CONTENTS

Clause 35 under consideration when the Committee adjourned till this day at Two o’clock.
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Monday 15 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  

Thursday 11 July 2013  
(Morning)  

[ MARTIN CATON in the Chair ]  

Pensions Bill  

Clause 35  

QUALIFYING SCHEMES: ADMINISTRATION CHARGES  

11.30 am  

Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): I beg to move amendment 18, in clause 35, page 18, line 42, at end insert—

‘(3A) In this section “administration charges” shall be defined in regulations by the Secretary of State after public consultation and taking advice from the Financial Conduct Authority and the Pensions Regulator to ensure that the definition takes into consideration the Financial Conduct Authority's definition of “ongoing charges”, and shall include annual management charges, legal fees, administrative fees, audit fees, marketing fees, directors' fees, regulatory fees and other expenses.

(3B) Such charges, together with any transaction charges incurred by the funds in which qualifying schemes are invested, shall be declared to the Pensions Regulator, which shall maintain a public register thereof. The Secretary of State shall define “transaction costs” in regulations after public consultation and taking advice from the Financial Conduct Authority and the Pensions Regulator. The Secretary of State shall by regulation set the standards by which pension schemes must declare charges and transaction costs for the purposes of the register and for declaration to their members and their members’ employers. The standard shall be reviewed every three years. In addition, the Secretary of State shall have power to make regulations ordering other disclosure arrangements on charges.

(3C) Regulations under this section shall be laid down and approved by resolution of both Houses of Parliament.”

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(3C) Regulations under this section shall be laid down and approved by resolution of both Houses of Parliament.”

Christopher Pincher (Tamworth) (Con): No jam.

Gregg McClymont: No, no jam—jam tomorrow.

There is then an extraordinary number of other costs and charges. For example, as one edges out from the AMC in the middle of the doughnut, there are scheme governance costs, scheme compliance costs, scheme operational costs, provider margins—if applicable—intermediary fees and the primary fund manager charge. That is all still inside the AMC.

When money moves from the AMC to the total expense ratio, there are fees linked to depositary duties, fund administration costs, registration and regulatory costs, fund audit fees, other fees and fund legal fees. Those things should be inside the total expense ratio. Going out further in the wonderful doughnut, to the maximum administration charge, there are sub-fund manager charges and interest charges, and then outside even those designations we find stock lending—if payable outside the fund—some transaction costs, entry and exit fees, costs linked to divorce settlement, annuity set-up costs and soft commissions.

The point of the Which? doughnut is to show just how complicated the costs and charges on a pension scheme can be. When we talk about the costs and charges, the Opposition will say one thing, the Minister might say something else, and parts of the industry will say something else again because, in practice, there are three layers of charges: the AMC—the thing the Minister most often talks about—the total expense ratio and the transaction costs. Those are the three elements of the doughnut, and the AMC and the total expense ratio can be brought together under the Financial Conduct Authority's definition of ongoing charges.

Currently, the Bill contains no definition of what administration charges comprise. On Tuesday, the Minister observed more than once that charges are coming down—it is fair to say that he said it often—and the insurance industry also says that. It is crucial to point out that that refers only to the annual management charge, which is not to say that it is not important, but we must bear in mind the three layers of costs and charges on a pension. We risk concentrating on only one layer of the doughnut, so to speak. In addition, the Department for Work and Pensions, the Financial Conduct Authority and the Pensions Regulator do not know what charges schemes are imposing on their members.

On Tuesday, we discussed active member discounts and deferred member penalties. The Minister quoted a DWP survey and I quoted back the fact that most employers asked about charges were not aware that any charges were imposed on their pension schemes. As I have said repeatedly in Committee, fundamental to the debate is the fact that the private pensions market does not operate like any other market. There is no clarity regarding what one is charged for—what counts as a cost, what counts as a charge, and what the overall costs and charges on a pension are.

The Royal Society of Arts's Tomorrow’s Investor programme survey last autumn was stunning, and received significant publicity. It asked pension providers what the total costs in charges on their pension schemes were. The vast majority replied that the annual management charge was the total cost in charges on a pension scheme. The results were the lead story on the “Today” programme the morning after they came out, which is no surprise, because that finding was pretty stunning. We know that the annual management charge is only one subset of the doughnut, so if the industry itself, according to the survey, is not aware of all the costs and charges that accrue in a pension, how can we expect either the employer, in occupational schemes, or the
After the RSA report came out, the Pensions Institute at Cass Business School produced its “Caveat Venditor” report, which, again, is pretty striking. It looked at older legacy funds that have huge charges—I think “toxic” was the word used—and said “buyer beware”. The Office of Fair Trading has since the inquired into the private pensions defined contribution market. As I have said a few times in Committee, hon. Members do not need to take my word that these issues bear examination: a variety of independent organisations—from the academics at the Pensions Institute and the RSA to the OFT, which is now undertaking an inquiry—show that there is no doubt but that there is an issue, for the reasons I have begun to outline. We must be clear that the annual management charge is only one layer of the doughnut. The DWP, the Financial Conduct Authority and the Pensions Regulator do not know what charges schemes are imposing on their members.

An annual survey of employers’ view on charges, which we were disagreeing on the other day, is conducted on the DWP’s behalf. From the DWP’s point of view, that is a valiant indirect effort, but it is deeply unreliable, because the most salient fact the survey establishes is that the vast majority of employers have no idea what charges are deducted from their employees’ savings pot. The DWP commissioned IRIS Consulting to research the charging levels and structures in trust and contract-based workplace pension schemes and the costs incurred by pension providers in setting up and running a pension scheme. This was the subject to which the Minister referred in our debate about deferred member penalties. The research included a quantitative survey of employers, using 514 contract-based schemes. Only 141 of 514 employers identified that members paid charges as a percentage of the fund. That is a pretty stunning finding, given that we can be sure they were paying charges as a percentage of the fund. That is pretty much how pension schemes and providers operate.

It is difficult to exaggerate how obscure the charging structure on pensions is. The reason—this goes back to a discussion we have already begun in Committee—is, first, that pensions are pretty complicated things to begin with; that the employer rather than the employee in an occupational scheme is the person buying the pension; and most fundamentally that pensions money, the moneys that we all pay into pensions, are then invested in asset classes by fund managers. It is that connection, between the pension provider administering the scheme and the asset manager allocating the assets into the financial markets, where one finds the hidden costs and charges.

That is not to say that the issue does not lie with the pension provider, because the fundamental fact is that most of the big scaled-up pension providers in the UK are vertically integrated: they do their own asset management. In fact, in some cases now, what we would think of as a life company providing all sorts of insurance actually does more asset management for other people than it does with the moneys of its own clients. For example, Standard Life—an extremely successful UK company which I am delighted to say is based in Edinburgh—is now a bigger asset manager than it is a life company. It manages more assets on behalf of individuals and institutions with which it does not have any kind of life or pensions contract, than it does with its own pension and life insurance schemes. That is a very important fact in all this. Legal and General is an enormous asset manager now and, more generally, the big pensions providers are vertically integrated.

Richard Graham: Am I right in thinking that only a year or two ago, Standard Life was fined for being unable to fulfil the requirements of what was supposed to be a cash fund, and that it was actually doing all sorts of other things in that fund other than simply investing in cash?

Gregg McClymont: I will take the hon. Gentleman’s word for that. I am not au fait with that case, but it is certainly true that when we think about pension charges—the hon. Gentleman raised the issue of value and cost on Tuesday—and once we get into the debate about how the pension moneys are invested, that is where much of the lack of clarity emerges. It is a complicated world on which there has not really been public focus in recent decades.

Richard Graham: The issue was not really cost and value, but simply the fact that a lot of investors have put money into a Standard Life fund—which was a cash fund—only to find that the instruments in which it had invested were not purely cash. The fund suffered considerable losses, and I believe the FSA gave the company a large fine. Will the hon. Gentleman confirm that?

11.45 am

Gregg McClymont: I cannot confirm it because, as I said to the hon. Gentleman, it is not a case that I am familiar with, but I have no doubt that he is entirely on the money. We know that there has been a significant shift in public and political attitudes to financial services. One suspects, and has only to look at the papers and speak to our constituents to know that there is a much greater emphasis on ensuring that there is transparency in financial services. I have no doubt that this is part of that process. It is certainly very clear that getting that full disclosure on pensions is critical. We know that the industry has begun moving in that direction.

When the Labour party first raised this issue over a year ago, it is fair to say that the initial reaction from the industry and the Minister was not a warm one—at least, from parts of the industry. Other parts were very supportive.

I have to pay credit to not only the RSA, CAS, TUC, Which? and Age UK, but to organs like the Daily Mail that have been relentless in running a campaign on funds as well as pensions, to take the point of the hon. Member for Gloucester.

The Minister of State, Department for Work and Pensions (Steve Webb): The hon. Gentleman just said something very revealing. He said that the Labour party first raised the issue of charges a year ago. What were they doing between 1997 and 2010?

Gregg McClymont: The Minister knows that I am perfectly relaxed about saying that the previous Labour Government did not get everything right. I am in the
position—some might say the fortunate position—of having been burrowing away in the obscurity of academia during that whole period in government. If the Minister wants to take a balanced look at that period, he would see that Labour came in and were faced with a pensions emergency. I think that he would agree that, when the earnings link was broken by the Conservative Government over that 15-year period, by the time Labour came to power, there were pensioners living in genuine, absolute poverty. Labour had to clean up that mess.

Mr Michael McCann (East Kilbride, Strathaven and Lesmahagow) (Lab): If Government Members want to take a fuller history lesson, they should remember the changes that the former Chancellor, Nigel Lawson, made to pension rules. They meant that huge companies took billions of pounds worth of pension holidays. If that had not happened, we might be in better shape today.

Gregg McClymont: I thank my hon. Friend for that intervention. When the Minister was setting out the case for the way he was proceeding on private pensions the other day, he gave a chronology of what he had done, and he moved from one priority to another. It was Labour’s priority in 1997 to deal with the dire emergency of absolute pensioner poverty, and Labour did that very effectively.

Mark Reckless (Rochester and Strood) (Con): The shadow Minister seems to suggest that this was due to the Conservative Government’s breaking the earnings link, as if that had been a permanent thing of Labour Governments in the past. In the previous period when Labour was in power, from 1974 to 1979, they broke the link with prices and instead made it with earnings, but at that time, earnings were going up less than prices.

Between July and November 1975, there was no indexation to anything at all, when inflation was at 27%. Pensioners then would have done much better out of the Thatcher policy of price linking.

Gregg McClymont: I do not think that that changes the fact that, by 1997—the statistics are clear on this—there was a genuine problem of absolute pensioner poverty. If we are talking about priorities, Labour’s priority was to try to deal with that emergency.

Richard Graham: The question asked by the Minister was not really designed to inspire a defence of everything that the Labour party had or had not done between 1997 and 2010. Indeed, that might not be absolutely relevant to our discussion. I think it was asked more in the spirit of curiosity, which I absolutely share, about the whole issue of pricing and what is in the charges laid by pension funds and pension fund managers, on which the shadow Minister has focused on this morning. What actually was raised by the previous Government? If nothing, it would be useful to know that. The hon. Gentleman is in close contact with the National Association of Pension Funds—indeed, I believe that it sponsored a recent leaflet of his. What progress does he think NAPF made on this issue during the previous 13 years?

Gregg McClymont: I am tempted to say that we know what curiosity does, but I take the hon. Gentleman’s point, which is not unfair, certainly regarding the historical aspect of charges. Government Members’ desire to paint me and the Labour party as astonishingly close friends with NAPF is an interesting development. I am perfectly comfortable saying that I think that NAPF, along with the other stakeholders, has important things to say about pensions. I might similarly ask the Minister why, rather than going with his own DWP survey on “pot follows member”, he accepts the Association of British Insurers survey. That would be equally legitimate.

The fundamental point is that there is an issue with the full disclosure of costs and charges. The big thing the last Labour Government did was bring in stakeholder, of which, it is fair to say, the Minister was quite dismissive on Tuesday. It was in passing, but he was pretty dismissive. Stakeholder began the process of bringing down the annual management charge, but there is no doubt that that charge is just one part of the cost, as I have set out. If the view of the hon. Member for Gloucester is that the problem did not begin with the coalition Government, I absolutely accept that. There is no suggestion that that is the case.

Richard Graham: We are not trying to debate when the problem began. I am just interested in a specific question. What progress does the hon. Gentleman think was made during the 13-year period when his party was in power on the specific issue of the difference between the AMC and the total expense ratio? What real contribution has NAPF made to that debate so far?

Gregg McClymont: The hon. Gentleman will have to speak to NAPF—[Interruption.] The Minister says from a sedentary position, “One might lose one’s sponsorship.” If he wants to talk about the extent to which he feels the need to accept the position of the Association of British Insurers on private pensions, I am happy to have that discussion. We know that he prefers an ABI survey to that from his Department, which is pretty striking in itself.

I feel that I should make a little progress—[Interruption.] I am not sure what the Minister just said. If he wants to intervene, I would be delighted to let him do so.

Richard Graham: Will the hon. Gentleman give way?

Gregg McClymont: I said I would be delighted to let the Minister intervene.

Richard Graham: I think we are hearing that, as far as the hon. Gentleman is aware—I have no reason to question his judgment—no progress was made on the charges that are not related to AMC. That is, no progress was made on the charges that come under the TER during the past 13 years, whether we look at the Labour party’s research or the work of NAPF, of which Standard Life is a large member. Would that be a reasonable conclusion to draw?

Gregg McClymont: I assumed that the hon. Gentleman’s previous question was rhetorical, because he had the answer ready to go. The issue of full disclosure of pension charges has grown up over a significant period...
and certainly pre-dates the election of the coalition Government. However, it now falls to the coalition Government to deal with it, and the amendment is an attempt to get them to do so—[Interruption.] The Minister says, “We are.”

Oliver Colville (Plymouth, Sutton and Devonport) (Con): The hon. Gentleman is obviously very proud of the time that his party spent in power and of what they did on pensions. However, would he like to comment on the decision—I think it was in 2000—to increase the state pension by only 70p? I remember it very well—[Interruption.] Sorry, 75p. I got it slightly wrong. Would he therefore welcome the decision by the coalition Government to link the pension fund with earnings? That is a major contribution that helps significantly.

Gregg McClymont: The hon. Gentleman is a very knowledgeable and fair individual. However, there is a danger that we will stray too far from the clause. He referred to the decision on earnings. It is worth noting that, as the Bill stands, in relation to the flat rate state pension, it puts into law only the link to earnings, not the triple lock.

Sheila Gilmore (Edinburgh East) (Lab): Although it is always entertaining to have this to and fro discussion, let us nail a few points. Throughout the period of the preceding Conservative Government and up to 1997, pensions were increased in line with prices. Therefore, what happened in 2000 with the 75p increase—which constantly is thrown in our face—related to the increase in prices at the time. The Conservative party was not then advocating a change; however, the last Government was going to move towards realigning the pension with earnings. To have decided that it should be either/or, as it were, is probably best. As we have heard, it is sometimes better to use earnings and at others it is better to use prices, so I agree that this is a better system.

The Chair: Order. That is too long for an intervention.

Gregg McClymont: I thank my hon. Friend for her intervention. It is time to turn to the amendment. With your guidance in mind, Mr Caton, I will do so.

As things stand, pension schemes do not tell the authorities what their charges are. The pension providers also decline to tell their customers. I am coming to the point, Mr Caton; my short-term memory has to be well focused for me to remember where I was.

Richard Graham: I have some important news to relay, which is that Australia is now 114 for eight.

Gregg McClymont: Could the hon. Gentleman intervene again, as I did not hear the score? [Interruption.] And we are in here! The Committee might be astonished to learn that, as a Scotsman, I am a great supporter of both cricket and English cricket.

Oliver Colville: In fact, a number of very famous English cricket captains have been Scots—including Douglas Jardine, of course, who led the “bodyline” series.

Gregg McClymont: I would not say that I am an expert on the “bodyline” series, but I thank the hon. Gentlemen for their interventions about the Ashes. I could wax lyrical about the 2005 series, in particular, but instead I will return to pension costs and charges.

A moment ago the Minister said, from a sedentary position, “We are dealing with it.”. However, if one looks at the trajectory of this debate, there is pressure from a variety of organisations, including the Labour party. The industry has begun to take this issue seriously. As things stand, the Association of British Insurers is looking at a voluntary code of costs and charges, which I understand it will bring out at some stage. The Investment Management Association, the trade body for fund managers, is also in discussions about a voluntary code for its part of the equation, which is the investment side. The National Association of Pension Funds is working with industry to bring out a voluntary code to disclose charges to employers. Therefore, those three bodies are working—I would say together, but probably it is separately, although all in the same direction.

However, we must be aware that the intention to produce a code is one thing—and I do not doubt the intention of each of those institutions to do so—but what is in the code is another. When one goes back to the doughnut, one sees that the matter is not straightforward. There are significant issues, particularly around transaction costs. If we go back to the RSA survey, it is striking that, when pension providers are asked what their costs and charges are, they do not include the things that should be in the total expenses ratio, never mind the transaction costs. Some in the industry are very clear that we must get everything disclosed: it is no longer tenable to be in a situation in which the buyer is not aware of what he or she is paying for.

12 noon

I welcome the moves from various parts of the industry towards a disclosure of all costs and charges. We know—I am certainly aware—that even if, within these institutions, and within the IMA and the ABI in particular, there is a sense that one needs to move in this direction, there is resistance from some parts of the industry. For example, Legal and General is absolutely clear that everything should be disclosed including transaction costs, and has come out publicly and said so. Incidentally, Legal and General does not practice active member discounts and does not think those should be part of the pensions architecture. I welcome that. However, other providers have not necessarily said the same things—certainly not in my hearing. There are of course different interests within any trade body or organisation.

Richard Graham: The hon. Gentleman is making a good case. He is absolutely right to flag up the fact that, although several industry reviews are going on, there have been many others over the years. He is quite right to be slightly sceptical about the speed at which the industry intends to suggest practical ways of harmonising clear definitions of the various charges. Having worked in that industry for many years, I share his scepticism about that. That scepticism is not doubt what the amendments, which call for—I am sorry to say—yet another review, every three years, of regulations of new standards. Does he share my belief that what we really
want to do is get the Bill through as fast as possible, and give the Government the wide ability in the clause to restrict the kinds of charges that may be made in qualifying schemes and enable detailed restrictions and limits to be set out in statutory guidelines? Would that not be a quicker way forward?

**Gregg McClymont:** I do not think that it would be a quicker way forward. The argument that I have been developing is that the Bill as it stands contains no definition of what administration charges comprise. The hon. Gentleman referred fairly to my argument and my desire to see the industry as a whole move quickly in this direction. I make the point to the hon. Gentleman and the Committee more widely—I felt this a little on Tuesday, when the Minister set out that he had priorities and that this is now on his agenda—that, when one gets down to brass tacks, this is about what people are paying for their pension and whether they know what all the costs and charges are. That is a fundamental issue and I am sure that all hon. Members will agree—[Interruption.] I really must get my hearing tested, because the Minister is on the Front Bench but I do not know what he is saying from a sedentary position. I am happy to let him intervene and give us his wisdom on this matter.

The issue is fundamental and crucial. It is not just the Labour party that is saying that; I have mentioned a number of times that coalition Members are even more outspoken than me on this issue. The Centre for Policy Studies—Mrs Thatcher’s favourite think-tank—described the private pensions industry as drinking in the last chance saloon. The hon. Member for Warrington South (David Mowat), a Treasury Parliamentary Private Secretary, described the private pensions industry as a time bomb—I know that the hon. Member for Gloucester was at that debate. My approach is tough, but it is not as tough as the Minister needs to grasp this nettle. If he wants to go on about the previous Government, I have no problem with that.

**Mark Reckless:** The shadow Minister seems quite keen to put distance between himself and the previous Government. However, looking forward, does he feel that the total expense ratio is operating properly? Is there anything that needs to be included in that? Are enough of the providers currently giving that information?

**Gregg McClymont:** I thank the hon. Gentleman for another constructive intervention. He talks about distance from the previous Government; I am very proud of what they did. There is inevitably some distance because I was not in that Government—I was not an MP. By definition, there will be a little distance. However, I am very proud of what the Labour Government did on pensions.

On the hon. Gentleman’s serious point, in the RSA survey, most pension providers, when asked what their total costs and charges were, just quoted the AMC; they did not even quote the total expenses ratio. If they had done so, that would have been a great improvement. I met one of the big investment houses—the big asset managers—the other week. By definition, they include everything in their total expenses ratio in a way that pension providers do not. If the pension providers did so, it would be a huge step forward.

I have been saying to the Investment Management Association for a while that transaction costs—the frictions that emerge in the asset management process—have to be quantified. For example, on this doughnut—to respond to the challenge of the hon. Member for Rochester and Strood—stock lending is not disclosed. We do not know whether this is the case because it is not a transparent area, but it could be that someone’s pension money is being lent out as stock to someone in the market, who uses the stock to try to make money. Of course, they pay a rent for that stock. It is totally unclear whether the rent that is extracted goes back into the saver’s pocket, because transaction costs are not incurred.

**Steve Webb:** If loss to people’s pension funds because of the costs of stock lending is an important issue, why is it not on the hon. Gentleman’s shopping list in his amendment?

**Gregg McClymont:** Let us look closely at this so that the Minister is aware of exactly what we are talking about. Ongoing charges

“shall include annual management charges, legal fees, administrative fees, audit fees, marketing fees, directors’ fees, regulatory fees and other expenses.”

**Steve Webb:** Other?

**Gregg McClymont:** Other expenses. The Minister has previously suggested that our amendments are too precise and that they do not give the Government enough wriggle room. Any reasonable person would say that the amendment covers a significant number of fees and charges. Stock lending is an issue, and that would come under “other expenses”.

[Richard Graham]
Richard Graham: I am slightly puzzled because stock lending is not really another expense. It might be another fee—anther source of revenue—but is it another expense?

Gregg McClymont: That is a very good question. How that is designated by fund managers is unclear. We could have a long debate about issues such as research costs. Good journalism has exposed that research costs can be included within expenses and fees in a way that is entirely unclear to the saver. If the Minister’s position were that the amendment did not go far enough in laying out all the costs and charges on a pension scheme, I would be absolutely delighted if the Government wanted to take it on and go even further.

Steve Webb: I am making a serious point. It seems as if the amendment has the list of things that the hon. Gentleman and his researchers could think of, and then it has “other”. What is the point, in legislation, of having a half-list? The hon. Gentleman read out what is in the doughnut, which includes a raft of charges that are not in the amendment. It is like he is saying, “Here are a few we’ve thought of. We will then just stick ‘other’ on the end to capture anything else we haven’t thought of.” Why not just put “fees”? The amendment makes no sense.

Gregg McClymont: The Minister takes his case way too far when he says that the amendment makes no sense. As things stand, those costs and charges are not disclosed, so an amendment that would enable the Government to ensure that they were is surely a significant step forward. If the Minister is saying that it does not go far enough, I would be delighted if he wanted to take it even further, but he is not being fair when he says that it does not make sense. It is very clear. Let us have clarity.

I am delighted that the Minister is engaging in the argument. I have never heard him talk about stock lending. He is obviously as fascinated as I am by the Which? doughnut and the variety of costs and charges therein. This is a serious issue, and if the Minister’s greatest criticism of the amendment is that it does not go far enough, I look forward to the Government taking on our proposal and expanding on it.

This stuff gets very gritty when we get into the variety of charges. The Minister mentions me and my researchers—excellent researchers, as I am sure he will agree. I am not saying that I know everything about all the costs and charges that there are on a pension. I have done a lot of digging to try to get to the whole doughnut, so to speak, and I am not suggesting that I have managed it. It is difficult to get full disclosure. I pay tribute to journalists such as John Greenwood on FTAdviser.com, who has dug down and looked at the research commissions that are charged. Those are another astonishing facet. I take the Minister up on his point: stock lending is a big issue. Are the Government grappling with and dealing with the matter? No, is the answer.

I have been sidetracked a little by useful interventions, but I will return to my point about voluntary codes. The industry—the Association of British Insurers as representative of the big pension providers with asset management arms, and the Investment Management Association as representative of fund managers—is producing voluntary codes, and that direction of travel is welcome, but one doubts whether such a code will do everything that needs to be done. For example, I have received a letter from a large pension provider that states:

“We support greater transparency but are concerned about the haphazard approach of some industry groups. We would prefer a DWP industry wide solution.”

The Minister observes as all those groups get under way with that work, but the big question is: will he grasp the nettle? It is particularly important that he does so if he is to go for a charge cap. He is consulting on a charge cap for auto-enrolment schemes. That brings me back to one of my earlier points about our not knowing what the costs and charges are. How can one have a charge cap if one does not know what the universe of charges is? It is impossible. Before the Minister can impose such a cap, he needs to know what all the costs and charges are. One way to look at the amendment is that I am doing the Minister a big favour by paving the way for him to get on and do the charge cap on which he is consulting.

Steve Webb: If I remember rightly, the Opposition have not only proposed a charge cap but said what it should be. How can they have set it without knowing all the information that the hon. Gentleman says we do not know?

12.15 pm

Gregg McClymont: The Minister refers, of course, to Labour’s position of capping legacy scheme charges. A Labour Government would get on very quickly with finding out what all the charges were. The Minister scrunches up his eyes, but if he accepts our amendment, when Labour wins in 2015, we can get on and do exactly what we intend to do. Does the Minister agree that, as things stand, one does not know what the panorama of costs and charges is?

Steve Webb: I think the hon. Gentleman is telling the Committee that he thought of a number before he knew the date on which he would be setting the number. Was that perhaps just for political purposes?

Gregg McClymont: I cannot believe that the Minister would be so cynical as to suggest such a thing. I think he will agree that if he is serious about this charge cap, he needs to know what the universe of charges is. I think he would accept that one thing he cannot say is that the Labour party does not have a series of policy positions on pensions. This is one of those positions. If I were pensions Minister, we would have full disclosure of all the costs and charges. [Interruption.] The Minister says “right”; but I do not think that he says it in a way that means right; I think he means wrong.

The Minister cannot proceed in the direction that he is going unless he finds out what the costs and charges are. I know that a significant amount of his attention has been taken up by the state pension and other things, but the discussion that we had on Tuesday about the DWP survey that the Minister quoted was telling. The Minister did not seem to realise that most of the employers surveyed had no idea that they paid charges as a percentage
of a fund. I am pleased to see that the Minister is in agreement. Employers, especially small ones, just have no idea.

That goes back to a point that I have made to the Minister: if one comes to the pensions market assuming that it operates like other markets, with information flows and symmetries, one is led in the wrong direction. That is not the starting point. In the private pensions market, a lot of people who are paying into pensions simply do not know what they are being charged. That situation cannot continue. The Minister says that he has a plan and that he is going to take on that situation, but I say to him that it is really urgent. The amendment speaks to that.

Richard Graham: I think we are all agreed on the question of urgency. Does the hon. Gentleman really believe that a review every three years from now until the end of time reflects the urgency of this issue?

Gregg McClymont: I get the sense that Government Members are keen—I guess it is inevitable in government—to be as unconstrained as possible. In their view, understandably, they are doing the right thing and the Opposition are just a nuisance who want to put restrictions on freedom of manoeuvre. The Minister and other members of the Committee have repeatedly said that this is a long-standing problem, and one of the reasons for that is that the issue is gritty and complicated, so it seems entirely sensible to have a review every three years. I take the general view that we are here to scrutinise the Executive and to make sure that legislation is as perfect as possible, so of course I will defend my own amendment.

Richard Graham: I think we are all agreed about the grittiness of the issue; my own observation is that just endlessly reviewing everything every three years is a rather random way of approaching it. If there is a serious problem it should be addressed, and it can be in a number of different ways through Parliament. To call for a review every three years gives the impression of tackling the issues, but the reality is that it would generate a huge amount of additional work at endless cost to the taxpayer, without a particularly sharp focus on why we are having a review at that particular interval.

Gregg McClymont: I cannot say more than that I disagree with the hon. Gentleman. Proposed new subsection (3B) states:

“The Secretary of State shall by regulation set the standards by which pension schemes must declare charges and transaction costs for the purposes of the register and for declaration to their members and their members’ employers. The standard shall be reviewed every three years.”

That is particularly important because, as I am sure the Minister is aware, there is always the possibility when standards are set that different costs and charging structures emerge. On the stakeholder scheme issue, I believe that, as the annual management charges came down, there were then all the costs behind that. I referred to research costs, which John Greenwood, the FT adviser, has done such a great job of exposing. I say to the hon. Member for Gloucester that it is important, just as we would capture all the costs and charges if the amendment were accepted, that we review and scrutinise whether the charging structures that pension providers put in place remain within those parameters. The hon. Gentleman will be aware of industries where the tariffs and offers related to deals can be complicated and can change, depending on what providers think is the most effective way of marketing a product. This proposal is a way of ensuring that Parliament remains on top of the issue. That is the most important thing.

Richard Graham: Can the hon. Gentleman clarify why everything needs to be reviewed every three years? Why not have a review every two years, or three times a year, or every four years? It is a little like the arbitrary target the Labour party created when in power that 50% of schoolchildren must go to university. Why not choose 40% or 60%? Why should everything have a triennial review? I foresee Parliament being clogged up with endless triennial reviews of whether every single piece of legislation is working as perfectly as he would hope. Does he understand where I am coming from?

Gregg McClymont: Not really, simply because a judgment has to be made about when reviews are undertaken. The hon. Gentleman is right that it could be every two years or every four years. My judgment is that three years seems reasonable. If he wants to make a persuasive argument as to why it should be two years, four years or five years, I would be delighted to hear it.

Richard Graham: I would put no time period on it at all.

Gregg McClymont: Well, if the hon. Gentleman would put no time period on it at all, it is not a review. I am sure the Minister would be the first person to pull me up if I tabled an amendment that said, “There shall be a review,” but that contained no date.

Returning to the point I was trying to develop, the Minister mentioned that I am an admirer of the Australian pension system, which does provide important lessons for us in the UK, particularly because they went down the auto-enrolment route—although admittedly compulsion-based, rather than inertia-based—over a decade ago. There are things that we can learn, but we must remember that Australia is a much smaller country than the UK.

Mark Reckless: Will the hon. Gentleman confirm that he means in terms of population, rather than area?

Gregg McClymont: I can put the hon. Gentleman’s mind at rest. I did indeed mean in terms of population. I am not a geographer, so he is right to be on his guard for errors I may make in geographic comparisons between the UK and Australia. I was referring to population size, so I am more of a demographer.

The principle that the Australians adopted is that transparency and disclosure are essential for the effective operation of the system. How can we tolerate a system where that is not the case? That is my position. Parliamentary examination, and therefore maximum exposure to daylight of any proposed regulations, is critical to counter the well-honed ability of vested interests. I will take head-on the reluctance of the hon. Member
for Gloucester to endorse the idea of a review. There are significant interests which, rightly, in a democracy, want to put forward their point of view—the Government in particular. I see it as our job, as the legislature, to give the Government the tools necessary to stand up for the public interest.

Steve Webb: When the Labour Government introduced stakeholder pensions, they initially brought in a 1% cap. Can the hon. Gentleman tell me why they then caved in and increased it to 1.5% for the first 10 years? Was that standing up for the consumer?

Gregg McClymont: I cannot tell the Minister that. I was not privy to those discussions; but, if the Minister’s observation is the case, it is pertinent to the discussion, and to my argument about giving the Government all the tools necessary for them to stand up for the public interest. My plea to the Minister would be to understand that the two things are not at odds.

The Minister’s response to my arguments for the amendment has generally been—although I do not want to anticipate everything he will say—“Well, the last Government did not do that.” However, that is not a reason for the present Government not to do something. It is not as if they have suddenly got into office. The Minister has been in his post for three years, and we are more than half way through a Parliament.

Perhaps the Minister agrees with me that the issue is urgent. His track record is of having to run to catch up to the point reached by the debate, but perhaps he is going to catch up finally with the general mood, and the sense that something must be done. Amendment 18 would give him and the Government the tools to ensure full disclosure of all costs and charges.

It is not just the Labour party who argue as I do, but a variety of organisations across the political spectrum: newspaper personal finance pages, consumer organisations and academic institutes that are experts in the pensions field. There is a big tide of opinion behind sorting the issue out.

The Minister will be aware of this morning’s newspaper story that the Institute for Fiscal Studies has confirmed what the Labour party has said all along.

Steve Webb: Massively out of order. Here we go.

Gregg McClymont: I am sure the Chair of the Committee will decide what is out of order, and not the Minister. I cannot imagine that power has gone to the Minister’s head so much that he wants to run the Committee as well. As he will see, what I am saying is not at all out of order. [Interruption.] I cannot hear the hon. Member for Gloucester, but if he wants to intervene I should be delighted to let him.

Richard Graham: On a point of order, Mr Caton. Is it entirely appropriate in a Pensions Bill Committee to accuse the Minister of being a power-monger?

The Chair: I cannot believe how much time we are wasting on the last day of this Bill.

Gregg McClymont: Thank you Mr Caton. Of course, I never said any such thing. I posed a question to the Minister and said I could not believe that he was in that position.

The IFS report brings clarity to the issue. I believe that the Minister agrees with the Opposition—he has said it several times—that the most important thing about the Bill is that, if it is to provide clarity about what people will get from the state, the incentive to save in private pensions must be improved. The problem is that as long as people do not know what they are being charged, their confidence about additional saving in a private pension system will not be restored.

When coalition Members suggest that such arguments are not pertinent to the clause, they expose the fact that they are not necessarily up to date on the detail of the interaction between the state and private pensions in the Bill. That is what the Bill is all about.

To summarise, amendment 18 would ensure full disclosure of all costs and charges with respect to a pension scheme. That is an important principle. The Minister is consulting on a charge cap and quality criteria. We know from the DWP’s own surveys that most employers are unaware of, or certainly very fuzzy about, how charges work and what they are charged for. The measure is an important first step—indeed, a prerequisite—towards having a private pensions market that functions effectively, has the confidence of savers and enables the Government to fulfil their desire to reform the state second pension so that it functions effectively alongside a fit-for-purpose private pension system. I commend the amendment to the Committee.

12.30 pm

Sheila Gilmore: I am grateful for the opportunity to contribute to the debate on amendment 18, but I first want briefly to comment on something that we need to do. All of us are slightly guilty of saying how much we want cross-party consensus on pension reform and on safeguarding the future, because of the importance of that in the long term and because we cannot keep changing and changing, but then seek to recall history. Here, we have gone back to 1975, when I suspect that some people in the room were not in nursery school, let alone in Parliament. Successive Governments have sometimes done good things and sometimes done bad things, and they have not always projected changes into the future, but certainly in the past 10 to 15 years, there has been a recognition that long-term planning means that we must if we can—we may not always agree—try to get some sort of consensus, and I hope we can do so.

The constant suggestion that a certain Government had 13 years and did nothing underestimates the degree to which the whole pensions landscape was considered several times by the last Government. We have been on a journey that has led to where we are now, and some of the decisions were not always palatable to everybody at the time. There has been a serious debate about how we tackle the fact that our population is ageing and is not on the whole good at saving for their pensions, and that the collapse of many occupational pension schemes—we could analyse why—that has left so many people without the provision they would previously have had.
[Sheila Gilmore]

The reason why such issues as the charges in defined contribution schemes have come into focus in recent years is that more and more people will be in such schemes not only because of making a choice between this or that pension provider, but because of auto-enrolment. Both the previous and this Government are signed up to moving to auto-enrolment, which was recommended by the Turner commission. The Turner commission would have made auto-enrolment compulsory, but the then Government’s White Paper went for the current system. I am pleased to learn from what the Minister has told us on several occasions, and from what the data now show, that opt-outs are lower than some people feared, which can only be a good thing because it relates to such a long-term provision.

Many people are being placed in something because we, as Parliament, say that that is for their own good. In pensions, we sometimes have to do that, because we all know that it is easy not even to want to think about what will happen later. At younger ages, people cannot envisage reaching such a stage in their lives and do not want to think about that, because they have other things to do and get on with. Younger people are starting families or buying their first homes—if they are fortunate enough to be able to do so—and pensions seem very far away: they are not just careless about pensions; other things come to the forefront.

Having put in place a provision for auto-enrolment, we have to take particular care to ensure that the whole question of charges is properly considered and dealt with. Otherwise, we could put people in a position where they potentially suffer detriment. When they reach retirement 20 or 30 years on, they will be angry if they find, having been required to go into a scheme they were told was in their best interests, that compared with partners, siblings or friends the end result for them is not good.

That is why the focus has sharpened. That is not to say that charges should not have been looked at, or more done sooner. The advent of auto-enrolment makes it particularly important to do this. That was the view of the Work and Pensions Committee when we looked at private pensions and a range of issues. We were conscious that, having endorsed auto-enrolment, been quite enthusiastic and concerned when the timetable was elongated, we had to look at this issue. We got evidence from a number of sources that there were serious concerns about some of the charges and the impact on outcomes, which can be significant.

Even an apparently small difference in charges cumulatively has a marked effect. The Work and Pensions Committee heard the example of the difference in charge of 1% to people who were otherwise contributing equal amounts into a pension fund for 43 years. The projection showed that a difference of 1% could mean the difference between £78,000 and £63,000. That is considerable and will give very different outcomes. One was an annual management charge of 0.5%, which was yielding the higher product. The other was an annual management charge of 1.5%. There are serious concerns about charges.

We also heard evidence that there has been downward pressure on charging, which can be only a good thing. Institutions such as NEST and other organisations providing products for auto-enrolment have had an important role in that. It is clearly important that, if other providers want to win business, they have to come into line.

The Work and Pensions Committee heard different views, even among employers. The CBI was opposed to a cap on charges; the EEF was supportive of one.

Oliver Colvile: Will the hon. Lady share with us why the CBI was against it and the EEF in favour? It would be helpful to hear that.

Sheila Gilmore: Neil Carberry of the CBI conceded that the time may come for a cap on charges for auto-enrolment. He was not saying that there should never be one, but that the time was not ripe. He referred to the fact that charges had already come down considerably, even since the Turner commission looked at the issue. It was not ignored—the Turner commission looked at it.

Gregg McClymont: Is there perhaps a reason for the difference in the EEF’s and the CBI’s position? The CBI is not against a charge cap in principle. The EEF might have more of a trade association focus on small employers. Is that the key?

Sheila Gilmore: It could be. Generally, all of our witnesses accepted that charges could be a major problem for people saving into schemes. Everybody wants to encourage people not just to save for basics. Through auto-enrolment in the longer term, we are looking to get people to want to pay in more, once they are in the habit of being in a scheme. Nobody could deny that simply paying the basic level of auto-enrolment as it stands will leave people far from the kind of pension provision that many hope to have in retirement. Auto-enrolment is only a beginning, not an end. We need to build trust into the system. Financial services generally, perhaps through their own fault, have taken a large hit in terms of people’s confidence in what to do. Sometimes, that can be an excuse for people to say, “I am not going to save because of all these scandals.” It is a ready “out” to say that that is why someone is not saving, when there may be different reasons.

However, that is no reason not to try our best to rebuild trust and confidence. Without it, people simply will not save and we will have another such generation.

Gregg McClymont: The Minister will be pleased to know that I looked at the Beecroft report online. I give him credit for rightly rejecting the pressure from Beecroft to exclude small employers from auto-enrolment. In that case, small employers who do not have the resources and expertise to deal with complicated pension products need a simple, straightforward pension offer. That is one context in which I assume the Minister is consulting on a charge cap: keep it simple.

Sheila Gilmore: Obviously, the simpler the better. However, as with many other things, I suspect it is not always easy to do so when dealing with complexities.

Christopher Pincher: The hon. Lady speaks with authority as a Member of the Work and Pensions Committee. Does she feel that the amendment does the job of building public confidence by applying the cap? As I understand it, the ongoing charges shall include annual management charges, legal fees, administrative fees, audit fees, marketing fees, directors’ fees, regulatory fees and other expenses.”
Does including “and other expenses” not open the door to any sort of charge the provider may wish to apply? Therefore, there is no cap.

Sheila Gilmore: The amendment does not apply a cap. When we look at the different charges, there is concern—and history will tell us—that at times, when one avenue of charging is closed down or limited, other avenues open up. I do not have to rehearse all of that today, but the evidence paper that went with our report is there to see. We had a lot of written evidence, as well.

Many people pointed out that charges are not just the obvious ones—the administration charges that people often see on statements. A lot of other charges come into play as the pension fund is invested or looked after in other ways. It is important for the consumer to know exactly what is happening. There were concerns that, even if the basic charge was pushed down to a low level, there would be other charges that people are not fully aware of and do not entirely understand.

Heather Wheeler (South Derbyshire) (Con): I am interested in the theme the hon. Lady is developing. Like many other MPs, I have been approached by a particular group that is keen to have fairness in the display of fees and charges. My view—I do not know whether she agrees—is that it is more a question of fees and charges being clear, rather than how much they are or having a cap.

12:45 pm

Sheila Gilmore: Obviously, clarity is very important; that comes through from the evidence that we took and from the written documentation that I have looked at. There has been a lot of expert opinion on how that could be better provided. The bottom line for a lot of people is, “How much have I paid in this year? What have the charges been? What is the resulting sum that I have built up?” The clearer that is to people, the better it will be. There are factors, such as the level of investment risk that one wants to take, that can affect the charges that are levied. People might want a straightforward system. A lot of people, particularly those in auto-enrolled schemes, also need a certain degree of overall protection.

Gregg McClymont: I suspect that the hon. Member for South Derbyshire was referring to the “true and fair” campaign. I hope that my hon. Friend the Member for Edinburgh East will agree that the amendment is very much in that space; it is about the need for transparency. The hon. Lady says that she thinks that transparency, rather than a cap, might be the way to go. The amendment is about getting full disclosure of costs and charges. I hope that the hon. Lady, given her views, will be sympathetic to the amendment, even if she is unable to support it when it comes to the crunch.

Sheila Gilmore: I thank my hon. Friend for that helpful intervention.

Richard Graham: Will the hon. Lady confirm whether she shares the shadow Minister’s enthusiasm for triennial reviews of almost everything under the sun in the Bill so far?

Sheila Gilmore: We must keep lots of things under review. It is often important to lay down that reviews are going to happen and not simply leave it to chance. As to whether a triennial review is more appropriate than some other interval, there is a good argument that if reviews are too frequent, we are expecting people to do a lot of work that may not be necessary. On the other hand, there is probably a precedent to show that this is a reasonable period that is neither too short nor too long. I am sure that people will have different views on that; different Governments have built in reviews on all sorts of systems. After all, we will be reviewing auto-enrolment as we go through it. The Work and Pensions Committee suggested that the Government should generally monitor the level of pension scheme charges and that there should be frequent reviews—at least biennial—at the position on capping charges in auto-enrolment schemes. It is a matter of debate as to whether reviews should be triennial or biennial. We need to be practical about how often we look at things.

It is important that people know that there are lots of different kinds of charges so that they fully understand what they are doing. Although this will not be true of all people, I hope that in the fullness of time people will be more willing to question what is going on in the pension schemes that they are paying into. We are probably all a bit guilty of not paying attention when our annual statements come through, for instance. That is not helped by the frequent lack of clarity about what is actually happening. I suspect that a lot of people only get as interested as they should be when they approach retirement, given that that is when they get the bad news that, however much they think they have been paying in for a considerable time, what they actually have is not very good. Those kinds of experiences have prompted the lack of trust. It is often too late for people once they get to that stage. How they feel about that will feed down through their friends and family, and may put other people off.

The Work and Pensions Committee listened to all the evidence, including from the Minister, who did not say that he was against using a cap. He said that the Government were “prepared to use the cap if we need to, but it would have to be based on evidence that people were signing up for schemes that were not good value”.

He felt that there was not yet sufficient evidence of that, which was the reason he gave to the Select Committee for not acting at that stage. Things have obviously moved on and the Government are consulting on charging, although the issue is probably going to run on beyond the passage of the Bill and will not be included in it. I have said previously that, since pensions legislation is being introduced, it would be a pity if we did not use the opportunity to deal with as many things as we can.

Steve Webb: Surely the hon. Lady would accept the principle that the charges that people are paying in schemes are open and transparent, and that we and successive Parliaments look at them...
carefully. There are issues about what we should do with primary and secondary legislation. Although I hear what the Minister is saying, Governments generally like secondary legislation better than Oppositions. It allows flexibility and sometimes enables things to be done more quickly than they might be done otherwise. The problem is that in this place, a lot of secondary legislation is not dealt with as well as it could be.

Perhaps that whole issue needs to be looked at again, because much legislation is framed without a lot of the detail. I certainly saw that on the Welfare Reform Bill Committee two years ago. At that stage, we really had only the architecture; the detail came through in subsequent regulations. The problem with a lot of regulations is that the time allocated to debating them and being able to do something about them is rather limited. That is a much wider issue, but if we are going to rely on secondary legislation for a lot of the detail of what we do in this place, we really ought to think about whether we give it the time and the serious consideration that it deserves. What happens through regulations can be hugely important to people, and Governments must be held to account for the way that they go into the details.

There is an advantage to spelling out the different forms of fees, which I touched on earlier. However, there is a concern that if we concentrate on a limited number of types of fees, the balloon will just push out somewhere else. We do not want a situation where people can be charged in a slightly different way so that, overall, the basket of charges that they face stays about the same, even if some things that have been outlined are dealt with. We need to think about that carefully.

The view of the Work and Pensions Committee was that, as on a number of other issues, when we deal with averages, it can seem like things are fine, that charges are coming down and that everything will work out, and yet some people are still in schemes with high charges. That can be quite detrimental to some groups and it is important that we deal with that. One of the Select Committee’s recommendations was to ask the regulator to carry out an urgent review of the outliers with high charges so that action could be taken if necessary.

The Select Committee also recommended that the Government review their position on capping charges and act without hesitation if they are convinced that pension scheme members are at risk of detriment from high charges. If they wait too long, people’s pension pots will be lower than they might otherwise have been. It would be difficult to deal with that retrospectively, so some people might suffer detriment they cannot make up before they retire.

I commend the amendment to the Committee and look forward to hearing the Minister’s response.

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

12.55 pm
Adjourned till this day at Two o’clock.