HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Defined benefit pension schemes, HC 144

Wednesday 10 January 2024

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Watch the meeting

Members present: Sir Stephen Timms (Chair); Debbie Abrahams; Siobhan Baillie; David Linden; Nigel Mills; Selaine Saxby; Sir Desmond Swayne.

Questions 291-342

Witnesses

I: Paul Maynard MP, Minister for Pensions, Fiona Frobisher, Deputy Director, Defined Benefit Policy Division, Department for Work and Pensions, Bim Afolami MP, Economic Secretary to the Treasury, and Laura Webster, Director of Personal Taxes, Welfare and Pensions, HM Treasury.

Examination of witnesses

Witnesses: Paul Maynard MP, Fiona Frobisher, Bim Afolami MP and Laura Webster.

Q291 **Chair:** Welcome, everybody, to the final evidence session of the Work and Pensions Committee's inquiry into defined benefit pension schemes. I warmly welcome the Ministers and officials who are present this morning.

Thank you, Ministers, for joining us. May I ask you to say briefly who you are for the record and to introduce the officials with you?

Paul Maynard: I am Paul Maynard, Minister for Pensions at the Department for Work and Pensions, with my armband, Fiona Frobisher, from the Department.

Bim Afolami: Good morning. I am Bim Afolami, Economic Secretary to the Treasury and City Minister. To my left is Laura Webster, director of personal tax and pensions.

Q292 **Chair:** Welcome. Thank you all for coming.

May I put the first question? We have had two decades of de-risking in defined benefit pension schemes, but scheme funding now looks much better than it did before. Do you think that we need a fresh policy mindset in response to that improvement? Do you think that mature defined benefit schemes might become more positive about risk in future?

Paul Maynard: I think you are right on both counts. Pensions have been on a rollercoaster over the decades. We now see them in a much better position with funding. With DB schemes, we know from TPR that about 70% to 75% now have the headroom to engage in more productive finance.

You say a "fresh" look; I would argue that we should always be looking at and adjusting our approach, depending on what the funding circumstances are. Right now, we can look at how productive finance can play a more meaningful role in helping schemes to achieve their ambitions. It is not about dictating to them what they can do, but about—in that awful wonkish phrase—expanding their policy toolbox.

Bim Afolami: The only thing I would add is that, on the productive finance agenda, it is important that the Committee, the country and the industry recognise that there is no contradiction in productive finance being an increasing part of the policy agenda when it comes to DB schemes and, at the same time, increasing returns to savers. The Chancellor has been very clear about that. I think that both those aims can be achieved with that productive finance lens.

Q293 **Chair:** In his Mansion House speech, the Chancellor included estimates of additional investment that we might hope to secure in productive finance from defined contribution schemes and from the local government pension scheme, but not from other defined benefit schemes. Are you looking for additional investment from DB schemes? If so, what steps are you taking to secure that?

Paul Maynard: First, I do not see why members of defined benefit schemes should be excluded from benefiting from productive finance. There are 10 million members and £1.3 trillion in assets under management by DB schemes, but the tools that you might deploy will be different from those you would apply for DC schemes. Every solution will depend on the scheme and how far it is down the path towards maturity or towards being fully funded. For example, 9% of schemes are still open to new members.

Once again, you cannot just say, "Here is what we are going to do now to benefit from productive finance," but it will be around issues such as broadening the asset classes that trustees can invest in to give them the confidence to be able to make decisions to do things that they might not have thought of before because they are within the tramlines of what the regulator has advised. It is about equipping the trustees to feel more confident to ensure that they are always acting in members' best interests—but that might be by triggering the surplus extraction, for example, which can return benefits to members. The range is endless. It is about giving trustees confidence and making sure that we are able to meet those needs when trustees decide to exercise them.

Q294 **Chair:** The Chancellor's Mansion House speech did not put a figure on what we might hope for from DB schemes. Does that indicate that the Treasury is looking more to DC schemes and the local government pension scheme than it is to DB schemes, or do you think that there is potentially quite a big prize on the DB side?

Paul Maynard: I think there is on the DB side, but far be it from me to put words in the mouth of the Treasury.

Bim Afolami: Feel free! My view, and the Treasury's view, is that, as the Pensions Minister says, it is really about the nature of the scheme itself. DB schemes are at a different point in their life cycle from your typical DC scheme, and local government is completely separate. For trustees at the back end of a DB scheme that is reasonably well funded, investing more in fixed income makes a lot of sense, because they are at a point where they are trying to achieve a very fixed amount of benefit for their members, and they are doing the right thing. The judgment would not be the same if you were at an earlier point in a DC scheme. The point is that if we are looking at it in terms of the Mansion House compact and the policy, there is more scope for greater change in terms of risk profile on the DC side than on the DB side. But I want to echo what the Pensions Minister said: that is not excluding DB. It just depends on where it is in the cycle.

Paul Maynard: The journey towards being fully funded can take many routes. It is not just by minimising risk; you can actually use ideas like surplus extraction to improve the speed at which you can reach being fully funded.

Q295 **Chair:** Responding to our LDI report, the Department promised that we would have an analysis of the impact of the LDI problems on the scheme funding by the end of last year. When should we now expect to receive that?

Paul Maynard: My instinct is to say, "In due course," which is always the most unhelpful answer anyone can possibly give. Do we have a date for that, do you think, Fiona?

Fiona Frobisher: I think, for the report you are talking about, you have asked the Pensions Regulator to provide more details on how that works. I believe it is imminent, but I think that is coming from the regulator.

Paul Maynard: We shall chase it up, because I am as interested as you are.

Q296 **Chair:** Thank you. We are eager to see it. Do you think the fact that we do not have that report yet means that there are some gaps in the data that need plugging in order that we understand exactly what is going on?

Paul Maynard: As someone relatively new to the brief, after the LDI event, what I want from TPR is probably the same as what you want: to properly understand the extent to which LDI benefited DB pension schemes before the event occurred, what impact the event had, and what issues it now raises for what role LDI can still play in a way that protects member benefits. I am as keen as you are to see the report. I imagine that we need a lot more data, because it was an unprecedented event.

Chair: Thank you. We will look forward to it.

Q297 **Selaine Saxby:** Good morning. On the DB funding code, the core purpose of the draft funding regulations was to require schemes to de-risk as they mature in order to reach a position of low dependency on the employer. Will that still be the case in the regulations to be published later this year?

Paul Maynard: Very much so. De-risking is clearly a prudent thing for schemes reaching maturity to embark on. De-risking can take many forms. As I said earlier, it can also utilise productive finance as part of expanding those returns.

We want to consult—we always want to consult. I have never known a brief with so much consultation going on. There is always a consultation on the way. I want to look at whether the methods that are engaged in terms of de-risking now are appropriate, for example relying 70% on bonds. Is that the right amount? Is that too much or too little, or does it matter whether you have a target at all? There is still a little more work to be done on exactly what triggers and thresholds we might want to introduce or recommend to trustees, but that will absolutely be the spirit of the regulations.

Q298 **Selaine Saxby:** With the continued emphasis on de-risking, how will mature but underfunded schemes be able to target returns in order to improve their positions?

Paul Maynard: What I want the eventual funding regime to do is set the tramlines within which trustees can take prudent decisions. It is not about herding trustees into some whole new asset class and saying that they can only embark on that asset class; it is about giving them confidence about having an objective to reach. They have numerous means of reaching that objective through the funding code, so they can be confident in our legislative backing and confident that it will be crystal clear for them. We have done an awful lot of consultation to understand what they need from us to have the confidence to make such decisions. The regulations have been through multiple iterations now and I hope when you see them—sooner rather than later, as opposed to "in due course"—you will be able to see that they meet the needs of the sector.

Fiona Frobisher: May I add a little to that? It is really important to say that de-risking is part of the regulations, because the concept is to get to a point of low dependency when you are at a point of significant maturity—so when you have to start mostly paying your pensioners, you should have the money there to do that. That is still very much part of the regulations.

Following lots of engagement and consultations, when people said, "This looks like it's going almost to a no-risk situation," we have been very clear in the regs that de-risking does not mean no risk. There will still be headroom, which the Minister referred to, for schemes to take more risk, even at a point of significant maturity, so they will be able to invest in other asset classes. That will be very clear.

Q299 **Selaine Saxby:** Within those regulations and the code, will you also have clarity on the different approach for open schemes?

Paul Maynard: They have to make reasonable allowance for having new entrants, and they need to make provision, as it were, for future accrual. They have to make that assessment of risk, but to be confident to do so within the guidelines. But yes, an open scheme will want to have a different mindset from that of a closed scheme, fully funded.

Q300 **Selaine Saxby:** You have already touched on this, but I will give you the opportunity—

Paul Maynard: To say it again!

Selaine Saxby: No, to embellish it. What is your vision for open DB schemes?

Paul Maynard: I want them to reach the status of being fully funded without having to call on the employer for extra financial support. In particular, I am conscious that many open schemes are probably now within relatively smaller companies, where I would want the employer to focus on the growth of the company, not necessarily on the pension scheme, but they may lack the expertise. They are experts at running their company, and I want to grow that company so that it is in the best financial position possible. Through our reforms, we can start to make that easier for them. Using our guidelines and giving them alternative structures such as superfunds or public sector consolidators can help all schemes to reach that fully funded point and to be confident that they are protecting their employees/members' interests as best they can.

Q301 **Selaine Saxby:** Does the Treasury want to add anything to that?

Bim Afolami: Nothing beyond saying that it is really important that we do not see any contradiction in the need to grow the benefits for members as best we can at the same time as improving the broader macroeconomic climate, because there are big pools of capital that can be invested in our economy. Too much of this debate, not now but in the past, has been about saying, "Well, you are either protecting members or helping the economy." Actually, with our policies, we can do both things. I think that DB plays a critical role in that, not just DC.

Q302 **Chair:** There are some very large open schemes. The regulations will not be requiring them to de-risk, will they?

Paul Maynard: Not to my knowledge. What I want to do is ensure that the trustees, even of larger schemes—they often have more expertise in managing a pension scheme in the first place and may have more professional trustees on them—have similar options to utilise the productive finance agenda and the options contained therein to grow their schemes. There is no single template for an open scheme any more than for a scheme that is fully funded, for example. You are right in that regard. On the detail of the regulation regarding larger schemes, Fiona, do you want to add anything, if I have missed any nuance out?

Fiona Frobisher: I do not think so, really, in this case. You are right: we are not treating open schemes differently from other schemes, in the fact that we expect them to have a long-term strategy. They need to have a view on how they are going to pay pensions in future. For those long-term schemes, you can take into account the fact that you are open, that new members will join and that there is future accrual. That will change their views of the future. As you are very well aware, they do this evaluation every three years at least, so they will be looking at it afresh every three years. As long as they stay open, they will stay on a similar kind of path.

Q303 **Sir Desmond Swayne:** Is the Pensions Regulator being over-cautious in pursuit of the objective of protecting the benefits of defined benefit schemes and reducing risk calls on the Pension Protection Fund, given the fund has £12 billion worth of reserves?

Paul Maynard: The importance of the PPF as a sort of lifeboat for DB schemes is fundamental. Merely because the PPF at the moment is in a good position, that does not mean that I expect TPR to take a more relaxed approach to it. There were 20 schemes in the last year that went into assessment by TPR, and there will still be a need for that lifeboat role. As we were saying at the very start, pensions have good years and bad years. What you do not want to do is, in some way, think, "Gosh, there's £12 billion, what can we do with it?" I want PPF to make sure it is still there to protect members' benefits, so I would expect the Pensions

Regulator to continue to have the stability of the PPF very much uppermost in its mind.

Q304 **Sir Desmond Swayne:** Do you see any tension between that and what the Chancellor said at Mansion House?

Paul Maynard: No, because I do not see the £12 billion of the PPF necessarily as the primary go-to pot of money to enhance productive finance.

Q305 **Nigel Mills:** Minister, you said at the start—quite rightly, I think—that we have been on a bit of a roller coaster ride with pensions. Do you think we are now off the rollercoaster and heading for an ice cream, or are we just in the pause at the top before we start going up and down and upside down again?

Paul Maynard: I very much hope we are getting off the rollercoaster and having some Blackpool rock, which is very solid, secure and predictable.

Bim Afolami: It's very bad for your teeth, though.

Paul Maynard: You should never bite off more than you can chew.

Nigel Mills: Without playing too long on this metaphor—

Paul Maynard: Yes, I agree.

Nigel Mills: There is a bit of a danger in thinking that everything is fine—that with this actuarial sweet spot we are in now, which we all hope is permanent, and because we have tipped so much money into pension schemes over the years and they have de-risked so well, actually everything is fine now. That may be the case, but realistically we would not want to start extracting loads of money at an actuarial sweet spot and find in two years' time that we are back, Robert Maxwell-like, in a mess that we did not need to be in. What is the Government's view? Are we on a nice glide path to running these schemes down, or should we actually be protecting against future volatility?

Paul Maynard: I wish I had a crystal ball, but I do not. I am conscious, having walked into the brief, that pensions are in a good place at the moment. For example, over half are now fully funded, and that is all a very promising situation. Does that mean that I want them look at surplus extraction, for example, as a way to enhance member benefits? Yes. Do I want them to take inappropriate risks? No. One of the things that I think we want to focus on is making sure that the mechanisms of surplus extractions and protections in the regulations around surplus extraction do not lead to overly risky decisions being taken by trustees.

Q306 **Nigel Mills:** How does surplus extraction help members? Does it not help the sponsor?

Paul Maynard: Well, if it can return money to the fund to improve—

Q307 **Nigel Mills:** But surplus extraction takes money out of the fund and gives it back to the sponsor. Is that not the point of extracting the surplus?

Paul Maynard: Well—two points. If it can ensure the solvency of a firm and that the firm is in a better position to meet its liability, then that is a good thing. Also, I want to be able to put money in the scheme because surplus extraction can be one way to ensure that the scheme is fully funded. It is not the only way, but it is one of the options that trustees can take to improve the viability of a scheme in my view.

Q308 **Nigel Mills:** Maybe I am misunderstanding, but the point of a surplus is that you have more money than you need to fully pay all your members out. You have a surplus, which you do not need, so you can return it to the sponsor. Extracting a surplus does not help a scheme to become fully funded. It takes out the bit that is too much, doesn't it?

Bim Afolami: If I may?

Paul Maynard: You may. Rescue me if you feel I need rescuing.

Bim Afolami: No, it is not that. The consultation, which will detail this issue to ensure that we are doing this in the right way, is forthcoming soon. Why is that important—just to address your point very directly? It is important because there are some schemes where it is clearly set out in the documents how surplus should be allocated and extracted. There are others where that is not the case. We need to ensure that we have a very strong regulatory framework for doing that. That is why we are doing this consultation in the right way. I am sure the Committee will get that as soon as possible. I think that you are right to think about how, when one is extracting a surplus, we cannot just do that with the view that it will always be fine forever and everything is completely hunky-dory. I accept that one has to be cautious about how one treats surpluses in any contexts, particularly in this one, and that is what the consultation is looking at.

Q309 **Nigel Mills:** In a sense, the Government think, "If we have a surplus, that is going to be pretty inefficiently allocated because it will be stuck in gilts. Actually, if we really do not need it in the scheme, let's do something else with it. But if there is any risk of needing it, then we will not allow it."

Bim Afolami: Of course, there is a balance between those two things and it depends. Obviously each scheme is different, right? You are right to think that we have just got to be careful about how we allocate surpluses where they appear, if that is not already set out in the scheme documentation. That is what the consultation is looking at.

Q310 **Nigel Mills:** I think that there have been some ideas presented to us where you could allow members to have a bit of extra pension in return for the sponsor getting some out.

Bim Afolami: That sometimes happens.

Paul Maynard: That was my point, yes.

Nigel Mills: Or you could try and find a way of putting some of the surplus into the DC section of the company pension schemes, so DC members who get a much lower pension can get that benefit, but there are tax consequences of doing that. Maybe you could look at allowing that to effectively move the money around. Are those ideas that are in the consultation? Is that what you are thinking about?

Bim Afolami: I do not want to prejudge, particularly on your last point. It sort of depends on who you speak to as to whether they think that is a good idea or not—it tends to depend on whether they are DB or DC members, surprisingly. Again, to reiterate, if you think of the macroeconomic context of this from the Treasury's perspective, what are we trying to do? The Chancellor has his golden rules: protecting savers, ensuring that the gilt market works, and indeed making sure that London is a successful financial centre. Those are the three things that the Chancellor is thinking about in the overall context of this. What are we trying to do when it comes to surplus? We are trying to ensure that, where it is extracted, it is doing the most productive thing for the economy and for the members, and to do that in a way that is not unduly risky.

Q311 **Nigel Mills:** In some ways, if a scheme really is fully funded and has a surplus, isn't the best thing just to do a buyout so that everybody is safe, and then you extract the surplus, which is over and above what you need to pay for the buyout? Let's just make the insurance sector invest in productive assets, rather than try to make 3,000 pension schemes with amateur trustees around the country do these complex things. For God's sake, just buy out and get yourself off the rollercoaster.

Bim Afolami: We are very supportive of buyouts. I will just bring in my colleague at the Treasury to give more thoughts on buyouts, in the way that Mr Mills described.

Laura Webster: The Chancellor has been really clear about the need for choice. Obviously, trustees and the responsible employers have the responsibility of deciding what is best for individual schemes. The programme of policy work—where the Chancellor has been coming from—has been about how you provide more choice to schemes and options to consolidate, rather than direct or mandate what schemes should be doing.

The only other point I would make on surplus extraction is that the autumn statement announced the reduction in the charge from 35% to 25%. That will come in from 6 April this year, and we will monitor the effect that might have on scheme behaviour.

Q312 **David Linden:** Congratulations, Minister, on your appointment. In July last year, your Department launched a consultation and asked for views on whether there should be a register of trustees and, further, whether trustees should have mandatory accreditation. The Association of Professional Pension Trustees informed the Committee that only 500 professional trustees have achieved accreditation, and they believe it needs to be mandatory. Indeed, Louise Davey from TPR also suggested that the regulator strongly supports further accreditation standards, but told the Committee, "We do not have a commitment for legislation in that space." The majority of respondents to your Department's consultation favoured mandatory accreditation, and the regulator supports it, so why is the DWP so laid back when even the industry knows that simply encouraging clearly isn't working?

Paul Maynard: I don't think we are laid back at all. First of all, the vast bulk of trustees, whether voluntary or professional, are doing a good job; they are knowledgeable and well equipped. That is why we moved down the path of a voluntary register at this stage and are looking at how that progresses.

In terms of professional trustees specifically, there is a slightly different landscape. There is a lack of supply, first and foremost. The vision of having one on every board is quite optimistic at this stage. Roughly half the schemes over £5 million already have a professional trustee on the board, which is good, but we need more. TPR recognises that we need to update the trustee toolkit. As we expand the supply of professional trustees, we will probably need to move towards mandating it. We have taken no firm policy decision yet, but I would not rule it out. I have heard what you have heard from the stakeholders, so I am taking that into account.

Q313 **David Linden:** How long do you think you will be considering that for?

Paul Maynard: When I say I am considering something, it means I have asked for advice. When I get advice, I can take a decision, and part of that decision taking is how fast you can pull the lever.

Q314 **David Linden:** That's great. While you are in front of the Committee, I just want to touch on one final issue, not related to DB schemes. The Government was of course found guilty of maladministration in relation to state pension injustice for women born in the 1950s. As you know, there is an ongoing ombudsman investigation into this matter. On their website, they say they have shared their provisional view about this issue with the Government, in terms of the view they have taken. They have also shared it with complainants and those of us who represent complainants. Can you confirm whether the Government has responded to the ombudsman's provisional findings?

Paul Maynard: I am afraid this is going to be a very short and precise answer. The Government is currently looking at that report and is preparing its response.

Q315 **David Linden:** That is helpful. So you have not responded formally to them yet. Can you confirm that you will immediately make a statement to Parliament when the final report is published?

Paul Maynard: We are still preparing our final response.

Q316 **David Linden:** Okay. I will try you on one more, which is a separate issue. This is a point of principle. Can you commit that the Government will bring forward a free vote in the House of Commons on the ombudsman's report recommendations this side of a general election? That is regardless of the Government's view—just on the principle of whether Parliament will get a say on the final report.

Paul Maynard: I understand why this matters to so very many people out there who will be watching this, but because the Government are still preparing their final response to the ombudsman, I am not going to comment further.

David Linden: Okay. I think a lot of women in Fleetwood would be interested in that response, Minister.

Q317 **Siobhan Baillie:** Apologies for my lateness, Chair. It is lovely to see you all this morning. Thinking about seeking and achieving discretionary increases, we heard from TPR that decisions are for trustees with fiduciary duties, but then we also heard from pensioner groups that that kind of system is not working. One example given to us was the BP pension scheme. That was in surplus. The trustees recommended a discretionary increase but the employer came in and said no, basically. The questions being put to us and floating around our Committee are about how the interests of the scheme members can be better protected. Bim, I think you were starting to talk a bit more about the consultation, and whether the consultation—or it was possibly the DWP—is going to think that through or give some suggestions about making it easier to extract surplus.

Paul Maynard: You mentioned BP. There are a number of other companies where similar concerns have been expressed. I am meeting a fellow MP next week regarding BP specifically. You are right in terms of quoting what TPR has said. There is a good reason why you would want trustees to have discretion, because they need to take decisions in the best interests of the company for it to remain solvent, and to ensure that it can meet its liabilities to meet all member benefits. That said, we need to look at whether that works for every size and scale of firm. Once I have had those meetings with the other MP and discussions with TPR, that will help to develop my thinking. I am well aware from reading the press how common a concern this is. It is appearing in my correspondence pile quite frequently, so I am currently reflecting on it further.

Q318 **Siobhan Baillie:** Is this going to form part of a consultation once you have spent that time?

Paul Maynard: I am at such an early stage in looking at the challenges behind the issue that I am not going to commit at this stage to any sort of consultation. We have to work out what levers we would actually have at our disposal and what the unintended consequences might be of precipitative action.

Siobhan Baillie: Treasury?

Bim Afolami: I have nothing to add to the Minister's response.

Q319 **Chair:** Can I ask about a related point? I am pleased to hear that you are meeting with a colleague about the BP issue. I think there are a number of other companies, such as Shell, where similar issues have arisen. We have also had our attention drawn to a number of particularly US-owned IT companies. The Hewlett Packard Pension Association gave evidence to us. In that case, there had been hardly any increase in the pensions paid in respect of pre-1997 contributions where there wasn't a statutory obligation. I think up until 2002, there were regular increases in the pensions of those pensioners. This is particularly people who used to work for DEC—the Digital Equipment Company—which was eventually taken over by Hewlett-Packard. Are those cases also on your radar?

Paul Maynard: I will be discussing them with TPR. I am very conscious, particularly with issues of indexation, to look at them in the round in terms of the impact they could have upon the wider DB sector in introducing greater liabilities. We were talking earlier about how much better funded the sector is these days. You have to look at things in the round as well as the specific cases that you identify. That is why I want to have a longer discussion with TPR over how we balance all these competing arguments. They all have good validity, but we need to think about how they all fit together in terms of reaching a final conclusion.

Q320 **Chair:** From the Hewlett Packard Pension Association, we heard that there is a large number of people who used to work for DEC, mostly in the pre-1997 service, who have had in total, in cash terms, a 5% increase on their pensions in respect of those contributions in the last 20 years or so. Would you want to express sympathy at least for people who find themselves in that position and in some difficulty?

Paul Maynard: As I sign all my letters, I have a habit as a Minister of writing, "Why, oh why, oh why?" at the top of them and sending them back for further discussion, so can I understand why. There are a lot of "Why oh whys" at the moment on these thematic issues—individuals who took perfectly sensible, valid decisions during their working lives and what they thought they were getting has not appeared.

It is right that I as a Minister engage with those; I don't just put them to the bottom of the pile and sign them and hope for the best. But they come under certain categories—as you were indicating—of thematic challenges. You have identified another one in addition to what we were having with the likes of BP and Shell. That is very much something I am trying to consider.

Q321 **Debbie Abrahams:** Good morning, everyone. I want to touch on sole trustees. We have seen a 12% increase in sole trustees over the last year, and we understand that is due to increase. We have received evidence from a whole range of people including former trustees and scheme members, but also from TPR, on this—all identifying both benefits and risks. From your perspective, what did you see those benefits and risks of the increase in sole trustees to be?

Paul Maynard: Sole trustees can have a role. Their underlying basic duty does not change—to act in members' best interests. I think it is a rapidly changing landscape and they are a relatively new concept. I know TPR want to put sole trustees under slightly greater scrutiny to properly understand where they are coming from: the working practices, the parent groups that are supplying and sorting these individuals—to understand how all of that is working. While I do not want to speak for TPR, I can well imagine that there would be a need for greater understanding of whether they are registering on the trustee register in the way we would like them to do. I also know that the APPG has issued a code of practice, which I very much welcome.

It is a developing picture, and I understand why there are concerns. TPR needs to make sure they understand how that landscape is working, because it is new, and I suspect that because it is new it is changing quite rapidly.

Q322 **Debbie Abrahams:** One of the concerns has been about whether there is a conflict of interest, particularly if these appointments of sole trustees are made exclusively by the employer. Is that a concern you share as well?

Paul Maynard: If that is a suggestion from stakeholders then clearly that is something you would want to discuss with the regulator. To understand what that concern is based on how widespread it is, and whether there are sufficient safeguards in the system right now that TPR can use to address it, or whether they need to add to their arsenal. When new systems of governance emerge, you always have to test it against an existing regulatory framework, because regulation has to be agile to adapt to how the world changes. That might be the case here, but I wouldn't like to say for definite at this stage.

Q323 **Debbie Abrahams:** I think the Royal Ordnance Pensioner's Association has called for a change in the regulations around that, so they are tightened up. For example, if there are any proposals around appointments of sole trustees, that would involve consultation with scheme members and former trustees as well. Is that something that you might welcome?

Paul Maynard: I think you have added a further agenda item to my next meeting with TPR—but we are meeting.

Debbie Abrahams: That is good to hear, Minister. Thank you for that. I think that is probably all I am going to cover.

Q324 **Nigel Mills:** There have been interesting ideas for what we could use the Pension Protection Fund for, now that we are off the rollercoaster and having our ice cream.

Bim Afolami: We're back to that.

Paul Maynard: I am not going down that path again.

Nigel Mills: One of those ideas is for it to act effectively as a public consolidator for schemes that aren't attractive to either buyout, or to private consolidators. Can you talk us through how exactly you envisage that might work, and where we are with that sort of idea?

Paul Maynard: This is an idea from the Tony Blair Institute. I place no great emphasis on whether that makes it a good idea or a bad idea, I just note its origin. My view is, at this stage, the PPF is one potential vehicle for the idea of a public sector consolidator. There is no inherent reason in my view why it couldn't be such a consolidator, but we are consulting on how we have a public sector consolidator that we are committed to delivering by 2026.

I do not want any public sector consolidator to distort the market; it has to focus on schemes that would be unserved by commercial consolidators or insurers. I think we want to consult further on the exact eligibility criteria as to who would want to go into that public sector consolidator.

Q325 **Nigel Mills:** Are you looking at proactively onboarding schemes that, in effect, are never going to pay more than 90% of benefits—saying, "We'll just go and hoover them up and do it in a controlled way, rather than waiting for the situation to collapse", which is basically what happens now—or are you talking about trying to consolidate schemes that would be above that kind of 90% figure that the PPF currently pays?

Bim Afolami: I will pass over to Laura in a second. Of course, the PPF does a great job in being the lifeboat, as my colleague described it, for schemes that are in real difficulty. The proposals are thinking about how we can use it as a new tool in the toolbox to improve consolidation. Obviously, we already have insurers. That happens. We talked about buyouts and when they are fully funded; that will continue to happen. There is no problem with that and there is sufficient capacity in the market to do that. But there are other areas, particularly in the public sector, where we are thinking about how the PPF can play a greater role in the broader consolidation of schemes. I will hand over to Laura.

Q326 **Nigel Mills:** I get that, but that wasn't the question I was asking. The question I asked was: are we envisaging the lifeboat going out and proactively rescuing ships that we know are going to sink at some point but just haven't quite sunk yet, or are we envisaging it going out and taking passengers off ships that aren't going to sink but which may not be attractive to other ships at some other point? What is the vision that we are looking at?

Paul Maynard: Eligibility criteria are part of what we will need to consult on. That, I think, gets to the nub of your point. I don't have a fixed view myself on that answer, which is always a good thing when you are about to do a consultation. I get why you are asking the question, and it is a fundamental question and why we need to consult. It's not about whether we do a public sector consolidator; it's about how we do it and what the right vehicle is.

Q327 **Nigel Mills:** It is quite fundamental, because it is probably fair enough to use the PPF to hoover up schemes that will never pay more than 90%, and say, "Actually, if we invest the money better and manage better, we can probably minimise the loss." As soon as you go in for schemes that will probably pay more than 90% but are not attractive enough for a private consolidator or buyout, which I think is the other band of schemes, that is a very different deal from any other member that has been into the PPF and is getting capped at 90%—and it is not what the levy was for. The levy is for ships that sink, not for ships that don't move quite fast enough. Are you looking at using the PPF for that over 90% funded bracket, or are you thinking that it may be the same people or same organisation but that it would need to be a different scheme?

Paul Maynard: I heard Fiona taking a breath, suggesting she wants to comment.

Fiona Frobisher: Yes. I think the consultation that is coming out is quite clear on options for DB schemes, which will cover both how we might think about schemes investing for surplus and how we might think about consolidators. In both cases, we are looking at increasing choice for schemes. We are not looking at mandation; that is not where we are starting from.

I think you are asking, "Are they going to be going around proactively trying to pick people up?" Probably not; this is more about asking, "Are there unserved parts of the market that could go into a consolidator?" The two obvious parts that might be the most unserved would be those that are very small or those whose funding is poor. They produce different challenges, and we have to think about how you would do consolidators for those, but we are also very clear that we are not trying to set up a two-tier PPF. Anything that comes out as a consolidator will be completely ringfenced away from the current PPF and the current PPF levy payers. That is another fundamental principle of what we are looking at.

Q328 **Nigel Mills:** I can accept that mandation would be completely wrong, but if we want consolidation, don't we have to at least nudge, encourage or require trustees to actively consider and document why they don't do it? I mean, what is it that you will do that will make this journey happen more quickly than just sitting there going, "Well, it might be nice if it happens, but it's not for us to make it."

Fiona Frobisher: I think that is the kind of thing that we want to poke at a little bit through the consultation. We are trying to think about whether there are ways that we could understand the take-up better, and understand the incentives that would make people choose to do this or the things that are making them steer away from it at the moment. Those are really important questions.

Q329 **Chair:** Can I put a number of points to you? We talked earlier about some of the difficulties faced by members of particular schemes. Might I ask you about another one—AEA Technology? The Public Accounts Committee reported on that in June. It made the point that the Atomic Energy Agency Technology pension cases highlighted "gaps in the routes of appeal available for people raising complaints about their pensions". It also said that it was "another case of government not giving people enough time or support to make complex financial decisions". Do you accept that members of that scheme have not had an adequate right of appeal over what happened to their pensions?

Paul Maynard: I think you wrote to me in September, and I replied at the end of November. We accept the Committee's recommendations. Since then—because this is about the overall picture of the ombudsman landscape, which is ridiculously complex in policy terms—officials had gone away to talk to the Cabinet Office about their perspective on how we ensure that people have adequate means of redress. On the back of that, I now need to get those officials back in once they have had that discussion with the Cabinet Office—hopefully by now, given that they have had a month—to understand what more we can do. Once again, it is another one where I have had many letters and written, "Oh why, oh why, oh why" at the top, so I am keen to get to the bottom of it. Having set up the ombudsman for rail and done a lot with the aviation ombudsman, I know just how important ombudsmen are for a sense of justice and fairness, but also how infernally complex they seem to be. Politicians want to ensure that they can be utilised in the way in which they were intended. I do not know why that should not be, as it ought to be a simple concept.

Q330 **Chair:** So you envisage a role for the pensions ombudsman.

Paul Maynard: Indeed. That would be my superficial instinct, but I am yet to hear the officials' advice after their discussion with the Cabinet Office.

Q331 **Chair:** One thing that occurred to us that might be done is to ask the pensions ombudsman to look specifically at how the complaints of the members of that scheme could be addressed. Is that something that you might do?

Paul Maynard: That would be part of my discussion when the officials come back from the Cabinet Office. I have a long list of thoughts and views on the matter, which I probably should not share with the Committee.

Q332 **Chair:** We will look forward to hearing that. When would you expect to be able to make a decision?

Paul Maynard: Longer than imminently, shorter than in due course.

Chair: Okay.

Paul Maynard: I can only try to be honest. Government timescales are always much longer than the timescales I might like—let's put it that way.

Q333 **Chair:** Let me ask you about a different subject. We spoke earlier about the Chancellor's Mansion House speech. He referred to a new legislative framework for defined benefit superfunds, but then there was no legislation in the King's Speech, which was not long afterwards. Why was that?

Bim Afolami: Without echoing the point about Government timescales and parliamentary timescales, we are very keen to get this on a permanent legislative footing as soon as possible. We have an interim regime on superfunds—that is not perfect, but it is something. When parliamentary time allows, we are very keen to move the regime into a permanent space on superfunds. I agree; we are very keen to get this on to a permanent legislative footing.

Q334 **Chair:** It is quite surprising for the Chancellor to announce something and for it then not to happen.

Bim Afolami: It is not quite fair to say that it does not happen; it just has not happened as permanently as we would like. That is why we have an interim regime at the moment that is working reasonably well. We have already had Clara—I think that is the name of the superfund that has already been through the regulatory process so far. There are others that are interested in doing so. Hopefully, as soon as parliamentary time allows, we will get that on to a permanent footing. That will then hopefully lead more people to come through that, because we believe that it is a useful addition to the broader market that does not undermine insurers and what they are doing, but that can also provide a very useful addition to the market where things are not 100% fully funded. I will pass on to Laura if there is anything else that I should add.

Laura Webster: The only thing I would mention is the other thing at Mansion House, which was the publication of the consultation response on superfunds, which has helped us. There was a lot of debate and many issues to work through from 2018 to Mansion House. That was quite a big moment on the journey of establishing the superfunds regime. I note the importance of the gateway test in helping us get to a good position on that.

Q335 **Chair:** I think that 2018 consultation was by far the longest outstanding consultation to which the Government had not responded; it took five years. The interim regime you mentioned has been in place for a while now. The Chancellor stood up and said, "We are going to legislate", but then the legislation did not happen. Are you looking at doing it through secondary legislation rather than primary? Would that be the way forward for superfunds?

Bim Afolami: I would have to check, but I do think we need primary legislation—at least for aspects of it. I am happy to write to you and follow up if that is not correct. We want to do this as soon as we can.

Q336 **Chair:** There is in some quarters a bit of suspicion that the Treasury does not really want to do this that much, partly because of the concerns about the insurance industry—you have mentioned the concerns of the PRA—and partly because of the worry that it would have the effect of depressing demand for gilts, which in the short term is very important for the Treasury. Are you able to reassure us that the Treasury does want this?

Bim Afolami: When I saw the timelines, I was similarly surprised at how long they were, so I understand that that is very difficult. It is not the case that the Treasury does not want to do this. There was a debate, far in the past, about exactly where superfunds sit vis-à-vis insurers. That has been clarified, as my colleague said, by the gateway test that makes it clear that you are only in a superfund world when it is clear that something is not about to be in a position where it could be for a full buyout. That gateway test, having been established, has put clear delineation between the insurer space and a superfund space. That debate now is over. With that having been clarified, people—whether they be Treasury, DWP or across Government—are now happy with the broad framework. It is now just a case of moving what is interim into permanent. We are going to do that as soon as we can; I promise.

Q337 **Chair:** Is the draft legislation ready to go, once parliamentary time is available, or is there still a fair amount left?

Bim Afolami: I am not the Chief Whip or the Leader of the House, so I cannot answer that—

Sir Desmond Swayne: Soon!

Bim Afolami: Thank you, Sir Desmond. There's still time. You've now ruined my changes for either position! What I have been told is that we will do this when parliamentary time allows. There is strong support from the Treasury for doing it.

Q338 **Chair:** Can I ask a question about the Pension Protection Fund? The chief executive of the Pension Protection Fund told us that "there is a good case, on equity grounds" for the introduction of indexation on savings from pre-1997 contributions, which, as you know, is not provided at the moment. Now the PPF does have the £12 billion surplus that has been mentioned already, will you consider that change to introduce indexation to those pre-1997 savings?

Paul Maynard: I am more than aware that that is a very big part of my postbag. Once again, I am going to be very cautious as to the commitment I make at this stage. I would not want the Committee to think that there was a rabbit about to appear from a hat. You very helpfully wrote to me early on in my time in this role, advising me to meet the Pensions Action Group, Mr Monk and the members of the ASW scheme, which I was pleased to do on Monday.

Chair: We are very grateful that you did that.

Paul Maynard: I spent a lot of my Christmas mulling over the issue. We had a meeting with officials before I met the group, where I commissioned quite an extensive piece of work. I then met them and listened very carefully to them. I know there are two of them sitting behind me now—their eyes are boring into the back of my head, I have no doubt. I was very clear with them then that I was very much listening—and reflecting, not just listening—and that I will be having further meetings with officials when the work I have commissioned comes back to me.

What I want to stress to the Committee today is that I do not think, "You wrote to me to say, 'Have a meeting'; I had a meeting; that is the end of it all, and we can all move on—wonderful." There is a process now going on where I am reflecting on and discerning what I have heard, and we will see where that gets us. I do not want the Committee to think, "Great, there is going some be some magnificent change occurring"—I have made that clear to the people I met as well—but there is a body of work now taking place to help me make further decisions. That is as much as I can say at this stage.

Q339 **Chair:** The Committee very much welcomes the fact that that meeting has taken place. There are two issues here: the people whose pensions are being paid by the Pension Protection Fund, where there is no indexation on pre-1997 contributions at the moment, and the rather separate issue of the financial assistance scheme. We will look forward to what you conclude on the latter, but are you looking at the former—where the chief executive says that, on equity grounds, something should be done, and there is a £12 billion surplus—in the same sort of timescale?

Paul Maynard: I see the two as interlinked in terms of the subject matter and the interplay between them. So yes—when I have my PPF meeting, that will be on the agenda as well, because I do not think I can look at one without looking at the other.

Q340 **Chair:** We will look forward to hearing the outcome of both. When do you plan to legislate to give the Pension Protection Fund more flexibility to reduce the levy? As you know, in its evidence to us, it indicated that it thinks it could do without the levy for a while, but it cannot really reduce it to zero because it is only allowed to increase it by 25% under the current regulations.

Paul Maynard: I would like a pensions Bill every month! There is so much that could be done, and indeed needs to be done. Once again, I am well aware of the PPF's requirement around the levy. I want to address it, and I am very keen to have a pensions Bill as soon as possible, because we have an immense list of things that need to be done, as we have been discussing today.

Chair: So as soon as there is such a thing, that will be in there?

Paul Maynard: I would very much hope so. I would never like to give a 100% guarantee of what will appear in a piece of legislation, but I recognise the importance of addressing that point.

Q341 **Chair:** A final point from me: some schemes say that they are prevented from sending helpful information to members by the privacy and electronic communications regulations. That is quite a big concern for some schemes. I know that the Department and the Pensions Regulator have been looking at that. When can we hope that there will be a solution to it?

Paul Maynard: My preparation for this Committee brought that to my attention. I agree that regulations should not get in the way of the free and fair functioning of the pension system. My up-to-date understanding was that we are working with ICO, DSIT, as I believe it is now called, and TPR to try to find a solution. I do not have an update on where that has got to, I shall be honest—I am happy to write to the Committee when I have a better answer than that, because my understanding is no further advanced than yours. I need to improve on that answer, so we will write to the Committee.

Q342 **Chair:** That would be very helpful. Would you expect to be able to write within the next couple of weeks?

Paul Maynard: Longer than imminent, shorter than in due course—sooner rather than later.

Chair: Thank you. We have covered a lot of ground. Thank you for being succinct in your answers and enabling us to keep well to time. Finally, would either of you like to say anything else to the Committee before we move on?

Paul Maynard: I think you have heard quite enough from me.

Chair: Thank you both very much indeed.