Work and Pensions Committee

Oral evidence: Intergenerational fairness HC 705-V

Wednesday 27 April 2016

Ordered by the House of Commons to be published on 27 April 2016.

Watch the meeting

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

Questions 291 - 351

Examination of Witnesses

Witnesses: **Baroness Altmann**, **CBE**, Minister of State, Department for Work and Pensions, **Mary Pattison**, Director, Ageing Society and State Pensions, Department for Work and Pensions, and **Tom Younger**, Deputy Director, Pensions Strategy and Analysis, Department for Work and Pensions, gave evidence.

Q291 Chair: Minister, welcome back for about the tenth time. It is really good to see you. We all know who you are, but might you identify yourself for the record and introduce your colleagues?

Baroness Altmann: Yes. I am Ros Altmann, the Minister for Pensions. Would you like to introduce yourself, Tom?

Tom Younger: Good morning, I am Tom Younger. I am the Lead Analyst for Ageing Society and State Pensions at the Department for Work and Pensions.

Mary Pattison: Hello, I am Mary Pattison. I am Director for State Pensions at DWP.

Chair: Thank you very much.

Q292 Ms Karen Buck: Minister, you will be aware that the Committee has been hearing evidence that indicates pretty clearly that there is a sense that the contract between the generations is under strain because of the particular pressures on the younger generation, and you reflect that in your own written evidence, but to what extent does the Department regard this as an objective and how do you feel, departmentally, it is being monitored, tracked and attempts are being made to redress the growing imbalance?

Baroness Altmann: I would like to state first of all that I am quite exercised by the undercurrent of intergenerational conflict that seems to have grown up over recent times, and we are in a society in which we want intergenerational cohesion. We have an ageing population and record levels of employment for working-age people, so it is inevitable and there will be more spending in a relative sense on older people. That is not something we necessarily need to be concerned about. I think we need first to understand what is happening before we assume that there is a definite problem.

Q293 Ms Karen Buck: One way of looking at this is around spending, and I am sure there will be other questions. Thinking of this in terms of intergenerational conflict is not something that we want to start off with. Looking at it in terms of spending patterns is one way. Looking at it in terms of the distribution of resources and how Government policies can look at dealing with some of the implications of those patterns is something quite different. If one looks at young people, in particular—your Department's evidence draws out young peoples' contribution towards today's pensioners—and their expectations for the future, but also Government policies in respect of young people and their earnings potential, one sees the pressure that is put on them in terms of housing costs, tuition fees and other pressures on them. Surely the Department should also be thinking about what we can do to ensure that we are balancing the demands for extra spending for an ageing population with the pressures upon the young and the working generation who are paying for them.

Baroness Altmann: We are indeed. That is factored into pensions policy already, and indeed into Government policies as well. Pensioner spending on pensioner benefits—the basic state pension, pension credit, winter fuel—is about 5.4% of GDP. If you consider that in the context of the increasing proportion of the population who are pensioners and compare that with the projections for pensioner spending, it is difficult to conclude that there is some kind of disproportionate—in my view—help for some of the most vulnerable groups in our society.

If the proportion of pensioners in the population is rising, which it is, and at the same time the numbers of working-age people in work is at record highs, the fact that there is an increase in expenditure on pensioners in and of itself is inevitable, but is not something we need to be concerned about. The Department certainly considers the implications of state benefit spending, and pension spending in particular, when it sets its policy. One of the reasons for the new state pension is to make the state pension system sustainable going forward. If you look at the projections, you will see that the proportion spent on state pension would be roughly stable until 2040, despite the sharp rise in the number of pensioners. It will then fall thereafter.

Q294 Neil Coyle: You are saying that we shouldn't be surprised, but hasn't Government policy over the last five or six years specifically decreased spending on working-age people and children while increasing the spend on pensioners, despite the slogan, "We're all in this together"?

Baroness Altmann: If you look at the broader picture, and it is really important to look at the broader picture—

Neil Coyle: We are.

Baroness Altmann: —you will see that over the 20 years up to around 2011 the proportion of the basic state pension as a proportion of average earnings had fallen behind significantly. It reached a record low in 2008-09. Since 2010-11 it has been coming back to something that is a bit more reasonable.

Q295 Neil Coyle: A bit more reasonable. So do you agree with Unite, which said in its briefing that the UK pension is still too low?

Baroness Altmann: The UK pension is now recovering to a level that is decent and the new state pension on top of this will provide a good base for people to make their own private provision on top. That is the purpose of the policy. At the same time you had benefits such as jobseeker's allowance going up by 21% since 2008-09, so we are trying to redress that balance or imbalance, if you like. It isn't, in my view, appropriate to think that pensioner incomes should not be protected. I think it is absolutely right that the Government protect the incomes of pensioners.

Q296 Chair: We want to unpick this and ask questions, if we may. Ros, aren't you really saying at the very beginning two things? One is that the proportion of GDP going to pensioners is rising, partly because of pensioners' ownership of assets, which guarantees them that increase in income, and that is separate from the proportion of GDP being spent for pensioners on state benefits, which you are saying is being maintained.

Baroness Altmann: Yes.

Chair: So in effect the strain of increasing shares of GDP are coming from what pensioners have been able to provide for themselves through occupational pensions, private pensions, shares, housing and so on?

Baroness Altmann: I think we have to distinguish between assets and income. You cannot live on the value of your house.

Chair: There are a number of people still in doubt.

Baroness Altmann: You can crystallise it, but it is income that you are living on that is relevant. If you look at working-age median household income after housing costs, it is clear that pensioner income after housing costs is 30% below that of working-age households, median.[1] If you look at the income distribution of pensioners, most pensioners are not well off. This is a myth. There is about the top 20% or so who are, I would argue, perhaps in the kind of category that often is used to categorise all pensioners and a significant chunk of the income of the top quintile of pensioners comes from earnings. It is because they are still working. If you look at the age distribution of pensioner household income, it is clear that the ones that might be characterised as having around closer to average incomes rather than below average incomes are the younger ones. If we have rising life expectancy and if we have an ageing population, it is good news that some of these younger pensioners are either still working or have more income because they are going to live a lot longer than you would have expected, and then it is not going to be inevitable that as you get into your 80s and 90s you are bound to be very poor, which unfortunately has been the case too often in the past.

[1] Correction sent by witness: "I said that median pensioner income after housing costs was 30% lower than that of working age households – in fact it is median net income of older pensioner households (headed by someone aged over 75) before housing costs that is around 30% lower than that of working age households. These figures correspond to latest available data for 2013/14."

Q297 Jeremy Quin: Minister, I have a couple of related questions flowing on from that. From what you are saying, you would expect the proportion of welfare spending on this cohort to continue to increase in the years ahead, so pensioners will take a larger and larger percentage of the total welfare budget.

Secondly, in your remarks you tied that to the fact that we have record levels of employment, which is to be hugely welcomed, but that trend would of course continue, I presume, if that current trend for employment among the younger generation was to dip, so through a recession we would still expect a rising proportion in welfare expenditure to go to the pensioner cohort. Is my understanding right on those two points?

Baroness Altmann: That depends on future policy, but on current projections, as I have said, with a much higher number of pensioners and a much higher proportion of pensioners in the population it is inevitable—unless you dramatically reduce state support for each pensioner way beyond anything I think most of us would consider reasonable—that the proportion of spending on that group will increase. That is all planned for and budgeted for in the reforms that we have already made. Clearly things can change further.

Do you want to comment, Tom?

Tom Younger: Yes. It might be helpful to put some numbers around that. We currently spend around 5.4% of GDP on state pension, pension credit and other benefits such as winter fuel payments. Over the next 50 years we expect that to increase to 7.3%, so a reasonable increase. That is based on current policy, so it includes things like the state pension age changes that were in the Pensions Act 2014, and it also includes the triple lock. What it is driving at, as the Minster says, is a clear increase in the number of people over state pension age. We currently pay the state pension to around 13 million people. By 2065 that will have increased to around 19 million pensioners. That is a huge increase, even with the state pension age changes that the Government have legislated for.

Q298 Neil Coyle: No plans to change it into personal independence payments as yet?

Baroness Altmann: No.

Neil Coyle: Thank you.

Q299 Jeremy Quin: Thank you for the statistics; it is helpful to put that into context. Just a follow up on that, Ros, and just to be clear, that is baked into the numbers whatever the impact on the percentage of GDP. Our GDP may vary over time—we may hit a downturn in the economy, and there may be periods when the younger generation struggles to find employment—yet the proportion going to the older generation will increase because that is baked in by the policy decisions that have yet been made. I appreciate that they may change over time. That is my understanding.

Baroness Altmann: Again, that will always be the case. The Government of the day, if things are changing around them, will have to make decisions as appropriate. However, given that we are dealing with a vulnerable group in the population who I hope everybody would agree deserve some kind of decent support from society after serving the country for many years, living in the country, contributing to the country, building that country up, they deserve to be supported. That is part of this intergenerational contract that I would be most reluctant to see interfered with in the way some people have perhaps been suggesting.

Q300 John Glen: Can I just come in on that? Obviously we would expect you, as the Pensions Minister, to give a robust defence of pensioners. However, if we look at these DWP figures for households below average income for 2013-14, and if we look at the percentage of individuals in relative poverty after housing costs—below 60% of median income—it shows that the percentage of individuals is much higher for those families with children than it is for pensioners. The reality is that working households are in a worse position relatively, when you take out the housing cost, than pensioners.

Baroness Altmann: If you look at the trends over time, you will see that we have finally got to the position where the proportion of pensioners on relative low incomes has halved from 28% to 14%. I would argue that is a success and that we should not then come back and say that there is a problem with that. At the same time, it is quite clear that the Government's concerns about the position of children in relatively low income households can be addressed by our policy of encouraging more work. This is not about just giving those families more money. That is the clearest route out of poverty. Indeed, the figures that I cited for pensioners is that those who have been able to keep working are able to increase their income and ensure that they have a higher income, but when they get to a certain point we know that they cannot do that. Therefore it is right that we offer them a decent level of support, rather than assuming that because the proportion in poverty is going down somehow that is something we need to be worried about. You've still got 1.6 million pensioners who are below 60% of median after housing cost.

Q301 John Glen: We are talking at cross-purposes, because the purpose of this inquiry is to look at the intergenerational balance. No one is disputing the steps that have been made positively towards pensioners under this Government. What we are talking about here is the relative treatment and the actual situation of the percentage of individuals in relative poverty after housing cost, which clearly shows a much higher percentage for those families with children—that is a fact. This is not about the steps forward for pensioners. It is about the intergenerational balance and what the situation is there.

Baroness Altmann: That is what I am trying to address. It is quite clear that 75% of poor children living in families where their parents move into work leave poverty. That is part of our strategy. It is working. It is not going to be instant.

Q302 Chair: You have used a couple of times with us this phrase that you would not want to "break the intergenerational contract". The more we look at this, the more it is the end of the rainbow that we are trying to get to. Neil, can you take us back to that intergenerational contract and what the Government might be doing to help us understand it?

Neil Coyle: I wanted to ask something else first, Frank, if you do not mind, around this issue. No one is saying that tackling pensioner poverty is somehow unwelcome, but a commitment to tackling in-work poverty would be just as welcome. That is where there is a significant concern. When I have about 700 people in the London borough of Southwark in work using foodbanks, it would be good to see the commitment you have made to tackling pensioner poverty made to people in work living in poverty. Efforts there would be even more welcome.

Baroness Altmann: We are doing that. We have commitments to all of this. It is part of the whole strategy. We have got the national living wage. We have got universal credit. We have got in-work support. Do not use the extreme examples that we are already trying to address. None of this will happen overnight, but we do have a clear strategy to improve—

Q303 Neil Coyle: The policy study suggested that the Government should produce intergenerational impact assessments of quality proposals. Are you supportive of that principle?

Baroness Altmann: I am not quite sure what that would add over and above what we already do. We clearly take account of the cohort impacts, the impact on gender, on cohorts and different income groups. All of this is already factored into Government policy. On a broader level, we also, of course, are trying to tackle the debt levels in the economy so that we do not saddle future generations with excessive levels of debt. That, again, is a really important piece of the jigsaw. None of us know what exactly the position of future generations is going to be. We would not have been able to predict what has been happening now. I do not know if you want to talk about some of the complexities of intergenerational accounting, but they have certainly been explained to me.

Tom Younger: The Minister makes the point that it is about what they add to the picture, so how would it influence your policy decisions and how would it change your policy decisions? That is what we are struggling with in terms of translating them into practical, everyday use. The Office of Budget Responsibility does produce a fiscal sustainability report that looks at the same sorts of issues in a slightly different way. Then the Government, obviously, considers the OBR's reports and adjusts policy to reflect the findings in those.

Q304 Neil Coyle: The assessments you are talking about are the equality impact assessments, is that right? You think that is enough?

Baroness Altmann: Are you saying it is not enough?

Neil Coyle: I am asking you a question.

Baroness Altmann: Yes, that is the way we are doing it at the moment.

Q305 Neil Coyle: They look at existing older people, disabled people and gender equality, all the different disadvantaged or protected characteristics under equality legislation. They do not look at the future of those groups.

Baroness Altmann: We also look at families. That is part of the future. From a broader macro perspective, we are looking at what responsible policy today would be leaving for future politicians and future generations to have to deal with as the economy develops over time. We make forecasts. We have forecasts of the state pension spending as a proportion of GDP. We all recognise that you cannot make policy today that will be able to forecast perfectly what is going to happen in 20 or 30 years' time at any kind of detailed level.

Mary Pattison: As Tom suggested, part of the challenge is how you would measure it. As Steve Webb mentioned, we have a model that we use for projecting forward for pensioners, which of course we have to try to do because of the scale of the expenditure. One of the challenges for doing intergenerational accounting or generational impact assessments is how we would go about doing that level of prediction, given that so many changes can happen in people's lives.

Q306 Chair: Mary, when having equality impact statements or family impact statements was first proposed, exactly the same arguments that you are putting forward now were made: "We do not know how to do it". It was about the process of starting to do them. Nobody criticised the early ones because one thought they could be better; one just wanted to work to make them better. I know it does not necessarily follow because there were difficulties doing those two that the same reasoning would be behind the intergenerational. Might this not be a case for trying to do it? The Minister has said all this information is collected in the Department. Might it not be a case for just treating us all as grown-ups and sharing it with us?

Mary Pattison: The projections are the most difficult part of it.

Tom Younger: It would be helpful to make a point here that when we look at pension policy in particular, which is very long lasting and difficult to change on a year-by-year basis, we have our Pensim 2 model, which Steve Webb has spoken to you about. It predicts pensioner incomes 50 and 100 years ahead to the best of our abilities. When we are looking at big policies that are pretty much irreversible or have very long-lasting impacts, we do a lot of analysis around the different impacts by cohorts. When we introduce a new state pension, there is a lot of cohort analysis that we publish at that time.

Chair: Richard wants to come in on that very point, and then Steve. My point to you was that you talked about not wishing to break the intergenerational contract. It would help all of us if we could try to spell out regularly what we thought that contract was by analysing the impact of major reforms that the Government are introducing, or have introduced, so that we would know the framework within which the Government were thinking and could engage with it.

Q307 Richard Graham: I have a question on this very point, Chairman. The argument that suggests we should have an intergenerational impact assessment is fundamentally based on the potential plight of Generation Y and subsequent generations, and the argument that they will effectively be funding unfunded commitments. Of course, Age UK argues slightly the opposite; that what will happen more and more in retirement is that private pensions and annuity income are likely to fall, and therefore things like the triple lock will be extremely useful for Generation Y and subsequent generations in providing them with an income in their retirement. Where do you think the balance of this argument is, Minister?

Baroness Altmann: I have tried to explain this, Mr Chairman, and I apologise if I have not got the message through in the way I would have hoped. We have already taken account of impacts on future generations with the new state pension reform. That is the purpose of the reform, rather than just letting things go on as they were. We have taken the decision that you have to look at the future number of pensioners—Governments have done that in the past in an ad hoc way and tinkered around with things a bit—and build in not just the increasing number of pensioners, but their increased life expectancy, which again is really good news, and design a new state pension system where you go back to the Beveridge idea, which is that there is a flat rate of state support that you get at a certain age, and the Government of the day can change the age. That is it and you build the rest on top with your private income. The contract that you are building up through your lifetime is that when you reach later life there is this measure of basic state support with no means testing so it is safe for you to provide your own private income above a means-tested state pension and pension credit level. That is an attempt to make the fairness argument between generations so that you do not have pensioners getting more and more, which they would have done.

Chair: The Committee applauds the reform of giving this minimum income that takes most pensioners above means-testing and makes savings and all those other things certain. There is another what might be called a "joker" in the room. Heidi, you might like to start introducing that.

Q308 Heidi Allen: I was just thinking that you were about to ask my question. Is the triple lock a policy forever? When might it change? We are talking a lot about the future and not knowing what it might hold. I dare say that when the triple lock came in we did not think inflation would stay where it is. Do you see an endpoint to the triple lock? If so, when? What do you think might replace it as the means by which we review pension increases in future?

Baroness Altmann: There is absolutely no doubt that we are 100% committed that the triple lock will remain in place until 2020; there is no change in that whatsoever. The policy thereafter is up to a future Government

Q309 Heidi Allen: It is a manifesto commitment. It is just staying and that is the end of that?

Baroness Altmann: It is absolutely right to have that commitment to 2020. As I say, for 20 years the state pension income fell significantly behind the rest of the population. We are trying to build that back up again. It reached a record low in 2008-09. That was not acceptable. I am very pleased that we are increasing that level now and we will continue to do so. The 2.5% figure for the triple lock, by the way, came from the Government in 2001, who committed to offering 2.5% at the very minimum. That has been continued in line with that policy.

Q310 Chair: In a sense you have said two things. The Government have got it clear in their mind that pensioners have lost out in this intergenerational contract. They have introduced two very important innovations. One is the new state pension, which, as you happily explained it, is the first time the Beveridge proposals have actually been implemented since 1948. Well done. For those pensioners that will be a really big catching up, because we have never ever, as a community, guaranteed that level before. At the same time, for others who are not going to get the new state pension, the minimum which takes them above means-testing, you have got a triple lock. The triple lock will also affect where you are putting your new state pension and its review. What Heidi has been asking you is whether there might not come a time when, because you have now got a minimum pension guaranteed that over time will include everybody, the triple lock becomes less important because you have made the decision about minimum levels of state provision for pensioners which does not need catching up arrangements attached to it.

Baroness Altmann: We are not at that point. We are committed to the triple lock until 2020. After that it will be up to the Government of the day to look at it and make a decision. I know that this Government are committed to supporting pensioners, as we have promised and as is absolutely right to do.

Q311 Heidi Allen: Is no analysis done then? Given where inflation is and all this modelling, there is an associated risk that the intergenerational contract might start going the other way around and some of the people we have spoken about, such as working young families, will end up being significantly more and more disadvantaged.

Baroness Altmann: Tom can talk about some of the projections we have done. I would like to make it clear that we have a policy for younger people as well. This is a whole new framework. We are reforming the state pension so that it provides a stable and reliable base for pensioner incomes that they can plan against. We are also reforming private pensions in a radical manner. For the first time we are bringing employers into earnings-related private pension provision mandatorily. We have dropped the earnings-related element of the state pension and are replacing it with contributions from an employer that we would expect younger people will have an opportunity to build up, to add to any of the basic state support that they will get. That is a long-term sustainable policy. Obviously we have to get it working, but both the state and the private pension reforms that we have put in do lead the way to a very different future from the one we are trying to extrapolate from the past, which is not relevant because we have made these major changes.

Chair: The puzzle for us, Ros, is not whether the Government have a coherent set of policies for the generations, given that you have got that; we are puzzled about why you don’t want to publish what the collective impact of those decisions is, rather than keep saying, “We deal with the working poor, and we deal with the disabled. We have got policies.” It is the overall impact that we are interested in, and how it is going to move through generations. I leave that question and bring Steve in, and then Richard.

Q312 Steve McCabe: That is really the point I wanted to go back to. I was interested in something Mr Younger said earlier when describing these very long-term projections, which I accept are not precise because of the range. If we know, for example, that a 16-year-old at the present time is unlikely to get a pension until they are maybe 70, in the Department you must either have these projections or you must be capable of producing projections that would show what each cohort—16-year-olds, 25-year-olds, 35-year-olds and 45-year-olds—can anticipate paying into the system over a period of time. The expectation is that a person should get a pension for about a third of their time. You must also have projections that will suggest what they are likely to get in return. Allowing for the fact it would not be absolutely precise, which I accept, the Government must have the figures to demonstrate what each group could reasonably anticipate paying in over that period and what they could reasonably anticipate getting in return. Is that the case?

Tom Younger: It is the case within the Pensim model that we could tell you how much you are going to get on average out of the state pension system. We could probably tell you under a set of assumptions what you are likely to pay in in national insurance if that system keeps broadly the same.

Q313 Steve McCabe: Why do we not do that? This the thing that people are querying. They are querying whether this is a fair system for everyone. That is the whole crux of what has been raised today. If there are figures or projections that would give that indication, what is the value in not making them available?

Tom Younger: As with anything, it is a cost-benefit analysis of the costs of producing that information.

Steve McCabe: But you have suggested to us that you have that information.

Tom Younger: We have it in a model. As Mary will tell you, it is not necessarily a straightforward job to always get information from the model.

Q314 Steve McCabe: I do not understand that, sorry. Maybe I am being a bit thick, but when you say you have it in a model, surely either you have it or you don't?

Tom Younger: You are welcome to come to the Department and look at it.

Steve McCabe: I would like to.

Tom Younger: We could show you the model. Then it comes back to the earlier point around the benefit of what do we use that information for, and is it of interest to look at what each specific cohort is going to get out of the model. We can break that down by gender. We have done some analysis recently showing that women reaching state pension age around now do quite well out of the system compared to men, which is counterintuitive and maybe what you would not always believe. We can produce that type of information. From our side we have never really seen the value in it and the way it would affect policy.

Q315 Steve McCabe: Even with this debate about intergenerational fairness being so prominent, has it not occurred to anyone that there may be an argument for trying to—

Tom Younger: In terms of intergenerational fairness, you had James Sefton here talking about intergenerational accounts. That is not just about pensions; it is about a lot of other things. The ONS publishes information on tax and benefits that tries to assess benefits in kind around education, health and all those sorts of matters.

Chair: We may take you up on your invitation, partly because if I compare when I was a Minister with where Ros is now, Ros's frame of reference is different to the frame of reference we had. We were reviewing individual sections of the Department's budget and never considering it in the total that all three of you have been speaking about. We think you have a good story to tell, and we are trying to winkle it out of you. We would love to follow up on the seminar that you offered to Steve. It would be very helpful to the outside world for you to publish how you are trying to take a total view, and not only a snapshot view as we did, but a view over time of how it affects groups, because we do not remain in any one group. I am going to move the questioning on to Richard and then back to Heidi.

Q316 Richard Graham: That question has always seemed to me a circular one, because sooner or later the people who are paying for today's pensioners will be receiving from the next generation.

The question that I am interested in, Minister, coming back to this business of the triple lock, is that many of us absolutely share your feelings about the importance of giving pensioners more after a period in which, relatively speaking, they were not getting enough. The commitment to 2020 is clearly understood. The question is: do you think that it would be useful for cross-party discussions well before 2020 about what might happen afterwards? Otherwise, inevitably it is going to be another issue at the next general election as to which parties support its continuation and which parties do not. The danger is that the thing is ratcheted up and it then becomes impossible for the next Government to consider the issue, having made election promises. Do you think there is merit in having cross-party discussions about whether the triple lock could be refined well before the next election?

Baroness Altmann: Those discussions are going on anyway, but as far as I am concerned my role is to make sure that the triple lock stays in place until 2020. Then it is up to a future Government and politicians across the piece to debate and decide. Indeed, I am pleased that the Committee is looking at it

Mary Pattison: The triple lock is, as Tom said, included in our long-term projections. When we published the White Paper on the new state pension, we had variations. It is possible to model about what it would be against different assumptions, whether you did it against earnings, for example, which is what we have legislated for. One of the questions is always anticipating what it is going to happen to earnings and prices in that time.

Chair: Can I put your question more clearly?

Richard Graham: What I was going to suggest to you, Chairman, is that the Committee could, with the help of DWP, look at the effect on the triple lock if it was only a dual lock and the cash element was removed, and what impact that would have over the short, medium and longer term on pensioners' incomes.

Baroness Altmann: We have a figure for you, if you want it, that the Department has done.

Q317 Chair: The key thing that Richard was putting gently to you, and that I will put more crudely, is this: are we not in an arms war between the parties? Once you have got a triple lock promise, it is very difficult for one party, on its own, to say, "We are not going to do that." All the other parties will join in and start kicking it, probably without realising that they are committing themselves to future expenditure. Therefore, I hope that you will take up Richard's suggestion. Maybe one of our roles, with you helping us with the data, is to suggest what the world would look like after 2020 without the triple lock in place. It would help us enormously. That is why we have been asking if we could do that within the framework of intergenerational fairness and having the data. The two exercises might well be linked.

Q318 Heidi Allen: It is just a conclusion of this circular debate really. Clearly we have the modelling. We have the clever computer. There is perhaps a willingness to invite us in and share some of that with us, but the fact remains that you must have a view, Minister, on life after 2020. I cannot believe that your responsibility stops at 2020. With all this data flying around, you must have a view on when the triple lock will have run its course.

Baroness Altmann: There is so much more to the state pension than the triple lock. We are looking at a much broader aspect of state pension policy in the round. I would hate to think that the whole issue of intergenerational fairness, or even a significant proportion of it, is about the triple lock. That is not relevant. Politically, the way in which you increase state pension is clearly important, but there are many other factors here.

Q319 Chair: Yes, but Heidi's question was slightly different, Minister. She was suggesting that there can be pillars in social security that remain and that are crucial to guaranteeing Government objectives, and even within those pillars there are mechanisms to catch up but which themselves do not become a pillar and remain there forever.

Baroness Altmann: Nobody has said we are committing a future Government to do anything in particular. The legislation is to increase in line with earnings. It is up to a future Government, and future politicians, to propose what they believe is reasonable and appropriate in the circumstances. It is not up to me to commit any future Government, or to comment on what a future Government should do about that one little aspect of policy. This is a very broad policy agenda.

Q320 Chair: Quite an expensive little aspect though, is it not?

Heidi Allen: It feels like a big boost on top of the baseline legislation.

Baroness Altmann: That depends on what happens. At the moment, this year, the triple lock is in line with earnings, as was the legislative requirement. We just do not know for sure. As we move into the 2020s, let's see what the economy is like and let's see what other aspects of policy are like, rather than worrying about that particular issue at this moment in time. We can do the modelling for you. We can produce the figures for you. However, it is not up to me to make any kind of policy commitment or judgment right now.

Q321 Steve McCabe: Minister, I accept that is a fair enough answer. If you are still the Pensions Minister in 2020, is your gut instinct to retain the triple lock or to change it? Surely you have a view on that.

Baroness Altmann: I do not try to run pensions' policy on gut instinct; I look at the data.

Q322 Steve McCabe: Based on the data that you have assimilated, is your view that in 2020, if you are still the Minister, you would be inclined to retain the triple lock, or are you giving us a warning now that you think it is going to be changed?

Baroness Altmann: Show me the evidence. I cannot—

Steve McCabe: You have the evidence. You have all the data.

Baroness Altmann: The evidence that I am looking at is from now to 2020. That is the relevant period for me.

Q323 Steve McCabe: This Government's view on pensioners is exclusively limited until 2020 and what happens after 2020 is anybody's guess or anybody's bit of data? Is that right?

Baroness Altmann: No. We have projections that support the current policy going way forward. We have projections that support the reforms that we have done to both state pension and private pensions going forward. Not only are they sustainable, but they will provide a good income for pensioners in future, one that they can rely on and one that will offer them a decent living from the society that they helped to build up, at a time in their life when we cannot expect them to have the same future prospects or ability to look after their own income as other groups.

Q324 Chair: That has been really helpful, at least for me. I hope I am not going to misrepresent you, but at the moment you see the triple lock as a booster rocket, but not necessarily the rocket that takes you to your final destination.

Baroness Altmann: I see it more as a safety blanket. This is making sure that pensioners know they will be protected. That is the purpose of the triple lock. We want to get to a society that does not automatically assume that because you are old or a pensioner you are going to be very poor, which unfortunately we did have some time ago. We have got away from that. I am proud of that and we would like that to continue.

Q325 Ms Karen Buck: I just want to ask, in the context of you being a DWP Minister as well as a Pensions Minister, whether you feel that it is necessary to have the same commitment to protecting the incomes of working age people, particularly working-age families with children.

Baroness Altmann: Our commitment to families of working age is revolving around helping them to find good work, to have good incomes and to be able to increase their incomes as they work through their lives. It is clear that if you want to address child poverty you do not just give families money; you help them into work. That is the way that we will address child poverty.

Q326 Ms Karen Buck: I have two points on that. First, that is an argument, but it is not a guarantee. In one sense you are saying, "We need to ensure the protection of pensioner incomes," but you are not prepared to make the same guarantee for people of working age. Secondly—this is going back to Neil's question—we know that the income standards of poorer families with children are falling and that they will fall because of benefit cuts by this Government. Work is clearly not the only way out of poverty, because of what is happening to the rise in in-work poverty. We know that is true. I am just seeking to clarify from you that work may be a good thing—we are all in favour of supporting work—but you as a departmental Minister are not prepared to give the same guarantee to working-age people as you are prepared to give to pensioners.

Baroness Altmann: Child poverty is also falling. I do not know what figures you are—

Ms Karen Buck: It is projected to rise between now and 2020 because of the changes—

Baroness Altmann: That depends on whose figures you are looking at, what happens to earnings and what happens to family circumstances.

Q327 Ms Karen Buck: You do not think it is going to rise?

Baroness Altmann: You cannot expect 70, 80 or 90-year-olds to be in the same position as families with children who we are helping into work and whose incomes we are protecting via the national living wage—

Ms Karen Buck: It is a good point. It is a different point.

Baroness Altmann: —and the benefit system that we have. You are comparing different things and trying to force me to say we have to choose between one and another. I do not want—

Chair: No, we are not. I promise you, Ros. That kind of question we will address to the Minister in charge of family, rather than the Minister for Pensions. We have three other topics we would like to touch on, please.

Q328 John Glen: Minister, your predecessor, thinking about pensioner payments introduced by successive Governments, said that they come in as a gimmick and then get eroded over time. The Christmas bonus, which was the same as a weekly pension at £10 when it came in, has not been adjusted for 32 years. Do you think the winter fuel payment fits into this category as well?

Baroness Altmann: No, certainly not. The winter fuel payment is not just an anti-poverty measure or a sop to pensioners. As I have seen myself when engaging with pensioners, it is a real boost to help pensioners have the confidence to heat their homes during the winter, which they might otherwise not do. This idea that you have money that is for heating your home directly from the Government definitely has a psychological impact to make sure that they have the ability to turn up the heating. It used to be that old people were vulnerable to cold much more. They still are. Old people are vulnerable to cold much more than younger groups, but they used to be very much more afraid of spending money on heating than I believe many of them now are because they get the winter fuel payment.

Q329 John Glen: Is the point not that there are some people who do not use it for the purpose that you have just described? The fact that your predecessor referred to it as being eroded over time is true, notwithstanding the change in fuel prices to some degree. It has not been up-rated since it came in, has it?

Mary Pattinson: I think it was introduced at £50, actually, so over time it has—

John Glen: It is not systematically up-rated for inflation?

Mary Pattinson: It is not, no.

Q330 John Glen: What about the point about the inefficiency as a mechanism to assist? Lots of people would require it with the extra costs of keeping warm in winter. There are large numbers of people who clearly do not need to use it in that way. You referred to the fact and I accept that large numbers of pensioners are not well off but there is a category, which I think you described as 20%, who are. Is it an efficient use of money to spend it on that purpose?

Baroness Altmann: You have to look at what you are saying and what might be proposed here. That is where the conclusion that you pay it automatically to everybody has come from. How would you then ration who gets the winter fuel payment and who does not if you have only a tiny fraction of pensioners paying higher-rate tax, which is what we have? There is a tiny fraction, maybe 3% or 4% at most, who pay higher-rate tax. We ration child benefit on that basis. If you did that to pensioners you would hardly save anything, but the administration costs would still be there. The inefficiency of trying to judge who gets it and who does not makes it, in my view, not a very sensible way forward at this point in time. In any case, there is an absolute commitment that we will keep the pensioner benefit until 2020. There is an absolute commitment.

Chair: Thank you. Very good.

Q331 Craig Mackinlay: On the winter fuel allowance, I can see for many pensioners it is the cash flow at the right time when they perhaps had not put money away through the year. From that point of view, it is very good. I agree with you entirely that we do not want to start having some sort of means-testing for the higher-rate tax payers because the admin involved would be huge. I cannot see any good reason now why we do not just add it on to general pension. For those who pay tax, it would then be taxed within their tax return so at least there would be a significant clawback among higher-rate tax payers. That would seem to be more elegant than lumpy transactional system where all this money turns up at one time of the year and we have this perpetual argument about higher-rate taxpayers receiving it.

Baroness Altmann: You will see on my website that I have considered that before. However, you must bear in mind, given the conversation we have just had on the triple lock, that would then make that winter fuel payment triple locked as well, so it would just keep rising.

Craig Mackinlay: Of course.

Baroness Altmann: These are not simple judgments. Given that psychologically I have seen the benefit that it has for potentially vulnerable pensioners in helping them stay warm and safe during the winter, we have to think very carefully about what we might do, but nothing will change before 2020.

Q332 Chair: Great. At the weekend, you took the debate further about whether the Government are going to make any compensation to women affected by changing the state pension age. When I was chatting to you about the range of questions we might touch on, I said we would not be doing this but you did make that statement. I just wonder whether Mhairi might just probe you a little on that, please.

Baroness Altmann: I have nothing to add to what I said in my weekend interview. Seriously, I have nothing to add.

Q333 Mhairi Black: That's fine. I can base the questions around that. You asked your officials to cost various possible transitional arrangements for women born in the 1950s. I was just wondering if you could tell me why you gave those instructions and what criteria you used to find the options that were of interest?

Baroness Altmann: I do not have anything to say on that issue today. We had an agreement that I would not be talking about it. I do not have anything to add to what I have said already.

Q334 Mhairi Black: Can you not even expand on why you looked at certain interests or why you were interested in looking at the transitional arrangements?

Baroness Altmann: I cannot add anything. I am really sorry.

Q335 Mhairi Black: Right. It is just that I find that quite bizarre, given the fact that I have written down a couple of things that you have said through this process where you have been committed to supporting pensioners. Clearly there is a group who do not feel that way. In fact, you were praising the policy on young people, allowing them to plan ahead in the future. That is not being given to many women. This is clearly a topic that needs to be discussed and needs to be addressed. Given that you did speak about it at the weekend, I think it is a fair enough thing to be asking.

Baroness Altmann: If you are asking me whether I care about these women, and whether I am rowing back from anything I have said in the past, then my answer is that I do care and I am not rowing back, but I have nothing to add to what I said over the weekend. I am here to talk about the broader issues rather than a narrow one. I know you are doing a report and I know you will be sending us your conclusions. We will carefully consider them and we will respond.

Q336 Mhairi Black: Given the fact that we are talking about different generations here, this is a specific generation that is being affected by current pension policy. I am just wondering, for instance, what your opinion would be on allowing women to draw down their state pension earlier?

Baroness Altmann: I really have no comment. We will look at the proposals when you have finished taking all your evidence. We will look at what your report says and we will respond.

Q337 Chair: Great. Mhairi, we will move on because I have Richard and then Craig to come in. We can see the difficulties you have—partly because of what I said, that you would not be—but maybe events have moved on since the weekend anyway. Is it fair to say that what you were reported as saying is a correct record but you now feel you cannot talk about that at this juncture with the Committee?

Baroness Altmann: What are you trying to say there?

Chair: I am just saying that you were reported very specifically on how you were operating in the Department on this issue. I totally understand if you cannot talk about that further now, but was the record of what you said you had set in hand in the Department correct?

Baroness Altmann: The Secretary of State is taking the lead on this issue. He is already meeting with some of the women affected. He will be meeting Tim Loughton next week. I have nothing to add to what I have said.

Chair: Very good. Right, that is helpful. Thank you.

Q338 Richard Graham: Coming back to the question of the state pension age, Minister, the Cridland review will report back early next year. Given the Government's commitment, which I welcome, to at least 10 years' notice of any changes to the state pension age, it seems to me there is not going to be much change, if any, to the current commitment to increase the state pension age to 67 by 2028. There is of course room for flexibility about any further increase to 68, which is currently planned for by 2046.

There are two questions that occur to me. First, do you think the remit of the Cridland review is wide enough? Should it consider other aspects of the state pension that are important to Government fiscal planning? Secondly, as the state pension age continues to move up, assuming that it does continue to move up —you might want to comment on that— is there a danger that some people, as was probably the case originally when the state pension age was introduced, will not live long enough to benefit from it? What should the Government do to plan in advance for ways of making sure that people are contributing into pension planning that will deliver them benefits before they die?

Baroness Altmann: The first thing to say very clearly is that the Cridland review of state pension age policy will not make recommendations for any changes to the timetable that is currently in place before 2030. This is for beyond 2030 and it does go back to the discussion we started off with, which is another contribution that we are trying to make to look at future generations and make policy decisions and analysis now that will factor in what is happening to future generations. This is already part of our policy programme. But it is an independent review that will make recommendations to us. He has a wide remit. It is not automatically necessarily the case that he will simply recommend faster increases in state pension age. That will be up to him. But he is clearly also tasked with considering issues such as those you are referring to, which is the impact of having one state pension age on different groups. He will look at the impact of the one age on groups with different life expectancy, on cohorts and so on.

I would also urge the Committee, and anyone listening who wants to feed into the review, to please do so. John is trying to speak to as wide a representative group of interested parties as possible, gathering as much information and views as he can. This will be a thorough exercise, but it is independent. We are not prejudging or influencing at all and we have given a very wide remit.

Mary Pattison: The idea was to keep the review as broad as possible so that the independent review could range where they feel they need to, and assume that they would want to look at some of the other factors to take into account in thinking about setting the state pension age, presumably whether the state pension age is the lever or maybe other policies might need to be brought into play. You could imagine it being quite a wide-ranging set of views.

Q339 Richard Graham: He could, for example, consider issues such as the triple lock?

Mary Pattison: There is potential.

Q340 Richard Graham: In terms of geography, I have always assumed that it would be incredibly hard to design a pensions policy that provided for different pension ages in different parts of the country, because there would be an obvious arbitrage opportunity for people to move there in order to benefit. My city, Gloucester, would undoubtedly benefit from such a thing, as it technically did under the annuity rules. Does the Department have any view on that?

Baroness Altmann: We want to leave it up to John to look at the country-wide implications and industry potential impacts. Life expectancy can vary for a number of different reasons. There always have been, and always will be, people who sadly pass away before they reach the age at which they can get their state pension. My own father died many years before he could. We want John to look at the broad analysis of how best to run pensions policy or recommend to us what we need to consider when running a pensions policy for the period beyond 2030. We are not going to change anything before the 2028 changes have come in.

Q341 Richard Graham: Some people would deduce, looking at recent research published on ISAs and their role in the savings sector, that greater flexibility in when savings or pensions can be drawn is becoming increasingly popular. What do you feel about that?

Baroness Altmann: I am a big fan of flexibility and individual choice when it comes to the private part of your later life savings or income. The big reform programme that we are engaged in is trying to separate the two. There is a basic bit that you get from the state that you know you can build on—no earnings linking, fair across the piece, and every year that you contribute or are considered to have contributed adds a certain extra proportion until you reach the full amount. The word "pension" itself often has confused overtones. The word "pension" relates to two completely separate things. On the one hand it is the social welfare that the state gives you, and that is the state pension bit. But we also use the word "pension" to refer to what is private long-term savings income. It is right to separate the two again. You have the state pension bit and then you have the private savings bit. We want to make sure that every worker in the country—at the moment if they earn more than £10,000—has a pension provided for them by their employer. This is revolutionary. This is brand new.

Q342 Richard Graham: To avoid any doubt on this question, what was your own reaction to the recent suggestion that it is time for the Government to look at abolishing the state pension altogether?

Baroness Altmann: I think that would be an absolute disaster. We would be going back to the position we are trying to get out of, which is that you have nearly half of pensioners entitled to means-testing. They do not know whether it is worth them bothering to save or provide a private income for themselves. If you only give state support to people who do not have anything else, you will have a lot more people who do not have anything else. We are trying to get away from that. I am absolutely of the view—others will take a different view—that we need a state support level that people can rely upon, but that they can then safely know that whatever else they provide for themselves is theirs and it is worth them bothering to do it. We want to encourage more people to have more later life income. It would also discourage people from working longer, which again is a very useful way of boosting your current and future income.

Chair: Can we stay on that point, because the Committee has agreed with you about the importance of the additional sources of income?

Q343 Craig Mackinlay: While we are on auto-enrolment and building your own future, obviously the new LISA has just come in. Do you think it was a sensible policy to add something new into the whole pension savings mix while the auto-enrolment is still coming through and is not completed for the smaller employer? The worry that I have—LISA is very simple and easy to understand—is that the younger saver will be tempted to buy the new home, which is one of the reasons it is there, and may opt out of auto-enrolment because the feeling is, "I cannot afford both." So once you have purchased your home you have delayed your pension provision for yourself and building your pot into quite later in life. This could be a detriment to what auto-enrolment was trying to do. Opting out into a LISA, buy the home with it, and then say, "Now I am 40 and I have not even started pension provision."

Baroness Altmann: A pension is a pension and an ISA, whatever you call it, is not a pension. The Lifetime ISA makes sense for somebody who is trying to save for their first home, but not for someone to opt out of a workplace pension where the most powerful benefit of the workplace pension is the employer contribution. To lose that in exchange for an ISA, which may or may not last a lifetime, and the behavioural nudges within this Lifetime ISA are it will not last a lifetime. Whereas the behavioural nudges in a pension are that it will last a lifetime. Auto-enrolment is successful. I know you will be doing another inquiry on that, and I am happy to give evidence to that if you would like me to. But I absolutely stress that from my perspective pensions are the way to save for later life.

The way in which a Lifetime ISA could be useful, for those who cannot benefit from auto-enrolment for some reason—if you can, auto-enrolment is unquestionably the best thing for you to do with an employer contribution—for example, if you are self-employed and you do not have an employer to contribute separately from you, and you cannot be absolutely sure that you will never need the money in the next 20 years, then maybe a Lifetime ISA would have some attractions for saving for later life. If you do not have a home and you have already done some of your pension saving, obviously it is a 25% gift from the taxpayer to help you afford your home. That is generous.

But from the point of view of later life retirement income, having resources in your 80s and 90s must be the aim of giving upfront incentives, not just giving people a lump sum at 60 that they spend tax free. It does concern me if people are trying to suggest that this Lifetime ISA is somehow a pension; in my view it is not. But it could be an alternative for the self-employed who will need a bit more flexibility and do not have the same confidence of a continuation of earnings. They know that businesses hit rocky patches or they might just need some money for a while. It might be a little less frightening.

The other concern I have about ISAs is they would tend to be saved in cash. If you are saving up for a house, that does make some sense. But if you are saving for your 80s and 90s, saving in cash is probably the most inefficient way to save. Unfortunately, there is this perception that ISAs are much more popular or attractive than pensions. That is also something we need to challenge. If you look at who is holding all this money in ISAs, it is predominantly older people who are already pensioners. Who is holding lots of cash in ISAs? It is the young.

The reason ISAs are popular is because they offer you what seems to be a tax-free way of holding cash, but that is not the same as the benefits that someone will get from having a pension. The Chancellor's freedom in choice reforms in 2014 are absolutely brilliant for freeing up the landscape to ensure that those who do save in the current pension system can have much more confidence that they will have money that they need in their 80s and 90s and not be frightened of keeping the money there.

By making it taxable on withdrawal you are going to prevent people who might otherwise be tempted to withdraw it because it is tax free if you are doing so. We know that most people take their tax-free 25% just because they can—not because they need it, but just because it is there. To give them 100% tax-free lump sum, more of them will have spent it all. But also under the old system, if you had money in a pension and you had not annuitised it, which most people were forced to do even if it gave them a tiny income that they did not need, the last thing you would want to do is leave lots of money in your pension until you are much older, because 55% of it would go to the taxman if you passed away before you spent it. We have got rid of that.

So you can safely leave the money for later knowing that if you do not use it, it can pass to the next generation as a pension, a family pension, an intergenerational pension, if you do not need it. If you do need it, for example for social care, and you have kept some money back, it will be there for you in this great new pension structure.

Chair: Thank you; making that distinction is helpful.

Q344 Craig Mackinlay: I will just come back on a couple of points. We will have to see what behaviour will happen over the next five years as to whether youngsters are doing both or choosing the LISA or not. From what you said, you do not seem concerned that this has been introduce. Your view seems to be that it is more going to be a saving for a home product, rather than a long-term pension product, which I am not entirely sure was what the Chancellor intended.

Baroness Altmann: This is not something that I would suggest we should consider to be an alternative to a workplace pension or a private pension for those who are working. The concern I also have is that nobody who is saving in one of these Lifetime ISAs is going to be able to take any money out—other than the money they are going to spend—for another 20 years. Are we saying that we should give people a 25% upfront uplift for a product that nobody can take money out of for the next 20 years and not worry about what the Government of the day in 20 years' time might be faced with, if all those people suddenly spend that money, or the environment that will be there in 20 years' time where somebody might think, "This is my pension."

You get stories in the press, as you have before each Budget recently, that say, "The Government are thinking of changing that system. It is maybe going to abolish tax-free cash or it is going to abolish and stop making it tax free," and encouraging them at that time to spend all their money, leaving a Government in 30 or 40 years' time to pick up the pieces when all these people do not have any money relative to a current pension policy system, which we are encouraging people into—and I would like to make sure we continue encouraging people into—which has that responsible behavioural push, which means that Governments in 30 or 40 years' time, or in 20 years' time, need to be a lot less worried about having armies of poor pensioners who spent all the money because it was tax free.

Q345 Jeremy Quin: Minister, in your response to Craig's first question, you focused understandably on the impact on the individual. On a broader economic perspective, there is an argument regarding pensions as a long-term source of building the capital stock in the economy and providing the means of equity investment to boost productivity. Is that something that is debated or discussed between Departments, or are you looking at it from an individual's perspective?

Baroness Altmann: I am certainly very aware of the potential for long-term pension savings to be used to boost the economy. We could be looking, and are looking, to do some of that now. We have hundreds of billions of pounds out there in pension funds, which have a long-term perspective, and we are starting to encourage pension funds to invest more in infrastructure and housing, and I would like to see that continue. Part of the rationale for encouraging private saving with this shift from the state earnings-related support towards using the workplace pension to provide the earnings-related savings piece is that it could potentially allow investors who are putting money into a pension in their 20s to have a broader range of asset classes to diversify into that could give them better long-term returns but also benefit the economy.

We have local authority pension schemes that are looking to invest in infrastructure. That is a sensible use of long-term savings that we are building up that we would hope will not be taken out for the next 30, 40 or more years.

Q346 Richard Graham: Minister, you touched briefly on pension funds and their potential role in infrastructure. It has been a source of constant frustration for me that these are things that we talked about and discussed five years ago. There was an initial agreement signed between what was then the NAPF and the Government and various other bodies, but not a huge amount has happened. If you talk to insurance companies and start talking about infrastructure, they invariably start talking about infrastructure and it tends to mean property development. How close do you think we are to having a situation in which they will start investing in significant projects, whether it is High Speed 2, tidal lagoon power or anything else?

Baroness Altmann: I would like to reassure you and assure you that over the past few months I have engaged with the Treasury with a number of our biggest pension schemes and we are moving forward on trying to make that happen, because it is one of the things that I have long been looking at. As an investment manager looking at this, and having set up the Myners review for the Treasury in 1999, and looking at the opportunity set for pension funds to invest more broadly, we are much closer now. There is a better understanding of the potential for pension funds to benefit from the opportunities of investing in infrastructure and social housing and also benefit the economy by doing so.

Q347 Richard Graham: Could I lob in a tiny supplementary to that? Do you broadly agree with my feeling that if pension funds and savings products are invested more directly in infrastructure, which plays an important part in people's lives, then more people would be likely to invest in savings and pension funds because they have a more tangible sense of what they can achieve, whether it is in utilities or social housing or these big infrastructure projects we have just mentioned?

Baroness Altmann: I certainly agree, and I would like to see more of that. I suspect that it is coming first from defined-benefit schemes, because they do not have the discipline that we have imposed on DC schemes of daily pricing or regular pricing. With a long-term project such as that, you cannot price it on a short-term basis. But I would love to see, and I hope we will see, some of the investment companies coming up with DC investment products that offer that and also tell the person who is putting the money in that he will not be able to switch that fund from one to another quickly. That is something you keep as a core part of your portfolio for the next 20 years or whatever it is.

There is definitely room for that as we move forward with auto-enrolment. Auto-enrolment is bringing a lot more money into the DC space, but we are already looking at that and doing that in the defined benefit space. There is a lot we can learn from the ways in which defined-benefit scheme asset allocations have moved and investment management has moved over the last 10 years. The DC investment landscape is very much what the DB investment landscape was maybe 15 years ago. There is an opportunity for us to import some of the learnings we have had from risk management, liability-driven investment structures, and broader diversification from the broader DB landscape—where the big funds can do a lot more modern methods of money management to the DC landscape—which in the past has been hampered perhaps by the fact that it is individual little pots rather than big pools. We are now getting these big pools forming, where we will have an opportunity to do that.

Q348 Richard Graham: Chairman, it is an interesting area, should we find ourselves in the luxury of having a period where there are not other more pressing issues. It is an interesting area to pursue because the benefits to wider society will be considerable.

Baroness Altmann: Yes.

Q349 Chair: Also, there would be joint inquiries with other Committees.

Baroness Altmann: I think in Treasury we have a—

Chair: The Chancellor is meeting with the northern local government pension funds with this very view in mind—not property but infrastructure.

Baroness Altmann: It is a virtuous circle because not only could it help fix some of the deficits, we hope—that is certainly the intention—and the expected returns would certainly be superior to some of the other assets on this kind of diversified portfolio, but you also hopefully will benefit the long-term future of the economy and make the whole pension payments more sustainable in future.

Chair: It is also infinitely preferable to PFIs, isn't it, where we clearly cannot pay them?

Q350 John Glen: You essentially defended the pension as the best mechanism for retirement and clarified what your consideration of the purpose of the new Lifetime ISA was, but can I just ask you about self-employed? There are 4.6 million self-employed, or 15% of the workforce. Given the lack of employer contributions, which are clearly a massive advantage for those in employment, are you saying that the new Lifetime ISA is the vehicle that the self-employed should use? Because without the advantages of mandatory employee contributions they are at a significant disadvantage and the Deane review in February suggested that this is something the Government need to look at. Is that it for the self-employed, or are there other things under consideration?

Baroness Altmann: Let me be clear that it was my suggestion that the self-employed might consider using the Lifetime ISA; it was not the purpose of the introduction of that idea. My thought would be that as the self-employed get closer to pension age there is merit in them switching their Lifetime ISA into an actual pension, especially if they might be able to take advantage of better relief and certainly take advantage of the better tax position potentially later in life.

It is the case that with the new state pension we have improved the state pension support that we are giving to the self-employed. That is clear. We are helping the self-employed in ways that we can. It is not clear how the state could pay an employer contribution for someone who is self-employed. There are not any obvious read-acrosses from what we are doing for workers who do have an employer, relative to what we are doing for people who are self-employed.

But one of the things that I would be very keen to see is that we help people understand just how precious and valuable pension saving is for them so that more people voluntarily want to put money into pensions. That would include the self-employed when they can. If you have a good year, think about putting it into a pension for your later life. If the Committee has suggestions we would be happy to listen to that too.

Q351 Chair: While on a happy note, thank you for the range of evidence and also for the invitations that we were given, which we would like to follow up. Not in any stupid way but I genuinely—

Baroness Altmann: No, we want to be helpful.

Chair: Yes, we think the Government have a better story to tell on intergenerational with the information they have than maybe is tentatively suggested at the moment. Thank you very much.