Work and Pensions Committee

Oral evidence: Intergenerational Fairness

HC 705-iii

Wednesday 13 April 2016

Ordered by the House of Commons to be published on 13 April 2016.

Watch the meeting

Members present: John Glen (Chair), Heidi Allen, Ms Karen Buck, Richard Graham, Craig Mackinlay, Steve McCabe, Jeremy Quin, Craig Williams

Questions 140 - 229

Examination of Witnesses

Witness: **Michael Johnson**, Research Fellow, Centre for Policy Studies, gave evidence.

Q140 Chair: Good morning, and welcome to this session of the DWP Select Committee on auto-enrolment and Lifetime ISA, and intergenerational fairness. I am very sorry that our usual chairman Frank Field is not in the chair. Just for the second time, I think, he has been called away to another task. Michael, a very warm welcome from the Committee. It is good to have you in front of us. We have nine detailed questions to grill you on over all those subjects. If I could start by setting the scene, or inviting you to set the scene, you have clearly been at the forefront of moves to, I think, really radically reform the way pensions and savings are taxed. Could you perhaps set out for us the broad economic context for some of your proposals?

Michael Johnson: Yes. Thank you very much for inviting me along. I welcome the opportunity to offer a perspective that I hope represents the national interest, rather than any narrow, commercial one. In terms of a broad economic perspective, over the next 30 or 40 years I suspect or fear that we are going to face a very severe fiscal squeeze, and that will arise from a combination of a rising dependency ratio, stagnant or, indeed, falling productivity—and we have just seen some recent productivity statistics that tell us we are now less productive than we were pre-crises—and potentially a rising interest rate environment. Those three forces together will coalesce to put enormous pressure on interest rates, and we will then be facing a potential demographic bomb at a similar time as many of the other developed nations.

What I am concerned about is that that will lead to an international bun fight for capital. Most developed nations are importers of capital, and given our parlous savings culture, or the lack of a savings culture, we are going to be put on to the back foot, because we are already facing an extraordinarily low household savings ratio. It is one of the lowest in the OECD. It is forecast next year to be less than 4%. Compare that to France at 14.5% and Germany at about 9%. We are in a very weak position, from a savings habits perspective, and we are also completely overloaded with consumer debt.

Q141 Jeremy Quin: Could I just come in there? Generally, just for interest here, your comments on the savings ratio, that does not include housing contributions, does it?

Michael Johnson: The savings ratio is the household savings ratio, so it is the percentage of disposable incomes that are ultimately saved.

Q142 Jeremy Quin: Considering the amount of wealth that people in this country put into their houses compared to France, as you state, would that obfuscate the figures, the 4% versus 14%?

Michael Johnson: It does not, because we have the highest level of consumer debt in the western world. The latest set of statistics has just come out in February, where the typical or average household has £6,700 of consumer debt. You can add to that another £48,000 of mortgage debt. This is average, "average" being a dangerous word. The average household last year paid £1,900 in interest. These debt burdens are almost unique.

Q143 Jeremy Quin: When we get on to the end point of pensions, I think the stock of equity that people have in their houses will be relevant as well. Sorry, I interrupted you.

Michael Johnson: Of course, not everybody has a stock of equity, and I think we have to think about society as a whole, rather than the fortunate, relative few.

Chair: Thank you for that perspective on the economic context. If I could ask Craig to open the questions.

Q144 Craig Mackinlay: Just thinking about the Lifetime ISA, there have been concerns by many, you might be one of them, that it could interrupt the roll-out of what has been a reasonably successful auto-enrolment take up to date. Can you expand on your assessment of that, and if you think Lifetime ISAs could interrupt the auto-enrolment schemes, how you might be able to do an ISA-type style within work place saving?

Michael Johnson: First, you are absolutely right, auto-enrolment is extremely important. I think it is one of the best policies that we have implemented in the last decade or so. Therefore, I would not wish to compromise the success of auto-enrolment at all. But I think we need to be clear that there is a schism of opinion that is appearing about whether the Lifetime ISA is potentially a threat. It depends who you ask. If you ask some in the industry there is a clear response that is aligned with certain interests. However, it is different for consumer groups and other professionals—and I am going to quote three surveys that have just appeared within the last week. In Aon Hewitt's survey, a professional consultancy, 600 pensions professionals were asked the question: "Will the Lifetime ISA be a threat?" In response, 58% said it would have no material impact on opt-out rates, 38% said a modest impact, 2% said a significant impact. That is a survey of 600 pensions industry professionals.

The second survey I would like to refer you to is one of 1,000 adults aged between 18 and 34. They were asked how they felt about Lifetime ISA: 57% positively responded, 15% said they preferred the idea of a pension, and 28% said they had no interest in the subject. A fairly overwhelming response, not just from the pensions industry professionals, but perhaps more importantly, the Millennials, or Generation Y. Clearly it is early days.

In any event, moving on to the second part of your question, I envisage that we complement the Lifetime ISA with what I term a “work place ISA”. Very simply that sits inside a Lifetime ISA and it receives employer contributions plus the same 25% bonus that a Lifetime ISA receives. It is part of the auto-enrolment legislation, and the employee contributions under the auto-enrolment framework would go into the employee’s Lifetime ISA to sit alongside. Essentially you end up with one simple savings vehicle to serve from cradle to grave.

The rules that one can introduce for the Workplace ISA would be very similar to the Lifetime ISA, with one major exception. That is that I would recommend that contributions were locked up until the age of 60. Employer contributions are locked in until 60, along with the 25% bonus, whereas employee contributions within the AE framework would go into the Lifetime ISA and be subject to the same Lifetime ISA rules.

I think that flexibility offers substantial benefits. I have thought of four very specific ones, if I can run through them. First, the employee is in control. It is he that can decide whether he wants his employer contributions to go into a Lifetime ISA, or Workplace ISA or, indeed, an existing pensions framework. To be very clear, this is not to replace the pensions role, this is an alternative. It is for the individual to be able to choose which best suits his particular circumstances.

Something else we have to think about, which is part of the background, is that over the next two and a half years under AE, employee contributions are going to rise by a factor of five. Today it is 0.8% of band earnings.

Q145 Chair: It is quite a low base though, isn’t it?

Michael Johnson: Yes. This is part of the problem, but we are where we are. It is 0.8% of band earnings plus 20 basis points of tax relief for basic rate taxpayers. Come October 2018 those figures will be 4% and 1%. We are about to start to walk into the wall of ramp up and, therefore, it is crucial that we put in place something like Workplace ISA, with the added flexibility, in order to deter opt outs.

I would also encourage the Government to particularly think about the self-employed, 4.36 million, the fastest rising section of the employment base, who do not have an employer sponsor and, therefore, do not necessarily benefit from the auto-enrolment framework. I would like to see perhaps NEST sponsor something specifically for the self-employed and those who do not benefit. Of course that should be opened to private sector competition.

The fourth strand of thinking to reinforce auto-enrolment is to do with Treasury business, and that is the whole question of NICs relief on employer contributions. Last year that was

£13.8 billion. The point I would like to make to you is that NICs relief of employer contributions is basically invisible to the employee. It benefits shareholders. It does not directly benefit the individual with a savings pot. I would like to see NICs relief scrapped and have that £13.8 billion redirected into funding the bonus on the Lifetime ISA and the bonus on the Workplace ISA, so that it goes into the individual's pot and he can see it. Then it is real and it is engaging.

Q146 Craig Mackinlay: Just on a couple of things, I know it is slightly different, but it has a similar thread, this would be the save as you earn share option-type schemes that exist in bigger corporates, so something slightly analogous does exist. Have you any experience of Chile? Because Chile has been at the forefront of this over about 20 years.

Michael Johnson: Yes, more than that; I went down to Chile in the 1990s to look, because they set up the AFP programmes, this is 1991 and 1992, and they were remarkably successful. Let us not forget the political environment in which that was done, which was a slightly more authoritarian framework than the one we might be used to or wish to live in. It is not an accident, I suspect, that environments where there is some form of savings compulsion tend to be associated with rather different political frameworks from the one that we enjoy here. Chile has reaped the benefit of that. It has not been without its problems, but the AFP system has worked well for many.

I think perhaps what is behind your question is that right now the contribution framework for automatic enrolment is way below where we need to be, as we all know. Of course, to be clear, when one talks about reaching 8% it is not even 8% of earnings, it is 8% of band earnings, which is a lot less. That is a difficult challenge, so I reiterate the point about the importance of automatic enrolment. I do not want opt-out rates to rise, and I believe that having a Workplace ISA, in the way that I described—and there will be a public paper on this in the next 10 days or so—will encourage people not to opt out.

Q147 Jeremy Quin: I have other questions, but might I just follow up briefly on Craig's point? What you are proposing on NICs, wouldn't that be described as a tax on jobs? Wouldn't it be penalising employers for taking on more staff?

Michael Johnson: I think one could characterise it as a test of employer paternalism. Let us be clear, as I have said before, the £13.8 billion benefits shareholders directly. I am not sure that is what it is really for. There is also another point that is allied to some of the proposals that I have put out recently for the Lifetime ISA, as in the next steps. While we have a 25% bonus, I would like to see that doubled. To the extent that there is a risk that employers, having lost their NICs rebate, may be tempted to reduce their contributions by 13.8% that will be more than offset by a doubling of the bonus, funded ultimately by the state. Essentially what I am trying to do here is to redeploy in a much more effective way Treasury spend.

Q148 Chair: Michael, isn't the bigger picture problem here that successive Governments have spent a lot of time working out the whole principle of the auto-enrolment and getting people comfortable with that concept—essentially the Government brought forward a separate savings vehicle, the Lifetime ISA for people under 40—but by introducing this new concept in at this stage we end up rather confusing the whole landscape and giving people rather mixed messages about what is the most appropriate vehicle to save in? We are talking about, as you said in your opening remarks, a context in which people are not inclined to save in the first place. Would it not be better to concentrate on making this hard-won new contract in terms of pensions work and working at ratcheting up the contributions?

Michael Johnson: The short answer is no.

Chair: I am not surprised by that.

Michael Johnson: Let us be clear, if I may: the advent of freedom of choice, effective as of last April, put an end to pensions. What is a pension? It is an annuity. That is all. It is a steady stream of income from retirement, ideally to the day of death. That is an annuity; that is what a pension is. Freedom of choice puts an end to pensions frameworks. If I may I would like to read you two little excerpts. Lord Turner's Pensions Commission final report, "Since the whole objective of either compelling or encouraging people to save, and of providing tax relief as an incentive, is to ensure people make adequate provision, it is reasonable to require that pensions savings is turned into regular pension income at some time." That has gone. It no longer exists. There is a separate report from the Treasury that came out a year later saying, "The remainder of the pension pot must be converted into pension, or in other words annuitised, in return for tax relief".

Q149 Chair: Michael, that is not true, is it? People are not prevented from an annuity.

Michael Johnson: They are not prevented.

Chair: It just removes the compulsion. That is very different. It is not the end of; it is giving the freedom to choose how to deploy their pension pot.

Michael Johnson: I beg to differ, because with an EET framework we now have exposed the Treasury to a ludicrous arbitrage, which is that at age 54 and three-quarters I can go into my ISA, and I can put some money into my SIPP, I can grab tax relief and within a matter of weeks I can extract the whole lot 25% tax free. That is just ridiculous. Surely the whole point of an EET framework is that we provide an up-front incentive in exchange for some form of term commitment to saving. That has gone.

I think that the implications or ramifications of the freedom of choice being introduced are much, much deeper than perhaps many of us initially recognised. There is perhaps another even more fundamental point, which is that tax relief to at least half the adult population means nothing. It is an ineffective use of Treasury funds for the purpose of encouraging provision for the future.

Perhaps a few more statistics might come to hand here. This is to compare the flows of capital into stocks and shares ISAs, of course in a TEE framework, with those that go into personal pensions. Seven years ago about £10.5 billion went into stocks and shares ISAs and £10.2 billion went into personal pensions. Last year the stocks and shares ISA's number had risen by 72% to just under £18 billion and the flows into personal pensions fell 12% down to about £9 billion.

The point I wish to make is ISAs are popular. People still trust the brand, relatively speaking. Maybe there is a tension here between to what extent is it the role of the state to guide and instruct as opposed to encouraging the individual to assume personal responsibility? ISA is part of the question that is pertinent to the whole subject of retirement provision.

Q150 Jeremy Quin: In terms of statistics, I am sure you will be the first to acknowledge that over the past several years, given where interest rates have been, there have been people who look far more widely at where their savings cash should go and the impact of QE has had a range of implications. Similarly, at exactly that point if we had not introduced the pensions freedoms—you are as well aware as any of us, more so probably, about the annuity rates that are currently pertaining. There are particular factors that may be having an influence. It may be more than the branding of ISAs compared to the views of pensions and the current extraordinary circumstances we are going through. I viewed with interest your comments right at the beginning that that may be having an impact on people's thoughts and actions.

Moving on to your proposition, which flows on naturally to moving to a TEE scheme, I was very interested in what you said right at the outset and about the potential scramble for capital among the developed countries. The NIESR research was quite damming. Whether you consider it was a debate, they did not like what you said, and they pulled no punches. They said that your concept would reduce capital flowing in. To one of your key points they raised a contrary argument and they said it would have a negative impact on GDP. I wonder how you would respond to their criticisms of your concept.

Michael Johnson: If my name had been on that report I would have been embarrassed, because I believe that independent think tanks are supposed to encourage clear communication. I hope some of you have poured through that NIESR report and counted the number of mathematical formulae with which it is riddled. I did a maths-heavy engineering degree, my wife is a former mathematician, and we both looked at it and found it unintelligible. I believe Mr Chairman is looking at some of the formulae now.

Chair: I am looking at it.

Michael Johnson: Perhaps someone would care to explain some of that to me. By the way, those are some of the lighter formulae.

Q151 Chair: To be fair to them, there is a summary at the front. With the greatest respect to all of us on the Committee, I am not sure we are capable of interrogating the different formulae in there. We are relying on the summary.

Michael Johnson: What I am suggesting is that there is an element of obfuscation and bamboozlement in that report, the likes of which I do not think I have seen in many others.

Q152 Chair: Is it wrong?

Michael Johnson: There is no right or wrong about any of this. I would also like to point how that report came about. It was commissioned by a body that has the deepest vested interest in this subject, the ABI. Maybe I am fortunate, I have never received a penny for anything I have written from the CPS, and I think that independence of mind is important. Putting that to one side—

Q153 Chair: Before you get into this, we have to—

Michael Johnson: I would like to talk about more about that, because it is—

Chair: We want you to talk more, but in fairness to the NIESR, they do state pretty clearly that they had full control over the work that they did and they take full responsibility for the contents. We are in dangerous territory if we are allowing you to besmirch their whole integrity in this process. Surely you must recognise that many pieces of work are done by think tanks and are commissioned and paid for by other bodies. Are you really saying that they did not act independently in the way they conducted it?

Michael Johnson: I am going to duck that question, and I suggest that what really matters here is that we should not fall in love with models. There are dozens and dozens of robust pieces of work that go back 30-plus years that ask a really fundamental question, one that we will have to debate in any of these conversations, which is: do up-front incentives encourage people to save? The very strong opinion that seems to emerge is: we do not know. The debate about EET or TEE, which is very much central to that question, is this is not an "or" model that I am proposing, this is an "and", because we do not know the answer to the question.

Q154 Jeremy Quin: In that context, Michael, you have been cynical about NIESR, but there are people out there, unbelievably, and I find it shocking, who are cynical about the Treasury. They suggest that the TEE scheme has obvious advantages in fiscal terms. How would you react to that? How would you respond to the allegation that this is purely for short-term revenue raising and there are not long-term benefits? I am playing devil's advocate to get a reaction.

Michael Johnson: I think there is a major miscommunication problem here, because the Lifetime ISA is often referred to in the same sentence as TEE. It is not TEE, because you receive the 25% bonus up front. The Lifetime ISA is EEE for basic rate tax payers, that is, most people. It is absolutely essential that we disentangle Lifetime ISA or Workplace ISA with TEE. It is not TEE. TEE is something that I have never proposed.

This goes back to a conundrum that was proposed to me by some members of the House of Lords a few years ago, Labour and Conservative peers, and they asked me the question, "Is there a way of combining the popularity of ISAs and the ready access that they provide with some form of up-front incentive?" The answer to that question, which took several years to tease out in my mind and a few others, is the Lifetime ISA. I must reiterate the point that we are not talking about a TEE framework. It is a T, I for incentive, EE.

Q155 Richard Graham: Chairman, can I come in? Michael, welcome. Always good to see you.

Michael Johnson: Thank you very much.

Richard Graham: You are one being interrogated by many of us, which is an easy position for you to be in. On the business of the LISAs, can you clarify, the £4,000 that anyone under 40 can put into it, does that come out of taxed income?

Michael Johnson: Yes.

Q156 Richard Graham: Why are you trying to say that it is EEE? That is TEE. You are taxed when you put that money in.

Michael Johnson: Because the £4,000 is then married to the £1,000 bonus.

Q157 Richard Graham: That is a different point. The point is the £4,000 comes out of taxed income, so you cannot describe that as EEE. What you are saying is it is taxed but you get a bonus. You get an incentive, if you like, with it. It is not the same as saying it is EEE. That is misleading, surely.

Michael Johnson: Let me put an engineer's hat on for a second. I am looking at cash flow, and the net effect is the EEE.

Q158 Richard Graham: Wearing any type of hat, whether an engineer's or a bishop's, is irrelevant. The point is, the £4,000, that anyone can put into, comes out of taxed income.

Michael Johnson: It does.

Q159 Richard Graham: Right. That is very important to have clarified. The second point I would love to clarify is that am I right in saying that the calculations you have made on the Lifetime ISA generate effectively a saving for the Treasury on what they currently contribute to the tax-free contributions that people can make to a pension scheme?

Michael Johnson: The size of any saving to the Treasury depends on a number of variables and at the moment—

Q160 Richard Graham: Correct, the size of it does, but the fundamental starting point that the Treasury will benefit from making less contribution in terms of the bonus than it does to the tax-free contributions to a pension scheme is the principle I think you have already outlined.

Michael Johnson: Where we are today following the Budget is a net cost to the Treasury. There is no saving.

Q161 Richard Graham: At the moment, yes, but on your proposal if we move to that regime can we agree that there would be a net benefit to the taxpayer? I am not saying that is a bad or a good thing. I am just saying factually that is what would happen, is it not?

Michael Johnson: If my proposals are implemented, and they have not been implemented, then I would like the Treasury to perhaps put aside some figure in the region of £10 billion a year to address the budget deficit.

Q162 Richard Graham: That is a separate point. Can we have an answer to the question?

Michael Johnson: Sorry, do you mind repeating the question, please?

Q163 Richard Graham: At the moment the Treasury has a cost, which is the effective tax-free contribution by people saving into a pension scheme. The cost to the Treasury on the Lifetime ISA side is the bonus that is applied to this current maximum of £4,000. If therefore you were to compare a current regime with a future regime in a completely dominated and brave new world of Lifetime ISAs, surely there would be a considerable saving to the Treasury.

Michael Johnson: If we have scrapped tax relief entirely, yes.

Q164 Richard Graham: Yes. In that scenario, again, therefore simplistically if it costs the Treasury less to add a bonus to a maximum £4,000 deposit into a Lifetime ISA than it does to match your tax-free allowance, the total amount being invested must be less. If the total amount being invested is less, then surely that is going to generate less long-term savings.

Michael Johnson: I do not accept that, and that is because what we have yet to discover is whether because of the ready access or the extent of access Lifetime ISA offers, which the pensions framework does not offer, to what extent we may see additional saving taking place.

Q165 Richard Graham: So your calculation is in essence that if you complete the mission of blowing out pensions as a savings formula—

Michael Johnson: That is not an issue.

Richard Graham: —then the concept of the ISA is so much more popular that it will generate additional savings?

Michael Johnson: That is what I believe, absolutely, yes. I will go further than that, because at the moment while we have in place a framework that looks like £4,000 plus £1,000 bonus I would double the bonus rate.

Richard Graham: I notice that.

Michael Johnson: Then I would also seek to push that £4,000 up to a figure nearer to £8,000. In so doing I think we meet the savings needs of at least 90% of the population and the other 10% by and large do not need the fairly lavish tax relief that we offer anyway.

Q166 Richard Graham: Yes, I understand that part of the mission too. In terms of its impact, which I think you modestly described as a triumph for common sense—

Michael Johnson: I hope that was not me. I have a feeling that might have been an editor, but yes, I agree with whoever wrote it.

Richard Graham: —and its impact on auto-enrolment, do you surely recognise that if a Government has spent a huge amount of time and effort introducing a new product with considerable success in its first phase, the risk of introducing a new competitor product at the stage when it enters a more difficult phase is bound to have a fairly serious impact on the success of the second stage?

Michael Johnson: Are you referring to the Workplace ISA as the competitor product?

Q167 **Richard Graham:** I think the Lifetime ISA is a competitor product because it is an alternative for savings, is it not?

Michael Johnson: It is, yes. I think it is one that will encourage people to save more.

Q168 **Richard Graham:** Very few people who are working who currently are not in a pension scheme and do not have any organised form of savings are going to have enough money to be able to do both. There is going to have to be a decision.

Michael Johnson: Yes, for many. That is correct.

Q169 **Richard Graham:** Therefore a decision to save into a Lifetime ISA is more than likely to also be a decision to opt out of an auto-enrolment scheme. Again, I am not reaching a judgment as to whether that is a good or a bad thing. I am just trying to understand logically what the likely impact is going to be.

Michael Johnson: First of all we are interpreting counterfactuals, because we do not know what is going to happen, but because I agree with you that there is a potential risk I would like the Workplace ISA to be introduced as well, to head that risk off.

Q170 **Richard Graham:** Surely the impact of doing that, at this stage before auto-enrolment is completed, would be yet further confusion. Many of us subscribe to the idea that choice is a good thing, but the truth of the consumer in the savings market is that too much choice and too many options can be really deeply confusing.

Michael Johnson: The consumer is already living with a suite of different types of ISAs.

Q171 **Richard Graham:** Indeed, but why increase them right at the moment when you are trying to roll out auto-enrolment?

Michael Johnson: Because I think that many consumers are reasonably smart, and particularly if we can encourage employers to engage as well with the Workplace ISA that will fuel enthusiasm potentially to save more. Step one is clearly to see how the Lifetime ISA is received by the consumer, but I would like us to be doing some planning in parallel for step two, which is the Workplace ISA. I think that the added flexibility that that would provide, because employee contributions would be going into the Lifetime ISA and would therefore be available, would deter opting out.

If your concern is that additional products are going to overwhelm the consumer, I think that the industry already does that in some sense. We have a gamut of different personal pension savings products. What is also clear is that in this case the media is going to help convey the simple messages that I think the Workplace ISA can be communicated with, so I do not see it as exposing a risk of redeployment of capital that is being saved anyway, which I think might be part of your question. I certainly do not see it as encouraging opting out.

Q172 **Richard Graham:** I guess, Michael, the first thing is that I hugely respect the work that you have done on this, because I think there has been a dearth of really forward-looking research into how the world of savings can change and how it can better reflect people’s aspirations, Government contributions and all the rest of it. I totally recognise that there are large parts of an industry that could be described to have failed in several ways, which have an interest in trying to attack and criticise your proposal. That is not my starting point, but I am puzzled by your apparent strong support for auto-enrolment on the one hand and then the strong belief that introducing a Workplace ISA is not only a good thing but somehow complementary to the auto-enrolment scheme. It seems to me that effectively there are two different train tracks here, and trying to straddle both of them is going to be very hard. Surely Government should be trying to simplify and focus rather than adding yet another layer of different products into the marketplace.

Michael Johnson: Today with auto-enrolment to the extent that employers make contributions, they cannot be accessed until the age of 55. I suggest that that is a deterrent, whereas if we were to introduce Workplace ISA, the employee contribution would be going into the Lifetime ISA, which can be accessed under the proposed rules for the Lifetime ISA. I think that is an attractive feature.

Q173 Richard Graham: There are two things. First, the Lifetime ISA can only be accessed before 60, if I am correct, if it is for a deposit on a house—

Michael Johnson: Or if you are willing to pay the 5% charge.

Richard Graham: —and in passing I wonder quite how effectively that could be policed, if somebody says they want to take it out for a deposit on a house and then decides at the last minute not to go ahead. I would be interested to see how that would be prosecuted through the courts.

Michael Johnson: But that is a problem we have today.

Q174 Richard Graham: None the less the point is that if it is withdrawn before 60 there are significant deterrents, because you do not get the bonus, you get a penalty of 5% and so on. So why is the concept of saving for later life, which is what auto-enrolment is all about, such a bad thing?

Michael Johnson: I am not suggesting it is a bad thing.

Richard Graham: You are saying it is a deterrent.

Michael Johnson: What is clear is that Generation Y value flexibility over and above tax relief, for example.

Q175 Richard Graham: Over and above saving for a later stage in life when they might need it?

Michael Johnson: They may indeed need it, but in terms of their behaviours, those statistics that compare the flows of cash going into stocks and shares, ISAs, as opposed to the decline into personal pensions, is sending a message—

Richard Graham: I understand that.

Michael Johnson: —which is that tax relief is not a sufficient incentive to get people over the lack of access.

Q176 Richard Graham: So are you saying that Government should not be encouraging long-term savings, that everything is a consumer-driven society and if people want to spend all their money ahead of retirement, etc. that is entirely up to them, caveat emptor on their heads be it later on if they fall back entirely on whatever the basic state pension of the day is?

Michael Johnson: No, I am not saying that. My starting position is that the existing framework of EET is an utterly ineffective use of Treasury funds, because particularly for the next generation the inflexibility of the existing pensions' framework is a greater deterrent than the attraction of any form of incentive.

There is another fundamental message to bear in mind here about the existing framework. Last year pensioners paid about £13 billion in income tax, about 11 million pensioners. An almost identical sum or number of people received £28 billion in up-front tax relief. So we already have, from a Treasury perspective, an ongoing net cost, year-by-year, of in the region of £28 billion. We have £27 billion or £28 billion going out in up-front tax relief. We have another £14 billion going out in NICs relief, both cash flows, and we are receiving about £13 billion from a pensioner population of similar size. So we already have a situation that is massively cash flow negative for the Treasury and is going to get worse because of auto-enrolment.

Q177 Craig Mackinlay: I am not sure I share your pessimism on lots of these points. In terms of pension freedom, I think the tax collar will be the defining factor as to whether people take huge amounts out and spend it all or whatever else. There would be very little point in taking out enough to put you into a high rate threshold, for instance. It would be just madness to do so, so there will be a self-discipline given by the tax thresholds. I think people will self-annuitise, to an extent, if you have a drawdown option. That would seem to me to be the sensible thing to do, so annuity, even if it has gone as the preferred option, or the only option, will be a self-annuity or traditional annuities will take over.

You gave some interesting figures about the £18 billion now in ISAs and pensions down to £9 billion. From a Treasury point of view that is great, because you are not getting tax relief on the ISA provision, but people are using that as a quasi-pension in many circumstances because they quite like the flexibility of being able to take it as they please and tax-free, and any income that is derived from it at the end of the day is tax-free as well. So from a Treasury point of view those figures are good because less pension provision means less tax relief. More ISA provision means there is pension saving going on that the Treasury is not having to pay for. I do not think people are again going to take all the money out and spend it on the Lamborghini or whatever nonsense we heard from years ago.

Michael Johnson: The evidence suggests that is absolutely not happening.

Q178 Craig Mackinlay: Yes, so I do not really share your pessimism on these points. On your point of the NICs relief by employers, rather than upset a system, I can perfectly understand there needs to be more of an incentive to make people save, there is no doubt at all. I have argued long and hard that it is the basic rate taxpayer who is not really being incentivised enough. If you wanted a workplace-type system I would rather we went up the route of almost like a research and development tax relief, where the employer is incentivised for getting more tax relief for his contribution than he is putting into the employee's pot. It might be a more elegant way of doing it rather than upsetting the whole

NICs apple cart. You have given me a lot to think about, but just I do not share your pessimism.

Michael Johnson: There is another strand of NICs relief that I think is utterly iniquitous, and that is the whole question of salary sacrifice schemes. They are available to those who have a sponsoring employer, and therefore there are a very large number of employees who do not have access to the arbitrage at the Treasury's expense that a salary sacrifice scheme represents. I was disappointed that the Budget did not put an end to those. I think many in the industry were surprised that the Budget did not put an end to salary sacrifice schemes, but in the meantime they cost money.

Q179 Craig Mackinlay: It would be very difficult to codify. You would end up with 1,000 pages of anti-avoidance legislation that would be unintelligible.

Michael Johnson: You would not need to if you put an end to NICs relief, because ending NICs relief indirectly ends salary sacrifice schemes, full-stop.

Q180 Chair: Before I turn to Karen, I think Richard has drawn out a lot about your proposals about Workplace ISA, but can we just focus in on the auto-enrolment for pension and the Government's new Lifetime ISA and the desirability? I think you referred to those as being a choice between the two, but if we contrast the different reliefs and the lack of employer contribution to the Lifetime ISA we see a very different outcome if it was just left for 30 years. Could you give a response in terms of the desirability of the choice, recognising that you do not want to contain it as a choice between these two, but between auto-enrolment pension and the Lifetime ISA as the most effective mechanism to secure a significant pot by the point of retirement?

Michael Johnson: We first of all have to recognise that about three-quarters of all pensions contributions come from employers. That is something that we want to maintain. To the extent that currently the Lifetime ISA is not envisaged as part of the automatic enrolment framework I think it is at a competitive disadvantage in that sense, and therefore I would like to see the Lifetime ISA included in the auto-enrolment framework.

Q181 Chair: We grasp you are not satisfied with the existing choice but it is true to say, is it not, that if you present it as a choice between auto-enrolment pension and the Lifetime ISA as it is currently envisaged there is a significant advantage to maintaining investment in auto-enrolment as it is now, notwithstanding your set of changes and the different way you would want to try to bring them together?

Michael Johnson: We need to bear in mind what it is that motivates people. One of the things that I am trying to get at here is to make it much more apparent to the individual where various contributions are going to and making them visible, the employers' contribution and indeed the Government's contribution, be it in the form of a bonus or in the form of tax relief. So this is about behaviour, trying to influence behaviour, to get at the higher objective, which is to catalyse a savings culture.

We cannot directly compare the existing auto-enrolment framework with the Lifetime ISA, because essentially they are apples and oranges, but without the Workplace ISA sitting alongside the Lifetime ISA that inability to compare will remain.

Q182 Richard Graham: Michael, thanks. Although we do not yet have the details of the Workplace ISA—that is coming out quite soon—I am assuming that is where you are trying to capture the employer contributions?

Michael Johnson: Absolutely.

Q183 Richard Graham: You want to have it under the auto-enrolment scheme framework so that that captures the element of, if you like, compulsion that the Government has placed on the employer to offer this and effectively everyone has to come in, unless they opt out. That is presumably your reason for the structure, and then your argument is that because the benefits of the ISA will be clearer, that will motivate people more effectively than the auto-enrolment as it is, because the employer contributions and the value of them and indeed the Government contributions are less self-evident to people who might be about to go into the scheme. Am I right, that that is the essential idea?

Michael Johnson: There are two strands to this. The first is that the Government contribution through the form of NICs relief today is not evident to the employee, and secondly to the extent that we can introduce a Workplace ISA alongside the Lifetime ISA, where the Workplace ISA is the home for employer contributions locked up until 60 but the Lifetime ISA is the home for the employee contributions, which would have the flexibility that the expected Lifetime ISA offers, I think those two together are a positive encouragement to not opt out.

Q184 Chair: But we do not have those two together at the moment?

Richard Graham: The Workplace ISA does not exist.

Michael Johnson: Exactly.

Q185 Richard Graham: But the impact of that surely is that everybody effectively transfers on to those two elements within the auto-enrolment framework and then the—

Michael Johnson: Not necessarily. One should have the choice. You can either continue with your employer's occupational provision, no change, or you can choose to have your employer contributions directed into the ISA.

Q186 Richard Graham: But if it was up to the framework the employer would have the option of not offering an employer scheme?

Michael Johnson: That is up for discussion.

Chair: Let us discuss that a bit later. I am desperate to get Karen in now, to move the conversation, but we may come back to that later.

Q187 Ms Buck: I suppose the ultimate manifestation of the catalysation of the savings culture is property. I was interested in the way you phrased the issue of the ramp-up and where we are heading in the very short future in terms of the additional requirements that would fall on employers, and combine that with what is happening to house prices. I wonder if you can help us understand where in the very near future we are likely to be, as between savings, whether it is in an ISA or within pensions, and between people's expectations and what the Government wants to do, which is encouraging people into home ownership. I am particularly thinking about the under-40s.

Michael Johnson: Yes. One of the early criticisms that I have seen of Lifetime ISA is that it is going to dramatically increase the price of property. I find this rather curious.

Q188 Ms Buck: The OBR have said this among others.

Michael Johnson: A number of observers have suggested that could be one consequence. I find that reaction rather curious, because, first of all, £4,000 plus £1,000 bonus on an annual basis is going to take a lot of years before anyone is going to be able to attempt to buy a property, particularly in the south-east of England. So the pressure point on property prices is many years away, if it arises at all as a result of the Lifetime ISA.

Q189 Ms Buck: That is fine, and you are asserting that, but the OBR is among the people who are saying that it will have an impact on property prices. Why are they saying that? Surely you would need to be able to challenge the calculation on which they are making that assumption.

Michael Johnson: I have not read the OBR's report, but one other observation I would make is to the extent that that is an expressed concern, there is an implicit assumption that the Lifetime ISA is catalysing additional savings, ie it is not simply having savings that were going to be made anyway redistributed into it from some other vehicle, it is increasing the overall pool of savings because it is only through that mechanism that there is more capital available to push prices up.

Q190 Ms Buck: Can I just ask you again, on what basis are you challenging the OBR's assertion that this will impact on property prices?

Michael Johnson: We do not know, but I am suggesting that—

Q191 Ms Buck: They must have had a basis for making that assertion.

Michael Johnson: I have not read their report but I am suggesting that £4,000 a year plus a bonus is going to take many years before it is deployed into purchasing property anyway. So if this is a concern, it is not a concern that is arising because of the Lifetime ISA.

Q192 Ms Buck: You do not know the grounds on which they are asserting?

Michael Johnson: I do not. I have not read their report.

Q193 Ms Buck: So we are all just in the dark on that?

Michael Johnson: We are in the dark about anything in the future.

Q194 Ms Buck: So then turning to this point that the ISA would catalyse additional savings, and particularly in the context of the intergenerational fairness element of the inquiry, we already know, particularly for the under-40s, that home ownership is in freefall, and that the proportion of income particularly for middle and lower earners that is going on housing costs, both for home ownership and for private renting, is rising to the point that in some places it is 60% of income. How does the catalysing of additional savings interact with both of those pressures?

Michael Johnson: I hope that the prospect of a bonus in a relatively flexible framework will encourage people to save more than they are already.

Q195 Ms Buck: In what period? So let us say I am 25 and I am making that decision and I am looking at the possibility of a bonus and I am setting that against my housing costs today and separately, which we may come back to, the argument about what will happen to any equity I can achieve. Why would I make that decision?

Michael Johnson: I think first of all we have to step back and see how much disposable capital people at the age of 25 have.

Ms Buck: I think we have a pretty good idea.

Michael Johnson: The answer is next to none.

Ms Buck: Yes, exactly.

Michael Johnson: So the choice is we stay where we are today or we encourage, through a bonus mechanism, a willingness to consume less.

Q196 Ms Buck: Including consuming less housing costs, just to be clear?

Michael Johnson: Indeed. Maybe there is a more fundamental point here; the Lifetime ISA is not intended to be a panacea to the desperate property situation that we have.

Q197 Ms Buck: On one hand you seem to be arguing that the sums involved are too small to impact on property prices, but on the other you seem to be arguing it is large enough to be able to influence people's housing choices.

Michael Johnson: No, I did not say that. I said it would be large enough to encourage them to consume a bit less and to grab the bonus and start saving.

Q198 Ms Buck: Okay. I know you are not terribly keen on modelling, but in the real world where real 25 year-olds and 30 year-olds are making decisions about what they consume less of—I am less interested in the higher earners and people who will inherit property because they will have a built-in advantage, I am thinking about people who do not—I am interested in knowing about somebody say on the UK average income, what estimates you have made about how that consumption pattern would work out in people's real lives and how it would influence and interact with housing costs?

Michael Johnson: I think perhaps there is a misunderstanding here. The connection of the Lifetime ISA with housing was a surprise to me. It was not my proposal.

Q199 Ms Buck: But it is obvious, isn't it? In the end, everybody has to be housed and the Government, among other people and consistent with many people's wishes, sees that primarily as being about home ownership and we also see equity as being such a major contributor. I think I am right in saying that you also think that housing equity is a major factor in people's pension planning.

Michael Johnson: I am not sure I have written on the subject, but it seems quite likely.

Q200 Ms Buck: I suppose what I am getting at is rather than looking at a vehicle for increasing savings in the way that you are proposing, isn't the logical thing to encourage everybody to be getting into equity as soon as possible? Is it possible for people on, say, average incomes to make a savings decision that would support an ISA with the hope of a relatively small bonus or go into equity with the hope that this will lead to huge capital gains?

Michael Johnson: Sorry, when you say go into equity I am confused. Are we talking about equity in a home or are we talking about—

Ms Buck: Yes, in a home, yes.

Michael Johnson: We are not going to be able to conjure up additional capabilities to buy housing unless there is an additional contribution from the Government. First of all, we have the Lifetime ISA with a bonus, but what I would like to do, because of the concerns about low earners, is to double that bonus rate. Let's step back for a second. Currently, the whole framework of incentivising people to save for retirement, which we have described as tax relief, is to distribute it a bit like that. At the high end of the income we have about 70% of tax relief goes to the top 12% of earners, £40,000 annual allowance. What I am aiming to do is to bring that down to a level around about ultimately £8,000 and to squeeze that out like a toothpaste tube and redistribute a lot of that tax relief, recharacterised as a bonus, to the lower end of the income distribution. That is my fundamental objective, to make the effectiveness of the Treasury spend that that curve represents far more impactful on those to whom it matters, which is the population that you are concerned about.

Now, to the extent we then introduce into the discussion housing, which is absolutely fundamental, this is only one element of trying to tackle the fundamental problem we do not build enough houses, etc.

Q201 Ms Buck: Well, hang on. Just on that, I now see that actually you wrote to the Committee saying: "The majority of the population should be encouraged to set themselves one simple goal at the end of retirement, to be a debt-free home owner".

Michael Johnson: Yes.

Ms Buck: I am not sure that that is consistent with what you have just said.

Michael Johnson: To be a debt-free home owner, ie to own a house without a mortgage.

Ms Buck: Yes.

Michael Johnson: Is that not entirely consistent? What I am trying to encourage is a redistribution of Treasury funds into a pot that may be called the Lifetime ISA with a label or a specific set of purposes that encourage home ownership. That is entirely consistent with that objective.

Q202 Ms Buck: I am not sure that it is because, again, pulling back to the intergenerational point, the core argument as I understand it is that your savings vehicle and the bonus is an incentive to save, and we all want to see that. On the other hand, the aim of getting into property as quickly as possible in order to gain the equity that you get from home ownership and to be debt free by retirement requires you to be putting your money into property at a much earlier stage. There is a conflict in terms of savings pressure, surely.

Michael Johnson: Clearly, one has to save first, but what I am trying to do is accelerate the rate at which savings accumulate for the 20s and 30s so they are in a better position to afford a home. I suppose the attachment of housing to saving is something—the Lifetime ISA does that but it reflects what people think.

Q203 Ms Buck: It might reflect what people think. What I am still unclear about is how in terms of individual medium earners in their 20s and 30s these objectives go together. Because I would want to be assured by you that you have looked at their lifestyle choices, particularly in respect of their earnings and their housing costs, in order to be able to be sure that what you are proposing for savings is the sensible, long-term thing for them to be doing given also that you have already told us that in the course of the next couple of years we are about to hit the wall in terms of—

Michael Johnson: A ramp-up.

Ms Buck: —yes, in terms of ramp-up. I am not convinced that that modelling has been done.

Michael Johnson: We are not going to magic out of the ether the ability to save more unless there is, first of all, additional incentives that are funded by the state and, I am afraid, we as a society are going to have to consume less.

Q204 Ms Buck: But consume less what? Housing?

Michael Johnson: No, no, no, general consumption.

Ms Buck: Of what? If you look at somebody on average income with their housing costs, particularly in the younger years when people are often also child-rearing and they are paying student debt in many cases, I just want to know what is going to get squeezed.

Michael Johnson: I think for medium earners, £25,000 to £26,000 a year, it is extremely difficult. I am not trying to present the ISA movement as a panacea to that problem.

Ms Buck: No, I understand that.

Michael Johnson: I think what you are alluding to are much deeper, more fundamental problems about our society and I am afraid that is way above my pay grade to attempt to answer them sensibly.

Q205 Ms Buck: It just seems to me to be quite fundamental that we need to be looking at real lived experience of younger people with the debt pressures that they have, with the necessity of their paying housing costs and the expectation in many cases that this will be into equity and that equity will also be part of their pension solution, and then look at their real incomes and their disposable cash and try to understand how much space there is;

otherwise, there is a temptation for people to maybe think, "If they just had a few less cocktails then we would be able to solve all these problems".

Michael Johnson: What I am aiming to encourage the Government to do is to be able to say to the median earner, "Today you have a potential of 20% tax relief. I would like to double that rate of bonus up to double what the ISA is on offer" and I think that is the very least the Government can do. Of course, the people who would pay for that are the fortunate 10% and 15% at the other end of the distribution.

Q206 Ms Buck: Would you continue with Help to Buy, for example?

Michael Johnson: Well, that is being subsumed into the Lifetime ISA. That is already legislated. That is an element of it and I think it disappears in three years' time.

Chair: Okay, can we move on now? I will turn to Steve to ask some questions about some of the other aspects of intergenerational fairness and some of your proposals around that.

Q207 Steve McCabe: Let me ask, first of all, about your proposal for WGA, the Whole of Government Accounts. Basically, you want the future state pension liabilities to be reflected in the WGA, which presumably will show it is going to cost us a fortune. What is the purpose of that? Is that to show that future state pensions are unsustainable?

Michael Johnson: It is to get to the root of a fundamental question, which is: is the state pension a benefit or an obligation? I have been in a meeting a while ago that had Treasury officials on one side of the table and DWP officials and Minister on the other side of the table, and they vehemently disagreed. Now, the perspective of the DWP Minister at that time was you have paid your NICs, it is a contract; the suggestion from across the table from the Treasury was it is absolutely not.

To the extent that we decide to move the state pension age to 95 tomorrow, we can; therefore, unambiguously, the state pension is a benefit. Therefore, it does not appear in the national accounts and it does not appear in the Whole of Government Accounts. I think that that is unfortunate because ultimately we need the cash flow to pay the state pension and it is also inconsistent because unfunded public service pensions do appear in the Whole of Government Accounts but there is as much uncertainty about them as there is about the state pension because they are now attached to the state pension age.

Q208 Steve McCabe: The Government argues, of course, that the OBR reports separately.

Michael Johnson: They do, and I had a long conversation with a number of people yesterday about my difficulties with the OBR reporting. It boils down to their use of the expression, "as a percentage of GDP". They forecast, for example, the state pension will be 7.3% of GDP in 2064-2065. This prompts a rather fundamental question: how do they model the growth of GDP? It involves all sorts of assumptions, some of which are potentially heroic; for example, they assume that productivity growth over the next 50-odd years is going to be 2.2% and over the last quarter of last year it was minus 1.2%. The point I want to make is that while, yes, the OBR do project state pension age expressed as a percentage of GDP, that is not very helpful in terms of giving us a real feel for the burden on taxation the state pension is going to impose in the future.

Q209 Steve McCabe: If we were to adopt your proposal, what would be the main effect? How do you think it would play out?

Michael Johnson: Well, I hope it would trigger much more thought into the question I posed, which is: is the state pension a benefit or an obligation?

Q210 Steve McCabe: Sorry, but what is that designed to achieve?

Michael Johnson: Well, first of all, we have John Cridland who is now reviewing the state pension age, and I expect him not to reduce it, shall we say? My fundamental concern about the state pension—and maybe I am going to stick my head above the parapet for a second here—is I think we should scrap it.

Steve McCabe: Right, that is what I wanted to understand.

Michael Johnson: Let me say why. To the extent that the state pension age heads towards a number beginning with seven and we look at the life expectancy of those in the lower two or three deciles of income distribution and compare that with the life expectancy of those in the top two deciles of the income distribution, one can conclude that for the less fortunate in society there is very little point in continuing to participate in National Insurance contributions because their life expectancy is only going to be a few years above the state pension age.

Q211 Chair: But, Michael, isn't that an argument for greater flexibility and recognition of the different life expectancy? To go for abolition altogether seems a bit of a radical solution.

Michael Johnson: For more than a decade, many smarter people than I, actuaries and others, have been suggesting that we ought to individually tailor state pension to the individual life expectancy, and I am afraid I do not see how that works in practice. What I would like to do now I am above the parapet, as I have said, is to scrap the thing entirely and to embark upon Beveridge Mark II, and to be very clear that we need a benefit safety net for those who are less fortunate than us in this House. That benefit safety net at the moment has far too many holes in it. It would be funded partly by scrapping the state pension.

Q212 Steve McCabe: The basic aim is to get that figure into the WGA so that you can expose the extent of the liabilities, and your aim would be with a view to getting rid of the present state pension, which you think people would see as a—

Michael Johnson: If one talks to Generation Y, I would suggest—the answer to your question is yes, and if one talks to—

Q213 Steve McCabe: Yes, that is fine. Let me ask you something else because I am conscious of the time. I notice you also want the Government to adopt the doctrine of intergenerational fairness. What is that? How would I know that they had done it?

Michael Johnson: The current framework in which legislation is scrutinised, and you know this better than I, is based upon a template, which is very business focused. In fact, the first line of it talks about business net present values and I immediately get lost because present values require heroic assumptions about the future. I would like some sort of intergenerational impact assessment to express in cash flow terms the impact on the burden of taxation in the future as a result of that particular piece of legislation.

What I am trying to get at here is to put an end to our unerring talent—and by "our" I am referring to baby boomers, of whom I am one—for kicking the can down the road and making unfunded promises to ourselves. That is what I am trying to achieve. Let us be very clear. We had a deficit last time around of about £87 billion. We added £87 billion to the debt mountain that the next generation is going to have to service, and in actual fact the real number is much higher than that because it does not include a lot of the unfunded promises that we are making to ourselves. This is very early days about how we introduce at the heart of the legislative process some way of bringing to the surface the cash flow or tax burden consequences of the future generation of the promises that we are making to ourselves today.

Q214 Steve McCabe: Intergenerational fairness as a doctrine basically means that you have to have some way of flagging up future costs for future generations?

Michael Johnson: It is many things. I am focusing on a very narrow part of the broader subject of intergenerational fairness.

Steve McCabe: I just wondered why it was referred to as a doctrine, but that is basically what it means, flagging up what it is going to cost future generations?

Michael Johnson: The word "doctrine" comes from the suggestion in the Prime Minister's paper written 10 or 11 years ago, "Built to Last", which introduces the idea of the four responsibilities. I would like him to add a fifth.

Q215 Steve McCabe: Okay, that is fair enough. Can I ask one other thing about the impact assessment? We already have lots of them. We have equality impact assessment, environmental impact assessment. Most people tell me it does not have a great deal of impact on Government policy at all.

Michael Johnson: Yes, and I think that is a problem.

Steve McCabe: Why should this thing be any more effective?

Michael Johnson: This is the start. I am trying to catalyse a debate—and here we are, fortunately, we are having that debate now, so thank you very much; maybe I have already ticked the box—which is to recognise that for the next generation there is a very real prospect that their quality of life is going to be lower than that of their parents.

Steve McCabe: Especially in the housing sense.

Michael Johnson: That is a significant part of it. I am deeply uncomfortable with that and I am also very aware that—and here I am outnumbered by I think eight to one—politicians perhaps find it a little difficult sometimes to push back on the tendency or the temptation to kick the fiscal can down the road. It is to do with voting patterns and so on.

Q216 Richard Graham: Michael, that is a fascinating insight into the whole intergenerational issue, which the Committee has been looking at. Just to try to save yourself from what could be some dramatic media headlines, your wish in the longer term to get rid of the state pension altogether is not something that you have yet wrapped into a paper with what you have described as Beveridge II offering the replacement and so on?

Michael Johnson: Yes.

Q217 Richard Graham: Would you like to just confirm, first of all, that the pattern of thought has not yet been fully revealed and that this is not something you have either recommended to Government or that Government has shown any interest in; otherwise there is going to be a problem for everybody?

Michael Johnson: I think I have to answer this question very carefully indeed. I have been pondering Beveridge Mark II and what it would look like for several years. I have a vision in my head and I have bounced it off a number of peers. It is evolving and I have written to the Chancellor about it suggesting that now is the time for something of a contemporary Beveridge. I have offered my services in that department. I have not put some thoughts into the public domain—maybe I have now—but I believe in it absolutely. I think that one of the debating points here, and it goes back to Beveridge, is do we believe in the contributions principle or not?. What is motivating me here partly is that a lot of Government expenditure I believe is suboptimal and ineffective.

Q218 Richard Graham: Just before you explain more fully, I think it would be worth again giving you the chance to say, because this will be picked up by the media, that the vast majority of our constituents and people across the country feel very strongly that they have contributed into a system through National Insurance and taxation and that one of the key expectations is that there will be a pension at the end of it provided by the Government out of what they have contributed.

Michael Johnson: Yes.

Richard Graham: You have rightly exposed the difficulty that the connection between the two has never really existed and is not recognised in public accounts. None the less, the expectation that it is there is very, very strong and if anyone wanted evidence of it, of course, that is the whole basis of the WASPI campaign: we have put in; we expected to get this out and the carpet has been pulled from under our feet. Of course, there is this intergenerational issue about it, which is very important, but surely you would agree that if there was to be any suggestion that the nation should start moving towards a Beveridge Mark II, whatever it is going to be branded as, with a complete rethink on what effectively the responsibilities and the relationship between tax and outcome of some form of retirement income is going to be, that whole debate is going to have to be a much wider, bigger one in which the country is going to have to be carried very carefully along the journey. Are you, therefore, recommending that this would be a major task either for John Cridland’s commission or for some separate pensions/savings commission?

Michael Johnson: I think we should be getting on with it. Let me illustrate partly why I say that. If one reads the annual reports of the National Insurance Fund, there was a quinquennial review done two years ago, which predicted that the National Insurance Fund would diminish substantially, then rise, and then collapse in 2035. I suggested that it would collapse next year and detailed this in a paper. I happened to read the recent annual report and was stunned to discover that, in fact, there was a £4.2 billion loan from the Treasury this year into the National Insurance Fund.

While we have expectations of the National Insurance Fund ultimately being there to sustain the state pension for another 20 years or so, I am suggesting that we exercise extreme caution on that expectation. While, yes, "Scrap the state pension" is a somewhat tabloid statement, it is important to look underneath as to why because the diversity of life expectancy is putting into focus the very question of just how fair it is. I am also conscious that while I might have some thoughts that rattle around, it often takes a decade before any action happens. We need to be acting now and we need to rethink very clearly what the purpose of the state pension is. I am suggesting that we need a safety net, a proper benefit safety net, of which it is not part.

Q219 Chair: Sure. Can I just say that the Committee will do an inquiry on to Cridland in due course, so we will invite you to give written evidence and you can bring your thoughts and crystallise them into—

Michael Johnson: His focus is state pension age. Well, let's see. We will see when we get that.

Chair: Yes, but you have focused on some of that as well. I want to bring Steve in.

Q220 Richard Graham: Steve, very quickly, can I just ask: in terms of your plans to put your thoughts into the public domain, which of course you have done today, there is much more behind it, so what is the timing of that, Michael?

Michael Johnson: Pass. I do not know. I have written a lot. I have deleted a lot. These things sometimes take several years to emerge. I have spoken, as I said, to some peers about it. I would be greatly helped—and, as I said, I wrote to the Chancellor—and I would enjoy working with a small group to think about that.

Q221 Steve McCabe: I was just going to ask, when you said that you had written to the Chancellor about it, would it be possible to share with the Committee what you shared with the Chancellor? Is that something we could see?

Michael Johnson: I do not feel obliged to say yes to that.

Steve McCabe: No, I am not saying you should be obliged. I am asking if it would be possible.

Michael Johnson: I have laid out six or seven steps starting off with something like the Lifetime ISA and a redistribution of tax relief, etc. Okay, let me spend a minute on this, if I may.

Scrapping tax relief, all of it, introducing a turbo-charged bonus buried in a Lifetime ISA and a Workplace ISA—by turbo-charged I am talking about a 50% bonus, not a 25% bonus—up to an annual allowance that is meaningful, £40,000 a year, is ludicrous. It is irrelevant to 99% of the population. It should be a number in the region of £8,000 a year. What I am trying to achieve here is moving from an unfunded world to a funded world.

The state pension, of course, is unfunded. I am trying to encourage individuals to put disposable income into a savings pot with a very generous contribution from the Government, which over time essentially prefunds the state pension. I am trying to move us from this intergenerational kicking the can down the road, where the can is getting bigger and bigger and bigger, into a world where essentially through the next, I am thinking, 30 years here everyone has a Lifetime ISA and a Workplace ISA with a substantial proportion of funding in it in annual bonuses accumulated over 20 or 30 years, which will have a massive impact for flows of capital, to move us from an unfunded world to a funded world for the provision of retirement income. That is the larger picture of what I am trying to achieve and in so doing head off intergenerational unfairness.

Chair: Thank you. Could I invite Heidi, who has been very patient—Richard, be brief.

Q222 Richard Graham: I will be very, very brief. The sooner you write something to encapsulate what that sort of sense of direction is as an opening gambit to bring about a wider discussion, the better. It will have to happen, and that can include some of the points you made in the letter to the Chancellor.

Michael Johnson: Noted.

Chair: Get on with it, that is the thing.

Q223 Heidi Allen: To finish, an extremely simple question, I think. Interestingly, in the context of your views on scrapping the state pension altogether, which is quite relevant—so that suggests it all being more so on the individual and business and so on—your view with this pensions dashboard is that the Government should be doing that. Why?

Michael Johnson: Yes. The industry, the financial services industry, the pensions industry, is not one industry. It is riven with disagreement. I will read you a headline, 1 April: "Tisa and Origo deny pensions dashboard feud". That headline summarises the problem. There is a community within the financial services industry who are essentially paying lip service to the dashboard and it is absolutely not in their interests to see it happen.

Let's pass on some of the technical differences about how a dashboard should work, whether it should be a closed system or an open system, who should set the standards, all the questions to do with digital identity and authentication. Let's park that for a second. I am absolutely in favour of a dashboard. I called it aggregation in a paper I wrote a few years ago about this. Aggregation is the key, the idea that we pool all our savings into one place on a screen and we can see it in a language that you and I understand. The next step from that enhanced transparency and simplification is to be able online to transfer pots around into one place, physical aggregation. There is a community within the financial services industry who have a lot to lose if that were to come about.

Heidi Allen: Or to gain?

Michael Johnson: There is another community where there is enormous opportunity, absolutely, but—and I am going to stick my head up above the parapet again here because I absolutely believe this—we do not need 80% of the financial services industry. We have vast white collar battery farms of hundreds and hundreds of people in open-plan trading floors doing a lot of things that are—I cannot remember where this phrase came from—socially useless. Within the personal finance space, the financial needs of the average individual, which, Ms Buck, you are very rightly concerned about, are very, very simple. We need a bank account and a savings account. That is it. Yet man has this innate talent to make things complicated. We immerse ourselves in complexity because it is very interesting and we feel good about it. It is enormously destructive. The financial services industry I think epitomises that. I am guilty; I was part of this. For 20-odd years I was a very fortunate individual, so I will be chastised for that. That is fine, but the pensions dashboard is a fabulous initiative because it could achieve so much so quickly in terms of simplifying, simplifying, simplifying personal financial arrangements.

Q224 Heidi Allen: If it is so simplifying, do you have confidence that a Government that is not terribly competent with big IT systems would be able to produce a result then?

Michael Johnson: I think one of the messages that one receives every year on one's savings document is that whatever happens in the past is not a guide to the future. I would like to agree with you; no, maybe I would not like to agree with you. Clearly, there is an element of scope for sub-contracting out to the private sector, but the Government has to exercise real leadership here. If it wants that dashboard to happen by 2019, it has to be very assertive because there are certainly a number of participants who currently are doing the nodding donkey act that have no interest in seeing it happen at all.

Q225 Heidi Allen: Do you think that attitude is universally shared or are there parts of the industry that would like it to happen?

Michael Johnson: Oh, no, there are many in the industry that would be very keen to see it happen, absolutely.

Heidi Allen: But their voice is less powerful?

Michael Johnson: As in life, there is a diversity of views. This one matters. Simplify, simplify, simplify, and part of achieving that is transparency. The DWP committees in the past have spent many man hours on questions around the lack of clarity, the iniquitous charging and so on for which the industry has become known.

Q226 Richard Graham: There is only one irony in this, Michael, which is that if the past is no guide to the future and if that gives us confidence that Government could create a pensions dashboard that really worked and really delivered, in a sense many people might have been philosophically surprised at how well the auto-enrolment and NEST were put together by Government. Ironically, of course, that has been a success that could be undermined or could be made more successful by some of your ideas.

Michael Johnson: I would certainly disagree with the undermined bit.

Richard Graham: I gave it as an option.

Michael Johnson: Thank you. To progress a dashboard, I think we need a phased roll-out. This is a suggestion that I think I have put in writing somewhere that one way the Government could lead on this is to work on a dashboard specifically for the Local

Government Pension Scheme as proof of concept. It would illustrate or it would display the pensions accruals of an individual and I would then add to that the state pension.

Q227 Chair: Presumably, you are after a single non-confusing dashboard that is universally accessible and transparent rather than multiple?

Michael Johnson: That is where we would like to get to, but I think we need a phased roll-out starting with the BR19 feed from the state pension. Let's just start with that. Let's be relatively unambitious, then we can add to that DC pots, SIPPs, then we could perhaps add ISAs, then we could add the DB world, which is going to be much, much more difficult. But let's get the ball rolling and be relatively modest in our initial ambitions.

I would then like us to go much further than that. I would like to have a dashboard that shows my assets and my liabilities. What is the point in having £5,000 in a SIPP if I am a serial borrower of consumer credit, £5,000, £6,000, £7,000 at 18% APR, when I have an asset at NEST in a cautiously well-managed default fund that aims to generate 2% return? For many people in society, that is the economic reality. Essentially, many are being arbitraged by the system. You put a bit of money into a savings account, into a bank, but at the same time you are paying APRs of 18% pre-tax on credit cards and so on. That goes back to that consumer debt statistic I gave you right at the beginning. At the end of February this year, this nation had £181 billion of consumer debt.

Q228 Richard Graham: You would argue, presumably, that freedoms of taking pension early, which a lot of people are using to pay down debt, is an absolutely logical and correct thing to do?

Michael Johnson: Yes, it is. I was quite keen on freedom and choice and I wrote about it in 2010, proposed it in a paper called "Simplification is the Key" backed by both sides of the House of Lords.

Richard Graham: Yes, we did an annuities debate on that.

Michael Johnson: I have had a little observation, I suppose, which is that what is extraordinary about the annuity is it has no competition. I do feel that we are going to shuffle back towards a more annuitisation-friendly environment if, for example, we could introduce an annuities marketplace that functioned properly and so on. Sorry, I am going off track a little bit, but I suppose I am waving a little flag that says let's not forget about annuitisation.

Richard Graham: Particularly if we can call it something different.

Michael Johnson: Absolutely. I would like to see it introduced as a default at NEST.

Q229 Chair: Michael, can I thank you very much on behalf of the Committee? We have had a wide-ranging and full discussion with certainly some very interesting and challenging ideas, and I think clearly there is some more to come from yourself. We look forward to perhaps hearing from you again, and I am sure in the context of future inquiries we will seek more evidence from yourself. Thank you very much indeed.

Michael Johnson: Thank you for the opportunity. I apologise if I was not particularly clear on some of the answers, possibly because I did not understand the question.

Chair: Well, that is our fault.

Michael Johnson: But we can do that again outside.

Chair: If there is anything that you would like to submit that you feel we have not adequately covered, then, of course, we would be grateful to receive any more written submissions.

Michael Johnson: Okay, that is very kind of you. Thank you.