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Public Bill Committee

PENSION SCHEMES BILL

Seventh Sitting

Thursday 30 October 2014

(Morning)

CONTENTS

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Monday 3 November 2014

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

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† Blenkinsop, Tom *(Middlesbrough South and East Cleveland)* (Lab)
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† 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

Public Bill Committee

Thursday 30 October 2014

(Morning)

[Mrs Linda Riordan *in the Chair*]

Pension Schemes Bill

Clause 19

Introduction and definition

11.30 am

Question (28 October) again proposed, That the clause stand part of the Bill.

The Minister for Pensions (Steve Webb): Good morning, Mrs Riordan. We were in the middle of a thoughtful discussion about clause 19, to which the hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East and my hon. Friends the Members for Amber Valley and for Gloucester had all contributed. It will be helpful if I try to respond to some of their points. I am sure that they remember every point, but in case they do not, we were making notes, so I hope that I will be able to reply to their points, and I am more than happy to take interventions.

We have reached part 3, where we deal with collective pension schemes, which is a relatively new concept for us in the UK, but it is one that many pension schemes around the world are familiar with. Various themes have been covered in the contributions to date: communications and governance; reducing pensions in payment; the difference between shared risk and collective schemes; the potential overlap with the Taxation of Pensions Bill; and the conversion of defined-benefit and collective defined-contribution entitlements and schemes. I will try to cover those topics in order.

Various points were made about the importance of explaining to scheme members how things work. As I observed on Tuesday, I hope we can learn from other countries where some of the problems and conflicts arose from the fact that different parties had different expectations. Scheme members in the Netherlands, for example, thought that they had a guarantee—a rock-solid pensions certainty—but that was not the basis on which the scheme was set up and that was not adequately communicated to them, so when things changed, they said, "Nobody told us," and understandably felt aggrieved. We aim to go into this with a blank sheet of paper. Although, as we have discussed, having a blank sheet of paper raises issues about getting started, it also gives us opportunities to try to learn from what other countries have been through and to try to get to a better place to begin with.

We clearly have to explain to people how schemes that provide collective benefits will work and we must ensure that we use language that people will understand. I entirely agree with the points that hon. Members made. Clear communications and good governance of schemes are both essential to the effective working of the new types of collective models that we are trying to create space for. For employees, it is absolutely critical that they have information about how their pension arrangement works and that schemes operate transparently. We have designed the new framework for collective benefits with that in mind.

For collective benefits, the Bill—in clause 19 and the following clauses—sets out an overarching regulatory framework that will be underpinned by a comprehensive set of regulations governing their day-to-day running and decision making by trustees and managers in areas such as benefit targeting and investment performance. We have taken powers in the Bill in relation to scheme policies and their publication, and we already have further powers on disclosure and governance requirements under existing legislation.

There is always a tension in primary legislation in relation to how far we put things in the Bill or in regulations, and we feel strongly that the Bill should set an overarching framework and a requirement for good communications and good governance. The nitty-gritty of what that actually means is better dealt with in regulations, because, if they need to be improved and refined, the process is a lot quicker than with primary legislation.

An important part of all this is the continuing engagement with employers, providers, regulators and consumers to ensure that the language used in communications is clear and effective. In our other pension reforms—for example, automatic enrolment—we have done a lot of talking to consumers and employers, and in our communications campaigns, we have done a lot of testing of what messages work. Those insights and that work will continue when drawing up the framework for collective pensions.

I want to focus on a specific issue that is not familiar to us in the UK, other than in circumstances of insolvency: the reduction of pensions in payment. That is obviously a tough concept. We need to be absolutely clear up front that, in extremis, people could find that the pension they are receiving will go down. It is important not to overstate that. The narrative has become, "Oh, everyone in the Netherlands has had their pension cut." In fact, the majority of Dutch pension schemes of that type did not cut pensions in payment, and of those that did—the big tranche of cuts that happened in April 2013—the average reduction was 1.2%. Although that is not what people are used to, not what they expect and not what we have done in this country, it is worth keeping that sense of perspective. Many things can happen before pensions in payment are cut. When it looks as though a collective scheme will not reach its targets, a whole hierarchy of things can happen before pensions in payment are cut.

I want to give the Committee an example of the Canadian experience from some research that the Pensions Policy Institute undertook for us. It looked at some specific schemes, in this case the New Brunswick hospitals plan in association with the Canadian Union of Public Employees, and what happens when there is a surplus or a deficit. By surplus, we mean when there is more money in the scheme and more prospective returns than are needed to meet the probability target that is being set, and the converse for a deficit.

In the New Brunswick scheme, if the funded ratio falls below 100% for two consecutive years, or the plans fails to meet the risk management goals of a shared-risk plan, various things can happen to try to deal with the imbalance. First, contributions could be increased. If they are not on course to reach their target, scheme members could be told, "You need to put more money in." That could happen rather than pensions in payment being cut.

Secondly, changes could be made to the rules for retirement benefits such as, for example, those that were not core benefits. Future accrual rates could be changed. People who are of working age could be told that future service would accrue pensions at a slower rate. Additional benefits or the base benefits could be reduced. Where elements of indexation were discretionary, it could be decided that the next round of indexation would not happen because of the pressure on the scheme's funds. The pension would not be cut; it just would not be increased or not by as much. It might be clawed back. A lot of things can happen instead of or as well as in the interim between the pension scheme needing more money and cutting pensions in payment.

Gregg McClymont (Cumbernauld, Kilsyth and Kirkintilloch East) (Lab): The New Brunswick model is interesting. Is it underwritten by the state and would that be plausible in a UK context?

Steve Webb: The hon. Gentleman is right to say that these are public sector schemes. The scheme that I gave as an example is a hospital scheme, and the Canadian Union of Public Employees was very much involved. I am not sure about the exact arrangements for the scheme's insolvency, but he is right to say that the Canadian experience to date has been in the public sector. I assume that there is a public sector underpin, but I am not certain.

Gregg McClymont: My understanding, which is not beyond question, comes from the fact that I recently met one of the architects of the New Brunswick scheme and was told that it is underwritten by the state. We need to be aware of that when we discuss its approach.

Steve Webb: That is consistent with my understanding. I do not mean to be rude here, but I am not sure how relevant that is in the sense that the scheme has a target. There will be a slight difference between the way that we do this in the UK and the way that it is done in Canada, because we will target a probability of reaching target benefits, whereas a funding ratio is the criterion in Canada. In that case, where the funding ratio will not be met with a certain probability likelihood, the scheme has processes for getting things back into equilibrium. It is fair to say that the sponsoring employer presumably cannot become insolvent, but insolvency is to some extent a separate issue from scheme funding. The processes of what happens when someone will miss the target are much more to do with the rate at which future service is accrued, the rate at which discretionary benefits are paid and the contributions required from the employees. Those are the adjustment factors. The hon. Gentleman is absolutely right to point out that these are generally public sector schemes. I do not think that that alters the basic point that I am making.

I want to correct the record on the cuts in the Dutch pension scheme that I referred to. I think that I said 1.2%—for some reason, I have the headline rate of inflation in my head—but in fact 1.9% was the average cut of those schemes that made a cut. As I said, the majority of schemes did not make a cut. We need people to know what the target and the probability mean. We require honesty about the fact that pensions in payment can be reduced.

My hon. Friend the Member for Amber Valley asked what would happen if there were not a flow of future savers and we ended up just with older people and pensioners. Clearly, collectives work well. The point of collectives is the pooling of risk, so the more varied membership, the better. However, schemes can adjust. For example, a scheme that is not getting an in flow of new members could reduce its exposure to risk. It might have a relatively high exposure to risk if it has lots of young members, because on the whole that is what they will want. If the number of young members and their contributions start drying up, it might choose to rebalance its investment strategy and have a lower-risk approach. That would obviously lower the average expected return but increase the probability of reaching the target benefit. Adjustments can be made. It could merge with another scheme that has a more diversified membership. My hon. Friend is right to raise the issue, but there are mechanisms for responding to it.

The hon. Member for Cumbernauld, Kilsyth and Kirkintilloch East asked whether it was shared risk if all the risks fall on the employee. To be clear, when we talk about a shared-risk scheme, there must be a promise during the accumulation phase in relation to some of the benefits provided by the scheme. Clause 19 talks about schemes providing collective benefits and those do not carry a promise.

To be clear, there is no promise during the accumulation phase of a DC scheme, so the members bear the risk. In a collective DC, the members together collectively bear the risk. The point is that the pooling of risk in a scheme of collective benefits can lead to more stable outcomes for members than an individual DC scheme where the member alone bears all the investment risk.

I have a couple more points in response to Tuesday's debate. The Budget freedoms and the fact that post-55 people will be able to use their pension pots as they wish were raised. The hon. Gentleman asked how that interacts with collectives. If someone wants to take their money out, there needs to be a value for that transfer. With an individual DC pot, it is pretty obvious what the value lies; in DB, it is a bit more complicated. With CDC, clause 30 will require schemes to have a policy that they will follow to calculate a transfer value when someone wants to leave a scheme. As part of that we will be able to set out certain provisions of that policy, and our regulations of policy will reflect the need to ensure that those transfers out do not have an impact on the probability of being able to pay the target benefits of other members. That is the crucial point.

Someone in a CDC scheme could reach 55 and want to cash out but would not do so in a way that is detrimental to the people left behind. That will in turn be reflected by the transfer value. The people running the schemes will know the law. They will know that people aged 55 and beyond can cash out. They will plan for that and make assumptions about the likelihood of

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that happening, but they will have discretion to reflect the impact of someone leaving earlier than expected in the transfer value.

Gregg McClymont: I thank the Minister for that information. No doubt, we will come to that point with clause 30. It strikes me as a sensible clause. There seems potential for tension if an individual has been told that their pension money is their own and they can take it out at 55 and do with it as they like. As I read the Minister's argument on clause 30, that will be weighed up against the collective interest of the CDC scheme. Is that a fair assessment?

Steve Webb: The key point to bear in mind is that, when someone cashes out, they move from a target and a probability to certainty. Everyone else still in the scheme has a probability and a target but does not have certainty. The person leaving the scheme wants certainty now. There is a price for certainty. When that person leaves the scheme, the transfer value will reflect the fact that, before the expected age to draw benefits, they have said they want their certainty now rather than when everyone else will have it. There is a price to pay for that.

11.45 am

Gregg McClymont: That crystal-clear explanation seems sensible. I made a point earlier that promoting the flexibility options at the same time as promoting collective defined contributions seems to be an area where that tension, if we want to call it that, emerges.

Steve Webb: I understand the point that the hon. Gentleman makes. We have always taken the view that we want a pensions landscape; we do not want uniformity. There will be a set of people for whom certainty is very important, and they might end up buying an annuity with whatever they have accumulated in their working lives. Some people will want to maximise returns; some will want to minimise volatility, so a collective might be the right thing for them; and some will want cash up front as soon as they are 55. We are trying to create a framework where we have provided a coherent legislative and regulatory framework for all those different models and preferences.

I hear the argument that collectives are all about risk pooling and the Budget freedoms are all about individuals taking their pots. If I have saved in a CDC scheme and have grown to trust and value it, I might want to take some cash out at retirement or some such age, but if I want the rest of my money to go on being invested, I might well be happy to leave the money in the CDC scheme, benefitting from any scale, pooling or good governance that I have seen in the scheme. It will not necessarily be an all-or-nothing thing. People might take some of their cash from a CDC scheme, but they might well leave quite a lot of it in the scheme, perhaps if they anticipate a long retirement. Those are not black-and-white absolutes.

Gregg McClymont: The Minister's explanation seems fair, but will what the Government are doing with one hand at the Budget end impact on the likelihood of people entering collective schemes? That is really the issue. Creating a landscape with a wider range of pension options is fine—he knows that we support that—but I wonder whether potential scheme members will rapidly be told that, as the Budget reforms come into practice, they might not want to go into a collective scheme because they could get their hands on the money freely and without any detriment. That is a problem.

Steve Webb: If we had said, "There are these things called collective schemes and because we are all bound together, you can't exercise your individual freedoms, so there is a set of pensions that end up in freedom over here and a set of collectivist-controlled pensions over there," that might well have reduced the appetite. That is clearly not what we are creating. It can be argued that the collective benefits in accumulation are clear; the reduced volatility can be seen, as can the benefits of collectives in decumulation in potentially 20 or 30 years of requirement.

I do not think that we are fundamentally arguing. We want to enable people to have freedom and choice over their own money, but people will have a variety of preferences over risk. CDC will be right for some and they will stay in. I do not see any inconsistency between catering for people's different attitudes to risk and having a framework that allows for risk pooling; the two sit alongside each other.

I am probably misquoting him, but my hon. Friend the Member for Amber Valley raised the issue about converting from DB to CDC. We do not envisage taking a DB pot and transferring it into a CDC scheme, which would almost certainly be illegal. The accrued rights of the DB pot are hard-wired, statutory-protected rights. A CDC scheme has no promises in it. I think that clause 20 states that a target is "unenforceable." A CDC scheme's target is therefore not enforceable. DB pots would not be moved en bloc into CDC because people would lose a lot of rights. They could individually transfer if they wanted to, but it is possible for a DB employer to say, "I'm not going on with DB anymore. I'm a big employer with lots of members putting in quite a bit of money each year. I'm going to start or join a CDC scheme." We get to scale quite quickly, not because we brought a legacy pot across, but because it is a big firm with lots of money going in each year. That is the distinction I would make, and I hope that is helpful.

To go back to the point about transfer values and so on, assets are pooled in a collective scheme. People have a right to a share of that pool when they leave, so their share depends on the assets across all members and not simply on how much they have put in individually. The members of a collective have a right to a share of the pool, under the rules of the scheme, and the transfer value could reflect the impact on the people who are left behind in the scheme.

I hope that the discussion has been fruitful for the Committee. I am grateful for the constructive and helpful questions that have been asked.

Question put and agreed to.

Clause 19 accordingly ordered to stand part of the Bill.

Clause 20

Duty to set targets for collective benefits

Steve Webb: I beg to move amendment 43, in clause 20, page 9, line 32, leave out

"is equal to or higher than a level of probability"

and insert "falls within a range"

This amendment and amendments 46, 51, 52 and 53 replace references to a required probability level with references to a specified range. Here, clause 20(2)(c) is amended so that regulations may require initial targets in relation to collective benefits to be set at a level which ensures that the probability of meeting the targets falls within a specified range.

The Chair: With this it will be convenient to discuss Government amendments 46 and 51 to 53.

Steve Webb: As has been our custom throughout, Mrs Riordan, I hope that you will allow me to explain the purpose of clause 20 and set out why we have chosen to amend it since the publication of the Bill. When my teenage children get a new book of fiction, they turn immediately to the final page to see whodunnit. So as not to keep the Committee unnecessarily in suspense, I will explain that the Bill specifies that we have to set a hard, single-figure probability for CDC, but the amendments will allow us to set a probability range. That is the dénouement of our exciting journey, but I hope that Members will stay with me throughout that journey.

In my explanation of clause 20, I will refer to clauses 26 and 28, because the other amendments in the group are consequential amendments to those clauses and have been grouped for rational reasons. Clause 20 talks about the targets and the probability of achieving them. Clause 26 talks about valuation reports to manage that process. Clause 28 is about what schemes must do when they underachieve or overachieve against those targets. The amendments will substitute probability ranges for probabilities in each clause.

Throughout the process, we have been keen to continue talking to potential providers, employers and members of schemes. Feedback on the Bill has indicated that to have a single probability—for example, to specify that there must be a 97.5% chance of funding a scheme up to the requisite level—is too rigid. These numbers are illustrative and picked at random, but if we said instead in regulations that a scheme could have a 90% to 95% chance, the managers of a scheme would have to take action only if the probability of reaching its targets fell below 90% or rose above 95%. Within that range, the scheme would have a margin of flexibility.

If schemes have annual valuations, we do not want, to use a technical term, to keep fiddling. If we go back to my 97.5% example, we would not want the managers of a scheme to discover in a valuation that the scheme was at 97.4% or 97.6% and to decide as a result to scrap indexation or to double pensions in payment. We do not want to keep mucking about with schemes. Having as the target a range of probabilities will allow a bit of ebb and flow between annual valuations. Scheme managers will monitor what is going on but will not be required to make a series of short-term changes.

It will become apparent that two things are going on here: a probability and a funding ratio. For example, a CDC scheme might have to have a 97.5% chance of reaching its target, but its funding level could be, say, 110% of the target benefit. We are talking about two different numbers: the probability of reaching the target, and the funding level. For the avoidance of doubt, the New Brunswick hospital scheme that I mentioned earlier has to meet both the probability level and the funding ratio in managing its plans.

Clause 20 provides that regulations may be made

"to require the trustees or managers of a pension scheme to set targets in relation to any collective benefits that may be provided by the scheme."

The regulations may

"(a) impose requirements about the way that targets are expressed;

(b) impose requirements about the recording and publication of targets;

(c) require the trustees or managers to set initial targets at a level which ensures that the probability of meeting the targets is equal to or higher than a level of probability specified in the regulations".

The regulations may specify that that must be certified by an actuary. As I said a moment ago, that target is unenforceable. That does not mean that it is unimportant or that there is no set of rules, regulations and expectations, but it is ultimately a target. No one can say at the end, "You told me this was what I would get. You haven't delivered. I'm going to take you to court for not delivering the targets." As long as the processes set out in the Bill have been followed, that is what the scheme has to do and a target cannot be enforced.

Targets are key for good governance. They ensure a meaningful relationship between the assets available for the provision of collective benefits and the target level of benefits that the scheme seeks to achieve. It is important to have a clear governance regime in place for collective benefits because there is not such a direct link between the contributions a member pays in and the benefits they may receive from the scheme as there is for money purchase benefits. In an ordinary individual money purchase DC pension, it is pretty obvious what has been put in. That money has been invested and charges have come out; it is that person's pot. It is ring-fenced; it is theirs. In a collective scheme, however, a share of the assets is simply accrued according to the scheme rules. We definitely need good governance to make it absolutely clear what people can expect.

Targets are also essential for transparency for members. In relation to any collective benefits provided by a scheme, targets are necessary to ensure that members have sufficient clarity about what they might get. This is a statement of the blindingly obvious, but people want to know what they will get. It is not a promise or a certainty but a target. A target must apply to any collective benefits provided by the scheme. All the assets that relate to the provision of collective benefits must be allocated to member benefits transparently. We want members to be clear about the benefits being targeted for them by the scheme in all circumstances.

Subsection (2)(a) gives us the power to ensure that targets are expressed clearly and can be compared meaningfully. We state that we can

"impose requirements about the way that targets are expressed".

That power may be used to ensure that schemes provide clear information about targets—for example, the benefits being targeted and the probability level. It also allows us to set appropriate regulations for different types of target. We could use the powers in subsection 2(a) and

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(b) to ensure a meaningful comparison between the collective benefits offered by different schemes where that was offered as a commercial product. Under clause 34, we can require that information to be published. That is an important point. This is complicated stuff if we are not careful; being able to compare one CDC scheme with another would be helpful. We can try to ensure that that information is provided.

We will only require schemes to meet a probability in relation to the target, whereas the New Brunswick scheme has both funding and probability requirements. We are taking a different approach, and that is important. People sometimes say, "The Netherlands is different. Canada is different. Denmark is different. Will it work here?" We are not cutting and pasting those models into our system; we are coming up with our own version. We intend to consult on the detailed figures in relation to the probability requirement. The probability required by regulations will have to set at a level that takes into account a number of different matters.

Giving members some confidence about what they can expect to receive in retirement may encourage people to engage with pension saving, enable them to plan for retirement and promote confidence in the scheme. In setting the probability standard, we must balance the desire to provide confidence to members about what they might get with the desire to allow schemes to adopt a range of different investment strategies that seek to deliver a good return for members on their pension contributions. I can tell the Committee that I intend us to consult fully on the regulations made under the clause.

Targets are relevant to clauses 26 and 28 because, once the schemes are up and running, there will be a governance process to ensure that they remain able to pay out the targeted benefits to the required probability. That is set out at various points in part 3. Under clause 26, we can require the trustees or managers of schemes to obtain regular valuation reports from an actuary to assess the probability of being able to pay out the targeted benefits. That will provide clarity about how robust the targeted benefits are to future changes, and I will discuss that clause in more detail later.

Where a valuation report shows that a scheme is over or under the required probability—in other words, a surplus or deficit—regulations may require the trustees or managers to follow that policy to address the deviation from the required probability range. Similarly, clause 28 may require the trustees or managers of a pension scheme to set out a policy in advance about how they will react to a valuation report that shows the scheme is over or under the required probability. Again, that policy may have to deal with a surplus or deficit in the probability in one or more of a range of ways set out in regulations. Again, I will come back to that later.

Clauses 20, 26 and 28 as a package provide a mechanism for ensuring that trustees and managers will monitor the probability of meeting the targets and take appropriate action if necessary. In combination, the clauses will ensure that there is a tenable link between contributions paid into the scheme, the investments held by it and the target benefit to be provided to members.

12 noon

Finally, to clarify the amendments, in Government amendment 43, we have made the judgment that a probability range would be more effective than a probability level. Setting a single probability level would have been effective in providing clarity for members, but if it were used to trigger action, it would have the effect of requiring trustees or managers to implement their deficit or surplus policies at almost every valuation. We want to require schemes that offer collective benefits to take prompt action to restore a deficit or surplus, but we also want them to have the flexibility to take longer-term decisions, so that they do not have to react every year to every deviation from a single probability level. The main amendment is Government amendment 43, and the consequential changes from a probability level to a probability range are covered in amendments 46, 51, 52 and 53.

Mr Andrew Love (Edmonton) (Lab/Co-op): Has the Minister considered limiting the range that is allowed? In effect, the range could be anything and it would be easy to hit the target. Is there any limitation?

Steve Webb: The hon. Gentleman makes a good point. We will consult on that when introducing regulations. As he said, if there is a huge probability range, practically any outcome will be within the probability range and although the probability range will always be hit, people would not often be paid the pension they were expecting. The whole point is to reduce the volatility of people's pension outcomes, so it would be at odds with our goal to have an absurdly large probability range.

Mr Dave Watts (St Helens North) (Lab): Will the Minister be more specific about the impact? I understand the reasons for flexibility, but does that not require the scheme to carry more surplus in case it underperforms? He said the pension will be valued regularly, but what does that mean and how often will it have to be valued?

Steve Webb: We envisage an annual valuation. Obviously, people who run pension schemes are monitoring things every day, but we envisage a formal annual valuation. We are trying to strike a balance. We all know that there are year-to-year fluctuations and we do not want to require schemes to change their fundamental features just because of short-term fluctuations. That is one reason for having a probability range. The hon. Gentleman refers to schemes being required to carry a surplus. They will be required to act in a way that satisfies a set probability of achieving the target benefits.

Some Canadian examples have quite high probability numbers at 97.5%, but in one example, more than 40% of the assets are in equities and 20% are in property and other assets of that sort. It has not followed in practice that having quite a tough probability test has required schemes to be very cautious. The two can sit together. We are trying to give people targets, annual statements and so on that mean something to them and have some credibility, without being too rigid and expecting schemes to adjust too much to short-term fluctuations.

I apologise for going on at some length, but we are getting into some fairly novel concepts in British pension schemes, and I hope that it has been helpful to set out what we mean by a target and why we want to amend the clause.

Gregg McClymont: I have several observations about these amendments and what the Minister described as novel concepts. It strikes me from reading part 3 that we are putting a lot of authority and responsibility in the hands of actuaries. That comes across clearly in the clauses. Actuarial science is a noble profession in this country and others, but it is worth reflecting on the responsibility being placed in actuaries' hands. Actuaries have a lot of responsibility anyway, and certainly in defined-benefit pension schemes. It is inevitable that actuaries will play a significant role in any form of pension scheme other than defined contribution, but how would the Minister describe the role that actuaries will play?

This relates to a previous theme of our discussions, which is that this form of pension scheme requires savers to place significant trust in experts. It strikes me that it is a little like a doctor-patient relationship. We know that patients put a lot of trust in doctors to get them the best outcome for their health problems. Such are the complexities of medicine that someone with expertise and training must make such fundamental decisions. The actuary's role in these schemes feels a little like that, and it brings the wider issue of governance into focus. We will undoubtedly discuss that more when we come to other amendments, but my initial observation is that this form of pension scheme saving puts a lot of emphasis on actuaries making good decisions. As I said, actuarial science is a noble profession, but actuaries have not always got things right in the past, which casts doubt on the scientific aspect in some respects.

The Minister described this as complicated stuff, and he is right. We must consider how much complexity a pension scheme can bear when communicating with its members. Complexity is an issue with pensions generally, and communication with scheme members is always a challenge. That brings into view how to explain to scheme members how collective defined-contribution schemes might work. He had a stab at explaining it, manfully—and probably, to experts outside this room, successfully—but the Government's approach is to put into legislation a necessity for the probability that a target will be met, not the probability that the target will be met plus a funding ratio requirement, as in New Brunswick, for example.

It would be useful if the Minister elaborated on that in terms that might be understood more widely. It is difficult; I am asking him to do something that I am not prepared to try myself—that is the luxury of being in opposition—but I think that if we are to communicate the advantages of that type of pension scheme outside this place and to people other than actuaries, pension consultants and the like, he must try.

The Minister's explanation of these amendments brought again into purview the issue of placing lots of decisions into secondary legislation. There might well be good reasons for that, but it is a feature of recent pensions Bills and perhaps less recent ones, too. Will he explain the rationale for that approach? On that note, I will be delighted to hear what other Committee members have to say and specifically the Minister's response to those points.

Steve Webb: I was looking forward to hearing what everyone else on the Committee thought, but let me give it a quick go. Am I spending too much time with actuaries, as I have been accused of doing? It is important to understand what the role of actuaries is and is not. The trustees or scheme managers—I will say "trustees" as shorthand—act on behalf of scheme members. They are expected to ensure that the scheme follows its rules. They obviously must take action if the data presented to them show that the scheme is not on course to hit its probability. That is what the trustees do. They take expert actuarial advice. The actuary might also say, "You are going to be outside your probability range, but there is a range of things you could do." They could say that increasing employee contributions would have a certain effect on probability, or changing the investment mix to reduce risk would have another. The trustees will make the decisions, having been informed by expert advice on the different options and how they would feed through into the probability. That seems a sensible division of labour. The experts will crunch the numbers and tell the trustees how things stand and the implications of different choices, but the trustees will make the decision.

Gregg McClymont: I hope that it is a Freudian slip that the Minister has repeatedly mentioned trustees but not managers. That brings into view how important good governance will be. Is it just about trustees? I assume from what the Minister has said previously and from the Bill that not just trustees but managers will interact with actuaries.

Steve Webb: I think that the record will show that I said trustees or managers, but, for brevity, let us say trustees. Clearly, managers could manage CDC schemes, as we discussed earlier. A Government amendment sets out more precisely the duties of managers with respect to the interests of members. I am simply trying to avoid saying trustees or managers all the time; there is no great Freudian or other significance in that.

To clarify the point about actuaries, they have a key role to play because they are independent. They are not members of the scheme or employers; they are giving independent expert advice. We have powers to require actuaries to meet specified requirements and hold specified qualifications under clause 27. I accept that actuaries, like politicians, do not always get things right, but they do have a crucial role to play.

Gregg McClymont: Will the Minister elaborate? Presumably, that is how the relationship has worked in successful examples of CDC schemes in Denmark, the Netherlands, Canada or elsewhere.

Steve Webb: Yes, the buck stops with the trustees or managers, but they will depend on expert and independent advice. The actuary assessing the scheme's funding position, probabilities and options for change must not have a vested interest. It is right to have independent expert advice.

There is the wider issue of trusting in experts for our pensions, in the way that we might see our doctors. Most people would think that trusting a doctor to give expert advice on health or lifestyle that the patient chooses whether to follow is not a bad model. Compared with what? Compared with an individual DC. Without the clause, most of the people we are talking about will

[Steve Webb]

probably end up with pensions that are individual DC. In that case, someone also has to trust experts such as investment companies and managers to invest the money wisely and get a good return. However, in that world nobody is trying to give people a target or any expectation; they just get what they get.

I suspect that the hon. Gentleman would agree with our argument that, although it is more complicated to have targets and probabilities, it is probably better for a scheme member, although there is a lot going on under the bonnet. That relates to his point about complexity. I jump in my car and do not have the faintest idea of what is going on under the bonnet, but I know that it gets me there.

There is a balance to be struck in member communication between giving people enough information to make informed choices but not the drains-up version, which will be a complete turn off and not mean anything to anybody. I do not think that is unduly paternalistic; it is realistic. The trustees—the people in charge of the scheme—need to know what is going on at a sophisticated level, but the scheme member does not need too much information. All the complexity needs to be available for those who are interested, but it does not need to be imposed on scheme members.

Gregg McClymont: I thank the Minister for that. Does he have a sense of what informed choices a scheme member would or could undertake in a CDC scheme? Where does that balance lie between a member exercising an option and those options being decided and acted upon by trustees or managers?

Steve Webb: I certainly was not suggesting that people should reflect on the finer points of the investment strategy and press for change, or, at a fundamental level, on whether or not to be in the scheme. Under auto-enrolment, they will be placed in a scheme that they do not have to stay in, and if they are not satisfied with the governance or with the targets, they may take their money elsewhere. That is the type of thing that individuals will be choosing.

Collectively, for example, trade unions might want to scrutinise things on behalf of employees in the work force. If they feel that the CDC scheme to which the work force are being automatically enrolled is not as good as another CDC scheme, they could make representations to the employer to choose a different scheme. So it is horses for courses. All the information has to be available, but we do not impose complicated stuff on people who are not well placed to deal with it. That is the balance we are trying to strike.

12.15 pm

The hon. Gentleman probed further on targeting and having a probability range as against a funding target. In our judgment, a funding figure is backward looking. The year comes to an end and the clever people do their clever sums. They come up with a number and tell someone that they were 110% funded last year. The probability is forward looking: as we go into any year, based on the best assumptions about what will happen in future, what is the probability of delivering what was targeted? In our judgment, the most intuitive and best way—not the only way—is for the people in charge of the scheme to go into a year planning to achieve their targets with a set of probability, or in a set probability range, rather than potentially reacting with considerable lag to events in terms of the funding outcomes. I do not think that schemes that do that differently are doing it wrong. I just think that it is probably clearer to scheme members to have a forward-looking model, rather than a backward-looking model. That is the judgement we have come to.

Finally, the hon. Gentleman asked about the balance between primary and secondary legislation, which is a familiar theme. In dealing with new forms of pensions—new models and new providers—we can speculate on what they might look like. We talk to people, and we amend the Bill when they tell us that we have not got it quite right, so the dialogue is ongoing. However, on trying to hard-wire particular features of the model—such as limits on probability ranges—in primary legislation, I do not think we are in that place yet. We do not anticipate that any of this will go live until post-April 2016. As we have got time, we want to set out the overall framework and go on talking to potential providers, employers and members about what they want, and then we can frame the regulations in the light of that, rather than second-guessing them at this stage. That is why we have chosen this balance. I hope that that is helpful. I commend the amendment to the Committee.

Amendment 43 agreed to.

Clause 20, as amended, ordered to stand part of the Bill.

Clause 21

Payment schedule

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

Steve Webb: Clause 21 will provide a power to make regulations that may require trustees or managers to prepare a payment schedule that shows the contributions due for payment to the scheme in respect of any collective benefits, or other payments—for example, scheme expenses—and the dates on which the contributions are payable. The regulations may make provision about the content of the schedule and any revision of the schedule. They may be similar to existing requirements about payment schedules for money purchase schemes. Schemes offering other forms of benefit already have requirements in relation to payment schedules and schedules of contribution. It is only right that similar requirements should apply to collective benefits. It is a key part of good governance and administration to know what contributions are due, to calculate benefits and asset values and to take action where payments are late.

In a collective, although the assets are pooled, it will still be critical to know in some cases what contributions have been made by or on behalf of a member. That will ensure that any risk sharing between members can be transparent and may be important for the calculation of benefits in some scheme designs, or for some key events such as wind-up or target setting. Although the member does not have a right to the contributions placed into the scheme in the same way as in a money purchase scheme, the payment schedule remains an essential requirement for good governance and administration.

Question put and agreed to.

Clause 21 accordingly ordered to stand part of the Bill.

Clause 22

Overdue contributions and other payments

Steve Webb: I beg to move amendment 44, in clause 22, page 10, line 28, leave out "The regulations" and insert "Regulations under subsection (1)"

This is intended to clarify that in clause 22(3) the reference to "The regulations" is to regulations under subsection (1).

This technical drafting amendment will make a minor change to the clause. This is purely a drafting clarification, and the effect of the clause will be unchanged.

May I explain what clause 22 will do in lieu of a separate stand part debate? Clause 22 includes a regulation-making power to require the trustees or managers of the scheme to notify a specified person in the event of any payment in respect of collective benefits shown in a payment schedule becoming overdue. Regulations can also make provision for the recovery of overdue payments. The regulations may make similar provisions to those in existing legislation that relate to money purchase schemes.

It is a key part of good governance and administration to know what contributions are due—it is important for calculations about benefits and asset values—but clause 22 deals with circumstances when the schedule of payments in clause 21 is not complied with. Clause 22 therefore provides a power for regulations to set out actions that trustees or managers must take if certain payments are overdue—for example, to notify the appropriate regulator. The regulations may also make provision for the recovery of those payments. Clause 22 is an essential part of ensuring that schemes are well run and that appropriate action, including the use of a civil penalty in certain circumstances, can be taken when problems arise.

Amendment 44 agreed to.

Clause 22, as amended, ordered to stand part of the Bill.

Clause 23

Statement of investment strategy

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

Steve Webb: We now move on to a group of clauses on the general theme of investment. Clause 23 deals with the statement of investment strategy. Clauses 23 to 25 set out a number of powers that will allow requirements to be placed on the trustees and managers of schemes in relation to investments held for the purpose of providing collective benefits. Clause 23 will provide a power to require the trustees or managers of a pension scheme to prepare a statement of their investment strategy. Powers can also be used to specify the content of that statement and how frequently it will be reviewed.

Regulations under the power may make corresponding or similar provision to that made under section 35 of the Pensions Act 1995 on investment principles for occupational trust-based schemes and may also disapply that section in relation to any investments covered by regulations made under this clause. That will allow corresponding or similar provision to be made to that which currently applies in relation to occupational trust-based schemes but tailored, where appropriate, to investment strategies relating to collective benefits.

I have a few key points to make on clause 23 for clarification. Schemes that provide collective benefits need to be well run and have member confidence. There needs to be clarity about the principles governing decisions on how the collective fund is invested. It is envisaged that the regulations will set out the form that the statement of investment strategy must take, together with requirements about the content. For example, regulations might require the trustees or managers to ensure that the statement of investment strategy includes their policies in relation to the kinds of investment to be held, the balance between different kinds of investment and the expected returns on those investments.

The regulations need to be appropriate to schemes that provide collective benefits. In practice, it is likely that regulations made under the clause will resemble those from the 1995 Act, but we must be able to make appropriate provision for schemes to the extent that they provide collective benefits. Despite the potential similarities with existing legislation, there are some important differences. For example, because there is no employer standing behind the collective benefits, it may be appropriate for the investment strategy for collective benefits to be revisited more regularly than an investment strategy relating to the provision of other types of benefit.

Finally, we must ensure that regulations are up to date and respond to the development of scheme benefits and designs. The detail involved in the provisions is most appropriately dealt with in delegated legislation. In addition, we must be able to ensure that the requirements can be readily adapted and remain fit for purpose as schemes providing collective benefits evolve. I hope that that is helpful in setting out what we mean by the term "statement of investment strategy" in the context of a collective scheme. It is similar to the context of other schemes but may have tailored features for collectives. I commend clause 23 to the Committee.

Question put and agreed to.

Clause 23 accordingly ordered to stand part of the Bill.

Clause 24

Choosing investments

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

The Chair: With this it will be convenient to discuss the following:

Government new clause 7—*Investment powers.*

Government new clause 8—*Restriction on borrowing by trustees or managers.*

Government new clause 9—*Investment powers: duty of care.*

Steve Webb: In a slightly shock move, I will try to persuade the Committee that clause 24 should not stand part of the Bill. I just got bored with agreeing with myself. In fact, the reason is that we think the Government's new clauses 7, 8 and 9 will do a better job. I will explain how we came to that view.

[Steve Webb]

Schemes that provide collective benefits need to be well done, well run and strike the right balance between return-seeking assets and the security of benefits. That will give confidence to members and prospective members. Regulations already make provision for the use of powers of investment, including the choice of investments, in respect of occupational trust-based schemes. Taken together, amendment 45 and new clause 7 seek to replace the provisions of clause 24. The clause provides a power to impose requirements on those exercising powers of investment in connection with collective benefit investments. The new clause will provide the same power and extend it, so that regulations may also make provision about the delegation of investment decisions and the powers of any person with investment decisions delegated to them.

The power in new clause 7 may be used to make similar or corresponding provision for schemes providing collective benefits, which could be set up as occupational or personal pension schemes. For example, we want to ensure that investments are made in regulated markets and that investments are diversified. We need provisions to apply to schemes with collective benefits that are similar to existing investment provisions. There are provisions in existing legislation for trust-based occupational pension schemes, such as section 35 of the Pensions Act 1995 and the regulations made under it.

We are likely to want to make similar provision for schemes containing collective benefits because we want trustees and managers of schemes with collective benefits to exercise their investment powers and be able to delegate investment decisions to investment managers appropriately. We need appropriate regulations for collective schemes. In practice, they will resemble regulations made under sections 34 and 36 of the 1995 Act, but regulations made under the clause may need to be adjusted as new types of scheme providing collective benefits are designed.

I will now explain a bit more about new clause 8. It is important that the liabilities of schemes providing collective benefits are restricted. We want to ensure that funds held for the purpose of collective benefits are utilised to provide those benefits. We want to ensure that there are only limited circumstances in which there may be other calls on the fund. New clause 8 will allow us to make similar provisions to those made under section 36A of the 1995 Act, which limits trustees of trust-based occupational schemes and those that have had investment decisions delegated to them from borrowing money against the scheme's funds or acting as a guarantor, except when there is a need to resolve a temporary liquidity problem so that benefits can be paid. We intend to make corresponding provision in a way that will also apply to managers of schemes providing collective benefits. New clause 8 simply puts schemes providing collective benefits in the same place as trust-based occupational schemes.

Moving on to new clause 9, it is important that trustees and managers of schemes with collective benefits are unable to avoid their duties and liabilities. Existing legislation—again, the 1995 Act, but section 33 this time—ensures that trustees of trust-based occupational schemes and those who have had investment functions delegated to them cannot exclude themselves of an obligation to take care and apply skill in the exercise of those investment functions through an instrument or agreement. That includes putting barriers in place, such as making enforcement of rights subject to restrictive or onerous conditions, restricting any right or remedy or subjecting a person to any prejudice as a consequence of his pursuing any such right or remedy. However, the existing provisions only cover trustees of trust-based occupational pension schemes, whereas collective benefits can be offered by both occupational and personal pension schemes, whether trust or contract-based. In other words, the existing provisions cover some of what might follow, but not all of it. The new clauses try to give comprehensive coverage.

New clause 9 will allow us to apply the same restrictions to trustees and managers, to help to ensure that collective funds are properly managed. It will allow us to put trustees and managers of schemes with collective benefits in the same place as trust-based occupational schemes.

I am sorry that that is slightly jargony, but the gist of it is that we need, as ever, a framework for collective benefits. Some of the existing legislation is probably about right and just needs to be applied here. In some cases, we need to tailor it for collectives and we must ensure that the provisions apply to both trust-based and contract-based provision. I hope that is helpful and urge the Committee to accept, in due course, new clauses 7, 8 and 9 and that clause 24 should not stand part of the Bill.

12.30 pm

Gregg McClymont: The Minister's explanation was interesting. He will correct me if I am wrong, but I took him to be saying that the new clauses aim to ensure that collective pension schemes approach investment strategy and decisions in a similar fashion to occupational trust schemes. If that is the case, it raises an obvious question. A theme of the Committee is the question: what is the best form of governance for collective pension schemes? If it is, as the Minister argued, that clause 24 should not stand part of the Bill and should be replaced with the Government new clauses, which he says are about investment strategy decisions, and that collective pension schemes should have the same powers as mandated occupational trust schemes, it raises the question of the trust versus manager arrangement.

Am I right in saying that those are the basic bones of those new clauses and the Minister's decision to ask clause 24 not to stand part? More widely, do they pertain to the debate about what the best form of governance is, specifically in this case, around investment? We have to be clear that investment is crucial to the success of any pension scheme. In the end, a pension scheme involves the investment of assets, whether individual or collective, and trying to grow those assets so that when someone retires, they have a retirement income that will last them throughout their life. Investment is important and it seems striking if the Minister is suggesting that the investment strategy of collective schemes must be mandated in a similar fashion to, or have both the authority and the regulations that apply to, that of occupational trust schemes. That is an interesting question and I am keen to hear the Minister's response.

Steve Webb: I think the hon. Gentleman is probably slightly over-reading what he wants to hear in what I just said. We have to ensure comprehensive regulation, so we cannot simply cut and paste directly on to collective benefits regulation that applies to occupational trust-based schemes from an Act of Parliament passed 20 years ago. Many of the same issues that arise for occupational DB arise for collective benefits, but there are differences. For example, as I mentioned in my remarks, the absence of a sponsoring employer might affect the way in which the scheme invests or conducts itself.

There are clearly similarities. We are talking about workplace pensions, potentially with an employer contribution, so there are obvious overlaps and it would be odd not to learn the lessons of the existing regime—how well-run schemes are run, in the DB and the DC world. We are not, however, modelling collective benefits on trust-based DB. We are simply saying that there is legislation on the statute book and we need to ensure that we cover the schemes, whether trust or contract based. The risk was that we were not doing so. The requirements on trustees and managers will need to be similar, but not necessarily the same, as I have said. I hope that is helpful.

Question put and negatived.

Clause 24 accordingly disagreed to.

Clause 25

INVESTMENT PERFORMANCE REPORTS

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

Steve Webb: My remarks will be brief for what I hope is an uncontentious clause.

The clause includes a power to require trustees and management to obtain reports about the performance of collective benefit investments. The clause contains specific powers to make provision for the content of the reports and for how often and from whom they should be obtained.

Trustees and managers clearly need to be actively reviewing the performance of investments, so the power is necessary to ensure that they are doing so. The clause means that appropriate steps can be taken as quickly as possible to address any issues with investment choices or strategy. That helps to ensure transparency.

The investment performance report must come from an appropriate person, so it may not always be appropriate for the trustees or managers themselves to draw up such a report, but it will need to be drawn up by a fund manager. Regulations will provide for that. The report will provide transparency, and we need to keep the requirements appropriate and up to date, which is why we have included the regulation-making power to make provision for the content of the report and to enable us to ensure that requirements to do with obtaining investment performance reports, such as frequency, remain appropriate and fit for purpose and can be changed quickly as necessary.

I commend the clause to the Committee.

Gregg McClymont: What comes to mind quickly when thinking about the clause not being straightforward is that, as important as the other end of the telescope is, it is one thing to have regulations about investment reports that must be sought by the trustees or managers of a pension scheme, but it raises an important question, which has been around for some time in the pension space, about the actual quality of information provided by investment managers, or fund managers as the Minister described them. Regulation is one thing, but what is the quality of the information being provided from the asset management side?

The Government, in another Bill, have given the Financial Conduct Authority the power to force a disclosure of all transaction costs in pension asset management. Whether the FCA will take the bull by the horns and insist on full disclosure of all transaction costs remains unclear so far. Past performance does not encourage one to have confidence in the FCA's ability to do so. Frankly, historically, the FCA has very much seen pensions as a side aspect of its responsibilities.

Steve Webb: Did the hon. Gentleman mean that? He said that the FCA has "historically" regarded pensions as a side issue. It has, however, only been in existence for 18 months or so. Our impression so far has been that it takes pensions seriously.

Gregg McClymont: The Minister is being a little credulous if he takes that as gospel. Of course, when one talks about the FCA it is understood that we are also talking about its predecessor the FSA. Let us be clear about this. For several years the Opposition and outside organisations have been arguing for the disclosure of investment costs so as to empower trustees and managers in a way hinted at by clause 25. We have been successful in moving the debate but we have not seen the concrete reality of disclosure of these costs.

The Investment Management Association, whose members will have to provide these investment reports, has been moving slowly backwards. It has indicated an understanding and acceptance of the principle that transaction costs should be disclosed, but has thrown up problems in doing so. Without going into a long debate on the clause on investment strategy, management and disclosure of costs, it is important to recognise that unless the other side of the equation—the fund managers—are made to provide all the information necessary to make an investment report worth the paper it is written on, whatever powers the Government take in mandating the trustees or managers to seek these reports, the quality of reports provided will be lacking. That is a very important point to recognise.

To sum up our view: the clause is sensible but, unless the Government get cracking on ensuring the investment reports contain the information necessary to allow a trustee or manager to make an informed judgment on the quality of the investment—not just aspects of the return but what they are paying to produce the overall return—we are not going to solve the problem and get those better performing pensions we are all keen to see.

Steve Webb: On the hon. Gentleman's concerns, we have a power in the clause to specify who provides the investment report and we want that to be an appropriate person. We can also address any potential shortcomings in reports by using our powers to provide for content and to ensure that they are fit for purpose. We have the regulatory power to ensure that the documents are worth having and contain the necessary information.

[Steve Webb]

I gently suggest to the hon. Gentleman that he is a bit behind the curve. He is thinking of the world when the Labour party used to run pensions, rather than the world we are now moving into. From next April, trustees and those in charge of schemes will have a duty to obtain the sort of information they have never had before, about transaction costs and what I have called the murky corners of the pensions industry. Where previous Governments failed to act, we are ensuring that trustees will know what is going on and will have the data. We will be able to see that and that will inform our decisions on further measures such as charge caps and whether some of the costs should be included. We are moving away from a world where a lot of those things were hidden to one where we shine a light into the corners that for too long have been concealed.

Gregg McClymont: I am delighted to hear that. Can the Minister confirm that, as part of the disclosure of transaction costs, cash balances will be disclosed?

Steve Webb: I am not sure what the hon. Gentleman means by cash balances.

Gregg McClymont: The cash balances that accrue. As the Minister will be aware, in any investment portfolio there is a mixture of assets held, one of which is cash. Will the interest on the cash balances that is held in a fund manager's portfolio on behalf of a pension scheme be disclosed?

12.45 pm

Steve Webb: As the hon. Gentleman knows, we have just published draft regulations about the measures coming in next April. One problem is that we might simply come up with a list, and then find that there is some other charge that we have not thought of or do not know about. The trustees will have a duty to know what is going on with their members' money. We will give examples of the sorts of thing they have to know, but the crucial point is that the trustees have the legal duty; if they consider that information relevant, we will expect them to ask for it.

One of the frustrations is that if we knew what was going on in the murky corners of these pension schemes, we would not be here. The whole point is that we cannot specify an exhaustive list of all the hidden costs and charges, so we are placing a duty on trustees to ask all these questions and find out where their members' money is going. We will then move to a much stronger position when it comes to protecting members' interests.

Gregg McClymont: The problem, as everyone in the Committee can surely see, is that the Minister began by saying, "The Government are creating a brave new world, where all these things will be disclosed." However, when I mention a specific transaction cost, he defaults into saying, "Not me, guv. It's up to the trustees or managers of the scheme. We can't publish an exhaustive list." It is surely either a brave new world or it is not. If it is, it would include all transaction costs. I used interest on cash balances as an example, but there are also the issues of costs on foreign exchanges and clarity about the margins on bid-offer spreads.

The Minister cannot face two ways at once. He cannot insist that this is a brave new world while not being able to tell the Committee—or indeed the wider world—what transaction costs will be disclosed. We either know them or we do not. He is right that this is a murky world; there will be things that I have not mentioned that constitute transaction costs. However, we know that the three examples I mentioned do exist, so will they be disclosed? Will the FCA on the contract side have a duty to insist that they are disclosed?

Steve Webb: The hon. Gentleman is falling into a familiar trap. He has tried before to table amendments, even to primary legislation, that list particular categories of fees and charges. That is the wrong way to do it. We have placed a general duty on trustees to find out what is happening to their members' money. If we knew all the charges and costs, we would not be in this position. The whole point is that previous Governments have failed to ensure that this information is in the public domain. We will deliver it.

Gregg McClymont: The Minister accuses me of falling into what he describes as a "familiar trap". We either know what these transaction costs are and disclose them or we do not. Transaction costs potentially eat into individual pension pots. Many figures have been produced on a wide range of costs but, whatever figure one takes, those costs have an impact on the overall value of a pension. If the Government think that this is important enough to describe it as part of a brave new world, they surely have to act to ensure the disclosure of transaction costs. Trustees will have a difficult job, as things stand, and I have some confidence that they will do that job. However, we must be clear about contract-based schemes: many of the people who are managing the contract-based pensions—the people who the Minister suggests will be given a duty by the Government to disclose transaction costs—are in the same insurance companies as the asset managers. The conflict of interest therein is obvious. That point has been made to the Government a number of times, and countless times by me. If that is a trap, I am happy to fall into it in order to point out that conflict of interest.

The Minister cannot claim to be creating a brave new world while not taking the necessary action to disclose transaction costs. He can say that the situation is complicated and difficult and that there are murky corners; that is fair enough. My point is about his claim to have put in place a brave new world when that is not the case. It will not even be in place in April. Given the urgency of getting transaction costs disclosed, it seems sensible to start listing them and putting the onus on fund managers to disclose them. The Investment Management Association has undertaken a review of its approach to investment and suggested some reforms, but they do not go far enough.

I urge the Minister that if clause 25 is to deliver, it must ensure that trustees or managers get the investment performance report that is necessary for them to know what is going on with members' money. That is ultimately what it is all about—what are the fund managers doing with members' pension assets? To know, in a rounded fashion, the effectiveness of any investment performance, one has to know the total global figure for transaction costs. Nothing the Minister has said so far leads me to believe that that is going to happen any time soon.

Question put and agreed to.

Clause 25 accordingly ordered to stand part of the Bill.

Clause 26

VALUATION REPORTS

Amendment made: 46, in clause 26, page 11, line 37, leave out "is equal to or higher or lower than the required probability" and insert "falls within the required range or is above or below it".—*(Steve Webb.)*

This amendment follows the approach taken in clause 20. It amends one of the powers in clause 26 so that regulations may require an actuary to certify that the probability of a scheme meeting targets in relation to collective benefits falls within, above or below a specified range of probabilities.

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

Steve Webb: Clause 26 is again relatively straightforward. It contains a regulation-making power, which may require schemes offering collective benefits to obtain a document prepared by our friend an actuary and defined in the Bill as a "valuation report". The valuation report will value the assets held by the scheme for the purposes of providing collective benefits and will assess the probability of the scheme meetings its targets in relation to those benefits. Regulations may then require the actuary to certify whether, in his or her opinion, the probability of the scheme meeting the targets is equal to, higher than or lower than a required probability level. That said, the term "probability level" is changed to "range" by the amendment that was just made. Regulations could also require the report to be obtained from an actuary with certain qualifications.

As I have repeatedly said, members need to know that their schemes are being properly run. Without a valuation report, trustees and managers will not know whether the scheme is likely to pay benefits in line with its targets. We need to be able to specify the content of the valuation report, which is why the clause contains a regulation-making power.

The valuation report will be a key document for trustees and managers. It will tell them whether the scheme is on track to provide members with benefits at the targeted level. It is expected to identify risks to the plan's financial condition early and produce smoother, more predictable responses by the scheme to changing conditions.

Regulations may require the actuary to certify whether, in his or her opinion, the probability of a scheme meeting the targets is within the range, higher than the range or lower than the bottom end of the range. We expect that they will do so using a stress-testing approach similar to those used abroad. For example, in Canada, where this activity occurs as part of the governance of collective benefits, the future performance of a plan is simulated under 1,000 different economic scenarios over a period of 20 years. This is a process known as stochastic modelling—I have been dying to get that phrase into *Hansard*. The key variables in the model are related to each other by a series of equations. There are also random fluctuations in the model to produce the 1,000 different scenarios. Those scenarios enable the actuary to determine the ability of the scheme to pay out the targeted benefits under a range of plausible scenarios for what might happen to costs and asset values in future. In a given proportion of those scenarios, it might not be possible to pay out the targeted benefits. If that proportion is sufficiently low or high, it will trigger the policy under clause 28 by breaching the required probability range.

I hope that gives the Committee a bit of the colour of what is going on behind this rather dry clause. I commend the clause, as amended, to the Committee.

Question put and agreed to.

Clause 26, as amended, accordingly ordered to stand part of the Bill.

Clause 27

VALUATION PROCESS

Steve Webb: I beg to move amendment 47, in clause 27, page 12, line 5, leave out "The regulations" and insert "Regulations under subsection (1)".

This amendment is related to amendment 48. The effect is unchanged.

The Chair: With this it will be convenient to discuss Government amendments 48 to 50.

Steve Webb: I will run through what the amendments do by explaining clause 27. The clause is designed to provide members with confidence in the information they get from their scheme, and to do that we need a robust valuation system. Without the requirements in the clause we cannot be sure that valuation reports will be of a suitable standard.

Amendment 48 will ensure that we have a robust system for valuing the assets of schemes offering collective benefits, and it will give powers to require schemes to disregard any administrative expenses or other items specified in regulations to be paid out of the scheme when valuing assets for the purposes of a valuation report. Amendments 47, 49 and 50 contain further relatively minor changes. Some further amendments, a couple of which are minor, result from amendment 48 and clarify the way in which the requirements are intended to apply. I will not detain the Committee unduly, but I am happy to answer any questions on those amendments.

Amendment 47 agreed to.

Amendments made: 48, in clause 27, page 12, line 9, at end insert—

'( ) Regulations may—

(a) make provision about the assets to be taken into account for the purposes of a valuation report;

(b) require the value attributed to the assets to be reduced by the amount of any liabilities in respect of administrative expenses or other specified matters."

This amendment inserts a regulation-making power to make provision as to which assets should be taken into account for the purposes of a valuation report. This amendment also provides that the regulations may require the value of the assets to be reduced by the amount of any liabilities in respect of administrative expenses or other matters specified in regulations.

[Steve Webb]

Amendment 49, in clause 27, page 12, line 10, leave out "The regulations" and insert "Regulations".

This amendment is consequential on amendment 48. The effect is unchanged.

Amendment 50, in clause 27, page 12, line 11, leave out

"methods or assumptions determined in accordance with the regulations"

and insert

"specified requirements imposed by regulations under this section".—*(Steve Webb.)*

This amendment takes account of amendment 48 and provides that regulations may require an actuary preparing a valuation report to certify that specified requirements imposed by regulations under clause 27 have been followed.

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

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

12.57 pm

Adjourned till this day at Two o'clock.