Public Bill Committee

PENSIONS BILL

Fourth Sitting
Thursday 27 June 2013
(Afternoon)

CONTENTS

Programme order amended.
Examination of witnesses.
Adjourned till Tuesday 2 July at twenty-five minutes past Nine o’clock
Written evidence reported to the House.
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not later than

Monday 1 July 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

Bryn Davies, Director, Union Pension Services Limited

Professor David Blake, Director, Pensions Institute

Baroness Hollis, House of Lords

Steve Webb MP, Minister of State, Department for Work and Pensions
Public Bill Committee

Thursday 27 June 2013

(Afternoon)

[Mrs Anne Main in the Chair]

Pensions Bill

2 pm

The Committee deliberated in private.

2.11 pm

Ordered.

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

In table leave out second ‘3.15 pm’ and insert ‘3.30 pm’ and leave out ‘4.00 pm’ and insert ‘4.15 pm.’—(Karen Bradley.)

Examination of Witnesses

Bryn Davies and Professor David Blake gave evidence.

The Chair: Welcome to Mr Bryn Davies and Professor David Blake. We will now hear oral evidence from Union Pension Services and the Pensions Institute. Before calling the first Member to ask a question, I remind all Members that questions should be limited to matters within the scope of the Bill, and the Minister has the right to reply to any question that has been put. The Chair: I hope that I will not have to interrupt any witnesses please introduce themselves to the Committee?

Bryn Davies: My name is Bryn Davies, and I am director and actuary at Union Pension Services.

Professor Blake: I am David Blake, the director of the Pensions Institute at Cass Business School.

Q169 Andrew Selous (South West Bedfordshire) (Con):

I would like to ask you both how you see the Bill’s provisions matching your expectations for a viable reformed state pension system, starting with Mr Davies.

Bryn Davies: It is broadly in line with the discussions that have been ongoing for quite a few years. I remember having a meeting in this building probably a decade ago where the Minister was present and discussing these same ideas.

In the past year, we have seen that some of the particular problems that were around are being dealt with. Those are the additional elements, and in particular there are those with significant accrued rights outside the state additional pension and the whole transitional process. What is new are the transitional arrangements, essentially.

Professor Blake: It is another attempt at simplification. We have had simplification before, but the state pension reform with the single tier is another move along the line, which is a good idea. There are transitional issues with the ending of contracting out in DB schemes, but the inevitable requirement to increase the retirement age in line with increases in life expectancy will continue, because of the increases in life expectancy and the systematic underestimation by official agencies in this country and elsewhere.

I do not see why we need to have an Act of Parliament every few years for this. Perhaps there should be a more regular arrangement, such as a longevity policy committee along the lines of the Monetary Policy Committee at the Bank of England. The simplification is to be welcomed, as well as the recognition that we are living much longer and drawing pensions for much longer, and we have not saved enough for that.

Q170 Andrew Selous: That is helpful, thank you. Secondly, I would like to know your views on the eligibility criteria for the single-tier pension, in terms of the 10-year threshold and the 35 years required for the maximum claim.

Bryn Davies: It is clearly a retrograde step. It is clear that the criteria have been introduced to meet the requirement to have no additional expense in providing state pensions. Until one understands that that is why the change has been made, one cannot follow on with the post hoc rationalisation of that objective. I think that it is a retrograde step and the scheme should have accepted where we had moved forward to in the legislation passed by the last Government.

Professor Blake: I slightly differ from that because one of the things that we do not tend to think about at all is the consequences for subsequent generations. Unless we make sure that we pay for our own pensions—most people in this country must in some sense pay for their own pension; they cannot rely on anyone else—an even bigger burden will be passed on to the next generation. This is, in part, a recognition of that. There might be inequities for this generation. There may be groups of people whose life expectancy is shorter and whose length of retirement will be reduced as a result of this, but there are bigger inequities between generations that we really have to confront.

Q171 Heather Wheeler (South Derbyshire) (Con):

Which groups of employees are likely to be adversely affected by the ending of contracting out? Can you give us a bit of a flavour on that?

Bryn Davies: The Pension Commission’s approach to the issue was largely driven by the problems that would arise by the ending of contracting out. There have been so many last nails in the coffin of defined benefit schemes that it is surprising we are still talking about them at all. It will have a severe impact, particularly in the private sector with the proposals for the overrunning provisions on scheme rules.

As someone who has been closely involved in negotiating pension schemes, my view is that this is an issue that should be left to negotiations. There is a high level of realism among trade unionists about the nature of funding pension promises from employers, so the issue will have to be handled.

In practice, schemes will close and people will get lower benefits from an employer-sponsored scheme. There is the associated issue of the impact in the public sector and, while the Government have said that the agreements reached with the public service schemes will be maintained, we do not yet know quite where the additional national insurance contributions that the public service employers
will have to pay will figure in future public expenditure surveys. It will have a deleterious effect on pension provision in the private sector, and there will be pressures in the public sector—and we do not know how they will play out.

Q172 Heather Wheeler: Okay. Professor, do you have any thoughts? If you have any specifics, that would be helpful. Mr Davies did not give me any specifics.

Professor Blake: No. I am afraid I do not know enough about the detail either to give you specifics.

Q173 Heather Wheeler: Perfectly fair. Mr Davies, what measures would you like to see put in place to ensure that employees in defined benefit pension schemes are protected? Do you have any thoughts on that?

Bryn Davies: You are right. I see protection being achieved through collective bargaining between trade unions and the employers. That has led to the success of defined benefit schemes in large part, and that is the appropriate way, unfortunately, of unwinding the situation.

Professor Blake: The defined benefit model was a very good model. We had it for 150 years; it is a great tragedy that it is coming to an end in the private sector. The amazing thing is that there are not street protests outside about this. It is amazing that we have got rid of something really quite good, although it was expensive and needed fixing, in a way that could not be done in another way.

People have lost a huge amount of their wealth. They do not understand it, and there will come a time when they regret it. It may be inevitable that we have to move to DC for a whole range of reasons: portability, job mobility and so on, but the ending of this in the private sector is a tragedy. It will lead to quite a conflict with public sector employees who still will have really good defined benefit schemes. Even though they have been reformed, there is going to be a conflict. The figure that I saw was that 20% of the workforce are in the public sector—and we do not know how they will play out.

Q174 Andrew Selous: Who would pay for that?

Bryn Davies: Through collective bargaining, ultimately.

Q175 Andrew Selous: Who would pay and how?

Bryn Davies: The process of collective bargaining is that you negotiate with the employer that part of the wages are devoted to providing good pensions, so it is part of the overall collective bargaining agreement.

Q176 Andrew Selous: So the employers would pay.

Bryn Davies: This is an interesting argument in labour economics. I think there is a good argument that the members pay as part of the overall package that they get from the employer.

Q177 Christopher Pincher (Tamworth) (Con): Your answers to Mr Selous's first question have teased out some answers to this already. The Bill requires that people will have to work 35 years for a full pension and a minimum of 10 years to receive a pension, and we all accept that those are major changes.

You may know that, in his evidence, Chris Curry from the Pensions Policy Institute said that the changes were not going to have any major impact because by the time STP is fully operational the vast majority of people will have accrued 30 to 35 years of qualifying payments. However, Mr Davies, you said that STP is a retrograde step. Why do you think that? Is it because you do not like it? Do you think there are other reasons why the step is retrograde? For example, is it going to disbenefit significant groups of people and, if so, who?

Bryn Davies: I am not sure I follow, but what I was trying to say in answer to the earlier question was that moving from 30 to 35 years as the required period of service to be paid a full single-tier pension compared with the basic state pension is a retrograde step, because the whole point of the change is to save a significant amount of cost to the state pension scheme, so people will get lower benefits. I think that is a retrograde step.

Q178 Christopher Pincher: Do you think specific groups of people will get lower benefits or that everybody will?

Bryn Davies: There will be those people who work between 30 and 35 years; largely, people who have caring responsibilities or who do the voluntary work that powers large parts of the voluntary sector. They are the people who will lose out.

Q179 Christopher Pincher: By how much?

Bryn Davies: It is not an area that I have researched a lot. It stands to reason that if the rule is being introduced to save a substantial amount of money, then a substantial number of people are going to lose out through that rule.

Q180 Christopher Pincher: Is it not meant to be cost-neutral?

Bryn Davies: Overall it is cost-neutral, but within that overall cap there are winners and losers. Among the losers are those people who have between 30 and 35 years’ service.

Q181 Christopher Pincher: With respect to the protections offered to derived and inherited rights, do you think those protections are sufficient or that further work could be done, particularly on transitional arrangements?

Bryn Davies: Again, if I understand the issue to which you refer, one of my major concerns relates to the statement in the impact assessment that “…no person reaching state pension age under the single tier will get a lower state pension than they could have become entitled to based on their own pre-implementation contributions under the current system’s rules”.

I do not believe that is correct. A large number of people will lose out from their accrued rights. As a simple example, I would instance Gill. She is a machinist in an engineering workshop. She has always worked, from age 18, and she is 53 now. She has always received about median earnings for her age group, about £23,000 now. So, in 2012 figures, she has accrued a basic pension of £107.45.
Gill has also got an additional pension of SERPS- come-STP of £43.55, so she has a total pension from the state, accrued so far, of £151. Under the new system, she will get a single tier pension of £144, so her protected payment—what is left over—will be £7. Under the existing system, the whole of the £151 is revalued in line with earnings. In earnings terms, as in the impact assessment, she gets £151 at retirement.

Under the new system, the £144 is increased in line with earnings, but the £7 is increased only in line with the CPI. Using the assumptions in the impact assessment, I calculate that that will be worth only £4.82 rather than £7, so she has lost £2.18 over the period of deferment. At retirement, her pension is lower. That is not what the impact assessment says. It states: “no person...will get a lower state pension”.

Well, she has got a lower state pension. Remember, this is someone on median earnings. The situation will be worse for anyone earning more than median earnings. Given that it is the median, half of those who have accrued the expected level of state second pension will not have their rights fully protected, and I think that that is a scandal.

Q182 Christopher Pincher: Does it not actually state that the single tier will be set above the pension credit standard minimum guarantee of £145.40, but it does not state exactly what it will be, so you are basing your figures on a starting proposition that you do not know.

Bryn Davies: I am basing my figures on the figures in the impact assessment: £144 a week.

Q183 Christopher Pincher: And given that that is a figure above which the House of Commons research paper states the STP will begin at, how can you—

Bryn Davies: The figures are going up each year. I am sorry; I have not seen the House of Commons papers, so I cannot comment on that. But all the figures go up in proportion. I do not think it eliminates my point that someone on median earnings will get less pension at retirement than they would have got under the existing system, contrary to what is stated in the impact assessment. It is an issue I am very keen to highlight.

Q184 The Minister of State, Department for Work and Pensions (Steve Webb): On that worked example, that person will on average draw a state pension for 25 years. Whereas Gill would have had an earnings-indexed basic pension of £107 and the rest would have been CPI’d, in our world she gets an earnings-indexed £144, so is it not the case that she gets a substantially more generous indexation in retirement?

Bryn Davies: That is true, but it is not what the impact assessment says. Also, for Gill in particular, it takes her two years to catch up, so it is four years before she is ahead. The higher people’s earnings are, the longer it takes. For an extreme case, I can demonstrate that it takes someone 30 years to catch up, and so 60 years for them to be ahead, and that is from the age of 67. Remember that Gill is a woman who spent most of her working life expecting to retire at 60. She is actually going to retire at 67 and get less than the benefit that she has accrued so far.

You are absolutely right that the increases on the single-tier pension will be higher, but it takes time to catch up. Unfortunately, some people will die within the four years. If Gill died within the four years, she would never catch up, and it is no consolation to her that other people who live to be 100 end up better off.

Q185 Sheila Gilmore (Edinburgh East) (Lab): I was going to ask about the interrelation with means-tested benefits. Are you satisfied that the abolition of savings credit will be balanced by the benefits of a single-tier pension?

Bryn Davies: I am afraid that I will pass on this one, if you will forgive me. There are other people who have given evidence who know far more about that than I do.

Professor Blake: I cannot comment on that either.

Q186 Sheila Gilmore: Do you have any views on whether any groups of future pensioners will lose out not just on savings credit, but regarding the continuation of means-testing?

Bryn Davies: Clearly the abolition of pension savings credit will leave people worse off, but one can see how it fits within the overall approach of the policy. There will be numbers of people who, because of the loss of savings credit, will get lower benefits. That is the arithmetic result of the proposals. Again, that is not an area that I am an expert on.

Q187 Sheila Gilmore: Did you want to add anything?

Professor Blake: No, I do not have any expertise on this, or anything to add.

Q188 Andrew Selous: May I ask you both your views on how the Bill treats the 4.2 million self-employed people in the United Kingdom?

Bryn Davies: Clearly it is a very good deal for the self-employed. We know that lower-income self-employed people have paid as much as people on low earnings, but there are many self-employed people who have earned a great deal more and, taking on board what the employers had to pay as well, those people have paid a lot less in national insurance contributions, but will get the same benefit. So, obviously, it is a good deal for them.

In that context, it is worth pointing out that because of the “no increase in expenditure” requirement, their gain means that other people somewhere in the system are losing out. It is reasonable to ask whether that meets the criterion of fairness that is given some emphasis in the White Paper.

We do not know—the Treasury has been very unclear about this—what contribution rate the self-employed will pay in the future. There will be a disconnect between self-employed people contributing at their present level above those on particular low incomes—that point has been clearly made—but there are lots of self-employed people earning more than that level and they will get the same benefit, having paid a lot less. I find it difficult to justify that, and I wonder whether the Treasury will find that difficult to justify and therefore will, in due course, increase the national insurance contributions payable by the self-employed so that they are consistent with those paid by, and in respect of, employed people. No
clear answer has been given on that issue, so we will not quite know how future self-employed people will fare under the Bill until we know the contribution rates. It is clearly a very good deal for existing self-employed people.

Professor Blake: I have no comment.

Q189 Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): May I ask about the state pension? Do you believe that there are specific groups of workers who are likely to be disadvantaged by increases in the state pension age? We know of the social class and occupational issue so, in that particular context, are there any mitigating measures that you would like to propose?

Bryn Davies: Social class is clearly one of the main determinants—this is well-trodden ground. There has always been this debate about people in heavy industries. For example, when we were first discussing this issue, one referred to coal miners and steel workers. These days, there is not such a big number of people involved in such jobs, but the issue of whether those who have had a hard working life should be entitled to take a state pension earlier than others has been the subject of a lot of discussion. I cannot really add any more than that.

Q190 Gregg McClymont: May I move on to the private pensions issue, on which I know you and the Pensions Institute at Cass have done a significant amount of work? Would you care to comment on either or both of the provisions in the Bill that give the Secretary of State powers in the private pension sphere and, more specifically, on the issue of the transfer of stranded pots?

Professor Blake: Thank you for that question. The issue of dormant pots is clearly going to be a serious one. In a sense, when this system was set up—I advised a Committee here some years ago about setting up the Personal Accounts Delivery Authority—it would have been better if, instead of the pot following the member, it was the scheme that followed the member. If schemes were well designed, the scheme would stay with a member when they moved jobs. The whole point about DC is that if schemes were well designed, the scheme would stay with a member when they move employers. I think it would be better if the scheme followed the member.

Clearly that is not going to happen under the Bill, so we need to try to find other ways of having efficiencies and economies of scale built in. There is a whole range of ways you might think of, and the aggregation of pension pots might be one way. However, we must have efficiency and economies of scale, and having 20 million dormant pots at the £10,000 limit, or 50 million dormant pots at the £2,000 limit, is just so inefficient.

Professor Blake: Yes, that is another important issue. Charges are a real killer for reducing the value of pensions when someone retires. As we know, charges of 1% or more can take 20% or 30% of the pension pot, so the charges have to be brought down. I am not sure whether capping or competition is the right answer, but charges have to be brought down to something like 50 basis points, and we cannot have legacy schemes with more than that being used for auto-enrolment or else you will get this detriment to the value of the pension pot for those members. We are going to do some more work on this.

Q192 Gregg McClymont: Do you have evidence from your research so far that high charges are a widespread problem? If so, is it a good thing that the Bill gives the Secretary of State the power to cap charges?

Professor Blake: Yes, this is an important point. Some of the legacy schemes that could be used for auto-enrolment still have high charges of 1.5% or more. The industry is trying to get charges down below 1%, but there is some evidence that schemes with those high charges will still be in use, so the issue is with the legacy schemes. My feeling is that the legacy schemes should not be used for auto-enrolment if they are poorly designed and have high charges.

Bryn Davies: May I add something on the issue of pots following members? I have been watching the proceedings of the Committee and a lot of views have been expressed on that, and I think that the balance of views has been in favour of aggregating. My only thought is that whatever solution is reached at this stage is bound to be provisional until we have a clearer idea of how DC provision will work out. Big changes are taking place in DC provision. Until we have a clear idea where that will go, whatever you decide on pots following members will be provisional.

Q193 Gregg McClymont: Does either of you have a view on NEST’s role as a potential aggregator?

Bryn Davies: If I had pensioners to aggregate and was able to do so, I would put them with NEST. One could envisage a limited number of aggregators, but we envisage a limited number of well-run, low-cost DC providers anyway, so those two things mesh together.

Professor Blake: That is right. The recently introduced auto-enrolment schemes, of which NEST is one, are as well designed as you could possibly have with good investment strategies and low charges, and that is the kind of model that we want to encourage. I agree with my colleague. We really want only a small number of big schemes. That will lead to efficiency at the end of the day; having all these small schemes is just so inefficient.

We want to move as quickly as possible and to incentivise the movement to having a small number of large schemes so that it will not matter which scheme the individual is in because the schemes will be roughly the same. For example, when we fly in an aircraft, we cannot tell the difference between Airbus and Boeing because they are both well-designed aeroplanes. I would like us to move towards the equivalent of that with pensions schemes, and to have a small number of large, efficiently run, well-managed and well-governed schemes.

It will then not really matter in which scheme the individual ends up, because they will roughly get the same thing and then such problems will not be so obvious.
Q194 Heather Wheeler: Let me take you on to short service refunds. Clause 32 removes the facility to refund pension contributions to employees who leave the scheme after a short period and for the employers’ contributions to be retained within the scheme. Do you regard that change as potentially detrimental for employers?

Bryn Davies: No.

Professor Blake: No, not if they keep their contributions.

Q195 Andrew Griffiths (Burton) (Con): The evidence from Age UK and the unions expressed concern that people would be forced to leave a well-run scheme and put into a less well-run scheme as a result of auto-enrolment. Do you share that view? If so, do you have a solution?

Professor Blake: To reinforce what I said in answer to a previous question, if we have a small number of well-managed, good-governance schemes that are efficiently run with low charges, I do not think that will be a problem. I do not think that we will end up in a position of people having their pots transferred from an efficient scheme to an inefficient scheme simply because they change jobs. We need to be very conscious of that being a problem, but the solution is to make sure that the schemes are well run and efficient with good governance and low charges. That is what we have to move towards because then those problems will not be so important.

Q196 Gregg McClymont: My sense of what you are saying, Professor Blake, is that scale will be critical. Is that a fair assumption?

Professor Blake: We have to know where there are economies of scale and where there are diseconomies of scale. There are economies of scale in administration and record keeping. There are economies of scale in fund management, depending on the asset class and the size of the fund. We have to be very conscious about where the diseconomies begin to bite in the different activities of the scheme, and we are doing work on that.

The Chair: Order. That brings us to the end of the time allotted to the Committee to ask questions to these witnesses, who I thank very much on behalf of the Committee.

Examination of Witness

Baroness Hollis gave evidence.

2.45 pm

The Chair: Would you like to introduce yourself to the Committee?

Baroness Hollis: I am Patricia Hollis from the House of Lords. I was the Lords Minister for the DWP from 1997 to 2005 and am currently, of quasi-interest, a member of the board of the Pensions Advisory Service, which gives free professional advice to people who find it difficult to buy it in the marketplace.

Q197 Andrew Griffiths: Do you feel that the Bill’s provisions match your expectations of what you would like to see within a reformed pensions scheme?

Baroness Hollis: I am delighted that we are having the Bill. It is the appropriate way to go, and I am really pleased and all congratulations to the ministerial team leading it. However—there is always a however—I have five issues within the Bill and one without, which may or may not come up in questioning. First, I am slightly worried about the seven to 10 years de minimis for a particular group. Secondly, I have some queries about the transitional arrangements. Third is something that I think has not been raised, although I may have missed it, which is the loss of lump sum for deferred state pensions. My fourth issue is pension age and the fifth is bereavement benefits.

I am also concerned about an issue that is not in the Bill—although the Bill gives us a way forward on it—which is what we do with people, particularly women, who have a portfolio of mini jobs below the lower earnings limit. Those mini jobs combined may take them above the LEL, but in the past the jobs would not have brought them in. I think that we have a way forward on that. Those are the issues that concern me.

The Chair: Thank you. You seem to have anticipated, in a very perceptive fashion, many of the questions that will come your way. Perhaps those who will tackle some of those sections might take them on at a time.

Q198 Christopher Pincher: One at a time. You will have heard earlier evidence about the eligibility to the STP and the requirement that someone works for 35 years to receive a full pension and that someone has to work for 10 years to receive any pension. Chris Curry from the Pensions Policy Institute seemed to suggest that that would present no major difficulty, because the vast majority of people will have accrued between 30 and 35 years by the time the pension is up and running. Mr Davies from Union Pension Services took a different view and cited the example of a 33-year-old lady called Gill, who he said would be worse off by something like £2.80 a week. Do you think that there will be any particular groups that will be dis-benefited by the eligibility criteria?

Baroness Hollis: Just a couple. I will take the de minimis aspect first. I absolutely understand the point about the Aussie bartender, but seven to 10 years can be quite a lot of money. Ten years at the minimum wage could be worth £42 on the pension. I do not know whether this issue has been raised. Most women who have not acquired national insurance contributions through work will acquire them through credits, rightly, for caring for children or older people and so on. But the group that I have found we tend to overlook are service wives who go abroad with a husband who almost continuously has overseas postings, and they may not have children. As a result, they will not be able to enjoy a category B pension and they will not be able to build it up under their own steam, yet they are doing what most of us would think was a right and decent thing to do. It is a small group and that problem could be easily overcome by having ease of buy-back, perhaps restricted to British citizens or British nationals to avoid the Aussie bartender issue. That is one group.

I regret going down from 30 years to 35 years. I understand the logic that you are putting together the basic state pension and state second tier, and that this is a compromise between them. Obviously, the motor is financial. I do not think that, over time, there will be a lot of losers between the two.
I welcome what you are doing about the reduced married woman’s stamp. I think that is decent and sensible. However, I am worried about the 30,000 women who will lose category B, which stops suddenly. I did some calculations on that. If her husband in 2016 is 57 or over, he is likely to have enough stamps for her to enjoy a full category B pension. However, if he is younger than she is, or if he has an interrupted record, and she herself at that time is 55 or 56 with a network of caring and voluntary responsibilities and finding it difficult to re-enter the labour market, she could find herself stuck.

We need ways to allow her to build up the category B pension that she might have got, but which is incomplete by virtue of the fact that we have brought the guillotine down. One way might be that if in the past she has had childcare responsibilities, but the HRP or the new credit arrangement has not come into play because it has not taken her above the de minimis rule, that could be added to, for example, her derived benefit. If you put the two together—her child care credits and the derived rights of her husband—as far as I can see from my back-of-the-envelope calculations, you take almost all women out of the risk class of not getting a full pension when they retire.

Q199 Christopher Pincher: Thank you for that. You have been clear about that example. It leads rather nicely into my second question, which is about derived and inherited benefits. Mr Carberry from the CBI said earlier that although there might be some issues with derived and inherited rights, given that people are building up pensions in their own right the impact will not be particularly significant. Do you agree with that?

Baroness Hollis: Forgive me, but the CBI and a bloke? I mean, the pension structure is devised for pale males, isn’t it? There are clusters of women in particular, but also some low-paid men and people with broken records, who are potentially going to be small pockets of losers. The problem is not just how we are treating them now, but the fact that come 65, and in women’s cases, if they are in a partnership with a husband who dies, from 75 to 80, we are going to have a legacy problem. If I were Steve, I would be worried about the fact that we are running alongside that a parallel pension credit system for another 30 or 35 years. Therefore, not just on grounds of decency, but on grounds of administrative, long-term savings, I would want to corral as many of those small groups—such as my service wives and women with incomplete category B pensions—into the pensions, if we can find a fair, decent and not too costly way of doing it.

The Chair: Thank you for that very full answer. I am conscious that there are about another 12 questions we have to get through, so if we can keep them compressed, that would be helpful.

Q200 Christopher Pincher: What about the starting level for the STP? Do you think it is at the correct level, or do you think it should be improved in some way? Age UK, for example, said that £145.40 plus 5% would be an appropriate starting level. What are your thoughts?

Baroness Hollis: I have not worked the figures out, so I do not know.

Q201 Sheila Gilmore: I want to ask you about means-tested benefits. Are you satisfied that the abolition of savings credit will be balanced by the advantages of the single-tier pension?

Baroness Hollis: Actually, I do not know. What will be useful is the way that housing benefit in particular—council tax benefit is localised—and disability benefits will be protected through UC, and will help in all these calculations. I do not yet know what the implications will be for HB. What I suspect will happen is that we will come down from 25% to about 20% claiming means-tested benefits, but that there will be a somewhat reduced degree of loss by virtue of the fact that you are not piling layers of means-testing on top of each other. We are going to have to watch this. We will certainly be tabling amendments to tease out the implications.

Q202 Sheila Gilmore: Do you think there are any groups of future pensioners who would lose out as a result of the change?

Baroness Hollis: Doing the work that I can do—I don’t always have the modelling available—I haven’t seen any groups who will be specific losers, but I think some groups will gain less than others. They will certainly include, for example, the 20% to 25% of pensioners on HB.

Q203 Andrew Selous: What is your view on how the self-employed are treated in the Bill? What is the level of fairness or generosity towards them as far as the Bill is concerned?

Baroness Hollis: I am delighted by the treatment of the self-employed. If we are to take some reasonable risk out of entrepreneurship—people who are poor cannot afford much risk—that is one way of doing it, in terms of the long-term future. I am delighted. I do not know what should happen to the £2.65 that you are going to charge on their contributions. That may have to float up slightly.

What we know about the self-employed is that they are not like this, they are like that. Either they are fairly poor and cycling between employment, no employment and self-employment, in which case this is brilliant for them, or they are the relatively better off in IT services and so on, for whom I do not have a particular case to argue. For the people at the bottom who are in the shadowlands of marginal employment, this is a good, decent and generous settlement.

Q204 Mark Reckless (Rochester and Strood) (Con): Do you think that the timetable for further increases in the state pension age gives all groups sufficient time to respond and plan?

Baroness Hollis: It may give them sufficient time, but I do not think it is the right way to go. The reason for that—I do not know whether you had the chance to read the 1,050 pages of evidence in the report that came out a couple of months ago from the House of Lords Committee chaired by Lord Filkin. There is a lot of demographic stuff in there that I have been trying to tease out. What we are seeing clearly is that the first 10 years of retirement are healthy. The next 10 years involve growing, chronic functional disability in mobility, reaching, hearing and seeing. The last two to five years are dependency: people are bedridden, have Alzheimer’s or whatever.
Gregg asked about the class connection earlier in his question. All the evidence coming through is that the growing years of older age will be spent in that middle period of chronic disability. In other words, in living longer, people are not having more healthy years; something like two thirds of the population are having more years of chronic disability. Therefore, although I welcome the review, I think that any rise in pension age should be attached to the growth of healthy retirement years, not overall years. Otherwise, if it is kept at a constant percentage, it will squeeze the years of healthy retirement, particularly for people in low social groups.

**Q205 Gregg McClymont:** May I ask about the Second Reading debate? We know that the whole thrust of state pension reform is to increase and encourage incentive to save. The Bill refers to private pensions, particularly in part 4. What is your view on the provisions in the Bill regarding auto-enrolment?

**Baroness Hollis:** My long-standing concern with the increased raising of the PTT up to £8,000 and beyond, which is fine—beyond that, you get auto-enrolled—is that the group between £5,600 and £8,000 have the right to opt in to auto-enrolment, but most employers will not encourage them. They are a group whom I think will lose out unless we can change the vocabulary and get the Federation of Small Businesses—they mostly work for small businesses—on side to bring those women in.

I have an issue about the group in that every time we raise the tax threshold, more women drop out of auto-enrolment. They are the ones who are least likely to have pension savings and about whom we should be most concerned. We must do something there. There are issues about aggregators, small pots and so on that I could comment on, but you may already have had plenty of evidence on that.

**Q206 Gregg McClymont:** You read my mind. I was just going to ask you about aggregators and the issue of small pots.

**Baroness Hollis:** I was talking to some people in the industry about this. I do not understand, but there may be reasons that I have not heard, why people should not have a choice. In other words, if somebody is moving into a scheme which is at least as good or better than the one they are in, then the pot follows the member, but they should be able to run in parallel an aggregatory NEST for that period of time when they are not. You would then end up with two pots—the one that is taking you all the way through and the aggregator. I do not think that that would be difficult to handle. That would be, I think, my preferred way of going, but I would have to do more research before I was completely confident about it.

**Q207 Gregg McClymont:** Can you think of any reason why there might be opposition to aggregators within some parts of industry?

**Baroness Hollis:** The industry. When we tried to raise the cap on NEST, get contributions coming in and deal with some of the small pots that were already there, the industry did not want to know. It just wanted to keep as much money as possible under its organisation. The fact is it is not interested in small pots of £2,500. It just shrugged them off. It was sympathetic, but shrugged them off. I do not think that you will get a solution from industry, but I would love to be proved wrong.

**Q208 Gregg McClymont:** You do not think that you will get a solution from industry?

**Baroness Hollis:** No, but I think in negotiations an array of solutions can be put to it. It may be that you will get some broad consensus. I do not think that industry is unsympathetic to the problem, but what it is interested in is keeping as much money as possible under its management.

**Q209 Gregg McClymont:** Which brings us nicely, in terms of aggregators, to the issue of NEST. Are you surprised that the Bill does not take on the issue of removing the NEST restrictions?

**Baroness Hollis:** Yes, and you will not be surprised to hear that there will probably be amendments to that effect in the other place if that issue has not been resolved.

**Q210 Gregg McClymont:** Why do you think that is so important?

**Baroness Hollis:** For many people, NEST will be their main form of auto-enrolment pension. You may, for a period, be self-employed. You might be a woman hairdresser who swivels between self-employment and employment. While she is in employment, money is going into NEST, because these are small businesses that do not survive a pension scheme. When she is self-employed, she may develop a small pension pot. She might want to aggregate that into NEST. At the moment, she will find it difficult to do so.

**Q211 Gregg McClymont:** Why do you think the restrictions on NEST remain in place?

**Baroness Hollis:** This was part of the original deal when John Hutton or James Purnell set it up. I was marginally involved in some of the discussions. Industry was very nervous about losing money under management to NEST, and the deal, therefore, was that we would cap it at the £3,000 a year limit, with no contributions in or out in order not to destabilise it. That was a reasonable deal to start with, and obviously most of those NEST pensions will not mature in any worthwhile sum above trivial commutation level for another five or 10 years. We have a few years in hand. I think the fears of the industry will not be realised, and we should then be able to bring it on board to relax the limitations on NEST.

The Chair: Thank you. We can always come back with supplementaries at the end if we have time. Mr Reckless?

**Q212 Mark Reckless:** On that, you referred to these very small pots and I thought you suggested that the industry was resistant to losing management of them. Surely the very small pots are a big administrative cost, with very limited revenue from them.

**Baroness Hollis:** You are absolutely right. At the moment, a small hairdresser, for example, might have half a dozen pots, which, if amalgamated, would take her over the trivial commutation limit. She cannot...
therefore trivially commute them, but each individual pot cannot be annuitised, and companies such as Legal and General might be reluctant to amalgamate its pot with one of the Pru's, each of £2,000. Therefore, you need some way of breaking through all of that, and the easiest way it seems to me is to be able to put them into NEST.

Q213 Mark Reckless: If I may, I will press you on that. Would that not leave NEST as an extraordinarily unwieldy, enormous and growing fund? If it just becomes a default fund and is taking such a large number of these small pots over time, will it not become unwieldy and difficult to manage?

Baroness Hollis: I do not know. I am not worried about its size provided that it is well run and well regulated.

Q214 Mark Reckless: On contracting out, are there any particular groups of employees for whom you have a particular concern?

Baroness Hollis: Well, not really, except that obviously private sector employees have a poorer deal relatively speaking than public sector employees. However, the evidence I am getting—it is anecdotal, so I do not know how much it is worth—is that many of the employers are taking on the additional payments even though they have to pay the higher-rate NICs. If that continues, and I think the Minister should encourage that, that would be very good news.

Q215 Mark Reckless: You said that the public sector was getting a better deal than the private sector. Do you think it is sustainable for the public sector to get that deal? Will the schemes be able to continue in the way they have been reformed when employers have to find that extra 3.4% from April 2016?

Baroness Hollis: It depends on whether you are trying to do is to look at, say, the total fund—for instance, the local government fund or the teachers’ fund—and the payments in and payments out. If, instead, you do what Hymans Robertson would do, which is to take whether the individual in it is paying his or her way by their contributions, you get different answers.

The reason that the NHS scheme has been in profit, so to speak, is that the NHS has been growing so rapidly; it is bringing in more contributions than those that are going out. Once you start shrinking the public sector, the contributions out become more of a liability over time because they are not supported by contributions in, but you cannot blame the individual for that.

It is which of those two you are more concerned with: the total in-out package, or the individual’s in-out package. You get different answers for each.

Q216 Sheila Gilmore: I want to ask you about the provisions for amending pension rules by employers. Do you have a view on that?

Baroness Hollis: Not really. I understand the point about the override, but that is not something I have done any work on; sorry.

Sheila Gilmore: That is okay.

Q217 Gregg McClymont: I want to pick up on Mark’s question regarding scale and NEST. Many of the witnesses so far, in terms of the private sphere, have talked about the benefits of scale. It struck me when Mark was asking that question that schemes like the Ontario teachers’ scheme and the Calpers scheme have enormous amounts of money under management and seem to be very effective. Is that a fair comment?

Baroness Hollis: And there is also the Netherlands experience. The key thing—Professor Blake said it much better than I could and has more knowledge of this—is that we have over 50,000 DC schemes, and more than 40,000 of those have fewer than 10 members.

Gregg McClymont: Fewer than 10 members?

Baroness Hollis: Yes, and in Australia the average DC scheme has 27,000 members. You can see what is going to happen to charges, management costs and so on in that situation. Clearly, you have got to have fewer, larger, well-managed, well-regulated schemes. There is no doubt about that. Then, competition ought to be able to work.

Q218 Gregg McClymont: Sometimes, in response to that view, people would look to the energy market and say that that does not work effectively with its few big players. Is that an issue?

Baroness Hollis: I really do not know. If I were involved in taking that aspect further—I do not claim to have any expertise in this—I would want to talk to the Financial Conduct Authority and take advice on what it felt was an appropriate maximum size for appropriate regulation. The actual size of the funds under management does not bother me, when you consider what many of us are now putting into ISAs and so on.

Gregg McClymont: We are talking about the scheme side, rather than the provider side, when we talk about scale.

Baroness Hollis: Absolutely. It is not a problem that I would be worried about, but whether there are grounds to be worried, I would not know.

Q219 Sheila Gilmore: I want to follow up on something the Work and Pensions Committee picked up on: people who might have several different jobs under the lower earnings limit. I had a constituent who was in that position and she was quite angry that they were not put together. Did you say that you thought there was a way that could be addressed?

Baroness Hollis: Yes, and I also had a concern about bereavement benefits, but we may not get to that. Indeed, that issue—where people have, say, two 10-hour jobs at the minimum wage, both below the lower earnings limit, and there is no means by which to amalgamate—is one we have been unable to resolve for over a decade. Similarly, sometimes people even have three jobs.

I think that the solution is actually in the Bill. The Bill gives us the way forward, which is to treat such women—they are mostly women, and poorly paid women at that—as though they were self-employed. That would therefore mean that you do not need an employer’s
contribution, which has always been the big stumbling block in the past. You do not have to divvy up between two or three employers bits of the NI contribution that the employer should make into the pension. That has always stopped us in the past, but it has gone for the self-employed. We can therefore follow in the path of the self-employed for these women.

Secondly, if their combined income is between the LEL and the PTT—between the £5,600 and, say, the £8,000—they could be credited in under national insurance, as now, for women. If they are over the PTT, we can either get them to pay the self-employed rate of £2.65 or the voluntary mixed rate of £12—whichever you thought was decent, appropriate and affordable.

I really hope the Government take this on. We have a way through this by building on the self-employed strands in the Bill for women who are, with two, three or even four small part-time jobs, essentially self-employed. That way, we can allow them to aggregate and be treated as though they were self-employed. That way we can break through for the first time, because we do not then have to worry about the employer’s contribution, which has always stopped us in the past.

The Chair: If the Committee has no further questions, Baroness Hollis, we thank you very much for your time this afternoon.

Baroness Hollis: Thank you. I am delighted to have had the opportunity to give evidence.

The Chair: We now move on to the next witness, from the Department for Work and Pensions.

Examination of Witness

Steve Webb, Minister of State, gave evidence.

3.12 pm

The Chair: For the record, may I ask you to introduce yourself please, Minister?

Steve Webb: Certainly. I am Steve Webb and I am the Minister of State for Pensions.

Q220 Andrew Selous: What main response to the Bill has the Department had from the public since the White Paper was published?

Steve Webb: By way of context, it is worth remembering that this is a journey that has been going for several years now. We published a Green Paper, which is long forgotten. The model it contained was commented on and we published a consultation in the summer of that year. The model has been evolving and we have been listening to people for a long time. So in a sense, the White Paper was not our first stab; it was quite an evolved, consultative model.

From that time, we have made changes to the Bill in response to the Select Committee, which wanted certainty on the start date and on the maximum number of years that we might use as a minimum qualifying period, so we have put that into the Bill. We received responses from industry about flexibilities on changing their pension schemes in response to the ending of contracting out, so we changed the Bill because of that.

The main thing we have done is on people’s reaction to single tier. To understand the impact of single tier, you need to know how the current system works and how the new one works. Given that part of the argument is that nobody understands how the current system works, a lot of the public response has been based on misconceptions—assumptions that people will lose, although it turns out that they will not. So communication, which has been a theme of a lot of the witnesses so far, is crucial.

We have had a number of meetings with those who advise people—for example, the Pensions Advisory Service, Jobcentre Plus staff and Age UK. We are talking to people who talk to the public, listening to the issues being raised and planning a communications strategy. We have placed a copy of that strategy in the Library and we are doing research over the summer on how best to communicate the single tier to people—what language works for people and what issues they are concerned about.

The only constraint that we have is that we cannot spend taxpayers’ money explaining a system until Parliament has agreed to it, and, of course, the Committee may change the Bill, so if we send out information to people now and the Committee decides that it should be different, we will have to do it again and tell them that it was not what we said. We therefore have a slight frustration, because we would like to say a lot, and we are making progress, but the main thing that we have done since January is to listen to people where there are issues of confusion or concern. We have published a number of clarifying documents, but we will have a whole communications strategy to follow.

Q221 Christopher Pincher: Minister, you have sat and listened to the evidence and will have heard a range of views about the new arrangements for qualification for the single-tier pension, and about the new arrangements for inherited and derived rights. We heard from Bryn Davies about Gill, a 53-year-old lady, and how she might be less well off. Baroness Hollis spoke about service wives living overseas with children. What work has been done to identify which groups may be disbenefited by these changes? What are you doing to ensure that those disbenefits are not exceptional?

Steve Webb: One feature of the single tier is that there are lots of levers to pull. You can change the start rate, the indexation, the number of qualifying years and the rate at which you treat inherited and derived rights. You can tweak it in a thousand different ways and we probably have done.

In developing this we have run a model, looked at who the losers are and whether there are particularly unfair losers or large losers and have put in modifications. The classic one would be women who paid the married woman’s stamp who thought that at pension age that they would get a pension based on their husband’s record. We felt it was wrong to say to them a few years before pension age, “Sorry, we have changed the rules.”

At each stage, we have tried to look for significant groups of losers or unfair losers and modified the scheme. Clearly, in a cost-neutral reform that does provide clear benefits to some, some will get less than they would have done. We have tried to take money out of the means-tested side and put it in the state pension side because we think that is more effective.
Clearly, there will be some who will get less than they would have done. The point about service wives is important. When the Government legislated for credits to service wives—I think from 2010—they did it prospectively. So service wives now get credits but historically they did not. I am happy to take that issue away and see if anything can be done about it.

Q222 Christopher Pincher: Are you saying that you think that the system is sufficiently flexible to enable those particular creases in the proposals to be ironed out without legislation, or do you think there might need to be future changes to accommodate those concerns?

Steve Webb: We would not ideally want to make future changes; we want to have some stability. There are flexibilities in the system. For example, people can pay voluntary national insurance, so if they are short of the number of years they would like to have, the rules arranged with HMRC for voluntary national insurance have been relaxed in a remarkably generous way. All the time limits and the prices have been relaxed. Voluntary national insurance for those who can afford it—I appreciate that not everyone can—is a very good deal in terms of what you get back for it. That gives people a degree of flex.

The means-tested benefit system remains as a safety net. For example, if someone is widowed, could they be left with no state pension? They could, but they would probably be entitled to one hundred and forty-odd quid of pension credit. So they will get their money through a different route. There are safety nets, flexibilities and transitional protection in the legislation.

Q223 Sheila Gilmore: That takes us neatly to means-testing. The abolition of savings credit can be seen as being balanced by the benefits of the single tier. Do you think that is fully the case?

Steve Webb: The savings credit story is that, before savings credit, the worry was that you had a state pension that was below the poverty line, which was topped up pound for pound to the poverty line, but that meant that every pound you saved was a pound off your guarantee credit. The Government of the day said, “That is not fair, so having means-tested away your extra pension, we will means-test back some of it.” That is how the savings credit came about. It is the most complicated bit of the benefit system I have ever come across. I have to keep drawing charts on the whiteboard in my office to try to remember how on earth it works.

One consequence is that half the people who are entitled to just the savings credit do not claim it. One of the strange things about single tier when we bring it in is that not everyone can—is a very good deal in terms of what you get back for it. That gives people a degree of flex.

The means-tested benefit system remains as a safety net. For example, if someone is widowed, could they be left with no state pension? They could, but they would probably be entitled to one hundred and forty-odd quid of pension credit. So they will get their money through a different route. There are safety nets, flexibilities and transitional protection in the legislation.

Q224 Sheila Gilmore: Are you satisfied by the extent to which means-testing will be eliminated? There will still be a substantial amount in all your future projections.

Steve Webb: I have never used the word eliminated. Means-testing is happily on a downward trend anyway. This will accelerate the downward trend. In particular, it will reduce the number of people getting multiple means-tested benefits, which has to be a good thing.

Q225 Sheila Gilmore: How does that happen?

Steve Webb: If we take the savings credit away, some of those people will still get housing benefit but they will not get savings credit and housing benefit.

Q226 Heather Wheeler: We have heard a lot of evidence this afternoon, and the day before, Minister, about different groups that might be adversely affected. I wonder what steps you have taken to reassure yourself that the revised implementation data, particularly, for single tier allow the pension industry, pension schemes and employers sufficient time to adjust to all this.

Steve Webb: Again, I guess the relevant context is that the 2011 Green Paper mooted a 2016 start date, so we have actually been talking to the pensions industry and employers for several years about all of this. It has been in the wind. It was not a shock when the White Paper came out. The White Paper slipped that start date to 2017 and quickly we pulled it back to 2016. But we have been flagging this for a long time.

I was encouraged by what the CBI said this morning. It reckons its members needed 18 months to prepare, which would be autumn 2014. We agree that they need to see the detail which is in the secondary legislation as soon as possible. I am advised that we will be sharing, informally, draft regulations with employers and pension funds over the summer. We will have consultation later in the year. So that is going well. They want to see the detail soon and I am encouraged that we seem to be well on the track to giving them that detail.

Q227 Heather Wheeler: Okay. Just a final thing from me on this bit—a bit of an awkward one, really. Which employees are likely to be adversely affected by the ending of contracting out and, I suppose on a slightly more positive note, which groups will benefit?

Steve Webb: One of the problems with the Green Paper version was that because you had been contracted out in the past, you have a deduction from your state pension, called a contracted-out deduction, and you could never do anything about that. It was just like a stain on your record and it would always come off your pension. The difference with the White Paper version is what we have called “Something for something”: once we have taken that deduction off once, in 2016, you can then earn your way back to a full single-tier pension by future years of work. The advantage, therefore, is that people who have been contracted out have the chance to build up a full pension, which they did not previously have.

We think that, across public and private sector, the vast majority of workers will get more back. Although they will pay more NI and lose their rebate, they will get more back in future state pension accrual than they will lose in NI. That is a tough message today—if you face
It is our best guess about the future, but we are not making any heroic assumptions about changes in behaviour. It is static in a sense. Without this reform, automatic enrolment would not have been as successful as it is being, because I think the financial press would have run articles saying, “Why bother saving small amounts of money? They will just be means-tested away.” That has not happened; the situation without this reform—the counterfactual—would not look very good.

We have not built in any dynamic assumptions about behavioural change in response to the reform, but all our projections are dynamic in the sense that we look at likely changes in behaviour under the reform, automatic enrolment would not have been as systematic and transparent than it has ever been before. It will be far more clear to everybody, to the industry and Parliament debates the change. It will be far more straightforward than it was before. How are you going to ensure that there is transparency in that decision-making process?

Steve Webb: Yes, one of the key elements of the reforms is the system whereby there will be a review every six years of the state pension age. Earlier this afternoon we heard from Professor Blake, with his idea for a longevity committee—I have not heard that one before. How are you going to ensure that there is transparency in that decision-making process?

Steve Webb: It is funny—I thought you were going to say that both of those would be good things if they were to happen. If more people are self-employed, entrepreneurial and all of the rest of it, you could argue that that is a plus. If people work longer, in general that is something that we as a Government want to encourage. You have to pay more pension when they eventually retire—I take that point—but you can argue it both ways: the behavioural response will be complex and I do not think there is a bias in our estimates particularly. There is a margin of uncertainty, certainly, but I do not think that there is a downward bias.

Q230 Mark Reckless: If more people decided to become self-employed partly because of the attraction of this reform, or a lot of public sector workers decided to work several years longer than they might so as to get the full single-tier pension, would that not potentially increase the cost of a reform that is intended to be cost neutral? Have those elements been fully priced in your model?

Steve Webb: It is funny—I thought you were going to say that both of those would be good things if they were to happen. If more people are self-employed, entrepreneurial and all of the rest of it, you could argue that that is a plus. If people work longer, in general that is something that we as a Government want to encourage. You have to pay more pension when they eventually retire—I take that point—but you can argue it both ways: the behavioural response will be complex and I do not think there is a bias in our estimates particularly. There is a margin of uncertainty, certainly, but I do not think that there is a downward bias.

Q231 Andrew Griffiths: Steve, one of the key elements of the reforms is the system whereby there will be a review every six years of the state pension age. Earlier this afternoon we heard from Professor Blake, with his idea for a longevity committee—I have not heard that one before. How are you going to ensure that there is transparency in that decision-making process?

Steve Webb: In a way, this will be a far more transparent process than anyone has ever had before. Rather than the Government announcing a date for a change in the pension age in a particular year, there will be a systematic process: a Government will set a target proportion of adult life in retirement, which will be published. The Government Actuary’s Department will then look at that and could, for example, say, “The formula might say one thing, but what about healthy life expectancy or different socio-economic groups?” Its report will be published, and any resultant change will require primary legislation, so this place will get to debate it.

There are no secrets here: the principle is published, the analysis is published, the independent commission’s report is published, the Government response is published and Parliament debates the change. It will be far more systematic and transparent than it has ever been before.

Q232 Andrew Griffiths: Do you think that prevents future Governments from running away from the problem?

Steve Webb: Nothing prevents future Governments from running away from problems.

Q233 Andrew Griffiths: This morning we heard from the industry about its need to see secondary legislation quickly. Will you tell us your plans to give the industry that information so that it can have some certainty?

Steve Webb: Yes, that is what I referred to a moment ago, on the preparedness for the end of contracting out. My officials are already drafting that legislation. We are already talking to the industry about it and will publish draft regulations for consultation. That work is ongoing—and at a good pace, as far as I can see.
Q234 Andrew Griffiths: Finally, there is the six-yearly review, but how long do you feel you then have to give people to allow them to make any amendments and changes to their personal situation?

Steve Webb: Chris Curry of the Pension Policy Institute said that there was an objective basis for saying that a minimum of 10 years was about right. That is what we envisage. We think that the future process would not result in changes to people’s pension age at a notice period of less than 10 years. Of course, we have essentially given the best part of 15 years’ notice of the change to the age of 67 that is in the Bill.

Q235 Gregg McClymont: Minister, you referred at the beginning of your evidence to how alive you are to the issue of significant and/or unfair losers. Could you say to the Committee a little about what groups, if any, do you think are significant or unfair losers from this reform, and more widely, who the losers are?

Steve Webb: In a sense, to try to avoid having unfair losers, we put a lot of transitional provisions in the Bill, for example a provision for people who paid the married woman’s stamp and the foundation announced that embodies what you have accrued so far; it would have been unfair to have used the lower number at 2016, for example.

Who are the losers? It is a flat-rate pension, not an earnings-related one. Over the long term, those who would have had the highest earnings and built up the highest earnings-related pensions will get less than they would have done. There will be some who would have got the savings credit who will not get it. We do not know who, because it is a lottery; half of them do not know who, because it is a lottery; half of them do not claim it. There is a minority of people who will lose out through the abolition of derived rights.

Q236 Gregg McClymont: I take that answer to mean that you would not consider either the 700,000 Group within that to be significant or unfair losers, or indeed the evidence that we heard from the bereavement support network on Tuesday about the loss that bereaved families might face.

Steve Webb: Let us take those two separately, if we may, because they are quite big issues. I entirely understand that our witnesses this morning, born between ’51 and ’53, would like to be part of the single tier, but because they were born before it applies to them, they will not be.

As you will recall, in 2010, the then Government changed the rules very substantially to give pension for 30 years, not 39 years. That was a huge change. Anyone born the day before was completely cut out. There was no transition or provision whatsoever. Day before? No. Day after? Yes.

The change that we are making is far less of a cliff edge than that was. As I mentioned, our analysis suggests that the typical woman in this group will get £6 a week less than if her payment was worked out under the other rules, but she will also get her pension at 61, 62 and 63, when most of her younger sisters will get it at 63, 64, 65 or 66.

If you take the whole package—the pension and when you get it—I do not believe that the ’51 to ’53 group are uniquely adversely affected. I think that there are groups before who could make that claim. The pre-2010 women could say, “Well I had to work 39 years, not 30. It’s not fair.” The post-2016 women could say, “I have to work until 65 or 66. It’s not fair.” The ’51 to ’53 could say, “It’s not fair.” Each of those groups has had different pluses and minuses.

Just for the record, we have not changed the pension age or the pension of that group at all, except through the triple lock, where we have enhanced their pension. Compared with rolling the previous system forward, for those 700,000 women, they will get better pensions than they would have done if this Government had never existed.

Q237 Gregg McClymont: And on the bereavement?

Steve Webb: Yes, sorry; I got carried away on that one. On bereavement payment, the first thing to stress is that in the next Parliament, we will spend more money, not less, on bereaved families. I have not led on this issue in the Department, but I was always keen to ensure that this was about structural reform, not saving money.

Clearly, there are lots of anomalies in the current system of support for bereaved families, for example the contribution rules and the age cut-offs. There are all sorts of groups who really ought to get some help but do not. One of the things we did was to consult and talk to both the organisations that came to give evidence and others. One of the strong messages that we got back was the crying need for extra help for bereaved families at the point of bereavement.

The initial model that we came up with was a very large lump sum, sweeping away all the ongoing payments and just leaving a huge lump sum. Then the groups said to us, “Yeah, but you would just spend it very quickly, and then where would you be?” So we said, “All right. We will pay that huge lump sum, but we will pay a big lump sum and then 12 monthly instalments of the lump sum.” So it is very much a death grant; that is what it is. If people need ongoing financial support, that is what universal credit is there for.

It seemed to us, listening to bereaved people, that very substantial cash support, a tax-free lump sum and a benefit amount ignored for universal credit purposes were a better way of supporting bereaved families at the point they needed it most, and then ongoing support would be provided through universal credit for those who had not gone back to work. We have listened to people and responded.

That is the structure in the Bill. You can argue about the rates for families with children and families without, and the balance between the lump sum and the monthly payment—there are a lot of parameters you could change—but the Bill does not require any of that; it just provides that structure.

Q238 Gregg McClymont: My understanding of the evidence on Tuesday from the Childhood Bereavement Network and associated organisations is that 90% of those who claim bereavement support will get less under the new system than they would have under the old system. Is your argument that, once you include universal credit, it changes the situation?

Steve Webb: No, the 90% number is wrong; it is based on a misunderstanding. I think the organisations accept that the 90% number is wrong. We have published
comprehensive estimates today. Broadly speaking, we estimate that it is about half and half. In a sense, because we are not spending any more money, that is the kind of answer you would expect: of people becoming bereaved, 52% will get more than they would have done and 48% will get less than they would have done. We think it is about half and half for bereaved families, with and without children, throughout the whole change.

Q239 Gregg McClymont: In what time frame are you operating that assumption? I know that on Tuesday the Childhood Bereavement Network was saying that it is up until the age you stop getting child benefit. My understanding of your argument in the back and forth on Tuesday was that the winners are those who claim for less than three years, and everyone who claims for more than three years will be a loser.

Steve Webb: What tends to happen is that bereaved parents get the lump sum—the bereaved parents allowance—and they tend to come off it after about four years on average. Remarriage is the obvious example of how that happens. The number of bereaved mothers who, 15 years after bereavement, are still getting bereaved parents allowance is very small; they are atypical cases. Such cases exist, of course, but they are atypical. The question I would ask the Committee—is I am not sure whether I am allowed to do that, but I do so rhetorically—is this: if you were bereaved, say, 10 years ago, is it sensible for your financial support now to be because you were bereaved 10 years ago, or should you just get the help you need now because of your circumstances now? What we are saying is that bereavement support should be about bereavement and immediately thereafter, and ongoing support should be just because you are a person who has needs, rather than linking back to a bereavement that happened 10 or 15 years ago.

Q240 Sheila Gilmore: Some people have raised the fact that, apparently, kinship carers get a longer period of adjustment, as it were. Although universal credit is available, for the most part it immediately plunges people, unless they have very young children, into quite a stern regime of looking for work.

Steve Webb: I think that is fair comment. If you are bereaved and have young children, there is no work expectation. A period of time is built in during which there is no work expectation, but over time we would expect Jobcentre Plus advisers and others to be sympathetic to people coming in and to recognise their circumstances. We are all human beings. If they meet someone who is bereaved and it is clearly inappropriate to press them to work, we would need to recognise that. On the other hand, there is some suggestion that, at an appropriate time, re-engagement with the labour market might be healthy and constructive. We have to try to get that balance right. We will train our advisers in that new regime.

Q241 Sheila Gilmore: Do you think you have that balance right, given that the adjustment period is relatively short? With all due respect, the atmosphere within jobcentres is getting a lot tighter. They say, “You have to have your CV before you get any money,” and all the rest of it. That does not sound like a very flexible system for people.

Steve Webb: The onus is on us to ensure that it is. I take that point.

Q242 Mark Reckless: You have received quite a wide range of representations on small pots and automatic transfers. Have you heard anything that might be a clever solution that clearly improves on what is in the Bill? Are there downsides that outweigh the gains of the alternatives?

Steve Webb: We have heard from several consumer organisations that have said, “We don’t want money transferred from a good scheme to a bad scheme,” and I could not agree more. They wrote an open letter to me—before I received it, I read in The Times that they had written an open letter to me—and we invited them in. We had a meeting with them, and we ended up violently agreeing that people should not be able to transfer money from a good scheme to a bad scheme. As I think one of our witnesses said, what are we doing letting people be auto-enrolled in bad schemes in the first place? The challenge for us, and we are publishing in the next week or two a consultation on quality standards in these schemes with regard to things such as governance, is that we have to ensure that people cannot be enrolled in poor schemes—period.

There will of course be some variation between schemes; there is bound to be. Over the course of 11 jobs, for example, you might be auto-transferred from one with a slightly higher charge to one with a lower charge, but that will even out over a lifetime. Two things have not come up. One is that auto-transfers are optional, so it is not mandatory; it is by default. But if you say, “No, I like my old pension scheme; please leave my money there,” that is fine, we will do that. So the first thing is that you have an opt-out. Secondly, the bit that people miss is that this is about people engaging with their pensions. If the money follows you and each time you change jobs you build up a bigger and bigger pot, you engage with your pension savings. If it goes off to some organisation that you have no relationship with and that you have never heard of—it is little amounts of money—and then you have another pot somewhere else, you are never going to engage. So it is about more than tiding up; it is about engagement.

Q243 Heather Wheeler: We have heard a lot of evidence about short-service refunds. What are the implications for employers and pension schemes of the abolition of short-service refunds? Why did the Government decide that that was a necessary step to take?

Steve Webb: We are keen that when you put money into a pension, it turns into a pension. The problem with short service is that you work for a firm that has a trust-based pension scheme for less than two years; you change jobs and the traditional practice was that the money came out again. You got your contributions back and the firm’s contributions helped to offset the cost of the scheme, so that was up to two years’ worth of work that never turned into a pension. If you had several such jobs, you got no pension for 10 years or whatever. In a world of “pot follows member”, where the stranded pots simply move, so there is not an issue about the schemes being left with small amounts of money, the need for short-service refunds goes, anyway. We were pleased to get rid of them. I was struck by the number of times you have asked that question. You would struggle to find anybody who did not think it was time we did it.
Q244 Andrew Griffiths: Steve, we all know that pension regulation is already burdensome, complicated and complex. The Bill makes amendments to the pension protection arrangements and places additional responsibilities on the regulator. Could you tell us what your overall aims are in that respect and what you think are the benefits?

Steve Webb: I will flag two things. One is the issue of the Pensions Regulator remit, which is in the Bill, and the other is an amendment that we have now tabled on the Pension Protection Fund. The amendments are on the desk over there. I will say a few words about them because it seems appropriate.

On the Pensions Regulator, there is clearly a balance to be struck. If you are a member of a company pension scheme, you want to be confident that you are going to get your pension. In an ideal world, you want the pension to be fully funded, so that if the worst came to the worst and the firm went to the wall, you have got your pension. We know that that does not happen.

We do not live in a perfect world; there are times when schemes are underfunded. Asking for them to be sorted out overnight would not be right, so periods of recovery are allowed for, and there is a balancing act. You want to make sure the pensions are provided for, but you do not want to kill off the company, because that does not help anybody. There has been a slight sense that that balance had got slightly out of kilter and that valuations based on current—quite extraordinary—conditions were producing very high measure deficits, and then trustees were saying, “Oh my goodness! We have this huge deficit. We want huge amounts of money off the firm,” and the firm was saying, “Yes, but I want to employ people and invest.” Trying to get that balance right is a challenge.

The new remit says that the regulator, as well as having to make sure that there are fewer calls on the Pension Protection Fund and that the pensions actually get paid, has to also have regard for the growth of the individual firm: so not taking money off the firm that would have enabled it to be in a better position to pay the pensions in the long term for a short-term filling of the gap. We consulted widely on this and on other things such as changing the way valuations are done, and there was not much support for that. But I think that this has been quite well received. Industry has received it well, but it will take time. It will be a slightly different balance.

We need to make sure that the regulator takes account of what Parliament is saying, but without swinging to the other extreme whereby firms do not put enough money in, they go to the wall and we have all these underfunded pensions. They then make a claim on the Pension Protection Fund, which then has to be paid by a levy on schemes. I think it is just about slightly redressing the balance in the current circumstances.

On the Pension Protection Fund, we have tabled amendments on the Pension Protection Fund cap, which are available to the Committee. The issue is that when people draw a pension under the Pension Protection Fund and are early retired, a cap applies to their conditions. We have found people who had worked all their life for one firm, and who had been drawing their pension before the firm went into liquidation, and their pension suddenly halved overnight, which is pretty brutal. A whole series of hon. Members came to see me with constituents, and it just felt like that was not what the previous Government meant to do through the cap.

We have therefore said that if someone works for a firm for more than 20 years, we will put 3% on the cap for each additional year, so someone who has worked for 40 years will get 20 lots of 3% on the cap. That means that people who probably have no other pension—if you work for a firm for 40 years, the chances are that is the only pension you have—will get more of the pension they should have got. At the moment, it is only a few hundred people, but they have been disproportionately affected, so I hope the Committee will welcome that change.

Q245 Gregg McClymont: With the Chair’s permission, I just want to take up a couple of issues that have partly been discussed but not elaborated on. First, Steve, on cost neutrality, we often hear it said that the Bill is cost-neutral, but my understanding is that upwards of £5 billion a year will flow to the Treasury in terms of increased national insurance contributions from 2016. Is the Bill cost-neutral?

Steve Webb: Cost-neutral, yes. The cost of providing pensions and pensioner benefits will be as it would have been for the next 25-odd years. Is there a national insurance revenue? Yes. The Chancellor has indicated that some of that will pay for the national insurance allowance that lots of firms will get, I believe, from next April. Firms will pay less employer national insurance, so that will help with jobs. Some of the money will go to help pay for the Dilnot social care proposals, but some will flow to the Exchequer. Obviously, as you appreciate, public sector employers will have to find additional money. It will be for a future Chancellor and a future spending review to decide how that money is spent.

Q246 Gregg McClymont: Just to clarify for my own benefit, the new system costs the same as the old system, except that, under the new system, an extra £5 billion or so accrues to the Treasury every year. Is that correct?

Steve Webb: Yes.

Q247 Gregg McClymont: Thank you for that. The second issue is healthy life expectancy, which Baroness Hollis raised. I was struck by her evidence on that, and I wondered what your view was.

Steve Webb: It is an important point, and the Government are looking carefully at Lord Filkin’s report on ageing, which is a valuable contribution. The difficulty with looking at healthy life expectancy is that it costs exactly the same to pay a pension to a healthy person as it does to an unhealthy person. If we do not put pension ages up because there are more people, somebody has to pay, and the somebody is our children and grandchildren. The point of increasing the state pension age is to be fair between generations, as Professor Blake said. We envisage that increased longevity will go partly on longer retirement but mainly on longer working life. It will not go wholly on longer working life, so there will be more retirement, even in this new world, although it may well be the case that a slightly higher proportion of that will be less healthy retirement. On a human level, you can see that point, but from a fiscal point of view, the bill is the same, and we have to do something about the bill.
Q248 Gregg McClymont: The dialogue you had with my colleague, Sheila Gilmore, about bereaved families ended with you saying the onus would be on the Government to make sure Jobcentre Plus acted in a compassionate or sensible way. What guarantee can you give this Bill Committee that that will happen?

Steve Webb: Bear in mind that these reforms do not even come in for several years, so it is not like this will all happen imminently and we are not ready for it; we have several years to make sure our colleagues in Jobcentre Plus, on the front line, who are dealing with bereaved families, do so in a sensitive way. I am happy to give my undertaking that we will use our best endeavours to make sure that is exactly what happens.

Q249 Gregg McClymont: Much as I admire the Minister, that does not necessarily reassure Opposition Members on the Committee.

My final point is on small pots. Steve, your defence of “pot follows member” is that people would default only if they did not exercise a choice, but do you not agree that the reason why auto-enrolment has such support across political parties is that it operates on the basis of inertia and an understanding that, historically, most people have not exercised their choice on pensions? Therefore, as a defence of “pot follows member”, hoping that people will have the chance not to default into a worse scheme is probably not the best basis for future policy.

Steve Webb: The default is that the transfer takes place, and we think that that will overwhelmingly be in people’s interests. If they leave the money behind, we know that they may lose it, or it may be so small that they cannot buy a pension with it. Under the current rules, at least, they may face additional charges or an investment strategy that does not work for them; therefore, as a defence of “pot follows member”, hoping that people will have the chance not to default into a worse scheme is probably not the best basis for future policy.

We simply have a safety net: if somebody is really attached to their old scheme, knows about it and values it for some reason, they are able to opt out, but, as you rightly say, we cannot assume that they are pensions experts, which is why we will default them into the thing that is overwhelmingly in their interests.

Q250 Gregg McClymont: I take it from that that you agree that the ability to opt out is not necessarily part of the case for “pot follows member”.

Steve Webb: No, I think that it is part of the case. If you move from a firm that clearly has an outstanding, excellent, award-winning pension that you really understand, like and want to stay part of, we will let you do that. We will not force you not to.

May I just say for the record, Mrs Main, that I have got slightly ahead of myself on which amendments we have and have not tabled? The amendments that we have tabled are all excellent. The PPF cap ones have not been tabled yet, but they will shortly be tabled.

The Chair: Thank you for that.

Q251 Andrew Griffiths: I was struck by the evidence from Professor Blake earlier. He was much more optimistic about the idea of pension pots in relation to which people would not be transferred from a good pot to a bad pot. He was much more optimistic about rules that could be brought in to ensure that charges were low, and were efficient and effective. What is your view of that evidence? What can we do to bring that sort of system into fruition?

Steve Webb: We are consulting on quality standards for automatic enrolment in two stages: one imminently, on the way schemes are run or governed and that kind of thing; and in the autumn, we will consult on other aspects of quality, including charges. As a result of all that, we will set out quality standards for automatic enrolment, so everybody who is automatically enrolled will have to be enrolled into a scheme of a minimum quality standard. People will then be auto-transferred to schemes of that requisite quality.

I want to sound a slight note of caution about worshipping at the shrine of scale. It sounds obvious, does it not? We do not want 40,000 small, sub-scale pension schemes; we just want half a dozen big ones, and that would be great. There is a slight caveat to that. I accept that we certainly do not want 40,000 small, sub-scale schemes, but, on my analogy with the electricity market that Greg kindly quoted earlier, it is not obvious that a market with half a dozen big players that get on with each other is good for the consumer. There is a bit of an issue there.

The other thing is that I talked last night to a major employer, which said, “No, I don’t want to be part of a big multi-employer scheme, because my employees look like this, they have certain needs and I want an investment strategy that meets them. If we were part of some big amorphous scheme, how could a one-size-fits-all investment strategy work for my employees?” If you think about a firm with a young work force and another firm with an old work force, each will want a different investment strategy. Bung them all in a single scheme with a common investment strategy, and it will not work for either of them.

Scale is great—cost-effectiveness, good governance and all the rest of it are great—but scale is just part of the mix.

The Chair: Do any other Members have a question for the Minister? There are no further questions. I thank the Minister for the time he has given to the panel today.

Ordered, That further consideration be now adjourned.

(Karen Bradley.)

3.54 pm

Adjourning till Tuesday 2 July at twenty-five minutes past Nine o’clock.
Written evidence reported to the House

PB 07 Peter Wells
PB 08 Canadian Alliance of British Pensioners
PB 09 Joy Palmer
PB 10 Eileen Brown
PB 11 Philip Hampson
PB 12 Thelma Brown
PB 13 Lorraine Hart
PB 14 Dr Lawrence Renaudon Smith
PB 15 Gina Loxam
PB 16 National Union of Rail, Maritime and Transport Workers
PB 17 National Pensioners Convention