

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

TAXATION OF PENSIONS BILL

Second Sitting

Tuesday 18 November 2014

(Morning)

CONTENTS

CLAUSE 1 agreed to.

SCHEDULE under consideration when the Committee adjourned till this day
at Two o'clock.

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

£5.00

Members who wish to have copies of the Official Report of Proceedings in General Committees sent to them are requested to give notice to that effect at the Vote Office.

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 22 November 2014

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

© Parliamentary Copyright House of Commons 2014

*This publication may be reproduced under the terms of the Open Parliament licence,
which is published at www.parliament.uk/site-information/copyright/.*

The Committee consisted of the following Members:

Chairs: MR MIKE WEIR, † NADINE DORRIES

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

Public Bill Committee

Tuesday 18 November 2014

(Morning)

[NADINE DORRIES *in the Chair*]

Taxation of Pensions Bill

9.25 am

The Lord Commissioner of Her Majesty's Treasury (Gavin Barwell): On a point of order, Ms Dorries. As you know, the Minister was at ECOFIN until the early hours of this morning and is currently returning to Westminster. Following consultation with Opposition Front-Benchers, I therefore ask that the Committee be suspended until 10 am.

9.26 am

Sitting suspended.

10 am

On resuming—

The Chair: We now begin line-by-line consideration of the Bill. Before we begin, I repeat that Members may, if they wish, remove their jackets during Committee sittings, but would everyone please ensure that all electronic devices—mobile phones and so on—are switched to silent? Today's selection list is available in the room. It shows how the selected amendments have been grouped together for debate. Amendments grouped together are generally on the same or a similar issue. A Member who has put their name to the leading amendment in a group is called first. Other Members are then free to catch my eye to speak on all of the amendments in the group. A Member may speak more than once in a single debate.

I will work on the assumption that the Minister wishes the Committee to reach a decision on all Government amendments. Please note that decisions on amendments do not take place in the order in which they are debated, but in the order in which they appear on the amendment paper. In other words, debate occurs according to the groupings on the selection list and decisions are taken when we come to the relevant clause. I hope that that explanation is helpful. I will use my discretion to decide whether to allow a separate stand part debate on individual clauses and schedules following the debates on the related amendments.

Clause 1

PROVISION FOR PENSION FLEXIBILITY ETC

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

The Financial Secretary to the Treasury (Mr David Gauke): It is a great pleasure to serve under your chairmanship, Ms Dorries. I begin by thanking you and the Committee for showing some flexibility over the timing this morning. We have a Bill about pension

flexibility, but I am grateful that the Committee showed some timing flexibility because I attended a meeting in Brussels late last night. Although I left Brussels at the earliest opportunity, I was not able to be here in time for the 9.25 am start.

I am grateful to have the opportunity to speak first about clause 1, which introduces the schedule that makes many of the tax changes necessary to deliver increased flexibility over how people can take their defined contribution pension. We will have a separate debate on the schedule in a moment, so I will keep my remarks on clause 1 relatively brief.

Let me remind the Committee why we propose these changes. Currently, the majority of individuals are severely constrained by the tax rules at the point of retirement. Those with the largest and smallest amounts of pension savings are entitled to full flexibility over how they access those savings, but those in the middle have very limited choices over their retirement income. The changes in the Bill will address that by increasing flexibility for those retiring with a defined contribution pension. They will allow people more choice about how they use their pension savings to fund their retirement. The schedule introduced by clause 1 makes changes to create flexi-access drawdown, which has no caps or income requirements. It makes annuities more flexible, creates a new way to take money directly from a pension, prevents those reforms from being exploited for unintended tax purposes, and ensures that the new UK pension system is reflected in the treatment of relevant overseas schemes. More than 300,000 individuals retire each year with defined contribution pension wealth. They will have increased choice and flexibility about how to access their savings as a result of the clause. The details are set out in the schedule, which we will debate later. After that introduction, I hope the Committee will support the clause.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): It is a pleasure to serve under your chairmanship this morning, Ms Dorries. I welcome the Minister to his place. It is impressive not only that he left Brussels at such an early hour of the morning, but that he managed to get here before the rest of the Committee, including myself, and was ready and waiting to make his opening remarks.

Clause 1 gives us an opportunity to set out some of our concerns, and we will obviously have further debate on the schedule and the Government amendments and new clauses. The pension reforms in the Bill will dramatically change the pension landscape both in how people take their income in retirement and how the pensions industry is structured. We debated that on Second Reading and it was explored during the evidence session, but, understandably, it has perhaps not been given the same amount of scrutiny, because we are still at the early stages, and we will obviously want to look to the future in that context. I will say more about that when we come to the debate on the new clauses.

As the Minister has indicated, and as we debated on Second Reading, from 6 April 2015, individuals aged 55 and over will be granted far greater freedom to access their pension savings as much and as often as they wish. As I have consistently said, the Opposition's main concern about the Bill is not so much about those overarching principles, but about the way in which the process came into being and the announcement in the 2014 Budget

statement. It is fair to say that the announcement caused some shock. Someone described being perplexed by the way in which that was done. The Minister has explained why that information had to be kept tight and why the announcement was made in that way, but it gives an impression of lack of engagement and consultation prior to the announcement of the reforms.

There is concern about the very short time scale to get everything right before the beginning of April 2015. There seems to have been a push to get things done and get everything through by 6 April 2015, and there is concern about whether, in doing so—everyone wants to get this right and to make it work—we may end up somewhere along the line with unintended consequences or with the necessary resources not in place.

Ian Swales (Redcar) (LD): Events clearly prove that the information was stock exchange-sensitive. Does the hon. Lady recognise that everyone who knew about it before became an insider, with all that implies about declarations and so on?

Cathy Jamieson: I thank the hon. Gentleman for that information—it is exactly what the Minister said in response to questions at the evidence session. I understand the sensitivities, but it is fair to say that the announcement required many organisations in the industry—the providers and some of the organisations that will represent the interests of consumers—to react quickly, get to grips with what was intended and what they would have to do, and ensure that they were able to feed in quickly. I hope the hon. Gentleman accepts that that put pressure on them to respond.

The introduction of the single-tier pension and auto-enrolment built positively on progress by the Labour Government. Crucially, those reforms were based on evidence, consultation and consensus, and the Government were always clear about what they were trying to achieve.

My hon. Friend the Member for Coventry North West coined a new phrase when he described the reforms as constituting “devolution of responsibility”. As a Scottish MP, I am always careful about using the word “devolution” in case it sparks off another debate and takes us in a different direction. I am sure, Ms Dorries, that you would not allow that to happen in this Committee, but it is a good way of describing the situation. My hon. Friend was right when he said that the measure devolves responsibility to the individual. Is it devolution in inverse correlation to the approach adopted for the accumulation stage, when the Government sought to harness inertia by automatically placing individuals in workplace pension schemes? If we are relying on inertia at that end of the scale, why are we relying on the fact that people will make conscious decisions at the other end? We debated that, and there is a tension between both the Pension Schemes Bill and this Bill. We can decide either that it is a problem or that it is a kind of creative tension and try to make use of it—I am not necessarily saying that it is a bad thing in itself. It means that we need to ensure people have the guidance and support they need to deal with those new responsibilities, which effectively places the budget for their retirement in their own hands.

The watchwords for the Bill have been “freedom” and “choice”. In principle, everyone welcomes the idea of greater freedom and choice, but the question for the

Opposition in considering the detail of the Bill is the extent to which freedom and choice is an end in itself. What do the Government hope ultimately to achieve through the Bill and the associated reforms in the Pension Schemes Bill? Do they believe it will provide people with greater security in retirement, or that the reforms are going to lead to greater product innovation and better outcomes for customers? At the outset, one answer seemed to be that the industry would respond by making different products available, but we have heard some concerns about who those products will be aimed at and what impact they will have on those with smaller pension pots and lower incomes.

We all want better outcomes. We have always been clear in our support for those principles of greater freedom and choice, but the effectiveness of a Bill can only ever be judged by what it does in practice and what the outcomes are. To go back to that analogy with devolution, there is no point in devolving power to countries or regions unless we know why we are doing it and what we hope to achieve. In terms of the Bill devolving that responsibility or power to the individual, we have been clear that we want the reforms to meet three key tests: first, the advice test and the guidance guarantee, to ensure that savers get the right guidance; secondly, the fairness test, to ensure that there are decent products for low and middle-income savers, which is vital; and finally, the cost test, to ensure that the reforms do not place any extra pressures on the state.

In addition to those three tests, we have commissioned a retirement income taskforce, chaired by Professor David Blake of the pensions institute at the Cass business school. We want that to consider how we can enhance retirement income and ensure that savers have access to good value products along with the support they need to access them.

We will debate the Opposition new clauses later, but I want to put the marker down that they are a logical and reasonable plea for more information, and a reasonable request to review the impact of the reforms at the earliest opportunity. The Minister might well feel that I am on my usual hobby horse of monitoring, reviewing and coming back to Parliament—he has heard me make that particular plea on a number of occasions in respect of both financial services Bills and Finance Bills. I will speak about those proposals in more detail in due course.

I want to make a few remarks about the evidence session last week, because it was interesting. It was an opportunity for us to hear from the industry about things that perhaps we already knew, but it was important that people had the opportunity to speak directly to us and to put information on the record. We did not get a huge amount of new information—perhaps we did not expect to—but that is certainly not the fault of those giving evidence. They give evidence to us on the basis of the challenges and issues that they are facing, or will face in implementing the Bill. I felt that at times there was a sense of inevitability—despite the initial shock, with people being perplexed and wondering how the new system was going to work, they seem to have reached the point of saying, “Well, this is going to happen so we are going to make the best of it and work with the Government to take things forward.”

10.15 am

Regarding the principle of flexibility, it is interesting to compare what is in the Bill with one of the Government's first documents on pension reform, "Removing the requirement to annuitise by age 75", which was published in July 2010. It set out five key principles for a new tax framework for retirement. First, it stated:

"The purpose of tax-relieved pension saving is to provide an income in retirement".

That is an important statement. Secondly:

"Any changes to the pensions tax rules should not incur Exchequer cost and should not create any opportunities for tax avoidance."

That too is important. Thirdly:

"Individuals should have the flexibility to decide when and how best to turn their pension savings into a retirement income, provided that they have sufficient income to avoid exhausting savings prematurely and fall back on the state."

The intention there is clear. Fourthly:

"In line with the EET model, pension benefits taken during an individual's lifetime should be taxed at income tax rates. The tax-free pension commencement lump sum will continue to be available."

Fifthly, the document stated:

"On death, pension savings that have been accumulated with tax relief should be taxed at an appropriate rate to recover past relief given, unless they are used to provide a pension for a dependant."

Nic Dakin (Scunthorpe) (Lab): My hon. Friend is laying the case out very clearly. We heard many witnesses express concerns about how the Bill has been received in the press. In its written evidence, the Association of British Insurers lists one key issue as

"Pension flexibility, not early access",

and continues:

"We are therefore very concerned that the focus of recent discussion on the Budget reforms has been about early access to cash at age 55 rather than on giving people more choice about how to use their pension savings to generate retirement income."

Is that not the nub of this debate?

Cathy Jamieson: Similar points were made on Second Reading and in last week's evidence session. One concern expressed by both the industry and those who will be giving guidance under the guarantee is that the intention behind this Bill, and perhaps the Pension Schemes Bill as well, has been caught up in the spin and hype about people being able to access massive pension pots to buy a Lamborghini, take a holiday and pay off the mortgage, while the same emphasis has not been put on the fact that the purpose of a pension is to provide for people's lifetime in retirement. We have heard that people often do not think about the length of time over which their pension will have to provide for them, or about the standard of living that they want to have during that period. Some of those concerns expressed by the industry and echoed by my hon. Friend are very important.

To return to my point: yes of course people should have the flexibility to decide when and how best to turn their pension savings into retirement income, but they should also avoid exhausting their savings prematurely so that they have to fall back on the state. One aspect of this Bill and the Pension Schemes Bill that has perhaps had less coverage than it ought to have had is the

potential impact on some people's social care eligibility; specifically, we have heard little about how the Bill will affect the notional income rules. I raised this issue during the evidence session because we need clarity. There is a group of people for whom there might be unintended consequences if they make the wrong decision. That is why the guidance guarantee is so important, even though many of those who could be affected might not take the guidance guarantee or would feel unable to move forward and take regulated advice.

There are rules that allow for people to be treated as having income that they do not actually get. The stated aim is to ensure that everyone pays a fair share towards supporting themselves and paying for social care, but presumably it is also to ensure that where people are entitled to annuities or drawdown income, they can take it. Perhaps some of those rules were easier to apply when the vast majority took an annuity, but new behaviours and the creation of new products that the Bill will set in train may well add additional layers of complexity, and I do not think that we have bottomed that out yet.

Nic Dakin: The guidance guarantee is crucial, not only to protect the individual so that they make the right decisions, but to protect the state from the consequences of poor decisions. My hon. Friend is making a crucial point.

Cathy Jamieson: My hon. Friend is right. To be fair to the Minister, I do not think it was in his mind to set off a chain of events whereby people would take all their money at an early stage and then find themselves falling back on the state. I do not believe that that is the Government's intention. I want to make sure that we do not dot every i and cross every t in the Bill—that is the point of detailed scrutiny in Committee—while leaving ourselves the opportunity to come back and fix things if we discover that there are unintended consequences. Very few pieces of legislation do not throw up a need for guidance or further regulation at some stage. My aim is to pin down some areas where the impact of the changes will be felt that we have not yet explored fully.

As I was saying, the notional income rules apply to people who have reached the qualifying age for pension credit, currently linked to the state pension age for women, which started to rise from 60 in April 2010 and will reach 65 in November 2018. The rules do not apply to people of working age. They allow a person to be treated as having taken income available to them under a personal pension plan, even though they have not applied for it. Those rules are outlined in the State Pension Credit Regulations 2002—S.I. 2002 No. 1792, if anyone wants to look at the detail. Given that someone with flexible drawdown is unlikely to qualify for pension credit, it might be argued that that is not an issue, but it appears that it may mean that a person with an occupational pension is treated as having the amount they could withdraw under capped drawdown, even if they have not accessed that income.

Following the changes announced in the Budget and included in the Finance Act 2014, the maximum amount that can be drawn down under capped drawdown is now 150% of an equivalent annual annuity, so it is fair to assume—unless the Government tell us otherwise, and I am sure the Minister will want to comment—that this may be the benchmark amount for measuring an

individual's notional income. However, after the reforms in this Bill, many of those who were in capped drawdown will no longer be so and will no longer be covered by the capped drawdown rules, so an alternative benchmark for assessing an individual's notional income may be required. If the Minister is able to clarify, I would welcome it.

Similar rules exist for the assessment of housing benefit for people who have attained pension qualifying age. The advice for decision makers on universal credit, which is quite difficult to find—we had to trawl to a considerable depth to do so—says that:

“Pension fund holders must provide the”

decision maker

“with information about

1. the maximum amount of income available from the pension fund and
2. the amount of income that would be available if the funds were held in a scheme that produces an income.”

It goes on to say:

“DMs should consider evidence from pension fund holders when deciding the amount of notional income. Do not make a decision until the pension fund holder has been given sufficient time to provide evidence.”

In their response to the consultation on “Freedom and choice in pensions” in July 2014, the Government said they would look further at the notional income rules for pension drawdown products for benefits and social care to ensure that those were consistent between drawdown products and annuities. The intention was that capital held in a drawdown product should be treated as generating “an appropriate notional income for the purposes of income means tests”.

The response goes on to indicate that the Government expect a new range of products to emerge as a result of these reforms:

“Where possible, these products will be treated similarly to current drawdown products, which see any capital held in a drawdown product excluded from the respective capital means tests. Instead, that capital is treated as generating an appropriate notional income for the purposes of income means tests. This will preserve the important principle that everyone pays their fair share towards supporting themselves and paying for social care, with government support targeted where it is needed most.”

It continues:

“In light of these reforms, the government will look at the notional income rules for pension drawdown products (for both benefits and social care) to ensure these are consistent between drawdown products and annuities.”

I emphasise those points because I am not entirely clear what work has been done on that. Individuals who choose to draw down their full pension pot quickly and manage it directly

“will need to consider how this could affect their current and future entitlement to welfare and social care support—in the same way as those who choose to save for retirement outside of a pension do now”.

We welcome the Government's commitment to ensuring that

“individuals are able to make an informed decision that best suits their personal circumstances and risk appetite for the duration of their retirement”,

but I want to emphasise that we may be entering uncharted territory. We do not know exactly what the impact of the changes will be.

A representative of Citizens Advice said in evidence last Tuesday,

“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.”—[*Official Report, Taxation of Pensions Public Bill Committee*, 11 November 2014; c. 26, Q45.]

A Treasury official commented,

“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.”

She later said,

“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.”—[*Official Report, Taxation of Pensions Public Bill Committee*, 11 November 2014; c. 30, Q51-52.]

It did not seem to me at the time that those two statements were entirely in agreement. I do not think there is any ill intent, but it shows a lack of clarity and that the issue has not been probed as far as it might have been. We need clarity on the notional income rules. From the evidence available under the existing rules the Government intend to ensure that people are treated as having an appropriate level of notional income and are treated consistently regardless of the option that the scheme offers. Can the Minister provide clarity on the work done by himself and the Department for Work and Pensions to ensure that there are no hidden or unintended consequences of the rules? What assessment has been made of the number of people who could inadvertently be affected? If the work has been done, have any conclusions been reached? If so will they be made public? Very specifically, will the measure used for notional income under these reforms will be the same as the one applied now?

10.30 am

I now turn to the impact of the reforms on an individual's future entitlement to social care support. Again according to the Government's response to the “Freedom and choice in pensions” consultation:

“The consultation sought views on how the reforms might impact on charging for care and support for both the person and the local authority. The responses did not show a significant level of concern for either, but asked that the approach be clearly set out in the guidance.”

Again, I refer to the Committee's evidence-taking session last week, at which the Citizens Advice representative said that people,

“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.”—[*Official Report, Taxation of Pensions Public Bill Committee*, 11 November 2014; c. 24, Q41.]

In written evidence to the Committee, the Association of British Insurers also expressed concern

“that a continued focus on early access at the age of 55 means that there may be barely enough in the pension pots of some savers to cover their near-term retirement income needs, let alone enough left to stretch to care costs in older age.”

My hon. Friend the Member for Scunthorpe highlighted that earlier.

Those two comments raise specific issues. The first is the impact that drawing money under flexi-access may have on an individual's entitlement to means-tested benefits and, indeed, eligibility for social care. The second, crucial issue is the danger of the emphasis having been placed on early access to funds, which may result in people taking too much too quickly and being left with insufficient funds to cover the cost of care later down the line. The Bill and the accompanying literature make many references to age 55 as a point of access. That may be unavoidable, because it is what the Bill is intended to provide for, but people will see a contradiction in that emphasis on early access to pensions at the same time as the state pension age is rising and people are being encouraged to think more about their longer-term future. What is the Minister's opinion?

On the the impact on eligibility for means-tested benefits, the Government's own consultation, "Freedom and choice in pensions", states that:

"The guidance ... confirms that resources should be treated according to where they are invested at the time of assessment and where someone has not accessed their pension or is drawing a notional amount; that a local authority can apply notional income to the equivalent of the maximum available under an annuity."

What work has been done on the impact of what local authorities might be expected to do and the knock-on effects on whether those local authorities will be assumed to be applying rules in a particular way, which may, of course, affect their financial health? The guidance that is referred to is in the care and support statutory guidance issued by the Department of Health; it consists of only a few paragraphs in 800 or so pages. I am sure that the Minister is very familiar with it, or will soon become so, but to make things slightly easier, let me quote from it. It states that:

"If a person is only drawing a minimal income, then a local authority can apply notional income choosing not to draw income, or according to the maximum income that could be drawn under an annuity product. If applying maximum notional income, the actual income should be disregarded to avoid double counting."

It also says:

"If a person is drawing down an income that is higher than the maximum available under an annuity product, the actual income that is being drawn down should be taken into account."

Again, without drifting into the realms of the hypothetical, it is difficult to know now whether that guidance will be adequate, because, critically, we do not know what the impact of these reforms will be on consumer behaviour. That is something that has been highlighted time and again. If we look at international examples, I think that some concerns have been raised about that.

The Government have highlighted the issue in a way, by saying that those who choose to draw down all their pension income will need to consider how this could affect their current and future entitlement to welfare and social care support. Again, that seems to leave the responsibility to individuals to analyse that, perhaps without the work being done looking at the crossover into Department of Health benefits and without further work by the DWP. What does the Minister believe the impact will be? What do the Government need to do? For example, does he think it is worth stating in very clear terms that for those who draw down their pensions in full, the income they receive will be counted against

their entitlement to welfare and social care support? If that is the case, does he think that that has to be spelt out much more clearly at an early stage, before people make decisions?

On the second issue—the risk of an individual taking too much, too quickly—will the Minister comment on the ABI's written submission in which it regrets what it calls the narrowing of the debate to a focus on the ability to access cash quickly when people turn 55? In the view of the ABI, this may:

"deal a fatal blow to the Government's wider reforms of encouraging people to work for longer, and making society more financially resilient".

A number of colleagues raised this at last Tuesday's evidence session, particularly in relation to the publicity and spin that has been put on the reforms. It seems to focus on the message, "Yes, it will be great, because you will be able to access your pension at the age of 55," and far less on the other side of the coin which is, "But you may have to plan for your retirement until you are 85, 95, or even longer." The point was summed up in the session by Adrian Boulding of Legal & General who said:

"consumers have been given completely false expectations by the media, and that will eventually come home to roost".—[*Official Report, Taxation of Pensions Public Bill Committee*, 11 November 2014; c. 20, Q28.]

Our concern is that, if that does come home to roost, it will not be just individuals who are affected; as we have heard, people may fall back on state provision, which is entirely at odds with the Government's stated intention when they outlined the reform. Does the Minister feel that the reforms have been misrepresented in the media, or that certain aspects of the Bill have been emphasised to the detriment of the reforms as a whole and what the Government are trying to achieve? I am thinking particularly about the use of the uncrystallised funds pension lump sum, which headlined the Government's press release accompanying the publication of the Bill.

Of course, the Government want to ensure that individuals are able to make an informed decision that best suits their personal circumstances and risk appetite. The Government introduced the concept of risk appetite for the duration of retirement. Those of us who are involved in dealing with the Bill perhaps understand what that means, but for many people who, for the first time in their lives, have the opportunity to access significant amounts of money and are not used to dealing in risk appetite, this will be potentially extremely confusing and they will need appropriate support.

Mr Geoffrey Robinson (Coventry North West) (Lab): On the question of the uncrystallised funds pension lump sum, does my hon. Friend agree that the Government must realise that the lack of clarity to which the ABI has drawn attention in its notes to us is one of the outstanding issues which must be tackled urgently by the Government? Given the headlines and the hype about lump sums, the danger is that people will not understand and there will be no clear rules governing this. We fall short of, nanny state-like, telling people what they should do, but if the Government pursued the line that the lump sum was an entitlement to which people have to aspire by having a robust savings position under them, it would be much better.

Cathy Jamieson: My hon. Friend makes an important point. Of course we do not want a scenario where people do not have a choice; people should have a choice, but they must also have the appropriate information to make that choice. My worry is that this policy has become characterised by the message that, “You can get your money early and basically do whatever you like with it,” rather than counterbalancing that with the idea of a pension pot providing for retirement. There has been an emphasis on only one aspect, rather than on the longer-term planning.

As we heard from the witnesses last week, not everyone will jump in and deal with this at 55. When the measures in the Bill come into force, not everyone will act straight away, and nor do they need to. That is why it is so important that we do not send out mixed messages about what we are trying to achieve. For people thinking about whether they would be better taking their pension in a particular way or holding some back to plan for the future, these are hugely significant decisions. The majority of people are not taxation experts; they will need the correct guidance and reference points for regulated financial advice. Many people will find themselves in that scenario when they perhaps never envisaged that they would.

Thank you, Ms Dorries, for allowing me to lay out those key concerns. It seemed important to do that right at the outset, as this clause introduces the technical detail of the schedule. I know that the Minister takes these matters seriously and I am sure that he will give assurances and respond to the specific points I have raised. It is important to scrutinise those points in detail at this stage of the process, so that if any changes or amendments are required or any further work needs to be commissioned, he will have the opportunity to do so before Report.

Mr Gauke: I thank the hon. Member for Kilmarnock and Loudoun for her questions and speech, which covered many if not all of the issues that we are likely to discuss in Committee. I appreciate that we will turn to the schedule in a moment, which will give us an opportunity to debate some of those matters. However, I will try to address the questions that she raised.

The hon. Lady began by asking whether pension schemes and providers will be ready for an April 2015 launch and about the nature of the announcement, which was not consulted upon before the March Budget. She will appreciate that the announcement at the Budget was market sensitive, which restricted what we were able to do. Since then, we have consulted extensively with the pensions industry and individual pension providers. They overwhelmingly support the proposals, as we heard at the oral evidence stage, and are keen to introduce these innovations for their customers. Products for April 2015 have already been announced, and we believe that the industry will be ready.

The hon. Lady also raised the issue of the compatibility between the Government’s approach to auto-enrolment, which she described, not unfairly, as relying upon a degree of inertia, and the choice and flexibility available in the Bill. Saving into a pension and accessing a pension are two different things. It was therefore appropriate to have different policy responses for each. The Government expect that auto-enrolment will lead to 6 million to 9 million people newly saving or saving more into their

pension, generating £11 billion a year more in steady-state pension saving. It is important to ensure that people saving into pensions have confidence that they will be able to use their savings to secure a retirement income that is right for them. That is why we believe that the Government’s reforms are vital. People have a right to opt out of savings under auto-enrolment and the Government have no plans to remove that opt-out. We believe that auto-enrolment is working well in getting people to save more, but it is right that people have the flexibility to determine how they access those savings.

10.45 am

The hon. Lady mentioned the Opposition’s three tests, and I will say a word or two about each. First, there is the advice test. Guidance will be provided by trusted independent third parties to avoid any perceived or actual conflicts of interest. It will be free at the point of use and funded by a levy on the population of regulated financial services firms. The guidance is important and she will be aware that the issue has been debated at some length in Committee on the Pensions Schemes Bill.

Nic Dakin: What does the Minister envisage for the quality of the guidance? It seems that the key will be evaluating to check it is doing the job that everybody hopes it will, which is necessary to achieve the outcomes that we want to see.

Mr Gauke: The hon. Gentleman makes an important point; we need to ensure that the guidance is of sufficient quality. Citizens Advice and the Pensions Advisory Service are working with us to deliver the guidance. It is very much a priority of the Government to ensure that that guidance is of the quality that we need, and all the parties involved are putting in a huge amount of effort to ensure that the guidance is available in time for April and is as effective as possible. The objective of the guidance is to empower consumers to make informed and confident decisions on how they use their pensions savings in retirement, and the standards are designed to ensure maximum consumer engagement with the guidance, to ensure that people are confident of the options open to them and have a hand-off document that is of practical use.

Mr Robinson: Does the Minister agree that it is not just—to correct my hon. Friend the Member for Scunthorpe—a question of the quality of the guidance? The guidance has to be consistent and clear. It not just the Treasury and HMRC that are going to be involved, but the DWP, the FCA, the Pensions Regulator, the private sector, CABs, and the pension funds. Given that, the guidance should be of great clarity, quality and consistency, and needs to be understandable. If those criteria are met, we will be some further way on.

Mr Gauke: I do not disagree with the hon. Gentleman. In fact, he is elaborating and clarifying what “quality” means. I suspect that there is no difference in the views of the hon. Members for Scunthorpe and for Coventry North West on that point. All the delivery partners, including the Treasury, will work out the operational detail while ensuring adherence to the FCA’s standards. It is right that the guidance is available in a variety of

[Mr Gauke]

different forms—online, over the phone, or face to face—and that it is tailored for individuals' personal circumstances. The guidance will have to meet FCA standards, which it has recently consulted on. The FCA has an important role to ensure that the points the hon. Gentleman raised about the guidance being clear, consistent and understandable are met.

Ian Swales: Both my hon. Friend and the shadow Minister have mentioned the guidance being ready for April. My birthday is on 5 April, and next April happens to be the retirement date for one of my previous occupations. I think the Minister would agree that I should not be getting advice on 2, 3 or 4 April if I am retiring on 5 April. When does he think the guidance will be ready and put in place?

Mr Gauke: We have said that it will be in good time for April. I do not want to announce the date here, but I take the point that people will want the guidance to be available more than a day or two before the new financial year.

The second test that the hon. Member for Kilmarnock and Loudoun mentioned is fairness. The Government will ensure that the generous tax reliefs available on pension savings will not be used solely for tax planning, given the significant flexibility the new rules offer. I dare say that we will return to the issue later. The Government are making changes to the tax system to allow innovation, and they expect that products suitable for a wide range of savers will be developed.

Nic Dakin: Adrian Boulding said in his evidence to us:

"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." —[*Official Report, Taxation of Pensions Public Bill Committee*, 11 November 2014; c. 21.]

To some extent the Minister has covered that, but clearly there is more to do.

Mr Gauke: The nature of the pension system up to now has meant far more flexibility for wealthy people with large pension pots, and quite a lot of flexibility for those with small ones, but for those in the middle the regime was very restrictive, which we do not think is fair. The Opposition's fairness test is perfectly fair in a way, but I do not think that the present system is entirely fair. Adrian Boulding's point was a good one, in that it is right to make sure that the flexibility currently available to the wealthiest is available to those with pension pots in the middle range.

The hon. Member for Kilmarnock and Loudoun spent some time dealing with the Opposition's third test—the cost test. Increased flexibility may have an impact on welfare and social care spending in the longer term, although it is difficult to predict. It will depend on how people choose to use their pension savings. The Government do not expect the impact to be significant in the context of the steps that they have taken to improve the sustainability of pensions spending, such as changes to the state pension age and reforms to public service pensions. The estimated net impact of the

Government's key pension policies is a saving of about £17 billion in 2030, in today's terms. We have to put it in that context. The Government are also taking action to ensure that the generous tax reliefs available on pension savings are not used for tax planning purposes.

Although there may be a longer-term impact on welfare and social care spending, as I said, it is very difficult to predict and will depend on how people choose to use their pension savings. We do not expect it to be significant. The Office for Budget Responsibility's latest projections, published in the 2014 fiscal sustainability report, assume no increase in income-related pensioner benefits as a result of people misjudging what to do with their pension savings. As for the related issue about capital held in drawdown products and so on, the Government want to ensure that the choices people make between taking their pension as income—that is, purchasing an annuity—and keeping more of their pension as capital and drawing it down periodically, for example, through a drawdown product, do not significantly impact on how they are assessed for means-tested welfare and social care support. New statutory guidance and regulations under the Care Act 2014 were published on 23 October. They include details on the charging rules for social care and support. The rules about notional income charges to be applied to pension products covered by the welfare means test are under consideration and will be confirmed in due course.

The hon. Lady referred to the evidence provided by officials at our hearing last week. Essentially, there is no change to the principle behind the rules. Notional income will be assigned to a drawdown product, so there is no change there. On the point about the first test, which is relevant to the third test, guidance will be tailored to individual circumstances and will consider issues such as welfare, social care and levels of savings and debt. Where it is clear that consumers need specialist help they will be directed to appropriate specialist guidance and information as appropriate.

Mr Robinson: Before the Minister moves away from the guidance, may I ask him a question? I do not want to repeat the points that we laboured over at our previous sitting, but it was not just about the quality of the guidance; it was the whole issue. It may be that there is no answer to this question, but is the FCA to be given any guidance about the attitude it should take when guidance is put out that is clear, consistent and of good quality, but there is fairly widespread evidence that it is not being taken? What guidance will the FCA give to the providers in that sort of situation? It could be that a scandal is brewing.

Mr Gauke: The hon. Gentleman raises an interesting point, although he is perhaps taking me a little bit beyond the scope of the Bill. The FCA clearly has an important role in ensuring that the quality of the guidance is sufficient, and understandability is an important aspect of that, but there is only so much that the FCA can do to force people to take up the guidance. That is a choice that ultimately lies with individuals. I also think that we should look at the second line of defence, which is the information that is provided by product providers to consumers who may or may not have taken up the offer of guidance. The FCA is looking at a requirement that providers give their customers a description of the

possible tax implications when they require access to their pension fund. Those who do not take the guidance will receive the information about their options as they currently do, including about being able to shop around on the open market and so on. I take the hon. Gentleman's point about the role of the FCA and the take-up of guidance, but there is only so much that it can do about that. However, it can ensure that information is provided even to people who have not taken up the offer of guidance.

Guy Opperman (Hexham) (Con): As this is my first time in Committee, I should declare that I am the chairman of the all-party Arch Cru Investment Scheme group and I have constituents who support both the Bill and that association. I also used to be a lawyer doing financial services, although all matters are now resolved, as they say.

In relation to the guidance and the liability for that, anyone who has been involved in the Arch Cru and other scandals that we have dealt with is keen to know where the buck stops. The FCA, as I understand what the Minister is saying, sets out the providers and the guidance itself. Does the FCA then take civil liability for that? Is the individual responsible for their own action, or is it the provider of the guidance?

11 am

Mr Gauke: First, I congratulate my hon. Friend for making it well into his fifth year as a Member of Parliament and this is his first Committee. I find that difficult to believe.

Guy Opperman: No, I meant that it is my first intervention in this Committee.

Mr Gauke: Then I withdraw that remark.

On the liability for the guidance, financial penalties are unlikely to be an effective or proportionate deterrent. The entities that will provide the guidance are the likes of the citizens advice bureaux and the Pensions Advisory Service, so I do not think that is the right route for controlling them. Ultimately, we are talking about guidance, not advice or specific recommendations. It will not tell people, "You should invest in this particular product," but it will point them in the right direction and ensure that they have the right information.

Of course product providers have responsibilities. They are regulated and they must treat customers fairly, so that is where the liability is likely to lie if the advice and information provided to consumers is wrong. The guidance will ensure that consumers are able to make an informed decision based on the options available to them. However, I am conscious that the guidance is not part of the Bill, and I am keen to return to issues that are.

Cathy Jamieson: I appreciate that the guidance is not part of the Bill—indeed, that is one of the difficulties. We are dealing with two complementary Bills. Many of the issues that have been raised are summed up in the question asked by the hon. Member for Hexham: where does the buck stop? Does the Minister agree that the ordinary person will not understand and will not have scrutinised the difference between a guidance guarantee

and advice? If they make a decision on the basis of something they have been told, they will want to know who is responsible if it goes wrong.

Mr Gauke: Of course, it will depend on the particular circumstances. We ought to be clear about what the guidance is and is not. It is not a specific recommendation about a particular product.

Mr Robinson: Will the Minister give way?

Mr Gauke: No, I want to move on to the issues that were raised about the 2010 reforms that changed how the annuities system works.

The hon. Member for Kilmarnock and Loudoun asked why we are returning to that policy area and making changes. The new state pension and automatic enrolment provide a basis for change. In the Government's response to the consultation, we stated that our guiding principles are choice, fairness and proportionality. We believe that the time is right for us to make wider reforms.

The hon. Members for Scunthorpe and for Kilmarnock and Loudoun said they are concerned that there is too much emphasis on early access to pension pots. The Government have always been clear that under the tax rules individuals may be able to access their savings from the age of 55, subject to their pension scheme's rules. The Government have been clear that we will raise the minimum pension age in the tax rules from 55 to 57 in 2028, mirroring changes to the state pension age. We have been clear that accessing pension pots will involve paying tax at the marginal rate. That is part of the system, and the guidance will reflect that.

It is very important to be clear that this is about choice. This set of reforms gives people greater choice and flexibility. It is about giving people the power to make decisions about their own savings—savings favoured by tax relief, but that are the property of the individual none the less. If there are restrictions to be placed on access to that pension pot, we should start from the view that they should be minimised. We should give people choice and flexibility to as great an extent as possible.

Mr Robinson: Hear, hear!

Mr Gauke: That is why we have undertaken these reforms. I hope that they have the support of the Opposition, and I am grateful for the assent of the hon. Gentleman, who brings considerable experience to these matters as a former Treasury Minister.

Nic Dakin: Although I accept the positive element of giving greater flexibility, does the Minister agree that part of what needs to be done is to focus on managing resources for longer living? That part of the equation has been lost in the way in which this information has been received. Part of our job as leaders of communities is to rebalance that debate.

Mr Gauke: The hon. Gentleman raises an important wider point. First, let me accept the premise of his question, which is that we are moving into a world

[Mr Gauke]

where people are living longer and have to manage their assets over a longer period of time. That may involve working for longer, working part time, coming out of and going back into the labour market, or all of those elements. It is a very interesting time. We need to ensure that people have greater responsibility, choice and ability to determine their own future. The reforms that we are making here make it more attractive to people to save for their pension, because they know that when they reach retirement age—or one of their retirement ages—they have greater flexibility on what they do with their pension pot. They increase the incentives to save and to put aside money for the pension pot. That is working. That is why this Government have brought forward these reforms, and that is why I hope this Committee will support clause 1.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Schedule

PENSION FLEXIBILITY ETC

Mr Gauke: I beg to move amendment 1, in Schedule, page 11, line 3, at end insert—

(2A) A lump sum death benefit is also a flexi-access drawdown fund lump sum death benefit if—

- (a) it is paid on the death of a nominee of the member,
- (b) it is paid in respect of nominees' income withdrawal to which the nominee was at the date of the nominee's death entitled to be paid from the nominee's flexi-access drawdown fund in respect of an arrangement relating to the member, and
- (c) it is not a charity lump sum death benefit.

(2B) A lump sum death benefit is also a flexi-access drawdown fund lump sum death benefit if—

- (a) it is paid on the death of a successor of the member,
- (b) it is paid in respect of successors' income withdrawal to which the successor was at the date of the successor's death entitled to be paid from the successor's flexi-access drawdown fund in respect of an arrangement relating to the member, and
- (c) it is not a charity lump sum death benefit."

This amendment, and amendment 2, ensure that unused funds in the drawdown fund of a deceased beneficiary, who was not a dependant of the member, can be paid out as a lump sum death benefit.

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

Government amendments 2 to 12.

Government new clause 1—*Death of pension scheme member.*

Government new schedule 1—*Death of pension scheme member.*

Mr Gauke: The schedule is introduced by clause 1, which sets out the tax changes necessary to give individuals more flexibility in how they access their defined-contribution pension savings. The schedule gives me the opportunity to discuss these changes in greater detail.

First, the schedule creates the concept of flexi-access drawdown, which unlike current forms of drawdown has no caps or income requirements. This means that everyone retiring with defined-contribution savings will

now be able to set up a drawdown fund and withdraw as much or as little as they like. Secondly, it makes annuities more flexible by, for example, allowing them to decrease. That will enable providers to innovate. Thirdly, it creates a new way to take money from your pension via an uncrystallised funds pension lump sum. Fourthly, it prevents the reforms from being exploited for unintended tax purposes by introducing a new £10,000 annual allowance for those who have accessed their pension flexibly, together with a requirement to report when that access has happened. Finally, it ensures that the new UK pensions system is reflected in the treatment of overseas schemes that consist of or contain UK tax-relieved pension funds.

Taken together, the changes will create much more flexibility for individuals in how they access their pension savings. Through a new flexi-access drawdown, which has no cap on the amount which can be withdrawn and no income requirement, individuals will be able to access their savings as they wish. The changes to the tax rules governing annuities will allow providers to create new flexible products that reflect consumers' changing retirement income needs. The UFPLS—"uff-plus" as it has become known—will be payable directly from pension savings, allowing individuals a further option for flexible income withdrawal. These changes will allow future retirees much greater choice.

While making these important changes to extend flexibility, it is important also to ensure that we protect the Exchequer from the risk of individuals exploiting the new tax system to gain unintended tax advantages. For this reason the schedule sets out the details of the reduced money purchase annual allowance, which will apply to individuals who access the defined-contribution pension flexibly. It contains details of the requirements that will be placed on schemes and individuals regarding the provision of information. Essentially, those requirements will ensure that when individuals accesses their pension flexibly, schemes of which they are members know that they are subject to the new reduced annual allowance.

The schedule makes various other amendments to tax and pensions legislation, including amending the tax-free lump sum recycling rules to ensure that they remain effective, and introducing a permissive statutory override which will allow scheme trustees to offer the new flexibilities to individuals without the need to change their scheme rules. There are also provisions which are intended to ensure that the new UK pensions system is reflected in the treatment of relevant overseas schemes.

Hon. Members raised a number of important points on Second Reading. Let me take this opportunity to explain in more detail the Government's position on a couple of those issues. I suspect I will anticipate points that may be raised by the hon. Member for Kilmarnock and Loudoun, but let us see. First, there was a concern that the reduced £10,000 annual allowance could create a risk to the Exchequer. Let me explain the Government's thinking on this point, although it was set out in my recent letter to the Pension Schemes Bill Committee, a copy of which members of this Committee should have received.

The Government consulted extensively on how best to ensure that the new system cannot be exploited by individuals to achieve unintended tax advantages. If the Government were to put in place no protections, an individual over the age of 55 could divert their salary

each year into their pension, take it out immediately and receive 25% of it tax-free, thus avoiding income tax and national insurance contributions on their employment income. This is not the intention of the reforms. However, in the context of automatic enrolment, it is important that any solution preserves the incentive for those over 55 to save after accessing their pension flexibly. This is not unrelated to the discussion just now with the hon. Member for Scunthorpe about changing working patterns.

As a result of extensive consultation, the Government decided that the £10,000 money purchase annual allowance strikes the right balance. On the one hand, it allows people the flexibility to withdraw or contribute to their pension as they choose from the age of 55. On the other hand, it ensures that individuals do not use the new flexibilities—which are intended to provide people with greater access to their retirement savings—to avoid paying tax on their current earnings. It will also avoid unnecessary complexity for both consumers and pension providers when the new system comes into place in April 2015. As stated in the Government's response to the consultation, we will closely monitor behaviour under the new system, and will work closely with industry to ensure that the system remains fair and proportionate.

It was also suggested on Second Reading that the changes the Government are making to allow innovation might lead to the creation of inappropriate products. I reassure hon. Members that the FCA, under its consumer protection remit, has responsibility for ensuring that regulated firms treat their customers fairly and communicate in a way that is clear, fair and not misleading. The FCA also has powers to take action against firms that engage in unauthorised business.

11.15 am

The Government have consulted extensively on the tax changes to allow innovation and believe it is important to allow providers to create products that fit the changing retirement income needs of consumers. The guidance guarantee, which is being legislated for through the Pension Schemes Bill, is designed to empower consumers to make informed decisions on how to make the best use of their pension savings. As part of that, it will aim to promote consumer awareness of scams and help to ensure consumers are less vulnerable to mis-selling.

The Government amendments, new clause 1 and new schedule 1 make several changes to the tax changes that apply to pension savings upon an individual's death. That is a complicated area, so it might be helpful if I set out how the current system works and explain how the amendments change it. Under the current system, the tax treatment of an individual's pension at death varies depending on a number of factors, including the type of pension the individual has, whether it is paid out as a lump sum or as a regular stream of income, and the age at which the individual dies. If an individual dies before the age of 75 with an uncrystallised pension fund, that means they have not yet taken a pension. That fund can be paid out to any beneficiary tax-free as a lump sum up to the lifetime allowance, which is £1.25 million.

Similarly, if an individual who is a member of a defined-benefit scheme dies before the age 75, a lump sum can be paid to any beneficiary tax-free. However, if an individual dies with money in a drawdown fund that is paid out to a beneficiary as a lump sum, a tax charge

of 55% currently applies, regardless of the age of the individual when they die. If a pension death benefit is paid out as a stream of income instead of as a lump sum, it will be taxed at the dependant's marginal rate. However, it can be paid out only to a dependant defined as a spouse, a child under the age of 23, or someone who is financially dependent on the deceased.

As set out in the original consultation document, which the Government published alongside the Budget, it is likely that the 55% tax charges that currently apply to pensions on death would apply to more people under the new system. If they were retained, it is likely that they would provide an incentive for individuals to remove their savings from their pension to avoid paying the 55% tax charge.

To deliver those changes, the Government have tabled amendments 1 to 12 to the existing schedule. Those changes are linked to the new clause and new schedule, which I will turn to shortly. Amendments 1 to 3 allow for the new type of death benefit lump sum introduced by the schedule—the flexi-access drawdown fund lump-sum death benefit—which allows unused funds in the member's drawdown account to be paid out as a lump sum to a beneficiary, and to be payable from unused drawdown funds on the death of the beneficiary.

Amendment 4 extends the permissive statutory override in part 5 of the schedule to include drawdown pension payments to non-dependant beneficiaries. That will allow schemes to offer that option to their members, even if it is not currently permitted by their scheme rules. Amendments 5 to 8 amend paragraphs 81 and 82 of the schedule, and ensure that income withdrawals from a non-dependant beneficiary's drawdown fund that was registered under a pension scheme when the beneficiary was temporarily non-resident are treated as accruing when the person returns to the UK.

Amendments 9 to 12 ensure that any payments by a non-UK pension scheme during a temporary period of non-residence that would have been income withdrawals from a drawdown fund if the scheme were a registered pension scheme are treated as arising when the person returns to the UK. These consequential amendments ensure that the legislation contained in the existing schedule is compatible with the Government new clause and new schedule.

The new clause and new schedule make several changes to the current system and will preserve the incentive to save. New clause 1 introduces new schedule 1, which allows an individual—not only a dependant—to inherit unused drawdown funds or uncrystallised funds on the death of a member where those funds are then used to provide a drawdown pension or to pay a lump sum death benefit. The changes ensure that, when the death of the member or beneficiary occurs before age 75, any payments of income withdrawal to a beneficiary will be made tax-free if they are designated within a two-year period. They also ensure that any uncrystallised funds are tested against the deceased's lifetime allowance.

Members may also wish to note that the new clause and new schedule, and amendments 1 and 2, link to clause 2, which reduces the tax charges that apply to certain lump sums paid by pension schemes on an individual's death, and removes the tax charge altogether when an individual dies before age 75. We will be debating clause 2 shortly.

The aim of the changes is to ensure that individuals who die with funds remaining in their pension pots can pass them on to anyone they choose. The funds can then be paid tax-free if the original pension member dies before age 75, or taxed at the beneficiary's marginal rate if a person dies having reached age 75. The changes will ensure that individuals who have made sacrifices to save over the course of their lives can pass on their pension savings without worrying about those funds being hit by excessive tax charges when they die. They will also preserve the incentive for individuals to keep money in their pension, without fear of their beneficiaries being hit by a 55% tax charge.

I hope the amendments will be accepted by the Committee. More than 300,000 individuals retire each year with defined contribution pension wealth. Many of those people are currently severely restricted in their choices at the point of retirement, and the schedule will deliver the radical changes announced by the Chancellor at the March Budget. They will revolutionise the pension savings landscape, leading to more choice and greater freedom for people in retirement. I hope the new clause, new schedule and Government amendments will stand part of the Bill.

Cathy Jamieson: I thank the Minister for laying out the amendments clearly. The schedule is the meat of the Bill and is divided into seven parts. It amends the Finance Act 2004 and the Income Tax (Earnings and Pensions) Act 2003, and relates to the authorised pension benefits that can be provided to members of registered

defined-contribution pension schemes and their dependents. It allows for the introduction of the new flexi-access drawdown funds and distinguishes between payments made under them, and those made under existing flexible access drawdown.

The schedule provides that existing flexible access drawdown funds will automatically be converted into flexi-access drawdown funds. It sets out the circumstances in which capped drawdown funds would be converted into flexi-access drawdown funds. That can either be done at the request of the scheme member or occur automatically if the member does not make use of the new flexibilities. As the Minister has said, the scheme also introduces the new money purchase annual allowance rules, which set an annual limit of £10,000 on the amount of money that can be saved tax-free in money purchase arrangements, and which will be triggered when an arrangement is flexibly accessed.

In addition, the schedule amends the requirements for lifetime and short-term annuities to provide greater flexibility for both members and dependants. That means that, when the individual becomes entitled to the annuity on or after 6 April 2015, some of the conditions are removed that would have applied had the individual become entitled to the annuity before that date.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o'clock.