Public Bill Committee

PENSIONS BILL

Seventh Sitting

Thursday 4 July 2013

(Morning)

CONTENTS

Schedules 8 and 9 agreed to.
Clause 14 agreed to.
Schedule 10 agreed to.
Clause 15 agreed to.
Schedule 11 agreed to.
Clauses 16 to 19 agreed to.
Clause 20 under consideration when the Committee adjourned till this day at Two o’clock.

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

£5.00
Members who wish to have copies of the Official Report of Proceedings in General Committees sent to them are requested to give notice to that effect at the Vote Office.

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

Monday 8 July 2013

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

© Parliamentary Copyright House of Commons 2013

This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright.
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)
Simpson, David (Upper Bann) (DUP)
† Webb, Steve (Minister of State, Department for Work and Pensions)
† Wheeler, Heather (South Derbyshire) (Con)

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

† attended the Committee
Public Bill Committee

Thursday 4 July 2013
(Morning)

[MARTIN CATON in the Chair]

Pensions Bill

11.30 am

The Chair: I understand that, when clause 13 was debated on Tuesday afternoon, schedules 8 and 9, clause 14, schedule 10, clause 15 and schedule 11 were debated with it, and that the debate on those measures had ended. With the consent of the Committee, I shall put the questions on them together.

Schedules 8 and 9 agreed to.
Clause 14 ordered to stand part of the Bill.
Schedule 10 agreed to.
Clause 15 ordered to stand part of the Bill.
Schedule 11 agreed to.

Clause 16

PENSIONER’S OPTION TO SUSPEND STATE PENSION

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

The Minister of State, Department for Work and Pensions (Steve Webb): Good morning, Mr Caton. It is a pleasure to be back. Clauses 16, 17 and 18 deal with not claiming the state pension at state pension age. I was tempted to put off the discussion, but I think that we ought to get on with it. The current system is complicated. I happen to have with me the 64-page explanatory document that we have published on the topic of deferring the state pension. It is a real rip-snorter. I will not read it all out, but just give the Committee a feel for some of the issues that arise.

Under the current system, there is a choice between drawing the state pension later and receiving a higher pension, or drawing the state pension later and receiving a lump sum. The way in which the deferral increments are worked out means that there is an extra percentage on the pension when it is drawn, while the way in which the lump sum is worked out is different and, bizarrely, relates to the Bank of England base rate. There are times when, if an actuary were making such a decision, the person should choose increments and there are other times, depending on interest rates, when the person should choose the lump sum.

Matters also depend on the person’s tax position. I shall spare the Committee from hearing the full version of the process in respect of the tax treatment of the lump sum, but give a flavour of its complexity. Under the heading, “Tax on your lump sum payments”, the advice states:

“If you choose a lump-sum payment after putting off claiming your State Pension, you will have to pay tax on it, but the amount of tax you may have to pay on your lump sum will be the highest main rate of tax that you pay on your other income. That includes any weekly State Pension you get once you have started to claim it. Special rates of tax that apply to savings and dividends you may get are not counted”.

We have an odd situation. We recognise that people might not want to take their state pension on time but that what to do is a difficult decision to make and that, sometimes, according to what the base rate of the Bank of England happens to be, they should make a different decision.

Clauses 16, 17 and 18 provide for the delay in taking the single-tier pension, but make the process more simple. Under the provisions, when people defer their state pension, they receive a bigger pension when they draw it. We envisage that the rate of deferral will be broadly actuarially fair. At the moment, there is a financial incentive to defer that is equivalent to about 10% on the pension per year of deferral, but we believe that the right figure would be in the order of 5% although a lot depends on changes in longevity and so on.

We have not outlined such figures in the Bill, and we will discuss the regulatory process for making such changes when we reach a later amendment. However, the basic idea is that single tier is all about simplicity, and about people knowing where they stand. All we are doing under the clauses is not replicating the rules on lump sums and, principally, making matters more simple. The popularity of lump sums has been declining in recent years, partly because of low interest rates, as a result of which people receive a lower lump sum that they would have received.

When I first approached the issue of deferring a state pension, I assumed that it was all about people making carefully calculated decisions about extending their working lives, coinciding that with retirement and so on. It turns out to be a lot messier than that. It concerns people who do not claim, people who forget to claim and people who—for as long we are equalising men and women’s pension ages—wait until their partner is of pension age, and they both retire together. It is not fundamentally a simple incentive mechanism to encourage people to work longer. There are all sorts of strange reasons why people defer their pension. They sometimes do so accidentally; they sometimes do it for years.

If people want a lump sum at a later time, they can operate a do-it-yourself version of the lump sum. In other words, people can draw their pension at pension age and just put the money aside in an individual savings account, for example, and draw it when they would have drawn the lump sum. The complexity of the lump sum option does not give citizens a lot, as they can essentially do it for themselves and, particularly given current interest rates, might even get a better return if they invested their money somewhere else rather than at the rate we currently give of base rate plus 2%.

We are not, then, depriving anyone of the chance to build up a lump sum, as they can do that themselves. In addition, the tiny bit of the system we are discussing is massively complex. A streamlined system, in which if someone takes their pension late they get a bit more, and a fair amount more that is unsubsidised, is a cleaner basis on which to proceed.

Clauses 16 and 17 set out the fact that people can suspend their state pension. We will also allow people who have begun to draw their state pension to—I do not like this word—‘de-retire’; they will have the option to say, “On reflection, I do not want my state pension”
and go back into a period of deferral. However, we will not have a lump sum option. Clause 18 deals with a rather obscure feature of the current system, whereby the increments paid for deferred pensions overseas are uprated but the main pension is not; we are taking out that anomaly.

That gives the gist of clauses 16 to 18. I know that the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East wants to discuss the regulatory framework with regard to clause 17; we will come back to that. I hope the Committee will agree that the new system is cleaner, easier and cheaper to administer, and simpler for citizens.

Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): I shall work on the assumption that we are dealing with clause 16 alone. I thank the Minister for the explanation he has given us. He is absolutely right that the current system is very complex. I was struck by his explanation of the different ways in which one can draw a greater state pension by deferring it; I certainly was not aware that if one draws one’s pension later on and gets a lump sum, it is calculated on the basis of the Bank of England base rate plus 2%. One learns something new every day.

The Minister referred to the calculations regarding what someone who defers their pension will be able to get in the future, but he is not putting the figures in the Bill; I will come back to that issue when we discuss clause 17. I was struck by his argument that deferral is not fundamentally an incentive mechanism to make people to work longer, but instead is often the product of a variety of personal and social circumstances. I took his overall argument to be that, on that basis, the complexity of the lump sum option is not necessary, because it does not necessarily act as an incentive to work longer. He also set out his view that individuals can build up a lump sum for themselves via ISAs and other savings vehicles.

The Minister is right to say that the system is complex. One thing he is keen on is that the Bill reduce complexity where possible without creating unintended consequences. I cannot see any unintended consequences of the simplification of the system in clause 16 and have no further observations on the clause.

The Chair: Can I clarify a point, Mr McClymont? You spoke just then only to clause 16. Do you wish to vote separately on clauses 16, 17 and 18?

Gregg McClymont: Indeed.

Steve Webb: I am grateful to the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East for his support. Although I will not speak further to clause 17 stand part, I anticipate that he might wish to speak to his amendment 15; I will be happy to respond to his remarks on that.

Question put and agreed to.

Clause 16 accordingly ordered to stand part of the Bill.

Clause 17

Effect of Pensioner postponing or suspending state pension

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

The Chair: With this it will be convenient to discuss amendment 15, in clause 45, page 23, line 36, after ‘section 3’, insert ‘17(S)’.

Gregg McClymont: We now come not only to clause 17 but to amendment 15, tabled by the Opposition. To pick up on what I was saying a moment ago, we support the Government’s move to end the ability of people to receive a lump sum after deferring their pensions, for the reasons I gave.

However, the Minister mentioned that he would not calculate at this stage the amount that someone would get when they defer their pension under the new system. The Bill gives the Minister the power to set the amount that people will receive as a result of deferral. It is a wide-ranging power that has significant implications for deferred pensions. Put simply, the ordinary person will be interested in how much they will get if they defer, and that is the crux of the matter. Clear guidelines need to be issued by the DWP to offer security and confidence to those who are considering deferring their entitlements. The Minister mentioned what he thought the calculation would be. Will he return to that point so that I can scribble it down? He speaks too fast for my handwriting. If he gives me another chance, I will get it down on paper.

There is a broader dimension to the Bill, which clauses 16, 17 and 18, but specifically 17, illuminate, which is that, as often happens, the actual nitty-gritty, which is not in the Bill, will be done under regulations. The calculation of how much one can get is important if people are considering whether to defer, so we are asking that, under clause 45, the Minister will return to the House to address the issue when he sets the rate that will apply to those who defer. The calculation will determine the value of a deferral to an individual who is thinking about deferring or choosing to defer, so it is important that the Minister or Secretary of State come to the House to account for the decision on what will be the amount received as a result of deferral.

I am not sure whether the proposal is controversial. As we discussed on Tuesday, the job of the legislature is to scrutinise the Government’s decisions. Although we support the move to end the possibility of a lump sum and the new system for deferral, we need to know how much someone will get from deferring. When they have finished that calculation, the Government need to explain to the House what the rate applicable will be. I look forward to the Minister giving me the chance to scribble down what he thinks the calculation will be.

Sheila Gilmore (Edinburgh East) (Lab): The ability to get a larger pension through deferral is in some ways a counterpart of the relaxation of fixed retirement ages; it acknowledges that in many ways we are seeing a very different sort of life pattern. We often discuss this in terms of increased longevity and the burdens that that places on us in society. The other aspect is that there are many people who have not only increased longevity, but increased healthiness, and they are able to and desire to continue working. There are many different groups of people, but one of those groups wants to continue in employment, full time or part time, past what we traditionally regarded as the fixed retirement age. The ability to defer the pension is obviously an attraction.
There seems to be a general acceptance that the current formula is very generous and makes deferral particularly attractive, but we would not want to see that jump to the other end of the scale and be in a position where all of a sudden a very poor option is made available. It is about knowing what that is and having an opportunity to debate that so that we can get the balance right. That is not necessarily about providing an over-generous settlement, but equally we should not want to create a situation where those who come to the point of making a decision decide that deferral is not worth it for them and that they should not bother when, in fact, by deferring their retirement they would continue to contribute not just through their skills, but through tax payments to the Treasury as they draw earnings.

Steve Webb: I am grateful to the hon. Members for Cumbernauld, Kilsyth and Kirkintilloch East and for Edinburgh East for raising this point. It is entirely legitimate to debate the form of parliamentary scrutiny that different aspects of the single-tier pension should have. Where we feel that there is a substantive central element of the single-tier proposition, and the start rate seems to us to be substantively central, we have proposed that that is covered by affirmative regulations.

Where decisions are less on policy and more on the actual numbers, which will depend on data on the latest estimates of life expectancy, we think that provided we have been clear about the policy—we have set that out now for the Committee and it can scrutinise that and decide whether it agrees—the nuts and bolts of that number is a second-order issue. I entirely take the hon. Gentleman’s point that that matters to people; it is about how much pension they will get. It is, however, worth keeping this in context: fewer than one in 10 of the people who draw a state pension get any increments; the vast majority of people draw their state pension on time.

In terms of the division between affirmative and negative resolutions, we are making clear that our policy is that the rate of increment that people get for delaying their pension should be actuarially fair; that is the principle. To give an illustrative figure, we propose that for every 10 weeks a person defers taking their pension, they get an extra 1% on their pension. Earlier, I rounded that up crudely to state it as about 5% a year, as opposed to the current figure, which is about 10% a year. We are therefore halving the advantage given for deferral.

On the link between deferral and longer working lives, it is worth saying that the state pension is no longer a retirement pension and it has not been for more than a decade. People do not have to retire to draw their state pensions, so people can—and do—carry on working past the state pension age while drawing their state pension and we do not mind that; we are very happy about that. Recent figures show that more than 1 million over-65s are now working and many of them will be working and drawing a state pension.

Again, on the idea that deferral is about longer working lives and encouraging people to work longer, I would say that it is much more messy and complicated than that. There is no problem or inconsistency if people want to work and have a pension; indeed, having a pension and working enables people to stage their retirement so that they can work part time while drawing their state pension and gradually phase into retirement.

I entirely agree that the House wants to know the policy, and I set it out. However, in the spirit of the amendment proposed, I want to make a further offer: we will be happy to publish the advice on which we set the number. We will ask the Government Actuary for advice on the level of increment that would provide a fair return, which is our policy, and we will publish that. Just as, for example, the Government Actuary currently advises us on the level of the contracted-out rebate, we publish that advice whether or not we accept it, so there is plenty of precedent for that model. We are transparent about the advice we receive and, if we come up with a different number, we have to explain why.

We are happy to put it on the record that we will do that. We will ask the Government Actuary at the relevant time how much the increment should be if we want to be actuarially neutral. Our policy is to set the regulations on that basis. We do not want then to have a nugatory debate in Committee—"The law says it’s the affirmative procedure, so we have to"—when all we have done is ask the question we have said we have asked, got the answer the experts have given us and done what we said we would. We do not want us to have to gather in Committee to go through all that.

Of course, even if we do not do what I have just described, the fact that something is subject to a negative resolution does not prevent us from having a debate in Committee about it. Hon. Members can pray against it, we can have a debate on it and obviously the House can express a view, but whether the procedure is affirmative or negative, the regulation is unamendable, so it is not as if one way allows it to be changed and the other does not. If the Committee does not agree with the policy, now is the time to say so. We have set out what the policy is. What follows, assuming the Committee agrees the policy, is the technical stuff—the actuaries coming up with the number and us acting in line with that.

Gregg McClymont: I apologise for stopping the Minister in full flow. I thank him for the offer to publish the advice on that basis, which is to be welcomed. I was struck by his suggestion, on the point about what the payment would be, that this policy would halve the advantage given by deferral. Can he say a little more about what the logic of that decision is? We know that, in a cost-neutral Bill, there will be places where money is laid out and places where money is recouped. Is this one of the areas where money is being recouped, or is there another justification for it?

Steve Webb: There are two justifications. One is certainly financial. The measure does save us money. If we did not do what I have described, in 2020 the scheme would
cost another £200 million a year and in 2030 another £300 million a year—significant sums. However, the justification is also conceptual. We do not have much evidence that spending money on incentivising people to defer their state pension and take increments really does anything. The hon. Gentleman was generous enough to admit that he did not know about the lump-sum option. Many people do not. We do not think that there are lots of people outside the House sitting down to read the whole of our 64-page booklet, although clearly there are some.

**Gregg McClymont:** I just want to clarify what the Minister has said. I can exclusively reveal that I was aware of the lump-sum option; I just was not aware of the method by which the lump sum was calculated.

**Steve Webb:** I apologise: I traduced the hon. Gentleman grossly unfairly.

Significant sums of money are involved. What are we spending £200 million or £300 million of taxpayers’ money on? It looks, on the face of it, like an inducement to deferring pension. Has that led to many people working much longer? There is not really any clear-cut evidence of that. We cannot just throw a few hundred million pounds around here or there without pretty strong evidence that it is doing something, and we do not think that it is doing a great deal. For individuals, it might be, but there is no strong conclusive evidence that it is at an aggregate level. That is money that we could put into bits of the system where I think we would all agree we really want it.

**Sheila Gilmore:** On the effectiveness or, indeed, the purpose of the scheme, I wonder whether the Minister has any views on the fact that the arrangements have not been in operation for a terribly long time and therefore might not be very well known, and whether there has been any significant change in take-up following the removal of the fixed retirement date.

**Steve Webb:** I am not sure that I understood the final part of the hon. Lady's question, but one of our dilemmas with regard to deferral is that we cannot tell that someone has done it actively. All we observe is that they are not receiving a state pension. We do not know at that point whether they are going to receive a lump sum or choose increments. When people have started drawing it, they can—“de-retire” is the wrong word, because they do not have to be retired, but hon. Members will know what I mean: they can go back to not having it.

The issue is trying to get a grasp on what people are actually doing. We have done a certain amount of research on this and, because of the system’s complexity, it is very hard. If someone is five years away from pension age, they can know what the law says the increments will be, but they cannot know what the lump sums will be, because they do not know what the Bank of England base rate will be in five years’ time, so it is just not money well spent in incentivising longer working lives. It is pretty clear that if we have £300 million to spend, we could do an awful lot more with it—for example, working with sectors of the economy where people drop out at 53, say. We could do an awful lot more in a much more targeted way than this policy.

**Gregg McClymont:** Will the Minister fill in some of the history of the desire to encourage people to defer, and explain how the current policy proceeds from that and marks a break with it? It might be useful for the Committee to have a sense of where that came from and why the change is necessary now.

**Steve Webb:** We are in a slightly odd transitional period. Although increments have been in place since the 1970s, the lump sum was an innovation in 2005. I think it was the Pensions Act 1995 that proposed that the rate of increment be enhanced—that was partly to do with the equalisation of state pension ages under that Act in 2010—and then I think it was the 2005 legislation that brought forward to 2007 the 2010 proposed changes to increments. There has been a lot of fiddling with all of this.

There has been a belief that surely if we give people bigger pensions for delaying them it must do something, but it is hard to see any clear-cut evidence for that in the data. The policy has evolved, with the best of intentions. I do not criticise that—I might even have been quite complimentary about it at the time—but having looked at the evidence, I have been surprised that deferral is not the calm, rational, carefully worked-out thing that makes people work longer.

**Gregg McClymont:** I am struck that the Minister says honestly what his own position might have been at the time. I can assure him that we have no evidence to that effect; we have not been digging down on it.

I am struck by a point that will be pertinent to some of the discussions we have next week. The Minister had assumed a rational approach by individuals but, when the evidence is looked at, it turns out that people do not respond to those signals. I have always taken the view that his time at the Institute for Fiscal Studies made him too much of a believer in rationality, so it is interesting to hear him confess that perhaps irrationality does not always proceed in the way one might hope or expect.

**Steve Webb:** I have long given up on rationality. I am sure the hon. Gentleman is right. Therefore, we need a system that is simple for people and which acts as one would expect—that if one puts off the pension, one gets a bigger pension in a fair way. That is what we are proposing. I could share the fine detail that I have just remembered from the 2002 Green Paper, “Simplicity, security and choice”, Command Paper 5677, which had a 100-page covering leaflet explaining all the options. That makes me think that, on balance, we are going in the right direction now.

I hope I have reassured the Committee that we are being absolutely transparent about the policy we propose. It is an actuarially neutral increment rate. We are being transparent about the advice we receive; it will be published. We will base regulations on that policy. If the House thinks we have failed to do that, it will have the opportunity to pray against the negative resolution. On that basis, and at the risk of a nugatory affirmative debate, I encourage the hon. Member for Cumbernauld, Kirkintilloch East not to press his amendment.

**Mark Reckless** (Rochester and Strood) (Con): I thank the Minister for his explanation. His overall point that
the policy should be actuarially fair, and the evidence he has produced for that, means that there is no need for a positive resolution statutory instrument, but the debate has drawn out some important issues. I am a little sceptical about some of his numbers. It is not that I am sceptical about him or his analysis; I simply emphasise the uncertainty around the issue.

The number of people working past traditional retirement ages—perhaps an extra 1 million people—makes the uncertainty great. There is also the change in the pension requirements whereby employers cannot make people retire. Because of the way that changed, and because of the cut-off date, I fear that a significant number of people were forced into retirement prior to that date who would have preferred not to retire—the employer knew they would not be able to carry on afterwards—and that reduced the number of people temporarily who might have carried on working later and increased the chance of deferral.

12 noon

After that, some people were able to carry on working. At the same time, there were significant pressures—the collapse in annuity rates because of the more general problems in the economy—on older people to keep on working. I think, therefore, that there are strong pressures pushing many more people into working longer. With that, there is at least a stronger rational argument for many of those people to defer their pensions, particularly given the generosity of the existing scheme. It is important to emphasise the availability of that generosity in relation to people of a certain generation retiring before April 2016. I asked the Minister on Second Reading about people whose retirement date was before April 2016 but who had triggered a deferral, and whether they could carry on deferring at the more generous rate post-April 2016. I recall that he answered, “Yes, they could”, but for some extraordinary reason it does not appear to have been picked up by Hansard, so if he could confirm that for my constituents again now, I would be grateful.

On the Minister’s numbers, he mentioned an extra £200 million by 2020, over a seven-year period from now, but an extra £300 million by 2030. Did he mean an extra £300 million in addition to the £200 million? If not, I do not understand why the amount by which that sum was rising would only be £10 million per year during the decade of the 2020s, given the £30 million or so per year in the earlier period.

The option is not particularly well known, and a lot of people might not have made rational decisions about it, but I wonder whether in a world where more people are working longer, it might become something that people are better advised and informed on and whether, particularly in the three years to April 2016, we might see significantly more people taking that option, not least because they could entrench the right to continue deferring past April 2016.

The situation will therefore be actuarially fair afterwards, but even that raises questions, because I am assuming that the deferral rate will be common for men and women, which suggests that—at least on the way such things are used to be done—it will be actuarially generous for women and stingy for men. Are we required to do this on the basis of the European Court of Justice ruling, or does it apply only to private sectors? Is the Minister choosing to do it that way for the state pension, or does EU law now require it? Will he and the Treasury look more closely at the sums involved and emphasise trying to understand how the sums could build up over the next few years? I wonder whether the sums’ incentive could be significantly greater than might have been assumed. I entirely recognise, however, the difficulty of the environment for modelling likely take-up, given the large things happening to the economy and the ability to carry on working past retirement age.

Steve Webb: I am grateful to my hon. Friend for his forensic questioning, and I hope to offer him some reassurance. To assure him and the Committee, we anticipate publishing the number around the time the Bill receives Royal Assent. In other words, all being well, by around Easter 2014 the number will be out there, so people will know it two years ahead of things happening—there will not be any uncertainty. The question raised by the amendment is whether, having published the number, we would have to debate it or whether we would have to do so only if someone asked for a debate. That is what the amendment does. I can assure him, however, that people will know two years ahead of the date what the number is, which will enable them to plan.

On the specific question about my hon. Friend’s constituents and people whose state pension age will arrive before the implementation of the single tier, any deferral will be on current terms for as long as they defer. Even if they deferred past 2016, they would remain in the current system. In a sense, there is no rushing to defer: someone either is or is not a single-tier pensioner—if someone is a single-tier pensioner, they get the new accrual rate; if they are not, they get the old one. That will apply whatever happens.

On the costings, we must bear it in mind that the £200 million and the £300 million are heavily rounded numbers, so we cannot divide by four, 10 or whatever and infer an annual figure. We are simply saying that this is clearly a significant amount of money. The £200 million would be the extra cost of the scheme by 2020 if we kept the old increments going, and £300 million would be the extra cost by 2030 if we kept the old increments going—it is not another £300 million, but a total of £300 million.

The point I was trying to make is that those sums are significant and, as my hon. Friend says, they could get bigger. That is even more of a reason to set a fair, neutral rate, rather than an incentivised rate, because there is a lot of dead weight—a lot of people will defer because they were going to defer anyway, and we would just give them some cash. If we want to spend public money to enable people to work longer, my strong view is that keeping people in the labour market in their early 50s who might drop out because of ill health and a bad back is money vastly better spent than spending it on giving people slightly bigger increments because they draw a pension at 67 and not 66. That feels to me like the right balance of spending.

My hon. Friend is right that we would set the same rate for men and women. Although I am not a lawyer, I am about to become one: under European Union law, any rate would have to be the same. Domestic regulation in the UK would have to be the same as outside the UK, and it would therefore have to be gender neutral, as he expected. I hope I have answered his queries.
Mark Reckless: The Minister referred to the £200 million extra; I am still unclear whether that is extra compared to now, or whether some of that £200 million has already accrued from people taking their increments. I would also like to emphasise that of course, people are not paying national insurance after the state requirement age, so that is also a significant incentive for them to stay in the workforce.

We have discussed the 51 to 53 group, and the Minister has come up with various scenarios in which they benefit, compared with where they lose out. We should also emphasise that the current opportunity to retire and have the increments at such a generous rate is available to them but will not be available to people retiring after the single tier.

Steve Webb: On the costing, the question I asked was: “If we were to continue with the current system of increments—that is 10% for a year rather than 5% for a year—how much extra would we have to spend?” That is where the £200 million figure comes from. For people who have already deferred, we are talking about those who defer under the single-tier system. Anybody who has already deferred is baked into the baseline, as it were.

Clearly, our guesses are based on current behaviour. One could think that reducing the deferral rate might discourage people from working longer, but as my hon. Friend says, there are plenty of pressures that will lead to more people working longer. Inevitably, we have made an estimate. The fact that the number has eight zeros on the end makes it big, in my book: it is £200 million. I am absolutely not convinced by the slightly random and haphazard way in which we currently spend the money, compared with spending it outside the system or with what we are doing, which is recycling it within the system so that it enables us to pay £144, and not £143 and something or other pence. It just seems to be a better trade-off.

I hope I have been able to reassure my hon. Friend, and I encourage the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East not to press amendment 15 when the time comes.

Gregg McClymont: I was interested in the dialogue between the Minister and the hon. Member for Rochester and Strood, who raised some significant questions. I was struck that, in the final part of the dialogue about the savings going forward, the Minister talked about the Government’s guesses being based on current behaviour. He also said that the Government anticipate publishing the parameters within which the deferral numbers will be set in 2014. I thank him for moving a little further by offering to publish the Department’s advice on how the numbers will be calculated.

I have a general view, which covers other parts of the Bill but applies specifically to this issue. The Minister will know from what I said a moment ago that I am very sympathetic to the argument that the incentive system appears to work with the grain of people’s rational behaviour, but, when one looks at the data, it is not clear that it is communicated effectively—it is not clear that enough people know about it and that it therefore works in the way the previous Government intended.

However, as the issue has been discussed further, the numbers involved have become a little muddier. We know that, in a cost-neutral Bill, as the Minister clearly and honestly stated, there will be areas that involve significant savings, as well as other parts of the pensions landscape where there is greater spend. In that circumstance, and given my general view that scrutiny is better than a lack of it, we will press the amendment to a vote under clause 45, asking that the Minister or the Secretary of State return to the House to deal with the issue when setting the rate applicable to those who defer.

The Chair: As I am sure you know, Mr McClymont, you will have the opportunity to choose whether to press or withdraw the amendment when we come to the clause to which it pertains.

Question put and agreed to.

Clause 17 accordingly ordered to stand part of the Bill.

Clause 18 ordered to stand part of the Bill.

Clause 19

PRISONERS

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

Steve Webb: There is a clue in the clause’s title. We have to decide, because we are creating this thing called the state pension, who can get it and who cannot, and the clause makes rules for prisoners. The Committee will perhaps not be surprised to learn that we are maintaining the existing rules for prisoners: single-tier pension payments are not applicable for the period during which people are prisoners. I do not think that will be a great surprise, and I commend the clause to the Committee.

Gregg McClymont: I do not have much to add to the Minister’s brief comments; I suspect the clause will have widespread support in the Committee and outside it.

Question put and agreed to.

Clause 19 accordingly ordered to stand part of the Bill.

Clause 20

OVERSEAS RESIDENTS

Gregg McClymont: I beg to move amendment 6, page 10, line 12, at end add—

‘(5) A review of overseas residents’ uprating entitlement shall be conducted on a cross-departmental basis within six months of Royal Assent to this Act. It shall consider in particular whether the savings attributable to non-entitlement could be more effectively made in other areas of health and social care, and whether there are potential economic benefits to uprating the pensions entitlements of overseas residents in line with UK-resident pensioner’s entitlements. The review shall report to the Secretary of State for Work and Pensions, and a copy of the report shall be laid before Parliament.’

The issue is the uprating of pension benefits across the world for UK pensioners. One anticipates that the Minister’s initial response to the amendment will be along the lines of, “Not another review!”

Steve Webb: The hon. Gentleman has seen my notes.
Gregg McClymont: We are not going to say anything about that. The issue is interesting for a couple of reasons. There is clearly a lack of uniformity in the uprating of the pensions of UK pensioners who move abroad. In many countries there is a reciprocal agreement, so that such pensions are uprated in line with changes in uprating made by the UK Government. In other countries, however—Australia and Canada being among the most prominent—there is no such agreement and pensioners who move abroad effectively have their UK state pension frozen. They go abroad and stay abroad, and it is never uprated.

We all know how important pensions uprating is generally. We spend a lot of time talking about it, and it is critical to ensuring that pensions maintain their buying power. I will not go too far into the triple lock, which the Minister commented on the other week, very honestly, in the Financial Times. Of course, that was about indexing and uprating, too.

When one first considers this issue, it seems rather odd. If a British pensioner moves to the USA, their pension is uprated, but if they move to Canada, it is not.

12.15 pm

Oliver Colville (Plymouth, Sutton and Devonport) (Con): Does the hon. Gentleman recognise that, although uprating pensions is one issue, this is also about the exchange rate, inflation in the country the person has gone to and other things, and that their pension is merely part of meeting the cost of day-to-day life?

Gregg McClymont: I agree absolutely with the hon. Gentleman. To develop his argument further, one would need to compare those factors in a country such as Canada with those in a country such as the US to see whether they neutralised the impact of an individual’s UK pension not being uprated. In general terms, however, he is entirely correct. One’s standard of living in retirement depends on factors other than uprating. The Opposition are not hostile to the Government’s position of continuing not to uprate pensions in countries where they are not currently uprated. The Minister has spoken about indexing and uprating, too.

Richard Graham: Is the hon. Gentleman aware that page 15 of the explanatory notes spells out:

“Regulations under this clause will be made taking into account provision under relevant treaties, such as those in respect of the European Union, and bi-lateral treaties providing for reciprocity…and which cover up-rating”?

Does that influence his approach to the clause?

Gregg McClymont: I reassure the hon. Gentleman that I am aware of that. We are talking, however, about countries where there is no reciprocal agreement, rather than about those where there is. We can all unite in welcoming the fact that pensions in countries where there is a reciprocal agreement will be uprated in line with whatever is decided in the House.

Richard Graham: I suppose the key question, therefore, is whether the Opposition really believe that providing automatic uprating in countries that are not covered is the best use of taxpayers’ money. Subject to confirmation from the Minister about the exact sums involved, will the hon. Gentleman confirm that his party would provide those funds by cutting different areas of Government expenditure, and if so, which areas?

Gregg McClymont: I note that the hon. Gentleman has moved rapidly into his common register of: “What would you do?” As I had just started to say, we are not hostile to the Government’s position of not uprating overseas residents’ pension entitlement in countries where there are no reciprocal agreements, because the cost is important. As I develop my argument, I hope he will see that we want to reach a definitive judgment on the costs and benefits of such uprating rather than calling on the Government to undertake to do so. We are absolutely not doing the latter.

There is significant media interest in the matter, which hon. Members on both sides might have encountered. I have been clear that no such commitment can be made if the cost is as significant as the Government say it is. I suspect that hon. Members agree that the situation looks odd at first glance and might repay closer analysis. The Minister might say that such analysis has been undertaken, and I would be pleased to hear from him what sort of analysis the Government have done.

Richard Graham: I suppose one of the issues at stake here—the hon. Gentleman is right to raise this—is that the anomalies for people who retire, and then go and live abroad and find that their pensions are paid at different rates, are considerable, even in countries with similar structures, climates or whatever. Therefore, there is a potential issue about how aware pensioners are of the difference it will make to their pension if they go and live in another country. Does he think there would be any way of tackling that issue of information?

Gregg McClymont: The hon. Gentleman makes a very good point, and we have spoken already in this Committee about how individuals and families perceive their circumstances. Everything is relative. People’s notions of fairness and unfairness are based both on their perceptions and on the reality of how those around them, on their street and in their community, are being treated.

I shall give an example. If a pensioner moves to Canada, they are not uprated; if they move to America, they are. The hon. Gentleman’s point about information is an important one. Communication is always important. To be fair, I referred a moment ago to the significant press coverage of this in the last year or so. That is testament to the efforts of the International Consortium of British Pensioners, which is pushing that aspect of the issue. However, if the situation is not going to change, given that these anomalies have grown up over 50 years or more, there might be a case for the Government doing their best—if they are not already doing so—to get that information about the differences out there.

Oliver Colville: Will my hon. Friend give way?

Gregg McClymont: Of course.
Oliver Colvile: I am concerned about the issue of winter fuel payments. As we know, for people living in the United Kingdom the payments are subject to weather conditions here. What does the hon. Gentleman feel about the issue of winter fuel payments for people living abroad? If they lived somewhere such as Australia, which is nice and warm, those payments would not be made, but if they lived in Canada or, for that matter, America, which saw some very cold weather this year, how would that be sorted out? Does he have an idea?

Gregg McClymont: I am delighted to see that so powerful is the spirit of co-operation in this Committee that the hon. Gentleman referred to me as his hon. Friend. I am very pleased at that. [HON. MEMBERS: “We’re all friends here.”] I do not say that in any spirit of satire—I mean it sincerely. On the winter fuel allowance, it is hard to know where we have got to. I read in the newspapers that one part of the Government was very keen to have the winter fuel allowance only go to UK-resident pensioners, and then we heard that that was not possible. Again, I am going by the newspapers rather than anything I could take as being a matter of record.

Steve Webb: A normally reliable source was the Chancellor at the Dispatch Box, when he said in the spending review that, in future, we would not be paying winter fuel payments to countries hotter than the warmest region of the United Kingdom.

Gregg McClymont: Given our climate, that will not be very many countries, but I thank the Minister for that clarification, while probably not agreeing that the Chancellor is the best source of factual information. That would take us into a whole other debate, Mr Caton. [Interruption.] Again, my hearing is terrible. The hon. Member for Gloucester was suggesting something from a sedentary position that I could not pick up. I am happy to let him intervene, if he wishes.

Richard Graham: That is a very kind invitation and not one I could possibly refuse. Returning to the Pensions Bill, which is the subject under discussion this morning, I suppose that the question of information to pensioners is one side of the equation, but the other side, which is much more difficult, is whether this Government—indeed any Government—would ever contemplate trying to rationalise some of the agreements, or lack of agreements, we have with other countries, so that the system was slightly more explainable. Does the hon. Gentleman have any thoughts on that issue? Perhaps he could remind us what the last Labour Government did in that respect.

Gregg McClymont: I must say that is the first time I have seen an hon. Member pour a glass of water during an intervention. It showed a certain élan and style. I thought we were in for a longer intervention; indeed, I thought the hon. Gentleman was hunkering down for the long haul.

The hon. Gentleman raises the issue of rationalising these agreements. I am not quite sure what that would entail. Does he mean rationalising existing agreements? I assume that we cannot rationalise an agreement that does not exist, so it would have to be a rationalisation of existing agreements. I cannot imagine that the Government would be keen to do that, but the Minister might have more information than I do on that issue.

As the hon. Gentleman has argued previously, however—and argues again now—the current situation certainly strikes one as quite odd. He made a point about the previous Government. These anomalies existed under the previous Government; there is no doubt about that. I was not in Parliament before 2010, much to my disappointment, but certainly many of these reciprocal agreements are long-standing, as is the lack of reciprocity in some cases. It is legitimate to put that on the record.

I will return to trying to construct the argument for the amendment. The Opposition are not saying that the Government’s attitude is wrong on the uprating of overseas residents’ pension entitlement. To take up the hon. Gentleman’s point, the amendment asks for a cross-departmental study—I know that is asking for trouble in the first instance—on the implications of this policy for pensioners deciding to live abroad. However, this is not just about the side of the equation that says it will cost the Exchequer money to uprate the pensions of those who do not live in countries with reciprocal agreements. Is there also a benefit from encouraging pensioners who wish to live abroad and who then are not such a burden on state services or public services?

Steve Webb: Is the hon. Gentleman content with the language of our pensioners being “a burden” on the nation?

Gregg McClymont: I do not think it is unfair, and I am surprised by the Minister. What I said was “a burden on state services”. We know that there is talk in all parties in the House about the need to ensure that public services are affordable. We need to think about the best way to use our public services, and it does not seem unfair to propose a cross-departmental study that would carry out a cost-benefit analysis of uprating these pensions on a reciprocal basis.

Mark Reckless: Because of this “burden” on the public services that the hon. Gentleman refers to, with the study that he is proposing is he potentially looking to encourage pensioners to move abroad to countries that would be more attractive if he were to ensure the uprating there? Is that his objective?

Gregg McClymont: That is not my objective or intention. However, the Minister will be aware—and I suspect that other Members will also know from representations they have received—that the ICBP is keen, as I understand it, for the Government to carry out a cross-departmental study of the overall costs and benefits of UK pensioners living abroad. Its view is that the Government focus very much—perhaps understandably—from the Government’s point of view—on the cost of the uprating, without conducting any analysis of the fact that these pensioners are no longer drawing on UK services, and I take into account the Minister’s point about being a “burden” or otherwise. That is a question that is at least worth considering.
There is that sense that if a pensioner is in America they are uprated and if they are in Canada they are not, but this is not just about America and Canada. To put some numbers into this debate, about 565,000 pensioners living in 120 countries, including Australia, New Zealand and Canada, have their UK pensions frozen at the rate prevailing when they left the UK, despite their having paid years of national insurance contributions. That is a significant number of pensioners. It means, for example, that someone who started drawing a UK state pension while in Australia in 1983 would today still receive £34 a week, which is about £60 less than the current rate. I think we can all agree that that is a significant difference.

The Minister might be able to provide more information, but my understanding from what I read in the paper—I am not suggesting that it is a matter of record necessarily—is that the Australian Government are pushing quite hard on the issue. I imagine that it brings its own potential problems for Australia if pensioners receive so little from their state pension in their country of origin. As I said, if someone started drawing it in Australia in 1983, they would still be receiving £34 a week as opposed to around £95 a week if it had been uprated. That is a pretty significant difference, even before thinking about inflation and other issues that the hon. Member for Gloucester, if one moved abroad to other countries one cannot. To take the point made by the hon. Gentleman, if one moves to some countries it strikes one as odd that one can move to some countries and have an uprated UK pension, but that in other countries one cannot. To take the point made by the hon. Member for Gloucester, if one moved abroad unaware of that disparity in uprating arrangements, one could imagine it being a bit of a shock to find that one's pension was not uprated.

Richard Graham: On that very point, does the hon. Gentleman agree that it would be worth while for the Department for Work and Pensions to consider including in some communication about the details of a forthcoming pension when an individual is about to retire, a line saying, “Should you decide to go and live overseas, you should be aware that this may have an impact on your pension. Please see the website for further details”? The relevant website address could then be given.

Gregg McClymont: That is a sensible, even ingenious suggestion for getting the information out. It seems eminently sensible and something that the Government might want to consider. There may be some obstacles to that that I am not aware of, and the Minister might want to comment on that, but to me that seems to be an ingenious suggestion.

The Minister, in one of his earlier contributions, referred to how his view had changed on the lump sum for deferral. The International Consortium of British Pensioners thinks that he changed his mind on frozen pensions. It says that back in the footnote and fancy-free days of opposition he was a supporter of uprating frozen pensions and it provided me with information to that effect. To change one's mind is not a crime, but if he once had a different view, that is probably because it is one of those issues that seems like it might demand attention when one looks at it outside the context of decisions on Government finances. Perhaps he will have more to say on that.

In fully assessing the impact of overseas pensioners on the public finances, consideration should be given to the benefit that the UK economy gets from the expatriate pensioners who reside outside the EU. The Minister cautioned against the use of the word “burden”, but, whatever word one uses, we are aware that we are in an ageing society and there is pressure on our public services. The International Consortium of British Pensioners would welcome a proper cost-benefit analysis on that. This issue will not go away. There was pressure on the Backbench Business Committee to schedule a debate. Although I do not think that that happened, the issue certainly appears in the press and I have seen evidence of Government Back-Bench Members who take this seriously.

Mark Reckless: I am surprised and not sure whether the hon. Gentleman is wise to adopt the position of the International Consortium of British Pensioners as the Opposition’s own in the debate. In the study that he calls for, does he also want to look at the reciprocal costs of overseas pensioners moving here and possibly placing a “burden”—to use his word—on public services?

Gregg McClymont: I thank the hon. Member for Rochester and Strood for that intervention.

Steve Webb: The hon. Gentleman is showing off that he can pronounce that.

Gregg McClymont: Yes. When one has a constituency with a name as long and difficult for hon. Members to pronounce as mine, I feel it is only right that I do my best to get the pronunciation of ‘hon. Members’ constituencies right.

To take up the hon. Gentleman’s point, he suggested that the Opposition are adopting the position of the International Consortium of British Pensioners. We are not. This comes back to the point about the Opposition’s job being to probe legislation: I am trying to point out
that that consortium takes a view on an issue that affects it. It has done a reasonable job in recent times of bringing this issue to the public’s attention and it is not unreasonable to put its view on the table and ask the Government to respond to that.

Even as uprating pensions went up the political agenda, I have been clear that the case for that in countries where there is no reciprocal agreement has not been made. I am not criticising the Government on that, but asking whether there is a case for a cross-departmental study that will, once and for all, assess the overall cost to the public purse, given that it strikes me as “odd”—I use that word carefully—that in some countries pensions are uprated and in others they are not. It is in that spirit that we propose the amendment. The campaign that has been run by the International Consortium of British Pensioners has some traction, so it does not seem unfair to ask the Minister his current view on the matter. He produced a number last year, and given his number-crunching background, I am sure that it is based on solid evidence. I invite him to say a little more about that if he wishes.

Sheila Gilmore: I think all of us, even before the introduction of the Bill, have encountered the considerable campaign being run by people who feel aggrieved because they have not benefited from uprating over a fairly lengthy period. It is easy to say, “They chose to go abroad, so on their own heads be it,” but the e-mails and letters that I have received have given me a sense that people feel particularly aggrieved about the anomalies in the system. If the rules were the same for everybody who drew their pensions abroad, I am sure that people would still feel sometimes that things were difficult but they would not perceive any unfairness between different groups.

Obviously, the issue is an historical one, and it is the result of reciprocal agreements made by previous Governments. I understand that it is a long time since any such agreements were entered into. Will the Minister explain why that is? Some of the countries with which agreements have been made come as quite a surprise, and there does not seem to be any pattern to them. I suspect that it depends on where the other countries are coming from. I imagine that some of the pensioners who are affected retired to what they probably saw as sister countries, or countries from the Commonwealth family, assuming that they would benefit from uprating, whereas in fact those who retired to other countries such as the United States are the ones who get the advantage of uprating.

Not all of those living in Britain who have made their contributions and retired will necessarily be paying tax, although some certainly will, while those who are overseas generally will not be. The payment of tax in this country is not necessarily a criterion that determines whether an individual’s pension is uprated. Whether it is uprated or not, or the extent to which it is uprated, depends on policy in this country.

My hon. Friend on the Front Bench was treated to a degree of lecturing from the Minister about the perils of responding to lobbying groups and outside agencies and giving them the impression of being supportive. The Minister must agree that others have been prone to that in the past. Indeed, I understand—he may correct me if I am wrong—that he took a rather different view when he was in opposition, during which time he was quite supportive towards the lobbying groups, which may have made them anticipate even more strongly a potential breakthrough in their campaign. I understand that the Minister told some of the campaigners:

“I agree that pensioners who earned their pensions by paying national insurance contributions have a strong case for the value of that pension being maintained in line with inflation, and I am actively seeking such a change. As you may be aware, there is currently a Pension Bill”—this is in 2004—“passing through Parliament. I will take this opportunity to table an amendment, seeking to uprate the ‘frozen pensions’ of expatriates.”

12.45 pm

If that was the Minister’s view then, he has clearly changed his mind. The experience of office—of being in the Administration—can certainly lead one to realise that these things are not as simple as one thought. I make that point—the Minister himself mentioned the positions previously taken by the Opposition—to show that this is a trap into which one can fall.

Latterly, some people have tried to argue that their lack of residence and, therefore, their lack of a claim to services that they might otherwise be claiming should be taken into account and offset against the cost of increasing their pensions. Without figures, it is difficult to judge whether there is something to that argument. I have certainly received e-mails from individuals saying, “If we all came back, there would be additional costs. You should take that into account.” I am not sure whether people would necessarily come back, and there are probably strong reasons for people wanting to live out their retirement abroad. Those might include family reasons, and people might have moved to be closer to their children or to other members of their families. They may be sun-chasers—people who feel they will have a more pleasant style of living, given Britain’s relatively temperate climate.

Oliver Colvile: Does the hon. Lady not recognise that one reason why people may decide to come back is that we have a free national health service? Indeed, a number of my friends have decided to come back specifically for that reason. All of a sudden, they found themselves having to meet costs, which they do not have to do on the national health service.

Sheila Gilmore: I can understand that some people might well do that. They might also come back for other reasons; as they get older they might decide there are advantages to coming back, depending to some extent on where their families are.

This issue is going to run and run. It has obviously run for many years. Successive Governments have looked at the cost of the increase and have baulked at it; they have not felt it was a top priority at a time when they had other issues, relating to people in retirement here, to deal with.

If some of these questions and arguments could be answered with some clear information, however, the issue could be put to bed, although perhaps not entirely. We would be better able to say, “We have looked at the issues you have raised. We have still concluded”—if this is the Government’s view, which I suspect it is—“that
your arguments are not as powerful as you think.” That would be a stronger basis on which to resist what will be the constant iteration of this issue by people who feel fairly aggrieved at the position they find themselves in.

**Gregg McClymont:** As my hon. Friend develops her argument, it strikes me that one of the powerful points she might be making is that a cross-departmental review would be a way to get clarity on this issue once and for all. Is that the argument she is making?

**Sheila Gilmore:** Yes, indeed. It seems clear that the matter comes up successively, and not necessarily even when pension measures are going through Parliament, although clearly at those times there is a more powerful incentive for campaigners to make yet another push.

It is a continuing issue, which has been raised by many people who do not feel that they should have lost out by going abroad. They certainly cannot understand why things differ so much from one country to another—that has nothing to do with their circumstances or their choice. They do not have a say in such things as reciprocal arrangements; they are outwith their control.

**Gregg McClymont:** Does my hon. Friend agree that views on the issue in the House are not a question of party? I recall that early-day motions on it have had a significant number of signatures from Government Back Benchers, so it appears that the anomaly is quite striking.

**Sheila Gilmore:** That is right, and I suspect that the sense that parliamentarians of all parties support the claims is a source of constant encouragement to people in believing that if they could get a proper hearing the matter could be dealt with. That is why new measures going through Parliament, or Committee scrutiny, lead to a renewed push.

If there is sympathy within Parliament for the case that is made, as there appears to be, perhaps it is appropriate now to consider the question in the round, deal with the arguments, and come to a conclusion. That is the reason for the amendment.

*Ordered, That the debate be now adjourned.—(Karen Bradley)*

12.53 pm

*Adjourned till this day at Two o’clock.*