



Work and Pensions Committee

Oral evidence: Intergenerational fairness HC 705-i

2 March 2016

Ordered by the House of Commons to be published on 2 March 2016

[Watch the meeting](#)

Members present: Rt Hon Frank Field (Chair), Heidi Allen, Mhairi Black, Ms Karen Buck, Neil Coyle, John Glen, Richard Graham, Steve McCabe, Craig Mackinlay, Jeremy Quin, Craig Williams

Questions 1 - 70

Examination of Witnesses

Witnesses: **Rt Hon Lord Willetts**, Executive Chair, The Resolution Foundation (former Minister of State for Universities and Science), and **Rt Hon Steve Webb**, Director of Policy, Royal London (former Minister of State for Pensions), gave evidence.

Q1 Chair: Steven and David, might I welcome you? So that we have you identifying yourselves for the record, although we know both of you, Steve, might you introduce yourself now? I will ask David to do as well.

Steve Webb: Thank you very much. I am Steve Webb. I am now Director of Policy at Royal London, and previously Minister of State for Pensions.

Lord Willetts: David Willetts, formerly Member of Parliament for Havant and Minister for Universities and Science, now a Member of the House of Lords, Chair of the Resolution Foundation and a visiting professor at King's College London.

Q2 Chair: That is a brilliant way of representing your interests, thank you very much. Might both of you begin with a statement on whether you see the intergenerational question as having clear importance and whether it is going to grow or subside?

Lord Willetts: I very much welcome this Committee's inquiry, because I think that this Committee has hit on a very important issue indeed. Its importance is shown first just by public attitude. If you ask people what they are worried about, you will find older people are worried about whether their children or grandchildren will have the same kind of opportunities in life that they have had. If you look at the evidence about what is happening in terms of the two crucial assets people build up during their working lives, both owning a home and having a funded pension, it is much harder for the younger generation to get started with either of those. Then on income, similarly, it does look as if younger people's incomes are not growing in the way that younger people's incomes were

growing in the past, so I think there is a very serious problem. I do not think it is just in the UK. I do not think it is because one generation kind of hates another, but I think too often in public policy we have not thought of implications for future generations.

Steve Webb: I would certainly echo the welcome that the Committee, as well as doing day-to-day scrutiny of day-to-day policies, is looking at the big picture. That has to be right. I think the key point—why this is of relevance—is that in evaluating policy so often we look at this year, now, and we do not even look at the same individual over the course of their life. I guess if I have one plea that I hope will come out of this inquiry, it is that we see people not as a snapshot. When we look at someone who is 60-ish and looks relatively comfortable, I think the wrong conclusion would be because 20-year-olds are struggling to get on the housing ladder and here is a comfortable 60-year-old, therefore we must break the triple lock on the pension or scrap the winter fuel payment or something, not recognising that the 60-year-old was probably 20 when we had hyperinflation in the mid-1970s and 30 when we had mass unemployment in the 1980s. If she is a woman, she may well have started work at a time when there was not even legislation to stop discrimination against women in the labour market. I think the challenge for the inquiry is to see people over the course of their whole lives and then I think you will get a rich and very different picture.

Q3 Richard Graham: Thank you very much. Steve, can I start with you in terms of the state pension and the triple lock and so on? The statistic that stands out is that the basic state pension declined from being 26% of mean fulltime earnings in 1979, before the link with earnings was abolished, to 16% by 2006 to 2008. That does not tell us what happens after 2008, when I suspect earnings may have declined slightly, but was that the starting point for your argument in favour of the triple lock? Can you tell us a little bit about how you arrived at the three particular ingredients?

Steve Webb: Yes, I am very happy to do that. In many ways, it goes back to the fundamentals of what is the point of pensions? The point of pensions for most people, happily, is not to stop you starving, it is so that when you do not have a wage coming in, your standard of living carries on, broadly, or just dips a bit, but does not fall off a cliff. If the state pension is falling further and further behind what people are earning in the workforce, it is less able to do that job. Then Governments decide they cannot afford to give everybody extra, so they means-test and only give it to the poor, then people who have saved get penalised and so on. So a devalued state pension is a big problem, as I think many of us would agree.

The three elements to the triple lock: prices, so that when you are retired and you cannot, if times are tough, do an extra hour's work or something like that. Prices simply keep the spending power of the pension going. The wage link is obviously the point I have just made about linking the pension to what people in work have. The 2.5% that we have discussed before originally came about because of the 75p when inflation was, I think, 1.1%, or something like that, and that turned into what was just felt a sort of derisory increase. The 2.5% is, as it were, the least definitive element of the triple lock. It is the one that you could make a case for 2% or you could make a case for another number.

All I would say—this is my second plea of the morning and it is only 9.40 am—would be not to take the triple lock in isolation, because it was part of a package. Rising state

pension ages, abolishing earnings-related state pensions and the triple lock are the three elements. You cannot in future build up a state pension of £170, £180 or £190. That is gone. You cannot retire at 60 or 63 or whatever; that is going. So the deal now is a lousy pension at 60, which is where we started, or a decent, properly indexed pension at 67, 68 or 69, taken as a package. All the costings into the middle of the century are done on the basis of the triple lock running for a long period of time, and it still is a lot cheaper, the reformed system, than the one that would otherwise have been in place.

Q4 Richard Graham: On the 2.5%, had you known in 2010 that we were going to go through a period of very low, virtually no inflation, would you have made it more flexible? Would you possibly have linked it to something else so that it was not an absolute sum?

Steve Webb: Certainly not in the last Parliament, no, the reason being that if you have had 30 years of decline in the value of the state pension from 1980 to 2010, my worry is that recovering the value through the triple lock was going to be glacial. In a way, a decent rise, getting things moving quickly, was a windfall to get to the policy outcome that we needed. That does not mean you do it indefinitely, but I think making a big kick early on was very important.

Q5 Richard Graham: How does that affect the concept of intergenerational fairness? For example, if you had a period of five, six or seven years of inflation below 1% and pensions going up at the highest of the three items in the triple lock—so 2.5% is by no means the lowest amount it might go up—over a period of time, how is that going to affect the question of intergenerational fairness?

Steve Webb: Again, I come back to the point that the policy has triple lock, rising pension ages and abolishing SERPs as three elements, and I do not think you can take one out and say, “That does not look fair” because it is not on its own. I think the policy that says, “We will not pay you a pension until a much later age”—you read the newspapers this morning, we are talking about significantly later ages—“but when you get it, it will be worth having”. That feels fair to me, not just to the retired population, but crucially to workers, and to women in particular, because for women the state pension is more than half of the typical woman’s income in retirement and will continue to be so for many years to come. If we break the triple lock, water it down or whatever, it will just mean a smaller state pension. If people are retired for 25 or 30 years, that really matters, that indexation through retirement really matters.

If I may just add one more point—I appreciate it is a lengthy answer—the cumulative impact of inflation in a world where the non-state pension people draw is increasingly not indexed at all. That is a really crucial point. In the past, salary-related pensions, my pension as an MP and so on, were index-linked. That is great. In the future we have DC pension pots, we are buying level annuities or no annuities at all. There is no inflation protection on that half, so the inflation protection the state provides is important, more than it was in the past.

Q6 Richard Graham: Chairman, we could go either way here. I would be very happy to ask Lord Willetts a question relating to that, or we could probe Steve slightly more

on the role of the Government in non-state pensions. Are you happy for me to choose which way to go?

Chair: When Jeremy comes in on the tax relief, we might do it then.

Richard Graham: Okay. Can I ask, Lord Willetts, in terms of those answers on the triple lock, you said in your book that the generation born in the 1950s is enjoying between 116% and 118% of what they paid into the system. We might come on later as to whether those in the WASPI campaign would agree with you, but in general for that generation, do you see a prolonged triple lock at the rates that were introduced as worsening the relationship between the generations, or do you accept Steve's points about the fairness to those who are retiring?

Chair: David, before you answer that, could you preface it by telling us how was this decision made in Government? Was there a Cabinet Committee on it and were you on it? Did it come to the full Cabinet for Cabinet approval, or did it just happen through the bilateral between Steve and the Chancellor? We will ask Steve in a moment, but I would just like to know how Cabinet Government works on an issue as big as Richard has told us it is.

Lord Willetts: We did have several discussions in Cabinet about pensions and pensioner issues. I do not recall the triple lock specifically coming up. I think it was reported to us as an agreement that had been reached between DWP and Treasury.

Steve Webb: I can tell you the answer to that question, if it would be helpful. I am obviously no longer a political animal, but I recall that the Liberal Democrat manifesto had the triple lock in it and it was negotiated into the coalition agreement.

Q7 Chair: Right. David, Richard's invitation to you?

Lord Willetts: I do not agree with the conclusions that Steve reached. I understand the argument, and it is correct that so far what has been happening is that although benefits per pensioner have been going up significantly, benefit spending on pensioners in total has been rising much less rapidly because of this effect of the big increases in the pension age. There is indeed a trade-off between personal benefits and total group benefits. However, my view is that it is right that the triple lock be reviewed every Parliament. Of course, in the Conservative manifesto, now Government policy, there was an equivalent to the triple lock for this Parliament, but not beyond that, so it is a legitimate matter of debate.

When you look at what is happening to benefits for other age groups, our estimates at Resolution Foundation are by 2020, compared with pre-crisis levels, working-age benefits will be 9% lower per person, child benefits 12% lower and pensioner benefits per pensioner 19% higher. You could argue that by 2020 there will have been a step change in the value of the pension per pensioner, so one should not automatically assume that the triple lock is repeated for another five years. If ever the pension were getting detached from living standards and falling again, you could reintroduce it for five years, but I do not think by 2020 maintaining significant real increases in pensioners' benefits should be a fiscal priority.

Q8 Richard Graham: Can I just have a follow-up question to that? If you were looking at this issue during this Parliament in terms of anticipating changes after 2020, given the Government's commitment to it as it is now, which element of it would you look at most closely? Because totally unravelling the triple lock suggests a whole sea change of approach towards pensions, an entirely different philosophy etc. The absolute figure, the absolute minimum of 2.5%, is the one that stands out as one that could be reviewed. What is your own feeling?

Lord Willetts: Yes, the way it is structured at the moment, it is what Keith Joseph in a different context would have called a ratchet. It really is a ratchet, where regardless of the state of the economy, regardless of what is happening to other groups' earnings and incomes, the pension just rises substantially. There are various ideas around, and I think this is one area where the Select Committee could help and I would be very interested to see its conclusions. One obvious thing would be to say prices or earnings, but not to have the third element. That is certainly a candidate.

Q9 Neil Coyle: You have both done time in Government. In your experience with departmental policy-making, how is the impact on different generations taken into account?

Lord Willetts: I was regularly faced with the challenge: what does the author of this book "The Pinch", about fairness between the generations, think of the policies of the dreaded Minister for Universities who is doing fees and loans? That question was regularly put to me, so I faced it a lot with my particular area of responsibility.

Q10 Chair: What was your answer, David?

Lord Willetts: My answer was that because we had increased the repayment threshold, the monthly payments that graduates had to make were falling, because the previous threshold was 9% on income above £15,000 and ours was 9% on income above £21,000. As building societies and banks look at fixed outgoings, one of the reasons why we deliberately increased the threshold was to make it a bit easier for recent graduates to get started on the housing ladder with lower fixed outgoings, though of course they pay it back for a lot longer. We were very aware of that, and we regarded the kind of agenda in BIS, investing in science, supporting innovation, as trying to ensure that Britain remained a dynamic, growing economy.

One of the confusions in this debate is that I am a long-term optimist about growth. I do not think that our GDP per head will fall, but I do think there is an issue about the fairness of how that growth is then enjoyed by people at different stages of their lives. We hoped in our interventions and investing in post-16 education and training to help young people start off on better earnings in the jobs market. But if you look at earnings of people in their 20s now, they are low. It is not just that they are low relative to other age groups, they are even low relative to what people might have received when they started in the job market 10, 20 or 30 years ago.

Steve Webb: I have a suggestion for the Committee: one of the problems for Government Departments of looking at intergenerational aspects of policy is the lack of models, trying to think what today's 30-year-old will look like in 20 years' time and all that kind of stuff. DWP has such a model, PENSIM, a pension simulation model, which we used extensively for the modelling of the new state pension. What it does is it takes what they call in the

jargon a synthetic cohort—they make up a bunch of people, they age them, they marry them, they give them children and they kill them off, so I kind of played God most of the time.

Q11 Chair: That was a ministerial decision, was it?

Steve Webb: That is right, yes, “We increased the death rate today”. But the beauty of the model is it takes people over time through plausible—you can vary the assumptions. I had to tell them off at one point for doing me a chart up to the year 2100, because I thought the margin of uncertainty was a bit big on that. The principle must be right, that if Government Departments do not tend to think about intergenerational aspects, that is partly because culturally we do not, but it is partly because it is very difficult to do. Maybe the DWP modelling capacity could be made available to other Departments to model a whole range of policies in a way that does not really happen.

Q12 Neil Coyle: Could that be bolted on perhaps to the equality impact assessment type model, which every policy area is meant to take into account?

Steve Webb: Yes, that is a very interesting idea. Yes, a very good idea.

Q13 Chair: Steve, instead of making up people, we could look at our longitudinal studies and use those, couldn't we?

Steve Webb: We could. As ever, the problem with a lot of those studies is you have a particular cohort one particular year, and you know a hell of a lot about them, but you do not know much about the people five years either side. But yes, use all the data sources available to us.

Q14 Chair: We have three or four of them now, so we could put the whole of them through, couldn't we?

Steve Webb: Yes. But you cannot do that for people born today—this is a forward-looking aspect.

Chair: No, sure.

Q15 Jeremy Quin: I am just conscious that asking this will probably set off an entirely new investigation, but just briefly, David, your comment about real-term earnings of people in their 20s. I think we can take it as a given, but just very quickly thoughts as to why that is the case—technological revolution, globalisation—and why is it that this particular generation is being squeezed so hard, whereas in the past the progression was very apparent?

Lord Willetts: Yes. I would say clearly there are a range of factors. I do think globalisation is crucial. For me, born in 1956, when I joined the labour market you were in a bit of competition with the French, Germans and Americans, but that was it. Nowadays people are in competition with Brazil and India and China as well. Although globalisation has boosted earnings in China, I do think it has probably had the effect of depressing earnings in some of these competitive industries, and I think that is the first factor.

Secondly, especially almost anywhere south of Birmingham, say, housing costs are so significant. When I served on this Committee under your chairmanship before, Frank, one of the things I remember that we looked at a lot was figures before housing costs and after housing costs. When you look at people's incomes after they have met their housing costs, you find in London and the south-east that does bring them down, so very much for younger people, more of these earnings are going on high rents.

Q16 Chair: If I go back before 1956, David, when I was finished at university we interviewed people who we might want to work for. We expected to get a house, we expected to have savings and we expected a lifetime job. The transformation that you have described is huge, in that lots of people are just very grateful to get a job when they have graduated, let alone the period before. That is, in a sense, one of the big changes. I get we need to look at this year by year as a rolling film, but as a snapshot it is dramatically different, isn't it, from where the older generation is compared with the younger generation now?

Lord Willetts: Yes, I completely agree with you. The transition to adulthood did seem pretty straightforward, and nowadays those challenges that I hope across parties we believe in, owning your own home, settling down and building up a funded pension, those things that were pretty much automatic are now massive policy issues and challenges. I think in the long run, a society where people are getting into their 30s or older and do not have a place of their own and do not have a funded pension is one way the younger generation will have less commitment, feel less engaged, feel that they are getting a raw deal.

Steve Webb: Could I come in, because I think there is a danger in this inquiry that lots of things will be assumed to be true that may not be true. For example, is it not the case that we currently have a higher rate of employment than we have ever had?

Q17 Chair: But lower pay though.

Steve Webb: Sure, but you made the point about how hard it is for young people to find jobs, but if you think about when today's old were young, they had 3 million unemployed and massive youth unemployment. It is simply not the case, I do not believe, that today's young people are uniquely—I have not come here to say it is all great for young people, but I think it is much more complicated. You mentioned, Chair, you were a graduate, but of your cohort that made you a minority.

Chair: 3%.

Steve Webb: Yes, a tiny, tiny, tiny minority. These days it will be 40% plus, presumably. Yes, they have to pay the cost. It is just more complicated.

Q18 Richard Graham: No, I do not think we are trying to paint Steve into the corner as being the champion of the old at the expense of the young, and vice versa for David. But, David, what does strike me with the book—and indeed, you have been consistent on this for a long period of time—is that it is easier to identify the issues like globalisation, like housing, but not quite so easy to identify solutions. How do you think a Government can tip the scales, if you like?

Lord Willetts: You are right, it is much harder. I would say that housing and access to housing is incredibly important. For me, thinking back to my time as a constituency MP,

when I started, the local newspaper reported any house building as bad news and any campaign to stop house building as good news. One of the optimistic changes—

Q19 Chair: They were successful, David, weren't they?

Lord Willetts: Yes. Part of the background to my book was going to endless residents' associations, who are absolutely decent people, but almost all aged over 50 and who would turn out to protest about the new housing development. You tried to think, "What is it that I could possibly say that would persuade them that we need to build more houses?" and saying, "You need this for your kids or grandchildren" was by far the most powerful. The reason why, as you rightly said, we can be optimistic, the polling evidence that I take greatest heart from is simply between 2010 and 2014, to social attitude surveys asking, "Do you think Britain needs to build more houses?", the people saying, "Yes, it does" has doubled from 26% to 54% or something like that, which I think suggests this argument can be won. More house building is clearly very important.

In the meanwhile, I increasingly think for younger people, the way they are treated by landlords can be quite scandalous. I am shocked by the number of conversations that 20-somethings have about extortionate landlords and appalling letting agencies and things. For the pension, the other big asset, auto enrolment, has started. This is a big year for auto enrolment as it spreads out much more widely. One could imagine ways in which you could increase matching contributions or create other more flexible savings arrangements alongside it to make it easier for people to roll up a funded pension. Then you get into training and skills as well. There are things that could be done, and then what this Committee is looking at, a fair balance in benefit spending between people at different stages of their lifecycle.

Q20 John Glen: Isn't the crude reality though that despite a very robust and deep intellectual argument about the intergenerational challenges, the bottom line is that the political imperative around propensity to vote among older people trumps any analysis that either of you have? At the end of the day, the powers that be in politics say, "We know that this cohort is more likely to vote this way or the other, so we are going to have to weight the offer". That is the bottom line. We can discuss this as long as we like, but you know as well as I do that that is the imperative in politics.

Lord Willetts: The worst advice young people ever got was Russell Brand telling them, "Do not vote". That was such bad advice, when in reality you are right, the advice is the opposite.

John Glen: I think he advised them something else afterwards.

Lord Willetts: We will not comment on that advice, as this is a cross-party occasion. Yes, it was also his second-worst advice. Of course we are all realists, but what I find, and it is the reason why that housing polling evidence was encouraging, I do think older people worry now about their children and grandchildren. We partly got into this mess because we just did not think generationally. We did not think when the pensions were being regulated more and more heavily, "Does this mean that there will not be any funded company pensions for the next generation?" I think that when you get people into this cast of mind you can win them over.

Q21 Craig Mackinlay: Just to press a little bit on Jeremy’s point about why we are where we are today based on what happened in the past, I have a view that in the 1970s and 1980s, big inflation years—I know that house prices are more of a multiple of earnings now than they ever were—but do you think the banks were a little bit laissez-faire, “Never mind, because the bulk of mortgage is going to be diminished over an inflationary time”, so they were probably a little more coming forward in allowing people mortgages?

But there is one aspect that I do not think we are remembering here, that there is going to be a very big inheritance boom for many people that was not there in the past. There is going to be a substantial inheritance boom. I am not sure that is ever factored in, the golden oldies now will be dying in due course and leaving substantial assets, probably more in real-terms value than ever before. I do not think we are quite there, but I will throw that in as a thought as to where we are today.

In terms of this intergenerational unfairness that is perceived, are we doing worse than other countries? There was always the perception years ago that British pensions were pretty austere compared to foreign countries. Is that true any more? Are other countries doing anything to address where we are today in terms of this increasing perception that the golden oldies are having a pretty good time of it and getting more out of the system than they have put in?

Steve Webb: Yes, a couple of thoughts. First of all, on your inheritance point I think that is critical to this inquiry, because again the danger is you look at the 65 or 70-year-old with bucket loads of housing equity and say, “That is not fair, because younger people do not have it”. But unless they consume the housing equity, which is remarkably difficult to do, it will end up in the next generation. Again, looking at who has the equity now does not necessarily give you the right answer. If you thought older people are just going to gorge on their housing equity, then you have a real problem. You have an issue anyway, but inheritance clearly matters.

In terms of the international dimension, I think the Dutch experience is quite interesting, because they, in their pension arrangements, have had quite collective pension arrangements that have allowed a degree of smoothing between generations. What has happened in the UK, in the late 1960s to 1970s, the peak of final salary pensions promises were made. They were not unfunded promises at the time, the money was put aside and it all seemed fine. Investment growth was going to pay the bills. What happened was investment growth dropped, we all started living longer, Governments put regulation on and so on and so on, so the cost of the promise went up and the ability to deliver it went down. Suddenly there is this unfunded promise that cannot be met by the people who are already pensioners, because they are pensioners, so it has to be met by the workers.

In the Netherlands there is flex, so that post-retirement you can get, for example, inflation in a good year, but if money is tight in the fund, you do not get inflation. I know “collective” sounds a bit Stalinist there, but the idea of big pooled smooth pensions helps to ease these intergenerational tensions. We have legislated in the UK in 2014 for collective pension schemes. The David Blake report from the Labour Party that is out today, he is recommending this sort of collective idea. That would help, I think, with this intergenerational inflexibility.

Chair: Before we go too far down this road, might you come in, Mhairi, because that will widen the debate out?

Q22 Mhairi Black: If we accept that the intergenerational trend of improvement in wealth and income has stalled, we have some other folk who have said that both inequality and redistribution within generations remains much greater than between generations, the circumstances of your birth, who your parents are, education, gender and things. Do you think that intergenerational distribution of wealth and income is a more pressing issue than disparities within generations?

Steve Webb: Personally I do. Someone was quoted the other day as saying, “At 64 I was a benefit scrounger, at 65 I was a national treasure”. Suddenly all pensioners, we see everybody as the same, and we are hugely diverse within generations. If we just say, “This lot are fine and this lot are terrible” we are missing a whole lot of colour and life experience. I keep banging on about this, but I think the gender that I mentioned is crucial here. The experience of older women, of older widows, is pretty tough. I do not for a second want to say that life is great for young women, but if you think of pay discrimination, the data on pay discrimination is quite astonishing. For women in their 20s and women in their 30s there is no pay differential between men and women. You would not think that, would you? There is at 40 and 50, for all sorts of reasons, whereas the women who are now 60, when they were 20 and 30, they got married and they were thrown out of the pension scheme.

Q23 Chair: But, Steve, that is partly because we have pushed down male wages. It is like housework is more evenly shared now because women do less housework, not because the men are doing more of it. Your figures on pay are correct. It is not because we have lifted women up so relatively, it is that we have pushed male rates down.

Steve Webb: But we judge ourselves against our contemporaries, don't we? If you are a woman who was a young woman in the 1970s and 1980s, you would look at your male contemporary and say, “Why are they getting more pay?” whereas young women today on average are not facing that difference.

Lord Willetts: I would make three points in response. First of all, if you look at historically how we have thought about Britain, we are massively sensitive now to issues of difference between ethnic groups, gender and social class. I do not think until recently we were looking at society through the prism of different generations. It goes back to Mr Coyle's question about equality measures: at a minimum we should be thinking about that angle as well. When I wrote my book, I could not find any previous book that looked and went through the prism of different generations.

Secondly, it does matter if you want to understand intragenerational equity. If the only way to get on to the housing ladder is basically to inherit wealth from having a relative who is already on the housing ladder, that in turn is bad for social mobility and opportunity.

Thirdly and finally, I do think that even groups who are otherwise advantaged, people in their 20s and 30s who have had a decent education, whose parents owned a home and everything, do find it tough and it is right that we should think about them. I think it has been missing. It is a crucial factor in Britain. It is not the whole story, but it is a crucial factor that has been missing and it is great this Committee now wants to focus on it.

Q24 Mhairi Black: Do you think there is a risk though of sort of using a brush just to sweep over a whole generation? Because the Ready for Ageing Alliance wrote a report called, “The myth of the baby boomer”, pointing out that “baby boomer” is a term used to describe a generation, but in actual fact if you look closely at it, there is a lot of different lives and different levels of equality within that generation, so it can be quite a broad statement.

Lord Willetts: Of course there are individual stories. In fact, I often now get letters in copperplate handwriting in biro on Basildon Bond notepaper by people writing and saying, “Dear Mr Willetts, why do you think I am rich? I am not. I have had a tough life”. Of course within any group you can find people who have had tough times, as against more advantaged, but it is useful to look at averages and median incomes. The overall picture, I have to say, is overwhelming, that if you are aged roughly between 50 and 70 then the chance of you having a funded pension are far greater than for any other age group; your chances of owning your house are far greater than for any other age group; the chances are you have quite possibly paid off your mortgage. When you are trying to construct public policy, you are entitled to look at averages.

Q25 Chair: Before Steve comes in, if we look at the data on pensioner poverty, when all three of us started debating this issue, pensioner poverty was the major issue if we were looking at poverty data. While it is true there are still too many poor pensioners, poverty is now not concentrated among pensioners, it is among the working aged. Would you agree with that? That is because Governments change policy.

Steve Webb: Yes, we have made huge strides in that area, but it comes back to my point that the goal of pension poverty policy is first to prevent destitution. Secondly, it is to enable people to maintain their standard of living in retirement. If you roll forward from where we are, all the stories in the papers today, the report that Royal London did was saying, “If you just do what the Government says, if you put your 8% auto enrolment in, you get a full state pension, how long would you have to work to get the sort of pension that your parents have?” They come up with numbers of 77 and all this kind of stuff. The moral of that story for me is not that people should or will work to 77, it is that the antidote to “work until you drop” is “save more now”.

For me, the crucial policy implication for this Committee and the Government is there is supposed to be a 2017 review of auto enrolment. What it has to cover by law is almost nothing: it is the NEST constraints and they have been fixed. The 2017 review should focus on one issue, which is how do we get beyond 8%? If we do not do that in 2017, then when we get to 2019 it is too late, because it will take years to do it. That is not, in my view, about higher mandatory contributions. It is about saying, “When you get a pay rise, a bit more goes into the pension”. If I could say one thing, I think when people see headlines saying, “You are going to have to work until you are 81” or whatever it is, they just get under the duvet and they give up. We cannot allow that to happen. What we have to say is, “Incrementally move in the right direction”. I have done interviews today and people have said, “Young people have no spare cash”. Lots of people have no spare cash, but when you get a pay rise you have not spent it yet, so if when you get a pay rise a bit of the pay rise goes in your pension and you gradually get to the right level, that is the way to fix this problem.

Lord Willetts: Can I come in? I completely agree with you, and I think there is a very simple account, which is we have, through public policy, tackled the problem of pensioner poverty. We do not want to go backwards, but now there are other problems that are more significant, and the weight of effort should shift to a different area.

In terms of looking beyond the overall categories, one point I would make is that Steve just slipped between talking about pensioners and talking about people who are retired. It is worth remembering, going back to the earlier exchanges about who has the work, there has been virtually no increase in employment for young people for decades; there has barely been an increase for middle-aged people. The surge in employment has been among the over-60s. There are lots of pensioners who are also working. That is where the labour market flexibilities have really had an effect, and indeed one quarter of all free pensioner bus pass journeys in London are older people travelling to work. I think that is a fact that we should remember.

Q26 Steve McCabe: I wanted to ask about this inheritance bonus idea that Craig picked up. Isn't it the case that that is very unevenly distributed across social groups? Although, Steve, you said that people would not necessarily gorge, presumably things like the cost of social care will eat that away for quite a number of social groups. I do not know how much is being done around this, but I am a bit anxious that the Committee should not fix on a rosy picture there. I was just thinking, when you talked about the idea of people gorging on it, the release of the pension pots, one fear that has been expressed is that may well stimulate exactly that kind of behaviour.

Steve Webb: You are absolutely right that the housing equity is skewed, it is skewed regionally and it is skewed by income. Of course, that comes back to Mhairi's point, which is if you have a mum or dad or a grandparent or whoever with a good amount of housing equity, then in your generation you are in a very good place. The whole generation is not, but you are. The differences within the generation are very significant. Although the Equity Release Council do a figure every quarter about how it is booming, it is still tiny, it is still absolutely tiny. In theory, people can downsize, but they do not very much until they are forced to, much later in retirement. So equity tends not to be a source of pension, though people think it will be. You do not want to move out of the family house at 65, and is there anywhere local where you are still in touch with your friends that you could move even if you wanted to? It does tend to stay trapped. A bit of it comes out in social care, and again that is very skewed, because most of us, we just drop dead, we do not end up spending five years of our time in a care home. A minority have a huge cost, so it is very skewed. Again, that is another reason why, looking within the generation, who is most likely to need long-term social care? Does that overlap with housing equity? These are huge issues for the second edition of David's book, I think.

Q27 Neil Coyle: Linked to that point about the number of pensioners who continue to work, is there a case for those working pensioners to continue to pay national insurance?

Lord Willetts: I think that it is very odd that pensioners do not pay national insurance.

Q28 Neil Coyle: Yes or no.

Chair: David, you do not stand for election, you can tell us what you really think.

Lord Willetts: The Treasury are currently doing an exercise on how they can align better income tax and national insurance, and one thing that they could do—and there is a strong case for this—would be to expect employees in work to continue to pay national insurance contributions, regardless of their age. One reason why I paused was that, oddly enough, the work that we have done at Resolution suggests the amount of money there is less than you might imagine. One of the underestimated side effects of increasing the pension age is it is bringing more people into national insurance. From memory, I think the estimate I saw was the revenue from this would be less than £1 billion, so any politician has to balance their revenue versus the politics. But yes, I think if there are two people side by side doing the same job and earning the same pay and one of them has deductions 11% higher or whatever just because they are under pension age and the other person is not having that deduction, that is very hard to defend.

Steve Webb: I think it would be a terrible thing to do, levying national insurance. The reason I say that is we want older people to go on working.

Q29 Neil Coyle: But do you think that would be a sufficient disincentive to stop people working?

Steve Webb: It is all at the margin, but it is 11% or whatever the rate is these days. The whole thrust of Government policy is there has been too many people stopping work too soon. If pension ages are going up and we want people to perhaps combine a bit of work, a bit of pension and all the rest of it, do some part-time work and then we say, “We are going to take another 10% or 11% out” that seems to be entirely the wrong direction to be going in.

Q30 Neil Coyle: We certainly should not be creating disincentives to work, but I am just not convinced there is an evidence base to suggest that sufficient numbers would stop. We could have a variable rate.

Chair: Yours is a straight Beveridge position, isn't it? We got into the problem with women's retirement age being different, because this was the big sugar daddy to get them back to work during the war and we are now having to deal with it.

Lord Willetts: But Beveridge had a retirement condition. The pre-Beveridge system did not have it. Beveridge introduced a retirement condition, which in the 1980s the then Conservative Government removed. In the old days it was the earnings penalty or whatever, if you were earning you lost some of your pension. We removed that in the 1980s, so in Britain there is not a link between pensions and a requirement that you not be working, and I think the incentive is for people to carry on. I would love to cut 11% off the deductions that everybody has in their pay packets, but doing it for one special group I think is hard to defend.

Q31 Heidi Allen: My question feels a bit narrow, so if you do not mind I am going to open it out a little bit.

Chair: Please. I could not stop you anyway.

Heidi Allen: No, there is that. I think my question is the most leading on the order paper, which is asking the question about Government welfare and pension policies, how

much have they driven this intergenerational perceived lack of fairness. I think we have flogged that one quite a lot, so I am interested in generally what Government policies you think have improved or driven it. We have touched on housing supply and David talked about globalisation. So just generally your views on Government policies, have they helped or hindered this problem?

Steve Webb: A couple of thoughts, just responding to the narrative John raised about chasing the grey vote and so on, if you look back at the last Parliament, the two biggest things I could think of with the most noughts attached to them, one was the income tax cuts, which were not just for working-age people, but they were for working-age people only, and pensioners had their tax allowances frozen, the so-called “granny tax”. So £1 billion or so was added to pensioner income tax bills by freezing their allowances, and over £10 billion a year went to the working-age population. If the last Government was trying to do its bit for the grey vote, it slipped up on that one.

Then likewise interest rate policy, we have had seven years of next to nil interest rates. It has gone through in annuity rates as well, although we relaxed the rules there, but if you happened to buy an annuity at a time of shockingly low annuity rates, you were stuffed for the rest of your life. All right, not everybody has a mortgage, but the people who have the biggest mortgages are in their 30s. There has been a massive transfer of wealth from the elderly to the younger, not the 20-somethings, I grant you. Again, I think this is a mosaic. This is not a single narrative, in my view.

Lord Willetts: I think we have covered a lot of the important areas. The one I would add, which may be a bit harder to pin down, but quite often policies in areas such as housing or education are very much focused on specific age groups and have the result of reducing the amount of intergenerational mixing. For example, if you look at the allocation of housing, and social housing in particular, you will find housing estates that have concentrations of younger parents and kids with very few older people living in the area. This is a problem that I was discussing with Vince Cable the other day, and sadly, this problem happened in our watch. If you look at what has happened, mature students at university, part-time students—unanticipated, we did not want this effect—that was the one group where the fees and loans system put them off, so we have had a decline in the number of mature students going to university.

In places where different generations mix, if you look at the UK social attitudes evidence, we are more divided by age. We are more likely to work alongside people our own age, study alongside them, have houses with them, have accommodation alongside them, and that does make it easier for these kinds of pictures of different age groups to build up, including, I think, often very unfair caricatures of what young people are like.

Steve Webb: Can I just add one point to that, if I may, because normally the National Pensioners Convention gave people like me a hard time, but their strategy on this issue is quite surprising, because rather than just bang on for pensioners, they have specifically allied themselves with young people’s organisations, so that rather than have this kind of battle, they have said, “Our generation do care about succeeding generations”. I do not know whether you plan to have them in, but they are not saying what you would expect them to say, which has not always been the case.

Lord Willetts: A fascinating group is the Grandparents' Association, where there is a long-standing issue, and they may be making some progress at last. It is incredibly hard for grandparents to adopt a child if, for whatever reason, there has been personal tragedies. Social Services treated the grandparent just like a stranger; they had to make the case. There are lots of areas where you could attach greater weight just to the connections between the generations, even within an extended family.

Q32 Heidi Allen: Can I ask a very quick question around the benefit end of the equation, because we have not talked very much about that? We have talked an awful lot about pensions. What about our policies around benefits? I suppose I am thinking working-age benefits. What is your view on whether that has helped or hindered this intergenerational unfairness?

Lord Willetts: Steve was eloquent earlier about the case for the triple lock. One of the reasons why I think it is hard to sustain that post-2020 is that given there is fiscal stringency—and fair enough, that is the policy—and the benefits budget is being restrained or even cut, then there is an important issue about how you distribute those reductions fairly. So far, by and large, the different age groups have not done too badly. So far working-age benefits per person, partly because for several years at the beginning of this decade wages were barely increasing and inflation was a bit higher, have not suffered massively. But there clearly are projections on certain policy options where over the next five years or so you do see a very big divergence between per head pensioner benefits and per head working-age benefits. I think that will also raise questions about fairness between the generations.

Q33 Heidi Allen: So far we have got away with it?

Lord Willetts: So far, yes. But that is why I do think the environment is changing now.

Steve Webb: The only thing I would add to that is I do recall that in the DWP there was a certain focus on work and, yes, of course, net £12 billion a year or whatever the number was came out of working-age welfare, no one can deny that, but if the long-term reform agenda is successful in enabling people to get to work, to work more and so on, then in the long run that is far more important than benefit rates being £2 higher or lower, if that proves to be the case.

Q34 Richard Graham: I am interested in this discussion about the extent to which we want older people to carry on working. I think Steve made the case for it, and we can all think of examples in different workforces where experienced people who stay on working after the previously assumed age of retirement, possibly in a part-time capacity, often in a mentoring or a training role. It is particularly relevant in sectors like engineering where there is a slight shortage of people in the generation below them, which is perhaps less true in the House of Lords. While Steve was making those points, David, I sensed from your body language that you were not quite so convinced about this. Do you come from the school of thought that argues that the hazard of having people working much longer, well into their 60s and perhaps 70s, that they are effectively acting as what I think we used to call in the Conservative Party as bed blockers for the next generation to move up and see the increases in salary and responsibility and so on or do you see this as not a sort of zero-sum game?

Lord Willetts: In the very short run, the lump of labour fallacy is true. In the long run, I am an optimist, and people from different ages should all be able to find jobs in the workforce. We did, in 2012, suddenly remove all concepts of retirement age from labour law, at the very year that the 1947 baby boomer men were going to reach the age of 65 and face retirement age. We were comfortable with the retirement age system until the baby boomers were going to be affected by it. You could argue that to do that when you were in a recession probably meant that at the margin some companies held on to older staff rather than recruiting a younger one. In general, as I say, there should be space in the labour market for everyone.

I think the reason why my body language was conveying disagreement is I just think older people working is by and large a British success story. Older people are working; they are very active. Our problem, if anything, is disabled people and to some extent younger people, but the surge in pensioner working shows no sign of abating. That is not something we need to worry about.

Q35 Richard Graham: Your point therefore on NI is that that would give greater equity because pensions are being paid by the next generation?

Lord Willetts: Yes. I think that you do not need that special NI treatment in order to give reasons for older people to carry on working. If anything, in the different context of the pensions debate, I think that with the removal of any concept of retirement from labour law there will be increasingly uncomfortable conversations where employers try to work out how they can persuade someone to take retirement and will be offering them big severance packages because otherwise they will not leave. I think that is much more likely to be where the pressures are felt than people saying, “I am going to stop work now because I am going to carry on paying national insurance”.

Q36 Richard Graham: Just one additional point to that, David, if I might. There is still a small surcharge for pensioners over 80, which has not moved for a very long time. Is it time we got rid of it?

Lord Willetts: It came in in the 1970s. It was Keith Joseph who did that, wasn't it? It was five shillings and it still is. I can report to this Committee that I fought the 2005 election as the shadow Secretary of State for Work and Pensions with a package for incorporating that higher payment and the winter fuel payment and the TV licence into an aggregated single pension. There may be people who remember that coming up on the doorstep, so one has to be careful in this territory. I still think that it was the right thing to do, but it became the basis for terrible scares and you will be surprised how these little things can be the basis for a scare.

Q37 Richard Graham: Steve, what do you think? Because more and more people are going to live to be over 80.

Steve Webb: I did want to get rid of the 25p addition, because I used to get letters every week saying how absurd it was. I had two options. One was to level up and put another 25p on the under-80s pension, and the answer was, “We have no money. We are trying to save billions over here” and the other was to abolish it, which generates the headline, “Skinflint Minister takes pennies off elderly pensioners” and it just felt—like all my 27 predecessors—not worth the bother.

Q38 John Glen: One of the responses you have from senior citizens is, “We have paid in all our lives. We expect a decent pension and you lot should not be tinkering with it” yet of course some of the additional payments, the winter fuel payment, the free television licence, all came in in 1997 to 2000. They were not part of the social contract from contributions made in previous parts of working life. How can they be justified? The argument that is often used is that the cost of doing any sort of means testing is prohibitively expensive, so we keep it. I suspect the politics of it are more significant, but we did seek to do means testing for child benefit, effectively. If there was one high rate payer in a household, we stopped that. Isn't that an example where there is a clear discrepancy? So those two points, one is about the social contract being changed and then presented as normative, then secondly, the issue between the treatment of child benefit.

Steve Webb: Let me give you a big picture answer and then a slightly more detailed one. My big picture answer would be there is a real danger we fixate on these bits that are on the edge. The winter fuel payment is £2 billion or whatever, that is not quite yet a rounding error in the DWP, but because it is never going to be increased it will become a rounding error. If we are going to focus on it, let us focus on the £100 billion we spend on the pension, not the bits on the side.

What tends to happen with these things—we have talked about the 25p—the £10 Christmas bonus was double pension at Christmas when it came in, because the pension was £10. It has not changed in 32 years. What tends to happen with these things is they come in as a gimmick, they stay and get eroded and eroded. I think they are a bit peripheral. The winter fuel payment is £2 billion or whatever the number is, it is still serious money. What could you do? The difference with child benefit is you have a lot of working-age higher rate taxpayers. You have very, very few pensioner higher rate taxpayers. I forget the exact figure, but it is like 4% or something like that, so you get no money. The administration of doing it through the tax return and so on, you would almost raise no money. You could tax it, but half the pensioners pay no tax. The standard rate is 20% so you would only get 10% of the money back. Most pensioners do not do a tax return, so what would you do? In Opposition principally we looked at all these options, but relative: you either have it or you do not. If you faff around at the edges you might shave the odd bit around the edge, but it just does not seem where the action is to me.

Lord Willetts: That is a fair point and I think that is the problem with trying to means test it. There is a very interesting debate now that the BBC can have about the TV licence, because again it is an extreme example of the phenomenon we are talking about. Younger people do not watch much TV; older people watch a hell of a lot of TV. This is a system now where very clearly younger people, their payment per hour of TV is very high in order to cover a different group, who are by and large the consumers of TV. I think there is an opportunity for the BBC to get into this debate when they have the flexibility, when they take control over this benefit. I look forward to them leading this.

Chair: Do you think Lord Hall should be one of our witnesses, David?

Q39 Steve McCabe: I wanted to go back to the idea of how fair the contractual arrangement is at the moment. If we are going to persist with the idea that the succeeding generation broadly pays pension and benefits for the recipients, aren't we going to have to do something to even up the chances for those in work now and in the future in terms of lifelong

learning? Are the changes in the job market likely to mean they just will not be able to maintain that earning and employment capacity to fulfil that bit of the contract?

Lord Willetts: I very much agree with that, and in fact was at an event the other day discussing that with Vince Cable and David Blunkett on a cross-party basis. As I said earlier, one of my regrets as a Minister—it was not our intention—is the way in which the university changes played out. The group that did significantly reduce their participation was older students. Fortunately young low-income students did not, but older part-time students who tended to be mature did. The pressures on FE and suchlike, and I have to say also the ELQ policy, which means that you do not get funded for education if you already have an equivalent level qualification, which goes back to 2008, does mean that we have ended up seeing reductions in adult learning, which is very bad news.

Steve Webb: I think you are absolutely right. When you see headlines, “Work until you are 70, 71” and so on, and people say, “I am a truck driver” or whatever it happens to be, “I could not possibly work until I am 71”, clearly you probably could not be a truck driver or whatever the relevant profession is until you are 71, but it does not mean you could not do something. What we have not cracked, I think, is this whole second career, third career, retraining, vocational, all that kind of stuff. We all talk about it a lot, and in Government we did some research on something called a midlife career review, which I think was a really good idea, where before you have reached the point where you cannot do what you are doing now any more, you have stopped and thought what you might do afterwards and started to think what skills you require and you have planned for that. That is certainly something that should be done, I think.

Q40 Chair: That in one sense is part of another inquiry that we are undertaking, which is in-work progression. To what extent are we just moving people off benefit, low income, to low incomes in work? How can they progress? What you are suggesting is that we need to extend it for people towards retirement age.

Steve Webb: Absolutely.

Q41 Craig Mackinlay: Just going back to the winter fuel payment particularly—I know the TV licence is now a different problem for a different organisation—I have always felt I certainly would not want means testing. Means testing is the most dreadful tool to solve a problem. There may be only a small number, but I think there is a good argument to tax some of these. The winter fuel payment would be one. Everybody gets it. From a transactional basis, surely it would make sense to merge it in with the general pension as a one-off measure, and then if you are the higher rate taxpayer or into having to pay tax in any form—most people are just on a basic state pension and not paying tax at all—it then would form part of your taxable income that goes through your tax return. It seems to me the most simple way of getting rid of this vast number, millions of transactions every year, and getting a bit of tax back, clawing it back rather than going up a means-tested route. It just seems to me the most obvious thing to do.

Chair: But that would destroy the rationale behind Gordon Brown’s reasons for introducing these, which you have explained without mentioning him. That is that he wanted to give goodies without indexing them and if you combined them into the standard rate of pension, from then onwards you would be indexing them and therefore letting them fade away.

Steve Webb: That is the attraction to Governments of keeping them separate, certainly. If you tax it and it remains freestanding, that is very difficult because, as I say, most people do not fill in tax returns.

Q42 Craig Mackinlay: You could treat it like a single premium investment bond, that if you are a base rate taxpayer you do not pay any, but if you are a higher rate taxpayer you pay the 20% on it. I think there are ways around it.

Steve Webb: If you only try to get money off higher rate taxpaying pensioners on the winter fuel payment, there is a risk you will spend more money administering it than you will raise. There are just so few higher rate taxpaying pensioners. That may change over time, but you only get money if you tax all taxpayers, which is half of pensioners. Even then it is not as simple as it looks, because we pay winter fuel payments to households and we tax individuals. So if you put it on the pension you do not get the tax, for example, a non-taxpaying wife, so you get less tax than you think. I have looked at quite a few of these options over the years, so it is not saying any of these things could not be done. I think I would just urge the Committee that you have numbers with nine zeros on in this discussion, let's not fixate on £200 a year.

Q43 Chair: But also, Steve, if you did put it in with the pension there would be real pressure to raise the tax allowances, so that the pension remained free of tax, so you would not be taxing it anyway.

Steve Webb: Yes, the headline is, "Average pensioner loses because they are now paying tax on winter fuel payments". We have to put the pension up so they do not lose, then you have spent money on the non-taxpayer, so you have lost money.

Chair: David, any comment before we go to Jeremy?

Lord Willetts: Only that this was the kind of thinking that we had back in 2005 exactly, that we do not need to create a new means test. We already have a fair system, namely the tax system, and we should accept for lots of reasons that increasing numbers of pensioners are going to be brought into tax, and this kind of model, "I have paid in, now I am entitled to my benefit", which I understand, is sometimes aligned with the second proposition, "Now that I am a pensioner I should be automatically exempt from income tax". That is quite a widespread culture you pick up, and I think that is where people have to recognise that as a result of this kind of boost in income, there are going to be more pensioners in the tax. They benefit from public services and if they have a high enough income they should be paying tax.

Q44 Chair: You were saying that the 2005 package did not last the doorstep test.

Lord Willetts: I know, I know. But as I look at the fresh generation of political talent I think I am confident that these arguments can be won in the future.

Q45 Chair: David, I only reintroduce that because you were optimistic about opinions changing, if we can judge opinions by opinion polls, but there is the effect when you take these policies on to the doorstep. I remember the election when Gordon Brown announced the 75p. I was standing with a group from Birkenhead Council and they said, "We

are not canvassing. You go and start knocking on the doors” and they took me into a pensioner area and I started knocking on the doors, I went down the row, and they said, “We told you so”. The hostility to it was mega. So the Willetts 2005 test is against some of the Willetts intellectual.

Lord Willetts: I know that. As I say, I think the only question is to what extent attitudes are changing. I think people are susceptible to these appeals. Pensioners do now worry about their kids or grandkids. I do think it is more of an issue than it was a decade ago. Incidentally, and this is very attractive and desirable, younger people do not resent money going to their granny. The polling on that is quite interesting. Younger people are tougher on working-age benefits than they are on pensioner benefits.

Q46 Jeremy Quin: The state pension age going up in line with life expectancy, I am just curious what you think about that in terms of intergenerational fairness. On the one hand, of course we need the pension age to increase; on the other hand, it is the new generation coming through that will be working longer and longer.

Lord Willetts: I think that one of the reasons why the baby boomers do appear to have done so well is that there were so many contracts and entitlements fixed by age, then with the surge of life expectancy that meant that the private pension promise or the state pension promise ended up being worth a lot more than was ever expected. So bringing in indexation makes sense. Following on from our privatisation policies, I call the policy RIP minus X. I think an RIP minus X model is the right way, and of course it is good that we have just had John Cridland’s new review. There are different ways of tweaking it and suchlike, but I think they should broadly rise with life expectancy.

Steve Webb: What is interesting, although the Government is accused of jacking up the pension ages like there is no tomorrow, as it were, in some Scandinavian countries, for each extra year that you live they put a year on the pension age. It is pretty brutal, whereas the paradox about the policy of the last Government to have the two-thirds, one-third rule is yes, your working life gets longer, but your retirement gets longer. It starts later, but it extends by four months for every year longer that we are living, which is not the impression that you would get.

Q47 Jeremy Quin: Would you recommend going to the Scandinavian model?

Steve Webb: I would not, no, partly because keeping this proportionality is intergenerational fairness, in my view. It says to the workers they are not going to have an ever-increasing tax rate to pay for an ever-growing number of pensioners, that the two things move.

Can I just make one observation on the Cridland review that was launched yesterday on the state pension ages? It is a funny mix, the remit of the nice and the nasty. The nice stuff says if you start work at 16, 17 and you work for 40 years, maybe you get a pension at 60, because you have done your bit. The nice stuff says maybe we can be flexible, maybe even draw your pension a bit earlier at a lower rate or something. That is all the cuddly stuff, but the terms of reference query the basic principle of the two-thirds, one-third. You could almost imagine that another Government Department decided that two-thirds, one-third was too generous and wanted to go faster than that, à la Scandinavia, so which way does John Cridland go on that? Does he go the cuddly way or the sterner way and who leans on him?

Q48 Chair: When you are suggesting another Department were you meaning the Treasury?

Steve Webb: Perhaps.

Q49 Chair: Isn't it true, in a sense, the explosive element that could be in Cridland is that if you look to your predecessor, who introduced pensions for the first time, the retirement age was 70?

Steve Webb: You do not mean Angela Eagle, do you?

Chair: Life expectancy was 48, so that in fact the numbers that drew it were very small. We have then moved into the position where there is this huge group of people rightly drawing pensions and you could see this move as trying to push it back towards an exceptional group of people who draw pensions, rather than everybody for a very long time.

Lord Willetts: The reason why I mentioned the RIP minus X formula is that I do not completely agree with Steve on the two-thirds, one-thirds split, because one should not assume that that means you are just working for longer and longer. The other thing is people are delaying their entry into the workforce, and we are spending more on educating more people for longer, which I personally think is a good thing, more people going to university, more people on apprenticeships. You could argue that once you put that factor in, which I hope John Cridland will look at, this is not that you are going to have to work for longer, but we are shifting slightly later a 40-year working life.

Steve Webb: But only for half the population.

Q50 Jeremy Quin: That is absolutely fascinating, but to move on to a slightly different issue, Heidi was talking about past policy decisions that reflect on pensioners and fairness. Apparently we have a Budget coming up. I just wonder, there have been some rumours about pension tax relief. Do you have any guidance or advice from the Chancellor as to the impact on intergenerational fairness, were he to go down that route?

Lord Willetts: I think one of the interesting things about the idea of a pensions ISA, that is the only option that the Chancellor has specifically said from the Dispatch Box. You hear some people say, "That is potentially good news for young people". I have heard this argument. I am baffled by this argument, because the way I see the ISA idea is you pay all your tax now and you hope that the Chancellor's successor will not tax you again. I am sure you trust the current incumbent, but you may not trust his successor. So young people pay all their tax and then potentially when they are older the next Government has no money because we are all old and health and social care and all this and they pay again. If I was young I would want my tax relief now, in the bank, in my pocket, so the worst thing that could happen is I pay tax when I retire.

I struggle with the idea that the ISA is good news for young people. I do not buy that. What I think would be good news for young people would be a decent flat rate, because on average higher rate taxpayers are further through their working life, so younger workers are not generally higher rate taxpayers. So if the rate of tax relief was 33% or whatever it was then young people would be getting more of a start. We have just been saying young people

do not have much cash because they are paying rent and all the rest of it, so I think a good flat rate that does not take bucket loads out of the system, which I would be opposed to, could be good news for younger people.

Lord Willetts: We should remember as well that in a recent speech the Prime Minister talked about more flexible schemes for saving through the lifecycle. There is lots of speculation at the moment, but if there was something that brought that to a reality with matching contributions going into saving, that is something that a young person would see upfront there and then. There is an argument that expecting someone of 20 to put their money away without being able to access it in any way is a disincentive for pension saving. It is very hard to solve all these issues in practice, but something that put money alongside and enables them to exit, at least take out their money in an emergency or certain circumstances, or even whenever they wish, but they have to put it back later on or they would lose the match. Those type of ideas are interesting and could tackle some of the concerns that Steve described.

Steve Webb: I think that is an important point. The last Government consulted on the idea of allowing people what they called early access to their pension fund, so up to a quarter, for example. I think there is a growing argument for that now. It was rejected at the time. I think the industry just said, “Oh, there is so much going on. Leave us alone” but for young people and for the self-employed the evidence is the self-employed want a pension they can dip into for their business; young people might want a pension that they can dip into for a deposit. I think this is an argument whose time has come.

Chair: There are risks associated.

Steve Webb: Of course there are. It would be a controlled process, but I think if they do not save at all because it is unattractive then—

Lord Willetts: But, you see, you could construct something where there was a matched contribution from the Government on some terms or other, which tackles Steve’s worry. You can see what the reward is for saving. You can access some of your own personal savings, with the Government’s matched contribution held in a separate account, and then if you put your money back, the Government contribution stays. But if you never put your money back, at some point you lose the Government’s match, so that gives you an incentive to put money in. These are the kind of things we are looking at in Resolution and the Committee may want to look at it, because those type of models could be a useful additional weapon.

Q51 Ms Buck: We have been talking a little bit about the housing situation, and it seems, on the basis of the figures, that having made significant progress on increasing home ownership over decades that that has now gone into reverse. The story could potentially be seen as being it was home ownership for a generation or two rather into the future. How did we get ourselves into that situation, and what are the specific policy prescriptions that you think could get us out?

Lord Willetts: Above all, we got into it just because we have not been building enough houses. In the 1950s and 1960s it was 300,000 and for the last decade, under successive Governments, it has been around half that, bounced around between 150,000 and 200,000, which is simply not enough for a growing population. That is the overwhelming factor. I touched on it earlier: the planning regime was hostile and for local councillors to support a

big housing development and then fight their next local election was tough. We all know what the political pressures were. I think that was a problem.

Secondly, the tightening of the regulation of financial services, for lots of reasons it has been harder for younger people to get loans, so I support the kind of initiatives the Government has been taking recently to help younger people with deposits and mortgages.

Thirdly, at the other end of life, one factor I estimated is quite significant is that improving life expectancy means that people are in their housing for longer, which means it does not come on the market so soon. This effect was the equivalent of taking 50,000 homes a year out of the housing market. Are there any ways of making it possible for people to move on into more suitable accommodation or making it possible for them to share their larger accommodation with the younger generation, easier to take lodgers? We have a blockage at the other end as well.

Q52 Ms Buck: That is all very helpful, but even allowing for that, is there not some potential evidence that we are seeing—and we talked about this in respect of the cascade of inheritance through generations—a concentration of housing wealth into a smaller proportion of the population? We are seeing that reflected partly in what is happening in tenure shift as well. Even building more houses potentially, without that kind of action, could end up with more housing wealth concentrated in a relatively smaller part of the population and a larger share of the population locked into renting.

Lord Willetts: I am trying to find the figures, but housing ownership is now at such high levels for people in their 50s and 60s it is difficult to see how it could go even higher. What is happening, you are right, there is some moving out to the extremes. What is interesting is there are more owner-occupiers who do not have a mortgage at all and more people who do not own. Owning with a mortgage, in other words, the getting started bit, is a shrinking proportion of the population.

Q53 Chair: So that gives Karen's point more force over time, does it not?

Lord Willetts: The people who are insulated from housing costs are people who own a house without a mortgage on it, and yes, that number is growing. When I look at who would be the beneficiaries of house building, it would be above all younger people, but if there are smarter ways in which some of this could be sufficiently enticing for older people to trade down and not remain as a single person in a three-bedroom house, that would also be of benefit.

Q54 Ms Buck: Would that need to be incentive or disincentive or a mixture of tools and what would they look like?

Lord Willetts: I think it is hard to penalise people.

Q55 Ms Buck: You do it in the social sector, of course.

Lord Willetts: For having an extra bedroom or whatever? Yes, I myself looked at various ways you could do that. Are we going to talk about the charity Home Care International?¹

¹ The charity referred to is called Homeshare International

It is a very interesting model. It tries to marry up old people who may want to carry on living in a house with spare bedrooms, but who need help shopping, maybe want someone who will just tell social services if they did not get up in the morning, and younger people who are desperately looking for somewhere to lodge, some kind of accommodation, and trying to match them up. They encountered quite serious regulatory barriers from social services, who regarded both parties to such a contract as being vulnerable to exploitation. An old person having a young person in the house was regarded as being very dubious and risky for the older person, and the younger person going to share accommodation with the older person. This is the whole mentality that mixing up different age groups is a dangerous thing you should be wary of. There may be smart areas of social policy where you could make that use. I cannot remember the figure off the top of my head, but the number of empty bedrooms, the amount of unused accommodation that we have because of people stuck in less suitable accommodation is another resource that we do not harness very well.

Q56 Ms Buck: Setting aside the fact that we apply totally different rules to the social sector, if you are letting a room out, there is quite a powerful tax incentive to do that. That exists and has existed for many years and it has made no difference. What could you propose that would make a difference, given that we already have a fairly favourable tax regime? I am not convinced that social services safeguarding is the principal barrier to making more use of spare room capacity.

Lord Willetts: In terms of social enterprise, and I am a great believer in the way in which that kind of initiative can tackle problems, what I observed, just thinking to my constituency experience, was that I was not aware of any local scheme that linked up the young people who came to see me at my surgery saying, “Mr Willetts, we cannot find anywhere to live” and the older people who came to see me at my surgery saying, “Mr Willetts, I do not want to move because the house has memories, but I cannot afford to pay for any help with the garden and the council won’t help me with the garden, and nobody is helping me with the shopping”. You just kind of think that it is not beyond the wit of man for those different human needs to be connected better.

Q57 Ms Buck: So the market does not work? You would assume the market would work, wouldn’t you?

Lord Willetts: I think there is an opportunity to do some good that is currently not being taken.

Q58 Ms Buck: That was not quite the question. No, seriously, I am not making a point here: why would the market not work, the private rental market, just the free market in which people have a good that they could exchange for a resource?

Lord Willetts: You said that the social services barrier was not a barrier.

Ms Buck: I am saying it is marginal.

Lord Willetts: All I can say is that that organisation that does try to do this did tell me they thought it was a barrier. There is a council tax issue: of course you lose your single person’s discount, so you have to put that in. There may be some other policy barriers as well.

Q59 Ms Buck: So it could possibly disincentivise people?

Lord Willetts: Some of the older people would say by the time they are paying the higher rate of council tax once they lose their single person's discount, then it does not look so attractive compared with the rental payment they would get. No, I am accepting there is a gap in provision here. You can call it a market failure, a lack of initiative from the sector, but I do think there would be a possibility to do some good there.

Q60 Heidi Allen: Isn't it just cultural?

Steve Webb: I think there is an element of that, certainly the kind of, "My home is my castle. I have shut the door and I don't want a stranger".

Heidi Allen: That question, "Why would I share my house with a stranger"?

Steve Webb: Yes, that is right. I think on Karen's question, clearly partly the demand side on the housing, we have to run to stand still. If the population is rising—I do not know what the figure is—one-third of a million a year or whatever the right number is, just running to stand still is huge. So we think we have built a decent number of houses, but we are further behind than when we started. Not just people living longer but family breakdown, more people living separately has meant more demand. The demand has gone up hugely. I do think, however, freeing up houses at and around retirement is key and I do not think it should be penal. It goes with the grain of what a lot of people want to do. If you look ahead and think, "Can I manage this big house?" and if there was somewhere in the locality you could trade down to. So I think market forces have not always delivered, but if the local planning that is done on housing steered developers more towards that kind of housing. I remember people saying to me, "I do want to trade down in my local area. I want to keep in touch with my friends, but there is nowhere. They are not building that sort of house".

Q61 Ms Buck: Can I just ask a couple more questions? On the issue of affordability then in mainstream, it is an interesting issue about subletting and I am sure there are some answers, but the affordability of homes to rent and buy, are we in a situation where we have ended up, particularly for the under-30s and under-40s maybe, where their pay growth has been poor, we are asking them to repay their student debts and take on a pension commitment that has not been done in the past—a perfectly good thing, but we have—and we are asking them to deal with housing affordability of unprecedented proportions, where it is common in London to pay 60% of your net income. How have we ended up cumulatively making this level of demand on young people and is that not a public policy failure in itself?

Lord Willetts: I do. On your list, it is the cost of the housing that is far more of a financial burden than any of the other items, and our estimate in the Resolution Foundation is the time required to save for a deposit on the classic loan to value ratio has grown from three years in 1983 to 24 years today. That is the big effect. The pension contribution, the NEST or whatever, is not higher than it was. Even if they are repaying their student loan, it means essentially they are on a 29% rate of income tax on earnings above £21,000, which when I started work it was 35% income tax. I think it is above all the housing costs. That is a regional problem, it is the housing costs in the south-east, broadly defined, and that is a very serious problem indeed.

Steve Webb: That was an important point David mentioned about the tax rate when he was a lad, because again it is one of the intergenerational things we forget. The standard rate of income tax at around 1980 was 35%, plus 5% or 6% National insurance, so it was about 40%. Today it is about 30%.

Q62 Ms Buck: Sure, but the ratio of income to home ownership is utterly transformed.

Steve Webb: Sure, but all I am saying is that if you are a worker today, broadly speaking, the rate of direct taxation is 10 percentage points less than it was for your parents' generation.

Q63 Ms Buck: Just the last question, given also that we have seen this decline in home ownership and affordability, we have seen a dramatic growth in private rental for young people, we have already mentioned issues like the likelihood of the propensity of young people to vote. We know that one of the most powerful correlations for not voting is being in the private rental sector. You are much less likely to be on the electoral register, you are much less likely to rent if you are. Is anybody seriously thinking about the social and civic implications for what is happening to the young, and in particular what is happening to young people in housing and how that relates to participation?

Lord Willetts: That is a very interesting angle. I think it depends a lot on the type of tenancy. If you are moving around every six months then you do lose connection with the local area and I am sure you are right. It is a fascinating point, that you are less likely to vote.

Q64 Ms Buck: I think two years is about the average and tenancies are usually about a year.

Lord Willetts: The other way into this is using some of the massive accumulated savings in our pension funds. I think the Chancery is working on this at the moment, to get more long-term investment in rented accommodation that is of a good standard, instead of the amateur landlords sometimes with horror stories. You would imagine a structured, proper, long-term rented sector and you would hope then people would have the same kind of sense of involvement in the community and engagement as you get from home ownership.

Q65 Jeremy Quin: To follow up Karen's earlier points regarding encouraging retirees to downsize at an appropriate point, is there anything that we could be doing or in particular anything we should avoid in terms of fiscal measures, and inheritance tax in particular?

Lord Willetts: I do not have an immediate proposal on that. If there are ways in which it could be incentivised, that would be a good thing and it might be possible through inheritance tax to do that.

Steve Webb: If there was money to be spent making it happen I am not sure incentivising the transaction is where I would spend the money. There are people, also Legal & General, working on what they call, in the spirit of David's RIP minus X, "last-time buyers". It is not the happiest phrase, but trying to make sure that there are properties for people to buy and they have identified—

Chair: We have a report on bereavement coming up.

Steve Webb: Coming back to Karen's question about market forces, they have identified that there is a demand for this that is not being met and they are coming forward with using pension fund assets. It might be worth talking to L&G about what they are doing and why they think other people have not done it.

Lord Willetts: Housing transactions are very heavily taxed, inheritances and taxes for those that are that end of the spectrum.

Steve Webb: You could have some sort of statutory duty tweak, yes.

Lord Willetts: There are a number of things we could do to encourage people to make that move.

Q66 Heidi Allen: There is the stamp duty for downsizing.

Lord Willetts: Yes, that is what I mean. That is one option among many.

Q67 Chair: Before I bring Richard in, the market failure in Birkenhead is the lack of provision of people who have capital, for example, their homes, that they wish to move to. The MP—this is taking a leaf out of other people's books here—is active in trying to get developers in on sites to develop properties that people who have houses now wish to buy, rather than what they have to do now and move out of the constituency to find what they wish to have. It comes back to your point, David, the emphasis of those who say they want to retire in Birkenhead and sell their current homes, they do want to retire with other people who are retiring rather than go on to a mixed estate. Therefore the developer will be promoting that division that you think is rather bad.

Lord Willetts: It is the Marigold Hotel model of retirement.

Chair: With all the happiness that comes with it.

Lord Willetts: If Judi Dench is there, I am up for it.

Q68 Richard Graham: We are in danger of having a fascinating intergenerational housing seminar. I can tell you a case study of something I am doing in the sector of social housing precisely to build one-bedroom bungalows from which people can downsize from neighbouring four-storey flats, into which then young mums with children can then move. We probably all have our stories to tell.

But I wanted to try to bring our witnesses back, if I might, to the world of pensions, and lob into the debate the sensitive grenade of a campaign that is vigorous, well-supported and of course done by precisely the generation identified in David's book as in a sense being the great baby boomer beneficiary generation. This is the Women Against State Pension Inequality—or WASPI—campaign, which you will both no doubt know about.

Chair: We want to end on a happy note, Richard.

Richard Graham: The question in a sense is that is this an example of relative unfairness within a generation that, broadly speaking, has had it good and is having it good relative to the next generation, or is this a case, given the price tag of £77 billion attached to

their main ask, as given to this Select Committee—for those in any doubt about what their main ask is—and therefore should be rejected? David, you first.

Lord Willetts: I think that as Steve said at the beginning, the increase in the pension age has been the only significant way in which we have any kind of grip on the pensions budget, given that benefits for individual pensioners have been going up. Although it is a controversy, I think it is right to raise the pension age.

The one lesson I learned from this is, however, that we need a clear, transparent and predictable way of doing this in the future. This model of a quinquennial review, going back to the great traditions of the national insurance quinquennial review every five years—which is why I welcome the John Cridland review announced today—that is a better way of doing it. We have had to make a transition from a completely fanciful world in which the pension age was permanently fixed to realising it has to be increased, so these are relatively fast-paced increases, but it has now entered the public debate. Pension ages have to go up, we need a fair structure for deciding it, you have to signal it clearly in advance and give people more time to plan, but you could not have left the pension age untouched, given how out of line it was with life expectancy.

Q69 Chair: Steve, with reflection now on the changes that you brought in and spearheaded, would you lessen the blow or not?

Steve Webb: I have thought quite hard about what fair would have looked like in all of this. The conclusion I came to is that the problem was that for 70 years, when the state pension age stayed at 60, in a sense what we did was caught up very rapidly on something that should have started gradually decades earlier. Now it is easy for me to say that should have happened decades ago, but many countries who are raising state pension ages have done so very incrementally, but over a prolonged period. We did nothing for 70 years and then suddenly had decades' worth of catching up to do. Of course there are debates and issues about did people know and was the communication good enough and all of that. There are many important points there, but I do not think we were wrong to get to a pension age of 66 in 2020, we just should have done it over a much longer period and started a lot earlier. That would, in my view, have been a fairer adjustment process.

Q70 Chair: David, that is your view as well, is it not?

Lord Willetts: Yes, and oddly enough I remember—this was back when we were working on this in the Social Security Select Committee in the past—the time of the Barber judgment and the debate on when it was required to equalise pension ages, and there was a lot of assumption that what should happen is male pension age should go down to 60. I remember back in the early 1990s saying, “No, we need to increase the female pension age and uprate it”, so what you have just heard from Steve, I agree with. As I say, we can do better for the future, I think now we can, and everybody should recognise that it is done on a fair basis and it should take account of the life expectancy and other factors.

Chair: That was a great session to kick off this inquiry. Thank you both very much.