PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

TAXATION OF PENSIONS BILL

First Sitting

Tuesday 11 November 2014

CONTENTS

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not later than

Saturday 15 November 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 Mike Weir, † Nadine Dorries

† Barwell, Gavin *(Lord Commissioner of Her Majesty's Treasury)*
† Bridgen, Andrew *(North West Leicestershire)* (Con)
† Dakin, Nic *(Scunthorpe)* (Lab)
Djanogly, Mr Jonathan *(Huntingdon)* (Con)
† Evans, Chris *(Islwyn)* (Lab/Co-op)
† Freer, Mike *(Finchley and Golders Green)* (Con)
† Gauke, Mr David *(Financial Secretary to the Treasury)*
† Glass, Pat *(North West Durham)* (Lab)
† James, Margot *(Stourbridge)* (Con)
† Jamieson, Cathy *(Kilmarnock and Loudoun)* (Lab/Co-op)
† Mills, Nigel *(Amber Valley)* (Con)
† Nash, Pamela *(Airdrie and Shotts)* (Lab)
Opperman, Guy *(Hexham)* (Con)
Pearce, Teresa *(Erith and Thamesmead)* (Lab)
† Robinson, Mr Geoffrey *(Coventry North West)* (Lab)
Shannon, Jim *(Strangford)* (DUP)
† Smith, Henry *(Crawley)* (Con)
† Stephenson, Andrew *(Pendle)* (Con)
Swales, Ian *(Redcar)* (LD)

David Slater, Marek Kubala, *Committee Clerks*

† attended the Committee

Witnesses

David Geale, Director of Policy, Financial Conduct Authority

Teresa Fritz, Panel Member, Financial Services Consumer Panel

Rachael Badger, Head of Policy Research for Families, Welfare and Work, Citizens Advice

Stuart Paton-Evans, Director of Retirement Proposition, Scottish Widows

Adrian Boulding, Pensions Strategy Director, Legal & General

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

Jon Allen, Policy Adviser for Taxation, Association of British Insurers

Mr David Gauke MP, Financial Secretary, Her Majesty's Treasury

Sophie Dean, Deputy Director, Pensions flexibility, HM Treasury

Anna Deibel-Jung, Head of Consumer Issues, HM Treasury

Ed Lidington, Head of Private Pensions, HM Treasury

Public Bill Committee

Tuesday 11 November 2014

[NADINE DORRIES *in the Chair*]

Taxation of Pensions Bill

8.55 am

The Chair: Before we begin, I have a few preliminary announcements. Please could all electronic devices be switched to silent. Tea and coffee are not allowed in the room during the Committee's sittings. The notice period for amendments is three working days; amendments tabled with inadequate notice will not be formally selected.

As the Committee knows, there will be two minutes' silence at 11 am to mark Armistice day. I intend to suspend the proceedings to allow the silence to be observed. Division bells will be rung to indicate the beginning and the end of the silence.

The Committee will now consider the programme motion on the amendment paper. We will then consider a motion to report written evidence, followed by a motion to permit the Committee to deliberate in private. Assuming that the last of those motions is agreed to, the Committee will move into private session. Once the Committee has deliberated, the witnesses and members of the public will be invited back into the room and our oral evidence session will begin.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 8.55 am on Tuesday 11 November) meet—

(a) at 9.25 am and 2.00 pm on Tuesday 18 November; and

(b) at 11.30 am and 2.00 pm on Thursday 20 November;

(2) the Committee shall hear oral evidence in accordance with the following Table;

TABLE

Date	*Time*	*Witness*
Tuesday 11 November	Until no later than 9.30 am	Financial Conduct Authority; Financial Services Consumer Panel
Tuesday 11 November	Until no later than 10.45 am	Citizens Advice; Scottish Widows; Legal & General; Association of British Insurers
Tuesday 11 November	Until no later than 11.25 am	Her Majesty's Treasury

(3) proceedings on consideration of the Bill in Committee shall be taken in the following order: Clause 1; the Schedule; Clause 2; new Clauses; new Schedules; Clause 3; remaining proceedings on the Bill;

(4) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Thursday 20 November.—*(Mr Gauke.)*

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Mr Gauke.)*

Resolved,

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted.—*(Mr Gauke.)*

8.56 am

The Committee deliberated in private.

Examination of Witnesses

David Geale and Teresa Fritz gave evidence.

8.59 am

The Chair: Our first witnesses are from the Financial Conduct Authority and the Financial Services Consumer Panel. We have until 9.30 am for this panel. Could you please introduce yourselves for the record?

Teresa Fritz: I am Teresa Fritz, a member of the Financial Services Consumer Panel.

David Geale: I am David Geale, director of policy at the Financial Conduct Authority.

The Chair: Welcome.

Q1 Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): Thank you for coming along to give evidence this morning. We have a fairly short period of time and I know that colleagues wish to pursue some lines of questioning, so I will try to keep my questions brief. First, will you set out your views on what the main focus of regulation should be from April 2015? Do you have any work ongoing, in preparation for the passing of the Bill?

David Geale: As is well known, we have responsibility for setting standards for the guidance guarantee; then, we will have responsibility for monitoring the progress of the guidance guarantee and the delivery through the delivery partners. That is one of our core focuses going forward. Obviously, the market is also changing quite significantly with the Budget changes, so there will also be a significant role for us in monitoring those changes—looking at the different products that develop and the different behaviours that occur, both in firms and among consumers—and taking action as and where necessary.

Teresa Fritz: The Consumer Panel advises, supports and challenges the regulator where we feel it is necessary. Our concerns from April are in the product development area: products are already very complex, but we envisage that there will be more complex products. We have discussions with the FCA and we know that it is on the ball with that and is going to be looking out for it. The other key thing to be watchful of from April is the sale of complex products without regulated advice. Currently, annuities can be sold through either a regulated advice stream or what is known as non-advice, which is effectively execution only. We have huge concerns that even more complex products than annuities will be sold without regulated advice.

Q2 Cathy Jamieson: We will pursue the question of annuities and the advice and guidance, but first I have a couple of specific points to put to David regarding the FCA. First of all, will the results of the retirement income market study be published in time to inform debate on the Bill? Also, on product innovation, I understand that the FCA has said that it is worried about some of the smaller, more esoteric investments—I think that is how they were described—rather than about larger firms. Could you say a bit more about that?

David Geale: Certainly. We have said that the market study will be published before the end of the year, and it is still our intention for it to be published before Christmas. Obviously, due to the confidential nature of a market study, I cannot say much about the findings or remedies at the moment, but what is fairly obvious is that in a study of that type we will be looking at things such as the information for consumers to help them shop around, and the monitoring of the market in future.

On product innovation, I said to a previous Committee that we are in regular contact with the major providers, and what they seem to be doing is looking to fill their range, rather than developing anything particularly new, innovative or different at the present moment in time. Obviously I expect that will come—1 April is not a big bang date, to some degree, and the market will develop over a period of time. We are of course talking to smaller providers as well. We have a range of sources of information that we use to monitor the market, including consumer intelligence and firm intelligence, information from the panels and from people who approach the panels, information from firms, our own data monitoring and so on. We are keeping a close view of the market as a whole.

Q3 Cathy Jamieson: The guidance is extremely important, and it is being dealt with through another piece of legislation. Both of your organisations produced reports last year highlighting the challenges that consumers face when trying to shop around for an annuity, for example. Do you believe—given your comments, you may have some views on the matter—that guidance will be enough to help people to navigate the wider range of options that the Bill will bring in? Are there particular areas where you want to see the proposals for guidance strengthened as they are being developed? Is there anything you want added to the process?

Teresa Fritz: Basically, the guidance will work only if the people giving the guidance are qualified and have enough expertise to do it. I speak as an ex-guide: I set up and ran the Which? money helpline, which was a guidance service, for two years, so I have given pension guidance to many consumers. It is a difficult and complex thing to do. You need to be as expert and as qualified as a regulated adviser; if you are not, you cannot answer all the questions that consumers have. It is a very complex area of the market, and you need to be au fait with all the options.

The taxation element alone is very complex, so guides will need to be experienced and remunerated correctly. This is not a call centre job; it is an expensive service to deliver, so I think it is going to be crucial that the funds available are used in the best possible way. One of the most cost-effective ways of doing this is by telephone; face to face is a very expensive way to do it. We do have some concerns that the face-to-face delivery service will take a lot of the funds, perhaps leaving not as much for the telephone service. We have a lot of concerns.

At the end of the day it comes down to two people, and that is the consumer receiving the guidance and the guide giving the guidance. If that is high-quality enough, then I think—to answer your question—it will go a very long way to help consumers stop making bad mistakes. If the guidance is not of high enough quality, then it will not.

David Geale: I will address that in three parts. First, what is the guidance and what is it doing? Secondly, what are we looking for? Thirdly, I might just touch on some of the responses to our consultation.

I think the guidance is an additional service. At the moment, as Teresa said, people either self-execute or they take advice. The guidance is something that sits in the middle. I would expect it to explain to people the implications of the various choices available to them such that, for some people, it will be enough for them to go forth and make a decision, and for others, it will be enough to make them realise that they need something more—they need to take advice; and I would expect the guidance to signpost people to advice where that is needed. So to some degree, it is something more than they have now. I agree with Teresa on the importance of a good delivery service. What we will be looking for is for the guidance to be delivered consistently and in line with the standards that we set out. We will be monitoring it for that very reason.

In terms of the consultation responses and what people have said to us about the guidance, some were looking for a little bit more detail, so we have set out some fairly high-level standards, and we are looking at how we might flesh it out a bit, in terms of what the delivery partners actually deliver; but others felt it was at the right level, and the guidance would be something useful. I think the hand-off to advice is going to be a very critical part of this.

Q4 Nic Dakin (Scunthorpe) (Lab): Are the indemnity arrangements of financial advisers sufficient to take into account the fact that problems with retirement income products may not arise for many years?

David Geale: In an event where redress is payable for some form of mis-selling, a combination of the capital that we require advisers to hold, the professional indemnity insurance that we require them to hold, and the Financial Services Compensation Scheme if the firm is no longer around, is there to pay that redress. It is also important to look at some of the work we have done, for example through the retail distribution review, where we sought to remove some of the incentives for advisers to sell the wrong type of product; we have also raised the qualification bar. What we should see in future is better qualified advisers, incentivised in the right way to help their customer, so over time I would expect to see the incidence of mis-selling reducing.

Teresa Fritz: For regulated financial advisers, nothing much has changed. They have been doing this for years; they should know how to do it properly. The big area of concern, going back to what I said earlier, is perhaps the growth of what we know now as non-advised streams, which was worrying enough when it was just annuities, but is more worrying with complex products like income drawdown. For regulated financial advisers, it should be business as usual; they will just have more customers, probably.

Q5 Nic Dakin: Okay. Can you foresee any need in the future to compensate people who are sold unsuitable products who have not taken financial advice?

David Geale: That depends, is the answer, unfortunately. At the risk of oversimplifying the answer to the question, if people have mis-bought something due to the information they were given being misleading or wrong, yes, I would see a need for compensation and redress at a high level, subject to the merits of each individual case. For people who have made the wrong decision after being treated in the right way and given the right information—for example, they chose not to take advice and still made the wrong decision—it is much harder to make a case for redress, because that was their choice and they were given the right information.

Teresa Fritz: At the risk of sounding like a broken record, a lot of consumers do not understand that they have gone down the route where they are not getting protected regulated advice. Sometimes execution-only "helpful" services can look very much like advice, but that is the big difference. If you do not take regulated advice, you do not have redress to the Financial Ombudsman Service. Unless the literature has been misleading, for example, you do not have redress. A lot of people have already gone down that route and bought annuities through a non-advised route who might well have been better advised to go to a regulated advisor and buy a different type of annuity, but at the moment, they do not have any redress.

Q6 Nic Dakin: It is all very well and good for people like you, who understand this business inside out, but most people have a fairly low understanding of this and do not necessarily see the distinction between advice and regulated advice. It may be obvious to us, but it may not be obvious to the man or woman in the street taking out a product at a particular point. Is there anything that could be done, in either our purview or your purview, to make that stronger? In a sense, this is going back to what Teresa was saying earlier about the crucial importance of the quality of guidance given.

David Geale: I would say three things. Our expectations now are that where advice is not being provided, it is clear to people that advice is not being provided and that they are effectively on their own in that decision making. Equally, the information that people are provided with has to be clear, so there is an expectation on providers there as well.

Secondly, there is the guidance guarantee. I expect it to be very clear through the guidance guarantee that people are not seeking advice. What is the implication of not receiving advice and what are their responsibilities coming out of that process? One of the answers may be that they should take advice.

Thirdly, looking at it a little differently, there is the question of what is actually useful for people? To some degree, some people do not need advice—they can make their own decisions; they just need information—other people need a bit of advice about a specific need, and other people need a full financial review. We are carrying out a consultation on the boundaries between those different types of advice and what firms can do. I think that has the double-edged benefit of, first, making it clearer to firms what they can and cannot do, and secondly enabling different types of services to be provided.

Teresa Fritz: The FCA's recent consultation on what is advice and what is non-advice has been very useful. It has been a good way to get the industry to now say, "That issue has gone; there is no grey area and it is quite clear." The FCA is now helping regulated firms to be innovative and to have different models. That is all great, but when when the panel did its annuities research last year, it found that most of the confusion for consumers occurs in the sales of regulated products online. We said that, at the very least, what we would like to see is a code of conduct if firms decide to go that route, and that what a consumer is giving up should be very clearly signposted on the homepage—in other words, if you go this route, you lose protection. That is the key. Most consumers do not realise that they are losing something by going that route. They think this may be cheaper or easier. They are used to buying car insurance online, so why not an annuity? Our fear was that the warnings were not strong enough. We would like to see a code of conduct for firms that decide not to go the regulated advice route, but to sell regulated products online.

Q7 Pat Glass (North West Durham) (Lab): The ABI has said that we need a second line of defence in addition to the guidance guarantee and that customers should be asked about their personal circumstances to ensure that what they are sold is the right product for them. Do you agree with the ABI?

Teresa Fritz: This is a difficult one. Yes, in essence. I think there needs to be some form of catch-all, because there will be people who completely miss the guidance service for various reasons. They might feel initially that it is just more red tape and that they just want their money. I do not think you can compel people to go through guidance or take advice, because at the end of the day it is their money, but a lot of consumers just do not understand what they are giving up by going straight to the provider. There needs to be a second line of defence or whatever, but it cannot be too prescriptive.

I am sure the FCA will work with providers on communications to their customers. Providers have every right to talk to their customers and to deal with them as they always have, but we feel that they could guide them back to the guidance in the first instance, or at least ask them whether they have been through guidance and point out to them what guidance will do. Some consumers might not realise that guidance is free; some might not realise that it will actually be going through their options for them. We think that if the providers explained that to them, quite a lot of consumers will take notice and go back through the guidance.

At the end of the day, if consumers have taken an informed decision and want to access their money, it is the job of the providers to provide that to them, but there should be customer care, as there always is—you should be looking out for your customers' interests, as any good company would. The key for us is that there is consistency in the messaging from all providers. I do not think we have too much to worry about with the very large providers, which are very aware of the problems that could arise, but some of the smaller providers might be more constrained—they might be more encouraged to have roll-over business, just as they used to with annuities, and be less stringent in encouraging their customers to shop around. There is a lot to be done there, but we think the FCA is talking to the ABI and ABI members about how best this can be done.

David Geale: We are indeed talking to providers and ABI members. The key thing here is that there is a difference in the services being provided. The first step has to be to make people aware of the guidance guarantee and of the fact that they could take advice or use the guidance guarantee when going into this process. Regarding the back-stop, it is a question of what service is being provided at that point. If a provider starts asking about your personal and family circumstances and suggesting that you should do something different from what you have requested them to do, that sounds like advice and it is likely to be advice. If the provider is willing to take on giving advice and has the appropriate permissions and the appropriate systems and controls to apply suitability, it may be fine, but that is not where they want to be for the most part, as I understand it.

What I can see being helpful and sensible—we are talking to some providers about this, and we are thinking about whether it needs to be in rules or whether it is something they can do voluntarily—is to have something along the lines that Teresa has suggested. When a customer asks a provider either to access some of their pension or to do something, the provider could ask, "Have you taken the guidance guarantee? Are you aware of the guidance guarantee? Have you taken advice? Are you aware that you could take advice?" If the answer to those questions is no and the customer still wishes to go ahead, that is the customer's decision. The important thing is that they are given information that explains the implications of that decision, rather than advice to do something different.

Q8 Pat Glass: Given your response to my colleague's question about whether compensation should be available to those people, could we not build that into the system? So not only what you said—somebody goes directly to the provider, who says, "Do you realise that this advice is free? Do you realise that you will lose protection if you don't go down this route?"—but should people who are not asked those questions be suitable candidates for compensation?

David Geale: There is a question of what is the detriment that occurs in terms of redress being payable, although asking those questions is not currently in the rules or regulatory requirements. It might be sensible step, but it is not currently in the rules. Obviously the service is not there yet for people to do that. If we made a rule that says that firms must take those steps and a firm does not take those steps and customers can be shown to be losing out as a result, as with any other rule breach redress may be payable if customers end up in a worse place. Obviously many customers would not end up in a worse place; many would get what they wanted, regardless of the back-stop.

Q9 Pat Glass: We have been here before, have we not? I can envisage a court case 10 years down the line where that sort of compensation is granted. Would it not be better to build it in at the beginning?

David Geale: The question is: what are the safeguards around this? The guidance guarantee will be signposted to any customer who is asking about access to some of their pension fund, so they will be signposted by the ceding provider, if you like. Is there a case for putting in a requirement on the receiving provider to point them towards guidance as well? I think that is very easy to do. As I said, that is one of the items that came out of the response to our consultation. We are considering whether we should make rules in that area.

On whether redress is payable, if it is the customer's right to take the money out of that account and they choose not to take advantage of the guidance service and not to take advantage of advice, that is their choice. If they were taking the money out of a bank account—I appreciate that there is a difference here—or any other form of investment, we would not usually start second-guessing their decision. It is a question of what is available to them. Have they been given the opportunity to access what is available to them? If they have then chosen to do something different, that is their choice.

Q10 Pat Glass: I can just see the court case now. Is there a level of pension savings below which flexi-access drawdown products are unsuitable because of the increased charges and the investment risks? Will that change over time?

David Geale: It will change over time certainly, because we do not really see those products available in the market at the moment. We previously said that for customers with under £50,000 in their pot it was unlikely to be suitable to access drawdown under the current product range.

Q11 Pat Glass: So the answer is yes?

David Geale: Yes, under the present range of products. But there is no reason why over time flexible access products need to be poor value for money or to represent a high element of risk: it is about people understanding what they are getting into. We will have to see how the market develops to answer that question fully. As I say, under the current regime there is a limit to how much people should have before they go into those products. Over time we will see how the market develops. Equally with the new freedoms, like the ability to access the uncrystallised lump sum and because of those different things that are available and the different ways people can access their money, you would expect to see competition take effect in that market as well. So we might hope to see charges come down over time.

Teresa Fritz: I have been in the industry quite a long time. I was a financial adviser about 20 years ago and there were products that looked like income drawdown around, although not very many. Then, the limit was £200,000; that dropped down to £100,000 a few years back, and now it is down to £50,000. It is a very tricky answer. The problem is not so much even the charges—I will come to the charges in just a second—but the level of risk that consumers are undertaking with income drawdown. You have to start understanding longevity risk as well as investment risk and inflation—all the risks. For most consumers with less than several million, when they are used to taking financial advice, that is a very difficult thing to understand. So whether it is a £100,000 in your pot or £50,000, it starts to become a question of how long is a piece of string? It is a very difficult concept—much more difficult to understand than buying an annuity, which gives you a guaranteed income for life, and we saw how many people got that wrong. So it is one of those things that we have to keep monitoring. The charges are—

The Chair: Order. I am sorry Ms Fritz. Do you mind if we call it an end there? We have three more Members who wish to ask questions.

Q12 Nigel Mills (Amber Valley) (Con): What plans should be in place for people who simply will not engage with the choices they now have to make? If someone reaches their chosen retirement date and just does not reply and does not decide what to do with their pot, how should providers handle that situation?

David Geale: The first way to handle that situation is to try every possible means to get them to engage. It is their money, after all. There will be people who still choose to engage with the guidance guarantee and who still fail to engage with their provider. The only thing that providers can do is to keep trying to stay in touch with those customers. They may have decided not to engage at that point quite reasonably. They may be deferring their decision to a later date and want to carry on working, for example. I do not think in the first instance that it comes down to continued communication. If people choose not to engage, the provider can only do so much to make them engage.

Teresa Fritz: That is very much as it is now. There are people who do not engage. Ultimately, if you know you have a pension scheme, at some point you will have to go to your provider to get that money. They are the gatekeeper. It is all about communication. The current wake-up pack that you get needs a radical overhaul, which I think everybody realises, and there needs to be much more communication as well. There needs to be ongoing communication for consumers, and not only from the provider. This is where the guidance service will come in. Once people get used to the fact that there is a guidance service out there, somewhere to go, they should be there ready and able to talk to consumers who may have only small questions about their pension pot.

Q13 Nigel Mills: This will not be an issue only when you hit 66, or whatever the retirement age is. Perhaps when you are 10 years from retirement, you will need to be thinking about whether you want to be de-risking your pot to have it there when you are 66 and you can buy an annuity, or you want to take riskier investments to keep growing the pot. How will you ensure that providers make sensible decisions or take a fair approach to people who perhaps at 55 are not thinking or saying what they want to happen in that situation? Presumably we need a default scheme—a standard default—for people who say nothing at that point.

David Geale: A number of things need to be done. The market is changing significantly. We can and we are talking to providers, and we should talk to providers about the changes in the schemes they are providing. There are changes to lifestyles, and a lot of the providers are thinking about what that means for how they would previously have lifestyled pension funds. One answer is to have some form of default, but question then is whether that is fair to everybody who is going into the default, so you create a potentially different set of issues. To some degree I question whether there is such a high risk of people not engaging in the new environment, given that they can have further options, including just taking the money out, or whether it is a different risk that we will find, but I do agree with you: because of the changes to the access that you have, it will change the de-risking of the portfolio and bring new challenges, and we will need to monitor how providers respond over the coming months and years.

The Chair: Mr Mills, we are going to move on so that everybody has an opportunity to ask a question. We will have a minute each from Mr Evans and Mr Andrew Stephenson. If we can have quick questions and quick answers, that will be great.

Q14 Chris Evans (Islwyn) (Lab/Co-op): Just a quick one. Will the industry be ready by 6 April? This is all very rushed and it will be very complicated. We have talked about annuities and also about people who were convinced to buy annuities with profits and have seen their pension pot now reduced to nothing. I am deeply concerned. Is the industry ready for the 6 April deadline?

David Geale: We are working with providers to focus on the key things that need to be ready for April. There are some elements of the changes—for example, independent governance committees—whereby you can be on a slightly different time scale, because the first report might be due a year later. So we are working with providers to focus on the key things that they need to be ready for.

Teresa Fritz: We are very worried about the face-to-face guidance delivery. It is a huge challenge for CAB to get ready for April. We have to use the template that we have—the Pensions Advisory Service, which knows what it is doing and what it is building on. We need to start from there and go upwards, and make sure that the quality of the guidance is not dragged down by the timetable.

Q15 Andrew Stephenson (Pendle) (Con): My background is in general insurance, not life or pensions. In that sector, when voluntary regulation was replaced by statutory regulation under the FSA, there was a shift in non-advised sales. Many small high street brokers went out of business, because providing advised sales became very risky, whereas providing non-advised sales on websites became much easier and less risky, and they therefore flourished. This sector has been regulated for much longer, but do you fear there will be a shift towards non-advised sales, and what can we do to stop that?

David Geale: There is a potential that some people will go through the guidance guarantee and decide that that is enough for them and that they do not need to go and pay for advice. That is fine, if that is okay for them. A large proportion of people do not take advice in the annuities market now. Drawdown is different: I can see the greater complexity, and there could be a greater need for advice. Again, the problem might be a slightly different issue.

Teresa Fritz: Signposting will be crucial. We have already seen a big shift in the annuities market. That has stalled because of the pension reforms. We have to guard against that, because the products coming along are even more complex than annuities. My belief is that they cannot be sold under a non-advice regime. We have to be very vigilant. Signposting to regulated advice will be absolutely crucial.

The Chair: That brings us to the end of the time allotted for the Committee to ask questions of this group of witnesses. On behalf of the Committee, may I thank you very much indeed, Mr Geale and Miss Fritz, for your time today?

Examination of Witnesses

Rachael Badger, Stuart Paton-Evans, Adrian Boulding, Dr Yvonne Braun and Jon Allen gave evidence.

9.31 am

The Chair: We have until 10.45 am, so a bit longer, for these witnesses. Could you please introduce yourselves for the record?

Rachael Badger: Rachel Badger, head of policy research at Citizens Advice.

Stuart Paton-Evans: Stuart Paton-Evans, retirement propositions director at Scottish Widows.

Adrian Boulding: Adrian Boulding. I am the pensions strategy director at Legal & General.

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

Jon Allen: I am Jon Allen. I am a policy adviser on tax and pensions at the ABI.

Q16 Cathy Jamieson: Thanks to everyone for coming along. We look forward to hearing what you have to say.

My first question is fairly general. Could each of you say briefly what you see as the main risks, but also the potential benefits, of the proposals? In doing that, could you refer to the suggestion that providers should give people some kind of pensions passport flagging up the need to take up the guidance guarantee so that they have some initial information about their pensions arrangements? Could you also talk about the so-called second line of defence?

Dr Yvonne Braun: From the perspective of the ABI, one of the principal benefits of the reforms is that they will allow people to feel a much greater sense of ownership of their pension pot, and we think that is very positive, because it will encourage people to save more, which will, ultimately, be important for society. That is one of the critical benefits of the Bill.

The risk we see is not so much the reforms as the way they have been described in the media more recently, which is very much about, "It's cash at 55. It's a bonanza. Woo hoo!" That is a concern, because it has the potential fatally to undermine what the Government are trying to do more generally, which is to encourage longer working lives and to make society more financially resilient. But that, I think, is not an issue with the reforms; it is more an issue of how they are described and what the emphasis in them is.

Turning to the questions about the pension passport and signposting, we agree that is absolutely critical. I notice that Teresa Fritz and David Geale pointed out how important that is. We are working closely with officials in the Treasury to make sure that what customers receive from providers points them very strongly to the guidance and to the fact that it is free and that it will help them think about the options they have. In many ways, that is the first line of defence—getting people to the guidance guarantee in the first place. If providers do not do that, which is, of course, still possible, we feel there needs to be a quite clear statement of expectations from the FCA as to what providers should then do. Some of the ideas from the ABI's retirement choices code come in there. Where people are married, you say to them, for example, "Are you sure you want to take a single life annuity?"

The second part of the question concerns the pension passport. Already in the retirement choices code, our members are required to give the key information about the pension pot to their customers. I think there is room there for greater standardisation so that everybody gets the same type of document; it looks the same whichever provider they get it from. That would be the piece underneath or at the same time together with the signposting to the guidance.

Adrian Boulding: There are two particular risks here. The first is that some consumers will spend their money too quickly and will run out. The second risk, which is the converse of that, is that some consumers will spend their money too slowly and find that there is a lot left at the end and they could have enjoyed rather more during their retirement. Those risks are offset by the benefits, which are that consumers have much greater flexibility in terms of the timing of when they consume their retirement pot and can adjust that timing to suit whatever lifestyle they want at a particular stage in retirement.

In terms of the guidance guarantee, we will make strenuous efforts to signpost that to consumers, to encourage them to take it up. We are particularly worried that there will be a low level of take-up of the guidance guarantee. We formed that worry having undertaken a pilot on a similar guidance exercise a year ago, before the Chancellor announced his reforms. In the survey work we did before beginning the guidance process, we found that 90% of consumers said that they would be likely to take up an offer of guidance.

At the point of their retirement we offered them a choice of three forms of guidance: one was TPAS, one was an independent financial adviser specialising in the at-retirement phase, and the third was a Legal & General sales adviser. Disappointingly, only 3% of consumers took up the offer of guidance. We will push it strenuously and encourage consumers to take it, but I warn you that you may see surprisingly low levels of take-up of the guidance guarantee.

Stuart Paton-Evans: One challenge in UK society at the moment is that people are just not saving enough for their retirement, particularly for the retirement that they expect to have. One of the constraints of that is the lack of flexibility that they have currently. As a result of the Bill the increased flexibility would remove one of those constraints to additional saving. We believe that that is going to encourage more people to save, so that can only be a good outcome.

A key challenge we see is how the industry, the Government, regulators and consumer groups can work closely together to ensure that customers have the right information that they need, given that the responsibility of their choices going forward is on them to make informed decisions and fundamentally achieve the best outcomes. The pension passport is a key component of that. We will also point people, within our processes, to the guaranteed guidance process, ensuring everybody is aware of it and gets the option to take it.

Rachael Badger: We at Citizens Advice welcome the Bill and the policy changes, because they put people in control and give them more choice. Our expertise is in helping people to make sense of their choices. That is what we have been doing for 75 years and we are confident we can help with that.

In terms of risk, from an operational point of view, as a service it is hard to gauge who will want to seek guidance on their options. As Adrian said, that feels like an unknown quantity. That is why we are working closely at the moment with the Treasury on the service design.

Jon Allen: I would add one specific point that builds on what others have said. The emphasis in some parts of the press on taking cash early, on the lines of, "This is a bank account; take your cash," does pose risks, as we have heard, not only for people's retirement planning but the specific risk that it is not like taking money out of a bank account. It is taxed money and there are tax traps that people will trip over. If they take a large amount of money out of their pot, they could find themselves charged at higher rate tax having never paid higher rate tax in their life before. This comes back to the whole question of guidance and advice, but people are dealing with a real risk, perhaps without realising, with something that is taxed income.

The Chair: Cathy Jamieson has one more question, but could I politely request, because there are five witnesses, that we try to keep answers tight and although not necessarily short, just concise, so we can get through all five witnesses for each question?

Q17 Cathy Jamieson: This is really a follow-up to the point that Jon just made. Do you agree that because of the way some of the reforms have been described in the press, some people's expectations are going to be dashed if they believe they will have this huge pension pot but then do not have? And, given that we are talking about the pensions taxation Bill here, rather than the broader changes to pension schemes, has there been enough focus on the taxation implications and has that been considered enough in the discussion about putting the guidance guarantee in place?

Jon Allen: I think there is a danger here. In terms of the guidance guarantee, even if people do take that up, tax advice can only be pretty general. It cannot get into your specific circumstances—x, y and z—without teetering into the regulated advice side. That is a worry and inevitably, these reforms will be getting into territory that, I think it is fair to say, in the past was usually the province of people with more sophisticated financial knowledge. It comes back to the need for focus, again, on the guidance and where that flips into regulated advice, and yes, tax has to feature in there.

Dr Yvonne Braun: One thing I would add is that this is actually explicitly flagged in the FCA consultation paper, so we should expect a rule that says to providers that they have to flag the consequences of taking the entire pot as well. In broad terms, as Jon says, it cannot be specific to people's circumstances, but that would probably be in the FCA rules.

Adrian Boulding: We think we can help consumers here. We will have a number of consumers who want to cash in their whole pension pot, and we think we can help them with a staged cash-out plan that will enable them to cash it out over two, three or four years in such a way that they stay underneath whatever tax threshold they stay comfortable with. Some will be comfortable staying at 20% and avoiding the higher rate tax that Jon mentioned. Others with less funds will be more comfortable staying underneath the personal allowance and avoiding paying any tax at all. We will have cash-out plans that enable consumers to cash their entire pension pot—not on one day, but staged over a small number of years to avoid those tax consequences.

Stuart Paton-Evans: Our research is showing us that awareness is still very low on a number of issues, in terms of general consumers, particularly about the impacts of longevity, inflation and tax. That is why it is absolutely key that we are able to provide consumers with as much information as we can at every single stage, so that they can make an informed decision. In terms of our research on the new flexibilities, we are seeing that 23% of consumers think that they may bring a decision forward. A lot of that may well be about releasing some money early, but 30% are now going to defer their decision and move into some form of phased retirement, so it is creating options for consumers. We need to be very clear on what the implications of those decisions are for them and make that clear to them, and particularly tax, for example, is a key aspect of those decisions that consumers need to take, as has been stated.

Rachael Badger: I agree that tax is a key consideration, but from our point of view, it is just one part of the set of complex choices that people have to make, which will include other considerations such as state benefits, their social care needs in the future, savings, debt and so on. From our point of view, the guidance is about a safe, supportive place to start to engage with these issues.

Q18 Chris Evans: I must declare an interest. I used to work for "the Widow", Mr Paton-Evans—Scottish Widows. It is many years ago now; they found me out.

I have a straightforward opening question. Do you believe the annuities market is either broken or not functioning properly at the moment?

Stuart Paton-Evans: I think that annuities still have an extremely important place to play in consumers' retirement planning. An annuity provides a guaranteed income, and the certainty that it will continue to pay for as long as they live. Our research tells us that consumers still want to have a level of income provided throughout their retirement, regardless of how they choose to manage or phase their retirement now. So annuities still have a fundamentally important part to play. We have seen sales fall as a result of the changes, but we still expect to provide annuities as a viable, important insurance contract for consumers going forward.

Adrian Boulding: I think I would echo what Stuart said, and perhaps go a little further. The impact on the annuities market has been dramatic. Our sales this year are at 39% of the level that they were at before the Chancellor announced his reform. Forecasting, we think that next year, when the reforms are fully in, our annuity sales will be at just 15% of the level they were at before the Budget.

However, we will still be providing them. We believe that they provide good value for customers and where a customer wants to take a fixed income guaranteed for their life, we will have a good-value annuity available for them to purchase.

Dr Yvonne Braun: It is worth saying that the annuity market has suffered quite a lot from quantitative easing and from ever-increasing longevity, and that has made quite a difference to the rates, if you compare the rates that are on offer today to those on offer 15 years ago. Beyond that, to answer your question directly the annuity market did not work for a segment of customers. It worked very well for a lot of other customers. Indeed, it also worked well for a lot of other customers who stayed with their existing providers, because in many cases they can get guaranteed annuity rates, and these days you would never be able to get that sort of rate.

However, we have made a lot of efforts to try to get more people to switch, and to get more people to shop around. We have been successful in some ways. We have had more people being aware of the option to shop around, and the importance of it, and also more people buying joint annuities. We will publish that research quite soon, in terms of people's understanding, awareness and behaviour.

What we have not seen so much of, even though we also wanted to see it, was more people switching, but with switching to a new provider you get into some quite fundamental issues about people's engagement more generally. So, the reason why people do not switch annuities is highly correlated to whether they shop around for other general insurance products, for example; whether they have a pot that is smaller than £10,000; and whether they use the internet. These are some challenges, which we will still have in the new environment. We will still have quite an effort to make collectively, I think, to get to more engagement with savings generally and with these kinds of decisions.

Jon Allen: I have nothing to add to that.

Q19 Chris Evans: I ask the question because, if there are problems in the annuity market, I want to know the "segment" you were talking about there, Dr Braun; you said that annuities did not perform for a certain "segment of customers". If there were problems in the market, they have been there for a number of years. I am specifically thinking about a group of customers who were convinced to buy annuities with profits, which has now meant that their pension pot is down to zero in some cases, and that is a serious scandal.

The question I want to put to the panel is this: do you think there is an argument in saying that those people who were mis-sold those annuities that were not right for them should be compensated in many respects, and then allowed to use whatever is left in that pension pot to purchase new products? The point that I am getting at is that it seems there is unfairness in the system, even though I support the policy of allowing people to use the pension pots wherever they want to. Those people I mentioned have already bought into annuities that are now going through the floor because of this new policy coming about, and they are losing out. How do we address those people, who are tied into life-long contracts; who have not shopped round, as you said; and who, in many respects, have suffered from illness and been convinced by these annuities? How are we to help those people to enjoy the freedoms that new pensioners will enjoy? So, it is a very long-running question.

Dr Yvonne Braun: Unilaterally unpicking annuities and allowing customers who are already in annuities to effectively surrender them of their own volition is problematic. If you want annuities to have a role in the future, we need to recognise that as soon as you build that into the products they will become an awful lot less attractive for providers and an awful lot more expensive. The Bank of England and the Prudential Regulation Authority will have an interest in that, because they will have to be ready to fulfil a cash call at any time. That is a pretty difficult thing to make happen in the market.

Adrian Boulding: I do not recognise the product that you are commenting on. The annuities we sell are guaranteed, and they do not go down in value; they only go up in value.

Q20 Chris Evans: I am talking about annuities with profit, whose administration fees have cut into people's pension pots and left them with nothing.

Adrian Boulding: We do not have any products that do that.

Chris Evans: I am not accusing you of that.

Adrian Boulding: I recognise that.

You made a point about unpicking annuities, and I would like to pick up on what Yvonne said. The annuity contract is a contract between the individual and the insurance company. At the Government's insistence, it contains a clause that states that it cannot be surrendered, which delivers two benefits to the consumer. First, it ensures that the payment continues for life, whether the insurance company likes it or not. Secondly, it enables the insurance company to invest in illiquid investments outside the gilts market, which deliver a considerably higher annuity rate to the customer. Our annuity book has 0% invested in gilts, which are liquid, and 100% invested in corporate bonds and infrastructure, which are highly illiquid. Therefore, we cannot contemplate surrendering the contracts.

Stuart Paton-Evans: I agree with that. They are long-term insurance contracts, and we guarantee to make that regular payment as long as the insured is alive. We match them to long-term liabilities. It is important in any discussion about this issue that we look carefully at the pros and cons. They are matched to long-term liabilities that are fairly illiquid, so there could be consequences to trying to unwind them. It is not an easy debate.

Q21 Chris Evans: I remember—this was probably before your time, Mr Paton-Evans—that Scottish Widows used to sell extra growth income performance bonds, which were investments in high-risk internet companies that flopped when the internet bubble burst. How do you see the type of products you are developing competing in the annuity market? How do you see the level of risk that you are going to build into your products? Have you any ideas about that yet? That question is for Mr Boulding as well.

Stuart Paton-Evans: Our primary focus is to ensure we are compliant for April so all our customers have access to the new flexibilities they will be afforded by the Bill. That has clearly got to be the key focus for us. We have products that will allow people to effectively meet their needs in a variety of different circumstances, such as when they make a financial decision. The changes will mean that consumers no longer have to make a financial decision at one point in time. They can move into a phased retirement or have a number of different options, and we will have a suite of products that allow them to do that. Beyond that, in the months and years following the changes that will come into force in April, you will see new products come into the market that reflect the decisions and choices that consumers make.

Q22 Chris Evans: I am concerned about the wording of certain bonds and products—I used the example of EGIP bonds because they stick in my mind. They were called extra growth income performance bonds, but

[Chris Evans]

they were nothing of the sort. I am concerned about the labelling, because people will look at the products and think they are guaranteed. Mr Boulding, do you want to talk about the type of products you are developing and the guarantees that will prevent people from getting sucked into the idea that they are going to have bumper payouts? How will you inform them that there is a level of risk to the products they buy?

Adrian Boulding: The key facet that we are trying to address for consumers is volatility. Over the past five years, in the savings space, when they have been building up their pension pot, we have had what we call a multi-asset fund, which attempts to deliver equity-type returns, but with a much lower level of volatility. We have recently launched our retirement income multi-asset fund, which is intended to be used by somebody going into income drawdown. It develops the same low-volatility approach, but attempts to generate income, rather than growth. Our view for someone going into income drawdown is that they will need investments that generate income and the sort of real growth that you can get from a broad-based asset investment in equities and suchlike. They will not want volatility, which is very damaging if you are in income drawdown, hence we have launched a low-volatility retirement income fund. That is where we think we continually add something to what consumers want.

Q23 Mr Geoffrey Robinson (Coventry North West) (Lab): There seems to be general agreement among our panel of welcome for this Bill, with certain caveats all round, two of which relate to these questions. Is there a danger that the promises inherent in the Bill will yet again lead to disappointment among consumers and those availing themselves of the products you sell? The industry has gained such a bad reputation over the years. I remember that back in 1997, when we came into office, a terrible case of mis-selling was already being investigated. Is there a danger that it will fall short? In particular, it seems to me that there is a real risk, given the extra flexibility. Will these pension funds be in a position to act as quasi-bankers and will it lead to an increase in charges in particular? What are your views on that?

Dr Yvonne Braun: A lot of that comes back to the pensions guidance. One of the dashed expectations might be around someone who is 55 now thinking, "I'm just going to access it all," and expecting it to last 30 years. That is why we need a grown-up conversation between people and those who offer the guidance service: this is money you have saved and potentially you have quite a long time to cover in your retirement. That will help a lot with the mismatch between consumer expectations and what will really happen.

In terms of implementation of the reforms, providers—Adrian and Stuart can talk about that—are working incredibly hard to get ready and to make it all happen for April. I know that delivery partners are doing the same, so everyone is making strenuous efforts to be ready.

Q24 Mr Robinson: Are you going to be ready?

Stuart Paton-Evans: As I said earlier, our predominant focus is on ensuring that our existing pension customers have the ability to exercise their choices under the new freedoms, so come April we will be ready. We are working very hard to ensure that all of those customers will be able to do that. We will be ready.

Q25 Mr Robinson: Is it right that only 3% in one case have actually taken up the option of legal advice? Is that correct? Was that you, Mr Boulding?

Adrian Boulding: I said that. We offered a pilot guidance a year ago and only 3% of consumers took it up. We will encourage consumers to take up TPAS and CAB guidance and I hope that rather more will take it up.

Q26 Mr Robinson: Your powers of persuasion do not seem to be very great, if only 3% engaged with you on it.

Adrian Boulding: When we asked them afterwards why they did not take it up, they fell into two camps: half thought they already knew it all by themselves, and half did not want the delay—they wanted to proceed and progress their retirement today.

Mr Robinson: Decide in haste, repent at leisure.

Adrian Boulding: May I respond to your comment about whether we will fall short and whether people will have false expectations? I do not care what Stuart says: we will be ready in terms of products to meet the needs of customers and to deliver their flexibilities. I think the comments on banking in the media have been decidedly unhelpful. We are not a bank—in fact, we are described by the *Financial Times* as a non-bank, which seems to be a new class of financial institution that we are proud to be a member of.

Q27 Mr Robinson: You are a quasi-bank. That is my phrase.

Adrian Boulding: We will not be providing a cashpoint card or a hole in the wall. A pension scheme is not like a bank account. If you want to take money out, even under the new flexibilities, you have a raft of HMRC paperwork to go through, and it will take at least a couple of weeks to get the money out.

Q28 Mr Robinson: Is that appreciated?

Adrian Boulding: No. I think consumers have been given completely false expectations by the media, and that will eventually come home to roost. The other thing I would say to consumers is that they can only spend the money once. I have a bank account that is topped up every month because I earn some more money in the form of my salary. This pension account can only be spent once by consumers.

Q29 Mr Robinson: So perhaps we may say that all is set for another unpleasant set of disillusions among your customers.

Adrian Boulding: I hope that they will be responsible. If they have been responsible enough to have set money aside and saved for their retirement, then they will be responsible in terms of how they decide to spend it.

Q30 Nic Dakin: Perhaps I could draw attention to the section of the Bill that contains a permissive statutory override to enable schemes to make flexible payments or provide a drawdown facility, even where the rules do not allow this. How do you think that might be used?

Adrian Boulding: I think it is a useful facility. It will apply in a small number of occupational money-purchase schemes where the trust deed was written many years ago and really did not envisage this sort of flexibility. It is very difficult for trustees to change their trust deed, so this is helpful to them—if they want to offer that. Actually, when you talk to a number of occupational money-purchase schemes, you find that they are split. Some want to offer the new freedoms and flexibilities, and others do not because the employer is very much of the view that when the employee reaches retirement age, they want them to go somewhere else. I believe we will see that when members of schemes which do not offer those flexibilities reach the point of retirement, they will transfer to another insurance company which is keen to provide those flexibilities, and to bring money in and help consumers.

Q31 Pat Glass: I was really disappointed when I heard Adrian say that less than 3% of people offered guidance actually took it up. That was below even my expectations. In some respects, that reflects what we have seen in other countries which have gone down this route. There are risks here, both for the individual and for future Governments. We may get a short-term boost to the economy, but a Government at some time in the future may well have to pick up a great deal of the cost of these people falling back on the state. Do you believe that we should now build into the Bill new regulation to protect consumers drawing down money directly from their pension fund? If we do, what would you want to see in that regulation?

Adrian Boulding: I do not. I think we have taken a huge leap. We have said that we will put our faith in consumers being responsible in how they spend their retirement money. I fully support the idea of guidance and whatever help we can give consumers in doing that, but we have taken that leap. The toothpaste is out of the tube. We have told consumers that it is their money and it is up to them how they spend it. Now we press forward and do our best to support them with products, information and guidance. I do not think we should be setting rules in place that say the new flexibilities are only for some consumers—who I think would be wealthy consumers—and not for other consumers who are perhaps on a lower income.

Stuart Paton-Evans: We agree. We are working very hard to ensure that we have processes that point people to guidance and make sure that they understand what their options are. We are also providing information so that they can have a clear understanding of what options are available to them, and what type of solutions might be out there to provide whatever it is that they are looking for in their retirement. The majority of our consumers still tell us that they are looking to get a regular income out of their savings, wherever they have been sourced from. We also make it very clear what the consequences are of any decisions. We are putting responsibility on the consumer, so it is very important that we work together as an industry—across all the various bodies, including consumer groups, the regulators and ourselves—to ensure that customers have as much information as possible.

Q32 Mr Robinson: I will be very brief. Two of the witnesses sound a bit like Pontius Pilate—that is how it comes over. You have tried to use all your encouragement and all your persuasive powers to get people to take legal advice. Only 3% take it, and you say, "Up to you." It sounds slightly as though we are entering an area where you are saying, "Okay, it's up to you. We are not responsible. We have told you that you are responsible," and hang the consequences. I know that you are much more responsible than that, but I do not think that it is quite enough just to say, "It is your responsibility and we have told you that. Now let's see what happens." That is not quite good enough given the history of this industry.

Dr Yvonne Braun: That is probably not quite fair.

Mr Robinson: Perish the thought!

Dr Yvonne Braun: I appreciate that the 3% take-up in that pilot is not what we would like to see next year; that is why it is so important that we are working with Treasury officials and, indeed, the behavioural insight people, to make sure that the encouragement is really strong and works with all the things we know about how you get people to take action and what devices there are, for example, around loss aversion and the fact that it is free. As we said before, and it is worth restating, we feel very strongly that consumers who do not take up the guidance still need protection, and that providers have an important role in that. That is why we have the principles in the code, which we would like to see replicated, whoever offers retirement income products.

A even bigger concern for us all is scams and fraud arising from this; we are still talking about the regulated industry, but the threat from scams and fraud is greater still. It is very important that we do not lose sight of that and do our utmost to prevent it.

Mr Robinson: That provides a measure of reassurance.

Q33 Andrew Stephenson: This is a question for all five of you, but particularly for Citizens Advice. Looking at the range of options in the Bill as it stands, but also at the media hype that has surrounded the Bill, what are the key messages that you think consumers should take away?

Rachael Badger: It is important that people understand that there is broad range of choices here and that there is help for them to make those choices. A lot of support is being developed at the moment and it will be in place from April. I think that people should be reassured by that.

Stuart Paton-Evans: We would say that consumers can be retired for a very long time; they do not have to make a decision in April. They now have the flexibility to consider what they are looking to get from retirement, whether that is a full retirement or a phased retirement, and to plan their finances accordingly. The other key message that we need to continue to reiterate as an industry is that planning for retirement is a 20-year journey: people need to save more and save earlier.

Adrian Boulding: I would say two things. The first is that this is your pension pot and you can only spend it once. The second is that you are likely to live for a long time in retirement. A reasonably healthy 65 year-old can expect 24 years of retirement. We know that because we have half a million annuitants on the books and we measure the rate of drop-off. Most consumers out there do not know this, but we will be telling them in our product literature.

Dr Yvonne Braun: I agree with all that. The only additional point I would make is that we should also say that this is not a deadline for consumers to do something; this is the beginning of a new environment. People do not all have to take decisions next April. They have the freedom to, but it is not a deadline for them; it is a deadline for us.

Jon Allen: I have nothing to add.

Q34 Pamela Nash (Airdrie and Shotts) (Lab): I would like to explore a bit further with Ms Badger what a guidance session provided by Citizens Advice would look like. What can our constituents expect if they go for a guidance session at a citizens advice bureau?

Rachael Badger: The FCA consultation on guidance standards is still going on, but we are working very closely with the FCA, the Treasury and TPAS on that. Guidance sessions will be tailored to people's circumstances. They will cover things such as tax benefits, possible social care needs, savings and debt; there will also be signposting to regulated advice if that is appropriate. It will be a supportive place to think those issues through, especially for those who lack confidence in making decisions in this area.

Q35 Pamela Nash: To be clear, it will not be simply an information session; it will be a discussion of the person's personal circumstances?

Rachael Badger: Yes. It will be an interactive discussion.

Q36 Pamela Nash: Okay. You mentioned signposting to financial advice. Do you anticipate that that will be required by a lot of the people who are seen by Citizens Advice?

Rachael Badger: It certainly ought to be an option to be put to people at the end of the guidance session in most cases. It is something that we are very used to doing in Citizens Advice; we often signpost people on to other services, be that a solicitor, a financial adviser or whatever, so it is already a core part of how we work.

Q37 Pamela Nash: Just to be clear, will those providing the guidance be given, uniformly, contacts and information about financial advice services?

Rachael Badger: Yes, of course.

Q38 Pamela Nash: The Pensions Advisory Service will also be providing guidance sessions. How will Citizens Advice's sessions compare?

Rachael Badger: As I said, we are working closely with TPAS and the Treasury on the detailed service design. At the moment, the proposal is that our sessions will be face to face and the TPAS role will be on the phone, so there will be slightly different channels for delivery but we envisage the process being similar.

Q39 Pamela Nash: My understanding is that the advisers at the Pensions Advisory Service will have at least 10 years' experience in this area. How does that compare with what Citizens Advice will be able to provide? How will you ensure that Citizens Advice's workers are trained in time?

Rachael Badger: We are confident that we have time to recruit and train people to do these jobs. The subject matter will be slightly different from some of the generalist advice that we already give, but we have a really strong infrastructure for training people quickly on really complex subject matters—that is our core business; it is what we have been doing for 75 years, and I do not think that what we are discussing is really that materially different.

Q40 Pamela Nash: Will the guidance sessions be delivered only by employees, or will volunteers also be involved?

Rachael Badger: It will be paid staff.

Q41 Pamela Nash: It will all be paid staff. Okay. I have a final question about benefits. Do you anticipate the legislation having an impact on people's entitlement to means-tested benefits? Is Citizens Advice prepared to give advice on that?

Rachael Badger: Yes, absolutely. Our particular strength in this role is that we are able to see people's money issues in the round. We are really experienced in advice on things such as the state pension and pension credits, or on housing benefit, council tax support, support for mortgage interest—there is a long list of interactions. The important thing is that people, particularly those with smaller pots, will have to understand that the choice they make at retirement might have a significant impact on their entitlement to means-tested benefits. There is a really important information and communication piece there.

Q42 Nigel Mills: I am tempted to try to walk you through a roleplay of what a guidance session might look like, but I suspect we do not have time. Nevertheless, while we are on the topic, have you thought through how you will get people to prepare for the session, so that they come knowing what their financial affairs are, what pension pots they have, their debts and other savings? How do you get them to do that before they turn up?

Rachael Badger: We will have to await the conclusion of the FCA consultation in terms of the details on the specifics of the session, but the process of people coming to us with big stacks of paper that they want us to make sense of is really quite familiar. For example, if we are helping someone with debt problems, we will have a list of set questions and pieces of information that we ask them to bring. That can happen over the phone, through a triage service, before people come to see us for their face-to-face session. I imagine that the new sessions will work in just the same way.

Q43 Nigel Mills: I want to ask Mr Paton-Evans and Mr Boulding a completely different question that I asked the previous panel of witnesses. What are you doing for people who signed up to a pension scheme 20 years ago, told you that their retirement date was 65, and were probably assuming that they would take an annuity when they hit 65? The landscape has completely changed for them. On your numbers, Mr Boulding, only 15% of them will take an annuity now. What are you doing to their pension scheme? What are you saying to them so that they understand that they might need to give you a completely different set of instructions if they are not going down their original plan?

Adrian Boulding: We have two halves to our business: one is a master trust and the other is contract based. The master trust has trustees; the contract-based half has an independent governance committee. We have asked both of those bodies to look at the de-risking profile that currently we use on our default funds. You are quite correct that our current de-risking profile is preparing people for a landscape where they arrive at state pension age, take 25% tax-free cash and put the other 75% into an annuity. That is not what we think they are going to be doing, going forward from next year, so the current de-risking profile is wrong and we have tasked those two bodies with reviewing and changing that.

They will probably change it in two steps. I think they will have a first step early next year and then come back and review that in another couple of years when the market has settled down and we have got some real data on what people are doing at retirement. It will take two steps, but we will get that change because they are in yesterday's land and that will not be the pattern going forwards.

Stuart Paton-Evans: There is a very similar process within our organisation: we will be changing the default lifestyling glide paths in those products. I think the key point is that we still need to see what consumer behaviours will be. We are doing as much consumer insight as we can, both with those coming up to retirement now and with 55-year-olds as well, asking them what their plans may be.

I said earlier that some of our research has shown that, with the new flexibilities, some people will choose to take some financial decision on their retirement planning earlier, but also a lot will defer some those decisions to a later date. So trying to get a clear understanding of what the consumer's needs are and what their behaviours will be is key. For example, we have 500,000 people who will be 55 in April who could call us up to inquire or make some different decision. This will be an iterative process in the coming months and years beyond April, as Adrian said.

Q44 Nigel Mills: Do you envisage that you might default people into a different glide path from the one they are one, unless they tell you, "Please don't de-risk me; I'd like to do some kind of drawdown when I reach retirement age," and you leave them on their current plan?

Adrian Boulding: We have a particular contractual difficulty with this. On the trust-based side of our business, the trustees can move people and put them into what they think is now a more appropriate glide path for them. On the contract-based side of the business, we do not have that legal power to do that, so when we change the default fund on that side—we did change it three years ago—we communicate with people. We write out to them to tell them there is a default, why that is, and we tell them that new entrants are going into the new default and that, if they would like it, they should tick here or push that button there, but, actually, the majority of them do not.

That is a particular contractual problem that we have. We have raised it with both the Financial Conduct Authority and the Department for Work and Pensions. The difficulty from a contractual point of view is that if we move them without their permission, we are liable for any investment underperformance that they suffer in future, but if we do not move them, they are sat in yesterday's model of default when we would much rather that they were in today's model. We have a contractual problem, so we would quite to see some overriding legislation and some safe-harbour provisions from our regulator. We have raised that with both DWP and FCA and we hope that they will listen.

Q45 Cathy Jamieson: I want to come back to a point related to an earlier question to Rachael, which is on unintended consequences. We have heard a lot about the choice people will have to use the drawdown facilities, but my question is about the current security legislation and rules, which a constituent has brought to my attention. Those rules say that a person who is over the qualifying age for pension credit and has a pension fund that they have not accessed can be treated as though they have accessed that pension to buy an annuity. Has Citizens Advice done, or will it do, any assessment of the implications for people once the new rules are in place? Could many more people be brought into the category in which it is assumed that they have bought an annuity when they have not?

Rachael Badger: That is something that the Department for Work and Pensions is looking at and I think that is useful. The notional income and deprivation of assets rules in means-tested benefits might not need to change, but there might need to be additional clarification or, if not, case law to explain what this means and to communicate more clearly to consumers in the context of the reforms in the Bill. It is hard to predict how many people will be affected until we know what starts to happen over the next few years.

Q46 Mr Robinson: I was interested to hear Mr Boulding and others on the panel say that one of the problems is the response. It comes back to engagement and the ability to communicate with your customers clearly and in such a way that people feel inclined to respond. I can sense the difficulty you have. You really seem to have given up on it a bit, as though there is nothing more you can do than send round circulars. I have seen them myself and can well understand, given the textual analysis you often have carry out to understand them, that people just do not get to the end of them and unfortunately do not take any notice. Is there no way you can improve on that rather than sitting back and saying, "There is nothing more we can do. They do not fill anything in, and only 3% take legal advice, so what more can we do?"

You said it was half a million people, and I appreciate that it seems a formidable task to find some better way to get through to them, but surely there is some way of provoking more response. I am not suggesting a helpline that nobody gets a reply from, or anything like that, but it is worth giving some thought to it and perhaps engaging with people who know better how to get responses in that way. It is not satisfactory as it is, really.

Stuart Paton-Evans: We are investing a significant amount of money in transforming our business so that we can help our customers make the most of these new flexibilities and so that we provide an enriched journey for the customers who come through and are looking to get information, help and guidance to make those decisions. We have already sent out six-month packs to people who will be affected from April, and we have built and launched a new website that provides a considerable amount of information on the various options available to people. We will continue to invest in how we communicate with our customers across a variety of different media so that we can ensure that they get as much help and information as they need.

Q47 Mr Robinson: I am very relieved to hear that. The effect of this Bill in general is going to be a much greater devolution of responsibility, decision making and flexibility on the customer, is it not? Unless you take corresponding steps to ensure that engagement actually takes place, we are going to have another big mess on our hands, so I urge you to do exactly what you are saying and perhaps even to increase what you are doing in that respect. Otherwise it is not going to work.

Adrian Boulding: I fully second that. We need customers to take informed decisions that they understand. In the long run, if they take decisions that they do not understand, it will come back and bite us. Our main method of communication is writing out, and our regulator expects us to write long, extensive letters that contain all the information that a customer could possibly want. But we also encourage people to ring us up, and we hope that when they get a long and complicated letter they will ring our help desk—we put the number prominently on the top—because talking to somebody one on one, over the telephone, you get a lot more across than by sending them a four-page letter.

Mr Robinson: Absolutely, but I hope your helpline works better than most helplines do. Frankly, you get shunted from pillar to post on these helplines, particularly Government ones—it is impossible. If you are going to do it, make sure it works—that people get through and you have enough advisers. It is an investment now that will pay back later. Otherwise, as I say, we are heading for great disillusionment with the scheme, at the best; we know where the worst leads.

The Chair: That has brought us to the end of the time for this panel of witnesses. I thank the witnesses on behalf of the members of the Committee for your time today. As the Chair, I have found it fascinating—particularly knowing what age I am going to die at. Thank you very much indeed. We will now change witnesses.

I take this opportunity to remind everyone of the two minutes' silence. When I interrupt proceedings for the two minutes' silence, I think it would be appropriate that we stand.

Examination of Witnesses

Mr David Gauke, Sophie Dean, Anna Deibel-Jung and Ed Lidington gave evidence.

10.25 am

The Chair: We will now hear evidence from Her Majesty's Treasury, until 11.25. Minister, would you and your officials please introduce yourselves?

Mr Gauke: David Gauke, Financial Secretary to the Treasury. I will let the officials introduce themselves.

Sophie Dean: I am Sophie Dean, deputy director at the Treasury on pension flexibilities.

Ed Lidington: I am Ed Lidington. I am head of private pensions at the Treasury.

Anna Deibel-Jung: I am Anna Deibel-Jung, head of consumer issues at the Treasury.

Q48 Cathy Jamieson: It has been suggested to me that at the time when the announcement was first made on pension reforms in the Budget, the industry's immediate response was one of shock, followed by what was described as aspiration to meet the considerable challenge that was presented to the industry. I am wondering, in the light of everything that has transpired since, whether there now need to be further changes to the Bill, or to some of the approach to guidance, in the light of what has been said. I wonder if the Minister and his colleagues could perhaps say something about that, particularly in relation to more detail on the behavioural assumptions behind the estimates of the Exchequer impact of the Bill in the autumn statement. I think we have heard from witnesses this morning, and from others, that there is still a degree of uncertainty. Also, is there going to be more information, and when can we have that, around the distributional impact of the measures in the Bill?

Mr Gauke: Let me try to address a number of points that you have raised. First, in terms of the Budget announcement, such was the nature of the announcement, clearly it was market-sensitive, and therefore, yes, it would be fair to say that the industry was not expecting the announcements that were made at the March Budget; but that was an inevitable consequence of a radical reform of this sort. Since then, as you described it, I think the industry has worked hard to be ready in time for April and the new regime. We have heard today from a number of pension providers that they expect to be ready for the position in April.

In terms of the likely behavioural impacts, that will depend on decisions made by many thousands of people with respect to the new circumstances. It is difficult to know for sure exactly how people will respond to the new flexibility that they will have; but we made an assessment at the time of the March Budget that was considered and verified by the Office for Budget Responsibility, in terms of the impact on the public finances. Since the Budget, there have been a number of further policy announcements, as we have worked through the detail, and those policy announcements will again be reflected in the autumn statement, in terms of numbers.

Since the announcement at the Budget, there has been very considerable engagement and consultation, and we have worked up these proposals, working closely with the industry, with consumer groups, with the Financial Conduct Authority and other regulators, to ensure that we are in a position to develop the greater flexibility that the Chancellor set out in the March Budget.

The impact for consumers: the underlying point here is that there is much greater flexibility and choice available. We need to ensure that consumers are able to exercise that flexibility and choice in as well-informed a manner as possible, which is why work has been ongoing to do with the guidance guarantee, which we are covering today, but which is predominantly relevant for the Pension Schemes Bill.

Q49 Cathy Jamieson: Could I follow that up by asking another fairly brief question? In retrospect, Minister, do you think it was helpful that the new flexibilities and choice were portrayed as almost being like people having another bank account and being able to withdraw money to buy their Lamborghini or pay for their holiday or whatever else? Some of the key issues around the tax implications have been lost in that process.

Mr Gauke: It is important that consumers are well informed when they exercise their choice in future months and years. We are giving substantially greater flexibility to people. What drives that is a view that these pension savings are the property of the individuals concerned. We should give them as much flexibility as possible in determining what they do with that. That is, of course, in an environment where we have made some broader reforms to, for example, the state pension. The universal state pension will be at a more generous level than it has been in the past, so people are less likely to fall back on means-tested benefits.

It is the case, as previous witnesses have made absolutely clear, that—save for the 25% tax-free element—people will pay tax on the money that they draw down. It is right that people are aware that they are paying tax at their marginal rate on the sums that they draw down from their pension. That is one of the points that people need to be aware of as they make use of that flexibility. It is entirely fair that the system will be what it is going to be, but I certainly agree with the point that people need to be aware of that consequence of drawing down sums. As we have heard from particular witnesses, if people wish to draw down very large sums all at once, they run the risk of moving themselves into a higher tax bracket than they would otherwise be in. That is unlikely to be in their best interests.

Q50 Cathy Jamieson: We heard a lot from the witnesses about it not being a one-off decision that people will make. They will now be considering things over a number of years, yet the way the guidance guarantee appears to be set up is that the decision would be at an early stage and people would not have access to come back at a later stage. Is that adequate, given what we have heard this morning from the providers?

Mr Gauke: The first point I will make—I will bring Anna in on this, as well—is that the point at which consumers or savers are most likely to be focused on this is at the point where they are reaching retirement and considering their options. The point where take-up of guidance is likely to be higher and where the guidance is most likely to be effective is when people are focused on those big decisions.

It is perfectly fair to say that the nature of retirement is changing. These reforms help with that. The greater flexibility that these reforms bring helps people who might make a decision to retire but then consider coming back into work immediately or shortly thereafter perhaps on reduced hours or as a part-time arrangement or so on. They can decide to take a couple of years out of work and come back in and so on. The greater flexibility we have here is helpful, but it raises issues on how we can deliver the necessary support. It is also worth bearing in mind that what will be available with the guidance guarantee is a lot of online support that can be accessed at almost any point. There is greater choice and availability with the guidance guarantee than the idea that you have one chance and that is it, but perhaps I can bring Anna in on that.

Anna Deibel-Jung: That is absolutely right. The only other point I would make is that providers and schemes communicate with their customers throughout the accumulation phase of their pension saving. What we are doing in the guidance guarantee is designing the services and thinking about how that fits into that wider programme of communication that customers will get from their providers and how that fits into that wider landscape.

Q51 Cathy Jamieson: I also put to the Minister the question that I put to Citizens Advice in the previous session in relation to the issue of choice. To what extent will there be real choice for some individuals, particularly those who may find themselves in a situation where, because of the social security rules, they are assumed to have taken an annuity or drawn down a pension, when they have not? Are people going to find themselves pressured to do that? What are the impacts on means-tested benefits and the longer-term implications for social care?

Mr Gauke: First, the guidance that will be available will be designed to ensure that people are aware of the impacts, as far as social care and means testing are concerned. We do not desire people to be in a worse-off situation than they would have been previously under the old causes and consequences of pension flexibility. Sophie, is there anything that you want to add to that?

Sophie Dean: We have said that the principle is that the decision that you make on how you access your pension should not significantly affect how you are judged or measured for social care or welfare. We will make sure that, whatever the product choice you make, you are treated in a consistent way, whether that is in flexi-access or through an annuity, so that the treatment across the board is fair and consistent.

Q52 Cathy Jamieson: Would that necessitate a change to the existing social security rules, which allow a decision to be taken, on the assumption that someone has access to their pension, when they have not?

Sophie Dean: We do not envisage a change to the existing rules. We are just making sure that whatever choice you make, you are treated in a fair way across the board.

Q53 Nic Dakin: I think it has been recognised that the new flexibilities create a potential tax loophole, with people taking their income and putting it directly into a pension pot; drawing their pension pot immediately and getting tax relief on that. By reducing the amount that can be taken to £10,000, there is obviously a mitigation of that. However, evidence was given by John Greenwood, who estimates that if only 10% of people aged 55 and over take advantage of this loophole, the cost to the Exchequer could be £2 billion. What is your estimate?

Mr Gauke: We will be setting out estimates in terms of all the measures and decisions that we have taken at the autumn statement. The OBR will verify that. It is fair to say that a number of assumptions were made in the analysis to which you refer, which we think are somewhat unlikely. We have sought to retain a balance between addressing the recycling concern and fairness to those who have accessed their pension flexibly. In a world of more flexible retirement, which I talked about a moment ago, where people may wish to retire and take one pension, but then to take another job and contribute towards a pension in that job, the idea that we should have a zero annual allowance and say that anyone who has made use of these flexibilities should no longer be able to contribute towards a pension, would be unfair. We have sought to balance the two competing objectives of fairness for those who have accessed their pensions flexibly but wish to continue to contribute, with fairness in ensuring that this does not create a tax loophole, which is expensive to the general taxpayer.

We will continue to monitor this. If we see evidence of further abuse in this area, the Government have been very clear that they will take further action in this area. However, we believe that the route that we have got to—as you say, Mr Dakin, the restriction to £10,000 for people who have accessed their pension flexibly—strikes the correct balance. Ed, is there anything you would like to add?

Ed Lidington: As you said, it is about striking the balance between an argument for people to carry on saving in their 50s, but equally, accessing their pension flexibly. As the Minister said, we will be monitoring this closely when the flexibilities come into place.

Q54 Nic Dakin: How often are the current recycling rules applied?

Mr Gauke: You are right to say there are existing recycling rules. Actually, the issue could arise now but, in practice, fairly rarely.

Ed Lidington: Yes, there are existing recycling rules that apply. If you look at firms' documentation, they are very clear about what people can and cannot do under those rules. The rules are applied quite widely in the industry.

Q55 Nic Dakin: You are saying, Minister, that there will be clear monitoring of this, and that action will be taken where necessary. Do you see a point at which there would be some sort of report on this, so that Parliament could be aware of any issues and support you in any action you need to take?

Mr Gauke: I do not think there is an intention to have a report on a specific occasion. What I would say is that, clearly, the Treasury and HMRC would want to monitor any fiscal risks. If we identified this as something that could cost the general taxpayer significant sums of money, that is something we would want to address. Of course, it is always open to Members of Parliament to table parliamentary questions and so on, but it is clearly in the interests of the Treasury and the general taxpayer to ensure that this is not something that is exploited in such a way that we see an acceleration in the cost, in which case the balance would shift, and the Government would seek to take further action.

Q56 Nic Dakin: I think I am right in understanding that you are essentially saying that you do not recognise Mr Greenwood's estimate of £2 billion and that we will have to wait for the excitement of the autumn statement to discover the figure you would put on this.

Mr Gauke: You have almost lifted the phrases from my briefing notes as to our view of the £2 billion figure. Although they did not describe the autumn statement as exciting, you were quite right to say it is.

Q57 Mr Robinson: From my experience of the Treasury, they must have made some estimate. What is their estimate? If you do not recognise that figure, you might recognise £1.9 billion, which would be the same sort of thing. What is the Treasury estimate for the loss to the Exchequer?

Mr Gauke: As I say, we will set out all the numbers at the autumn statement—numbers that have been analysed and verified by the Office for Budget Responsibility. That system is, I believe, an improvement on what was there before.

Q58 Mr Robinson: You still have not told us what the indicative number might be.

Mr Gauke: As I say, we will set that number out once the OBR has had an opportunity to evaluate it and place it in the context of the other policy changes that have been announced in this area since the March Budget.

Q59 Mr Robinson: Very well. From our previous session with the panel of experts, it was clear almost everybody agrees with the principles of flexibility and welcomes the Bill in general and in principle—nobody can really oppose it. But there is a real danger that things can go wrong, with the Exchequer losing far more than it expects, which would be par for the course—I think your experience must have shown that already, Minister. It could also be the other way round, and the provisions might not be used very sensibly by customers, as they are called today—pensioners, to us—who will have this greater flexibility.

Much is made of the advice guarantee, but what came out of the previous session was that the actual take-up has been as low as 3%—3% of people will be taking this advice, if I have not misunderstood what that reference was to, and I do not think I have. Is it not the case with the Government and the industry generally—we all come up against this—that the language is so detailed and the textual analysis required is so complex that people simply do not reply to circular letters? Indeed, that was confirmed in the previous session.

The question really is—this applies to the Treasury, Government in general and the industry, who are all caught up in the same problem—how do you get through to customers in a more engaging way, if this is to be a success, as opposed to just another change that benefits a few tax avoidance experts and others who know how to work the provisions? That is the real danger of this, along with the loss to the Exchequer. How do we engage with the people to whom this could be of great benefit? Is there not something we could learn from social media or even from the National Employment Savings Trust, which I understand has a good access system, rather than a helpline you never get an answer from? We have all been through that frustration—even you, I am sure, Minister. What are you going to do to make this a success, as opposed to another change on this tortuous road—

The Chair: Order. Mr Robinson, could we get to the point of the question, please?

Mr Robinson: I am a bit disappointed that we have not had an answer, Ms Dorries. I am asking the Minister very clearly what he is going to do to make this a success by engaging in a more accessible way with those who are set to benefit from it or who would be affected if it fails yet again. I apologise if that was not clear from my question.

Mr Gauke: It is interesting to hear the experience of the Legal & General pilot, which, as was made clear, predated the Chancellor's Budget announcement. We are in a slightly different place here. First, there is much greater flexibility and a wider range of choices available to savers now than was previously the case. There are more choices and bigger decisions to be made. Secondly, we are putting in place the guidance guarantee and a whole new infrastructure to provide guidance, whether that is the face-to-face service provided by Citizens Advice, the telephone service provided by the Pensions Advisory Service or the online service that is also provided. There is a new infrastructure in place.

I was also struck by the evidence we received earlier on the degree to which pension providers are very keen to signpost the guidance guarantee and the determination to ensure that this information is available to people. There was also a sense of a shared interest from the industry, the Government and consumer protection bodies to ensure that this information is more widely available. It struck me that since the March Budget there has been a greater level of interest and engagement from the public in these issues. To some extent, although this can be a little circular, the more that you trust people, treat them like grown-ups and give them choices and responsibility, the more likely they are to engage in the choices that are available. To the extent that we take a very paternalistic view and say, "You must do this and, once you retire, this is the product that you must have," it is not surprising that people will be little engaged.

You also raise very sensible practical points about how we ensure that there is that engagement. A lot of work is undertaken by, for example, the behavioural insights team to ensure that we are sophisticated and up to date in using techniques to make sure that people engage and take an interest in this area. Anna, is there is anything you would add to what I have said?

Anna Deibel-Jung: There are a couple of practical things that we are doing in the Treasury as part of implementing the guidance guarantee. First, we are making the guidance guarantee as engaging as possible. The previous panel mentioned that research found a 90% take-up rate, so 90% of people who responded said, "Yes, we would like to take this up." We have recently seen research from the Chartered Insurance Institute that also suggests a figure around the 90% mark, which gives a sense of the level of consumer interest in taking up guidance. There is already interest and engagement, and it is about putting that into practice. As part of the service design work and the user testing that we are currently doing, we are working out what makes people engaged, what excites and interests them and what would make them go on the website, pick up the phone or make a face-to-face appointment.

The other thing to mention, and again I refer back to the previous panel, is that the industry is already very involved in the signposting work that we are doing. We have a lot of volunteers from the industry who are keen to work with us on pilots so that we can understand how best to do our signposting work and what buttons we can press to get people to respond. We are using the piloting work that we are doing to understand the level of take-up so that we can get a better grasp on that and work on ways to get people involved.

Q60 Mr Robinson: I take that point and am reassured, as I was when we got into discussion with the previous panel. The issue seems to be a bit like this: we are all in favour of treating people as adults and engaging them in serious conversation, but the problem is how we get to that point given that, by definition, there is this age gap. By definition, at the moment we are dealing with a particular generation who did not grow up with the internet. They do not have that facility with social media communication that their grandchildren do. There will not be that problem later, although there might be others, but is it not the case that we have a generational problem? If the thing is to be a success, as opposed to being simply another change, and just that, we have to find a way of engaging that particular generation. I am not sure how that is to be done, but I am not yet convinced that we are anywhere near practical implementation in that regard, despite all the words of assurance from Anna and the previous panel of experts.

The Chair: Order. I will move on to Pat Glass. Mr Robinson, you were piggybacking a previous point and have had your go, so over to Pat Glass now, please.

Q61 Pat Glass: Anna, you talked about a pilot with a 90% response rate. There is a massive gap there with the 3% that the earlier witness told us about. There appears to be a huge gap between hope and reality. Will you tell us a little more about the pilot?

Anna Deibel-Jung: To be clear, that is not a pilot, but research undertaken by the Chartered Insurance Institute—

Pat Glass: Where did that research come from? Sorry, I did not catch that.

Anna Deibel-Jung: The Chartered Insurance Institute. About a month ago, it published some research in which it found that 92% of its respondents said that they would take up guidance.

Q62 Pat Glass: Would take up guidance, not had taken up guidance? The actuality given by the previous witness was 3%. Could we see that research, please?

Anna Deibel-Jung: It is in the public domain. I can certainly send that.

Q63 Pat Glass: Minister, do you disagree with the Association of British Insurers and other witnesses we have seen this morning who say that we need a second line of defence?

Mr Gauke: In terms of a second line of defence, obviously there is the guidance guarantee, but there is also the information that should be provided directly by the providers to consumers. It is what is put in front of savers when they are making decisions outside the guidance guarantee process. There is a role for the FCA to ensure that providers treat customers fairly. We must have a regulatory system to ensure that even those savers who have not made use of the guidance guarantee are aware of the impact of some of the decisions available to them. I do not know whether Sophie or Anna want to come in on that.

Q64 Pat Glass: Is that a no? Yes, you do disagree, or no, you don't?

Mr Gauke: The point I am making is that it is not as simple as saying that there is the guidance guarantee and that no other protection is available to savers. There should be additional protection available to savers, and that is done through the regulatory requirements placed on regulated firms to ensure that the information they provide to consumers and potential purchasers of their products is such that those savers are treated fairly.

Q65 Pat Glass: We are all, I hope, intelligent and grown-up people. I think we recognise that if we do not introduce a form of compensation, five years from now the courts will. Given the history of pension mis-selling in this country, the courts are likely to be much harsher second time around. Do you intend to introduce some form of compensation for people who have been sold unsuitable products but not taken financial advice, and in particular for those people who had not been advised by the product seller that they needed to seek independent financial advice?

Mr Gauke: To some extent, I come back to the evidence that the FCA gave earlier this morning. What is the nature of the relationship between the consumer and the product provider? Are we talking about a relationship where advice is provided and advice is properly and heavily regulated by the FCA? Are we looking at an execution-only arrangement, in which case there are still issues of ensuring that appropriate information is provided to people? It is not possible to give a simple answer, because it depends upon the particular circumstances and the nature of the relationship between the consumer and the product provider. It is important that the Government ensure that consumers have easy access to the guidance guarantee, that they are made aware of the consequences of any choice that is provided to them, whether through the guidance guarantee or through regulated firms complying with their regulatory obligations, and that they go into any particular arrangement with their eyes opened and with all the information that is available to them.

Q66 Pat Glass: Given the history of pension mis-selling in this country, have you considered that the courts may take the view that the Government should pay compensation if they allow such risks to occur? You would therefore leave the Government, not just the industry, open to future compensation claims.

Mr Gauke: We are determined to give consumers every opportunity to access guidance, to receive clear information and to be aware of when it is in their interest to seek financial advice. That is the correct approach to ensuring that both consumers and taxpayers are protected in future.

Pat Glass: I suspect that the courts might be quoting this morning's evidence five years from now.

Q67 Andrew Stephenson: In the past four years, I have dealt with a variety of quite harrowing cases of constituents who have been subjected to different frauds. Reporting them, whether to the police or Action Fraud, is complex, and some have been passed from pillar to post. The introduction of greater flexibility has led to a concern about the increased potential for fraud and for unscrupulous individuals to encourage people to put their money into ill-advised schemes. Given the greater flexibility, has the Treasury made any estimate of the potential for increased fraud?

Mr Gauke: You are right, Mr Stephenson, to raise the importance of fraud, and it is vital that we take firm measures to address it. An amendment to the Pension Schemes Bill will create a new criminal offence for those who are scamming or pretending to be providing guidance when they are doing no such thing. The FCA is also engaged in ensuring that the position is clear for both regulated firms and unregulated firms—were they to get into this area. I do not know whether Anna wants to say anything on this.

Anna Deibel-Jung: I have a couple of points. One of the guidance service's objectives will be to raise awareness of scams, so that consumers know what to look out for and avoid. It is also worth mentioning the FCA's work on ScamSmart, which is its latest consumer awareness campaign on scams and fraud.

Q68 Andrew Stephenson: Thank you for that. When dealing with constituency cases, there are quite often mixed messages depending on whether people go to the police, ActionFraud or the FCA. People are sometimes unsure where to turn and then things go further down the line and become worse. People could be losing their entire life savings if they are scammed out of their pension pot.

Mr Gauke: You raise an important point. As I say, the new criminal offence in the Pension Schemes Bill is relevant to this area. You are also right that it is an important transaction, and I emphasise what Anna said about the importance of the guidance guarantee and how that assists in dealing with fraud in this area.

11 am

The Committee observed a two-minute silence.

Q69 Pamela Nash: I am sure I am not the only one to have had constituents in their surgery just after this policy was announced complaining that they were locked in as they had already purchased annuities, in some instances on the day before. Is that something that the Government will address? Will there be any action for those people affected in the last days and weeks before the announcement? Will there be any way for them to get that money back?

Mr Gauke: It is very difficult to address that problem, because a contract has been entered into. Of course, one can understand and sympathise with people's frustration, but one has to draw a point in time where the flexibility comes into place. Inevitably, if you draw a point in time there will be those who fall just before that point. It is extremely difficult to try to unravel contracts that have been entered into. Does anyone have anything to add to that?

Ed Lidington: A number of providers extended their cooling-off periods for people who had bought annuities just prior to the Budget. The Government put in place provisions in the Finance Act 2014 to allow providers to do that. We have shown a bit of flexibility there on that front for those people who bought annuities just before the Budget, where the provider is willing to give them that flexibility.

Q70 Pamela Nash: Absolutely, that was the case, but as you know and have just referred to, that was up to each individual provider, if they wanted to extend that cooling-off period, even though the Government allowed that to happen. Would it not have been better to make it mandatory for the companies providing annuities, in order to ensure that everyone, no matter which company, was given that flexibility?

Mr Gauke: Because the providers had entered into contracts and would have made investment decisions as a consequence of their position at that time, a mandatory system as opposed to a voluntary one may well have caused a number of difficulties and some unfair outcomes. The approach we took, in terms of doing everything we could to facilitate and help consumers caught in that position while working with the industry on a voluntary basis, was a sensible and pragmatic response to the situation.

Q71 Pamela Nash: I have constituents who disagree and feel that they did not have all the information available to them at that time to make an informed decision; that decision will affect them for their whole lives.

Mr Gauke: There is an inherent difficulty; a consequence of providing flexibility is that there will always be a cut-off point. One could extend it and go further back, but is then left with someone else who has entered into a contract immediately before that cut-off point. Although I have a lot of sympathy for your constituents, it is fair to say that they were in no worse position as a consequence of these changes than they believed they were in when they entered into the contract.

Q72 Pamela Nash: I think that they might dispute that. I will not labour the point, but I would highlight that Mr Lidington said that there was a way around this and it was not taken. I would also like to ask about future insolvency proceedings. Do you think that there will be any impact on insolvency proceedings as a result of the option that people now have to withdraw money from their pension funds?

Mr Gauke: No. It is a similar point to social care; the objective is that these changes will not have a particular impact on the insolvency position.

Ed Lidington: On the insolvency point, as the Minister said, we do not plan to make any changes there. It will be up to individuals to consider the consequences of any choices that they make.

Q73 Pamela Nash: Will there be any special measures for people who end up in that position as a result of making the wrong decision at this stage?

Mr Gauke: No.

Q74 Chris Evans: If I was working as a senior executive in the industry, I would be angry with the Government about this. How much consultation was there with the industry and executives before this decision was made? It seems to me, from reading the press, that we have made the changes but many companies will not be ready for 6 April. As was mentioned by my colleague from Airdrie, these people would have already purchased the annuities. The industry would have been selling these annuities as well. They would not have been allowed to create new products in readiness for 6 April. How much consultation was there with the pension industry before this announcement was made at the Budget? What assessment have the Government made of the industry's readiness to make arrangements for these changes before 6 April?

Mr Gauke: In terms of consultation, I will come back to the answer I gave earlier: this is clearly very market sensitive, as could be seen by the movements in the market on the day of the Budget and in the days afterwards. Consequently, it was not possible to consult fully with the industry in advance of the Budget. However, there has subsequently been extensive engagement with the industry, and consultation papers and responses have been published. There has been a huge amount of work and very strong engagement from the industry in this area. We are grateful to the industry on that front. We also heard from industry representatives that they expect to be ready for April. This is a major change. The industry has engaged in a constructive manner and has taken steps to ensure that it is ready to offer good service to its customers by next April. I believe it is on track and that, before next April, greater choices and flexibility will be available to the British public. I believe that that is a good thing.

In terms of reform, I have no doubt that additional products will be developed over the months and years ahead, and that the market will change over a period of time, not just suddenly—it will not be a case of saying, "It is like this one day and like that another day." The industry is gearing itself up to be ready.

Q75 Chris Evans: Can I be a bit mischievous? As you know, the Minister for Pensions has had a lot of publicity in the financial advisory world about unwinding annuities, and has said that the Liberal Democrats could commit in their next manifesto to providing compensation to those who have been mis-sold annuities. His argument is that the annuity market is broke and needs fixing, that it has been that way for many years and that people should be compensated. What is your view? Might that be in the Tory manifesto?

Mr Gauke: Well, Mr Evans, you are right—you are being mischievous. It is not for me this morning to set out what will be in the Conservative party manifesto. I am here to answer questions on the Bill before us. I think annuities will continue to play a role in our pension system, but the pension system, as was, was not working for large numbers of people, and greater choice and flexibility were needed. That is exactly what the Bill will deliver.

Q76 Chris Evans: This is the last question, Mr Gauke. You have been very charitable today. How confident are you with the vast majority of advisers? As you know, I have worked in the industry myself and have seen a lot of rum practices. The people doing those things would then move companies, and by the time they were caught they would have been through eight or nine companies and messed up a lot of customers' investments. How confident are you about the quality of advice and the charging regime for that advice, especially now that many people who would not have used advice before will now need it?

Mr Gauke: It will be an important period for financial advisers. We should not think that there will be a sudden surge at the beginning of April next year. I think we will see a gearing-up in which more people will want to seek financial advice. The regulator has an important role. It is there to ensure that financial advisers comply with their regulatory obligations, and the FCA is very focused on that. We now also have a new service in the guidance guarantee, which I believe complements independent financial advice and will point people in the right direction.

Listening to the radio Saturday lunchtime, I was struck by how the sector is evolving. There are now far more products, for example, whether they are websites or comparison products and so on, setting out more information about financial advisers, such as who has a good record, to get more information out to consumers about where they need to go to find good financial advice. Not that long ago, I do not think there were any products comparing financial advisers, but currently there are two, with another two about to enter the market. It is striking how the market is responding at this stage to what you and I both think will be an increased demand for that type of advice. Sophie, was there anything you wanted to add?

Sophie Dean: Anna is the expert.

Anna Deibel-Jung: One thing to add is that we will be thinking carefully about the hand-off—when we signpost individuals who have used the guidance service to independent financial advice—so that people understand the charging structure. Obviously, with the new rules from the FCA on the retail distribution review, it is now quite different.

Q77 Chris Evans: I know it was my last question, but I have two concerns. I cannot be a financial adviser. My qualifications are not worth the paper they are written on any more. There has been so much constant and rapid change in the qualifications to become a financial adviser and I fear that we will see more change and more uncertainty. The other thing that I have noticed since I left the industry is how wildly the charges—

The Chair: Order. Is this a question, Mr Evans?

Q78 Chris Evans: Yes. In view of how wildly the charges swing between different financial advisers, could you give a guarantee that there would be less change in terms of the quality of financial advice? Will the charges be capped at some point?

Anna Deibel-Jung: The framework for financial advisers' qualifications, the changes and the charges are all within the FCA rules, so it is not something that the Government have direct control over—it is something that the independent regulator looks after. The witness this morning spoke a bit about what the FCA has done there. What is important for us in terms of designing guidance is making sure that consumers understand the charging structure and can work out which adviser would suit them and would serve their needs in terms of the size of their pension pot or their wider financial circumstances. Finally, the FCA published a paper in June on advice and how to help the advice sector move forward. We particularly looked at things like online advice and different models from the traditional face-to-face advice sector. That has been well received, as was mentioned this morning. That is a really important development for the market.

Q79 Cathy Jamieson: To follow up very briefly on that point, I appreciate what has been said in relation to the role of the FCA but when will we get information from the FCA on the level of charges? How transparent will that be?

Anna Deibel-Jung: I am afraid I am not empowered to say that but I am sure we can ask the FCA to write to the Committee to give further details.

Ordered, That further consideration be now adjourned. —*(Gavin Barwell.)*

11.17 am

Adjourned till Tuesday 18 November at twenty-five minutes past Nine o'clock.

Written evidence reported to the House

TP 01 Low Incomes Tax Reform Group

TP 02 Association of Consulting Actuaries (ACA)

TP 03 Ros Altmann

TP 04 Stephen Ward