CLASSES 20 TO 23 agreed to.
SCHEDULE 12 agreed to.
CLAUSE 24 agreed to.
SCHEDULES 13 AND 14 agreed to.
CLASSES 25 TO 28 agreed to, one with amendments.
SCHEDULE 15 agreed to.
Adjourned till Tuesday 9 July at twenty-five minutes past Nine 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.

No proofs can be supplied. Corrigenda slips may be published with
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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

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The Committee consisted of the following Members:

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

† Blenkinsop, Tom (Middlesbrough South and East Cleveland) (Lab)
† Bradley, Karen (Staffordshire Moorlands) (Con)
† Colvile, Oliver (Plymouth, Sutton and Devonport) (Con)
† Gilmore, Sheila (Edinburgh East) (Lab)
† Graham, Richard (Gloucester) (Con)
† Griffiths, Andrew (Burton) (Con)
McCann, Mr Michael (East Kilbride, Strathaven and Lesmahagow) (Lab)
† McClymont, Gregg (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab)
† Nash, Pamela (Airdrie and Shotts) (Lab)

† Pincher, Christopher (Tamworth) (Con)
† Reckless, Mark (Rochester and Strood) (Con)
Reynolds, Jonathan (Stalybridge and Hyde) (Lab/Co-op)
† Selous, Andrew (South West Bedfordshire) (Con)
Simpson, David (Upper Bann) (DUP)
† Webb, Steve (Minister of State, Department for Work and Pensions)
† Wheeler, Heather (South Derbyshire) (Con)

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

† attended the Committee
Clause 20

OVERSEAS RESIDENTS

Amendment proposed (this day): 6, in clause 20, page 10, line 12, at end add—

‘(5) A review of overseas residents’ up-rating 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-uprating 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 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.’—(Gregg McClymont.)

2 pm

Question again proposed. That the amendment be made.

The Minister of State, Department for Work and Pensions (Steve Webb): I am happy to respond to amendment 6, which was tabled by the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East. As arranged, I shall also address clause 20 stand part to avoid a repetition of that debate.

Clause 20 replicates the current arrangements for the state pension for the single-tier pension. It has absolute continuity and simply leaves things as they are. The review that the hon. Gentleman’s amendment proposes would be a review of the whole policy, which would of course apply to all existing pensioners as well. Clearly, the single-tier pensioners will initially be a very small proportion of the people affected by the policy.

Quite properly, the question was raised this morning about telling people whether their pensions are not going to be uprated if they go to certain countries. I was confident that we did and I happen to have the information that we provide. When people are planning to retire and they ask us for a statement of what they are going to get, we issue them with leaflet DWP40, which goes out with the state pension statement. The leaflet is called “Your State Pension statement explained”. It is also on the www.gov.uk website; it is in leaflet PM2, the general guide to state pensions; and in leaflet NI38, “Social Security abroad”, issued by our colleagues at HMRC. If someone asks for a leaflet about social security abroad, they get that information. So we seek to provide the information quite extensively.

As for those who are abroad, it is important to understand that just short of three in four of the people we are talking about are in Canada or Australia. It was suggested that the Canadian and Australian Governments would like us to increase pensions in such cases, and indeed they would. That is because they have means-tested state pension systems. If we were to increase state pensions in Canada and Australia—for nearly three quarters of the people we are talking about—that would be a saving to the Canadian and Australian Exchequers at the cost of the British taxpayer, not necessarily to the benefit of the British citizen living abroad. There would be British citizens whose incomes would be above the level at which they qualify for the means-tested pension in those countries, but they are not the folk whom people are most concerned about—the folk who have nothing else to live on. They are by definition the folk who have something else to live on, as my hon. Friend the Member for Plymouth, Sutton pointed out. People will go abroad—

Oliver Colvile (Plymouth, Sutton and Devonport) (Con): And Devonport.

Steve Webb: The people of Devonport will also go abroad with occupational pensions and savings and so on, so it is the whole picture that matters.

Heather Wheeler (South Derbyshire) (Con): I have spoken on the issue in the Chamber, and I am grateful to the Minister for explaining the differential between means-tested benefits in those countries that constituents and ex-constituents have written to me about. It is helpful to have such information on the record.

Steve Webb: Clearly, that is true of those two countries; it is not true in all countries. If people have other pension income, they might not receive the means-tested pension but, if they do have other pension income, only part of their total income will not be uprated.

It would be a mistake to think that it is always the case that people live their working lives in Britain, retire and draw pensions, and then emigrate. I am tempted to hold a sweepstake because, in fact, the Committee might be startled to learn that, of United Kingdom pensioners overseas, the proportion of those who moved as pensioners is 2%. The remainder all moved at a working age. Some
of them might have moved just before drawing their state pension, but quite a number of them moved well before that time.

It is important to be aware that countries such as Australia have, in the past, sought properly to recruit skilled British workers of significantly below pension age. It is an incorrect picture to imagine that all British pensioners overseas worked all their life in Britain, retired just before or at pension age and are now on a pension. A significant number of British pensioners overseas went to Australia to work when they were in their 30s or 40s, for example, and have lived there for a significant part of their lives. They will have been building up pension rights under the Australian system; they will have only part of their income based on the British system, and only that part will not be uprated.

Oliver Colvile: Will my hon. Friend clarify that such people will have ended up also paying into the Canadian, Australian or, for that matter, American national insurance systems? They would end up receiving moneys under those systems, as well as from the British Government.

Steve Webb: Yes, my hon. Friend is entirely correct.

There is clearly a diversity of circumstances, but we are not talking about a million people all wholly dependent on the British state pension who would all benefit if we were to uprate it. It is a much more mixed pattern than that. To be fair, if I were the Opposition and the shadow Chancellor had told me that I could not spend money, but I wanted to sound sympathetic, I would have asked for a review. We understand the thinking behind the amendment.

The hon. Member for Edinburgh East suggested earlier that I had been sympathetic in the past to those covered by the clause. In fact, I have a sympathetic view towards them today. I understand their argument. She referred to an amendment that I had tabled in 2004. It was less than perfectly drafted. It would have constantly uprated the pension of everyone throughout the world, so I did not quite get it right. The fiscal environment in 2004 was a bit different from what it is now. Our estimated cost of uprating from now on and dealing with the non-uprating that has happened to date is £695 million a year. There is a danger when calculating pensions that we stop noticing zeros, but that is a serious sum and, as I have said, some of it would not even benefit those for whom it is intended.

Such cases have indeed been to the House of Lords and the European courts, all of which have found in the Government’s favour, saying that our action was lawful. There is a danger that, as soon as we say that we should uprate going forward, someone would say, “Hang on a minute, I retired 20 years ago. Not only should you pay me the pension that I would now be getting if it had always been uprated, but I want all the money for the period since I left the country for all those years in the interim period when it was not uprated. If it’s right to uprate it now why didn’t you uprate it last year, the year before and the year before that?”

We are talking about billions of pounds. There is a real risk to the Exchequer with such a proposal. If we accepted amendment 6, and said, “What harm could a review do?”, we would raise expectations in a way that would disappoint. The hon. Lady said that I had been sympathetic in the past, but that I am now somewhere adjacent to the levers of power. I would not put it stronger than that. She said that I had let people down by failing to deliver. I want to make it clear that all three political parties—probably all four, if the hon. Member for Upper Bann (David Simpson) were here—went into the 2010 election with manifestos that promised this group of people precisely nothing. It is important to put it on the record that nobody who voted in the 2010 general election and took the trouble to read our manifestos should have thought that anyone was promising them action on this point. I did not promise it in my manifesto, and I do not think that anybody else did. Although I understand, having been sympathetic to the case over the years—I remain so—I was quite explicit when I asked for people’s vote that I was not promising action on this point. The worry is that a review would just raise expectations again; we have seen the results of that, so I would be very reluctant to do so.

To get a sense of scale here, the majority of the money that we pay in state pensions outside the UK is in non-frozen-rate countries. We pay around £3 billion a year outside the UK, of which about £2 billion is in non-frozen-rate countries. The majority of the money that we pay outside the country is uprated, but clearly, for historical reasons, in some cases it is not, as we have discovered.

It was suggested that a review would settle matters once and for all. I think that is naïve. If the review found that there was not a significant Exchequer saving, or something like that, we would go back to another campaign and another set of posters. It would not settle matters once and for all. We owe pensioners consistency and clarity of legislation. The position has been the same under successive Governments over decades. The Bill, with the new single tier pensions, proposes exact continuity with the existing regime. On that basis, I do not believe that the time and cost of a review would actually achieve anything. Such a review could look at a lot of issues. However, as has already been pointed out in arguments about people going overseas and so not using the NHS, we could change the rules, but we would have no guarantee that folk would not come back and use the NHS anyway. Some of the arguments about hypothetical long-term saving are a bit thin.

Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): The Minister is speaking about potential benefits, or otherwise, and I take his point that there is no guarantee that pensioners would not come back to use the NHS. Am I right in remembering that a study was undertaken on behalf of the International Consortium of British Pensioners by an economics consultancy, and would he care to comment on that? I remember that he analysed it quite closely at the time.

Steve Webb: Yes, I believe that an organisation called Oxford Economics was paid by the International Consortium of British Pensioners and, interestingly enough, came up with a report that the ICBP felt supported its case. I read the report in full, and it makes some pretty heroic assumptions about future behaviour—there is some polling and so on—and to call it highly speculative would be charitable. We do not know how people’s behaviour will change, but, as we have discussed, a lot of people have retired or moved many years ago, so even if we thought that there was some impact on
movement, there would be a huge amount of dead-weight in economic terms. That is to say, we would pay extra pension to people who had absolutely no intention of coming back anyway in the assumption that we would save a bit of money from people who might otherwise have come back but did not. It is very unconvincing. Does the hon. Gentleman want to intervene? No, he is just scratching his head.

Gregg Mc Clymont: I am stroking it.

Steve Webb: I do apologise; he is stroking his head.

I have lost count, but I think this is the fourth review that we have been asked for so far. I am not convinced that this one would add any more than the first three. Our position is clear, and at this point clarity is what people need. I recognise the concerns of the affected groups, but at a cost of £700 million, with a possible knock-on into billions if backdating was pursued, I do not believe that it is a priority for the Government. On that basis, it would be wrong to have a review to raise expectations, and it is right that clause 20 should stand part of the Bill.

Gregg Mc Clymont: It is a pleasure to serve under your chairmanship once again, Mrs Main. I thank the Minister for his response. I was struck by what I took to be his position—he said that he remains sympathetic to this case, but I was not clear about whether his view was that if financial circumstances allowed, he would wish to uprate these pensions. That was a little ambiguous.

2.15 pm

I was also struck by the Minister’s comments on the Oxford Economics report. From the little he said about it, I take him to be saying that its assumptions about movement are that pensioners who might otherwise not be able to move abroad would be encouraged to fulfil their desires and do so. The Minister’s case seems to be—I remember this from his response at the time—that the study’s assumptions are not credible enough for the Government to base policy on them. That is not an entirely unfair position.

I have one question. The Minister talked about raising expectations unfairly. Is it his view that a review would raise expectations unfairly? I am not clear whether his view is that an analysis would be difficult to undertake. I think he was saying that a study would be possible on a cross-departmental basis, but he is concerned about consistency and he does not want to raise pensioners’ expectations unfairly. I do not think we should dismiss the question of expectations out of hand.

I was struck by the Minister’s observation that only 2% of British pensioners move overseas as pensioners; that is a striking figure. He went on to say that a significant number move just before retiring. It would be interesting to find out whether that is the case. Does he have a figure on that? I take his point that a significant number move well before retirement; however, they will have made contributions into the UK system, and the issue of uprating remains for them.

My hon. Friend the Member for Edinburgh East quoted a 2004 amendment. I was not aware that the Minister tabled that 2004 amendment, but he has given us full disclosure. Of course, it is not a crime to change one’s mind, but I am not clear from his response whether he changed his mind because he no longer supports the principle of uprating frozen pensions, or whether he retains the principle but cannot support uprating due to the country’s financial circumstances and the continuing deterioration of the economy. I am not 100% sure about that.

Our amendment would call on the Government to conduct a cross-departmental study of the costs and benefits to the Treasury of uprating pensions. It is a financially focused measure. However, I take the point that uprating pensions would potentially have a significant financial cost. I have listened to the Minister’s reply and, although I would welcome further clarity on his position on the principle of this matter, I do not intend to press the amendment. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 20 ordered to stand part of the Bill.

Clause 21

“OLD STATE PENSION”

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

Steve Webb: As you correctly discerned, Mrs Main, this is not the most contentious bit of the Bill. I am not sure any of the Bill is contentious, but this clause certainly is not. It simply provides definitions of the phrase “old state pension”, as used earlier in the Bill. For brevity, clause 22 also provides general definitions, which are uncontentious. I commend clause 21 to the Committee.

Clause 21 accordingly ordered to stand part of the Bill.

Clause 22 ordered to stand part of the Bill.

Clause 23

AMENDMENTS

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

Steve Webb: Clause 23 paves the way for schedule 12, which is quite long. It might be helpful to run through what that schedule does. The first part amends existing legislation by incorporating references to the new state pension. We have to ensure that, where there are current laws that refer to the state pension, the new single-tier state pension is covered. We had to go through a lot of legislation to ensure that we amend all relevant references.

Part 2 amends current legislation to maintain the existing state pension scheme for people who reach state pension age before the introduction of the new scheme, so that there are transitional provisions. Part 3 covers the savings credit. To be clear, within the pension credit system there are two parts: the guarantee credit and the savings credit. The legislation provides that, post-2016, the savings credit will not be an element of the pension credit for single-tier pensioners.

We obviously need transitional rules. A claimant who does not meet the criteria may still qualify if in a couple and the other member qualifies. For example, if someone claims pension credit before 2016, that person is a single-tier pensioner and therefore in a couple getting
the savings credit. This measure allows that person to go on getting the savings credit; we will not take it off as the person goes through 2016. Regulations may specify the circumstances in which entitlement is restricted for those cases.

Finally, part 4 amends a range of provisions relating to the introduction of the new state pension, including things such as repealing redundant provisions in the Pensions Act 2008 for consolidating the additional pension, as well as changes to legislation on bereavement benefits. Most of that, apart from the savings credit change, is consequential and technical. Therefore, I commend clause 23, which facilitates schedule 12, to the Committee.

Gregg McElymont: I thank the Minister for elaborating on the clause and the accompanying schedule. He is right to say that most of it is technical and consequent on the Bill’s provisions. He did justice to the savings credit issue, which is probably the most pertinent in a broader sense. The abolition of savings credit under the new system has prompted significant concern, and he pointed out, with some justice, that the credit is very complicated. As I recall, he said that if anyone could explain how savings credit works to him, he would give them a brass penny. There is truth in that point.

One of the thrusts of the Bill is to simplify the system, which everyone supports. However, there is the question of how the savings credit relates to the reduction in means-testing. I note that the Government’s rhetoric on the Bill’s benefits has increasingly depended less on the reduction of means-testing. When the White Paper first emerged in January, there was a focus on the proposed system being simpler, cost-neutral and encouraging an incentive to save. The fourth element was a significant reduction in means-testing. It had even been said that means-testing would be abolished. I do not suggest that the Minister used those words—he did not—but that was the way the means-testing debate was framed.

However, when one digs down into the impact assessment and looks at means-testing projections under the Bill, the reduction is relatively modest. Most of the expected reduction is a product of the abolition of the savings credit. Those who benefit from savings credit are a group whom Government Members, at least implicitly, have often spoken up in favour of when criticising aspects of the pension credit. That is because those who benefit from savings credit have some savings, and would otherwise lose out from the pound-for-pound reduction via means-tested benefits. It is worth giving the savings credit issue an airing in this context. Will the Minister elaborate on how many people will lose from the disappearance of savings credit, who they are and how much they might lose? My understanding is that it will not be an enormous number, but that there could be some pretty steep cliff edges as one moves from the current system to the new one. How does the Minister see the changes in savings credit playing out in the medium to long term?

Sheila Gilmore (Edinburgh East) (Lab): I am pleased to have the opportunity to speak on this issue and particularly about savings credit, although we do have a whole schedule here. Interestingly, the schedule does indeed bear out what the Minister has often said about the very long tail that attaches to some pension provision.

I was trying to get my head around how many people could possibly still be entitled to a category D pension, because the original recipients of such a pension would, I think, have retired before 1948. I tried to think of what the circumstances might be. We see these stories in the newspapers, after all—the 18-year-old who married a much older man, was then widowed and somehow never built up better pension provision, and is still eligible for a category D pension. Presumably, the Department thinks that some people have hitherto been entitled to such a thing. That illustrates quite well that, in legislating for pensions, we create long-term entitlements and liabilities. That is why it is very important to get things right.

We also know that the way in which we legislate can have unintended consequences. Savings credit gets a great deal of criticism for being extremely complicated, and it is probably the least-claimed element of the whole pension credit system. Figures for those eligible for the pension credit who do not claim it show that the savings credit is probably a big contributory factor to the inefficiency of the system. Its original intention was benign: to counter the criticism that people who had savings, who had tried to provide for their retirement, were particularly harshly dealt with in losing entitlement to pension credit. Perhaps it was an unduly complicated way of dealing with the issue, perhaps there was a better way, and perhaps some people will argue that they said at the time that this was exactly the wrong thing to do.

One of the difficulties is that there is a double criticism: that the savings credit is complicated, and that it has increased the number of people entitled to means-tested benefits. That is inevitable, because its whole purpose was exactly that: to help people who were, in effect, income-poor but who had savings, meaning that more people became entitled to it. I appreciate that one of the reasons for the increasing level of entitlement—even if the credit was not always claimed—was the different ways in which the various parts of the system were uprated. As a result, there were a few anomalies in the way the system worked.

The Work and Pensions Committee heard evidence on the savings credit from a number of people. A reduction in means-testing was broadly welcomed. The Institute for Fiscal Studies told us:

“The removal of the Pension Credit Savings Credit (PCSC) on its own will reduce the maximum income at which someone will be entitled to means-tested benefits, and so on its own should reduce means-testing.”

2.30 pm

Clearly, if thresholds of eligibility are brought down, or a particular provision is abolished, as in this case, the number of people on means-tested benefits will be reduced. However, we have to bear it mind that that does not always mean people are better off as a result. At a very simple level, if a means-tested benefit has an eligibility threshold, as the threshold is raised more people become entitled and, it could be argued, more people are dependent on means-tested benefits. That, of course, does increase their income. If the threshold is reduced, more people will be left out. It could be said, “We have done a good thing. We have reduced the number of people who are entitled to means-tested
benefits.” As with some of the other changes under this Government—for example, to tax credits—that may not be making people any better off: it is simply reducing the number eligible for the benefit in the first place.

Other witnesses before the Work and Pensions Committee had similar concerns which need to be looked at in detail. Age UK said that in its view, some people could lose a substantial amount in the initial period following the introduction of the single-tier pension. Some people who reach pension age in the early period after the reform could lose as much as £18 a week in savings credit. That is a fairly substantial sum for people who are, by definition, not on a high income.

The concern is that the way the provision operates will create losers, however much it is simplified. Simplification, while a desirable goal, has to be set against the need for fairness and the potential for creating losers. In debates such as this, we are inclined to think that if something is going to be simpler, it is inherently better and always advantageous to everyone. However, Age UK felt that this group of people could lose out as a result of the change.

Gregg McClymont: My hon. Friend is setting out the issues associated with the savings credit very well, as usual. I am struck by Age UK’s argument that there may be some significant losers. Those who benefit from the savings credit are people with some savings. They have tried to provide for their retirement, and under the current system the savings credit is a way of ensuring that doing so pays. Does my hon. Friend agree that, if they suddenly start getting up to £18 less, they are going to feel pretty sore?

Sheila Gilmore: Indeed, and that is why the matter was brought to our attention.

There are other, wider issues. The system was structured as a gateway or passport to other benefits that people could claim. The most important were probably housing benefit and—perhaps of less importance, although still significant for some—council tax benefit. Indeed, and that is why the matter was brought to our attention. Sheila Gilmore: I think that needs to be clarified; it is important that it should be. In the pre-legislative scrutiny report that the Select Committee prepared, we asked for more detail on the transitional protection that the Government said would be available. They told us that there would be protection for people entitled to both savings credit and housing benefit under the existing system. When we were looking at the Bill, we were concerned that the details of how that would work in practice had not been made clear.

The Select Committee called on the Government to publish a clear explanation of how the supports would operate under the single-tier pension; how the transitional protection would be put in place; how it would actually work; and how people would know about it. That request was made on the basis of the evidence that we heard. Organisations such as Age UK felt that it was a considerable issue. Its view was that the Government had to ensure, first, that transitional protection would protect those who had modest incomes and would reach the state pension age in the early years of the new single-tier pension, and secondly that they would not be worse off than they would be under the current system.

Those people do not have a long time—or any time at all in many cases—to do what we all hope the change will encourage them to do in the medium to longer term. We are told that it will encourage people during their working lives—everybody hopes this will happen—to feel that making savings, paying into a pension and trying to boost their retirement income will be worth while. That is fair enough for people who have five, 10, 15 or 20 years ahead of them to start dealing with that, but it is obviously much more difficult for people who are very close to reaching the state pension age in the early years of the new system. Even if they wanted to, they would not be able to make that kind of provision.

So the Select Committee heard evidence and made a request. Without a robust transitional provision, there could be people less well off under the new system, which is what we are trying to avoid. We know that many people might not initially be any better off under the new system, but we do not want people to be worse off, particularly those who, by definition, have a low income—that is why they are eligible in the first place. Remember, to be eligible for savings credit, a person must be, broadly, on a low income. If a person’s income is high enough, they will not qualify for pension credit or the associated benefits because they will be deemed to have enough income. We are talking about a low-income group.

I hope that the Minister will take the opportunity to clarify how all this will work and to reassure groups concerned about this set of pensioners that proper provision will be made for them.

Richard Graham (Gloucester) (Con): If I may, I want to try to bring the discussion back briefly to an aspect of clause 23: the category C pension, which the Minister and others will know pertains largely to elderly widows of clause 23: the category C pension, which the Minister and others will know pertains largely to elderly widows whose husbands reached pension age before the national insurance scheme of 1948 and who were not insured before then. Clearly, very few, if any, such widows are still alive. However, they are still entitled to seek his reassurance that widows who were still benefitting from a widow’s pension from husbands who died in the second world war, of which there is still a small, albeit dwindling,
band—including, to give a declaration of interest, my previous landlady—will not be penalised under the changes made to category C pensions in clause 23.

Steve Webb: We have had a spectacular show of erudition in this exchange. I happen to know the number of people receiving the category C pension—I think that the hon. Member for Edinburgh East referred to it as category D, but the one before 1948 is category C. The number of people who had reached pension age by 1948 and are still claiming is zero, but the number of surviving spouses is 20, so we are paying 20 category C pensions. We took the judgment that there would not be any new claims post-2016, and we think that we are fairly safe on that.

I can reassure the former landlady of my hon. Friend the Member for Gloucester that anyone who is drawing their pension before the single tier comes in, which I speculate that she might be, will continue to receive their pension in accordance with the current rules.

Richard Graham: I am grateful to the Minister and will be delighted to give her that good news for her 100th birthday in three weeks’ time.

Hon. Members: Hear, hear!

Steve Webb: Very good. The nation’s centenarians can rest easy.

Moving on to the substantive issue, clause 23 paves the way for schedule 12, which does a lot of things, but the particular issue that we have been talking about is the removal of the savings credit for single tier pensioners. It is worth going back to why we have a savings credit, because we did not have one until the pension credit was introduced. I will explain why it became necessary, although I do not think that “necessary” is the right word, because there was a better solution at the time.

I remember the days back in the ’80s when the pension and the means test were almost the same—the difference was but 5p. Whether someone drew a national insurance retirement pension or supplementary benefit for pensioners, the numbers were essentially the same. However, over time, because of the breaking of the earnings link and what were probably ad hoc increases to the means test, the gap between the basic state pension and the means test grew and grew and grew. The previous Government took the view that it was increasingly untenable to say to people who had done a bit of saving, “For every pound that you have saved, we will take a pound off the minimum income guarantee,” as it was then known.

I always think that the savings credit was born on a whiteboard somewhere in the Treasury. It might have been at the DWP—I do not know—but it was clearly on a whiteboard, because it was so techie that only someone with a whiteboard could have invented it. Because the savings credit is so techie, people do not take it up in the numbers they should. As I think has been acknowledged, the take-up rate for people who are entitled to just the savings credit is between 43% and 48%. It is the closest thing we have to a lottery in the benefits system. If someone tosses a coin, that gives the same chance as their claiming their savings credit.

The idea was that the savings credit would be a savings incentive, but most people do not know that it exists and only have a 50-50 chance of getting it if they do. It is a post hoc effort to say, “We have done something wrong by you; we will try to put it right.” It certainly is not a savings incentive. Given that the single tier tackles that head on by paying a single, simple, decent state pension above the level of the basic means test, the narrative rationale for savings credit goes out the window. If we can get rid of complexity and reward saving in one go, that is two ticks as far as I am concerned.

The hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East said we had stopped boasting about how we had reduced means-testing. I take his reprimand. I should have been boasting more.

2.45 pm

Gregg McElymont: I am always wary about being corrected by Hansard, but did I use the word “boasting”? It does not sound like the kind of word I would use.

Steve Webb: I think the hon. Gentleman pointed out that we used to proclaim four benefits of single tier and had stopped banging on—I do not think he used that phrase either—about one of them. The reduction in means-testing is quite significant. I refer the Committee to page 26 of the impact assessment. The particularly attractive stacked bar chart shows that if one focuses on the new pensioners coming in—the single-tier pensioners—the proportion who will draw pension credit halves. I pause for dramatic effect. That is a very significant change.

At the last DWP oral questions, Members on the Opposition Front Bench were shouting “2%” at me, because the proportion of means-testing in the entire pensioner population fell by a relatively modest number. The point is that people who are retired and get older can drift on to pension credit. The obvious example are people who work past pension age, stop working, and become entitled to pension credit. The stock of pre-single-tier pensioners has a tendency to flow on to pension credit, which provides an upward momentum in and of itself.

We are going against that tide with the single-tier pensioners. For the flow of new pensioners, we are substantially reducing dependence on pension credit. We are not substantially reducing dependence on housing benefit; I entirely take that point. If a person has significant housing costs, they will not, in many cases, be clear. However, I think that a world in which pensioners do not have to claim multiple means-tested benefits has got to be a better one, because it means more money is spent on pensioners and less on bureaucracy.

Not only are we reducing means-tested benefit dependence quite rapidly for the flow—more rapidly than might appear from our charts about the whole pensioner population—but we are reducing the proportion who have to jump through two lots of hoops, or three if council tax benefits are counted separately. Many pensioners will welcome that.

Sheila Gilmore: Will the Minister comment on whether simply reducing the numbers makes a significant difference to people’s standard of living? Numbers can be manipulated to say that fewer people are entitled to means-tested benefits, but, as with the group on savings credit, they might actually be worse off.
Steve Webb: That is an entirely fair point. It would be fatuous for us simply to say, “Aren’t we clever? We’ve just abolished means-tested benefits, and isn’t it great that fewer people are on it?” But we are not doing that. What we are doing is reducing the need for those things. By paying a single, simple, decent state pension at £144 a week, fewer people will need means-tested benefits. It is true that we have stripped out a bit of the system for which there is no long-term rationale, which reinforces the trend towards the balance of expenditure being on the pension, rather than on the means test.

I was asked for numbers on the scale. The Age UK figure, which was quoted, is the maximum possible savings credit—there is a maximum—and from memory I think the figure is £18 a week, which is of the right order for the maximum savings credit. The typical notional loss—I stress that it is notional—in 2020 will be about £11 a week, but that will be partly offset elsewhere in the system. The median notional reduction in net income will be about £8 a week for the savings credit losers, who will be about 1% of the pensioner population at that point. There is a set of people who will get about a tenner a week less.

It is worth stressing that they are notional losers. We are not taking cash away from anybody. Nobody who is getting savings credit will have it reduced by a tenner a week, or extinguished. A set of people who hypothetically will fall within the scope of the savings credit—which they pretty certainly do not know they are going to get—will not get it. It is still less money than they would have had, but I suspect that the number of angry letters that I and my multiple successors will get about the amount of savings credit someone thought they were going to get and did not get will be countable on the fingers of one hand. It is so complicated. Most people will say, “You have told me what I’m going to get. I’m going to get a single, simple, decent state pension and my own savings on top.” There will be minimal means-testing in many cases; it is just a cleaner system. The rationale for the savings credit was understandable when it was introduced, although it was complex. In a single-tier world, it has no lasting purpose.

As for the transitional issue, had we simply abolished the savings credit and made the knock-on change to the housing benefit system, we would have had far more low-income losers. The housing benefit system has what is technically known as a “bit” in it equivalent to the maximum savings credit. The idea was that, if people received the maximum savings credit, they did not want the housing benefit system coming along and clawing back everything that had been given to them through the savings credit. There is an element in the housing benefit system for the maximum savings credit. We are retaining that element, even though we are abolishing the savings credit, so that we do not create additional housing benefit losers. That is how we plan to approach the issue.

The revised system of support of housing benefit for pensioners needs to be worked through in a universal credit world, where housing benefit for non-pensioners is part of universal credit. We therefore need to think carefully about the housing benefit world for pensioners, which is why we have not set it out in detail. That remains a work in progress. However, we have said that, for five years after implementation of the single tier, we will retain the housing benefit protection, and that will give plenty of time to draw up a new system. I hope that, with that reassurance, the Committee is content that clause 23 should stand part of the Bill.

Question put and agreed to.

Clause 23 accordingly ordered to stand part of the Bill.

Schedule 12 agreed to.

Clause 24

Gregg McClymont: I beg to move amendment 16, in clause 24, page 11, line 37, at end insert ‘but may only do so with the consent of the employee trustees.’.

The clause takes us into the realms of some of the more granular aspects of the ending of contracting out. It was the subject of considerable evidence heard at Select Committee sittings and at our evidence sittings last week. Subsections (2) and (5), as well as schedule 14, give employers the powers to amend employee contributions and benefits in their occupational schemes to an extent limited to recouping the cost of the extra national insurance that the employer will have to pay as a result of the end of contracting out.

I said earlier in our proceedings that the contracting-in, contracting-out dynamic under the Bill was perhaps its most significant and complicated part. For those who are contracted out in the public sector, the increased national insurance contributions will have to be absorbed either by the public services themselves or by the Government. It is fair to say that there is some obscurity about how the national insurance contributions will be made up in the public sector, given that more than 5 million employees are in final salary defined benefit schemes, which led to their being contracted out of the second state pension. In the private sector, there are 1.6 million active members of private sector defined benefit schemes.

The amendment would not impact the 5.4 million active members of public sector DB schemes, as the power under the Bill does not extend to public service schemes. The ability to recoup the national insurance contributions applies only to private sector DB schemes. Our proposal would enable an existing protection for members’ benefits under legislation or schemes to be subject to trustee consent. As it stands, the Bill will enable the existing protection for members’ benefits under legislation or scheme rules to be overridden. There is a statutory override. I am sure that the Minister will say that the Government also want to take the power to exempt schemes from that override.

It is unclear how the Government intend to proceed on certain aspects of the private sector DB schemes, specifically protected schemes. Leaving the protected schemes aside, as things stand there will be a statutory override. That includes specific statutory protection given to members in former nationalised industries when they were privatised, and also measures of protection that employers in times past have agreed to write into their schemes.

To put it straightforwardly, we have in the private sector 1.6 million members in final salary defined benefit schemes who have been contracted out of the state.
second pension because their company pension scheme is going to give them as good a deal as they were getting from the S2P. Central to the Bill is increasing national insurance contributions as these individuals are brought back into the state system. To make the numbers work, to get to a cost-neutral system, there will have to be some pretty significant savings somewhere. It is fair to speculate that a decision has been taken that one way to make those savings—certainly to get the Treasury's consent, if not to make the system cost-neutral—is that those in private sector DB schemes will have to absorb that pretty significant national insurance increase.

What does that mean for the members of those schemes? A scheme will have to decide how it absorbs those costs. We heard evidence from the CBI and others. The Minister fairly put the viewpoint of the employees to the CBI regarding protected schemes. That view is: “We were promised when these schemes were privatised under a previous Conservative Government that the conditions of our pension were protected; that we could not, by law, have a worse outcome at any stage than we had at the time when our industries were privatised.”

The Minister put that view pretty straightforwardly to the CBI. I do not think I am doing the CBI an injustice if I say that its representative’s response, not unreasonably, was along the lines that the money has to come from somewhere, and if it does not come from an adjustment to the rules of these schemes, it will come from the employees’ pay packets, because the business will have to absorb the cost one way or another. As I understand it, the CBI favours enabling these private sector DB schemes to absorb those costs, whether through higher contributions from scheme members or, potentially, a lower accrual rate of pension going forward.

This is a thorny issue. We suggest in the amendment that trustee consent should be required to make the changes. For example, we heard from witnesses from the employee side of the argument that the ending of contracting-out and the associated increase in employer NIC is in principle no different from any other risk employers with DB schemes might face, and there is no sound justification for the Government’s disturbing the existing balance of power in the schemes.

The Minister may or may not agree at this stage, and the situation is not entirely clear, certainly so far as protected schemes are concerned. Some on the employee side argued in written evidence and in witness sessions that the extra cost to employers is no greater than might arise in the event of a small change in market interest rates. There was no suggestion of intervening to protect scheme members who lost out when the Government, under a previous Conservative Government that the conditions of our pension were protected; that we could not, by law, have a worse outcome at any stage than we had at the time when our industries were privatised.

The TUC has quite a lot of experience of pensions, understandably, because historically, pensions in the occupational sphere are bargained between employers and agreement.

Based on what we heard in the oral evidence sessions, my sense of the argument from the employee side is that an overriding power based on the ability to recoup a set amount could result in great unfairness. There may be no correspondence between the variable amounts members may gain from the single state pension and the amounts they may lose if employers are allowed to determine unilaterally the form of contribution and benefit changes in occupational schemes.

There is something to be said on the point that there might not be a correspondence between the variable amounts members gain from the single state pension and the amounts they may lose if employers are allowed to adjust the terms of the occupational DB scheme of which these employees are members. The Minister will doubtless say, rightly, that in some instances, what a scheme member currently in a contracted-out private sector DB scheme will lose through the mechanism for absorbing the increased national insurance contribution, they might gain—and more—from the ability to get a significantly higher state pension. The calculations are difficult, however, and I am not sure the Government have done such a calculation.

As things stand, someone who is contracted out into a final salary scheme can only get, at most, the basic state pension of around £110 a week. Under the new system, as they are brought back into the state pension, it will be possible—certainly in theory and in practice for some individuals—to get to £144 or whatever the level of the new state pension is set at. That is a significant benefit, although again, the calculations are difficult. It depends on circumstances, how close the recipient is to retirement, whether it is possible to buy back in, and so on. That issue must be considered, but it is not necessarily as simple as it first appears.

The TUC told us of its opposition, in principle, to the statutory override in clause 24 and schedule 14. It would regard an amendment such as the one we have tabled as a far from ideal solution; indeed, I would not claim that it is wildly enthusiastic about our amendment. I am sure hon. Members remember the TUC’s evidence session. I asked what it thought about an amendment such as this, on trustee consent, and it said that it would be an improvement. [Interruption.] I did not catch what the hon. Member for Tamworth said; I invite him to let me hear what he is saying.

Christopher Pincher (Tamworth) (Con): I asked whether it was a united response.

Gregg McColm: It is fair to say that those who represent employees, the trade unions, strongly oppose the statutory override. It is important that the Committee hear that argument. The TUC says that because the cost calculation will be made at the aggregate level rather than per individual, it is expected that many individual scheme members will be worse off, although the impact will be neutral overall.

As the Work and Pensions Committee pointed out, the DWP has not undertaken an impact assessment of those affected by this measure. Schedule 14 requires actuarial certification of scheme changes to ensure consistency with the Bill, but we believe this protection is insufficient. Schedule 14 indicates that the Government also intend to apply the override to protected persons, meaning individuals transferred from public sector employment due to privatisation with a legal guarantee that their pension entitlements could never be altered without their consent. The TUC is strongly opposed to this measure.

The TUC has quite a lot of experience of pensions, understandably, because historically, pensions in the occupational sphere are bargained between employers
and employees. My hon. Friend the Member for Middlesbrough South and East Cleveland was a trade union organiser. He is close enough for me to hear not so much what he is saying as the noise emanating from him—[Interruption.] I caught the last word the hon. Member for South Derbyshire said: I think it was script”. I must invest in a hearing aid.

That is the trade unions’ position. They are strongly opposed to a statutory override in principle and in practice, and oppose the application of the statutory override to the protected schemes. The Government’s position on non-protected schemes is clear. The statutory override will apply, and those who run the schemes will be able to adjust the benefits or contributions to absorb the significant national insurance rise. We know it is significant because the Government have calculated that an extra £5.5 billion a year in extra national insurance contributions will go to the Treasury from 2016 when the new state pension begins. The bulk of that will come from the increase in national insurance contributions in public sector schemes, which have 5 million members rather than 1.5 million. It is unclear how the increased national insurance contributions in the public sector will be met because the Government have not wanted or are unable, rightly, to reopen the public sector pensions settlement undertaken by the Chief Secretary to the Treasury, the right hon. Member for Inverness, Nairn, Badenoch and Strathspey (Danny Alexander).

We are talking specifically about private sector DB schemes that have been contracted out. It is clear that the statutory override for these schemes, other than protected person schemes, is a consequence of a larger reform the Government are undertaking. As people are brought back into the system, their contracting out, by definition, must end. Given the opportunity for individuals to buy back into the state system and to get up to a higher state pension, we do not oppose that.

Protected schemes are protected because when the last Conservative Government privatised industries, the workers were promised that the terms and conditions of their pensions would never be worse than at the moment of privatisation. The argument is that having to absorb those national insurance contributions will result in the deterioration of those terms and conditions.

The Minister wants to give himself the power in the Bill to exempt such schemes from the statutory override that the rest of the private sector DB schemes will have to undertake. It is not unfair to say that the Minister’s position remains undecided. He was straight in putting the employers’ case to the CBI and the CBI's case to the trade unions in Committee last week, but according to his evidence, he had yet to come to a decision on whether the protected schemes should be exempted from the statutory override.

The amendment, which adds the words “but may only do so with the consent of the employee trustees”, would bring the trustees four-square into the matter. Often, they will be involved naturally, but the amendment would ensure through legislation their involvement in the negotiation process. We do not yet know what the Government’s intentions are. I await the Minister’s response with particular interest, given the ambiguity that still surrounds the Government’s intentions, and I ask him to take seriously our proposed amendment on this thorny issue.
hope that those would still expand—who would be covered by a state scheme. It has taken us a long time to get to the point we are at now. I accept that we need to do something about contracting out, because if we did not, it would be difficult to manage the change.

We also have the problem that there are now only a limited number of DB schemes in the private sector; I believe that only 13% of private sector schemes are open to new members. Others are still open for existing members’ future accrual, but there are some instances where existing members had their schemes ended and switched to a different form of provision.

When the Work and Pensions Committee looked at that, the National Association of Pension Funds said that it anticipated that one in five of those schemes still open to new members would close and switch to a DC scheme. Concerns were expressed when we took that evidence, as they have been throughout this process, that the change to encompass the new single-tier pension could speed up the demise of the remaining defined benefit pensions, particularly in the private sector.

Some will take the view that DB pensions are all but dead anyway, so that would not make much difference, while others are anxious to retain what remains of them. That includes a substantial number of employers who see a benefit in having defined benefit schemes, such as attracting and retaining skilled employees, and see their retention as the right thing to do.

There is a concern, however, that as we now have to go through this change, it may be yet another factor, of which there have been many, that sees defined benefit schemes falling by the wayside. We have argued across the House on numerous occasions about whose fault is, with fingers pointed at various Government policies.

We know that some policies, including some of those implemented in the 1980s, had an impact on defined benefit schemes, just as those implemented by the previous Government did. Other factors have been equally, if not more, important, such as the longevity risk and the fact that some schemes were started on a set of actuarial assumptions that have been confounded by the events of recent years.

Actuaries, despite everything, seem not to be particularly good at catching up with that; they seem to be behind events rather than predicting them. Therefore, what seemed to be fairly safe assumptions 20 years ago have turned out not to be. In the face of that, regardless of any other governmental changes, a number of employers have taken the view that the risk of maintaining the schemes is too high. We would all prefer not to see these pension reforms being used as another reason for more of the schemes to go out of business and for people not to have that protection.

When we took evidence, a 2017 start date was assumed for the single-tier pension. Most of the main collective organisations, such as the NAPF, the Association of British Insurers and the CBI, accepted that the changes are necessary as there had to be some adjustment. The reason for having some adjustment for schemes—this is where the statutory override comes in—is that on a balance of risk, the concern was that if existing DB schemes did not have the ability to change the way they operated, it was even more likely that such schemes would simply be closed by employers.

If faced with higher national insurance contributions and no means of adjusting their schemes to take that into account, an employer might simply say, “This is the last straw. We have had this, this and this over the years. We have been trying to keep DB schemes because we are the good guys”—as the Minister said—“but this is the last straw.”

Hence the proposal for schemes to be able to make adjustments to contribution levels, or, I suspect, largely to benefit levels. Schemes will make their own choices on that, but given that employees are going to be paying higher national insurance contributions as well, I suspect it may be seen as easier to adjust future benefits rather than expect people to pay more in the present.

There is, therefore, the suggestion that there should be some leeway. I understand that, because in the scheme of things it would perhaps be tempting to say, “No, they shouldn’t do that; they have just got to absorb it.” However, since there is another exit, which is to get out of the scheme altogether, we could be shooting ourselves in the foot. Hence the proposals here.

The question then is how employees can be satisfied that all is in order and that the opportunities are taken to make changes that go beyond what is necessary to provide for the additional national insurance contributions. There are concerns that in some cases, because changes are being made anyway, such changes might be greater than is essential. Where is the safeguard for the scheme members in all that? One safeguard would be that trustee consent should remain necessary before the changes can go ahead. That is the protection for employees and that is the purpose of having trust-based schemes in which trustees look after the interests of scheme members.

If the case is well made, I do not think that trustees are necessarily going to be a block. They have to look at the balance of risk as well. They understand that we cannot deny reality and say, “Oh well, we are not going to make any changes,” if that results in a decision that would not be for them to make. It would be for the employer to say, “Well, that’s it then. We are away from DB altogether.” I think that trustees would take a balanced view and that they understand the balance of risk, but the continuing involvement of trustee consent would give employees the safeguard.

I assure hon. Members that the only script of any description that I am speaking from is the Work and Pensions Committee report. We on that Committee heard and discussed considerable evidence on this issue. The other issues that arise are partly to do with the change from 2017 to 2016. I have already said that most of the umbrella organisations that gave evidence on this subject were reasonably satisfied at that point that there was time to make the changes and that they could manage the process.

However, subsequent to those organisations’ evidence to the Work and Pensions Committee, the date changed: it was brought forward a year. At the time when that change was announced, a number of organisations expressed concern about whether it would make things more difficult and the risk that it could make the implementation of the changes unworkable for pension funds.

On hearing the announcement of the change of date, the NAPF said that it was still supportive of the reforms, but that

“The Government must ensure that the implementation of these changes is workable for pension funds.”
It also pointed out that we now have a tight timetable for bringing forward the changes, which brings us back to the question: if it is too tight or seems too difficult, is there a risk that employers will simply decide to shut up shop rather than go through the process? In the words of the NAPF:

“It would be a shame if big mistakes were made in a rush to implement the changes.”

As we know from bitter experience of pension policy that inadvertent consequences of what seem to be good ideas are all too common, it is important to listen to those words.

In our unanimous report, the Select Committee’s conclusion was:

“it is self-evident that having one year less to prepare for the ending of contracting-out will impose a significant burden on both groups of stakeholders. Having previously appeared to listen and respond to the concerns of pension schemes and employers about the impact of the STP, the Government has now sprung this earlier implementation date on them. We believe it is therefore the Government’s clear responsibility to work with these key stakeholders to ensure that the transition to the ending of contracting-out is as smooth as possible and that already beleaguered Defined Benefit private sector occupational schemes do not suffer further adverse consequences.”

I am sure that the Minister will have taken cognisance of those comments and will have been working as hard as possible since then to ensure that the bringing forward of the date does not adversely affect those schemes.

The situation is different in the public sector. It sometimes feels as if one bit of Government—one bit of public spending—will be taking money to pay out to another, and the Government as a whole will have to decide how to deal with that. There will doubtless be calls from local government and other Departments saying, “We need our funding increased to pay the higher contributions.” I hope that the ground is well prepared, not just for that—although it will be interesting to see what the Government have to say about how they will resolve the additional expenses and how Departments and local government will be equipped to deal with the increased cost—but for the increased cost to individuals.

I understand that the maximum additional national insurance payment that employees will be expected to make is about £480 a year. That will make a significant difference to people’s bottom line, when they look at their payslips and see that they are suddenly paying more national insurance and their take-home pay is down. Although the trade-off is what happens later, it is always difficult to manage expectations because most people are more interested in what they get in their pay packet today than what they will get in the future. What communication strategy does the Minister have for that? If there is no strategy, there might be a lot of disappointed and angry people.

3.30 pm

The Government’s own words to the Select Committee—the Minister may have more information for us now—were that

“90 per cent of those reaching State Pension age in the first two decades after implementation”—

of the single-tier pension—

“will gain enough extra state pension over retirement to offset both the increased National Insurance contributions they will pay over the rest of their working lives and any potential adjustments to their occupational pension.”

Nevertheless, that leaves 10% for whom that is not the case, so there are some trade-offs and some people will be in a more difficult position. It is extra-important, therefore, that we get it right.

Finally, has the Minister made further progress in relation to his ambitions for “defined ambition”? There was some discussion about it in Select Committee and, for those who might not know, “defined ambition” is an attempt to improve the pension provision for those predominantly in defined contribution schemes. We shall be discussing many such schemes under other parts of the Bill, but the current measure will spread a bit more of the risk and perhaps encourage employers to take on a little more provision in respect of their employees. Unlike defined benefit, which places a large risk on employers who take on big liabilities, defined contribution places a lot of the risk on the individual rather than the employer. The employer contributes, but the risk is transferred substantially to the individual.

When the Minister was giving evidence to the Select Committee, he said that he wanted defined ambition to be in operation by 2017 and that,

“We are working non-stop on the plans.”

It would be illuminating to know how much progress the hon. Gentleman has made, given that his timetable has been somewhat shortened since he said that.

Steve Webb: Replying to amendment 16 requires me set out a little bit about the clause and to put matters in context. As has been discussed, when contracting out ends in 2016 for defined benefit pension schemes, the rebate that employers have enjoyed hitherto will be no more. There will be nothing to contract out of, and the rebates will no longer be there. Clearly, that is a substantial additional cost to employers and, in respect of private sector employers, I am talking from memory about £700 million. It is a significant sum for private sector employers.

Among other things, the Bill allows the employers to change their schemes so that they recoup exactly that money. For example, if they have a scheme that accrues benefits at a 60th of a final salary for each year and they lose the rebates, they might change that 60th to a 70th, or whatever the actuary says is the right number. The provision is not intended to allow firms to go further. To reassure the hon. Member for Edinburgh East, I draw attention to the fact that schedule 14 specifically precludes the use of the power to go beyond recouping the lost rebate. The power can be used only for the lost rebate.

We have built in flexibility so that the power can be used more than once. A firm could, for example, not go the whole hog in the first instance if it did not consider that it needed to, but with the confidence that, if it did need to, it could come back for the balance. We considered making firms take such action all in one go, but the worry was about firms that would take the whole lot out of the scheme, although some might not choose to do so.

We must reassure firms that do not have to offer occupational schemes. As the hon. Lady said, they are the good guys in many senses. To encourage those firms to be willing to carry on offering defined benefit pensions,
which most of us want them to do, we need to allow them to recoup the money. Many employers will do that by having a conversation with the trustees of their pension scheme and reaching an agreement. That should be the norm. It would be quite proper. It is worth remembering that such employers offer the benefits as part of the remuneration package, and to generate good will with their employees. The strong incentive, therefore, is still to have a mature conversation with the trustees in order to reach an agreement. We believe that many employers will do that.

**Heather Wheeler:** I am happy to put on the record that I have regular meetings with the unions at Rolls-Royce, which employs a lot of people who live in south Derbyshire. To allay its fears, I am pleased to hear the Minister refer to ongoing discussions and conversations with the trustees, and to say that good firms will carry on such an excellent procedure for their employees.

**Steve Webb:** The Rolls-Royce plant in Bristol employs many of my constituents, and I shall soon be meeting its trustees and trade union representatives to discuss such worries. I am of the view that if we say to employers that, when push comes to shove, they may not be able to recover that money, if this coffin has any room for more nails in it, that would be the final nail; it really would kill off DB. I do not think any of us want this entirely welcome reform to state pensions to have that effect.

Amendment 16 says that there should be an override for “employee trustees”. The hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East will recognise that in law there is no such thing as an employee trustee. He may be referring to member-nominated trustees, or he may just mean trustees. His amendment is defective as it stands because we do not know what an employee trustee is. Is it a trustee who is a current employee? Is it a trustee who has been an employee? Therefore, I take it as a probing amendment, which sets out the hon. Gentleman’s position.

However, the amendment is rather odd. Let us suppose the hon. Gentleman means member-nominated trustees. There would then be two categories of trustee: trustees whose consent is required and trustees whose consent is not required. That seems to be the logic of his position, but it is a misunderstanding of the notion of what a trustee is for. All the trustees have a fiduciary duty to all the members. It is not the case that the member-nominated trustees are there to look after the workers, and the firm’s nominated trustees are there to look after the firm. A trustee acts in a fiduciary role for the entire membership of the scheme. Therefore, the amendment would create a rather unwelcome division between different sorts of trustees with different powers. It is undesirable on that basis.

If the firm were to say, “Well, we won’t kill off the DB scheme, but we will recover the money through lower pay rises and pay cuts”, that would be incident on the entire work force. The members of the scheme would keep their DB pension rights, but the entire work force of the firm would pay for it. It would be unfair to leave firms no way of taking the money from the members of the scheme, but allow them to recoup it from people who are not in the scheme. Almost by definition, employees who are not in the scheme have worse provision than employees who are in the scheme. It would be very odd for the firm to recoup the cost from the people who have inferior pension provision.

The issue of whether it is fair for people who pay more NI to have their workplace pension accrual reduced, for example, comes back to what we call “something for something”. The hon. Member for Edinburgh East accurately quoted our estimates. We estimate that, across the public and private sectors, 90% of people in the next 20 years will get back more through enhanced state pension than they pay in, even taking account of an employer offset on the accruals on their employer scheme.

If a person works for Tesco—I use Tesco as an example because it is a big DB scheme, not for any other reason—their Tesco accrual might be lower if the statutory override is used, their employee national insurance will be higher, but they will be accruing a £144 pension, not a £110 pension. The vast majority of people—lower paid workers in particular—will get back more than they pay extra in NI. Even in the private sector—the override does not apply in the public sector—we estimate that 80% will get back more than they put in. There will be some for whom that is not the case, but the vast majority of workers, in particular those on lower wages, will get back more, even if the employer uses the override power.

It is worth remembering that all we are doing is putting those employees on exactly the same rate of national insurance as anybody else. They will accrue exactly the same state pension as everybody else. The hon. Gentleman gave some current estimates of the numbers contracted out at the moment. By 2016, on current trends, we estimate that there will be a whisker under 1 million private sector workers contracted out. The numbers affected are continuing to drop, and we think there will potentially be 1 million fewer public sector workers, depending on trends. Therefore, the numbers affected will be somewhat lower than the hon. Gentleman indicated. We are giving firms the override as a reserve power. Most firms will want to do this in a negotiation, but they do need the reserve power.

The hon. Gentleman raised the issue of protected persons. We have consulted on that issue, and we are still considering our response. There might be a set of schemes to which we do not apply the override. For example, if someone was in a privatised firm where there is statute that protects their pensions, it would go against that potentially if we were to say that the employer in that industry can in any case change the rules of the scheme.

We have to weigh up the rights of the members of the scheme—as the hon. Gentleman, the GMB and the TUC said—against the position of the employers. Clearly, the employers have got protected and non-protected workers. Would they recover the rebate wholly from the non-protected workers? Does that create even more of a two-tier work force and industrial relations problems? If they do not do that, and pass it on to the consumer, does that mean higher rail fares, energy prices or whatever it is? It is a complex issue. We will publish our conclusions later in the summer, but we have not reached any yet. We recognise the arguments on both sides on that point.

My hon. Friend the Member for Plymouth, Sutton and Devonport was approached, understandably, by local government organisations asking what happens if they have to recoup the lost rebates from council tax and so on? To clarify, the rebate money comes from
employee and predominantly employer, and from public and private sector; predominantly the public sector because of the work force.

The Chancellor has made it clear that part of the rebate money will go to do two things that I think we all agree are worth doing. One is to enable from April 2014 employers to offset the first £2,000 against their national insurance bill. That will enable, for example, a small firm potentially to pay no employer national insurance. Part of the rebate money will do that. Part of it will contribute towards what are called the Dilnot social care reforms. The cap on social care and changes to inheritance tax are part of that mix as well.

That does still leave a significant multi-billion pound unallocated amount from the rebate. Crudely, if one thinks of that unallocated amount as being broadly the employer public sector rebate, that is the figure to which my hon. Friend referred. That is a transfer within the public sector. That is money that the Exchequer will no longer have to pay to local government employers, armed forces employers, schools, hospitals and so on. That money will come in or not go out from 2016-17 onwards.

The House will be aware that the comprehensive spending review just announced ceases at the end of 2015-16. It is, therefore, entirely a matter for the Chancellor of the Exchequer of the day to decide what to do with that money. The Chancellor, hypothetically, could decide to allocate all of that money back to public sector employers from whence it has come. If he or she were to decide to do that at that point the employers, about whom my hon. Friend is concerned, would be more or less in exactly the same position as they were before. They would be reimbursed for the loss of the rebates.

Steve Webb: I hope that clarifies the situation. Clearly, it will be a matter for a future Chancellor to decide what to do with the money. The Chancellor, hypothetically, could decide to allocate all of that money back to public sector employers from whence it has come. That money will come in or not go out from 2016-17 onwards.

Oliver Colvile: Is the Minister’s advice, if I wish to take this any further, that I should write to the Chancellor of the Exchequer about it?

Steve Webb: Far be it from me to advise my hon. Friend. Clearly, that will be a decision taken by the Chancellor of the Exchequer and, assuming that our right hon. Friend will still be in that role at that point, that might be something my hon. Friend will wish to do. I hope that clarifies the situation. Clearly, it will be a matter for a future Chancellor to decide the allocation of that money.

I will say a little more about the point of clause 24.

Gregg McClymont: Before the Minister goes any further, could I take him back to his explanation of the Government’s position regarding the protected schemes? Is it that they have not made up their mind yet and it is a complex issue? Could he say a little about the complexities and why the Government are not able to clarify the position on protected schemes when the Bill is proceeding quite speedily through this House?

3.45 pm

Steve Webb: Just to be clear, clause 24 and the associated schedules provide for a statutory override, but they also provide for subsequent regulations to exempt specified employers. If the Government were to decide that certain categories that employed protected persons should be exempt, we would have to bring before the House regulations to that effect, which would then be debated. So, it is the general power that we are asking the House to accept here. I hope we will be in a position to conclude our deliberations relatively shortly, certainly while the Bill is still before Parliament. Later in the summer is the timetable we are working towards.

Gregg McClymont: I thank the Minister for that elaboration. Can he say a little more about what the things are that the Government are weighing up? What we are discussing is a consequence of the ending of contracting-out, which is itself a consequence of the Government’s drive for a flat-rate state pension. I would like to get an idea from the Minister of the factors that the Government are considering as they try to come to a decision.

Steve Webb: I hope that I have already given a brief flavour of them. On the one hand we have the important issue that pension promises were made in legislation—oral and written assurances have been made—and such promises should, ideally, be kept. On the other hand, we could argue that the people who are protected persons will still get the pension they thought they would get but some of it will come through single tier rather than through the scheme. They are contracted back in and start to accrue single-tier rights for future service. When the promise was made, the thing they had contracted out of took them down to a £110 pension and they are now heading for a £144 one, so one could argue that the spirit if not the letter of the promise is being kept by delivering part of the benefit through the state scheme from which their scheme is contracted out.

There are issues of whether the measure would make a substantive difference, which industries would be affected, and how long we would be talking about if the override were not applied—many of the promises were made decades ago, but in some cases to young workers. The issues in the energy sector might be slightly different from those in the transport sector. One of the first things we did was to trawl around the whole of Government trying to find legislation that had protected persons promises in it, and we found one or two pieces that we would not necessarily have found, in the nuclear industry for example. The matter is involved and detailed, but the substantive issue is, ultimately, a judgment call, and we are weighing things up carefully because we do not lightly override pension promises.

Gregg McClymont: I thank the Minister for that further elaboration. Can he inform the Committee how many active members there are in the schemes? How many individuals will be affected by the decision on the exemption from the override?

Steve Webb: We published a consultation document on the subject, in which we estimated a figure in the order of 60,000 workers. One or two respondents found a few we had not thought of, but I think we are talking in the high tens of thousands.

We do not think, therefore, that the amendment works. If it were part of the law of the land it would not be clear what it did, because there is no such thing as an
employee trustee. We do not like the idea of different categories of trustee, and we believe that the employer statutory override, within constraints, as we will discuss in a moment, is an appropriate response to the concerns, and protects the future of DB pensions. On the strength of that, I urge the hon. Gentleman to withdraw the amendment.

**Gregg McClymont:** The Minister referred to the wording of the amendment and observed that in law there is no such thing as an employee trustee. I can assure him that we were not trying to distinguish between categories of trustee. It was not about member-nominated trustees but about trustees generally. It has, however, been useful to try to draw the Minister out a little about the basis on which he intends to make a decision about the protected schemes, and on whether an exemption from the statutory override will be used. I observe that he is understandably keen to process the legislation through both Houses, but in this not-insignificant aspect of the Bill it is unclear what the Government will do, so we are being asked to vote for the legislation without being clear about what will happen with protected schemes.

I understand, as the Minister says, that this is a thorny issue, but from observations I have a strong sense that he is clear about the basis of the decision. He said that on the one side there was the promise that was made to the schemes' members when the industries were privatised—he rightly said that a promise is a promise—and, on the other, that it could be argued that the promise had been kept because the individuals would be getting more from the new flat-rate state pension. It just was not clear to me what was preventing the Government from coming to a decision such that we could scrutinise that in the round as part of the Bill. However, it has been helpful to get that clarification and to ask for more from the Minister, so I beg to ask leave to withdraw the amendment.

**Amendment, by leave, withdrawn.**

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

**Steve Webb:** Clause 24, as we have been discussing, sets up the framework for the statutory override and the abolition of contracting out. We will debate schedules 13 and 14 shortly. As clause 24 indicates, schedule 13 relates to the consequential issues that must be resolved after the abolition of contracting out—I will give the Committee a flavour of that during the next debate. Schedule 14 explains how the power to amend schemes, and protects the future of DB pensions. On the strength of that, I urge the hon. Gentleman to withdraw the amendment.

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**Abolition of contracting-out for salary-related schemes**

**Question proposed,** that the schedule be the Thirteenth schedule to the Bill.

Steve Webb: With some menace, I take my ring-binder in my hand at this point, because schedule 13 is detailed, and I am sure that the Committee will want to know what it does.

We are abolishing contracting out, which has been in the pensions system for many decades. I take great pride in abolishing contracting out. It has been a complete nightmare and creates great complexity in pensions. I still meet constituents, as I am sure do all Members, who are baffled by contracting out and do not understand why something has been knocked off their state pension. Contracting out has some extraordinary consequences. We have people whose state pension goes down as a result of being widowed because of interactions with contracted-out occupational pensions schemes. The whole thing is a complete mess, and I am very pleased that schedule 13 paves the way for what is perhaps an underrated aspect of simplification.

I will run through a few things that schedule 13 does. It makes a number of minor amendments to other legislation to take account of the fact that contracting out for salary-related schemes has ceased, so we have to change the tense of the references to contracting out. It includes some new definitions, because contracting out for DC pensions no longer happened after 2012, whereas for DB it will no longer happen after 2016, so we have to introduce the concept of first and second abolition dates. It removes the certification requirements for salary-related schemes to provide a pension of at least the statutory minimum—they are not contracted out any more, so they do not have to meet that test.

Schemes that were contracted out before abolition were expected to comply with the rules relating to the provision of a guaranteed minimum pension, or GMP, at the appropriate age for scheme members who were contracted out before April 1997. Schedule 13 ensures that in the event that the rules of a scheme did not fully comply with those requirements, they will be treated as being compliant with them. That is in order to ensure that such schemes will continue to provide scheme members with GMP at the appropriate age. The schedule removes the requirement for the Secretary of State to review national insurance rebates every five years, because there ain’t gonna be one.

Although primary legislation is being repealed, the Bill will include transitional arrangements to ensure that contracting out activities do not stop abruptly. For example, notifications that take place before abolition will still be valid afterwards. Schedule 13 amends the early leaver and anti-franking rules so that the abolition of contracting out does not trigger either requirement. That ensures, for example, that someone who stays in a scheme at abolition will not be treated as having left simply because contracting out has ended. The schedule also makes consequential amendments to other primary legislation to take account of the end of contracting out.

I want briefly to flag up one paragraph of schedule 13, on which I know the Committee will be desperate for information. It is on the subject of GMP equalisation, which exercises the industry a great deal, so it would be helpful to put on the record what paragraph 20 of schedule 13 does, and in the commentary on that, I will give the House and the wider world the update for which they are waiting.
GMP equalisation relates to the fact that many schemes have not met what the Government believe to be their legal duty, which is to correct for the effects of uneven state pension ages as part of their pension scheme through the GMP arrangements. It is a contentious issue, but our legal advice on this is unambiguous.

The question of how schemes should best meet their GMP equalisation obligations is a complex one. Paragraph 20 allows for the Secretary of State to provide guidance on something called GMP conversion. Because it is not possible to convert GMPs into scheme benefits unless they have been equalised, this will provide guidance on an alternative method by which schemes can equalise benefits, including GMPs, prior to carrying out conversion.

We have a working group that has met twice so far. It includes such luminaries as representatives of the Association of Consulting Actuaries, the Association of Pension Lawyers, the Institute and Faculty of Actuaries, the Society of Pension Consultants and many of the relevant trade bodies. They have agreed that guidance on GMP conversion would be welcome, and they are working with us on that guidance. Our expectation is that the guidance will be provided by spring 2014. I hope that will be helpful to schemes in relation to those rather knotty and contentious issues, and I hope that schedule 13 contains everything that members of the Committee would expect it to contain.

Question put and agreed to.
Schedule 13 accordingly agreed to.

Schedule 14

Power to amend schemes to reflect abolition of contracting-out

Question proposed. That the schedule be the Fourteenth schedule to the Bill.

Steve Webb: Schedule 14 specifies how the override power may be used and also constrains the use of that power. Paragraph 2(1) indicates that the power can be used either to increase employee contributions or to reduce the future accrual of benefits, or indeed both, but it cannot—through either or both of those measures—recoup more than the lost rebate. We will produce regulations that explain exactly what we mean by the total annual employee contributions and resolve various other definitional issues.

Under paragraph 3, the power may not be used to affect adversely the subsisting rights of scheme members or survivors. It is not about taking away rights that people already have; it is about future accruals or increases in the contribution rates. As this is complex stuff, we will require an actuary’s certificate; an actuary will have to certify that the amount that has been recovered through the measures that have been taken are within the limits and that too much has not been taken.

The power has to be used within a set time. We envisage that it will not hang around for a long time; five years is the sort of period that we are thinking about. Our friend the draftsman is back again with his rather helpful Q and A-style explanatory notes to the legislation, which say:

“Can the power be used more than once?”

We confirm, in paragraph 9(1) of the notes on the schedule, that

“The power may be used to amend a scheme...on more than one occasion.”

As I said earlier, the point is that the firm can come back for a second bite, which might encourage it not to try to get the whole lot in one go if it did not feel it needed to, but it has the comfort of knowing that if it had to come back a second or third time, it could do so. Broadly, that covers the purpose of schedule 14. I commend it to the Committee.

Question put and agreed to.
Schedule 14 accordingly agreed to.

Clause 25

Increase in pensionable age to 67

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

4pm

Steve Webb: We have reached part 2. Clause 26 is about the long-term further changes beyond age 67, but clause 25 is specifically about the increase to age 67. As has previously been announced, the state pension age is increasing to 67 over a two-year period from 2026 to 2028. The Chancellor forewarned us about it last year, I believe. It has been pre-announced. It is fair to say that having a state pension age of 67 in 2028 puts us in line with many other countries. Ireland got there first; Ireland will reach in 67 in 2021. The Dutch and the Australians will get there in 2023, the Danes and the Americans in 2027. We get there in 2028, and the Germans in 2029.

I have seen a letter-writing campaign suggesting that this is a grossly aggressive state pension age schedule that is out of line with those of other countries. It is absolutely mainstream. In many ways, one look at the longevity figures shows that frankly we are being quite pedestrian. There have been dramatic increases in longevity over the past century, and we will have changed male state pension age by only two years in over a century. People will be spending more time in retirement, even with the increases in state pension age, than they would have done some decades ago when men retired at 65.

It is often said that it is not fair to raise the state pension age because people have different life expectancies, as they do. It is worth saying that there has been a general increase in life expectancy for various socio-economic groups—the lowest socio-economic groups, and those in different parts of the country, nations and regions. Although there are substantial and important differences, any state pension age has the characteristic of having a different impact on different groups. We do not use that as an argument for not having a state pension age. We have a state pension age.

Given that life expectancy is rising across the board, often by similar amounts across different groups, raising it to 67 seems a modest and proportionate change. It is sometimes suggested, and was in our consultations, that a 10-year notice period was appropriate for changes. The Committee will note that this change does not come fully into force until 2028, fully 15 years from today. The Government cannot be accused of precipitate haste on the measure. We are in the mainstream of
similar economies and, indeed, behind some of them. This is an unfunded state pension scheme; these state pensions will be paid by the national insurance payers of 2028 and beyond. We have to strike the right balance between allowing people to enjoy the growth of longevity in retirement, which we will through our proposals, and putting an excessive burden on the national insurance payers of tomorrow. We will talk about later state pension ages in later clauses.

Sheila Gilmore: One issue that has been discussed at considerable length, including in connection with the previous Pensions Bill, is the fact that a number of people are out of the work force for health reasons considerably earlier than 65. There is a cost to Government and those individuals to maintaining them on other sorts of out-of-work benefits. Have the Government considered researching that in more depth, on the basis that some kind of provision might be made for them, even in the run-up to an increased pension age?

Steve Webb: The hon. Lady is right that there is a set of people who do not make it, in terms of active labour market participation, to current state pension age. There always have been. Our view is that those issues need tackling at source; to some extent they have been. The change in heavy manufacturing, coal mining and other occupations, which tended to be associated with shorter life expectancy, the decline in smoking and a set of other factors mean that the chances of making it to state pension age, even at 67, are substantially greater than even a generation ago.

The state pension age, which is one number in the system, cannot do 1,000 different things. There has to be a point at which one gets the state pension. If we think that there are differentials—different parts of the country, different social groups, different industry groups—then we have to address those issues, but if we used the state pension age to do so, it would affect so many other people in ways that make the system unsustainable that we do not think that is the relevant lever to pull. We will obviously return to these issues when we come to the next clause and discuss our longer-term strategy. I believe that the move to 67 in this clause is entirely measured, forewarned, proportionate and in the mainstream of similar economies. I commend the clause to the Committee.

Gregg McClymont: I thank the Minister for that explanation of the clause. I listened closely to what he said, and there was much sense in it. He is right to say that the increased pension age does not put the UK outside the broad spectrum of pension ages in similar economies. We will come to this in more detail on clause 26 and the amendments to it, but I should just say that health inequalities in the UK are, to a greater or lesser extent, more severe than in similar industrial economies. That makes the point that my hon. Friend the Member for Edinburgh East made even more powerful. The Minister said rightly that there are inequality issues that need to be dealt with at source. They emerge at pension age, but they are inequalities in themselves.

We have significant health inequalities that are relatively greater than those of other nations. I remember that not long ago Sir Michael Marmot, who is probably the world’s leading expert in health inequalities, gave an interview to the Financial Times and observed that if the UK’s health inequalities did not improve dramatically, the number of people able to work until the new pension age would be much lower than the Government are probably banking on. When comparing the UK with other countries, we must bear in mind not just the relative pension age, but how significant our health inequalities are.

Oliver Colville: Is the hon. Gentleman aware that in Plymouth there is an 11-year difference? Between people living in Plympton and Plymstock, which are not in my constituency, and Devonport, which is, there is an 11-year gap in how long people can expect to live. It is appalling.

Gregg McClymont: I was not aware of the specific case in the hon. Gentleman’s constituency. Gentleman’s constituencies, but it does not surprise me. In some places in Glasgow, life expectancy is in the mid-60s but a few miles down the road it may be around 80. It is striking. The Minister is right to say that the issue must be tackled at source, but we are discussing pension age, and having heard what the hon. Member for Plymouth, Sutton and Devonport said, we must bear that in mind. Sir Michael Marmot has made it clear that health inequalities in Britain are such that some stark questions arise whether raising the pension age will work. We are talking about raising it to 67 and average longevity keeps rising, but within that average there are stark discrepancies such as that in the hon. Gentleman’s constituency.

Pamela Nash (Airdrie and Shotts) (Lab): I support the rise in the pension age to 67, but I am also worried about the life expectancy gap in different areas. The issue is not just life expectancy. My hon. Friend referred to the health of those who are expected to work longer. They may live longer, but not necessarily in the best of health. The period of healthy living has not increased as much as longevity.

Gregg McClymont: My hon. Friend makes a good point, which we will come to when we discuss clause 26. We heard Baroness Hollis talking about the difference between healthy life expectancy and overall life expectancy. She suggested that there are 10 years of healthy life expectancy, and potentially another 10 years of increasing chronic disability. Those are huge challenges not simply for any one Government, but for the entire country. I am sure that we will go into the matter further when we consider clause 26, but the Opposition do not intend to stand in the way of clause 25.

Question put and agreed to.

Clause 25 accordingly ordered to stand part of the Bill.

Clause 26

PERIODIC REVIEW OF RULES ABOUT PENSIONABLE AGE

Gregg McClymont: I beg to move amendment 7, in clause 26, page 13, line 33, leave out ‘person or’ and insert ‘panel of’.

The Chair: With this it will be convenient to discuss amendment 8, in clause 26, page 13, line 35, at end insert—
for tough decisions that might have to be made about cross-party, cross-generational and cross-society support of the Secretary of State. If we are trying to get the impression it is putting all the powers in the public. The amendments would beef up the panel and provide for its evidence sessions to be held in public. It shall have power to determine its own terms of reference for evidence taking, which may include matters such as disparities in lifespan and life expectancy between sectors of the population.

Gregg McClymont: The amendments refer to the Government’s provisions for reviewing state pension age, which include the establishment of a panel to assess rises in longevity. Clause 26 states:

“(1) The Secretary of State must from time to time—
(a) review whether the rules about pensionable age are appropriate, having regard to life expectancy and other factors that the Secretary of State considers relevant, and
(b) prepare and publish a report on the outcome of the review.
(2) The first report must be published before 7 May 2017.
(3) Each subsequent report must be published before the end of the period of 6 years beginning with the day on which the previous report was published.
(4) For the purposes of each review, the Secretary of State must require the Government Actuary or Deputy Government Actuary to prepare a report for the Secretary of State on—
(a) whether the rules about pensionable age mean that, on average, a person who reaches pensionable age within a specified period can be expected to spend a specified proportion of his or her adult life in retirement, and
(b) if not, ways in which the rules might be changed with a view to achieving that result.
(5) The Secretary of State must, for the purposes of a review, appoint a person or persons to prepare a report for the Secretary of State on other specified factors relevant to the review.”

A key issue in subsection (4) will be the proportion of a person’s adult life after they reach a specified age.

The Government want to be able to assess regularly whether longevity is increasing. That makes sense, given that longevity has increased significantly in recent decades and has for far too long to outstrip actuarial calculations about life expectancy. Our amendments are designed to beef up the panel that is mentioned in the clause.

Amendment 8 would ensure that the panel included representatives from the Opposition party or parties—a very good idea for the Opposition, although probably not so much for the Government—and representatives of the trade unions. That is important, given that trade unions continue to be the voice of those who are on the receiving end of changes to pension provision. The requirement for the panel to include representatives from the House of Lords Cross Benches is a nod to the expertise that is to be found there. Proposed new subsection (5B) would give the panel additional powers and provide for its evidence sessions to be held in public. The amendments would beef up the panel and give it greater credibility. When one reads clause 26, one gets the impression it is putting all the powers in the hands of the Secretary of State. If we are trying to get cross-party, cross-generational and cross-society support for tough decisions that might have to be made about the pension age in future, it is probably a good idea to have as wide a range of interests as possible represented on any panel the Minister might wish to set up.

4.15 pm

The clause includes some detail on the periodic reviews to which I referred, but further clarity is needed. It is not our intention to stand in the way of the proposals in the Bill to increase the state pension age, as we discussed in considering clause 25. However, we have concerns about the mechanism for the periodic review. It is worth remembering in this context that the goalposts on the state pension age have been moved a number of times in this Parliament. We often talk about stability, certainty and long-term planning for retirement; moving the goalposts has not been conducive to those things, which we would all like to see, although I understand that by putting the review mechanism in place, the Government are trying to address that issue.

Legislation was agreed in 1995 to increase the state pension age for women from 60 to 65 gradually, over a 10-year period starting in April 2010. The Pensions Act 2011 speeds up that process so that women’s pension age will now reach 65 by November 2018; the state pension age for both men and women will then increase to 66 by October 2020. In discussions on that legislation in 2011, I only became a part of during their dying minutes on Report and Third Reading, it emerged that a group of women were facing what we might call a cliff edge as a result of the pension age being changed again, and were facing an increase of up to two years with only a short time to prepare for that—certainly nowhere near the 10 years that most parties agree is the very least we should give individuals to prepare for changes to their pension age. I am delighted that at that time the Government agreed to modify the change so that the maximum increase any woman faced was 18 months, which was a welcome improvement. Of course, there is also the accelerated timetable for increasing the state pension age to 67, which clause 25 refers to.

The Secretary of State is asking for the power, unfettered, to review the state pension age every five years. The hon. Member for Gloucester, who is not in his place, referred a number of times to the importance of communication; as we will have a report from a person or persons every five years, there is a danger that people will fear that that means the pension age will go up every five years. That is inevitable. To reassure people, it would be useful to have a broader range of parties represented as a panel that makes the report. Also, if the Government want that power for the Secretary of State, we need more details on the procedure and mechanisms involved in the review.

The Opposition are anxious to ensure safeguards so that there are no decisions to accelerate the state pension age rapidly without buy-in from stakeholders within society. The hon. Member for Plymouth, Sutton and Devonport mentioned the Royal Naval dockyard in his constituency and the 11-year discrepancy in life expectancy; such issues will continue to arise—they are not going to disappear overnight. We know that there are significant health inequalities, and further moves to raise the pension age will bring such issues further into focus. If the Government decide to go down that route, it is in their interests to have a panel that represents the broadest possible range of opinion, while still being small enough
An independent commission is important. If the Government’s argument is that the state pension age might need to rise again, as a fair reading of the clause would suggest, the independence of the commission is important. As drafted, the clause establishes a largely formula-based approach to deciding state pension age in the future, and Ministers will make decisions based on information about the average life expectancy from the Government Actuary. It is not unfair to view the Minister’s observations on clause 25 in that sense. In the end, the Government will work from the average life expectancy.

We recognise that clause 26(5) also requires the Government to appoint an individual to provide the report and “other specified factors relevant to the review.”

The Opposition do not believe, however, that that is enough to establish an independent, impartial and thorough process through which all factors relevant to decisions on the state pension age can be considered.

I believe that the Chancellor of the Exchequer referred to all the different things he has been doing to try to raise money or save money, and he said that the thing that has the biggest impact is raising the state pension age. He suggested that without the least fury, but I took from that that raising the state pension age was a Treasury decision. Given the health inequalities to which the hon. Member for Plymouth, Sutton and Devonport referred so eloquently, raising the state pension age will be more difficult to achieve in future without cross-societal support. We have heard evidence from a number of sources, and various bodies—from the Public Accounts Committee to the CBI—have expressed concern about the Secretary of State having unfettered power. Indeed, the CBI states that, when reviewing the state pension age

“there are many factors which should be taken into account such as healthy life expectancy.”

That makes our point, and the hon. Gentleman’s point, for us.

Further, the CBI believes that the review should be carried out by “non-political specialists” so that such factors can be considered. Let me make it clear that I am not an enormous fan of contracting out decisions to non-elected experts. Ultimately, the decision will have to be taken by the Government, but if they are going to proceed with the panel, it is probably wise to make the panel as effective as possible. Our amendments would help that process. Our view is that the clause as it stands does not provide clarity on the nature of the review of the state pension age. I hope the Minister will listen to our concerns and accept the amendment.

Steve Webb: I am grateful to the hon. Gentleman for moving his amendment, which gives me a chance to put on the record how we believe the review process should take place and why we do not believe the amendment is necessary.

We are trying to be systematic, not ad hoc—as the hon. Gentleman suggests, we clearly do not want a future Chancellor who is short of a few bob to decide to tweak the state pension age or even, hypothetically, exceed a welfare cap that includes the tweak of the state pension age.
[Steve Webb]

We are trying to be systematic so that people do not face the kind of emergency increases in state pension age that the new Government had to implement in this Parliament. People should have adequate notice—we are talking in terms of a 10-year minimum—and the process should be transparent. The steps in the transparent process are, first, that the Government of the day must identify a proportion of adult life spent, colloquially, “in retirement”—as the clause spells out, by that we mean beyond the state pension age. The Prime Minister was interviewed on breakfast television the other day, and he said:

“I think it’s fair to ask people to work a bit longer given that we’re all living longer… the idea that you should spend a third of your adult life in retirement seems to me a reasonable one.”

That is the kind of figure we are thinking of.

One of the consequences of that model, of course, is that, as people live longer, the state does not take the whole of that longevity out of their retirement. If, for example, we are talking about roughly a third, for each extra year people are expected to live, eight months goes on working life and four months goes on retirement or drawing state pension. There is already recognition that not all of the improvement in longevity is an improvement in healthy longevity, which is part of the reason why the whole of the growth in longevity is not being sniffled up by working age.

The hon. Gentleman asked how the UK compares internationally. Perhaps encouragingly, of the 27 member states of the EU—as it was when the figures were produced—the UK ranked fifth for healthy life years at 65 for men, and third for women. That is relatively good news, although obviously there is room for improvement. Although healthy life expectancy has not risen as fast as overall life expectancy, it is still going up. For example, in the last decade for which we have figures—between 2000 and 2010—healthy life expectancy at 65 increased by 0.7 years for men and 0.9 years for women. The total life expectancy figure over the previous two decades was 1.9 years for men and 1.4 years for women. In other words, slightly less than half the improvement for men—and slightly more than half for women—was for healthy life expectancy. There is clearly a sharing of the growth in life expectancy.

4.30 pm

Gregg McClymont: The Minister cites some interesting figures, but will he elaborate a little? That is good news, and we are pleased to hear the figures, but is there a possibility that if we dig under that average figure we have a real roaring ahead of life expectancy in some parts of the country, with a much lower rate of growth, if any, in other parts? Is that fair?

Steve Webb: In terms of England, Wales and Scotland, although there are differences in life expectancy, the growth in absolute numbers of years and months is pretty similar in the past decade or so. It is not identical, but it is pretty similar, apart from a few months either way. On the social class gradient, I can give the Committee the evidence for the past quarter of a century—a long run at this, from the early ‘80s to 2006—for what the Office for National Statistics calls condensed socio-economic class, which has at one end of the scale managerial and professional, and at the other routine and manual. The Committee will be encouraged to know that the increase in life expectancy at 65 for men among managerial and professional workers was 22%, the increase for routine and manual workers was 21%—in essence, or as near as damnit, the same number. They clearly start at different levels and so on, but across the social scale we are seeing significant increases in life expectancy and in healthy life expectancy, and that reinforces the feeling that we have to travel in this direction, albeit with some care and caution.

Reverting to the process, as is clear in the clause, a future Government specifies a percentage—this Government think that up to about a third is the right figure—and the Government Actuary then comes back with a report saying, “Simply on the basis of the maths, this is the answer—this is what you have to do for future state pension ages to stay within your target.” The hon. Gentleman may underestimate the checks and balances in the process, because we do not simply take the number we first thought of, but expose the report to the independently led process. He should take some comfort from the fact that a hard-nosed Chancellor might simply have said, “We will take the number we first thought of,” or that the external review might simply have been led from within—the Government tweaked the number—but we have made it clear that we envisage an independently led review.

The model we have in mind is the Hutton review of public service pensions, so someone who commands respect across the political spectrum—in that case, the Government appointed a former Labour Secretary of State. We will not have a great panel that ticks every tick box, but someone whom people respect and who can listen to views across the spectrum and find out what is going on. Rather than putting into primary legislation that we must have a trade unionist or whatever on the panel, we can expect the person with widespread respect to be taking in the breadth of views, including employer and employee perspectives—it is a very not-new-Labour sort of amendment, which forgets the employer side of the equation and only has the employee side. Clearly, the person would want to talk to trade union representative and employers.

There are slightly different arguments about Members of the House. Bear in mind that even after the whole process has been gone through, with a recommendation and decisions made, everything requires primary legislation. This Bill does not enable the state pension age to be changed by regulation; there will have to be an Act of Parliament. The people mentioned in amendment 8—“representatives of the party or parties in opposition at the time”—will have hours of happy fun debating any change. Also, “representatives of the House of Lords cross-benches” will be giving their wisdom on such matters. They are all entirely part of the process.

We clearly have the Hutton model in mind, and a Secretary of State worth their salt will appoint someone who commands respect across the political spectrum, because the Government will want to get the legislation through and to get the changes done. There is a danger of tokenism, if we are not careful. If we go beyond a respected non-partisan person and stipulate, as in the
amendment, that we have to have the trade unions, we can be pretty sure that the employers will say, “We are paying employer national insurance so we want to be on this.” If we include the opposition parties, it will be, as my hon. Friend said, which and how many. If the Cross-Benches are deemed to be the sole repository of wisdom in the House of Lords, others in the Lords might have something to say about that, and so we go on. The medical profession might be asked, as might a whole raft of other people. Before we know it, we will have an unwieldy panel when what we want is an evidence-based process led by someone who is respected.

We have taken a clear judgment, and the Committee is entitled to disagree with us, that rather than attempt to shackle future Governments we have tried to be clear about what we would do if we were carrying on in office while trying to give future Governments flexibility to respond to the circumstances of the time. We do not want all of this pre-determined because, as we know, this is long-term stuff and, ultimately, we cannot bind future Governments.

**Oliver Colvile:** Does my hon. Friend also agree that it is not just about pensions but about making sure that there is decent housing, good health quality and all of those kind of things? Therefore, to concentrate on just one part of this in the form of pensions is perhaps not the right way of going about it. What we must do is campaign for better conditions.

**Steve Webb:** My hon. Friend is right that the quality of life for older people is about a whole range of things of which the state pension is an important one but not the only one. Indeed the valuable work on ageing done by the House of Lords Committee on Public Service and Demographic Change in its recent published report encouraged Government Departments to look across the piece at health, social care, pensions and so on and make sure that the needs of older people are being looked at in an integrated way. My hon. Friend was quite right to flag up that point.

The crucial point with regard to the amendment—we will come back to the substantive clause in a moment—is that the proposed process will be transparent. A whole series of reports will be published on this matter. The Government Actuary will tell us what it thinks, as will the independent panel. The Secretary of State will also lay a report. We will have reports coming out of our ears. This will be a far more transparent and inclusive process than we have ever had before. On that basis, the slightly tokenistic suggestion of having a particular group represented or someone who is thought to be particularly knowledgeable and is drawn from a particular bit of the House of Lords seems to be slightly missing the point. I encourage the hon. Gentleman to withdraw his amendment.

**Gregg McClymont:** I listened to the Minister, but I do not accept the portrayal of the amendment or the desire for a beefed-up panel as tokenistic. Given that we are discussing very important matters in the context of significant inequalities of health and other things, as the hon. Member for Plymouth, Sutton and Devonport noted, it seems appropriate to try to think a little more carefully about how such a panel will be constituted. Let us not underestimate the significance that this panel will have. The Minister refers to checks and balances. We know that the report will be portrayed by the Government of the day as independent, fact-based and evidence-based, which is putting a lot of responsibility on one single individual. The Minister says that any Secretary of State worth his salt will be sure to appoint a top-class person. I am always a bit wary of what we might describe as good intentions. I am sure the Minister’s intentions can be so described, but he might be long gone and he might or might not be Secretary of State.

[Interruption.] The Minister gestures maybe aye, maybe no. It seems that this model puts far too much focus on one individual. Without knowing who that individual is, what their qualifications are for the job or the biases or prejudices that they may bring to the task—I do not use the words biases and prejudices in a pejorative way because everyone brings to any task their own perspective—a much more reasonable way to approach such an important issue is to have in the room representatives of the various parts of society that will be very much affected by this panel and its decision regarding the retirement age. Our amendments 7 and 8, together, would beef-up the panel’s role and hopefully give people more confidence that a wide range of views will be heard. On that basis, and having listened to the Minister carefully, I intend to press the amendment to a vote.

**Question put. That the amendment be made.**

The Committee divided: Ayes 4, Noes 7.

**Division No. 1**

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**Question accordingly negatived.**

Amendment proposed: 8, in clause 26, page 13, line 35, at end insert—

‘(5A) The panel shall include—

(a) representatives of the party or parties in opposition at the time;

(b) representatives of trade unions; and

(c) representatives of the House of Lords cross-benches.

(5B) The panel shall take evidence by way of evidence sessions to be held in public. It shall have power to determine its own terms of reference for evidence taking, which may include matters such as disparities in lifespan and life expectancy between sectors of the population.’—[Gregg McClymont.]

Question put. That the amendment be made.

The Committee divided: Ayes 4, Noes 7.

**Division No. 2**

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Steve Webb: We have covered the main elements of the clause. The Secretary of State will ask the Government Actuary to produce a report on the state pension age, which will be required to maintain the proportion of adult life in retirement below a set threshold. That threshold will be set by a future Government, but we envisage that that will be up to about a third.

That report will be published and a review, led by an independent person, will comment on that and report to the Secretary of State. The Secretary of State will then make a decision, which will form the basis of primary legislation. Those reviews will have to take place at least every six years. That may seem odd in a world of five-year Parliaments, but that is because if the first review is done early in a Parliament, we would not want the next one to be rushed in the early days of the next Parliament. That provides a bit of flex in the system.

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Steve Webb: I am grateful to the hon. Lady for her question. If we allowed people to draw the single-tier pension early at a reduced rate, for the reasons she gives, that might fatally undermine the whole point of the exercise, which is to set the rate of the single-tier pension above that of the basic means-tested pension. We would find that people drew their pension a bit earlier and were then within the scope of means-testing, which would undermine the savings incentive and add great complexity to the system.
unchanged since the post-war period. It was very much based on the assumption that men went out to work and women stayed at home—the woman who lost her man, lost her income, and therefore needed a national insurance benefit for herself and her dependent children. It is perfectly proper for a Government in the 20-teens to ask whether that model is any longer appropriate.

The current model has several problems. For childless widows and widowers, there are obscure and complex age rules. For example, what one might think of as the widow’s pension, or the bereavement allowance, is not payable at all for those under 45. It is payable on a tiered basis up to the age of 55, and then there are complicated contributions rules overlaying all that. Most people would feel that that is a degree of complexity. For someone who is a young widow or widower, it is hard to see why there should not be an entitlement to any help over the following 12-month period. Therefore, dealing with the gaps in the system is one factor.

The second factor is the support given to bereaved parents. As I said, the existing system almost reflects a 1940s model: a bereaved parent has lost the breadwinner, who would have supported them for as long as their children were children, and therefore, that person should have an allowance that runs for 16 years, 18 years, or whatever. Although absolutely nobody would want to be in a bereaved parent’s position, the reforms are trying to focus the financial help that is given to bereaved parents on the time of bereavement and the immediate period thereafter, while putting in place a longer-term system of financial support for those who do not return to the labour market. Therefore, the idea of the reforms, both for the childless and for bereaved families with children, is to concertina the support into a substantially increased grant, death grant, or lump sum, consisting of several thousand pounds more than the current figure, we envisage. Monthly payments will then be paid over the following 12 months; those are essentially a broken-down bit of that first lump sum. Essentially, that replaces someone who is a young widow or widower, it is hard to see why there should not be an entitlement to any help over the following 12-month period. Therefore, dealing with the gaps in the system is one factor.

One of the changes we are making is to relax substantially the national insurance contribution rules. Whereas the bereavement allowance currently requires extensive payments—a lifetime’s worth—of national insurance for a full pension, we think that is simply inappropriate. In fact, the contribution rules have been so dramatically relaxed that we require only 25 weeks’ national insurance. In other words, someone must spend less than a year in the system to qualify for the payment. A problem with that, which we identified after we printed the Bill—as the Committee might work out, that is why we have tabled the amendment—is that that would mean that bereaved people around the world, who, I hesitate to say, even if they had not seen the white cliffs of Dover, had certainly spent six months in the country paying national insurance, would qualify for a bereavement lump sum. Given that the amounts of money are substantial, we did not think it the priority for the British taxpayer to pay bereavement support payments to bereaved people around the world—although, of course, we sympathise with them—who have simply had a passing acquaintance with the country.

Amendments 1, 2 and 3 together set out that there will be a test of being ordinarily resident in the country, of the sort that is familiar in the benefit system. Amendment 1 would prevent persons living in a non-EEA or non-reciprocal agreement country, without a close connection to Great Britain, coming to the country to claim the benefit. Amendment 2 provides that the Secretary of State will make regulations that specify the rate and period of payment. Amendment 3 provides that regulations may specify countries other than Great Britain in which a person has to be ordinarily resident, such as elsewhere in the EU, to be entitled to the bereavement support payment. In a sense, the set of amendments—the matters we are dealing with narrowly at this point—simply try to ensure that we pay the money to people who have contributed to the system and who are ordinarily resident here, which I am sure is what the public and Parliament would expect us to do. On the strength of that, I commend the amendments to the Committee.

Gregg McClymont: Amendment 1 seems pretty straightforward and I have nothing further to add. However, will the Minister elaborate on the impact of amendment 2, which would insert the phrase

“leave out ‘Regulations are to’ and insert ‘The Secretary of State must by regulations’.”?

Bluntly, what is the amendment’s point and how does that change materially affect the Bill?

Steve Webb: I am grateful to the hon. Gentleman for that question, because, as I entirely accept, the answer is not self-evident. I can reassure him that it is a minor and technical amendment, clarifying that the Secretary of State will—that is the important word—make regulations under subsection (2), which specify, as one would expect, the rate of payment for this benefit and the period of payment. It requires the Secretary of State to do that; it is a tidying-up amendment.

Amendment 1 agreed to.

Amendments made: 2, in clause 27, page 14, line 13, leave out ‘Regulations are to’ and insert ‘The Secretary of State must by regulations’.

Amendment 3, in clause 27, page 14, line 26, at end insert—

“‘specified territory’ means a territory specified in regulations made by the Secretary of State.”—

(Steve Webb.)

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

Steve Webb: I have given the Committee a flavour of the thinking behind these reforms, but I will just run through clause 27.

As we would expect, the trigger for the bereavement support payment is that the person’s spouse or civil partner dies. This does not apply to cohabiting couples, which may be an issue we want to discuss, but in line with current provisions for bereavement benefits this is based on legal marriage and civil partnership. It applies to people who, when they are bereaved, are under state pension age: obviously, there are different arrangements for provision for widows and widowers above state pension age, through the pension system. It is a contributory system and the contribution test is set out in clause 28, so I will not dwell on that now.

Clause 27(2) as now amended requires the Secretary of State to specify what the rate of benefit is and how it long goes on for, which we thought we probably should
do. The rates can be different. For example, there could be—as we envisage—an initial rate and a rate per month, and there could be different rates again, as in subsection (4). We envisage higher rates for people entitled to child benefit. So we envisage that the lump sum would be higher for families with children. We do not currently envisage that the periods will vary between families with children and families without children, but we have put that flexibility in.

One of the reasons we have done that is that this package of measures is not about saving money. At the illustrative rates we have provided, it will cost the Exchequer an extra £110 million in the next Parliament, so it does not save money in the next Parliament. However, in the long term, as the grandfathered recipients—for want of a better phrase—of the old benefits gradually come out of the system, the replacement system will, over time, start to save money. Clearly, it would be at the discretion of a future Chancellor and a future Parliament to recycle that money back into the system, for example—as subsection (4)(b) allows—through paying for a longer period or paying more to families with children, or whatever mix a future Government wanted to use.

It is worth saying that it is not self-evident that paying for a longer period is necessarily a good thing. The reason I say that is that if we regard the payment of the lump sum and the 12 monthly instalments as being essentially a death grant, that is potentially advantageous to the recipient in two ways. The first is from the point of view of taxation. We have already specified that the lump sum will be tax-free and we are in discussions with our colleagues at the Treasury about the monthly payments, but our impact assessment assumes that they will be tax-free. Secondly, these amounts are disregarded for other benefits, such as universal credit. So, for as long as it looks like a death grant and quacks like a death grant, as it were, we can treat it in that way. If the power in subsection (4)(b) were used to make it into a two-year or a three-year payment, it would be much harder to say, “Well, you can’t tax it because it would look like a bereavement pension”, or that it could not be counted for the purposes of the universal credit. So, having a focused payment means that it is far easier to treat it in a relatively favourable way. I am simply explaining the situation; but we have left that option open.

I have mentioned the issue of not getting payment after pensionable age, and that these benefits do not apply if the death did not occur before this provision has come into force. Although we have not finalised our view, because single tier has come forward to 2016, our best estimate is that 2017 is the most likely start date for these provisions. In clause 27(7), we define what we mean by “pensionable age”.

The key principle behind these reforms is not to spend less money—more money will actually be spent in the next Parliament—but to try to reflect modern life. However, families with parents who have decided not to marry but to cohabit are excluded. In most other comparable areas of the law, those couples are now included. Why have they not been included in this legislation?

Steve Webb: The national insurance system, of which the payment is a part, has always been and remains based on legal marriage and, subsequently, civil partnership. The provisions in the single-tier pension for partners are for married partners and civil partners. All national insurance benefits, to the extent that marriage is relevant, are based on marriage, not cohabitation.

I entirely take the hon. Lady’s point that cohabitation is a part of modern society. She asked why we have not reflected that in the provisions. One of the biggest challenges is entirely practical. The payment is not a means-tested benefit, but when we assess a couple for means-tested benefits, defining cohabitation is a messy business. People argue about it; they go to appeal tribunals about it; and they say, “No, we are not cohabiting because I spend only one night a week there.” Sometimes we even have fraud inspectors going into people’s houses and sitting outside in cars, watching what goes on. Cohabitation is not a straightforward concept when trying to write the law of the land.

It is difficult enough when the two parties are still alive. Imagine a situation where someone has died and someone else comes along and says, “I was the cohabiting partner of the person who has died. I would like a bereavement support payment.” We would need some evidence of that. We do not have a marriage certificate to prove it, so the question is, what would be the nature of the proof we would seek? Would we pry, at a time of bereavement, into the nature of the relationship? Would we ask how long they had lived together or whether they slept together? Would we ask whether they were the only partner? What we have found in other spheres of life is that there could be multiple people who could legitimately claim to be the partner of the deceased. Trying to ask all those questions is difficult at the best of times; at a time of bereavement, it is all the more difficult.

Clearly, an option is for a cohabiting couple to marry, after which they become entitled to all those things. Who knows whether a future Government will allow civil partnerships for heterosexual couples? In that environment, that might well be the way to deal with the point that the hon. Lady raised. I could go on at much greater length. The more we think about how we might do it, the more intrusive and difficult it looks.

Pamela Nash: I fully accept all the Minister’s points, but I am thinking about the children of those relationships. Might a way around the difficulties of judging whether a couple is cohabiting be to attach the support payment to the child? It does not matter whether the parents are together; even if the living parent was not living with the child, they would still be financially responsible for that child.

Steve Webb: Speaking as the Minister who is also responsible for the Child Support Agency, if the deceased is a man, he could have had children by a number of
different partners. That could trigger bereavement support payments to each child by each parent; suddenly there are multiple payments of £5,000, and ongoing monthly payments, when someone had paid 25 weeks of national insurance. We absolutely have to support orphans and children, but it is odd, if a man dies, for the state suddenly to say, “We are going to make a payment to a child, fathered by that man, who has been living with their mother” when there had been no contact for perhaps 15 years. It is hard to understand that logic.

The hon. Lady’s example is a creative one, but it shows just how difficult it would be to implement the policy. If parents are worried about what would happen to their children after one of them dies, they can have a civil marriage. That is an option. Potentially they can take insurance out. In time to come, my guess—is this not Government policy—would be that we will have a system of civil partnerships, which will probably deal with that problem. One might think that one knows it when one sees it, as it were, but the law has to cover all circumstances. It has to have a standard of proof, and I think we would be asking intrusive questions at a difficult time.

Sheila Gilmore: The Minister says that universal credit is the solution for people after a certain period. The problem with universal credit in many cases is the conditionality, unless the children are very young. That conditionality is increasingly demanding, and a number of people have suggested that that will be exceptionally difficult when a family are coming to terms with a loss, and when others things are going on in the children’s lives as well. A longer period—not necessarily for ever—would be advantageous. The analogy has been drawn with the arrangements allowed for kinship carers. When we raised this matter previously, the Minister suggested that jobcentres could have discretion to give a longer period, but the Government are bearing down on conditionality.

Steve Webb: The hon. Lady makes a fair point. It is worth saying that conditionality comes in six months after the universal credit claim starts, but someone will get a lump sum of £5,000 or so and a monthly pension. If they are in a position to do so, there may be some other occupational pension or a small amount of earnings that means that, in many cases, they can delay the start of the universal credit claim for as long as they like—for example, for a year. They could take the lump sum, the pension and any other income they have and not even initiate a universal credit claim for 12 months. Six months after that is when conditionality would start in earnest, so we are talking about 18 months.

I stress that the Government are absolutely not saying after 12 months, “Pull yourself together.” We are saying, “We want to help bereaved families at the time of bereavement and in the immediate aftermath in an intensive way, and then give ongoing long-term support to bereaved families through universal credit.” As I said when I gave oral evidence last week, we have plenty of time to liaise with and give guidance to our colleagues in Jobcentre Plus. There are already, for example, exemptions to conditionality for people who are vulnerable in various ways.

To put the other side, there is also evidence that many bereaved parents go back to work. If they were in work when they were bereaved, it would be unusual for an employer to give them more than three months’ compassionate leave. Bereaved parents who are in work are generally back in work quite soon. Those who are not may find that a prolonged period out of the labour market is not in their long-term interest.

We are absolutely not trying to hit people with a big stick when they are vulnerable; we are trying to get alongside them and support them, so that, as and when they are able to re-engage with the labour market, they have not suffered from being detached from it for so long that they cannot do so, leading to them and their children suffering all the more.

Sheila Gilmore: In practical terms, although a lot of bereaved parents will go back to work if they are already in work, many couples’ working arrangements work because there are two of them. It is often at a time like this that a parent—whether a man or a woman—has to give up their job because it is no longer feasible in their new circumstances.

Steve Webb: I am not quite sure whether I follow the hon. Lady. I take her point that working arrangements that work when there are two people have to be rethought when there is one person, but while conditionality sounds like a big scary word, it is not. For example, it might mean having a work-focused interview and a conversation to get someone to think about what it would take to get them back to work, when the time is right. It might be about whether they have child benefit in place, for example. The system will be progressive as the children get older and go to primary school; there is the provision that we have for three and four-year-olds. We are trying to go with the grain and not be coercive, because that is not where we are coming from. Yes, universal credit has responsibilities attached to it, but we understand the needs of this particular group.

Sheila Gilmore: Is the Minister suggesting that there will be special guidance on conditionality for this group? One of the issues around single parents is that some of the single-parent flexibilities that existed no longer exist under the new universal credit regulations. That has already given rise to concerns among groups representing single parents. The Minister may say that conditionality will be flexible, but there is concern about whether that will be written down somewhere where people can refer to it.

Steve Webb: The hon. Lady knows her way round the system well, and she knows that we give extensive guidance to our front-line staff. It seems entirely appropriate that we would do so in this case. We are working through these matters as the systems are developed. The measures will not come into effect until 2017, so we have plenty of time to think through the practicalities.

The basic idea behind clause 27 is to focus support on that moment of greatest and most immediate need, when there is the cost of the funeral and all that kind of thing, and spread some of the lump sum over the year, because that is what we have been advised that people wanted. I stress that a lot of these reforms are in response to consultation. We did not sit there at the famous whiteboard and draw them up; we talked to a lot of organisations. I am grateful to the bereavement organisations that gave oral evidence. I had a conversation with them this morning to hear more of their concerns and to discuss some of these issues.
[Steve Webb]

The conversation is ongoing, and we remain happy to have it, but I hope that the House will accept the basic principle of what we are trying to do. There are unfortunate exceptions in the current system, which was built around a very old-fashioned model of the way in which women in particular engaged with the labour market. However, our sense is that clause 27 is a better fit that will hopefully support the needs of bereaved families more effectively.

Oliver Colvile: Has my hon. Friend received any kind of communication from any of the armed forces charities, such as the Royal British Legion, and what did they say?

Steve Webb: As my noble Friend Lord Freud leads on such matters for the Department, that would generally be a matter for him. However, arrangements for forces widows, for example, are often made not just through the national insurance system, which is what we are talking about, but through war widows’ pensions and armed forces pensions, which are unaffected by these changes. Very often, a major part of the support that my hon. Friend’s constituents would have would be through mechanisms that are not being changed. However, if we have had further representations, I am happy to share them with him, assuming that they are in the public domain.

I hope that hon. Members understand the spirit in which we are introducing clause 27 and commend it to the Committee.

Gregg Mclenyont: The Minister refers to the spirit in which the clause is being introduced. No doubt that spirit is positive, but it is worth reminding ourselves of the evidence from the Childhood Bereavement Network and Cruse Bereavement Care, both of which gave evidence to the Committee last week. The Minister referred to conversations that he has recently had with bereavement organisations. Is it his view that the organisations that gave evidence last week support the measures in clause 27?

If we look back at last week’s exchange, it was quite obvious that there was a difference of opinion between the Minister and those charities and voluntary organisations. The first thing that Debbie Kerslake from Cruse Bereavement Care said was:

“One of the big concerns is that the period is being shortened, and that will be particularly seriously negative for those with younger children. For example, those who at the moment would be able to receive benefits until the child was no longer eligible for child benefit would be getting benefits for only 12 months.”

In other words, they would get the larger lump sum and then a monthly sum of around £400. According to Cruse—and it should know—that is a drastic reduction in the length of time over which families are supported, and we are concerned because we believe that more than 90% of families with dependent children will lose out under the proposals."

The Minister intervened and said:

“One of the big concerns is that the period is being shortened, and that will be particularly seriously negative for those with younger children. For example, those who at the moment would be able to receive benefits until the child was no longer eligible for child benefit would be getting benefits for only 12 months.”

In other words, they would get the larger lump sum and then a monthly sum of around £400. According to Cruse—and it should know—that is a drastic reduction in the length of time over which families are supported, and we are concerned because we believe that more than 90% of families with dependent children will lose out under the proposals.”

The Minister intervened and said:

“Obviously, the figures are not in the Bill; it is the structure that we are debating.

We do not recognise the 90% figure that you give, on the basis that if someone gets £5,000 not £2,000, that is an extra £3,000. If they get £400 per month for a year, which is roughly similar to the current rate, the extra £3,000 is gain, and therefore the only bereaved families with children who will get less will be those who would otherwise have been on the benefit for several years and, as you rightly say, this is focused on the immediate bereavement.”—[Official Report, Pensions Public Bill Committee, 25 June 2013; c. 26, Q56-57.]

5.15 pm

I understand the point Cruse Bereavement Care and the Childhood Bereavement Network are making. Someone who claims this support for more than two years—I think that was the break even point—will lose out under these proposals. That is a serious matter worthy of consideration by the Minister. I take his point about responding to modern conditions. That is a theme of the Bill generally. But I would be interested to know whether there have been follow-up discussions with Cruse Bereavement Care and the Childhood Bereavement Network. Do they support these changes? It is pretty stark in the evidence. They say that 90% of current claimants would lose out under the new system.

Di Stubbs from the Childhood Bereavement Network said:

“We are very aware of the increase in funeral costs and things like that.”

It welcomes the lump sum. As far as I can see it does not see the lump sum increase in itself as a problem. But there really is an important point. My hon. Friend the Member for Edinburgh East, who is no longer in her place, made the point about universal credit. Di Stubbs pointed out to the Minister that three fifths of people currently receiving bereavement payments are in work. They are not claiming any other benefit. Di Stubbs suggested that adding the payments to universal credit—we take the Government’s word that universal credit will work efficiently from the start—would complicate the system for those claiming this support and who are entitled to this support. Yet the Minister’s aim is to simplify the system. There is a tension there too.

The Minister pre-empted a question I was going to ask. I wanted to ask about the cost of this new system. He said that it is projected to cost the Government, whichever Government it may be in the next Parliament, around £110 million more. I take that to mean over the course of the next Parliament. After that this new system will produce savings. The Government should consider carefully the case made by Cruse Bereavement Care and the Childhood Bereavement Network regarding these changes. We can hardly think of a worse time in anyone’s life, I imagine, than a close bereavement. I have not experienced it myself. Inevitably in life it comes one way or another. That is the time when people are in difficult and vulnerable situations.

The Minister has said that that immediate period is very important and so in that immediate period of loss let us move the money around, save a bit of money in the long term and put more of it upfront. I can only refer him to what Cruse Bereavement Care and the Childhood Bereavement Network said on this issue. Di Stubbs said:

“That means that people whose child was 15 or 16, or 17 or 18 if they were in work, are the only ones who would gain under that system.”—[Official Report, Pensions Public Bill Committee, 25 June 2013; c. 27, Q57.]

They made a number of points about the moment at which a bereavement takes place. That immediate period is very difficult; it can be chaotic. I clearly remember Di Stubbs making the point that if someone has been bereaved, there is a sense that the bereavement payment
paid over time until child benefit eligibility is exhausted, is something that they feel that their deceased husband, wife or partner has paid for. It is something that they continue to provide after they have gone. I am not as convinced by the Minister’s explanation as I have been during other parts of the Bill and I urge him to continue to examine matter closely, because last week’s evidence was pretty striking. The Minister refuted the 90% figure and I hope that he refers to it in his response if it is wrong and can tell us by how much and why. Cruse Bereavement Care and the Childhood Bereavement Network were keen that some amendments be tabled to probe aspects of the clause. We did not manage to get the amendments down in time, but they are the experts and struck me as reasonable and informed witnesses. There may be a dispute about the calculations about losers, but it seems clear that people claiming the support for more than three years will receive less under the new system than they would from the current. Given that we are discussing the bereaved, I urge the Minister carefully to look not just at the current but its impact. What does he understand to be the position of Cruse Bereavement Care and the Childhood Bereavement Network?

Steve Webb: The hon. Gentleman raises some important points in a measured and fair way. Stakeholders have obviously had the opportunity to put their position into their own words, so I will not put words into their mouths, but we did consult on the general principle of moving to a lump sum or a lump sum with monthly payments as against a pension. Cruse Bereavement Care said:

“It is a simple system that would provide bereaved people with access to immediate help. It gives immediate financial support at a time when other available resources can be rendered inaccessible (e.g. frozen accounts).”

It also said:

“A quick, simple initial payment would be a meaningful help for most widows/widowers regardless of family and financial position.”

On universal credit, it said:

“If the principle is that the Universal Credit should ensure that the bereaved family are adequately supported on an on-going basis then a lump sum to help enable them to get back on their feet may be simpler and more appropriate.”

I can offer the hon. Gentleman some assurance that we did not just decide what to do and ignore these organisations. There has been quite a lot of dialogue and, as he will see, they have been quite supportive of important strands of what we are trying to do. It is clear, for example, that they would like the period to be more than 12 months and, as the hon. Member for Airdrie and Shotts suggested, they would like co-habiting couples to be included. I do not think it is any state secret that I have seen the amendments that would have been tabled had they been submitted in time and they include many of the issues referred to by the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East. I therefore would not pretend that the organisations would not want the changes we are making, but there is a lot of sympathy with the general emphasis of trying to help people move up front.

I will now respond to some of the other points raised by the hon. Gentleman. The 90% figure is based on the assumption that the only basis on which people flow off benefits for widowed parents is when the kids turn 18. Actually, people flow off widowed parent’s allowance when they remarry or when they reach state pension age. I understand and am sympathetic to his worry about couples to be included. We do not want people who have been much more long-term, who are widowed at a very young age, to lose benefit through not remarrying or whatever. It is very much the minority, but also the exception. It is more normal to think of people being on such benefits for a median period in the order of four years.

Clearly, if someone is on the benefit for four years, they will get less money through the new system than through the old one. I am not hiding that from the Committee. We have published our estimates of the numbers on the Department’s website. For the reform as a whole, we think it is roughly 50:50. With the figures that we have used, we think that 52% would get more and 48% would get less. There is a shift in the balance, however, because the reform spends extra money on childless bereaved people, who currently would not get any benefit at all in many cases. We estimate that around three quarters of bereaved families with children would get less and a quarter would get more. Within that, however, it is loaded towards those who are out of work, so the heavier losers are those who are in work. We are saying in a sense that we will front-load the money—I do not pretend that any of this is attractive; no one would want to be in this position. A working bereaved parent will get a front-loaded enhanced lump sum, 12 monthly payments and then continue their job, whatever they were doing. If it was a decent job, paying a decent wage, they would be beyond the scope of universal credit—one would have to be on a decent wage to be beyond the scope of universal credit—and that would continue. The Committee will make a judgment on that balance, but that is where in particular what are called the “notional losers” come from. One hundred percent of those who currently receive the least—the bereavement payment group who currently get the lump sum, but no regular payment—are gainers, because they get no pension at all at the moment and we will bring them into the system. I do not recognise the 90% figure.

My hon. Friend the Member for Plymouth, Sutton and Devonport asked about the Royal British Legion. I am pleased to assure him that it responded to the consultation we undertook. In that consultation, we set out two options: one was a very large lump sum and the second was the model in the Bill—a lump sum with 12 monthly payments. The Royal British Legion was in favour of the option we adopted. Within the context of the question we asked in the consultation, which suggested two options—I do not want to misrepresent its views—it favoured the option we have adopted. I hope that offers him some reassurance. War pensions and the armed forces compensation scheme are unaffected by the measures.

I hope my response has been helpful and I have been able to address the points raised. The exact figures will be a matter for a future Government; we are not setting them in the Bill. If a future Government felt that the balance between families with children and those without was not right, for example, they could tilt that balance. If they wanted to use the money that starts to be freed up towards the end of the Parliament, which will be worth tens of millions by the end of the Parliament in any given year—not vast sums—they could reinvest it over a longer period, which is allowed under clause 27, or in
Steve Webb: higher rates. That is at the discretion of a future Government. I simply want to stress that, assuming the measures are implemented, we will be spending more money to support bereaved families in the next Parliament than we would have under the current system.

Question put and agreed to.

Clause 27, as amended, accordingly ordered to stand part of the Bill.

Clause 28

BEREAVEMENT SUPPORT PAYMENT: CONTRIBUTION CONDITION AND AMENDMENTS

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

Steve Webb: Clause 28 refers to schedule 15, on which I will touch briefly and then move formally. The clause sets out the conditions for contributions to qualify for the benefit. As I mentioned, subsection (1)(b) says that to qualify for the benefit a person needs the equivalent of 25 times the lower earnings limit as an earnings factor and must have paid class 1 or class 2 contributions. It is probably one of the most, if not the most, relaxed contribution requirements in the system, and that is specifically to ensure that we support as many people as possible. Schedule 15 has consequential amendments, because there is no such thing as a bereavement support payment until the Act comes into force. Once that happens, various bits of law relating to social security must include references to the bereavement support payment, and schedule 15 tidies all that up.

Gregg McClymont: I thank the Minister for that clarification. Even he seems to be flagging a little in the final lap today. We do not oppose the clause, and I thank him for his explanation of it and of the related schedule.

Question put and agreed to.

Clause 28 accordingly ordered to stand part of the Bill.

Schedule 15 agreed to.

Steve Webb: On a point of order, Mrs Main. I got slightly ahead of myself when I told the Committee earlier about all the information we give people about frozen pensions. I read from form DWP 023. Had I not made this correction, I know you would have stopped me and done so yourself, Mrs Main, but the form was the forthcoming version of DWP 023, which will contain the information in future, in the autumn, but does not do so currently. I am grateful for the chance to correct the record.

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

5.30 pm

Adjourned till Tuesday 9 July at twenty-five minutes past Nine o’clock.
Written evidence reported to the Houses of Parliament

PB 31 GMB
PB 32 Legal and General
PB 33 National Federation of Occupational Pensioners
PB 34 Mercer
PB 35 SPC
PB 36 Aviva
PB 37 John Read
PB 38 The POP Group
PB 39 The Trustee Directors of the UK Power Networks Group of the Electricity Supply Pension Scheme
PB 40 Neil Howett
PB 41 National Association of Pension Funds
PB 42 Alf Russo