



Work and Pensions Committee

Oral evidence: [Pension reforms](#), HC 1248

Wednesday 30 April 2014

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Members present: Dame Anne Begg (Chair); Debbie Abrahams; Sheila Gilmore; Glenda Jackson; Kwasi Kwarteng; Nigel Mills; Teresa Pearce; Michael Thornton; Dame Angela Watkinson

Questions 1-126

Witness: **Steve Webb MP**, Minister for Pensions, Department for Work and Pensions gave evidence.

Q1 Chair: Can I welcome you this morning, Minister? Thanks very much for coming and appearing in front of us at such short notice. Part of the reason that you are here this morning is because there were unexpected changes—I think that is in inverted commas; I will find out in a minute just how unexpected—announced in the Budget, particularly with regard to the annuities market but also other changes to the pensions landscape, and I was just wondering how much discussion you had had as the Minister notionally in charge of the pensions area with the Treasury before the announcement was made?

Steve Webb: It is good to have a chance to talk about pensions. Thank you for inviting me in. I think this was a genuine case of two government departments working together—and, in brackets, two coalition parties working together—because, clearly, the DWP's interest in annuities is considerable. We are auto-enrolling 10 million people, the vast majority of whom will end up in DC pensions, so what happens at the end to those 10 million matters a lot to us. I was looking at things I had said about annuities, and you will remember, Chair, having been elected in 1997, a seminal debate in 1999 on annuities, which I instigated in the House. At that point, I raised concerns about the restrictions on people using their annuities and freeing them up, so I have got form on this one.

I have certainly been banging away about this for a long time. I meet regularly with Treasury counterparts—David Gauke and his predecessors—and we as a Department were very involved in shaping the *Freedom and Choice in Pensions* document that was published on Budget day. We were very closely consulted about that document and shaping it. It was very much a joint endeavour; it absolutely was not all my own work, as some people have very generously suggested. That was not the case. It was very much a joint project.

Q2 Chair: You said that you have form on being critical of the annuities market, but lots of people have been critical of the annuities market. I think most of that group assumed that we were looking at reforming the annuities market, not necessarily undermining it completely so that it may not exist in the future. Was that part of the consideration that you had—that this could be a death blow to annuities?

Steve Webb: I do not think it is a death blow to annuities. Clearly, there is a set of people—and we can argue about and discuss how large that set will be—who will not buy annuities now. Estimates—and they are only guesstimates, really—vary considerably, but clearly an awful lot of people still need an income in retirement. It is great if you have got capital and you can spend it and you do not need the income; that is a nice position to be in, but most people will not just want to live on the state pension. They will want a regular income; they will buy an annuity.

Now, some people might buy it later. Some people might put some of their pot into capital and buy a smaller annuity than they would have done, so I think there will be a range of responses. We did a survey called *Attitudes to Pensions* in 2012, and we asked people about the best use of their pension: whether it was capital, income, or a mix. Even in 2012, before all of this, we got quite a spread. If I can just very briefly give you a couple of figures from that, when we asked in 2012 the best way to use a pension, 32% said “regular income”; 8% said “lump sum only”; and 31% said “some lump sum, some regular payment”. I think there will be a spectrum, but there will still be plenty of people buying annuities and other financial products of a similar nature.

Q3 Chair: But the Government is busy rolling out auto-enrolment, which uses the nudge principle and the assumption that people do not always take an active interest in preparing for retirement, or indeed have the financial capacity to make those judgments completely on their own. That is why auto-enrolment appears to be working, because it is doing that encouragement. Now, the announcements that were made in the Budget seem to fly in the face of that, because suddenly that same group of people are going to have to be able to make very complex financial decisions at a point in their life when they do not know how long they are going to live, despite the fact they might have got advice from you. We might come back on that one, but they really do not know how long they are going to live, and they will not know at that stage just how much money they are going to need to survive, because they are only going into retirement; they are not actually in retirement.

Steve Webb: I do not think the contrast is as stark as that. I do not think that auto-enrolment is primarily on the basis that people are not financially sophisticated or not. It is that people are short-termist; that pensions are complicated; and that, crucially, you get scale with auto-enrolment. Stakeholder failed because the firm had to make one available, but lots of them were just empty shells because individuals had to take the initiative to opt in. The point about auto-enrolment, it seems to me, is making the difficult bit the opting-out, not the opting-in. Obviously, none of that has changed. When people get to an age where they want to think about taking their pot, clearly we are not just going to abandon them, and I am sure we will talk about the guidance guarantee and other support that might be available to people. I do not think the argument that 20 and 30-year-old people are short-sighted, that they do not think about pensions, and that pensions are difficult, is inconsistent with the argument that, when you get to the point that you are ready to start running down your pension saving, we should give you more flexibility and more help.

Q4 Chair: But you are making that choice more difficult for them.

Steve Webb: This comes to the nub of it, and I would use the word “paternalism” here. I think one of the reasons why this Government is doing this and previous Governments did not is because we are not paternalist. We take the view that, other things being equal, individuals should be able to judge what is in their own interests and what fits them, rather than me saying, “Oh, you have got some money in a pot. The only way I am going to allow you to use your money is to spread it thinly over the next 30 years.” Yes, giving people choices raises issues, and we have to support them. Is it more difficult? Well, giving people freedom is difficult, but, at the risk of being patronising, when our children grow up, we let them make choices. That is more difficult for them than us making them do things, but it is also treating people as adults.

Q5 Chair: But if they make a mistake at age 18, they might have some time to recover. If they make a mistake aged 55 because they are attracted to the apparent lump sum, and as a result have no income at all apart from the state pension in later life, that is not recoverable for them.

Steve Webb: In a sense, you have put your finger on the other point about why this Government could do this. It is partly philosophical, and it is partly because of the state pension reforms, so, in a way, there is a fall-back here. The state pension is not a safety net, but because people will have the single-tier pension, they will be clear of basic means testing, so they will not be destitute. They will have a living standard less than most of us in this room would want to have, but that is the floor.

Q6 Chair: They will still qualify for some means testing.

Steve Webb: They may do, but there are a number of reasons why the stereotypical “blow the lot” will be atypical, in my view. If I could just run through a few of those, first of all, there is the tax system. Yes, you could take your £50,000 in one year, and you would be paying higher rate tax on some of it. That would be crazy. If you took £3,000 a year for 17 years, you would be within the tax threshold of paying no tax at all, so, first of all, the tax thresholds give you a strong incentive to spread it rather than to blow the lot.

Secondly, there is an issue of personality types here. People who have worked hard, saved hard, been frugal and put money aside, on the whole, do not turn into spendthrifts the day they retire. There is a mentality here that militates against the risk that people are going to blow the lot. You do not have to make the decision on day one. You can keep the fund; you can draw a bit of income, and take your time. As you said, Chair, you do not know in retirement how much income you will need and what living standard you want. These new rules give you the chance to take your time to make that decision, rather than being forced to make it on a particular day.

Q7 Chair: What legislative changes do you need to put in place in order to enact what was announced in the Budget?

Steve Webb: There is a mix here of Treasury-type changes, such as changes to tax rules. At the moment, we give you tax relief on condition that, when you when you reach pension age, as long as your pension pot is above a certain level, you are expected either to

take it as annuity or to take capital to a limited amount. All those rules can be relaxed, so they need to be changed post-2015. We as a Department will have to legislate on things like what we are going to do about transfers from DB to DC; if there are any rules about that, we would have to do that. We would have to legislate on the guidance guarantee, if it is backed by statute.

Q8 Chair: Will that all be in the Queen's Speech, and will it all get through before the general election this time next year?

Steve Webb: Obviously, you will understand that I cannot pre-empt the content of the Queen's Speech, but, clearly, for all of this to be in place by 2015, there would have to be legislation to deal with those issues.

Q9 Chair: And you will lead on some of it, but it will be mostly Treasury that will lead on the bulk of it?

Steve Webb: It depends how it turns out, as it were. There is a genuine 13-week consultation going on at the moment. Depending on what happens in response to that, the balance between the two Departments will be determined.

Q10 Chair: Are you not worried that there might be unintended long-term consequences, especially as people are getting tax relief on putting money into a pension and employers have no choice but to put money into a pension, and it turns out that it is not a pension at all, but just a savings vehicle? They can blow the lot—to use your own phrase—on a Lamborghini.

Steve Webb: I keep mentioning it in the hope of getting one with a ribbon on it, but it has not happened yet. The significance here is that in the past we have thought of what you need in retirement as a regular income, but what you actually need in retirement is quality of life. That might be a mixture of capital and income, and it might be different at different points in retirement. In terms of unexpected consequences, I refer you to what must be unique, which is a National Association of Pension Funds press release today headed, "Government pension changes could have positive effect." One of the things they have found in their survey is that people—particularly older workers—are saying, "I am now more likely to save in a pension than I was before the Budget, because I like the sound of this product. I get an employer contribution; I get tax relief. I put my money in, and I can cash it out at 55 if I want to or take some of it."

Q11 Chair: They might be happy, but Government might not be.

Steve Webb: We are delighted.

Q12 Chair: A future Government might not be, if it actually ends up costing the Government more in the long run.

Steve Webb: We are trying to promote pension savings. If more people are saving, that is great, as far as I am concerned.

Q13 Chair: They are saving, but they might blow it all or invest in a dodgy product because the salesman has got to them before they have got their guidance or whatever it is. Saving for a pension that turns out not to be a pension but is spent before they have actually reached the state pension age is not saving into a pension. It might notionally be, and that is the danger: we are talking about savings, when what we should be talking about is pensions.

Steve Webb: Again, I do not agree with your “should”. You are imposing your view about what the best retirement looks like on everybody else, and I am saying, “No, I will let people decide. We will give them guidance and help them with that choice.” I am thinking of some friends of ours. She is an early retired teacher; she is 60 years old, and her pension age is 66. At 66, the state pension cuts in and all the rest of it, but for six years, what is she going to live on? Well, actually, she has got a small private pension. She can live on that for six years, not 30 years, and it is of far more use to her to take six years instead of 30. She has now got that choice. Who am I to tell her that she should not have it? I think pensions are what matters.

Q14 Mr Thornton: Just going back to the taxation side of it, at the moment, my understanding is that the idea is that you draw down your 25% still tax-free.

Steve Webb: Yes.

Q15 Mr Thornton: The other 75% is taxable at your marginal rate. Now, if you want to go into what used to be called a compulsory pension—an annuity—which you had to do at 75, does that mean you are drawing your money out of the scheme? You are then going to be paying your marginal rate and you then put in to an annuity, which you then get taxed at your marginal rate. Or are you going to be allowed to transfer that 75%, if you want an annuity? They will probably be more competitive now, will they not?

Steve Webb: Potentially, yes.

Q16 Mr Thornton: But if you want to then transfer that 75% of what remains into an annuity, will that transfer be tax-free, because you are going to be paying tax on the income?

Steve Webb: Yes.

Q17 Mr Thornton: You do not get double-taxed, in other words?

Steve Webb: The taxation is when you draw the money. It is when it turns into income, not when you transfer it to another financial product.

Q18 Mr Thornton: There is a voluntary annuity that you could have that is not taxed—that anyone can take out at any age, traditionally—where some of the income was return of capital if it was not a pension annuity. If you transfer it into that, would you then have a better tax regime than you would on the old compulsory annuity scheme? In other words, you transfer it straight into what used to be called a voluntary annuity, where you get taxed less on it than you do on a compulsory one.

Steve Webb: Clearly, our colleagues at the Treasury will be drawing up the detailed tax rules, not us, but the basic principle will be that you have got this pot of money. To the

extent that it remains invested or not drawn on, it sits there; there is no taxation on it. When you turn it into income that you then start to live on, that is when the tax liability arises.

Q19 Mr Thornton: That is the principle, and the details will come later.

Steve Webb: Yes, they will.

Q20 Teresa Pearce: It is interesting to hear you talk about how this is a case of two Departments working well together. It would be good if that always happened in all parts of the DWP. Clearly, you had prior knowledge that this was going to be announced. When did those discussions start?

Steve Webb: Obviously, I see my Treasury counterparts on a regular basis. I have bilaterals with the relevant Treasury Minister dealing with pensions; those go on on an ongoing basis. I am not going to give commentary on which day we saw what document and all the rest of it.

Q21 Teresa Pearce: Was it weeks, or months?

Steve Webb: We were discussing these issues in good time ahead of the Budget. I can see words I wrote in the document, so we helped to shape the document. It was a genuinely collaborative effort; tempting though it is to say it was all my own work, it was not, but I do believe we had a very constructive and central role in shaping it.

Q22 Teresa Pearce: We have had previous discussions in this Committee about the annuity market and how it was not working for lots of people, and that lots of people who have already taken annuities are going to suffer from that forever, and there was a lot of concern about fees and charges. The Financial Conduct Authority undertook a thematic review, which was due to be out last autumn but was delayed until February. They are in the process of a market review. What they were trying to do was reform the annuities market, whereas what I am hearing is that there is no confidence it can be reformed, and people need to make other decisions for themselves. Do you think that is a fair comment?

Steve Webb: No, I do not. You are right, obviously, that the FCA did their work and are continuing to do their work. It depends who you listen to, but it is still thought that 100,000 or 200,000 annuities would be sold per year. We would still think that is a significant amount of financial products. We still have to get that process right. I do not think that the process is irredeemable, but as Mike said a moment ago, what I do think is that annuity providers will now know that people have got more of a choice. They always had a choice, but they now have a realistic choice, which is not buying: just taking some cash and investing it somewhere else. I think that will shake up the market in a way that an incremental reform would not have done. I do not think annuities are inherently a bad product, but we clearly need to make the market work better, and we still need to do that. The problems of people not shopping around and all the rest of it are still there, it seems to me.

Q23 Teresa Pearce: There still will be people who are not sure what to do and will just go for what they expect, which is an annuity, and if now what people are told is, "It is

your choice; we think you are educated enough and have enough advice to be able to make a proper decision for yourself,” does that not leave a possible rump of people who are more exposed to people in financial services who have got their own interests at heart, and not the annuitant? I am just thinking: we can all look back at mis-selling of things—all sorts of things. If the new rules had been in place previously, there would have been an awful lot of people who had endowment mortgages who had a lump sum to pay off at the end that they never realised; they would have taken their whole pension, paid off that, and they would have ended up with nothing. We still need to be really careful about decisions people make that they have to live with forever, and I am very concerned that the FCA were not allowed to come out with their findings before the whole game was changed.

Steve Webb: I suppose this is complementary. We still need the FCA to do a good job on annuities. As I say, there will still be lots of them sold, and we need to make sure that market works, but what is better about the new regime is that, as you say, until now people were buying annuities potentially in total ignorance, with no help, advice, or guidance. Everybody now has a legal right as a member of a DC pension scheme to a session of guidance. It will not be independent financial advice, but it will be a conversation with somebody who is not trying to flog you something and can actually talk you through some of the issues. One such issue could well be that, if you do decide to buy an annuity with your pot, you do not have to buy it from the people who sold it to you. That is something we have not had, so actually there are far more people who will be making these choices in a more informed way than we have ever had before.

Q24 Teresa Pearce: What will be the difference between saving for a pension and savings for savings? You talked about changes to taxes that are possibly going to come in for 2015. At the moment, we nudge people into pensions by giving them tax relief. It is a tax-beneficial way of putting your money away, because we want people to have a pension at the end, but if actually people are just putting money in so they can save it and then draw it out, what is the difference between a pension and a savings scheme?

Steve Webb: There are two differences. One is the 55: you cannot take it before you are 55, so short-term savings will still be different. The other, in the context of auto-enrolment, is the employer contribution, because you do not get that into an ISA or whatever. We think this will make auto-enrolment potentially more successful, and even though the opt-out rates are very low, they were slightly higher amongst older workers. The early evidence is that those workers now will think, “Well, actually, I will save through a pension and get the employer contribution, because I am not tying my hands in the way I thought I was.” I think it will encourage saving, and, in a way, if people save for the long term and do not turn all of it into an income in retirement, because they judge that a different mix of income and capital is in their best interests, that is good, is it not?

Q25 Teresa Pearce: For me, when they announced it at the Budget, I thought, “It is great for me, but not for everybody.” That is the problem. You have talked about people being given advice by someone who is not trying to sell them something, and there will be questions later about that. I am just concerned that, in simple language, what we are sort of saying to people is, “You are better off keeping your money under the mattress once you get to retirement age than investing it in the City, or investing it in any sort of product.” I think that is the message we are sending across, and we have to be really careful about that at a time when we are trying to get people to take long-term investments in auto-enrolment. We

all want auto-enrolment; we all want what will be the end result of that, if it is successful, but it just seems to me that at a time when we are finally getting to grips with fees and charges in annuities, we are saying, “Actually, it is probably not for most people.” It is just a worry, but I will take that up with the Chancellor, maybe.

Steve Webb: Please do. The only observation I would make is that I think new financial products will evolve.

Teresa Pearce: That is my worry.

Steve Webb: New, and more suitable, financial products. Your provider might say to you, “Look, you do not have to take an annuity anymore. Here is a new option. We will retain the fund; we will invest it in this way.” Draw-down-type products that were not available to lots of people in the past suddenly might become available, so I think people have new options.

Q26 Teresa Pearce: Clearly you were involved in these discussions, and the Chancellor says that the FCA were also informed prior to the announcement.

Steve Webb: Yes.

Teresa Pearce: But most people were surprised.

Steve Webb: Yes.

Q27 Teresa Pearce: Are you not concerned that businesses—particularly foreign-owned business that are investing in this country who think that they understand all the ground rules—will be put off when things are a surprise like that? Was there any concern at all in the discussions that you had that surprising people with things that might alter their financial models of how they employ people and everything might be a bad thing?

Steve Webb: There is a balance to be struck. There is a tradition of Budget secrecy for good reason. You saw what happened to share prices on the day it was announced. What we have said is that we have established a principle, but the detail is subject to a very genuine 13-week consultation, and it is that balance. You decide as a Government what your principle is, but as for how you operationalise it and what the details are, you genuinely consult people. I understand the point; you do not want to shock people too often, but sometimes you have to make big, bold decisions.

Q28 Teresa Pearce: There is a 13-week consultation. Would you not personally really want a wider public consultation on this? In 2004-05, there was a Pensions Commission. You live and breathe pensions.

Steve Webb: Very kind of you.

Teresa Pearce: You would talk pensions even if it was not your job, but lots of people do not. This is a time when we want a fundamental sea change in the way people look towards their retirement, the responsibility they take for saving, and the way they think about pensions, so would this not be an ideal opportunity to have a really wide public consultation on pensions?

Steve Webb: I suppose I think we are having both.

Teresa Pearce: You would be on the telly every day.

Steve Webb: Now, there is a thought. I think we are having both. We are having a technical conversation; a lot of people are engaging on what a guidance guarantee looks like and all the rest of it, but if you open any newspaper at the moment, it is pensions everywhere. I think there is a national conversation going on about all this. This is, I think, the first thing I have been involved in in government where I have had people walk up to me in the street and shake my hand, so I think the public is engaged with all this. Thirteen weeks is a good, chunky consultation; make it any longer and we cannot get all the stuff through in time. The general public, on the whole, is not going to respond to detailed Government consultations, but they are absolutely thinking about pensions, judging by the media.

Q29 Chair: Do you think that annuities are a good thing?

Steve Webb: I think that they are. They have a part to play in the mix. So, clearly, for someone whose priority is a guaranteed income—potentially index-linked, potentially survivors' benefits—having a product there that meets that need is a good thing as part of the mix.

Q30 Sheila Gilmore: At the risk of being put down as being paternalistic—or perhaps maternalistic—the last time I remember a Government enthusing about freedom for people and pensions was in the 1980s, when people were given the freedom to come out of SERPS; they were given the freedom to go for private pensions, and one result of that was a huge amount of pensions mis-selling. It was one of the contributory factors—by no means the only factor, but one of them—towards the position that, by the beginning of this century, there was increasing concern about people not having sufficient pension cover. Minister, do you not have any qualms at all about this, or do you think there are no echoes with what happened before?

Steve Webb: The fundamental difference is that we are, first of all, doing it on a firmer foundation of state pension. In a way, if people blew the lot in the current regime and ended up on £110 a week, they end up £30-odd below the Pension Credit; they end up below the poverty line. Some people do not pay into Pension Credit and so on, so it matters to them, and it matters to the state. Because of single-tier and because of state pension reforms, all of this becomes possible, first of all; even in the worst-case scenario, they end up living on a single-tier state pension, which is currently the level of Pension Credit, which is what millions of people currently live on anyway. So, first of all, there is a better floor in place.

Secondly, the guidance guarantee is crucial. We have not—as, perhaps, happened in the 1980s—simply said, “Here is a new freedom. We will let men in shiny suits come around and try to sell you something.” We have said, “We will give you a legal right to someone who is not trying to sell you something to talk you through your options”, which I think will actually lead more people to take formal advice, personally, which will further equip them to make these choices.

Q31 Sheila Gilmore: I have already received my first message—it was actually on my mobile phone, to my surprise—which appeared to be a pre-recorded message urging me to do something. I tend to cut these things off halfway through and then wish maybe I had

listened a bit further, so I would have more evidence of what I was being urged to do, but it clearly was not coming from government. Now, I am always minded, if somebody phones me or whatever to sell me something, to switch it off, but we know that is not necessarily the case for everyone; otherwise, we would not have some of the situations we have. Even in advance of the mechanisms you are talking about, some operators would clearly appear to be already quick off their mark offering something; as I say, I know not what. How can we ensure that people do not pre-empt anything that is coming down the track in terms of guidance?

Steve Webb: In general, the sorts of messages people are getting I get as well. I tend to phone them back and fish a bit, but I have had text messages and so on long before the Budget, with people trying to get me to free up my pension and transfer it into Bolivian futures or whatever it is. I do not agree with the idea that the Budget suddenly generates all these scammers and all the rest of it. There are always people out there trying to rip people off; I do not dispute that for a second. We are saying that, by the time these new freedoms come in, there will be a legal right for the person who would be moving their money to have a conversation with someone before they do it. That is a big step forward from where we are now.

Q32 Sheila Gilmore: Are there any intermediate steps being taken to advise people what they should be doing, in terms of government?

Steve Webb: We are keen to promote the existing advice services: the Money Advice Service (MAS), and particularly the Pensions Advisory Service (TPAS) that this Department is responsible for, who are excellent, expert, and independent. We are keen for people to know that even now, if they are thinking through their options, there is someone they can talk to free of charge and so on harnessing a lot of volunteer effort. There is an existing infrastructure for people who want information now, but we are focusing on trying to get the guidance guarantee in place by April 2015.

Q33 Sheila Gilmore: The point of annuities, obviously, is the pooling of risk to a degree. As with any other pension provision, you take that risk, but because you have larger numbers of people, that is smoothed out. If these reforms go through but annuities remain as an option, is there a risk that there could be worse deals in annuities, because you do not have that larger pool and those people who do choose to annuitise may be those who have some sort of view that they are likely to live longer? They may not get that right, but the actuary is going to take that into account, and the deal will be worse, not better.

Steve Webb: If we were having this discussion in the House of Commons, you would normally be making the opposite argument to me. What you are saying is that people who live in Surrey, who on average are going to live a long time—I exaggerate—will be the only people who buy annuities, because they want a guaranteed income for a long time. The people who are going to die young who live in Glasgow will not buy annuities.

Q34 Sheila Gilmore: Well, they probably do not have pensions of this sort.

Steve Webb: They will under auto-enrolment. Those people drop out of the annuities market because they actually get to keep all their capital, and if they do die young, they can pass it on to their heirs and successors, instead of the Government forcing them to pool their risk with people in Surrey who are going to live for a long time. What I think

will happen in the annuity market is that, yes, there will be a bit of selection of the sort you describe, which will mean that poor people and people who die young will get a better deal. I would have thought you would be in favour of that.

Q35 Sheila Gilmore: What I was asking about was whether the people who do still wish to annuitise—who will not all necessarily be Surrey stockbrokers; they may be Glaswegians from Milngavie—will find that the terms are actually worse because of the pool that is there.

Steve Webb: It could go in different ways. You are right: the scale of the market will probably be smaller. Selection probably means that people in Surrey will not be subsidised by people in Glasgow as much as they are at the moment. On the other hand, if you want to sell an annuity to someone in Surrey, you realise that they have got lots of alternatives now; you have got to fight for that business, so you give them a better deal. You can see arguments both ways, but the people you would be most worried about in compulsory annuitisation are the people who die young, and they are going to get a better deal by not annuitising. That has got to be a good thing.

Q36 Sheila Gilmore: Do not some of those people think at the moment, if they have got poor health—and if they know about it, and I accept that a lot do not—that there might be an opportunity of getting an enhanced annuity?

Steve Webb: Yes, if they have got an identifiable condition or, clearly, are high risk, but as we know, although take-up of those things is improving, it is still a minority sport.

Q37 Sheila Gilmore: Would you hazard a guess at what you think would happen to the size of the annuity market?

Steve Webb: I am not sure there is much point in me guessing. As I say, HMRC assumed that about 30% would take the cash, for the sake of argument; some of the annuity providers are saying it might be 70%-odd. We do not know. The survey evidence puts it in that range, but we are all guessing, because it depends what other products become available, and I suspect that annuity-like products will become available that people will choose as well.

Q38 Mr Thornton: Back when we had the pension scam and endowment scandals, investments were usually driven on advice, very often by huge commissions. I remember Scottish Equitable, for instance, were giving a 9% commission on a pension-type thing, which was a massive amount of money going to the adviser. Since the Retail Distribution Review (RDR) changes, which mean that investments can no longer attract commission, an independent financial adviser has no monetary reason to recommend one company over another. However, the company that actually has the annuities—say, Legal & General—does have a monetary reason to say, “Take this annuity, take this investment, or take this type.” Would it not be advisable to say that companies that provide these investments, which benefit from giving advice that may not be right for the customer, should stop being able to sell them directly? If you were an independent financial adviser and you had 15 different companies that you could recommend, and you do not get any more money, because you are charging the same fee to the customer, would it not be better to stop direct selling from insurance

companies, so you do not get this pressure selling, saying “This is the best one on the market”? You should get genuine advice from somebody, where it does not matter which one they sell; they are going to get the same money.

Steve Webb: The challenge is that for modest annuities, the cost of proper independent financial advice—surveying the market and so on—would be very significant relative to the size of the pot. You could see an argument for forced shopping around on larger pots, and in a way, the Open Market Option, the Open Market Option Review Group, and the Association of British Insurers (ABI) code are all trying to nudge in that direction, but I think forced advice would be a real challenge. At the moment, people use different figures for the typical pot, but £25,000 to £30,000 is not unusual. If you spent £500 to £1,000 on advice, or that kind of figure, that is a big chunk out of a small point.

Q39 Mr Thornton: There is something where perhaps we could turn the Money Advice Service to have more of a service. If we are going to do this, we are going to risk people’s life savings. I personally think it is good to give people a choice, but perhaps as a Government we should think we should give more advice to people with a smaller pot: so, if there is a certain size of a pot, then we help them get advice without them being charged for it, rather than just guidance. We talk about guidance, but advice is quite different to guidance.

Steve Webb: It is indeed. Bear in mind, though, that the folk we are talking about, who today get pressure-sold or whatever an annuity by their current provider, in this new world have the legal right to at least the conversation, and the conversation itself familiarises them—amongst other things—with the fact that they do not have to go to their current provider.

Mr Thornton: Well, they do not anyway at the moment.

Steve Webb: No, but they might not appreciate it.

Mr Thornton: They can shop around if they want to.

Steve Webb: Yes, but the majority of people still do. I think adding the guidance bit in will help to disrupt that kind of flow-through.

Q40 Dame Angela Watkinson: I apologise, Chairman, for my late arrival. I had another meeting, so I hope I am not going to ask something that somebody else has already asked. The FSA survey into financial capability in 2006 found that changes to pensions, benefits and tax credits are the third most highly considered change in national finances that people pay attention to. While general financial literacy was not very high, individuals’ literacy regarding products that they had purchased within the previous five years was very high, with 70% of people scoring over 75%. Do you think this is grounds for optimism about people’s ability to manage their own finances in the future?

Steve Webb: Thank you for that. I certainly think that people have a very strong interest in engaging in these kinds of decisions. If all you were going to get was a pension of £25 a week and now you have got a pot of £25,000, intuitively, that is the kind of decision that you are going to think a lot harder about. It is the difference between a £25 or £23 pension, or whatever, and what, to most people, is a large amount of money. I think people will engage with this. We need to equip people in a way that we have not before, and the guidance conversation is one part of the mix, so people in that conversation can be

signposted to websites and phone lines. There will be much more of an infrastructure to support people who have a strong interest in getting it right and in finding out for themselves. I think we should treat people as adults, benefit from the insights and knowledge that they already have, and equip those who do not have it. I think we can get some pretty good outcomes, better than what the Government thinks is in their best interests.

Q41 Glenda Jackson: May I apologise? I was not at another meeting but stuck in a terrible traffic jam. On the issue of the advice, you said, Minister, that there would be a legal right to this. Will there be charges attached to this, and is there some form of accrediting who will give the advice? Without being overly critical, we have had evidence in the past that made it seem to me that the PSA tend to always sit on the fence; they do not come down with an absolute, and I think that people in this new climate will be looking for more than just the usual kind of: “It may be this; it may be that.”

Steve Webb: The thing that we are talking about is free to the consumer. There is no charge for it. It is what we call “guidance”, rather than independent financial advice, so it is not formal, detailed, or product-specific; you can go and buy that if you want to, but this is familiarising people with the options they have and some of the concepts, even. Most people do not even know what an annuity is. It is getting them up to the starting gate. You will have a legal right to that. We are consulting at the moment on what it should include—standards, accreditation, and all of that—but clearly, if we give someone a legal right, it has to be a legal right to something that is some good, not just a legal right to a conversation that might be a bit rubbish, and then someone charges the pension scheme for it. It will have to be of requisite standard and content; it will be free to the individual.

Q42 Glenda Jackson: Will you be looking at the actual language that is used? We have had this time after time after time—that the pensions industry does not seem to speak English. Will that be part and parcel of the accreditation?

Steve Webb: The provider might not be part of the pensions industry at all.

Chair: We are coming on to questions about that in more detail. Could you just answer in general terms?

Steve Webb: In general, for example, we are talking to the advice sector—the Pensions Advisory Service, the Money Advice Service, the Citizens’ Advice Bureau, and others—about whether they might have a significant role, and part of the point has got to be that they do not speak Pensions; they speak plain English.

Q43 Glenda Jackson: Also, just a slight follow-on: in response to Sheila, you gave the example of Surrey and Glasgow, with longer lives or shorter lives. Is work also being done with the actuarial industry so that they are readjusting their definitions? We know what they are at the moment, but as we all are living longer, is there going to be that kind of input as well? I think it needs to be much subtler than it is at the moment, does it not?

Steve Webb: They do that work on a daily basis, to be honest.

Glenda Jackson: Not quite on a daily basis.

Steve Webb: No, they do, literally. There are whole industries of people who spend their lives doing this kind of thing. My point—and we will come on to this, perhaps—is that in

the conversation, you have to give people scenarios. You have to say to people, “Look, you are 60 now. It is quite plausible that you will live until 89. What would you do? Let’s just say you did; what would you do?” We need realistic, plausible scenarios for people.

Q44 Chair: In reply to Sheila, you essentially said that the only people who might be interested in annuities are those who have got an expectation that they might live longer. But then, obviously, the actuaries will come in and do their bit, which will mean that annuities become less attractive, simply because everybody who has got an annuity is going to live longer and they are not going to make anything out of the people who die earlier, because that is the way that the insurance market works. Are you not tacitly saying that, actually, this will be the end of annuities?

Steve Webb: Not at all, no. There are forces going in different directions with regard to the annuity market. There will be new products; there will be people buying annuities later in their retirement, so some of this will be people deferring annuity purchase. Yes, the people who die young will not be cross-subsidising the people who live a long time as much, so other things being equal, they will get less than they would have done. On the other hand, there are going to be rival products; there are going to be new options for people who might hitherto have bought an annuity, and the annuity providers will have to up their game to keep those people. I do not think this is the end of the annuity by any means.

Q45 Debbie Abrahams: You will be aware that the Care Bill is going through the House at the moment, and I just wanted to explore the impacts of the announcements that were made in the Budget on this. Within the Care Bill, we have a so-called cap on care of £72,000; obviously, it does not include all the costs that people will face. It does not include the hotel costs, accommodation and food. It is only an average local authority figure. In some areas, people will have a lot higher care costs than the average, and currently only nine out of 10 people are expected to actually live to meet that cap.

Steve Webb: Did you say nine out of 10?

Q46 Debbie Abrahams: Nine out of 10 people will actually die before they reach the cap. Again, within the Care Bill, there is an increase in terms of the upper means test limit to £118,500. Age UK and the Joseph Rowntree Foundation have already raised concerns about what that will mean for the availability of support for care, so I wondered if you could tell me what assessment was made of the reduction in the number of people that will be eligible for support for care?

Steve Webb: I am sorry, I do not understand. Why would there be a reduction?

Q47 Debbie Abrahams: Because of the increase in the upper means test, there will be an impact. There will be an increase in the assets, so they will then not be eligible for support.

Steve Webb: So when you say an increase in the assets, you are saying that instead of taking an income, people retain their capital and we count the capital towards the means test?

Q48 Debbie Abrahams: Well, both income and capital are included in that.

Steve Webb: Yes, but there is an income test and there is a capital test. Just to be clear, the intention of the Budget reforms is not to change the fundamental position of someone who has saved for a pension. If I have saved for a pension and I have got a £50,000 pension pot, and I put it into a new flexible pension-type product that has got the capital and I draw some income from it, the intention is not to change the treatment of the capital in that product. If I can just quote what the Chancellor said: “I am absolutely clear that we want to make sure that this does not have an impact”. We are working through exactly how we do that, because the Department of Health have to do this; we have to do it for Pension Credit and so on, and the Treasury have to think this through, but the intention is the status quo ante. It is not that we have come up with this clever wheeze that suddenly everyone has got masses of capital so we can means-test them for social care and save some money. That is not the intention.

Q49 Debbie Abrahams: Has there been an assessment in terms of the number of people that will be affected?

Steve Webb: We do not think they will be. We are seeking not to change the fundamental position. Clearly, if someone chooses to change the mix of capital and income of their own volition, then because income is treated in one way and capital is treated in another, that of itself has an impact, but that could happen anyway. The Budget changes of themselves do not change the fundamental position.

Q50 Debbie Abrahams: Within your assumptions, then, you are saying that you do not think behaviour will change.

Steve Webb: Behaviour may change, but, for example, you might have £50,000. At the moment, local authorities do not say, “Oh, you have got £50,000 in a pension pot; we will force you to take a tax-free lump sum, and we will count that as capital,” and all the rest of it. We are not going to suddenly start doing that. Just because you have got your pot in a different pension-type financial product, we are not going to suddenly say, “We can see it now. We are going to start means-testing it.” That is not the intention.

Q51 Debbie Abrahams: What if they do not take it as a pension product, and have it as a lump sum?

Steve Webb: Clearly, there is an issue. The day after, it is pretty obvious that your £50,000 that was a pension is still basically a pension; it is just in something else. Twenty years later, that is a lot less clear, so we need to think that detail through, but the basic principle of what we are trying to achieve here is not to create new penalties for people who did pension saving through means-testing for care.

Q52 Debbie Abrahams: Thinking about the finance industry-led review that was undertaken in terms of what this might mean for products for care, I believe a document was published earlier this year, and—if I can quote—within the document, it says, “There could be more flexible options of retirement to help people plan for their care.” I am struggling to see what you have just said in relation to what the industry is suggesting.

Steve Webb: Let me give you an example, then. Hypothetically, I have had a DC pension; I have got £100,000 in my pot. I am 65. An insurance company or somebody says, “Okay, give us £10,000”—for the sake of round numbers—“out of that pot at 65, and we will guarantee, if you need residential care later in life, it is free.” I am simplifying here. That is a product that you cannot really do at the moment, because you have got your pot. You cannot draw it down because you have not got enough other income, so these are new financial products that are not currently available or are not currently sold, and I might quite fancy that. I might think, “I just do not want to worry about residential care costs. I do not want to worry about losing my home to pay for care and all that sort of stuff. I want to pass on the value of my home to my kids, so I will pay £10,000 for a long-term care insurance product.” I think the market will develop those kinds of things, and that is the kind of thing that is now possible that was not previously possible.

Q53 Debbie Abrahams: Can I just take you back to what you said before, in terms of the introduction of these measures? The link between the effects on care certainly was not within your thinking. This was just about enabling more flexibility for individuals to decide how they were going to cater for their retirement years, and yet a document produced by the finance industry has said, “We would like more flexibility in terms of options.” You provided that within the Budget, within these measures.

Steve Webb: Yes.

Debbie Abrahams: So you are helping the finance industry.

Steve Webb: We are helping consumers. If there are new and attractive financial products available that consumers want to buy, I am guilty.

Q54 Chair: May I just pick that up? What you have just said is that somehow the changes will generate this new market in insurance policies, insuring against long-term care.

Steve Webb: Potentially, yes.

Chair: But why would this change make any difference? Lots of people are retiring with a lump sum that would be over £10,000, and they could do it now. That market simply has not been there. I know that a number of the companies have tried to introduce such products, but they have not flown at all.

Steve Webb: Because you are taking the whole of the capital.

Q55 Chair: But there are plenty of people who retire with quite large incomes. If £10,000 or even £20,000 as an insurance policy against long-term care was that attractive, they would be doing that now. Lots of people have that kind of disposable income on retirement, but nobody is doing it.

Steve Webb: With respect, no, they do not. If the average pension pot is £30,000 for DC, the average tax-free lump sum is £7,500. Let us say the product cost £7,500: you have got to blow your entire capital to buy the product. That is very different to having £30,000, of which you want to put £7,000 aside. I do not know what the industry will come up with.

Q56 Chair: You are talking about the average pot, and probably even in your brave new world, these people are not going to be attracted to this kind of product, but these products would be in existence today if that basic principle that you have just espoused was accurate. If it was, there would be people with that kind of money who thought it was a good deal to insure against all their future care costs for a £10,000 or £15,000 lump sum today. Those products do exist in the market, but not to any great extent, simply because nobody has bought them. A number of the insurance companies that have tried to push these products simply have failed. I cannot see what changes in terms of the principle with the changes that you have got.

Steve Webb: There are two differences. One is that the Dilnot care cap still has not actually come in yet, and the insurance industry always said that one of its barriers to providing insurance for long-term care is the tail of the distribution. In a sense, what the Dilnot cap does is cut off the tail. It means that the insurance companies are taking on a fixed liability, or a limited liability, so they are more able to offer products, but we have not got Dilnot in yet.

Secondly, it is one of scale. If people can only take 25% as a tax-free lump sum, they have only got a quarter of their pot available for buying one-off products of this sort. In the future world, they will have 100% of their pot, so that must increase the potential market. Whether it will fly, I do not know, but it certainly gives the industry a chance to work on new products. I do not have a crystal ball; they may not fly. I do not know.

Q57 Debbie Abrahams: Just to conclude on those questions, you have obviously had discussions with the Treasury around these developments. Did you have discussions with the Department of Health?

Steve Webb: I have talked to my colleague, Norman Lamb, the care services Minister, about these things. We obviously thought about these things before the announcement, but clearly all three departments are working together on the practicalities of how we work it through.

Q58 Debbie Abrahams: Again, to reiterate the point, you are saying that there was absolutely no driver, if you want, in terms of these developments and the implications for care?

Steve Webb: The driver was freedom and flexibility. It has a number of beneficial consequences, one of which is new financial products, which might help care, but there was absolutely no intention to think, "Oh, whoopee; we can start means-testing people on care costs." That clearly was not the intention.

Q59 Debbie Abrahams: And there has been no assessment on the implications?

Steve Webb: No.

Q60 Debbie Abrahams: Will there be?

Steve Webb: I do not see why there would be, because we are not changing anything.

Q61 Debbie Abrahams: Moving on to the independent financial guidance that you have committed to, first of all, a question about capacity. Do you think there is capacity and competence to be able to provide that in the timescales that you have until it is introduced?

Steve Webb: It is clearly a challenge. There is no question about that. Of the order of 400,000 or so annuities are bought each year, so we are talking about a significant scale of guidance, but there are plenty of people coming to us and saying they are interested. Obviously, providers are interested. The insurance companies are interested. The financial advice community is interested, because although this is not independent financial advice, you can see that it will lead people to want it. There is what they call the “advice community”—the TPASes, the MASes, and all those sorts of organisations—and bear in mind that we are not expecting someone to have a post-doctorate in financial education to deliver this guidance guarantee. It is fairly rudimentary stuff; it is fairly general; it is fairly broad. It will be a challenge. The people who do the face-to-face or phone, or wherever people end up getting the guidance, will be complemented by literature, by websites, and by phone lines, so there will be a lot of infrastructure around this. It is not just about the one person who has the conversation with you.

Q62 Debbie Abrahams: You have indicated that there will be a £20 million fund for that. Is there any additional support that may be available?

Steve Webb: We are building on an existing infrastructure, so there is already a Money Advice Service funded—I think—by the industry, if I remember rightly. There is TPAS, The Pensions Advisory Service, so there is already an infrastructure there. The £20 million is seed corn money to get the thing going, so it is not paying for sessions or for a particular person, but if we need websites, networks, or infrastructure, the Government has put some money aside to make sure that that is not a barrier to getting this thing going.

Q63 Debbie Abrahams: When you made the statement to the House on 20 March, I think it was, I raised the example of a constituent of mine who had been given bad advice. He is a small businessman, typical of thousands across the country, and he lost over half of the pension sum. I think it was about £300,000—well over half.

Steve Webb: Do you know what he invested in?

Debbie Abrahams: Arch Cru.

Steve Webb: Right, okay.

Q64 Debbie Abrahams: You at the time said, “He is entitled to compensation.” Compensation was, as I say, less than half of what he had invested. He is 75 now, and he can never see an opportunity where he will be able to retire, so how are you going to protect him and the hundreds of thousands of small businessmen and businesswomen up and down the country from this type of bad advice? They are not unique, and this is not the first scandal that we have had.

Steve Webb: In a sense, your question is important whether or not the Budget happened. The need for good-quality, independent financial advice, properly regulated, is just a thing. It has to be there.

Q65 Debbie Abrahams: It is additional risk, is it not?

Steve Webb: I suppose, in a way, what I am saying is that if you compare before and after, the “after” has this initial guidance conversation as well, which is not currently present. We are equipping a lot more people better for the new world. I have had plenty of constituents come to see me about Arch Cru. I believe there was an issue about how accurately the product was described to financial advisers.

Q66 Chair: There were IFAs that were recommending Arch Cru, and they thought they were doing it in good faith and it was a good product.

Steve Webb: Indeed.

Chair: And if they can get it wrong, what does that mean?

Steve Webb: The question is whether the regulatory failure was that the IFAs were not properly regulated, or was it the provider that was the problem in that case? I will probably get sued if I am not careful, so I had better stop there.

Chair: The IFAs say it was the regulator.

Steve Webb: Thank you. All right, I will carry on.

Q67 Debbie Abrahams: This is introducing additional risk to the system.

Steve Webb: I am not sure it is.

Q68 Debbie Abrahams: Individuals are going to have to take more consideration in terms of the options that they have available, so the quality of the advice and the protections for the individual are going to have to be even more important. If, as you say, the Government is wanting to open this up and allow people to make their own decisions, it is going to be essential that they can make informed decisions about that and be adequately protected. How are you going to ensure that that happens?

Steve Webb: In the case that you raise, there is certainly a case to say that it was regulation of providers that was the issue there, not of advisers. Do I think we need a fit-for-purpose regulatory regime? Of course we do. Do I think we need to learn when things go wrong? Of course we do. Do I think that it is so risky that we should not let people have freedoms? No, I do not. I am afraid I do not, but we need to keep refining the regulatory regime, and we do eventually.

Kwasi Kwarteng: Can I ask a question on that?

Q69 Debbie Abrahams: Can I just finish this, if that is alright? Are you going to make sure that the regulatory framework for this is enhanced and improved to provide those additional protections?

Steve Webb: The proper regulation of financial services is a life’s work. It is ongoing; it should always happen, regardless of the Budget. I am not going to say, “Now we have got some more people with more freedom, we need to do proper financial regulation.” We need to do that anyway.

Q70 Debbie Abrahams: But, again, it is an additional risk. Can you commit to informing us about how it will be upgraded in relation to that risk?

Steve Webb: Obviously, our colleagues at the Treasury deal with financial services regulation, but I have no doubt of their commitment to an ongoing process of improving the regulation of financial services. That is what we do.

Q71 Debbie Abrahams: So, no specific commitment to that?

Steve Webb: As I say, you would need to talk to colleagues at the Treasury about exactly what their next plans are, but we do not just say, “Oh, it is all fine. We will leave it alone.” There is a constant process of making sure that it is refined, and that will continue.

Q72 Kwasi Kwarteng: I will put this on the record: clearly, the announcement of this policy was very popular, in terms of all the polls and how the public has responded to this. There are legitimate concerns about ongoing guidance, and I was surprised to hear that you were suggesting that you were not quite sure how that would be implemented, in terms of the obligation on providers to give ongoing guidance. Is that something that you have any thoughts about?

Steve Webb: Just to clarify, we have established a statement of principle, which is that people have these new freedoms, and they, as a member of a DC pension scheme, will have a legal right to a guidance conversation. The details of that—who does it, how it is paid for, and so on—we are consulting on. But part of that guidance conversation—and I am aware that I keep cramming more things into it—is a recognition that guidance is not a one-off. You might have a conversation with someone at 55 or 58 or whatever, but you might need to look again at your finances at 60 or 63 or whatever. Alerting people to the fact that they need to keep these things under review and telling them where they can go for additional information and so on, making sure that there are websites and phone lines and so on, all makes for a much healthier financial education situation in retirement. When you say, “We do not know the details,” we are trying to strike this balance between establishing a principle of what we want to do and then harnessing the experience of the advice community, the industry, and so on as to how best we deliver that. We will legislate for it, and it will all be in place by April 2015.

Q73 Kwasi Kwarteng: There is a related element of risk. My colleague was talking about the risks inherent in giving people a huge amount of money and expecting them to manage it, but there is another risk in this, in terms of life expectancy. Clearly, the industry has already had problems with underestimating the length of people’s lives. I have talked to people in the industry, and they have said that people who happened to be born in the 1920s are living a lot longer than anyone anticipated. I was just wondering, given this risk in terms of people underestimating the actual length of people’s lives, what sort of insurance or provisions have the Department or the Government thought of for a situation in which someone who thinks they are going to live for quite a short time ends up living for a much longer time, and miscalculates the drawdown, if you like, of the capital?

Steve Webb: I think you are absolutely right. When trying to think how long you might live, what have you got to go on? In many cases, for someone of 55, their parents, all being well, are still alive; the only guidance they have probably got is their grandparents, who, generations ago, did not live as long. There is a tendency for people to

underestimate how long they will live. In this guidance conversation, I did not suggest that we might give people their death date—

Mr Thornton: “You will die on this date.”

Steve Webb: I have got one for each of you on here. I will pass it around later on. I was driving into the office last week, listening, as I do, to the Money Box podcast, and I nearly veered off the road when I heard Paul Lewis announce the date I would die. I nearly proved him right by veering off the road. So, people clearly get that wrong, and my suggestion is that you give people scenarios. You say to them, “You are this age; you are of this gender; you are in this part of the country. You need to think about the chance that you might live 30 years. What would you do?” In a way, asking that question will encourage them in deciding how they spread their pot to realise that blowing the lot early is a decision that they can take, but it will have consequences, and it will just be the basic pension at the end.

Part of my answer to your question would be that we do not want people, on the whole, to make one-off decisions at the start of their retirement that tie them. One of the new flexibilities we have got is that they can draw a bit, see how it is going, see how they get by, see what their bills are, and adjust as they go through. People a) will be able to adjust and b) will have tax incentives to spread it, because the first £3,000 is essentially tax-free on top of the state pension, so they will realise they will pay less tax if they spread it. There are incentives to spread it.

Q74 Glenda Jackson: Kwasi clarified the question that I had asked earlier, which is the responsibilities of the actuarial industry as far as this is concerned. Surely, they have a major part to play. I think it would be easier to convince people that they are going to live longer, but as we all know the present system at the moment is that you get a better deal if you are a smoker, because you are expected to die earlier.

Steve Webb: Yes.

Glenda Jackson: But that also has changed. We have seen a reduction in people smoking, so again I go back to the point: are you pushing that part of the industry, and saying, “Listen, have a serious rethink. You have been coasting for quite a long time.”

Steve Webb: No, that is not the way I think of it. Much as I have been mocked for it, we are not suggesting that you will tell people with any precision when you expect them to die. You are simply familiarising them with the idea that there is a range of possible outcomes but the upper range is probably a lot higher than they thought.

Q75 Glenda Jackson: I appreciate that. I am not talking about the buyer of the policy; I am talking about the foundations—what constitutes the returns on a policy—and that is dependent, it seems to me, upon the industry itself realising that we are, in fact, living much longer. There does not seem to be that kind of fundamental shift. You still get a better deal if you are a smoker.

Steve Webb: Yes, and rightly so.

Glenda Jackson: Exactly, but that does not take into account the amount of people who have stopped, and the effort we are putting into preventing smoking. There should be

some kind of rethink, it seems to me, as far as the actuarial industry is concerned. That is all my point is.

Chair: Okay, Mike, we are on to the other questions about advice and who is going to pay for it.

Q76 Mr Thornton: We are coming at things from all angles at the moment. We are asking questions out of order, which is very wicked. I will have to amend what I am going to ask, so you will forgive me if it is slightly incoherent. I agree with you: from my experience in the industry, one of the reasons why people did not invest in pensions and went for ISAs and other forms of investment, and investing in property, was because they did not like being told what to do with their money. I think you are absolutely right that there will be far more people coming into pensions, which means there will be a lot more money in the system.

Now, if you can hark back to the old days of the PIA—Personal Investment Authority—they charged a levy on the industry for their services. Now, one of the questions I asked you earlier was about my concern that a particular firm, insurance company or whatever, will only be able to give advice on their own products, because they cannot give advice on someone else's products. You were also talking about guidance from MAS or TPAS or whatever, but that is guidance, and guidance does not include a proper fact-find; it does not include going through everything, that whole attitude, analysing what they have got or any of that, like a proper fact-find and good advice does. I know there has been bad advice in the past, but good advice does require people to have a proper interview with somebody.

Now we are getting rid of commission-based products through the retail changes on the RDR, so we do not have to worry about independent people being advised on commission, but you have still got that problem—as you mentioned earlier on IFAs—that the £30,000 pot is too small for anyone who wants to pay their £1,000 for it. How about considering an investigation into having an industry-wide levy? There is going to be much more money in the system for the insurance companies and pension providers, so they will have more money out of this. It could be an industry-wide levy that pays directly for proper independent advice at the point at which you take your pension out. They pay for a body of people; they say, “Here is your money. You are entitled to it. You should have advice on it. We will not give it to you; you get this from an industry-wide body, which will not reflect the views of one particular insurance company or advise you on one particular insurance company's product.” They will get independent advice paid for by the industry that will be industry-wide, so they can take proper advice, not just guidance that has been paid for out of that £20 million, which is totally inadequate.

Steve Webb: Just to be clear, the guidance will not be paid for out of the £20 million. The £20 million is to set up a system; the guidance will be paid for by the provider.

Mr Thornton: By the provider?

Steve Webb: Yes.

Q77 Mr Thornton: I would ask you to look at having the advice—advice, rather than guidance—paid for by the providers. Say you have your money invested with Standard Life. You go to Standard Life at the end, and they say, “Here is your pot of £40,000. You need proper advice on this, not just guidance. There is an independent, industry-wide body

that will not necessarily recommend our product that you can go to, where they will do a proper analysis of your needs, do a proper recommendation, and that is being paid for through a levy on the whole industry.” So, you get that advice, and if you have more than £100,000 or £200,000 in your pot, or whatever, you do not get that thing. It is not paid for by us. There is a load more money that is going to be in the system, so the industry will be better off, and so they will be able to afford this levy. I just would like that investigated; I am not saying you have to commit to it.

Steve Webb: Good.

Q78 Mr Thornton: I am not expecting, “I will do it tomorrow morning,” but could you look to investigating and discussing that with the industry to see if they would be willing to do that? It seems to me the solution to the problem of not having proper advice that is affordable and independent.

Steve Webb: I do not disagree for a second that we need people to be making informed choices. Yes, we think there will be more pension saving. On the other hand, we just put a charge cap on pensions at 0.75%. Any levy on the industry, ultimately, will probably come out of consumers’ pensions, and so we have to be a bit careful about buying advice for everyone when there is probably a set of people who do not really need it and a set of people who will freely choose to buy it anyway. The non-dead-weight bit of what you are proposing is the people in the middle who probably should get it and who do not. I do not know how big that group is, but there is considerable dead weight in what you are proposing. We will have a look at all of those options.

I cannot see that at the moment, because even a levy-type arrangement to pay for guidance is regarded as quite a substantial cost, which will come out of people’s pensions; what you are proposing is something much more substantial, costing two or three times as much. It is trying to strike a balance, but I take the point that we do not want people just pressure-sold by their own provider. I do take that point.

Q79 Chair: But if somebody does need independent advice, and they go to an IFA—and you said the average pot is just £30,000—before you darken an IFA’s door, much like lawyers, you are looking at £500 to £1,000. Do you not think that ordinary folk are going to balk at paying that amount of money out of their pot to get advice?

Steve Webb: They may do. I think the advice community needs to communicate the value-added of what they are offering, so people need to see that they are getting something back for that money. That is part of the reason why we are not forcing people to do this; we are just giving them the choice.

Q80 Glenda Jackson: Does that apply to all pension pots? Does it apply to union pensions and public service pensions?

Steve Webb: No, because you do not have those choices. If you have a final salary or average salary teacher’s pension or nurse’s pension, nothing has changed.

Q81 Dame Angela Watkinson: Minister, you are on record as having said that you anticipate that the industry will respond with new products that meet consumers’ income needs in new and innovative ways. Some people have suggested that the annuities market

could collapse. Do you know of any examples where such liberalisation of the market has resulted in such a collapse, or has the market usually responded robustly, and do examples such as the USA, Australia and Denmark suggest that there is a potential for pensioners' choice to increase?

Steve Webb: Yes. Whilst we always try to learn from other countries, everyone is different. For example, in the UK, we are going from a position of almost complete annuitisation down, whereas in Australia they are going from a position where I think only 1% annuitised in the traditional way. It is very hard to draw conclusions. I believe, in Australia, about half of people convert their pension pot into an investment-type, pension-type product, and about half take the cash. It is that sort of split. We talk to the industry, obviously, and our sense is that they are already thinking of new products. For example, draw-down used to be the preserve, essentially, of the better-off, but the idea that you keep your pension with a provider—they go on investing some of it; you take some of it as income; you can flex the income; and HMRC are not breathing down your neck anymore—is just bound to create new appetites for new products. We do have a unique setup in this country, so what we can learn about what people might do behaviour-wise is much more affected by British traditions and attitudes than it is by what we can learn from other countries.

Q82 Dame Angela Watkinson: Do you think there is a potential for the development of combined products for retirement income, social care, and long-term residential care?

Steve Webb: I do. As I say, there have been a couple of barriers in the past to these kinds of care products. One has been the open-ended liability of the insurance companies, so if you lived to 103 and spent the last 15 years in a care home, that is just a fortune. The Dilnot cap cuts that off, which helps. Then, the fact that people can take 100% as capital, not just 25%, means that, for example, a lump sum product starts to look more attractive. Now, the insurance industry says to me, "To be honest, people at 65 just do not like to think about long-term care at 80," so it might be that they do not buy that kind of product on the day they retire, but it might be that as they get a bit through their retirement, they start to get more interested.

Q83 Chair: But if they have only got a pot of £30,000 and it is £10,000 for that kind of product, they are not going to invest in that, because through means testing they will get it free anyway, because they have just spent all their capital and come below the cap.

Steve Webb: Bear in mind that the means test provides for a bare minimum standard, certainly in my constituency.

Chair: But I suspect that the insurance product might just provide that, as well.

Steve Webb: Presumably, the insurance product specifies a standard, or an amount, anyway. If I think about my patch, you can just about get council funding for the cheapest care home, but not much more, and most people shop around and want to choose their own. If you want to be able to have a choice of your own place to live later in life, if you need it, then insurance is worth it; and, of course, you pass on the value of your house.

Chair: But if you have only got £30,000, the insurance you buy will not be for the best quality care.

Q84 Mr Thornton: An aside on that last one: I very much doubt that £10,000 at 65 would be anywhere near enough to provide the bond that would provide you with an income of that nature.

Steve Webb: But only one in 10 will be living long enough to get there.

Q85 Mr Thornton: I take your point, and I will leave off about my levy proposal, so do not worry about that.

Steve Webb: The Thornton Levy.

Mr Thornton: The Thornton Levy, as we call it, yes. Perhaps we had better not. The slightly worrying thing is about how the recommendation for guidance is given. Is it going to be a tick-box form where someone says, “You have got to tick somewhere. Do you want guidance? If you do not want it, just tick ‘no’; if you do want it, tick ‘yes’, but you do not have to have it if you do not want to. Tick that.” Is it going to be that kind of thing, or is it going to be like in some situations where you are dealing with, for instance, a businessman who is borrowing money and they have put a guarantee on their house? The banks now require you to have had independent legal advice. Would this be to say, “No, we are not going to sell you this product until you show you have taken this guidance?” So, the insurance companies have taken it on themselves to say, “You show you have gone and had the guidance; then you can come back to us and buy this product, if you want.” Are we going to move that way, or is it just going to be a tick-box exercise that will be got round? A lot of people will say, “Oh, I can’t be bothered with this. I just want to get on with it.”

Steve Webb: Scheme members will have to know that they have the right to guidance, and, although we have not decided, one option, for instance, could be to say, at the point of taking the money from the pot to put somewhere else or do something with in the way you have described, “I have exercised my right to guidance.” Clearly, if someone really does not want it, you are not going to force them to sit down and be told, but, in principle, making sure they are aware of it and have had the opportunity to exercise it would be important.

Q86 Mr Thornton: You can foresee a situation where some providers or salesmen might say, “You want guidance, but I will tell you all about it anyway. I have to tell you about it.” I have seen this happen. In my experience, I have seen so many salesmen say, “I have to tell you about this, but you know it is alright because I will look after you.” I have seen that happen; I have been appalled at it; and I have tried to stop it, but I have seen that happen. It could so easily happen here, if you are not very careful.

Steve Webb: We need a social norm, and the social norm is, “Oh, have you had your guidance conversation yet? I have had mine,” between people in a workplace who are of that age, who talk to each other; that just becomes what you do.

Q87 Chair: Are you envisaging, then, face-to-face, so that everybody gets a face-to-face meeting?

Steve Webb: People have the entitlement to face-to-face guidance.

Q88 Chair: That is hugely expensive, and there are the capacity issues that Debbie asked about.

Steve Webb: Yes, but it is not going to be forced on people if someone says, “Yes, okay, I can have a conversation with someone, but I would rather sit in my front room with a mug of tea and talk to someone on the phone” or “I know there is a website I can go to for most of it, and then there is someone I can talk to if I need to.” You have that entitlement, but we are not going to insist that every delivery of the guidance is done face-to-face.

Q89 Chair: But would you not be better off getting the quality guidance that is not face-to-face that people can access at their own level, rather than wasting money, potentially, on face-to-face guidance that will be so short and lacking in detail that it is actually worthless?

Steve Webb: I do not think so at all. I do not think it is worthless at all. If you think about where we are now, people are buying annuities that lock them in for the rest of their life with no help, support, guidance or anything. It is a huge step forward just to familiarise people with basic concepts. You say it is really expensive. For example, let us suppose you live in a town or a city or something like that, and there is someone in that town or city—it could be a financial adviser or somebody else—who delivers this guidance guarantee; you nip in and have the conversation. It need not be hugely expensive, in most cases.

Q90 Mr Thornton: That is an important point, because I know of people who have bought an annuity and are losing £2,000 a year on a fairly small pot because they got 1.5% or 2% less than they could have got elsewhere, and that is a fact. That was given without advice; although they could have gone for advice, that very much happened. I know one of the things that you were looking into at one point was being able to transfer an annuity. It is quite possible, I would have thought, that providers will come up with that now—an annuity that you can transfer—to try to get people to do it.

Within that, just going back slightly to the advice/guidance, it is very important that some needs and facts of people’s present situation are taken account of and that guidance is not completely general. I take your point that proper independent financial advice would probably be too expensive—that could well be the fact; we do not know yet, of course—but one thing that is quite important is there should be some standard questions in the guidance. One of them is their level of existing debt. Surely, for some people, the best thing they could do with their money would be to repay their existing debt, whether it is a mortgage or a big loan. For some people, it definitely would not be, depending on the interest rates and all that. It is quite difficult, and that is probably one of the most major things that people think about doing with their money. Can that be looked at in a particular way?

Steve Webb: I entirely agree that one of the great things about these new freedoms is some people will pay off debts that have been overhanging them, that have been getting them down, that they wondered how they would ever pay off. They will be able to do that and they will feel great about it. We have to be very careful that we do not stretch this guidance thing to breaking point. As soon as we start saying, “Tell me about your debts. What are your assets? What interest are you paying on this?” we have strayed into independent financial advice.

Q91 Mr Thornton: But you could mention debt.

Steve Webb: You could mention debt, but guidance is almost helping you know what you need to know, what you need to think about, and then deciding whether you want to take it further.

Q92 Nigel Mills: I think I have asked you this before, Minister. One of the problems with guidance/advice is: when do you need it? For a lot of people, you go down to three days a week at 60, so you stop paying into your pension but you do not want to draw it. You gradually cut it down, and then you think, “Actually, I will defer my state pension because that is quite a good return and I will start drawing my private.” It is not like saying, “You have hit 66. You are retiring in six months’ time. Now is the point you have your advice,” is it? Presumably, at 55 or 60, you need to be starting to think about these things and know what your options and variables are. When you get that free guidance, it is quite a hard point to pick, isn’t it?

Steve Webb: It is. It is both/and. There will be a point at which you exercise your right to a guidance conversation, but there will be a whole infrastructure. It is not that you are 53 and thinking about your plans and there are not websites, phone lines, advice services and all the rest of it already there; and there will be more. I entirely take your point that this is a process—that you want to think through the different stages. It is simply that we are making sure, for example, at the point you are making some quite big decisions, there is a focussed conversation, but there is lots of other information and advice out there to help you as well.

Q93 Nigel Mills: I think we can move back on to state pensions and means-tested benefits, which we have done to death a little bit. I suppose one of the things with these reforms is they all have different timings. This one will land next April. The new single-tier pension, however, is like a build-up. For quite a long time, we will have some people who, presumably, are on Pension Credit and below the means test for the basic state pension and get some top-up, who will start to retire in the new rules and therefore will have this question: “If I blow it all now, I get back into means-testing.” Is that something you have thought through? What will happen to people in that kind of situation?

Steve Webb: What people often do not grasp when they think about the new single-tier pension is that most new pensioners retiring today already get a state pension of 140 or 150 quid under the current rules. They get a basic £110; they get a SERPS pension on top, so it is quite normal for someone newly retired to be getting 140 or 150 quid, which gets them to the means-test line, and then anything they have is theirs on top. Albeit—you are right—for single-tier there is a transitional period, but the full rate comes in on day one. If you had built up less than £144 under the old system, but it comes out as 35 years, £144 under the new system, you get the higher figure. We think about 80%-odd of people will get the full single-tier rate. As I say, most newly retired pensioners are getting far more than previously retired pensioners anyway, so lots of people will be above, or at, or very close to, the poverty line, and then they will have other income; they will have an auto-enrolled pension and other stuff as well. Our judgment is, if there were people who did blow the lot—and there are lots of reasons why we think they might not—the impact is probably quite marginal on means-tested benefits, and potentially decodes down the line as well.

Q94 Nigel Mills: Presumably, there are a fair number of people who have retired already and are in receipt of their state pension, but have been putting off the annuity decision, because they can, until they are 75 and have done something to get out of it, who might not be quite in that situation you are describing.

Steve Webb: It is different people, though. The sort of person who has a significant enough pension to put off and who can live in the meantime has probably got other income and so on. It is not that we are talking about totally different people, but the sort of folk who are carefully planning delaying their annuity to get a better rate, who have a pot of money and can live without that annuity now, on the whole, are not the folk who are going to end up with Pension Credit in any possible world.

Q95 Nigel Mills: So we cannot find many scenarios where people—

Steve Webb: There will be some. I am not saying it will never happen, but, in the scale of what we spend on pensions, which is hundreds of billions of pounds, this is a rounding error, almost.

Q96 Nigel Mills: There are not many people who will be in the situation: “If I have a cruise, I get more benefits. If I do not have a cruise, I just use my own money and I do not get the benefits, so I will have the cruise.” That just is not realistic.

Steve Webb: Not many. I have no idea how much cruises cost, I would just like to say, but if you draw a big fat capital sum, you pay more tax, so why would you? You might have a small cruise, as it were, but there are strong incentives to spread the money. Temperamentally, people will spread the money, by and large. Careful savers will be careful in their retirement.

Q97 Nigel Mills: So we have tested pretty well that this logic works, as long as single-tier keeps track with whatever you define as the poverty level—the minimum income level that you need. How certain are we that the single-tier will index up at the right rate?

Steve Webb: It is better than that, actually. The law requires us to earnings-index the Pension Credit, but custom and practice has been to triple-lock the state pension. We have done that in this parliament; I hope that a future Government will continue to do that. If the single-tier is triple-locked, we will be reducing, with every passing year, the risk of people falling back on means-tested benefits.

Q98 Nigel Mills: You do not think this Pensions Bill we might see might be a good time to triple-lock the single-tier.

Steve Webb: You tempt me.

Nigel Mills: Perhaps that might not be such a friendly discussion with the Treasury.

Chair: Do you want to go on to workplace pension schemes?

Q99 Nigel Mills: I can do, yes. We move on now to thinking about wider implications. I think we have talked about how we get to collective defined-contribution

(CDC) schemes or super-schemes or various issues like that, but do you think this has any impact on the attractiveness of those kinds of schemes?

Steve Webb: We thought carefully about this. We take the view that the case for risk-sharing and risk-pooling—“defined ambition”, as we have called it—is as strong the day after the Budget as it was the day before. People’s desire for certainty has not gone away. People wanting to know what they will have to live on in retirement has not gone away, so products that offer them that will appeal to a section of the population for whom, yes, it is lovely to be able to spend your capital, but what they want is a pension, and what they want is a pension where they know how much it is going to be. The pensions that provide guarantees or orders of magnitude will still have a place, and the collective-DC-type pension arrangements still give you scale and risk pooling.

My judgment is, if you spend your working life with a CDC provider and you like them, they have done a good job and they have invested your money well, in retirement, yes, you might take a bit of capital, but what are you going to do with the rest of it? Leave it with the people whom you trust, who have invested it well, who will go on investing it. Yes, we need to think through the implications of the Budget for all of this. Yes, a provider would have to recognise that probably somewhat more people will take capital than would otherwise have been the case, but I do not think the fundamentals have changed.

Q100 Nigel Mills: That does leave you this hanging question, doesn’t it? It is okay if you have been in a good scheme that you are happy with, preferably on an informed basis rather than, not knowing anything else, not being that unhappy with it. We are creating the chance for schemes to not just stop serving you when you are 66. They could become your pension-paying vehicle for life, for a long draw-down system, so that fully informed decision of “Actually, am I happy with this scheme?” becomes quite a difficult one, doesn’t it?

Steve Webb: But you have much more flexibility if you are not. Whereas, at the moment, if you save with Company X, you often buy your annuity with Company X and you are absolutely locked in, now, if you let them go around investing your money post-retirement and you are not happy with what they are doing, you have complete freedom to switch. Market forces, for good providers, will be a very positive thing.

Q101 Nigel Mills: How much of a structural change will this have to be for some pension funds? You assume people save, and when they hit retirement their money goes either to you or to somebody else doing something different, whereas now your pension fund might live forever. Rather than somebody having this scheme you have made for 30 to 66, they can be with you on a dwindling amount through to 95 or something. For someone like NEST, that looks to be a bit of a different product they are offering.

Steve Webb: NEST are consulting at the moment on what to do about their default investment strategy, because they have, hitherto, had target-date funds: “We are expecting you to retire in 2047, so we are going to start moving you into lower-risk assets before you reach that age,” and all of that. Now, if, potentially, you might go on investing the money, do you want to have moved out of return-seeking assets early? Probably not, but I do not think the answers are absolutely obvious in the sense that clever people like NEST and others are consulting on this; it is probably because they need to think it through. Investment strategies will need to change; I agree with you.

Q102 Graham Evans: Regarding NEST and the changes they have brought in place, the complexity of pensions has put many, many people off, over many, many years, and the introduction of NEST has been quite enlightening, because they have, as you have just indicated, looked to the long term, and they talk in simple terms that most people can understand. As you have said there, towards the end of the pension plan, they start investing in certain ways, and most people can understand the clarity and simplicity of that. For the long term, it encourages people to think, “Well, I will invest in pensions rather than property or whatever.” At what stage will the Government expand NEST to make it a no-brainer that people starting work at the age of 18 or whenever just do it—just invest in pensions?

Steve Webb: Clearly, NEST is a crucial part of the infrastructure. There are some who said, “Oh, it will never fly,” and so on. Bear in mind NEST was designed to make sure that there is a provider there, particularly for smaller firms, lower earners, as well as this end of the market, and yet we have only done the big and medium firms so far. I have brought a prop. I have my NEST “I am 1 in a million” badge to wear proudly, because 1 million people in 18 months is a phenomenal success story. We are now talking about 3 million or 4 million customers, but, clearly, they are one provider. What we want is people to be able to choose; we want a competitive market; we want insurance companies; we want workplace pension schemes. We are getting 90% take-up at the moment. I have a slightly embarrassing admission to share with you, which is: the Department got its forecast wrong.

Chair: This is obviously going to be good news.

Steve Webb: Go on and spoil my punchline, but we have had to add 1 million to the number of people we think will save through workplace pensions, because it has been more successful than we thought it could be. Will we expand it any more? Yes, you could say, “Well, 22, could you bring that down?” You want the right people to save, so we have set a threshold of £10,000 as the trigger. They are going to get £7,500 through the state scheme anyway, so forcing people on £8,000 or £9,000 to save—maybe not. I think the coverage is about right. We do not need to force people, because they are doing it anyway. There are a few people who are opting out, probably mostly for good reason. I think it is about right, and the numbers are just fantastic.

Q103 Graham Evans: My concern, Chairman, is that it is just state intervention. It is a success story because the state has come into this. The industry has failed the people who are now investing in NEST. You rightly say we want more people to come in to duplicate what NEST has done so people have a choice, but the fact of the matter is that it is the state that has instigated this, because the industry has completely failed to put a product in place that most ordinary people are happy to invest into.

Steve Webb: I certainly think NEST has innovated and led the way on a number of things. There is good practice elsewhere in the industry, but there has also been bad practice as well, so NEST clearly has a crucial role as a public service provider who will not say “no”, and, clearly, as we get to smaller firms, we are finding they go to other providers who are just not interested in the business. I think NEST will do well, will be at the upper end of expectations and has been a force for good in the pensions industry.

Q104 Graham Evans: But, in the long term, do you think the industry has learned from the success of NEST and will come forward with that?

Steve Webb: I think they are doing so. Because NEST sets a benchmark on charges, you cannot offer a charge up here, because people will go to NEST. Others have tried to do plain language and all that kind of stuff, which is great, so it has been a positive experience.

Q105 Dame Angela Watkinson: Minister, do you think that collective defined-contribution schemes will prevent smaller funds from being priced out of the market because of the shared risk?

Steve Webb: What do you mean, exactly?

Dame Angela Watkinson: The smaller providers, who have less risk, so that they would be able to be part of a larger scheme.

Steve Webb: Collective DC, certainly on the continent, is, for example, industry-wide. You have a whole sector with the whole workforce, so you are getting scale; there is pooling of risk going on. That is a sort of workplace-based scheme, and that is just going to be, hopefully, part of the mix. It will not be right for everybody, but it should just be a new option.

Q106 Chair: Will your changes perhaps not undermine the ability to move to collective DC schemes, or, indeed, your own defined ambition?

Steve Webb: Why?

Q107 Chair: Simply because, once you start to get into collective schemes, you do not have your own pot, as such. The whole point of the changes is the risk is not shared; it becomes your risk, but your move towards defined ambition or collective DC is that you are sharing risk.

Steve Webb: Bear in mind that even in a collective DC scheme, if you start to draw a pension, there is a level of pension that relates to your entitlement within the scheme. Clearly, we would need to define how your rights to take your capital work in a collective DC world. Providers will have to think it through.

Q108 Chair: It is going to be quite complicated, isn't it?

Steve Webb: I do not think you set up a CDC scheme if you are afraid of complexity under the bonnet. The consumer needs to have clear explanation, but they are not simple things to run.

Q109 Nigel Mills: I am just trying to work my way through this situation, if you have now got a fund that you are going to draw down and people who are not very rich or very savvy are going to be doing it. One of the things you think is, when you hit retirement age, perhaps you have lost your investment risk: you have your money; you have your annuity; you have survived not retiring in the middle of a stock market crash and you kind of know where you are. People might accidentally put themselves back into that fundamental risk that, if the stock market crashes after they have retired, all of a sudden, their pension is

halved—and they were not perhaps fully aware—and, of course, with no way of reversing that. There is no way of regenerating your income, is there? It is how you get the scheme rules and people's understanding to be: "What am I doing at this point? I am not in the same position I was at 55, with 10 years to go, which is bad enough, but I am 75." You really are in trouble.

Steve Webb: I guess it depends on people's attitudes and appetite for risk. If you are really risk-averse and it would be catastrophic for you if your assets fell by 10%, 15% or 20%, then you can lock in with an annuity at any point. In a sense, at the moment, the problem is that, essentially, most people have to lock into annuity. What we are saying now is that people who are risk-averse or who like certainty still have all of those options, but they have others as well, if they are prepared to take a bit of risk, or a mix. It is not capital or income. It could, in many cases, be a mix.

Q110 Nigel Mills: I am just thinking: how do you get the rules to say that the default scheme—which, I accept, changes as you get nearer retirement age—for somebody who is now retired may be a very different default from that of somebody who is even 55 or 60? It might be a very low-risk option.

Steve Webb: Part of our defined-ambition options is pensions where, as you go through, each year, another slice becomes more certain, so the nearer you get to pension age, the more certain you are of what you are going to get in retirement. There will be a set of people for whom that is exactly the right product. Essentially, there will be products to match people's attitudes to risk. People who do not mind the money going up or down, or are prepared to take that chance, will be able to do it one way; people who really want certainty will be able to do it another. It will match people's appetite.

Q111 Nigel Mills: I understand that there are some schemes out there where their own internal rules do not quite fit with the new flexibilities that we are quite rightly allowing. Is that something you think will be harmonised as these new rules become clearer?

Steve Webb: Yes. There are issues prior to April 2015 where people cannot necessarily take advantage of all the freedoms because of scheme rules, and we will need to make sure that—I cannot give a blanket assurance—as many people as possible can access the new freedoms post-April 2015.

Q112 Nigel Mills: I seem to recall, in the previous Pensions Bill, was there not some kind of default change to scheme rules that was allowed, so you could look at taking something again?

Steve Webb: You could have a statutory override that said, "It does not matter what the scheme rules say; you will have these rights."

Q113 Nigel Mills: Is that something you are thinking of?

Steve Webb: It is something we need to look at.

Q114 Chair: What about defined benefit? What are going to be the implications for defined-benefit schemes, and is this going to undermine them, potentially, as well, particularly the public-sector schemes?

Steve Webb: Public-sector schemes are not included.

Q115 Chair: They will still be affected.

Steve Webb: The ability to take your pot will not apply in public-sector schemes. If you are in a private-sector DB scheme, you currently have the right to transfer your DB pot to a DC pot. What we are looking at in an open-minded way is whether that should continue; if so, on what terms? There are different arguments. If vast numbers of DB pensioners suddenly cashed in, all in one go, what would that do to the gilts and the corporate bonds and so on? What would that do to the macro-economy? It is one thing having a £25,000 DC pot, but the cash equivalent of your DB pension could be £100,000 or £150,000, so we are talking huge—

Q116 Chair: We are talking about ones that already have a deficit. Will that not potentially make it worse?

Steve Webb: Yes, but a) the value of the transfer can, in certain circumstances, reflect the fact that the fund is in deficit; and b) many schemes spend their time de-risking. They want liabilities off their books; they want members out. Even before any of these changes, pension schemes are buying in and buying out, hedging longevity and all the rest of it. Actually, some DB pensions would quite like people on some fair basis to transfer their DB rights out of their scheme, particularly deferred members. If you are a mature scheme where most of the people do not work for you anymore, you would love to get your deferreds off your books, so we are having a good look at this. There are lots of issues around it. Instinctively, I am pro allowing people. It is very hard to say, on 6 April next year, “It is pensions freedom day, but not if you have got a DB pension.”

Q117 Chair: But if it undermines the viability of the DB scheme, which, for most of the people in it, is actually—

Steve Webb: It might improve the viability of the DB scheme.

Q118 Nigel Mills: That is quite a mis-selling risk, if you allow someone to have a much bigger lump sum than they currently get. I probably agree with you; there is a very big temptation for those schemes. If someone chooses to leave because they want the money, it probably takes the liability off your books because, chances are—

Steve Webb: We do already have a code of practice for what are called “incentivised-transfer exercises”, which is in this territory. If the firm wants to encourage the members of the scheme to transfer some of their DB liabilities to some other form, we have got an industry-wide code of practice that we think is being honoured, which includes proper independent financial advice before they make those choices. But, yes, it is big money and serious.

Q119 Mr Thornton: Also, any transfer from a DB to a DC scheme, anyway, is hugely heavily regulated, and the IFA has to be very well qualified to do that. A normal financial adviser cannot give that advice anymore.

Steve Webb: It is quite specialist.

Mr Thornton: It has to be done by a specialist, so there is pretty strong regulation there already, if I recall.

Nigel Mills: It is like reverse annuity selling, isn't it—de-annuitising?

Q120 Chair: Can I ask about uncrystallised savings? Under the current rules, DC pension savings which have not yet been drawn down, which is what “uncrystallised savings” are—I have to say, this is new to me today—are converted into a notional annuity rate under means tests for benefits such as Pension Credit, and assessed as income. That builds on the questions that Debbie was asking. How will uncrystallised DC pensions be treated in means tests for benefits under the new arrangements?

Steve Webb: The short answer is that we need to think through—for all of the different types of capital and income people will have, and for all of the different things we means test, which is Pension Credit, Housing Benefit, social care and all the rest of it—a consistent approach to these things. Coming back to my reply to Debbie, the intention is not to fundamentally change the way we treat these things. For example, because we now know that, in the future, you could actually take the whole of that lot as capital, we will not deem you to have the whole of that lot as capital if you have not taken it. We will not say, “Well, you could, so we are going to treat you as if you had done.” We are not going to do that.

Q121 Chair: But even though you do not have the income, under the benefits system, you still have, for every pound of savings, a notional income of 50p. That is where the capital gets used up, because you do not get the full amount in the means test.

Steve Webb: But the same pot does not count as capital and income. If, as you just described, you have a pot of money where we are deeming a notional income from it, then, in principle, we will deem a notional income from it. Just to stress, the point of the Budget change is not to change fundamentally the way we treat those kinds of assets.

Q122 Chair: My point is, though, that your deemed income, the 50p in the pound, is far higher than anybody could get had they invested the money and had it in real income, but if they had bought an annuity with the pot, the income, if they were at this level of income, probably would have put them below the tax threshold, so they would not have been paying that. By having the pot, which is then deemed as producing an income, it will be worse for them than it would be had they taken annuity and had it as income, if you follow.

Steve Webb: More or less. Just to be clear, what we do at the moment is we say, for every £500 of capital you have, we deem a notional income of a pound a week. Now, a pound a week, £50 a year, is 10% interest; of course you cannot get 10% interest, but we also ignore the first £10,000, from memory, or something like that—a big slice, anyway. So, if all you have are modest amounts of capital, it is completely ignored anyway. Yes, we impute at quite a high rate thereafter, but all that means is people who have £11,000, £12,000 or £13,000 still have quite a low imputed rate; it is only when you are much more substantial that you are hit by these kinds of things. I think the differences will be more marginal than you are suggesting, but there will be differences, yes.

Q123 Chair: The charge cap has come in for a bit of criticism from the industry.

Steve Webb: Really?

Chair: You noticed. They are concerned that the charge cap and disclosure requirements will create additional burdens on employers attempting to comply with auto-enrolment regulations. What help are you going to give to employers to navigate these new, additional requirements under auto-enrolment?

Steve Webb: Firms will have to choose a scheme that is compliant—that meets the charge cap and so on. Frankly, at this stage, we are in auto-enrolment; firms are not having the luxury of lots of choices. There are only a relatively small number of providers in the market beyond the people who already have pension funds set up and use their existing provider, and these are generally big providers that will just meet the rules. The idea that you go to NEST or a big insurance company and they do not just meet the new laws is implausible, so that is not, in my view, a new burden on firms. I am an employer; I try to find someone to offer me a pension scheme; only one, two or three providers are interested, and these are people who are going to meet the rules, so I do not think there is any additional burden there.

Clearly, we are trying to support smaller employers in a whole raft of ways, giving them plenty of notice of what they have to do, giving them template letters on the website. The Pensions Regulator is going around the country talking to firms. We are networking with trade bodies and so on so that we get the message out. We are dealing with accountants, bookkeepers and people like that who will advise smaller firms. There is a whole strategy for supporting firms, but I do not see the charge cap as a burden on employers. It may be that some providers will now say, “Well, to meet the charge cap, we have to charge you, the employer, X pounds per month.” That will happen, but you as an employer can then say, “Well, tough. I can go to NEST and they will not charge me anything.”

Q124 Chair: The other thing was that you did accept that there should be governance committees for contract-based schemes, but you state in your consultation document that you do not intend to give provider boards an explicit duty to act in scheme members’ interests. Why not?

Steve Webb: I will just do a PS on the 0.75% and then come on to governance. One of the encouraging things we have seen is that the industry is already getting ahead of the game, and is meeting the charge cap before we make it a legal requirement. Scottish Widows have said, where they have already quoted above 0.75%, they will amend what they have offered to come down. Aegon have applied the cap to new business from August of this year, so we have already moved the market in a beneficial way before the law comes in.

Q125 Chair: Is all of this going to be published in a clear, transparent way so people can do proper comparisons?

Steve Webb: When you say “published”, this is a market where an employer shops around for a provider, in reality will find a very small number of providers by the time we are at this end of the market, and makes a choice as to what is best for its workforce. Just to be clear, charges and costs will have to be disclosed transparently. They will have to be disclosed, in detail, line by line, to the trustees or the governance committees, so the people in the pension scheme who are acting in the members’ interests will have to be supplied with transparent data on costs and charges and all the rest of it.

Members will get some information, but you do not want to bombard members with all the excruciating detail; you want members to get useful, digested information, but the governance committees, who have expertise and can call on expertise, are the people who are going to act on the members' behalf. To your question about the duties of the provider board and so on, the provider is a business. The provider is a financial services business, selling products, working in a market. What we are putting in place is a governance structure, even in contract-based DC, where there is a governance committee that is independent of the provider; that can, if they are not happy, go to the employees and tell the employees they are not happy; that can go to the FCA. There is a lot of control on the provider. We are not creating a new kind of legal structure where you have a company with a board that has a legal duty to act in the interests of the consumers, because if you are going to do it for pension companies, why not do it for energy companies or retailers or anybody? We are making sure there is somebody in that process who is acting on the members' behalf, and who is scrutinising what the provider does and can recommend to the employer that they use another provider, if necessary.

Q126 Graham Evans: Will they be able to understand the information on the charges? The company provides the charges, but do they have the wherewithal to understand the information that is provided by the provider, with all the smoke and mirrors that goes on?

Steve Webb: The governance committee has access to expert advice. Trustees and governance committees have standards that they have to meet. Those are the people who are in the system, looking out for the members. I do not think we expect employers to suddenly become financial experts and so on, but the governance committees and the trustees are there on behalf of the scheme members.

Chair: Thank you very much for coming along this morning. I suspect there is going to be a lot more of this as it works its way through Parliament and through the Finance Bill, and we can expect another Pensions Bill, I suspect, from what you said this morning, in the Queen's Speech, without giving anything away. We really appreciate you spending the time with us this morning.