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Public Bill Committee

PENSION SCHEMES BILL

Fourth Sitting

Thursday 23 October 2014

(Afternoon)

CONTENTS

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Monday 27 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

Dr Yvonne Braun, Assistant Director, Head of Savings, Retirement and Social Care, Association of British Insurers

Joanne Segars, Chief Executive, National Association of Pension Funds

John Greenwood, pension journalist

James Lloyd, Director, Strategic Society Centre

Ian Fairweather, Consultant, Towers Watson

Steve Webb MP, Minister for Pensions

Public Bill Committee

Thursday 23 October 2014

(Afternoon)

[Mr Peter Bone *in the Chair*]

Pension Schemes Bill

Examination of Witnesses

Dr Yvonne Braun and Joanne Segars gave evidence.

2 pm

The Chair: Welcome to this afternoon's session. We will hear, first, oral evidence from the head of savings, retirement and social care at the Association of British Insurers, and from the National Association of Pension Funds. Unfortunately, I understand that Dr Debbie Harrison from Cass Business School is unwell and not able to attend. For this session, we have until 3 pm. A Division in the House is likely some time this afternoon. When that happens, I will suspend the Committee for a quarter of an hour. I am afraid we will just have to take that when it happens.

Witnesses, could you introduce yourselves for the record, please?

Joanne Segars: Good afternoon. My name is Joanne Segars, and I am the chief executive of the National Association of Pension Funds.

Dr Yvonne Braun: Good afternoon. I am Yvonne Braun, and I am head of savings, retirement and social care at the Association of British Insurers.

The Chair: Thank you. These sessions are fairly informal. We just ask Members to ask questions, and you can respond how you like. Does the shadow Minister want to kick off?

Q215 Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): Good afternoon. Let me begin with the larger part of this Bill, which is around collective defined contribution. What is the major flaw of individual defined contribution, and if that is your view, which collective defined contribution might or does have the ability to remedy?

Dr Yvonne Braun: We welcome the fact that there will be a middle space between defined benefit, which employers are increasingly unwilling to offer, and defined contribution, where the investment risk sits with the investor. Making that space more prominent is going to be positive, because there are quite a lot of middle-way alternatives that are already possible, such as cash balance schemes and schemes with a life expectancy adjustment factor.

However, we think that there are quite a lot of questions that still need to be answered about collective DC in particular, because the legislation is highly general and a lot is left to regulations. I will just give you an example. Where you have a target, it is unclear how the target will be set, it is unclear what the probability of the target will be and it is also unclear how the target will be communicated to pension scheme members. That makes for potentially quite a complex situation. It also makes it quite difficult to predict what the potential update of collective DC schemes might be.

The Chair: Before we go to the next question, can I ask the witnesses to speak up? This room is not brilliant for acoustics, so if you could do that, it would help.

Gregg McClymont: That answer was very useful, and I will come back to that.

Joanne Segars: I certainly agree with the ABI that populating that space that sits between pure DB and pure DC is a very useful exercise. It is something that we at the NAPF have supported for a number of years. Ensuring that there is something that gives individual members greater certainty about the outcome of their pension is extremely useful. In considering some of the risk-sharing metrics of defined benefit, we were disappointed that we did not see something that was more of a DB-lite approach being taken. I agree with the ABI that some of the ways in which that then gets communicated to members can be rather complex, so it takes an awful lot of explanation when it comes to describing it to members.

One of our fundamental issues at the moment with the wider debate around risk sharing is whether there is currently sufficient demand for risk-sharing options and solutions among employers and scheme sponsors.

Q216 Gregg McClymont: Yvonne, you elaborated to some extent on your earlier answer. Obviously, this Bill is permissive rather than prescriptive. Do you have an opinion on where you think the collective model will end up in terms of design? Will it be closer to DB-lite or to individual DC-heavy, to coin phrase? Will it be about risk sharing within a generation—the pooling of asset, risk and reward—or do you think there is an appetite for intergenerational collective DCs?

Dr Yvonne Braun: That is quite hard to predict at this point. I was quite struck by what the Government Actuary's Department said on collective DCs in its report. The conclusion was that its modelling results on average for collective DCs enhanced performance and increased predictability of outcomes, which is the holy grail of pensions, but it also said it had significant doubt about the ability to manage risk in a way that is fair to different generations of scheme members and it had doubt about whether you would have stability in collective DCs in terms of its dependency on a new stream of members.

I suppose I am saying there are still quite a lot of conceptual and detailed questions that need to be worked through, and only then will we know whether employers, the ABI's members and NAPF members will have an interest in going that way and offering it. Then there is of course regulation and how it works from a prudential perspective and so on. It is a long rat's tail of detail, which we will need to work through and we will no doubt do that.

Joanne Segars: I certainly agree. At this stage it is rather too early to say which end of that defined ambition spectrum some of this might fall out. There is potential for both ends, but at the moment we need a lot more clarity around defining defined ambition, and we also need to work through what employer appetite is for this because that will drive some of the outcomes, but also some of the consumer appetite for this, because again that will drive some of the outcomes. At the moment it is too early to say because everyone's mind is focused elsewhere.

Q217 Gregg McClymont: Thank you. Let me take up the guidance issue, which has dominated the witness sessions so far and played a significant role. The evidence so far strikes everyone in the Committee—there is real concern in the pensions world about the lack of clarity in what guidance will amount to, and the role of the FCA, the Treasury and the Department for Work and Pensions in ensuring appropriate safeguards, checks and balances in the system. Would you like to comment on where you think there is room for improvement in the guidance?

Joanne Segars: We absolutely share the concerns, which have come out quite strongly already from the evidence sessions. We have about 150 days to go until 6 April and there is a huge amount of information that we simply don't know and we need to be in place sooner rather than later for trustees and scheme sponsors to make the freedom of choice agenda a success and to make the guidance guarantee a success. We have a list of 101 known unknowns, to coin a phrase, of issues that need to be clarified, and clarified quickly, for the guidance guarantee to be implemented.

Q218 Gregg McClymont: Did you say 101?

Joanne Segars: Just 101, at the moment, yes. It is a sort of fluctuating 101, but today's count is 101 issues that we need to have clarified for schemes and trustees to be able successfully to implement the broader guidance guarantee issue.

Q219 The Chair: If these 101 are written out, have you submitted them, and if not would it be possible?

Joanne Segars: I think they were there as part of our submission, but we will gladly submit it again, yes.

Q220 Mr Andrew Love (Edmonton) (Lab/Co-op): By the time you submit it, it will be 105.

Joanne Segars: I hope that, by the time we submit it, it will be a smaller number.

Q221 Gregg McClymont: We have 150 days, just about, so if we get one solved a day we just might get there.

Joanne Segars: But of course the issue for schemes, and providers too, is that they need sufficient lead-in time to be able to implement these changes well. Already, schemes are sending out wake-up packs; already schemes are getting questions from their scheme members about these issues. Schemes really need clarity, and they need that clarity quickly.

Q222 Gregg McClymont: Was this list of 101 bigger at one stage? Is the Treasury dealing with this multitude of issues? Is that already happening?

Joanne Segars: We are seeing some clarity. Already this week, we have seen some clarity about who the providers will be, so we were able to tick that off our list, but we need to see now some more detailed clarity on issues, in particular around disclosure requirements; the branding and presentation of the guidance guarantee; what the guidance guarantee will offer; what the schemes and providers will need to offer on top; issues around defined benefit to defined contribution transfers; again, what information schemes need to be satisfied, which they need to see; and, again, helping scheme members who find it very difficult to make a choice, or who are unwilling to make a choice. So there are quite a lot off issues: they are our top four group of priorities for Government to look at.

The Chair: Did Mr Graham want to come in on this point?

Q223 Richard Graham (Gloucester) (Con): The thing I suppose that I would just like to clarify is, there are 101 questions but have you made 101 suggestions? Have you offered solutions as to what you think would work best for the schemes? That is the most important thing: the positive contribution. Any of us can sit and ask the questions, but what the Government really need is strong input about what you think is most important and how it should come out.

Joanne Segars: We are certainly in regular dialogue with colleagues from the Department for Work and Pensions and colleagues from the Treasury and the Financial Conduct Authority jointly to arrive at some of those solutions.

Q224 Richard Graham: No, but the 101 questions—have you proposed answers to them? That is the key thing.

Joanne Segars: I think we are proposing answers in our dialogue that we have with them on a regular basis, yes.

Q225 Richard Graham: So when we get the submission of this 101 we will see what the proposed solutions are as well, will we? Transfers, for example, is a classic example. Schemes have been dealing with defined benefit/defined contribution issues and transfers for donkey's years, so they must surely have an idea of what information should be in there, what questions should be asked and so on.

Joanne Segars: I think we have ideas about what information should be asked for, and the questions we need to know, but again we need to know what information the regulators will want to see, because this will potentially open up the issue to a much bigger scale—just taking this issue. *[Interruption.]* So it is about what information the regulators will expect to see.

Q226 Richard Graham: The thing that surprises me is that you referred earlier to our needing to define "defined ambition" better, and to understand the demand, but the National Association of Pension Funds is precisely the body that should be helping to define it, and it has been out there now for the last two or three months. In terms of understanding demand, your members are the people who, potentially, are going to be interested, so have you asked them what the demand is?

Joanne Segars: We have asked them, and we do not detect very much demand.

Q227 Richard Graham: Okay, and what about CDC?

Joanne Segars: Again, we have asked the question and we do not detect very much demand.

Q228 Richard Graham: Right, and the actuaries who are also members of the NAPF have confirmed that, have they?

Joanne Segars: I think you might get different answers from different firms, from actuaries, but certainly when we speak to pension schemes their view is, "We might be interested in this over the longer term, but right here, right now, we are focused on the issues at hand." Of course, the issues around freedom and choice are foremost—uppermost—in their minds, but there are a number of other changes that schemes are grappling with too.

Richard Graham: Right. Sorry, I did not mean to interrupt, but I would love to get back later if I may.

Q229 Mr Love: You said that there was no demand for shared-risk schemes or collective schemes. Have you done some surveys among your membership to elicit that view? When you say no demand, do you mean absolutely no demand or little demand?

Joanne Segars: Certainly, when I speak to our members, particularly the larger members who would be most equipped to offer defined-ambition or CDC-style schemes, their answer is, "Not really for us at this stage."

Q230 Mr Love: How do you interpret that? Do you interpret it as them waiting to see before they make a decision, or have they most definitely made the decision that this is something that they are not minded to be sympathetic to?

Joanne Segars: A number of schemes have made the decision that they have moved from defined benefit to defined contribution, and that is the journey that they are taking, so they are looking at issues around their DC offer and taking account of the additional work that has gone on around strengthening DC. We saw some further information about that at the end of last week, which we very much support. I think schemes are focused on their DC offer at the moment. Over the longer term, schemes may be interested in this, but at the moment their answer is, "This is not for us right now."

Q231 Mr Love: How about the ABI?

Dr Yvonne Braun: Our members would be product offerers, rather than employers setting out these schemes. To be honest, they are just too focused on everything else that is going on. Quite frankly, with automatic enrolment and thousands of employees to enrol, and with making the Budget reforms work and making them a success, they have got their hands more than full.

Mr Love: I want to go on to the guidance guarantee. Does Richard want to come in on this?

Q232 Richard Graham: That is very kind of you. I would just like clarification. Has the National Association of Pension Funds had discussions about levels of interest with the Association of Consulting Actuaries?

Joanne Segars: We have not recently had discussions about levels of interest with the ACA. We have had some discussions with our members.

Richard Graham: I think you ought to, because what you said today pretty well directly contradicts what the ACA said yesterday or the day before. I do think that there needs to be a dialogue. I do not know how many of your members respond to your surveys or questionnaires, but we are getting conflicting evidence on that point. I just note that at this stage; we can come back to it later.

Q233 Mr Love: Pension providers will have a statutory duty to direct individuals to the guidance service. How do you interpret that duty? What do you think it will entail for the providers?

Dr Yvonne Braun: What is really important is that we have very powerful encouragement to customers to take up the guidance. We are working with the Treasury to make sure that we have an effective letter that makes clear the benefits of the guidance. That will, if you like, take the place of, or be in addition to, a lot of the information that providers send at the moment when customers are coming up to retirement at age 65. Indeed, if customers contact the pension provider about wanting to take benefits, they would get that letter as well.

I think the questions are: what is the branding? Where will people actually go? What is the website? What is the telephone number? What is the content? To echo Joanne's point, these are some of the things on which we need clarity quite urgently, because the seamless integration of what providers do, how they refer people to their guidance guarantee, and how that works together, is really critical to the success of the reforms.

Q234 Mr Love: Can I ask about this balance between giving people information overload and keeping it short, sharp and punchy? Where are you in terms of deciding between those two and where on the spectrum you will fall?

Joanne Segars: It is a very tricky issue, and I know it is one that Committees and Select Committees have discussed in the past. Part of the answer lies in knowing what the guidance guarantee itself will offer, because the guidance guarantee needs to equip people to make sensible decisions, or at least narrow down some of their options. There is the question of whether that means that people will go and get further advice, regulated advice. That may be appropriate for some people. Many others may just say, "I'm afraid I'm simply not prepared to pay for that regulated advice." Certainly our survey evidence shows that people do appear reluctant to pay for regulated advice.

I think the first point is knowing what the guidance guarantee itself will offer, and what there will be in that 30-minute—or however long it will be—session that you have face to face, over the phone or via the website. Then, providers and schemes will be in a better position to know—they are well placed, particularly schemes, which know their members best and the circumstances of their own scheme best—what the additional information is, and what the gap is that they will need to fill. At the moment, schemes do not really know the size of the gap that they will be required to fill, although making sure that people have enough information but are not overloaded is a very delicate balancing act.

Q235 Mr Love: But we do know, as you have mentioned, that the take-up of regulated advice, if it costs money, is likely to be very low. We do know that there is no regulated advice at a cheap rate. We have not solved that problem with regulated advice, so how pessimistic are you that people will not take adequate guidance and advice to make a proper decision?

Joanne Segars: We would very much echo the ABI's points, and the point made earlier today that there needs to be a big publicity campaign to make sure that people are aware of the availability of the guidance guarantee—the guidance service.

Q236 Mr Love: Have both of you made that point to the Treasury and to—

Joanne Segars: Yes. We need to make the point that there needs to be a big campaign. We need to make sure that people are aware of the service. There is a good pedigree here. The "I'm in" adverts were enormously effective, so there is some good pedigree; there is a good basis from which to build. Making sure that people know and use the service and go into it is half the battle. We then need to make sure that people come out of that guidance guarantee half-hour and are equipped to make some decisions. For some people, it might be a fairly straightforward case of, "I'm afraid your pot is quite small, so the most sensible thing for you to do, bearing in mind your other financial needs, is just take the cash." Then it is a question of making sure that people do, if it is appropriate for them, go on and take that advice. I rather share your concern that we have not quite cracked the question about who will provide that advice to people who do not have very large pension funds—very large pots—but who none the less could benefit from that advice, because that part of the market does not seem to be terribly well served at the moment.

Q237 Mr Love: Do you have anything to add, Dr Braun?

Dr Yvonne Braun: I would just add that when the Treasury originally consulted on freedom and choice in pensions, we submitted a report that we put together with our members and with KPMG, setting out what we felt should be the scope of the guidance and what it should cover. As Joanne says, it is really important that people are made aware of the key things they need to think about. That is not just what type of retirement product they might wish to consider. It involves much more fundamental questions around whether it still makes sense to work, the person's debt situation, whether they have a financial dependant, what their health situation is and so on. I would be very happy to send that report to the Committee, if it would find it useful. I just want to make the point that we do try, in the industry, to help Government to take some of the decisions, and to inform some of their decisions and come up with our own ideas. We do not just say there are 101 problems; we try to support Government in their work.

Q238 Mr Love: Has either of your organisations considered a second line of defence? It was put to us yesterday that when someone comes to take their pot out, a question should be asked as to whether they have received guidance or advice or both. Do you think that that would be a sensible inclusion, and have you discussed it among your organisations?

Dr Yvonne Braun: We have discussed it with our members. What we are a little concerned about is that, understandably, the rules that the FCA consulted on were, let us say, relatively narrowly drawn. That is understandable, because it did not have much time, and so on and so forth. We are quite clear that all providers of financial services in this retirement income space should make sure that they ask their potential customers a series of important questions, such as the ones I have just mentioned. We have set this out in the ABI's code on retirement choices as an obligation on all our members to ask customers, as I said, about financial dependants in particular, health, inflation risk and so on.

We would like to see the FCA make clear its expectation that all providers of retirement income products from next April will ask customers the same questions and make sure that customers are aware of the same risks. It is not clear whether everybody is going to take up the guidance, so there needs to be some sort of second line of defence—guard rails, back-stops, or whatever you want to call them.

Joanne Segars: Clearly, trustees are not in the position of giving regulated financial advice, but they will want to reassure themselves that their members have been through the guidance guarantee, and that they have been through that process before the money gets transferred out. Obviously, if it is a DB or DC transfer, they have to be satisfied that regulated financial advice has been taken.

Q239 Mr Love: Picking up on a point you made a second ago, are you entirely satisfied that the FCA is on top of what its guidance role is? It is not regulated as such, but it will clearly be crucial. Is it taking a positive line of ensuring that the guidance matches the requirement, or is it saying, "This isn't regulated, so it really doesn't involve us"? Clearly, from all that you have said so far, we need the FCA to take a real interest in what guidance is delivered.

Dr Yvonne Braun: And I think it is. The FCA has to an extent sidestepped the problem—whether it is advice or not advice—by basically setting up an entirely separate guidance regime, which I think is entirely sensible. I think it will be responsible for supervising the standards. It has been given the powers in the Bill, so I think it will take an interest, and I think it takes it very seriously.

Joanne Segars: I agree with that. There is no doubt that the FCA is taking this very seriously indeed. Like the rest of us, it is trying to work to a very short timetable to implement this. We are sort of working together to find the right solutions, but there is no doubt the FCA is taking this very seriously. One of the issues we have is that for trust-based schemes the FCA is not the regulator. The Pensions Regulator is, so we again need to see many of these powers replicated by the Pensions Regulator.

The Chair: Unusually, in evidence sessions, a Minister gets to ask questions instead of being grilled, but he will be grilled later on, so you can take some comfort from that.

Q240 The Minister for Pensions (Steve Webb): Defaults have come up several times. What happens to the people who do nothing and whose money just sits there? One of our witnesses this morning presented a nightmare scenario in which people's money is in cash, earning next to nothing, and by the time you have knocked the charges off, the actual value is going down. Do you feel that more needs to be done to legislate or regulate for defaults, or are you content that scheme members will get a good outcome with no further action?

Joanne Segars: We do need to open up the debate about defaults. There may be people who simply decide that they do not want to make a decision, or who cannot make a decision, even once they have been through the guidance guarantee. Particularly in the early days, we might expect individuals to be quite bewildered by the choices that face them, so we do need to open up the debate on defaults. It is an issue that we are actively thinking about at the moment. I cannot say that we have the answers at this moment in time, but it is something that we are turning our minds to, because it is an issue that we will need to think about.

Dr Yvonne Braun: I agree. I think the defaults question needs to be thought about for the new environment. In practice, if a provider—one of my members—contacts a customer at the six-month or six-week stage and cannot get any response, and it is the right address and everything else because they traced it, they will leave it invested, because they have not got the power to do anything else. If they took a unilateral view that it would be better for that purse to sit in UK equities, and then the market went south, they would not be thanked for it. So they are acting in accordance with the contract, which is typically, as you say, Minister, lifestyling, where people sit in less volatile assets—not just in cash, but typically in government bonds and corporate bonds also. They could not really do anything different. They defer that customer and try to do the process again three years down the line. It underlines the crucial importance of our engendering a culture in which people are more engaged with their retirement savings in general from a much, much earlier age.

Q241 Steve Webb: Perhaps I can follow that up. It was honest of you to say that you did not have answers, but perhaps I can ask you something that you will know. At the moment, where people do nothing, can you describe to us in your two different sectors what happens to people's money? In particular, do you think that schemes or providers will act differently post-April 2015 because of the freedoms? What happens now, and how do you think it will change?

Joanne Segars: That is something we are discussing with schemes right now. The answer may be different for different schemes, frankly. Particularly, some of the larger master trusts might take a rather different approach to single employer schemes in our sector. Again, that is not terribly helpful, because it is not an answer, but schemes are genuinely thinking this through and, as I say, the answer might be different for different schemes. I am very happy to share further thoughts when we do have answers, because as you say it will be absolutely crucial. In a sense, we just do not know the potential scale that we might be talking about here, but we feel that it could be a significant number and therefore we need to think about it.

Of course, schemes are also thinking about what their default investment strategies are right now anyway. Previously, they have been targeting lifestyling, but in future that may not be right. If people want to take their money and draw down, then lifestyling may not be right. All these things are bound up with each other, which is why it is not a straightforward answer.

Dr Yvonne Braun: What happens if a customer does not make a decision? It is as I described earlier. Nothing happens. In effect, the customer's pot gets deferred and, a few years down the line, the provider makes another attempt at waking them up—contacting them to see whether there is a decision. I agree, a broader default debate needs to be had, but in the context of that we also need to think about what powers providers actually have, because the contract is a contract and you cannot unilaterally override that—you need a statutory override for that, of some kind—and they simply cannot do that.

Q242 Steve Webb: I was shocked, though encouraged, Yvonne, when you said that the ABI wanted more regulation. I think what you said was that your members want additional regulation, in terms of when they provide an apt retirement product, they have to ask all these questions or whatever it was. Will you just repeat that, if that is a fair statement? The ABI is asking the Government to regulate to require its members to ensure that they are not mis-selling products.

Dr Yvonne Braun: We are not necessarily asking the Government. This is probably a matter that can be dealt quite well by the FCA. We are asking the FCA to make its expectations clear that, from next April, providers of retirement income products make customers aware—those customers who have not taken the guidance especially—of a number of risks that they need to be aware of before they buy a product. That is entirely consistent with what is in our retirement choices code, where precisely these sorts of risks have to be highlighted in sales conversations that our members have with customers at this point, such as, "You are married. Do you really want to buy a single-life annuity, and"—well, this is in the old world, where lots more people bought annuities—"Are you really sure that is the right way to go?"

Steve Webb: Thank you.

Q243 Gregg McClymont: The issue of how one safeguards in the guidance space, and then in the sale of products, is key. Do either of our witnesses see a role emerging for products that ensure against longevity risk? Is that something that will emerge on the landscape? More widely, should there be a requirement for products to include a regular review of changes in circumstances and, in particular, of when the optimum moment for moving to an annuity occurs? A simple way to put that set of questions is: how do we envisage that space being filled, in terms of the sale of products?

Joanne Segars: I suppose that one might say that we have products that insure against longevity risk; they are called annuities. We have a long way to go still to reform the annuities market and make sure that the review that the Financial Conduct Authority started earlier this year is expedited. Once people have been through the guidance guarantee service and considered their needs, a number say, "Well, actually, I do want an annuity, because it provides me with a regular income and insures against me living too long." Certainly that is the case when we undertake survey evidence. Our last survey suggested that 82% of the public want retirement products that give them a regular income for the rest of their lives and ensure that they do not outlive their cash. We are losing sight in this debate of the need to make sure that the annuities market works well, and works in the interests of consumers, not providers. We want to highlight that and make sure that the FCA's feet are kept to the fire on that particular point.

You are right that we are likely to see a whole range of new products, many of which we have not yet thought of, enter the market. There will need to be some really quite strong regulation and oversight of those new products so that we do not have a mis-selling free-for-all, particularly in the early days when the market and consumers are perhaps finding their feet, so that we can make sure that people get good-value products and are not, frankly, ripped off or bamboozled by some of the products that we might see entering the market.

Q244 Gregg McClymont: Would you elaborate on the FCA's role in this area? You mentioned its review of annuities; do we have any idea of when that never-ending story will be completed and there might be some action?

Joanne Segars: I think that we might see an interim report at the end of this year. That is the latest information we have.

Q245 Richard Graham: There are a numbering of fascinating issues here. On the NAPF side, Joanne, there is the business about what happens at the moment—that was the question Steve Webb was asking. I was a bit surprised, because the bottom-line answer seemed to be, "Well, we don't really know. Different things happen to different people." That has to be true, but it must be possible through your members to have a better analysis of what happens now, and therefore what might be different in the future. I am sure that that would be useful to all of us who are grappling with the Bill.

On the ABI side and the pot that is deferred, Yvonne, you referred to needing a statutory override. Again, I am not quite clear about that. If people are in default at the end of their working life, that will tend to be, as you rightly suggested, in assets that are "low-risk". Presumably there is no reason why those assets should not remain in the same investments. I suppose the question is: some time before that moment, do you need to send a letter to them that simply says, "You have some important decisions to make. We are going to make sure that you are put in touch with the right people to give you guidance. If, by such-and-such a date, you have not decided what you want to do, we will keep the assets in your pension pot as they are, unless you wish us to do something different."? Surely that is an adequate way of handling the problem.

Dr Yvonne Braun: Indeed it is. The point I was trying to make was that somebody might take the view that it is in the interests of the customer to do something different. I was trying to say that that is not a freedom that providers have, because they are bound by the terms of the contract. That is why you would need something to allow you to override that.

Q246 Richard Graham: But there is the question, rightly referred to earlier, of the danger that they will all be shoved into cash, so that, net of fees, let alone taking into account any inflation, the customer will be losing money month by month. What percentage of customer assets do you guesstimate to be purely in cash at the moment of retirement? I presume that there is a mixture of fixed-income and other instruments in there.

Dr Yvonne Braun: I would have thought that it is a mixture of fixed income and cash, but I would need to check that and write to you. I would have thought that it was less than a quarter, but it will differ between default funds.

Q247 Richard Graham: And then in terms of the opportunity both for providers and for individuals—the pensioners—what discussions have happened with members perhaps to create a marginally different type of offering that could be available to people who do not want to make a decision now, but for whom some growth would actually be quite useful? The letter could have a variation that says that if you are looking for a higher-growth option, this is one you may want to consider—tick here if that is what you want. Are there not those sorts of opportunities as well?

Dr Yvonne Braun: To be honest, if we did that, there would be an awful lot of people up in arms saying, "You are turning the default people back into new products." What you are describing is effectively a draw-down product where you invest it and you can take income as you like at different times.

Q248 Richard Graham: I was just trying to cater for inertia, which will be the greatest danger in all these things. Choice is fantastic, but there will be those who will not make a decision. Is that a discussion you have had with the regulator?

Dr Yvonne Braun: No.

Joanne Segars: No, not yet.

The Chair: Order. I have to suspend the sitting while Members vote. The Committee's evidence session will resume at 3 pm. I thank the witnesses for coming. I am sorry that we have to dismiss you rather abruptly at this stage.

2.41 pm

Sitting suspended for a Division in the House.

Examination of Witnesses

John Greenwood, James Lloyd and Ian Fairweather gave evidence.

3 pm

The Chair: We come to our second oral evidence session of the afternoon and will now hear from a pension journalist, the director of the Strategic Society Centre and a consultant from Towers Watson. We have until four o'clock and are unlikely to be interrupted by any votes. Will the witnesses please introduce themselves for the record?

John Greenwood: My name is John Greenwood and I am the editor of *Corporate Adviser* magazine, which goes out to pension professionals. I am the author of the *Financial Times* guide to pensions and I freelance for national newspapers.

James Lloyd: I am James Lloyd, the director of an independent, non-aligned think-tank called the Strategic Society Centre, which is also a registered charity.

Ian Fairweather: I am Ian Fairweather, head of the regulatory and technical department for Towers Watson and a fellow of the Pensions Management Institute.

The Chair: Thank you. Shadow Minister, would you like to start?

Q249 Gregg McClymont: John, you have written a number of articles about the potential implications of the decumulation reforms for taxation. Will you please elaborate on some of your concerns?

John Greenwood: The new easy access rules create a huge risk of widespread tax avoidance. If everyone over 55 takes full advantage of them, the Treasury could lose £20 billion in 2015-16—obviously, that is a massive number. That will not happen, but if even a tenth of people do, that is still a £2 billion loss. That seems to make quite a hole in the Treasury's optimistic projection of making £3 billion of profit out of the policy over the five years of the next Parliament.

Q250 Gregg McClymont: In layman's terms, what is the problem?

John Greenwood: In layman's terms, the Government's position is that you can take your money as cash from 55. If you are an employee, you have two options. You could be paid into your current account through salary, which is taxed at 13.8% employer national insurance on everything over about £8,000 and the employee pays national insurance of 12% on everything above that figure, and then everything is taxed above the nil rate band. Obviously, you have to be paid the minimum wage of £11,500-ish, but above that, why would you be paid through your salary when you can pay into a pension and take it all out the next day? For payments into a pension, there is no employer or employee NI at all, and only three quarters of it is subject to income tax. The Bill effectively gives everyone over 55 a £10,000 NI-free allowance—four times that in the first year, if they draw their money early.

When the penny drops, people will suddenly realise how much loss there is there. If you are on £40,000 and you maximise this—there are currently no rules to say you cannot do this—the loss to the Treasury is 62% of the revenue they would have got from that person's employment. That is quite a chunky amount. It is clear from the Budget documents that the Treasury had not spotted this, because if you look at the documents published alongside, and the risk assessment, there was no mention of national insurance at all. They have moved with a reduced annual allowance of £10,000 for those who take benefits early, which reduces it but does not stop it altogether.

Q251 Gregg McClymont: You said that the Treasury had missed that, which seems quite surprising given that it is not a particularly complicated form of paying less tax. Do you know of any reason why that might have happened?

John Greenwood: Well, yes, it does seem surprising. The Office for Budget Responsibility also missed it. I think that everyone was so shocked and focused on what was going to happen that it took quite a long time for people to figure it out. As soon as it came out, pensions professionals just thought, "There is so much tax relief on the table here—what the hell is going on?" To be fair, I did not figure it out until May, when someone pointed it out to me, because I think everyone was focusing on everything else. However, any pensions professional would have spotted it, and it is a glaring omission. Any pensions consultant worth their salt structuring a pension system would have noticed that, I would submit. I have asked the Treasury for clarification of its understanding of the level of salary sacrifice and NI avoidance, and I have not had a response.

Q252 Gregg McClymont: When did you make that request?

John Greenwood: I have made several requests. I have made about six since the summer.

Q253 Gregg McClymont: James and Ian, I do not know whether you want to comment on that or more widely. James, I know you have written extensively on aspects of the guidance guarantee and those reforms. Ian, do you want to make an opening statement about what you think are the key aspects of the Bill?

Ian Fairweather: From my perspective and that of my organisation, I think it is a Bill that addresses a number of issues that have been around for a while, not least trying to introduce a bit more flexibility within the system in terms of risk sharing. My organisation has been very supportive of risk-sharing schemes, and we have been an advocate with clients of certain types of risk-sharing schemes that were permitted within the framework for 10 or 15 years. We are very supportive of the Bill's provisions in that regard.

James Lloyd: The guidance guarantee—if we take a step back and think about what it is trying to do and the context for it, the compulsory annuitisation framework for DC pensions, which stretches back to the Finance Act 1921, has been torn up at high speed and we are moving very quickly from a compulsory annuitisation framework for DC pensions to a voluntary annuitisation framework for DC pensions in the UK. If we look overseas at other countries with voluntary annuitisation frameworks, we see a whole plethora of problems, which will in no way adequately be addressed by the guidance guarantee. In that sense, I regard it as wholly inadequate, bordering on irrelevant.

More generally in terms of the Bill and its current provisions, I have to say that I do not think it is future-proofed, in the sense that there is no logical reason to think that the problems experienced by other countries with voluntary annuitisation systems will not happen to us. We are going to have these issues and problems. Does the Bill arm the Pensions Minister of the next Government or the one after that with the levers that he or she may need to address the problems? It does not, as far as I am concerned. In terms of future-proofing the Bill, there is, I think, some way to go. Notwithstanding that, I welcome everything on shared risk and CDC and so forth.

Q254 Gregg McClymont: What are some of those international comparisons and evidence for countries where there is voluntary annuitisation?

James Lloyd: It is difficult in an hour's session to summarise a massive literature, which, for example, on something called the annuity puzzle stretches back to the 1960s. In terms of outcomes, I guess I would focus on poverty, insecurity and significant consumer detriment—poor financial decision making resulting in poor outcomes for retirees. That is why I feel that the guidance guarantee is rather irrelevant. You are talking about a process of financial decision making that will start in people's late 50s and carry on until their 90s, so the idea that a 30-minute telephone conversation at some point in their 60s will somehow lead to acceptable outcomes is pretty self-evidently nonsense.

If you look across the current retired population in the UK, there is already a major and significant policy problem there with poor financial decision making and the results that that has in people's lives. We already have a major issue with, if you like, under-annuitisation—people who struggle along on the state pension and very little else but have high levels of savings, who could buy annuities but do not for a whole set of reasons that have been well documented in the literature on the annuity puzzle. That group, which is already an issue in policy terms, will grow significantly post the Budget reforms.

The kinds of policy measures that we need to think about are not currently in the Bill, and the guidance guarantee is not adequate either. In terms of where we need to be going, and the kinds of additions to the Bill that we might want to consider, I think you have to think in terms, quite frankly, of defaults. I know that some of the questions in the previous discussions have been about defaults, and you also have to think about mandation.

So, if we think about this journey we are going on from compulsory annuitisation to voluntary annuitisation, you can do everything you can in terms of voluntary annuitisation, such as mandating this guidance guarantee and not just leaving it up to people, but you can also think about what we can do in the default space and about where there may be the option in future to introduce certain elements of mandation into people's retirement journey.

For example, in this Bill I would like to see the power to enable regulations to require employers and other managers of schemes to put people into a regulated default process for those who, if you like, do not choose to do anything with their retirement savings. That could take the form of a phase of draw-down followed by a phase of annuity; at this stage, it is too early to really say what that should be. The key thing is that those regulations, or those powers, need to be inserted into the Bill as levers that will exist, so that when the time comes along, which could be in about two or three years, the next Government will be able to pull those levers as they need to and as quickly as they need to.

Q255 Gregg McClymont: What do you think of the argument put forward on a number of occasions by the Government: that as long as individuals can fall back on a state pension of £145 or £150 a week, that is enough for them to live a decent retirement on?

James Lloyd: I would make two points. One, I welcome the single-tier state pension, or the new state pension as I think we are now meant to call it. It is a fantastic achievement of this Government. However, I have worked on ageing policy for the best part of a decade now and I am also a realist, and we gather here today on the day that the NHS has said it will need an additional £30 billion by the end of the next Parliament. It seems inevitable to me that, as much as I might welcome the single-tier state pension, there may be a risk in future that subsequent Governments—the next Government and the one after that—may choose to put downward pressure on the value of the state pension and reintroduce a much greater component of means-testing, in order to fund some of the other costs associated with an ageing population. As much as I welcome the single-tier state pension, it is a hugely ambitious thing to assume that it will last for five, 10, 15, 20 or 25 years in the current demographic context that we have in the country.

The second point is that, yes, even if people have the single-tier or new state pension to fall back on, and they are living what will nevertheless be a fairly modest life with significant levels of savings earning a pitiful return in a current account or a savings account, I do not think that is a very good outcome or one that we should accept as policy makers. You can say in such a situation that it is up to individuals, but unfortunately it is a bigger problem than that. Many of the individuals perhaps currently rely on a state pension, but could do a lot better with high levels of savings. You might be talking about a widow in her early 80s, with severe arthritis, who does not go online or use the internet, and whose only outing from her house is a weekly visit to the supermarket by a taxi. You could say that it is her choice to sit on those savings, not spend them and live a pretty modest life as a result, but I think we have to do better.

Again, this comes down to how we can guide people at a much earlier stage, and in that context I am afraid to say that by introducing a voluntary annuitisation framework for the UK and merely adopting a 30-minute optional telephone conversation as the policy response for improving outcomes, first, it will be unacceptable and secondly, we cannot simply say that it is up to people's choices and let people take their own responsibility for things.

Q256 Richard Graham: It is nice not to come on last, Chairman, because otherwise we either run out of time or get into a vote. So, thank you for calling me.

James, that was all pretty gloomy: a plethora of problems with voluntary annuitisation; poverty; insecurity; death; disaster; the guidance is irrelevant; and so on. Does that suggest that you thought the previous scheme was a wonderful solution and that annuitisation was working well, that everyone was getting perfect results and that the man in Whitehall, or anyway the Strategic Society Centre, had all the answers perfectly arrayed and no change was needed?

James Lloyd: No, that is not what I said and I don't think that is what anybody has said. When I talk to people behind closed doors, I think the consensus view within the pensions industry is, "Yes, there is a problem, but rather than fix the problem the Government have in effect created a much bigger one." The analogy that I sometimes use with people is that if your car breaks down, the sensible thing is to try to fix it, not to get out of it and blow it up. Effectively, that is what we have done with the annuity rules in this country.

Q257 Richard Graham: Is that really an appropriate analogy? Everyone can carry on buying the same annuities that have been bought before if they want. The car has not been blown up; it is still there, but a better car may be available.

James Lloyd: Well, they may do, but all the evidence shows that they will not. I go with the evidence of other countries, the limited financial capability that we see in the current older population and the significant detriment that people are experiencing right now to draw that off, rather than a hypothetical, optimal vision of fantastic consumer decisions and a range of products coming forward from the industry that have not yet been introduced.

Q258 Richard Graham: On the way forward, you suggested that the guidance would be useful if it was "mandated". You went on to talk about default options, which we discussed with the previous witnesses—I think you were here for that—and they could offer some interesting different draw-down products. Tell us a little more about how both of those could or would work: first, the mandating of guidance and, secondly, how the FCA would regulate effectively new draw-down products offered by existing providers.

James Lloyd: On the guidance issue, we have to recognise that while we can encourage as many people into an optional guidance guarantee as possible, we will get only a limited amount of take-up. Even if we adopt second and third lines of defence, the overall influence and impact that the guidance guarantee might have on people's decisions might be extremely limited.

In some of the debate post the Budget, it seems to be assumed that, if we get the guidance guarantee right, everything else will be right and that will be the only source of information and advice that people will obtain. I think that we have to recognise that, actually, the guidance guarantee will probably have a very small influence overall in what people do. There is therefore a danger in focusing too much on it and devoting too much attention to it, certainly if it is going to be voluntary.

One way around that, if we want to be very direct and quite ambitious, will be simply to say, "Let's mandate the guidance guarantee." We could say to people that, since you have benefited from employer contributions and tax relief by saving into a pension, it is not too much to ask that you have half an hour on the phone with an adviser of some sort before you get access to that pension fund.

Q259 Richard Graham: How do you make that mandatory? How do you deal with someone who does not turn up?

James Lloyd: If that is face to face or on the phone?

Q260 Richard Graham: It does not matter. If it is mandatory but they do not do it, what is the penalty?

James Lloyd: The penalty on one level could be that they will not have access to their pension fund until 70 or 80—until it has defaulted into whatever scheme that would otherwise be happening now, if you like. That is a technical issue, but I would offer that a mandatory scheme will be far more successful than an optional scheme.

Q261 Richard Graham: Okay. Tell us about the other aspects: draw-down and defaults.

James Lloyd: I am a non-actuary—I will confess that—so I will leave it up to actuarial colleagues to talk in more detail about the best situation of what should be a type of draw-down scheme and when.

Q262 Richard Graham: This is a good moment to move on to Ian. Tell us a little about the client base of Towers Perrin today. Roughly how many schemes do you have in the UK?

Ian Fairweather: We have quite a diverse client base. Historically, Towers Watson came out of the merger of two large—

Richard Graham: Towers Watson, yes.

Ian Fairweather: That is all right—I still call it Watson Wyatt on occasion. Historically, we came from two different positions: Watson Wyatt was the largest companies in the land—roughly 50%—and Towers Perrin was more small and medium-sized companies, so we cover pretty much the whole expanse of the pensions landscape.

Q263 Richard Graham: So you have a reasonable feel for what I think you described earlier as "interest in shared risk", by which I assume you mean defined-ambition-type products?

Ian Fairweather: And their precursors, such as cash balance or career-average schemes.

Q264 Richard Graham: Right, and the consultancy is supportive of them?

Ian Fairweather: Yes.

Q265 Richard Graham: What is your understanding of the likely take-up of defined-ambition and CDCs? Are you expecting a handful of clients, or significantly more interest? Will it grow over time?

Ian Fairweather: We are very supportive of all sorts of flexibilities, as I said in my opening comment. Where we are at the moment, we have run a number of client round tables and some surveys of employers, and I think that the interest that was there for collective defined-contributions schemes waned slightly among some clients because of the Budget changes. So some clients were looking at CDC schemes as offering an opportunity to manage some of the annuity problems and then saw that those problems might not be as acute in a new environment where you no longer had to force members to take annuities. At this moment in time, it is difficult to see an appetite for people to move into these schemes immediately upon Royal Assent. I think I do subscribe to what I call the "Field of Dreams" scenario, so if you build something and if you sell its benefits, people will by and large recognise it and come round to the point of view. There is a middle ground within the UK pensions landscape where shared risk will become attractive, even if at the moment it does seem that our clients are not champing at the bit to go there.

Q266 Richard Graham: There will be 100,000-plus companies coming into auto-enrolment at beginning of 2016; many of them will be completely new pension schemes and not many will necessary be your clients. How do you see that evolving in terms of their interest in a CDC offering that might be put together either by the National Employment Savings Trust or one of the big providers, such as Standard Life? Is that not an obvious type of offering solution for them?

Ian Fairweather: Part of the difficulty that I have is that you asked me whether I have evidence that our client base is interested. To be honest, I do not. Can I discern that there might be interest among people who are not currently our clients? Perhaps there might. You could see a situation with a master trust on their collective defined-contribution basis, because it would eventually have the economies of scale to reap some of the benefits. At the moment, I am realistic rather than pessimistic as to what the actual demand is now, but I am naturally a bit of an optimist because if you increase flexibility and sell the benefits of a different approach to things and design it correctly, it will meet a market need and people will come to it.

Q267 Richard Graham: And what would happen to the assets of different types of default—the people who are in the schemes, but have not yet made or are reluctant to make a decision?

Ian Fairweather: Again, I think you are possibly talking about a situation that does not really pertain at the moment, because most people who are retiring have some element of defined benefit to rely upon. Also, we have only recently moved out of an environment where you had a default retirement age at which employers would aim to move people into retirement, so there was a need for replacement income.

Looking forward a number of years, you will have a greater need for that income. It is difficult to discern that people who have a need for income would sit back and not try to access it through a pension saving vehicle, but I accept that the decisions they are making are not easy. The guidance guarantee will be helpful. We see the guidance guarantee very much as being the icing on the consumer education cake. The guidance guarantee is at or around retirement, but you need pre-retirement and personal finance education in the lead up to that.

Q268 Richard Graham: I would like to ask one last question to John. As a journalist, it is great to have a headline saying that the Treasury will lose £20 billion from the changes to pension schemes. I am a bear of small brain, so I did not grasp all the detail as clearly as Gregg obviously has, but can you patiently run through the detail—if our Chairman is prepared to allow you—and also send the Committee a copy of the article? I just could not understand in particular why an individual would want to act in the way you were suggesting that everybody is going to act.

John Greenwood: Because they will get more money, basically. If I am your employer and I pay you £40,000, I have to pay you £11,500 due to minimum wage laws and on everything else I get taxed 13.8% national insurance. For every £10,000 I pay you, you get employee NI of £1,200.

Q269 Richard Graham: We are talking about a salary.

John Greenwood: Yes, on salary. You also get income tax on the entire amount because it is above the no-rate band—say 20%. If I pay that £10,000 into a pension—

Q270 Richard Graham: You say, "If I". You discussed income and now you are talking about a defined-contribution pension into which I, as the employee, and you, as the employer, are contributing.

John Greenwood: Well, I make my employer contribution of £10,000 in lieu of your pay. I say, "I am not going to pay you this £10,000"—

Q271 Richard Graham: Why do you do that? Normally, it is a percentage that gets paid rather than a fixed sum.

John Greenwood: No, but I change that. I decide, "You know what? I am not going to pay you 5%; I am going to pay you £10,000, which is 25% or 30% because it is more efficient." You receive your £10,000 in there. You do not pay any national insurance on it, I do not pay any national insurance on it and you get a quarter of it tax free, and you just take it out the next day.

Q272 Richard Graham: After the age of 55?

John Greenwood: If you are over 55, yes. For the 5 million or so people over 55. Just people over 55 can benefit from this.

Q273 Richard Graham: And you are anticipating that every employer in the country is going to do this and every employee over 55 is going to react?

John Greenwood: No, I am not doing that at all.

Q274 Richard Graham: So what are the assumptions behind your magic figure?

John Greenwood: The £20 billion figure is on the basis of if everybody does it. My supposition is that even if 10% do, that is £2 billion not accounted for in the first year. My magazine had a conference where we had the top 40 heads of DC pensions from Towers Watson and all these consultancies and corporate IFAs, and I asked them, "Assuming £20 billion or so of income and NI could be lost if everyone did it, what percentage of that figure do you think will be lost in 2015-16?" Their view was, only 32% said between 0% and 10%, none said nothing and so the other 68% said more than 10%, with about 35% saying more than 20%. Most corporate pension advisers think that at least £2 billion to £5 billion will be lost in the first year.

Q275 The Chair: May I just interrupt for the convenience of the Committee to ensure we are all understanding this? In the example you are using, the salary would have been £40,000 a year. That switches to £30,000 and you, as an employer, then pay £10,000 into the pension?

John Greenwood: Yes, that is correct.

Q276 Richard Graham: Ian, can you comment on that?

Ian Fairweather: I am not sure I can, purely because we are quite a broad church and I am not aware of a groundswell of opinion among my colleagues that this is what we are going to be advising clients. I am sorry.

Q277 Richard Graham: Has Towers Watson produced any particular paper that has gone to all your clients saying that this is a terrific wheeze and they should jump on the bandwagon immediately?

Ian Fairweather: I am not aware of any.

John Greenwood: If I may make a point on that, it is unlikely that blue chip companies would do this because it would be perceived as a scheme and obviously, reputationally, Towers Watson clients probably would not do that. However, further down the scale, smaller companies would. A piece of research by a corporate financial adviser called Jelf employee benefits did a survey at a recent event—

Q278 Richard Graham: Just before you finish, John, in that scenario it is a unilateral decision made by the employer who is writing to me as the employee and explaining to me that, from now on, my salary is going down from £40,000 to £30,000 and the extra £10,000 will be paid into my pension. What happens if I say, "Thank you very much indeed. That's jolly interesting, but I am aged 35. I am not interested in you adding 10,000 quid to my pension in 20 years' time. I need my income now."

John Greenwood: No, you only do it for the over-55s.

Q279 Richard Graham: And what happens if they are not interested either?

John Greenwood: Well, if they want to pay an extra £120 NI and £500 income tax, then that is fine for them to do that, but I would be very surprised if they did.

Q280 The Chair: May I just go again to the example? I guess what you are suggesting is that if you are a limited company that you own and are a director of, this would be something you would look at seriously.

John Greenwood: That is right. As I was saying about that research, they had an event with 192 employers with between 50 and 2,000 employees per employer, so they were proper SMEs. To those 192 employers, and this is the Jelf employee benefits research, the question was, "Will you allow employees aged 55 plus more remuneration flexibility so that they can benefit from additional tax advantages?" The results were: yes for all employees, 35%; partially, on a case-by-case basis, 14%; no, 6%; and the rest said no.

Q281 Richard Graham: Is it more remuneration? That is a curious choice of words.

John Greenwood: No, more remuneration flexibility. That is, pay them more pension and less salary. It already happens that when people are 64 they get paid £40,000, max out, because they know they are going to be able to claim it next year anyway—

Q282 Richard Graham: So your argument is that if the Bill is unchanged, this could come into effect in April next year and that people could be planning ahead to make these changes?

John Greenwood: I know they are. I know several advisers who are already talking to employers about it and they are waiting to see. The Government's position is that there is £20 billion of tax relief or tax avoidance on the table. We will watch and hope it doesn't get taken up and we will watch out for bad behaviour. It is not clear what bad behaviour is. No one has made it clear, and that is a challenge one could make to the Government. What is bad behaviour? Some people are getting a 20% employer contribution now anyway—will they have to stop doing that?—whereas others are getting none.

The Chair: Thank you.

Q283 Mr Michael McCann (East Kilbride, Strathaven and Lesmahagow) (Lab): John, may I pursue this point? A loophole exists already in relation to people making additional pension contributions to remain eligible for child benefit. They bring their salary below a certain level, so they put more into a pension fund and can still get child benefit payments.

John Greenwood: That is right.

Q284 Mr McCann: Having identified the problem, has any work been done to identify a solution that would not break the objective of giving people the flexibility about their pension resources in the way that the Government want?

John Greenwood: I speak to quite a lot of people from the industry who went to talk to the Treasury about how to solve it, and there was talk about a possible restriction. Saying that if someone takes out cash, they cannot have any more in that year or they cannot have 25% tax relief cash on future contributions would be one way of doing it. Another way would be to say, if you have drawn more than your 25% tax-free cash, you are not allowed to make any other withdrawals of that type for perhaps five years. That would stop people using it on an administrative basis year in, year out.

What was introduced was the £10,000 reduced annual allowance for anyone who does it in the first year. What that means is that there is still £20 billion on the table in year 1—obviously not all of it will go—and that falls to about £10 billion thereafter. The Treasury has admitted that the £10,000 a year reduced annual allowance for anyone who takes more than the 25% tax-free cash will impact on only 2% of the population, so it is a penalty with no teeth for 98% of the population.

Q285 Mr McCann: May I clarify a point you made earlier? Did you say that you had written to the Treasury on half a dozen occasions on this matter but have not yet had a response?

John Greenwood: I have written five or six times asking it whether it had spotted this and have tried to tease out what its position is. I have asked for confirmation of whether it had made any assessment of the amount of national insurance that would be avoided. I have sent about three e-mails and made a couple of phone calls. It is definitely in someone's in-tray, but they have not got back to me. I also asked the Office for Budget Responsibility yesterday, but have not heard back from it.

Q286 Mr Love: There is a pension taxation Bill in the works in the Treasury. Do you have any indication that it is furiously working through the six communications that you have delivered to it about trying to close the loophole?

John Greenwood: I think that is what it was trying to do before July, when the £10,000 allowance came through. My particular assessment is that it is such a popular policy that restricting the fabulous freedom that is there is such an unpleasant possibility that it wants to avoid it if possible. My summary of what will happen is that it will sort it out after the election. I don't think that is being fair with the electorate.

The Chair: It is unusual in a witness session for a Minister to have the chance of grilling the witnesses. It is unique for a Minister to have the chance to grill a journalist.

Q287 Steve Webb: It is worth it just for that. Thinking about your scenario, John, and your hypothetical situation, it would be true to say that the loophole you describe is potentially available this year, so we have jacked up the trivial commutation limit to £30,000. Would it be correct to say that your reasoning would apply this year and that my employer could pay me up to £30,000 into a DC pension and avoid all the NICs you have described, and then I could take it as cash tomorrow?

John Greenwood: Yes, possibly.

Q288 ***Steve Webb:*** Sorry, I have just found an even bigger hole.

John Greenwood: I have not thought about that one.

Q289 Steve Webb: In that case, why is everyone not doing it?

John Greenwood: Because everyone is waiting to see what April brings. Also, pension providers will have in place from April the ability to give flexible withdrawals with the click of an e-mail. People obviously have not planned it for this year, but people will make more thorough plans. The Government have also been talking about using your pension as a bank account. That is all building the idea.

Yes, it is true that it is a novel idea, yet as soon as the penny drops, financial advisers I talk to suddenly go, "Oh yeah, I hadn't thought of that. That actually does work." It has taken a long time for me to get this story out beyond my trade paper, apart from one story in *The Daily Telegraph*, but that does not mean—

Q290 Steve Webb: The point I am making is that the logic of your argument is true this year. If your argument was plausible, you could save all this money this year, and it does not seem to be happening. As I recall, immediately after the Budget, people such as Paul Lewis on "Money Box", who is often ahead of the game on all these kinds of things, were highlighting exactly the potential for cycling money around in this kind of way. There were suggestions that billions would be lost. Sure, on a blackboard it looks plausible, but in reality it does not seem to be happening and it could be happening today. Why would you wait until next April? Why would you not just fill your boots today?

John Greenwood: All I know is that my magazine's readers are corporate financial advisers and pension consultants and they have not done it this year.

Q291 Steve Webb: Why do you think that is?

John Greenwood: It was only about May before the whole issue became widely known and it was only July when we found out what the restrictions were going to be. It was only at the end of July that we knew that you would get a £10,000 allowance.

Q292 Steve Webb: Hold on. You are talking about 2015; I am talking about 2014-15. The Chancellor announced in the March Budget that the trivial commutation limit would rise for 2014-15. Those are the rules in place today. Forget what insurance companies might do in 2015-16—people could do this thing now and they are not doing it on any significant scale. Does that not blow your hypothesis out of the water?

John Greenwood: I do not think that it does, because financial advisers and employers have been focused on April 2015.

Q293 Steve Webb: Even though there is free money to be had this year.

John Greenwood: Yes.

Q294 Steve Webb: I think that undermines the plausibility of your hypothesis.

John Greenwood: All I can say is that at my event last week, we had 40 of the top DC advisers there, and they were all expecting people to do it. We have got an employer—Jelf Employee Benefits—that is talking to 192 employers, and a lot of them want to do it. People are perceiving that the big change is from April, so that is when you would make your changes.

Q295 Steve Webb: Even though you could have free money today.

John Greenwood: Yes, but you have got to change your human resources situation, so why do it a year early when you can do it once and for all when the new systems are in place? It is less complex to do it that way.

Q296 Steve Webb: In terms of numbers, although in theory you could do this with DB and transfer across, that is a hell of a hurdle, so we are mainly talking DC. Out of the five million people you mentioned aged over 55, how many of them are employees in DC pensions?

John Greenwood: I do not know, but I would have thought it was the majority—perhaps some 80% of them, but I do not know exactly.

Q297 Steve Webb: 80%? So what is your 5 million number then? Five million people who are?

John Greenwood: Between 55 and state pension age.

Q298 Steve Webb: And in work.

John Greenwood: Yes.

Q299 Steve Webb: And in a pension?

John Greenwood: They do not have to be in a pension.

Q300 Steve Webb: But if the workplace has not got a pension, they have got to set one up to do the dodge.

John Greenwood: It could be paid into a self-invested personal pension. They can go online and do it. I hold my hand up and say that I am not a think-tank. I am not an expert on these rules, or an analyst. I have come up with these numbers. I have been to the Institute for Fiscal Studies and asked what it thinks of these numbers, and it, too, has ignored my request, on six occasions.

Q301 Steve Webb: It is just the way you ask; I do not know. As we have talked about this, you have identified that we are talking about fewer and fewer people and you have identified all sorts of barriers. You can get a big headline out of a big, scary number. The £20 billion got into the headlines.

John Greenwood: The original number was £24 billion.

Q302 Steve Webb: Indeed it was. I was being gentle, but okay, £24 billion. Clearly, it is a theoretical issue. As we have said, anyone who does this once sacrifices a big slug of tax-free allowance for the rest of their life, so

[Steve Webb]

there is a downside risk. There is a cost to employers and a barrier. To put it gently, is there not a risk of overstating this?

John Greenwood: I have said all along that it could be 10% of £20 billion. I think that is possible. If you have £20 billion tax relief on the table, how much of that is going to get taken up? I don't know. I have asked my expert readers and they have come back and suggested that at least 10% will.

Q303 Gregg McClymont: To elaborate on that briefly and then move on to other matters, the issue surely is whether there is the chance to take a tax-preferential approach to one's income. The history of the last 40 years would suggest where that possibility exists. Human resources and individuals are often keen to take those advantages where they can be found. I just make the point that, in so many of our discussions, the elephant in the room is the Treasury. We are asking witnesses to be commentators on Government policy when the Government are not even here to explain what the policy is. I just make that observation.

I move to the wider issue of collective defined contribution. Ian, I have asked this question of other witnesses: what is the fundamental weakness, if there is such a weakness, in individual defined contribution that a move to collective defined contribution could remedy?

Ian Fairweather: To my mind, the answer comes in the name "collective". Rather than being an individual on your own and chartering your own course through the investment markets with a particular point in time at which you take your saving and turn it into some form of income in retirement, you are in a collective environment where there is the possibility of sharing risk across a large number of individuals, both within the accumulation phase and in what is now inevitably called the decumulation phase. It is reasonably clear that if you have a collective approach to investment and you are not investing on behalf of a particular individual—you are investing across a group of individuals—particularly if you have trustees making the investment decisions, they tend to take a longer-term view than an individual will. I think that it is well proven that most individuals tend towards risk-averse investment decisions, even when it is not in their interests to be less risk-averse. As far as I am concerned, the big benefit of collectivism is the pooling and sharing of risks across those two phases.

Q304 Gregg McClymont: In terms of the model of collective defined contribution that is most likely to emerge—I am asking you to gaze into a crystal ball, but there are different models—which one do you think will emerge in the short term as an offer, as a proposition?

Ian Fairweather: I do not think that I am actually close enough to be able to opine on what it might be. I am not close enough to providers to see what they are working on at the moment. I tend to be on the regulatory side, so the questions asked will be more, "What do the regulations permit and what do they preclude?" and that is the slice at which I come to it.

To go back to an earlier comment, I have not had a lot of conversations with providers or employees about this because, as I said earlier, what interest there was before the Budget has tended to fade slightly. I do not think that it has gone entirely, but that interest has been distracted into other more pressing issues at the moment. I think that there will be a place for collective defined contribution at some stage. I would not want to put some money on when that might be, but I do not think that it will be early next year.

I think that there will be an element of employers and providers looking to see people making the first move. I am very much a person who likes to kick the tyres and open the bonnet on things—I do not live in the sky, necessarily—so it is quite difficult for me, and for some of the employers I speak to, to try to work out how something might look without being given a prompt from elsewhere. So my crystal ball is a bit cloudy at the moment.

Q305 Gregg McClymont: Very understandable. Is there anything in the Budget changes, particularly the ability to access one's pension pot from the age of 55, that will either hinder or encourage an appetite for CDC?

Ian Fairweather: I think that, in the long term, the increased flexibility ought to encourage. From the experience of talking to our clients, in the short term, the problems with the pre-Budget regime—well, the current regime—of annuitisation were making them more inclined towards a collective approach. The removal of compulsory annuitisation has removed, or will potentially remove, that problem and make it less pressing for them. So the tactical reason why they might have been interested in it has taken a step back, but it does not necessarily mean that the strategic reason why they might want more flexibility has gone away entirely; it is just that there is a lot going on in pensions at the moment and there is a limit to the amount of resource that employers, providers and consultants such as us can put on to things, and you tend to concentrate on the most pressing.

Q306 Gregg McClymont: Thank you. James, would you like to add anything on that subject or more widely?

James Lloyd: Not unless you have got specific questions to lead me—not on CDC.

The Chair: Does any other member of the Committee wish to ask questions of our witnesses? If not, I thank the three excellent witnesses for their very clear evidence; we do appreciate it.

3.46 pm

Sitting suspended.

Examination of Witness

Steve Webb MP gave evidence.

3.55 pm

The Chair: We resume the afternoon session. We will now hear oral evidence from Steve Webb, the Minister for Pensions, and we cannot go on any longer in this session than 4.45 pm.

Q307 Mr McCann: The last session was really interesting, in particular the exchange with Mr Greenwood and the point he made about that loophole. You, Minister, obviously came in and answered a number of questions, which demonstrated you are sceptical about some of the points he made. First, do you believe that HM Treasury and the Department for Work and Pensions did not think this change through properly before you made the announcement of the decision, which meant you overlooked his point about the ability of people to take money out of their salary, put it into a pension and then withdraw it immediately, and so the Treasury loses out?

Steve Webb: No. You are right to describe me as sceptical, because of course the concept of salary sacrifice—essentially this is a variation on that theme—is well-known to the Treasury. You get paid your money through a route that does not involve national insurance, everybody gains, and so this is already part of remuneration strategies. The Treasury and Her Majesty's Revenue and Customs are well aware of that, and that is the mindset with which they look at any reform. So I do not think anything in that conversation will have come as any great shock.

What we have said is that, in these new pension freedoms, anybody who does that kind of thing suffers a penalty, and the penalty is that at the moment each year you are allowed £40,000 of tax-free allowance, but the second that you take some taxable cash after the age of 55 that £40,000 slumps to £10,000. So there is a negative consequence for people. Of course, you can do it once and get a potential benefit, but thereafter you can never put more than £10,000 into pension saving. Again, I think that John Greenwood underestimates the penalty value of that.

Q308 Mr McCann: On that penalty value, the danger is that people will not look upon a long-term pension investment in that way and they will just think about making what they would consider to be a quick buck. Therefore, is that an issue that concerns you, or your colleagues at the Treasury, whereby if a sizeable chunk of people took advantage of this change—I would not call it a loophole, but this consequence of introducing these new rules—would that not give you a concern about how it would impact on the Treasury coffers in that particular year alone?

Steve Webb: Clearly, we keep an eye on these sorts of thing, in the sense that the £10,000 measure that I described was to try to discourage people from just cycling their money through. So there is a recognition that there is always a risk of this kind of thing. However, there are a number of barriers. For example, the employer has to have a conversation with the employee; there is probably a contract of employment that would be impacted; there may be HR and contractual implications; or you may have to set up a pension arrangement.

In a sense, my question to John Greenwood is this: you can do it this year, and we do not see it happening—I am not saying that nobody is doing it, but we do not see any evidence that it is happening on a significant scale. The first £30,000 you can take as cash in a single pot this year, so why are people not doing it? It is because there are lots of barriers. So I am not saying that it could not happen and I am not even saying that it will not happen, but we do not think that it will happen on the sort of scale that is being talked about here.

Q309 Mr McCann: Alternatively, they have not sussed it out yet.

Steve Webb: Well, it was not many weeks after the Budget that "Money Box" was talking about this issue of cycling money through; it was on the front pages of the papers months ago, or a variant that was basically the same sort of idea. So it is not new.

Q310 Mr McCann: May I ask one other question from a global context, taking an overall view of this proposed change? The picture in Britain is much the same as in every other part of the world, in that we have an ageing population. In my constituency, 60% of it is East Kilbride, which is a new town created in 1947. It has more older people than perhaps any other part of Scotland, because people all arrived at the same age and they are all growing older. So we know of all these demographic problems.

We are increasing the retirement age, because more people are living a lot longer—not necessarily healthier lives, so there are impacts upon the health service, as we have mentioned, and impacts upon social services and social care. And at a time when there are these demographic time bombs that we face in a whole range of different areas, we are introducing a change in pensions that is so dramatic that it has the ultimate effect that it can encourage people to draw down cash and not think carefully about their future. We had the sports car analogy when you first announced the policy. In your heart of hearts, are you not genuinely concerned that this policy could go pretty pear-shaped if people in large numbers start making decisions that are not very wise, even after they have had the 30-minute interview with the adviser?

Steve Webb: You have raised a number of issues there. May I deal with whether it is just 30 minutes and that is it? First, before the guidance—let us call it, roll of drums, the guidance event—there will be an information-gathering process. So you ring up and say, "I want my guidance face to face," or on the phone or whatever. You do not access it that day. We say, "Right, we will make an appointment for you," a few weeks hence, whatever it is. Before that takes place, you gather information—your state pension rights, your other pension rights, anything that is useful to bring to the table. So you go into the conversation with a useful gathering of data. That is the first thing to say.

You then have the conversation. That is not then the end of the process. You go out of that with, potentially, a piece of paper with something summarising what has gone on and with signposts to where you can go from there. There is no sort of, "Right, you have had your conversation; you have got to make your decision." There are websites; there are places you can go. To be honest, although there is the guidance moment, we are not going to ban people from phoning the Pensions Advisory Service once they have had a guidance conversation. There will be more that people can do. I would contrast that with the current situation with lots of people making these kinds of decisions with no guidance or help at all and getting them badly wrong.

Is it perfect, or is it the end of the journey? No. Is it a great deal better than people often have at the moment? I think, yes. My argument would be that the state can impose on people a presumption that it knows best, and it can default them into annuities. That is what we have done so far and with pretty bad outcomes. My presumption is that we are optimists, not pessimists, that we start from the assumption that it must be possible to equip consumers as far as possible to make good choices, knowing better than the Government do what their family needs are, whether they are fit or unfit, married or single. Only the individual really knows that for themselves. So, yes, some people will spend the money too fast. I am sure that will happen. That is the risk when you set people free, but we think that the benefit of setting people free to choose for themselves is better than forcing them into a one-size-fits-all model.

Q311 Mr McCann: Finally, do you not feel therefore that, by making this change, you could make all those other demographic issues that we face worse?

Steve Webb: One of the best things that I have seen since the Budget was some survey evidence in which people were asked whether they were more positive about pensions because of the Budget, and whether they were more or less likely to save. The evidence was that people said, "Actually, I am more positive about pensions now. Because it is a better product and more flexible, I am going to save more." Funnily enough, the group who opt out of automatic enrolment most at the moment is the over-55s and one of the things that they do not like is that they have got to lock their money up. We think—I think—that the over-55s will be more likely to save in pension saving.

We get fixated by 55, but 55 is just the minimum legal age at which this is all possible, but very few people have fat DC pots at 55, so actually—state pension age will be beyond 65 in a few years' time—lots of people will be doing this much more at 65 than at 55, when the issues are much less.

Q312 Kwasi Kwarteng (Spelthorne) (Con): You mentioned earlier, at the beginning of your statement, that you felt that there were certain obstacles preventing people from getting their money out of the pot. Will you speak more broadly and more specifically about what those obstacles are? You alluded to them, but did not really expand.

Steve Webb: In terms of the purpose of the Bill and what we are trying to achieve, do you mean?

Kwasi Kwarteng: From my understanding, it was a revolutionary change, and pensioners were able to take large amounts of money from their pension pots without needing to or being forced into the annuity market, so it was a great act of liberalisation in that way. You said that there were obstacles and that this had not actually happened. When you look on the ground, people had not been doing this to the extent that you thought.

Steve Webb: I think we may be talking at cross-purposes. In the previous evidence, we had a journalist here who was alleging that, because of these new freedoms, massive tax avoidance would be going on. I pointed out that in theory that would be true in 2014-15, but in reality it is not happening. I was not referring to the post-15 freedoms, I was referring to the fact that people were not doing this this year, because reducing someone's pay and setting up a pension is quite a big thing to do, and there is not much evidence that people are doing it.

Q313 Kwasi Kwarteng: As a follow-up, what are your expectations about the take-up in terms of people releasing money from the pension pot? How will that work?

Steve Webb: One of the joys of setting people free is that everybody will come up with their own answer that works for them. Clearly, people will be potentially accessing sums of money that are bigger than anything they have encountered before, apart from, say, their mortgage. So as time goes by I suspect, although I am only guessing, there will be a set of people who want to take some cash up front, perhaps to pay off debts that they have accumulated or to use while they are retired and able-bodied enough to enjoy it. Some people will want to put money aside and some will want to give money to their children. I think that we will see a diverse pattern.

But of course, at the moment, not many people have very large DC pots. In the very early days, people who have just been auto-enrolled might only have a few hundred or a few thousand pounds. I would be astonished if they do not just cash them in. So, what happens in April 2016 might be very different to what happens as this matures five or 10 years down the track.

Q314 Gregg McClymont: Steve, to take you up on the issue around the potential loopholes or whatever one wants to call it, I think you said in your response to Michael that you were not saying that people could not do this, and you were not even saying people would not do it. The question is: is there an analysis of what behavioural impact you expect to see in this regard? Have the Government done a behavioural analysis?

Steve Webb: Specifically in terms of what my colleagues at the Treasury have done, obviously they will need to respond, but we do not think as a Government that we are talking about a significant issue. As you heard when you asked the question in the previous evidence session—what would it take to completely close this down?—you would have to pretty radically complicate tax relief. For example, one suggestion that was mooted by the panel was that, once someone had done this thing once, you said, "Right. You cannot accrue a tax-free lump sum ever again, or you can't make any more withdrawals for five years." All those get very messy and very complicated, so, when you make changes, you allow people to adjust their behaviour to maximise advantage of it. Some people will do that. If we thought it was a big hit on the Exchequer, we would have to do something about that. We do not take that view, and the things you might do about it would complicate the system a great deal.

Q315 Gregg McClymont: I understand that, but I am slightly unclear whether you are speaking for the Government or whether the Treasury are speaking for themselves. There seems to be some ambiguity here. The Government must have done some analysis to think that it is not a big problem. Is there any chance of us seeing that analysis?

Steve Webb: As I say, my colleagues at the Treasury prepared the fiscal forecast that the Office for Budget Responsibility signed off. It is worth saying the OBR signed off our estimates of the impact of the reforms on tax revenue. Principally, we think the big point is that a set of people would have bought an annuity and spread their income through their retirement, so we would have got the tax in little bite-sized chunks or not at all, because it might have been below the tax threshold. Some of those people will bring that money forward or take it in a lump sum, and we will get, in some cases, more tax and, in some cases, earlier tax. We think that

that is the dominant thing. But when the Treasury prepared their forecast for the fiscal impact of the measure, they looked at what they thought was the whole impact of the measure.

Q316 Gregg McClymont: That is baked into that.

Steve Webb: As I understand it, yes.

The Chair: Mr Graham, were you going to say something?

Richard Graham: Not at this moment, but I will come in in a moment or two if that is all right.

The Chair: Do any other Members wish to speak?

Q317 Dr Thérèse Coffey (Suffolk Coastal) (Con): On the whole revolution of freedoms that came in at the Budget, why has it taken until this Parliament for that to come about?

Steve Webb: Two things made it possible. One is the state pension reforms that a previous witness, James Lloyd, was very positive about. We inherited a situation in which the state pension was well below the basic means test, which meant that if people did blow the lot on riotous living or whatever, we would be topping up their basic state pension to £30 or £40 a week of means-tested benefit, so the taxpayer was exposed. If we let people free, and we had a very low state pension below the means test, we would have to pay a lot of means-tested benefits to people who spent their money.

The new single-tier state pension that comes in in April 2016 is pitched just above the basic means test, so if people do blow the lot, then, as I once said, we can be more relaxed about that, because they would not be entitled to any pension credit. There is the residual issue of housing benefit and so on, but we are much less exposed. That is the first reason. The state pension reform enables the budget reform.

The second reason is political philosophy. Both coalition parties took the view that we wanted to be liberal rather than paternalistic. We took the view that the state does not know best; that individuals are making unique retirement choices based on their own family circumstances and what is right for them; and that the default should be that individuals know best rather than that the state knows best. The Opposition's reaction, if I might say so, has been very split on this, because instinctively they want to control, which the coalition parties do not want to do, but they know that it is popular. You have seen that from some of the questioning, which has been along the lines of, "We don't like this—it is uncomfortable because it is letting people free, but we realise that it is popular, so we will just criticise."

Gregg McClymont: Perish the thought that one would question the Government on their policies.

The Chair: Was Mr Blenkinsop trying to catch my eye?

Tom Blenkinsop: No.

Q318 Richard Graham: One of our previous witnesses described the pensions revolution as blowing up the world of annuities and "Whitehall knows best" as though that was an absolute disaster. The point I was trying to make is that that which has been blown up is still available in exactly the same format, but there is now a variety of choice and options open to people, trusting people that they prefer to know what to do with their own money in precisely the way that you have described. I guess that in some ways the nightmare scenario for those of us who believe in having that greater choice is that something goes horribly wrong. I suppose equally that that would be the ideal scenario for those who prefer not to give people great choice.

Minister, what do you think the likelihood is of real issues over either inadequate guidance or possibly people being unable to make decisions based on the guidance that they are getting? What sort of risk is there that later on, people will regret the decisions that they have made and the choice they have been given and that they will wish to go back to an unsatisfactory form of annuity that enabled some to muddle through?

Steve Webb: There are a few things. First of all, there is the quality of the guidance guarantee that we will offer. The Chancellor has confirmed that the telephone-based guidance will be delivered by the Pensions Advisory Service, which I think we would all say is a respected organisation. It is already staffed by experts, and it is increasing its staffing. The face-to-face guidance will be delivered through the Citizens Advice network, which is a trusted network of front-line advisers, or in this case, guiders. Obviously, Citizens Advice has not specialised in pensions, but it probably knows best the set of people who are most vulnerable. Folk who are struggling with their money, with debt or whatever—Citizens Advice may know many of those folk already, so it seems very well placed. We are going to make sure that the website is of high quality. It will not suddenly appear on 6 April; we will try to make it available ahead of time. First, therefore, the quality of the guidance offer is crucial.

Take-up is obviously very important, and I have no doubt that we will debate as the Committee proceeds how we maximise that, and what duties we put on schemes and providers and so on. I think it would be a mistake to think that 100% take-up, or anything like it, of the guidance guarantee is the right answer. We know that the people with the biggest pots overwhelmingly will pay for independent financial advice. They can afford to do so, they will recognise the value of doing so and they may well decide that they do not want the guidance, so they will just go straight for regulated advice.

Likewise, the people at the bottom in terms of pot size will overwhelmingly, I suspect, just take the cash. We want them to take the guidance to see what options they have, but frankly if you have a few hundred or a few thousand pounds, your options are pretty limited. It would not trouble me unduly if someone with a very small pot simply took the cash, as long as they knew what they were doing in terms of taxation.

Of course, in the early days we have got lots of people who have been automatically enrolled, who then pass 55 or a retirement point, whose auto-enrolment only started a couple of years before, so they will have four, five or six years of auto-enrolment at a minimum of 1% plus 1%. We will have lots of very small pots early on, so that will make the headline percentages look low, because there will be lots of people who will just take the cash, and probably rightly so. The key is not a particular target level of guidance take-up; the key is the right people taking the guidance—the people who did not have a choice before and who do now, who have options that they did not have before and who could do significantly better with a bit of information and guidance. So we will be very much focused on the people who really need the guidance.

Q319 Mr McCann: We heard evidence a couple of days ago about how the scheme would be rolled out. I am afraid that, as a former civil servant for 10 years and then as full-time trade union official in the civil service who negotiated with a range of Departments, agencies and non-departmental public bodies across the whole UK, I know that this country does not have a good history of Government roll-outs of computer programmes and things going well on that front. Every Government, irrespective of hue, will have the scars of being told, "This is all going to work," and then finding that it all falls flat on its backside.

I cannot remember exactly what evidence session it was—I think it was on the first day—but we heard about the plans for roll-out and how it was all going to work. When that moment comes and people are making phone calls and trying to get things on their computer screens, do you have any fears or concerns that we will have the same problems that have plagued Governments, Olympics opening events and Commonwealth games ticketing, which was a fiasco? Have you had a chance to dwell on any of those issues?

Steve Webb: Sure. The first thing to stress is that the scheme does not depend on a big new Government IT project. The face-to-face guidance will be delivered by CAB, which do that kind of thing everyday anyway, and the Pensions Advisory Service has already set up its own system. The point that Michelle Cracknell from TPAS made is that it has a database system whereby if you ring them a second time, it connects to the first time that you spoke to them. While there is no connect from people who see a CAB adviser to TPAS, if you phone and phone and phone again, it is all linked and stored. That happens now. Although it will be taking on new staff, it does not have to set up new IT systems and it actually created its current customer relationship management system with capacity to expand. There will be a website, which we are doing now, so there is plenty of time to get that sorted. I do not think that there is a big IT challenge.

The other thing is that we envisage a soft launch, so we do not envisage a switch-on day, before which no one can get any guidance and after which everything happens. For example, in the first part of next year, we will be doing face-to-face sessions and phone calls on a small scale and will be testing things out. Suffice it to say that we have worked out that April is four weeks before May, so we are quite focused on making sure that it does not all collapse.

Mr McCann: Given that comprehensive response, I hope it does not, which I will be quoting back if it does.

Q320 Gregg McClymont: I have a couple more questions for the Minister, building on a previous question and thinking about his answer. He stated to the Committee that he understands that the Treasury has baked into its analysis potential tax avoidance from the changes. What does that baking-in involve? How much tax avoidance do the Government expect to take place?

Steve Webb: The figures that I have seen are the aggregate figures, so I have not seen any breakdown. In fact, I am not convinced that the figures are done in that way. The Treasury looked at the whole package and came up with a global figure for the expected impact on tax revenues. That has been ratified by the OBR. I was not involved in the specific drawing up of those figures, so my colleagues at the Treasury will deal with the further details. The figure that we have published is the Government's best estimate of the fiscal effect of the reform.

Q321 Gregg McClymont: Are you able to confirm that the Treasury has examined this potential tax avoidance mechanism in what you call its global figure?

Steve Webb: What I am saying is that when the Treasury estimates the net fiscal effect of a reform of this sort, it takes account of all the relevant factors, which include the potential for changes in behaviour. Clearly, it would be appropriate, if you want more detail on exactly what was done, to table written questions to my Treasury colleagues, because I was not involved in drawing up the figures.

Q322 Gregg McClymont: Thank you. It just seems a little strange that we are talking about pensions and the issues pertaining to the Bill, of which this is one, which is why we had a witness, but we have to go elsewhere to get—

Steve Webb: To be clear, technically, the issues being raised by the witness are not issues of the Bill; they are issues of the Taxation of Pensions Bill.

Q323 Gregg McClymont: That is an issue for Mr Bone, then. Let me ask the Minister another question on the disclosure requirements. As I understand it, an individual wanting to take advantage of the new flexibilities and options will have to inform all their pension providers within 31 days and if they do not do so, some pretty heavy fines are being proposed. Is that the case and if so, do you think that that approach will stand the test of time?

Steve Webb: Again, these issues are in the Taxation of Pensions Bill, rather than in this Bill. In general terms, the point is that, as I said earlier, once you start drawing taxable cash, you cannot go on getting £40,000 a year of tax-free annual allowance, so providers need to know that information, but the legislation that provides for that is not this Bill. It is the Taxation of Pensions Bill.

Q324 Gregg McClymont: I seek your guidance, Mr Bone. I understand the Minister's position, but it is becoming very difficult to work out, given the relationship between the Bills, how one is meant to get answers that pertain to this Bill as well as to the Treasury Bill.

The Chair: I thank the hon. Gentleman for that. Is the Minister aware of whether the Treasury has done a memorandum to the Committee, and if not, whether it might do a memorandum, because perhaps, with hindsight, the usual channels might have asked for a Treasury representative to be a witness? That did not happen, so I think a memorandum would be useful to the Committee, if it were possible to arrange.

Steve Webb: I am happy to pass that request on. I was surprised that the Opposition did not ask for a Treasury Minister to give evidence, but they did not. The Treasury's Taxation of Pensions Bill is, I believe, being debated on Second Reading next week. Far be it from me to presume, but my sense is that the scrutiny of the measures in that Bill would be appropriately done as part of that, but I am very happy to pass on the Chair's request to my colleagues.

Gregg McClymont: Thank you for that guidance, Mr Bone. It was very helpful. Does the Minister agree that once one gets beyond the technicalities, these things do pertain to the discussions that we are having? They clearly must pertain to the discussions we are having, which are about the guidance guarantee as a central part of the Budget reforms. There is an issue here about how one makes a judgment on the Government's reforms, given that those two Bills are happening simultaneously. It would be very helpful to have that memorandum from the Treasury.

The Chair: Do any other Members have a question for the Minister?

Q325 Richard Graham: Briefly, in some of the evidence we have heard from witnesses, there have been a number of examples where one witness has said one thing and another has said something else. That is normal in terms of collective views—that is the whole point of the oral evidence. Will the Minister confirm whether he shares my view that on the evidence we have heard so far—*[Interruption.]* Bless you, Thérèse. Will the Minister confirm that there is likely to be interest out there among pension schemes for both new types of pension made available through this Bill, defined ambition and collective DC? It is not going to happen on day one. It will take time for the advisers, actuaries and schemes involved to work their ways through the mechanics of the Bill when it emerges and then make the necessary changes that trustees and others will have to sign off. However, if there was absolute resistance to the provisions being offered or a strong feeling that they needed to be offered in a different way, we would have heard either of those messages quite strongly.

My view is that, broadly, there is some interest out there and that it will be among some big schemes. Therefore, the offer is worth while, but the longer-term potential role of the CDC will probably be more in terms of auto-enrolment, NEST and the small companies that will be offering pensions in due course.

Steve Webb: On the appetite for risk sharing, I think it is fair to say that Steve Webb did not invent risk sharing. As one of our witnesses said, in the concept of a cash balance scheme, the goal is not a pension, but an amount of cash that in the old days would have been used to purchase an annuity. The member of the scheme had the risk of annuity rates and longevity and so on, but the employer had the risk in the accumulation phase, so that was a shared-risk model. Part of the point of the Bill is that we have had a kind of binary regulatory regime, for DB and DC, but in reality DB schemes are becoming more flexible.

I can think of a number of big schemes that have flexed the pension scheme age, so as longevity rises, the scheme pension age rises. We have seen cash balance and a whole raft of shared-risk models being invented and shoehorned into a regulatory regime that was never invented for that purpose. One of the beauties of the Bill is that it regularises all that and says that you have hard-promise schemes and no-promise schemes, with shared-risk ones in the middle, and then you have collective and non-collective.

It is funny, but in half the Bill we are accused of rushing, but in the other half some of our critics are saying, "There is not much demand out there." My argument is that in a measured, thoughtful, careful and systematic way we have put the regulatory regime in place, so that as and when the demand arises—we heard from some witnesses that there are already firms interested—we will have done the work. We have consulted and we are in a calm and measured way ready to deliver. Obviously, for 2015 the focus is on the Budget freedoms, the charge cap and the governance regime—inevitably that is the focus at the moment. We envisage that our DA and so on will be available from April 2016, we hope. That is when, as the Committee knows, contracting out goes for DB, so there is a logical sequence to all this.

I do think that the demand will be there. It will come from different places. We are seeing around Europe some schemes going from individual DC to collective DC—perhaps, for example, when workers get older. So a young worker does not mind so much a bit of volatility, although NEST takes the opposite view, but you could argue that you do not mind a bit of volatility if it buys you return for a younger worker. Maybe workers move into CDC later in life or maybe you have CDC decumulation, because again you want risk pooling.

You can see lots of different ways in which the different models could feature different types of employer and so on. Very much the purpose of the legislation is to let a thousand flowers bloom and to make sure that we have thought it through carefully. I am confident—I strongly suspect—that many of these schemes will be the norm in a generation, but how quickly we get there I do not know.

The Chair: If there are no further questions, I thank the Minister on behalf of the Committee for his very full evidence.

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

4.27 pm

Adjourned till Tuesday 28 October at twenty-five minutes past Nine o'clock.

Written evidence reported to the House

PS 10 National Association of Pension Funds