

Public Accounts Committee

Oral evidence: Automatic enrolment to workplace pensions, HC 581

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Members present: Meg Hillier (Chair); Mr Richard Bacon; Nigel Mills; David Mowat; Stephen Phillips; Karin Smyth

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Max Tse, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Examination of Witnesses

Witnesses: **Mike Cherry**, Policy Director, Federation of Small Businesses, and **Kay Carberry**, Assistant General Secretary, TUC, gave evidence.

Chair: Welcome to this meeting of the Public Accounts Committee on 23 November 2015. Today we are discussing the National Audit Office's Report entitled "Automatic enrolment to workplace pensions" to assess how the Government have been doing on this and, critically, to ask questions about the next steps—very important for so many employees who are currently not in pension schemes, especially in smaller businesses.

I am delighted to welcome as a pre-panel, to give us a bit of background from those who are seeing how this is delivered on the ground, Kay Carberry, the assistant general secretary of the TUC—a warm welcome to you, Kay, and also to Mike Cherry, the policy director for the Federation of Small Businesses. I'm going to hand straight over to David Mowat, who is going to lead the questioning today.

Q1 David Mowat: Good afternoon. The NAO Report is a sort of interim report on how this has been going. In terms of what has been done so far, there is not a huge amount to criticise, although it would be fair to say that the tough stuff is still to come, with the smaller companies and

then the ramp up from 1% to 8%. I would be interested to hear, first, how your members, Mr Cherry, feel about how this whole thing is being done and whether you think the communications and the work in advance of enrolment has been adequate and is going well.

Mike Cherry: At the present time, it is still very difficult indeed to give you a full answer on that one. The biggest test, very clearly, particularly for micro but also for most small businesses, is yet to come. The majority of them are only now just beginning to get their staging dates coming through with letters from TPR. We are waiting to see exactly how that is going to impact on our members and small businesses generally.

One of the key things is that, although there is good awareness and the FSB has been paramount in leading on this by trying to make our members but also other small businesses aware that it has been in the offing for a long time and they need to do something sooner rather than later, the understanding of it is certainly not very apparent at the moment. A lot of small businesses probably have not yet even understood that they have to make a choice of pension provider. So although we have just surveyed our members and the results of that will be out within the next three to four weeks, our concern is that the real problems are to come—of course, all that comes just at the time when we have other cost constraints kicking in around dividend taxation and the national living wage, as well as auto-enrolment. That was one of the things that we highlighted—

Q2 David Mowat: So you're saying that it is too early to say, in a way. That is what that answer was. Could the Department have done more in terms of getting people ready for what has to happen in the next—I don't know—18 months?

Mike Cherry: I don't believe the DWP could have done more. We have always highlighted the fact that there needs to be effective communication from the DWP, TPR and the providers. And of course in the interim we have also had RTI come in, so the providers of payroll software have only just really got their act together as well, particularly for smaller businesses.

Q3 David Mowat: If I was to do a survey of your members—or maybe you have. Is there support for this policy? Do they think this is just another Government initiative that means red tape and overheads for them, or do they understand what is trying to be achieved?

Mike Cherry: I think they understand what is trying to be achieved. When you look at the smaller businesses and the microbusinesses in particular, they are meant to have a good understanding of pensions. They have seen the same as you or I on a personal basis—the problems around the financial services sector and the banking crisis that we have all been faced with since 2008. It comes down very much to affordability, not just for the owners and employers but for their staff.

Q4 David Mowat: It does, and if that was going to be a big issue, it would be seen in opt-out rates and all the rest of it, which so far hasn't happened.

Mike Cherry: Indeed.

Q5 David Mowat: May I ask Ms Carberry the same question in terms of the position that your members have taken in regard to this? Do they feel as though they understand it, from what you have heard and know?

Kay Carberry: It is fair to say that most trade union members are either in the public sector or in larger companies, so they will not have suffered from what we are hearing about—the lack of preparedness among smaller companies. That said, there are trade union members in smaller companies as well. Trade union members, trade unions and the TUC are very strong supporters of auto-enrolment and, incidentally, of NEST. Going back to the early 2000s, we were strongly arguing for something similar to be put in place, so we were very pleased to see the NAO Report telling us that, so far at least, this has been a public policy success and has demonstrated value for money.

Q6 David Mowat: Have you come across instances of larger employers trying to persuade people not to opt in?

Kay Carberry: No, we have not, to our surprise. We suspected that that might happen, but our experience is that we haven't seen non-compliance to any great degree, and we certainly haven't had reports of people being encouraged to opt out.

Q7 David Mowat: You mentioned NEST. From your point of view, has NEST been used appropriately? As an option, NEST has possibly been taken up a bit less than might have been expected.

Kay Carberry: From our point of view, where people are not in good occupational pension schemes at the moment—in the private sector or in the public sector—we have encouraged them to use NEST. It is relatively early in NEST's life but, so far, we are pleased with what we see.

Q8 David Mowat: I was getting to the question. In the past I have seen policy papers from the TUC concerned with the high level of charges in the private pensions industry and concerned that one of the reasons why pensions were not being taken up as much as they might have been was because of charge levels—it might even have been a rational decision not to have a pension—and that NEST was one of the policy methods of dealing with that. Do you think that we have made the most of NEST in terms of that, or is a combination of market solutions and NEST right?

Kay Carberry: The advantage of NEST, as far as we are concerned, is that it has a strong public service obligation. The other advantage when we have a more mobile workforce is that NEST will suit people who are moving between jobs. We are looking to the future development of NEST as a back-stop provider. We are not at all confident that, if we achieve another of the TUC's policy objectives to bring more low-paid people within the scope of auto-enrolment, private providers will necessarily be interested in that group of low-paid workers, so we are looking to NEST to provide the destination for their pension savings.

Q9 David Mowat: One of the things you said that is true is that NEST is good if you have an employee who will move a lot of times in their career, although most people are not being enrolled into NEST—they are being enrolled into the private sector. Do you think that what has been put in place is adequate for people who are going to move jobs several times, which people increasingly will? I am thinking about the way that pots follow members, or members follow pots, and all that stuff. It has always struck me as being quite messy and not clear. I am interested in both your perspectives on that.

Kay Carberry: It is messy. We were sorry that the consultation on the question of small, stranded pots was closed down. At the time, we argued very strongly that there should be some way for individuals to be able to consolidate their pots. We also speculated on NEST being the repository of those consolidated pots. We hope that, when the current frenzy of activity in the pensions world dies down a bit, the Government will revive that discussion.

Q10 David Mowat: But it is not there now, is it?

Kay Carberry: Apparently not, no.

Q11 David Mowat: Mr Cherry?

Mike Cherry: Our concern has always been that smaller employers are going to have to make a choice about something that they don't generally understand. Clearly, we are all agreed, both the TUC and ourselves, on the need for far greater transparency and for costs to be minimised as much as possible, in line with Lord Turner's report. What we see at the moment is that NEST needs to be really effective if it is to become the default depositor for small businesses and their employees. Clearly, the FSB has its own scheme that it offers to its own membership, but there is a cost associated with that, whereas there is not a cost with NEST.

Q12 David Mowat: You said a very important thing then, and I agree with it. You said that small employers don't really understand this market that is in front of them, which is true of employees as well, I think; and that historically this industry has prospered due to what you would call an asymmetry of information between buyer and seller. It has been very hard for the punter to really act as though it is a market. I am just wondering whether—again, from what you have seen of small employers who are going to have to make decisions about who they choose—you think they are capable. It is a big ask in many ways.

Mike Cherry: It is a huge ask. One of our concerns at the very beginning of all this discussion around auto-enrolment was that if we could just have a default scheme then it would be so much easier for smaller employers to opt their lower-paid employees into that. Those who wanted something better could go out into the marketplace, which has not, generally, provided for that group of employees—or for the business owners, I might add. If you look back at stakeholder pensions, when that came in there was very low take-up, because generally the industry did not cater for those employers or for their employees.

Q13 David Mowat: A small default scheme—some kind of passive investment with very low costs associated with it: that is actually, I think, what other countries have done, and one of the reasons why other countries have got a better track record than us in this regard. We have gone for the market solution here, in a market that is hard to understand.

Mike Cherry: That is correct, and had NEST been purely a default scheme, rather than having to compete in the marketplace, I think smaller employers would have a greater understanding, and be able to cope a little bit better, perhaps.

Q14 David Mowat: Would you have supported it, if that is what NEST had been—if that was what happened?

Mike Cherry: If it was easier, more transparent, less costly and less burdensome administratively for small employers—

Q15 David Mowat: It solves the problem of people moving a lot, as well, which I don't think this solves at all.

Mike Cherry: Indeed.

Q16 Nigel Mills: Mr Cherry, can you just help me on one question? In terms of size of businesses in the FSB, are they generally several tens of employees, rather than real micros; or do you have a lot of single-employee businesses that are also members of the FSB?

Mike Cherry: About 60% of our membership, which is around 200,000 members, employ people. The average around that on a full-time equivalent is around seven or eight employees. Clearly we have a lot of self-employed and businesses that don't employ anybody; and, as you see, the figure is increasing from the self-employment numbers going up, and the number of small businesses. The majority of those at the moment do not seem to be employing people.

Q17 Nigel Mills: It is really hard to engage with people who are just one-man bands, or who perhaps have got one employee, isn't it?

Mike Cherry: I think there is a difference here between the self-employed who are not catered for at all—and we need to be having a realistic discussion about how they can be brought into auto-enrolment, perhaps, in one way or another—as compared to those who have just, perhaps, one employee, where it really is going to be quite burdensome on the administrative front, aside from the costs and having to cope with all the problems that they are going to be faced with.

Q18 Nigel Mills: Obviously for the Pensions Regulator to be able to effectively regulate a micro-employer they would have to get to them. I suppose they could keep sending very official-looking warning letters out, probably with very complicated language in them. I am thinking about where those people can go to for advice that is not, perhaps, quite so threatening. I just want to work out how many might turn to the FSB in that situation.

Mike Cherry: Clearly, we have our own scheme for all our members. It is a very good scheme, I am led to believe, although there is an up-front cost involved with that. I think the important thing that we would urge everybody to get behind—and that is DWP, the Pensions Regulator and the providers—is how we can ensure that the vast majority of small employers who want to comply are able to comply simply and easily. That is the biggest challenge that we all face, over the next few months.

Q19 Nigel Mills: And do you think the HMRC PAYE tools ought to be a little more helpful in terms of auto-enrolment, linking up and compliance?

Mike Cherry: That is question for others, not for me.

Q20 Nigel Mills: But the FSB hasn't got a view? If you are saying make it easier and less burdensome for very small employers, I would thought it was tempting.

Mike Cherry: If we go back to the very start of auto-enrolment, back in 2005,'06,'07, the suggestion was that HMRC could be used through PAYE to act as the cohort for all this, and of course it did not, so we have ended up where we are.

Q21 Chair: Ms Carberry, there will be union members who work for more than one employer. One of the issues with this is that if you work for several employers part time, there will be no auto-enrolment. Is this something that you have looked at particularly at the TUC? I do not know whether you have got enough members to make a critical mass for you to get any information. Is there anything you can share with us on that?

Kay Carberry: It is something that we are very concerned about. When we give an account of the measures that we hope would be taken to widen the net, that is something that we have talked about and looked at. We acknowledge that it is very difficult, because if somebody has got two or more part-time jobs, they may add up to well above the earnings trigger. That is obviously the problem.

The solution will need to be found to deal with questions such as: if you were to permit those people to be in the system, which employer—would it be one employer?—would be responsible, what would be the level of contributions, and so on? I would not claim that we have got the policy solutions, but it is certainly a problem that we are acutely aware of.

Q22 Chair: Mr Mills started to touch on the link-up between HMRC and real-time information, and it seems to us, as lay people, that there is an opportunity for that information to feed into pensions. I do not know if either or both of you have comments about whether that could be part of the solution to making sure that the taxpayer is protected for the future by getting people enrolled properly now.

Kay Carberry: I am going to echo Mike Cherry's response to that, which is that that is for others to work out in technical detail, but in principle it does seem like an area worth looking at.

Q23 David Mowat: What more could the Government have done, or should it do, from your perspective? We are where we are, and quite good progress has been made, but what needs to happen next? Just carry on? Do you have any advice for them all?

Kay Carberry: The Government is not necessarily intending to just carry on, because there is going to be the long-heralded review of auto-enrolment in 2017. At that point, no doubt we will be consulted and we will be arguing for various measures to be put in place to widen the scope. For example, we will be talking about the earnings trigger, because we would like to see that reduced so that you have more people who are earning less than £10,000 in the scope of auto-enrolment.

We would also like the Government to look at the band of earnings so that the lower level is lower or even removed, so that people can put money in from, possibly, their first pound of earnings, and an employer likewise. We will be looking again at the question that has come up of small stranded pots and people who have multiple jobs. We will also be making arguments about the level of contributions and encouraging the Government to look at some system of escalation, perhaps linked to rising incomes or length of tenure.

David Mowat: Over and above 8%?

Kay Carberry: Yes.

Q24 David Mowat: Mr Cherry, what do you think should be done that has not been done yet?

Mike Cherry: I come back to my earlier point about everybody getting behind this and making sure that small employers can comply and get the right information so that they can easily, or as easily as possible, comply with all the legislation that is coming through and make sure that they start taking effective action now rather than leaving it to the last minute, when the supposition is that a lot will come in all at once.

We would urge that there be no changes whatever until the review takes place in 2017-18 and that a proper and effective impact assessment be carried out at that particular time based on the historic data that will then be available on how both our employees and our smaller businesses have been able to comply, and how we find the system. Everybody agrees that the 8% contribution will have to increase in future. Another question that needs to be asked is around adequacy of savings for what you need for your future retirement.

Q25 David Mowat: Both of you have answered the same way. You have said that up to 2017 this thing is on some railway lines and it is moving to that point. You are both fairly happy with where it is at the moment and where it is likely to be then, and your points are really things that you want to put into that review at that time.

Kay Carberry: Yes.

Mike Cherry: Yes.

Q26 Stephen Phillips: Mr Cherry, on that last point, you said—it seems almost inevitably to be the case—that the 8% will have to rise in future. We are going from 2% to 5% and then up to 8% in 2017. Where do you think it will have to go to in order to ensure the policy objectives are met?

Mike Cherry: That very much depends on how you define adequacy and what people require in retirement, which is based on all sorts of variables. That is not something I am qualified to answer at this stage.

Q27 Stephen Phillips: You also talked about the burdens on small businesses. Do either of you have any indication that one-man bands—self-employed people—have changed their intentions with regard to taking on employees as a result of this policy of auto-enrolment being in place?

Mike Cherry: We have no information that it is acting contrary to what they would normally do, whether they wish to take on employees or not.

Q28 Stephen Phillips: Ms Carberry?

Kay Carberry: Likewise, no information about that.

Q29 Stephen Phillips: Is there any way in which the Government could usefully make changes that would reduce the burden on small and medium-sized employers?

Mike Cherry: We have always advocated that not only the pure costs but the administrative burden associated with auto-enrolment needed to be minimised as much as possible.

Q30 Stephen Phillips: That is a great aspiration, Mr Cherry, but how do you do it?

Mike Cherry: Until we have that review in 2017, nothing is now going to change. We will wait to see how our members and smaller businesses comply, or are able to comply, over the next few months, and we shall be repeating our survey so that we get a true indication of the costs and any burdens associated with auto-enrolment at that time.

Q31 Stephen Phillips: On the basis of the work you have done so far, how much management time is auto-enrolment taking up for, say, a small company employing six or seven staff, which is your archetypal member?

Mike Cherry: The majority of those are only getting their staging dates now, so they will not be auto-enrolling until later next year.

Q32 Stephen Phillips: Any ideas what the burdens will be?

Mike Cherry: Not at the present time.

Q33 Stephen Phillips: I understand the policy is in its infancy, but you say it entails a large administrative burden and cost in management time for small and medium-sized enterprises. It may have desirable benefits, although it has costs associated with it as well, but at the moment you cannot put figures or numbers on that.

Mike Cherry: If I go back to what we said at the outset, our estimation was that it was going to be in the region of around £2,000-plus for that size of small business.

Q34 Stephen Phillips: Per annum?

Mike Cherry: Per annum.

Q35 Karin Smyth: Ms Carberry, I realise yours is a membership organisation, but what do you think can be done for people who are not in unionised employers and who are also on very low salaries, which might be the majority of them?

Kay Carberry: They are obviously in a more difficult position than people who are members of trade unions who have that benefit. They are going to rely on publicly available information. When you ask people in surveys where they get information about employment rights or any other employment conditions from, they primarily look to their employers. This goes back to some of the points that Mike Cherry has made about the quality of information that employers get, because they will be the ones who will cascade information to individuals.

Q36 Karin Smyth: Are you able to help with that?

Kay Carberry: We have put a lot of effort into publicising pensions provisions in general and what auto-enrolment means to individuals by way of our trade unions. It is very difficult, by definition, for the TUC to communicate directly with people who are not trade union members—I have to say that.

Q37 Chair: I will ask this to Ms Carberry to start with, but Mr Cherry, do feel free to answer as well. Is there any evidence that there might be an increase in part-time workers so that employers can minimise their pension contributions and get off the hook, if you like?

Kay Carberry: We have seen increases in part-time working, but I do not think that it is a consequence of such malign intent among employers. There are other pressures in the labour market, especially as we are coming out of recession, that have meant that there has been more part-time working. I would not say that that has been a trend that we have observed even slightly among employers.

Chair: So there may be other reasons for it, but not this?

Kay Carberry: I think so.

Q38 Chair: Mr Cherry, is there anything coming from your members?

Mike Cherry: We are certainly not aware that there is a prevalence of taking on more people as part-timers. What we are seeing at the moment is that confidence still remains relatively high, investment is still continuing and jobs are still being created by our members.

Q39 Chair: We talked earlier about the per cent. increase in contributions. Mr Cherry, I cannot remember whether you thought they should go above 8%, but obviously quite a steep increase is coming and there is some evidence and discussion in the NAO Report about what the opt-out rate might be as a result—people obviously have the chance to opt out later. From your experience so far with your membership, do you have any evidence that you can share with us about whether there is an inclination from employees to opt out if they are on low incomes and are therefore worried about the extra that they are having to put in?

Mike Cherry: Not at this stage, no.

Q40 Chair: So it is too early to say. We are trying to predict too far ahead in the Committee today. That is unusual for us; we are usually a bit behind. Ms Carberry?

Kay Carberry: No, we have not seen that. Obviously we are not arguing for sudden leaps in contributions. One thing that individuals are not perhaps enough aware of is that they can put in more than the minimum. We have been looking at trying to encourage that, for those who can afford it.

Chair: Yes, absolutely. Certainly some of my hard-pressed constituents, with two or three jobs, would not be thinking first and foremost about a pension. That is one of the challenges we still have to face in all this. Does anyone else have any questions for our witnesses?

Q41 David Mowat: A final question: I would be interested to know whether either of you thought that there was a risk of people thinking, “Right, I am in this scheme now. I am paying in 1% and the employer is doing that as well, so that’s my pension fixed and I don’t need to worry about saving in other pensions or anything. I can sleep at night now, knowing that I have sorted it.” Is there a risk of that?

Kay Carberry: I think it is a huge risk. I don’t think that people understand that their contributions are only on a band of earnings, which is one of the reasons why we would like to see the lower level lowered or removed entirely. We are sure that people don’t understand that if they make the minimum contributions, are low paid and are going to be staying at the lower end of the labour market through their entire working life, they are not likely to end up with a very good pension.

Mike Cherry: I think we need to have far greater transparency and better communication from the industry over exactly what adequacy should be when people come to retirement. That is based on a variety of different things at the moment, not least that they need to have confidence in the very word “pension”. We have highlighted that for a very long time indeed.

Q42 David Mowat: A pension pot of £250,000 is probably a bit on the low side, in terms of a realistic retirement income—you know, divide by 25 and that is £10,000 a year—but you need to put an awful lot aside to get any number close to that, don’t you?

Mike Cherry: For the vast majority of our members and their employees, those sorts of figures are way beyond their means.

Q43 David Mowat: Do you think people understand that? What I am getting at is that there is a risk of people being in one of these schemes and thinking that it is sorted, and that they are not going to end up in those types of areas, but actually we just fool ourselves.

Mike Cherry: Absolutely. This is where good, effective communication, transparency and low charges have to come to the fore, to help people understand what it is that they need to do.

Kay Carberry: I agree. I would just say that I don’t think the solution is to abolish the policy, because even if someone is saving only a small amount, that is better than saving nothing. Who knows how pensions policy will develop in the long term? If somebody is in their 20s now and is putting in only small sums, and they end up with a small pension pot, what will their options be 20, 30 or 40 years down the line? The world is obviously going to look very different.

Chair: Absolutely. Thank you both very much for your evidence. It is very helpful to hear from those dealing directly with employees, as we are about to call in the Whitehall mandarins who set up the scheme and are now looking to ensure that it works for the future. You are very welcome to stay for the next panel if you wish, but we completely understand if you have to rush off. The uncorrected transcript will be on the website within the next two or three days, and at this stage our report is likely to be out after Christmas. We will send you a copy in good time. Thank you very much.

Examination of Witnesses

Witnesses: Robert Devereux, Permanent Secretary, Department for Work and Pensions, Charlotte Clark, Director for Private Pensions and SRO for the Automatic Enrolment Programme, DWP, Charles Counsell, Executive Director for Automatic Enrolment, The Pensions Regulator, and Helen Dean, Chief Executive, National Employment Savings Trust (NEST) gave evidence.

Chair: Good afternoon, and welcome to the Public Accounts Committee hearing. As you have heard, we have had our first panel of those at the front line on pensions. We are pleased to welcome Charles Counsell, an executive director for automatic enrolment at the Pensions Regulator, and Robert Devereux, permanent secretary at the Department for Work and Pensions, a regular visitor who is gaining his frequent flyer points with the Committee. Welcome.

Robert Devereux: I am not sure that I want a free trip, thank you.

Mr Bacon: It depends where we send you.

Chair: You don't know what the free gift is yet. You might not want it. An away day with this Committee, maybe. Charlotte Clark is the senior responsible officer—people who we on this Committee like to have in front of us—for auto-enrolment at the Department for Work and Pensions. Helen Dean is the chief executive of the National Employment Savings Trust, the NEST that we heard mentioned earlier—it is not a bird's nest but an employment savings NEST. A very warm welcome to you.

You have heard from our pre-panel when we were preparing for this. We feel, and the National Audit Office Report says, it is pretty successful so far. The policy roll-out has delivered, particularly for a lot of the medium and large employers that have enrolled. Now, of course, we want to talk to you a bit about the next challenging phase of embracing the much smaller employers that Mr Cherry represented in particular, as well as micro-employers, and the policy's long-term impact on retirement income and the interaction with some of the other reforms that are coming along. Once again I will hand straight over to Nigel Mills, who will lead with a question on that.

Q44 Nigel Mills: Mr Devereux, you must be quite relaxed about this hearing. It is all going really quite well, isn't it? Have you learned any lessons from the roll-out so far in terms of how well you can manage a project?

Robert Devereux: I am slightly suspicious, if I am offered free miles and then asked that as an opening question, that there must be some horrible second one to come. Yes, I am very pleased. It is the second or third time that I have turned up in front of this Committee with a good story to tell about what I have learned. We have consistently rolled this out on a piece-by-piece basis, so there has not been a fantastic big bang. We have changed the roll-out once or twice to reflect circumstances and what we are learning. I am pleased with what the Chair has acknowledged about the success so far: 5.5 million people and a savings rate that has risen to 63% is a very substantial achievement. I know you are going to ask me lots of questions about small and micro-businesses.

That is entirely reasonable, but I did not want to let the chance go without saying at least that went well.

Q45 Chair: We will take that as read. We can agree on that point, Mr Devereux.

Robert Devereux: I knew you would take it as read; that is exactly why I just said it into the record. As for the challenges ahead, they are exactly what the Chair said: we have to land the small and micros, and we have to make sure that by the time all that is done we feel confident that we are getting to the right position in the longer term.

I detected the sense in some of the earlier questions that people perceive that all we have done is the larger companies and now we are going to start on the small ones. It is worth recording—you have to hunt around for it a bit in the NAO Report—that we have been at this for the last 18 months, thinking about the small and micros. We have run a pathfinder whose basic results have literally only just come to fruition; the staging date was at the end of June, plus they were allowed three months until the end of October. Would you find it helpful to make sure you understand what the pathfinder was and what we think we have learned, because otherwise you might ask me a whole set of questions—

Q46 Chair: We do know roughly about the pathfinder, but you are welcome briefly to give us the headline of what you have learned so far. Obviously, that is not in the NAO Report, so we would not usually like such information, but on this occasion it is quite relevant to what we were discussing earlier. Is that you or Charlotte Clark?

Robert Devereux: I will let Charlotte tell you what the pathfinder was, then I will—

Chair: But we know that, because it was in essence in the Report.

Charles Counsell: The pathfinder is an important ingredient in being able to set ourselves up for the employers who are to come. The first thing that we learned, which we anticipated, but it is good to see coming through, is that the vast majority of employers want to do the right thing. They are supportive of the policy and of the policy intent. That includes the very smallest employers—the majority of them are supportive.

Specifically what we have learned is that it is important that we tell them that this is the law and that there are consequences if they do not do it. That is a very important message for the rest of employers. They have told us to be direct in our language, but to be simple. If there is one message that I would take from dealing with this group to take forward to future groups, it is to keep everything as simple as we possibly can. We have therefore revamped our website so that it is a much more intuitive process for the very small employers, and it takes them through what is now a simple, five-step process to get ready.

Q47 Nigel Mills: Before we get into the nitty-gritty, Mr Devereux, I was hoping that you might have reflected on some of the other advantages of the project that the NAO cites in its Report

in terms of how you manage big projects—having a core team that stays the same and having a clear objective that you focus on and do not get distracted from. In the way that the project has gone so far, is it one you could learn from in terms of other implementations?

Robert Devereux: As a general rule, I do not gratuitously move my SROs around or set off without their objectives. Absolutely, those are key rules. Sometimes life changes rather more than you would wish, but in this particular case, as in several others, we had a very clear statement of what it is we are after and I happened to be fortunate in having a team that has been the same all the way through. It has gone reasonably well. I do think that the critical thing is doing it in manageable chunks and being prepared to pay attention to what you are learning as you go along. As long as you are in that position of progressively rolling things out, you can learn and do things well.

Chair: So not rocket science then.

Robert Devereux: It's not rocket science, but so much of life isn't.

Q48 Chair: May I be clear, Charlotte Clark, you have been with this from the beginning?

Charlotte Clark: Not quite, not as the SRO. I started in the programme in 2005 and worked in it until about 2009. I have been back as the SRO since 2014.

Chair: So you have been SRO for a year, but involved on and off for a decade.

Q49 Nigel Mills: So the lesson, Mr Devereux, is not that you should get someone other than your Department to implement all these changes—you design the policy and get someone else to do it. That scene you were expecting at the start.

Robert Devereux: This happens to be in a particular part of my Department, which has the benefit of the regulator, so we have used the regulator. We have established and created a new body in NEST. Those are entirely appropriate things to do in certain parts of the business. We are now coming on to doing four-square benefit things—both the personal independence payment and the universal credit have been done wholly in-house.

Q50 Nigel Mills: May we look at the estimates for the initial take-up, opt-out and performance? The performance is significantly ahead of where you were forecasting, isn't it? I think you thought that perhaps 27% or 28% might opt out, but it is a long way below that. Mr Counsell, do you want to explain how you have achieved that? Is that because the forecast was wrong, or is it because things have worked better than they did before?

Robert Devereux: We are at some risk before this Committee. If the numbers had been the other way around, your question would be, "How can that possibly be that far wrong?" As we have documented, the NAO has done a good job of trying to show the many different attempts to arrive at a number—looking at different parts of the world, other people's experience. We ended up with a

cautious number, because we wanted to beat what we put down. In that context, we have ended up with a best estimate of 10% opt-out, rather than something starting with a two. Some things in life are quite hard to guess in advance, and there is no rocket science for behavioural change among low-paid people in terms of pensions. We are relatively close if we started with something beginning with a two and ended with something beginning with a one.

Q51 Nigel Mills: We accept that. I think you are referring to figure 10 in the Report. It looks like there are lots of studies that suggested an opt-out rate of 15% to 20%, and you ended up picking 28%. You hit 15% and revised your estimate for what might happen when contributions start to rise, and you go back to the 28% that you first thought of. Does it not look like you are being a little cautious and perhaps not setting yourself a realistic or demanding target?

Robert Devereux: When I read this through—the small print is in incredibly small writing that I cannot read without my glasses—it tries to explain why these different estimates have a different sense of confidence around them. A lot of the other ones are about systems in other countries and jurisdictions. We made the best estimate we could in light of the information we had. I am pleased we are on the right side of it. I am not sure I deduce much more from it.

Q52 Nigel Mills: Okay, but the flip side of this is that you end up with a much higher tax relief cost than was being forecast. While it looks great from your end—you are well ahead of the targets—from the Treasury end, the tax relief is costing £1 billion a year more than it thought.

Robert Devereux: Yes, but the Treasury, more than anything else, wants people to be saving, and this is significantly more beneficial in terms of how much is being saved. In going into the process, we are looking, as some of the earlier witnesses were saying, at trying to ensure that lots of people who are not currently saving enough for their retirement are doing so. It is a nice thing to overachieve on.

Q53 Nigel Mills: I accept that, but normally when you set targets or forecasts for a project, if you overachieve, it is positive for the taxpayer or the public purse. In this way, by perhaps being overly cautious in what you expected, you created £1 billion of extra cost that was perhaps not being—

Charlotte Clark: We run an assumptions working group across the programme to agree what the assumptions are. The Treasury sits on that group. It has agreed the forecasts and the numbers that we have. We have these discussions regularly, but if you are going to move from your number, you want to move to something better, and we do not know what that better would be for the 28%.

Q54 Nigel Mills: Would you be happy if 28% of people started opting out when the rates start to go up? Will that not call into question the whole policy? I suspect that if you had really thought that a third of people would not save, you might have looked strongly at compulsion—at opt-in or auto-enrolment.

Robert Devereux: That is a fair question. It was again very clear from your earlier witnesses that when we have actually landed this down the railway tracks that your colleagues are now defining, we need to stand back and say, “Where has that got us to, including the increased rates?” If it turns out that it is not achieving everything we wanted, we would have to revisit it, but at the moment, we are in the happy position that we are ahead and we can speculate as to what it might be in three or four years’ time. In not very long, we will know, and at that point we will take appropriate action.

Q55 Nigel Mills: But you think 28% is a realistic and reasonable estimate of where opt-out rates might hit once the rates start to go up.

Robert Devereux: We don’t know, and I don’t know a methodology for knowing.

Q56 Nigel Mills: It is an estimate—that means you do not know.

Robert Devereux: It is an estimate based on what we have seen here, but I would not want to imply that there is some sort of physics behind this; that I can write you an equation and tell you what the answer is.

Q57 Nigel Mills: There is lots of expensive research behind it, though, is there not?

Robert Devereux: No. There is research behind it, but I genuinely do not know where we will end up with this. We chose 28% and we have demonstrated that there is a business case at 28%. It is turning out better at the moment, but we will keep it reviewed.

Q58 David Mowat: Just an observation on that. If you go from the 15% who have opted out currently, roughly speaking, to 28%, and you have 9 million in your scheme at the moment, am I right to say that 13% of that 9 million under your target will opt out? So, 13% of the 9 million people who started with you in the programme will opt out if you end up meeting your revised benchmark.

Charlotte Clark: The 9 million estimate is based on the 28% figure. That is our forecast.

Q59 David Mowat: I thought the 9 million was the current figure.

Charlotte Clark: Our current figure is 5.5 million.

Q60 David Mowat: Ah, 5.5 million. Okay, sorry.

Charlotte Clark: We have still got to do the small and the micros.

Q61 David Mowat: The analysis is the same, though. Of that 5.5 million, you expect to lose 13% when contributions get to 8%.

Charlotte Clark: The original target for the programme was to get 5 million to 8 million more people saving. We have revised that. We now think it's going to be higher at around 9 million, but that is based on the assumptions that—

Q62 David Mowat: Where I was getting to with this is that you have a whole chunk of people who have started whom you, with your target, expect to lose. So something like 600,000, 700,000 or 800,000 people, based on your numbers, will give up after auto-enrolment and will be left with a tiny pension that is worthless or hard to use. Is that right?

Robert Devereux: Your logic is impeccable.

Chair: As ever. It is always impeccable.

Q63 David Mowat: I suppose the corollary is, "Is that a problem in policy terms?" These people are not well-paid. They will have joined something and maybe couldn't keep it up. Where I am going on this is whether we are being too casual if we let them go.

Robert Devereux: We're both talking about a future that we don't know the answer to. All I know at the moment is that—

David Mowat: I'm just using your benchmarks.

Robert Devereux: I know. That's why I said that your logic is impeccable. At the moment, I am at the level of opt-out that I see. You are absolutely right that if that level rises consistent with our estimate, some of the people currently in will depart. When we agreed to do this programme, with the Treasury, it was on the basis that it was still worth doing. You are absolutely right that at that point some people would have been automatically enrolled into something and would have a small pot, so we have to think what we can usefully do with them.

There is an extent to which all these questions, though perfectly valid, are second-order questions when compared with getting millions of people to save in the first place. When I successfully achieve that, these questions—

Chair: Mr Mowat's point is right, though. Getting them in in the first place is clearly an achievement, and there has been success so far. We recognise that the next challenge is more difficult. If people do opt out, you have a double challenge, because you have the people who have opted in once and then opted out. You have to try to get them back in at some point. That's is a challenge that must be addressed.

Robert Devereux: That is the challenge that would have to be—

Chair: The cost will ultimately be to the taxpayer. If people opt in and then opt out quite quickly, their pension, as Mr Mowat has said, will be so small that it's barely worth it.

Q64 David Mowat: I suppose what I am saying is that it may not have been worth it for those 700,000 people, which is quite a large number if correct. We accept that this is speculative, but these are your numbers. Perhaps you should try harder for those who were in it, and come up with mechanisms that mean that they don't just leave. Perhaps you should not just accept the 28% number that you are working to.

Robert Devereux: One of the things that we are doing in a parallel part of the Department is trying to make very plain to people what their expectation of their pension should be as the years roll by, so that people have a much smarter sense, which they do not have at the moment, of how much their pension is actually worth. You can envisage a number of interventions, including explaining to people what they can currently expect to see in retirement and what would be different if they continued with the opt-out or opted in again. A number of avenues are open to us. I do not want to give the impression that we are not interested in keeping people in.

Q65 David Mowat: Just to help me—I don't know the answer to this—is there an option for people to continue at a lower rate? They might say, "I'm opting out now if it is going to be 8%". Is that allowed?

Robert Devereux: That's not the line, no.

Q66 Nigel Mills: Ms Dean, we have not heard from you yet. The whole programme is ahead of target and more employers are complying and more people are joining and staying in. The only thing that is missing its target is people joining NEST. Are you concerned about that? Do you have plans to address that?

Helen Dean: I think we are happy with the number of people who have joined NEST. We have grown very quickly. We have more than 2.5 million members and we are working with more than 30,000 employers now, so the volumes within NEST are strong and in accordance with our original estimates.

Q67 Nigel Mills: In accordance with that? I thought you were a long way behind your original forecast.

Robert Devereux: It is worth being careful about the particular nature of NEST. We set it up because we did not think the market was adequately providing a good, low-cost, quality provider.

Nigel Mills: We get that; I understand that.

Robert Devereux: Having done that and made it clear that we intend this to be successful, it is true that other competitors have come along. I do not think that that, in itself, is a problem.

Q68 Mr Bacon: It is if they start eating NEST's lunch, isn't it? You are not lending £387 million to any of those other suppliers, are you? It is just to NEST.

Robert Devereux: No, I'm not, and I don't think that is an issue.

Q69 Mr Bacon: So they have a special advantage.

Robert Devereux: They do indeed.

Q70 Mr Bacon: Did you have to get state aid clearance for that?

Robert Devereux: I did indeed.

Q71 Mr Bacon: And that was not a problem.

Robert Devereux: No, it wasn't, because actually—

Q72 Mr Bacon: It would be a lot better for NEST if they were the only supplier in that segment of the market, wouldn't it?

Robert Devereux: It would be better for NEST, but what sort of market would you like me to then be—

Q73 Mr Bacon: Well, it is not a proper market because you are stepping in to provide something that would not otherwise be provided. Can you remind us how many millions of pounds you have under management, Ms Dean?

Helen Dean: We have around 623.

Q74 Mr Bacon: Six hundred and twenty-three pounds—no, £623 million. How much would you need to have under management to meet your costs in the current financial year?

Helen Dean: That is not a straightforward question, because obviously that depends, but basically, we have grown very quickly. We have grown our assets under management very quickly. At the moment we are 4% of the way through our employers, so 96% of employers are still to stage. That is absolutely the heartland of NEST's customers, and the contribution levels are still to ratchet up.

Q75 Mr Bacon: That 30,000 represents 4%, is that right?

Helen Dean: Of employers.

Robert Devereux: Of employers; that's not employees.

Q76 Mr Bacon: Yes, that's what I meant. You said 2.5 million members and 30,000 employers. Is that right?

Helen Dean: Yes. In terms of staging—

Q77 Mr Bacon: So when you have done them all, you will have roughly 750,000 employers. Is that right?

Helen Dean: It depends how many employers decide—

Q78 Mr Bacon: I'm not asking you to sign in your own blood, I am just trying to get some rough handle on the size. Is three quarters of a million employers roughly right?

Helen Dean: That's roughly in the right ballpark, but of course we do not know how many employers are going to choose NEST versus another provider. We anticipate that more small employers will come to NEST. That is very much in NEST's heartland.

Q79 Mr Bacon: What would your funds under management have to be to meet your costs? I appreciate that if you had more members your costs might be slightly different—I do understand that—but what would your funds under management have to be to meet your costs? You must have some idea of that.

Helen Dean: That depends on how big NEST becomes.

Q80 Mr Bacon: Yes, but do you have a number at all?

Helen Dean: I think the NAO said that if—

Q81 Mr Bacon: The NAO said £20 billion, didn't it? So you have £19.4 billion to go. That is quite a long way.

Helen Dean: Yes, but in about three years we have grown from £500,000 to £600 million—

Robert Devereux: Those sums of money are of course dependent on contribution rates.

Chair: Can we let Ms Dean finish?

Helen Dean: We started off in 2012 with a very small sum of money under management.

Mr Bacon: Yes.

Helen Dean: We have grown very quickly in just over three years to £620 million-plus under management. As I said, we will start to see that growing much more quickly as we move up through the number of employers using NEST, as we start to see the phasing kicking in and the contributions levels coming in, and as we start to see the restrictions coming off NEST in 2017. That should—

Q82 Mr Bacon: Yes, I am hoping you will grow. You will certainly need to grow to get anything like that amount. Do you have some sense of a projection? Have you assessed roughly when you expect to have funds under management of the order of £20 billion? Do you have some notion of that—an internal calculation or direction of travel that gets you there by a certain point?

Helen Dean: There is a lot of uncertainty in the programme—

Mr Bacon: Of course.

Helen Dean: There is uncertainty in how many employers are going to choose NEST. There is uncertainty in terms of our members and the contributions they make, in the number of members, in the value of their contributions, and in the persistency you were talking about earlier—whether people will stay in and continue to save. There is uncertainty about what will happen in the rest of the market—

Mr Bacon: Yes, I understand all that.

Helen Dean: And in terms of Government policy, which may cause challenges—

Q83 Mr Bacon: Yes, I understand all that as well, but my question wasn't, "Is there uncertainty?", to which the answer is obviously yes; my question was, "Do you have some sort of projection?"

Helen Dean: It is too early. In our view, at this stage it is too early to project and have a view on precisely what day the loan is going to—

Q84 Mr Bacon: I'm not asking for precisely what day. That would be very difficult. But if you are currently at £623 million, and you need to be at £20 billion, you have a lot of growth to do. You have grown a lot from 2012 to now. In fact, the NAO Report says you have only £420 million, and that was published on 4 November. So you have £623 million, and I assume—

Max Tse: That was to the financial year end.

Mr Bacon: That was to the financial year end, so you have grown by another £200 million in the last six or seven months. But, equally, were you to grow by £200 million every half-year—£400 million a year—you would do only £4 billion in the next 10 years.

Robert Devereux: But, Mr Bacon, the contribution rates are going to go up to 8% from much lower, so you can multiply this by that, as well as by the number of employees. So the answer to this question is that, internally, we have done all kinds of projections.

Mr Bacon: That's what I was asking about.

Robert Devereux: What I do not have in front of me is a particular answer. We have done lots of projections. We have consciously said to NEST that we need more clarity, in looking at what actually happens in the next 12 to 18 months, about how much of the market they actually get. I doubt very much if some of the competitors that have joined this market want everybody who is going to be automatically enrolled.

Chair: We heard from our pre-panel that there is a lot of interest in NEST, as there is on the Committee.

Q85 Nigel Mills: The question we are trying to understand is, where are you compared with where you thought you'd be? When you started out three or four years ago, how many members did you think you'd have now and what funds under management did you think you'd have? Are you hitting the target, or do you not have as much as you thought you were going to get?

Robert Devereux: We have fewer people in NEST than we would have had if other providers had not come in—a simple answer to a simple question.

Q86 Nigel Mills: Ms Dean, in response to the first question I asked, you said that you were performing in accordance with your targets. I am trying to square that with your now having fewer people than you thought you were going to have.

Helen Dean: There was always a sense that there would be a range of outcomes for NEST. It is absolutely in the nature of NEST that our role is to have a public service obligation and take on all employers who wish to come to us. But there was always a huge degree of uncertainty about what that would mean in terms of employer numbers. We only ever thought that there was a range of outcomes that NEST needed to be resilient to.

Q87 Nigel Mills: That range is shrinking and going lower, presumably?

Helen Dean: No, I think we are within our range. We are within the range of outcomes—

Q88 Nigel Mills: Except that figure 1, on page 13 of the Report, says that the range for the people saving in NEST was 2 million to 5 million in 2010, but that range has now become 2 million to 4 million. Is that right, or are you now disputing what the NAO have said?

Robert Devereux: That's fine. If I am honest, I think that is remarkably accurate. Let's just try a thought experiment. We have had to create something and to get state aid commissioned for it

because we did not believe the market was going to provide for it. You could plausibly imagine that when you create something that the market does not have, the market then says, “I’ll have some of that action too.” It is impossible for any reasonable policy maker to say that they can imagine having half the business, a third or two thirds. If we said 2 million to 5 million, and it has come out at 2 million to 4 million, that seems pretty close to me.

Q89 Nigel Mills: It hasn’t come out at 2 million to 4 million, has it? That is just the latest forecast.

Robert Devereux: But that’s the point of your question. There is a sense in which I really don’t mind being asked questions about things I could plausibly be expected to estimate in a sort of physics sense. But this is really hard stuff.

Q90 Nigel Mills: But what we were trying to pursue, Mr Devereux, was whether it is realistic to think that NEST is going to be able to repay the loan it has had and become an independent, viable business.

Robert Devereux: That’s not the question you have asked, and the answer to that question is almost certainly yes, because this thing is not proposing to go away any time soon.

Nigel Mills: But we were—

Robert Devereux: The loan is a fixed amount—

Chair: Perhaps you could let Mr Mills finish.

Q91 Nigel Mills: But we were trying to check whether you were hitting the numbers of savers and the number for the funds under management, to work out whether you are likely to meet your objective. It is a little difficult for us to understand if you tell us you are meeting a target and then say you are not, or you have changed the target.

Robert Devereux: I understand. Given that there is a range of outcomes, as we have just established, the speed with which whatever money I have already lent— and will be lending until we break even—gets repaid is going to go to the right. That is absolutely for sure. We have not sought to crystallise our best estimate of when it will actually be repaid. But in terms of whether it will be repaid, let us just think about this. These people have come into a pension scheme. We intend to keep them in. Your colleague said that some of them may disappear, and that is true, but lots of them will continue to save. They are making contributions. They are running a fund here. It is surely possible for them to repay the loan. The question none of us is certain about is exactly what date that might be. I will be a lot more confident about answering that question, when, in 15 or 20 minutes’ time—

Q92 Chair: We take that point, but it is quite in order for Mr Mills to ask questions. As a Committee, we are concerned about a taxpayer loan—state aid. We want to make sure that it is paid back.

Mr Bacon: If you know where they get a loan from without having to pay it back by a specified date, I would be really interested.

Chair: Yes, that would be great. We will all be on to you.

Robert Devereux: That is a fair observation.

Q93 Chair: In terms of tone, Mr Devereux, we are generous to you when things go well, but you should be respectful to questions.

Robert Devereux: Sorry, I am being serious. All the questions so far have been about whether we can predict with accuracy. You have now turned the questions so that it is code for, “Am I going to get the loan back?” The answer to that question is that I have lent a certain amount of money, but I have lent it to a going concern that I expect to exist for a long time. I might plausibly imagine that I will get the money back. You are absolutely right that I am not entirely sure about quite when that will be, because that depends on too many of these variables. You ought to ask whether it is really a loan, and I think it is still a loan because I am expecting everything back.

Q94 Chair: It is a Government-backed loan. That is what it is.

Robert Devereux: It isn’t really.

Q95 Chair: Okay, taxpayer-backed. That is the point.

Robert Devereux: It is not a bad loan. It has not been written down in the books as a bad loan by the auditors.

Sir Amyas Morse: I don’t think they said it was a bad loan; they said it was Government-backed. I don’t think you heard correctly. I know you are not well today.

Robert Devereux: “Backed”—sorry.

Q96 Chair: Is there a connection between the time it takes to repay the loan and the impact on savers in the pension scheme? Does that have an impact on what they get back?

Helen Dean: No.

Q97 Nigel Mills: I am intrigued, Mr Devereux, by your use of the language “plausibly imagine that I might get it back.” I suspect that the Comptroller and Auditor General will have a slightly stronger test in terms of valuing that loan.

Robert Devereux: I am responding in the terms in which you are asking the questions. I am not sitting here and fretting that the loan will not come back.

Q98 Nigel Mills: Okay, you’re happy with the performance of NEST. Shall we move on to the more important topic of how we will cope with rolling this out to many more small employers and what plans you have to achieve that in a realistic and effective timeframe? Is that one for you, Mr Counsell?

Charles Counsell: Certainly. As I said earlier, we are encouraged by the group that had their staging date in June, who are representative of the whole, so we now have a pretty good indication of how employers of that sort will deal with it. In terms of how we approach employers, we have already written to all employers in the country to tell them when their staging date, their start date, for the duties is and to explain what auto-enrolment is about. We write again to each employer 12 months before their staging date, and subsequently at six months and one month before the staging date. Meanwhile, we have a lot of information on our website to help them get through their duties. We have also put a lot of effort into working alongside business advisers and, indeed, employer representative bodies so that we get the message out through them. A lot of employers, for instance, will have a bookkeeper or an accountant, so there will be an existing relationship. We feel it will be very effective if we can also get the bookkeeper and the accountant to make sure that the employer is aware of what is coming.

Q99 Nigel Mills: Do you think that you have enough resource and people to be able to cope with phone calls, email requests and website hits from these employers when they get near their staging date and start to panic?

Charles Counsell: Yes, we think so. Clearly, we will monitor that as we go through the next few months, but we think we have the resources for them. Again, the June group from this year is very helpful because we now understand how many telephone calls and emails we got from that group. Equally, the mailing that we did to all employers gave us an indication of the impact of our communications out to employers. I think we now have a pretty good idea and, working with DWP, we have the resources that we think we need.

Robert Devereux: I believe it is the case—you can confirm this—that it is not as if the Pensions Regulator is trying to recruit literally for the day on which it thinks the demand will be there. Recruitment is going on in advance to give us a bit of space so that we can cope with small fluctuations.

Q100 Nigel Mills: Mr Counsell, how do you know that a business is compliant? They can just self-declare to you, can’t they?

Charles Counsell: They can and, indeed, do. The ultimate part of what they need to do in the set-up is to declare their compliance with us, which is a formal legal wording. That is effective and clearly sets out the consequences of telling us something that is not true. In that respect, it is similar to what you do for tax, in terms of setting out a declaration that what you have said is true.

We also look at patterns within the data. For instance, if we see employers with very high opt-out rates that we would not expect, or very high levels of non-eligible jobholders—that is, people not within the age or earnings bands—we would look into that. We also proactively look at the information we are presented with and, again, we are sampling.

Q101 Nigel Mills: Presumably, if you have 200,000 declarations saying, “I now have a compliance scheme,” and you can see only 100,000 pension schemes being created in the market, you might be a bit suspicious.

Charles Counsell: That would be an indication.

Q102 Nigel Mills: Do you do compliance checks? I assume you look at how many employers pay PAYE and therefore assume that they ought to have a pension scheme. Do you try to cross-refer if someone is paid PAYE but does not have a pension scheme?

Charles Counsell: Yes, we do. We have a feed of PAYE data that comes into us from HMRC, which also tells us who the employer is. It is on that basis that their staging date is created. We then look at the data that sits within PAYE to see what they have told us at the point of declaration. For instance, if they say they have only one employee, but the PAYE data say they have got many more than that, that would raise our suspicions.

Q103 Nigel Mills: Is that an automatic cross-referral system, or do you have to get someone to do it manually on an audit basis?

Charles Counsell: No. The information that comes through from HMRC is automated. We get that on a daily basis, and then we can cross-compare.

Q104 Nigel Mills: Is it a computer system that cross-compares, or does someone have to go and sample audit or something?

Charles Counsell: Typically, we sample audit at the moment. The NAO Report points out that it would be valuable for the Pensions Regulator to have RTI data from HMRC, and we are working with HMRC on that. Once we have got that, the accuracy of the information will be much greater because it will be in real time.

Q105 Nigel Mills: When will you have that data?

Charles Counsell: We are planning, along with HMRC, to have it in the summer next year.

Q106 Nigel Mills: So the end of June or July next year?

Charles Counsell: About that sort of order.

Chair: Summer in the civil service can mean quite a lot later than that.

Q107 Nigel Mills: That is why I was trying to get a date. When people self-declare, do they have to declare who their compliance scheme is with so you can ring up NEST and say, “Does this person really have a scheme that has been integrated?”

Charles Counsell: Yes, we can do. We also get information from the major schemes about the number of people they expect to come through, so we can cross-compare that as well.

Q108 Nigel Mills: Okay. If we are talking about a huge population of people with one or two employees, it is going to be important to have an automated system that tells you that somebody has ticked a box but they haven’t really done it.

Charles Counsell: Yes, that’s right.

Q109 Nigel Mills: Do you think you have enough resource to do your compliance enforcement as well as your helping hand bit? It can take quite a lot of people to keep corresponding with the people who are being a bit slow to comply.

Charles Counsell: We think we’ve got the resources. We’ve certainly got the plans for the resources that we need. It builds up, along with the profile of the number of employers that are coming along at any one time. We think we have the resources. To some extent, the employers who are engaged with the automatic enrolment duties need a bit of hand holding sometimes but they get there. It is the ones who don’t engage at all who need the compliance journey. Typically, they are people we haven’t heard from. If we haven’t heard from them, we send out a compliance notice when we know that they are not compliant, which acts as the nudge to get them to say, “Oh, okay. They are treating this seriously. They know that we haven’t done it.”

Q110 Nigel Mills: You recognise that this should be a journey. For very small businesses that have a lot of demands on their limited resource, you don’t want to be wielding the baseball bat on day one. I presume that you try to encourage them to comply before you start punishing them.

Charles Counsell: Yes. Our focus has been and will remain on educating and enabling employers to get this right to begin with. Clearly, if they don’t, it’s not fair on their employees, so we’ve got to treat it seriously, but in the first instance it will be a compliance notice before we take any further action.

Q111 Nigel Mills: Do you think that the various providers in the market have got their systems and products published as well as they can to make it easy for people who perhaps have one or two employees, who just about use the HMRC PAYE tool to do their PAYE? Is it going to be easy enough for them to use NEST or NOW or The People's Pension, or whoever else?

Charles Counsell: It is coming along. Things have moved on an awful lot in the last six to nine months, with those sorts of providers having online models that mean that people can sign up and do it pretty quickly. I know that NEST launched its latest service release to do precisely that earlier this year. I think employers are saying that it is pretty easy to sign up.

Helen Dean: They are.

Q112 Chair: Ms Dean, would you like to elaborate on that?

Helen Dean: We launched our latest service release last month. What that does is link up with payroll. When we looked at small employers and what they really needed, it became very clear to us that, although small employers very often have much lower knowledge and understanding of pensions, they have much simpler business structures and they understand payroll very well. For them, payroll was key. They wanted pensions to be an extension of payroll and felt really that something very RTI-like was the thing that we should aim for. We have worked with the major payroll software providers in the country. We started with the largest four but we are rolling out more widely now, and they have built a NEST component into their payroll software, so a small employer who is using payroll software can use the data that are in their payroll to create a NEST scheme, and then, setting up the scheme is simply a confirmatory click setting up a direct debit and agreeing to some terms and conditions, so it is very fast to do. That is one of the ways in which we have tried to make it really easy and straightforward for small employers to use NEST.

Q113 Nigel Mills: How does that work with the HMRC PAYE tool, which I sense most very micro people will use?

Helen Dean: The work that we have done with payroll software providers is not the only way you can use NEST. Other employers who do not have payroll software can come straight in to our website and set NEST up on the website. We have done quite a lot of testing to see how long it takes to do it that way. You have to give us some very simple information—about the business, your bank account details and how often you want to pay—but we use that information to create a scheme that, again, you can do a confirmatory click on. If you are doing it that way, we think it takes between about five and 10 minutes to set it up. You have then got a scheme that you can use to enrol your workers into.

We go out and talk to a lot of our small employers to find out how it is working for them on the ground. Typically, they tell us that it takes about 10 minutes a month, or 10 minutes a week, if it is a weekly payroll, to do NEST that way. We offer NEST through payroll, and we offer NEST directly, for people who are very small and want to do it themselves. The other thing we offer is a service called NEST Connect, which is a way of enabling business advisers who are supporting multiple

numbers of employers to use NEST out of a single dashboard, so they can see multiple employers out of a single dashboard.

Q114 Nigel Mills: We get that. I guess the question was whether the HMRC PAYE tool creates any output or something that can be used by NEST.

Helen Dean: No, it doesn't. An employer who is using the HMRC tool would typically come in and go straight on to the website and set NEST up themselves, but as I say, that is not a difficult thing to do.

Q115 Nigel Mills: Presumably that tool would be quite handy. I guess it is just an output that says you have these five employees that you have paid, and that you have paid them this amount over the threshold. That could go into a NEST system and it would tell you how much you are going to pay them.

Charles Counsell: Because of that, we have set up a tool that we have on our website. So if you are using the HMRC tool, it then links you into TPR, and we have then got a tool that sits on our website and allows you to work out the pension contributions, and then, you can put that data, for instance into—

Helen Dean: You can key that data into—

Q116 Nigel Mills: But we haven't yet got HMRC to try and build this into their tool.

Charles Counsell: It is a difficult one for HMRC, because in effect, you have a payroll market and you have a pensions market, and you would be putting something between two commercial entities.

Nigel Mills: We just want the data output, don't we? It is just how much you pay them needs to be—

Q117 Chair: Mr Devereux, have you talked to HMRC at permanent secretary level?

Robert Devereux: I am just trying to work out whether you are asking for the connection to one provider, NEST, or to providers plural.

Chair: No, I think just the same for everyone.

Q118 Nigel Mills: You know, export pension data file, or something; I presume the numbers are just how much you have paid—how much is over the threshold for each employee; and therefore anyone can work out what 1% of that is, can't they, or 3%?

Q119 Chair: I think what Mr Mills is driving at is that Ms Dean has just given a very clear exposition of what is happening with all the private payroll providers; so it is just built into their system. HMRC provides a free payroll system and it is not working for HMRC; and I think the question is why. Have you had any conversations with HMRC about that?

Charlotte Clark: We talked to HMRC about it—about whether expanding that tool was better. We decided that actually doing our own pensions tool was preferable, so that is the tool that is on the TPR website.

Q120 Chair: Have you had feedback from employers who use the HMRC payment system?

Charles Counsell: The feedback we have had so far—I should stress at this stage it is anecdotal because we have not surveyed it yet—has been that they have not found a problem; but we will survey that.

Chair: I think it might just boost the private sector payroll, with software providers, if those are the options.

Q121 Nigel Mills: Just a couple of final questions. It all sounds quite positive doesn't it? But small employer satisfaction rates are perhaps not quite as high as we might hope. Is it 41% of employers who are happy with this? How can you get that up to something higher?

Charles Counsell: I agree we were disappointed with that result. We have since completely changed our web service to small and micros, and we have not yet done the subsequent survey, but we will do. It is worth noting that recently we were ranked as the No. 1 website across Government.

Q122 Nigel Mills: When you take some compliance notice or compliance action, over a third of those who appeal win their appeal. That might be one reason they are not all that happy, if you are sending out compliance letters that are not due.

Charles Counsell: It is worth saying, within that, that it may be that they have won the appeal but it may also be that we have changed the notice. So they are not all revoked—some of them are changed; though I should say that the majority of that percentage are revoked. Two things are driving that. The first is employers that simply do not exist any more, but we thought they did, because they have gone out of business. You will see in the same table that there is a high proportion of employers that have ceased trading. The second is that there are a significant number that do not employ anyone, and we thought they did. Again, the RTI data that we are looking to bring in will, I think, make a big difference to that.

Q123 David Mowat: We are where we are with this. It is going pretty well so far. There is a long way to go. The issue, though, of course, is that in the end judge and jury is whether people are

saving more for retirement in its entirety—not just through this but through every other mechanism. When do you think we will know whether that is happening? Will your 2017 review be directed at looking at that?

Robert Devereux: You are absolutely right. We embarked on this in order to try to get more people saving. There is a graph in the Report on page 19, which shows the extent to which we have already got material changes in the percentage of people in the private sector already saving: so it was 43%; it is now 63%.

Q124 David Mowat: Yes, although in fairness, I have no evidence of this, but if there was a displacement of saving, that would not show up on that graph would it? I don't think it would.

Robert Devereux: Displacement from other forms of—

Q125 David Mowat: From ISAs, say.

Robert Devereux: If I answer narrowly, in terms of whether people are saving in the vehicle that we set up to enable them to save—yes.

Q126 David Mowat: I can see that; and it does show that.

Robert Devereux: We are still, as we have been explaining, at a relatively early stage, so that by the time we get to 2017, and we are the other side of having automatically enrolled people in, that would be a good time to do longitudinal surveys to check exactly what is happening to the world of savings. It is a perfectly fair question.

Q127 David Mowat: One of the things I was surprised about when this policy was coming through—it is very difficult to argue about a policy of auto-enrolment because clearly the level of savings is far too low—was that for it to be effective it is dependent on a reasonable level of charges and on other stuff around it, such as how you handle small pension pots; we have discussed them and there could be another half a million of those, based on opt-outs created by this system. So, there are small pension pots and some of the other abusive—I use that word—behaviour, whereby the market is sometimes used in relation to active member discounts and some of those types of things. I have always been a bit surprised that the three quarters of a per cent. cap on this seemed almost an afterthought; it wasn't announced at the start. For me, the policy was arguably not right without it, given the sort of charges that have occurred in this market, which I do not think is a market, actually, or a functioning market. I am just interested in your perspective on that.

Charlotte Clark: In terms of the charges debate, the introduction of auto-enrolment as well as that of NEST was driving down charges quite successfully for the large and mediums. The charges that were largely being sold at the beginning of auto-enrolment were around the 0.5, 0.6, 0.7 sort of mark. The reason for the charge cap was just a concern that, as small and micros came into the

market, we had to ensure that that cap was there, so that it wasn't possible for them to be auto-enrolled into very high-cost schemes. We weren't saying it, but it was kind of a pre-emptive policy.

As part of that package, we also banned active member discounts, so they are no longer allowed. Hopefully, that should make it very clear to the individual that they will be in a scheme, which, if it is not a low-cost scheme, is a reasonable-cost scheme.

Q128 David Mowat: Many of these schemes are chosen for the individual by the employer, aren't they?

Charlotte Clark: Yes, that's the approach.

David Mowat: Are you comfortable that one of the criteria that the employer uses is the level of that charge? You said 0.5; it depends what is in it, and I will come to that in a minute. But on the face of it, that is not as bad as has happened historically to pensions, when we know that there have been charges in excess of 1%, 1.5% and even 2%.

Charlotte Clark: Internationally, 0.75 is a pretty good charge.

Q129 David Mowat: Yes, it is, depending on what is in it.

Charlotte Clark: Absolutely.

Q130 David Mowat: What is in it? Everything?

Charlotte Clark: That is the total member-borne charge. The only things that can be outside that are very specific things, such as a charge for an annuity—

Q131 David Mowat: What about churn costs?

Charlotte Clark: Do you mean a transaction cost for investment products?

David Mowat: Yes.

Charlotte Clark: We have agreed with the FCA that we are looking to disclose those. At the moment, we are looking at consulting, probably in the new year, about what a definition might be—

Q132 David Mowat: It is great that they have agreed to disclose them and that is a way forward. Do I take it that they're not in it, then?

Charlotte Clark: They're not in the charge cap for that.

Q133 David Mowat: Okay. Is there anything else not in the charge cap?

Charlotte Clark: No. I would say those are the main ones.

Q134 David Mowat: What's the rationale of it not being in it—the transaction costs?

Charlotte Clark: There's no current agreed definition. I don't mean to be facetious, but there really isn't.

Q135 David Mowat: You're right. We've legislated here. My own view is that the industry has played quite a long game on charges, because the longer they can keep things going as they have been, the more money they will make for as long as they can. Therefore, you wouldn't necessarily expect them to volunteer, and they haven't, but we've legislated, you're administering the legislation—

Charlotte Clark: Absolutely. We have agreed that there has to be disclosure by April of this year, which means we need to define and we need to agree those. So, we're on a bit of a journey with transaction costs. I think that the European legislation is being consulted on at the moment and obviously we want to ensure that we are consistent with that as well in future. We don't want two separate charges—

Q136 David Mowat: I think we all agree here, and I'm just making the point again that low transaction costs are fundamental to the efficacy of this system over however many years you do it. Clearly, you are in a position of great power in terms of making that happen.

What about small pots? There will be a lot of those. I don't want to keep going back to that subject, but we talked about the half a million that we may have created already, if people opt out at the levels that they might. We don't seem to have got that very clear, or am I wrong on that? We had one approach—didn't we?—of pots following member, or something, and now we've changed it?

Charlotte Clark: We did. We announced a proposal for pot follows member. The previous Minister for Pensions was very clear that he thought that was the right response. I think it is fair to say that there wasn't general consensus across the industry that that was necessarily the right response. What we have announced now is that rather than try to build something while we are going through automatic enrolment, the wiser thing might be for us to wait a year or so to see what the market looks like post auto-enrolment and to see whether pot follows member or an aggregated model is the right approach for dealing with the issue.

I do not think any of us would doubt that there is an issue with small pots and there will be an issue with small pots, but we do not quite know what it looks like or what the problem is. Waiting at least another year for automatic enrolment to roll out among small and micros to see what it looks like is probably the right decision.

Q137 David Mowat: There are already small pots outside auto-enrolment, aren't there?

Charlotte Clark: Yes.

David Mowat: You don't have responsibility for that. DWP must have responsibility for that in its larger sense.

Robert Devereux: I am conscious that on probably too many questions, from your perspective, we are coming back with, "In 18 months' time, it will be a lot clearer what is going on," but I genuinely think that that is the reality.

Q138 Chair: Can I just be clear that you are planning to do something on the small pots? We heard quite good evidence from Ms Carberry about the challenges there, and we have had other concerns raised. It is definitely on the agenda.

Robert Devereux: Yes, it is on the agenda, but what Charlotte is saying is that actually getting to the right answer, as opposed to the first answer, is probably quite important.

Q139 Chair: I just want to be clear that when Ms Clark says, "We need to look at this," it is not some kind of code for, "We are not going to do anything about it." There is actually an intention of action and decision by Government to deal with this problem, but what it is, we do not know yet, because you are waiting to see.

Charlotte Clark: Yes. What we said was that we are now going to wait for a year or two—

Q140 David Mowat: NEST would have been a solution to this, had it been wider, wouldn't it? Pensions staying with NEST as the employee goes to different places would have been quite an elegant way of it working, had NEST had a bigger market share, if you like. Obviously, if it does not, it does not, and that is a different issue. But I am right in saying that, aren't I? I think that some other countries have dealt with the system that you are faced with by setting up a low-cost, passive supplier—very, very low cost, if you look at places such as Holland and Norway—and saying, "Right, that is the default, guys; everybody use it," albeit by industry or not. However, as you have said several times, Mr Devereux—you have used the word "market", as has your colleague—the concern is that there is not really a market here, because a market implies better information on both sides to make intelligent decisions. There is such asymmetry of information in this market that the temptation for abusive behaviour has been too high to resist.

Chair: There is a lot in there, Mr Devereux. Answer as briefly as you can.

Robert Devereux: There is a lot. The reason we set up NEST was to avoid market failure, which is not the same as saying that we do not think that there is a market out there. We were concerned that there was not an obvious home for some of the smaller employers to have a very straightforward low-cost option. You are absolutely right that we have chosen a model, we have gone to Europe and we have got state aid provisions to set NEST up, but we have not asked to lock out all other possible providers of the same sort of thing. What we said was, “We need low-cost, easy-to-manage transactions.” That is not an unreasonable response.

Q141 David Mowat: Is there a risk that you have made NEST do the bits that nobody else wants to do?

Robert Devereux: That is what market failure activity is.

Q142 David Mowat: Whether NEST is feasible depends a little on whether the restrictions on it are such that it cannot operate.

Robert Devereux: That goes back to the question we were asking earlier. I do not think that that is the position we are in. I think it is perfectly reasonable for the state to say, “We need somebody to do this sort of work,” and we have established and got permission to set up a state body to do it. If other people want to do the same things and meet the same conditions, in one sense I am relaxed about this. It has, indeed, generated the hypothetical problem that I have got three possible bodies in these big providers for these pots, but I am going to have to fix the pot problem anyway, whatever happens. I don’t know how we got into this, but I do not think that that in itself calls in to question the merit of having a single—

Chair: I think Mr Mowat’s concern is about fees in general, and it may be a bit beyond the scope of the exact focus of today, but it is a concern of the Committee.

Q143 David Mowat: It is a concern in that for this whole policy to work—you will review it in 2017—it has to be cost-effective. Because you have taken the choice away from people, you have moved inertia into a different place. If you are doing that in a way that is not good for them, it is very serious.

Robert Devereux: I quite agree. At the moment, my view is that we are clearly demonstrating that it is good, in the sense that many people are now saying that they wouldn’t have done it due to inertia. You are absolutely right; there are all kinds of questions. We have promised to review this in 2017. We have been on a 10 to 15-year journey to make pensions successful. The longevity of the policy is one of the reasons it is more successful.

Q144 Chair: You keep returning to the 2017 review. When are you going to set out the scope for that? How will you consult on it?

Robert Devereux: When we get close to it. I didn't quite understand the NAO's interest in specifying in 2015—

Q145 Chair: We understand it, because we get a lot of contact from witnesses, businesses and individuals wanting to know what questions they are going to be asked well ahead of the Civil Service announcing a 30-day consultation, if I may be so bold as to say that. That is often the way it happens. Would we know what your thinking is by, for instance, next summer? There is no reason, it seems to me, not to be completely transparent about the scope of the review and the timings.

Robert Devereux: I have no intention of saying 2017 because I just want a 30-day consultation, but it is not impossible that things may occur in the next 12 months that would cause me to ask a question I do not yet know, so I don't want to tie my hands.

Q146 Chair: We're talking about 2017. Do you know when in 2017—January? April?

Robert Devereux: I don't.

Q147 Chair: For Ms Clark and her team, and for you, having a programme and a deadline in mind—we won't hold you to it.

Robert Devereux: Your pitch that we really ought to know by the time we get to 2016 is entirely reasonable. All I am saying is that I am not going to choose in November, when we have only had the pathfinder, what the class of questions might be. It may well be that there are some sensible things to learn in the next six to nine months.

Q148 Chair: So we have just had a commitment from you that it will be clearly laid out, in good time, for people to know what is coming before the final detailed consultation.

Robert Devereux: I couldn't possibly disagree with that, Chair.

Chair: Good. We like transparency. Ms Clark, you've got the message there.

Q149 David Mowat: A final question that I asked the previous panel as well—it is very hard to argue against the thrust of what is going on here. We all need to save, and people who were maybe wary of it are doing it, provided the charges are sensible. Is there a risk, though, that people will somehow feel we have fixed something that is not fixed?—"I'm fine now. I've put 1% into my

auto-enrolment pension, so I'll be fine." Do you feel there is more we can do to educate people, so they know that they need to look at what they get every year and see what it means? If there is a displacement of savings, which is where I started off, could that really be quite a problem?

Robert Devereux: You are absolutely right; that is exactly the thing we need to look at. At the moment, people are indeed putting in 1%. They are on a journey to 8%, and we have been asking about what that will do to the opt-out rates. There is always a slight moral hazard that if you put something in people's mind, they think, "Well, I'm covered for that." The ex ante position is that there is nothing in their mind at all, so we are at least in a better place, with 5.5 million more people already saving. You are asking an A-level question, which is, "Are you sure it's enough? Can you do any more? Can you support it?" Those are perfectly reasonable questions that we will return to as soon as we have the first wave of automatic enrolment through.

Q150 Mr Bacon: I have one final question for Ms Dean. You have £623 million so far, which, in fund management terms, makes you a very small player. I'm just wondering where it is. How is it allocated between international, domestic, fixed income, equities, Government bonds, corporate bonds and so on? Where is it at the moment?

Helen Dean: We invest in a mixture of asset classes. We have target-date funds aligned to the different years in which different people will retire, and within each target-date fund, we have a mixture of assets, depending on the level of risk we think it is appropriate for people to be taking at that point in time. I can send you a lot more information on that.

Q151 Mr Bacon: Just a breakdown, so that we can see roughly—I take it this is all public information. Is that right?

Helen Dean: There is certainly no secret about where our funds are allocated.

Mr Bacon: The answer is yes, then.

Helen Dean: It depends on which target-date fund you are—

Mr Bacon: I appreciate that different funds will have different allocations and different maturities. I am not asking for a detailed book; I am looking for a summary over a page or so.

Chair: Just to give us a flavour. One of the things, as we have highlighted, is that NEST is in a market, but is in a particular position as the provider of last resort.

Q152 Nigel Mills: I have one last question. I suppose the elephant in the room is that for this to be a success, we want people to be getting good investment returns on their pensions, so that they are not coming back to us in a couple of years' time and saying, "Why did you make me put £1,000 in this? It's now only worth £800." To what extent, Mr Counsell, do you monitor how well the

big auto-enrolment providers are performing and what they are investing in and make sure it is not too racy or risky? Is that something you try to do?

Charles Counsell: It is something we work alongside the FCA to do, depending on the type of pension scheme it is. The early indications are that the opposite is true; the returns have been good, but it is something we need to keep an eye on. The important thing for us is that there is good governance and administration of the scheme. The market may go down or it may go up, but the strategies and the administration of the schemes must be good; that is the thing we are particularly concerned about.

Q153 Nigel Mills: Can you envisage a time when you issue a notice saying, “Dear unwary small employers, perhaps you shouldn’t be using X pension fund for your auto-enrolled scheme, because we think they’re a bit naughty,” or a bit risky or whatever? Is that something you think you would ever do?

Charles Counsell: It is something we could do. We have not had to do it, but it is something we would absolutely be alive to.¹

Q154 Chair: I have a couple of related questions. We have had evidence suggesting that auto-enrolment is used to support greater financial resilience generally. I know that universal credit is very much at the heart of DWP’s work, and there is talk about financial education in schools and across government generally—educating people to manage their finances better. Is that planned in to auto-enrolment in terms of the advice that employers give to help people understand the impact? I am talking not just about the calculators on their pensions but more widely. Have you had any conversations across government? Is there anything about this that fits into that wider picture?

Charlotte Clark: Not specifically around the auto-enrolment programme, but certainly wider. There is a big debate going on at the moment about the financial advice market review as well as the public guidance review, so there is quite a live discussion at the moment about how we support people to make the right decisions.

Q155 Chair: Do you know if this is included in the lessons about finance in schools?

¹ Clarification from witness: “This statement was correct in response to the part of Mr Mills’ question relating to risky investments. In respect of the wider part of Mr Mills’ question, that is, whether TPR would write to employers in relation to “naughty” schemes, I would like to make a clarification.

TPR has previously written to employers undergoing automatic enrolment to tell them about the failure of the scheme they were using to undertake the proper set up arrangements with HMRC, and the need for the employers to find alternative schemes.”

Charlotte Clark: I think it now is part of the curriculum. It goes in and out, doesn't it?

Q156 Chair: Exactly. I wonder whether this is part of it, because today's 16-year-olds will be auto-enrolled in moments.

Charlotte Clark: Colleagues in the Money Advice Service have recently published their financial capability strategy for the UK. They are currently consulting on how we improve this as we move forward.

Q157 Chair: It seems that if we are to solve some of the problems about drop-out, the earlier-down-the-line stuff needs to be looked at. Someone pointed out to us that since 1997 there have been over 1,000 statutory instruments in 18 years. We reckon that roughly a couple of hundred of those would be the normal uprating ones, but that is still a lot of statutory instruments.

Charlotte Clark: Is that just on pensions?

Q158 Chair: Just on pensions. We have to take some responsibility for that as politicians, but do you have any comment on that, Ms Clark? It is a lot of work for you and your team and for Mr Devereux and his teams. Is there anything you want to say about whether that makes it too complicated? If we are trying to keep it simple for employees and employers, that does not sound very simple to me.

Charlotte Clark: That is a fair challenge. Pensions are complex in terms of the defined benefit, the defined contribution, the auto-enrolment, and what is happening at the moment with pensions flexibilities. I am surprised it is so high, but if I think about it, I am not so surprised. It is a big challenge for us to try and make this simpler so that people can engage with it more. Auto-enrolment has simplicity at the heart of what it is trying to do, but we are dealing with a huge legacy issue as well in pensions. I shall reflect on that some more.

Robert Devereux: I do not know, but there could be a lot of interaction between changes in the tax system and changes in the pensions system.

Q159 Chair: Probably. We have not done a full analysis.

Robert Devereux: Which is the chicken and which is the egg would be a good question.

Chair: It certainly raises a point. The simplification issue and transparency are key, as we have heard from people today. I am sure the issues are important for you, too. If we make it more complicated, that just makes it more complicated for everyone involved. We recognise the success so far.

Nigel Mills: Can I ask about Workie?

Chair: Oh yes, Mr Mills is very keen to ask about your advertising campaign.

Q160 Nigel Mills: Eight and a half million pounds for Workie—is this your attempt to beat John Lewis in the Christmas advert race?

Chair: Was that £8.5 million well spent?

Robert Devereux: I was disappointed that we had got almost all the way through without you asking! We are spending no more on advertising in the current phase than we were spending in the earlier phases. You saw the adverts trying to get large employers during the “I’m in” campaign. We have consciously gone for what the technical professionals call a disruptive campaign, because we need now to get people who aren’t thinking about this subject to think about it. We are spending money primarily on buying space in the media in order for that to run. The particular device we have used, which is to have this very large blue item, is getting people talking. If I told you that we have quadrupled the hits on the Pensions Regulator site since we went live—

Chair: They have quadrupled?

Robert Devereux: Quadrupled, so maybe they know what they are talking about and it is having an effect.

Q161 Nigel Mills: Who chose Workie as the name?

Chair: That was probably below Mr Devereux’s pay grade!

Robert Devereux: It was determined by people who know what they are talking about in the comms world and they are very good at it.

Q162 Chair: Actually, that’s quite instructive if it really has quadrupled the hits; that’s very important.

We want to thank you for what you have done so far. We will be coming back to this often, because it is vitally important to employees in this country and, obviously, to future Governments as they plan for pensions. Watching how it works, how consistent it is, how it’s going is really important. I know that the NAO is planning to look at it again. We will come back to it, too. You talked about 18 months or three years, Mr Devereux. You might have set us targets for when we call you back for a future appearance.

Robert Devereux: Eighteen months should be fine.

Chair: We are also keen to see, of course, how it interacts with other parts of Government policy so that there aren't unintended consequences. Thank you very much for coming along. You have kept us from the Prime Minister talking about security. That is vitally important, but this is also vitally important for the financial security of many of the people we represent, so thank you very much. See you next time.