that the overwhelming majority of people prefer that their pot follow them around, which is intuitive in terms of ease and not having to do anything, so it is not very surprising. Of course, how that is made to happen is an entirely different matter. Our members have started to do a bit of work on how the central database solution would look and what it would involve. What they found is not terribly surprising, but the implications are huge. For example, it is very important in terms of consumer protection to be sure that the money goes from where the employee left to where the employee will now be, and that we can authenticate and validate identities not only of employees, but schemes; also, the processes must be cost-effective and run sensibly.

Basically, there is a huge amount of work to be done and it will take a huge amount of work to go through the regulations to put it into place. Much like my colleague said, there is a lot of other things going on in pensions, and we are now concerned that this could come at the expense of automatic enrolment just at the time when we need all our focus on automatic enrolment. We have only one chance to get that right, so rather than embark immediately on the next project, we should take a little time and then take the next step forward.

Darren Philp: If I can add a couple of points, the pensions market is changing: we are seeing the advent of what we call master trusts—multi-employer schemes, low charges and good governance—and I think you will be seeing consolidation in the industry over the next five to perhaps 10 years. Reviewing the transfers point then might make more sense, rather than setting up a huge infrastructure now, only for us to get halfway there through market consolidation.

Yvonne mentioned burdens. This comes up around our council tables all the time and is probably the issue that is most exercising people at the moment in terms of not only consumer detriment, but the burdens that it places on the industry at a time when a lot of change is going on.

Q75 The Minister of State, Department for Work and Pensions (Steve Webb): You mentioned the costs to industry, but you will have seen our impact assessment, which shows very substantial net savings to the industry...
for not having to hold tens of millions of pots. I am interested to know whether you think that that is fair or not.

Can I probe the NAPF line on multiple aggregators? It is very helpful through evidence sittings to hear an alternative proposition. The Bill has a favoured proposition that we have not really seen fleshed out. Have you set out what a multiple aggregator model would look like? Presumably every member of the public has to be tied up to their own aggregator; they also have their current pot and their previous pots of a middle size that were not small enough to be auto-transferred. Do you think you would get the consolidation and engagement that we need?

**Darren Philp:** In terms of the impact assessment, yes, that is the impact assessment that we have got. It was done about a year ago, I think, and the policy has developed somewhat since then in terms of ideas about a central database for monitoring small pots and stuff. One of the things that we would call for is a revisiting of that impact assessment to ensure that it is up to date. There is a difference between some of the long-term costs and savings associated with this measure and some of the short-term change. I have no other evidence to dispute the Department’s figures in the long term, so we have to take those as they are.

Looking at the next 10 years or so, the interesting questions are the extent to which the impact assessment has taken into account changes within the market, and how we think the market will go. If you take the NAPF vision of how pensions should operate—you have probably all heard me talk about super-trusts before—we would have large-scale, multi-employer schemes that are well governed with independent trustees, and far fewer schemes. Doing the analysis on that basis might yield—I say might, because I have not done the analysis—a different answer regarding the potential cost of business. That is why I would delay the change.

In terms of multiple aggregators, we were presented with two options and there is no perfect solution. We recognise as much as anyone that there are issues to be resolved with multiple aggregators. There was some talk about having just one aggregator, and I know that that would cause concerns about market distortion and market dominance. We accept that, and as an organisation we have large-scale, multi-employer schemes that are well governed with independent trustees, and far fewer schemes. By nature, that was quite stylised—it had to be, because we cannot predict the future. We randomly picked a series of high charging and low charging schemes, applied someone’s typical working life, moving from employer to employer, and overlaid stock market performance. What that showed—the example we quoted—was that you could get a 25% difference between outcomes or the size of the pension pot in an aggregator versus a pot follows member approach. That was quite stylised—it had to be, because we cannot predict the future. We randomly picked a series of high charging and low charging schemes, applied someone’s typical working life, moving from employer to employer, and overlaid stock market performance. What that showed—the example we quoted—was that you could get a 25% difference between outcomes or the size of the pension pot in an aggregator versus a pot follows member approach.

That is a stylised example showing what could happen. It could happen the other way round, but that is the lottery point. People are not going to be engaged when their pot follows the member. They can say that they do not want that to happen—they will have that right—but most people will not be engaged like that. Managing and preventing that consumer detriment was the important message that we were trying to get across.

**Q76 Heather Wheeler:** Can I take you to clause 32, which is about short-service refunds? The clause removes the facility to refund pension contributions to employees who leave a scheme after a short period and for the employer’s contributions to be retained within the scheme. Do you regard that change as potentially detrimental to pension schemes? A short no would be fine.

**Darren Philp:** No, I do not think it is detrimental. May I make two points? The Minister correctly identified a couple of years ago that there was a difference between group personal pensions or insurance-based schemes and trust-based schemes. It is important that every pound that people save counts, so I do not think that anyone would argue against the policy intent of removing short-service refunds. My point is that that is intrinsically linked with the discussion we were just having about pot follows member. If we remove the restrictions from 2014, which I think is the proposal in the Bill, without having a proper system of transfers in place, we could make that system of small pots worse. I see the two as being conjoined in policy direction, but I agree with the intent of removing short-service refunds in the long term.

**Dr Braun:** We probably see it slightly differently, in the sense that in contract-based provision we have no short-service refunds: your first pound is saved, your first pound vests. In many ways, the short-service refund is an anachronism that does not fit particularly well with automatic enrolment any more. It is coupled with the small pots solution, but if we are taking longer to sort out that issue, I am not sure that people should necessarily be losing out, especially given that they would lose their employer’s contribution and would receive back only what they had paid in. That, in many ways, is not the vision of automatic enrolment. We accept that the two are linked.

**Q77 Gregg McClymont:** Can I pursue the small pots aspect and relate it to wider aspects of the private pensions part of the Bill? The NAPF did a piece of research on pot follows member and the potential costs and benefits of that approach. Can you say a little about it?

**Darren Philp:** We looked at the potential impact on an individual’s pension pot from a pot follows member approach versus an aggregator approach. By nature, that was quite stylised—it had to be, because we cannot predict the future. We randomly picked a series of high charging and low charging schemes, applied someone’s typical working life, moving from employer to employer, and overlaid stock market performance. What that showed—the example we quoted—was that you could get a 25% difference between outcomes or the size of the pension pot in an aggregator versus a pot follows member approach.

That is a stylised example showing what could happen. It could happen the other way round, but that is the lottery point. People are not going to be engaged when their pot follows the member. They can say that they do not want that to happen—they will have that right—but most people will not be engaged like that. Managing and preventing that consumer detriment was the important message that we were trying to get across.

**Dr Braun:** When did it come out? I am not familiar with it.

**Darren Philp:** The middle of last year—during the consultation period, I think.
Dr Braun: I will have to write back to you in detail on that. I do not recognise it, but I would like to make a broader point. We do not want a pension lottery for anybody. Automatic transfers will be a problem if people get transferred into worse pension schemes with much higher charges, but that is an equally grave concern for the people who are already in that pension scheme. It is actually a much broader question than just one about transfers. We need to make sure that everybody is in a pension scheme, whether transferred into it or starting out, that is good value for money. You are probably familiar with our survey last year, when we looked at newly set-up automatic enrolment schemes and found that they were at 0.52% annual charges, which is the lowest they have ever been. We think it is important to bear that in mind in this whole debate. Of course, it speaks only for our membership.

The Chair: This will have to be the last question, Mr Graham.

Q79 Richard Graham (Gloucester) (Con): It is nice to see the NAPF and ABI with us today. I will ask a few round-up questions.

Do you have any particular queries or concerns about short-service refunds under clause 32, the ban on consultancy charges, which was a recommendation of the Select Committee, and above all clause 42, which deals with the new objective for the Pensions Regulator to minimise any adverse impact on the sustainable growth of an employer?

At an earlier sitting of the all-party group, there was a suggestion that you felt this needed fleshing out in a bit more detail. Would you like to comment on any of the aspects that the Committee should consider?

The Chair: Will the witnesses make brief comments, as we have to finish at 3.15 pm?

Darren Philp: On short-service refunds, I have said all that I need to say. On consultancy charges, I think the approach is sensible: we had to act, we had to act quickly, and that was the option on the table at the time. I would like to make a point on some aspects of auto-enrolment. The Government have a sensible policy of excluding certain groups of workers from auto-enrolment where it just does not make sense to auto-enrol them, but I caution against allowing that to become a back door to removing small employers or great swathes of people from auto-enrolment. I have not picked up that that is the intent, but it is really important that we do not do it.

I am sure that we could have a separate session on the objective for the Pensions Regulator, but we regard it as a step in the right direction. Defined-benefit schemes are under significant pressure at the moment. All we are asking is that the regulator takes into account some of the wider economic pressures on schemes—the economic climate is incredibly difficult at the moment—to make that they are not forcing schemes down the wrong route.

The Chair: Order. I am afraid that brings us to the end of the time allotted for the Committee to ask questions of this panel of witnesses. I thank both of you, on behalf of the Committee.

Examination of Witnesses

Bill Galvin and Stephen Soper gave evidence.

3.16 pm

Q80 The Chair: We are now to hear oral evidence from the Pensions Regulator. Will the new witnesses please introduce themselves?

Bill Galvin: I am Bill Galvin, chief executive at The Pensions Regulator.

Stephen Soper: I am Stephen Soper, executive director for defined benefits from The Pensions Regulator.

Q81 Pamela Nash (Airdrie and Shotts) (Lab): Previous witnesses were concerned that the timing of the change to STP from April 2016 may be a bit tight. Can you share your views on that? Do you think April 2016 allows enough time for pension schemes and employers to get ready for the change?

Bill Galvin: Speaking more broadly, there are a lot of things for pension schemes to do right now. I take comfort from the fact that the NAPF said on behalf of its constituents that it was doable in the context of the overall challenges for pension schemes at this time.

Q82 Pamela Nash: Has the fact that the date has changed caused any confusion?

Bill Galvin: Nobody has made any representations to us about specific concerns.

Q83 Mark Reckless (Rochester and Strood) (Con): On statutory override, do you think the right balance has been struck of flexibility for employers to make changes versus some security of expectation for employees in the schemes?

Bill Galvin: Our primary concern would be that the operation of the statutory override provides trustees and employers with a straightforward discussion about how to ensure that members have appropriate protection through the discussions that will have to go on. The application of the statutory override is something that each scheme will have to work through, depending on their specific circumstances. We heard from the NAPF that there are some very specific circumstances in individual schemes that will make some of those discussions relatively complicated.

Q84 Mark Reckless: Does it make sense to provide for that override for private sector schemes, while not having that as an option for public sector schemes?

Bill Galvin: I do not think that we can reasonably comment on public sector schemes. We do have a role coming in the regulation of public service pension schemes, but that does not start until 2015. We are in the early stages of understanding some of the challenges in that space that have not traditionally been in our remit.

Q85 Andrew Griffiths (Burton) (Con): What is your view on the proposal in the legislation to review the pension age every six years?

Bill Galvin: Again, that is primarily a matter for the DWP in the context of state pensions. Our role is to ensure that pension schemes are well administered,
governed and effectively run. I think it can operate effectively under whatever framework the Department lays out.

Q86 Andrew Griffiths: We have heard in both evidence sessions today concerns about people who currently have a good scheme being forced automatically to go into a scheme that is more expensive or not performing as well. What is your view of people’s likelihood of ending up in a poor scheme under the new proposals, compared with what we currently have? Is it more or less likely, or about the same?

Bill Galvin: The arrangements for automatic transfer of pension pots and the proposals for the quality of schemes that will underpin those arrangements are intertwined. In our view—we have said this publicly—there is a wide range of pension schemes currently in the market in both trust and contract styles of provision. We do not believe that, universally, all those schemes currently meet the standards that will be required—in terms of administration or governance—to support a project as ambitious as automatic enrolment.

The setting of quality criteria that would underpin the schemes that will be used for automatic transfer of pension pots will be a significant process of saying that, in order to play in the automatic enrolment game, there needs to be a minimum standard to protect members as they are being transferred between schemes.

Q87 Gregg McClymont: Building on that conversation, Bill, how great a regulatory challenge do you believe it will be to ensure that all schemes are of such a standard that no one, as their pension is automatically transferred, pot to pot, from one scheme to another as they move job, is transferred into an inferior scheme?

Bill Galvin: The pot follows member proposals need to be fleshed out in further detail in the regulations, in terms of the precise nature of the approach to consolidation of pots and the operational infrastructure that will sit underneath that.

It appears to me that we are essentially looking at three options going forward. One is that we have 50 million small pots by 2050 and that is clearly not a very attractive proposition. A number of years after the introduction of automatic enrolment, the Australians found that they were left with a problem in that space. There is an opportunity to sort that out prospectively at the point that we are at in automatic enrolment.

I do not think that we should underestimate some of the challenges in terms of implementation. There are a number of options on the table, one of which is the use of a database, which is anticipated by the legislation. The creation of such a database would be a significant challenge for the industry, which would start with strict rules for those people who could play in the provision of data and the searching of the database. That would require much higher standards of data than we have currently in pensions schemes, and the setting of those standards. That would be a significant undertaking for the industry, as your previous witnesses laid out.

The other proposals might involve an imposition on the member or the employer to provide details that the member would take from one employment to the next, and would then be initiated by the member or the employer. Again, that would provide an extra burden on a different part of the industry—members or employers—and might result in lower levels of compliance.

Whatever road is chosen, there will be challenges, but the prospect of 50 million small pots by 2050 should mean that one of those challenges needs to be taken on. One of them will require a burden on employers or members, and one of them will require the industry to be significantly better in its standards of data record keeping and the processing of transfers.

Q88 Steve Webb: You mentioned the Australians who, looking back, realised that they had got this wrong. Would you share with the Committee the model that the Australians are going for to address that problem?

Secondly, the database is clearly complicated, difficult and expensive on one level, but do you see any potential upside, either in terms of driving up data quality in schemes, which is something that I know you care about as a regulator, or through virtual aggregation, bringing all your pension information into place and smooth-lining transfers? Is that somewhere where we always ought to have gone?

Bill Galvin: To answer the second part of your question first, we have been pushing quite hard to improve the standards of data and record-keeping in the industry for some time. We have had some success, but it has to be noted that we were starting from a relatively low base. We set out some standards for the presence and accuracy of data for members back in 2009, and said to the industry that, by 2012, we would like it to be in a better space ready for automatic enrolment. We found significant improvements, but still fewer than two thirds of members have the standards of data, accuracy and completeness that we set out.

It therefore seems that the industry needs to improve its performance in administration, record-keeping and the execution of transfers. We know that many of the smaller schemes struggle most significantly in this space. They struggle to find resources to invest in the standards of administration that are required; they struggle to find the time and governance effort to rectify problems that have existed in the past. It does seem as if the way forward in this space is to ensure that quality standards are outlined that set a minimum for schemes.

The impact of that policy will be that some schemes will recognise that they cannot play the automatic enrolment game to the standards that are required. They will have to find ways in which to merge or amalgamate with other schemes, or employers will have to find an alternative solution for their employees. Automatic enrolment is a game-changer for the industry in both standards of administration and governance, and the quality standards will underpin the automatic transfer arrangements and set out exactly where the bar is in that game-changing proposal.

Q89 Steve Webb: Australia?

Bill Galvin: I do not think that the Australians feel that they have this sorted. They have proposals on the table that were first about providing members with better data about their pots and, secondly, about arrangements for automatic transfer between the schemes. It has been some time since I looked at it. I have not looked at the detail of their proposals. Steve, you might know them better.
Bill Galvin: Will this damage pension funds? The short answer is no. As your previous witnesses have said, short-service refunds exist only in the trust-based space. Contract-based schemes operate without short-service refunds. Certainly, some employers will find that it will cost them more money to service the same population, but the policy for automatic enrolment is that members should benefit from their savings, from the point of joining the employer, and this reinforces that policy.

Q90 Oliver Colville: Clause 32 removes the facility to refund pension contributions to employees who are only in the scheme for a very short time. The employer’s contribution will be retained within the scheme. How much damage will that do? Do you think that it will do any damage to the pension fund as a whole?

Bill Galvin: The reduction in the amount of money in the pension fund—

Q91 Oliver Colville: All I am saying is that, if there were to be a reduction in the amount of money actually in the pension fund, it could have difficulty as far as pay-out is concerned in the future.

Bill Galvin: The reduction in the amount of money in the pension fund—

Q92 Oliver Colville: At the moment what happens is that the refund of pension contributions can actually take place. That will not happen. It will actually protect the pension fund, will it not?

Bill Galvin: The pension fund will have more money if it is not making refunds to members. Of course, it may have many smaller pots for members who did not stay in the fund for a very long time and moved on to other employment. This needs to be seen in the context of the proposals about automatic transfer of those smaller pots so that they follow the member.

Q93 Heather Wheeler: Do you have concerns about other technical changes to workplace and occupational pension scheme regulation as set out in the Bill, including those affecting automatic enrolment schemes?

Bill Galvin: We wholeheartedly endorse and support the technical changes that the Department is introducing in both primary and secondary legislation to make some simplifications to the automatic enrolment process. They are very sensible proposals to make it easier for employers to carry out their requirements.

Q94 Richard Graham: This is a marvellous opportunity to ask the question to which unfortunately we did not quite hear the answer from the previous witnesses. Bill, as the pensions regulator, you will now have an additional task: to minimise any adverse impact on the sustainable growth of an employer. How do you feel about this? Is it clear enough? What concerns, if any, do you have?

Bill Galvin: If you don’t mind, Mr Graham, I will pass that to my colleague, Stephen Soper.

Stephen Soper: We welcome this change. We have always taken the view that a thriving employer is the best form of support for a pension scheme. We have three current objectives already which we balance against one another. This fourth objective will feature as part of that suite of balancing acts. We hope to take this out through consultation to the market so that we can be more transparent about how we achieve that balance. In overall terms it should lead to a far better outcome for both members and employers.

Q95 Richard Graham: Are there any types of employer for whom a growth target may not necessarily be appropriate? I am thinking, for example, of charities’ defined benefit schemes.

Stephen Soper: I would agree. That area needs some exploration over the course of the next few months in terms of how one might apply this objective. The debate that should ensue on this objective will hopefully shed some light on it, too.

Q96 Andrew Selous: The Bill makes some amendments to pension protection arrangements. Do you believe these amendments will improve the safeguards for scheme members?

Bill Galvin: Were there particular provisions that you were focusing on?

Andrew Selous: I was just looking at what changes to the arrangements are in the Bill. Perhaps you would like to comment on the safeguards you see for pension protection arrangements at the moment.

Bill Galvin: The provisions on the protection of member benefits that will emerge from the Minister’s potential ability to cap charges and to ban consultancy charges will certainly mean that some of the potential for the more extreme forms of poor behaviour from the industry will be mitigated. In particular, the banning of consultancy charges will mean that an area that has the potential to be abused by people entering it without members’ interests to the fore will be removed. The challenge there has been that the industry hasn’t quite demonstrated in all parts that it’s prepared to enter into the spirit of automatic enrolment in a way that would give the Government and us confidence that when we get down to the smaller employers, where there tends to be a less engaged purchaser and a less engaged consumer, there will be adequate protection from people who might look to profit from those arrangements.

Q97 Andrew Selous: That is helpful. I was referring specifically to clauses 37 to 43. My colleague, Richard Graham, referred to clause 42 in his previous question. I think you have covered that but if you want to come back, having had a quick glance at clauses 37 to 43, that would be helpful.

Bill Galvin: There are various provisions there that will assist with the operations of the pensions regulator. For example, clause 40 allows us to prohibit directors of corporate trustees; we currently have the ability to prohibit individuals from acting as trustees, but where an individual is prohibited from acting as an individual trustee there is no prohibition on that same individual becoming a director of a corporate trustee and performing essentially the same role. So there are provisions of that nature that streamline and close some loopholes in the legislation that currently governs the operations of the regulator.

Q98 Gregg McClymont: The previous witnesses, particularly the NAPF representative, set at a view of how in the next decade or so the scheme side of the pensions industry will consolidate. You, if I have picked up on your comments correctly, think that is likely to happen too. First, am I correct in thinking you believe
there will be consolidation on the scheme side? If so, what do you think the implications of that consolidation are for auto-enrolment in particular?

**Bill Galvin:** Not only do I believe that there will be a consolidation; it is important that there is. We have made it clear that smaller, trust-based schemes in particular are less likely to have the standards of administration in the hard delivery of transfers and record-keeping requirements, or the standards of governance, to make sure the schemes remain suitable. So it appears to us that consolidation would be a good thing.

John Kay, in his recent review of the equity markets, said that regulators should primarily be focused on market structure issues. When we look forward to 2023, and to when automatic enrolment is finished, if we have an industry that is of the optimal shape to deliver some of the really challenging aspects of automatic enrolment, such as automatic transfers, everything will be much easier. If there are many smaller schemes, I think things will be much harder. Of course, the challenge is that we need an industry that has sufficient players to remain competitive, but not the long tail of small schemes we have at the moment.

I think there are a number of levers for making that happen. One is to set standards for schemes in basic areas like administration and governance. My hope is that the regulation that will underpin some of the provisions in this legislation will go towards setting those standards. The other is educating employers who are purchasing schemes about what “good” looks like, and how to go about selecting a good scheme on behalf of their employees. We are doing a significant amount of work in both those areas—the education of employers, through our automatic enrolment programme, saying, “This is what you should look for when you are purchasing a scheme, to make sure all these things are in place”; and we set standards for trust-based schemes through a code of practice that we have consulted on, and some guidance that we hope will play its part in driving up the standards in this space. I think all those things will mean that we will have a different, more consolidated market at the back end of automatic enrolment.

**Q99 Gregg McClymont:** Australia was mentioned by the Minister, in particular. The Cooper review underpins the Australian Government’s new approach, and in it Cooper said that pensions are not a cottage industry. Do you agree with that statement?

**Bill Galvin:** There are a number of reasons why it is difficult to provide good outcomes if you do not have scale. One is that the governance and administration costs tend to be quite expensive per member when they are performed to a high standard. Another is that the market power of smaller schemes tends to be much less; the bargaining power into the financial services industry tends to be much less. Bigger schemes can get bigger bang for the buck.

One of the potential ways in which automatic enrolment can rejuvenate the pensions industry is to have a similar effect as happened in the consumer products industry, for example, where the power in that value chain moves from the large branded producers of consumer products down to the supermarkets, which are closer to the customer and had a much bigger impact on the price and quality of products provided to the customer. I think that if we have large-scale institutions operating close to the member and in their interests, they are in a better position to demand good-quality services from their suppliers and from the financial services industry, and to move the power in that value chain closer to the consumer. I think all those things would be good.

**Q100 Gregg McClymont:** We see that in the Government’s direction of travel in local government pension schemes, where there is a lot of talk about scaling them up for precisely this reason. Would that be a fair analogy?

**Bill Galvin:** Again, I am not sure that I know enough about the particularities of that part of the market, because we do not regulate them at the moment—we will in 2015—to make a specific comment on the proposal in that space.

**The Chair:** If there are no further questions for the witnesses, thank you very much for coming and presenting to the panel today.

3.41 pm
*The Committee deliberated in private.*

**Examination of Witnesses**

**Dr Ros Altmann and Dr Hari Mann gave evidence.**

3.44 pm

**The Chair:** Before we take evidence from the next witnesses, I must say to the room that we are expecting a Division, which may be earlier than the 4 pm that we anticipated. We will take a certain amount of time, depending on whether there is more than one Division. You will have to bear with us if we all quit the room.

We will now hear oral evidence from Dr Ros Altmann and Dr Hari Mann. For the record, will the witnesses please introduce themselves to the Committee?

**Dr Mann:** I am Dr Hari Mann, from the Royal Society of Arts’ Tomorrow’s Investor programme.

**Dr Altmann:** I am Dr Ros Altmann, independent pensions adviser, expert, whatever.

**Q101 Andrew Selous:** Good afternoon, thank you for coming. I would like to ask you both a large general question. How do you see the Bill matching your expectations for a viable reformed state pension system overall?

**Dr Altmann:** I think that the Pensions Bill makes an excellent start on radical reform of the state pension system, which is long overdue. It has the potential to undo some of the damage that has been done to the incentives to save for pensions by policy over the past few years.

The idea and concept of a single-tier flat-rate state pension, payable to all with a certain national insurance record, is one that in theory opens the way to saying, ‘When you reach pension age’—whatever that will be—that is a separate discussion—“the state says that there is a minimum level of support that everybody who has contributed to the system is entitled to.” That is it: the equivalent of £144 a week in today’s money. “If you
want more than that”—and most people probably will—“you need to do something about it, or that is all you are going to get.”

Then there is automatically the self-interest for people to recognise that there is a minimum level of state support as a kind of base, but whatever they want on top, if they do not save, they will not have any more. If they keep working and do some saving, they will have more. That is a message that people can relate to and understand. At the moment, because there are so many different parts to the state pensions system, and because each is so complicated, people generally do not have much of an idea, if any, what they will get from the state. So they do not know what base they are building on at all, and they cannot make a proper plan.

Q102 Andrew Selous: That is very helpful, thank you. Dr Mann.

Dr Mann: The RSA programme is primarily on private pensions. Our opinion on the state pension and a single tier is very similar. When you look at systems where people are saving in a strong second pillar, it requires much more certainty in that first pillar. When you look at the Dutch and Danish systems in Europe, that certainty that allows people to understand what they are going to get helps them further on in an investment. A lot of people do not take much consideration of what their income is going to be at retirement age. That is primarily where we come from in terms of the state pension. We have not done much more work on that area.

Dr Altmann: If I may just add one point, which is also very important and has not always been emphasised in debate. The single-tier state pension will finally get the state out of earnings-related pensions. That is an important and fundamental point. Since 1978, we have always had an element in the state pension system of earnings-related pensions. The concept we have in Europe of replacement rates is that when you reach pension age your income should somehow be related to your earnings before you retired.

This proposal is a fundamental difference, but it is an important one. The state gives the base. Whether you earned more or less during your working life does not necessarily mean that the state has to pay you more when you are retired and no longer working, just because you were lucky enough to earn more while you were working. Indeed, if you earned significantly more while you were working, you would have had more opportunity to save in a private pension for yourself, and therefore have better chances for a better pension on your own.

Equally, that removal of an earnings-related tier, whether from employer or the state—in the past you could opt out and have the earnings-related tier from an employer—means that there is an increased need to ensure that the state pension itself does not fall behind earnings. With this flat-rate minimum, the uprating needs to keep up with earnings. When the basic state pension link to earnings was dropped in 1979, we had just introduced an earnings-related second-tier state pension, so there was some mitigation. It did not work entirely well in practice, but at least in theory there was some mitigation. We are now dropping any pretence of earnings-related state pension support, so it is important to make sure going forward that the value of that basic state pension is protected, so that pensioners do not fall behind once again.

Andrew Selous: That is very helpful, thank you.

Q103 Pamela Nash: There are significant changes in the Bill, including the new 10-year minimum for contributions and the increase to 35 years’ contributions in order to get a full STP state pension. Do you think that that will adversely affect some pensioners, and are there any particular groups that you would single out as being affected? You look as if that is a yes.

Dr Altmann: Clearly, the group that is likely to lose out is women. They are less likely than men to reach the full 10 years. Most of them are also less likely than men to reach 35 years, just because of the way their lives go. They are more likely to be in that category of people who fall out of the system altogether, perhaps because they are in two or three jobs that each pay below the national insurance minimum. Women are much more likely to be in that position than men. I know that there may be only a few tens of thousands of those women, but I am concerned that we need to try to find a way to bring them into the pension system. At the moment, those who do not work at all will be credited for the state pension, but those with three jobs that pay overall more than the national insurance minimum will not get any pension entitlement whatever.

The reason for bringing back the 10-year minimum is most likely to do with cost. There is a cost to paying smaller entitlements. If somebody has a very small contribution record, they are, I suppose, most likely to have lived in the country for a shorter period of time. That is another group: those who moved more recently to the UK. Perhaps there is less national concern about them; I do not know.

Equally, with the 35-year contribution increase, the people disadvantaged are more likely to be women, particularly older women, who perhaps have already retired thinking that they have their full 30 years and now find that they need 35 for a full record. To be fair, 30/35ths of the new single-tier state pension will still give them more than the full basic state pension, but I think there is a feeling of unfairness among older women that the goalposts keep being changed. They planned for one goalpost, and then it was moved; now they have planned for another goalpost, and it has been moved again.

Dr Mann: We do not have a view in terms of the state pension debate.

Q104 Mark Reckless: Dr Altmann, I think that you accepted that it will be less unfair to women but that some women, to whom you drew attention, will still lose out. How does that compare, actuarially speaking, with the fact that on average, women live significantly longer and draw pensions for that longer period?

Dr Altmann: The issue of life expectancy obviously becomes more relevant with the single-tier pension, when the pension age will be equal for women and men and women may get the pension for longer. But the likelihood is that women will still have a lower pension income than men, and not just via a state pension entitlement that may be lower due to particular circumstances. Women have lived longer and women’s pay is lower, which will equalise out over time. It is important to recognise that women will generally tend to have less private pension. The figures are quite stark in that regard.
The state pension is the minimum. The life expectancy differential between men and women is decreasing, but nevertheless is still there. However, I think there does need to be an element of acceptance that state pension support for women needs to be stable and at a decent base, because women are less likely to have an opportunity to build up as much private pension as men. Of course, we also have more and more single women these days, with the increase in the divorce rate, so a lot more women reach a later age without a husband's pension to rely on. In the past, things were very different, and I think our pension system has not always reflected that.

Q105 Mark Reckless: In light of that, what do you think of the balance that the Bill has struck in terms of protections, particularly transitional arrangements for derived or inherited rights, which again may affect women in particular?

Dr Altmann: I am concerned about the bereavement benefit being cut—

3.55 pm
Sitting suspended for Divisions in the House.

4.23 pm
On resuming—

The Chair: We will continue where we left off. Dr Altmann was addressing Mr Reckless, but can Mr Reckless refresh Dr Altmann's memory of the exact question posed? Dr Altmann has to leave at 10 minutes to 5, so if questions can be kept concise, we will get through everything.

Q106 Mark Reckless: Dr Altmann, in light of the discussions we were having about pension provisions for women—the inequalities and whether they balance out—would you assess the protections and transitional measures that are there for some of the inherited and derived rights? Does the Bill strike the right balance?

Dr Altmann: I think it is most welcome that the protections given to people with contracted-out rights. A significant element of the increased cost of the White Paper relative to the Green Paper relates to the fact that we are offering more generous opportunities for state pension accrual to people who have contracted out into final salary type schemes, or other schemes, too, but in particular the final salary element. I have to leave that aside because that gets a bit too difficult, but that would be a source of extra revenue.

I would be comfortable looking at trying to include as many women as possible in the better state pension arrangements. I know that there is quite a lot of anxiety among women born in the 1952 to April 1953 period. Men born at the same time as them will have the opportunity to get on to the single tier, whereas the women will not, because their state pension age is lagging behind. Again, I understand that they will likely draw their pension for longer. They will receive an amount of pension before the men do. Perhaps we could give them a choice; perhaps we could work out a way. I know it is complicated, but the more women we can bring into this better system, in my view, the better.

If I had a clean sheet of paper, perhaps I would start with looking at giving the single tier pension to everyone over, let us say, 72 or 75, so that would include existing pensioners as well, but we have not gone down that route. Given where we are, we are definitely going to be, in my view, in a more sustainable and sensible position on state pension support, but I would like to see some transition arrangements for including women as much as possible, because they are the ones who are likely to have less than the single tier, and more men are already likely to have more, anyway. That would include more transitional protections if we could do it. I am sure the DWP would hate me, because it would be more complicated, but this is all complicated and at the end of the day I am thinking about people's lives and women's retirements that have got to last for many years.

Women have lost out. The older women, in particular, are the ones who have lost out through the state and private pension system so much in the past. A lot of the improvements that we have made for women will be helping the younger ones already, so that is okay; it is about those 50-something women, or even women in their late-50s.

Q107 Richard Graham: In a way, that question and answer has anticipated much of what I was going to say. Ros, in your evidence to the Select Committee, you said that most women would be better off and that the Bill would be cost-neutral, even allowing for the contracted-out element. As you have said, the issue that you have identified is more to do with older women than those coming later, after 2017. What would you do differently if you were the Minister? What else could be done on that within the cost-neutral overall?

Dr Altmann: If you are talking about within the cost-neutral overall, you are introducing another element and we would need to go back and look at some of the protections given to people with contracted-out rights.

Q108 Richard Graham: My supplementary is to Hari.

You heard what Ros said, so what do you think could be done differently if you were designing it from scratch? Do you think there is any rebalancing that could or might be done?
Dr Mann: For the Bill as a whole, or just on state pensions?

Richard Graham: On this particular issue, really. Once you have a single-tier pension there is the inevitable business of winners and losers. You have the winners, who are the younger women, and potentially you have the relative losers, who are the older women.

Dr Mann: Our work has been on private pensions, so it is not really on the state pension. All we would say on the single tier—this comes back to the point we made before—is that it will in future hopefully allow people to save better with greater certainty.

Q110 Richard Graham: So from your point of view it does fulfil the key objective, which is that saving always pays?

Dr Mann: Yes.

Q110 Gregg McClymont: May I take up the thread of the conversation that has just taken place? Hari, Mr Graham referred again to the incentive to save, which has been part of the discussion since Second Reading. I know the RSA has done a lot of work on private pensions and on how to ensure that those who are encouraged to save more into private pensions are saving into high-quality schemes, to which previous witnesses have referred. Do you care to comment on how we get to that situation?

Dr Mann: There are a couple of fundamental principles that you need within the scheme. One is that people need better transparency on what they are actually being charged in schemes at the moment. That is leading to a lot of uncertainty for people in terms of their outcomes. As you mentioned, we need some consensus on the quality schemes. One of the issues that people raised earlier was about the pot following the member and everything else, and it comes down to the fundamental principle of how we choose what is a good pension scheme and who should choose that. Fundamentally, our work has shown that, especially with private pension provision, people do not necessarily know and are not being told what their scheme is about, especially in terms of cost and transparency. That is not a situation that will encourage people to save, unfortunately.

Q111 Gregg McClymont: If Madam Chairman is please. Hari, Mr Graham referred again to the incentive to save, which has been part of the discussion since Second Reading. I know the RSA has done a lot of work on private pensions and on how to ensure that those who are encouraged to save more into private pensions are saving into high-quality schemes, to which previous witnesses have referred. Do you care to comment on how we get to that situation?

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Q112 Gregg McClymont: Does that create an issue? Is it your view that the view abroad is that the incentive to save is important, and a flat-rate state pension is largely about encouraging that incentive to save, so we need to get the two halves of the reform right?

Dr Mann: Definitely. We need to ensure that we have that system. If you look at European examples where you have got high member investment into schemes and high contribution rates, for instance Denmark, Holland and Sweden, they have a certain level of transparency which we are just on the tip of starting to see here now. That is very important in terms of trust coming into all financial products.

There are two big issues with pensions. One is this issue about us just not knowing what they cost. A lot of people switch off from the complexity. Secondly, they are a very long-term product and a lot of people do not think in the longer term, which is the point that Dr Altmann made: when people can see their outcome, that is an important aspect for them, but we need to ensure that we are not just telling them half of the story.

Dr Altmann: The way I would express it is that the state pension reform is a necessary condition to help auto-enrolment to work. It is not a sufficient condition.

It is vital that the state pension no longer undermines private pension saving in the way that it currently does and has done for a little while, but that does not automatically mean that everybody is suddenly going to want to buy a pension. Therefore, we need to look at the other aspects of the private pension market that will help increase the attractiveness of long-term saving. That is where there is room for debate, but not necessarily in this particular Bill. Are we trying to encourage long-term saving, or are we trying to encourage people to buy one product?

Pensions are one financial product and they are the most inflexible. Because they are so inflexible, it has given an opportunity for a lot of companies to levy very high charges on them with, if you like, captive money. People are stuck in there and they have got to keep their money there.

A move towards transparency in the charging structure, and helping people to take advantage of economies of scale in a way that we have not done so far, certainly should help provide better value. Equally, on the forecasts of returns to be made by private pension saving—if you keep your money locked away for 20 or 30 years—the assumption was quite prevalent that you would definitely be able to earn about 8% annual returns consistently.
I think that most of us would recognise that that was rather over-optimistic. If an equity risk premium is something like 2% to 3%, rather than 6% to 8%, a 1% to 2% annual charge takes away far more of the final pension. That is what we need to help people understand.

A 0.5% annual charge is achieved in other countries, partly because, in America for example, there is a larger pool to manage, so the economies of scale are better, but not only because of that. It would become a better target to aim at than the stakeholder 1% to 1.5% charging structure because again, if there is a 2% to 3% risk premium, you lose an awful lot of that in your charge. That means that pensions should be sold not necessarily one by one, but in groups as much as possible, as with a final salary type of scheme in which the assets are pooled and the charges per person work out much lower. Our industry is geared up right now for individual pension selling rather than conglomerates of big funds that people buy into and have lower charges from.

Q113 Oliver Colvile: Are you satisfied with the proposed technical changes to workplace and occupational pension schemes, including automatic enrolment schemes, which are set out in the Bill? Do you have any specific areas of concern?

Dr Altmann: Which particular changes are you referring to? There are so many.

Oliver Colvile: There are, but perhaps you could deal with one or two issues you are concerned about—the top priority ones.

Dr Altmann: Are you referring to things like cash incentives for transfers?

Oliver Colvile: That is one, and auto-enrolment.

Dr Altmann: Anything we can do to make auto-enrolment easier for employers is essential. I truly fear that the auto-enrolment process is so complex that many small employers will simply not be able to cope with it. The cost of administration and compliance with the detail of the complexity will be far more difficult and onerous for them than even the contributions they will need to make. Anything we can do to simplify that would be a good thing.

I fully support the banning of short-service refunds, if that is one of the issues you are talking about. I would like to see that as soon as possible. There is clearly a conflict with the aims of auto-enrolment if you still allow people who happen to be in a trust scheme to take the money back if they are there less than two years. They will never accrue a pot if they are a frequent job changer and always in trust. I know some employers who have been attracted to set up a trust-based scheme for their auto-enrolment on the basis that they will be able to get their money back from the job-changers who move.

The Chair: Order. In accordance with Standing Order 83C(11), I exercise my power to extend the time for questioning by 15 minutes.

Q114 Andrew Griffiths: On the timetable for future changes to pension age, do you think that gives people enough time sufficiently to plan for their future?

Dr Altmann: I am on record as having said that the move to 66 was too accelerated, and I know that many women were seriously disadvantaged by that, but we are where we are. The fact that we are now giving well over 10 years’ notice of a move to 67 is fine as far as I am concerned. That is perfectly reasonable and I think we need to look at how quickly we can accelerate increases in state pension age with a proper analysis looking at all the factors. At the moment, it feels to me as if what we have done is to say, “We all know that 65 is too young, but we need to save money and life expectancy has increased so we must go to 66 and 67.” There has not been a fundamental analysis to explain why 66 or 67 is any more reasonable than 65 or 69. I think that analysis needs to be done, and it may well suggest that we have not been bold enough in our plans for increasing the state pension age, but if that is the case, we need urgently to do that analysis and give people plenty of time to adjust.

I also welcome the concept being introduced that the state pension age does not mean that that is when you stop working altogether. It should not be automatic that there is a magic age at which you suddenly do no work. Perhaps the first few years of state pension can be a supplement to declining earnings while you are working part time in later life, depending on how much you can manage, what your health is like, what your job is like and what private savings you have made if you choose not work. Most people would probably welcome a bit of extra income. That would help us to get away from this one-size-fits-all, one magic age-type policy, which perhaps suited the past, but life has moved on. People are much healthier, they can work into later life and they have more years of it. We can help them to embrace that.

Q115 Steve Webb: This morning we had the GMB trade union saying we should not increase state pension age at all. You have urged us to be bolder. I take it from that that we are probably about right. What would being bold mean? How far could we and should we go?

Dr Altmann: I think we need to look at that on the basis of a proper analysis. I am not comfortable picking any one number out of the air because I do not feel these numbers are meaningful. We need to look in the round at what state pension support should look like and what people’s health and abilities are like in their late 60s now. Normal societal perceptions of people in their late 60s tend not to fit the reality that people in their late 60s face. Most people are not old in the conventional sense at that age. We have had tremendous advances in health and working practices, if you are at work, for most people.

There will always be individual differences, and there will always be sections of society that age more quickly than the rest. However, on average, there is the great good news out there that we are keeping people alive longer; they live well with things they used to be disabled by into much later life. Yet somehow pensions and work are way behind.

We need to have a proper analysis of the health status, capabilities and so on of the general population. At the same time, we must combine that with a historical analysis of how we got there. We have not changed the age of 65 since Beveridge, and we know how much life has changed. However, that does not mean we have to
suddenly go to 80. We need to work out what the balance is. We also need to help people embrace the idea that when you start taking your state pension it does not necessarily mean that you are not earning anything at all. It is the base, and you should expect more than that. If you haven’t done enough saving, you can keep working.

**Q116 Gregg McClymont:** I wanted to ask Hari in particular, given your work on private pensions, about the issue of small pot transfers and stranded pots transfers, whatever their size. There has been a lot of discussion today about the merits and demerits of pot follows member versus an aggregator system. Could you set out, from the RSA programme’s point of view, your view on small pots?

**Dr Mann:** Our concern, just as some of your other speakers have said, is the issue of someone being moved from a good pension scheme into a bad one. I made the point earlier about people not knowing what their costs are because there is no proper transparency, and the danger of that, given what costs can lead to. We are also looking at how that might work with some of the other things that the DWP is suggesting, in particular with defined ambition, for instance, and how pot follows member might work there.

It is important that we do not jeopardise what we have the opportunity in the next year or so to do, which is to introduce changes to the pension system that might lead to a much greater level of pension overall for members. In that respect, our issue is, again, that if we are going to do this, let us make sure that we do so in a system that allows members to understand what they are being transferred into, so that people have a clear idea. Part of our research last year looked at how the information is communicated. We have an industry code, but we have not given enough time yet to see whether that code will be fit for purpose. In that respect, the question is, will people have enough information at that time to be able to decide that?

**Dr Altmann:** For me, there are two big issues with small pots. The first is that people who change jobs frequently end up with bits of pension all over the place and lose track of them, so they are not maximising the value or understanding what they have as a whole. The second problem is active member discounts. A lot of industry providers are not interested in managing small amounts of money and end up levying huge charges relative to the size of the pot, so that the pot itself dwindles. There are two separate issues.

“Pot follows member”, assuming that there will be a cap on auto-enrolment charges of some kind, could help with the charges issue, because then, small pots could be transferred away to active pots, where usually charges are lower. However, the case for having an aggregator can still be made quite strongly. That would mean members ending up with two pots rather than one, but the Government can say, “We are looking for providers to take on these stranded small pots—small pots belonging to people who have left jobs that have not got much in them—but you have to guarantee a certain, minimal level of charges.” If the industry itself is not willing to provide that, and some providers might, NEST would seem to be an obvious place to put the money, where there is more control on charges. That would throw down the gauntlet to the industry to say, “If you want to have aggregators, you have to do it at a decent charge.”

I completely agree with Dr Mann regarding the current lack of transparency and understanding about what really the charges are. There is a total expense ratio that is not even total expenses, and annual management charges that do not include all the charges. We need to get some clarity and consistency on how we express charging structures for pensions.

**The Chair:** Dr Altmann, can you answer Mr Graham’s supplementary question, if you do not have to rush away?

**Q117 Richard Graham:** On the point of perhaps using NEST as a way to both consolidate the small pots and bring down charges because it has a clearer charging mechanism, do you anticipate, if that were to be encouraged, any reaction from the private providers who might consider that the Government were effectively enabling a monopoly position for themselves? Would that encourage the free competition that we otherwise want to see?

**Dr Altmann:** That is why it would be important for the Government to offer it for tender, for private providers to come in and bid—if they want to. Having more than one aggregator is ideal if the industry steps up to the plate. That is fine. If it does not, I still think that we probably need somewhere to park the money that we know can control charges.

Having said that, obviously we need to make some changes to NEST itself. First, we have to allow it to take transfers. More importantly, hopefully, we would get to the stage when NEST would have a single charging structure rather than the current up-front 1.8% fee plus a much lower annual fee. I think personally that it is important for NEST, even if it were allowed to take transfers, to reconsider the charging structure and to bring it down more to the headline type of levels that we know private providers can offer. I am not saying that anything is straightforward; I am just putting forward alternatives that would be possible to achieve. What is clearly a legitimate aim is that people should not lose track of their pension money, and should not suffer egregious charges on small pots because they are very expensive to manage, and many providers simply feel that the money is captive and they can increase the fee.

**Dr Mann:** We would agree. We see a stronger NEST. The point was made earlier that, over the next few years, there will be some consolidation in the pensions market. That is good in terms of bringing down costs—the economies of scale that will allow it to happen. For NEST to be the exemplar is the right thing to do. It was set up by the Government, but it has an independent board of trustees. It has its restrictions there, which—as Dr Altmann mentioned—should be lifted. Therefore, there is nothing to say that that would stifle competition. It would actually make the market better, and make the market better for members. That is ideally what we need to do in pensions. We need to ensure that our outcomes are focused around members, not profits.

**The Chair:** Thank you. If there are no further questions from hon. Members to the witnesses, I thank Dr Altmann and Dr Mann for giving evidence. It brings us to the end.
of our business for today. The Committee will hear further evidence on the Bill at 11.30 am on Thursday 27 June.

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

4.57 pm

Adjourned till Thursday 27 June at half-past Eleven o’clock.
Written evidence reported to the House
PB 01 Clive Walford
PB 02 Catherine M Kirby
PB 03 Clive Anthony Evans
PB 04 British Australian Pensioners Association (BAPA)
PB 05 Brighton Women’s Centre
PB 06 Karen Tyler