CONTENTS

Clauses 1 to 3 agreed to.
Clause 4 under consideration when the Committee adjourned till this day at Two o’clock.
Members who wish to have copies of the Official Report of Proceedings in General Committees sent to them are requested to give notice to that effect at the Vote Office.

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not later than

Saturday 6 July 2013

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

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The Committee consisted of the following Members:

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

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

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

† attended the Committee
Tuesday 2 July 2013
(Morning)

[MARTIN CATON in the Chair]

Pensions Bill

9.25 am

The Chair: Before we begin, I have a few preliminary remarks. Members may, if they wish, remove their jackets during Committee meetings. Will all Members please ensure that all electronic devices are turned off or switched to silent mode during meetings? I say that with some embarrassment, because the only mobile phone that went off in our initial meetings was mine; I have left it in my office to avoid that happening again. Copies of memorandums that the Committee receives will be made available in the Committee Room.

Before we begin our line-by-line consideration, a brief reminder of procedure may be useful. The selection list for today’s sitting is available in the room, and shows how the amendments selected for debate have been grouped together. Amendments that are grouped together are generally on the same or a similar issue. A Member who has put their name to the lead amendment in the group is called first; other Members are then free to catch my eye to speak on the amendments in the group. A Member may speak more than once in a single debate.

At the end of the debate on a group of amendments, I will call the Member who moved the lead amendment again; before they sit down, they will need to indicate whether they wish to seek to withdraw the amendment or to seek a decision. If any Member wishes to press any other amendment in a group to a vote, they need to let me know. I will work on the assumption that the Government wish the Committee to reach a decision on amendments that are grouped together. Amendments that are grouped together are generally on the same or a similar issue. A Member who has put their name to the lead amendment in the group is called first; other Members are then free to catch my eye to speak on the amendments in the group. A Member may speak more than once in a single debate.

As a general rule, I and my fellow Chair do not intend to call starred amendments that have not been tabled with adequate notice. The required notice period in Public Bill Committees is three working days. Therefore amendments should be tabled by the rise of the House on Monday for consideration on Thursday, and by the rise of the House on Thursday for consideration on the following Tuesday.

I hope that has been helpful. We now begin our line-by-line consideration of the Bill.

Clause 1

STATE PENSION

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss new clause 1—Review in relation to women born on or after 6 April 1951—

‘The Government shall conduct a review to determine whether all women born on or after 6 April 1951 should be included within the scope of the new state pension arrangements established by this Act. Such a review shall be conducted within six months of Royal Assent of this Act and a report thereof laid before Parliament.’

I remind Members that even if new clause 1 is pressed to a vote, it will not be voted on until the end of proceedings, together with other new clauses.

The Minister of State, Department for Work and Pensions (Steve Webb): Good morning to you, Mr Caton; we are all looking forward to many happy hours talking pensions in your presence.

I will start on a note of consensus, in the form of a word of thanks to the official Opposition. In my 16 years in the House I cannot remember another occasion on which so few amendments have been tabled to the substantive part of a Bill. When I saw the list of amendments for today and realised that the Opposition had tabled no substantive amendments at all to the first half of the Bill, which deals with the state pension created under clause 1, I thought, “Great, full tribute to them.” Pensions are a long-term business, and if we can achieve consensus on the state pension reforms, as we appear to have, that bodes well for all of our constituents, who need to know where they stand. Governments come and go, and it is important that pension structures are as stable as possible. Therefore—slightly in jest, but slightly seriously also—I thank the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East for regarding the first half of the Bill as more or less perfectly formed.

As for the clause itself, it does what it says on the tin: “This Part creates a benefit called state pension.”

Clause 1(2) gives us the start date of April 2016 for that benefit. The Committee will be aware that when we published the Green Paper back in 2011 we envisaged a start date of 2016. We consulted further, we iterated and we did a lot of work within Government; earlier this year we produced a White Paper, and by then were wondering whether 2017 would not be a more realistic schedule. However, I am pleased to say that we worked very hard on the issue and by the time the draft Bill was published we were able to bring the date forward and indicate that we were looking again at 2016. We are grateful to all the members of the Select Committee for their pre-legislative scrutiny of part 1 of the Bill; they were keen that the date of 2016 be in the Bill and we are pleased to have been able to respond positively to that recommendation.

Clearly, as soon as a date is specified there will be a set of people who fall on the other side of it. That would be true whatever date we put in the Bill. In the past, major pension changes have taken place—in some cases, those changes were far more significant in terms of entitlements for many people than the ones that we are bringing forward here—with few or no transitional arrangements. We thought that we needed transitional arrangements, and a lot of our discussion on later clauses will deal with what they are. For example, we need special arrangements for people who have paid the married woman stamp and for people who have already
built up more than a single tier. The thing that took the
time, as it were, in getting this Bill right was the transitional
arrangements.

Clause 1 simply says that from 2016 there will be this
thing called the state pension, but getting from here to
there is where the complexity comes in. We argue that
we have produced quite a generous and comprehensive
set of transitions. Clearly, there is always somebody
who is on the wrong side of that line and who would
rather be on the other side, and vice versa, but every
time provision is made for another group to be treated
under the old rules even if they come after the cut-off
date, it adds further complexity and multiple systems
end up running in parallel. The whole point of the
reform is simplicity, so there is a trade-off here, and we
believe that we have struck it right.

I note that we are considering new clause 1 in this
grouping. To be fair to the hon. Gentleman, I will give
him the opportunity to explain why he thinks that it is
necessary before I explain why I think it is not. New
clause 1 asks for a review, and so do new clause 2 and
new clause 3. Having a review is not a substitute for
having an opinion, so I hope that in moving new clause
1 the hon. Gentleman will not simply say “I am here to
ask questions,” but that he will go further than that and
suggest what he thinks the answers might be. He has
commented publicly on this issue of the people who do
not come under the new regime, and whereas his
amendment simply says we should have a review, his
public utterances say something rather different. In
public he has said that the 700,000 women affected by
this change should be able to opt in to the new system.
However, his amendment does not say that, so I hope
that in moving new clause 1 he will be able to explain—if
that is what he thinks and what he has told the people
that wanted to hear it—why when given the chance to
amend the Bill to do that, he chose not to.

Many of the clauses in the Bill are less transparent
than clause 1. Clause 1 is one of those few bits of
legislation that one can read and know what it means,
so I will not draw this out. Clause 1 enables us to create
this new single, simple, decent state pension set above
the level of the basic means test to provide a firm
foundation for retirement saving and, for the first time,
to treat women and the self-employed fairly in the
pension system. It is the preface to a profound reform,
and it is one that I am proud to commend to the
Committee.

Gregg Mclmont (Cumbernauld, Kilsyth and
Kirkintilloch East) (Lab): The Minister explained how
we got to this point, and I will just take him up on a
couple of points. He said, partly in jest, that he was
pleased to welcome the Opposition’s general support
in moving new clause 1 he will be able to explain—if
that is what he thinks and what he has told the people
that wanted to hear it—why when given the chance to
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pension system. It is the preface to a profound reform,
and it is one that I am proud to commend to the
Committee.

Overall, our view is that a flat-rate state pension
could be an improvement. The debate is on issues of
simplicity, fairness and cost, and more fundamentally
on encouraging an incentive to save. When we discuss
this it often comes across very clearly that those on the
Government Benches are enthusiastic about a flat-rate
state pension because it will give people knowledge of
what they will get from the state, and therefore they
can make their own provision on top. It seems
straightforward. As this goes forward there will be
discussions in Committee about what people will save into as we move towards increased additional private savings.

Clause 1 sets out a benefit called a “state pension”. The Minister set down what I guess he considered to be a challenge on new clause 1. The Minister is not only on the Government side in his predilection for encouraging the Opposition not only to do the job of the official Opposition, which is to ask questions and scrutinise Government legislation, but to lay all our cards on the table.

Steve Webb: Any.

Gregg McClymont: The Minister shouts “Any”. I will have to disappoint him, but I will do my best not to deny myself the opportunity to respond to that comment. The situation is that in this Pensions Bill there are cliff edges and significant losers. That is inevitable when you move rapidly to a single-tier, flat-rate system. The Minister says that he is keen to avoid unfair losers, and he produced figures on the cost of bringing 700,000 women into the system. Anyone who listened to the evidence of the 700,000 Group would have been impressed by their diligence in understanding the issues. They emphasised the effect that an average difference of £6 a week in the state pension for the rest of someone’s life can have on the living standards of people who have no other savings.

That question is worth considering. The Minister produced evidence suggesting that 85% of the 700,000 Group will be better off. In its evidence, the 700,000 Group said it calculated that 70,000 women will be worse off, and it argued strongly that having the same pension as men of the same age would make a significant difference the lives of those women in retirement.

The Minister rightly referred to the inevitability of cliff edges. However, we should put ourselves in the shoes of those who will lose out under the new system, such as those women. Retiring on a pension is for the rest of a person’s life; it is not a one-off loss. If the person is in the group that loses out, they know that for the rest of their lives they will get less than a man of the same age. I think that we would all see that as unfair.

The Minister rightly said that every time the system is adjusted another group that feels it is losing out is created. I have listened to the Minister’s arguments, and they have some merit. However, at times he does not give enough credit to the case of that group of women. The new clause asks the Government to review this part of the Bill and present their analysis to House. That is not an immodest suggestion, and it gives due credit to the campaign of that group of women.

A group of about 70,000 women campaigned hard on the 2016/2017 issue. They were going to lose out from the move to 2017 because they would have retired before the new state pension came in. They ran an effective campaign, and the Government moved the start date to 2016. I have suggested that might also have been something to do with the Treasury’s desire to get the increased national insurance contributions on the public books. However, I am sure that the campaign of those women, in the pages of newspapers and elsewhere, also played a role.

I see no problem with asking the Government to review the case of those 700,000 women and come back to the House within six months. After all, the Bill will not take effect until 2016—after the next election. That seems a fair way to proceed, and I ask the Minister to consider the new clause.

Sheila Gilmore (Edinburgh East) (Lab): It is a pleasure to serve under your chairmanship, Mr Caton. It is quite an achievement for the Minister to have reached this stage. We have been discussing the imminence of this provision throughout the whole of this government, and it has been driven by the Minister.

The Minister is aware of my point of view. The Government have given people slightly false expectations about this reform, which, to some extent, explains some of the issues that have arisen. We have heard from groups that are aware they will not qualify for the new pension, and feel—some rightly and some less so—that they will lose out. It will be interesting to see what happens when the new pension is introduced, because I suspect that another group will suddenly discover that far from getting an additional £30-odd a week, that is not quite how it works. They might find that they already have a state pension of roughly that amount.

The reform has been made possible at a time of Government austerity by the fact that some building blocks of the system are already in place. If they were not, it would be a massive change for many people. Over many years, the different building blocks have been put in place, starting, arguably, with the graduated pension, way back in the mist of time. When some people look at their pension statement, they will see an entry for that. It was not a particularly generous pension, and anyone who still has it will see that it is not giving them much. Then we had the SERPS, and then the second state pension from 2002, which largely built on the SERPS’ legacy.

At 9.45 am

A number of people have had their pension built up over the past few years—that is extremely important—because they were earning above the national insurance lower earnings limit, even if they did not have the good fortune of being in an employer’s pension scheme; we know that the number of people in such schemes has been falling rather than rising in recent years. As a result, the difference that people will see in practice, whether or not they have been contracted out from the state scheme, is that they will have had that built up. That also gives us a bit of a lesson for the future.

I agree with the Minister that we need to try to get to a stage where such things are not chopped and changed constantly. From an academic and theoretical point of view, it is arguable that SERPS was a good scheme for many groups, particularly those who had a less-than-complete work record, perhaps because of caring responsibilities or for health or disability reasons. The scheme was structured in such a way that one had only to build up for 20 years, so it was easier for people to reach the full entitlement. For a number of historical reasons, that was largely taken apart in various ways over the following 20 years, which left the previous Government coming in to try to put some of that back together again. I would argue that that was done with S2P, in a slightly different way from before. We are now
Putting the final touches on that. For all of us and for future generations, we must not throw the issue up in the air again with some new idea, because pensions inherently need a certain degree of stability.

Regarding new clause 1 and the views of the particular group with whom we are concerned, they feel particularly that they are a group who has seen changes happen around them that they have not had much control over or time to adjust to, and which they had probably not anticipated earlier in their working life. They probably belong to a generation whose opportunities to build up other pensions were fewer.

Luckily, we have seen huge changes in pensions in both the public and private sectors, although sadly we are losing some of the advantages of some of those pensions for other reasons. It has not been so many years since a lot of part-time workers were not included in their firm’s pension scheme at all. Even if they wanted to contribute, they were not allowed to join. That was true even in parts of the public sector, where a lot of women—particularly women, but not exclusively—who worked part time through a large part of their working life did not have the opportunity to contribute to a pension scheme, even had they wanted to. That form of discrimination in gaining entry to pension schemes has been done away with, which is a good thing, though ironically at a time when probably for many—male or female, full or part-time—the opportunity to join any pension scheme has diminished.

Many people in that group have been through exactly that, and in their early working lives, will have had less opportunity to join a pension scheme if they were working part time alongside their caring responsibilities. There is an argument about how well trailed the increase in pension age was, with many people feeling strongly that they were not made fully aware of what was going to happen. Certainly for many of my generation, the assumption—right or wrong, fair or otherwise—that a woman’s pension age would be 60 was deeply ingrained; it was what we understood would happen.

Gregg McClymont: My hon. Friend is setting out the particular issues relating to women and pensions very clearly, and the 700,000 Group are part of the debate. Does she agree that there is a perception problem for the Government? Auto-enrolment underpins the movement towards a flat-rate state pension system. Increasing the threshold for auto-enrolment every year in line with the personal allowance has taken up to 1 million women out of automatic enrolment in a pension scheme. The danger for the Government is that the perception continues that women do not get a fair deal from the pension system relative to men.

Sheila Gilmore: There is a great deal in that. Those of us who served on the previous Pensions Bill Committee—we are obviously gluttons for punishment—discussed at considerable length what would happen with auto-enrolment.

The issue of gender fairness and unfairness in pensions is fascinating. It can be looked at from different ends of the spectrum, as it were. It can be argued—and sometimes is—that women have had the advantage of retiring earlier despite their life expectancy generally being longer. On that basis, some people have argued that women have had a better deal. On the other hand, however, we know—and have known for very many years—that pensioner poverty, where it exists, is much greater for women, often, ironically, as a result of that very longevity.

Women live for longer and are therefore more likely to have used up any savings in their retirement, and many—certainly in the past and to some degree now—will have benefited from having been in a partnership, but very often they will have outlived their husband. At that point, even if their husband had a pension from his employment, they are likely to get a widow’s pension, which is less. All those factors mean that women in retirement are often quite substantially worse off, financially, than men, despite—or perhaps because of—that longevity.

Many years ago, I started to research women and pensions in a very different climate from now. The big issues then were about how we got women into firms’ pensions, for example, because discrimination still existed. The big theme there was women’s poverty and lower incomes in retirement. That continued to be an issue, and was a big driver behind the introduction of pension credit 10 years ago, which was a quick way of dealing with pensioner poverty then by dealing with people who were already retired, rather than through a scheme such as the one before us today, which does not apply to current pensions at all.

It was predominantly women who benefited from the pension credit system, and we know that pensioner poverty across the piece has improved substantially as a result. Nevertheless, a lot of these women—this was the evidence they gave—feel that, for all sorts of reasons, they have not had the opportunity to build up other pension provision during their working life. They are now close to pension age. It has moved away from them slightly, but they are in the age group—roughly between 60 and 62—that will not be able to build up alternative provision.

The Select Committee considered the matter and accepted that the position that some people thought existed—the stark one that someone would get £107 while someone else would get £144—was not exactly how it was. Nevertheless, the Government’s figures suggest that women in this group would, under current pension arrangements—as far as the Government are concerned, they will be retiring under the current arrangements—will receive, on average, £127 a week in state pension, not the £107 they might have thought. Under the new pension arrangements, however, they would receive £133. Not everybody who retires after the start date will get the full amount, because it depends on their years of contribution, their contracted-out status and so on, so everybody is in a slightly different position, and that produces a median loss of around £6 a week.

On one level, it could be argued that that is not very much. If it is the correct figure, the amount involved for a relatively small cohort is not huge, but the impact on their hopefully many years of retirement to come would be substantial. The problem with medians, as always, is that we have to look at the range, and for some in that range would be considerably different. For some in this group, it will not be a matter of simply £6; it will be considerably more, and they are anxious about that.

If we are serious about equalising, which is the intention, we should bear it in mind that the argument that those people will simply have to put up with it—compared with a man with the same date of birth—for the rest of
their retirement seems to fly in the face of equalisation. For future generations and retirees, we are moving towards a more equalised pension age in the not-too-distant future, and younger women will expect to have the same pension age. These women, however, have experienced those changes in a working life that has not given them the opportunity to make the changes.

It has been suggested for some that when they reach state pension age in the period running up to 2016, they could choose not to take their pension at that point, but to defer and build up an increased pension. It is true that the current arrangements for deferral are generous, although they will not be so generous if these provisions go through. At the moment, however, financial advisers often advise people that it is a pretty good deal with higher interest than any other form of investment, which is perhaps rather odd—I do not know. I do not have figures for how many people are deferring on that basis.

Whether someone defers, however, will depend on whether they are in the financial position to do so, and that is another crunch point for this group, as they pointed out in evidence to this Committee and in written submissions to the Select Committee. Many of them made the point that to defer receipt of state pension in order to gain additional accrual is a luxury. For some people, it might not be; they might have a partner in employment or still be working themselves, in which case, it might be a sensible step to take. For some people, then, it might be reasonable, but there are those who are already on a relatively low income who, for a number of reasons, might already have left employment.

10 am

We know that the number of people in full-time employment—indeed, those in employment at all—drops off for those nearing state pension age for a whole host of reasons. Sometimes, that is to do with health and at other times it is to do with caring responsibilities. Of course, although at that age most women will have seen their children grow up, it is at that point that other caring responsibilities come into the field.

Gregg McClymont: I want to pick up on the argument my hon. Friend is developing on women being more likely to be in poverty in retirement than men of the same age. Does she agree that that is at the heart of the issue and that those women who will lose out are those who, in many cases, will not have any other retirement income? As she says, £6 a week on average is significant, but that average obscures the fact that there will be those who will lose significantly for the rest of their lives.

Sheila Gilmore: That is the problem with taking a median figure and suggesting that that is fine, because that is not much. The need to take up caring responsibilities at that stage of one’s life is a big issue. We know that from social care and the benefits available to people who have to undertake those caring responsibilities.

Such caring is not always for elderly parents; it can be for a partner who falls sick. I have met a number of constituents who are in that position because their partner fell sick in some way. I spoke to a woman recently whose husband had developed Parkinson’s disease. She had returned to work after her children had grown up and had anticipated that she would work regularly up to her pension age, but then, because her husband was becoming increasingly unwell, she had to give up her job to look after him. They lost not only his income, owing to his not being able to work, but her earned income as well. There are certain provisions, such as carer’s allowance, that come into play, but that, at £57 a week, is not a substantial substitute for an earned income.

The position is not uncommon. Many people want to undertake these caring responsibilities; they will often say that they would rather do that than pay for somebody else or rely on the local authority, although its help can be useful. They positively want to care, whether for their partner or parent, or, perhaps in some cases, for a child with disabilities who is now an adult child with disabilities. However, there are severe financial consequences for doing that.

Gregg McClymont: I apologise for interrupting my hon. Friend when she was in full flow, but it struck me that she is making a powerful case for new clause 1, which would call for the Government to conduct a review. We often talk in terms of medians and generalisations, which is inevitable on one level, but it seems likely that the figure of 70,000 women losing out by an average of £6 a week might hide some significant losses for women who have no other means of support. Does she agree that a review would enable the Government to dig down and find out exactly what is going on within that cohort?

Sheila Gilmore: I fully agree with that and refer the Committee to the Work and Pensions Committee pre-legislative scrutiny on part 1 of the Bill. We said that it would be helpful to look not only at the average impact, but at the range of impacts and the lack of being able to claim the new pension among the group of women.

We were aware that the position was not as black and white as had been assumed by some people. Some might be pleasantly surprised at the outcome in their particular case, but others will be in a difficult position for the rest of their retirement. That was powerfully put in the evidence that we received last week from Marion Rees:

“For the majority of people, a pension is not about how much they will receive over a period of 20 years or so, but how much money they have to live on that week.”—[Official Report, Pensions Public Bill Committee, 27 June 2013; c. 77, Q145.]

It is indeed the case that if someone’s pension income—from whatever source—is low, they will struggle to pay energy bills and rent, if they are still paying rent. A reasonable standard of living will be a struggle for women on a lower income. It is of no comfort to say, “If we take into account the fact that you retired a couple of years earlier than your hypothetical twin brother and you are likely to live a bit longer than that twin brother, that is fine and you do not have a problem.” That is cold comfort when someone is struggling with the cost of day-to-day living.

Gregg McClymont: It strikes me that there is also an issue of contribution. On Second Reading, I heard one of the Minister’s Liberal Democrat colleagues describe
the new pension as a “citizen’s pension”, but of course it is actually a contributory system, which I think most of us applaud.

A woman who has paid into the system her whole life to get the full state pension as it stands under the current system, and who, when it was possible, also paid into SERPS or S2P, will still find that, at retirement—despite doing all that saving, doing the right thing and playing by the rules, things that the Government are rightly very keen on—she gets less than a man of precisely the same age. The reason that they have done the right thing but not got the outcome that they would expect is likely to be a powerful one.

Sheila Gilmore: That is one of the issues that the women who gave evidence stressed. They described what it is actually like for them and the position that they find themselves in. A lot of people—men and women—have said to me, quite angrily at times, that they do not consider a pension to be a benefit, but something they have contributed to throughout their working lives. I suppose that that is partly because of the current debates over what is variously called welfare or benefit spending.

Very angry pensioners have told me that under no circumstances would they consider themselves welfare recipients. They have worked, contributed and paid in over their working life and they had good expectations. That is true for all groups, including this group of women. Contributions are an important part of our welfare state and have been since its inception.

We should not assess a contributory welfare state in terms of how much someone puts in and takes out in any given year, because it is about a lifespan. There are times in people’s lives when they pay more in taxes, national insurance contributions and so on than they ever get back at that stage. Because, however, the vast majority of the population survive beyond pension age, they expect to receive a pension and that is one of the biggest points to which they expect to contribute. In their retirement they expect to get back what they put in.

The evidence we received was clear that these women feel strongly that they have contributed. Many of them have achieved the number of years of contribution; it is not that they have not been working, contributing or credited with sufficient contributions. Some of them said that they had originally assumed that 39 years of contributions were needed to get a full retirement pension in their own name. For some of them, it is not a question of whether they have enough contributions—they have—but the fact that they are unable to get into the position they would have been in if they were treated in the same way as a man of the same age.

Sheila Gilmore: The issue is very much linked to all the previous debates we had about the acceleration of the equalisation process and the position of those who, it would appear, perhaps did not get as much good information as they should have. Many of the women in this group do not feel that the suggestions as to how they could achieve that income regardless have been good enough.

I have already dealt with the complications on deferring receipt of pension. Obviously, someone cannot defer reaching state pension age, because that has been laid down. They cannot say, “I will not retire at 62 as I am supposed to; I will wait until I am 65,” but they can defer receipt of their pension and it will grow.

The problem that some of these women have is that if they are already struggling financially, not taking that pension for another few years will be extremely difficult. They have Hobson’s choice: either they struggle on with whatever income they have and defer so that they can increase the amount they get when they opt to take their pension, or they take the lower pension now, and keep that amount, because they need it and cannot afford to wait. That is not an easy choice for them. They have often got into that position not through not having worked, but because of their health situation or caring responsibilities, however willingly embarked on. It is a bitter pill to take.

An average of £6 does not sound like much. If the total cost of including such women in the new pension arrangements is not very much, it would be reasonable to look again at whether it would be possible to do so. Women in such a position are sometimes told that if they have no income other than the hypothetical £127 a week, if these figures are correct—in some cases it will be less than that—that does not really matter, because their income can be topped up with pension credit. Given that one of the Bill’s stated aims is to reduce dependence on means-tested top-ups, for the women we are discussing such advice will be a bitter pill to swallow. They will find it ironic to be told that they will be all right because pension credit will exist throughout their retirement, as indeed it will probably have to.

10.15 am

Gregg McClymont: My hon. Friend mentions means-testing. Is that not another reason to welcome a review of the impact of the new state pension on this group of women? The Government are keen to reduce means-testing, and there is some debate about how much they are likely to succeed. One way further to reduce means-testing would be to ensure that none of these 700,000 women has to rely on means-tested benefits. A review would enable the Government to gather information on how many are likely to apply for means-tested benefits.

Sheila Gilmore: That would be a useful aspect of a review. Means-testing is an important issue for many people, and it is the downside of having dealt with pensioner poverty relatively rapidly since 1997. For those who are just above the means-tested level, or for those who feel that their savings or other income is being eroded by means-testing, perceived anomalies cause resentment. It is important to move away from that situation, but we should not leave this group adrift and facing the prospect of surviving for the rest of their retirement—for some women, that might be as long as 30 years—on a greatly reduced income.
Gregg Mc Clymont: The Minister has applauded the cross-party consensus on the matter. In that spirit, it would be logical for the Government to accede to our request for a review of the situation for the women we are discussing.

Sheila Gilmore: All legislation, no matter how well constructed, will have problems around its edges. Over the years, the problems become clearer, and people sometimes ask why they were not anticipated at the start because they seem obvious. Governments are always enthusiastic about creating legislation that appears to be complete in itself and not hung about with, ”We will look at this bit again, and we might make changes,” but there is another side to that coin. Sometimes we have to make changes. Sometimes we have to be in a position where you say, ”Broadly this was right. Broadly we are doing the right thing. Broadly people will benefit from this but there may be groups who are losers in that situation and that could have been avoided.”

We have a distinct group of people who, over the past couple of years, have been making a powerful case about the position they find themselves in. They feel that they are not being fully listened to. By looking at bald averages, some people are presenting this group’s circumstances so that it looks as if it is making a fuss about not very much. This is the time for us to look at the matter in depth. I would argue that that is what the Select Committee also wanted. It wanted to look at the range of impacts and to see whether there could be ways of mitigating them.

Gregg Mc Clymont: When the Government brought forward the proposals in their White Paper, an impression was given that everyone would get £144. That impression inadvertently got into the public domain. It is therefore not surprising that those who find that, despite having done the right thing, they will not get £144 feel hard done by. Again, my hon. Friend may agree that that is a reason for the Government, in a spirit of consensus and co-operation, to accede to the demand to go back and look at this and dig down into the detail of who is losing and by how much.

Sheila Gilmore: I agree. As I said at the outset, there is a perceptual difficulty. The Minister reminded me that when he was in front of the Select Committee I suggested that he thought his whole scheme was fandabbydosey—a word which Scots might be more familiar with.

Gregg Mc Clymont: Can my hon. Friend explain the origin of “fandabbydosey”? Many members of the Committee may not be aware of that very popular Scottish double act.

Sheila Gilmore: I suspect that that would be regarded as straying from the purpose of the clause. It was a popular Scottish comedy act involving a couple who played father and son, although they were not father and son. It became one of those catchphrases that are very popular in Scotland. We have some wonderful language which I am sure could become familiar in the whole of the United Kingdom. My purpose in using that word is to say that sometimes we overegg the pudding. We give people the impression that something will be a breakthrough. All Governments are guilty of this at times. We want to say that this is a revolution and everything will be changing from this point, when in fact what we have here is largely an evolution, a build-up and a step towards a position that will hopefully achieve the main aim, which is to make people better off in retirement.

However, people can only be better off in retirement if two conditions are met. First, we have to make the level of this single-tier pension sufficient that people do not have to rely on means-testing, an issue on which there will perhaps be further debate later. Secondly, people have to be encouraged to save and be able to save. There are a lot of issues associated with private pensions that we will also come to later. They still have to be improved if people are to believe it is worth saving. I am not convinced that people at the age of 30 think, “Oh, I will lose out on pension credit when I am 70 so I had better get saving now.” There are many other issues that stop people saving, and we have to address those, too.

Gregg Mc Clymont: My hon. Friend makes good points about the two halves of the Bill and the interaction between state pension and additional private pension savings. I am sure she will agree that, if the logic of the Bill were to simplify and clarify the state system so that people know what they will receive from the state and can make additional savings, it might or might not be workable. However, the women covered by the Bill will not have the chance to save privately to a significant degree before retirement.

Sheila Gilmore: I agree absolutely. It is an important issue for women. The problem is not the lack of time but the fact that they belong to a generation that has, for several reasons, found it difficult to create private pension provision. We know that the difference in pension savings between men and women is huge. It has had an historic effect, and affects those who are approaching, as well as those already in, retirement. Many such women have poor private pension provision and, in part, that is due to a lack of opportunities resulting from a disrupted work pattern, or being unable to join a pension scheme because they were part-time workers or on a certain level of income. The stark reality is that, without the state pension, retirement prospects for many women will be grim.

Gregg Mc Clymont: The women to whom my hon. Friend refers would have been in the midst of their working lives when the Thatcher Government went on a great drive to encourage private personal pensions, many of which were caught up in the mis-selling scandals in the 1990s about which we know so much. Such women have been through many changes in the pensions landscape, several of them not for the better and not to the benefit of their pension savings.

Sheila Gilmore: I felt strongly about the issue at the time, not only retrospectively. I remember the coming of the freedom to leave SERPS and to take up another form of pension. I was working as a solicitor at the time, and I recall discussing such matters with my secretary. She was not much younger than me, and she grasped that opportunity mainly because it meant she...
would be paying out less. Her children were coming into their teens, which is an expensive time as parents know. She did not have a big income—obviously, I was a mean employer—and her husband was a manual worker who was in and out of work. She said explicitly that such an arrangement allowed her to have more money in her pocket at the time, and she left SERPS when able to do so, as I am sure many others did. I am not sure there was ever a way of forcing people to keep up their payments—they were supposed to choose whether to stay with SERPS or to move to a personal pension. In many cases, the actual product has been very poor.

Soon after that time, I had to leave SERPS because I became a partner in the firm, which meant that, technically, I was self-employed—although that did not involve having much influence in the firm; however, that is how law firms operate. After leaving SERPS, I thought I should buy into a personal pension scheme. However, having seen schemes grow at glacial levels or even shrink sometimes, I reached the point where I thought it would be better to put the money under the bed. In fact, I did not top up the pension scheme because the performance was so poor. Many people may well have been in that position.

Sometimes, we need to be looked after for our own sake, and here I would be quite directive, given the opportunity, and not allow people to opt out of auto-enrolment. We need to be guided on this matter when we are younger, because the last thing we want to think about when we are, say, 30 or 40 is that we are going to get older and may need a pension.

10.30 am

I hope we will have the opportunity to consider the position of this cohort and look in detail at their range of circumstances and what lies behind the figure. People may say, “Well, it is only £6 a week and they can make that up”, but for many the suggestions made for making that sum up are not viable. I hope we can look at this issue again before the legislation comes into force, because although the start date of 2016 is earlier than the previous date, it is still some three years away, so there is ample time to refine the measure and get it right for the point of transfer.

I urge the Minister to look again at this issue and provide the opportunity to reconsider. Perhaps at the end of the review he will still be satisfied that he is doing the right thing, but if there were at least the opportunity to reconsider, the group of women in question would feel that the Government have listened to their case, properly and fully investigated it, and come to a decision. I hope that, having considered the matter, the Government will accept that the perfect storm of circumstances that has affected this cohort of women means that we should look positively in their direction and allow them to choose the old or the new system, whichever will be the better for them. At this stage, we are asking not for such an amendment to be made, but for the information to be fully researched and considered, because in the two and a half years between now and the Bill’s implementation, there will be ample opportunity to reconsider.

Steve Webb: I sense no desire that the clause should not stand part of the Bill, which is a good start—a note of consensus—so I will focus in my response mainly on new clause 1. It would require us to conduct a review of the position of all women born on or after 6 April 1951, which is a slightly broader scope than is intended—the 1951-53 group—and report within six months of Royal Assent. To paraphrase loosely, the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East, who leads for the Opposition, said, “This is just probing. I am an academic. It’s our job to ask”—

Grgg McClaymont: I never said that.

Steve Webb: I read between the lines.

Grgg McClaymont: To correct the record, I never mentioned academia at all. I should be careful, if I were the Minister, since I suspect that he spent much longer in academia than I did.

Steve Webb: I meant it as a compliment, but never mind.

The hon. Gentleman says that his job is to probe, not to have a position. He said that we were trying to get him to lay his cards on the table, but he certainly would not be doing anything like that. The dilemma is that if Members lay their cards on the table not in the House but outside it, to concerned people, there is a bit of tension. On 24 May, the hon. Gentleman said:

“We believe to ensure universality the Government must address the unfairness of 700,000 women being deemed ineligible...by enabling all men and women who reach the age of 65 after the implementation date of 2016 to receive the single-tier pension.”

There is a risk that people hearing that might have thought that he meant it. There is a danger attached, because since then the shadow Chancellor has said, “We’re not spending any money on anything unless I say so.” However, what the hon. Gentleman said is on the record now, so 700,000 people—to pick a random number—might think that if Labour were in office, they would do this; but given the chance to amend the legislation they do not do it, but ask for a review.

Andrew Griffiths (Burton) (Con): Does the Minister agree that this is a perfect time for the hon. Gentleman to put on the record what he really thinks?

Steve Webb: Yes. When better to find out what the Opposition think than when we are scrutinising the Bill in detail? It is no coincidence that the first three new clauses we are considering ask for a review. As I said at the start, having a review is no substitute for having an opinion.

Let us look at what is proposed. The fundamental proposition, with which I disagree, is that this cohort of women is uniquely disadvantaged. I want to compare them with two other groups: women who reached state pension age before April 2010, and those who do so after April 2016. In other words, there is a first, middle and later group. The argument is that the group in the middle is uniquely disadvantaged and should have special provision in law.

Let us look at the three facets of their state pension. The first is the age at which they can get it; the second is the number of years they have to build up contributions; and the third is whether they are in the single tier or not. Let us give each of those groups a score for how well or badly they do. For the post-April 2016 group there is
good news; they get single tier and a tick there. The bad news is that their state pension age could be anywhere between 63 and 68. Somewhere in the middle is the fact that they need 35 years for a full pension. For them, it is one good, one bad and one somewhere in the middle.

For the group of women we are discussing, the good news is that they need 30 years to get a basic state pension. The middling bad news is a pension age of 61 to 63, which is not as high as the ones to come, but better than the ones before. The bad news is that they are not in single tier. For them, there is one good, one bad and one somewhere in the middle.

For the pre-April 2010 women, the bad news is that they need 39 years for a state pension and they are not in single tier. The good news is that they have a state pension age of 60. Against the three criteria, the cohort that might most legitimately be upset is not the group we are looking at, who have some good, some bad and some middling things; it is not the post-single-tier people, who have some good, some bad and some middling things; it is actually the pre-April 2010 retirees.

The proposed new clause would not do anything for them. It basically says, “Tough. You have already retired. Just live with it.” All the women in that group had in spades all the things that the hon. Member for Edinburgh East described. They had less time under the state second pension and they were more likely to have worked when women were not even allowed into pension schemes. What did the previous Government do for those women when they changed the system in 2010? Absolutely nothing.

It is very odd to say that the group under discussion is uniquely disadvantaged and needs special provision in law.

Pamela Nash: I would make two points in response to that. First of all, we already pretty much know the answer to the question. Some of the women we are talking about are already pensioners—if a woman was born in 1951, she will already be drawing a pension. By the time the Bill receives Royal Assent, a woman born in 1952 will be drawing a pension. It is not as if we need to wait for five years; we have the data. We know people’s national insurance records, and we know more or less what the answer is.

Steve Webb: I absolutely understand. That is like the point made by the hon. Member for Edinburgh East. There is a perception that they are missing out on Christmas. I do not mean that rudely; that is the perception.

Pamela Nash: Is it not then fair to say that, if there are winners and losers, in five years we will have a review to show those pensioners the degree to which they may have been advantaged or disadvantaged?

Steve Webb: I would make two points in response to that. First of all, we already pretty much know the answer to the question. Some of the women we are talking about are already pensioners—if a woman was born in 1951, she will already be drawing a pension. By the time the Bill receives Royal Assent, a woman born in 1952 will be drawing a pension. It is not as if we need to wait for five years; we have the data. We know people’s national insurance records, and we know more or less what the answer is.

Secondly, the new clause does not ask for a review in five years; it asks for a review now, to be completed within six months of Royal Assent. The timing is important. If Parliament approves it, the Bill should get Royal Assent by Easter 2014, so the new clause would require us to have conducted a review and reported on it by October 2014. For understandable reasons, the hon. Member for Edinburgh East says we have “ample time”—that was the phrase she used. However, she has never been anywhere near a Government computer system. The idea seems to be that we could complete a review in the autumn of 2014 and then perhaps do something about the findings in primary legislation. The Bill will take a year to go through Parliament and we have an election in 2015, so we would have to whizz something through by Easter 2015. There is no way we could then deliver the changes in April 2016, especially if we were to conduct the other two reviews that the Opposition want as well.

The review proposed in the new clause would delay the Bill. That would create a new set of women who would say, “Hang on a minute, it is starting in 2017 or 2018, but I am the wrong side of that line—and, you
I do not wish to press this point too hard, but to return to the argument made by the hon. Member for Edinburgh East that a particular set of women have a pretty rough deal with their pensions, we should bear in mind that those women spent 13 years of their working lives under the previous Government. If they are now getting to the age of 61 or thereabouts with lousy pensions, there is a shared responsibility for that. The Opposition are asking us to fix the situation for those women after they have retired, but they did not address that problem during the 13 years that they were in government.
of their lifetimes. I do not think it is helpful to focus on the previous Government or even exclusively on this Government. Our argument is that over a period of time, these women have experienced a number of changes, and that there might be a case for reviewing their position under the Bill. I would not make the matter as partisan as the Minister has.

Steve Webb: My point is simply that if this cohort of women have particularly bad pension histories, is the right time to fix it after they have retired, as the new clause suggests, or was it in the 13 years, or indeed the 40 years, before they retired? My suggestion is that as the Labour party held the levers of power for a significant chunk of that time, if these women have retired on lousy pensions, a sense of responsibility is called for.

I do not know if hon. Members can remember the start of the hon. Member for Edinburgh East’s contribution, but she said something that I agreed with—that public expectations are important. She is quite right that £144 a week is a figure that is out there. It is £144 for 35 years, for example, less a one-off adjustment for past contracting out. The communications problem is that nobody knows what contracting out is or whether they have contracted out or not. Getting the message across is therefore a challenge.

A review that did not have to report until the autumn of 2014 would mean that we could not even communicate with people when the Bill received Royal Assent, because we might change the system again. Just imagine that we sent letters out to people saying, “This is the new pensions system”, and then six months later we said, “Guess what, we’ve had a review and it’s changing again”. People would go mad. We need certainty, and all the calls for reviews after Royal Assent just delay the start and prolong the uncertainty. It is quite clear that we do not want to do that.

The hon. Lady rightly said that people get offended if you suggest that pensions are a benefit. Clause 1 uses the word “benefit” for a specific reason. The term “contributory benefit”, is from the legislative framework of the Social Security Contributions and Benefits Act 1992. Section 20 of that Act is entitled “Descriptions of contributory benefits”. Contributory benefits under part II of that Act are listed, and the sixth is retirement pensions. Even the National Insurance Act 1946 talked about the state pension as being a benefit. Of course, when we talk about a company pension scheme and what benefits one can get out of it, nobody is offended by that language. That is what we mean by benefit, and that is why we use the language.

Finally, the hon. Member for Edinburgh East said that we needed to do more for women, and I absolutely agree. In the first few years of the single-tier pension, 700,000 women will gain about £9 a week. We agree that that group have been poorly pensioned in the past and negative aspects to their position. They have benefited from our triple lock and will continue to do so.

Pamela Nash: I sense that the Minister is about to sit down, so I will take this opportunity to return to something that he said at the start of his closing remarks.

He pointed out that the new clause referred to women born post-’51, not only to those in the ’51 to ’53 bracket, on whom we are concentrating on this morning. Although our main concerns are about people in that bracket and those who are close to retirement, the proposals will affect all women—right down to those who are, like me, in their 20s—who will hopefully receive the STP as long no other changes are made. The Government’s figures show an eventual decrease, compared with the current system, in the average amount that a woman will receive each week. Those in their 20s will receive significantly less under the new system than they would under the current one.

Steve Webb: The hon. Lady has rightly declared her interest. In 40 or 50 years’ time—whatever the state pension age is by that time—state pension spending will be a bigger share of GDP than it is now, but not by as much as it would otherwise have been. We will have had 40-odd years of auto-enrolment and mandatory employer contributions to workplace pensions. We are making the state system more sustainable in the long term, and in parallel to that we are ensuring that people have decades’ worth of something else on top. That is probably the only credible combination. We could make more generous unfunded state pension promises but, frankly, I do not trust my grandchildren; I do not want to rely on their good will to pay me an unfunded state pension, because I do not think they will. They will be paying for my social care, my health care and all the rest of it. We have to ensure that people have not only a decent state foundation but a pension of their own on top.

Clause 1 looks relatively uncontroversial, although we have the opportunity to divide on new clause 1 later if we wish. I do not believe that the group we have discussed are uniquely disadvantaged. There are positive and negative aspects to their position. They have benefited from our triple lock, which is something that we should be particularly proud of. I do not think that anybody would consider the complexity, delay and uncertainty that would result from the new clause to be a good thing.

Question put and agreed to.
Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

ENTITLEMENT TO STATE PENSION AT FULL OR REDUCED RATE

Question proposed, That the clause stand part of the Bill.

Steve Webb: Clauses 2 and 3 deal with what might be called the simple cases, which are people whose qualifying years are all after April 2016. In such cases, there will be no problems of transition or rights built up under the previous scheme. They are the “clean cases”—people whose working lives or qualifying years fall entirely within the new system. I cannot go quite so far as to say that if everybody started work after 2016 the Bill would need to contain only three clauses, but this is the easy bit.

Clause 2 states that to receive a pension, an individual must be over pension age, and that they must have 35 or more qualifying years to receive the full rate. I remind
the Committee that the current state pension has two main strands: the basic pension payable for 30 years of contributions, and a state second pension—a state earnings-related pension scheme—in which an individual can build up rights over 49, 50 or more years. In merging those two into one pension, rather than sticking with 30 years, which would be very different from the current SERPS arrangements, or going up to 49 or 50 odd, which is the current STP arrangement, 35 years seems reasonable—I might call it a weighted average—in a world where people may work from the time they leave school until their late 60s. We will return to the 35-year issue later in our proceedings, and new clause 2 also deals with it. I will not go into the matter in great detail now, because we will cover at some length the transition to 35 for those who might be approaching pension age and expecting it to be 30.

Sheila Gilmore: The Minister might be about to cover this, but to get this matter on the record will he explain more fully why at one point he seemed enthusiastic about the 30-year mark? What considerations changed that?

Steve Webb: As I think I mentioned in the oral evidence sessions, there are 1,000 different levers that can be pulled when designing a system such as this. We have an overall goal of cost neutrality—we will spend the same as we would have spent—but the starting level, the number of years, the minimum number of years, the uprating, the revaluation and so on can all be tweaked. The number of qualifying years is simply one of those parameters. In the context of people’s working lives lengthening, taking the average number of years needed for a full pension down substantially—it is 50-ish for a state second pension—would be going against the grain. That is the balance.

Briefly, on the move from 30 to 35 qualifying years, for 30 years a person gets a basic state pension—110 quid a week or so. They might get some additional pension depending on the contributions they have made. For 35 years, they will get £144. If they have 30 years, 30 thirty-fifths of 144 is £123. In crude terms, when it becomes 35 years, if they have 30 years and they push through the new system and get 30 thirty-fifths, £123 is bigger than £110. Of course, there are complications. It depends on what SERPS they have, and whether they have contracted out.

Although it sounds as though the move from 30 to 35 years is a cut, first, it is 30 thirty-fifths of a higher number. Secondly, people can buy voluntary contributions if they want to, so if they have gaps they are able to build their entitlement up. The rules on that have been softened considerably, and we know that the true cost of a class 3 contribution ought to be about four times as much as it actually is; they are very good value. Therefore, people can top up to a bigger pension if they want to.

Thirdly—I will give more detail on this later—we are introducing something called a foundation amount in 2016. We work out a person’s pension on the old rules, we work out their pension on the new rules, and the foundation amount is the higher of those two numbers. If the 30 thirty-fifths plus SERPS is bigger than the 30 thirty-fifths with the relevant adjustment, the person will get what they would have got under the 30 thirty-nineths rule. That is a protection built in to the change.

We think that 35 years allows people to have about 15 non-qualifying years. Bear in mind, it is 35 years of contributions or credits. It is not just paid work; it is caring, being at home with young children and active job searching. It is a comprehensive definition of what a person has to do to get the qualifying year. We think that 35 out of about 50 is the right balance. Of course, there will be the odd year when the person does not qualify—there are a range of things that people can be doing—but it seems about right to ask people to be doing something creditable or contributing for roughly two thirds of their adult life. When people do not have 35 years, the amount is reduced pro rata, as with the present system. That is what clause 2(2) does.

11 am

We think there should be a minimum amount of contribution. It is worth reminding the Committee that until April 2010 that was how it worked. Broadly speaking, a person needed a 25% contribution record. In general, women, pre-April 2010, needed 10 years. There is a symmetry here. At the request of the Work and Pensions Committee we put the figure of 10 years in the Bill. We do not intend to go beyond 10 years. Our future costings are premised on 10 years. We talked in the documents about seven to 10 years, but all our numbers are premised on 10 years.

In an increasingly global world—if that is not a tautology—people move around; they build up a year here and a year there. We do not want to have a contributory pension where, given that every year will be one 35th of £144, we end up paying significant amounts of money all over the world to people who have hardly ever been here. We are saying that people need 10 years in the system. Bear in mind that that 10 years includes six years that they can buy—in fact, they can buy more than that. Given that people can buy voluntary years, this measure is not particularly draconian. Practically everybody who spends their life here will get 10 years.

Subsections (4) and (5) simply explain what qualifying years are. Subsection (6) explains that for people with pre-2016 qualifying years, or people who paid the married woman’s stamp, there are separate rules, so I think that clause 2 sets out a simple case: 35 years for a full pension, reduced pro rata if someone does not have that, and a 10-year minimum. Those are all reasonable, measured features of the new scheme.

Gregg McClymont: I shall have more to say on this matter when we come to clause 4 and new clause 2. The Minister used the example of paying into S2P for 49 or 50 years, and suggested that what is proposed was in some way a weighted average. I should be interested to hear him explain that in more detail. As to the minimum and the range of seven to 10 years, I feel that the Minister was hinting heavily that it will be 10 years, not seven, eight or nine. There is a sensible case for that, as he set out.

The Minister rightly mentioned what he described, I think, as softening the rules for the buying back of years. That is exactly how I read the Bill, too, and it is welcome. I think that communication will be an issue in encouraging people to buy back. Also, there will be those who will find it difficult. None the less, he is right to say that the rules have been softened.
I thought that the Minister was suggesting, or at least hinting, that the move from 30 years, which he seemed to favour, to 35, was driven by financial considerations, and I suggest that those played a significant part. He mentioned the previous Government several times. Bringing down the number of years that a woman needed to get a full state pension from 44 to 30 was a significant policy shift, as was bringing down those needed by a man from 39 to 30. That was done in the spirit of trying to make the state pension universal and inclusive. There is a case for putting the number of years back up to 35, given increasing longevity.

We support the clause, but I shall have more to say on clause 4, particularly about those who are close to retirement who understood that they needed 30 years, and now find that they will need 35 to get the full state pension, but will not have time to do it.

Steve Webb: I am grateful for the hon. Gentleman’s support for the clause.

My point about a weighted average is that at the moment, a typical pension on retirement for a woman—for example, the cohort we were just talking about—is £125. The £110, or a large part of it, is based on a 30-year rule. The extra bit is based on a 50-year rule. Obviously that extra bit, the state second pension, is accruing and getting bigger and bigger, so over time the state second pension bit of people’s pensions would otherwise have been a bigger proportion.

All I am saying is that we are bringing together a 30-year relatively large chunk, and a 50-ish-year smaller chunk, but one that is getting bigger. So, in a sense, if we had split the difference and said 40 years, people would have said, “That’s not fair,” because most of the pension is currently basic pension; so 35 years is a kind of weighted average. That is the underlying intuition I was using.

The hon. Gentleman was right about communication. The dilemma is that we cannot communicate with people until Parliament has decided what the rules are. However, that does not mean we are doing nothing. We have already put details of our communications plans in the Library. We are talking to those bodies who talk to people about pensions, such as Age UK, the Pensions Advisory Service and the Money Advice Service, and those that have websites for financial advice. We are using focus groups to test what language about the proposals makes sense to people, and what confuses them, so a lot of work is going on.

Assuming Royal Assent is given next Easter and there will be no reviews to do after that, we have two years before the start in which to communicate with people. We are thinking in the medium term about how to phrase things as online access and statements, so that, because the new system is simpler, what people will get will be clearer to them. I entirely take the hon. Gentleman’s point about communication, and there is plenty of that to come.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Steve Webb: The clause does what it says on the tin. The full rate of the state pension is simply whatever is specified as the weekly rate, which we have said will be more than the level of the guaranteed credit. The reduced rate—the clause defines the terms in the Bill—is simply one thirty-fifth of the full rate multiplied by the number of qualifying years. Subsection (3) simply states that once we have set the initial rate—and obviously there are uprating provisions elsewhere in the Bill—we cannot use the regulations again to reduce that rate. We will set an initial rate for April 2016, which I assume will be set no later than autumn 2015, and once that is in place we cannot use the powers again to reduce the rate. Clause 3 follows logically from clause 2.

Gregg McClymont: I am satisfied with the Minister’s explanation. The issues, particularly what the reduced rate means for those who do not have time to meet the 35-year rule, will come into greater focus when we consider clause 4.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

Steve Webb: This is where the fun starts. [Interruption.] I am glad I cannot see the faces behind me, judging by the faces opposite.

We have to do two things. We want to get to the new system as fast as we can, but we want to honour the past, and transition is the most difficult bit of what we have had to do. How do we respect people’s expectations and honour the contributions they have paid in the past fairly without running the system for another 60-odd years? Obviously, one of the issues with pension provision is that people have their own accrued pension rights. For example, we could have someone with, say, 50 years in the current system, and then there are survivor’s rights for widows and widowers, which can go on for another 20 or 30 years. The danger is that people’s own rights and expectations of rights in respect of others can live for 80 years or more, and the idea that we would introduce a system in 2016 that still has the traces of the old system in 2096 is absurd.
A balance has to be struck. There has to be a way of getting from the old system to the new system. The simplest, cleanest way would have been to stop with clauses 2 and 3 by saying, “Post-2016, it is 35ths—get on with it.” But that would have been simply unfair in a number of ways. First, it would have been unfair to people who have already built up more than £144. There are plenty of people who retire on such pensions. The typical man in 2016 will retire on a pension of more than £144, and it would not be right, particularly for people coming up to pension age, to say, “Guess what? You thought you were going to get £160—you have had a statement from us with £160 on it—but we have changed our mind. It is £144.” We had to consider that transition, and clauses 4 and 5, and the related schedule 1, explain how we do that.

In 2016, we will essentially consider two numbers, what people have built up so far under the current rules and what they would get under the single tier, and we will take the higher of those two numbers. That is called the “foundation amount” elsewhere in the Bill. Everyone will have a foundation amount and, once they have that number in 2016, years thereafter will simply build up at one thirty-fifth of £144—so, £4.11 a week—until they reach £144. Although working out that foundation number is a bit messy, once it has been done anybody will be able to find out what their foundation number is—they have the foundation number in the bank—and extra years simply add a fixed sum until they reach the flat-rate figure.

I do not think I am betraying any confidences by saying that the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East asked me, “When does this get simple?” The transition process is not simple, but my argument is that, particularly for people in the first half of their working life, it is pretty clear: if people do their 35 years, they will get £144. Relatively few people will not be in that position. That is the basic proposition.

There are special arrangements for certain groups of people, and we will consider those who paid the married woman’s stamp later because they are addressed in separate clauses. The first group of people for whom special rules are needed are those who already have more than £144. What we will do is take their 2016 foundation amount and, if it is more than £144, give them that as a foundation amount. They cannot add to it. Post-2016 contributions do not add to the figure, but they will be honoured.

Let us say that someone has built up £160. The single tier is £144, and there will be an extra £16 of what is called a protected payment. The indexation rules are that the £144 gets earnings-linked—at least—or triple-locked, and the £16 gets CPI-ed, which is what would happen anyway to a SERPS pension; it is analogous to the current indexation in-payment for a SERPS pension. That is for people who have built up more than £144.

What happens to the people who have been contracted out? That is the other big, tricky one. Again, an option would be to say, “2016 is a sunlit upland. We forget history and contracting out, and you just get your gross amount that you have built up, and you build on that.” I would have loved to have done that, but it would have been totally unfair. If someone has spent their life paying full national insurance, and their neighbour has spent their life paying contracted-out national insurance, and I come along and say, “You can have a full pension anyway”, people would be a bit cross.

We have said, therefore, that in 2016 we will make a one-off adjustment for past contracting out. We will take away what we call the rebate-derived amount, which is sort of like the existing contracted-out deduction with a tweak. The basic idea is that we work out someone’s 2016 foundation amount and we make a one-off deduction for the periods of their life when they paid less national insurance than their neighbour. That seems to us the only fair way to do it.

If we adjusted that and said that that deduction—the rebate-derived amount—was like a stain on their record for the rest of their life, no one would get £144, because almost everyone has been contracted out for at least one year. Although contracting out these days is mainly a public sector phenomenon, historically it was not—more people were contracted out in the private sector than in the public sector. If someone worked for a big corporate, they were in a contracted-out pension scheme. As pensions have such a long history, even though now most contracted-out employees are in the public sector, historically most contracted-out employees were in the private sector.

When we reach 2016, what do we not want to do is leave that contracted-out deduction in the system for decades to come. Otherwise, it would take for ever for most people to get £144 and we would have failed. There is a trade-off: we cannot ignore contracting out, but we want to get it out of the system as fast as we can.

We have invented what we call “something for something”, which means we work out the foundation amount in 2016 and net off the deduction for past contracting out, but allow people to work it off through subsequent years of work. If someone has been contracted out in the past, and they get less than the full amount in 2016, if they continue to work post-2016, they will build up towards the full £144. They will not get the full £144 without additional years post-2016, but they can build up towards it. That seems like the right balance. We could not ignore contracting out, but nor could we keep it in the system for another half a century, so we have allowed it to be worked out of the system. That strikes us as the right balance.

That is the gist of clause 4. It will require people to have reached pensionable age, have the minimum number of years and have at least one year under the old system. It repeats the 10-year-minimum arrangement. Post-commencement years are those after 2016, while pre-commencement years are those under the 1978-2016 system or the pre-1978 system. The two will be added together.

We will go into all that in a lot more detail under schedule 1, but having given the headlines, I will enable the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East to explain his views on new clause 2 before responding.

Gregg McClymont: I would like to say a little about clause 4 before moving on to new clause 2; the two are of course related.

The Minister rightly suggested that the transitional arrangements are the most difficult part of the process. He is keen to get the balance right between moving to a
new system and, in his words, “honouring the past”. He did not betray any confidence when he mentioned my question about when the system will become simpler. He has great knowledge of the state pension system, but listening to him, one wonders whether the system will ever become simple. He lost me at “rebate-derived...” and I suspect that I was not the only one.

11.15 am

The transitional arrangements are critical and the devil is in the detail. The Minister noted that a typical man will retire with more than £144 under the current system. I am not sure whether he mentioned this, but one aspect of the Bill that enables it to be cost-neutral is that anything one has above £144 and any rights accrued will be uprated by the consumer prices index. Although rights are protected above £144 for those who have accrued them before April 2016, anything one has saved above £144 will be indexed by CPI, not in line with the triple lock. However, as the Minister famously and above £144 will be indexed by CPI, not in line with the accrued them before April 2016, anything one has saved rights are protected above £144 for those who have any rights accrued one aspect of the Bill that enables it to be cost-neutral is one's pension savings will be indexed to the triple lock, but people find that anything above £144 is CPI-ed. The Minister pointed out that there will be difficulties unambiguously more generous indexation. The transitional arrangements are somehow less generous. At the moment, the devil is in the detail. The Minister noted that a typical man will retire with more than £144 under the current system. I am not sure whether he mentioned this, but one aspect of the Bill that enables it to be cost-neutral is that anything one has above £144 and any rights accrued will be uprated by the consumer prices index. Although rights are protected above £144 for those who have accrued them before April 2016, anything one has saved above £144 will be indexed by CPI, not in line with the triple lock. However, as the Minister famously and honestly pointed out to the Financial Times last week or the week before—I am losing track—the triple lock is not guaranteed by either governing party beyond 2015. The situation I have outlined is therefore perhaps not as big an issue as it would be if the governing parties were committed to the triple lock beyond 2015.

The Minister focused largely on those who are contracted out, and he rightly observed that something had to be done about them. He talked about a “something for something” deal. He said that we could not ignore contracted-out pension savers and that there had to be a way to bring them into the system. He has done that in what some might describe as a generous way, allowing people to buy back into the system. There will certainly be individuals who opted out of the state second pension, put their money elsewhere and now find they can buy back into the state system and get to £144. That will be welcomed by people in that position.

It is worth mentioning that the abolition of the state second pension is central to the Bill. Everyone who was saving into it, and, indeed, everyone who was not contracted out—that is, of course, the vast majority who were contracted in—is a notional loser under the new system, in so far as one can no longer get above £144. The Minister mentioned in passing that the sum would be capped at £144, and, from April 2016, no one can save more than £144. There will therefore be significant notional losers, which is inevitable. There will also be actual, substantive losers, in so far as there is an expectation that one's pension savings will be indexed to the triple lock, but people find that anything above £144 is CPI-ed.

Steve Webb: I am slightly confused. The hon. Gentleman seems to be implying that these new indexation arrangements are somehow less generous. At the moment, people get £110 at least earnings indexed, and the balanced CPI-ed. We are proposing £144 at least earnings indexed, and the balance CPI-ed. Surely that is unambiguously more generous indexation.

Gregg McClymont: That, of course, depends on how the indexation rules proceed. It will be noted that there has been much talk about the triple lock in relation to the Bill—[Interruption.] If the hon. Member for Burton wants to intervene, I will be delighted to let him. I cannot hear what he says when he comments from the second row, but that might be my hearing. He will either have to intervene or shout louder—one or the other.

The indexation issue is a thorny one. The point I was trying to make to the Minister, for the Committee's benefit, is that we must be aware of the ending of the state second pension, which means that those who contracted into the system and who could save more than £144 will no longer be able to. One aspect of the Bill that demands some reflection—I do not say it is a negative—is that it caps the state pension that anyone can receive at £144, which takes us on to the issue of how people will make up the extra provision they will not be able to get from the state second pension. That was the point I was trying to make, albeit in a perhaps rather muddy fashion.

The issue of simplicity is very important, and the transitional arrangements bring that to the fore. We know that pensions are complicated—by definition, to a degree. We all have a role to play in trying to simplify them. The Minister is absolutely right that there is a tension between moving to the new system and getting things clear and simplified, and honouring past accruals.

I do not think that the Minister could do anything other than honour past accruals as far as is humanly possible. However, we know that, by doing so, we will not have a simplified system for quite some time—two systems will run in parallel for roughly 30 years. By the time my hon. Friend the Member for Airdrie and Shotts draws her pension, the system will, hopefully, be crystal clear and simple, but I am afraid that many of us will be long gone before it is simplified. I hope not but, coming from a part of the world where people have a tendency to go off their mortal coil rather early, one does not want to take anything for granted.

I come now to new clause 2, which relates to this matter. The thorniest issue in these transitional arrangements involves those close to retirement who had an expectation of needing 30 years. They were told that they needed 30 years. [Interruption.] If anyone wants to intervene, I will be delighted to let them. Some people had planned on the basis of needing 30 years, and they now find that they need 35 years.

The Minister mentioned the fact that there is, of course, a foundation amount, and I will talk about its calculation in a moment. The foundation amount will be whatever someone has accrued so far, plus an accrual of £135 or £144 per annum going forward. It is, of course, true that there is an issue for most people—I was about to say psychologists and sociologists, but I was worried that the Minister would again accuse me of being an academic.

As a matter of common sense, people tend to take their view of the world from those around them. Consider the case of someone who has been saving on the basis of needing 30 years and is now too close to retirement to be able to work for 35 years, and who then finds that a friend who is just a couple of years older is able to get £144. That person will be rather perturbed at that situation. That is inevitable; it is human nature.

The Minister pointed out that there will be difficulties with any shift in the system. I think he described working out the foundation amount as “a bit messy”. I would be
delighted to hear the Minister say a little more about that messy calculation, which made me think of a review.

Regarding the women born in 1951 to 1953, the Minister said to my hon. Friend the Member for Edinburgh East that she obviously had not been anywhere near a Government computer. If the Minister does not have overwhelming confidence in Government computers, I have some concern that the calculation of the foundation amount for tens of millions of people under this new state pension could be something to keep an eye on. I hope the Minister will be able to assure me and the Committee that Government computer systems are high tech, tip-top and ready to go in calculating these rather “messy” foundation amounts, as he described them.

I turn now to new clause 2. The situation is that if a person is close to retirement, they do not have time to get from 30 to 35 years, and so find that they will not be able to get to £144. What we suggest in new clause 2—

Andrew Griffiths: I am a little confused about the point the hon. Gentleman is trying to make. As I understand it, those receiving 30 thirty-fifths of the bigger amount of £144 will be better off than the would have been under the old system. Is it not the case that, rather than there being winners and losers, there will actually be winners and winners?

Gregg McClymont: I see that I finally managed to entice the hon. Gentleman to make his contribution. I am sorry he is confused. The point I am trying to make is that much of the Minister’s and the Government’s focus is on encouraging people to make up the difference and get up to 35 years. In a number of cases, members of this group are not in a position to be able to get up to 35 years. [Interruption.] I am having trouble hearing the hon. Gentleman. If he wants to come back in, I will be delighted.

Andrew Griffiths: I will try to speak more clearly; my broad Dudley accent must be confusing the hon. Gentleman. The point I tried to make is that even those who cannot make up the full 35 years and are left at 30 thirty-fifths will be better off than under the old system.

Gregg McClymont: I am the last person—

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o’clock.