Public Bill Committee

PENSIONS BILL

Sixth Sitting

Tuesday 2 July 2013

(Afternoon)

CONTENTS

Clauses 4 and 5 agreed to.
Schedules 1 and 2 agreed to.
Clauses 6 and 7 agreed to.
Schedules 3 and 4 agreed to.
Clauses 8 and 9 agreed to.
Schedule 5 agreed to.
Clauses 10 and 11 agreed to.
Schedule 6 agreed to.
Clause 12 agreed to.
Schedule 7 agreed to.
Clause 13 agreed to.
Adjourned till Thursday 4 July at half-past Eleven o’clock.
Written evidence reported to the House.
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)
† Colville, 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)
† 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
Public Bill Committee

Tuesday 2 July 2013

(Afternoon)

[MRS ANNE MAIN in the Chair]

Pensions Bill

Clause 4

Entitlement to state pension at transitional rate

2 pm

Question (this day) again proposed. That the clause stand part of the Bill.

Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): At the end of this morning’s sitting, I was beginning to reply to the hon. Member for Dudley—[HON. MEMBERS: “Burton.”]—the hon. Member for Burton who is from Dudley. The hon. Gentleman was intervening from a sedentary position and I found it difficult to hear him, because of my blocked nose. We left it with the hon. Gentleman suggesting that the reason was his thick, Dudley accent, but I am the last person in the world to pass comment on someone’s thick accent. It was more the blocked-up nature of my nose and ears.

We were beginning to get into some of the detail of new clause 2, tabled by the Opposition, on some of the implications of the transitional arrangements. The Minister had rightly and importantly emphasised that the transitional arrangements are the most difficult part of the state pension aspects of the Bill. It is important to get the balance right between moving to a new system and, to use the Minister’s term, honouring the past. There is an issue with those who are close to retirement and had a legitimate expectation that they would need 30 years of contributions.

The Minister of State, Department for Work and Pensions (Steve Webb): The hon. Gentleman has used that phrase on a number of occasions and I wish he would finish the sentence. On needing 30 years, the thing people need 30 years for is different from the thing they need 35 years for. So we are not asking them for a different number of years for the same thing, but for something else. Does he agree?

Gregg McClymont: Yes, I agree with the Minister. It is important to add to that, however, which the hon. Member for Burton did not do. The danger is that we will talk about this purely in terms of moving from the basic state pension to the flat-rate state pension. We have to be aware of the ending of the second state pension to the flat-rate state pension. We will talk about this purely in terms of moving from the basic state pension to the flat-rate state pension. We have to be aware of the ending of the second state pension accrual.

The Minister is aware of what appears to be a political consensus, which emerged in part from the 2011 discussions, on the importance of giving people time to plan. Ten years’ notice seems to be the general feeling regarding changes to individual state pension age. The new clause asks that

“The Government shall conduct a review to determine the costs and benefits of phasing the transition to a 35-year full pension requirement via an interim requirement of 30 years. Such a review shall be conducted within six months of Royal Assent of this Act and a report thereof laid before Parliament.”

My hon. Friend the Member for Edinburgh East referred to earlier discussions with the Pensions Minister, I think on the Select Committee. My hon. Friend intimated that the Minister was, at that stage, keen on 30 years of contributions to be included in any Act. We have now moved to 35, and the danger is that people who have planned for 30 years and are close to retirement—they have had notification in the past that 30 years is what they need to get a full state pension—find that they now need 35 years.

May we bear down on that a little? Clause 2 increases the number of national insurance contributions qualifying years from 30 for a basic state pension to 35, and introduces that minimum number of qualifying years, which the Minister has pretty clearly indicated will be 10 years, rather than between seven and 10. We accept that the impact on most people of the increase in qualifying years will be limited. The Minister set out a fair case regarding the fact that individuals are going to be working longer, so increasing the qualifying years is not in itself necessarily a bad thing. However, it is not clear to me that the Government have published an impact assessment on the group who get caught in the jump from 30 years to 35 years. I know that the Government have done that for other groups, including the 700,000 women affected.

I just want to probe my understanding of the issue with the Minister. When he gave evidence to the Select Committee on Work and Pensions, he talked about the change from 30 years to 35 years saving about £1 billion. If that figure is right, will he say how the £1 billion is calculated, what period it covers, and what percentage of the total pension spend that would be over the years for which he has made that calculation? If £1 billion is accurate, which I am sure it is—it depends on what it is accurate in terms of; it is only relevant insofar as it is £1 billion of what—that is a significant saving, but there is a general issue with the Bill.

One does not complain about the Government wishing to focus on the Bill’s positive aspects. However, the Minister previously suggested a reluctance to see the Opposition’s job as asking questions and probing the legislation, but I will continue down that route and say that there is a wider issue that is peripheral in terms of the transition from 30 years to 35 years. I have been very clear about the winners and losers. When the pensions White Paper was published in January, it was received by the media, then filtered downwards, that everyone would get £144. It is important, from the point of view of the Government and the Opposition, that we have clarity on that point. I am interested to hear whether the Minister thinks—he mentioned 30 years for something, and 35 years for something else—people will lose out in the shift to 35 years. In saying that, I accept that the state pension age is set to rise, and there is no doubt that increasing the number of contributions somewhat in line with that is sensible.

At this point, I want to comment on the transitional arrangements; the Minister will no doubt come to this
issue in more detail. I also recognise the steps in the Bill that, it is fair to say, continue what the previous Government were doing on recognising other forms of contribution beyond workplace contribution. I am talking about carers and stay-at-home mothers, and that is to be welcomed. Of course, under the increase from 30 years to 35 years, it is fair to say that a small number of people will not have enough time to make up the required 35 years, as they are too close to retiring. That is the cohort on which the new clause, which asks for the Government to review the issue, focuses.

In recent years, people in that cohort may have been passively or actively informed of the requirement for a full state pension of 30 years of contributions. I say passively—through correspondence from the Department for Work and Pensions informing them that they only required 30 years, and that is something we have to take cognisance of. Reducing the years of contributions from 44 years to 30 years and from 39 years to 30 years was a pretty radical shift undertaken by the previous Government. It changed the pensions expectations for a substantial number of people. Again, I take the Minister’s point that such a reform will mean that there are inevitably losers as well as winners. The question for him is whether he thinks any of it will result in unfair losers, to use his terminology.

I think I am right in saying that political consensus has emerged about 10 years’ notice. The Turner commission said seven years—or was it 10? Either way, following the Pensions Act 2011, 10 years is now the consensus on the time that people need to prepare. I suspect that we will inevitably lose—indeed, if we compared the approach to this policy with that to most others we would find an unusual degree of construct consensus. It is unfair—to use a term much deployed this morning, as it no doubt will be this afternoon—to expect the Opposition not to raise questions about legislation, especially since we are on the record as saying that there is much to be said for moving to a flat-rate state pension.

The hon. Member for Gloucester mentioned simplicity, clarity and incentive to save. Simplicity is a good thing, and moving to a flat-rate state pension will make things simpler—that is one reason why we think it is a good idea—but the issue is when it becomes simpler. We have to be clear on that; we will have two systems running in parallel for a significant number of years—probably a generation if we define that as around 30 to 40 years—and it is the Opposition’s job to say to the Government, “Yes, simplicity is an excellent idea, but when will the system become simpler?” The Pensions Minister, I know, is well aware of that issue, and again, one does not criticise him for not talking in detail about the two systems running in parallel; his job is to focus on the thrust of the reform, which he endorses. However, it is the Opposition’s job to lay out some of the potential pitfalls and imperfections in the legislation. Academia was mentioned a while ago in our debates; I taught a little constitutional history and I understand that the official Opposition’s role is to scrutinise legislation and, I hope, to make it better.

The incentive to save is a significant issue: it is the whole logic on which the flat-rate state pension proceeds. It is in the Bill and the Minister and others have referred to it repeatedly. We will come on to that issue as we go forward with the Bill, but I will raise again the question I raised on Second Reading: saving into what? To give the Minister credit, he is starting to move on some of the issues regarding making auto-enrolment work for everyone, which the Opposition, many consumer groups and others have been encouraging him to do.

**Richard Graham:** The hon. Gentleman mentions his concern that simplification does not come immediately because there will be two parallel systems running. What alternative would he propose to that?

2.15 pm

**Gregg McClymont:** Since we think that this system is a good idea, we are not suggesting that the Minister should change track for an alternative. It is our job, however, to point out that, when talking about simplicity, which is something that we all favour, the system will probably not become simpler for a generation.

There seems to be a philosophical difference between me and the hon. Member for Gloucester: I do not see the Opposition’s efforts to try to improve legislation by pointing out imperfections in the Bill as criticism. That is not the same as us saying that the Government should not proceed with that part of the Bill; it is the Opposition’s job to dig down into the detail. If that is not our job, what is the point in us being here? We are on record as saying that the move to the flat-rate system is a good idea, but it is incumbent on us, and all members of the Committee, to tease out the Bill’s implications.
Andrew Griffiths (Burton) (Con): Will the hon. Gentleman give way?

Gregg McClymont: I would be delighted to give way to the hon. Member for Burton.

Andrew Griffiths: I shall do my level best to speak more clearly this afternoon. On the hon. Gentleman putting things on the record, both this morning and this afternoon he has made considerable play in raising his concerns about those people with 30 years of entitlement who will therefore not get the full 35 years’ worth. There is obviously a substantial cost in rolling down the single-tier pension to those people. If he thinks that that is such a problem, will he confirm whether a future Labour Government would make the single-tier pension available to everybody with 30 years’ entitlement?

Gregg McClymont: The hon. Gentleman will be delighted to know that before he returned to his place I cleared him of the charge of having a thick accent.

Andrew Griffiths: Just being thick.

Gregg McClymont: I would be the last person to accuse anyone of having a strong accent. Let me take on the hon. Gentleman’s question. If he reads our new clause, as I am sure he has, he will see that it suggests that the Government review this matter. On who the losers will be, will the Minister say whether I am wrong in saying that there will be losers?

This morning, we finished with the hon. Member for Burton saying that people may not get the full entitlement for 35 years’ contribution, but they will get 30 years plus 30 thirty-fifths. Before he returned, I said to the Minister that there is the issue of the interaction with the state second pension, which is to be abolished. As the Minister said in his opening remarks, the transitional arrangements are the grittiest and I would be interested to hear his calculations on whether there will be losers from the shift to 35 years.

I often find that Government Members are keen to tease out Labour’s manifesto for the general election. I understand their enthusiasm, because that will be a very exciting and important document, but I am afraid that I cannot go further than I have so far in fulfilling those desires.

Oliver Colvile (Plymouth, Sutton and Devonport) (Con): Does not the hon. Gentleman recognise that it is not just about Government Members finding out what might be in the manifesto, but about the people out there too, because they need some certainty on what will happen. One of the big problems with the whole business of pensions has been that it has always been up in the air and every time that it seems that a position has been arrived at, it changes.

The Chair: Before I call Mr McClymont, I must ask him to confine his comments to the clause we are discussing, rather than what he would like to happen or the Labour party manifesto.

Gregg McClymont: Thank you for that guidance, Mrs Main. I was going to suggest to the hon. Gentleman that this Committee is for scrutinising the Bill before us. If you will indulge me slightly, Mrs Main, I must say I do not have people coming up to me on the street demanding to know what will be in any party’s manifesto at the next election. We are some way away from a general election and our job here is to scrutinise the Bill.

There is a significant degree of consensus in the Committee, yet one feels that the Government would prefer it if we just endorsed everything on the Order Paper without scrutinising it. I do not think that that is good for legislation or good for government.

Christopher Pincher (Tamworth) (Con): The hon. Gentleman is quite right that all legislation is imperfect and that the duty of the Opposition is to try to make it less so, and that is presumably the point of his new clause. Given, however, that he is asking the Government to conduct a review to determine the cost and benefits of phasing the transition, which will take time and cost money, he must have some idea of what the costs and benefits might be. Otherwise, he is asking the Government to undertake a review about which he understands nothing at all.

Gregg McClymont: I thank the hon. Gentleman for that contribution. When I referred to imperfections in legislation, I was trying to draw out the Burkean part of the Conservative mind—I cannot speak for the Liberal Democrat Minister. I know that one of her colleagues, the hon. Member for Hereford and South Herefordshire (Jesse Norman), has written a book that I think should be subtitled “Reflections on the Thatcherite Revolution”. Even on a Bill where there is significant consensus, however, it is important to tease out the implications.

I will try to answer the question from the hon. Member for Tamworth—which was where, of course, Peel made his famous declaration. I know about costs and benefits of a review. Our new clause states that such a review should be conducted within six months of Royal Assent.

The Minister’s response to that, in respect of the new clause I proposal, was that it would mean six months. I am not privy to how long a review would take—I can only take the Minister’s word on it—but his earlier answer was six months. Is it beyond the wit of man? It could be reported to the House after six months, but the review would not necessarily have to take six months. We are just trying to dig down into the detail. He said that transitional arrangements were tricky. I would say it is the most granular bit of the Bill.

Christopher Pincher: The hon. Gentleman is at liberty to ask the Government to undertake a review, but he must agree that his case would be much stronger if he could explain why that review should take place and why there might be costs and benefits to the transition he is after. If he cannot explain why he wants the review, why should we have one?

Gregg McClymont: We know that, on the Library’s calculations, by going to 35 years, just under 100,000 people a year will be less eligible for the new state pension. That means that fewer people will be eligible for the full state pension than under the current system. Just under 100,000 people is not an insignificant number. We know as well that for every year a person is not in the system, they lose £4.11 from their retirement income.

On contributions, we have the issue of the 10-year period. We have not yet explored the Minister’s intention to opt for a 10-year period, but my view is straightforward:
the Opposition believe that there will be losers in the shift from 30 to 35 years. He uses the term “unfair losers” and talks about people not being “uniquely disadvantaged”. The question is whether expectations of what one gets in retirement are such that one needs sufficient notice of changes. We called for this review and put down this new clause purely to ask the Government to dig a bit deeper—it is no more complicated than that.

The calculations are pretty complicated, and it would be a useful bit of public policy to clarify who will lose and by how much. That is analogous to the previous conversation about the ’51 to ’53 group, in that the Minister has done an impact assessment on the 700,000 women and concluded that the vast majority would be better off and that those who would be worse off—about 70,000—would be worse off by an average of £6 a week. [Interruption.] He shakes his head; if he wants to clarify, I would be happy to give way.

**Steve Webb:** Just to be clear, the median between the two groups is £125 against £131, so taking the whole group before and the whole group after, the difference is £6. That figure is not the average loss of the people who lose.

**Gregg Mcclymont:** I stand corrected. It is the median rather than the average, which is a better index of bunching around the most prominent group in that range. The issue remains, however: how much is lost by the biggest losers? It is a big issue not because it means the Bill should be changed, but because the median and the average can disguise pretty significant losses, often for the people who can least afford it. I take the Minister’s point. He is right that in a Bill of this complexity, such things will inevitably happen, but nevertheless clarity would be useful.

I shall finish on the point made by the hon. Member for Tamworth. I see it as the Government’s job to dig down and provide the detail on the potential losers. The Government did an impact assessment on the 700,000 women and concluded that the vast majority would be better off and that those who would be worse off would be worse off by an average of £6 a week. [Interruption.] He shakes his head; if he wants to clarify, I would be happy to give way.

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**Steven Webb:** The hon. Lady is obviously very knowledgeable about these matters, but I am baffled by the assumption that her constituent needs somehow to make something up. In 2016, we will work out what she has built up so far under the current rules, compare it with what she would get under the new rules and give her whichever of those two numbers is the higher. Why does the hon. Lady assume that her constituent will have to make anything up? Why does she not just do nothing and get what she was going to get?

**Sheila Gilmore:** People in such situations feel they will not achieve the full pension they might have achieved under the new system, because it will be difficult to find the extra years. When my constituent inquired, she was told that she could buy extra years, which would suggest that the DWP considers it appropriate for people to buy extra years in order to reach 35. Some people in that situation might have made other arrangements if they had known that things would change again. Is the
Minister confident that nobody will be disadvantaged? It is still not clear why he thinks it unnecessary to do a bit more work and dig into this.

As a result of their circumstances, some people may end up without a full contribution record. I hope the Minister will look at the situation of those who have worked in very low-earning jobs. I have constituents who work in two or more short-hour jobs that are under the level at which contributions are made, and they find that they are not building up a contribution record towards a state pension even though they are, in some cases, working a fair number of hours in a week. If their different employments were combined, they would qualify for the required number of years, but they may be missing years out because they are in short-term and variable employment.

Gregg McClymont: Is there not an issue of expectations here? The Minister referred to the foundation amount, but is the problem not one of communication at the introduction of the White Paper? Does my hon. Friend agree that when the Government announced the proposals, the impression was given—no doubt inadvertently—that the new flat-rate state pension was a winner for everyone and that everyone would get £144, which was so much better than the basic state pension? Is it not natural for people to assume that everyone else is getting £144 while they are not? In such a situation, the problem is expectations and relative feelings of loss.

Sheila Gilmore: There are certainly issues about expectations, but there is also an issue for people, such as the lady I have described, who will have 30 years of contributions and who would, therefore, have been entitled to receive the full amount if the system had not changed. My constituent has been given to understand that better arrangements are available for many people, and she would like the opportunity to make up the extra years. Now that ill health prevents her from working, and given that there are, in any case, only a limited number of years ahead of her, she is not clear how she can do so. She wants to be able to share in what the Government of years ahead of her, she is not clear how she can do so. She now has a society in which we want, expect, offer or are taken in by—however we want to put it—the 24/7 culture. We want to be able to shop at our local supermarket on Sundays or on our way home at 11 o’clock at night. The corollary of that has been that many employers, who are open all that time, want to adjust their staffing around their busy times. That is one reason why people are often offered quite short-term contracts.

It is common for people—in shop work in particular, but in lots of other jobs as well—to be on contracts with quite short hours. The Government themselves have said they can see the advantage of that for individuals, as it enables people who have not been in employment to take the first step on the road back to work. To be able to do a job initially for only a few hours at a time gives them work experience, confidence and the ability to prove themselves to an employer, and then work up from there. Nobody is suggesting that the
eight-hour job or the six-hour job is the be-all and end-all, but it may give people an opportunity to build up experience.

Some people in that position will be able to get credits, as under universal credit they will be able to get credits if they are also in receipt of benefit. However, if, for example, someone has a partner and so their income is too high to qualify, they may not get credits unless the Minister can reassure me that they would be able to. Those people could end up doing several years of work of that kind without building up years towards their pensions.

2.45 pm

Gregg McColm: My hon. Friend is a member of the Work and Pensions Committee. During pre-legislative scrutiny of the Bill, did the Government offer any evidence about the situation of those people who were expecting to need 30 years and cannot get to 35 years? Were any figures produced on potential losses, emotional or otherwise?

Sheila Gilmore: I am racking my brains to recall whether that was the case. Concerns were pointed out to us that there would be people in that position. I believe the Minister’s view is that, as they would not be any worse off than under the current system, that is not really a problem. Yet, in their age group and in their cohort, they will be among those who effectively do not benefit from the reforms. As post-2016 retirees, they would be fully within the new system, and this group is definitely post 2016, but they will not get the full benefit because they will have made arrangements in their lives on the basis that they understood they had already qualified for a full pension. Had they known that, they might have made different arrangements, had they been able to; they certainly would have had more time to do that.

We are back in the business of transition, which is always a difficult issue. Will the Minister comment on the issue of people with low earnings with multiple jobs who are therefore over the earnings limit, but who cannot have those earnings added together? Part of the concern has been how to divvy that up between employers—which employer pays what element of the national insurance contribution? When Baroness Hollis gave evidence to the Committee, she suggested that those people could be treated in some sense as self-employed, but still build up credits.

Although the numbers in that group may not be large, I suspect they will grow rather than diminish because of changes in work patterns. We do not want to disadvantage people in that position. Traditionally, the view was that if a person’s earnings were sufficiently low to be below the threshold, in a sense they were being done a favour because they did not have to pay contributions. However, there is a downside to that: they are not building up the record that comes from those contributions, which will have a long-lasting effect, right into retirement.

Gregg McColm: Transitional arrangements generally, and potentially these transitional arrangements in particular, bring into view the ending of the state second pension. There will be low earners who are saving into the state second pension, which is redistributive in its impact, who were banking on continuing to pay into that after 2016 so as to get its significant accrual rate. We know that S2P is distributive: those who earn between £5,000 and £14,500 a year accrue state pension as if they are earning £14,500. But that will disappear, which is a significant issue. Does my hon. Friend agree with that?

Sheila Gilmore: I thank my hon. Friend for that reminder. Indeed, the previous Government introduced very real pension reforms. It was not, as implied in an earlier contribution, that they did nothing about various pension problems. They concentrated a lot of effort on low earners who traditionally had not had good pension cover through their employment and required a boost to add to their basic state pension.

When the Work and Pensions Committee looked at the issue of people who might fall under the lower earnings limit for contributions and be unable to get credits, the suggested figure for such people was 20,000. It is an estimate, and I doubt whether anybody knows the precise figure because it is presumably quite difficult to know when people are doing that kind of low-hour work. They are clearly, by definition, not paying contributions so they are not on the records. Obviously, if they have young children up to the age of 12, they will be able to get credits under the system, as will carers. As I understand it, if a couple are both in receipt of universal credit—or, to be more precise, the household is—credits can be given to both partners, which is a change from the previous situation. That is an improvement, but there could still be people who fall outside all those arrangements. If they are working and earning and therefore, in a sense, contributing—and in some cases through more than one job—they may actually have a reasonable income. We should find a way of including them within this scheme so that, come their retirement, they can actually get a pension and are not left with a low income which will impact on them for many years. Otherwise, they will be left among those groups who could still be dependent on means-tested additions to any pension they have been able to build up, for many years into the future. I am interested to hear the Minister’s comments on these issues.

Steve Webb: I will address my remarks to new clause 2 in particular, as clause 4 appears to have been largely accepted. To clarify, we are moving from a situation where someone needs 30 years for a £110 pension, having accrued an earnings-related pension on top, to needing 35 years for a £144 pension. People talk about a full state pension as though we have moved the goalposts, but that is simply not the case. What a full state pension is has, in itself, changed, so it is not comparing like with like to use the same words, because they mean something different in the new regime.

Gregg McColm: I absolutely take the Minister’s point, but I am sure he is aware that to the average person in the street, a state pension is a state pension. He is right: there is an issue regarding the abstract and the reality of what the average man or woman in the street understands by “the state pension”. It is the sense of relative unfairness that is a thorny issue.

Steve Webb: If all of us who communicate these matters say, “You used to need 30 years for £110 plus something else, and now you need 35 years for £144”,
there would be no confusion. There are those—perhaps not in this room—who have found it convenient to imply that we are now asking for 35 years for something we used to ask 30 years for, and that is not the case.

New clause 2 is another one of the Opposition’s reviews. I think the hon. Gentleman became a teensy bit defensive about his right to probe. Of course he has the right to probe and to ask questions; that is what he is paid for. All that we were ever so gently saying was that, as well probing, the Opposition give the impression outside this place that they have something firmer in the way of views—but mysteriously they disappear inside this place. It is that inconsistency that I was gently chiding him over.

Gregg McClymont: I had hoped I was reflective rather than defensive. I will have to work on my posture and tone if the Minister sees that as defensive. I was going for reflective, but clearly I did not succeed.

Steve Webb: I inferred defensiveness rather than reflectiveness, but perhaps that was a mistake.

The hon. Gentleman accused us of being generous. He said that people who have been contracted out can now build up to £144 and that we have been generous to them, and perhaps we have. Of course, one group we are thereby being generous to is precisely the one the Opposition highlighted this morning, who were mis-sold personal pensions. What went wrong for some of those people is that they were in contracted-out personal pensions that will not perform, so they will not build up through SERPS—because they are not in it—the sort of pension they might have wanted. We are now giving them the chance to do post-2016 years and fill some of that gap. Again, we may be addressing an historical wrong, among the many good things this legislation does.

Gregg McClymont: I thank the Minister for elaborating on that point. The Opposition do not consider generosity a crime, so my comment should not be taken as a criticism of the Government. I take his point about the personal pensions dimension.

Steve Webb: The new clause suggests that the review be conducted within six months—that is not our phrase—of Royal Assent, so we would be back to a review finishing in autumn 2014. I was asked whether Government computers are all high-tech and shiny, and of course they are, but some preparation is required to bring in a new pension system for the entire prospective retired population. If we wait until autumn 2014 for the outcome of the review—presumably the point of a review is that we might act on it, which will take further time—it is simply inconceivable that we would be ready to go in April 2016 and that we would have time to communicate to people what will happen, because we would have been changing the plans even after Royal Assent.

Gregg McClymont: Not all the points the Minister has made are unfair. We are not making an observation about how long a review would take; we are simply suggesting that the review would come back to Parliament within six months, and I hope it would be speedier than that. On computers, it was the Minister who asked my hon. Friend the Member for Edinburgh East—I assume it was a rhetorical question—whether she had experienced Government computer systems from the inside, the implication being, I assume, that they do not always work perfectly. That was really my point: by the Minister’s own reckoning, Government computer systems have a tendency not always to work swimmingly.

Steve Webb: I would draw an analogy with a vintage car. Someone who understands it and has time to get it going can probably make it do something beautiful, but it can take a while. There is a lead time.

Richard Graham: If I heard the shadow Minister correctly, this morning, his requirement of Government computers was that they should be tip-top and high-tech. Perhaps the Minister would like to comment on the extent to which he thinks his own computer meets those requirements.

Does the Minister think there is a danger that the new clause is not designed so much to meet with the Committee’s approval—nor, indeed, does it really meet any particular aim of the Opposition to oppose the Government’s change from 30 to 35 years of contributions for a full pension fund—but perhaps merely gives the impression that that was what they would have preferred to do, even if there was not the money to do it or the will to take it forward?

Steve Webb: I am a charitable sort of chap, so I cannot imagine for a moment that the Opposition would seek to create such an impression. I am sure the new clause was tabled in a spirit of probing.

I was asked how much will be saved by changing from 30 to 35 years. The £1 billion figure that I gave to the Work and Pensions Committee, which was accurate at the time, was a 2030 estimate based on the 2017 start date. I can update the Committee with an estimate for 2030 of £0.7 billion, based on a 2016 start date. But in steady state—well, in 2060—it would cost £2.9 billion to go back to 30 years. Those are substantial sums, but they take time to build up, which is my crucial point.

Pamela Nash (Airdrie and Shotts) (Lab): I am sorry that I was not here for the start of the Committee, and if this point has been addressed already, I apologise. This morning, we heard only about winners from the change, so how are the Government making this saving?

Steve Webb: As I was about to say, as we come up to 2016 we do what is known as the “better of” calculation: what someone gets under the old rules and what they get under the new rules, and they get the higher of those two amounts, so they do not lose through the 35-year provision in 2016. Thereafter, each year buys them one-35th of £144, which is more than one-30th of £110. Someone who, in 2030, has done a lot of their years under the new system for the entire prospective retired population. If we wait until autumn 2014 for the outcome of the review—presumably the point of a review is that we might act on it, which will take further time—it is simply inconceivable that we would be ready to go in April 2016 and that we would have time to communicate to people what will happen, because we would have been changing the plans even after Royal Assent.

Gregg McClymont: Not all the points the Minister has made are unfair. We are not making an observation about how long a review would take; we are simply suggesting that the review would come back to Parliament within six months, and I hope it would be speedier than
rolled forward. Of course, dividing everything through by 35 saves money compared with dividing through by 30, because it must do, but that is not the same as saying that people are losing out, because everything they have built to date is honoured. I hope that that is clear.

I have been passed a note that says “confidence in it”, but that must mean in IT. I am very confident in our IT—

Gregg Mc Clymont: Did the computer print that?

3 pm

Steve Webb: That is right. Obviously, as the House expects, we think that the HMRC systems that we rely on to support the calculation of single tier will be ready at least six months ahead of the April 2016 implementation date. We have worked with HMRC on pensions reform in the past, and we are confident that we can deliver on time. Clearly, the more lead time we have, and the more certainty in legislation and regulation, the easier it is to do such things. If there is any chance that any of the rules might change, there is a chance of a waste of money—if we assume that they will not change—and a loss of lead time. We can deliver this, although it will be tight, but any further delay would jeopardise the April 2016 start date.

Gregg Mc Clymont: I take the Minister’s point, which is not an unfair observation. May I push him on a little? He described making the transitional calculations as a bit messy. What is his expectation of how the calculation will proceed? How many people will have to be lettered? By when do the Government hope to letter everyone?

Steve Webb: When I say a bit messy, I suppose I meant that trying to turn a description of the calculations into the English language is messy. It is the sort of sum that we do anyway. We are working out the 2016 accrued rights to date, which is what the computer does, because had we not changed the system that is what someone would get; then we work out the new figure, which is 35ths of £144, less the rebate-derived amount. We wrote to the Committee after this morning’s sitting with one we prepared earlier, which is a simplified note on the rebate-derived amount, which I hope that Committee members will rush out to read. Explaining the pensions jargon is complicated, but the maths is not complicated, so it is not difficult to programme such things.

On how many people, we will not be writing to anyone. The reform affects those who reach state pension age from 2016, which is clearly pretty much everyone who has not already retired. We will not be writing to about 40 million people to say, “Guess what, you have a foundation amount of three pence ha’penny in 2016.” We will be working hard on online information, statements and a whole communications strategy. People can already get a broad indication of the sort of pension that they will get; over time, we will be beefing that up. We will not be writing tens of millions of individual letters, but, as people get nearer pension age, they will find it increasingly easy to get from us what they need to know, and it will be a lot simpler.

I will move on to the issue of the people between 30 and 35 years and that of someone who has planned on the basis of 30 years, but now it is 35. The focal point in new clause 2 is people who have had something change late in their working life. I stress: if the old system gives them more than the new system does, they get what the old system would have given them—almost without exception. As long as they have the 10 years, they get the higher of the two numbers.

We have, however, given them an extra possibility, which they did not have under the current system. Now, all that people who have done their 30 years and stopped can get is the £110; they cannot pay extra NI and boost that amount, because they are full up. Under the new system, they may get 35 years; they may buy voluntary contributions—if they have the cash, I accept that point—and build another qualifying year, up to 35. Therefore, the potential state pension for the women we are talking about—it is principally women—is boosted; they have a new possibility. The rate of the voluntary national insurance, as we mentioned this morning, is fandabbydozy—to quote the hon. Member for Edinburgh East—in the sense that it is exceptionally generous.

I am advised by my learned friends that fandabbydozy is an expression of admiration or enthusiasm, popularised by the Krankies, who were—I quote—“a Scottish comedy duo”.

Gregg Mc Clymont: The Minister must be careful with his tenses; he said that the Krankies “were” a wonderful Scottish act—that should be “are”.

Steve Webb: I am grateful to the hon. Gentleman for letting me know how he spends his spare time.

This is a new possibility for people: they can buy extra years, although obviously they need to have the cash.

Oliver Colville: I thank the Minister for being so precise on this issue. What happens if people have paid NI for more than 35 years—say, for 40 years? Will they then stop paying NI?

Steve Webb: The situation will be the same as it is with the current system. Currently, the basic pension is payable in full for 30 years of contributions, but people have a legal liability to pay NI for as long as they are earning above the floor and are below pension age. Therefore, under the current system, the 31st, 32nd or 33rd year does not add to the basic state pension, but people still have to pay NI. They accrue additional state pension under the current system. We are merging that into a single system in which people build up their pension for 35 years; however, it remains the case that there comes a point beyond which people will reach the maximum but will still pay NI, because national insurance is a system of pooling; beyond a certain point people are simply contributing to the wider pot rather than to their own pension rights.

Gregg Mc Clymont: The Minister has given an accurate answer to the hon. Member for Plymouth, Sutton and Devonport, but one thing has struck me. Does he think it would be fair to describe the new system—the rolling together of the second state pension and the basic state pension to create the flat-rate pension—as capped? Someone cannot get more than £144, so it is a capped state pension.
Steve Webb: I noticed last week that the hon. Gentleman was desperately trying to get the witnesses to use the word “capped”, and none of them was prepared to do so, so there is a precedent there. It is a flat-rate pension. I am not sure why he wants to describe it differently, but it is a flat-rate pension—it is what it says on the tin. People can build up contributions beyond the 30 years through voluntary contributions should they wish.

The suggestion in new clause 2 is “phasing the transition to a 35-year full pension requirement via an interim requirement of 30 years.

If that means what it appears to, presumably we would keep the 30-year requirement going for a number of years after 2016, and then switch it off. The phrase “cliff edge” screams out at me when I read the new clause. Presumably, either the requirement for contributions would be 30 years, 30 years, 30 years and then 35 years, at which point some other Committee in some other part of this building would have exactly the same conversation as we are having now because of that sudden cliff edge; or, worse still, the requirement would be 30 years, 31 years, 32 years, 33 years and so on, and we would then face transition, phasing, “better of” calculations, accruals and off-sets. Sometimes, Governments just have to take decisions. We think this is a clean decision, with transitional protection for the people who have already built up more contributions. That seems the fair way to go.

I ought to respond briefly to the hon. Member for Edinburgh East on her point about people who do not build up the required 35 years of contributions because they have multiple jobs below the lower earnings limit; the link is tenuous, but we are in Committee. This week, we have published an updated estimate of the number of people in that position. We think it is of the order of 50,000 people. That is slightly more than we thought before, partly because we have updated our estimates of various other changes; one in five of those might be on credits because of claiming universal credit, but that is the sort of number we are talking about.

The crucial point here is that those people are paying no national insurance. If we invented a system in which people with multiple jobs had them added together, so that they would have to pay national insurance, many of them would not thank us for that, particularly if they had already made 35 years of contributions. Let us imagine someone in their early 50s, who has already built up their 35 years of contributions. Suddenly Steve Webb comes along, adds together all the little jobs on which they are paying no NI and takes some NI off that person. They will ask, “How much will that boost my pension?” The answer will be zilch, because they have already paid their 35 years of contributions. That would not be popular.

For a lot of those people, not paying NI is the better option, particularly if the phenomenon is temporary. If they spent their entire life with that working pattern, it would be a different issue; however, we should bear in mind that people can get a full pension for 35 years of contributions out of a 50-year working life, so even 15 years of doing multiple small jobs and never getting above the NI threshold would not be a problem. People would not thank me for putting NI on those jobs. Requiring those people to pay NI would not be popular and could be counterproductive for many of them.

Mr Michael McCann (East Kilbride, Strathaven and Lesmahagow) (Lab): I am puzzled by that argument. In response to the hon. Member for Plymouth, Sutton and Devonport, the Minister made the point that even after someone hits the 35-year requirement they will still contribute to the system because it is pooled, but will get zilch back out. Is he not making massively contradictory arguments? The argument he offers against people pooling multiple jobs to make NI contributions is that those people will get zilch. Does not the same apply to the previous point he made in answer to the hon. Member for Plymouth, Sutton and Devonport?

Steve Webb: No. What I am saying is this: the hon. Gentleman and other Opposition Members are, quite properly, representing and trying to do right by those constituents of theirs who have multiple part-time jobs below the floor. Let us imagine that, in response to the Opposition’s representations, I said that we would change the rules so that, instead of treating each wage as separate, we will add them together to get those people above the floor and then require that they pay national insurance. His constituents, in that situation, would lose, because they would have to start paying national insurance they do not currently pay, and in many cases might not build up any extra state pension. That is clearly good for the Exchequer and for the pooled nature of national insurance, but it will not be good for his constituents.

Sheila Gilmore: My problem with the way the Minister is attempting to address many of the issues is that rather than focusing on improvement, he is keen to find a group for whom things would be worse, and to say that therefore we should not bother about the people for whom things might be better.

My understanding is that the national insurance issue is not a new one, and that various Ministers and Governments have considered it in the past. They have not necessarily found a solution—I accept that; but to say, “Some people might already be over the 35 years, so we would not be doing them any favours,” is not to deal with those for whom the measure would be of great assistance.

Steve Webb: With a blanket solution—and I think the hon. Lady may have mooted the idea of combining things—we would need to beware of unintended consequences. We would help a small number but possibly act to the detriment of a larger number. That seems to me a legitimate point.

A more tailored solution is to work out whether there are other reasons for the situation. Someone who has, say, two part-time jobs, both of which are under the floor, might be doing that because of caring responsibilities for children or an elderly relative. We would need to make sure that that person was properly credited in. In a sense, for that person, the ideal solution would not be to be made to pay national insurance; it would be for us to examine the reasons why they could not work more hours, and ensure that if it was legitimate they would be credited in. That is what we will do. Through universal credit we will bring 800,000 people into crediting for national insurance, because even the partners of people on universal credit get national insurance credits.
We think the hon. Lady is talking about a relatively small number of people, many of whom might not be suffering in any case, for whom the solution might be worse than the cure, and for whom we have other options open, including voluntary national insurance. If people have multiple part-time jobs that take them well above the lower earnings limit, they will have a wage out of which they can at any time pay voluntary national insurance. That would solve the problem as well.

My judgment is that the relevant group is a small one, and that many of its members may not be losing. We are helping that group of people through other policy measures and there are options available to them. I have not heard what else we might usefully do, and I am not convinced that there is a significant problem.

As with the previous proposal for a review, under new clause 1, a review under new clause 2 would lead to further delay in implementation. It would address a perceived problem rather than a real one for those close to pension age, because they would be protected in any case. On the strength of those facts, I ask the Committee to reject new clause 2.

Question put and agreed to.
Clause 4 accordingly ordered to stand part of the Bill.

Clause 5

**TRANSITIONAL RATE OF STATE PENSION**

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

**Steve Webb:** I hope I can deal with the clause relatively briefly, because it follows naturally from our debate on clause 4.

Clause 5 links to schedule 1, and simply provides either that the amount someone gets will be the sum of what they got under pre-commencement and post-commencement qualifying years capped at the full single-tier rate; or, if they would have got more under the old system only, that is the figure that they will get. That seems to us to provide proper protection. Changes will be possible through measures under clause 6, which I shall explain when we reach that point, or in the case of people who paid the married woman’s stamp, which is dealt with in clause 11.

Clause 5 simply stresses the concept of the foundation amount: a person will get the higher of either the pre-qualifying and post-qualifying years added together, or the amount already accrued under the old system. That seems a very fair transition method to us.

3.15 pm

**Gregg McClymont:** I do not have much to add to that. The Minister has set out the situation clearly, and it follows logically from the Government’s position on the previous clauses.

More generally, I understand that the Minister takes the view that some of the issues being raised are perceived rather than real. However, I dare say that it is a question of how people think. If we believe that those around us are getting a better deal than we are, that creates a feeling of unfairness. Even if our position is no worse, or it is better, than it would have been if the change had not occurred, as human beings we tend to focus on the relative position. Having put that point on the record, I will simply say that clause 5 is acceptable from our point of view.

*Question put and agreed to.*
Clause 5 accordingly ordered to stand part of the Bill.

**Schedule 1**

**TRANSITIONAL RATE OF STATE PENSION: CALCULATING THE AMOUNT**

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

**Steve Webb:** The spotlight now falls on the unheralded talent of the parliamentary counsel, who write our legislation. I would love to claim that I wrote all this stuff myself, but I simply say, “This is what I want to achieve,” and very clever people who have studied law go away and write it beautifully.

I encourage the Committee to look at page 26, on which schedule 1 appears, because I am advised that this is quite avant garde as parliamentary drafting goes. It takes people step by step through how the whole thing works. Paragraph 2 goes through the four steps of the calculation. In step 1, we calculate someone’s pension under the old system; in step 2, we calculate a pension under the new system; in step 3, we take whichever is the higher—this is the one place in the legislation where the wording “foundation amount” is used; we were determined to get it in the Bill—and in step 4, we revalue to when the person reached pension age. I will say a little more about the latter in a minute. The remainder of schedule 1 goes through each step in detail. It is rather beautiful, in the sense that it takes us through, in intelligible language, how the calculation is done.

I will now clarify what each of the four steps does. [*Interruptions.*] I can hear some appreciative noises from my right. Step 1 simply works out the pension based on the old system, including, as we heard this morning, the graduated retirement benefit. We then work out under the new system the 35 years less the rebate-derived amount, take the higher of those two, which is the foundation amount, and finally—this is the crucial point—that figure is revalued to when a person reaches state pension age. As we have heard, the single-tier element is revalued in line with earnings and any excess protected payment is revalued in line with CPI. Having had that foundation amount revalued to when a person reaches state pension age, any post-2016 years after that are accrued at 35ths of £144.

The beauty of the system is that everyone will have a foundation amount. What goes on under the bonnet may not be very pretty, but they will have a figure that tells them what they have in the bank. People could have a badge saying, “My foundation amount is so and so.” Apart from revaluation, that is the figure, and future years of service build people up to the magic figure of £144. About 85% of people at steady state will get £144. Although there is a great deal of detail, on which I am happy to answer questions, I hope that I have given an overview of what schedule 1 does.

**Gregg McClymont:** I am tempted to ask the Minister whether the wonderful draftsmen to whom he refers are situationists. Never did I think that the avant garde would be brought into parliamentary drafting. Listening
to the Minister's enthusiasm for the calculations involved in the Bill, I was trying to remember who he reminded me of, and it suddenly came to me—I mean this as a compliment—that it was that wonderful man Johnny Ball who used to be on TV explaining numbers to schoolchildren and others. I had my own experience of Johnny Ball, when we managed to eject him from the rectorship at Glasgow university, but that is another matter, and I will not go into it.

Karen Bradley (Staffordshire Moorlands) (Con): Shocking!

GreggMcClymont: Absolutely. The schedule is significant because, as the Minister has said, it explains how the calculation is done. We had what I might describe as a preliminary skirmish—that is probably putting it a bit strongly—about the amount that someone may have above the new flat rate state pension. My understanding is that under the Government's current triple-lock policy, all of one's state pension is triple-locked. Under the proposals of this new system—

Steve Webb: No, the basic state pension is triple-locked.

GreggMcClymont: The basic state pension is triple-locked. Under the new system there will only be one state pension, and anything that one has above £144 or whatever the figure is for the new flat rate state pension, will not be triple locked. Is that the case?

It was worth a try, but I could not draw the Minister. The point I am trying to bring out, as I am sure the Minister is aware, is that as things stand, the basic state pension is triple-locked. We are, by the Government's lights, rolling the additional state pension and the basic pension together into a new state pension system. Those who have accrued rights above whatever level the new flat rate state pension is set at, will have those accrued rights above the illustrative figure of £144, and that will be, according to the Government's lights, indexed by CPI. No longer will the state pension, as such, be fully triple-locked. Is that the case?

Steve Webb: It never was. The triple-lock pledge applies to the £110. If one retires today on £150, £110 will be triple-locked and the rest CPI-ed. In the brave new world you get £144 triple-locked and the rest CPI-ed once pensions are in payment. The new regime, in terms of pensions in payment, is unambiguously more generous.

GreggMcClymont: I thank the Minister for that reply. As I said previously, generosity is not a crime. Whether I take the view that it is avant garde or not, it is very clearly set out. I think that generally speaking, we are into the calculation. We have to be aware that the Minister is clear that this is a cost-neutral reform, so being cost neutral, we have to be aware that there will be losers as well as winners. We will continue to tease that out, but in terms of the schedule itself, I am happy to accept the Minister's observations on it.

Schedule 2

**TRANSITIONAL RATE OF STATE PENSION: UP-RATING**

*Question proposed*, That the schedule be the Second schedule to the Bill.

Steve Webb: Our star draftsman could not quite keep it up for schedule 2, so this is a bit more bog standard, for want of a better phrase, rather than avant garde. However, it does the job. Schedule 2 underpins clause 5 to set out the basis for up-rating the transitional rate of the state pension. The Committee will remember that a transitional rate is for the people who have the bit before and the bit after 2016. Different operating mechanisms are used for the amount up to the full single tier, and for the protected payment, earnings at least for amounts up to the full single tier, prices for any protective payment—obviously, both in law are minimum, but a future Government can be more generous.

Schedule 2 defines the transitional rate as the rate that first, includes any reductions arising from a state pension debit under clause 14, but excluding any increases because a person has deferred their pension under clause 17. I hope that clarifies the purpose of the relatively brief schedule 2, and I commend it to the Committee.

GreggMcClymont: The parliamentary draftsman might not be able to keep it up, and neither can I in this sense. I will rest on the Minister's explanation of schedule 2.

*Question put and agreed to.*

Schedule 2 accordingly agreed to.

Clause 6

**RECALCULATION AND BACKDATING OF TRANSITIONAL RATE IN SPECIAL CASES**

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

Steve Webb: Clause 6 covers a slightly unusual set of circumstances. If somebody has been contracted out of SERPS or the state second pension in the past but their employer pays a premium to put them back into the state second pension, we need to make sure that they do not retire before that has happened and find that we do not have a legal basis to recalculate their state pension after that has happened.

To give an example of how this could happen, imagine a person is relatively close to pension age, they join a workplace pension that has a rule that they will not get any pension if they have not been in it for two years. They leave the company, they never got their two years, so they built up no occupational pension but neither did they build up any SERPS pension because they were contracted out. They would end up with nothing for that period. In those circumstances, the firm pays a premium to put them back into SERPS. We therefore need to ensure that if that were to happen after the person had reached pension age, for example, we would have the legal power both to redo the foundation calculation to ensure that everything was as it would have been if the employee had been in SERPS all along, and to give them the correct pension. Clause 6 is simply about
 recreating and backdating the transitional rate in the special case that I have described. It is in the spirit of what hon. Members would expect, so I comment it to the Committee.

**Gregg McElduff**: I have nothing to add to that. I thank the Minister for his explanation.

**Question put and agreed to.**

Clause 6 accordingly ordered to stand part of the Bill.

Clause 7

**SURVIVOR’S PENSION BASED ON INHERITANCE OF ADDITIONAL OLD STATE PENSION**

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

The Chair: With this it will be convenient to discuss new clause 3—Review on gradual transition from certain benefit arrangements based on age—

1. In relation to women without a national insurance contribution record who relied on a husband’s national insurance contributions and would under existing arrangements have accrued a benefit based on such spousal contributions, the Government shall conduct a review to determine the costs and benefits of permitting women within 15 years of state pension age as at 6 April 2016 to retain their accrued rights. Such a review shall be conducted within six months of Royal Assent of this Act and a report thereof laid before Parliament.

2. The review shall also consider whether similar provision should be made in relation to sections 9 and 10 of this Act.

Steve Webb: This is another example of the Opposition asking for a review and, again, I will give the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East the chance to make the case for that before I explain why we do not think that one is necessary.

Clause 7 is about the pension that a person gets from their spouse or civil partner when they die. There are two broad categories of circumstance. One is where the person who dies was a single-tier pensioner—that is, they reached state pension age after 2016—and the other is where they were a pre-single-tier pensioner. Essentially, if someone’s late spouse was a pre-single-tier pensioner, they will inherit a share of their SERPS pension, up to a cap—there is a cap in the current system. It will operate basically as under the current rules. For example, if the person who dies first retires under the current rules, we are not saying that just because their spouse is a single-tier pensioner, suddenly all the inheritance that they thought they were going to get goes out the window. Essentially, that would carry on.

Conversely, if the person who has died is a single-tier pensioner, we propose that half the protected payment is inheritable. That is quite straightforward. The person who dies takes their single-tier pension with them, as it were, but half of the balance is inheritable by the spouse. That seems to be a way of honouring what has gone on in the past, particularly for those who have retired pre-single tier and expect to be able to pass on half of their SERPS, or whatever it is, according to their age.

The new system has a much cleaner transitional set of rules for inheritance. In the long term, there is no inheritance; when the system is fully up and running, people will earn pensions in their own right, not because of who they were or were not married to. However, we clearly have a transitional period to cover, quite properly. Clause 7 sets out the basis on which that should be done.

Gregg McElduff: We recognise the Government view on striving to create a more equal society for men and women and more widely in terms of non-married couples and civil partnerships. Different approaches need to be reflected in the Bill and in clause 7, and a modern approach is needed.

New clause 3 speaks for itself. However, I would like to set out the Opposition’s view in a little more detail. As the Minister set out a moment ago, the single-tier pension will be an individual entitlement with no special rules for people who are married, bereaved or divorced. That is the Government’s ambition, and there is much to be said for that approach.

3.30 pm

Currently, people who are or have been married or are in a civil partnership may be able to use their partner’s record to receive a state pension or to increase the amount that they receive on their own record. The Opposition welcome the fact that there will be transitional protection in some situations, to protect inheritance of the additional state pension—S2P—and for women who paid reduced-rate national insurance contributions. It is still the case, however, and the Select Committee certainly had something to say about this in its pre-legislative scrutiny, that some people—mainly women—who have been relying on their partners’ larger pension records and quite reasonably expect to receive the married women’s pension in the next few years, or a full basic pension if widowed, will not have the time to make up the contribution years before they reach retirement age. The issue of cliff edges has been mentioned several times during our scrutiny of the Bill, and that is another cliff edge.

The Opposition believe that, in line with the Work and Pensions Committee’s recommendation, it should be possible to find a solution for the small group of women in that situation, those who did not build up their own national insurance records because they had a legitimate expectation that they could rely on their husbands’ contributions to give them entitlement to the basic state pension. The Minister referred to the fact that under the current system there was a cap on the amount that such persons could inherit.

We want the Government to explore what can be done to make the situation as fair as possible for that group. One option, which the Select Committee endorsed, is that women who rely on their partners’ NI record with the reasonable expectation that they will receive a married women’s pension, or a full basic pension if widowed, and do not have the time to make up the contributions, are given a protection in transition such that those who are within 15 years of state pension age are able to retain their rights.

Andrew Griffiths: A 10-year period to allow people to make alternative arrangements seems to have reached general consensus across the House—and there was talk of a seven-year period. Will the hon. Gentleman explain why in this instance he has chosen 15 years rather than 10?
Gregg McClymont: There are a couple of issues. The first is that that was the time period that the Work and Pensions Committee suggested, on a cross-party basis. We thought we would probe for a figure and I think my hon. Friend the Member for Edinburgh East will cover. I will say that there is a case that people in that position—women in particular—are less likely than other groups to be able to make up the difference, and that is why 15 years has been suggested. My hon. Friend the Member for Edinburgh East might want to elaborate, but that is my understanding.

During its pre-legislative scrutiny, the Work and Pensions Committee also suggested that the Government assess and publish the cost of providing that option for the relatively small number of women affected. I guess we have to use our imagination a little, but I do not think that too much is required to put ourselves in the shoes of that small group of women. As those women, we have lived our lives expecting that, while we do not necessarily have our own national insurance contributions, our husbands’ will ensure that we get something reasonable in retirement. If we were some of those women, we would feel a real sense of anxiety about the shift.

We recognise that, in the broadest sense, changing the system to one based on an individual’s contributions reflects changes in society—of course we do. That is entirely right. The Government have not published figures on the cost of providing the protection to the women, as suggested by the Select Committee, and we ask them to go further for this. I think, relatively small group. We do not know its precise size, but it is a relatively small group of people, for whom anxiety about the potential loss is significant.

Andrew Griffiths: The hon. Gentleman makes the point about our still not knowing the cost of providing the protection for the small group of women whom he talks about. If he agrees with the principle that the proposal should be cost-neutral, however, how would he pay for any additional costs?

Gregg McClymont: We are asking the Government, as the hon. Gentleman is aware from the new clause, to dig down and to say how many women, or people, will lose out and by how much, and then what it will cost. I refer him to our discussion in Committee about cost-neutrality, which he may remember. The Bill is cost-neutral, in so far as the new system does not cost any more than the existing system. As the hon. Gentleman is aware, however, there is the issue of the increased national insurance contributions, which are going to the Treasury. It is a still a little unclear, to put it mildly, what is happening to that £5.5 billion. He cannot expect the Opposition to be able to go into the matter in more detail until we have the numbers and the people involved, which is what I am asking the Government for. If the Government are prepared to provide those figures, and if they accept our proposal for a review, we will be in a position to come to a judgment.

We accept that the provision for derived entitlement dates back to the 1940s. The world has changed, of course. Men worked and women stayed at home, more or less, but society has changed and is no longer our social structure. We recognise that the Minister and the Government are trying to reshape the pensions system to reflect more accurately the shifts in employment patterns, as well as the issue of caring contributions, which the Labour Government put in place and which this Government are continuing.

What is a reasonable expectation for that particular group, usually women, for whom the opportunity to make up contributions is probably more difficult than for other groups? That is why the Select Committee suggested 15 years rather than 10. The Opposition view is that by 2020 fewer than 30,000 women in this country will receive a notionally worse state pension outcome because of the removal of derived entitlement and that the pension credit guarantee will remain in place as a safety net for those living in this country. Our estimate is that fewer than 30,000 women will be affected; the issue is how much it affects them, and whether they are in a vulnerable position relative to other parts of society.

We also accept the Government view that the measure is required, but we argue that the transitional period is necessary to stop those women in particular from falling through the cracks. I go back to the point that the state pension reform is a pretty radical shift. We know that it is being made on a cost-neutral basis, therefore there must be significant cliff edges in the system. Our sense is that this is one of them. In the spirit of co-operation and consensus in this part of the Bill, I am asking the Minister whether he is prepared to dig down further, because the Select Committee elaborated on the issue in some detail.

Transitional provision should ensure protection for everyone, based on their legitimate expectations. The key is, what is a legitimate expectation? The issue of a married person’s pension has some resonance for those depending on it.

Steve Webb: I appreciate that following the logic of the Bill is not always straightforward, but clause 7 includes in its heading “Survivor’s pension”, so it relates only to widows; it is not to do with the married person’s pension, when both partners are still alive.

Gregg McClymont: I thank the Minister for that clarification. Instead of saying fewer than 30,000 women, I should have said fewer than 30,000 widows—that is more useful for the purpose. We are asking the Government whether widows are particularly vulnerable. Are they able to make up the difference in what they would lose? Is there a case for some significant transitional protection for that group? That is the basis of our thinking when asking the Government to review the provision.

Sheila Gilmore: The Select Committee looked at this matter. The Government have already recognised that there are some residual groups who, for various reasons and in various circumstances, ended up relying on what many of us would now consider an old-fashioned way to make provision for the future.

One group for whom the Government have made provision includes those women who even now, to my surprise, are still paying the reduced contribution rate. They never made the change when the arrangement was done away with for future purposes some years ago. That was based on the notion that women did not work much and, if they did, they were earning only pin money and it would be grossly unfair for them to pay national insurance contributions that would not add up to much. After all, they could expect to receive a 60% pension based on their husband’s contributions.
The Government have moved in that particular area, and a clause in the Bill applies to that small group. One might imagine that such women are very rare. However, I have a constituent in that position and was very surprised, knowing her circumstances, that she had made that choice. She did an amount of small-scale work—another of those people who do the world’s work—and she had decided not to make the change. When she first read about the proposals she was concerned, but then pleased to see that her circumstances are covered, since that small group will be allowed to carry forward their arrangements.

As for survivors, they are not just women who are widows. The provisions under the existing system for people to inherit or gain derived rights have been extended from widows to widowers and also apply to people in civil partnerships.

The Chair: Order. Will the hon. Lady please confine her remarks to the clause? She is straying somewhat wide of the review mentioned in the clause.

Sheila Gilmore: I was trying to sketch in some of the background as to how we have arrived at this point. As these arrangements have changed for the majority of people so much, it is right that people should build up their own contributions. On that basis, they do not need to get survivorship benefits through a deceased spouse or civil partner, because they have their own pension provision. The debate is about the group who may not have made that provision because they thought they would get this in future if necessary.

3.45 pm

The Select Committee’s point was that it would be important not to leave that group stranded. We asked the Government to look at the option of allowing those who would be within 15 years of state pension age to retain this right. The Select Committee’s recommendation was that the Government should assess and publish the cost of providing that option, on the assumption—and I think it is a shared assumption—that a relatively small number of women are affected.

Gregg McClymont: Was the Select Committee able to estimate the number affected by the shift to the new state pension?

Sheila Gilmore: Our understanding was that the number of people affected will not be large, although it is harder for a Select Committee to get that information than it is for the Government. It is reasonable to expect a Government Department to gather such information.

Andrew Griffiths: I thought the hon. Lady’s colleague said earlier that a relatively small number of widows will be affected. Is she saying that she understood that a large group will be affected? Will she clarify that for us?

Sheila Gilmore: If I said that a large group will be affected, I did not intend to say that. I did not hear myself say that, although one does not always clearly hear what one says. The group is small because, for the most part, most women now have their own provision. They have sufficient pension in their own right. They have worked sufficiently and have paid their own contributions, so they are not reliant on the provision.

Nevertheless, in making such changes surely we do not want to disadvantage even small groups who have followed a particular path. The provision for inheriting and being able to receive a widow's or widower's pension in such situations is not of a recent date. The provision has been in the system for many years; it has certainly been in the system since after the second world war, and it may have been in the system before. From that point of view, the provision is such an understood and expected part of the system that it is perhaps not surprising that some people have continued to assume that they would be in a position to benefit from it.

Gregg McClymont: The hon. Member for Burton asked a fair question about how many widows will be affected by the provision. That perhaps speaks in support of the new clause, which would allow us to know precisely how many widows will be affected and to what extent. Does my hon. Friend for Edinburgh East agree?

Sheila Gilmore: We need clear information. The group might be very small, and I suspect the group is diminishing rapidly. The fact that we have suggested that 15 years is a more reasonable transition period assumes that, by that stage, it is very unlikely that there will be people left in a position to be disadvantaged; there will certainly be a lot of information available to tell people that that is not the case. We are probably dealing with a group of women—predominantly, although the right of inheritance has been extended—who are likely to be older and nearer their own state pension age, and who are therefore not really in a position to overcome the possible disadvantage. However good the Minister believes the system to be and however much he is firmly of the belief that it is all better, as we proceed through the Bill and make the changes it is important that we do not disadvantage even quite small groups because doing so is easier, neater or tidier.

Mr McCann: Does this not expose the whole argument about cost neutrality? The Government have trumpeted at every step the £144 payment and the triple lock, which will, of course, last only until 2015. They have not mentioned all the snips, cuts and other bits of tailoring that have been done in the Bill to pay for its cost neutrality.

Sheila Gilmore: The question of cost neutrality is an interesting one. We have been told that in the long term the new system might be cheaper, which is why some people are wondering who the losers will be. The losers in this situation are created by the transition from a system that, rightly or wrongly, allowed people to rely on contributions made by others, in some cases somebody moving towards retirement, although that is not the issue that we are dealing with here. Some people still feel that the fact that the two systems run together is difficult.

Gregg McClymont: No one is claiming that the previous system was perfect, and we must ensure that the pension system reflects changes in society. As things stand, however, the people who tend to struggle most in retirement are widows. There is a cohort of older widowed women, who are often in their 80s, whose income in retirement has suffered. Does my hon. Friend agree that there is a particular thorny issue around that cohort?
Sheila Gilmore: I said earlier that we have been grappling for many years with the fact that many women are poorer than men in retirement; it is not a particularly new issue. We do not want to perpetuate that situation. We hope that as women’s employment opportunities and earnings improve, and as they get closer to equality, many of those problems will disappear.

The specific issue with this group of widows is that, at the moment, anyone in that position who is on one side of the line can receive a widow’s pension on their partner’s contributions, but someone who retires after we have implemented the proposals—because we want to do away with such old-fashioned notions—would be disadvantaged. We accept that the numbers are small, and it might seem as though the problem does not really matter because the numbers are so small. However, as I believe Age UK pointed out to the Select Committee, when people have made plans based on a reasonable expectation of being able to use their husband’s contribution records, it is not fair to stop them from doing so abruptly. They do not have the opportunity to make up the difference. It would be wrong to leave them with a poor pension that condemns them to long-term low income and poverty during retirement when that might be overcome by a slight tweak to the rules.

Pamela Nash: Is it true that the widows that we are talking about do not constitute a homogenous group? Many such women, and some men, will also be affected by the other changes in the Bill. I have been visited by constituents who have cared for sick relatives for years, as a result of which they have not built up the necessary contributions and they are depending on their husbands’ contributions. If that happens in future, this group of people will be particularly affected.

Sheila Gilmore: Some of those who were caring should have been able to get credits, but despite the changes that were introduced in respect of carers, unfortunately some people appear not to have taken advantage of that provision. Perhaps they should have done so, but they have not. One reason why they may not have done so is that they thought that it would not make any difference to them or that they did not need to. They were not proceeding on the basis that they needed to make up the right to a pension from their own contributions, because they thought that the system as we have understood it would come into play.

Although some of those people—not necessarily all—would have been able to make up credits in their own right, we know and the DWP has agreed that the take-up of the ability to get credits has been less than the number of people known or thought to be caring. It is not beyond the wit of legislation drafters to ensure them a reasonable pension. Is that her argument, which is that some of those in the group who could have benefited from the credits introduced by the previous Government to count caring towards national insurance contributions might not have done so because they took the view that they could rely on their spouse’s national insurance contributions to ensure them a reasonable pension. Is that her argument, and did that emerge in the Select Committee’s discussion of the issue?

Gregg Mc Coy nton: The point that my hon. Friend has been developing strikes me as potentially significant for what I take to be her argument, which is that some of those who were caring should have been able to get credits, but despite the changes that were introduced in respect of carers, unfortunately some people appear not to have taken advantage of that provision. Perhaps they should have done so, but they have not. One reason why they may not have done so is that they thought that it would not make any difference to them or that they did not need to. They were not proceeding on the basis that they needed to make up the right to a pension from their own contributions, because they thought that the system as we have understood it would come into play.

Although some of those people—not necessarily all—would have been able to make up credits in their own right, we know and the DWP has agreed that the take-up of the ability to get credits has been less than the number of people known or thought to be caring, and has been disappointing. I suggest that one reason why it has been disappointing is the assumption that it was not necessary because of the level of cover that could be obtained under the arrangements that people understood were and would continue to be in place. People made their decisions and planned accordingly.

When the Government, for often good reasons, decided that it was time to make the change—for the most part, it is absolutely right that people should be able and encouraged to make their own arrangements and to be seen as individuals working towards their own pension provision—those who worked on that other assumption are now feeling, and being, disadvantaged. They understood the system that was operating, and they had been given no particular reason to suggest that it would not continue to operate. New clause 3 suggests an investigation into what the numbers are and how they could be accommodated, with a cut-off at the point where we think that that group will have been eliminated.

Sheila Gilmore: It was not unreasonable, even if somewhat old-fashioned, for someone to think that that would be the case. If that was their expectation, some will find under the new single-tier pension for those who retire post-2016 that they have less than they expected. I think that the Minister said in evidence to the Select Committee that he thought only about 30,000 people will be affected.

One problem is that we are obviously estimating. The estimate that the Select Committee was given of the number of people under the lower earnings limit was, again, about 30,000, but the Minister has now suggested that he thinks that it is more likely to be about 50,000. We must take some of the estimates with a bit of caution. They may or may not be the end of the story.

Another issue that the Minister raised before the Select Committee was that he believed that a number of those women were not living in the UK, and that the reason why they may not have been able to make up their pension contribution was that they were overseas. That may or may not be the case. Again, without an investigation in more depth, I do not know whether we can be precise. Perhaps the Minister has done that investigation and can tell us about that.

4 pm

This claim is bit of a red herring. The suggestion is that this measure is not necessary because these are people who lived overseas who are trying in some way to get a pension that they neither need, nor—the implication would be—deserve because they lived overseas. Indeed, it was suggested that some may never have lived in the UK. For them to be able to pick up a pension based on what the numbers are and how they could be accommodated at the point where we think that that group will have been eliminated.

I do not think that, in any way, takes away from the fact that some do deserve these payments. Potentially, some of these women made the decisions that they made because they thought that they would be covered by their husbands’ national insurance contributions and, if required, they would get a widow’s pension...
when needed. Post-2016, they could find themselves in a position where the single-tier pension that they are able to build up in their own right is simply not as good.

**Gregg McEvedy:** Was the Select Committee able to crunch the numbers and get an idea of what kinds of losses we are talking about? In this clause in particular, there seems to be fuzziness on how much the loss might be for the losers. Did the Government offer information on the size of that loss?

**Sheila Gilmore:** The information offered by the Government was substantially the numbers, as given by the Minister, rather than in any more depth. In pre-legislative scrutiny, it is difficult for a Select Committee to undertake that work. However, it is significant that—I think that the Minister would agree—while the Select Committee's thinking in the pre-legislative scrutiny report was, on the whole, supportive of part 1 of the Bill, which is the part that we scrutinised, this measure was one of the Committee's unanimous recommendations. There were other issues that some strongly wanted us to raise but we did not because, on balance, that was not the view of the Committee.

On that basis—given that this was not a Select Committee report that found fault with everything; it was a measured report—the Committee was convinced that this group required a bit more investigation. We could not quantify that in terms of how much it might cost, but I suggest that it would be right for the Minister to investigate this matter further. He should want to have that review with a view to making provision for what will probably be a small group, but nevertheless a group that could be significantly disadvantaged. I am sure that he would not want that group to be disadvantaged through his changes.

**Steve Webb:** I will address my remarks principally to new clause 3. There are a number of reasons why, if we were to implement new clause 3 and act on it, we would, I suspect, be up for judicial review. One is that it relates only to women. As the hon. Member for Edinburgh East said, these days widows as well as widows have derived rights, so it would be quite improper to conduct a review solely to look at the position of women. Therefore, the new clause as it stands would be unacceptable.

There is a second problem. I fully accept that the 15 years threshold comes from the Work and Pensions Committee, and I place on the record my appreciation of the thorough job done by the hon. Lady and colleagues who took part in the pre-legislative scrutiny; we are grateful for that. However, 15 years is just another arbitrary number. I imagine that if we put in a provision that said we will run on the old rules for 15 years, we would be in another Committee room in another year with another set of Members saying, “But my constituent was 15 years and one day short of pension age and got nothing. This is a terrible cliff edge.” So either we move the line somewhere and create a new cliff edge, or worse still, we have a tapered system, which would be a complete nightmare.

**Mr McCann:** Is that correct, given that the numbers are diminishing year on year? There therefore comes a point when we are talking not about thousands of individuals, but hundreds. All the parties would generously recognise that we would not draft legislation to cater for numbers that were in the hundreds. If they are in their thousands—and particularly when we are talking about a vulnerable group—there is a stronger argument for changing the Bill. That is why the argument about 15 years is perhaps more potent than the Minister thinks.

**Steve Webb:** It is not so much the generosity of future Parliaments that troubles me; it is the generosity of m’learned friends in the High Court. The point is that we would quickly find that if we put in place a law that someone—even one person—fell just the wrong side of, it would be struck down if it was deemed to be arbitrary. There is no justification for such a measure.

The shadow Minister was asked in an intervention, why 15 years? He perfectly honestly said, because that was what the Work and Pensions Committee came up with, and that the Opposition were, in a sense, probing. However, there is no objective basis for that. We cannot make law on the basis of entirely arbitrary numbers, although it might occasionally appear that we do.

So, the choice of 15 years is arbitrary. There is an issue about legitimate expectations, which is why the rather complex transitional procedures that we have put in place provide protection for the vast majority of people. I will reiterate the numbers we think we are talking about. We have the figures for men, which are obviously much smaller, but we think that by 2020, of all the women who become single-tier pensioners over that five-year period, roughly 5% will lose out—that is the 30,000 number—from the non-availability not just of a derived pension as a widow, but a derived pension as a married woman whose husband is still alive. All of that together is less than 5% of the people we are talking about.

Of course, we could roll on every feature of the old system into the new system for another 15 years. At the same time as we are being asked to do that, we are also being asked to give clear communications. We are trying to bring about a reform that enables people to plan for their retirement, to know where they stand, to know what they will get, and there is a trade-off here. We have put in a lot of transitional protection, but a crucial point occurred to me as I was listening to Opposition Members. A lot of the transitional protection is boiled down into the foundation number, so we do the transition—not all of it, but a lot of it—into that one number, which is then the basis for the new system. We do not keep going back and using the old system. It is boiled down and then we build on it, whereas the Opposition’s proposals literally keep the old rules going for a decade and a half—up to 2031, I assume—so that in 2030 people would still have rules based on the 1948 model of basing a woman’s pension on her late husband’s.

**Gregg McEvedy:** The Minister refers to the fact that the 30,000 number comes from the Government’s calculation that by 2020, 5% of the women who retire after 2016 will lose out, and that, of course, is not an enormous number. I take the Minister’s point about the foundation amount, but have the Government calculated how much the 30,000 might lose out by?

**Steve Webb:** In many cases, the amounts they will lose out by will be very small. With the 30,000, we are talking about people who would have got £66 a week as married women on their husband’s record. To get that, I think—from memory—they need 16 or so years, because
guarantee credit. Again, it is easy to elide the two, but
other income, so they would not be in the scope of the
lose significant sums are those who have substantial
speeches we have heard have all been about the vulnerable,
and will lose the widow’s pension they would have got.
That would be to use a heck of a lot of complexity to
the losers in this group to be taken out of the means-tested
have thought that he would be as keen as possible for
Government achievement for the poorest pensioners—but
knows that there is no greater supporter of what pension
credit makes up the difference. He
there will be cases where the loss is quite significant, but
answer off mid-stride. I take his response to mean that
Steve Webb: Yes, they might miss out on the £110 widow’s pension,
then get the guarantee credit, so they are brought up.
not have a lot on their own basis. In those cases, people
inherited widow’s pension will not get it, and who does
which, for example, someone who would have got an
£142 at last year’s prices. The widow’s pension that they
would have got would be the basic pension—the £110, plus
some inherited SERPS—whereas the guarantee credit
guarantees them, now, £145 a week. That will make no
difference to the income of some women who will not get
the inherited rights that they thought they would, because
we are saying that they will not be destitute and
will not have nothing: they will have the £145, which is
substantially more than the widow’s pension of £110.

Gregg McClymont: I thank the Minister for that explanation. Does he think there will be significant
losers among this group? I noted his words carefully. He
mentioned that, in many cases, the losses will be small.
Will there be cases where the losses are significant?

Steve Webb: It is possible to construct a case study in
which, for example, someone who would have got an
inherited widow’s pension will not get it, and who does
not have a lot on their own basis. In those cases, people
then get the guarantee credit, so they are brought up.
Yes, they might miss out on the £110 widow’s pension,
but if that would leave them with next to nothing, they
will get £145.

Gregg McClymont: I hope I did not cut the Minister’s
answer off mid-stride. I take his response to mean that
there will be cases where the loss is quite significant, but
in such cases pension credit makes up the difference. He
knows that there is no greater supporter of what pension
credit achieved than me—it was a significant Labour
Government achievement for the poorest pensioners—but
he also knows that the logic of the Bill is to simplify the
system and take people out of means-testing. I should
have thought that he would be as keen as possible for
the losers in this group to be taken out of the means-tested
system.

Steve Webb: It is hard to advance an argument that
says, “We run a complicated feature of the old system”—it
is complicated; derived rights are fiendishly complicated—
“for another 15 years, so that a rather small number of
people do not have the complexity of means-testing”. That
would be to use a heck of a lot of complexity to
try to take a few people out of complexity. I do not buy
that argument.

Some widows with good occupational or state pensions
of their own, for example, will not get a derived pension
and will lose the widow’s pension they would have got.
The rhetoric—I do not mean that pejoratively—and
speeches we have heard have all been about the vulnerable,
marginal and dispossessed, but the only people who
lose significant sums are those who have substantial
other income, so they would not be in the scope of the
guarantee credit. Again, it is easy to elide the two, but
the vulnerable, marginal and those who really need the
cash will get the guarantee credit and will have an
income essentially equivalent to the single-tier pension.

Gregg McClymont: I thank the Minister for that
further elaboration. If I understand him correctly, he
suggests that, although the Government often claim
that the pension credits system is fiendishly complicated,
this derived rights system is even more complicated. I
take that point. Is there danger in this regard, though?
We often hear about uptake in debates about pension
credit, and it is pertinent to this discussion, Mrs Main.
Although I am a great supporter of what pension credit
achieved, there is no doubt that not all people claim
what they are entitled to. Am I correct in saying that
under a derived rights system, these widows in particular
would be sure of getting what they are due, as opposed
to under pension credit, where they have to claim it?

4.15 pm

Steve Webb: That is a fair comment, but if a widow in
this future scenario has £70 of pension and nothing else
to live on, it is pretty clear that the first thing they will
do is go to the council, or someone, and say, “What else
can I get?” Take-up of the guarantee credit element of
pension credit is high, particularly on an expenditure
basis, so people with big entitlements are very likely to
claim. In general, pension credit is not great, partly
because of take-up, but widows on very low incomes
who have nothing else to live on claim their guarantee
credit.

People outside the UK were mentioned. The hon.
Member for Edinburgh East suggested that this was a
red herring and asked whether someone clever could
just write a law to fix the problem. However, we get
terrible flak when we no longer index the pension of
people who leave the UK—an issue we will no doubt
discuss later.

The hon. Lady suggested that when people move out
of the country, they should just lose inherited rights,
widow’s pensions and so on. I am already not the most
popular figure with the International Consortium of
British Pensioners, but it would add to my charge list if
I listened to what she said. Indexation is clearly a
different issue, but on derived rights, to say, “Just go
and live somewhere else and, because you are not here
any more, you cannot have a derived pension”, would
be a far bigger step that she would struggle to justify.

I will touch briefly on the issue of cost-neutrality,
which seems to keep coming up and is worth probing a
little. It was mentioned by the hon. Member for East
Kilbride, Strathaven and Lesmahagow, who, like one of
his hon. Friends, said, “Ah, but there is all this national
insurance money kicking around, so”—by implication—
“why don’t we spend some of that?”

Of course, we know that the national insurance revenue
from the measures in the Bill will pay for the Dilnot
social care cap and for employers to take on extra
people through reduced national insurance, while the
balance will lie with a future Treasury that may—purely
to give an example—want to reimburse all or part of
the additional cost of the national health service and
schools. The Opposition cannot have it both ways. I
suspect they would like that rebate money refunded to
schools and hospitals, but they have implied that they
also want it spent on better pensions. I believe they are no longer into spending the same money twice—or perhaps they are.

**Gregg McClymont:** We know that the Minister and Government Members are always keen to hear the Opposition elaborate on what we would or would not do, but it is rather unfair to throw national insurance contributions back at us. The Government are taking the £5.5 billion, but we have no clarity on what they wish to do with it. The Opposition are asking the Government to clarify what they intend to do with that national insurance windfall. Will the Minister tell us?

**Steve Webb:** At the risk of testing your patience, Mrs Main, I have mentioned a couple of items that have been specifically identified—the national insurance reduction and the Dilnot social care cap—but because that will all come in 2016-17, for which there has been no spending review process, that will clearly be at the discretion of a future Chancellor, who will have to take such factors into account.

To return to new clause 3, the hon. Member for Edinburgh East said that the issue of people overseas was a red herring, but in the past decade the number of people claiming the married person’s entitlement has fallen in Great Britain by 17%, but risen overseas by 17%. In other words, a growing proportion of people with derived rights have a limited connection to this country, which does not seem to us to make that matter a financial priority for the Government.

New clause 3 recommends another review and would involve another delay in the implementation of the single-tier pension. It would create new cliff edges, bring in only women and not men, and greatly complicate the transition for a relatively small number of people for whom other provisions are in place—the guarantee credit, the opportunity to pay voluntary contributions and so on. On that basis, new clause 3 would not add to the Bill’s clarity but would complicate it to no good effect. I urge my colleagues to reject it when the moment comes to do so, but to agree to clause 7.

*Question put and agreed to.*

Clause 7 accordingly ordered to stand part of the Bill.

### Schedule 3

**Survivor’s pension under section 7: Inherited**

*Question proposed,* That this schedule be the Third schedule to the Bill.

**Steve Webb:** I hope to be brief. Various combinations of people reach state pension age before and after the move to a single-tier pension, including in relation to whether a survivor reaches that age. The key is that if the contributor reaches the state pension age before the single-tier pension comes in or dies under the state pension age before then, the survivor gets the current inherited additional pension, whereas if the contributor dies under state pension age after the single-tier pension comes in or reaches that age after that point, they will get half the protected payment, as I described earlier. The schedule sets out in more detail exactly how each of those cases will be dealt with.

**Gregg McClymont:** I do not have much to add to that, except that given how the Minister described schedule 3, it just this moment struck me that there is an obvious cliff edge, depending on whether one is under the old system or the new system and what a half-payment amounts to. Am I right in saying that there is a significant cliff edge? I do not use the term pejoratively, but in terms of the transition from one system to another.

**Steve Webb:** Clearly, there is a dividing line before and after. Essentially, in the new system, if you are a married women, instead of getting what I would loosely call a not very good pension—when your husband kicks the bucket, you get half his pension—under single tier, you get a decent pension, but you inherit less and eventually none. It is better that a married woman has a decent pension in her own right from the day she reaches state pension age, rather than have to wait, perhaps 20 years, until her husband dies to get a decent pension. It does matter which side of the line you are, but as a single-tier pensioner, you get a better flat-rate state pension, but not such a generous inheritance—you get half the additional payment—rather than a lower state pension and a bigger percentage of what your late husband got. We think that married women getting a decent pension in their 60s, rather than waiting until that are in their 80s, is the better way. I commend schedule 3 to the Committee.

**Gregg McClymont:** With the Chair’s permission, I would like to pick up on that explanation. Is the shift from the old system to the new cost-neutral? Do the Government estimate that it will save money, as survivors’ benefits move from the old to the new system?

**The Chair:** Before the Minister comes back, I ask Mr McClymont to outline his questions in a speech, rather begin a question and answer session. I assume that that is one of his final questions.

**Steve Webb:** I am grateful, Mrs Main.

It is difficult to disentangle the little bits of the system, because this is a whole system in which people get pensions in their own right. There are many consequential facts, one of which is that they do not get inherited rights. Of course, a wife inheriting less of their late husband’s pension saves money—it has to—but a wife getting a bigger pension when they reach pension age, rather than when their husband dies, costs money, and I am not sure that I can disentangle them. The package has been designed, with all the different bits added together, to be cost-neutral. If we had been more generous with inheritance, or had inheritance at all, there is no doubt that it would have cost more in the long run, but paying people decent pensions at 65, or whatever, instead of 85 costs us more. It is a trade off. Again, I commend schedule 3 to the Committee.

*Question put and agreed to.*

Schedule 3 accordingly agreed to.

### Schedule 4

**Survivor’s pension under section 7: Up-rating**

*Question proposed,* That the schedule be the Fourth schedule to the Bill.
Steve Webb: Schedule 4 sets out the basis on which an inherited amount will be uprated. An inherited amount will be either the equivalent of the current system—an inheritable additional pension, in the circumstances I have described—or half the deceased’s protected payment. It is paid in addition to the pension the person is entitled to in their own right. The uprating will depend on how much single-tier pension someone already has in their own right: if they have £144 or more, the whole will be uprated by prices; if they have less, the balance to £144 will be earnings linked to whatever we do with single tier, and the balance will be subject to the CPI. I hope that is helpful and as expected.

Gregg McClymont: I will not detain the Committee too long. I was delighted to see the Minister resort to his folder for one of the first times today. He went through that explanation a bit quickly for me. Did he refer to some of the differences we discussed earlier on indexing? I took him to say that part of this would be indexed by prices. There is another issue with earnings. He said something latterly about the balance that I did not pick up. Will he elaborate?

Steve Webb: The basic principle is that the £144 is earnings-linked, at least, and the balance is CPIed. I was making the point that if someone has less than £144 in their own right and they inherit something from someone else, the bit that takes them up to the £144 is still earnings linked, because it is under £144; the balance is CPIed. People should bear it in mind that, currently, inherited additional pensions would be entirely CPIed, because that is what we do with additional pensions.

Gregg McClymont: I thank the Minister for that explanation. I have nothing further to add on the schedule.

Schedule 4 accordingly agreed to.

Clause 8

Choice of lump sum or survivor’s pension under section 9 in certain cases

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

Steve Webb: One complexity of the state pension system is that if the person to whom someone is married dies before they have drawn their pension, the surviving spouse can have either a lump sum—the pension that their spouse would have drawn—or a survivor’s pension. Again, this is in the circumstances in which the person died under the present system and the surviving spouse is under the new system.

This clause ensures that a single-tier pensioner can inherit a lump sum or an increment from their late spouse or civil partner if the deceased had deferred their old-scheme state pension. The details of the clause cover the choice of payment and inheritance of a lump-sum payment. Clause 9 provides for inheritance of increments, and schedule 5, which I will move formally, sets out the circumstances that apply and determines the amount payable. I therefore commend clause 8 to the Committee.

Gregg McClymont: I thank the Minister for that explanation of clause 8. Can he clarify the age from which one can derive this benefit? Is there a minimum age that one must reach before one can have the benefit of inheriting what he described?

Steve Webb: I am grateful to the hon. Gentleman for giving way. Clearly, as we said at the start of proceedings on the Bill, people can draw a pension under the terms of the Bill only when they have reached the state pension age under the Bill. They can then inherit a pension in respect of someone to whom they were married who has died, who may be a single-tier pensioner or not. The rules are different, but they have to be in excess of state pension age to draw this payment.

Gregg McClymont: I thank the Minister for that explanation of clause 8. I have nothing further to add.

Question put and agreed to.

Clause 8 accordingly ordered to stand part of the Bill.

Clause 9

Survivor’s pension based on inheritance of deferred old state pension

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

Steve Webb: Again, very briefly, this clause has to do with the circumstances in which the deceased has deferred their old-scheme state pension, but when someone defers a state pension, they can take that money as a lump sum or an increment on their pension. Clause 9 sets out that a single-tier pensioner can inherit the increment from their late spouse or civil partner if the deceased had deferred their old-scheme state pension. Again, it just shows the complexity of the system that we are trying to deal with that people could defer and get increments and defer and get lump sums. People could then inherit the increments and inherit the lump sums. I hope that the Committee is starting to see why we thought that this was a system ripe for simplification.

Gregg McClymont: I again thank the Minister for his explanation. Opposition Members think that clause 9 is eminently sensible. I have nothing further to add.

Question put and agreed to.

Clause 9 accordingly ordered to stand part of the Bill.

Schedule 5 agreed to.

Clause 10

Inheritance of graduated retirement benefit

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

4.30 pm

Steve Webb: Let me take the hon. Member for Edinburgh East back with me down memory lane. She referred earlier in our proceedings to graduated retirement benefit—a system of earnings-related pensions that, from memory, ran from 1961 to 1975. Clause 10 sets out the rules—we have to have them —on which people can inherit graduated retirement benefit. The amounts involved, as I think the hon. Lady said, are relatively small. The clause provides that changes to the primary powers for what is known as Grad in respect of single-tier pension may be made by regulations. Similar arrangements exist for changes
Clause 11 relates to the people who have got something in their own right; clause 12 relates to the married women who paid the married woman's stamp who have got nothing at all. What these clauses and schedules do is essentially to try to replicate what those people would have got. In a sense, it is cleaner, because if they have got nothing at all we just pay them what they would have got—the 60%, or the 100% in due course. If they have got something, we have to mesh together the something that they have got with the extra amount that we will give them, which is why we have done them separately. However, as I think the Committee would consider was proper, what we have basically said is, “If, at your state pension age, you had a live election to pay the married woman’s stamp at any point in the preceding 35 years”—so we have been pretty comprehensive in this, because there is a 35-year rule for the pension and so we thought that 35 years was not arbitrary and was a reasonable period—“you’re in this concessionary basis and essentially you will get the pension you would have got when your husband reached state pension age, because you are on his record as a married woman, and in due course if he predeceases you, you get the basic widow’s pension that you would have got.”

This is one of those trade-offs. This clause adds complexity to the Bill—I entirely accept that—but we just felt that the balance of complexity and fairness for this group of people, for whom there was such an explicit contract between the state and the individual, led us in the direction of complexity. There are not huge numbers of people involved, but we felt that we would be on pretty shaky ground if we tried to rip up that contract right at the end of their working life.

Those are my remarks about clauses 11 and 12, and schedules 6 and 7. Obviously, I am very happy to answer any questions and to hear any responses.

Gregg McClymont: I thank the Minister for that explanation. I was struck by what he said about the 35-year period. The Opposition do not oppose the clauses and welcome the Government’s recognition of the explicit contract between the individual and the state, which is the legacy of a very different social and employment environment. Has the Minister estimated how many individuals will have paid the reduced rate election outside of the 35-year period that the Government have set? Does he think that is a significant issue?

Generally, we welcome the Government’s approach. The Minister is right that it adds a little complexity. Complexity is to be deprecated where it can be avoided, a point that he has made on a number of occasions, but like him we think that, given the circumstances in which the reduced rate election was paid, it makes sense to proceed as the Government suggest. We support the clauses; I simply ask whether there are any issues with taking into account only those people who have made reduced rate election contributions within the previous 35 years.

Steve Webb: We estimate that the number of women reaching state pension age in the single tier who have ever had a reduced rate election is about 80,000; we estimate that the number with a current or lapsed reduced rate election who would get less than in the current system if we did not have these measures is about 16,000. There are about 60,000-odd who once
[Steve Webb] paid a reduced rate election and have not yet retired, but who will get more. The fact that their contributions fall outside the 35-year limit means that they have had another 35 years since the reduced rate election lapsed to do something about their situation; they will also have made contributions during the years before they were married—essentially, there has been plenty of time for them to do something about their pensions.

Question put and agreed to.

Clause 11 accordingly ordered to stand part of the Bill.

Schedule 6 agreed to.

Clause 12 ordered to stand part of the Bill.

Schedule 7 agreed to.

Clause 13

**SHARED STATE PENSION ON DIVORCE ETC.**

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

Steve Webb: I will address clauses 13, 14 and 15 together as they are all on different aspects of pension sharing on divorce, or PSOD, as I gather it is known; I will also address schedules 8, 9, 10 and 11.

When people divorce, they can share occupational pensions, but also their state pensions. That is done by means of instruments that are called a pension credit and a pension debit. I should stress that the pension credit in this case is not pension credit; it is a pension credit of state pension rights. The person who receives the settlement—often the woman—will get a credit on their state pension. The other person—generally the man, although not exclusively—who makes the contribution has a pension debit on their record. Clauses 13 to 15 and the relevant schedules simply explain that those concepts can be applied to the single-tier pension, detailing how the calculation is done in each case. The new arrangements are within the spirit of the current ones: if a deal is done whereby one partner passes some state pension rights, post-divorce, to the other partner, the single-tier calculation has to be adjusted to take account of that settlement.

Gregg McClymont: I thank the Minister for that explanation. The clause is drafted clearly. We talked earlier about how society has changed, with women going out to work much more, and how we want people to have individual pensions in their own right to reflect changing societal and economic norms. The clause is important because we know that divorce, for better or for worse, is a central part of our society. It is also important, because—as the Minister clearly explained—we know that, unhappily, so many divorces take place every year, and we need to get this part of the Bill right. I thank him for his explanation; we do not intend to oppose the clause.

Sheila Gilmore: I would welcome the Minister’s clarification of a small point. My understanding is that the provision applies, at the moment, when people have a state earnings-related pension scheme or a state second pension, and that it does not apply to the basic state pension. In terms of what happens with the single-tier pension, does that mean that more can be shared than was previously shared, and if not, how is that accounted for?

Steve Webb: The hon. Lady is right that we are discussing the sharing of additional state pensions. By analogy with someone’s occupational pension, for example, if there is a divorce and one partner is at home looking after the kids and is not able to build up an occupational pension of their own, it is right that they should be able to get part of the occupational pension of the spouse, and therefore, by analogy, with the additional state pension. Those arguments do not apply in the case of the basic state pension, because someone at home with children would be building up pension rights in their own right. The proposals broadly seek to mirror the existing structure for pension-sharing on divorce but apply it to a single-tier world. I hope that that clarifies the situation.

Clause 13 accordingly ordered to stand part of the Bill.

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

4.42 pm

Adjourned till Thursday 4 July at half-past Eleven o’clock.
Written evidence reported to the House
PB 18 International Consortium of British Pensioners
PB 19 Civil Service Pensioners’ Alliance
PB 20 Association of Consulting Actuaries
PB 21 Bette Baldwin
PB 22 The Convention of Scottish Local Authorities
PB 23 British Pensions in Australia Inc
PB 24 Ray Smith
PB 25 Aubrey Derrick Prance
PB 26 Catherine M Kirby—supplementary
PB 27 Towers Watson
PB 28 UNITE
PB 29 NAPF
PB 30 LGA