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GENERAL COMMITTEES

Public Bill Committee

PENSION SCHEMES BILL

Second Sitting

Tuesday 21 October 2014

(Afternoon)

CONTENTS

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Saturday 25 October 2014

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

The Committee consisted of the following Members:

Chairs: MR PETER BONE, †MRS LINDA RIORDAN

† Abrahams, Debbie *(Oldham East and Saddleworth)* (Lab)
† Blenkinsop, Tom *(Middlesbrough South and East Cleveland)* (Lab)
† Coffey, Dr Thérèse *(Suffolk Coastal)* (Con)
† Graham, Richard *(Gloucester)* (Con)
† Hammond, Stephen *(Wimbledon)* (Con)
Hemming, John *(Birmingham, Yardley)* (LD)
† Kwarteng, Kwasi *(Spelthorne)* (Con)
† Latham, Pauline *(Mid Derbyshire)* (Con)
† Love, Mr Andrew *(Edmonton)* (Lab/Co-op)
McCann, Mr Michael *(East Kilbride, Strathaven and Lesmahagow)* (Lab)
† McClymont, Gregg *(Cumbernauld, Kilsyth and Kirkintilloch East)* (Lab)
McFadden, Mr Pat *(Wolverhampton South East)* (Lab)
Maynard, Paul *(Blackpool North and Cleveleys)* (Con)
† Mills, Nigel *(Amber Valley)* (Con)
Morris, James *(Halesowen and Rowley Regis)* (Con)
Paisley, Ian *(North Antrim)* (DUP)
† Watkinson, Dame Angela *(Hornchurch and Upminster)* (Con)
Watts, Mr Dave *(St Helens North)* (Lab)
† Webb, Steve *(Minister for Pensions)*

Kate Emms, *Committee Clerk*

† attended the Committee

Witnesses

David Pitt-Watson, Executive Fellow, London Business School, and Royal Society of Arts

Stefan Lundbergh, Cardano

Hilary Salt, First Actuarial

Derek Benstead, First Actuarial

David Fairs, Partner, KPMG, Chair of the Association of Consulting Actuaries and Chair of the Defined-Ambition Industry Working Sub-Group

Martin Lowes, Consultant, Aon Hewitt

Sue Lewis, Chair, Financial Services Consumer Panel

Jim Bligh, Head of Public Services, Confederation of British Industry

Public Bill Committee

Tuesday 21 October 2014

(Afternoon)

[MRS LINDA RIORDAN *in the Chair*]

Pension Schemes Bill

2 pm

The Committee deliberated in private.

Examination of Witnesses

David Pitt-Watson, Stefan Lundbergh, Hilary Salt, Derek Benstead and David Fairs gave evidence.

2.2 pm

Q94 The Chair: Will the witnesses please introduce themselves for the record?

David Pitt-Watson: I am David Pitt-Watson. For the last six years, I have been leading a study for the Royal Society of Arts, a venerable non-party-political think tank investigating how we could deliver a better pension system in Britain, with "better" defined by a series of citizen juries that we conducted five or six years ago. That is my background on this. I am a former fund manager for the largest pension fund in Britain, and I currently teach in the finance faculty at London Business School.

Stefan Lundbergh: I am Stefan Lundbergh. I work at Cardano. I have been quite involved in the Dutch reforms of the collective defined-contribution schemes. I am Swedish, and I am also a board member of one of the Swedish AP funds. I am interested in pension design and how to provide a good pension for the end consumer, and I have experience in the UK, Sweden and Holland.

Derek Benstead: I am Derek Benstead of First Actuarial. I am an actuary responsible for running defined-benefit pension schemes, in the main. I have a long-standing personal interest in innovative and effective pension scheme design. In particular, in the stakeholder pension consultation of 1998-99, I recommended a collective defined contribution.

Hilary Salt: I am Hilary Salt from First Actuarial. I am a fellow of the Institute and Faculty of Actuaries. I am an adviser to a number of employer pension schemes, mostly defined-benefit schemes. I also advise a number of beneficiary organisations on pensions policy.

David Fairs: I am David Fairs, partner at KPMG. I am an actuary by training and currently chairman of the Association of Consulting Actuaries. I also chaired the industry working group on flexible defined benefit under Steve Webb's defined ambition agenda.

Q95 Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): May I ask our witnesses first to give the views of the organisations that they represent on the advantages and/or disadvantages of moving to collective defined-contribution pensions?

David Pitt-Watson: All the evidence we can find in all the studies that have been done, of which there are a number now, suggests that they give considerably higher pensions and are much more predictable. That is because pensions can be thought of as savings—part is savings—but the pension itself is an insurance. The best way to insure is to insure collectively, and in this case to insure for how many years you will live. In a collective defined arrangement, people can share that risk among themselves. That means that they do not need to go into the market and buy an annuity, which, as we all understand, is extremely expensive. There are a number of other advantages in terms of the timing of when you take the money out and the way you invest, but when you put all those together, most of the studies suggest that there is maybe a 30% or 40% upside from investing collectively rather than investing individually and that a more predictable pension comes out of it. This is really quite a substantial step forward.

Stefan Lundbergh: I think I disagree a bit with you, David. My experience comes from Holland where we had a large debate on how you make a good collective DC. One thing we discovered is that if you compare apple with apple, there is not such a big difference in the outcome of pension. You have to invest in the financial markets. You have to think about it. If you construct it in a good way and you have an equally designed individual DC, you can show it is very close to a collective scheme. That said, there is a big advantage to a collective scheme, which is in how you frame retirement. It is a retirement income. There I agree with David. It is really important that you look at the cash flow in relation to an annuity.

The advantage with collective schemes is in the implementation. Compared with a market solution, you can focus on the right goal—a stable retirement income—and you avoid some of the things where the market does not work so well. Competition does not always give a better product in the financial sector. You can also better manage the agency risk. So, from a purely financial perspective, in an ideal world you can make them quite similar, but when you implement it, that is where the advantages kick in because you have someone like a trustee who looks after the members' best interest. That is why I would recommend a collective scheme.

Derek Benstead: I would affirm David's points, which in effect affirmed the merits of a collective defined-contribution scheme, relative to individual money purchase. I would agree that a collective defined-contribution scheme should produce a much more stable benefit outcome than the very unstable outcomes of individual money purchase. It avoids the cliff edge of annuity purchase, which comes with individual money purchase. It allows greater flexibility of investment into retirement. Given the background of the freedom and choice aspects of the latest Budget and the relaxation of requirements to buy an annuity for the money purchase scheme, we need alternative ways to annuities to provide an income in retirement—not just drawing on capital savings, but income where there is a protection against longevity incorporated in the product. So a collective defined-contribution scheme can provide a new way for pensioners to obtain income that is not annuity purchase.

Hilary Salt: Very quickly, because most of the advantages have been said, there are two advantages that I would mention. First, with the collective way of providing income in retirement it is possible for a scheme to have a longer period in higher-yielding investments rather than having to switch to very low volatility bond-type investments in retirement. Secondly, it is a way in which people can pool longevity risk, and pooling risk is an important element of what CDC brings.

Perhaps I should say a couple of things on the disadvantages, because people have not mentioned those and that was part of the question. A couple of disadvantages are really overplayed. One disadvantage that is often raised is the idea that they can introduce a lot of intergenerational inequality. I would absolutely refute that. There are ways that CDC can be set up that involve intergenerational inequality, but it is not a necessary part of setting up CDC. Perhaps in the time that we have, we can develop further how to build a CDC scheme that does not have intergenerational inequality built into it.

The other point on disadvantages is that trying to set up a CDC scheme with a group of members who trust no one will not work. It has to be built on a framework of trust. Members have to trust the managers of the scheme. That can be built by having a clear understanding of what the scheme does, a lot of transparency and a lot of legislative requirements—not on what the scheme and the scheme managers do, but on what they must not do. For example, they must treat people equitably across the piece. So, some of the disadvantages that people often put forward can be managed.

David Fairs: I will not repeat the advantages that have already been said, but to add to that, at the moment we live in a world that is very black and white. You are either in defined benefit or defined contribution. Many employers are finding the costs and the volatility of costs associated with defined-benefit schemes too much for them to bear as an organisation. They are almost left with no alternative but to go to defined contribution. What CDC does is introduce various shades of grey so that an employer can decide to take on some of the risk, but not the entire risk that they would have to under defined-benefit schemes. Some large employers feel very frustrated that they have looked after employees in a defined-contribution scheme to the point that they got to retirement and then employees—at the moment—are forced to buy an annuity, although there are other freedoms. However, employees want a degree of certainty of retirement income when they retire, and collective DC schemes create the infrastructure that will enable employers to provide that guarantee at a level of risk that they find acceptable.

David Pitt-Watson: If it is at all useful, I have a paper here that reviews the evidence, and if members of the Committee would like to take away a copy, they would be very welcome.

The Chair: I think that would be very welcome.

Q96 Debbie Abrahams (Oldham East and Saddleworth) (Lab): I wonder, Ms Salt, if you could expand on the model that would reduce intergenerational inequality.

Hilary Salt: Okay. If you built a CDC scheme that looked very much like today's defined-benefit-type arrangements, it would have a target level of benefits. If you were going to offer a target level of benefits and said to people that there was a very high chance that those benefits would be paid, you would need to build up a reserve in that scheme. Building up a reserve in that scheme would mean that the first generation of members of that scheme would not get value for money, because perhaps £3 in £10 of theirs would be kept within the scheme to build up that reserve, so as to be able to promise a higher benefits.

That is kind of the position we are in these days with defined-benefit schemes, where you have such a high level of certainty that benefits will be paid that employers are forced into a position where they can provide only a very low level of benefits. We want to avoid that same mistake with CDC. So, to build a CDC scheme that did not have that intergenerational inequality, you would build it in a way that aimed to provide a target level of benefits and it was 50% likely that that benefit would be met, and 50% likely that it would not. Or 50% likely you would get more and 50% likely you would get less is perhaps a better way to explain it to members.

That means that you would not have to build up a reserve, so the money that the first generation of savers put in would come out to that first generation of savers, rather than being kept within the scheme to provide a buffer so as to be able to promise benefits to a future generation.

That is the real first principle of basing the level of benefits that you expect to pay on a best estimate of what you can afford. That does not mean that that is always the way that you will communicate those benefits to members. You might build in a lot of caveats in the way that you communicate those benefits to members, but the basis on which you fund the scheme is on a best estimate basis. That is one of the reasons we welcome some of the changes that were made yesterday to the Bill around establishing ranges of probabilities, rather than a set target that you have to be better than.

Stefan Lundbergh: I can add to that that in Holland the big debate was that you need to have transparent ownership rights. That was not the case in the past and that is why there was a big debate in Holland that the system is not sustainable. It has to be clear who owns what at all times and it is good if you have clear rules about what is going to happen, how you are going to redistribute things if something happens. You have what we call, in technical terms, a complete contract; there is no room for wiggling or reallocating things, so it is fair to everyone and every cohort or group in the collective should be treated such that there are no winner or loser cohorts. That is very important for trust.

Q97 Richard Graham (Gloucester) (Con): I have a quick question for each member of the panel, starting with David. You said that outcome is 30% to 40% better for collective DC than for normal DC. How do you know what the outcomes from my DC are? You can mull that over.

Stefan, if the Dutch experience has not been entirely satisfactory, where has the experience been better and what can we learn from that?

Derek, you talked about the cliff edge of annuities. That cliff edge, surely, has gone?

Hilary, you mentioned the advantage of a longer period of higher-interest investments. I do not see why that should be the case. As an individual, I can decide exactly what my investment is going to.

David, it is 50 shades of grey. I see the argument for why a defined-benefit scheme would want to change into a collective DC, but surely that is just a watering down of what already exists, rather than a strengthening of what does not yet exist?

David Pitt-Watson: There are two methods that people have taken to look at this. One is just to say, what happened in the past? There is a study by Aon Hewitt that looks at what would happen to somebody who had been investing for 25 years, starting in 1930-31 and retiring after 25 years.

Q98 Richard Graham: That is entirely hypothetical. Those are not actual outcomes.

David Pitt-Watson: They are actual outcomes if you put the collective DC and the individual DC on a typical investment path that they would have today.

Q99 Richard Graham: I think that invalidates the data completely.

David Pitt-Watson: That is the first way of looking at it. To fully answer your question, the second way of looking at it is simply to look at the differences in cost.

Q100 Richard Graham: That is cost; we are talking about outcomes. Let us move on.

David Pitt-Watson: No, no—I am looking at outcomes.

Richard Graham: Thank you very much. Stefan?

Stefan Lundbergh: I would say that the best way to learn is to look at other people's mistakes. The Dutch made a couple of mistakes in their design process in the past that they are now trying to correct. You have the luxury of starting with a blank sheet so you can make it right from the beginning. The best exercise is to study those who tried to do something like what you are trying to do and messed up on the way, because that is the most valuable piece. In Denmark, they have, in the Arbejdsmarkedets Tillægspension—ATP—solution, which is part of the public system, a decent model whereby they offer guarantees and they run it very strictly from a risk-management perspective. It is a good role model, but that is also run like a Crown company, or something at arm's length from the Government. That could be a nice study.

Derek Benstead: Compulsory annuity purchase is outgoing, but the cliff edge of converting an account of money into an income that provides longevity of protection has not gone. The current position is that a person with a money purchase account can either buy an annuity or take a cash sum with no longevity protection. It is a little too polarised to say that, but that is basically it. A CDC scheme would offer a new way of obtaining an income that avoids the cliff edge of converting a pot of money into a lifetime income based on market conditions on the day that transaction is executed.

Hilary Salt: This is largely the same point, because you may be right when you say that freedom and choice in pensions will mean that you can take your pot and leave it in equities for a long time post-retirement. That might be true for some people. For a lot of people on low and median earnings, that is really not an issue, partly because the kind of products that they will have that would allow them to do that will be expensive compared with the level of the pot they have if they are doing it on an individual basis, rather than on a collective basis, and partly just because they are much less able to stand the risks of high-risk equity investment in the long term.

The other point concerns longevity. If you are doing things individually and not collectively, you are not sharing that mortality risk—longevity risk is a better phrase. People understand mortality risk very easily. For example, if you are a 30-year-old, you might think you need £500,000 to look after your family if you die. If you as a 30-year-old try to save £500,000, you are not going to do it. If 1,000 of you save £500, that is easy to do, and you can see that that pooling of risk in a death situation is fairly easy to grasp. It is exactly the same with an annuity. If you are the one in 1,000 people who lives to 110, you will have enough if you are in a collective arrangement in a CDC post-retirement scenario, whereas if you are an individual, unless you save enough in your little pot to live on to 110, you will run out of money.

David Fairs: In terms of whether it is watering down, we have seen a significant number of defined-benefit schemes that have already closed. In the run-up to 2016 and the abolition of contracting out, a lot of employers are reviewing their retirement provision, and I think we will see significantly more defined-benefit schemes close around 2016. You could say this is a watering down, but there is a tendency towards closing down defined-benefit schemes anyway.

There is the additional point that defined-benefit schemes in many ways are designed on an employment and social model that existed in the 1950s. There are far more women in the working population and far fewer men; far more part-time people; people now live twice as long; and people are much more likely to get divorced. So on the pensions structure that exists under defined-benefit schemes, I think employers are saying, "That just does not fit the work force that I have at the moment. I want a vehicle that I can flex to better adapt to that requirement."

Q101 The Minister for Pensions (Steve Webb): One of the criticisms is that nobody is interested: "DB is going; everybody just goes to individual DC. This is all an awful lot of time and effort for nothing at all." I will start with David and David, but any of the other colleagues can come in. What is your sense of employer appetite? Is this all just a theoretical nicety that nobody is interested in?

David Fairs: No, I have a client who is working on the assumption that the legislation will work its way through. It is quite challenging for employers who have defined-benefit provision or have a unionised agreement to say publicly, "If you pass this piece of legislation, I will move into it", because that is breaking the agreement with the unions and breaking the trust that they have got with employees, so I think employers want to go through a proper process of consultation. But, privately, lots of employers are thinking about how they can use this legislation to provide benefits for employees. So I suspect that, mostly in the larger employers initially, we will see something launched and then I think that trickle will start to increase.

David Pitt-Watson: I think that is about right.

Hilary Salt: It does not have to be employer-led. With CDC, all you need from an employer is a contribution, so CDC schemes could exist without any employer sponsorship, at it were, or participation. They could be led by beneficiary organisations or other organisations without the need for a sponsoring employer.

David Fairs: We might see trade unions start to move into that area, too.

Derek Benstead: With many employees being auto-enrolled into money purchase accounts, they will need a vehicle for converting that into pensions when they retire, so even if the saving is not money purchased, the retirement position might be to join a CDC scheme.

Stefan Lundbergh: The biggest challenge to get it going is that, if you are just going to get contributions, it will take for ever until you build a big enough pool to run it. So what you need is a launching collective. You need a group that says, "We want to be part of it." Finding something like the social partner—the unions or employers—to set this up would be the way it could work. You can also do it with public intervention—an add-on to NEST or something like that—but I think it will need some help to get it going. Once it gets going, it is really good, but the difficult part is getting it going. In both Holland and Sweden you have solutions such as this. We have a very strong tradition of high union membership, and this has been pushed from that side. If you have only the market solution, the market does not have a need to set this up, because you cannot earn money quick enough on it unless you have a large launching collective, so that is the critical part.

David Pitt-Watson: I think that the consensus of the TUC, the CBI and the Consumers Association, as well as the political parties, suggests that maybe it would be possible to do that, but it is not there yet.

Q102 Nigel Mills (Amber Valley) (Con): We have had our market tainted by the Equitable Life scandal and other things, where what people think of as a promise ends up not being one. People are then stuck in a pot, their money has gone and they have no way out. How do you regulate something like this so that you have a meaningful promise without being a binding one, with people thinking they can rely on them but perhaps they cannot? It looks like a minefield of confusion, doesn't it?

Hilary Salt: I think that is the hardest part of this. It is important to get that right. I would say there are three elements to regulation. One is that it must require schemes to be transparent. What is their policy on target benefits? What are the charges? Who is responsible for what? Secondly, it must have a fiduciary basis. There has to be a trustee-like body that manages the scheme and has a fiduciary duty to members. Thirdly, and probably most difficult, you have to communicate with members in a way that tells them to forget about DB.

For people of my generation that is quite challenging because members start from a DB. As soon as you say, "This level of benefit", they start to think that is guaranteed. However, I do think that is changing quickly out there. Derek mentioned that lots of people have been auto-enrolled into DC schemes, or money purchase schemes, and often very poor ones. They do not really have a concept of DB, so perhaps it is easier with those members to start from a communications angle that does not say that the benefits are guaranteed.

Both in the legislative framework and in scheme communications, it is really important to start from the position that it is better than DC, not that it is like DB.

David Fairs: I agree with that wholeheartedly. It is critical that the governance and disclosure requirements around these schemes are set out clearly in regulation, and that employees understand what is guaranteed and what is something that will be provided if the experience is good. I think the disclosure to employees is critical.

Stefan Lundbergh: One problem when you bring up Equitable Life is that, in my view, that was a failure in supervision and legislation around that type of product. The product itself was not bad but there was no supervision, so you could promise whatever and get away with it, and then it did not work out. The strength now with a lot of the risk-based regulation is that it is difficult to promise too much. The key is that you should under-promise and over-deliver to keep the psychology in place. If inside you have fair and transparent ownership rights, it is market to market and you have regulation making sure you cannot over-promise, you are on a good way to create a sustainable system that people will trust.

Derek Benstead: I would like to add to some of the comments already made. I think the collective defined-contributions scheme is by definition defined contribution: the promise is the money going in not the benefits coming out. It is essential that, once the money is in, it is spent on the members plus the expenses of running the scheme, but with no refunds back to an employer, for example.

Having got the money in the scheme, the main requirement by far is to ensure that the legislation surrounding non-discrimination is sufficiently robust. We already have anti-age discrimination legislation, which is pretty much the same as legislation against unfair intergenerational allocation of resources. We heard Stefan comment on the importance of treating all members alike, whether they are active members, pensioners or deferred members. There was an item in the Pension Schemes Bill about protecting the interests of deferred members. There should be absolutely no discrimination between cohorts of members.

My main positive message is if the legislation around non-discrimination is robust, the outcomes will be non-discriminatory. There may be different ways to design the target benefit or manage the investments or the actuarial policies, but if at heart what trustees are doing is non-discriminatory surely that is satisfactory.

Alluding back to the Equitable Life example, Equitable Life had different cohorts of policy holders, with different policies that conflicted with each other; so a CDC scheme just needs no division between members—all members, be they actives, deferreds or pensioners, are one class of member, deserving of equal and fair treatment by the scheme's managers and trustees.

Q103 Nigel Mills: That sounds absolutely right, but it is easier to reduce a forecast for someone aged 40 than it is to reduce a pension in payment to someone aged 80, is not it? The logical outcome of what you just said is that if the stock market takes a dive, or if actuarial assumptions go one way, you have to start reducing pensions in payment. Is that an attractive prospect?

Derek Benstead: No, it is not an attractive prospect—reducing pensions in payment. You refer to stock markets taking a dive. I would refer to a CDC scheme as being an exercise in cash-flow planning. The issue is one of estimating asset income cash flows and contribution income cash flows, and the spend on the benefit outgoing. It is a matter of balancing cash flows, rather than being driven by market prices on any particular day or month, that are of no particular consequence if you are not settling a benefit in full on that particular day. Market prices matter if you are buying an annuity. They do not matter if you are paying a pension out of a trust fund as it falls due for the next 30 years.

David Pitt-Watson: The issues that you are raising are really good ones, and for these to work you need to have the communications and actuarial oversight right, and, I would argue as well, you need trustee governance or something similar to it to make them work—I think, also, not pretending that there is a perfect pension system out there. I was preparing for this over the weekend, and was looking at my own pension statement: 10 years ago and now. I have got 30% more in my pension fund, and my predicted pension, which I can take in two years' time—60 is my normal retirement age—is down by 12%. So the variation as I have come up to possible retirement is a third. That is not an exact comparison with the reduction in pensions in payment, and you need the flexibility for reductions in pension payment to get the full value from a CDC, but the sort of differences that one is looking at as one is coming to prepare for retirement are very high within the individual DC compared with what they would be in collective DC. They are not gone in collective DC, though, and one needs to understand that.

Hilary Salt: It is imperative that you do not privilege one set of members over another, and that you are transparent about the fact that you will not do that, and that pensions could go down.

Q104 Nigel Mills: How do you stop people leaving a scheme? Say that I have been in a collective scheme and I get to 60 and have a massive heart attack and decide that I am now not going to live to see 70, so I will get out of this collective scheme quite quickly and start spending the cash. Do not you have a real risk that you lose all the people with a short life expectancy and just keep the healthy ones?

Hilary Salt: You could do that, but that is not a problem in CDC. I am going to let Derek explain why, because he had a great explanation on the train on that point.

Derek Benstead: You need to distinguish between looking at a collective defined-contribution scheme as an alternative to defined benefits, which is one way of looking at it, or looking it as an alternative to money purchase, which is a different way of looking at it. It sits in the middle and, depending how you define the target benefits and manage the scheme, it might look more like defined benefits if you are maintaining a target benefit for years at a time; or it might look more like money purchase if you change the terms for converting a contribution into a target benefit daily with the market movements, if you are running a scheme where any individual can come and go whenever they want.

If you think about money purchase for the moment—individual money purchase—then if you have got 1,000 money purchase accounts, some of those will be long-lived people and some will be short-lived people, and the short-lived person will go and take their money and spend it, or buy an underwritten annuity and get a higher pension; and the long-lived person, if they want an annuity, will be buying an expensive annuity with quite long longevity assumptions, ending up with a lower income. That is all fine; that is how money purchase pensions work. What you receive out of the money purchase pension does depend on your individual circumstances. You are judging value for money in contribution terms. What you put in and earned is what comes out for you, as opposed to making that judgment in defined benefit terms, where everybody gets the same benefit package or, in a CDC scheme, nearly the same as you can manage for years at a time.

If you are running a CDC scheme, viewing it as an alternative to a money purchase scheme, and a number of members in ill health in the CDC scheme transfer out because they can do better for their family with the money if they leave the scheme, that is fine. That is what they would do in a money purchase context. If the people who are left are long-lived and the actuary running the CDC scheme consequently needs to assume that they are longer-lived and pay a smaller rate of a pension for a longer period of time, that is fine. That is just managing a collective group of longer-lived people and paying them a fair pension for their expected life span. To answer your question, if you look at a CDC as an alternative to money purchase, the principle that some shorter-lived people might transfer out leaving longer-lived people behind is fine. That is how it would be in the individual money purchase scenario.

Q105 Nigel Mills: It seems like, for collective to work, you have to have some winners and some losers; otherwise, presumably you have no winners or losers, in which case you are back to where you started. Does it seem that the only way that you get winners is if you have ignorant losers who choose not to leave at the time they ought to leave, for example? Are we not in danger of mis-selling to a load of people in that situation?

David Fairs: We are very good at predicting when we are going to win.

Stefan Lundbergh: I would say that if pensions are cut, that does not create losers because if the funding is not there and you do not cut pensions, you create losers. The losers are those who have to fill the gap. In Holland, we waited too long to cut pensions, hoping that things would go back to normal. Then, eventually, we had to cut them and it was a big shock to people. You start saying that your pension is no longer rock solid but that we will try to make it stable. It can be cut; it should be cut because that is how you create fairness between young and old.

Another problem is when you want to stick things in the collective scheme that do not belong there. Then you get into problems. Longevity is a good example. In this room, on average, we are going to live until 85 or something like that, if you believe actuarial tables. That means that some of us are going to live longer and some shorter. Tomorrow, we could invent a cure for terminal diseases and, all of a sudden, we are going to live until 95. You cannot hedge that risk in a collective scheme because, together, we can pool risk. If people start living longer, pensions have to go down.

If you believe you can hedge that risk by being in a collective, you will create winners and losers. The core thing is to figure out what you are going to put in the collective scheme. What risk should you share and not share? The better you design it, the more stable and robust it is, and the less unfairness there is between different generations and cohorts. You have to make up your mind when you design a collective scheme. With the DB, everything is protected and that is why it becomes very expensive. You say, "What do they do collectively and what do they pass on to the individual?" That is the most critical decision you have to make in CDC.

David Fairs: I think it is also envisaged that some risk capital would be put up. If an employer put up a degree of risk capital to run one of these arrangements, and there was a run of bad luck and risk capital was run down, that employer might well choose to top up that risk capital to keep the scheme running for longer. It would not necessarily be a requirement for the employer to top up the risk capital, but he might just for the benefit of his employees. That is the sort of risk that, under a defined benefit scheme, absolutely becomes an obligation on the employer, which, in a collective DC, depends on the employer's fortune—whether he is able and willing to fund that.

Q106 Dame Angela Watkinson (Hornchurch and Upminster) (Con): Given the increasing complexity of the spectrum of pensions, would it be better to have a single regulator rather than sharing that responsibility between the FCA and the Pensions Regulator? If you do think that, how should that one regulator be structured? Who would like to answer?

David Fairs: I will start. The critical point is that if you have two regulators overseeing pensions, it is important that they be consistent when they are meant to be. If there is consistency between the regulators when they are looking at different vehicles for the same provision, you do not need a single regulator. If that is not capable of being implemented, you probably do. Consistency is a requirement.

Q107 Dame Angela Watkinson: But we have to know where the buck stops.

Stefan Lundbergh: I can comment, although given I work in Holland, I have no experience of the regulator, so this is purely hypothetical. It is very difficult when you have two jurisdictions looking after one problem. Look at the philosophy behind auto-enrolment and the budget proposition from the Treasury. From an outside perspective, that seems a bit schizophrenic. When you have multiple regulators, you run the risk of their looking differently at the same topic when there is a boundary between the two regulators.

Derek Benstead: My understanding of the boundary between FCA and the Pensions Regulator is that the FCA looks after particular retail products, where an individual is contracting with a provider, and the Pensions Regulator looks after institutional, collective pensions, particularly defined-benefit pensions. In terms of collective defined contribution schemes, I would be very keen that those schemes are not exclusively employer-sponsored schemes but ones that individuals can join—for example, those with auto-enrolment money purchase pots and the self-employed. CDCs should be accessible to everyone, whether they are in employment or not. That rather means that the CDC falls under both counts. It is something that an individual might contract with, which, under current arrangements, might be under the FCA's view, or it might be an employer-sponsored collective arrangement, which, under the present arrangements, would be under the Pensions Regulator. It seems to me that one product needs one regulator.

Q108 Dame Angela Watkinson: Would you envisage that as a merging of the two existing regulators into one body, or one of the regulators becoming the only regulator?

Derek Benstead: I am not a regulatory expert. I am just pointing out the logic of there being one regulator for CDC schemes which could cover both institutional and retail aspects.

Q109 Richard Graham: May I just play devil's advocate, and offer you an explanation of what is going on, which I would love your comments on? I am not saying that I necessarily believe this to be the case, but what we are really looking at here is a compromise, which is trying to avoid a collective leap of the remaining DB schemes straight into money purchase. Within that messy compromise, the large remaining DB schemes will probably be able to function well as stand-alone collective DC, because they have the volume and bulk to buy in the expertise to make it work, but culturally, it is not hugely in the British DNA to shape our pensions structure in the way that they have been shaped in Holland, Denmark and, to some extent, in public schemes in Sweden. Actually, there is not any proof that the outcomes are any better, although there could certainly be proof that the costs should be considerably lower. In terms of the changing landscape of the annuities system, there really is not any particular reason to believe that longevity issues will be a major attraction of CDC. That is a sort of general sceptic's approach. How would you all try to tackle that?

David Fairs: If you look at the income needs of people in retirement, it tends to be quite a high level of income, and quite stable, for maybe five to seven years, where somebody has an active retirement and their income needs are relatively high. As they approach late 70s and into their 80s, they actually get more sedentary, and income needs fall. Probably two years before they die, and nobody quite knows when that is, income needs quite often escalate quite markedly, and perhaps there is a need for funding of long-term care. If you asked an individual what sort of annuity they would like, it would be something that was stable for five to seven years, dropped down for a period of time, and then insured against long-term care at the end. Within the CDC framework, I think you will start to see providers come to the market with that type of product. The difference is that I think that product will be bought, not sold. People will voluntarily go out and look for those products, so they will have to look enticing to individuals.

On the other side, you have got employers who are concerned that their work force are not saving enough for retirement. There will come a point when an individual perhaps does not want to work and the employer does not want to keep them on the books, but the individual cannot afford to retire, so you get into this difficult position. There is a need to encourage employees to build up enough income so that they can have that type of retirement. Collectively, the changes that are on the books at the moment provide the infrastructure to allow you to create those schemes. From an individual perspective and an employer's perspective, they are schemes that employees would want to be in and employers would want to provide, so I think there is a coming together of needs rather than a great British compromise.

Hilary Salt: On your first point—is this just a way to save DB?—I am afraid that that ship has sailed. The number of people in private sector DB schemes now is tiny. People talk a lot about the crisis in DB, but what they are not talking about is the crisis in DC. We have now got thousands, millions, of people—more are being added all the time—being auto-enrolled into DC schemes that will provide inadequate retirement incomes. I absolutely agree that people need income in retirement. Some of their needs will be volatile and will change over the period of their retirement, but they will all need a certain level of income for the vast majority of their retirement. That is the thing that we are trying to grapple with. We are trying to find a way of providing that efficiently, because annuities do so inefficiently. My desire to make CDC work is not a heart-wrenching liberal view; it is a really hard-hearted: "How do we find an efficient way as a society to provide income to people in retirement?" We have got to find it, because the DC schemes that we have at the moment just will not do it.

Q110 Richard Graham: Are enough employers going to be able to fund the great difference between the current DC outcome for someone putting in x% of their income, and this outcome where they will have a significant amount of income guaranteed? Someone is going to have to pay for that.

Hilary Salt: Yes, and at the moment, if you look at a lot of employers, particularly those with legacy DB schemes, they might be paying massive deficit contributions to their DB schemes and they might be paying 3% or 5% to a new DC arrangement.

Q111 Richard Graham: So we are talking about legacy DB schemes, although you said that we should not be thinking about that.

Hilary Salt: That will generationally change.

Q112 Richard Graham: But it will not affect the schemes that are already DC or any new company setting up a new scheme, will it?

Hilary Salt: I agree, but as those DB past service liabilities fade away long term, employers will find themselves in the situation where people come up to retirement and cannot afford to retire on their DC pot, and employers cannot force those people out of the workplace because of age discrimination. They will have to find a way of helping those people to leave, and that will be more pension provision.

Q113 Gregg McClymont: May I ask the members of the panel a couple of questions briefly? The issue at hand is the comparison between individual defined contribution and collective defined contribution. The first question I want to ask is: what is the single greatest weakness of individual defined contribution that you believe or do not believe collective defined contribution can overcome? For example, from Stefan's answer it seemed to me that the biggest advantage is changing the way we talk about retirement. For other members of the panel, it would be useful to have that on the record.

The second question is related. There are different models of collective defined contribution. Which model do you favour?

David Pitt-Watson: The weakness with individual saving is how you cope with longevity risk. Either you buy an annuity that will keep you going, but, as Richard said and as we discussed, they are really expensive and bring down what it is that you would otherwise have in your retirement, or else you do not know, as was discussed further on, whether you are going to live until you are 70 or 110, so you do not know how to smooth out your earnings. While we have individual DC, that is the weakness. Those weaknesses are mitigated greatly by collective DC.

Stefan Lundbergh: I can reiterate what I was saying earlier. The problem with individual DC is that people think of a pension pot or a set of pounds in a bucket for their retirement. If there is more money in the bucket today than yesterday, it has been a good day, but people need to buy a retirement income from that. Sometimes, just because your money goes up in value does not mean that you are going to be richer or can buy a better retirement income. It is a frame of mind. I either want a stable retirement income or a large pension pot. If you are looking at a pension pot, you get seduced because £100,000 is a lot of money, but it is not a lot of pension income.

How you frame the question is a really big issue. As David says, to hedge longevity in a group is great, because that has welfare improvements. That is why I am worried when I look at the UK from the outside. You greatly fix your build-out phase, but your pay-out phase is not done in a way that takes care of how people behave. I am more Homer Simpson than homo economicus. I am not fully rational when making decisions. The way that you ask the question will determine my answer. If I want to eat less, I would use a smaller plate. These are the things that make us human. We should create a pension system that adjusts to us as humans with all our behavioural biases, because they make us human instead of some perfectly rational, theoretical person that was thought up in an economics study in a book. That is what we have to do to the system.

The build-out phase is good here in the UK and you have made big steps forward. Why not have a think about that for the pay-out phase? If you do not, you will miss this thing that David talks about: pooling longevity. That is a big welfare increase. We are people. Even if I was not thinking about my pension, if someone comes up with a great default that I trust, I would be happy to go with it because I do not have to do so much fiddling with it myself.

Derek Benstead: In answer to your first question, the one feature of collective DC that I support, as opposed to individual money purchase, is the avoidance of annuity purchases. It is the one big thing that I think is the merit of CDC.

On the question of different models, I would compare and contrast the model of collective defined contribution as the alternative to a defined benefits scheme, under which you are doing something that looks a bit like defined benefits, but is not, as opposed to the other model of collective defined contribution as an alternative to money purchase. Taking the alternative to defined benefits first, under that model you would probably be looking to hold your target benefit package for a long time—a number of years at a time without variation. You might be putting in a contribution that is prudent—higher than the best estimate for the package of benefits being targeted—and you might be wanting a prudent funding policy. You would be looking at an even target benefit outcome over time as the basis of your communications with members and as your basis of judging intergenerational fairness—an even benefit package for everyone. There is probably an employer-sponsored context, particularly if you are prudently funding and putting in more money than is coming out in benefits. You are looking at accruing benefits every year that may not relate exactly to the contributions coming in, so that is an employer-sponsored kind of environment.

Looking at CDC as an alternative to money purchase schemes, it could be important to vary target benefits with market conditions from day to day. You are likely to be running a scheme that individuals can join, rather than employees, so people can opt in or opt out and transfer in or out whenever they want. It is important that that is on market terms.

Transfer values are likely to be very close to the sum total of assets in the scheme. The focus is on value for money and on the contribution going in being spent in an even-handed way, as opposed to the benefit coming out in an even-handed way. It is the focus on spending contributions fairly that is the fairness justification, so looking at an even spend per person rather than an even benefit per person. You are looking at a scheme that is universal for individuals who come and go, other than it being a condition of employment.

You are basically running a scheme where there is a pool of assets, where you are using actuarial valuation to divide the pool into an amount per person, rather than using an investment account to divide the pool into an amount per person. That is how I would compare it. Are you doing something like DB or like money purchase but smoother?

Hilary Salt: The only thing I would add is that I think it is important that the legislation is permissive, not restrictive. I would not like the legislation to require a model that required forecasting of stochastic probabilities of members having certain benefit outcomes. That kind of stochastic modelling of what might happen is just misleading to members and very expensive. I am not saying that a scheme should not do it but I would not want a model imposed by legislation that required that.

David Fairs: I think annuitisation is one of the big issues. People tend to look at where CDC operates around the world, in Holland and Sweden, and compare models. The UK is different in its social and employment patterns. I think it would be wrong just to import designs that work in a different country and social context and try to get them to work in the UK.

I suspect we will look back in 20 years' time and say that we never thought that legislation would allow that sort of scheme, but that is the sort of scheme that fits the social norm and the employment pattern in the UK. My personal belief is that the first time you will see these is as an alternative to annuitisation at retirement. A lot of employees will want an income in retirement. At the moment they get to retirement, look at the annuity rates and find them singly unattractive. If an employer puts in a CDC arrangement as an alternative to an annuity, which looks better value for money, that becomes very attractive to the individual. It also becomes attractive to the employer because he can see that his employees, for the amount of money he has contributed to their pension pots, are getting a better outcome.

I think the first designs we will see will be like that. Then I think we will start to ask, when people have built up in their 40s a reasonable amount of income, is there a guarantee around investment return that we can provide? My view is that that is the way it will develop. I suspect we will end up with a design that none of us envisaged when we pass the legislation.

Hilary Salt: Or it could be NEST. It does not have to be the employer; it could be NEST doing that.

The Chair: I have one more question from a Member but we must finish at 3pm, so please keep your answers brief.

Q114 Debbie Abrahams: Briefly, my question is about CDC scheme governance. Are you confident that there are trustees of sufficient quality and capacity to do this work?

Hilary Salt: I am. I do not think they are professional trustees; they are lay trustees. I think members and employers who have an interest in the scheme have the best interest in the fiduciary elements that come with trusteeship.

Stefan Lundbergh: The more clear and transparent the CDC contract is, the less complex it will be for the trustee. Put as much as possible of what could happen in the contract, clear ownership rights and transparency, then it is not complex to run a CDC scheme.

David Pitt-Watson: I think there are good trustees. The one thing you might want to think about is how to generate a system that has not got hundreds and hundreds of CDC schemes, but has a few. That has advantages because you can get low cost and all the rest of it. If you have a few you probably have even more better qualified trustees that go with it. That is something we have not thought about yet but would be an important thing to think about over the next year or two.

David Fairs: I would say yes, but it requires good regulatory oversight to make sure that the scheme does not over-promise or mislead people about the benefits it provides.

The Chair: I am afraid that brings us to the end of the time allotted for the Committee to ask questions of these witnesses. On behalf of the Committee, thank you for your evidence.

Examination of Witnesses

Martin Lowes, Sue Lewis and Jim Bligh gave evidence.

3.1 pm

The Chair: We will now hear oral evidence from Martin Lowes, who is a consultant with Aon Hewitt; Sue Lewis, who is chair of the Financial Services Consumers Panel; and Jim Bligh, head of public services at the Confederation of British Industry. For this panel we have only until 4 pm.

Richard Graham: First, may I declare two interests? One is that although I neither look nor feel like a pensioner, I am actually in receipt of a modest pension. Secondly, I am chair of the all-party group on pensions, which is sponsored by the Association of Chartered Actuaries—the ACA.

Q115 The Chair: Will the witnesses please introduce themselves for the record?

Martin Lowes: I am Martin Lowes, an actuary with Aon Hewitt. I am a scheme actuary, which means I have the practising certificate to advise trustees of pension schemes as scheme actuary. I also advise employers on their pension arrangements. In a professional capacity, I am also a member of the Institute and Faculty of Actuaries pensions board.

Sue Lewis: Hi. I am Sue Lewis. I chair the Financial Services Consumer Panel, which advises the FCA on regulation and policy.

Jim Bligh: I am Jim Bligh, head of public services and pensions at the CBI. I lead a team on pensions that lobbies the Government, the Opposition and others to create a pensions framework that benefits everybody in the UK. I am sure you all know what the CBI is: we represent 190,000 businesses of all sizes and sectors around the UK.

The Chair: Thank you.

Q116 Gregg McClymont: May I begin by asking you this, Sue, in your role in simplifying financial products: how do you think we are all getting on collectively on simplifying pensions?

Sue Lewis: On the way in, it looks quite easy, because you have auto-enrolment, and I think people are understanding auto-enrolment, so that is all good. On the way out, it is now starting to look really complicated. People are trundling along in their pensions. They reach an age where they have a pot of money and have lots of other things too, and are suddenly faced with overwhelming and very complex choices about what to do with that pot of money. Chances are it is going to be a relatively small pot of money; if it is a slightly larger pot, there is a big choice between annuities and all sorts of products that we probably have not even seen yet and that are quite risky. I would say that it is looking very complicated from the point of view of the ordinary consumer. The guidance guarantee is going to be vital, but I am sure we will get on to that.

Q117 Gregg McClymont: To elaborate on that point, and to put this question to all three of you, are there lessons to be learnt from auto-enrolment? Sue is saying that it is pretty straightforward, and of course auto-enrolment was developed as a way to ensure that people were not discouraged from pension saving because of complexity and a lack of information. Should lessons be being learnt for the "turning your pension into an income" phase?

Martin Lowes: I would say that it is not as simple as auto-enrolment. Some of the things that went with auto-enrolment were the default investment choices. Before, people had lots of choice when they came in and they almost did not know what contribution to pay, and they did not know how to invest it. The easiest decision to make was to have nothing to do with it. Auto-enrolment was not just a case of putting people in and they have to opt out. With it, importantly, was the default investment choice that they could run with if they did not want to get more involved.

At the other end, we have seen some lessons in that, despite everything that is said to them, an awfully high proportion of people, when they come to retirement with the DC pot, have gone with the insurer's own annuity, rather than going for the open-market choice, which often gives them much better value. Again, we see that where people had a difficult choice to make, they made the easy one, which was not to get involved and to go with the default annuity.

What we are doing now is replacing a system with a default choice of sorts with something that does not have a default choice, but where the easy choice is to take the money out of the pension scheme and spend it, because anything else means a lot of difficult decisions. I would say that one lesson we should learn is that putting in a default option, which might not be ideal for everybody but should not be too bad, has been quite important in where we have got to on the way through—I agree with Sue—and I think we should be thinking about that on the way out as well. Unless we have some reasonable default options on the way out, we will end up with people taking the easy choice, which might not be the sensible one.

Jim Bligh: From a slightly different perspective—purely from the employer's perspective—auto-enrolment is not simple; it is quite complicated. If you are a small business that has never used a pension scheme before, or has very infrequently done so, complying with the rules, many of which are quite complicated, is difficult and takes a lot of time and investment, often from the people who are running the business. That is something that we always knew, from when the Pensions Act 2008 was going through, through to the simplifications that this Government brought in earlier in this Parliament. We always knew that it would be complicated, and necessarily so, but a lesson from this is that when we are trying new, big, complicated initiatives, let us try and communicate as simply as we can.

Something that pensions and the pensions community more generally do really quite badly is use simple, clear, plain English, whereas that is something that the National Employment Savings Trust does very well—I declare an interest, in the sense that I am on the NEST employer panel, which advises the trustees of employers. For me, words such as decumulation, which I am not convinced is actually a real word, are not helpful to people's understanding, particularly when they have not dealt with pensions before.

Q118 Gregg McClymont: Is there anything you want to add?

Sue Lewis: I would add that it is important that people engage with their pensions, and the risk with auto-enrolment is that a lot of people choose the default, which is sort of fine, but we did have stakeholder pensions before, which, of course, were a fairly straightforward, simple vehicle for people. Again, it is about explaining to people really simply and really clearly what it is that they have got themselves into, and I agree that NEST is brilliant at doing that. I am not sure about default options on the way out, I must say.

Q119 Gregg McClymont: What would be the issues at hand there?

Sue Lewis: Again, it is whether people are getting, by using the default, the best thing for them. As we saw with annuities, people often went with the option because the whole market was just so complicated. We did a bit of work last year that showed that people shopped and stopped, as we put it, because the effort just became too much. They were not clear what they were being sold or whether it was a good deal or not, so a default has to be designed so carefully. Somehow, in the way that you decumulate—sorry to use that word—there are more things to take into account. You may have other assets. You may be married. You may have other dependants. Accumulation is about getting the best you can for the money you are putting in. Decumulation is much more about your personal circumstances. I think it is harder to look at defaults in that area, for that reason.

Q120 Dame Angela Watkinson: With the introduction of shared-risk schemes to the already wide selection of types of pension scheme, how will employers, large organisations—presumably they will not be running more than one type of pension scheme in one organisation—choose which is the most beneficial type of pension scheme for their employees? They may already have a defined-benefits scheme going on. Will they have to consult the work force and ask them to choose which sort of scheme they want, or will they have individual employees transferring from one scheme to another?

Jim Bligh: There is a range of issues there. First, most large employers will already offer pensions in one form or another, and many will offer DB, whether or not that is legacy closed DB, which is closed to either accrual or new membership. That is probably quite likely with the larger employers that offer DB. Almost all will offer some form of DC benefit.

There are added complexities when you have work force agreements and relationships with trade unions that require negotiations on any change. If you did want to move to a different type of scheme, you would have to go through quite a process to make sure people were bought into it, and that would be complex.

Employers I talk to—finance directors, pensions directors, HR directors and chief execs—say that they would choose their scheme on the basis of the risk that the company can absorb. There is quite a strong view from the businesses that I talk to that they are not in the market for more pensions risk in addition to the risks they are already carrying, particularly through those legacy DB schemes that I have touched on, so they will be looking at how they can create the reward package that is right from the HR perspective to get the talent they need, but also how they can create the risk package that works for their balance sheet. That more often than not leads to defined contribution as the standard for both auto-enrolment and other types of pension.

Q121 Richard Graham: May I put a question to each of you? To take you up on that last point, Jim, what has happened to the sense of responsibility of British employers? There was a time when everyone recognised that you had to look after people who worked for you not just while they were working for you, but afterwards. It has been suggested by an earlier speaker that there will be employers out there who will want to try to ensure that their employees, after retirement, have an income to live off and that will be one of the attractions of the new risk-sharing arrangements. Are you implying that this will simply be a quick fix for the remaining DB providers among your scheme members, or do you see anyone having a longer-term interest in their employees' interests?

Jim Bligh: The CBI-Standard Life pensions survey, which we released at the end of last year, shows that about 90% of employers think they have a duty to provide a good pension to their employees. I think that sense of paternalism, as it has been described before, has not gone. Employers still want to provide people with a decent retirement afterwards. I do not think there is any employer I talk to who does not have that view, across a range of different sectors and services.

Q122 Richard Graham: So they are prepared to go for the risk-sharing schemes rather than the straight DC, are they?

Jim Bligh: They are prepared to go for what is affordable within the constraints within which they are operating. If you have had a DB scheme that has carried significant deficits in the last few years, and of course being marked to market, with market volatility—

Q123 Richard Graham: We are not really talking about DB, because we are assuming that plenty of them will convert, but what about other members who do not have a DB scheme, because the vast majority of your members do not?

Jim Bligh: The majority of our members do not, but I think this is an important point. They are not prepared to take any more risk when deficits are already at such a level that they have to repay them at such a level that it costs them the ability to invest in jobs and therefore growth. That is their No. 1 consideration, I think, when it comes to choosing a pension scheme.

When it comes to thinking about collective DC and shared-risk schemes more broadly, I think employers want to provide as good a pension as they can within the risk margins that they have, but they are also concerned about what CDC and shared risk looks like in the future.

Q124 Richard Graham: Are you anticipating a strong take-up of interest?

Jim Bligh: I am not. I think it is fair to say that there is not a significant interest among employers that we are talking to, and there are two reasons for that. The first is the risk point that I have mentioned. We know now that the legislation as drafted has a lot that is left to regulations and a lot that is left to future Governments in terms of deciding on change. To a lot of our members, this feels a lot like the defined-benefits legislation of a few decades ago, and they are worried about DB creep. The second issue that they will think about is employee relations, and they will look to the Netherlands and see that when pensions in payment are being cut that is an extremely unpalatable situation, and it is not culturally aligned with where we are. They will also look to companies that had to make changes to indexation a few years ago, when the Government changed from RPI to CPI. In one case, that of a very large airline, there were very large protests outside its office.

Q125 Richard Graham: Okay, Jim, that is fine. We have got the general picture.

If I may, I have a quick question for Sue. I was a bit nervous when Martin was talking about creating another default; it seems that that is what large consultants like doing. They like to have control, so they say, "Let's create default schemes where everything can be run by a few people at the top." However, you made the point—absolutely rightly—that that will not necessarily be the right solution for many people. Also, presumably there is a risk later on of mis-selling, if everybody is shepherded into some form of default. Would you like to comment on that?

Sue Lewis: Only to agree that that must be the risk, indeed.

Q126 Richard Graham: Yes. Martin, surely the answer to your point about the default option being the way to avoid a large spending spree is that the default position in today's world—after the new changes—is just to let your DC pension carry on. You have got your investments there; they roll on. Why does there have to be a great big spending spree?

Martin Lowes: I think people will come to retirement age and get communication from their pension scheme, saying, "You are coming up to retirement age. What do you want to do with your money?" At that point, they are faced with a choice, and even the choice of leaving it to run is a difficult choice, especially when they are at retirement age. They have retired and they need an income of sorts. That will be the default, whether we like it or not, if we do not put in place something that will work against it.

Q127 Richard Graham: So you do not see the default position being the usual thing of not doing anything and just letting it run on?

Martin Lowes: Not when you have not got an income any more because you have left employment, and you have a communication from your pension scheme telling you, "You are reaching retirement age. What do you want to do with your money?" However, I agree that we need to ensure that any default that gets put in place needs to leave flexibility for someone to do something else, and not just end. The default would have to be carefully chosen not to tie people into something that was inappropriate, which will be a big ask. I agree that it will be a big ask, but the default would have to allow subsequent positive choices.

Q128 Stephen Hammond (Wimbledon) (Con): May we look a little at what is going to underpin these schemes, in terms of the benefit outcome, which is obviously not just a contribution rate, but the products? I have several basic questions. I think there is probably a pretty obvious answer to the first one, which is, with the collective benefit schemes, will not new products develop in some areas to underpin those schemes? Presumably, a lot of the products might just be a larger extension of the individual DC schemes, or money purchase schemes as they are now. In some of the reading, it has been suggested that collective benefit schemes require closer supervision of investment strategies. I am not clear why that should necessarily be, because presumably you want the investment strategy to produce the most benefit within agreed risk criteria.

The final point is, how will you—particularly you, Martin—advise your clients if there is closer supervision about, first, what that supervision might do to outcomes and, secondly, the capability of the Pensions Regulator to undertake that role?

Martin Lowes: I see the need not so much as being closer regulation as more disclosure and communication. If you compare it with, for example, a final salary scheme, the member does not really need to know what the investments are, because the promise is the promise, and it is the employer's problem, or the trustee's problem and then the employer's problem, if the investments do not perform. By contrast, in a defined-contribution scheme, or a collective DC scheme, what is going on is important to the member. That is where I see it as being not so much about more regulation or oversight, except that the regulator will want to ensure that there is proper communication, so it is a monitoring of disclosure rather than actually a deep involvement.

Q129 Stephen Hammond: I take that point, but, first, is there anything in the current arrangements—perhaps in the guarantee of guidance—that will give that extra transparency, and if not, how should that be written into the protective process? Secondly, it presupposes, therefore, that if it is a collective scheme, it will be about the quality of the trustees as well, so that the employee has confidence.

Martin Lowes: There will need to be quality trustees. In terms of transparency and disclosure, there are existing powers in the disclosure regulations that can and will be extended to cover anything that is needed for collective DC schemes. There are existing powers that can be used for that.

Q130 Nigel Mills: Mr Lowes, may we return to default schemes? There is some intrigue in the new landscape about how you have a default scheme, not just at the time you come to start decumulating but when you are accumulating. If you take the hypothesis that at the moment you have risky investments till you are 10 years from retirement, then you de-risk, so that when you get to your retirement age your pot is not destroyed by a stock market crash at the last minute, that assumes that you are going to buy an annuity at that day of retirement. If, as I think, most people will keep at least some of their pot and spend some of it, you do not really want that de-risking 10 years out. How do you design a default scheme at all in such circumstances?

Martin Lowes: One of the big questions that trustees are wrestling with at the moment is, how do you define a default still in an accumulation phase but running up toward retirement? Yes, it will be more difficult to design sensible defaults under the new regime, because you will not have the same clarity as to what members are going to do at retirement. We have always had the problem that you do not know when they are going to do it, so you plan for their normal retirement age, but actually they could go earlier or later and your de-risking will never be right. It is just that there are more options for them and more things that you might be aiming for with your default, so you will have to take into account what you expect your members to do at retirement and plan towards that and then do a lot of communication saying, "This is what our default does and what it will steer you into a sensible place towards, and if that is not what your plan is to do at retirement, this default might not work for you." That will create the need for a lot more communication than there has been until now, even for the people who are in the default, because the accumulation of default will be inappropriate for more people than it was in the past.

Q131 Nigel Mills: What do you think people will do?

Martin Lowes: I think that it would work better if there was also a default decumulation, which might be a very simplified, standardised draw-down vehicle of some sort. You would know that that is what most people will go into, because that is what your default is for them to go into, then you can work back from that to what your default would be in the accumulation phase running up to retirement. Whereas, if you do not have any kind of default at retirement, you are in quite a difficult position planning what to do as a default before retirement.

Q132 Nigel Mills: Is that what you would do as your default? You would not just default people into an annuity or something?

Martin Lowes: The problem with defaulting people into annuities is Sue's problem—you do not know whether that would be appropriate for anybody. I would say that any default that you put in place post-retirement has to be a default that they can move out of.

Q133 Nigel Mills: I suppose the whole idea is that more choice will lead to more products, or more options. How do we get more confidence that the industry will be responsible in the way it sells these things and communicates? Is that a hope that will never come to fulfilment, or is there more that we, in the legislation, or the regulator could do to make sure that selling is done properly?

Martin Lowes: I work on the consultancy side, rather than the provider side, so that is probably not my area, but I think that people having the ability to walk away from the product, by taking their money, will actually make it more difficult for providers to mis-sell. They will have to work harder to sell. Therefore, they will have to communicate more.

Sue Lewis: We think that it is a huge risk. If you look back at the Social Security Act 1986, which introduced personal pensions, that was followed by massive mis-selling and compensation of £12 billion. Why should it be any different now? Well, we have a better regulator that will be on the lookout for products that are being sold to the wrong people, but it will require a lot of vigilance, because draw-down products are intrinsically more expensive as someone has actively to manage that fund and somebody has to ensure that the person is getting the best income from it. For small pots, the overhead costs of draw-down start to look expensive, and then you wonder what other products will emerge with draw-down-like features that might just not be very good value or the right product. For many people, an annuity may still be the right product. We need to bear that in mind. We are rather anticipating a lot of toxic products emerging.

Martin Lowes: If you put the onus on the trustees of the pension scheme to look for a suitable draw-down route on a wholesale basis, rather than leaving it to individual members to look for draw-down or whatever-route vehicles on a retail basis, it helps to protect members against that. I am not disagreeing with Sue, however. There are great risks out there.

Jim Bligh: I am not sure that many trustees would want to be in that position.

Martin Lowes: I agree that trustees would not want to, which is why it would only happen if they were made to do it.

Jim Bligh: Possibly. There may be some, particularly in the smaller schemes, who might find it their job.

To win back the public's confidence in providers, we need to think about transparency and disclosure and how meaningful the content that people are receiving from their provider is. Choice will have an impact. As Martin said, if there are more products out there, there will be greater tension in the market to create something that works, but it is also about effective regulation, as Sue said. In the past, we did not have the strongest regulation that was probing into exactly the right areas. That is changing and there is much greater awareness among regulators of the need to look into potentially dubious schemes.

Martin Lowes: We hate defaults in the accumulation phase as well.

Q134 Debbie Abrahams: Can you hazard a guess as to the type of employer—I appreciate that not all CDC schemes will be employer based—in terms of size and industry that may be more inclined to promote or want to take up a CDC type of scheme?

Jim Bligh: It is difficult to know for sure. I would suggest that large employers who already provide really good pension benefits might be interested in looking at this as another option to add to their portfolio of pension provision. In terms of sectors, it is interesting that in different countries that have CDC there is quite a strong history of sectors working together on a whole range of issues, including pensions. There probably are some sectors in the UK that work in a similar way to those in the Netherlands, Germany and other places, but I cannot think what they might be off the top of my head. I do not think that there will be huge sectoral demand without a strong sector body that is prepared to tie everything together. There is also an issue with section 75 debt in that if employers leave and only one remains at the end, that employer would be liable for all the debt. For a small or medium-sized business, that might not be very appealing, so they would be reluctant to go into sector-wider arrangements on that basis.

Q135 Debbie Abrahams: Does anyone else want to comment on that?

Martin Lowes: I agree that it will only be the very largest employers in the early days.

Q136 Debbie Abrahams: Does that have implications for the inequalities we discussed with the previous panel, such as intergenerational inequality? Would there be implications from having different sectors and different sizes of employers in terms of less beneficial pension schemes?

Jim Bligh: It is important that DC, which is the default for almost everybody, is well-monitored, transparent, good quality and has good-quality contributions through the auto-enrolment period. That should help to ensure that those who are not saving, who are very often the employees of smaller businesses—the bulk of businesses—and who are just starting to come into the auto-enrolment phase, start saving more. That should be the first step and the priority until auto-enrolment is completely rolled out. Beyond that, if people can afford to go above and beyond the minimum, that is brilliant and we should encourage them to do so.

Q137 Debbie Abrahams: May I ask a few questions about the guidance guarantee and your views on that? Some of you have already mentioned your concerns about how it might operate. What are the pros and cons?

Martin Lowes: It is a brilliant concept. It will happen 10 years too late, because you need to work out what you are doing with your investments as you approach retirement, rather than at retirement. By the time you have got to retirement, you are 10 years too late to work out your de-risking strategy. You need to have worked out 10 years before you get there what you are going to do at retirement, so you can plan what you are going to fade into. So it has come 10 years too late. It is far better than having nothing, but it is telling you what is available. It is not actually holding your hand and telling you what you should do, and I think a lot of people will want it to do that extra step, which is not possible. It is too big an ask. Unfortunately, the framework post-retirement will be a very complicated framework, and it will be a big ask for the people providing the guidance guarantee to cover off everything they need to cover off that might be relevant to individual savers.

Sue Lewis: Yes, I agree with that. We think the guidance should be holistic. We have literally had five minutes to look at the draft clauses, but it looks as though the guidance is restricted to the pot, rather than the wider assets that somebody might own. If the median pension pot is £18,000, a lot of people will have a home worth more than that—£100,000 and so on. So we think that their decumulation strategy—I keep using the word—needs to be considered with all the assets that they have.

The second point is about the standards. The FCA has issued standards that we think are too principles-based. The experience needs to be exactly the same whether you ring up the Pensions Advisory Service or whether you go into a citizens advice bureau in Worcester. That experience has to be consistent. I know this is not regulated, but the fact find, if I can use those words, should be consistent across channels. We think the people doing it should be qualified. They do not necessarily have to be level 4, like an independent financial adviser, but they should have qualifications, and they need to be trained.

We have a big worry about delivery. We are six months away, and organisations, including TPAS, will have to do a lot of recruiting and training between now and then, so there is a big delivery challenge. But we are most concerned about the consistency of standards, the independence, and making sure that everybody has that opportunity. I take the point about 10 years too late. People may want more than one conversation, but, in a sense, if I can go back to the Money Advice Service, that was set up for exactly that kind of conversation. There is nothing to stop the Money Advice Service providing the conversation that you need when you are 40 or 55 and perhaps starting to think about retirement. Those things are not mutually exclusive.

Q138 Debbie Abrahams: May I take you back to what you said about the FCA's standards being too principles-based? How would you improve on that?

Sue Lewis: I would be a lot more specific about the questions that need to be covered in the conversation and about ensuring there is a framework of consistency across, so that if you make a phone call or go into a CAB, you have the same experience and you get the same output from it, which is about your next options. That may well be regulated advice, of course, and some people will choose that option. Other people will perhaps pay off debts or a mortgage, and that might be best for them. It depends.

Q139 Steve Webb: A question for Sue, if I may, about defaults, and then one for Jim about risk sharing. On defaults, say I am a member of an individual DC scheme. I reach the pension age that I flag to them many years ago, potentially, and I do nothing—I get the pack and put it in the "too difficult" pile. Will providers think that at any point the consumer could just take the cash—have it on demand, not invest it at all but just take the cash? Is there a consumer detriment for not having a default of investment? How do you view that issue?

Sue Lewis: Yes, I take your point completely. If the consumer does absolutely nothing, I guess you would want their money to carry on being invested. That comes back to a previous point: because you do not know in advance when that is going to be, de-risking may happen too early for optimising the pension pot. I do not know what the answer is, I am afraid.

Steve Webb: That is a shame.

Sue Lewis: But it is a good question from a consumer viewpoint.

Q140 Steve Webb: Okay. Before I come to Jim, Martin do you want to add anything?

Martin Lowes: No, I just see it as a difficult area.

Q141 Steve Webb: Jim, I have a question on employer attitudes. In our conversations, we conflate CDC with risk-sharing defined ambition, and they are separate types of scheme in the Bill. If employers are worried about volatility of cost, which of course they are, would they be more attracted to the defined-ambition bits where, for example, a third party insures the volatility—paying a set, predictable premium—and the risk is borne by the insurance provider, which ensures that the pension is paid at a certain level? Would that be a more attractive model?

Jim Bligh: I think that it would. You are right; we tend to conflate the concepts, which does not really help. The Bill is not massively clear on what is DA, CDC, a risk-sharing scheme and so on. It would probably be more appealing if there was consistency in the amount they have to pay and that is being treated the same over a long period of time. With the benefit of hindsight of years and years of pensions rules being changed and the complexity that is increasingly added to pensions, employers are fearful that future Parliaments will not stick to the intent and will change the rules of the game in the way that DB rules were changed. The bits that worry them are about funding evaluations leading to funding requirements —repaying deficits one way or another. If there is a way of ensuring that kind of additional cost, that will be more appealing to employers, but if there is not, at the moment it is a difficult view for employers to handle.

Q142 Steve Webb: I think that you heard the witness who was sitting in the seat you are in. I asked if there is any appetite among employers. You are sort of saying they are not very interested and they do not trust politicians. The previous witnesses said that they are talking to potential clients now who are interested; they hear the trade unions are interested. There is a dissonance between the two perspectives.

Jim Bligh: There is, and David and I are obviously talking to different people. I think that he might be behind me right now. I am sure that there are some people who are interested in looking at this, as they are reviewing existing benefits packages; they are just not people who I have been talking to. I have been talking to a large range of employers. What concerns us is that employers that already offer good pensions schemes are not interested in taking this on further. There are certainly some who will be but they are not coming to the CBI to say this is something that they would like to see more of.

Martin Lowes: It is not necessarily a clash. We think there are people out there who would, but we are talking about quite a small number of very big companies. We might be talking about 10 or 20 companies, not out of—

Jim Bligh: 190,000.

Martin Lowes: Yes, so it is easy to miss the few who are thinking about it.

Q143 Dame Angela Watkinson: May I ask you the same question that I asked a previous panel? You might have a slightly different perspective. Should there be a single regulator or the existing two? Would you prefer to see a single regulator and, if so, do you envisage the Pensions Regulator absorbing the role of the FCA or vice versa? Should the two merge to form one organisation, or do you envisage a completely different structure?

Martin Lowes: It is not something on which I have a particular view, I am afraid. I can see pros and cons.

Sue Lewis: We can see pros and cons as well. Ideally, you would move towards that, but I think it would make most sense for the FCA to absorb the Pensions Regulator. The FCA at the moment has just had so much stuff thrown at it. It is probably not a priority, but it would be a good idea to move towards it to avoid overlaps, especially as pensions become more hybrid, if you like. I think there are advantages in a single regulator.

Q144 Dame Angela Watkinson: Jim, do you have a view about this?

Jim Bligh: Like my fellow panellists, I think there are pros and cons and we do not have a fixed view. What I would ask is: what is the problem we are trying to solve? Are we trying to get a regulator to regulate products or to regulate systems? I think there probably is a difference in the products and systems that the FCA and TPR regulate. In future, once auto-enrolment is completely rolled out and our policing function from the regulator is in a more steady state—not trying to encourage compliance in the way it is now—and assuming the number of DB schemes gets smaller, I suspect that there might be more of a case for looking at the efficiencies that can be gained by merging the two. At this stage, however, I am not sure that it is the right time.

Dame Angela Watkinson: That is very helpful. Thank you.

Martin Lowes: If you did not have the DB schemes, you might have come to a different starting point. The DB schemes are probably a very different kind of vehicle from what the FCA is used to working with at the moment. The place they need to be is much less concrete.

Q145 Stephen Hammond: Mr Bligh, I want to go back to this point about transparency. In your response to Nigel Mills's question, you said that more transparency would be required. Can you define what you mean by more transparency over and above what is given to either a DC member or a DC trustee at the moment?

Jim Bligh: Are you assuming pensions across the board, or a collective scheme in particular?

Q146 Stephen Hammond: Well, I think you were implying that if you were in the collective scheme, you would need more transparency than under the current DC arrangements. Unless I misunderstood, that is what you replied to Nigel's question. I am keen to understand what you mean by more transparency than the current arrangements that are already in place if I am in a DC scheme.

Jim Bligh: I did mean if you are in a collective scheme. I think that Martin answered the question for me earlier by saying that at the moment, investment information, the performance information of a DB scheme—all that stuff is given to the trustees of the DB scheme, because the members do not really need to know about it particularly. They get some, but not a massive amount of information; it is not really their business. Well, it is, obviously, but they do not need to know as much about it as they would if they had a direct stake in it in the way in which they do with collective DC, because their pension in payment might change. Some of the information that already goes to trustees could be shared, probably in a more palatable format, with scheme members of shared-risk schemes.

Q147 Stephen Hammond: Is your point that as a member of a DC scheme, I get certain information from my provider, and what you are suggesting is that that information needs to go to the trustees, who do not see that information in a DC scheme at the moment?

Martin Lowes: My comments are more about the fact that a collective DC member needs to know a lot more about investments than a defined benefit member. When you are looking at DC versus collective DC, at one level you have got individual investments—

Q148 Stephen Hammond: At the moment, if you are in a DC scheme, for instance, most DC people make a choice between a range of products that they go into. They get transparency twice a year about what that product is and the opportunity to switch once a year, usually. I am asking what extra transparency you think is needed for the member of a collective DC scheme or the trustees.

Martin Lowes: In a collective DC scheme, you are not in this investment, that investment or the other investment. The trustees, or whoever, are putting together a package of those investments.

Q149 Stephen Hammond: But there will be a package of investments. It may not specify this investment or that investment, but it is the same principle.

Martin Lowes: They are putting together a package. What you need to know is what principles they are operating under when they are putting together those combinations of investments. That is a slightly different thing from "Do you want to invest in equities or do you want to invest in bonds?" It is about the way in which they are combining equities, bonds and other stuff so as to achieve an overall objective.

Q150 Stephen Hammond: So potentially, if you are a member of a collective DC scheme, you will get less information because it will be about the principle underneath, which will be "We will maximise risk" or "We will minimise risk", or whatever, with the criteria.

Martin Lowes: No, I think there will probably be more information, because it will be coming to you as well as the trustees, on financial performance and how that affects the overall pot and the target for your pension in relation to the pot, so you would end up getting more information, because—

Q151 Stephen Hammond: How do I get more information than now? At the moment I get what the DC scheme produce is doing in terms of performance and underneath that I get what it is involved in, be that bonds or equities, and I can make a choice. I am not sure what extra information I would get as a member as opposed to as a trustee.

Martin Lowes: It is not more or less, but a slightly different format. It is how you are putting the investments together, rather than what each investment will do.

Q152 Stephen Hammond: I take that point, but I suspect that the average member of a scheme would find that more confusing than understanding whether a particular unit trust or investment had gone up or down over that year. Potentially that will make it even more difficult for a member of a scheme. I take your point that a trustee will understand that, but it seems to me that the member of a scheme will get less information of a reasonable quality than they do at the moment.

Jim Bligh: We would not want that to be the case, and when regulations are laid, we would look to ensure that disclosure requirements were equivalent, if not stronger.

Stephen Hammond: All right.

Q153 Richard Graham: The short answer to that is that the individual may get more information, but he or she has significantly less choice. That is the crucial thing. That may be fine, but, when there are problems if investment decisions turn out not to have worked, no doubt that will come back to Sue's panel.

Can we go back to guidance? Sue, you mentioned consistency. How easy will it be to get consistency from three very different organisations with different cultures? Secondly, in terms of them being given a bit of a runaround, how easy will it be for a member of the public to ring all three of them and get three different bits of advice? How important is it that they have some form of customer relationship management system that means that, when Joe Bloggs rings up, that organisation can tap in to him and see that he has already had the guidance, or whatever?

Sue Lewis: There were quite a lot of questions there.

Richard Graham: There are three parts to it really: first, consistency in three different organisations.

Sue Lewis: Yes. Well, that will depend, as I said earlier, on having those standards spelt out more specifically, so that each organisation knows exactly. A little bit like how an IFA will work to a fact-find, I think that all these organisations should be working to something that looks like that, so that the experience is the same. How that will operate online, and what the online will be, I do not know. I have a little bit of concern about gov.uk. I must say, I have never managed to find anything on it. Sorry, you had better not record that.

Q154 Richard Graham: Everything is recorded here. The second part was about how an individual customer could ring around three organisations and get three different answers and no one would know that he had spoken to one of the others.

Sue Lewis: Again, the consistency bit is about standards, the training and the output that people get, so in theory, if someone seriously wanted to do that, they should get the same information out. That needs to be monitored—perhaps not across every organisation, but certainly part of monitoring standards must be about ensuring that that experience is the same.

Q155 Richard Graham: What about the CRM element of it, where things can be typed while the person is there on the telephone, so that everything is shared between the three of them and everyone knows what has been said to whom?

Sue Lewis: Yes, ideally, but I suspect that that is quite a long way away. There is a huge challenge in just getting something up and running by next April. I suspect that those refinements will have to come later.

Q156 Richard Graham: How concerned are you that arrangements will not be adequate?

Sue Lewis: Clearly, it is a worry and it is a particular worry for those who will be going through the system first, because it is almost accidental that they are the people who are going through it first. It is a concern, but it is not clear what can be done about it now except just to try to get it working as well as possible, as fast as possible.

Q157 Nigel Mills: I am intrigued by the guidance guarantee, Sue. You appear to be assuming that it will be pretty close to individual advice, whereas I would be on the cynical wing, who think that it will be a pretty uninspiring conversation saying roughly, "Think about what you're doing. Work out what you want. Shop around. Pay off your debts, and make sure you are thinking about your spouse," rather than one that goes, "You've got these six pension pots, a house and some savings. Perhaps you should do A, B, C, D and E." I just struggle to see how you can get into a statement of facts, without wandering into advice, which then leaves you with all the legal exposure if you get it slightly wrong, in an half-hour call. Do you really think that can be done?

Sue Lewis: I think that you can have individualised guidance, and I would go back to the Thoresen review of generic financial advice, which demonstrated that guidance could go quite close to the regulatory boundary and be very useful to individuals. This is a problem with the guidance guarantee; when you say it, people do have different things in their heads. I have a quite rosy picture of something that is genuinely useful to me or to you as an individual, which takes account of all our circumstances, and then says, "And here are some of the options that you might want to think about." It could be lot more mechanistic of course, and it may start out that way, and change, depending on how people find it, how useful it is and what they get out of it.

Q158 Nigel Mills: To move towards the more useful end, ideally you want the guidance provider to have sight of certain facts before they get to the conversation; otherwise you are flicking through 25 pieces of paper. You are putting in a very different thing from picking up the phone and saying, "Hello, I have been told to ring up for some guidance. What shall I do?" You are sending in the statement of affairs and that starts to get very expensive, and very risky, doesn't it?

Sue Lewis: Yes, there does need to be a fact-find, if I can put it that way; otherwise, how can you have that conversation?

Martin Lowes: I am thinking at a very generic level.

Sue Lewis: Yes, I am talking about that level.

Martin Lowes: Even without going to the point of saying, "You should do this." Should your conversation spend 10 minutes on, "You might want to think about paying off your debts before you do anything else"? You would want to know whether there were big debts around. You would want to know whether there is a spouse before you spend 10 minutes on how you take care of your spouse. Even without very detailed advice, even just thinking about which areas I need to cover in that hour session, you would need some kind of factual background.

Q159 Nigel Mills: You start to picture a 111-style flowchart here, going down different channels.

Sue Lewis: I do keep banging on about this because I think it is really important, but do remember that the median pension pot is £18,000. For a lot of people, those choices are going to be quite limited.

Q160 Nigel Mills: That brings me back to the question that I asked earlier about whether we need to regulate or legislate for an industry backstop to the guidance to an extent? Do we need to say to a regulated provider that you cannot sell a product until you have checked that somebody has had the guidance, and that they have understood it? Is there a way of creating a back-stop that we could enforce?

Sue Lewis: Yes. Everyone has to have the right to the guidance, and equally a right to refuse and say, "No, I'm fine. I'll go with this product, thank you very much." It is quite hard to police that. I think there are rules—again, I have spent just five minutes on the clauses, but I think that is allowed for in the draft legislation.

Martin Lowes: It is envisaged that most people will go the online route, and only a proportion will move on to either phone advice or face-to-face advice. It will be very hard to police whether someone has been through the online route before they take on a product.

Q161 Nigel Mills: It needs to be a recorded conversation, doesn't it? Can you confirm that you have access—

Martin Lowes: As soon as you get into recorded conversations, you need to say that everyone has to have either a phone call or a face-to-face, and that just will not be doable within the resources available.

Q162 Nigel Mills: No, I was thinking more that the person selling the product would say, "I now need to record your answer to this question: 'Have you had the guidance, or did you waive it?'" It would be that kind of tick box.

Gregg McClymont: To take up that conversation. Sue, you mentioned that in the glance you had had at the guidance, you had seen that it would not involve looking at wider assets, just the pension savings. What are the implications of that for the kind of guidance conversation that Nigel referred to?

Sue Lewis: Sorry, that is just my interpretation of the draft clauses. I think that is what they are saying. The conversation surely has to be about wider things than just the pension pot. How that is going to work with the legislation I do not know. It has to be because, as people have said, there has to be something about the debts people may have, or the other assets such as housing. If you just have a conversation about pension saving, I do not think that is going to be terribly useful.

Q163 Gregg McClymont: That is your reading of this.

Sue Lewis: It is from just spending five minutes looking at the draft clauses.

Q164 Gregg McClymont: Jim, what is and what should be the role of employers in the process of turning a pension pot into a retirement income? Auto-enrolment was predicated on the notion of rebuilding a workplace pension system. It strikes me that in the reforms the Government are taking forward on the income side of things, there is not a role for employers. Is that a fair assessment?

Jim Bligh: I think the workplace is the delivery mechanism for savings and getting people into savings, contributions and all the rest of it. When it comes to the point of retirement, the employment relationship has finished and so the choice for people to spend their money is up to them rather than the employer. That said, we know that a very large number of employers already provide free individual regulated financial advice that they pay for—I can find you the exact stats if that would be helpful. Lots of employers also refer people to guidance, but they will often work with their schemes to ensure that people are getting signposts to the right places. Few of the larger employers who have offered pensions for years would want to do nothing. Many would offer advice, guidance and signposts at the least. That would be different with a raft of smaller and medium-sized businesses coming in over the next few years. They do not necessarily know that that is something they might be able to do or should be doing.

Martin Lowes: It is very difficult to build a retirement process that depends on the involvement of the employer, because the vast majority of people coming up to retirement, as well as having the pension from their most recent employer, who they might or might not still be with, have a number of pots from previous employers, with whom they no longer have any contact. You could not build that in because there is no link any more. They have a pot from a contract-based pension scheme and no link to the employer for any kind of advice or support.

Sue Lewis: The other people you have to think about are the self-employed, of course. They will not even be auto-enrolled. In the whole pensions landscape, self-employed people are more at risk: they have more debt, more housing debt and little opportunity to save for a pension. I would just wave a flag for the self-employed.

The Chair: If there are no further questions from Members, I thank the witnesses for their evidence and ask the Government Whip to move that further consideration of the Bill be now adjourned.

Ordered, That further consideration be now adjourned.—*(Dr Thérèse Coffey.)*

3.59 pm

Adjourned till Thursday 23 October at half-past Eleven o'clock.

Written evidence reported to the House

PS 01 Mercer
PS 02 TUC
PS 03 Society of Pension Professionals
PS 04 Equity Release Council
PS 05 John Greenwood
PS 06 British Airline Pilots Association
PS 07 Association of Consulting Actuaries
PS 08 Intergenerational Foundation
PS 09 John Ralfe