



Work and Pensions

Oral evidence: Update on auto-enrolment and a range of current pensions issues, HC 728 Wednesday 23 October 2013

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Written evidence from witnesses:

Steve Webb MP, Minister for Pensions, and Sarah Healey, Strategy Director, Private Pensions, DWP

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Members present: Dame Anne Begg (Chair), Debbie Abrahams, Graham Evans, Sheila Gilmore, Nigel Mills, Anne Marie Morris, Teresa Pearce

Questions 1-73

Witnesses: Steve Webb MP, Minister for Pensions, and Sarah Healey, Strategy Director, Private Pensions, DWP

Q1 Chair: Can I welcome you to this one-off evidence session around your pensions remit, Minister? I wonder if you could introduce both yourself and your colleague for the record.

Steve Webb: Thank you, Chair. I am Steve Webb, Minister of State for Pensions. This is my colleague, Sarah Healey, who is our Director of Private Pensions.

Chair: You are very welcome.

Sarah Healey: Thank you.

Q2 Chair: I have a couple of quick questions on the implementation of auto-enrolment. The opt-out rate seems to be pretty healthy and good; auto-enrolment seems to be going quite well up to now. However, people in industry are concerned about what happens now or later, when the smaller firms and microbusinesses start to come in. What are you doing to support smaller employers and make sure they can make their way through the maze and end up with the best result for their employees?

Steve Webb: As you say, the early signs are better than most expected. We did our own survey of firms who had already staged, and we found that the opt-out rate was about 9%. Within that average, there were two quite encouraging figures. One is that younger people

were more likely to stay in. People had said to us, “How on earth are you going to get people in their 20s interested in pensions?” On average, less than 9% of young people are opting out, which is very good.

The second thing that seems to have gone well so far is that the people most likely to opt out are the people who were contract-joined when they joined the firm. In a sense, they had already had a taste of auto-enrolment and said no. We have re-enrolled them, and not surprisingly, they are slightly more likely than average to say no again. When we get to medium and smaller firms, which is the focus of your question, we will be encountering a set of people who have not ever been contract-enrolled before, so, in a way, potentially they are more fertile territory. Although there are reasons why it will be tougher for smaller and medium firms, for example they will probably strike less good deals with the pension schemes and have less resource to throw at it, we will be dealing with what you might call virgin territory for many of these people. They may work in companies that have never had a pension scheme before, and, based on the early evidence, we think that might improve their response.

In terms of what we are doing, clearly the “I’m in” national advertising campaign has gone well. The current burst of that advertising is now “We’re all in”, moving from the household name employers, such as Theo Paphitis, Karren Brady, and Nick Hewer—“I am a household name employer; I’m in”—to “We have been doing this for a year; 1.7 million people have been auto-enrolled; it is just the normal thing to be part of a workplace pension”. The role of it just being normal, that when you are put in a pension you stay in it, is central. We are trying to freshen things up, so I present to you, Madam Chair, the auto-enrolment sandwich bag—something to chew over. It is a bit light-hearted, and I must admit I did not know we were doing these until I read a blog about it. The point is, you go out from your workplace at lunchtime, pick up a sandwich and there is a workplace pension message [on the sandwich bag].

The more serious point is that we are evolving our communications. We are talking to, for example, the trade bodies that represent large numbers of smaller firms. Recruitment consultants, for example, have particular issues. The Pensions Regulator will have an event with lots of trade organisations, and although you have only got 20 people in the room, they are talking to 20,000 employers. I have been to payroll conferences. What we are trying to do is recognise where the next tranche of employers get their information from, and tailor our communications in their direction.

I have just one other thing to mention. From this November and next April, we have deregulated some of the processes. The big firms have said to us, “We have done this, it has gone well, but there are two or three things that were unnecessarily complicated: the definition of a pay reference period as against the tax definition.” We have said, “Right, that is a differentiation we do not need so we will allow you to align those.” We are trying to learn as we go on.

Q3 Chair: How are you going to make sure that the people who work for the smaller employers understand the benefits of auto-enrolment, so they are not tempted to opt out? Where do they go for advice and help?

Steve Webb: The smallest firms employing fewer than 50 people we do not get to for another year and a half, so we are in the mid-range until spring 2015. Employers are still

showing some interest in all of this, so there will be employer-based communications in many of these cases. We are determined that this is not about financial advice. For people who work for a small firm and are putting a few pounds into a pension, once we get into the territory of formal financial advice, we have lost it. This has to be something that everybody does, and that you do not even have to think about very much. You get your employer's contribution and the tax relief. If you are on universal credit, two thirds of what you put in is given back to you through increased Universal Credit, so this should be, frankly, a no-brainer for most people.

The guts of it is, we are not going to communicate individually with 6 or 7 million people who work for smaller firms. What we have to do through our nationwide and employer-based communications is get the message out.

Sarah Healey: The focus on individuals is primarily through the communications campaign, because our research suggests that is the best way to reach them. However, the Pensions Regulator also works at communicating with employers early enough so that they can prepare their workforce for automatic enrolment. They have tailored communications they can send to employees, because our research suggests that, if you communicate with employers very well about what is going to happen to them on automatic enrolment, they are much less likely to opt out than if you spring it on them late. It is all on the TPR side about really preparing employers who might not otherwise be thinking about automatic enrolment, and making sure we reach them early enough.

Q4 Anne Marie Morris: The very smallest businesses, when we start getting down to 50 and below, are clearly going to be in an even more challenging position. I am sure you are aware that there was some research done at the backend of last year, which showed that a third of the small employers said basically, "We are not going to comply. We don't know anything about this." Members of the UK200 Group of independent accountants and lawyers have commented that they were very concerned that a third of the SMEs were going to ignore the legislation. There was a further comment from a second site that, at a non-compliance bill of £2,500 a day, this was going to mount up to £30.4 million per day in penalties.

My concern is that, after all you have said, clearly you are moving in the right direction and have learnt some lessons, and clearly it is easier to deal with those who are used to engaging in pensions. However, when you get to the 50 to 250, and then the 50 and below, you have a real challenge. I must admit, I was quite horrified that organisations said, "We simply will not comply". How are you going to address that? Clearly, some of the very smallest, and I suspect it is going to be the under 50s more than the 50 to 250, are going to say, "We simply cannot afford this. We just can't. Sorry, Government." What are we going to do? We want to ensure that they do comply, because otherwise it is a lose-lose for the employees, but also to make it easier. The things you have talked about are lovely and will be fine for the 50 to 250, but I cannot see the under 50s going into the business of labels on lunch bags and the like.

Steve Webb: The first thing to say is everybody who has put out hysterical, doom-laden forecasts about auto-enrolment has been categorically wrong. Talk of £30 billion in fines and penalties is just complete tosh. If we thought we were going to get £30 billion worth of fines, the Treasury would have been round shaking me warmly by the hand. That is not the point of the exercise.

Our goal is to enable, educate and support people to do what they need to do. There is always, with any law, a set of people who will not put their seatbelts on, and so on. We know that, and we will need whistle-blowing and all that kind of stuff for those cases. The vast majority of these small firms will choose NEST, who have ruthlessly researched the target market: the people who do their books on the kitchen table in an evening, the phone goes and then they have to come back to the website where they were doing the pension thing. NEST have set it up so that when you go back to the website it is where you left it, without logging back in again and things like that, so they will overwhelmingly go to NEST. Because it has been constrained—people say, “You should not have constrained NEST”—NEST has had to focus on its target market to strip out much of the complexity.

If I employ a handful of people, of course I would rather not do this. What we will have done, however, is created the norm that this is just part of being at work. It is like a minimum wage or paying tax; it is just what workers do. We are not asking the firms to do the advertising campaign; we are paying for that sort of thing. By the time you get to these smaller firms, the idea is that the norm will be that everybody, as an employee, because they know somebody who works at a supermarket or a bank, will know someone who has been auto-enrolled. A quarter of the adult population is going to be auto-enrolled, so by the time it gets to you working for a small firm, you will be saying to your employer, “How come you haven’t put me in a pension yet?” The employers will be asking, and the firms will know they have to do it.

Of course, there is bravado about not complying. We do have a big stick, but the whole point of the exercise though is to enable, support and make it as painless as possible. So far, all the merchants of doom have been proven wrong.

Sarah Healey: What we have tended to find is that awareness has to precede acceptance, and awareness is now incredibly high amongst those employers who are staging soon. It is quite high amongst micro-employers. It tends to be that, as people become aware of what automatic enrolment is, and then they start investigating it and discover it is a lot less difficult than they thought it was going to be, their acceptance will grow over time as well.

Q5 Anne Marie Morris: One of your solutions is very much that you have made it simpler. The FSB gave us feedback asking you to address just that, and you very helpfully said, “Yes, we will simplify it so that it is like organising the PAYE systems and returns.” However, having personally enrolled as an individual through NEST, I can tell you it is still not a simple process. While I do hear what you say, and I am sure more work has been done, my own personal experience of this is that it is not simple and straightforward. I rang up and got told that I could not be dealt with yet, because I was too small an employee so I would have to be put on a waiting list. I met somebody at a NEST dinner, and once he discovered I was an MP, immediately phones began to ring, but I was still on the list. Many months later they rang me and said, “We have now got to you. Are you interested?” There is something about the system that still does not quite work, and it certainly is not simple, from my personal experience.

Steve Webb: Bear in mind, you were one of those wonderful people, an early adopter. We love you because you went early and enrolled before you had to. Bear in mind, for the firms you are talking about who are threatening not to do it at all, they will not try and engage with NEST before their staging date, so NEST will have a plan, a schedule,

volume planning. They will be doing certain things on certain days. In a sense, of course NEST should have been more flexible in your case. I accept that, and we will pass that message on, but, having said that, they will have a systematic process for dealing with folk in due course. For the people who are not doing something different and are doing the standard process, it will be much more streamlined. In a sense, you were doing something very welcome, but you were doing something a bit out of the ordinary.

Q6 Sheila Gilmore: It was just a comment, Minister, that you made. You said, “Smaller companies may strike less good deals with pension companies.” That suggests that you accept that there are very variable deals. What positive action are you going to take about it? Wouldn’t it be better to be encouraging some of the smaller companies to go into NEST?

Steve Webb: The letter that firms get a year before their staging date refers to NEST specifically. Although it says there are other providers available, the only provider it actually mentions specifically is NEST. We think overwhelmingly that is where the small firms will end up, partly because some of the other providers will simply not be interested in that scale of business; we are already seeing it. Even firms who have a pension scheme already in place are in some cases finding that their present provider will not take the rest of the workforce because they are not profitable enough.

By the time you get to very small firms, I suspect there will be three or four places that will take this business, and they will be geared to the needs of the smaller firms. Of course NEST, as you imply, is a good-value-for-money, not-for-profit scheme. There are others currently offering similar sorts of terms, which is very welcome. You will not get what we have had so far, which is giant employers doing huge deals with big insurance companies, offering them cost price deals or something like that. You will not see that for the smallest firms. That is just the way the market works.

Q7 Chair: When are you going to be implementing pot follows member?

Steve Webb: Let me give the Committee an update on this. I will just take you to Australia briefly, and I know your Committee in the past has visited Australia, so you might want to think about this.

Chair: Not in the recent past.

Steve Webb: I will leave your foreign travel plans to you. Australia is often held up as one of the best pension systems in the world. They had a big problem, which was 5 million stranded pension pots. They have said to us, “The one thing we wish we had done at the start is pot follows member. We should have made sure that the pot is with the current employer because that way you are engaged with your current employer, your pension is in one place, you get value for money, you do not lose pots,” and so on. Australia is therefore now introducing a form of pot follows member. I thought I would mention that in passing.

Where are we up to on all of this? We are working out the best way of delivering this. The primary legislation, as you know, is going through the House at the moment, and we will have Royal Assent, hopefully by Easter. The primary legislation is quite broad, so we will then have to do detailed regulations about who has to do what and when, and that will

take a while. What we are looking at are options for delivery, and I will just give the Committee a bit of fresh information.

We have been looking at industry initiatives that make transferring money around the place easier, and there are a couple of very good examples of this. One is called Origo Options, which is the system already in place for moving pension money around. That system has cut the typical time it takes to move a pension pot from 50 days to about 10. In my view, that is 10 too many, but when the industry starts to get its act together, you can see dramatic improvements. One of the criticisms we have had of pot follows member is that it costs a lot of money to transfer pensions. It does, but it should not, so what we are trying to see is how far industry initiatives and structures can get us.

A second example is that TISA, the Tax Incentivised Savings Association, have set up an exchange scheme for moving things like ISAs around. All they have done is set common open standards, and they are now talking about 100,000 transfers a month of money between different funds, costing a fraction of the amount of money. This may or may not be the route we go down, but I am very encouraged that when industry get its act together, it can come up with far more streamlined ways of transferring money around. Transferring money is half the story; matching pots is the other half. You have to match the pot that you had before with the new pot and link them up, and we are looking at ways of doing that.

The goal is to get the primary legislation through, consult, as we are, as we go on the regs. The reason we have to get on with this, just to give you one figure that we have obtained, is, if you look at the People's Pension, who do particularly the construction sector, but are very much the sort of people who are interested in auto-enrolment, they tell us that in one year they have accumulated 10,000 stranded pension pots of an average value, from memory, of £14. In a year, that is one provider and 10,000 stranded pots of 14 quid. If we do not get on with this, how many millions of silly little pension pots scattered all over the economy are there going to be? We have to move as fast as we can. I cannot say it will be 30 July 2015; I cannot give you a firm date because we do not have one, but the goal is to progress this as rapidly as we can. If we can piggy-back on existing industry transfer mechanisms and improve them, we are interested, but the goal is to implement it as fast as we can so that people are consolidating their pots in one place rather than us having vast amounts of scattered pension pots.

Q8 Chair: I know you are saying you are doing it as fast as you can, but it is still not really fast inasmuch as auto-enrolment is already in, creating, as you have just said, a myriad of stranded tiny pots, so the situation is getting worse. What you have just said to us today is going to take at least another year, if not longer, to get in place, and in that time there will be large numbers of other stranded pots. Obviously, we have questions about NEST coming up, but there is also the issue of transfers with regard to that. Is there a way of getting those timescales to meet one another a bit more rapidly?

Steve Webb: It is important to stress that the scope of the auto transfers includes all auto-enrolment pension pots back to when it started. Although there are these 10,000 14 quid pots hanging around, we will catch them. In a sense, I do not mind if that is stranded for a year or two; it is if you spend your entire working life and have 11 different pension pots. We are a couple of years behind the curve. I often reflect, if all of these things had been in place when we started auto-enrolment in 2010, that would have been great, but what we

have had to do is deal with what I perceive as an awful lot of omissions of the auto-enrolment structure, and small pots is one of them.

Q9 Chair: The short service refunds come to an end in 2014. Is pot follows member going to be in place before the withdrawal of short service refunds?

Steve Webb: I very much doubt it. There will be a gap, but what we are saying is, if you put money into a pension, we want it to stay in a pension. Short service refunds are almost the antithesis of auto-enrolment. You save for up to two years, and then because you have left the scheme within two years you have your money back and you start again. That is the opposite of what we want. We did not want to take short service refunds away overnight, partly because they are an established part of the pensions infrastructure, but we have given plenty of notice that they do not have a long-term future in the scheme.

Q10 Graham Evans: Just on the point of the pot follows member, you used the example of various tiny ones. What about the typical case of someone who works five years here, moves on to a better job, works five years then moves on, and every time he goes from one company to another, he has done five years. He does not have £14, but has more like £20,000 or £30,000. When you add it up, that is a substantial amount of hundreds of thousands of pounds. What is your view on that? It is different from lots of £14. It is a major issue if people have several pensions with, collectively, several hundred thousand pounds, potentially, but it is all in different pension schemes.

Steve Webb: As you say, people have today fragmented pension rights. Some of them will be DB, which is not in the scope of what we are doing.

Q11 Graham Evans: I think you will find, Minister, that the DB schemes would have changed since they left the company to DC schemes, but I take your point.

Steve Webb: Yes, so what I am saying is we are not going to sweep up accrued DB rights. Just to give you a sense of scale, if you take, in very round numbers, average earnings of, say, £25,000, and a floor for contributions of, say, £5,000, for the sake of round numbers. That is £20,000 of band earnings. 8% of that is 1,600 quid a year. That is the minimum, so after you work five years, you have 8,000 quid. That sort of amount will get swept up.

Frankly, I would like to go much further; I would like to have a higher limit and do more consolidation, but we are just trying to establish the principle first. I talk about a big fat pot, and I really do mean one big fat pot, but because there will be millions of these silly little pots to start with, we want to establish that, get the structures in place and then hopefully take the principle further.

Q12 Graham Evans: The workforce of the future is not going to be with one company, is it? It is going to be moving around so it is very important to get that right for future generations to invest.

Steve Webb: Yes.

Q13 Chair: Have you done modelling of how many stranded pots there will be at the end of this process? How many do you think you will be able to identify and get into a single

pot? Some are bound to end up stranded. You must have an idea of how many will never be identified with their owner.

Steve Webb: When we did our modelling for the pot follows member document, if I remember rightly, we reckoned by the middle of the century we would be talking about 50 million stranded pots, if we did not do anything.

Obviously, there will be some where you leave a job and you do not join a new scheme, which will not get caught by pot follows member because there will not be a new scheme to auto transfer to. There will be your final job, so there will still be some, but I see this as the first stage of a process. This is dealing just with bog standard auto-enrolment DC pots below 10,000 quid. One could imagine going back before the start of auto-enrolment, raising the pot size limit and extending the scope. You could do a lot, but we think it is a big enough job just to get started with this.

Q14 Teresa Pearce: On implementation, there are many people in this country now on zero-hours contracts. This does not mean that they will not be eligible for auto-enrolment, but I have seen brochures that have gone to large employers from some of the Big Four advisors telling them to review zero-hours contracts and maybe put people onto self-employed contracts, which clearly would be wrong. It is not really a question; it is more of a plea. Would you pressurise HMRC to make sure that they monitor that sort of behaviour, because that clearly would be the opposite of what we are trying to achieve?

Steve Webb: I agree. The Business Secretary is looking into abuse of zero-hours contracts where that is not in the interest of the employee. I understand the average person on a zero-hours contract works 20 hours per week. That is the typical out-turn, so as long as they are an employee and have been auto-enrolled once, then fine. If they have a week when they do not work, money does not go into the pension, but if they have another week when they do 30 hours, money goes into the pension. It is not as though they have to be re-enrolled and all that stuff; there is just a week when no money goes in.

You are absolutely right, though. If someone is really an employee but they turn into self-employed, they fall out of the scope of automatic enrolment. HMRC are interested in fake self-employment anyway. They will say, "If this looks like an employee and smells like an employee, we are going to treat it like an employee." We need to make sure we do that for auto-enrolment as well.

Q15 Teresa Pearce: It is being put forward as a way of saving costs.

Steve Webb: Do send us a copy.

Teresa Pearce: I will.

Nigel Mills: I am intrigued by your sandwich bag, Minister.

Steve Webb: I will leave you a copy.

Q16 Nigel Mills: I am not sure I would recommend to a sandwich chain they use it. People tend to think their pension costs them more, does not quite have the filling they like and leaves a rather nasty aftertaste. I suppose we will see if anyone is brave enough.

While we are on transferring small pots, clearly you cannot transfer a pot into NEST yet. I think you are looking at 2017 to change that, unless there is some update. How will NEST be able to interact with this transferring system?

Steve Webb: There are three constraints on NEST that we plan to lift. The constraint on individual transfers will lift as soon as we do pot follows member, so pre-2017. NEST clearly has to be part of pot follows member, so once we have got pot follows member in place, NEST will be part of that and we will lift that constraint before 2017. In 2017, we lift the other two main constraints: the £4,000-odd contribution limit and the bulk transfer ban, where a company already has an existing scheme and they move the entire scheme and all the assets, lock, stock and barrel, across to NEST. That is the thing that goes in 2017. Pot follows member, then NEST will be in as soon as it happens.

Q17 Nigel Mills: When do you plan to lift that restriction, then? That will have to come pretty soon, won't it?

Steve Webb: Yes. We will not have Royal Assent on the primary until Easter next year. We will have to consult and do the detailed regulation, so it is not going to be before 2015, I would not have thought. There is a lot of work to do, but as soon as we can.

Q18 Nigel Mills: You could just stick it in the Bill next week, couldn't you?

Steve Webb: That is very kind of you. We are in conversation with the European Commission, because obviously NEST is a subsidised competitor in a private market and state aid was granted on certain conditions. We are having a dialogue to make sure all that is in order. It looks fine at the moment, but we have a bit of process to go through.

Q19 Nigel Mills: It is always the European Union. Can you set out for us how happy you are with NEST and its use of the subsidy you have kindly described? I think the update you sent was that NEST now has 450,000 members.

Steve Webb: NEST has passed the half-a-million mark. Again, the merchants of doom said, "It is a failure. The biggest firms in the land have not used NEST." Of course, NEST was principally aimed at the smaller firms and at the lower paid workers of the bigger firms, so to be at half a million in barely a year is fantastic as far as I am concerned. People are getting a high-quality, not-for-profit pension, with the equivalent of 0.5% AMC if you stay with them for a reasonable length of time. In terms of the product, because NEST is focused on its target market, it has innovated on investment strategy, so for people in the early years, younger people, it is a less risky option, to give people a bit of confidence. It has innovated on comms, so the NEST communications are market leading. Others have done so as well. You may have asked a slightly different question, but in general I think they are doing a very good job.

Q20 Nigel Mills: Have they said to you that the restrictions are making it hard for them to attract employers? Given the fact that they are now over half a million, perhaps the restrictions are not quite as difficult for them as they thought.

Steve Webb: We have always said NEST would end up with between 2 and 4 million members, and we stick to that; that is still what we think will happen. Clearly, there will be firms out there who did not put NEST on their list because of the restrictions. We think there might be a bit of a perception issue because of the contribution limit. They may have thought, “I cannot use NEST because I have a high-earning employee.” In a sense, we are saying we will lift that contribution limit before the mandatory contributions go up from 1% plus 1%. As soon as we are requiring firms to put in anything more than 1%, the contribution limit will have been lifted, so we think that will deal with any residual problems.

Q21 Nigel Mills: Taking you to the rather unhappy issue of the fraud they suffered, are you now happy that they have reformed themselves so that cannot happen again? That is going to be a cost on either the taxpayer or the members of the fund, isn’t it?

Steve Webb: I will ask Sarah to say a little bit more. Obviously, the NEST Corporation take the loss of over £1 million from the corporation very seriously. For what it is worth—and I think it is welcome—the chief executive has said he will not take a bonus for the year. That is not £1.4 million, because that is not the sort of firm it is, but it is an important thing he has done. Perhaps Sarah can say a bit more about the processes that have been put in place.

Sarah Healey: NEST alerted us to the fraud as soon as they discovered it had taken place. They conducted a very thorough investigation into how it came about. They have improved their internal controls as a result of it, to the extent that we are satisfied they have improved those controls and that could not happen again. They continue, as any good organisation does, to do a proper look at their audit and risk procedures to ensure all of their internal controls are at the highest standard.

Q22 Nigel Mills: This was their money that was taken; it was not hacked out of actual pension funds, was it?

Sarah Healey: No, it was NEST Corporation funding.

Q23 Anne Marie Morris: On small businesses, I agree with you that they are going to be using NEST more than anything else. The FSB said what they really wanted was guidance and information. I appreciate the sandwich bag will tell them what they are supposed to be doing, but to enable people to really understand what this is all about is a very different challenge. You can give people data, but understanding how to use it is a different thing. The point about education was raised earlier as well, so my question is: what are you doing that is not just about data dump, but actually education? Then, thinking more long-term, frankly, within the curriculum, now that personal financial education is coming in partially in a mandatory form, will pensions be part of that? It seems to me it should be.

Steve Webb: I make a distinction between employers and employees, because we have a different strategy for each. For employers, the important thing to stress is the sequential nature of our communication strategy. If we wrote to Britain's smallest firms now about auto-enrolment and put in the final paragraph, "But you do not have to do this until April 2015, 2016 or 2017", it would go in that round filing cabinet in the corner.

Anne Marie Morris: Yes, it would.

Steve Webb: We are doing this sequentially. We know by name the companies we are dealing with, so in a sense the fact that the smallest firms are becoming more aware of auto-enrolment, even though we are not really targeting them yet, is a good sign. We will get to them, but FSB members on the whole will not be touched by or actually doing auto-enrolment for another 18 months. This is just awareness-raising for employees.

There is a lot of tailored communications for the smaller firms and direct mail from the Pensions Regulator. There are web-based planners on the Pensions Regulator's website where you put in your employee staging date, you have to do this by this, and here is a set of sample letters you can send to your firm. You do not have to write them or get your head round it all. This [holds up sandwich bag] is the communication you have to do and this is how to choose a scheme. We are trying to hold people's hands through it, and every passing month we are learning more about what helps people and what does not.

On the employee side, it would be enormously welcome to have financial education on the school curriculum. I am advised pensions is on there, so if I need a job after 2015, it could be: "and now here comes the pensions teacher to do an hour". So that is welcome. Financial literacy is a good thing, but it just does not get us there. Most people will not engage with, be interested in or think about pensions, so we have to design a system that works for people who do not get it and do not care. That has to be about defaults, automatic enrolment, mandatory employer contribution and all that stuff. If people want to go further, let's educate and enable them, but we have to cater for the mass that frankly will not care or be interested.

Q24 Anne Marie Morris: Auto-enrolment clearly is a good thing, so do not misunderstand me. I am not sure I necessarily subscribe, therefore, to people not needing to understand. There is probably an argument that people do need to understand. It is a bit like understanding what a bank account is and what a credit card is, because you can get yourself into a huge mess. Specifically on NEST and my experience, and on the point you made with regard to simplification, will you be able to report to us once you have got through the next tranche of 50 to 250 what specific things you have simplified so that we can understand exactly how easy this is going to be for the very small one/two man band when you get to including the 50 and smaller? That is going to be important.

With that, to Sheila's point, is also ensuring it is not so simple that they do not result in good quality schemes. Otherwise, there is a risk, as you mentioned in answer to an earlier question, that they will get a pension but it may not necessarily be one of the best. It is clear that simplification is good, and I would advocate it, but it needs to be done in such a way that it does not in any way downgrade the quality of the ultimate result.

Steve Webb: I will ask Sarah to come in in a second. One of the things employers complain to us about is that, when they have to decide if someone has to pay income tax or not, there is a set of definitions, thresholds, rules and periods. We come along with auto-enrolment and say, “Ah, no, we have a different window. Our four-week window is not the same as the HMRC’s calendar month window or the National Insurance window.” People have said to us, “That is ridiculous”. We have sorted that and said they can use the income tax window if they want to. That is not going to make their pension worse; it is just getting rid of unnecessary bureaucracy. That is what we have tried to do.

Sarah Healey: There are the kinds of simplifications, which the Minister is talking about, that we have made to the way that the legislation operates. However, all of the time, as the pensions industry, payroll providers, intermediaries and others are getting up to speed with automatic enrolment and seeing how it works in practice, they are making improvements to make it easier for employers, which will be of really significant benefit to those employers who are coming down the path of staging and do not have the internal resources to manage the process that the largest employers have had. We are seeing payroll providers build into their system an assessment of which workers are eligible, making it very simple for the small company that uses well known payroll software to identify who in their workforce is eligible. We are seeing NEST with innovations like delegated access, where you can get somebody on your behalf to manage the pension process rather than you having to do it yourself as the employer. We also have all of that consistent information that employers are given by TPR to be able to communicate to their employees the right information about what they are being enrolled into and what process they are going through.

Q25 Debbie Abrahams: I want to follow up Nigel’s question around lifting restrictions from NEST. You referred, as I think you have in the past, Minister, to the stumbling block being the EEC and the conditions under which funding was made available, and we were allowed to introduce NEST. Isn’t this really a red herring? This has been going on for about 18 months. Are there other issues? Could it be pension providers putting pressure in terms of not having to lift restrictions?

Steve Webb: One of the things we were keen to avoid was a period of limbo. If we had simply said that, subject to EU clearance, we will lift the restrictions tomorrow, just imagining you are a pension provider who has entered the auto-enrolment market, perhaps for the first time as a new player; you have spent vast amounts of money setting up your systems, doing your advertising and so on. You are competing with a state-subsidised provider, and the British Government then significantly improve the position of the state-subsidised provider. There was a significant risk—I cannot say it was a certainty—that we would have faced challenge on that. While we might have won, it would have taken months if not years to resolve. In that interim period, people would not have known that, for example, if they went to NEST they could put the top-paying employees in or they could do a bulk transfer.

I think, modestly, we have got this judgment exactly right. We have lifted the constraints on a timetable that gets us there just in time, before the contribution rates go up, in a way that has not triggered a legal challenge. It was a delicate balance, and I think we got it right. I would love to lift them tomorrow. You would; I would, but there was a process to

be gone through, and any negative impact of the constraints has been dealt with by us giving a timetable for lifting them.

Q26 Debbie Abrahams: I know you have had the consultation around quality workplace schemes. Could you update us on your initial findings? In particular, could you refer to your current thinking around caps on charges in different funds in qualifying schemes used?

Steve Webb: Another of what I call the unfinished business of auto-enrolment is that, at the moment, you can be auto-enrolled into pretty much anything. I cannot think why we, Parliament, did not specify a quality standard when we legislated for auto-enrolment, but we did not. We are trying to deal with that now. I do not think it has been an issue with the big firms; they have chosen well for their employees. We have not suffered detriment yet, but if we do not get a move on we risk doing that.

Obviously, there are many facets of quality. We put out a consultation earlier in the summer on various aspects of quality, governance, scale, investment and so on. We waited for the OFT to do their report, which covered issues such as charges. We will now shortly produce our consultation on the charges dimension of quality, which is only one dimension. We have had feedback earlier in the summer about the other facets of scheme quality, which I will ask Sarah to say a word or two about.

We will very shortly produce our consultation on charges. The key point, as the OFT rightly said, is a charge cap is not a no-brainer. Some people say, “Just cap charges; it is obvious.” The OFT said no; there were two or three things to think about. First of all, how do you define what it is you are capping? The OFT said there are 18 different sorts of charges they have identified, so you have to sort out which of those you are counting. You have to have the data. Alright, you set a cap. Where do you set it? Do we know enough about current charges? We are about to do a big review of legacy schemes, because none of us know much about the pre-2001 scheme, so we are data gathering. The third worry they had was levelling up. You set a charge cap. Does that just mean everyone drives up to the cap?

I think those things can all be dealt with, but part of our consultation will be asking people how they can be dealt with. Then we will ask, if it was all simple, clear and consistent, does that get us there? People can see what the price is. If it is too high they will go somewhere else. I do not think that gets us there either, because the consumer in this case is the firm, but the person who pays the charges is the member. It is not like an ordinary market; you have the consumer over here, but the person who pays the price is over here. Our consultation will be kicking those issues around, looking at options for charge caps, and we will move fairly fast on that. Charges are only one part of the story, though, so can I ask Sarah to say something about the other facets?

Sarah Healey: We consulted on a range of things earlier this year on scheme quality, and had quite a significant number of responses. We are working through those at the moment, and hope to come back later in the year to set out what we are going to do. Many of the things we talked about were later on echoed in the OFT report. Particularly on governance, we signalled the potential for independent governance committees of some sort, which were very similar to the kinds of proposals that ended up in the OFT report. Unsurprisingly, we got quite a lot of support in the responses to the consultation for those

propositions on governance, and a significant proportion of independent membership of governance committees and contract-based schemes where you do not have the trustee role being played.

We also consulted on scale, which I know is something that this Committee has discussed before. We consulted on whether there were things that we should do to promote greater scale and consolidation. We tended to find representation in favour of large schemes and small schemes. There was the highlighting of the things that have always been pinpointed as the potential benefits of big schemes, which are their potential economies of scale, and the improvements in governance you tend to see with larger schemes. Similarly, many people came back and said there are small schemes that offer value for money, so any blanket approach on scale would probably get it wrong.

As the Minister said in front of the Committee earlier this year, we need to be very cautious about too much consolidation in the market that leads to a few very big, powerful players. There was some support for our suggestion that we got schemes to self-declare whether they were good value for money considering their size. There was some anxiety about people having the expertise to do so.

We also consulted on two other aspects of quality: the approach to investment, and also administration and record-keeping. On investment, there was a lot of support for there being a properly governed default option, more scrutiny of the default option that was chosen in schemes, and the importance of regularly reviewing that default option to make sure it continued to be market good practice.

Helpfully, and perhaps rarely for Government guidance, there was huge support for our guidance on default options and how they should be chosen that we put out in 2011. On administration and record-keeping, there was a lot of support for the steps that we set out in the call for evidence as being the right ones, and agreement that administration and record-keeping is one area where there are very mixed standards of performance.

Debbie Abrahams: You have anticipated me.

Sarah Healey: Sorry.

Q27 Debbie Abrahams: No, that is absolutely fine. Picking out some of those points, particularly about the smaller and larger schemes, you are saying that from your consultation it does not appear that there are issues with small schemes per se, particularly in relation to governance. Is that right? Can I clarify that?

Sarah Healey: I would say that what we did not get was an overwhelming response that came back and said big is obviously best in all cases.

Q28 Debbie Abrahams: Are there any characteristics of good quality schemes that you can pick out?

Sarah Healey: In general, they would have the sorts of elements that we have set out here in terms of the really good practice on governance, and governance acting in favour of the member. There would also be regular scrutiny of how they operated their investment.

There are elements of what we would put in as our minimum standards on quality in future, which are clear from the responses that we got to our consultation.

Q29 Debbie Abrahams: Can I also follow up with a couple of points on what you were saying, Minister? First of all, after the OFT report came out, you gave an interview and indicated that you were in favour of a 1% cap. Have you changed your mind about that?

Steve Webb: No, the consultation document we produce will be a genuine consultation. Although you cannot do this job for three and a half years and not acquire views, we will set out a range of options and, as it were, put both sides. We will ask people to address, for example, the OFT's reservations about going for a charge cap, and ensure they can be addressed. We will gather data, because the OFT are absolutely right; just plucking a number from the air because it happens to be a round number is not good policy-making. I think there is a strong case for a charge cap. As you will see when we produce the consultation document, hopefully we have got some innovative ideas about how that might be done.

Q30 Debbie Abrahams: Can we agree that the central message from that report about the overcharging and underperforming is absolutely scandalous? Would you share that view?

Steve Webb: I did an interview on the day the report was published, and someone said to me, "If these legacy schemes are high-charge schemes, how did it ever happen?" Of course, a lot of these schemes were set up in the 1990s when the nominal rates of return were very high. People did not care that much about having 2% or so taken out because they were earning 9%, or whatever the numbers were. As returns have come down, people have started saying, "Hang on a minute, these charges are now a big chunk of my return." With hindsight, these charges were clearly excessive and there was not much competitive pressure to bring them down. I find variable performance in the industry. There are not quite good guys and bad guys out there, but essentially there are people who at every turn just try and get their little margin, and there are others who are more member-focused. There is a range, but there certainly has been unacceptable practice, I would agree.

Q31 Debbie Abrahams: As with everything. Thank you, Minister. Is there any specific action you are going to take on deferred members' charges?

Steve Webb: Yes. The OFT said it was hard to see the case for active member discounts, deferred member charges. This Committee has said they do not see a place for them, and that will be included in our consultation document. Suffice to say, I am very sympathetic to the Committee's views on that subject.

Q32 Nigel Mills: Can you talk us through what you need to do to actually introduce this cap or that ban? Would you need primary legislation, or can you just do it by guidance, or guidelines?

Steve Webb: Our particular focus, just to be clear, is what we call the double defaulters: people who never chose to save in a pension but were put in one, and then who never chose where their money was invested so it went into the default fund. It seems to me, if

you are interested in consumer protection, your focus should be on the people who never made a choice. If we were to impose a charge cap, our assumption is it would be on the default funds for auto-enrolment schemes. We would not say you cannot pay more than such and such. If people want to pay more and think they are getting something for it, it is a free country. If a firm wants to say to its employees, “Look, by default you are going in this fund, but actually our provider is offering us this fund. Although the charge is a bit higher, we think it is value for money; you are getting a better investment strategy or more advice when you turn it into annuity” or whatever, and people actively choose to go into that, that is fine.

We would be focusing on default funds for auto-enrolment; that is the scope of what we would do. It has been a bit like a stamp collection; we have been gathering primary legislative powers as we have gone along. There were powers to charge cap, but we have had to extend them to cover, for example, deferred members, and not just auto-enrolment schemes but all qualifying schemes that can be used for auto-enrolment. There is a subtle distinction there that keeps being lost on me, but it is different sorts of schemes, basically. The point of this is we have given ourselves, and are giving ourselves in the current Bill, all the primary legislative powers that we need to then use a statutory instrument to impose a cap if that is what we decide to do.

Q33 Nigel Mills: I thought new clause 1 and new schedule 1 that you tabled for next week looked on-topic. I will ask a question about the quality of schemes. If you have a contract scheme that ends up with a governance committee, how different is that to a trust-based, defined contribution scheme at that point? In reality, is there really a distinction, and do we really need two different regulators trying to do different things to two very similar products?

Steve Webb: Beautifully segued.

Chair: If Nigel had not asked, I was about to.

Steve Webb: I will take your first question first. The answer is, it depends. How much teeth might an independent governance committee have? If you are a big insurance company with a contract-based scheme and a governance committee, suppose the governance committee thinks that the investment managers (who happen to be the same people as the insurance company) are not doing a good enough job. Does the governance committee have the teeth to sack the investment managers and choose somebody else? If it is a trust-based scheme and you do not like your investment manager, you just choose somebody else, but what if the investment managers have the same name as the insurance company, for instance? I do not think they are identical, but they could be made to work. We are very interested in this idea, but there is a lot of thinking about what their status and powers would be, and so on.

In terms of two regulators, at the moment, TPR is very much an employer-focused regulator. It is about employer workplace pension schemes, employer duties, compliance with auto-enrolment and all of that. We have the FCA, which is much more about financial products and individuals. Clearly, in the world of auto-enrolment, those two things overlap. Have I recently seen the chief executive and the head of pensions at FCA at separate meetings? Yes, I have, because we have a strong interest in what they do. Do FCA, TPR, Treasury and DWP sit round a table together on a regular basis? Yes, we do.

We absolutely have to work together. Do I think now is the time to start carving up regulators with the FCA only being created six months ago? No, I do not. Am I saying never? Absolutely not. Am I saying now? Absolutely not.

Q34 Nigel Mills: Were you impressed by the head of pensions at the FCA? The head of the FCA came and gave evidence to us. We did not find him particularly enthralled by the pensions issues, probably compared to his other responsibilities. Do you think they are doing a decent job in this area?

Steve Webb: I had a very constructive engagement with the newly-appointed head of pensions at the FCA. In a sense, for the FSA, inevitably, pensions were only a small amount of what they did. I am therefore more optimistic at having an FCA who has a head of pensions than I perhaps was with an FSA that did a bit of everything. We have to make this work. We are not assuming that we are there already.

Q35 Chair: How sure are you that there are no gaps in the regulatory framework because of the problem of whose responsibility it is.

Steve Webb: You can think of gaps, the issue of workplace-based sales of group personal pensions and so on. Is it TPR? Well no, because it is group personal pensions. There is a risk of gaps. All I would say is that I do not think putting them under one roof is a panacea. You still have to make sure that a particular process is regulated by somebody. Even if there was one regulator, there could be regulatory gaps. There is a danger that we just say “Job done” because we have merged them and they have got one logo and one building, but there are still different people doing different jobs.

Q36 Chair: Are you doing any work to identify where those gaps are, because there will be areas that have not been regulated that might in the future need to be regulated. It is not clear who would advise on that, or who then would do the regulation.

Sarah Healey: We meet with TPR and FCA quite regularly, and also with the Treasury. One of the things we discuss at those regular meetings is what has happened in the market, how we are managing the risk, and the regulatory gaps that are there but have not yet been identified or are emerging as a result of changes in the way that the market is structured, because of automatic enrolment or anything else. It is something that we regularly review and monitor so that we are picking things up.

Q37 Chair: Can I just pick you up on something that you said, Minister? I understand you said you cannot bring in a cap unless you know what all the charges are, so that was a call for transparency and clarity in all charges, I presume including transaction costs and trading charges. Then you said the charges were not the answer, so I am just wondering to what extent you are putting pressure on the industry to come up with the goods in terms of transparency in the charges. It is still falling some way short of including all charges, transaction and trading costs in the amount of money from the customer, the person ultimately paying, so that they know what it is that they are paying for. It is not even what they are paying for; it is how much it is going to cost them. They do not know.

Steve Webb: Just to clarify, I said transparency is not the whole answer. In other words, you could have brilliantly crystal clear comprehensive measures of cost—

Q38 Chair: But are you trying to achieve that?

Steve Webb: Yes.

Chair: That is my question.

Steve Webb: That is all good stuff. I do not have a problem with any of that; that will all help. My question is, does it get us over the line and where we want to be? The OFT described the demand side of this market as one of the worst they had ever seen because the wrong people buy the product. The people who have the pension do not choose the pension. You can have brilliantly clear transaction and cost data, but if the people buying the product do not care because they do not pay it, then you have not protected the consumer. That is what I was trying to say.

Q39 Chair: But they cannot care at the moment because they have no idea anyway. Surely it would be much better if they did know.

Steve Webb: Yes, absolutely.

Chair: They would then be in a position to actually do a comparison, or indeed, the ultimate recipient of this would be able to do a comparison, because they cannot do the comparison either.

Steve Webb: It is a necessary condition, but not a sufficient one.

Q40 Graham Evans: On something in the Chair's point there, you mentioned earlier about cost, and you reduce cost by new technologies and so on—Lean processes within the financial services, for want of a better word. The manufacturing industry has gone through it and continues to do it. It strips out the complexity, reduces the cost, and does not affect the quality. My idea is, in terms of the people who purchase these pension schemes—and the question later talks about the lack of DC schemes, that people do not trust them or do not know them, and the complexity—this technology enables us to look at our bank bills, so we see the charges when we get our bank charges. The moment we see that they have charged us for something, we are on the phone and checking to see what that is. It is similar with utility companies. We now have apps on here where we can track what it costs. How far away are we from having the same thing for our pension pots, where we can actually see, not necessarily on a daily basis, but certainly on a monthly or quarterly basis, where all these charges are in pounds, shillings and pence? That will get rid of the smoke and mirrors of, “Oh, it is just 0.5%, don't you worry about it,” which is what you see in the blurb that most people get.

Steve Webb: I am 100% in favour of transparency, consistency and so on. To take your example, though, suppose that you are responsible for the utility bills of the family across the road. Are you going to spend your spare time shopping around for them, comparing prices? You don't give a damn because it is not your bill. That is the problem we have in this market. The difference is the wrong person buys the product. If you are a small firm making widgets in the West Midlands, and we bring the auto-enrolment along, you just want to get it done. You are not going to want to waste time shopping around; you just want to tick the box, do the law and get back to making widgets. That is why, even with

the most brilliantly clear, transparent data, I do not think it gets us the consumer protection we want. That is all I am trying to say.

Q41 Chair: But it would help.

Steve Webb: It would help.

Chair: It would help a lot.

Q42 Sheila Gilmore: In terms of transparency of charges, would it be helpful for the Government or the regulator to set out very clearly what they expect to be included? Somebody could say they have disclosed all their charges, but how do you know there aren't others? In this industry, that has been a problem, so would there be a template for that?

Steve Webb: If we were going to have, for example, a charge cap, we would have to define what was in and what was not. The danger is, if you define it too narrowly, mysteriously all these other charges that you have never heard of suddenly start popping up. If we had a charge cap, we would have to define charges comprehensively, and that could then form the basis for a standard way of measuring and defining charges. Please don't get me wrong; I am entirely in favour of all the costs of the process being out there and measured in a clear, transparent way. That would be entirely a good thing.

Q43 Sheila Gilmore: Do you see charge caps as solely a matter for auto-enrolment, or do they have a wider application?

Steve Webb: Certainly, our focus is on default funds for auto-enrolment. We do not have a problem with people making active choices to do pension-saving in a world where we have made transparent cost information available to people. There are some people who will say to you that by paying more you are getting the best investment manager or the best investment strategy or whatever it happens to be; then consumers can take a judgment as to whether they are willing to pay that. Frankly, we are talking about 10 million people; it is not like we are talking about something marginal. Auto-enrolment and default funds will be the best part of 10 million people, and that is our primary consumer protection duty.

Q44 Sheila Gilmore: Many of the criticisms of DC schemes in particular, and the level of charges and how they are affecting people's outcomes, have not been about auto-enrolment, clearly, because it has not come in. They have been about all the other schemes that are out there. When people—most of whom are not very sophisticated and knowledgeable about pension schemes, and that is part of the problem—are making a choice to pay more, and looking at what they are getting for it, is that not very difficult in the pension field because it still is so abstract for quite a long term?

Steve Webb: I think we have good news for you on that. This is where the distinction between auto-enrolment schemes and qualifying schemes comes in. If you are a firm, and you want to auto-enrol your workers into an existing scheme of the sort you describe, one where there has been concerns about charges, any charge cap we introduce will not just apply to schemes that you newly use for auto-enrolment; it will apply to qualifying schemes. It will apply to schemes where you say, "My workers are already in this scheme, so I do not have to auto-enrol them, and it is a qualifying scheme so I have ticked the

box.” Qualifying schemes would be subject to any charge cap we had, so a firm would not be allowed to use an existing high-cost scheme in that scenario. Just the sort of people you are worried about, who are in an existing high-cost scheme and probably did not even know it, would be caught by a charge cap that applied to those schemes, so we will catch those people.

Q45 Sheila Gilmore: Do you think there are many people who would be outwith that situation altogether, then, and who would not come into that?

Steve Webb: Individuals who just go out and buy a pension would not be covered.

Q46 Sheila Gilmore: Do you think they should be?

Steve Webb: Clearly, they should have the usual things that people have when they buy a product. They should have clear and comprehensive information about the product and the costs etc. As you have said, we can go a long way further on that. Clearly, we are doing something quite different: we are sorting out 10 million workplace pensions.

Q47 Chair: What initial findings have come out of the Triennial Review of Pension Bodies?

Steve Webb: We looked at the Pensions Advisory Service, the Pensions Ombudsman, the Pension Protection Fund Ombudsman, and the Pensions Regulator. Those were the four bodies, if I remember rightly, that were looked at. Essentially, it is seen that they are still needed and fit for purpose. I have seen interim findings from that report. I will not dribble out the findings, as it were, today, because we will do it in a formal way; the bodies we have looked at are affected by what we say.

Q48 Chair: I was going to ask whether there were any surprises or anything that you did not expect.

Steve Webb: I do not want to do the Dance of the Seven Veils, tempted though I am—it is not a pretty thought—but suffice it to say that I think we have some good arm’s-length bodies. The Pensions Advisory Service is a hidden gem, I think. We will be publishing the results soon, but I do not think there will be any earthquakes.

Chair: Something that we think may be on the increase is pensions liberation fraud. We have not touched on that before on this Committee, but Anne Marie has some questions on it.

Q49 Ms Morris: We are concerned about this, not least because of the serious implications it has for individuals who could find their funds down to 30%. What would be helpful, I think, would be if we can understand what systemic problems and loopholes currently exist in the system and are being used and, therefore, how complicated or simple it is going to be to try to fix them and to stop this in its tracks.

Steve Webb: I think we are now making some good progress, including this week, on pension liberation fraud. One of the issues is that, for deregulatory reasons, 10 years ago the Government of the day decided to make it easy to set up a pension fund, so the checks that would once have been in place were relaxed and you could just register a pension

fund. On Monday this week, HMRC announced that they are going to flip that round, so that, instead of saying, “You can set up a fund. Get on with it and, at some point, we might have a look at you”, they are now saying, “We are going to have a look at you before we let you register a pension fund”, which is fantastic. I think that that is really important.

The people we are talking about here are not pensions fraudsters; they are just fraudsters. They are the people who do the boiler-room scams and, if we close them down here, they will go off and defraud somebody else somewhere else. They are just looking for a chance to defraud people. What HMRC’s action taken this week will do is make it much harder for people like that to set up pension funds in the first place. Where pension funds are found to have been inappropriately used, they will be able to be deregistered much more easily. All of that will tackle both the inflow and the stock, as it were, so that is one step in the right direction.

The second thing is that the Pensions Regulator has done a really good job on communicating with individuals about the risks of what they are doing. My second piece of evidence is the scorpion, with the sting in the tail. If I say the words “Pensions Regulator and eye-catching communications”, it is not a sentence you hear very often, but I thought that that was brilliant. When you apply for a pension transfer and you get the paperwork through, you get sent this paperwork, which will jump out at you.

One of the problems with this is that some people know exactly what they are doing, but do it anyway, so they are not innocent victims. They might be slightly innocent, but some people are just desperate for the cash. They are not 55 and they just want the money and do not want too many questions asked. They are difficult for us, because they will insist to the pension scheme that their money is transferred, and they will harangue the pension scheme to transfer their money. The pension scheme may find it difficult, eventually, to say no. When they get into the other scheme, there may be a tax charge of 55% or more and there may be a huge transaction charge, but I have known people, even in the knowledge of all of that, say, “I do not care. I want to get at my money.” We have a bit of a challenge there in that schemes are under a lot of pressure to do transfers.

There is a whole alphabet soup of organisations involved with this: the National Fraud Intelligence Bureau, the National Crime Agency, the police—the City of London police have been raiding offices—us and the FCA. There are lots of organisations working together on this. I have taken part in conferences with those organisations, and the intelligence-sharing is growing. For example, pension fund schemes that opt in can get a bulletin from the fraud-investigation people of the latest people we are concerned about. We are trying to strengthen the hand of the schemes that want to say no, whilst recognising that people have a right to transfer their money. There are rules that say to schemes, “You cannot sit on people’s money. You do need to transfer them, if it is a proper transfer.” I will give you a few figures in a moment, if you are interested in scale, but a pension liberation can look ever so much like a normal transfer. It is not always straightforward to say what the difference is between a pension liberation and a pension transfer, which is one of the challenges.

I think we have taken a big step forward this week. The police action over the summer was really positive, the communications are positive, and I think we may be turning the corner on this.

Q50 Ms Morris: You were very kindly offering figures, which was going to be my next question.

Steve Webb: Specifically, the Pensions Regulator has 27 open cases, which they believe are processing about £185 million worth of scheme money. That sort of figure is live cases at the moment. If you look at the whole scale of the thing that we know about, the Pensions Regulator thinks we are talking about £420 million. The first figure was live and active; the £420 million is a cumulative figure over a number of years. As I said, however, if we are making it easier for schemes to say no to transfers, if we are raising members' awareness, if we are stopping dodgy people creating pension funds and if we are knocking out the dodgy ones that are already in the system, we have a chance.

Sarah Healey: We continue, through Project Bloom, which is the group that comes together to discuss this, to look at all of the available steps that can be taken. The conference that we ran on 12 September, which TPR organised, where the Minister spoke, came up with new ideas. We continue to look at those. As the Minister indicated, one of the issues here is that some of the action that you would take may prevent legitimate activity, so we need to be really careful that we are taking action that is targeted at pension liberation fraud and does not prevent people doing things that they ought to be allowed to do. There was a High Court judgment earlier this week, where Mr Justice Morgan set out whether one of the schemes, where the TPR had put in independent trustees, was or was not an occupational pension scheme. He ruled that it was. We will be looking at that judgment very carefully. It, of course, confirms that it was fine for TPR to put independent trustees into that scheme, but it also raises questions about the definition of occupational pension schemes, which we will be looking at carefully. We continue to monitor the situation and act ahead of it, as the HMRC work has, as well as to respond where circumstances change.

Q51 Ms Morris: Will there be anything in the legislation? Has anything been proposed to try to deal with this problem as we carry on taking this through the House?

Steve Webb: There is not currently. We are very happy to legislate if we think that that is the answer to the problem. I strongly believe that not letting the wrong people register schemes in the first place is a huge step forward, which HMRC have taken.

Q52 Ms Morris: If I can give an equivalent—the black-market economy—people put best-guess estimate figures on it, and while I know it is very difficult for Ministers to best-guess anything, you have talked about the ones that you know about and are already going through the system, and the ones that you can extrapolate and you know are going to be coming down the line. What about the ones that you still have not heard of because nobody has yet talked to you?

Steve Webb: The unknown unknowns.

Ms Morris: Yes.

Steve Webb: I would not like to speculate. Just to be clear, the £185 million is the live cases that TPR are looking at; the £420 million is a cumulative figure that we know about and that has happened. It would be nice to think that, because of the measures we are taking, not much more will be added, but we are very much on the case. One of the

frustrations is this: I was at a conference last week and I was dying to say, “Guess what, guys? On Monday, HMRC are going to announce this thing”, and I could not because, of course, by Monday morning, another 1,000 people could have registered a dodgy pension scheme, so a lot of this is stuff that is going on that we cannot always talk about, because we do not want to tip off the bad guys.

Q53 Ms Morris: It is great to hear what you have done, but in terms of trying to sort this, how long is it going to take to really deal with some of these issues and make some of the changes that you have just articulated?

Steve Webb: My understanding of the HMRC announcement as it is now, which has happened from Monday, is that they will not register you without doing further checks. A lot of the anti-fraud stuff is live. If one provider spots a dodgy scheme and reports it to the fraud people, that then gets circulated amongst all the schemes that are on the alert list. Will there ever be a day when we can say it has stopped? I doubt it, but I think we may well be turning the corner, and I hope it may have peaked.

Q54 Debbie Abrahams: I was going to ask you about those not on the radar, but Anne Marie has covered that. Is there not a balance with what Ms Healey said about those who legitimately want to transfer pensions across or to access pensions, or are we saying that the action taken by HMRC will stem that activity completely?

Sarah Healey: What we are saying is that the action that HMRC has taken will mean that the questions are raised where they ought to be raised about people setting up schemes where they ought not to be registered, so there is a barrier and a disruption in that process that will mean that fewer of these sorts of schemes can be registered with HMRC. On the flip side, where trustees are asked to transfer funds and previously felt they had to do so, they are now able to call and check a) whether the scheme is registered and b) whether there are any concerns about it. If either of those things are true, HMRC will flag it, which means that it is significantly less likely that trustees will transfer those funds, because they will have had it flagged to them that there is an issue.

Q55 Teresa Pearce: During the passage of the Marriage (Same Sex Couples) Act, there were many voices on all sides of the House that were concerned about the current loophole that allows for same-sex couples to be treated differently to heterosexual married couples. The Government resisted those voices; is that still your position?

Steve Webb: Let me try to talk through the issue, if I may, and, if you do not feel I have answered the question, do come back. When civil partnerships were created in 2005, the Government of the day took the view that same-sex civil partners should have pension rights in respect of each other from that date forward. The Government of the day said, “We have created civil partnerships. We are not going to create retrospective pension rights—only prospective ones from 2005.”

By that precedent, when we created same-sex marriage in 2013-14, the parallel would be you say to a same-sex couple, “You also have mutual pension rights going forward, from the day we create this new institution.” We took the view that, because some same-sex couples will have previously been civil partners and then become same-sex married, it will be wrong for them to have diminished pension rights—i.e. 2013-onwards pension rights

rather than 2005-onwards pension rights—so we did backdate the derived rights for same-sex married couples to the creation of civil partnerships in 2005. In a sense, that was the closest thing to the status quo ante.

Clearly, as you say, and as Parliament said, there is an issue here, because we are then treating members of same-sex married couples less well than members of heterosexual married couples. All that the Government said—and this remains our position—is that, to address that issue, with the potential knock-on effects, which I will say a brief word about, if I may, you need to know what you are doing. You need to think it through carefully, gather data and then make an informed judgment. The position of the Government is that we do not know a huge amount about the derived pension rights of same-sex couples. We know more about public-sector schemes, but there is a lot of data that we do not have on occupational schemes, contracted-in schemes or contracted-out schemes. Making informed policymaking is difficult without the data, so we are gathering data.

The second issue is the knock-on effects. If you say a same-sex married couple is being treated inferiorly to a heterosexual couple, so we will treat them the same, you are saying that a man married to a man gets derived pension rights. In a heterosexual couple, however, a man married to a woman does not, in many cases. Widows get stuff that widowers do not—that is the current situation. In a way, for historical reasons, pension systems have favoured widows, because women used to be dependent on men for their economic status. For decades, we favoured widows as a special group. As soon as we say men married to men have equal treatment, and women married to women have equal treatment, to women married to men, the question is why men married to women do not have equal treatment.

You may well ask, “Why not?” That, of course, is where the huge numbers of zeros come in. If you just said that men married to men and women married to women get derived rights, and took it all the way back, you would be talking about tens of millions of pounds for contracted-in schemes, and tens of millions of pounds for contracted-out schemes. However, the first time a man married to a woman says, “Hang on—what about me?” is where the big numbers come in. Potentially, we are talking about billions of pounds of public money, if you follow that logic. We felt, rightly, that we had to do the research, think through the issues, quantify it and come back to Parliament by July, which we will do, with our findings and recommendations.

Q56 Chair: It is not backdating it forever, because widowers got rights from 1988, and widows’ rights go back only to 1978. It is not as though you are going back into the mists of time to bring people up that equal level.

Steve Webb: The big cost is treating widowers in the same way as widows in all sorts of schemes—contracted in, contracted out, public sector and private sector—and that is where the Treasury has estimated a cost approaching £4 billion. You cannot just make a change in one bit of the pensions infrastructure that might have a vast cost elsewhere, unless you have thought it through, got the data and considered it.

Q57 Teresa Pearce: £18 million was bandied about for private sector, but how can that possibly be calculated? You just cannot know. The whole provision of pensions is speculative, and that is why we have actuaries. You cannot know who is or is not gay, who

might or might not get married, and who might or might not die. These numbers might be too small or too big, but how can we be sure that they make any sense at all?

Steve Webb: The big scary number is about widowers. We do know that: we know how many men's wives die while they are members of a pension scheme. The data, as you say, on same-sex couples is sparser, which is partly why we are gathering it, but we do know how many civil partnerships there are, for example.

Q58 Teresa Pearce: We are talking about what seems to be unequal treatment here. Are you saying that it is only a matter of cost and that, if the number was small enough, there would be no problem at all?

Steve Webb: There is an issue of costs and an issue of retrospection, and they are linked.

Q59 Teresa Pearce: Surely, the reason that civil partnerships were deemed to be not good enough was because they were unequal, and this is one of the reasons they were unequal. Surely, that is why we legislated for same-sex marriage. It was one of my reasons.

Steve Webb: I will not go into the theology of that, but clearly, the issue with the civil partnership is that, when Governments place liabilities on pension schemes, they tend to do it prospectively: for example, with mandatory indexation, from 1977 onwards, but not for pre-1977 service, and likewise for civil partners. The argument is that, if you say, "As an employer, I have voluntarily provided a workplace pension. I did not have to do it. I am filling the cost of it", Government comes along and says, "You thought that you provided for the pension liabilities of that person in your scheme, but we are telling you that, for the last 40 years, they have been building up another right that you never knew they had and you now have to provide for that as well." That is a principle we try not to breach.

Q60 Teresa Pearce: The case of *Walker v Innospec* last year has been appealed. You are supposedly supporting that appeal; is that right?

Steve Webb: Yes, for the reason I have given.

Q61 Teresa Pearce: For the reason of cost.

Steve Webb: For the reason of retrospection. Because it is in the courts, I cannot say too much, but the basic principle is that of retrospection.

Q62 Teresa Pearce: What you are saying—let me be clear about this—is that it is not just a case of treating people equally going forward; it is the case that this will give an unexpected cost to people that will be retrospective if this loophole is closed. What you are also saying is that not just that group of people but also this other group of people could then say. You have mentioned next summer. At that point next summer, will you have done enough calculations to work it out? Do you have a figure in your mind that would be worth the cost? What you are saying is that this is an unintended consequence that could be very costly to people who did not expect this cost and may not have the money.

Steve Webb: Principally the taxpayer, and particularly the public-service schemes.

Q63 Teresa Pearce: Surely, costs can never be a reason to accept discrimination.

Steve Webb: It is not that we are sitting here thinking, “If we can do all of this for £20 million, it is fine. If we can do it for £2 billion, we will not do it.” It is about trying to make informed policy, and we are a bit in the dark.

Q64 Teresa Pearce: Is what you are saying that you heard the voices across the Chamber from all sides who said this, and you are aware that it is an issue and are looking to get sufficient information to make an informed decision?

Steve Webb: I could not have put it better myself.

Q65 Teresa Pearce: When will that be? Will that be next June or will we get advance notice of anything?

Steve Webb: We have said we will report by the start of July.

Q66 Chair: I suspect that, if Mike Freer had been in, you have might have got a slightly harder time. This is certainly something he was pushing and I am sure he will do it from his new position.

Q67 Graham Evans: The Government announced in its Spending Review 2013 that there would be changes to the Winter Fuel Payment for UK citizens living abroad. Can you give us more details and the timescale for introducing them?

Steve Webb: The proposition is that, at the moment, we pay Winter Fuel Payments to EEA countries where people from this country have gone to retire. We lost a court case, as we are wont to do, relatively recently. We had previously said, “If you retire in Britain, you can take it with you, but if you have not retired, tough—you do not get it.” We lost that court case, so people who are demonstrably British or who had spent a good chunk of their life here could retire abroad and get their first Winter Fuel Payment outside the country, so that is going to add tens of millions of pounds to the bill. People kept saying to us, “Why are you paying Winter Fuel Payments to the Costa del Sol?” etc, so we said, “How could we introduce the temperature link?” One argument would be we would just draw the line at British average temperatures and, if you go somewhere that is warmer than Britain on average, you do not get your Winter Fuel Payment. Clearly, temperatures within the UK vary considerably, so, in a fit of generosity, we said, “If you live somewhere warmer than the warmest region of the United Kingdom”, which is the South West, “you do not get a Winter Fuel Payment.” That will come into effect for, I believe, the winter of 2015-16; i.e. after the election. We will not be paying Winter Fuel Payments to countries like Spain, Portugal and Greece.

Q68 Graham Evans: We are also looking, after the new election, at universal benefits for pensioners. However, Age UK have expressed some concern that removing universal benefits may mean that some pensioners fall into poverty. How will you ensure that removing universal benefits will not result in pensioners falling into poverty?

Steve Webb: Just to be clear, the Coalition Agreement and the Coalition have no plans to alter universal pensioner benefits in this Parliament. It is clearly a matter for all of us, as our respective political parties, in terms of what programme we set for the next

Parliament. I cannot presume to speak for what the next Government will do. I would like to be a member of it but I have no idea if I will be.

Q69 Graham Evans: If I may, Chair, lots of very wealthy pensioners say, “I do not need this.” Have you thought about a voluntary scheme where they can voluntarily un-tick the box and perhaps donate it either back to the Treasury or to a local charity? Do you have figures for the number of unclaimed retirement benefits?

Steve Webb: I will take the second one first. Winter Fuel Payments are, in general, paid automatically. Apart from men who are above women’s state-pension age but below men’s state-pension age, which is a group of men in their early 60s who we do not know about because they are not pensioners who have to claim, everybody else gets their Winter Fuel Payment automatically, so there is no take-up issue on that. Likewise, the TV licences for the over-75s is pretty widely taken up—I think it is approximately 90%.

In terms of handing it back, this is a difficult one. People have a legal entitlement to some money. As I said, almost all of these payments are made automatically, so you could easily end up with a system where you spend more money setting up an opt-out system than you save from people sending it back. We get a handful back a year. It is a tiny number.

Q70 Graham Evans: Do you have figures for unclaimed benefits generally?

Steve Webb: Clearly, pension credit and housing benefit are the two big ones for pensioners. The guarantee credit tends to be very highly taken up, because it is the safety-net benefit. If you do not have £140 a week, you know about it and you do something about it, so I think the take-up figures for pension credit by expenditure are over 90% for the guarantee credit. The savings credit is a complicated bit on top, and whether or not the people who are only entitled to savings credit claim it is 50/50. It really is the toss of a coin, which is why I do not like that bit of the system, because it is just a lottery. We have not published take-up figures for quite a while, which I think we should have done. The figures that we have are two or three years out of date, so we will be publishing some updated take-up figures next year.

Q71 Nigel Mills: We received a briefing from the People’s Pension that cheap pensions are available compared to NEST. One of the issues they raised was the way the TPR levy hits small, cheap funds, because it seems to be a flat charge per member. Their argument was that, if you have a micro pot or a very cheap fund with small pots, this is quite a large chunk of the pot being used up. They are suggesting perhaps a different way of levying that fee. Is that something that you have looked at or have any interest in?

Steve Webb: I have heard the argument made, and we are always happy to look at the structure of the levy. What we are trying to do is to make sure that small pension pots do not end up on the books of providers. In a sense, we do not want them to have to manage 10,000 £14 pension pots; we want to get rid of them, so that they are managing worthwhile pension pots and, in a sense, the levy matters less. Somebody joins the People’s Pension and they bring with them their up-to-£10,000 pot from wherever they have come from, and the levy is neither here nor there. I can see, perhaps in the early days of auto-enrolment, 1% minimum contributions and all that. Before we have done pot

follows member, there are a lot of small members and the levy is more significant. In a steady state, that is probably a lot less of an issue. We are happy to have a look at the issue they are raising, but I think it may be a transitional one, if there is an issue.

Q72 Graham Evans: Is there an update on defined ambition schemes? We know that it is something you hate to talk about.

Steve Webb: The next hour.

Chair: We will give you five minutes on it.

Steve Webb: We published a document before Christmas last year. We aim to publish a further document “shortly”, as the DWP euphemistically says, which will cover a much more precise set of defined ambition concepts. Essentially, they will be a flexible defined benefit. You are a firm that is willing to offer a pension that is something to do with what people used to earn. That is great and we will get off your back. That is option one.

Most people end up in defined contribution, so how can we give scheme members greater certainty? We will be looking at models that allow people, as each year goes by, to lock in a bit of their pension so that they have that certainty. That is the second set of models. We are looking at the regulatory framework that could make that cheap—or cheaper—because it is very expensive to offer pension guarantees at the moment, and we are trying to see whether we can deliver that more cheaply.

The third set of models we are looking at is the Dutch-style collective DC pension, where you have scale and whereby, when you reach pension age, you do not need to lock into an annuity backed by gilts, but the pension fund is paying your pension, so your money goes on being invested and growing. That is about risk-pooling rather than risk-sharing. Those are the kind of models we are looking at.

We have talked to lots of employers about what they want and, in a sense, if firms do not want to do any of this, we are wasting our time. We are talking a lot to employers about what they want to do. If we are going to do this, we will have to do it soon, because the end of contracting-out in 2016 means firms are making decisions now. If they are making decisions now, they are going to consult for 12 months. By the time they have had valuations done, there is a big lead time on these things. If DA is going to happen—and I believe it will—this will accelerate. If, potentially, we move forward, there will be draft legislation and potentially legislation in the next session. That would be the sort of timeline that we would be looking at.

Q73 Graham Evans: Do you think the powers that be can give you parliamentary time for that in the next session?

Steve Webb: All additional leverage is welcome.

Chair: Thank you. Thanks very much for coming along this afternoon. I understand that you are in front of us again on 27 November, but that is about child support, so we will look forward to that. Thank you for coming this afternoon. I think there are always going to be questions around pensions. The whole pensions landscape is changing quite rapidly, so

we will perhaps have you in again in the new year to do the same. For today, thank you very much.

