Public Bill Committee

PENSIONS BILL

Ninth Sitting
Tuesday 9 July 2013
(Morning)

CONTENTS

Clause 29 under consideration when the Committee adjourned till this day at Two o'clock.
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not later than

Saturday 13 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
Public Bill Committee

Tuesday 9 July 2013

(Morning)

[MARTIN CATON in the Chair]

Pensions Bill

9.25 am

Karen Bradley (Staffordshire Moorlands) (Con): On a point of order, Mr Caton. The Committee should be aware that the Minister has issued a written ministerial statement, which will be released at 9.30 am. Copies are available for members of the Committee at the front of the room.

The Chair: I understand that the statement does not directly impinge on the Bill, but is a useful background document.

Clause 29

AUTOMATIC TRANSFER OF PENSION BENEFITS ETC

Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): I beg to move amendment 17, in clause 29, page 15, line 18, leave out 'of the person who is an active member'.

The Chair: With this it will be convenient to discuss new clause 10—Review of section 29 provisions and regulations—

The Chair: ‘The Secretary of State must review the effect of section 29 and any regulations made under it within three years of Royal Assent.’

Gregg McClymont: It is a pleasure to serve under your chairmanship again, Mr Caton, on this sunny morning.

Clause 29 brings us to part 4 of the Bill, which might be better considered as the Bill’s second half. I say “second” because the Bill’s provisions fall into two parts: one containing the provisions for the state pension; and the other, provisions on private pensions. I say “half” because the two parts are inextricably linked, in the Government’s own terms. The Government’s desire to reform the state pension on their own terms is driven by the belief that if one can simplify and clarify the system to create a flat-rate state pension, individuals will have a greater incentive to make their own provision for their pensions and to save privately. That belief came across very clearly on Second Reading: Government Back Benchers after Back Benchers made precisely that point, saying that they supported the Bill because it would encourage saving and that, as believers in individual responsibility—people working hard, playing by the rules and making their own provision—they saw that as a good thing.

The key question, which I put to Government Members on Second Reading, is: an incentive to save into what? It is not unfair to say that the UK private pensions market has not been one of our most successful markets over the past 30 years. We know, of course, about the mis-selling scandals which dramatically affected people’s confidence in private pensions—scandals that emerged from the Thatcher Government’s encouragement of private personal pensions at the expense of occupational pensions. Building on Labour’s foundations of auto-enrolment, the Minister and the Government are in some ways trying to put back together that occupational pensions system, as that is what auto-enrolment is really about.

As the Minister looks across the pensions landscape, he has rightly identified that there is an issue with stranded pots. I say “stranded pots” rather than “stranded small pots” because I find it interesting that the Government’s approach is to define stranded pots as small pots only, whereas I would say that a stranded pot is a stranded pot, whatever its size. I will come on to say a little more about that issue.

As I said, when surveying the pensions landscape, the Minister has identified a big issue: if we are going to simplify the state pension and reduce what individuals get from it in the long term—the Institute for Fiscal Studies was clear that, in the very long term, that is what state pension reform means—people will inevitably have to make additional provision privately. Therefore, he has also been looking at reform of the private pensions landscape—auto-enrolment, workplace pensions and personal pensions. When we talk about the pensions system, we usually talk about three pillars: the state pension, workplace or occupational pensions, and private personal pensions. The Minister has looked at those three pillars together and, having decided to reform the state pension, has understandably thought to himself, “What do I have to do to make the second and third pillars into effective vehicles for individuals saving for their pensions?”

Mark Reckless (Rochester and Strood) (Con): Is “three pillars” the right description? Is not the more important distinction between the defined benefit occupational schemes—to the extent that they continue—and the defined contribution schemes, whether personal or employer ones?

Gregg McClymont: That is an interesting way to look at the system. It is worth pointing out to the hon. Gentleman that defined benefit schemes have fewer and fewer active members—we are very much into a system of defined contribution schemes. We can talk about those as the two pillars, but one is a lot higher and stronger than the other. The three-pillar approach allows one to understand the interaction between state pension and private pension savings. I am not sure that the state pension fits into the hon. Gentleman’s typology. It is important to think about the pillars together—about the state pension alongside workplace and private pension saving. The Bill reflects the Government view that that is so, given that parts 1, 2 and 3 are on the state pension, part 4 is on private pensions and part 5 contains tidying-up definitions, plus some powers for the Secretary of State.

I take the hon. Gentleman’s point that defined benefit versus defined contribution is a very important part of the pensions debate, but we are definitely moving towards defined contribution. The Minister asked the right question: how do we make defined contribution work as effectively as possible?

Mark Reckless: The shadow Minister says that we are moving towards defined contribution, but that is not true of the public sector. Are the Opposition comfortable
with the current situation, in which defined benefit schemes are almost being phased out in the private sector, but remain the lynchpin of public sector provision? Does he consider that to be sustainable?

**Gregg Mc Clymont:** I take it to be the logic of the hon. Gentleman’s position that he wants to draw a distinction between private sector defined contribution schemes and public sector defined benefit schemes, and to say, “Public sector schemes should be more like private sector ones.” The big problem, however, is that we must be frank about the difficulties with private sector defined contribution schemes, in which all the risk lies with the individual. The Minister is acutely aware of that, and his defined ambition aspiration—I was going to say “proposal”—but I am not sure it has enough meat on the bones to be that—is a system that combines some aspects of DB with DC, specifically risk sharing. If one assumes that, in the round, the country needs a public sector pensions system that looks like the current private sector DC system, that is a path fraught with difficulty. As things stand, that simply will not deliver the pension savings necessary to build on the flat-rate state pension and thus to provide individuals with a decent income in retirement, and the figures are pretty sobering in that regard.

The majority of people in the private sector are not saving anything; of those who are, the majority are not saving enough to produce half their salary as a retirement income. That problem is understood by many, including the hon. Member for Rochester and Strood, and various approaches may be taken. A frequent argument is that because people are not saving enough, the key is for them to save more. That is true, of course, but that takes me back to my original point: how can we demand that people save more if we are not convinced that the private pensions market products into which we are being encouraged to save provide good value for money? At this stage, I am certainly not convinced.

The hon. Gentleman and the Minister do not have to take my word for it; they can take the word of their colleague, the hon. Member for Warrington South (David Mowat), who has delineated clearly the problems in the private pensions market—and he is not a Conservative iconoclast. Michael Johnson from the Centre for Policy Studies, Mrs Thatcher’s favourite think-tank, is even more outspoken on the problems in the private pensions market. Those individuals, as Conservatives and believers in free markets, can see that the pensions market does not operate in the way that a functioning, effective market can see that the pensions market does.

**Steve Webb:** The word I offered was “flop.”

**Gregg Mc Clymont:** “Flop”? That is not the term I would use. Stakeholder pensions brought down the annual management charge and offered a better private pension scheme than was then in existence. Did they address all the problems in the pensions market? No, but if we are assigning culpability, the greatest—I am not trying to get into a partisan ding-dong—goes back to the Thatcher Government’s decision to undermine occupational schemes and to encourage private personal pensions. I say that because we have to think about how we ended up with stranded pots.

The Thatcher Government opened markets in many different areas, and there were better or worse reasons for doing that, depending on the market. The problem with pensions—this has emerged clearly in the past 25 to 30 years—is information asymmetries. People simply do not engage with pensions in the way they engage with the buying of other products.

Because the Thatcher Government gave such encouragement to private personal pensions, at one level, we ended up with the mis-selling scandals, which emerged partly because agents on commission in the 1980s and early ‘90s—particularly in the later ‘80s—were bombarding individuals in good-quality occupational pension schemes with phone calls and literature saying, “You are in chains. Come out of this occupational scheme, where you are paying a contribution of x, y and z, and come into our wonderful private personal pension, in which your contribution is much lower but you are going to get so much more in return.” They could not deliver those returns, of course, which is where the mis-selling scandals came from, and they did not take account of the most fundamental thing with pensions—taking us back to auto-enrolment—which is employer contribution. The greatest justification for a pension is the employer contribution, which, for the employee, is deferred pay. If the Minister wants to assign blame, that is where the problems in the second and third pillars of the pension system fundamentally began. That is not the only problem. Things have happened since then, but that is where the problems began in occupational workplace pensions. To take up the Minister’s point, the stakeholder scheme was an attempt to put things right. It made a difference, but it did not, of course, solve the problems. However, “decrying evils” is not a term that I would use.

We are now on clause 29, the private pensions part of the Bill. The Minister rightly surveyed the pensions landscape in the workplace and private personal pensions. He identified stranded pots as a significant problem. He used the term “small pots”. I would use the word...
“pots”. Why does he think that only small stranded pots should be unstranded, to create an ugly-sounding, non-word? There is an issue there. He is right to focus on stranded pots. It would be impossible to make auto-enrolment work effectively unless the pension pots that people are building up as they move from job to job are brought together.

The Minister has quoted the figures. Currently, there are millions and millions of stranded pension pots. It would not surprise me at all if some of us in the Room have a stranded pension pot or two. The present position will only accelerate as time passes. The Department’s latest estimates are that people move from job to job a dozen times during their employment career. That is potentially creating a dozen pension pots for each person. Given that we are moving into auto-enrolment, that situation cannot be allowed to stand.

If we are using arguments about the power of inertia to ensure that people begin to save, they will rightly demand quality to ensure that, when they move jobs, they will not lose track entirely of their pension pot—or, more importantly, not so much lose track of it, as find that the charges on it increase substantially when they move job. We shall come on to quality criteria more generally. We cannot allow that situation to stand. The powers that the Minister has given himself under the Bill suggest that only pension pots which are stranded after Royal Assent of the Bill will be subject to automatic transfer. We believe that all stranded pension pots should be brought within the scope of the Bill.

The three pillars of our pension system are the state system, occupational pensions and private personal pensions. We have dealt so far in Committee with clauses 1 to 28, which deal with the state pension system, and clause 29 begins our discussion on the private pension system. I shall explain why our private pensions market does not function as effectively as it should, as well as why it does not deliver value for money for each saver. Members of the Committee do not have to take my word for that. They can take the word of my colleague, the hon. Member for Warrington South, and the Centre for Policy Studies, whose free marketeers can see the problems with this market. If we believe in markets working effectively to deliver the public interest, the critique of our private pensions system should begin with accepting the problems that emerged, no doubt, in an unintended fashion, under the Thatcher Government’s reforms of occupational pensions: one could no longer be mandated in an occupational scheme. Other reasons played a part, but we ended up with a real savings problem in the United Kingdom.

Heather Wheeler (South Derbyshire) (Con): Was that last comment a euphemism for the tax and changes that the right hon. Member for Kirkcaldy and Cowdenbeath (Mr Brown) brought in when he was Chancellor of the Exchequer? That is the reason why we have this dreadful situation where people do not think it is worth saving.

9.45 am

Gregg McClymont: I thank the hon. Lady for raising that question, because on Second Reading some astonishing figures were being thrown around. I believe the Under-Secretary of State for Work and Pensions, the hon. Member for Wirral West (Esther McVey), was shouting that her estimate of the cost was £100 billion. The simple fact is that, while doubtless the ending of the tax credit did not help, the idea that that was the cause of our problems in occupational pensions is simply not true.

There has been a long-standing problem since the Thatcher Government changed the rules on occupational pensions. The last time I looked at the monthly figures, the deficits in the undefined benefit schemes were up to £260 billion. That is astonishing and that is a product of bond yields in particular. The pension companies, the Minister will be aware, are keen on a different measure of liabilities, but that is another debate. That deficit is also a product of the state of the economy and, more widely, of the diminution of occupational schemes. On Second Reading, the idea that the ending of the dividend tax credit was the cause was thrown across the Floor. No one is saying that ending it helped, but the idea that it caused the long-term problem is not correct.

Mark Reckless: The hon. Gentleman denies the £100 billion figure that he says was cited on Second Reading. I recall that in 1997 or 1998 the number was between £4 billion and £5 billion a year. I am not sure whether that is correct, but that is what I recall. Since then, 15 years have passed and presumably that number has gone up with at least some growth in pension funds. Is that £100 billion figure so wrong? Does he have an alternative estimate that he can share with us?

Gregg McClymont: The hon. Gentleman refers to what has happened since 1999, but it is very difficult to calculate the number, given all the other things that have affected occupational schemes since then. What we can say—I have already said this—is that no one is saying the ending of that tax credit helped, because of course it did not. The problems in our occupational system stem from a variety of factors and begin with the ending of the mandating that people had to be in occupational schemes. The problems continued with the pension holidays that companies were allowed to take in 1980s and 1990s, and carried on with the dividend tax credit issue. I say again to the hon. Gentleman and to members of the Committee that the idea that ending the tax credit is the cause of our problems in occupational pensions is at odds with reality.

The biggest problem occupational schemes face is the state of the economy and, in particular, bond yields. We know that pension schemes have to be careful in the risks they take. They are therefore increasingly piling into bonds rather than equities. The hon. Gentleman, I have no doubt, will be acutely aware of how low the yields are, and that is driving up the deficits even further.

Mark Reckless: Does he have any figures to back that up?

Gregg McClymont: The CBI would say—it said this to me when I met it yesterday—that employers are feeling pressure from the deficits in defined benefits schemes. To return...
to the point about distinguishing between defined benefit and defined contribution schemes, we should support defined benefit schemes in the private sector, where they exist. The Minister says that regularly. Those employers that are continuing to deliver defined benefit schemes deserve support because—I go back to the point about defined contribution—all the risk lies with the individual as things stand. The problem with individual DC is not just that all the risk lies with the individual, but that, in terms of decisions about asset allocation, one loses the benefits of scale on the investment side. If an insurance company is managing just one individual’s pot, it will have to go very safe with its asset allocation when the individual gets to 10 years before retirement. It is a significant problem with individual DC that asset managers have to go very safe in their asset allocation as they wind down towards the decumulation phase. They lose the ability to hedge more risky, but higher yielding asset decisions, and they are forced into a much narrower, lower risk asset allocation approach.

Individual DC brings us back to clause 29 and amendment 17. The amendment, to page 15, line 18, of the Bill, would leave out the words “of which the person is an active member.”

That is intended to allow the automatic transfer of stranded pots into aggregators. There is a general justification for that. The Minister has identified the key issue of stranded pots, and in tackling it, we have a real opportunity to reform the pensions market so that it works in savers’ interests. However, as things stand, and without the deletion proposed in the amendment, the clause will serve the interests of certain providers in the marketplace, to the detriment, in the Opposition’s view, of savers.

The Minister rightly said that, if auto-enrolment is a success, it will generate large numbers of pots left stranded as employees move from one employer to another. It is in savers’ interests that their pots are amalgamated, and the Bill as it stands would give the Minister the power to require the setting-up of a transfer mechanism to bring pots together, but it does not provide for the pot-follows-member policy he favours. In the Bill, he does not decide which form of automatic transfer mechanism to favour, although we know from his public comments, written ministerial statements and observations from last week.

The Minister deserved credit for setting up a transfer mechanism, for recognising the issue of stranded pots and for the fact that the Bill does not preclude there being an aggregator system in future. However, the deletion proposed in the amendment would enable automatic transfer into aggregators, which is a better policy. The Minister has been persuaded to pursue a transfer mechanism that minimises competition for all existing pension pots; militates against the development of scale—we think scale is a good thing for number of reasons, which I will come on to; and serves the interests of some of the big insurance companies, rather than savers. Importantly, almost every stakeholder in the pensions industry is pitched against the proposed system.

As things stand, the Minister and the Association of British Insurers favour pot follows member, but Age UK, CBI, EEF, NAPF, TUC and Which? favour the creation of a system of automatic transfer into aggregators. That is quite a heady line-up.

Steve Webb: The hon. Gentleman will be aware that, when we consulted on the issue, those who wanted an aggregator model were split between those who wanted a single aggregator, which is one model, and those who wanted multiple aggregators, which is another. Would he care to subdivide the list that he gave? Clearly, the organisations that he listed do not agree with each other.

Gregg McClymont: I will come to the point about single versus multiple aggregators. I think from my discussions that implementing quality criteria so that there are three or four aggregators would satisfy all the organisations to which I referred. It is pretty striking that the Minister is in the ditch with the ABI, when the CBI, EEF, Age UK, NAPF, TUC and Which? favour aggregators. That is a pretty strong line-up of organisations that, in one way or another, are deeply sceptical of pot follows member. Let me explain why they are so sceptical.

Mark Reckless: All those organisations support aggregators. Is that an answer in the plural to the Minister’s question? Are they all considering the multiple aggregator model, or are some of them still looking at the single aggregator model?

Gregg McClymont: I urge the hon. Gentleman to be patient. I will come to that point, because it deserves an answer. There is a danger of creating a straw man. The Minister sometimes says that an aggregator system will fragment the market. Again, I hope to be able to convince the Committee that that is a bit of a straw man given that an aggregator system, whether there is one aggregator or several, will massively reduce fragmentation in the system. I will start with a critique of pot follows member, and then explain why the aggregator system is better. I am sure that Government Members will be delighted to know that they are getting not only a critique but a solution to meet some of their complaints and observations from last week.

Why is the Minister supported in his preference for pot follows member only by the Association of British Insurers, which one might say has a vested interest in that system with its damaging effects? Why do all those organisations—Age UK, CBI, EEF, NAPF, TUC, Which?—and the official Opposition think that he is getting it wrong with pot follows member?

The consequence of pot follows member is that a saver’s pot automatically moves to the new employer’s scheme, regardless of how good it is. The point about automatic default was raised in the evidence sessions by numerous witnesses. The hon. Member for Burton, by way of Dudley, who is not in his place today, asked of witnesses, “If the mechanism means that one might be defaulted into an inferior scheme, does that not also mean that one might be defaulted into a superior scheme?” That is true, of course, but I am not sure that it is an argument for pot follows member, because it creates a lottery in which one does not know whether one is being defaulted into an inferior or a superior scheme. I am sure that the Minister will agree that, if the automatic transfer mechanism is going to work for stranded pots, it cannot be the case that anyone can be defaulted into an inferior scheme. That would destroy confidence in the new system very quickly.
The Minister would rightly say that he is consulting now on measures that require new quality criteria. There are a number of problems with that. One problem, which we also see with the Bill more generally, is that the Minister is asking the Committee to take on trust that the quality criteria will be good enough to ensure that no one will be defaulted into an inferior scheme. Given how critical the issue of quality criteria is to an assessment of the clause and the Bill more widely, that is an issue.

No one doubts the Minister's good intentions. However, I will risk bringing in some Max Weber—"Politics as a Vocation", an instructive read for any politician, either aspiring or practising. Weber is very clear that good intentions do not get things done; what matters in politics is outcomes. The Minister's intention is to have quality criteria, but we are unable at this stage to assess what those are.

I suspect that the Minister has launched the consultation because he has recognised that what I have pointed out is an issue; however, at this stage, it is only a consultation. Even if we take the Minister at his word that he recognises that quality criteria will be necessary so that no one is defaulted into an inferior scheme, I strongly suspect that the criteria will be of minimum standards and that it will still be feasible for someone to move from a larger, better run, less costly scheme to a smaller, not as well run more expensive one. It all depends what the quality criteria are.

Pensions are a notoriously complicated subject. I hope that the Minister can provide clarity on the quality criteria that he intends to put in place. As things stand, he has not—he has launched a consultation. It is too much for the Minister to expect the Opposition to accept that a consultation is under way without clarity on the quality criteria.

The Government's policy, as set out by the Minister, is that pot follows member. The Minister thinks, it is not disruptive of the current industry structure. An initial response to that is that it might be a good idea to disrupt the current industry structure; it is certainly a good idea if one thinks, like the hon. Member for Rochester and Strood, about the benefits of scale.

Often in the UK people who take a view different from mine will say, "Gregg, you are far too focused on cost. What about value?" My response is that, first of all, one needs to know what something costs before one can measure its value. For example, Australia, which is 15 years ahead of us in the auto-enrolment process, is probably now moving to a debate about value in the cost of its pension products and the asset allocation therein.

Mark Reckless: I am grateful for the hon. Gentleman's comments and his reference to the US market. I wonder whether he thinks that the 401k model in the US has any lessons for us here, and also whether the relative use of index funds in the UK versus the US could explain some of the observations he just made.

Gregg McClymont: The Minister—[Interruption.] I merely anticipate the hon. Gentleman's imminent promotion in the reshuffle. The hon. Member for Rochester and Strood and other Committee members on both sides do every day—and reads FTfm on a Monday or FT Money on a Sunday, one will see that every single week Financial Times journalists write about the benefits of scale.

There is the issue of hidden or obscure charges in fund management. I do not claim to know everything about the hon. Gentleman. However, I am sure that he is an admirer of America. The Americans are way ahead in driving down the costs of managing pension assets, and they have done that by being fully transparent. Both institutional and individual investors recognised that actually there is a correlation between low cost and value.

The hon. Gentleman might or might not be surprised on the second point, I would like to say a couple of good questions. Taking the second point first, of course indexing plays a role. It is increasingly coming into the European market, and it plays a big role. There are now huge, passively managed asset management arms. We know who we are talking about without going into detail.

On the second point, I would like to say a couple of things about 401k. This probably says more about my previous life than anything else, but the hon. Gentleman's mentioning 401k and asking about parallels reminded me of Keynes's evidence to the 1932 royal commission on lotteries and betting, believe it or not. Even then, Keynes was clear about the difference between the US and UK markets. The American investment market was much more focused on individual small investors than the UK market, which was more of an institutional market.

The hon. Gentleman might or might not be surprised to learn that Keynes was very sceptical about individual investment in the stock market, even though he famously...
made quite a lot of money by stock picking. Certainly back then he argued that individuals needed a certain level of understanding of how these markets worked and to get into them in detail.

On 401k to the present, I am not hostile to 401k. We must be aware that we need to sort out the structure of the UK pensions market before we think about how to get towards a more individuated system. Often, that comes down to chronology. I meet various stakeholders—representatives of asset managers, employers, pension providers, actuaries, consultants and financial advisers—and everyone has their own perspective. Very rarely do I find that what stakeholders say is unfair or untrue, but there is an issue with chronology. Politics is about one thing at a time, as I am sure the hon. Gentleman will be aware, but we need to sort out the structural issues with the pensions market and build from there.

The structural issues, of which stranded pots is one, stem from information asymmetries in the pensions market. We do not need to go all the way back to Hirschman to talk about the importance of voice and exit for the consumer in any market, but we can. The pensions market does not function as an effective market does. There are reasons for that, which are particularly pertinent to the stranded pots issue.

Steve Webb: I think the hon. Gentleman listens to some of the stakeholders he mentioned with particular care. He suggests that the ABI broadly supports our position because it has a vested interest. The NAPF—to take a random example—which recently sponsored his Fabian Society pamphlet, supports super trusts, and that is essentially the model for which he is arguing. Does he accept that many organisations have an angle and it would be wrong to say that those that agree with the Government have a vested interest, while those that agree with him are dispassionate?

Gregg McClymont: The Minister would be right if the NAPF’s and ABI’s view stemmed from what he describes as a similar “vested interest”. I shall take the two in turn. It is absolutely true that vested interests can be found in more than one place. The big insurers have every right to make their case as strongly as possible to the Minister. He suggests that I listen more carefully to some stakeholders than others, but I put that right back on him.

We will come on to the NEST restrictions; his written ministerial statement on NEST today, which is pertinent to the Bill, suggests that he is listening more closely to some of the stakeholders he mentioned with particular care. He suggests that is essentially the model for which he is arguing. Does he accept that many organisations have an angle and it would be wrong to say that those that agree with the Minister have a vested interest, while those that agree with him are dispassionate?

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Steve Webb indicated dissent.

Gregg McClymont: The Minister shakes his head and I am happy to let him intervene; but perhaps that is part of his logic in wanting to deal with small pots, as he describes them, as opposed to stranded pots.

This is how things stand on stranded pension pots: a friend of mine recently brought their new group personal pension to me to have a look at. Much to my chagrin, I have now become the last port of call for friends, acquaintances and acquaintances’ acquaintances who do not understand their pension statements—given that no one understands their pension statement, that can quickly become a long list. My friend’s pension statement has the annual management charge on it. The annual management charge is only one subset of overall charges. Parts of the industry like to talk about such charges and costs as if they are the only ones, but there is first an annual management charge and then, alongside that, what is called an “active member discount”. Do members of the Committee know what that is? I do not say that in the spirit of wanting to catch anyone out, as I can honestly say I had no idea what it was before taking on this role. A person is charged x amount while a member as things stand, we simply do not know what, if any, quality criteria there will be. He is consulting on them. He asks us to support pot follows member in a situation in which one could be defaulted into an inferior scheme. I do not doubt his good intentions or that he will come forward with quality criteria, but will they be minimum quality criteria? Will they ensure that no one is defaulted into an inferior scheme? We simply do not know the answers at this stage.

A wider issue about pot follows member brings us back to defined benefit versus defined contribution, which the Minister raised the other week; I applaud him for that. It also takes us back to the issue that the hon. Member for Rochester and Strood, who is not in his place, raised. The Minister thwarted the possibility of collective defined contribution in the British system. I am pleased that he says that he is interested in the idea of collective defined contribution; I personally think that is probably a more fruitful space for him to look into than the initial defined contribution observations. Collective defined contribution, however, cannot work in a fragmented, disaggregated UK private pension system.

10.15 am

The problem with “pot follows member” is that it will preserve the cottage industry structure of UK pensions. That is significant, and the Minister is not doing himself justice in rebutting those who favour an aggregated system. It is even worse from a consumer perspective.

If what we do in Parliament is about delivering for the consumer and ensuring that the market works effectively so that they get a good deal, we must look closely at several aspects of the Minister’s “pot follows member” proposals. First, he proposes that pots with a value greater than £10,000 will remain stranded: they will not be automatically transferred, so no pot worth more than £10,000 will be part of the system. Typically, those stranded pots are subject to financial penalties from the pension provider of which savers are typically unaware.

Steve Webb indicated dissent.
of their employer’s pension scheme, but when they leave that employer and leave the pension pot behind, overnight, the active member discount takes effect, which typically doubles the annual management charge—and that is before one considers all the other costs and charges. The Minister may say that that is a reason for automatically transferring pots, which may be right, but he does not propose to transfer automatically any pot worth more than £10,000. Why does the proposal apply only to small pots? What is the difference between a £10,000 and an £11,000 pot, or a £5,000 and a £15,000 pot? If the pot is stranded, it is stranded. I would be keen to hear from him on that.

Steve Webb: Does the hon. Gentleman propose that every time anybody leaves any pension scheme, their entire pot, however big, should always go off to an aggregator?

Gregg McClymont: I urge a little patience from the Minister, as I will come on to that.

Steve Webb: I am sorry.

Gregg McClymont: No, that is a perfectly fair point, which I will come to. It strikes me that the Minister’s tone had an element of incredulity—I say that not in a spirit of hostility—which says something about his attitude to the pensions market. He explained last week that he had initially supported the lump sum deferral option because he thought that in a rational world, it would encourage people to defer, but that it had not worked out that way because people make decisions for all kinds of reasons.

I do not want to put words in the Minister’s mouth, but the fact that he considers our position odd says something about his attitude to the market. The market has very serious problems. Members of the governing party, including the hon. Member for Warrington South, who is parliamentary private secretary to the Exchequer Secretary to the Treasury, the hon. Member for South West Hertfordshire (Mr Gauke), have spoken in striking terms about those problems. The Centre for Policy Studies, Mrs Thatcher’s favourite think-tank, has said in stark terms that the market has huge problems. The market does not function as effectively as it might, and nothing should be off the table in trying to align more efficiently the interests of savers and providers.

In the Minister’s favoured “pot follows member” system, only pots under £10,000 will be automatically transferred. Another way in which there is less to the Minister’s proposed characterisation of my labouring— that is his view, but it is not my view—was one of the aspects that made my hair stand on end. One always has to think about why what is, is, to use a rather clumsy phrase. How did we end up with active member discounts? He claims that I am labouring, but as we have been urged to call them, deferred member penalties? The answer tells us something wider about the structure of the pensions market, and it is why the Minister’s colleagues and the Centre for Policy Studies take such a hard line. We have reached that position because of the obvious misalignment between the interests of the consumer and those of the provider and employer.

In an occupational scheme, which we all consider to be a good way to go, an employer buys a pension. We must accept, however, that that adds an extra element of complexity, because the consumer does not buy the pension; the employer buys it on their behalf. Understandably, the employer’s interest lies with their employees, so it is difficult to expect an employer to continue to feel as though they have a vested interest in the pension scheme of someone whom they no longer employ. That is how we get to the position of active member discounts—or, to be more precise, deferred member penalties.

The Minister mentioned the ABI, which is a complex membership organisation, and its members do not agree on everything. For example, Legal and General is on record as saying that deferred member penalties should not be placed on pension schemes, so there are clearly different views within the organisation. My point is that some employers like active member discounts, so it is not simply the fault of pension providers that there are such discounts.

The reason why I resisted so stoutly the Minister’s attempt to put the word “evil” into my mouth is that, in a market, such terms do not take us anywhere. The fact is that employers have an interest in those who work for them. Pension providers want business with employers, so they offer them a lower annual management charge, and then make up the difference on people who leave the scheme. The problem is that we know who the loser is—the person with the stranded pension pot.

Steve Webb: The hon. Gentleman is labouring, if I might use that word, the issue of deferred member penalties. He said “typically”, but I think he is under a misapprehension. Is he aware that about 85% of contract-based schemes and 96% of trust-based schemes have no deferred member penalties? It is therefore atypical, not typical, to face such charges.

Gregg McClymont: I stoutly resist the Minister’s claim that I am labouring—that is his view, but it is not mine—because “labour” is a wonderful word. Labouring has its uses and is very important, so I resist his characterisation of my labouring over deferred member penalties.

I thank the Minister for his important figures on the usage of deferred member penalties. Does that mean there is no problem? Is the fact that most schemes do not practise deferred member penalties a reason for no schemes to do so? He claims that I am labouring, but the point is clear: his proposals on “pot follows member”
will not do anything for any stranded pot of more than £10,000. More importantly, under the Bill as it stands, no stranded pot will be brought within the scope of the automatic transfer system. If the Minister thinks that that is labouring, he is entitled to say so, but I will let others be the judge of that.

**Mark Reckless:** Does the hon. Gentleman have a view about why the proportions applying the deferred member penalty are as low as the Minister said, given the hon. Gentleman’s economic and market perspective on its being in the pension provider’s and the employer’s interests to negotiate such things?

**Gregg McClymont:** It would be useful if the Minister clarified whether he is also talking about group personal pensions when he produces his figures. Is he? This is where we have to be very careful with this Minister’s use of statistics.

The Minister said that contract-based and trust-based defined contribution schemes have a very low take-up of active member discounts or deferred member penalties. The problem is that there are about 150,000 group personal pensions in the UK. A group personal pension is a defined contribution scheme bought by the employer on behalf of employees. I gave the example of my friend who is in a group personal pension scheme, which is increasingly the favoured form of pension in the UK. The Minister intervened and quoted some percentages, but those refer to about 50,000 schemes in the UK. Does he have figures for the other 150,000? He now does not wish to intervene—he does not seem to have the figures to hand—because the fact is that group personal pension schemes practise active member discounts.

**Mark Reckless:** Does the shadow Minister have any figures?

**Gregg McClymont:** The shadow Minister does not have any figures. [Interruption.] The Minister says that I am just guessing, but he intervened and said that 85% and 96% of the two types of scheme do not practise them. However, when I catch him out on the fact that the vast majority of schemes are not included in his figures, rather than get up and tell us the figure for group personal pension schemes, he instead tells me that I am guessing. That does not really take us much further in scrutinising the Bill.

10.30 am

**Richard Graham** (Gloucester) (Con): I come to the Committee slightly late this morning and am surprised that we are still on clause 29. The shadow Minister is weighing in on a whole series of issues that do not appear to be especially related to the clause. He talks about the way in which pension schemes operate and how the interests of employer and employees are not aligned, but does he recognise the tragic demise of the defined benefit pension scheme in this country? In my view, a large part of the responsibility is due to the unfortunate role played by the unions in not understanding the crucial relationship between the sustainability of the pension scheme and the sustainability of the business that employs people not only for that generation, but for many generations to come.

On the interests of buyer and consumer being aligned, the hon. Gentleman has not mentioned the many hundreds of thousands—

**The Chair:** Order. If the hon. Gentleman wishes to catch my eye later, he can make a speech, but that was too long for an intervention.

**Gregg McClymont:** Thank you, Mr Caton, for bringing me back in. The hon. Member for Gloucester started off by saying that what I am saying is not pertinent to the clause, which it is, and I will explain why. He then went on to talk about defined benefit schemes, which are absolutely not pertinent to the clause. Is he aware that we do not have stranded pots from defined benefit schemes? So the hon. Gentleman began by saying that my comments were not pertinent, and he then went on to talk about a form of pension provision that has nothing to do with the clause.

**The Chair:** Order. May I make it clear that if you had been out of order, Mr McClymont, I would have ruled you so? I have two Clerks here who give me very good advice about whether you or any other speaker is in or out of order. Mr Graham is wrong to suggest that you were out of order; I do not think you need to focus any more attention on it.

**Gregg McClymont:** Thank you, Mr Caton, for that observation and guidance.

**Steve Webb:** The reason I did not immediately jump up, though goaded so to do, is because I wanted to be absolutely sure, but I can assure the hon. Gentleman that the figures I quoted do include group personal pensions.

**Gregg McClymont:** I think we will have to go away and dig into the figures. If that be the case, I will congratulate the Minister on his judicious patience; my attempt to get him on his feet did not succeed.

**Sheila Gilmore** (Edinburgh East) (Lab): Given that the Work and Pensions Committee took considerable evidence on the question of active member discounts, or whatever they are called, and concluded, on the evidence, that that was an issue that should be dealt with, I am not sure why we are arguing about numbers.

**Gregg McClymont:** My hon. Friend makes a good point. We know that active member discounts or deferred member penalties are not something that any member of the Committee would want to defend. That is a fact. To go back to clause 29, as encouraged by the hon. Member for Gloucester, the fact is that as things stand, the Minister is not intending to bring pots above £10,000 or currently stranded pots within the compass of the legislation. That relates to active member discounts or deferred member penalties in so far as one of the big problems with such schemes, as the Minister acknowledges, is that there can be extra charges associated with them, of which active member discounts or deferred member penalties are the most obvious.
Let me say why the proposals are not bad only for stranded pots. As I developed my argument—hopefully, the hon. Member for Gloucester will see where I was going with this—I was trying to explain how the stranded pots issue relates to the structure of the pensions market more widely. As things stand, stranded pots—stranded pots in the broadest sense, not just small pots as defined by the Minister—are bad for competition. I am sure the Minister will agree that auto-enrolment has seen new providers enter the market. The providers, including NOW: Pensions, B&CE, NEST and others, are organised in a way that both Government and Opposition think good. Operations are designed to be at scale, to be governed by trustees and, typically, to be low cost. That is a good thing.

The problem for NOW: Pensions, NEST and B&CE, however, is that, because they are new providers that have just entered the market, the bulk of their pots will be subject to movement while the bulk of those held by the longer-established pension providers will not. If the Minister proceeds as he wants to and has the measure apply only to pots created after Royal Assent, it is the new providers, which to put it simply have only new pots, that will bear the burden on their own. I do not think that is a level playing field. There will be some transfers in, but the bulk of the pots of the exciting new providers in the marketplace, which, as I said, are welcomed by both Government and Opposition, will be new and will be moving around. Many small, stranded pots will be created as the providers continue to operate. The existing providers will not be affected in the same way. That is not a level playing field.

It seems to be an odd artificial construction. I ask Government Members who believe in markets, does that seem like the way to a competitive market? The new providers, who we all agree are doing a good job, will have to deal with the issue, which is right because we do not want stranded pots, but the existing providers and older pots that have been stranded up until Royal Assent will not be subject to the automatic transfer mechanism. Is that the way to an efficient marketplace?

Mark Reckless: The Government’s approach surely has the advantage of being evolutionary. Were we to accept what I think the shadow Minister is proposing, there would at a specific cut-off date or cliff-edge be an absolutely huge transfer of all the stranded pots built up over many years and decades. That would be an absolutely huge upheaval with quite a lot of risk surrounding it.

Gregg McClymont: I thank the hon. Gentleman for that point, which is particularly the case if one believes in “pot follows member”. Given the extra difficulties associated with it, it is particularly difficult if one tries to bring all stranded pots into that kind of automatic transfer mechanism. The hon. Gentleman absolutely has a point when he says that it is a bigger job of work, but what are we trying to achieve? Are we trying to get to a level playing field in which every provider competes on the same basis? This proposal will not achieve that. The new auto-enrolment providers, such as NEST, NOW: Pensions and B&CE, will tend to have in their scheme the kind of members who change job a lot. There tends to be a lot of job shifting at that lower end of the market.

I am sure that the hon. Gentleman is aware that B&CE, which is doing a really good job with auto-enrolment, emerged during the second world war to provide pensions for construction workers, who tended to move from site to site and were not always in a formal workplace. They have brought that expertise into auto-enrolment. By definition, because of the part of the market that it works in, there will be a tendency for people to move around a lot. That problem exists anyway, and we are going to say that the new providers will have their stranded pots automatically transferred. That is a good thing: the problem is that the existing stranded pots that have been built up over time will not be inside the system. That is not a point against the existing providers. They cannot help the fact that stranded pots have been created, but how are we going to get to a level playing field?

I know that the hon. Gentleman believes in efficient markets, but I suggest that there is an issue to consider. He has suggested that balance is needed, and of course that is true. However, it is important to get a level playing field, and to get the stranded pots—I was going to say “unstranded”, but perhaps it would be better to say “found”. They need to be brought back into the system.

To explain why I consider the proposal to be an odd and artificial construction, I remind hon. Members that in other markets, in industries where the Secretary of State creates exemptions to the rules, that normally happens to facilitate market entry. I am sure that hon. Members agree. The provisions would effectively subject new entrants to the market to the full force of rules, while protecting their bigger, more established rivals. It is hard not to see the Minister’s proposals on stranded pots in that light.

Even more surprisingly, or perhaps perversely, the new entrants are the ones that, we all agree have designed products in a way that fits the public interest by encouraging saving—NOW: Pensions, bringing Danish expertise into the UK system; B&CE, with 70 years of experience of delivering pensions to the construction industry; and the NEST public-backed scheme, which is low-cost and not for profit. Those are entrants that the Minister, I have no doubt, praises and supports. Yet they will have to bear the burden of the proposal, which will not be shared across the industry.

I use the word “burden”. Automatic transfers must happen; we are all in favour of them. However, it should not be only some pots that are automatically transferred, while others are not. It should apply to all of them.

Richard Graham: I am delighted to hear the shadow Minister saying that he is coming to the point. May I press him on his amendment to clause 29, which I think implies the so-called dormant pots would be transferred to an aggregate rather than to the member’s new scheme, of which they would be an active member? What costing has he done of how much that arrangement would cost?
to create? Who would be responsible for it, and what additional administrative burdens would be generated by the creation of such aggregators?

Gregg McClymont: I am surprised that the hon. Gentleman cannot see the way the argument has developed, and how it all relates to the issue of stranded pots. He asked about costings, and will be aware that the Government’s favoured system, “pot follows member”, has no costings as things stand. They have looked at the technicalities—[Interruption.] The hon. Gentleman is shouting—or rather mumbling something.

Richard Graham: Which hon. Member?

Gregg McClymont: The hon. Member for South West Bedfordshire.

Richard Graham: He does not shout.

Gregg McClymont: As things stand, it is not clear who will bear the cost of the Government’s “pot follows member” approach. It is not even clear how the system will work. I do not particularly criticise the Minister for that, because, as we know, clause 29 sets up the Secretary of State’s power to transfer pots automatically; it creates the power to have a mechanism, but it does not define the mechanism. It is a bit unfair to ask the Opposition to cost and aggregate a system when the Government have not costed a “pot follows member” system. Not only have the Government not costed such a system, but the information that they have provided so far on “pot follows member” says nothing about quality criteria.

The DWP’s published work on “pot follows member” mentions the technicalities of creating such a system, but does not mention the cost or, certainly, who will bear the cost. I have gathered from my conversations with parts of industry, and the Minister probably agrees, that the industry side is unclear on who will bear the cost of “pot follows member”. The onus is therefore on the Government to explain the cost of “pot follows member” and who will bear it.

10.45 am

As I was saying, it seems a bit strange that only pots stranded after Royal Assent will be automatically transferred. The market will be distorted, because there will not be a level playing field between new entrants.

Richard Graham: According to my reading of the explanatory notes to the Bill, the cash equivalent of a person’s accrued rights to benefits will be transferred. Once the cash equivalent has been calculated and that amount of money transferred, what costs does the hon. Gentleman envisage arising?

Gregg McClymont: I am not sure why the hon. Gentleman is bringing in the issue of cash as opposed to other assets. To be honest, that question on “pot follows member” is best put to the Minister. Significant cost, however, will be attached to the creation of an IT system that enables the automatic transfer from pot to pot. As things stand, it might be worth saying to the hon. Member for Gloucester—he is shaking his head—that one of the biggest of the many issues in the pensions market is the lack of portability. As things stand, people do not move their pensions around. That architecture is not in place among pension providers. We often talk about banks, and there is a lot of pressure for people to be able to change bank accounts more effectively; just at the top of the stairs to the Committee corridor, there is an exhibition about how much easier it is getting to change bank accounts. Private pensions, however, are not like that—the architecture is not in place.

Oliver Colvile (Plymouth, Sutton and Devonport) (Con): Is that not because, frankly, it ends up being expensive to move? Someone who wants to set up a pension must raise a large amount of money in the first place to have a £30,000 or even £20,000 pension at the end of it. The cost of transfer is the big problem.

Gregg McClymont: The hon. Gentleman is spot on. The cost of transferring is high, taking us into the murky world of exit charges and the total lack of clarity about how much it costs, from scheme to scheme, to exit. He is 100% accurate: there is a real portability problem. As I was saying in response to the hon. Member for Gloucester, the architecture for “pot follows member” is not in place. That is why the Government have been consulting. So far, they have produced only a pretty technical note on the kind of things that one would have to do to create “pot follows member” architecture. The process is not straightforward. I am sure the Minister agrees that one thing the industry says about “pot follows member” is, “Who is going to pick up the tab?” Given that the industry has asked that, one must assume that the tab will not be insignificant, although that need not be a reason for not doing something.

Let us be clear that the Minister is absolutely right to put automatic transfers in place. Some in the industry would prefer automatic transfers not to come into place—that was the point made by the hon. Member for Plymouth, Sutton and Devonport. It is important to set the context that interests in the industry do not want portability because, if it is expensive for members to switch their pensions, that is probably good for profits. That is almost certainly the case—I am sure it is the case—so the Minister is doing the right thing by putting an automatic transfer mechanism in place. He has to do it to make auto-enrolment work, and he is doing it. However, there is a big question about the way in which he wishes to do it.

Let me take up the Minister’s challenge. He does not like “pot follows member”, but what about aggregators? In the Opposition’s view, it would be better for automatic transfers to default into a limited number of schemes that met conditions that required them to deliver on public interest objectives, including governance, administration and cost. The Minister pre-empted me, although not unfairly, by saying I have sympathy with the “super trust” or “master trust” model. The reason why we think that kind of approach is better is because we have to come to terms with some pretty gritty things in terms of governance, administration and costs.

The Minister said he will establish minimum quality criteria, but the DWP has in the past stated a desire not to distort the existing industry structure. That statement
was made in the Government’s response to the consultation “Improving transfers and dealing with small pension pots” in July 2012. That attitude concerns me because the Treasury PPS, the hon. Member for Warrington South and the Centre for Policy Studies have both said that if there is one industry that needs its structure changed, it is the private pensions market. The problem is so significant—on their terms as well as my own—that it is critical that default automatic transfer schemes have high-quality thresholds, not minimum ones. I will not put words in the Minister’s mouth, but we have a different assessment of how significant the problem is.

A year ago, when my right hon. Friend the Member for Doncaster North (Edward Miliband) and the Labour party first identified the issue of pension charges, the Minister’s initial response was to accuse us of scaremongering. However, a series of reports emerged from independent sources, which exposed and illuminated the problems in the pensions market. The Royal Society of Arts asked pension providers what their total costs and charges were. The vast majority said that it was simply their annual management charge, and did not mention the total expenses ratio or the transaction costs. The pensions institute at Cass business school focused on small pots, in particular. My point is that the debate has moved on.

The Minister said, “We want ‘pot follows member’; what do you say?” We need to have a limited number of high-quality schemes into which members default, and they should be labelled as aggregators. As individuals leave employment, their accumulated savings would default into such an aggregator, unless they opted to move their past, accumulated savings into their new employer’s scheme. If an individual chooses for their pot to follow them around, that is fine. But the default position—we know that inertia is a powerful force in pensions—should be that it defaults into an aggregator.

The reason why we, the Association of British Insurers, EEF, the National Association of Pension Funds, the TUC, Which? and Age UK favour aggregators is because we emphasise the importance of high-quality criteria and getting the aggregators to scale. The Minister probably takes a different view on this issue—again, I will not put words in his mouth. Aggregators will quickly acquire scale, with the ability to offer low costs and charges. They will support good governance at low cost.

The Minister asked what would happen if one aggregator ends up dominating the market. First, we think there should be several aggregators. However, the Minister’s view does not take account of how big the players are in the pensions market. The Minister and I had a discussion the other week in which we were talking about scale, and he mentioned the energy market. As things stand, there may be a dozen providers in the pensions market. We heard a lot of talk from a variety of witnesses about the expectation of further consolidation on the provider side. There is scale on the provider side, so the idea that several aggregators would come to dominate the market does not take account of the size of the big players in the insurance market. That is my first point. Secondly, it underestimates the benefits that come from scale on the member side.

The deletion in amendment 17 is required to allow a Secretary of State to use this Bill to move from “pot follows member” to an aggregator without needing a new Bill. That is the point. As things stand, clause 29 creates only an automatic transfer mechanism. If amendment 17 is accepted, it will enable the Secretary of State to move from “pot follows member” to an aggregator without a need for further legislation. However, if we do not delete these words we will not prevent an eventual move to a more consumer-friendly model, but merely slow it down. It is important to say that “pot follows member” is not a done deal.

The hon. Member for Gloucester inadvertently or otherwise raised the issue of industry attitudes to automatic transfers. [Interruption.] I do not know what the hon. Gentleman is saying, but if he wishes to intervene, I would be delighted. Whether or not he raised the issue inadvertently, the point was rightly made from the Government Benches that portability is a huge issue. If we think about an efficient market, one must be able to move one’s assets around.

The work on the central architecture will not be completed in this Parliament. It is important to say that I assume the reason why the Minister gives himself in the Bill the powers for automatic transfer without laying down the format is because it will not happen in this Parliament. It is a bit like the NEST restrictions. I believe that any future Secretary of State will opt for the aggregator model as the default model. It may even be true of this Minister after further consideration.

This has not come up so far, but one of the defences that the Minister makes of “pot follows member”—and why presumably he will oppose this amendment—is because he cites industry research that says people prefer it. In the past, he has cited in particular an ABI survey, which, if I remember rightly, I first heard him refer to last year at the all-party group on pensions, chaired by the hon. Member for Gloucester. He has used that evidence before, but it is worth digging down into it a little. In the context of the NAPF survey found that when the differences between “pot follows member” and aggregators were explained to people, the large majority preferred aggregators.
11 am

In 2012, the Government’s own response to the consultation, “Improving transfers and dealing with small pension pots,” provided the following evidence: 21% of those surveyed favoured “pot follows member,” while “24 per cent supported a single aggregator, 19 per cent supported multiple aggregators and 18 per cent supported an aggregator but had no preference for single or multiple models.”

That puts the ABI survey in a rather a different perspective. We must be sure that when one surveys opinion, the terms used are readily understood. It is not unfair to say that a significant number of people will be rather unclear about the implications of a “pot follows member” system as opposed to an aggregator system. It is useful that we are having this discussion to clarify that.

In the past, the Minister has also said to me, and I imagine to others, that there would be more stranded pots with an aggregator than with “pot follows member.” However, that is only the case if there is a limit on the pot size that can transfer to an aggregator. If one takes a view that all stranded pots should be found and brought back into the system, that will not be the case. When he looked at an aggregator, the Minister would have limited the pot size to £2,000, and on that basis said that it would distort the market. He proposes a £10,000 limit for “pot follows member” yet, in his ruminations on an aggregator system, he puts an arbitrary £2,000 limit on the transfer and by using that limit finds that there would be more stranded pots. Why a £10,000 limit for “pot follows member” and a £2,000 limit for an aggregator? I would appreciate the Minister’s observations on those measurements.

It is very important to note that under “pot follows member” 88% of people will have multiple pots between 2050 and 2060, according to DWP modelling. The Minister has said in the past, and I think he said in the evidence session, that aggregators will fragment the system, but that evidence is from the DWP’s document, “Automatic pension transfers: estimated impacts under different pot size limits” of October 2012.

The Minister should be congratulated for recognising the problem of automatic transfers, but he is going down the wrong road by proposing “pot follows member.” The idea that it is more popular with the public, for example, is based on a partial reading of the opinion polling. The Minister’s calculations regarding there being more stranded pots with aggregators is based on two different measurements, rather than treating “pot follows member” and aggregators consistently. He uses a £2,000 figure when modelling aggregators and a £10,000 figure when modelling “pot follows member.” Surely that cannot be fair?

It has been a little while, but I believe we are also considering new clause 10. That being the case, I want to say a little about the new clause—I can reassure the Committee that it will be only a little, which will be a relief for Government Members. New clause 10 would simply ensure that the Secretary of State must review any regulations made under it within three years of Royal Assent.

Richard Graham: I can enlighten the hon. Gentleman on a brief observation that I was sharing with my hon. Friend the Member for South Derbyshire about the number of reviews that had been called for in his amendments. Perhaps he could remind us of exactly how many reviews these amendments entail?

Gregg McClymont: I am sure the hon. Gentleman can count himself. He does not need me to do so.

Richard Graham: Is that a “don’t know”?

Gregg McClymont: I think the hon. Gentleman can use his fingers to count them or does he want the Opposition to provide an abacus? I thank the hon. Gentleman for his fortitude. We have called for a number of reviews but I am sure he will agree that this is a very important clause. At the moment there are millions and millions of stranded pension pots. If auto-enrolment is to work and have public confidence, there has to be a shift such that those stranded pots are brought back into the system. Being brought back into the system means being added to an individual’s pension pot. The more people have in their pension pot, the more they will have in retirement. Pension saving is all about the magic of compound interest. Doubtless the Minister agrees. That is the logic of him wanting to create an automatic transfer system. This is really important stuff.

New clause 10 states:

“The Secretary of State must review the effect of section 29 and any regulations made under it within three years of Royal Assent.”

That seems perfectly fair.

Richard Graham: No doubt the Minister will want to comment but if something is not working it should be reviewed a great deal earlier than within three years of Royal Assent. I do not see the added value of trying to tie it down to some precise mechanism.

Gregg McClymont: I take the hon. Gentleman’s point. The problem in this case is that the Minister is giving the Government the power to put in place an automatic transfer mechanism. But the Minister himself has not put into the legislation any description or regulations regarding what kind of mechanism he intends to use. We know his view is that pot follows member, but he has not chosen to place that in the Bill. We are peering into the dark here. We know that the Minister rightly wants to have an automatic transfer mechanism but the Bill does not provide for the system of automatic transfers. In that situation it is surely not unfair to want Parliament to be able to keep track of what happens.

I say to the hon. Member for Gloucester, and this may make his point for him in a slightly different way, that I am sceptical of how quickly “pot follows member” will happen. The architecture is not in place for it and the industry is wary about paying for it. We know what has happened in the past on all Governments’ watch regarding IT. There is a big question about when “pot follows member” will happen. It does not look as if it will happen in this Parliament. If I am wrong and the Minister wishes to clarify that “pot follows member” will be in place by 2015, I will accept that correction, but as things stand, all we are doing here is setting up
a power for an automatic transfer mechanism and looking at the best way to do that. There is nothing in regulations or in a clause. All we want to do is make sure that the Government make good legislation. The Opposition are hoping that, by the time we come to review this matter, the Government will have changed, as it will be a future Government that have to come to the House to explain themselves. That is the way it should be.

In one way or another, we are all here to scrutinise legislation. The hon. Member for Gloucester is a fair man, and he will therefore, perhaps, see that it is perfectly justifiable to look for a review. He asked me to count the number of reviews asked for in my amendments. Let us be honest: it is not that many. We can have an argument about reviews versus other ways of proceeding, but I will stand my ground on the point that my job—the Opposition’s job—is to scrutinise the Government’s proposed legislation.

There is a significant amount of consensus on the Bill. Even though I believe that the system proposed in the clause is going down the wrong route, I congratulate the Minister on grasping the nettle of automatic transfer—I put that on the record. There are vested interests that do not want to see any automatic transfer system, for the reasons that were set out a moment ago, and, in that context, we welcome the power that is being proposed. However, the surveys that suggest that “pot follows member” is popular do not stand up to a moment’s scrutiny. We also believe that the Minister’s claim that aggregators will mean more stranded pots does not stand up to scrutiny: he uses a £2,000 figure for his aggregator modelling but a £10,000 figure for “pot follows member”, so how can the comparison be fair?

More widely, the Minister has a chance here to scale up things significantly on the pension scheme side. In particular, he can ensure that the new entrants to the market—we all applaud those new entrants—are not the only ones that have to grasp fully the issue of stranded pots.

For those reasons, we have tabled amendment 17 and new clause 10, and I commend them to the Committee.

Sheila Gilmore: I am glad to have the opportunity to speak about the amendment and the new clause. I will begin with a few general points. It is perhaps a pity that we have not taken the opportunity that the passage of the Bill offers to look more widely at some of the other outstanding issues on pensions; it may be, therefore, that we will need further legislation on those. One problem we face is that we are dealing with bits and pieces that, even if changed for the better, could have consequences in other parts of the system.

According to the Government’s own estimates of dormant defined contribution pots, there could be 50 million by 2050 if nothing is done to deal with the issue. More than 12 million of those would contain less than £2,000; of course, that means that a substantial number would contain considerably more than that. The Work and Pensions Committee produced a report in the previous Session on governance and best practice in schemes, and in our inquiry we looked at what should be done about dormant pots and how they should be transferred.

There is now a widespread view that there should be a mechanism for ensuring that they are transferred without individuals having to make all the running with both their old scheme and their new one; instead of that kind of voluntary arrangement, there is a view that, in many circumstances, it would be better if the money were transferred into a scheme.

11.15 am

Of course, there are two different views on how that should be done. I am not sure whether they are mutually exclusive, although much of the debate seems to be conducted on the basis that they are and that we have to go for one or the other. From early in this debate, the Minister has been firmly of the view that “pot follows member” is the appropriate way in which to go. In support of that, as my hon. Friend the Member for Cumbernauld, Kilsyth and Kirkintilloch East said, there was some citation of the survey carried out by the Association of British Insurers.

The Select Committee took a look at the matter; questions were asked about it and evidence from other people was heard. Serious concerns were raised about whether the survey really could be relied on to the extent that it has been, and whether it was a true representation of consumer views. One problem is that the material is extremely complicated. At first blush, if we ask someone, “Do you want your pension to follow you to your new job?”, it sounds attractive and perhaps the most appropriate thing to do. However, let me highlight what some of the critics said. In the TUC’s evidence to the Committee, it said that it did not believe that most consumers would support such an approach if its inherent risks were explained to them. In other words, the survey is based on partial information and on the fact that most of us do not entirely understand pension issues. Therefore, people might support the initially attractive option and say, “Of course I want it to follow me to my new firm. That makes a lot of sense; why would I want anything else?” However, such a view is not necessarily based on solid information.

In its evidence to the Select Committee, the National Association of Pension Funds said that a new employer scheme “may be a scheme that has a lower annual management charge…but it may not.” It felt that it was a lottery for the individual over which they have little choice. If they were following into their new employer scheme, then that was the scheme they were going into.

When the Minister was giving evidence to the Select Committee, he shifted the debate back to asking why people were being enrolled in poor quality schemes. He argued that if we tackled that problem, the objections to “pot follows member” would disappear. I ask the Minister to reconsider his position on that, because both aspects need to be tackled. No individual should be subject to detriment while the overall quality is being sorted out. Moreover, it is not entirely about auto-enrolment schemes, which might be covered by some of the forthcoming regulation on quality. We do not need to say that we must sort out the whole thing before we look at the specific issue of people transferring, because they will suffer an actual detriment if their accumulated pension pot is transferred to a scheme that is not as
good as the one they were in previously, where, okay, it would lie dormant. No one should be in a position where they have to suffer detriment.

On the basis of that evidence, the Select Committee made its recommendation. It said:

“However we remain concerned about the potential for this system to result in consumer detriment for some individuals. While we agree with the Government that people should not be auto-enrolled into poor quality schemes, it remains the case that people may be transferred from a scheme with low charges and good governance into a scheme with high charges and poor governance. If the introduction of ‘pot follows member’ remains the Government’s preference, it must ensure, through stringent regulation, that all auto-enrolment schemes benefit from good governance and are free from high charges”.

That was a clear recommendation to deal with this particular matter.

Another matter that has come up over the course of the morning was the question of how much we should be transferring. There are a lot of different views across the piece, and that makes it important to try to get this right. We obviously have people who say that we should go with “pot follows member”, and that is where the Minister finds himself, but there was significant variation in views. There were people who clearly felt that the option should be there to transfer to an aggregator scheme. Admittedly, there is a debate that then follows about whether there should be one aggregator scheme or several, and whether it would be possible to allow other firms to get into operating some form of aggregator.

Just because there are many different views, it does not necessarily mean that we should disregard operating some form of aggregator, or say that, because they have not decided what kind of aggregator they want, we will just go for the other option. It is important that we get this right. Both options should be there. The purpose of amendment 29 is to make it easier—all, we are not being asked in the Bill to vote specifically on whether it should be “pot follows member”—in the future for the Government who implement this to look again at the bigger picture and all the options and to be able to move in either direction, or perhaps both directions. The Minister might tell me that that would be impossible but I cannot see why, in principle, it should not be possible to have the option of transferring the pension into an aggregator scheme or taking it to one’s next known employment and, therefore, next known pension scheme.

Size also evoked quite different views, and it is not necessarily the case that any particular group appears to be of one mind on this. For example, in his submission to the Select Committee, Tim Thomas, who is the head of employment policy at EEF, the manufacturers organisation, suggested a limit of £10,000 for the automatic transfer mechanism. The basis for that recommendation was that they had done a survey of their members and 40% who responded had members with pots of less than £10,000. They felt that they should be able to transfer automatically, and some 40% would be of substantial use. To make the limit too low would mean that only a very limited number of people would benefit from automatic transfer.

It is also interesting that Tim Thomas’s organisation was not particularly enthusiastic about always being “pot follows member” and suggested an aggregator. They were in favour of having NEST as the aggregator, and indeed, that demonstrates the breadth of view, but it is important for the Government to look into this as fully as possible and make sure that we get it right.

Over the years, a lot of the debate on pensions has tended to be along the lines of “It’s what you did that made it all go wrong” and we can have an entertaining knockabout debate on that basis. However, it is a lot more serious than that. What is serious is that the consequences of a lot of the pension policy decisions that we make will reverberate many years into the future. Often, it is only after 10 or even more years that we realise that decisions that were taken, and thought to be for the best at the time, have serious and adverse consequences that were not fully explored. On that basis, I hope that, having agreed that there should be the opportunity for automatic transfer, we will create the ability for the Government to get the form of automatic transfer right and ensure that there is no detriment.

I want to touch on the issue of active member discounts because it is linked to this whole question of “pot follows member”.

11.25 am

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

Adjourned till this day at Two o’clock.