



Work and Pensions Committee

Oral evidence: Progress with automatic enrolment and pension reforms, HC 668

Monday 12 January 2015

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Written evidence from witnesses:

- [Department for Work and Pensions](#)

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Members present: Dame Anne Begg (Chair), Graham Evans, Kwasi Kwarteng, Nigel Mills
Anne Marie Morris, Teresa Pearce

Questions 238 - 357

Witnesses: **Rt Hon Steve Webb MP**, Minister of State for Pensions, gave evidence.

Chair: Welcome to our last evidence session in our most recent inquiry on pensions. It will possibly be our last pensions inquiry before the election. This might be the last chance you have to appear in front of us, Minister—a delight.

Steve Webb: Thank you for that cheery thought.

Q238 Chair: Apologies from some members of the Committee. One has got stuck because a train has been cancelled; they had been hoping to get down. I think other members will appear once we start.

Can I begin with a few questions on the progress with auto-enrolment, because after all this inquiry is about that as well as the most recent changes? You have said that the opt-out rates to date have been encouragingly low. Do you expect them to remain as low as that? What do you see as the potential framework that will happen as auto-enrolment rolls out to smaller employers?

Steve Webb: Clearly, small employers present different challenges, and we are having to communicate with them differently. I think you can argue it both ways. You could argue that small firms do not have HR departments or pension departments, and will not have workplace comms, so of course opt-out among them will be higher. On the other hand, in general you are enrolling people who have perhaps never had the chance to be in a workplace

pension before. You are also enrolling people who are probably quite close to the owners, the managers and the employers, so there may be, in some cases, more paternalism; it may be that everybody knows everybody else, and so everyone wants to see that everyone gets a good deal. Clearly there will be a diverse set of outcomes.

We have published our analysis of the 2014 stages, which I hope you have been able to see. From memory, they had opt-out rates in the 10% to 15% band. We are now half the way through the workforce—obviously not half the way through the firms, but half the way through the work force—and we still think that our revised estimate of 15% or so opting out seems, to us, our best estimate.

Q239 Chair: At what stage is that opting-out figure taken? Is that at the beginning? I presume that it is. But are you tracking those who are opting out six months, maybe even a year, down the line?

Steve Webb: Once you have gone past the window where you can put things back as if they had never happened—that is when we measure the opt-out rate—obviously there is then an attrition rate. So, beyond the end of the opt-out window, you are in. You have got a pension, some money has gone in, auto-enrolment has happened and you are in. Clearly, you can then at a later stage decide that you have had enough and stop, but the evidence we have got from providers—obviously, NEST is the largest volume provider—is that there is a trickle in the subsequent months. So, I don't think that the one-month, two-month, three-month story is radically different from the headline figures; obviously, it is slightly higher.

Q240 Chair: Do you have any intention of collecting and publishing that data?

Steve Webb: Not specifically, but obviously what we are producing are annual reports on automatic enrolment, and as part of that process we talk to a range of providers. If we detected that there is attrition going on afterwards, we would certainly report on that.

Q241 Chair: Obviously the longevity of that is the important thing. It is about whether people are still in the scheme a year, two, three, four or five years down the line.

The real challenge will come not as people have auto-enrolled at the minimum levels but as they move up through the percentages. What challenges do you see that still lie ahead in increasing the amount of money that is invested in pensions through auto-enrolment?

Steve Webb: Our sense is that, apart from DB schemes, in most cases people have been enrolled at the statutory minimum where they were not previously members—or certainly in a significant majority of cases. Going from 1% gross, for the employee, eventually to 5% gross—4% net—is significant; but I think the evidence from around the world, particularly America, is that you can probably bring somebody in at that sort of level without having a huge impact on the opt-out rates. If you go much more than that, then I think you start to get immediate opt-out. In a way it is the kind of boiling the frog analogy. We have got people in; we gradually turn up the temperature; they are kind of comfortable. The net amount is still relatively modest. It is on a band of earnings, and so on; they get tax

relief. The challenge is not so much getting to the 5% plus 3%—my judgment so far is that that is doable without radically affecting the opt-out rates; the real challenge is getting that 8% to a more realistic figure for middle and higher earners. Perhaps we will talk about that later.

I had wondered whether, for example with the October move to 2% for the employer, and the following October to 3%, maybe we should do it in April, so it coincided with any pay rises, so that it did not have an impact on the take-home pay. But of course the initial auto-enrolment has been all the way through the year; so actually if there was going to be a problem because people were taking a cut in their take-home pay, we would probably have already been seeing it. We have not really seen it, so I am less concerned than I was that we need to worry about that.

Q242 Chair: What is the Government doing to actually encourage voluntary contributions which are above the minimum levels? I am not conscious of anything that is encouraging people to invest even more in their pensions.

Steve Webb: It is quite clear that our attention has been focused on getting people in. There is no doubt about that. We still face a significant task on all the work with small and medium firms, so that has absolutely been the focal point: getting people beyond the basic minimum—getting those steps up. So it is 2018, really, before we have got everybody in, we have got everybody up to 8%.

Q243 Chair: Even before then, you could be encouraging people to be investing more, sooner. As you said yourself, there are some people who have not had a pension. Now they have got a pension, what is happening to that? That is the group that are actually really keen to save. What has been done to encourage them to go beyond—

Steve Webb: One of the things that we are aware of is that the most trusted source of information on pensions is generally, shockingly, not the Government. The reason we are using auto-enrolment is because people generally trust their employers; and so we are aware that in many cases—certainly in larger firms—there is workplace comms going on. The providers are doing communications; the employers are doing communications; and that is where you are getting beyond the statutory minimum. For the smaller firms we have just got to get people in. There is good work being done; so, for example, in schemes that offer matching, generally the evidence is, if your employer will offer matching up to a certain level, those are the sorts of schemes where individuals will also go to higher levels—but we have not got a programme to incentivise that at this stage.

Q244 Chair: If the individual will not listen to Government, the employers should be listening to Government, surely, and we should be encouraging them. Is that not the case?

Steve Webb: Yes. We have to strike a balance here. Auto-enrolment was the biggest regulatory cost we have put on British business in this entire Parliament, by a country mile. So we can certainly encourage, as we do; we talk to employers all the time and, in a sense,

the best employers do these things anyway. At the moment what we are mainly trying to do is make sure everyone meets their legal obligations, that we get all the small firms in, and so on. Trying to get more voluntary savings at this point is not the first priority.

Q245 Chair: Looking at the future, when do you think the right time will be to start raising the 8% contribution level?

Steve Webb: My view is that this is going to take a lot of planning, so what we should not do is wait until we have got to 8% in the middle of the next Parliament, and then sit down and think about it, and then draft some legislation, and then consult, and then legislate—and years and years and years will have gone by. My judgment has been that I have not wanted to distract us from the day job in this Parliament; but early in the next Parliament we need a conversation about going beyond 8%.

As you know, my personal view and my party view is that just jacking up the monetary contribution for everybody risks serious opt-out. If you just come in at 10%, 12%, 15%, I think there is a risk we lose a lot of what we have gained. I favour automatic escalation; so you start with the firm at, say, 8%, and then, unless you opt out, with each pay rise a proportion of the pay rise is added to that 8%, until it gets to whatever we think is a realistic level. I think we need that conversation sooner rather than later, and then you would have to consult, you would have to legislate—so it would be years before you could actually do it.

Q246 Chair: There is no one entity to have that conversation, unless you set up some kind of independent pensions body. Is that something that you would be in favour of?

Steve Webb: There are two questions there. There is no reason why the DWP could not initiate that conversation—that is what we do. If I were happy enough to be in this position again in the next Parliament, I would start that conversation off.

On the separate question about an independent pensions commission, clearly the Turner commission was a good thing that did a lot of lasting good, so it has much to commend it. Actually, a lot of what is called the Turner consensus has held. At the start of this Parliament, we did the “Making automatic enrolment work” review and we have implemented most of those recommendations. That has been constructive; independent input and advice and publishing what people say is a good thing.

The only caveat I would have on independent pension commissions is that they are not a silver bullet. In some countries that have these commissions, the commission comes up with something bold, but the politicians say, “Look at me—I am not going to do what those nasty people say. I will do the popular thing.” I would be wary of the sense that that is a silver bullet. Clearly it has worked in the past. My general view is that you take pensions out of politics once I am not in a position to make the decisions.

Q247 Chair: The decision to freeze the earnings trigger for automatic enrolment means that it will remain at £10,000. So, even with inflation, a large number of low earners

for whom the policy was essentially designed, or to whom it was sold, will still be excluded. What are the advantages and disadvantages of lowering that trigger?

Steve Webb: This takes us back to the basics of what pensions are for. In my view, pensions are there to help you maintain the standard of living in retirement that you had when you were in work, or at the very least so that you do not have a cliff-edge between the two. If we take the simple case of someone who has always earned £10,000 or thereabouts—we will come back to whether that is realistic—after National Insurance that £10,000 becomes £9,000 and a bit and, based on current rates, the new flat-rate State Pension will be just under £8,000. So, other things being equal, if you earn £10,000 a year through your life, take home £9,200 and then you end up with a pension of just under £8,000, by the time that you have taken off travel-to-work costs and all the rest of it, you have probably got basically the same standard of living. I think that it is wrong to default the lowest earners into pensions saving when actually the State Pension delivers that for them—they are saving enough. Clearly, people do not always earn £10,000—

Q248 Graham Evans: What about National Insurance?

Steve Webb: The National Insurance state pension will replace—

Q249 Chair: Does that not mean that the National Insurance level would have been a more sensible level to have taken than the tax threshold?

Steve Webb: Well no, because the National Insurance level is not the State Pension level. The State Pension level will be nearly £8,000, but the National Insurance floor is £5,500 or whatever it is. So enrolling people who are earning well below the State Pension level—taking money out of their pay packets—to top up a State Pension that is well above what they currently get would be crazy. Not only that, you would be enrolling people literally for pennies.

People say, “We should be enrolling low earners because we want to get them in the savings habit,” but people underestimate the reputational damage that would be done. We get enough flak from employers as it is for requiring them to choose a pension scheme, put people into that and do all the bureaucracy and if we had not raised the threshold, we would have had to have sent them letters saying, “You’ve got to put in 3.5p this week.” Our policy is sensible amounts in for the right people. Then people say, “But some people earn £10,000 one year and then £20,000 the next and so on.” That is fine: when they earn £20,000 they will put a big amount in and, when they earn £10,000, they will not be putting any in. In cash terms, it hardly makes any difference.

To lower the threshold would be a real mistake. £10,000 feels to me the right sort of figure, because of where the State Pension is, and that is why we have not increased it this year. To lower that significantly would seriously undermine the credibility of the whole programme.

Q250 Chair: There is one group of people—predominantly women—who have multiple mini-jobs and do not hit the National Insurance premium threshold in any of them. Their overall income would put them above the threshold you have talked about, but, because none of the jobs hits that threshold, they will end up with nothing: no State Pension and nothing through their husband, because the spousal rights and all of that has gone in other reforms. What will you do for them? They could be working 30 hours a week, but they qualify for nothing.

Steve Webb: That is an issue that, as you know, your colleague, Patricia Hollis, has raised a lot.

Chair: She has raised that with us as well.

Steve Webb: We have had meetings with her since the last Pensions Bill went through. The first thing we have done is try to quantify the scale of the issue. However many times we do that, and however many different data sources we look at, we can never get to more than 40,000 or 50,000 people in that position.

Q251 Chair: That is still a lot.

Steve Webb: Bear with me. Sometimes people say, “Oh, x million people are on zero-hours contracts.” Zero-hours contracts do not mean that you are in that position. A person on a zero-hours contract working an average of 20-odd hours may be well above these thresholds. So first it is important to keep a sense of scale, because when you say these women—it is typically women—will get nothing, that is completely untrue.

The reason it is completely untrue is that many women doing multiple part-time jobs do so because of family responsibilities. If they have kids, they will be getting credits, so they will be in the National Insurance system and will get a full State Pension, and if they spend their life doing this, that is not a problem. For some people with multiple mini-jobs, one of the jobs is above and one is below, so that is fine—they are in and are getting a full year’s National Insurance. For some of them, even if you add the two together they would not be above any plausible threshold. Frankly, if someone is doing two very low-hours jobs, it is hard to think of any system that works for them.

Q252 Chair: If they are completely unemployed, they get credits.

Steve Webb: Indeed. But bear in mind that for a full pension you need only 35 years. A typical working life will be 50 years, give or take, so you could have 15 years with multiple mini-jobs. We just do not have the evidence that the people who do multiple mini-jobs do that for year after year and decade after decade. There is no evidence that they do, but we are trying to look at time-series data to see whether they do.

Q253 Chair: I have asked you before, Minister, why you couldn’t just aggregate the National Insurance for each of the jobs, and you said that that was too difficult, but we do it with tax, so why on earth can’t you do it with National Insurance contributions?

Steve Webb: Tax is set up on an annual basis where everything is accumulated, and National Insurance is a per job tax. It is not impossible. Anything can be done if you want to do it.

Chair: We have computers.

Steve Webb: We do have computers.

Chair: Some of them work.

Steve Webb: There are some very good ones. But has anyone actually asked the women themselves whether they want to pay National Insurance? If you are doing two mini-jobs and that works for you with your family, or whatever, and then Steve Webb comes along and says, “Guess what, guys: you’re doing two £5,000 a year jobs and not paying NI, so I am going to add that together and make it £10,000 and please can I have x pounds a week as National Insurance?” they might tell me to take a running jump.

Q254 Chair: They might think that they are getting a pension at the end of it.

Steve Webb: The question is: why are they doing multiple mini-jobs? If it is because of caring responsibilities, they are in the system anyway. If one of the jobs is over, they are in the system anyway. If all of them are below the threshold, there is nothing we can do. So it is a very narrow group, and as long as it is not the same people year in, year out, and decade in, decade out, the 35-year rule catches them anyway. It is not obvious that this is a large group of people who are seriously going to miss out.

Q255 Teresa Pearce: One of the reasons that lots of people do small jobs is that the employer does not want to employ them for longer than a certain amount of time because they do not want to pay NI, either. It would be a good idea to do some consultation and ask people.

Steve Webb: Yes, I agree.

Q256 Chair: Is it not going to get worse with the introduction of Universal Credit? The first 10 hours is essentially free under Universal Credit, so people will be encouraged to do nine-and-a-half-hour mini-jobs.

Steve Webb: No. Universal Credit could have the opposite effect, because by taking out the arbitrary 30-hours cut-offs and 16-hours cut-offs, employers—and employees, actually—are going to be much more able to work the hours that suit them.

Q257 Chair: But the cut-off is the 10 hours instead of 16 hours.

Steve Webb: There is a generous disregard. Is that what you are talking about?

Q258 Chair: If they are working on minimum wage for less than 10 hours they get to keep the whole Universal Credit. I suspect that will be one of the unintended consequences of the system.

Steve Webb: It is not a cliff edge, though.

Q259 Chair: I know we are coming up to the election and this is something that will be implemented after the election, but is it something that concerns you enough that you will be advising whoever comes after you as Pensions Minister—you never know, it might still be you—to keep a watching brief on?

Steve Webb: Yes, it is.

Q260 Chair: There seems to be a potential unfairness, in that someone who doesn't work at all but signs on for 35 years gets a full State Pension, but some people who could be working 10 hours or 20 hours a week qualify for nothing.

Steve Webb: As part of the last Pensions Act, we undertook to go on working on this. The main data we need is time-series data. In other words, is this just something that people do for a short period of their lives and it doesn't matter for their State Pension because they will get a full State Pension anyway, or is this a state of being for a decade or something, in which case it really does trash their NI record? That is the sort of data we need.

Q261 Chair: Can we move on to the self-employed? Obviously, automatic enrolment does not apply to them. Although they are probably the one group that does best out of the changes to the State Pension, they do not have the occupational pension. As the number of self-employed is increasing, what are you doing to encourage more of them to take out a second pension?

Steve Webb: As you say, the self-employed are to some extent the windfall gainers of the new State Pension, because their class 2 NI that was only buying them basic pension years, plus a bit of SERPS, now buys them the full single tier pension, or new State Pension. So the self-employed at least now have that floor— £7,000 or £8,000—to live on. I have talked to organisations such as the FSB about this kind of thing, and they are very ambivalent. Theoretically, you could require the self-employed to auto-enrol and then opt out, which seems odd, but you could do something like that. Some of them feel that they have chosen to be self-employed, because they do not want the life of an employee. They do not want the constraints or the requirements. They want to order their own finances in their own way. Choosing to be self-employed is partly a lifestyle choice and partly about saying, “I will sort out my retirement. Don't take money out of my pay packet and make me do this. I will sort it out for myself.” So we can encourage, incentivise and publicise.

There is a difference between the lifetime self-employed—for many of them, their business might be their pension—and the people who have a period of self-employment, who

will end up in retirement with a mix. They will probably have a State Pension, and they may have an auto-enrolment pension as well. I accept that the self-employed is a big and growing issue, and it is one that no government have really grasped. The State Pension reforms that we have implemented will help the self-employed, and will do more for them than anybody else has done, but it remains an open issue.

Q262 Chair: Is there a role for NEST in this? Could NEST go to the self-employed and say, “Sign up with us; we have a really easy system here”?

Steve Webb: NEST is certainly an obvious place for the self-employed to go. The FSB has got a Scottish Widows pension that they are using for auto-enrolment. The FSB, for example, could be another route in on these things, but I have a caveat. Why are we doing auto-enrolment? Because encouraging people and having publicity campaigns simply do not work. Putting people in a pension and making them opt out is the only thing that works. I could sit here and tell you that we are going to spend public money on advertising campaigns, and that we are going to write to the self-employed and tell them to join NEST, and seven of them probably would, but it is very hard to get people to do this kind of thing.

Q263 Anne Marie Morris: With a number of smaller employers coming into auto-enrolment, we are going to have an awful lot of work supporting the pension schemes themselves. Historically, the bigger players have provided that support, because you are dealing with a different type of beast. It is probably unlikely that the schemes will have the capacity or the ability to deal with this plethora of smaller employers coming into the system. Who do you think should pick them up? Does the Government have a role? Do the regulators have a role? In a sense, you have the group that most need the support about to come into the system.

Steve Webb: I largely agree with that, but let me slightly query the premise. In a sense, the big firms needed a hell of a lot of engagement, because they were customising and tailoring what they did. The small firms are saying to us, “How do I stay out of jail? Tell me what to do and I will do it. I do not want choices, menus or options. Just tell me what to do. I will do it, and I will get on with doing what I do.” So there will be a bog-standard product. There will be the workplace pension. You do this, tick this box, send that letter and you have done it. That is the only way we can do this for the scale of small firms we are talking about.

They will have questions, so I spend a lot of time talking to accountants, bookkeepers and payroll software people—the go-to people. If the small firm is puzzled, there is the regulator’s website, the step-by-step guides and all of that stuff. We have provided all of that and we are modifying it for the small firms to make sure that it fits. But we know people say to their accountant, “I’ve had this letter. What am I going to do?” So I spend time talking at conferences of accountants. We talk to trade bodies—trade bodies are another example—the FSB and Chambers of Commerce. We are working with all these go-to people to make sure that they know where to send people and where to point people. But, ultimately, we have to minimise the amount of this that goes on, because of the scale.

Q264 Anne Marie Morris: That is a good answer, but for me it is drawing a picture of a spider's web, in that while there is all sorts of help all over the place and you are trying to make sure that the accountants and bookkeepers are there to sort it out, if I am a small business I am not sure that I will necessarily know who to go to or who I trust more. If I get divergent opinions, perhaps from the FSB or some government helpline, I am still in a quandary. I take on board the point you make, which is that they want something to keep them out of jail—that I understand—but in a sense we are not doing anything to say, "Here's your letter saying that you have to comply. These are the options as to where you should go to get help from X or Y or Z."

Steve Webb: Perhaps I was taking as read a lot of the statutory stuff. So you get your initial letter, you get subsequent letters—we are actually going to write to everyone who has not been staged so far with further information—and the letters will flag the TPR website, which has the planner. You can put your PAYE reference number in and find out your staging date with the planner and, with the letters, it is all there on the regulator's website. That is where you should go for the definitive answer, but we know that people will want to talk to someone else.

In a way, I am trying to cover all the bases. An individual firm might not have an accountant and might only have a bookkeeper, or they might run this or that payroll software. We are trying to make sure that anywhere such firms go, there are people there who can point them in the right direction. But the regulator's website is the definitive guide.

Q265 Anne Marie Morris: And are you satisfied that the TPR website is fit for purpose for all levels of small business, which have very different levels of capacity and understanding?

Steve Webb: Yes. It is evolving. What are we doing? We have this period after May 2015 where in a window we test enrol the tiniest firms. The micros do not come on stream for some months after that, but we will be test enrolling. We are already in contact with those people now, because they have already had their wake-up letter 12 months out, so we are learning every day and every week what works for such micros and what does not. Some of the things I am saying, about firms telling us that they simply want to be told what to do, is the feedback that we have had from those micros.

May I just do a quick plug to all Committee members, Chair? I am putting on an event here on 21 January both for us as employers—we will have to auto-enrol our staff—and for us as constituency MPs, so that we can go back to our constituencies to put on events for small businesses in our own area. That is 21 January, at 4 o'clock—I hope you will come.

Anne Marie Morris: That is very helpful.

Q266 Nigel Mills: I want to pick up on one thing you said, Steve. With small businesses, you said, "Here's the letter you need to send. Here's what you need to do." I guess that might set you up for your existing employees, but I suspect that what is harder is the weekly or monthly working out how much you owe, paying it over to the right place, putting new employees in and putting leavers through. Is not the key to that to make sure that the payroll software tools, especially the HMRC free one, tell you the right number and,

preferably, have “click here” to set up a direct debit as what you want to happen? Where are we on that happening?

Steve Webb: There is, as you say, an HMRC tool that does PAYE income tax and, I think, National Insurance. It will not do auto-enrolment. We did look at that, but it is what we call in the jargon a legacy system, so trying to put the new thing on the old is just hopeless. What we are trying to make sure is that TPR offers a tool of similar nature. “Tools” is a slightly grand term, isn’t it? There is a floor, a rate and your income. The vast majority of these firms employ one person who, on the whole, is still aged between 22 and pension age, and has a wage of above £10,000 and the same each month.

Funnily enough, the real complexity in many cases is with the big companies with multiple sites and multiple payrolls, which have done mergers, demergers and all the rest of it, and run different systems. Actually, your one-employee firm is pretty static. I do not want to belittle it, but I think that for a lot of them, it will be pretty straightforward.

Q267 Anne Marie Morris: You say you are getting to the FSB, and so on, but certainly in my experience in a very rural constituency, none of my small businesses are FSB members, or members of the Chamber of Commerce. They all have their own little small business groups. While I am sure that you are talking to the Institute of Certified Bookkeepers, an awful lot of people are not members of that either. How will you get to all those other very small advisers, in particular in rural communities?

Steve Webb: Most of those bookkeepers will generally be chartered—that might not be the right word—or in a professional body, because a lot of professional bodies oversee all these professions, and those are the ones that we are liaising with. Ultimately, you are a small firm in the middle of nowhere, you get the letter from us that tells you about the TPR website and says, “On that site is everything you need to know.”

Q268 Anne Marie Morris: The final question, before we move on: to make it even easier for them, is there a role for the Government to, therefore, promote NEST—saying, “If you can’t understand what is on that website, go to NEST”? Is that something you are thinking of doing?

Steve Webb: Yes. The letter mentions NEST. NEST is the only provider mentioned in the letter. TPR are looking at a list of other providers to put on the website, and that is in principle a good thing, though it raises other issues if you are somebody who does not get put on the list, etc. But NEST is specifically flagged in the letter.

Q269 Anne Marie Morris: To move on to a review of policy and the future, you are one of the longest-serving Ministers for Pensions, and I think everybody would say you have actually done a remarkable job. I do not think we have seen so many changes in such a relatively short period of time, and it has really taken the pensions agenda by the scruff of the neck. However—

Steve Webb: I sensed a “but” coming—it was all going so well.

Chair: You were not expecting us to be that matey.

Anne Marie Morris: However, clearly there are a number of changes that you have put in place—for the minute we will continue on the focus of auto-enrolment and that end of it, rather than what you have done on annuities, which will be considered later on in the session, so what sort of review do you think we should continue to have? With NEST, the various restrictions were actually lifted, in some senses, earlier than we expected, so the review of all that now to some extent becomes redundant. Clearly, whatever review happens is likely to be after the election; but what do you think we should be doing to make sure this auto-enrolment piece actually works?

Steve Webb: Yes, I agree. Thank you for the kind comments. In terms of the 2017 review, it is, as you say, kind of a bit redundant, because the specific terms of reference of the review are looking at the transfer ban and the contribution limits for NEST, which by the time we get to 2017 will not be there any more. So although there is still a statutory duty to do it, it is fairly obvious that the review will say they have gone.

My view, very strongly, as I hinted earlier on, is that we should not wait until the middle of the next Parliament to have a review. That is too late; because if you have a review and then you consult, and then you legislate, and then you need time for the computers and all that, we will be past the next election. So my view is that my immediate successor, whoever he or she might be, ought to very early on in the next Parliament look across the landscape, see how all of the things are fitting together—the budget freedoms, the auto-enrolment, the State Pension reform and all the rest of it—see where we have got to, identify early on, in consultation with people, where the big gaps are, and set out a five-year agenda, so that people know where you are going, so that you do not get what I have called in the past the curse of incrementalism: a good-natured reform here, a well-meaning one there, but no sense of direction.

So I think an early open conversation about the landscape and where the outstanding areas are: it is clear to me that getting beyond 8% should be part of that. I think tax relief has got to be part of that. Those would be two—and scams and liberation and all of that would be certainly some of my principal issues.

Q270 Anne Marie Morris: Do you think there is scope, as some witnesses have expressed, for some sort of independent body to have some role here—to, in some senses, take out the politics of it all and just review what has been done, how it has worked in practice, and look at what might happen in the future?

Steve Webb: Clearly, independent input has been very valuable. As I say, the Turner commission did a really good job. It probably did things that the politicians of the day might not have ever got round to doing until it was too late; so independent input—very valuable. Some of this is very political stuff. Pension tax relief: who do you spend the money on—the rich or the poor? Ultimately politicians are going to have to decide. So independent input by all means; but ultimately we, the politicians, will have to own this, I think.

Q271 Anne Marie Morris: And if there were some independent input, what would it look like? What sort of people would you have on it, and what would you have as their remit?

Steve Webb: I do not want to invent something off the back of a fag packet at this point. I think I have always tried to talk to people who disagree with me. I have always wanted to hear the challenges. At the risk of embarrassing my colleagues, who might stop passing me notes if I say this, I was once told not to meet somebody until I had made my mind up. I said, “No, shouldn’t I meet them before I have made my mind up?” I think whoever comes in ought to have an open approach, be willing to hear lots of different voices and make some political decisions.

I am not trying to invent some new infrastructure, and all the rest of it. Bear in mind, we will have a process for setting the State Pension age; so by law we have already established that process. So somebody will have to be appointed in the new Parliament to gather data and to set out recommendations to Parliament on State Pension age. So that is already going to happen.

Q272 Anne Marie Morris: You mentioned a couple of things that, going forward, you would like to see, including a review of the 8% rate, scams and so on. If you take a bigger picture view of all this and leave annuities and fiddling at the other end for a minute—we will come to that later—what would you like to see your successor address in the key issues policy agenda for the five years, as you described it?

Steve Webb: One thing we need to think about across government is whether pensions policy is too fragmented. I think that we probably work more closely with our Treasury colleagues than in many years, but it has been a cross-departmental effort. Public service pensions policy is scattered across government in the Cabinet Office, Treasury and each sponsoring Department. There is a strong case for looking at whether we should do all of those things in one place, which would make it an awful lot easier for whoever does this job.

You need to go back to the first principle: what is the point of a pension? A pension is there to try to ensure that your standard of living is maintained when you are not working any more. I have set out the long-term under-saving framework: who is not saving enough relative to these benchmarks—is it high earners, low earners, men or women? We need to look at it through that lens. Then, each of the reforms could be measured against the extent to which they address that under-saving challenge.

Q273 Anne Marie Morris: We have had interesting comments about the 0.75% charge cap from witnesses. Some say, “We are well below that, so that is fine,” but then others such as the ABI say, “For goodness’ sake, do not take it down any further.” What do you see as the future of that charging cap? Can, or should, it be reviewed down? Do you have a prognosis on where it should end up?

Steve Webb: Obviously it has not come in yet, so we want to look at how it works in practice. One thing we have said is that there is an issue about the coverage of the cap: we are capturing a broad measure of charges, but we are not including transaction costs. So one of the things that we need to do over the next year or two is gather that data.

We could not have set a cap for transaction costs, because we did not know what they were. We know the names of some of them, but they are always inventing new ones. If you cap a transaction cost and that means that a scheme does not sell or buy when that is in the members' interests, that is not what you want, so you have got to be careful. In 2015 the 0.75% cap comes in, in 2016 we get rid of active member discounts (AMDs), commission and all that kind of stuff and then in 2017 we look at whether transaction costs—all or some—should be in scope, which might put the number up rather than down, and whether 0.75% is the right number.

It has not come in yet—in a sense, you can always have a bidding war. People will say, “If 0.75% is good, surely 0.65% is even better,” but there must come a point where either schemes cannot cover their costs or only one provider can do that. You want more than one provider for a bit of competition.

I am perfectly happy that, at the charge cap level, you have vanilla products. If people want to opt in actively for strawberry ripple or whatever it is and pay more, that is fine. So when people say, “We can’t do all this fancy stuff within a charge cap,” I do not care, frankly—the default should be boring. Do I think it could come down? Clearly. But then if you put transaction costs in, it could go up. We need to look at whether we have got everything, because what we do not want to do is squeeze one bit of the tyre for it to come out somewhere else.

Q274 Anne Marie Morris: Clearly part of this is culture change. Frankly, the providers could be stubborn and make it almost impossible for you to get the charges down. To what extent will you consider putting pressure on them to work sensibly to get that figure down? A lot of that ends up as profits for them, so it is not in their interests to sort that out. What can you do to work with the industry to get it to accept more that this is the way that things are going, embrace that and do something about it?

Steve Webb: At the risk of using a cliché, the industry has been on something of a journey on this. Initially, it was saying, “You can’t possibly have a charge cap,” but we have done it. We got on with it and we have banned all sorts of—

Q275 Chair: But you just said that—you said that we could not have a charge cap because that would become what everyone charges.

Steve Webb: No. Clearly the risk of any price cap is that that becomes the norm. But it is set above the level that NEST is charging—that is my point.

To use my famous baked bean analogy, why not just have a standard price for baked beans? In this market, though, we have NEST coming in under the charge cap, so people cannot just charge at the charge cap and get away with it in the long term.

What are we doing with the industry? I think that the industry is moving, and each year we are ratcheting. It is year after year: in 2015, the charge cap and independent governance committees (IGCs); in 2016, AMDs and commission; and in 2017, transaction

costs. The crucial thing is governance: who is looking after the scheme members' interests? The gap has always been in contract-based schemes, so from April 2015 we have IGCs coming in; they will be the people responsible for making sure that members' interests are being protected, and that is where we will have much closer oversight on inappropriate charges than we have ever had before.

I will just give you one example. The Independent Project Board has just completed a legacy review of charges—we may come on to that later—and now we have in place governance committees, which are the bodies that will oversee the implementation of that. So providers will have to come back to the governance committees and say, “We have got these old high-charging schemes. This is what we are going to do about it. Is that good enough?” and then the governance committees will or will not sign that off. If we were just relying on me having a word with the ABI and saying, “Come on, guys,” that would not get us very far. We have got to have something with teeth. That is partly primary legislation, and it is partly good governance.

Anne Marie Morris: So you do not have much sympathy, I presume, with the NAPF, who are effectively saying, “It is your toothpaste: squeeze here and it just adds to the cost here.” They are saying that in order to comply with the cap, providers will have to change their investment strategies and they will incur costs, which they will pass on to the investor.

Steve Webb: We are moving from an unconstrained world to a constrained world, and there will be a transaction cost associated with that. The beauty of auto-enrolment is that it is incredibly cheap for a provider, because you do not have to sell—well, you have to sell once to the employer, but you do not have to sell to 10,000 employees, so it ought to be possible to do this relatively cheaply.

Q276 Anne Marie Morris: When you talk about keeping it simple and plain vanilla because that will keep the costs down and that should be all you aim for, do you think that there is any risk that you reduce the base level of quality? Clearly, there is going to be an impact on quality, because plain vanilla does not give you the same as raspberry ripple, as you rightly identify. Is there any need to ensure that there is at least value for money for these really basic schemes?

Steve Webb: That is where the governance comes in, so the trustees or the governance committees are trying to make sure that the scheme members are getting value for money. If we have a charge cap, clearly one of the things the trustees and the governance committees can do is to shop around for providers for the services that are provided to the pension scheme, so if somebody else can do the investment management better, cheaper or whatever, they can in principle shop around. There will be an ongoing process. One of my worries about automatic enrolment is the risk that it is once and done: every firm chooses its scheme once, and then who on earth wants to shop around after that? There is a real danger of stodginess here, which is why governance is crucial. That is why we are ratcheting down on the charges and getting the governance right. That is going to keep the momentum going.

Q277 Nigel Mills: You were very complimentary about NEST charging below the charge cap, although the way they charge is a little harder to see. How are we going to

enforce the charge cap being applied where you have some slightly complex charging strategies, like NEST's 1.8% on contributions and 0.3% a year? It is not as though we can say, "Is that 0.7%? Is it less than 0.75%? Tick." Someone is going to have to go through an audit of all these things over a five-year horizon.

Steve Webb: We have allowed three charging structures: single annual management charge (AMC), a contribution percentage and a recurring percentage, and a monthly or recurring fee and a percentage. Those are the three that we have allowed. The legacy audits show that there were 38 different charges in umpteen hundred combinations, and we have said, "No, we're not having any of that." There is a case for new entrants particularly to charge money up front, just to recover their start-up costs—for new entrants into the market to charge a monthly fee—because a small percentage of a tiny monthly contribution for someone on a low wage is literally pennies. We have to be fair about that. What we have done is to publish equivalence tables. We have said, "If your contribution charge is that and your AMC is that, that's in," and we basically have a grid of what is in and what is out. TPR and the FCA ensuring compliance, but the vast bulk of the market is 20 providers and, obviously, employers have to choose a compliant scheme. TPR and the FCA are risk-based regulators, so they are looking at diversions from that, but the vast bulk will be covered by—we could give you a list. We know who they all are, pretty much.

Q278 Graham Evans: The Independent Project Board published its report on legacy schemes in December. You were reported in the press as being "shocked" by the findings and you referred to "guilty secrets" of the pensions industry being exposed. We will talk about protecting savers later, but is it not worrying that these findings come as a surprise to you?

Steve Webb: What surprised me was not that there are high-charging legacy schemes out there; that is why the review happened. What surprised me were two things. One was the number of people who had come in in relatively recent years. I had assumed that this was just old stuff. The good news about the people who have come in in relatively recent years is that we have fixed it, by and large. By and large, the high-charging schemes that have come in recently are because of active member discounts, particularly—this is money that has been left by someone who used to work for the firm; it is sitting there and they have jacked up the charges, because their back is turned. We are going to ban that, going forward, so the thing that has happened in the last few years—people being put into schemes that go above these charging levels—will not be legal post-April 2016, although in fact the charge cap will bite in 2015. For active pension savers, a lot of what is in the legacy audit is already being dealt with. It should never have happened, in an ideal world, but we have only just brought the cap in.

The other thing that I did not fully grasp is the extent of the problem—I mean, 38 different sorts of charge? I knew there were plenty, but occasionally you think it takes a special sort of genius to find 38 different ways of taking people's money off them. Perhaps I am naïve, but the scale of it was striking—the tens of billions and so on.

Q279 Graham Evans: "Active member discount" was one of those famous phrases: completely the opposite of a discount, but most people would think they were entitled to

something. The Board recommended that DWP and the FCA jointly review the progress the industry has made in addressing and remedying poor-value schemes, and publish a report at the end of 2016. How likely is it, given the industry's previous poor record, that that will actually happen to legacy schemes?

Steve Webb: I think that timetable is too slow. In principle, what the legacy review has recommended is as follows: the providers—generally, insurance companies—have until summer this year to tell each scheme what they are going to do to fix this; then the trustees, or more commonly the governance committees, have until Christmas this year to decide whether they think it is good enough. So in a way the Christmas 2016 thing is a kind of wrap-up, looking back to see whether it has all been sorted, but I want us to move faster than that.

Over the next two or three weeks I have seven of the biggest insurance companies coming in. Each of them is different—they have different histories, different markets and different charging structures—and I am looking to them for big, bold moves. People say, “Why don’t you pass a law?” Just think how long it would take me to pass a law. If I was going to say, “Go back to all these legacy schemes and just impose a charge cap”—there are reasons why that would be tricky—I could not do it in this Parliament, realistically. We have to consult on this stuff and do impact assessments. We would probably be at Christmas 2016 before we could actually do any of this stuff, so I want to move faster. If I can, by a bit of ‘suasion, get the industry to do some big, bold stuff quickly, I will.

One issue we are talking to them about is a difficult one. Some of them are willing to move people en bloc from old high-cost schemes to modern cheap ones. You think that that is obvious and should be possible, but they are very wary of doing it, because there are regulatory issues about, “Is that advice? Is that telling people what is better for them?” and, “What if the new scheme has a lower charge but a different investment strategy, and they end up getting less money than they would have done before?” If we can find a way of doing this quicker and doing it in bulk, that is what I am trying to do. I saw the ABI this afternoon and we talked about this. I am trying to get that timetable speeded up.

Q280 Graham Evans: Moving on to transaction costs, you said last year that DWP will decide in 2017 whether some or all of the transaction costs should be included in the default fund charge cap. Why did you decide that these costs should not be included in the cap from the outset?

Steve Webb: Partly because we do not have much of a clue what they are. There are lists—for example, we have published a list of what is in the charge cap and some of what is not—but as soon as you come up with a list, someone invents another one. I do not think we could possibly have set a charge cap in a meaningful way that included transaction costs, because we would not have known what the right number was. What is going to happen now is that trustees and governance committees will have a legal duty to gather this data, to ask for this information and to publish it, so that scheme members can see it. That will open all this stuff up in a way that has never happened before. Once we actually have the data we can look at what is there and what to cap.

Q281 Graham Evans: Are we talking about the pension dashboard here?

Steve Webb: No. What we are talking about is: I am a member of a pension scheme that has an annual management charge. We know what that is, but actually my money is being invested by somebody and they are doing stuff with my money that means I am getting less of a return than I would have done. That is not measured in the management charge—it is a bit off a spread or whatever—and it is that stuff that we are going to get reported.

Q282 Graham Evans: A constituent came to see me recently thinking that because I am on the Work and Pensions Committee I am an expert on pensions—

Kwasi Kwarteng: Which you are.

Graham Evans: Which I'm not. They gave me a very interesting thing—a very well-known company's annual pension statement. What struck me was how much information it gave and how much it didn't. I recently had a credit card statement with a credit card summary, which told me how much I had spent in the past 12 months, what the interest was, and so on and so forth. It was very simple, and it was easy to see what I had spent on the credit card. Based on what you have just said about that information, would it not be possible for a company to let individuals see how much they have paid into the pension as one figure of x amount per annum, from April to March, and how much it has grown with the fund, but in percentage and in monetary terms? So we have column A, saying how much someone has put in and then how much the fund has grown—then underneath that have the charges, so you have the 0.75% charge, but you also have the transaction costs. Laypeople could look and see, "I have paid x amount in. This is what it has grown by, in both monetary terms and percentage terms, and these are my charges," again, given as x amount in pounds sterling and also in percentage terms.

Ordinary people understand how much a charge is, but they get lost in the jargon. For example, my constituent was given the charge as 0.75%, but the figure of growth was given in pounds sterling, not as a percentage. Why do they give 0.75% for the charge but not a monetary figure, yet give a monetary figure for growth? It is not a like-for-like comparison. I mentioned the pension dashboard because it would be simple just to go online and look at my pension portfolio to see how much it has grown by since I last looked at it 12 months ago, how much the charges are, what the transaction charges are, and so on and so forth. That way most people could see instantly what the provider is charging them, whereas at the moment it is grey and is not clear.

Steve Webb: I am very much in favour of the general concept of the pension dashboard. Having all your stuff in one place has to be right and is something we should work towards. I am a little more sceptical about the possibility of presenting this information across different pensions in a consistent way that is useful to the average pension scheme member. I do not want to treat them as stupid, but most people are not going to engage. The important thing is that the people in a position to do something with the information, who are in general the trustees and the governance committees, have to have the full details—the full monty.

In automatic enrolment, the individual consumer is not the person who chooses the provider—that is the company. Even if I, as an auto-enrolled member in a workplace pension, can see what my charge is and that there is another 0.3% in transaction costs, is that big? Is it

small? It is very hard for an individual scheme member to know that, but we expect the trustees and the governance committees to look after their members' interests and to shop around. However, we don't even have the data at the moment. For example, the NAPF at one point stood up and said, "We ought to do all this stuff in pounds and pence." Now, I wouldn't quite say that they gave up, but it is very hard to present this stuff in a meaningful and consistent way. My view is that at least trustees and governance committees have a chance of understanding and acting on it. Absolutely, let's share it with scheme members—I have no problem with that, but I don't think we can rely on enough of the scheme members to understand all of this stuff, and they are not in a position to act on it, anyway, in many cases.

Q283 Graham Evans: But if you had an industry standard, roughly speaking, you could look at a Money Saving Expert-type thing. You could say, "This is the industry standard for this pension and your lump sum. In terms of value for money, this is what you'd reasonably expect for this lump sum—your fund." You can do that with shares and so on; surely you could do it with pensions on a case-by-case basis?

Steve Webb: You could, but coming back to our vanilla and raspberry ripple issue—suppose you do something slightly better than vanilla. "But that's a higher charging scheme." Very few individual investors will be sophisticated enough to say, "Well, I'm paying a bit more but I'm getting a sophisticated investment strategy and that's giving me a bigger pension." I have nothing against consumer information, openness and all the rest of it, but I do not think that that is where we are going to get the traction, because it is the employers who are choosing the schemes. The trustees and the governance committees need to gather this information; they need to use it, compare it and act on behalf of members.

Q284 Graham Evans: What information do you think should be in an annual statement, speaking reasonably? Do you think that the current systems of annual pension statements are satisfactory?

Steve Webb: No. My phrase would be, "News you can use." In other words, enough to be informative; enough to give you a flavour. I hate cars: I drive a car because I have to, but I don't care what is going on under the bonnet. As long as the garage tells me that they are keeping an eye on it, it is working fine and it gets me from A to B, that's fine. I think that most people's attitude to pensions is, "As long as someone is keeping an eye out for me, this is one thing I don't have to think about." So yes, let's put pension information in one place and let's present it as clearly and consistently as we can, but it is complicated; it is difficult to compare, and that is why we need people acting on our behalf to get to the bottom of it.

Q285 Graham Evans: Okay. You announced in December that you would publish further information early in 2015 about the implementation model and time scale for automatic transfers. Providers told us that they were still not convinced that pot follows member is practicable or an effective solution and no providers actually believed this would work in practice. What more can you do to persuade them that it would work?

Steve Webb: It's a funny thing. We have what we call a co-ordination group with the industry because they are going to have to do this thing. We did wonder at one stage whether we would set up our own Government database and put all the pensions on it. Actually getting the industry to do this is, we think, the best way to do it. Rather than just sitting and announcing to the industry how this should be done, we have worked very closely with them. I will just give you a sense of the organisations in this group: Friends Life, Legal & General, B&CE, Hargreaves Lansdown, Money Advice Service, National Employment Savings Trust, Aegon, Capita, the National Association of Pension Funds and so on. These are the people who are going to have to do this thing. We have worked very well with them.

Let me just give you a sense of that. Standard Life said in written evidence to your Committee: "DWP has successfully engaged and involved the industry in the process of constructing a model that is focused primarily on developing good member outcomes". That is one provider. TISA—the Tax Incentivised Savings Association—said that "the DWP should be congratulated on the open and collaborative way it has engaged with the pensions industry". What we are trying to do is get buy-in to a model and then get on with it. I just have one more quote. Last month, Adrian Boulding said about the legacy review that "70% of pensions with charges over 3% are savers with small pots no longer paying in. Bring on pot follows member". That is from Legal & General.

There is far more consensus on this than meets the eye. Of course, it is another thing that they have to do. We will publish our plans next month, but if I can give the Committee an advance taste of what we are going to say in our document next month, we want to get this thing up and running. I have talked about autumn next year—October 2016. We think that the best way to do this is to start with the biggest 20 providers, give or take. They cover 90% of the market, so if we get the biggest 20 providers and maybe a few big trusts as well, that is the best thing we can do. They will get the infrastructure up and running. We will then get it started.

We plan to do it on an opt-in rather than opt-out basis, so that eventually money will follow you by default. There are issues about pension remuneration, matching pots and so on that are slowing us down, so to get the thing going, we are going to do it on an opt-in basis to begin with. We will have all the big schemes which all have a common infrastructure. If you change jobs, your provider in the new scheme will contact you and say, "We've identified on this database that you've got a stranded pot. Would you like us to bring across the old pot?" It will be opt-in. That way, you have validated it and you have an active consent. You have validated that it is the right person and the right pot. We think that we can cover most of the market and have something in place within 18 months. That will be a massive step forward. There are always Cassandras out there saying, "It's terrible. We can't possibly do it," but actually, the prize is enormous.

Q286 Graham Evans: I agree with you—it does sound fantastic—but what are the outstanding issues? What are the main blockers to this coming to fruition?

Steve Webb: We think that sticking with the biggest providers, who we know are all legit, is the first thing. There is a tail on all of this and there are people with small pension pots. If I am a pension fund and I contact the database and say, "Have you got any funds for

Fred Smith?”, how do they know I’m legit? If I say, “Please can I have that money from Fred Smith? He said it’s all right,” how do they know who I am? How do I know I have got the right Fred Smith? You have got to ensure that the right people are playing and that you are matching the right pots. Doing it the way I have described deals with all of that.

Opt-out is more difficult because, by default, you are moving people’s money around without them even actively choosing, so you have got to be damn sure you’ve got the right person and it is going in the right place. If we get the infrastructure going, which I think we can do, we can cover most of the market in 18 months.

Q287 Graham Evans: A constituent’s example was from Britannia building society, taken over by the Co-operative bank. A “Mrs” came to see me and they showed me documents where it was “Dear Mr.” I had to inquire about it because it was a real dog’s dinner just from the merging of a company. Is there new software or something new that you have got in the background that is going to remove the blockers on this happening?

Steve Webb: The whole area of pensions transfers has been ripe for reform for years. They have been slow, they have been expensive and if we are going to do this thing, we have got to do it in bulk and efficiently and we have got to streamline it. There are good examples on ISA transfers that work really well and really cheaply. If we do something like that, with a sort of common data architecture, for example—of course pension record keeping has to be good, but it is better on these new big schemes that we are talking about. There is still some lousy data recording, so the regulator is still trying to drive up data standards.

Q288 Graham Evans: So what you are saying is that you are confident that the technology is here—you used the example of the ISA systems—and that it will bring this together. It is a massive task and if it goes wrong, it will go really wrong, but you are confident that the technology is there.

Steve Webb: In a sense, it ought not to be rocket science. All we are doing is taking a pot with somebody’s name on and matching it to the same person somewhere else, but we have got to get it right. That is why we think this incremental approach is the best.

Q289 Graham Evans: The ISA example that you used is straightforward; I personally did it recently and it was very straightforward.

Steve Webb: So no reason, in principle, why the same shouldn’t be true here.

Q290 Chair: Are you not pretending that it is going to be a lot easier than it is? You quoted from the various industry bodies about them praising it and being fully engaged. The NAPF said that, yes, although it was fully engaged with the DWP, it still thought it was going to be difficult to get it up and running. While they might be praising your engagement, some of them still think—the People’s Pension still think—it was the wrong answer and that, in fact, it is going to be really difficult to do what you have said will be relatively simple. The

industry is really quite grudging of any kind of support that it's got for it—it is doing it because it has to, not because it thinks you came up with the right solution.

Steve Webb: But ultimately, the cost savings to providers, which could ultimately benefit members, are huge. Our impact assessment is talking about tens of billions of savings from not having to sit on ludicrously small pension pots. The early days of auto-enrolment have already generated hundreds of thousands of tiny pension pots of a few pounds. They are just going to sit there and gum the works up.

There are always people saying no, but we have got on with it. If it was simple, we would have done it by now.

Q291 Chair: The People's Pension came up with a figure of about £105 per transfer. Is that a figure you recognise?

Steve Webb: At present, it can cost that kind of amount. We couldn't run auto-transfers on those sorts of costs; we would have to drive it down dramatically—an order of magnitude less than that.

Q292 Nigel Mills: Who's going to pay?

Steve Webb: It is a running cost of running a scheme, so it will be things that providers have to pay for. Obviously, providers' costs end up in charges, but the charges are capped, but of course we are saving the providers masses of money because if you don't have to write to millions of people—sometimes the same person several times, with that pot, that pot and that pot—there is a lot of saving.

Q293 Nigel Mills: So it won't be a case of, "Dear Mr Mills, you've just changed job. I can see you've got a pension fund somewhere and I can transfer it into your new one for only £25." I am not expecting it to be a choice that I have to pay for.

Steve Webb: No. It is an up-front duty on the industry. It has an up-front cost, but a substantial long-term saving.

Q294 Graham Evans: What people like about the ISA example that you used is that they use it like a pension. They use the £15,000 max-out on it. It is not tax-efficient, but what they like about it is they can go online and just look at it. Do you see the vision of the pensions dashboard as being able to go on to your account on the website and see your State Pension? "Where am I with my single-tier pension? Where is my DB legacy scheme from 20 years ago, my DC scheme of about 10 years ago, and my current DC scheme?" Do you see that as the ultimate goal?

Steve Webb: I do, ideally. Some countries already have that kind of thing. There is a limit to how far you would be able to get old stuff on, but even if you just made a start.

Q295 Graham Evans: You could say to a 21-year-old leaving university, “You can set up your account and, God forbid, 50 years later, at 70 you might get your single-tier pension. But essentially, as a 21-year-old, starting out in the workplace, this is your account for your working life in terms of pensions; you are starting afresh with no legacy.” Is that how you see it?

Steve Webb: Absolutely and of course, if we get pot follows member going, we are in a better place, because you are not trying to keep tabs on half a dozen different schemes. Your current scheme is your scheme. That is why I do not like the supertrust idea, where it all goes off to some home of lost pots, because then immediately, you have another provider involved.

Q296 Graham Evans: At the age of 16, we all get a National Insurance number, don't we?

Steve Webb: Yes.

Q297 Graham Evans: So at the age of 16, we could all end up with our pension account number? So your National Insurance number is your pensions account, which you put all your schemes into.

Steve Webb: Could be, yes.

Q298 Chair: Could you explain something? In DWP evidence, you said that you have “moved away from the conception of a centralised database and towards an industry-led federated model.” What does that mean?

Steve Webb: It means that we do not create the database. What happens is that private companies set up registries—databases. I could do it, you could do it—and I run a pensions database. Pension schemes choose a registry—a database—to give their data to. I am a pension scheme and I like the look of this registry. They are going to handle all this for me at a low cost, so I send all my pensions data to them, using common data standards. Somebody else chooses another registry and there are perhaps two, three or four—I don't know how many there would be; that would be determined by market forces—and they talk to each other. They are a network. So I do not have to find the registry for the scheme that my worker has come from. I say to my own registry, “Find me Fred Smith's pensions.” They talk to all the other registries and draw Fred's pensions, then they pass them on to me.

Q299 Chair: So it works like the car insurance system.

Steve Webb: Yes, you don't have to know where the data is for the employee. You ask your own provider and they find it for you.

Q300 Nigel Mills: In terms of the response of providers to the new flexibility, the big question is whether we think everyone is going to be ready for three months' time when these new flexibilities come into force.

Steve Webb: Clearly, there are people who will not be able to change their pension schemes to give people within the scheme the flexibility, but scheme members will then be able to take their money and put it somewhere that can. We never required the current pension provider to suddenly become a drawdown account. If that is not how they were set up, they do not have the infrastructure. It would be unreasonable to expect them to do it, but if they cannot, they should enable scheme members to take their money and put it with somebody who can. There are plenty of people who will be happy to take their money and do the job. Will every pension scheme be able to run the flexibilities within the scheme? Absolutely not, but will there be plenty of places to put your money with people who can? Absolutely.

Q301 Nigel Mills: Let's say I am in an employer-chosen scheme. I get to 55 and I quite fancy my lump sum. I have to somehow choose to move my whole thing somewhere else. It doesn't sound very easy, does it? Presumably, at some point, we want most schemes to be able to offer the tax-free lump sum at 55.

Steve Webb: The tax-free lump sum is there anyway. That is a legal requirement, so you can take your tax-free lump sum anyway. That is how they have all been set up, but if you think about it—I am an employer. I choose freely to offer a workplace pension. I didn't used to have to, so I have chosen to set this up. It is a trust-based scheme. It was always about building up a DC pension pot and then people just bought annuities. I never had any responsibility post-retirement, post-decumulation. So I am not sure we should require every pension scheme not just to be in the business of accumulation but to be in decumulation. That may require different skills, but we should enable people to get their money and put it somewhere where it can.

Q302 Nigel Mills: It is quite intriguing. I might just default my scheme into being my decumulation, or at least, I might cease to accumulate. I might think, "Well, I've hit 60; I've got enough. I'll stop putting anything in; I'll just leave it there for a bit"—I have kind of done the same thing, haven't I? I am not sure how easy it is to draw the line in terms of saying, "You've stopped accumulating and are now decumulating." Perhaps I'll just drop my hours and not draw it for a bit. The scheme would end up in the same position.

Steve Webb: As long as you don't cross the line to decumulation, that is the point. You can stop putting as much in or, indeed, stop putting anything in, and the governance committees and trustees will be there to ensure that people who cease to be active investors are still having their money treated appropriately. At the point where you start to want to buy an annuity, investment product or whatever, I think that it is reasonable for your scheme to say, "Look, we don't do that kind of thing, and we never did—that is not how we are set up. Here is your money; take it to someone who will."

Q303 Nigel Mills: Are you expecting a lot of new products to turn up in the market in the relatively short term, or will it take longer before you get partial annuity, partial drawdown, fixed-term things turning up? Are we seeing any activity on that now?

Steve Webb: I think in the short term we will probably see variations on existing products, and we are starting to see a bit of that now. Drawdown products of various sorts have tended to be the prerogative of the rich, broadly, because it was viable, but we are starting to see moves towards more mass-market drawdown products. People have talked about a decade of innovation, and I think that that is probably right.

Something I am particularly interested in that I do not think we have yet bottomed out is financial decision making later in retirement. It is one thing talking about 55, 60 or whatever, but are we still expecting people to make sophisticated choices at 77? What about people who cannot do that? There is definitely a space for a product that ends up with an annuity—you have an investment phase and a kind of default annuity so that, without having to make active decisions later in your retirement, if you do nothing, you end up with a guaranteed income until you die. We have not been able to sort out all this stuff, but we will have to come back to the issue of older old people and the choices that they have to make.

Q304 Nigel Mills: Are we not at risk of having a few years of people becoming guinea pigs for random new products that we might regret allowing to be sold?

Steve Webb: There is clearly a risk that when you set people free they choose to do what they want with their own money. I know that you have taken evidence from the FCA and I read the transcript with interest. There is clearly an issue with new products, new providers and so on, but it is hard to see how you can pre-regulate some of these things, because we want innovation. That is the balance we are trying to strike. We want new products. Clearly, the providers have to treat customers fairly, and we need to ensure that they can access guidance and all that, which we will come on to, but we cannot say, “You can’t do that product because it just looks wrong to us.” We have to allow some innovation.

Q305 Nigel Mills: I guess we can drift into annuities, where we may see some innovation. Presumably you still think that annuities ought to be a good choice for a lot of people. Are we not at risk of people not buying one because they think that they don’t have to anymore and they did not much like them in the past? Might we end up with people lurching from buying the wrong annuity into not buying one at all when perhaps they ought to have done?

Steve Webb: I have always been careful not to say that annuities are bad things. My line is that I do not want to be the Pensions Minister who abolished pensions. The idea of an income for life until you die is not a bad thing. Some of the flaws of the market have been people not shopping around and not getting enhanced annuities for poor health and so on, and there is a set of people who would have liked, for example, to have had more investment growth—perhaps worked for a bit longer and seen their money accumulate a bit longer—so there are those kind of things, but annuities must certainly be part of the mix. In the language

I have used, although I think that some people have had bad value, I do think that annuities need to be part of the landscape.

Q306 Nigel Mills: I don't remember whether it was to this Committee or a Bill Committee, but I think I have heard evidence that annuities are down to about 15% of their market size before the changes were announced. They have dropped off quite drastically, haven't they? Presumably you think that that might reverse at some point as people get fully familiar with things.

Steve Webb: Yes. I have seen different numbers, but there has clearly been a significant decline this year. Obviously that is a lot of people who are the waterfall for 6 April—the people who have been holding off and holding off and will then make a decision. My sense is that annuities will still have a part to play, probably later in retirement, for the reasons I gave. There will be more hybrid products, but there will still be a need for an income for many people.

Q307 Nigel Mills: That leads us into what you suggested last week: perhaps we could find a way for people who now wish that they did not have an annuity to exit theirs. Do you expect that to be possible for people?

Steve Webb: To be clear about what I was proposing, it was not so much exiting their contract, because it is a contract. The way I put it, I have an insurance company that has been paying a monthly amount into my bank account, and it would simply change the account name and sort code, and pay the amount to someone else, and I would take some cash. So the contract is still there, it still goes on until I die—all of that is still in place—but someone offers me some money for that stream of income. I would rather have the cash, they are willing to pay for the income—it could be a pension fund, an insurance company or somebody else—and they buy it, just as you can buy a second-hand endowment policy or something like that.

That would not be right for everyone—it is not something everybody should do—but let's take, for example, somebody who has a State Pension, a decent company pension and then a pot of money. In the new freedoms, they would have invested it, spent it on a holiday or whatever they wanted to do—give it to the grandchildren, paid off a debt, whatever they wanted. If they could not do it, if they would still rather have the State Pension and the company pension, the reliable income, and then some capital, should we really prohibit that, or should we try to find ways of doing it? I want to try to find a way of doing it. Obviously we cannot legislate this side of the election, but we can do work this side of the election, and so far I have had positive feedback within Government—I would not say any more than that, but we are looking at it actively.

Q308 Chair: You might in the Government, but Tom McPhail on “Money Box” on Saturday called it a crackpot idea. He also said that it risked significant consumer detriment.

Steve Webb: Yes, Tom's having a bit of a run at the moment. People always pooh-pooh new ideas, but what I am hearing from people around the country—Dr Ros Altmann was on the same programme saying a rather different thing about this idea, and she is getting letters saying the same—is: “Good on you, get on with it.”

Q309 Nigel Mills: That drifts us on to what people will end up doing if they really just do not make any choices themselves. I suppose if you bought the wrong annuity, that might be a bad outcome, but it might not have been the worst thing in the world for you to be defaulted into doing. Many people could, out of ignorance, lack of understanding or complete lack of engagement—not knowing what on earth to do when they hit retirement age—just make no choices. How do you have a default that at least minimises their detriment in that situation?

Steve Webb: There are different stages. There is the pre-decumulation stage—so your money is just sitting there, and there is a governance committee or a set of trustees part of whose job is to look after the members' interests. If they realise that people close to or beyond retirement age have got money sitting there, they will need to make sure that there is an appropriate investment strategy. Many schemes are consulting on what that is at the moment, because this is a new world, but a well run scheme with good governance will make sure that members' money is properly used and invested until they draw it.

The point of drawing it, in case they stick it in the bank and get no return, is where the guidance guarantee comes in—now called Pension Wise, as you might have seen today. That is where Pension Wise comes in. I approach my pension provider, who has a legal duty to say, “Before you touch this money, go and talk to Pension Wise.” If I come back and have not done it, providers are obliged by law to recommend that I go to talk to Pension Wise. In their literature, they have to tell me about Pension Wise—we will mark it “Pension Wise” as well. The whole point is that as far as we can—we cannot force people—before they put their money somewhere useless, like sitting there doing nothing, they have talked to someone who can tell them about the options, where they can get further information and advice if they want to pay for it and so on. So we do not get to the point where they have done something apparently stupid with it before we have done our best to make sure that they do not.

Q310 Nigel Mills: On the decumulation phase defaults, I might have joined a pension scheme 15 years ago, with the assumption that I would retire at 65 and take an annuity, so they would probably want to start de-risking me from 55 so that I have a relatively risk-free pot when I make that decision. What is the solution now, however, when we think that most people will do some kind of drawdown, so de-risking at 55 is not very clever?

Steve Webb: Yes.

Nigel Mills: If I do not give them any positive instruction when I hit 55, what should they default to do? How legally can they do that default? Because if they assume that I will draw down and so they do not de-risk me, but there is a catastrophe when I hit 54 and a half and my pot is nowhere near getting me the annuity that I had always planned, I am going to say, “Wait a minute, you changed my plan without me agreeing to it.” But if they do not change my plan and I then want to draw down, but I have wasted some 10 years of

investment, I will say, “Wait a minute, why did you not plonk me in that better idea?” Presumably at some point someone has to say, “If people will not engage, here is what you do.”

Steve Webb: A lot of pension schemes are consulting about their investment strategy in the light of new freedoms, and, as you say, the old way of locking into low-return assets at 55 or before just does not look right for most people; but any scheme’s investment strategy is going to be an average, even now. Even before the changes, they are investing in a particular way. Very few scheme members do anything other than the default; so you, for example, might have a real appetite for high-return, high-risk investments, but the scheme does not do that for you unless you actively choose. So, inevitably, investment strategies are averages. They are broad-brush—broadly right for most people, most of the time. If you want something different, the onus is on you; but the scheme will do something that the trustees or the governance committees think is in the generality of interest of the typical member—that kind of thing.

Q311 Nigel Mills: That is the power they will have: they will just decide, “We think most people will do something like take a lump sum and a flexi-drawdown, so we will plan that way unless you tell us.”

Steve Webb: Yes, but they will, for example—one of the nice things about individual schemes is they will know the characteristics of the scheme members: is it a pension scheme with lots of high earners; is it a pension scheme in an industry where people die young, on average? They will be able to take account of the characteristics of their members, so the right default investment strategy may vary from scheme to scheme, and they will of course consult with the members on that.

Q312 Chair: Are you not giving out mixed messages as a Government? From your point of view as Pensions Minister, you said earlier you did not want to be the Pensions Minister who abolished pensions. You are talking about building up an accumulation, working longer; you have set in train the fact that the State Pension age will get later and later. Then the Chancellor comes along and he says, “Right, at 55 you are going to be able to take your lump sum. And by the way, you could have something called cashpoint drawdown, that you can use like a bank account.” Those two things do not sit comfortably together. How realistic is it? The NAPF said that the cashpoint drawdown turns it into a savings account and loses the whole essence of what a pension should be. How do you square that circle?

Steve Webb: We get a bit fixated on 55 because it is the earliest point at which people can—not the typical point at which most people do—exercise their freedom. Most people by 55 have not got anywhere near enough money to stop work, blow the lot on sports cars, or whatever it is. So although that is the extreme case, and that is what gets the headlines, the typical person is still going to be working much longer than that, still accumulating.

Q313 Chair: But with all this chat, is that not setting unrealistic expectations, so that people are now thinking, “Oh well, I will be able to take my pension at 55 and that will be

fine, so it does not really matter when the State Pension age is, because I am going to get mine at 55”?

Steve Webb: If they are getting annual information from their pension scheme, it will be pretty clear, pretty quickly, that they are not remotely in a position to do any of those things. Of course there is a lot of chatter about this, and getting people’s attention on pensions is a bit of a challenge sometimes, so there has been some fairly colourful language. That has got people engaged. One of the positive things is that in surveys people have said they are more likely to save in a pension now because of the freedoms. I think that is a fantastic outcome. Yes, talking about sports cars and all the rest of it, a life of luxury is beyond the reach of the vast majority of people; but if you have an aspiration of some freedom, some choice and some flexibility, that might make you more likely to save, which has got to be a good thing.

Q314 Chair: Do you think this cashpoint drawdown is possible and is likely to happen?

Steve Webb: I believe there are providers who are talking about it. I suspect it will be exceptional, because I imagine the cost would be quite considerable.

Q315 Teresa Pearce: On the guidance guarantee, or Pension Wise, there are lots of different estimates about the proportion of people, the percentage of people, who are likely to take up the guidance service. What is your current estimate?

Steve Webb: Our colleagues at the Treasury are refining these estimates on an ongoing basis, so we have not published a figure—partly because we are continuing to talk to providers, to consumers, to get a sense of what the take-up is likely to be. The one thing I would say is it would be wrong to measure the take-up against a 100% benchmark. People at the top who are going to buy regulated financial advice will just buy regulated financial advice, by and large, I would imagine, so they will not particularly want to phone TPAS, or whatever it is: they will just pay for advice. So that is a set of people we would not expect to come to us. The set of people with tiny pension pots—particularly in the wake of auto-enrolment: many of them have got such small amounts of money that they can cash in anyway. Of course they can come to us; they can access the service. Many of them—it is pretty obvious they are just going to take the cash. It is not going to make a huge amount of difference what they do. So for me, it is not: “Out of that entire population do we get 100%?” It is: “Can we get the people who need the guidance, who have got the potential to benefit from it?”

Q316 Teresa Pearce: But you need some sort of estimate because if you are going to provide the service, you need to know how many people to provide it for. The Treasury is looking at that.

Steve Webb: Yes, absolutely. Modelling is being done on different scenarios. Contracts are being signed with TPAS, CAB and so on. There is flex built into all of this. For example, we are going to allow some people to access the service early.

Q317 Teresa Pearce: Has it been trialled yet?

Steve Webb: There have been small-scale trials.

Q318 Teresa Pearce: What do you mean by small?

Steve Webb: When you say “it”—in a sense we are refining what “it” is. For example, the document today talks about an illustrative 45-minute conversation; that is a bit more concrete than we have been in the past about how long these things might be on average. We plan to allow people who are most in a hurry—those who perhaps could already have done something and have held off—to register their interest. We will then contact some of them—not all of them—and do trial runs of the guidance process with them.

Q319 Teresa Pearce: Pension Wise is about to go live. How are you going to advertise that? Is it bus stops or radio, for example?

Steve Webb: There will be a range of marketing approaches, but bear in mind that the providers all have to flag Pension Wise as well. Some of the standard correspondence, even from your scheme, will have the Pension Wise logo on it. Part of our anti-scam approach is that people know that the proper service is Pension Wise.

Q320 Teresa Pearce: I saw that. It would be a criminal offence to put yourself up or pretend to be—

Steve Webb: That is right.

Q321 Teresa Pearce: That is good. So the guidance is one thing but financial advice is another. Financial advice is expensive and because there were changes some years ago, we had a dip in the number of financial advisers. Are you sure that there are enough in the country to fill that gap? People are not just going to default into annuity now; a lot more people will be weighing up their options. What is the industry doing about that?

Steve Webb: One of the challenges that we have is that there is an obvious steady-state level of demand for all of this, and then there is a backlog of people who would ordinarily have done something this year and have held off, as you said earlier. Therefore, in our modelling, we have to prepare for a surge—the earlier backlog coming through—and

then we are ensuring that we have capacity in steady state. The challenge for the financial services industry—it is not really my remit specifically—and independent financial advice is that they are not going to gear up to have masses of advisers on 6 April so I suspect they will ration by delay and saying to people, “Yes, I can see you but you will have to wait a bit.”

Demand induces supply. People who were in the industry will come back into it, and existing firms will expand. There will be a focus on the middle and lower-middle market—people who, because of guidance, realise that financial advice is valuable and would be willing to pay something, perhaps more than they would have, but still would not pay for the full monty as it were.

Q322 Teresa Pearce: You mentioned the FCA being in front of the Committee, and what they had to say was interesting. One thing that they said was that despite consumer groups, industry experts, the ABI and many on the Committee believing that the second line of defence is necessary, they think it is not. Were you surprised by that?

Steve Webb: I think that people use that phrase to mean lots of different things.

Q323 Teresa Pearce: We were quite clear what we meant by it.

Steve Webb: What do you mean by it?

Q324 Teresa Pearce: What I mean by second line of defence is that if you have a customer who has not taken guidance and will not take guidance, you just ask them some simple questions about whether they have considered the tax position. Rather than saying, “Have you taken guidance?”, you ask specifics such as, “Have you thought about what would happen if you die? Does your wife or husband need an income? Have you thought about your health risks?” You ask them some simple questions—not advising them what to do, but asking them whether they have considered those questions. The FCA said that it believes that the second line of defence was what you referred to earlier as asking again or advising that they go for guidance, rather than those key things that can end up in detriment.

Steve Webb: On tax specifically, the FCA’s November policy statement said that its rules will require providers to give a description of the tax implications of the options selected by consumers. That is specifically covered. It also says that providers must, in their retirement communications, encourage individuals to shop around—the idea of saying, “Don’t just default to come back to us without a prod.”

On the broader question, the challenge is that you do not want to turn companies selling financial products into IFAs, so it is about getting the right balance. What I gather some of the firms have been worried about is whether, if they challenge someone on the product they are about to buy, they would cross the line into advice. The good news is that the FCA has made it clear that firms can question a customer’s decision where the firm feels that it is inconsistent with the circumstances, and that will not be regarded as advice.

Q325 Teresa Pearce: On the FCA's lovely website, in the "About us" section it states: "Our aim is to help firms put the interests of their customers and the integrity of the market at the core of what they do." I think a second line of defence is at the core of what they do. It is not telling people that they must consider, but asking them whether they have. There are still thousands of people in this country who think that pensioners do not pay tax—thousands. Every week I get someone contacting me on that. It is a key issue. I was shocked. I do not know whether it was that they did not expect the question.

On your analogy about a car—given your liking for a Lamborghini, it is surprising that you are not interested in cars—you said that you do not want to look under the bonnet, but just to know that it is safe and that someone is keeping an eye out for you: it is a similar thing with the FCA. People do not want to understand how it all works; they just want to know that someone is keeping an eye out.

Steve Webb: Indeed. I do not think it would be inappropriate for me to say that the FCA has been on something of a journey with all this. We have seen it move. One of the things it is doing is called the retirement market review—it is the retirement income review at the moment. Slightly frustratingly at one level, that finishes in the summer. You might immediately say, "That is ridiculous. Surely it should be finished in April so that it is in time for 6 April." A bit of me feels that, but a bit of me thinks, "Just imagine the FCA concluded its review of the retirement choices market on 5 April 2015, just before it all changed", because that would be pretty daft as well. The fact that the review straddles the existing system and the post-reform early months is a good thing. It will be looking closely at what is going on in the early weeks, the products being offered and the processes going on. It can then take early action if there are problems, potentially within a short period of time. I am with you: we have to put consumer protection at the heart of this. Getting people to access the guidance is critical, but so is ensuring that the interaction with the provider is right.

Q326 Teresa Pearce: The FCA said that it could not stop fools behaving like fools, and I was worried about that, because it is not a level playing field. If you are dealing with the insurance industry or the pensions industry and you are just an ordinary person, you are not a fool; it is just not your area of expertise. No one expects you to strip an engine down. It is the same thing. I thought that that statement was surprising.

Steve Webb: The other thought is that if the second line of defence is simply asking pertinent questions, such as, "Have you thought about your widow?" or whatever, does that get you all the way?

Q327 Teresa Pearce: But it cannot hurt, can it?

Steve Webb: It depends on what happens then. If they say, "What do you think I should do"—

Q328 Teresa Pearce: Well, if you then urge them to get guidance, they might.

Steve Webb: Although you have already urged them. You have sent them there, and they have said no. You have recommended it and they have said no.

Q329 Teresa Pearce: A number of witnesses expressed concern that there will be an increase in pension scams. TPAS has already seen an increase in calls about pension scam-type activities. Worryingly, research by an investment provider said that 26% of people contacted by a pension liberation firm were tempted to take up the offer. What can be done to tackle that? You were talking about Pension Wise and saying that you had thought about that going forward and being proactive so that people cannot set up and pretend to be Pension Wise. What else can be done? You are the Pensions Minister, and you want pensions to be a success. Auto-enrolment is just coming along, nudging people into pensions. If we get scams, people will opt out of auto-enrolment. That will happen. What can you do, what can we do and what can we all do?

Steve Webb: A huge amount goes on, not all of which is surfaced, for obvious reasons. There is a lot of disruptive activity that goes on. Websites get taken down, premises get raided and people get locked up. It is not that nothing is done in this space, although clearly there is always more that can be done. One good thing that has happened but that needs to go further is that HMRC tightened the rules in 2013 on who can register a pensions scheme. I was astonished that, about a decade ago, the previous Government, as it happens, deregulated all of that. I looked back and the Treasury in 2003 said, “This is terrible—schemes have to provide up to 68 pieces of information when applying for tax approval. Under our new simplified regime, there will only be one registration form, to reduce the information burden.” So, in 2005 the previous Government deregulated the rules allowing people to register as pension schemes. As a result of that, it was register first and ask questions afterwards—that is how it is described.

Until 2013, essentially anyone could set up a pension scheme and, in recent years, I think that some of the wrong sorts of people have done that. That stable door has largely—not wholly—been closed since 2013 and, in the first three months after the new regime came in, there was a 40% decline compared with the year earlier in the number of people registering pension schemes.

That says to me that there are probably registered people in the system who are willing to take people’s money but who should not be there, so I have written to David Gauke and said, “It is great that we have closed this scam, but are you confident that there are not bad guys in the system? Shouldn’t we be going back more proactively?” I have only just written to David on that, but I will work with him because I want us to weed those people out. The public—understandably—think that if someone is registered as a pension scheme, the Government must think that they are all right. Actually, while that will probably be reasonably true going forward—they will have met a set of standards—plenty who have registered do not meet any standards at all. That is a worry for me.

Q330 Teresa Pearce: How quickly do you think that the FCA or TPAS will be able to respond to new products? Not everything will be a pension, will it? People will have a lump of money and they might trade it for some magic beans or something like that—we do

not know what they will do. How quickly will people be able to report poor practice and something will be done about it? This is a lot of people and a relatively unsophisticated market, so there will be people rubbing their hands together now, thinking, “What can we do?” You want people to look after their old age and not be in poverty, but if people get into poverty because of these changes—because actions were not quick enough—the changes will have failed.

Steve Webb: Sure. It would not be TPAS’s job. The FCA is regulating a broader range of financial products than pensions. For anything that is in the scam liberation area, Action Fraud need to be told, because they can and do take action. There is a lot of co-ordinated action—all manner of acronyms of organisations are involved—behind the scenes, with Project Bloom on liberation scams specifically. There is that area that is not crooks, but products that are perhaps not the best for individuals—

Q331 Teresa Pearce: There is a poor choice, and then there is being ripped off.

Steve Webb: Yes. For me, that is where Pension Wise comes in. There are lots of people making decisions about their tax-free lump sum now, based on no help, guidance, advice or anything—it is not the whole pot, but it is a quarter of it, and they can do that today. At least in this new world people will have the chance to have someone free and independent take them through and alert them to what they need to be careful about.

Q332 Teresa Pearce: With or without a second line of defence, what about default options at that point? It reminds me of when child trust funds were brought in: if you did not do something, HMRC made a decision for you. Would that be a good thing to do?

Steve Webb: It sounds attractive, but it comes back to the earlier conversation about trying to work out the right default for each individual. The default while the money is just sitting there is in the hands of the trustees and governance committees. I am reasonably confident that, if they have thought about their default investment strategies, something reasonable will be happening to that money while it is still in the fund.

People will get to a point—they may draw their State Pension and think that, for them, that is not enough—when they want to access their cash. I am not sure what a default looks like in that world of freedom once you have actively chosen to get your cash. As long as you have not touched it, there is a trustee or someone there keeping an eye on it, essentially, and then you choose to do something with it. I am not sure who you would default into what.

Q333 Teresa Pearce: One of my concerns is that your pension company is meant to write to you at a relatively early stage, but because we have such churn in housing at the moment, in future, there will be a whole raft of people that no one knows where they are. Does HMRC or DWP help pension providers find people?

Steve Webb: We do. As you know, we have something called the Pension Tracing Service, and we do that for individuals—we help people find their lost pension pots—and for

corporates. We charge for it, but if a company gives us someone's National Insurance number, or something, we can check up-to-date address details and things like that.

Q334 Nigel Mills: Going back to the guidance guarantee, Pension Wise, or whatever we should know it as, you said that the sessions will be 45 minutes. There has been some question about where on the spectrum between base camp and advice it will be pitched. Can you update us on exactly where you think the content of those sessions will be?

Steve Webb: One of the challenges is to try to tailor it, to some extent, to the individual. What we don't want is a bog-standard block of content. Someone might walk through the door who doesn't know what an annuity is, and someone else might walk in who is thinking about flexible drawdown, or something. You don't want just to say, "No, I'm an automaton, and this is what I have to tell you." Obviously there is material that just has to be covered, but there will be some attempt at least to engage with the person who comes in.

You might ring up Pension Wise to make an appointment however many weeks hence and you will be encouraged in the meantime to gather data together on your State Pension—we are stepping up the capacity of the statement service for that—private pensions and company pensions, so to some extent, at the margins, the session will be shaped by the person who comes through the door. It is not tailored financial advice—I mustn't pretend that it is—but at least if someone sitting in front of you says, "Look, I have a State Pension and a company pension and a pot," there is a set of things that you will want to talk to them about. There will be things that you just won't cover if they do not have, say, a company pension. There will be an element of tailoring, but the guidance has to cover the tax issue and the fact that, on average, the person might live for 20 years, but it could be 30 years or 10 years, and what difference that makes. What is an annuity? There will be basic concepts of that sort, but it just isn't regulated financial advice—it really isn't.

People come out of it with a piece of paper that has a summary of what they've concluded. They can always go back to the website so that they can get further information at any point. They know where they can get independent financial advice, if they want to pay for it. That is the kind of stage I mean.

Q335 Nigel Mills: I was flicking through the document. Presumably it is more like base camp. People will understand their options and what various things mean, rather than coming out with a plan that they will try to implement.

Steve Webb: It will not recommend, and it will not say, "You really ought to do this." It will not do that.

Q336 Nigel Mills: But the document they get at the end will say, "In this discussion you were thinking about an annuity. You should go and shop around."

Steve Webb: Certainly the concept of shopping around will be an important one to get across to people. The document will go through what information has been conveyed, and there will be a set of signposts as to where else they can go.

Q337 Nigel Mills: What will be the instructions for the preparation phase? Presumably you will walk in and they will say, “Come back in two weeks. Please think about your financial affairs.” Is there going to be a standard pack that people can fill in with their income, outgoings and assets?

Steve Webb: No, because this clearly isn’t regulated financial advice. I do not want to overstate the extent of tailoring, but clearly we will say to people that they will have a better and more useful conversation if they go in with as much information about their situation as they can. We will try to make sure that people have had a State Pension statement by the time they go in. I think that this will be quite radical stuff. Getting people to gather all this information in one place, which they have probably never done before, will be quite startling. It will shake things up.

Q338 Nigel Mills: That is why I was leading you into saying that. Will the State Pension statement that you get, perhaps when you are six months from your State Pension age, say that you should go and consult Pension Wise? Will you be getting adverts from your defined-contribution pension provider?

Steve Webb: Obviously State Pension statements are issued on request. We don’t send them out.

Nigel Mills: But you get a warm-up one six months before you retire.

Steve Webb: Yes, three months before State Pension age you get a letter saying that you can get your State Pension on such a date. Bear in mind that that will be 65, 66, 67, and people might potentially be interested in all this stuff at 55 or 60, so there is no reason why it shouldn’t say, “If you want information about your private pension choice, go to Pension Wise.” It doesn’t currently say that, obviously, but in principle it could.

Q339 Nigel Mills: It seems that we are instructing private providers to put that marketing in their blurb. Perhaps we should do the same thing ourselves.

Steve Webb: I agree. That is helpful.

Q340 Nigel Mills: It is a trustworthy way of getting advice—“You are about to retire. Have you had your Pension Wise guidance session?” If it comes in a DWP document, I am even more likely to believe it is robust.

Steve Webb: Yes. We would not use the word “advice”; we would say “get information.”

Q341 Nigel Mills: It still intrigues me that the guidance is the responsibility of the Treasury, rather than the DWP. You said that your successor might want to try to bring

pensions into one base. Would it not make sense for your Department to get control of the guidance at some point, rather than its being a Treasury thing?

Steve Webb: We put through in our own legislation the regulatory legislative framework.

Nigel Mills: I remember it well.

Steve Webb: It is preparatory to the sale of a financial product, which is why it comes on that side of the line.

Q342 Nigel Mills: It is being done by the regulator that effectively—

Steve Webb: Well, it is being overseen by the FCA, which is answerable to the Treasury.

Q343 Nigel Mills: But your Department has much more knowledge about pensions, pensions policy and what is going on. You'd think that the guidance should be a DWP baby, rather than a Treasury one.

Steve Webb: We are a seamless whole, Nigel.

Q344 Nigel Mills: I would never doubt it for a minute.

Right, it wouldn't be fair to have an evidence session and not ask about defined ambition.

Steve Webb: Hooray!

Nigel Mills: Any update? Have you sold loads—well, not sold loads?

Chair: Sold the idea?

Steve Webb: It's funny. We have spent quite a bit of time talking about something that everyone says is terribly rushed and asks whether we can have it all ready, and defined ambition is being done in a measured way. We are getting the primary legislation through and we have consulted on regs.

One of the obvious triggers is the end of contracting out in 2016. Big schemes that have been contracted out will have to think about what they are going to do, and that will be another trigger to think about the long term. What we want to try to do then or thereabouts is to have a fairly clear sense of what the options are for companies. There are still nearly 2 million people accruing DB pension rights in the private sector, so it is not dead yet—going, but not quite gone.

There will be some who go from DB to some sort of shared risk model. Plenty of employers have already chosen risk sharing. It is not like Steve Webb invented risk sharing.

For example, a big supermarket for auto-enrolment chose cash balance: that will guarantee the pot, but what you get for the pot, how long you live and all the rest of it is down to you. The company has taken on the risk of building the pot up to a guaranteed level, and you are on your own after that. That is shared risk, so DA—shared risk—is there already.

There is a lot of enthusiasm for collective DC. It is a niche interest, but there are people who are very into those kind of things. The trade union movement is very keen. It is a bit chicken-and-egg: people want to know what it is before they sign up for it. If you are a company running an open DB scheme, you are not going to say, “Oh, we are going to shut it and go to this thing that is not law yet.” We have to get the framework in place, but it seems to me that shared risk is the future.

Q345 Nigel Mills: Speaking of large supermarkets, one of them announced that it was closing its pension scheme—I should disclose that my wife works for Lidl. If you rung them and said, “Don’t just close it, go to a shared-risk, collective defined—”

Steve Webb: You might reasonably suppose that I talk to big, open DB schemes as a matter of routine. I probably shouldn’t say any more than that.

Q346 Nigel Mills: Marvellous. While we are on the subject, those schemes can bridge the divide between the regulators. Have you been thinking further about whether one pension regulator is a better option than two, three or whatever we are at now?

Steve Webb: I think I have consistently said that mucking about with regulators right now—in the middle of auto-enrolment, with the budget freedom and all the rest of it—does not feel like the right thing to do. What we are doing now is making the system work. I am seeing the FCA tomorrow, even though it is answerable not to me but to the Treasury. We are making the current system work.

In the medium term, the Committee has made a strong argument for looking at a single regulator. My experience of the past 12 months makes me think that that is well worth looking at. There are always costs to rearranging regulators. A lot of the things that each regulator does will still need doing, whether it is done under one roof or two, in Brighton or in London. It is not a silver bullet, but if it could improve co-ordination it is worth a serious look in the next Parliament.

Q347 Nigel Mills: What are the risks of having two? I guess that things may fall between the pair of them. Are there any others that you have identified at this stage?

Steve Webb: It is the overlap and the gaps. It is both regulators trying to regulate the same thing or neither trying to regulate it. We worked really hard on the pension tax legislation—the Pension Schemes Bill—to ensure that the trust stuff is done by TPR and that the FCA has done its stuff. For example, on TPR stuff, we legislate, and we have regulations. On the FCA stuff, their guidance is kind of statutory. Mirroring all of that has been quite hard, so having one regime would have been a lot simpler.

Q348 Nigel Mills: Before you see the FCA tomorrow, are you confident that they have enough focus on pensions? They are not too worried about saving the banking system? They are not putting pensions too far down the list of priorities?

Steve Webb: In some ways, having the Prudential Regulation Authority (PRA) and the FCA has meant that you have a prudential regulator doing one part of that job. I have personally found that I engage more with the FCA than ever I did with the FSA. Now, that might be because of everything that has been going on, but I have found that there is plenty of pensions focus in the FCA. Clearly, it is still a relatively new organisation, but I don't think pensions is a Cinderella in the FCA.

Q349 Chair: Even the most enthusiastic person who supports the new flexibilities will still admit that the potential for the rip-off merchants and the mis-selling is probably higher than at any time before. Do you think the FCA is up to the job of policing that situation and making sure it doesn't happen—of stopping it before it starts?

Steve Webb: “Stopping it before it starts” is an interesting phrase, because, clearly, the FCA is talking to providers now about the products they will provide. But we need to make a distinction between the, as it were, absolute crooks and the mainstream pension provider who might offer a product that is not quite as good value as it might be.

Q350 Chair: Yes, but they have to deal with both, don't they?

Steve Webb: Sure, but I am not sure which you are most concerned about.

Q351 Chair: I am concerned about both. There are the absolute crooks nobody knows are absolute crooks until they have taken everybody's money away. But, the history of the private pensions system in this country is high charges and people not getting the best deal, with poor annuity rates. Even with the old system, which was not flexible, there was a lot of poor selling, rather than maybe mis-selling, where the consumer seems to have got lost somewhere in the equation. The problem is, where does the consumer sit in all this? Who is the consumer's voice? Who is going to stick up for the consumer to make sure they are getting the best deal possible? I cannot remember who it was—perhaps it was you—who said the consumer needs to know that someone is taking care of them and that if they buy a product, it will be the best product of its type, and they are not going to be ripped off or to get a poor deal.

Steve Webb: To deal briefly with the crooks, as it were, that is much broader than the FCA. TPR, the police, Action Fraud and many other organisations are working together. There was a publicity campaign just at the weekend—from the TPAS and the ABI, working together—on pension scams and trying to raise awareness.

I know we can overdo the Pension Wise angle on this, but just think about April, compared with a year ago, when hundreds of thousands of people were reaching pension age and making choices with no guidance, no advice, no nothing. Have we reached nirvana, with well-informed consumers who aren't going to get ripped off? Of course we haven't, but we are a heck of a lot further on if we make sure people know about this guidance and access it, if they know the questions to ask and if they know how to see who the mainstream providers are. Our championing of the consumer is partly about equipping the consumer. We can't rely wholly on that; that is why I want to look at some of the people who have been registered as pension schemes to see if they should be deregistered. But that is always the balance, isn't it? If you let people choose what to do with their own money, there will always be somebody who makes an unwise decision, but we are doing everything we can.

Chair: But even if they make that unwise decision, there shouldn't be a rip-off. There's a difference: when they make the wrong decision in the circumstances, even that decision should still be about getting the best for themselves.

Q352 Graham Evans: This is not an exact like-for-like, but just a reminder of how consumers got ripped off. You will remember endowment mortgages in the '80s, I bought my first house when I was a very young man, and I went to the building society. This chap was very keen to sell me an endowment mortgage, and being a bit simple, I said, "What's the point of having all this debt for 25 years?" He said, "Well, you get this big balloon payment at the end, Mr Evans, which you'll be able to invest in other things." I said, "The repayment mortgage makes sense to me in my simple way. I'll pay a bit off every year for 25 years." Those repayment mortgages virtually didn't exist. I took an endowment. What can be put in place so we do not have a repeat of endowments—I know it is not a pension, but a long-term savings plan—so that the market does not skew and force people to something like endowment mortgages, which ripped off thousands? I also remember the FSA writing to me for virtually 15 years to tell me I was going to have a shortfall in my own personal mortgage, but they did not tell me how they would stop it happening again.

Steve Webb: I am not an expert on the endowment scandal, but I suspect commission was pretty important, after that conversation.

Q353 Graham Evans: Absolutely.

Steve Webb: Again, our best bulwark is equipping consumers. There are lots of other things—keeping crooks out and all the rest of it, and looking at products—but if we can equip consumers, for example, to ask questions about charges, to know what they should be looking at and to compare, knowing the importance of shopping around and all that, it is our best insurance policy of all, plus proper regulation. It is not about saying, "Oh, well, we'll just educate consumers and hope for the best." We have to pass reams of regulation in the next few months about what providers will have to do in terms of communicating clearly with consumers, being transparent, flagging guidance and all that kind of stuff. We are not putting it all on the consumer, but I think that is the big advantage we have, compared with when you could go in off the street and buy an endowment mortgage, with nobody sitting

down with you who wasn't trying to flog you something. In this world, somebody will do that.

Q354 Graham Evans: You mentioned charges and comparison. I alluded to this in my previous questions to you. There is the fixed charge of 0.75%, but there are hidden transaction charges, and we are trying to get an industry standard and best practice. I take on board your point about the complexity of it, but still, we could have an industry standard, so MoneySavingExpert, Money Box and so on would be able to say, roughly, "This is the industry standard. This is what you're looking for. You can have the raspberry ripple at this end, but this is the vanilla, if that's what you're looking for."

Steve Webb: We work a lot with the trade bodies—the IMA, the ABI, the NAPF and so on—on standardisation of these things. One of the challenges for April, to come back to the question about innovation, is that some of these products don't even exist yet, so saying "This is how you should present your information for a new product" and so on—it is going to be a period of evolution.

My sense is that we will get new products. We will be monitoring the early development of the market. It won't be a steady state by summer, but as the new products start to evolve, you can imagine new standards coming into place, and maybe, ultimately, new caps on charging, but not yet, because we don't know what these products will be.

Q355 Graham Evans: Sure, but on KPIs, for example, as a rule of thumb, when people are selling pensions, it is about tax efficiency, which an ISA doesn't have. I know it is tax-free, but you put in taxed income. Tax efficiency is always sold as a big reason for taking pensions out. I would like to see a KPI saying how much of that tax efficiency is eaten away in charges—how much is the 20%, or 40% at the higher rate, eaten away by the industry? Is the industry saying, "I can't wait to get my hands on that tax saved," because that is what goes into their coffers and not into the pension? I would like to see us putting it into simple terms and having a KPI for the efficiency of the industry standard—the vanilla product, as it were.

Steve Webb: We are making a lot of progress on transparency in workplace pensions on building up funds. There are general standards. The FCA is working with the providers and the ABI is working with its members now on the standard information that will be presented in a clear way from day one, but it will evolve—I am sure it will.

Graham Evans: Statements and dashboards are what I would really like to see—annual statements that are clear, and a dashboard.

Q356 Chair: It is still going to be an asymmetric relationship between the consumer and the pension industry—it still has all the knowledge on its side and can still bamboozle. I ended up with a repayment mortgage because when I went to get a mortgage in the early 1980s, the endowment one seemed too complicated for me, so in my simplicity I said, "I want something that is nice and straight, and easy to understand." I ended up with the right

product, but by accident—the power was still with the mortgage company. How do you make sure that the power is with the consumer and does not all sit with the industry?

Steve Webb: If you are the incumbent provider that someone has saved with, I agree that that is an issue. It is inertia—you just go with the name you trust. But just think what the media and the financial pages are going to be like in April and beyond. You are not going to be able to move for people giving you ideas.

Q357 Chair: But that in itself can create an inertia, because you end up with too much information.

Steve Webb: As I say, there is an issue about inertia with the people you have saved with. That is part of the reason why the FCA stuff requires the provider to tell people about shopping around. That is an ongoing battle—we haven't fixed that one. Once you have your money and you realise you can shop around, the providers will not feel that secure, because there will be lots of people trying to get your money and competing—we will see vigorous competition in April. Of course there are massive institutions and individual members of the public, but those people will have a lot of choice that they did not have before. I think we have rebalanced the power between institutions and the individual through pensions freedom.

Chair: We have exhausted our questions, and possibly exhausted you as well, Minister. Thank you very much for coming along this afternoon. That concludes our oral sessions in this inquiry, but your evidence and the evidence we have received at all our other sessions has been very useful and will help us in writing the final report.