

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

## Public Bill Committee

### TAXATION OF PENSIONS BILL

*Third Sitting*

*Tuesday 18 November 2014*

*(Afternoon)*

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SCHEDULE agreed to, with amendments.

CLAUSE 2 agreed to.

New clauses under consideration when the Committee adjourned till  
Thursday 20 November at half-past Eleven o'clock.

Written evidence reported to the House.

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**Saturday 22 November 2014**

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**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>             |
|   | † <b>attended the Committee</b>                              |

## Public Bill Committee

Tuesday 18 November 2014

(Afternoon)

[MR MIKE WEIR *in the Chair*]

### Taxation of Pensions Bill

#### Schedule

##### PENSION FLEXIBILITY ETC

*Amendment proposed (this day):* 1 to the 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.”—(*Mr Gauke.*)

*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.*

2 pm

*Question again proposed,* That the amendment be made.

**The Chair:** I remind the Committee that with this we are discussing 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.*

**Cathy Jamieson** (Kilmarnock and Loudoun) (Lab/Co-op): It is good to see you in your place this afternoon, Mr Weir. I know that you will keep us all in order.

Returning to the theme that I was developing in our discussions on this part of the Bill, I refer again to the Government consultation “Freedom and choice in pensions”, already a much-quoted document today. I remind the Committee that it stated that the Government wanted to allow for the development of “new, more flexible, annuities”, enabling

“providers to create new types of annuities that more closely meet consumer needs, as well as creating products through the drawdown rules.”

Potentially, that includes allowing annuities to decrease as well as to increase, raising the possibility that individuals could be sold annuities that offer attractive initial rates that decline in subsequent years, possibly at the point at which the state pension kicks in. I do not want to repeat my earlier comments about people's ability to plan for the long term, but obviously such potential could be a good thing, so that people may access funds at a time when they most need them and have the taper over the years. Again, however, people have to make those decisions consciously, rather than finding that there are unintended consequences.

The schedule makes provision for a new type of authorised payment. We have already heard about the uncrystallised funds pension lump sum, or UFPLS—the Minister coined the phrase and, try as I might, I could not come up with a better acronym. I was trying everything to avoid anything sounding like “flumps”, so the Minister has done well with his UFPLS.

As we have heard, those payments enable members to take lump sums directly from their pensions without first designating them for draw-down. Members will be able to take 25% of each payment tax free, with the rest taxed at the marginal rate. Payment of an uncrystallised funds pension lump sum will trigger the new annual allowance rules. The schedule also makes changes to the provision of information regulations to provide for the passing on of information to scheme administrators and members when individuals have flexible access to pension savings to enable the correct operation of the money purchase annual allowance rules.

One of the issues that I wanted to raise with the Minister was to do with the reporting requirements. The guidance to the Bill indicates that those who fail to contact all the providers within a month risk a penalty of up to £300 initially and then up to £60 a day until that information is passed on. Some concerns have been expressed by the pensions industry about the reporting requirements in the Bill.

To be clear about what the legislation sets out, scheme members who flexibly access their pensions after 6 April 2015 will within 31 days receive a statement from the scheme administrator confirming that they have done so. They will then, as I understand it, be required to inform the administrators of all other schemes of which they are a member, as their annual allowance for money purchase arrangements will be reduced to £10,000. That has to be done within 31 days.

The guidance sets out the possible penalties. We have had some comment in the written evidence to the Committee, in particular the Talbot and Muir evidence. Its head of technical support described the new rules as harsh and unworkable. Elsewhere, the technical resources manager of A J Bell went into more detail, analysing the reasons behind the impact of the new reporting requirements:

“The reason for all this is so that, if an individual pays more than £10,000 to any money purchase scheme in a tax year at a later date, that money purchase scheme knows that it will have to issue a statement to that member about the level of their savings”.

He continued:

“The issue with this is that the Government's own analysis shows that only 2 per cent of over 55s pay in more than £10,000 a year. So all of the information is being shared just in case the individual is one of the 2 per cent of over 55s who might benefit from a greater than £10,000 savings statement at a later date.”

There seems to be a bit of irony in that. Although some are reporting the requirements as too onerous, perhaps some others would be generally playing down the risk of tax avoidance. We are trying to ensure that the Bill gets the right balance in that process.

In Ros Altmann's written evidence to the Committee, she went into further detail as to why she believes that the new reporting requirements are unfair and unworkable. She said:

"This new aspect of the Taxation of Pensions Bill is impractical and will disadvantage many customers. To insist on people notifying all past pension schemes that they have taken some money under flexible access would place an impossible or unreasonable burden on too many people. The fines they would face are also draconian. Many may have only a small sum in an old pension scheme they have lost track of."

Leaving aside the bureaucracy of the new arrangements and the extent to which that is or is not justified, her final point is of particular interest; she appears to believe that the reporting requirements will apply to all pension schemes, whether they are being paid into or not. It is difficult for some to keep track of personal finance and correspondence. We all probably know exactly which pension schemes we are paying into, but people who have moved employment or changed their circumstances may overlook something or find that there is a particular problem.

Ros Altmann states that the new reporting requirements will disproportionately penalise those on more modest incomes. That is a cause for concern. She said that

"those who are better off (and most likely to be able to afford £10,000 a year extra contributions) are likely to have a financial adviser who helps them with this task, whereas in practice most people with moderate savings do not. These are the people most likely to have untraced pension accounts, or to struggle to find details of how to inform their other pension providers."

All in all, it sounds as if the reporting requirements and the fines accompanying them are further elements of the Bill that may have to be covered in more detail and guidance. I am sure that the Minister wants to respond to those points and to give clarification on the point of detail that has been raised by some in the industry: do the requirements apply to dormant pension schemes—those that are no longer being paid into? Ros Altmann seemed to imply in her contribution that the provisions may need to be amended, as she argued that

"people should only be required to notify new schemes which they establish, or other pension schemes into which they are currently actively contributing (contributions made within the past 24 months perhaps)."

It would be helpful if the Minister could clarify that.

I will briefly turn to the Government amendments to the schedule, which the Minister introduced. New schedule 1 deals with the issue of persons other than dependants being able to inherit unused drawdown funds in cases of deaths before the age of 75. Lump sum death benefits and flexi-access drawdown pensions from those funds can be paid tax free, subject, for example, to the member having sufficient lifetime allowance. That is broadly in line with what the Government proposed when they introduced the Bill. A concern I had at that time—I did, in fact, write to the Minister and received a reply this morning—was the number of pension funds that would be covered by the removal of the 55% rate of tax on pension funds at death. I asked for some more detail of the changes. The Minister has of course tabled some

relevant amendments, but I would like clarity on why an article on the Government's website about the uncrystallised pension funds drawdown arrangements states quite clearly:

"This does not apply to annuities".

Some people have suggested that that is not strictly accurate and that the new system will apply to certain forms of annuity; indeed, I raised that point on Second Reading. It would be helpful if the Minister could give us some information, given that the website remains unchanged since that article went live a couple of months ago.

Another issue that I referred to on Second Reading is the fact that a number of people have expressed concerns about the tax avoidance reforms in the schedule. This morning, I referred to the Government's document, "Removing the requirement to annuitise by age 75", which outlined the five key principles of pension tax reform, one of which is:

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

I would like to hear some assurance on that.

On reducing the withdrawal tax rate, the Government's policy costings document states:

"By allowing individuals to flexibly withdraw from their pension pot, this measure results in increased income tax receipts in each year until 2030. After that, a small reduction in tax receipts of around £300 million a year is expected in steady state. This is small in comparison to the impact of all the government changes on pensions, designed to ensure pensions provision is sustainable with an aging population...which means by 2030 the government is saving around £17 billion a year in 2013-14 terms compared to previous policy."

The Minister has referred to those figures, but they have been disputed, so it is important that he provides some clarity for the record. It has been suggested that the figures seem to be predicated on the assumption that the tax take in the earlier years will be higher because consumer awareness of the tax implications will be low. If that is the case, that is worrying in terms of what has been said about guidance.

Tom McPhail, head of pensions research at Hargreaves Lansdown, said:

"While we support the basic principles behind the government's reforms, the speed and complexity of these changes mean that a lot of investors are going to be paying unnecessarily large amounts of tax to the government. The Chancellor has effectively engineered a tax windfall for the government from unsuspecting pension investors."

I am sure that the Minister will want to clarify that point, because when he was asked about the impact earlier, it certainly did not appear to be his intention to create a windfall for the Exchequer. I look forward to hearing what he has to say about that.

Another issue is where potential leakage through tax avoidance fits into things. Concerns have been expressed that the increase in flexibility will enable higher earners to make greater use of the tax advantage status of pensions by giving people the opportunity to pay their salary into a pension rather than taking it directly, meaning that the element of earnings income is tax free when paid in and that 25% of the amount can also be taken as a tax-free lump sum. Again, the Minister did seek to deal with some of those issues when he spoke, but given the number of people who have expressed such concerns, it is important to have them clarified for

[Cathy Jamieson]

the record. Increased flexibility may make such options more attractive for those who can afford to receive less of a salary as they approach retirement. It is important to ensure that what the Government intend the tax rules to do actually happens in practice.

The Government said that the new rules would

“ensure that individuals do not use the new flexibilities, which are intended to provide people with greater access to their retirement savings, to avoid tax on their current earnings by diverting their salary into their pension with tax relief, and then immediately withdrawing 25% tax-free.”

That is what the Government are trying to do.

“Those who choose to draw down more than their tax-free lump sum from a defined contribution pension will be able to benefit from further tax-relieved pension saving, and make further tax-free contributions to a defined contribution pension of up to £10,000 per year. This covers 98% of pension savers over the age of 55.”

2.15 pm

**Ian Swales (Redcar) (LD):** I understand the shadow Minister’s concerns, but she must at least put it on the record that she welcomes the Government’s reduction in the lifetime allowance for pensions, and the reduction of the amount that people can put into their pension and obtain tax relief on from an amazing £255,000 to £40,000.

**Cathy Jamieson:** I am glad that the hon. Gentleman understands why I am putting those points on the record and why I seek the Minister’s response. It is not simply my opinion; I am pulling together concerns that other hon. Members and people in the industry have raised.

Mr John Greenwood noted in his written submission, which took up some time during our evidence session and was debated during the passage of the Pension Schemes Bill, that the Government do not appear to have taken account of the potential loss of national insurance, which, in his view, is

“a far greater risk to the Treasury”

than the potential loss of income. He also argued that the Government did not spot the potential loophole when they introduced the changes.

He went on to say that “the £10,000 annual allowance” is

“only a deterrent to 2% of the population.”

He was pretty trenchant in his view, notwithstanding the comments from Ministers that the potential for tax avoidance could entirely wipe out the projected increase to Exchequer revenues arising from the Bill.

**Nic Dakin (Scunthorpe) (Lab):** I pressed the Minister on that point when he gave evidence, and he was concerned that the figure that Mr Greenwood suggested was too large. The measures he is introducing today will hopefully address that issue. Does my hon. Friend believe that the measures are sufficient to close the loophole, or do we need more information?

**Cathy Jamieson:** My hon. Friend made a powerful point when he pressed the Minister in the previous sitting. I do not doubt that the Minister genuinely

wants to assure us that he will do everything he can to avoid leakage or tax avoidance. I am quoting in some detail the figures and arguments submitted by Mr Greenwood to ensure that the Minister has the opportunity, after having reflected on what was said previously in Committee, to give us those assurances and outline what can be done if there are unintended consequences. Without straying into the arguments about the new clause that we will discuss later, which will ask Treasury Ministers to publish more financial information, I want to ensure that we get as much information as possible now.

Mr Greenwood argued that

“even if the risk to the Treasury is half my figure, and I am yet to hear anyone suggest this to be the case, then a 10 per cent take-up would still amount to £1bn loss in 2015/16, more than wiping out the £320 million gain predicted by the Budget.”

On the subject of national insurance, he claimed:

“The freedom to access pots entirely once an individual reaches age 55, creates an opportunity for anyone over that age to avoid liability for both employer and employee National Insurance, as well as income tax.”

He expressed surprise that nobody has

“published figures attempting to quantify the loss of NI and tax through this policy.”

I am sure that the Minister has done that work. I am sure that the Treasury has done that analysis and that all the loopholes and issues have been considered, brought together and presented to Ministers before the policy is taken forward. However, we have not seen that and we do not know the finer detail. It would be helpful to know it.

I also understand that Mr Greenwood’s written submission highlights the fact that he made a freedom of information request so that he could consider the costings and assumptions used in the formulation of the policy. However, he was not able to receive that information under FOI because the Treasury cited public interest in declining to release further details. I am sure that the Minister will want to explain why that decision was taken.

I will understand if the Minister says that he does not want to publish anything that would suggest how people could avoid tax. That would be an understandable argument. None the less, there is still enough concern about this issue to require more information from the Government.

I will again quote Ros Altmann who has largely been a champion of the reforms. It is fair to say that she has no axe to grind. She has considered and weighed up the proposals. She is similarly sceptical about the efficacy of that £10,000 money-purchase allowance. She says in her written evidence:

“If the Government is concerned about tax leakage, it should consider tightening the rules around pension recycling, so that those contributing to pension funds after taking any money from their pensions, whether tax free lump sum or flexible access, should have genuine pension-related, rather than tax-related, reasons for further pension contributions.”

That is an interesting concept in relation to the purpose of the measures. The purpose of saving into a pension scheme is to provide for retirement and the longer term, not to access tax-free money at various stages to do whatever one wants. It is about getting a balance and I am interested to hear the Minister’s view on that.

The Minister said in his written correspondence to the Committee and in evidence last week that he does not recognise Mr Greenwood’s figures. If he does not

recognise them, I assume there are others that he does. I understand why he might find it difficult to share some of them, but it would help us to understand the basis of his assumptions.

The Minister will be relieved to know that I will not spend all afternoon highlighting concerns raised by others. However, I want to return to the document I mentioned earlier, which covers the Government's consultation in July 2010 on the removal of the requirement to annuitise. In the section entitled "Principles for a new tax framework for retirement", the document states:

"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."

I wonder how the measures in the schedule fit with that principle. According to the explanatory memorandum, for deaths before the age of 75, lump sum death benefits and flexi-access drawdown pensions from these funds can be paid tax-free, subject, for example, to the member having a sufficient lifetime allowance.

It has been suggested that those two issues do not entirely fit together. We are looking for absolute assurances from the Minister that at no point would anyone be able to benefit twice from tax relief. That is what the principles outlined in July 2010 sought to prevent.

I do not have much more to say on the specifics of the amendments. As we heard from the Minister, amendments 1 to 8 provide for the treatment of unused funds in the drawdown fund of a deceased beneficiary who is not a dependant of the member. In other words, they deal with the situation where a non-dependant who has inherited unused pension funds dies. The Minister has given us an indication of why he has tabled those particular amendments.

Amendments 9 to 12 deal with payments by a non-UK pension scheme during a person's period of temporary non-residence. In particular, part 7 of the schedule includes provisions relating to overseas pensions and, again, my understanding is that that is simply to ensure that compatibility is maintained with the UK registered pensions tax regime.

Essentially, amendments 9 to 12

"ensure that payments by a non-UK pension scheme during a person's period of temporary non-residence that correspond to income withdrawals from a drawdown fund under a registered pension scheme are treated as arising when the person returns to the UK."

It would be helpful if the Minister gave us some assurances about the scope of that particular amendment, and I look forward to his response.

**The Financial Secretary to the Treasury (Mr David Gauke):** It is a great pleasure, Mr Weir, to serve under your chairmanship this afternoon. Let me see if I can address the hon. Lady's questions. First, she raised the reporting requirements that will apply and the concerns that they might be unworkable and lead to fines. There is a new requirement on individuals to tell their pension provider if they have accessed a pension flexibly, which is to ensure that individuals do not use the new system to gain a tax advantage that is not intended. Indeed, as a general point, it strikes me that we are seeking to find the right balance between allowing a system that works and ensuring that the tax advantages that exist with

pensions tax relief are not misused. Sometimes judgments can be quite finely balanced in that area, but this example of a requirement for people to report is an attempt to address a potential unintended tax advantage.

**Andrew Bridgen** (North West Leicestershire) (Con): Will the Minister explain to the Committee what sanctions will be taken against people who do not report to their pension provider and/or Her Majesty's Revenue and Customs?

**Mr Gauke:** The sanction available is fines, but let me say a bit more and put that in some of context. The Government are keen to work with industry and consumer groups, which will ensure that the requirements are proportionate and we will consider that issue further. The reporting requirements are designed to help individuals who have flexibly accessed their pension to understand the tax consequences of future pension savings that they can pay in tax charges due. We expect individuals to take reasonable care to ensure that they comply with the new requirements. Where an individual has, for example, forgotten that many years ago they were a member of a particular scheme, providing they have taken reasonable care, it is unlikely that HMRC would impose any penalties if they did not inform their provider that they have flexibly accessed their savings. Under the new flexibilities, we will not normally seek to impose the maximum penalty of £300 on individuals unless the failure is deliberate.

As with all legislation, we want to ensure that the Bill meets its purpose without imposing unnecessary burdens. Therefore, the Government will continue to talk with the pension industry, but if we believe it is right, we will make appropriate changes. We believe that the measure strikes the right balance at the moment, but we take an entirely practical and pragmatic approach to evidence that might emerge in future.

**Cathy Jamieson:** I have a very minor point. Obviously it is a short time until this process starts and it may be more likely that people at the front end of it will be the ones to perhaps be caught out if information is not made available and publicised widely in the public domain. Does the Minister have any plans to do that? Does he have plans for any other publications about this before the scheme is implemented?

2.30 pm

**Mr Gauke:** Let me first make the general point that we believe that this strikes the right balance. However, we are also prepared to listen to the evidence, the industry and consumer groups. As I outlined to the Committee, HMRC will also take a pragmatic approach to enforcement in this area, which is very important. The focus of the fines is very much on dealing with the deliberate defaulter or the person who seeks a tax advantage in a deliberate way in terms of the maximum penalty of £300. It will be necessary to ensure that individuals are properly informed of the new regime. Schemes need to tell their members when they become subject to the £10,000 allowance. Indeed, that is part of the Bill and the schemes will have a responsibility to ensure that people are aware of that.

[Mr Gauke]

The question of whether the changes are a ploy to bring forward revenue is familiar. The answer is that these reforms are about giving people more choice when they retire, not about raising revenue. The Government believe that people who have worked hard all their lives should have the freedom to decide how they use their savings. The costing of the reform was certified by the Office for Budget Responsibility and published alongside the Budget. I can run through the numbers for the next few years in terms of revenue raised. Revenue will be raised but it is very much incidental to the wider change to our pensions tax system that we believe is the right way forward.

The Government recognise the long-term fiscal sustainability challenge and we have taken substantial steps since 2010 to improve the long-term sustainability of the public finances, including reform of public sector pensions and increasing the state retirement age. We have done a lot in this area and we do not believe that our reforms will undermine that. Indeed, we think that the revenue effects are unlikely to be particularly significant overall, in the context of everything else that we have done. The overall revenue effects will, of course, depend upon people's behavioural responses. We will make any updates as and when appropriate.

On the potential recycling of the avoidance issue, I make the same point that I have made before: we will set out details of the policy changes we have announced since the March Budget in the autumn statement, certified by the Office for Budget Responsibility in the normal way. We believe that that is the right way forward. It is best to wait until the OBR has had the opportunity to review those numbers in the context of a fiscal event such as the autumn statement.

There is a balance to get right. We talked this morning about the changing nature of the work force, and we do not want to be in a position—particularly in the context of auto-enrolment—whereby someone who accesses their pension pot flexibly is then locked out from the pension system altogether. That would be undesirable. We believe that the £10,000 annual allowance sets the right balance but, as I made clear, we would need to review that decision if we found evidence to the contrary. However, we think that that is the appropriate approach to allow the majority of people the flexibility to withdraw or contribute to their pension as they choose, while ensuring that individuals do not use the flexibilities to avoid paying tax on their current earnings.

Under the current system, individuals in flexible drawdown have an annual allowance of zero, but that relates to a relatively small number of people. Under the new system, anyone can enter drawdown, so this approach would be disproportionate and disadvantage savers. It is right that we reform this area. We want to encourage pension saving, particularly in the context of automatic enrolment. We will closely monitor behaviour under the new system. If it becomes clear that the new system is being abused, we will not hesitate to take further action.

HMRC takes a great deal of action to address tax avoidance. On 5 November this year, HMRC issued a list of the 10 things that a tax avoidance scheme promoter will not always tell someone. The list sets out the risks that people face when they sign up to a tax avoidance

scheme, including possible monetary costs, reputational damage, and, in some cases, a criminal conviction. We will continue to take action in that area.

The hon. Member for Kilmarnock and Loudoun drew attention to the evidence provided by John Greenwood to the Pension Schemes Bill. He identified significant sums. As the hon. Lady made clear, they are not numbers that we recognise, but some of the assumptions that he used in reaching a very large number required everyone between the age of 55 and state pension age—5 million people—to be employed and taking advantage of the option to sacrifice salary into a defined contribution scheme. Each individual would reduce their salary significantly and the employer would pay the rest of their salary into their pension.

Each individual would pay an entire year's worth of sacrificed salary into their pension. It would be paid monthly, but they would live off their reduced salary for a whole year before accessing their salary as a lump sum after the end of that year. It was also assumed that the individuals would have enough annual allowance left to do that on top of their employer's current contributions. It is a very unlikely set of assumptions. As the hon. Lady knows, I wrote to the Chairs of the Pension Schemes Bill Committee. Copies have been circulated to members of this Committee explaining why we do not recognise those numbers, but I am grateful to have the chance to put that on the record.

**Nic Dakin:** Notwithstanding everything the Minister has said, is there a loophole by which people can avoid paying tax? Will tax be avoided through the recycling method, or are the measures he is putting in place enough to prevent that?

**Mr Gauke:** One has to be careful what one means by tax avoidance in this case. We can probably agree that recycling is an artificial, contrived arrangement, as opposed to a situation in which somebody has drawn down flexibly and proceeds to make further contributions. We will keep the matter under review. Our desire is to prevent a significant loss to the Exchequer. We do not want the provisions to be exploited by widely marketed schemes that make use of that particular arrangement, and we believe we have got the balance right. The benefits of engaging in such contrived arrangements are restricted, so the appeal of making use of them in an industrialised, widespread and widely marketed way is severely diminished. I repeat the point that, if we find evidence to the contrary, we would need to come back to the matter.

**Ian Swales:** Has the Minister considered whether future pension allowances after drawdown should be connected to employment only, or will they be available to anybody who has the cash to put into a scheme?

**Mr Gauke:** We have no further plans to make restrictions in this area. Perhaps outside this meeting, I would happily have a conversation with the hon. Gentleman and hear further the thoughts he has—I do not know whether he has a particular mischief in mind—but we are always seeking ways to address artificial and contrived behaviour in the tax system.

I will just pick up a few other points raised by the hon. Member for Kilmarnock and Loudoun. First, there is the point about the different regime for those aged 75 and over, as opposed to those under 75. The age of 75 is a feature of the existing pensions tax system. It is the age at which individuals stop receiving tax relief on pension contributions, and at which most people will bring their pension into payment. Individuals who die under the age of 75 with untouched pension funds are already able to pass them on to anyone tax-free. The changes simply extend the tax treatment to those under 75 who have money in a drawdown account. The primary purpose of pensions is for people's retirement, but if someone dies before they get to use their pension for that purpose, beneficiaries should be able to have those funds. However, we do not want pensions to become a vehicle for inheritance tax planning, so once someone is 75 they will be able to pass the funds on to others in a flexi-access drawdown account, but they will need to pay their marginal rate of tax on them. That is the sensible approach.

As for questions about the death charge and its application to annuities, the changes do not apply to annuity income in general. There is a lump-sum death benefit provided in relation to annuities. That will be treated in the same way as other lump-sum death benefits—that is called the annuity protection lump-sum death benefit. I will let the hon. Lady come up with an appropriate acronym for that.

I was asked about the thinking behind the temporary non-residence rule and why there is a *de minimis* of £100,000. We have extended the temporary non-residence rule on pension income from April 2015. Previously, it applied only to those in flexible drawdown, who were required to prove that they had secured a minimum income of £20,000 in retirement, and so in most cases had no need to make further provision for their retirement. In the new system, everyone will be able to access their pension flexibly. The Government believe that setting a *de minimis* of £100,000 is the appropriate level to focus the anti-avoidance rule on those who purposefully move abroad to avoid income tax on large withdrawals from their pension savings. However, the Government will closely monitor behaviour under the new system and will reconsider the level of the *de minimis* if necessary.

I hope those points of information, clarification and explanation are of assistance to the Committee and that, having made them, the schedule, amendments, new clause and new schedule can stand part of the Bill.

*Amendment 1 agreed to.*

*Amendments made:* 2, in schedule, page 11, line 5, leave out “or (2)” and insert “, (2), (2A) or (2B)”

*See explanatory statement to amendment 1.*

Amendment 3, in schedule, page 11, line 10, leave out “or dependant’s” and insert “, dependant’s, nominee’s or successor’s”

*This amendment ensures that the maximum lump sum death benefit that can be paid from a non-dependant beneficiary’s drawdown fund is equal to the value of the investments representing the funds that were unused immediately before the beneficiary’s death.*

Amendment 4, in schedule, page 35, line 3, at end insert—

- “(da) a payment of nominees’ drawdown pension,
- (db) paid to purchase a nominees’ short-term annuity,
- (dc) a payment of successors’ drawdown pension,

(dd) paid to purchase a successors’ short-term annuity,”

*This amendment extends the circumstances when pension schemes can pay benefits that are authorised payments for tax purposes but are not permitted under their scheme rules. It adds drawdown pensions paid to non-dependant beneficiaries.*

Amendment 5, in schedule, page 35, line 38, at end insert—

- “(ba) any nominees’ income withdrawal paid to the person from a nominee’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,
- (bb) any successors’ income withdrawal paid to the person from a successor’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,”

*This amendment, and amendments 6, 7 and 8, ensure that income withdrawals made from a non-dependant beneficiary’s drawdown fund under a registered pension scheme when the beneficiary was temporarily non-resident are treated as accruing when the person returns to the UK.*

Amendment 6, in schedule, page 35, line 46, at end insert—

- “(da) any payment to the person of a nominees’ short-term annuity purchased using sums or assets out of a nominee’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,
- (db) any payment to the person of a successors’ short-term annuity purchased using sums or assets out of a successor’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,”

*See the explanatory statement to amendment 5.*

Amendment 7, in schedule, page 37, line 22, at end insert—

- “(ba) any nominees’ income withdrawal paid to the person from a nominee’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,
- (bb) any successors’ income withdrawal paid to the person from a successor’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,”

*See the explanatory statement to amendment 5.*

Amendment 8, in schedule, page 37, line 30, at end insert—

- “(da) any payment to the person of a nominees’ short-term annuity purchased using sums or assets out of a nominee’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,
- (db) any payment to the person of a successors’ short-term annuity purchased using sums or assets out of a successor’s flexi-access drawdown fund in respect of an arrangement relating to the person under a registered pension scheme,”

*See the explanatory statement to amendment 5.*

Amendment 9, in schedule, page 39, line 16, at end insert—

- “(ba) is paid to the person in respect of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be nominees’ income withdrawal (within the meaning of paragraph 27D of Schedule 28 to FA 2004) paid to the person from the person’s nominee’s flexi-access drawdown fund in respect of the arrangement,
- (bb) is paid to the person in respect of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be

successors' income withdrawal (within the meaning of paragraph 27J of Schedule 28 to FA 2004) paid to the person from the person's successor's flexi-access drawdown fund in respect of the arrangement."

*This amendment, and amendments 10, 11 and 12, ensure that payments by a non-UK pension scheme during a person's period of temporary non-residence that correspond to income withdrawals from a drawdown fund under a registered pension scheme are treated as arising when the person returns to the UK.*

Amendment 10, in schedule, page 39, line 32, at end insert—

- "(da) is a payment to the person of an annuity purchased using sums or assets held for the purposes of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be a payment of a nominee's short-term annuity (within the meaning of paragraph 27C of Schedule 28 to FA 2004) purchased using sums or assets out of the person's nominee's flexi-access drawdown fund in respect of the arrangement,
- (db) is a payment to the person of an annuity purchased using sums or assets held for the purposes of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be a payment of a successor's short-term annuity (within the meaning of paragraph 27H of Schedule 28 to FA 2004) purchased using sums or assets out of the person's successor's flexi-access drawdown fund in respect of the arrangement."

*See the explanatory statement to amendment 9.*

Amendment 11, in schedule, page 41, line 16, at end insert—

- "(ba) is paid to the person in respect of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be nominee's income withdrawal (within the meaning of paragraph 27D of Schedule 28 to FA 2004) paid to the person from the person's nominee's flexi-access drawdown fund in respect of the arrangement,
- (bb) is paid to the person in respect of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be successor's income withdrawal (within the meaning of paragraph 27J of Schedule 28 to FA 2004) paid to the person from the person's successor's flexi-access drawdown fund in respect of the arrangement."

*See the explanatory statement to amendment 9.*

Amendment 12, in schedule, page 41, line 32, at end insert—

- "(da) is a payment to the person of an annuity purchased using sums or assets held for the purposes of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be a payment of a nominee's short-term annuity (within the meaning of paragraph 27C of Schedule 28 to FA 2004) purchased using sums or assets out of the person's nominee's flexi-access drawdown fund in respect of the arrangement,
- (db) is a payment to the person of an annuity purchased using sums or assets held for the purposes of an arrangement relating to the person under the scheme and would, if the scheme were a registered pension scheme, be a payment of a successor's short-term annuity (within the meaning of paragraph 27H of Schedule 28 to FA 2004) purchased using sums or assets out of the person's successor's flexi-access drawdown fund in respect of the arrangement,"—  
(Mr Gauke.)

*See the explanatory statement to amendment 9.*

*Schedule, as amended, agreed to.*

## Clause 2

### RESTRICTION AND REDUCTION OF TAX CHARGES ON CERTAIN LUMP SUMS

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

2.45 pm

**Mr Gauke:** I shall be brief. Clause 2 amends chapter 5 of part 4 of the Finance Act 2004 to reduce the special lump-sum death benefits charge from 55% to 45%, which applies to certain lump-sum benefits, and also removes the tax charge altogether on such lump sums when an individual dies under the age of 75. It also reduces the serious ill health lump-sum charge from 55% to 45%. The Committee will note that the Government have tabled amendments building on the changes, which we have just debated, so I will not go over that old and, I hope, familiar ground. I hope clause 2 will stand part of the Bill.

**Cathy Jamieson:** As the Minister says, clause 2 concerns the payment of lump-sum death benefits. Under the current rules, lump-sum death benefits are taxed at 55% for anyone aged 75 or over. The rate of lump-sum death benefit charge is set at 55% in the Finance Act 2011, which is the same legislation that removed the requirement to buy an annuity at 75. That was intended to reflect the value of tax relief that had already been given. In essence, therefore, clause 2 reduces the charge from 55% to 45%, which is the top marginal rate of taxation.

Clause 2(2) amends section 206(1) of the Finance Act 2004 to provide that, when a lump-sum death benefit is subject to the special lump-sum death benefit charge, it would apply only when the member had reached the age of 75 at their death. Those under 75 are therefore exempt. Subsection (3) reduces the rate of lump-sum death benefit charge from 55% to 45%, and subsection (4) provides that the serious ill health lump-sum charge is likewise reduced from 55% to 45%. Currently, the charge applies when a serious ill health lump sum is paid to a member after they have reached the age of 75. All an individual's uncrystallised rights can be paid as a serious ill health lump sum when the scheme administrator has received medical evidence that the member has less than 12 months to live.

The broader debate about the changes has mainly centred on whom they would benefit most. The Treasury predicts that savers with smaller pension pots worth between £20,000 and £50,000 would be among the many to benefit. However, according to the National Association of Pension Funds, while the change may encourage some to save more into their pension assured that they will be able to pass on the lion's share without tax, the reality is that it is likely to affect only those with large pension pots. Once again, while the Government's intention is moving in one direction, others in the industry differ on the practical implications.

It is worth stating that the amendment of the Finance Act 2004 to reduce the lump-sum charge from 55% to 45% for those in serious ill health and with less than 12 months to live, which would be a critical time for any family, is to be welcomed. However, we are again seeing that difference between what the Government say they want and genuinely intend and what the people on the

ground think might happen, in particular for those with smaller pension pots and those on lower incomes. We need to think carefully about what the changes will mean in practice for such pension pots. There is no reason for the clause not to stand part of the Bill, but it would be helpful if the Minister addressed that point.

**Mr Gauke:** I thank the hon. Lady for her support for clause 2. Her concern is essentially that the change is a tax cut for wealthy individuals with big pension pots, but the change means a tax cut for all pension savers and not just the wealthy. Anyone with defined contribution pension savings—12 million people in the UK—will be able to benefit from the changes. Some 320,000 people retire each year with defined-contribution pension savings of all sizes. These people will no longer have to worry about their pension savings being taxed at 55% on death, if they choose to access it flexibly.

I suppose I should also make the point that the well advised were probably always less likely to fall into hitting this particular charge, so probably, all other things being equal, the previous arrangement would have been less likely to affect wealthy individuals having sought advice and so on. The fact is that we have taken this threat away. There was concern that people were inadvertently finding themselves in a position where their estate was being taxed at 55%, whereas if they had acted differently that was less likely to happen. We have removed that threat, as it were.

Potentially many millions of people will benefit from the threat being removed. That is not to say that millions of people paid this tax charge—they did not—but it does mean that the risk of what could be viewed as a punitive charge is removed. Particularly in the context of more people accessing their pension flexibly, it is right that we made that change, because there was a risk that ever more people would find themselves paying the charge. We have anticipated a problem arising with the system down the line if we do not make the change. That is why we made the changes set out in the clause.

**Ian Swales:** I think I am right in saying that, on death, this becomes part of somebody's estate and is therefore subject to inheritance tax, so the real winners are lower-paid people, who will be below the inheritance tax threshold, and will therefore have a tax cut from 55% to 0%, whereas those who are above the threshold will be paying tax at 40%.

**Mr Gauke:** In general terms, the measure falls outside the inheritance tax regime, so it is a little bit different, although it is a tax on death so it shares many similarities, and there are some complexities in the system, as I understand it. None the less, it is a necessary change in the context of the new framework and I am pleased that we are able to introduce it.

*Question put and agreed to.*

*Clause 2 accordingly ordered to stand part of the Bill.*

### New Clause 1

#### DEATH OF PENSION SCHEME MEMBER

'Schedule (Death of pension scheme member) has effect.'—  
(*Mr Gauke.*)

*This new clause introduces NSI (death of pension scheme member).*

*Brought up, read the First and Second time, and added to the Bill.*

### New Clause 2

#### PENSION FLEXIBILITY: TREASURY ANALYSIS

'(1) The Chancellor of the Exchequer shall, within six months of this Act receiving Royal Assent, publish and lay before the House of Commons any analysis prepared by the Treasury prior to the publication of the Taxation of Pensions Bill introduced into the House of Commons on 14 October 2014, relating to the impact of changes made by this Act to the Finance Act 2004 and the Income Tax (Earnings and Pensions) Act 2003.

(2) The information published under subsection (1) must include—

- (a) the distributional impact, by income decile of the population, of changes made by this Act to the Finance Act 2004 and Income Tax (Earnings and Pensions) Act 2003;
- (b) a behavioural analysis; and
- (c) the financial risk assessment.'—(*Cathy Jamieson.*)

*Brought up, and read the First time.*

**Cathy Jamieson:** I beg to move, That the clause be read a Second time.

Subsection (1) of the new clause would require the Chancellor to publish the information set out in subsection (2). Given the number of times that we have talked about the need to have analysis, figures and more information, I do not want to go over that ground again, but I will briefly revisit it with some examples of why I think that this is necessary.

**Mr Geoffrey Robinson** (Coventry North West) (Lab): Welcome to the Chair, Mr Weir.

I seek information from the Government. For the financial risk assessment, does my hon. Friend have in mind some of the points we discussed in the previous sitting, which will be specifically covered in new clause 3, notably the impact on the Treasury revenues and the assessment the Government, by definition, have already made? It seems inconceivable that the Government had not assessed the impact on Treasury revenues before introducing the Bill, yet we were assured at the last but one sitting that the Government have made no such assessment. Is she trying to capture that information?

**Cathy Jamieson:** My hon. Friend makes an important point. Our aim in new clauses 2 and 3 is to capture the information the Government already have. What work has already been done? I heard and understand what the Minister said about it not being possible to lay out some of that information in advance, for various reasons of market sensitivity and because figures have to be dealt with by the OBR. I understand that, but it seems to me that that work must have been done, so at what point can that work come into the public domain? New clause 2 would simply write it into the Bill that the information will be published, so that it is there for the future. That links to new clause 3, which looks to the future—how the legislation and schemes will be implemented in practice and what can be learned from that. It is always good to have a baseline of information to start from.

[Cathy Jamieson]

I am sure that the Minister will understand why we tabled the new clause. He has heard me talk on numerous occasions—perhaps more than he would like to recall—about drafting legislation on the basis of an evidential process. It should be based on consultation, engagement and, crucially, analysis. I do not think it is unfair to say that we want as much information as possible to be put into the public domain. These reforms were introduced with a pretty big fanfare at the time of the Budget announcement. As the Government have made a big deal of this, it seems reasonable to say that we would like to understand fully the underlying assumptions.

**Mr Robinson:** My hon. Friend said in the previous sitting that the legislation was introduced with some haste and highlighted the rather peremptory nature of its introduction. Perhaps the Government did not carry out any proper assessment beforehand. I think that this is what the new clause is seeking to get behind, is it not?

**Cathy Jamieson:** I hear what my hon. Friend says. I think I said earlier that I was giving the Government and the Minister in particular the benefit of the doubt in assuming that this work had been undertaken, but perhaps I am being too generous. My hon. Friend, who has a great deal of experience in these matters, seems to be suggesting that I am. Perhaps the information that I am seeking to bring into the public domain has not been put together, or is being put together to be finally sent off by the OBR. Who knows? Only the Minister can answer. We have discussed the principles of the Bill and what it tries to achieve; we now need to drill down into the financial underpinnings, both to understand what is likely to happen and to give us a baseline for the future. I want to highlight a couple of issues. The Minister will be relieved to hear that I do not intend to read out all the pages I have here. I simply have a few points marked to raise with him.

3 pm

Paragraph 215 of the explanatory notes, under the broad heading of the financial impacts of the Bill, states:

“In view of the subject-matter of the Bill, a full Impact Assessment is not necessary. A summary of the impacts is provided below. Further detail is contained in the summary of impacts in the Tax Information and Impact Note.”

Paragraph 216 gives some fairly specific figures for the period between 2015-16 and 2019-20, both the revenue that is expected to be raised and the costs for implementing the changes that HMRC would need to make in terms of staff resources and IT systems. On the one hand there is no requirement for a full impact assessment, but then there is reference to some figures and we do not have the full information to be able to scrutinise them.

Some of the written evidence that has been provided to us deals with the broad context of financial analysis and the impact on the economy. The written evidence from the Association of British Insurers has a whole section on product innovation. It states:

“Providers will respond positively to the 2014 Budget reforms as the new rules should allow for better product solutions to be offered to cope with historically low levels of interest rates and high levels of longevity in retirement.”

The ABI assesses the current economic circumstances, then goes on to talk about some of the changes the Bill makes where it believes people could make use of the flexibilities. I was drawn to one paragraph, which states:

“However, the regulatory regime and the tax framework will be critical to the degree of innovation possible in the post-April 2015 market. Both conduct and prudential regulators will need to take sensible and proportionate approaches to the sale of new products and the capital required behind them, if the Government’s ambitions for an innovative market are to be fully met.”

We have not taken a huge amount of time to probe into what the impact on the industry will be in terms of the capital requirements.

There are other areas where the ABI has raised concerns. These people are experts in their field. They are not saying, “We are not doing it,” or, “We can’t do it,” but “There are problems and challenges along the way and we have to get it right.” I shall mention two areas in particular. The first relates to social care which I referred to this morning. The ABI’s written evidence states:

“The ABI signed a Statement of Intent with the Department of Health in January 2014 demonstrating the willingness of providers to be part of society’s response to the challenge. Of equal importance is the need to develop the demand for care products through a government led public awareness campaign and we are pleased that the Department of Health is taking this forward.”

**Mr Robinson:** My hon. Friend touches an important point, directly relevant to the new clause. The Bill has been introduced in haste and was something of a surprise. It has been described in certain parts as a headline-seeking announcement, and although that is not a phrase that I would necessarily use myself, there is a danger of it being rushed through. What would be the dangers, other than inconvenience, if the measure were postponed for a year? Is there not a danger of it being rushed through, ill prepared? A Bill such as this one is always the better for preparation.

**Cathy Jamieson:** Once again, I thank my hon. Friend for his intervention. The Minister will obviously respond on this, but we have two significant pensions Bills running, not quite alongside each other but almost in tandem. Without wishing to go back to the earlier debate about the guidance, it is critical to get both bits correct. The danger is that if we do not probe all the implications thoroughly, we could find that the guidance guarantee does not quite cover all the bases, or indeed that all the financial implications have not been thought through and that there is perhaps a difference of opinion or of intent between what one Bill aims to do and what the other Bill actually will do in practice. It is right and proper that we probe these things here and that is why we have tabled new clause 2.

The ABI talks about investment in infrastructure, highlighting the part that the insurance industry plays in our economic strength,

“managing investments of £1.8 trillion—equivalent to 25% of the UK’s net worth.”

This was drawn out in the evidence session. Crucially, the ABI says in its evidence that:

“If the momentum towards early access continues, the prospect of the pension sector providing long term investment fuel for economic growth is reduced. Pension providers, whether trust based occupational schemes, contract based schemes, or retirement income providers, will face greater requirements to be ‘liquid’”.

to deal with that issue around the age of 55. I do not want to open up the whole debate again, but this morning I picked up on a phrase used by one of my hon. Friends and said that, essentially, the Bill devolves the responsibility for making decisions from the state and the pension providers to the individual. The Bill and the Pension Schemes Bill both have a knock-on impact in terms of economic consequence. It comes back to the broader economy and the ability of pension funds to be part of that growth process.

The ABI goes on to say:

“The long-term nature of annuity books helps the insurers who run them to invest in the UK economy, especially in long-term projects like infrastructure. If pensioners take more of these assets at the point of retirement and keep them in a bank account or invest in other assets (such as buy-to let)”—

this is another area where a number of concerns have been raised.

**Mr Robinson:** My hon. Friend’s point is well taken, certainly by Labour Members, that this is a huge industry. It controls, or at least holds in one way or another, up to a quarter of the nation’s entire net worth. The United Kingdom’s net worth is roughly a quarter resident in these pension schemes. When we mention the financial risk assessment in new clause 2, surely that is what my hon. Friend has in mind. What assessment have the Government made? The financial risk could be that funds for infrastructure could die off, for example. Is that all covered, in her view?

**Cathy Jamieson:** My hon. Friend has highlighted some of the reasons why it is important to have that analysis and risk assessment done. I am sure that with all the resources available to the Treasury, it will have considered this—again, I am being generous to the Minister and the Government. I am sure that they have done all the work and considered all these issues and that they have answers to the questions about the potential impact if pension funds are not able to invest in infrastructure, but I would like to understand the thinking and find out whether they uncovered any concerns or any changes that might need to be made in the future.

I mentioned buy-to-let. One concern that was raised at the outset is that if people decide, for example, to take their pension pots and invest in property, how might that skew the housing market? What are the wider implications? How does that skew the whole way of procuring and investing in infrastructure for the long term? These are all things that matter to the broader UK economy and although they may not appear to be directly within the wording of the Bill, none the less, there is a potential impact arising from the Bill which has not yet been explored.

I will briefly mention some of the other written evidence contributions. I have spoken about the impact on the broader economy, the insurance industry and so on, but some of the issues relate more to individuals. A number of submissions were made about the need for the new rules to be preceded by education and promotion campaigns. For example, the Association of Taxation Technicians, which is in the business of making these schemes work and providing information on them, talks about the need to provide information, in particular real-time information on the reporting requirements. That is to do not so much with the broader economy, but with the financial impact on individuals. In its submission, the ATT said that it remains

“deeply concerned about the impact on the income tax position of pensioners considering taking benefits under the new regime. A system based on many end-of-year reconciliations being carried out with no legislative framework or structure—such as there is, for example with the self-assessment system where assessments are appealable”—

it makes the point that P800s are currently not appealable—“will only lead to chaos and misery for very many frustrated pensioners.”

I am in generous mode, so let me say that I am sure that that is not what the Minister or the Government intend. None the less, if the people who will operate the system and provide guidance, information and advice are raising concerns, we must listen to them.

**Nic Dakin:** As I read the written evidence, I see a favourable attitude to the general direction of the Bill; people are merely raising concerns that they hope have been properly considered. The publication of the analysis, as suggested by my hon. Friend, would give both reassurance and confidence. She is putting the case for that well.

**Cathy Jamieson:** I thank my hon. Friend for that. Indeed, all the points I am making have been raised time and again since the Bill’s publication. As I have already acknowledged, after the initial shock, with people being perplexed and not sure how they would take things forward—to be fair, this tends to happen in such circumstances—the industry rallied round, looked at what it had to do and began to put in place the required measures. Whatever the Government of the day decide, that is what it does. None the less, there is still a concern that, with the pressure to get this done for April 2015, certain matters still have to be addressed because no one can quite predict what the behaviours of people will be in the future.

As I outlined, the impact on the wider economy has not been looked at as thoroughly as it might. Our new clause, which would simply require the Government to put information into the public domain to allow us to see their thinking and the workings done behind the scenes so that we could understand the situation better, is a mild-mannered request. I do not think that that would be difficult for the Government, given that they have done all of that work, which will have been scrutinised and signed off. We want to see the workings behind the scenes as well, to give us the opportunity to look to the future.

I have had the pleasure on several occasions to move similar amendments to various Bills urging that analysis and information be brought into the public domain, and the Minister has always been pleasant and responsive in saying no and repeating why he cannot do that. I am not holding my breath, but it would be wonderful if, in this Bill, he could change the habit of a lifetime, break out into a different approach and make my day by agreeing to provide the information and accepting the new clause. I look forward to hearing what he has to say.

3.15 pm

**Mr Gauke:** Indeed it is a pleasure to respond to the hon. Lady. As she said, there have been many occasions on which she has tabled new clauses seeking a review and there have been many occasions where I have turned down her kind offer. Today is no exception.

[Mr Gauke]

I hope that in some ways I can sugar the pill by saying that I hope that we have many opportunities to have similar debates, in which she puts forward such proposals and I turn them down, over many years ahead. Nothing would please me more.

New clause 2 would require that the Government should, after six months, publish any analysis prepared prior to the introduction of the Bill, including assessment of distributional impact, behavioural analysis, and the financial risk assessment. I will try to explain why the proposed new clause is unnecessary. First, I will provide a short explanation of the distributional analysis that the Government publish.

Distributional analysis measures the impact of Government changes to tax and spending. Although the measures in the Bill are clearly taxation measures, they do not, in and of themselves, make individuals materially worse off or better off. They increase the choices available to individuals over how they access their savings and allow people to delay or bring forward their income, but do not alter the amount of savings that they have in aggregate. As the Government set out in paragraph 1.9 of the distributional analysis document accompanying this year's Budget, the distributional analysis "shows the impact of changes in government fiscal policy with a direct impact on households, but not of all government decisions."

The tax information and impact notes published at the Budget set out the Government's analysis of the impact of the measures contained in the Bill, including estimates of the costs to the Exchequer, certified by the independent Office for Budget Responsibility, and equalities impacts.

The new clause would require the Government to publish a full behavioural analysis and a financial risk assessment. As I am sure hon. Members will realise, the costing of tax measures can involve an assessment of the behavioural impact of the measure and, in some cases, the capacity for additional tax planning and avoidance behaviour. Those assumptions are certified by the OBR. However, the Treasury considers that the publication of detailed behavioural assumptions can have the potential to affect that behaviour and, as such, is potentially detrimental to policy-making.

The policy costing note published alongside the Budget explains how the costings have been calculated in line with the principles outlined in the Government document, "Tax policy making: a new approach", which was published alongside the June Budget in 2010. The costings of the policy will, as I said in the evidence that I gave to the Committee, be updated at autumn statement, when they have been certified by the OBR. The policy costing note will be published, setting out how the costings have been reached.

**Mr Robinson:** On that specific point, it seems rather implausible that the Government had done all that detailed work before the Bill was announced unexpectedly to the public and were all ready to go, but that no assessment was given. It depends a bit on assumptions about behavioural impact and of the impact on the Government's revenues. Coming back to that point, is the Minister really sure that no estimate was made of that? I would have thought that was one of the central estimates that the Treasury would have made right from the beginning.

**Mr Gauke:** I am glad that the hon. Gentleman intervened. I would not want him to be confused in any way by anything I said earlier, so let me be completely clear: the Treasury published at the time of the Budget an estimate of the impact on the public finances. Indeed, I have in my hands a piece of paper with the information set out at that time. It involved increased revenue in 2015-16 of £320 million, £600 million the following year, and then £910 million, £1,220 million and £810 million. That was all set out at the time of the Budget. When I say that further information will be published, I am talking about the further analysis undertaken in the light of further policy changes announced since the Budget. I do not want the Committee to be left with the impression that no numbers have been produced. Numbers were produced at the Budget and a further update will be provided at the autumn statement in the normal way. An assessment was made at the time of the Chancellor's announcement at the Budget.

**Cathy Jamieson:** I hear what the Minister says about the figures that we already have and the other figures that will come in the usual way, as he describes it. Will he confirm that the analysis undertaken has also taken into account the concerns that we and others have raised about the wider economy? Will it simply be an update of the figures that are already in the public domain?

**Mr Gauke:** It is an update of the figures that we have, taking into account the additional policy announcements that have been made. We discussed earlier the development of this policy and the announcement made at the March Budget. There were details that we wanted to consult upon; we had a 12-week consultation and responded to that. As I work through the points raised by the hon. Lady, I will say a little more about the thinking behind this. We will set out details in the autumn statement, which is not very far away, in the normal way that a policy and its costings are set out in the relatively new regime, with an independent Office for Budget Responsibility.

Analysis of the policy to reduce the withdrawal tax rate for income from pensions from 55% to the marginal rate of income tax is detailed in the policy costings document published at the Budget. I referred to those numbers a moment ago. A number of updates have been made to the policy since the announcement at Budget. The Exchequer impact of those will be presented in an updated tax information impact note at autumn statement, in line with the normal policy costings process. The question of why there is no impact assessment was raised. The Government publishes tax information impact notes—TIINs—for tax measures, which are similar to the impact assessments published for regulatory measures.

**Mr Robinson:** The Minister is anxious that I should not be confused, but I have to confess to being somewhat confused by what he says. Of course, we understand fully that this is not a tax measure directly raising or lowering rates of income tax. However, it has a behavioural consequence that may have a considerable impact on the Government's revenues. I want to come back to the specific assessment he made of what might happen to existing policies without these changes. That could have

a bearing on Government revenues, directly or indirectly—whichever way he wants to describe it. That is all clear. These are very big changes by any standard. We welcome the idea behind them, let us be clear about that; but how could such changes be introduced without the Treasury making an assessment of what might happen in certain circumstances given behavioural changes, or of the indirect effects on Government revenues? It is that assessment that we are really seeking, not the figures that he read out.

**Mr Gauke:** I will continue to endeavour to reduce the confusion that the hon. Gentleman may feel. He can inform me at the end of our proceedings what progress I have made on that front. If he is talking about, for example, issues to do with social care, let me say a word or two about that.

By way of context, this Government are introducing historic reforms to social care funding, including a cap on people's care costs from April 2016 and a universal offer of deferred payment agreements from April 2015. That means that people will not face unlimited care costs and should not be forced to sell their home in their lifetime to pay for care. The Dilnot commission found that, although the financial services industry already offers some support to people to pay for their social care costs through products such as care annuities, it has the potential to play a larger role and offer people more choice if the conditions are right. A review commissioned by the Department of Health identified that allowing people to have more flexibility over when and how they take income from their retirement products could help them to plan better for their care. The Government expect that the proposed changes to the tax rules from April 2015 will allow the industry much greater flexibility to develop new products that may meet people's social care needs. The Government are working closely with the Association of British Insurers on how the insurance industry can help people to plan for social care. The new tax framework allows providers to innovate and create new products that meet consumers' needs, including for social care.

The wider question, which the hon. Member for Coventry North West raised, is what is the impact on the Exchequer—are we going to see greater costs, and so on? We debated that this morning. The point I would make is that it is hard to make an assessment, because it depends on a whole number of factors and how many different people will respond to the new environment. We should not miss from this debate the fact that there is also the opportunity for greater innovation in developing products that may well help people. So there are many factors here. In the great scheme of things, what we have done as a Government in terms of dealing with the long-term sustainable risks that we face, whether that is increasing the state retirement age or reform of public sector pensions, is to put the UK in a much better fiscal position long term. We do not believe that the changes we have made in this area in terms of risk that people will find themselves relying on the state to help them through their last years are as significant as the hon. Gentleman fears. Given that overall context, not to mention of course the reforms to the state pension, which mean that people are less likely to rely on means-tested benefits, we believe that this is a fiscally sustainable and responsible approach.

**Cathy Jamieson:** I rise to probe the Government slightly on provision of social care. It has been a fundamental principle of the Government's approach to pensions to provide freedom, choice and flexibility. What work has been done to ensure that freedom, choice and flexibility will be available for people planning for their long-term care, and to ensure that the rules do not inadvertently mean that people are incentivised to use only certain services? I asked previously about the buy-to-let property market; has any assessment been made of whether the market in care provision is similarly likely to be skewed?

3.30 pm

**Mr Gauke:** We are working closely on this matter with the ABI and the insurance industry more widely. We believe that the new framework will give greater flexibility to the industry to respond to the needs of consumers, which is helpful in the context of long-term social care. I am not sure that we expect the Bill to have a particularly distorting effect; if anything, the greater ability to innovate will be helpful.

The hon. Member for Kilmarnock and Loudoun also asked about the future of the UK life insurance industry. We recognise that there will be a significant change for the industry, but the new measures will provide a real opportunity for it to innovate and develop new products to meet consumer needs and preferences, and the Government are keen to work with industry on how best to implement them. We remain committed to the UK insurance industry. We recognise that there are challenges, but we are committed to working with the industry to serve the needs of UK customers and to help it to grow internationally.

I was asked about the wider issue of whether, as we debated this morning, the pensions industry will be ready for the April 2015 launch. We have consulted extensively with the industry and with individual pension providers, and they overwhelmingly support the proposals. They are keen to introduce products and innovations for their customers in time for next April. Following the Budget, there were 12 weeks of consultation and more than 300 responses, and an HMRC technical consultation on the legislation was published. I would say that the industry is supportive. Although I will not, I could run through a list of quotations from industry figures in support of the reforms that we have undertaken.

I note the suggestion by the hon. Member for Coventry North West that we should delay introduction for 12 months, but 320,000 or so people with a defined-contribution scheme are likely to retire over that period, and we do not want to deprive them of the opportunity to make use of the flexibility that the Bill will grant. I do not know whether he was merely floating that idea as a suggestion or strongly advocating it as an approach, but if it is the latter then we are probably not inclined to follow his advice.

**Mr Robinson:** It was merely a suggestion and was not intended to be taken at all seriously, and I did not think that it would be taken up by the Government. On the other hand, I am not sure whether we are going to push new clause 2 to a vote if the Minister does not accept it—as is usually the case. I will of course be guided by my hon. Friend the Member for Kilmarnock and Loudoun on that.

[Mr Robinson]

To his immense relief, I am sure, I will not push the Minister on what estimate was made of the impact on Treasury revenues, although I am sure that that must be in there somewhere. Nevertheless, before we move on, I still want to try to get behind what assessment has been made of the financial risk, which is the purpose of the new clause. I have an infrastructure question: can the Minister confirm that the £1.8 trillion figure provided by the ABI is correct and that that represents 25% of the UK's net worth? It seems to me that the Treasury should be concerned about that, because infrastructure is vital, as the Treasury has said. We have a national infrastructure plan that has not got going, and we all know about the very real difficulties with getting infrastructure going. The issue is not only money—it is also planning and all the rest of it—but it is in part money. What estimate has been made of the possible impact on the liquidity of those funds? There are real implications. What assessment did the Treasury make before the launch of the Bill? We will be asking for a report on it in new clause 3. What is the Treasury's assessment of the Bill's impact on the liquidity of the funds available for national infrastructure?

**Mr Gauke:** Before responding to the hon. Gentleman, I am tempted to ask whether in his time as a Treasury Minister he ever accepted an Opposition amendment to have a review of a piece of his legislation.

**Nic Dakin:** I am sure he gave it full consideration.

**Mr Gauke:** I am sure he did, and I am fairly confident that he then rejected it.

**Mr Robinson:** In those days, we did not introduce in haste and repent at leisure. We clearly thought things out. The Minister will find an account of the immense detail that went into preparing legislation in books that have been quoted against me—my own book in particular. I do not expect that he will read it, but I do not see why he should not. We could avoid the need for this if he would tell us now the answer to the financial risks involved.

**Mr Gauke:** I will resist the temptation to examine the hon. Gentleman's claim that all measures during his time as a Minister were well considered and thought through. I have read his book and thoroughly enjoyed it. I shall re-read it to discover the answer to my question.

On the issue of investment in infrastructure, the hon. Gentleman quoted some numbers. Those are the ABI's figures, not the Treasury's. The point is that annuities will remain the right product for many people. The regular cash flow profile and potential long duration of infrastructure assets will continue to be attractive for backing long-term liabilities such as annuities. As such, infrastructure is likely to remain an attractive investment for institutional investors, including the insurers. He raises a perfectly reasonable point, but I do not think we should overstate the risks.

I also make the point—although I suspect, Mr Weir, that you would not want me to dwell on this—that the national infrastructure plan is already delivering a large

number of projects. I think there are 800. We are making great progress, and we hope that with our long-term economic plan we will be able to further deliver infrastructure projects in the years ahead. However, Mr Weir, do not let me be drawn down that route.

The hon. Member for Kilmarnock and Loudoun asked whether people would know what tax they would be charged before accessing their pension flexibly. When an individual accesses their pension flexibly, it will be taxed under PAYE in the same way as any other pension payment. If they have a tax code from their P45 or they provide the pension scheme with specific information to work out their tax code, they will be taxed as they would for any other pension income. If they do not have that information after the first payment, HMRC will issue a tax code that can be used against any further payments that they receive from that particular pension.

I have tried to address the questions raised by the hon. Member for Kilmarnock and Loudoun. I appreciate the spirit in which she tabled her new clause and I have given it a great deal of thought this afternoon. However, I fear that I will follow the precedent of many distinguished Treasury Ministers before me and tell the Committee that even after long reflection I cannot accept her new clause. Should it be pressed to a Division, I must advise voting against it.

**Cathy Jamieson:** I thank the Minister for the long deliberation that he has given us this afternoon. I think that the Minister and I have faced each other across the Chamber and Committee Room so often now that he has probably guessed that I wish to press the new clause to a vote, but it is important for people to understand why that is the case. Notwithstanding the reasonable and, to be fair, well-argued way that the Minister has put across his views and those of the Government—he has done so in a polite and respectful manner—it is disappointing that we have not been able to get behind that polite manner and the information he has given us to find out a bit more about the debate and discussion behind the scenes in the Treasury on those particular issues.

We have to focus on what the financial implications are for individuals and what work was done in relation to that, and enough concerns have been raised about that from people in the industry and people representing consumer organisations to make it a valid request to have the analysis published. I was disappointed that we did not seem to get more of a sense of the work that had been done in relation to the wider economic impact. My goodness, I thought that the Minister was even going to miss saying a “long-term economic plan” until he managed to slip it in at the last moment. I do not want to be quoted on it, it might be words that do not slip out ever again, but I just wanted to congratulate him on getting his line in, albeit late in the proceedings.

On a serious note, if we are looking to ensure that we have the growth and the economy that we all want, and to value and understand the important part that financial services and the insurance sector play in that process, then we have to listen to the concerns that they have raised. I do not think we got an answer to the question from my hon. Friend the Member for Coventry North West about the capital requirements and the liquidity. Those are exactly the sorts of area that the industry will perhaps be most concerned about. We want not only to

know that the Government have done that work but that they have taken account of it. I heard the Minister again saying that they worked closely with the ABI and with the industry, yet concerns are still being raised in the public domain.

On that basis, I feel disappointed that the Minister would not allow the new clause to be part of the Bill. It would have been an assurance that all the information and work can be put into the public domain, not just the revised or updated figures that will come via the OBR in the autumn statement. I know that the autumn statement is not far away, but it always seems odd when we are into December and still talking about autumn. I know that the Treasury has a sort of language of its own, which comprises terms such as “in due course”, “shortly” and “et cetera” without ever giving a time scale. At least we have a time scale for the autumn statement, but I would have liked to have seen one for all of this information coming into the public domain, so that we could probe it further and set the scene for a review in due course of the operation of the Bill.

With those remarks, I would like press new clause 2 to a vote.

*Question put, That the clause be read a Second time.*

*The Committee divided: Ayes 7, Noes 10.*

#### Division No. 1]

#### AYES

Dakin, Nic	Nash, Pamela
Evans, Chris	Pearce, Teresa
Glass, Pat	Robinson, Mr Geoffrey
Jamieson, Cathy	

#### NOES

Barwell, Gavin	Mills, Nigel
Bridgen, Andrew	Opperman, Guy
Freer, Mike	Smith, Henry
Gauke, Mr David	Stephenson, Andrew
James, Margot	Swales, Ian

*Question accordingly negatived.*

#### New Clause 3

##### PENSION FLEXIBILITY: TREASURY REVIEW

(1) The Chancellor of the Exchequer shall, within one year of this Act receiving Royal Assent, publish and lay before the House of Commons a comprehensive review of the impact of the changes made by this Act to the Finance Act 2004 and the Income Tax (Earnings and Pensions) Act 2003.

(2) The information published under subsection (1) must include—

- the distributional impact, by income decile of the population, of changes made by this Act to the Finance Act 2004 and Income Tax (Earnings and Pensions) Act 2003;
- a behavioural analysis;
- an analysis of the impact of this Act on Exchequer revenues;
- an analysis of the impact of this Act on the use of salary sacrifice arrangements; and
- an analysis of the impact of this Act on the purchase of annuities.”—(*Cathy Jamieson.*)

*Brought up, and read the First time.*

3.45 pm

**Cathy Jamieson:** I beg to move, That the clause be read a Second time.

I hope that my powers of persuasion are slightly more successful for this new clause, although I hae ma doots, as they say in my part of the world, and possibly yours as well, Mr Weir. I will do my best to put forward the case for new clause 3.

The new clause asks for a review. I do not need to go through all the areas that we debated earlier today, but we need a review to look at how the Bill is implemented in practice. As I have said on numerous occasions, I am giving Ministers and the Government the benefit of the doubt, but I am weighing their intent against what the industry and consumer organisations are telling us about the potential problems. I do not want to go over the issues that we have already debated on the guidance, which is not in the Bill but is none the less integral to it. To a large extent, the potential for success or otherwise of the measures in the Bill is linked to the effectiveness and operation of the guidance guarantee. I have expressed concerns on several occasions about the mixed messages we have received about what the guidance will look like in substance.

On Second Reading, I highlighted the apparent dichotomy between the views of the FCA and those of the Minister for Pensions, who seemed to imply that the guidance would not be regulated, personalised or product-specific, but would be substantially cheaper than advice and would be enough

“to get people to base camp”.—[*Official Report*, 2 September 2014; Vol. 585, c. 199.]

However, that was at odds with the view of the FCA, which said that the guidance should be an interactive exchange setting out

“the relevant options, and key facts and consequences of each, including financial consequences, e.g. tax implications.”

We have all heard about the study conducted by the Chartered Insurance Institute, which suggested that, although take-up of the guidance might be higher than had been suggested elsewhere—for example, the Legal and General pilot suggested that it could be as low as 3% and the Pensions Advisory Service said it could be about 25%—customer expectations would also be high. We are back in the unknown. We do not know how many people will take up the guidance guarantee, how many will use the flexibilities that the Bill will introduce and what the behavioural impact will be.

**Ian Swales:** First, does the hon. Lady think that the wording of her new clause covers the problems with the guidance guarantee that she is touching on? Above all, does she believe that one year from the passing of the Bill is adequate time to do the work she is asking for?

**Cathy Jamieson:** I appreciate the question. In terms of the wording, as the hon. Gentleman is aware, the guidance is dealt with in the Pension Schemes Bill. I am quoting it to back up why we need this new clause. The new clause aims to cover a range of specific areas on which the review would focus, but would also allow for a review of the operation of the Act in the round. The reason why we have chosen a year is that there has been a considerable amount of pressure to get to the point of implementing this Bill on 1 April. It would seem odd to

[Cathy Jamieson]

say, “Yes, we can do this for 1 April and the industry will respond and everything will fall into place on that relatively short time scale, but we are not going to look at the outcomes until a couple of years down the line.” We very deliberately wanted to see what the impact was in the first year, so that any lessons from that year could be learned and changes, tweaks or amendments could be made at that time, on the basis of understanding the behavioural impact in that first year.

**Ian Swales:** To pursue the point slightly further—this is a drafting point—if the date of Royal Assent is not to be 1 April, when does the hon. Lady believe Royal Assent will be and when is she asking for the review?

**Cathy Jamieson:** I understand the hon. Gentleman’s point. Perhaps the Government can give us more information on the expected date of Royal Assent. We have had the debate about delay and the Minister did not accept that suggestion. I am not advocating a delay in the implementation of the Bill. I am not sure whether the hon. Gentleman is suggesting that there is not going to be enough information within a year, or that we need longer to collect the information and understand the behavioural impacts. I would be grateful if the hon. Gentleman would clarify.

**Ian Swales:** I think the matters that we are talking about today, particularly on taxation, will make it quite difficult to establish what everybody has done, in the middle of a financial year. Were the Committee to agree to a review, I would have thought that a financial year would be about the minimum time that one could consider, to get sensible information.

**Cathy Jamieson:** On that basis, I think the hon. Gentleman might find himself arguing against himself with the point about Royal Assent. A year on from April next year would allow us a period of time in which to collect the information.

**Mr Robinson:** Perhaps the hon. Member for Redcar wanted to take up my suggestion of a delay of one year. I am not clear whether he could put that suggestion before the Committee if he wanted to.

**Cathy Jamieson:** As I have said, I am not suggesting that the whole Bill be delayed. I hear what my hon. Friend is saying, but I do think that we have an opportunity here to insert a new clause that provides the basis on which to have a review and bring back further information. That is going to be important.

The behavioural impact here is absolutely crucial. To go back to the Legal and General pilot study, one of the comments made was about the importance of personalisation. We just do not know how people will get the advice, guidance and information, how many people will have the regulated advice or take up the guidance guarantee or how many people will rely on having a look at a website and making their own decisions. The study showed that the way the guidance guarantee was delivered was very important; 70% of the people felt it important that the person delivering the guidance

guarantee was fully interacting with the consumer, and not simply reading from a script. Some 66% expected that they would be asked detailed questions about their circumstances, for example, other financial holdings, family and health information and attitude to risk. That question of attitude to risk will be for many people, if not a new concept, in their face as never before when they take these decisions. That expectation from people accessing the schemes sounded considerably more detailed and substantive than the form of guidance I understood had been described by the Pensions Minister.

In last week’s evidence session, Rachael Badger of Citizens Advice, one of the bodies responsible for delivering face-to-face guidance, told us:

“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.”—[*Official Report, Taxation of Pensions Public Bill Committee*, 11 November 2014; c. 23, Q34.]

That is a fairly substantial piece of work; it is quite a tall order. She appeared relatively confident and happy that CABs had the capacity to deliver that guidance. However, she went on to mention the need for training, delivered by paid staff who would need to be recruited. In raising questions on this, I do not intend to criticise Citizens Advice, an organisation I respect. However, it is another of those challenges. If the guidance guarantee is not absolutely in place, is not clear and is not consistent, it could have an impact on behaviours, which would need to be assessed.

**Nigel Mills (Amber Valley) (Con):** Having served on the Pension Schemes Bill Committee, I have been through these issues once or twice before. It would be useful to understand what modelling the Government, the FCA and now the providers are using to decide how long these sessions are meant to be, how much they will cost, and how much levy there will be on the industry. That information would settle a lot of questions.

**Cathy Jamieson:** I am grateful to the hon. Gentleman for raising those points. I appreciate that he served on the Pension Schemes Bill Committee and a number of other Committees of which I have also been a member. I know that he takes these issues seriously and probes all the details.

I had hoped that, if the Minister did not provide the information, the hon. Gentleman would do so, with the benefit of his experience. However, he does not know the substance of the guidance, notwithstanding all the time he spent on that Bill Committee. That makes me even more concerned not only to press to get this right from the outset but to get it reviewed in due course. It does seem a huge amount of ground to cover in a short time.

**Mr Robinson:** The reply to the hon. Member for Amber Valley is that we are not seeking to impose more expenditure on the Government. These reviews must in any event be carried out internally in the Treasury and other Government Departments concerned with the implementation and success of this policy. It is a question of transparency. We want to see what is happening so that we can avoid the sudden emergence of a scam, as has so often happened in this industry in the past.

**Cathy Jamieson:** Once again, my hon. Friend makes an important point. Consumers want to be able to trust pension providers and be confident that the information they get is good quality and suited to their circumstances and that they are not going to be ripped off.

3.59 pm

*Sitting suspended for Divisions in the House.*

*On resuming—*

4.30 pm

**Cathy Jamieson:** Before we suspended for the Division, I was talking about new clause 3 and the need for a review of the implementation of the Bill. A number of issues have been raised about the timing of the Bill and the scope of the new clause. If hon. Members suggest that something should be added to the proposal even if it is not accepted today, I am sure there will be a further opportunity to consider how we might improve on it. I am always open to suggestions from any hon. Member as to how we might table a new clause that would find favour with the Minister. I can see from the look on his face that I would be unlikely to get that support at the moment.

I was talking about some of the evidence submitted to us, particularly in relation to the guidance guarantee and how critical that is to the effectiveness of the Bill. Various concerns were raised, and the representative of the Financial Services Consumer Panel said:

“We are very worried about the face-to-face guidance delivery. It is a huge challenge for CAB to get ready for April.”—[*Official Report, Taxation of Pensions Public Bill Committee*, 11 November 2014; c. 12, Q14.]

Again, we see that difference of opinion. Citizens Advice is determined. It wants to do its best and ensure it has everything in place—it wants to ensure that it has staff in place, that the training is done and so on. At the same time, people are concerned about those time scales and whether there will be the consistency and quality we want. The Minister said something about that earlier. He seemed to be confident that everything would be in place and it would all come together. Perhaps, on reflection, he wishes to say something that will influence whether I press the new clause to a vote. I am willing to listen.

It is not just about the short time scale to get the guidance in place and get it right. One crucial point that has been raised is the take-up of the guidance. Will the initial take-up of the guidance be low, will people use it, and how useful it will be? The other question posed by Members today was whether the people who will access the guidance guarantee understand that it is not regulated and that, therefore, there is no redress. We need to consider that when information goes out.

It has been suggested—some may think this is unfair—that the first tranche of people who go through the process using the guidance guarantee are effectively the guinea pigs. How much will we be able to learn from that and seek information back from them to find out how useful they found it? How many of them, for example, will be signposted to take regulated advice, and what will they feel about their experiences? Those are the kind of things I hope to capture as part of the process of a review of the legislation.

**Henry Smith (Crawley) (Con):** Does the hon. Lady concede that other countries have gone down the route of allowing greater flexibility when people reach retirement? I am thinking of Denmark and Australia. There is already a lot of evidence that people can be trusted to be responsible with choices about their pension funds.

**Cathy Jamieson:** I thank the hon. Gentleman for that intervention. Throughout the debate I have been at pains to say that, for me, this is not a question of our trusting people to do what they ought to do with their pension funds. We have to trust that people will be able to take decisions, but when we put in place such legislation, we have a responsibility to ensure that people have access to appropriate information that allows them to take the best decision possible.

I do not want to go over all the things I have been saying today. It is the Government's stated intention that they want pension reforms to give that freedom, choice and flexibility, but also that the reforms ought to allow people to plan for their long-term retirement. I keep stressing the point about the longer term, because the fear is that, if people make the wrong decisions at an early stage, it may seem like a quick fix to deal with things that are going wrong in their lives. They may want to pay off a mortgage or take that holiday that they have never had to the other side of the world to see family. Indeed, they may want to buy a car, although in most circumstances it will probably be more modest than a Lamborghini. None the less, they also need the information, guidance and, in some cases, that regulated advice, to ensure that the decisions they take at that early stage do not have a negative impact further down the line. We could have a series of new products coming on the market and we do not know their shape or scope, or how they will work in practice. This is not about saying to people, “We don't trust you”; it is about saying, “We actually want to give you the best possible advice to enable you to take that decision in your own way and in your own time.”

People do not have to take the decision right at the beginning, when the new regime comes into place—people need to understand that, too. However, concerns have been raised that, in the early stages at least, some people may be guinea pigs, as it has been put. If we go back to the evidence session, Adrian Boulding of Legal & General used the analogy of the toothpaste being out of the tube. I suspect that anyone who has ever dealt with toothpaste tubes knows that it is probably harder to put the toothpaste back in than it is to put the genie back in the bottle. That shows just how seriously he was taking it. Once the changes are made, we will have to live with the consequences.

We have a responsibility to people between now and then to make the best use of our time to get the guidance guarantee in place. Equally, we have a responsibility to future generations of people to learn from anything that takes place in the first few months or the first year. That is why we also heard the call for further support for a backstop option as a second line of defence, as it has been called—the Minister referred to that in his remarks this morning. As the Financial Services Consumer Panel representative said, there will be people who completely miss the guidance service for various reasons. A lot of consumers do not understand what they are giving up by going straight to the provider.

[Cathy Jamieson]

There needs to be a second line of defence, but that cannot be too prescriptive. We need to put all that in place, and we need to understand the behavioural impact as the process goes through. We need to be able to change, amend or adapt as we go through the process.

As an example of support for the concept, we heard the idea of a standardised pension passport that would be received by all consumers—that was supported by a number of organisations, including the ABI. It would give people information, but would also flag up the guidance. Those are the kind of things that will be discussed and looked at in the next few months.

From everything that has happened since the Government announced the Bill—the oral evidence in Committee, the written evidence, the informal discussions and the comments made—we have seen the series of concerns that people have. People are not saying that they are not going to work with the grain of the Bill. We want it to work in the best interests of consumers. I have no doubt that that is what the Government want, but we have a responsibility to put in place everything possible to make the system work, and to put in place a process by which we can review and learn from it. That is why we tabled new clause 3.

We want information on salary sacrifice because we are not entirely convinced that the Government have fully looked at that and closed all potential loopholes. If we can look at that during the process of the first year of operation, we may well want to make changes if necessary—the Bill allows for further amendments to be made in due course. It is important that we put something in place to look at that. I believe that some of my hon. Friends wish to raise concerns while supporting the new clause, so I shall draw my remarks to a conclusion to allow others to speak.

**Nic Dakin:** It is a pleasure to speak under your chairmanship, Mr Weir. My hon. Friend has focused on the nub of the question, which is the need for a behavioural analysis. I hope that, when the Minister responds, even though he might disappoint us, he will demonstrate that a proper analysis of behaviours will take place and appropriate action will be taken. In the course of the debate, and in the oral and written evidence, it is clear that there are a number of significant areas of concern. As my hon. Friend says, the toothpaste is out of the tube and we need to live with the consequences. The majority of people from whom we have taken evidence want to embrace the future, but to do so in a way that minimises risks to individuals and to the UK economy.

As a Government member of the Committee indicated, a number of cases of mis-selling of products have had significant consequences for individuals and reputational consequences for financial services. Indeed, there have been consequences for the general public's confidence in this and other places. Behavioural analysis of what happens as a result of the significant and welcome changes is very important. The guidance guarantee is at the heart of the matter. Getting that right and having an effective impact on the system is crucial to its success for individuals and the state.

One bit of evidence that we had from Adrian Boulding of Legal & General raises concerns. There was a lot of

interest and attraction when people were surveyed initially about the pilot guidance offer that Legal & General put in place. Adrian Boulding said that

“90% of consumers said that they would be likely to take up an offer of guidance.”

However, when the pilot went ahead, only 3% of consumers actually took up the offer of guidance. That gap between hope and reality is a concern. If that happens for real—the Bill is far more significant than a pilot—the consequences could be considerable for individuals and the state. That needs to be looked at carefully.

When pressed in further evidence, one witness gave as a possible explanation for the low take-up of 3% that at the point of the money becoming available people just want to get their hands on the money and get going, as it were. We can very much understand that desire. That comes back to the concern that has run as a golden thread throughout our consideration of the Bill: much of the media focus has been on access to finance rather than on someone planning their affairs around pensions, so that they—everyone's circumstances are different—are better able to make the right decisions to support their longevity into the future. We have heard concerns from the ABI, for example, that if it is handled in an unfortunate way, the Bill might result in additional pressures on care services, which no one would want. I am sure it is not what the Government intend.

4.45 pm

There are behavioural analysis issues that need looking at in relation to how the guidance guarantee works and how that impacts on behaviour. That is important. Secondly, there is the problem that has been identified on the future impact. Is there a possibility of creating circumstances that result in another mis-selling episode? That would create all sorts of chaos, which would make the Arch Cru example and others of small importance in the grand scheme of things. That is a genuine worry and concern. Analysis of the Bill's behavioural impact would be a safeguard against that. If anything inappropriate was happening or the safeguards were not strong enough, that could be addressed, sooner rather than later, which would be to the benefit of everyone.

**Cathy Jamieson:** I have been listening intently to what my hon. Friend says about the behavioural issues. Does he agree that there needs to be a clear focus on the potential behavioural impacts in relation to tax avoidance? It is the nature of things that as soon as a scheme is put in place, there will be people who will try to find their way around it.

**Nic Dakin:** I thank my hon. Friend for that. Indeed, the third point of concern I identified was the behavioural impact in tax avoidance. The Minister has rightly recognised that concern and taken action to reduce the possible impact of tax avoidance. As we have gone forward, he has given answers that give greater assurance, but not total assurance, because we do not know what will happen. To be fair, he is frank, open and honest about that. That we do not know what will happen is the very reason why an analysis and review would help. In line with the evidence presented to us by John Greenwood and others, a review would highlight tax avoidance, if it happens—we hope it will not—and allow early action to address it, rather than it becoming a great problem.

Having served on this Bill Committee, those are the three things I am most concerned about. A review of what is happening, in line with what my hon. Friend the Member for Kilmarnock and Loudoun has tabled with new clause 3, would assist with those concerns. My first concern is about how the guidance guarantee is operating and how people are behaving in relation to it. Secondly, are there any behaviours that might create the circumstances of mis-selling, which would create great concern? My third concern is on the recycling around tax loopholes, creating a tax avoidance problem that needs to be addressed immediately.

**Teresa Pearce** (Erith and Thamesmead) (Lab): It is a pleasure, Mr Weir, to serve under your chairmanship. I want to make a few points in support of the new clause. I support the review because, although most of us would agree that the annuity market has not worked well for annuitants for a long time, we do not know what will happen. The important thing to recognise is that the decision is not like buying a mobile phone, where, if it does not work, it can be traded in for a different one the next year. It is a one-off decision that will affect individuals and their family for the rest of their life. It is therefore really important that we get it right.

We agree that we want pension flexibility, but there are a number of risks, all of which seem to fall on the person who is about to retire. There is a risk that a person might pay too much tax, run out of money, purchase the wrong product or leave their spouse with no money should something happen to them. Those are all important issues. A review will show us whether things have gone as we intended. We all hope that opening up the pensions market will work well for the consumer, but, as is the case whenever anything is opened up to the consumer, we know that, as we sit here, people are working out exciting products to sell to people whose knowledge of the market is relatively unsophisticated. It is important that we have more than a single line of defence. The Minister has mentioned a second line of defence; if we are to have one, I hope that it is in regulation rather than voluntary, because there has been a circular dance of voluntary regulation in the annuities industry that has not worked.

We are discussing taxation—this is the Taxation of Pensions Bill—but a large number of people in this country think that pensioners do not pay tax. That is some people's level of understanding. Has the Minister considered any options for public information or advertisements?

**Cathy Jamieson**: My hon. Friend makes an important point and also raises a question: by the time people get to the stage of thinking about their retirement options, is it not rather late in the day for financial education? Should such education not come much earlier in the process in order to avoid misconceptions?

**Teresa Pearce**: I agree that financial education must start an awful lot earlier, although next April might be a bit too soon for some people. We need to ensure that people are saved from making bad decisions that they will live with for the rest of their lives. It is therefore perfectly reasonable to ask for a review.

If the Minister thinks that a review is unnecessary, perhaps he has a better idea about how things are going to play out than we do. Currently, the guidance guarantee is voluntary. We all hope that 100% of people take up that guarantee, but at what take-up percentage would the Minister consider it to be a failure? Should we not have a review so that if, for example, only 10% of people take up the guarantee, we know that we are heading for a storm? Will the Minister explain more about the second line of defence, how he thinks it will be put in place and whether it will be regulated or purely voluntary? Also, what would he deem to be a successful rate of take-up for the guidance guarantee?

**Mr Robinson**: My hon. Friend has just spoken with immense sense. I think that her contribution will be proved very prescient if the Bill becomes an Act and things progress in that direction. She raised the issue of regulation, which is in part at the core of new clause 3. The whole point is to get an early warning of when things are going wrong or, indeed, to laud the Government and the industry if everything goes right.

As legislators, our job is to foresee the worst—to know that it is going to happen. Although regulation may appear negative and boring, nothing reveals how important it is better than the history of the banks and the banking crisis. The Government and the industry say that we can take matters only so far in terms of spelling out the warnings—that is the point of a health insurer or a lifetime solvency issue. When it comes to those who are reaching pension age over the next few years—the newcomers to the new set of arrangements—we cannot have the industry sounding like Pontius Pilate, saying, “There you are; we have given you all that you need to know in the dense prose of our circular letters,” and then sitting back and saying, “Now it is up to you.” We cannot do that.

Although the Government are not directly responsible and the industry is not directly responsible—it puts out its guidance and we are held to account directly on the question of regulation. What nobody could understand was how the banks were allowed to build up such liabilities and make huge loans. The value of assets under management with the pension companies is 25% of our total national net worth, as we heard earlier. We found that the Royal Bank of Scotland had borrowings nearly as great as the total that the UK had borrowed; it had taken on liabilities to that extent, but how could it, with such a tiny balance sheet, engage in borrowing to such an extent in the name of a bank—

**Guy Opperman** (Hexham) (Con): The point that the hon. Gentleman is making is all well and good, but surely the Government are trusting people. My constituent who said, “I saved this money. This is money that I have actually accrued over a period of time,” was saying that he would do a much better job looking after this money than all the institutions that the hon. Gentleman is talking about, which obviously lost it.

**Mr Robinson**: I take the hon. Gentleman's point. He speaks with a great deal of knowledge of this industry and experience in it. Trusting people is all well and good, as is trusting people with their money, but if he wants to go back, that would be, as I have said before, a nanny state approach. Indeed, I think it was an adviser

[Mr Robinson]

to the ABI, Dr Braun, who said during our first sitting that she wanted people to get into an adult conversation. However, people do hold us to account for regulation, and regulation of the industry is at the centre of what will be necessary if this arrangement is to work in future. For regulation to work there has to be timely, relevant information. A review of the kind proposed in the new clause would surely set out to do nothing more, but nothing less.

It is amazing how people say, when see the evidence of what is taking place, “Oh, gosh! Look, something’s going wrong. I never realised that.” Unless Parliament is confronted with that evidence in the first place—hence the annual report to Parliament, after a year—and that is regarded as necessary, people do not realise what is happening out there in the market. We tend to live in a hermetically sealed, pleasant environment in the House and we see our constituents, but when all the things were happening in the banking world nobody—not even the Treasury—seemed to have any clue at all of the full extent of the liabilities that were being accrued by irresponsible banks.

Returning to what the hon. Member for Hexham said, certainly, nobody wants to try to cater for every need. No doubt some people will make a huge success and will make a lot of money, but I doubt that they will be typical of the people I represent in Coventry North West and many other people throughout the country. I am not sure that those people would break down on any particular ideological or party lines, but they would be a minority, albeit vocal and successful, and long may they do well; but even they could come unstuck and look to us to deal with this issue. Regulation cannot be reduced to the concept that the hon. Gentleman mentioned, although I know that he has great experience in the industry.

Regulation will be essential. So many different public bodies are involved, including the Treasury, HMRC, the Department for Work and Pensions, the Financial Conduct Authority—the regulator—and the Pensions Regulator that the process is almost tailor made to

lead to all sorts of different problems falling between the gaps or cracks in between these overlapping organisations.

**Cathy Jamieson:** My hon. Friend makes a powerful argument for why there ought to be a review. Does he agree that, given the number of different organisations and bodies involved, there needs to be a focal point to ensure that a review takes place, because otherwise things could fall between those organisations or, indeed, not be addressed?

**Mr Robinson:** I agree. I was trying to make precisely that point. What sort of focal point she has in mind, I leave her to develop further. I am not quite sure how one would do that, but certainly the Government, in opening up the regulatory arrangements—[*Interruption.*] What did my hon. Friend the Member for Scunthorpe say? I am sure that I have the rapt attention of all my hon. Friends and that I am gripping Government Committee members, Mr Weir. However, I shall be brief and will not delay the Committee. I think we have another session on Thursday, which we all await with great anticipation; particularly the prospect of the Minister’s returning in a less gainsaying mood than he has been in so far and agreeing with us.

Incidentally, on the point raised by the hon. Member for Redcar about when we would start, we have not tabled a wrecking amendment; this is a constructive amendment and a technicality of that kind really should not bother us. Whether it is six or nine months or a year and three months is not the issue. Precisely when we start has not got much to do with it. It is not the date that matters, but the principle of regular review. Perhaps, when we resume on Thursday, I shall mention a couple of other important points. However, there is a general indication that the Committee wishes to adjourn, so I terminate my remarks at this stage. Thank you.

*Ordered,* That the debate be now adjourned.—[*Gavin Barwell.*]

5.1 pm

*Adjourned till Thursday 20 November at half-past Eleven o’clock.*

**Written evidence to be reported to the  
House**

TP 05 Mark Hattersley

TP 06 Towers Watson's

TP 07 Just Retirement

TP 08 Friends Life

TP 09 Talbot and Muir

TP 10 John Greenwood

TP 11 Hargreaves Lansdown

TP 12 Association of Taxation Technicians

TP 13 Association of British Insurers

